

FIDC

Finance Industry Development Council

(A body incorporated as a Self Regulatory Organization for Registered NBFCs)
101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077 (India)
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January 03, 2017

**MR. SATYEN DAVID,
PRINCIPAL CHIEF GENERAL MANAGER
RESERVE BANK OF INDIA,
DEPARTMENT OF NON-BANKING SUPERVISION,
CENTRAL OFFICE, WORLD TRADE CENTRE, 2ND FLOOR,
CUFFE PARADE, MUMBAI 400 005.**

Respected Sir,

SUB: IMPACT OF DEMONITISATION ON NBFC SECTOR

The recent demonetization of higher denomination notes has had a significant impact on various sectors of the economy. The emphasis being given on transparency, digitalization of payments and organized way of dealing with one's business affairs are steps in the right direction which we at FIDC believe, would yield long term beneficial results.

In the interim, however, there are some short-term constraints that our customers have been facing. As you are aware, NBFCs have played a significant role in expanding the borders of financial inclusion and in delivering credit to under-served and unbanked sections of our Society. A substantial number of our customers are transport operators, farmers, equipment hirers, SMEs and small traders and live in semi-urban and rural areas, where banking habits are still in a relatively under-developed state. A large part of their business receipts had been in the past, through cash collections. Transport operators for example, return to their home towns after several days in their road trips with cash.

The current demonetization has necessitated these entities to switch to alternative means of collection. This process will take time since it also involves an attitudinal change. This has introduced significant uncertainty in the minds of our customers as well as among the NBFCs on how loans to such entities would be serviced until the currency situation stabilizes.

Majority of the research studies undertaken to assess the ground level situation point to a significant slowdown in business, especially in sectors such as real estate and housing, small & medium businesses, transport operators, contractors and automobiles. The automobile sales

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figures released by Society of Indian Automobile Manufacturers (SIAM) for the month of November clearly reflect the above said scenario. It would be in our opinion, fair to suggest that the disruption may last at least, till the conclusion of the current financial year.

Impact on NBFCs:

In view of the above, Post-demonitisation, NBFC Sector has seen 35-40% downfall in the new disbursals in retail sector including automobile and transport sector, construction and agricultural equipment and around 20-25% downfall in recovery and collections. This would adversely affect NPA by 0.5%. The situation is expected to marginally improve in the current quarter.

Hope the above will meet your requirements.

Yours Sincerely,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
Director General