FIDC

9th Mine India 2019 MFIs and NBFCs Summit

NBFCs & MFIs: Reckoning and Future Growth

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NBFCs : As on 31st March, 2019*

- No. of Deposit Taking NBFCs
- No. of Non-Deposit Taking NBFCs
  - -Asset Size < Rs. 500 cr
  - -Asset Size >= Rs. 500 cr (NBFC-ND-SI)** = 263
- Total No. of NBFCs Registered with RBI = 9,659

- As per RBI's Financial Stability Report dt. June, 2019

** Classified as Systemically Important NBFCs by RBI

NBFCs : Performance

As per RBI's Financial Stability Report dt June 2019 *Y-o-Y Growth*

Mar '19 (Mar'18)

- Growth in Aggregate Balance Sheet size (Y-O-Y)= 20.60% (17.90%)
- Growth in Share Capital = 6.30% (6.00%)
- Net Profit = 15.30% (27.50%)
- Growth in Loans and Advances = 18.60% (21.10%)
- Total Investments = 24.40% (12.90%)
- Growth in Total Borrowings = 19.60% (19.60%)
  - Debentures = 5.20%(13.10%)
  - Bank Borrowings = 47.90%(34.40%)
  - Commercial Paper = 4.00%(13.30%)
- Leverage Ratio = 3.40% (3.20%)
- Return on Assets (net Profit as % of total assets) = 1.70% (1.70%)
- Gross NPA (as %age of total advances) = 6.60%(5.80%)
- Net NPA = 3.70% (3.80%)
- CRAR (minimum prescribed by RBI is 15%) = 19.30%(22.80%)

Aggregate Balance Sheet size of the NBFC sector was at 28.80 lakh crores as on March 2019

Top 30 NBFCs (including Govt owned) accounted for 80% of total bank borrowings

REALITY CHECK

Hype	Reality
Defaults by IL&FS and DHFL represent the health of the NBFC sector	Housing Finance Companies (HFCs): • Are not NBFCs • Business model entails long term lending(10 years and above) • Regulated by National Housing Bank and not RBI Long Term Financing NBFCs like IL&FS • There are only 08 Infra Financing NBFCs out of a total of 9600 NBFCs • Five out of these 08 are Government owned Typical NBFCs • Majorly into asset based retail lending • Have short tenure assets of 1-4 years • Small ticket size
NBFC Sector has a major Asset Liability Mismatch Issue	1. Asset Liability Mismatch is predominantly an issue only for long term lenders such as HFCs and Infra Financing NBFCs and not for general NBFCs, since 25-30% assets mature within one year. 2. Some of the NBFCs resorted to short term Commercial Paper borrowing to take benefit of the interest rate arbitrage keeping unutilized banks

	credit line as a cushion - which has been significantly corrected by March 2019
The current crisis is a contagion solvency issue	Nine months have passed since IL&FS defaulted, without any NBFC defaulting. NBFCs have fully met their liabilities, though restricted their lending. As such current crisis is more a growth related issue and not a solvency issue.
NBFCs are over leveraged	As on 31^{st} March 2019 • Average CRAR is 19.3% against the prescribed level of 15% • Leverage ratio is only 3.4%
NBFCs are subject to light touch regulation and there is a need to further tighten regulation	1. The prime objective of the Revised Regulatory Framework issued by RBI in 2014 was to harmonize regulation of NBFCs with banks and other FIs 2. Asset side regulation are almost at par with banks including prudential norms on NPA classification 3. NBFCs-ND-SI have already migrated to Ind AS, while banks continue to follow the old Indian Accounting Standards 4. Following key areas are well regulated

	• Mandatory Registration with RBI along with prescribed entry level • Minimum Capital Adequacy (CRAR) of 15% • KYC Norms and all other provisions of Prevention of Money Laundering Act, 2002 • Code of Fair Business Practices • Corporate Governance • Prudential Norms on Asset Classification (NPA Classification), Income Recognition and Provisioning • Credit Concentration Norms • Statutory Liquidity Ratio (SLR) • Onsite Inspection of books and accounts on annual /bi-annual basis • Offsite surveillance- submission of Returns to RBI on monthly, quarterly & annual basis
Prevailing liquidity crunch for	Data compiled by FIDC shows : (Y-o-Y basis)
	• Total disbursements by NBFCs in Q3

