

FIDC

Finance Industry Development Council

(A body incorporated as a Self Regulatory Organisation for Registered NBFCs - AFCs)
101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077 (India)
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August 5, 2013

Mr. Ananta Barua
Executive Director
Securities & Exchange Board of India
Mumbai.

Sir,

Sub : Permitting Non Banking Finance Companies to issue “shelf prospectus”

Background

Non Banking Finance Companies (NBFCs) occupy a vital role in the Indian economy. Historically, NBFCs have been playing a useful role in the credit structure of the country. This role has also been recognised by the Government and NBFCs have been permitted to raise resources to the extent of around seven times their net owned funds.

NBFCs raise these resources by way of public deposits, issue of secured non convertible debentures and bank borrowings. The Indian economy has been witnessing high rates of growth in the last few years. Financing requirements have also risen commensurately and will continue to increase in order to support and sustain the tremendous economic growth. NBFCs have been playing a complementary role to the other financial institutions including banks in meeting the funding needs of the economy. They help fill the gaps in the availability of financial services that otherwise occur in bank-dominated financial systems. Through strong linkage at the grassroots level, they have succeeded in financial inclusion to a large extent.

The Reserve Bank of India, as the principal regulator for NBFCs has permitted NBFCs to raise resources in the form of Secured Non Convertible Debentures. Security to the investors is now available in the form of the assets of the NBFCs. A trust deed is now executed and independent trustees are appointed to safeguard the investors.

There are certain difficulties which NBFCs face in a public issue of Secured NCDs.

Difficulties experienced by NBFCs in a public issue of Secured NCDs

NBFCs have to raise resources almost continuously unlike manufacturing companies who access the capital market usually to finance specific projects. The resources planning for

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NBFCs have to be dynamic and are dependent on liquidity considerations and business opportunities, periodically.

It may not be practically feasible for NBFCs to issue Secured NCDs in fits & starts while the need for working funds arises on a continuous basis. It is also difficult and time consuming to make multiple issues during every year and to seek multiple approvals from SEBI. Development of a healthy and vibrant debt capital market is a key focus area for both SEBI and Government of India. Easing the process of public issue of debt by NBFCs will not only help in moving towards this objective but will also facilitate greater participation of retail investors in debt market in an organized and transparent method. This will also help towards increasing the liquidity in the secondary debt capital market.

Concession to Financial Institutions and Banks under the Companies Act, 1956

It is relevant to point out that issues of debt by Financial Institutions & Banks enjoy certain concessions. Under Section 60A of Companies Act, 1956, Financial Institution and Banks can avail a scheme called “Shelf Prospectus”. These Institutions obtain approval from SEBI for a “Shelf Prospectus”, whereby they are permitted to raise a fixed amount every year. Within this overall ceiling, these Institutions are given freedom to raise money at any time during the year in various tranches without seeking approval for every tranche. The financial developments are updated by issue of an Information Memorandum and circulated.

Submission

The business requirement for NBFCs in terms of resource mobilization is similar to that of banks & institutions. Considering the need for NBFCs to raise funds periodically on a continuous basis, SEBI may through their good offices, take up this matter with the Ministry of Corporate Affairs to permit NBFCs to avail of the benefits of a Shelf Prospectus, similar to the benefits currently enjoyed by Financial Institutions.

Thanking You,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

R. L. D. C.
R. SRIDHAR
CHAIRMAN