

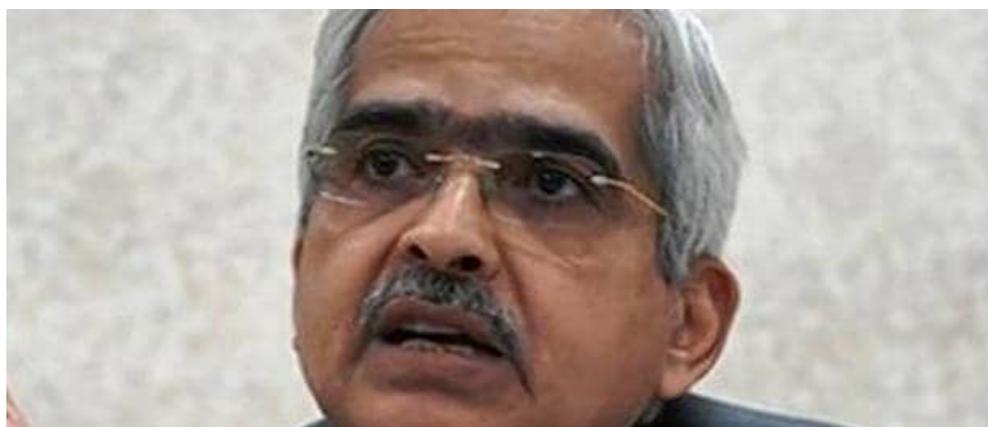
# Release Mudra funds for small and medium NBFCs: CEOs to RBI Guv

Promoted Content  
Recommended by



25 Insanely Cool Products from the USA  
Next Tech

KR Srivats Updated on January 10, 2019



## Banks raising interest rates a major pain point, say NBFC heads

Non-banking finance companies (NBFC) have urged the Reserve Bank of India to enable the flow of Mudra funds to small and medium NBFCs that are facing tight liquidity.

This is all the more necessary as small NBFCs have nowhere to go to for funds but to public sector banks that are now “behaving in a funny manner and raising interest rates”, NBFC honchos told RBI Governor Shaktikanta Das during a meeting convened by the central bank in Mumbai on Wednesday.

“The situation is tight for small players. All this is showing in slowing vehicle sales in the country. This is happening because NBFCs are not lending. It would do a world of good to the economy if the RBI ensures that the Mudra tap is opened for small NBFCs,” Raman Aggarwal, Chairman, Finance Industry Development Council (FIDC), told *BusinessLine* after the meeting.

## Portfolio-buying by PSBs

At the meeting, NBFCs cried foul that top public sector banks have, without any rhyme or reason, changed their behaviour and raised interest rates by 100-150 basis points on lending to NBFCs. The main problem is that PSBs are more keen to buy the portfolio of NBFCs than to offer a credit line, according to Aggarwal.

“Buying out portfolio is a temporary solution. They do cherry-picking while buying portfolio, and so the risk is reduced and looks favourable as against the risk in lending to NBFCs. This must be corrected, and we have conveyed this to the RBI,” he said.

Many NBFC honchos present at the meeting highlighted that there has to be proper justification for banks to raise interest rates. Aggarwal also said NBFCs are not saying that banks buying NBFC portfolio should stop, but that portfolio-buying cannot be the main source.

“When there was stress among banks in the last two years, it was NBFCs that filled the gap. Now, they are building the book at one go. This cannot be the solution to the problem,” he said. A case was also made with the RBI for

treating banks' lending to NBFCs for on-lending to priority sector as priority sector lending by banks. This was stopped in 2011 and must be restored, the NBFCs said.

The general point on liquidity was that there was no solvency problem or crisis for NBFCs, but the sentiment was definitely hit after the IL&FS blowout. However, the current pain point on liquidity is the increased interest rates by public sector banks.

Aggarwal said the RBI Governor and three Deputy Governors, who were also present at the meeting, were "receptive" to the suggestions.

## **Deposits, credit cards**

Some NBFCs suggested that the RBI should look at creating a separate category for those NBFCs with an asset size of over ₹1,000 crore with a credit rating of 'AA' and above. This would enable them to be seen differently from a regulatory standpoint and may even be allowed to raise deposits and issue credit cards.

The broad message from NBFCs is that the time has come for the central bank to look at the liability side of NBFCs and open up more avenues for fund-raising. It is in this context that NBFCs had made its demand on deposit acceptance.

Currently, NBFCs cannot issue credit cards, and opening this window will provide another revenue stream for them. There is still a huge unmet demand for credit cards in the country.

Top NBFCs that were present at the meeting include Power Finance Corporation, Shriram Capital, Sundaram Finance, Bajaj Finance, Tata Capital, L&T Finance, Muthoot, Aditya Birla Finance, Edelweiss, IIFL, and Satin Creditcare. Sadhan and MFIN representatives were also present.

Published on January 10, 2019

[RBI and other central banks](#)   [NBFC](#)

COMMENTS



Next Story

Health insurance segment posts growth of 20% for third time in a row: IRDAI



The 10 Most Legendary Investors Who Have Trendingstock Today



Future would see you up against machines for careersoftomorrow.amityonline

More From The Hindu Business Line



UK judge slams bank officials' failure to abide



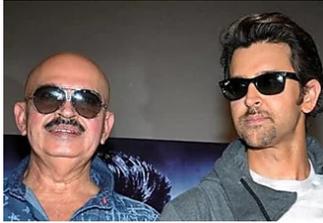
Isha Ambani-Anand Piramal's big-fat



If no bill, your meal is free in trains from



Jet Airways to shut services to 9 airports



Filmmaker Rakesh Roshan diagnosed with



Paresh Sukthankar could be top contender



Eveready sells land in Chennai for ₹100 crore



Bandhan Bank continues to rally as RBI



Tyre stocks rally up to 7% on likely tax cut by

## In Money & Banking