

## Access to funds still a challenge for small, mid-sized NBFCs: FIDC

To address the liquidity challenges faced by NBFCs, HFCs and MFIs, the government had announced a special liquidity scheme of Rs 30,000 crore

Subrata Panda | Mumbai July 16, 2020 Last Updated at 18:53 IST



The Finance Industry Development Council (FIDC), an industry body for non-banking finance companies (NBFCs), has written to the finance minister saying that despite the several interventions made by the government and the central bank to provide liquidity to cash starved small and medium NBFCs, the situation has not changed significantly. Access to funding for these mid-sized NBFCs continues to be a challenge.

The industry body said that only the large NBFCs had benefited from the interventions made by the government and the central bank.

*Furthermore, given the size of these NBFCs, their credit rating makes them ineligible for funding | Representative Image* To address the liquidity challenges faced by NBFCs, HFCs and MFIs, the government had announced a special liquidity scheme of Rs 30,000 crore under which investment will be made in both primary and secondary market transactions in investment-grade debt papers of these entities and all the debt papers bought through this scheme will be guaranteed by the government.

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It also extended the partial credit guarantee scheme (PCGS 2.0) to cover borrowings, such as primary issuances of bonds, commercial papers of NBFCs, HFCs, and MFIs, wherein the government will bear the first 20 per cent loss as guarantor for even unrated papers. As of July 10, under the extended PCGS, public sector banks have approved purchase of bonds, commercial papers issued by 67 NBFCs amounting to Rs 14,667 crore, of which Rs 6,845 crore is for Bonds/CPs rated below AA, providing liquidity support to NBFCs with lower rated bonds, CPs, the finance minister said.

The Reserve Bank of India (RBI), on the other hand, had announced the targeted long term repo operations (TLTRO).

FIDC in its letter said, small and mid-sized NBFCs did not have access to capital market and all the measures announced by the government or the RBI is through investment in debt papers of the shadow banks. And, most of the entities raised funds through term loans from banks, financial institutions, indicating that the measures taken had failed to provide any respite to small NBFCs.

Furthermore, given the size of these NBFCs, their credit rating makes them ineligible for funding. “All the credit rating agencies use the same scale to rate both large and small NBFCs. In such a scenario, it is practically impossible for a small sized NBFC to get the desired level of credit rating despite a sound balance sheet and excellent track record,” FIDC said.

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NBFCs borrow heavily from banks and for some time banks have been risk averse in lending to NBFCs, except for the large NBFCs which have a good parentage and are of a certain size. The banks' aversion to risk was the primary reason behind the partial credit guarantee scheme 1.0, TLTRO and TLTR0 2.0 not yielding the desired result.

“Thus, it is important to provide funding from sources other than banks also. SIDBI, NABARD should be allocated funds for on-lending to NBFCs”, FIDC said. These financial institutions should fund the NBFCs through term loans of 3-5 years. And, all NBFCs, irrespective of their size, and credit rating, should be eligible, FIDC said.

The industry body has also sought leniency from the banks on the evaluation criteria adopted by them for granting funds to NBFCs as the economic environment, along with the failure of a few large NBFCs, has resulted in the sector facing major headwinds.

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Also, most banks have reached their sectoral exposure caps for the sector and with mutual funds, insurance companies not lending to the NBFC sector, the dependence on bank funding has increased substantially. Hence, FIDC has sought a special carve out for small and mid-sized NBFCs in the sectoral caps of banks' prescribed for NBFCs.