RBI MUST OPEN LIQUIDITY WINDOW FOR NBFCS, SAY INDUSTRY EXPERTS

by Suman Gupta

"The current NBFC crisis has been largely misunderstood and it attracted disproportionately kneejerk reaction from media. It is high time to place the truth in the right perspective. After one year of this crisis, people have come to the conclusion that the days of panic in the sector have passed. There is no need for asset quality review in this sector. NBFCs play a major role in providing last mile connectivity and bringing small enterprises to the formal financial sector. NBFCs cater to 70% of first time borrowers and they contribute 40% of the total credit to MSME sector", said **Mr. K.V. Srinivasan**, Director and Chief Executive Officer, Profectus Capital at the Panel Discussion on 'Strengthening the NBFC Sector' organized by MVIRDC World Trade Center Mumbai and All India Association of Industries (AIAI).

Speaking further about the misconceptions about this crisis, Mr. Srinivasan said, "NBFCs are well regulated by the RBI. Time has come to adopt a forward looking approach based on the learnings from this crisis."

In his remarks, **Mr. Umesh Revankar**, MD & CEO, Shriram Transport Finance pointed out that the current NBFC crisis is not the only reason for slowdown in the automobile sector. He attributed the slowdown to a slew of regulatory changes, weak monsoon and slackness during election season. He informed, "Vehicle buyers are delaying their purchase decisions awaiting clarity on government's emission standards and introduction of electric vehicles in the market."

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Mr. Vijay Deshwal, Head – Services Sector Group, Wholesale Banking, ICICI Bank opined," I strongly feel that NBFC sector will emerge strong from the lessons of this crisis as they will re-align their capital structure and leverage, improve governance and transparency. The lessons from this crisis will help banks and NBFCs partner with a risk calibrated approach. The collaboration of banks and NBFCs will grow stronger through co-origination, liability franchise and securitization. "

Mr. Deshwal denied the perception that banks withdrew all credit lines to NBFCs at the height of the crisis. He clarified that banks were the major source of capital to NBFCs through securitization.

Mr. Mahesh Thakkar, Director General, Finance Industry Development Council (FIDC) said, "Government and RBI must act proactively and send signal continuously that funding situation is improving in the sector. Government must also take a slew of steps such as allowing on tap issuance of Non convertible debentures, permitting refinance of Mudra loans and opening separate refinance window for NBFCs. These steps will help strengthen the financial position of NBFCs and promote fresh lending from this sector."

Mr. Krishnan Sitaraman, Senior Director, Financial Sector & Structured Finance Ratings, CRISIL clarified, "The funding problem for NBFCs is not as grave as it is made out to be. In fact, during May-July 2019, NBFCs have managed to raise 70% of total funding that they raised in the corresponding period last year. The asset quality of retail lending NBFCs is steady, while the asset quality of standalone, wholesale lending NBFCs have deteriorated. NBFCs with sound governance and asset liability management have no problem in raising finance. This crisis situation is the period of adjustment for NBFC sector."

Ms. Sunaina Dacunha, Senior Fund Manager, Aditya Birla Sun Life AMC remarked, "We should not paint the entire NBFC sector with the same brush. NBFC is a heterogeneous industry comprising housing finance companies, micro lending institutions, auto finance companies and structured finance institutions. The market is discerning and they can differentiate between weak and strong borrowers. Companies with strong balance sheet and backing from large corporate houses do not face difficulty in accessing capital."

In order to ensure alternative source of finance for NBFCs, Ms. Dacunha suggested the development of corporate debt market by introducing standardization of debt issues, documentation and governance norms, infrastructure for listing and trading securities and transparency in data sharing.

Earlier in his welcome address, **Mr. Firoze B. Andhyarujina**, Senior Counsel, Supreme Court of India and Legal Advisor, MVIRDC World Trade Center Mumbai said, "The current NBFC crisis brings to the fore the role of credit rating agencies, identification of sound NBFCs, role of auditors and role of independent directors. Slowdown in NBFC financing has affected automobile and real estate sectors, thereby claiming at least 2.5 lakh jobs. The impact of this crisis is not only on a few sectors, but on the entire economy. Therefore, we need to come up with a mechanism to segregate financially sound NBFCs from weak ones."

The event was attended by representatives from micro, small and medium enterprises, banks, NBFCs and other financial institutions.

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RBI must open liquidity window for NBFCs, say industry experts

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(L-R) Ms. Rupa Naik, Senior Director, MVIRDC World Trade Center Mumbai, Mr. Firoze B. Andhyarujina, Senior Counsel, Supreme Court of India, Mr. K.V. Srinivasan, Director and Chief Executive Officer, Profectus Capital, Mr. Mahesh Thakkar, Director General, Finance Industry Development Council (FIDC), Mr. Umesh Revankar, MD & CEO, Shriram Transport Finance, Ms. Sunaina Dacunha, Senior Fund Manager, Aditya Birla Sun Life AMC, Mr. Vijay Deshwal, Head – Services Sector Group, Wholesale Banking, ICICI Bank and Mr. Krishnan Sitaraman, Senior Director, Financial Sector & Structured Finance Ratings, CRISIL at the Panel Discussion on 'Strengthening the NBFC Sector' organized by MVIRDC World Trade Center Mumbai and All India Association of Industries (AIAI)

MUMBAI, 22 AUGUST, 2019 (GPN) : "The current NBFC crisis has been largely misunderstood and it attracted disproportionately kneejerk reaction from media. It is high time to place the truth in the right perspective. After one year of this crisis, people have come to the conclusion that the days of panic in the sector have passed. There is no need for asset quality review in this sector. NBFCs play a major role in providing last mile connectivity and bringing small enterprises to the formal financial sector. NBFCs cater to 70% of first time borrowers and they contribute 40% of the total credit to MSME sector", said **Mr. K.V. Srinivasan,** Director and Chief Executive Officer, Profectus Capital at the Panel Discussion on 'Strengthening the NBFC Sector' organized by MVIRDC World Trade Center Mumbai and All India Association of Industries (AIAI).

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In order to address the funding crisis in the NBFC sector, Mr. Revankar suggested small NBFCs to tap capital market through public and private issuance of debentures for raising capital, instead of just depending on banks for funds. He also advised NBFCs to take prudent decisions on pricing and managing margins in their lending activity.

Mr. Vijay Deshwal, Head – Services Sector Group, Wholesale Banking, ICICI Bank opined," I strongly feel that NBFC sector will emerge strong from the lessons of this crisis as they will re-align their capital structure and leverage, improve governance and transparency. The lessons from this crisis will help banks and NBFCs partner with a risk calibrated approach. The collaboration of banks and NBFCs will grow stronger through co-origination, liability franchise and securitization. "

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