NBFCs do not require any special measures. RBI has infused liquidity through the OMO and LAF route	of FY 19 dropped by 19% • Total disbursement by NBFCs during Q4 of FY 19 dropped by 31% Impact on key sectors which NBFCs cater to:
	• Automobile sales have been at record low level during the last three quarters • MSME sector also suffered due to restricted credit supply by NBFCs • Liquidity infused by RBI has resulted in funds with the banks. • Hesitation & Reluctance of banks to fund NBFCs is the key issue
Bank funding to NBFCs has not been impacted by the current crisis. Some of the PSBs have aggressively voiced their willingness	1. Banks have withdrawn unutilized credit lines to NBFCs and shown reluctance and hesitation to renew existing credit lines. Cost of borrowing from banks has gone up - even AAA rated NBFCs are faced with increase in rates by up to100 bps. 2. Portfolio buyout is a "band aid" solution which does not result in growth. 3. The data on bank credit to NBFCs

to buy out NBFCs portfolio	published by RBI includes exposure to Government owned NBFCs which results in distortion of figures - RBI's FSR dt. June, 2019 states that Top 30 NBFCs, including Govt. owned NBFCs, account for more than 80% of the total bank exposure

WHAT WE SEEK FROM THE GOVERNMENT & RBI

Short Term Measures - Need Immedi

1. *The crying need of the hour is to create a dedicated liquidity window for NBFCs through the banking channels. The same may be provided for a period of one year. Precedence may be drawn from a special repo window created by RBI in 2008 for banks under the liquidity adjustment facility (LAF) for on lending to NBFCs.*

2. *Since 1999, RBI had allowed all bank lending to NBFCs for on-lending to the priority sector, to be treated as priority sector lending by banks. This gave a huge incentive to banks to lend to NBFCs. While it ensured sufficient bank funding to NBFCs at a reasonable cost, it also facilitated banks to meet their PSL targets. This was abruptly stopped in 2011. We seek restoration of this arrangement*

3. *For Small &Medium sized NBFCs, eligibility norms for NBFCs for availing refinance from MUDRA should be made favorable by:*

   - *Allowing all RBI registered NBFCs to avail refinance*
   - *External Credit Rating criteria may be replaced by prescribing some additional financial parameters to be met, which may be more realistic and doable.*
   - *The cap of 6% on the maximum spreads allowed should be done away with, since market forces ensure that the rates are within acceptable limits*

Systemically Important NBFCs should be Allowed to Act as Aggregators by availing refinance from MUDRA for on lending to small and medium sized NBFCs.

Long Term Measures

1. *Setup up a Permanent Refinance Window for NBFCs*

   A dedicated "Refinance window for NBFCs", on the lines of National Housing Bank (which provides refinance to Housing Finance Companies) has been a long-standing demand of the NBFC sector. The Parliamentary Standing Committee on Finance in their 45th Report dated June 2003 (relating to The Financial Companies Regulation Bill, 2000) had recommended setting up of a new refinance institution for NBFCs.

2. *Establishment of Alternate Investment Fund*

   An Alternate Investment Fund (AIF) may be established to channelize institutional funds to NBFCs.. Non-convertible debentures (secured by hypothecation of business receivables of NBFCs) could be subscribed to by the AIF for onward lending by NBFCs. These NCDs could be administered by investor trustees who could take care of the interests of the AIF and its constituents and would be subject to all extant guidelines in this regard. The manner of constitution of the AIF and sources of its funds can be discussed.

3. *"On Tap" Issuance of Secured Bonds/NCDs*

NBFCs have access to Non-Convertible Debentures ("NCDs") having flexible tenure and rates, both through the private placement (with restrictions) and public issue. While private placements have severe restrictions on the number of investors, the frequency of issue etc., public issue of bonds tends to be very expensive, laborious and inflexible.

It is proposed that NBFCs be allowed an on-tap facility for issuance of NCDs to the retail market by making the offering of NCDs through an easy to operate and less costly procedure, but with proper governance to provide investor protection and comfort.

THANK YOU