

# Lending by banks to MSMEs via NBFCs a win-win for all stakeholders: FIDC

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Active bank funding of NBFCs for onward lending to MSMEs can be a win-win situation for all stakeholders, the Finance Industry Development Council (FIDC) has suggested.

Besides the banks being able to lend to the desired segment (MSMEs), this would ensure a steady fund flow to small and medium NBFCs, that are facing a funding crunch, FIDC said in a letter to Finance Minister Piyush Goyal. The Finance Industry Development Council (FIDC) is a representative body of asset-financing Non-Banking Finance Companies (NBFCs).

The letter comes on the heels of Goyal's remarks last week that public sector banks (PSBs) will identify and speed up lending to "genuine" and "performing" companies whose total borrowings are less than ₹2,000 crore.

It also comes at a time when the state-run banks are facing a huge NPA mess that has weakened their balance sheets and put 11 of the 21 banks under prompt corrective action of the RBI. Of the 21 state-owned banks, only two banks — Indian Bank and Vijaya Bank— have paid dividend (₹444 crore) to the Government

## FIDC view

Routing the money through NBFCs would help channelise the funds to the targeted segment (MSME) in a coordinated manner and the recovery from the ultimate borrower would be the responsibility of the NBFCs who have a proven track record in this regard, FIDC Chairman Raman Aggarwal said in the letter.

Aggarwal said that NBFCs by virtue of their deep rooted understanding of the local market dynamics relating to various assets, geographies and class of borrowers, coupled with the flexibility of their operations, have mastered the art of funding MSMEs who may not have any track record to prove their credit worthiness. This has been further boosted by adoption of latest technological advances, the FIDC has said.

FIDC is of the view that bank lending to NBFCs for onward lending to MSMEs is an ideal model that would have a multiplier effect.

As compared to a bank lending to one company, if a bank lends to one NBFC, the NBFC then lends to a number of entities, thereby creating a multiplier effect. This expands the reach to a larger section of the MSMEs, spread across the country. This will significantly reduce the operating costs for banks, which is the need of the hour, the FIDC letter said.

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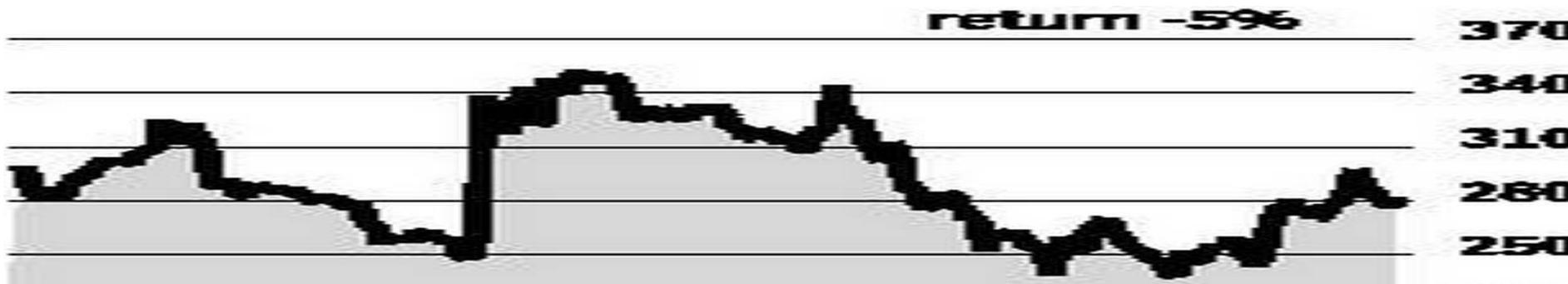
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