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SHIKHA CHATURVEDI & INDIVJAL DHASMANA

# RBI action specific, does not flag systemic concerns: NBFC chiefs

The heads of non-banking finance companies (NBFCs) opine that the recent action by the Reserve Bank of India (RBI) against four entities — Asirvad Micro Finance Limited, Arohan Financial Services Limited, DMI Finance Private Limited, and Navi Finserv Limited — will not affect the sector since the move was initiated by the regulator addressing specific concerns of these companies.

At a panel discussion, titled "Coming out of the shadow of banks?", Jairam Sridharan of Piramal Capital & Housing said the Reserve Bank of India (RBI) action over the last 18 months has cut across banking and non-banking entities.

However, the recent action was against the four non-banking entities, two NBFCS and as many micro finance institutions (MFIs), he asserted.

"The recent action is a bit more in our mind. But, in general, RBI has been concerned about the conduct issues of all lenders over the last 18 months, and very appropriately," Sridharan said.

He said the lending industry needs to take note of the underlying concerns that are being raised by the RBI.

"But, in general, it (the action) is structure-agnostic. The RBI actions have been structured very democratic," Sridharan said.

The RBI recently took a firm stance by halting the loan disbursement activities of four entities cited above with effect from October 21.

RBI Governor Shaktikanta Das had earlier said the move came after extensive engagement with these institutions, which failed to implement the necessary corrective measures.

Das had said that while the overall NBFC sector remains sound, a few companies have aggressively prioritised rapid growth over sustainable business practices and risk management.

To a query whether the image of NBFCs have been tarnished by the RBI action, Rajiv Sabharwal of Tata Capital tried to distinguish between RBI actions arising out of systemic concerns and the ones that are based on specific company-based issues.

"We should divide everything into two parts. One is regulations which come as circulars or things which apply to everyone. These are structure-based which could pose a challenge to the industry. They need to be corrected for which they issue circulars."

"What I have seen with RBI is they never surprise you. They will tell you they will advise you what is right and what is wrong. And if within the time frame that action does not happen, that is when it leads to this (action by RBI)".

When asked whether the RBI action has changed banks' perception against NBFCs, Umesh Revankar of Shriram Finance, said he did not see any of the banks trying to back off from the existing arrangements with NBFCs.

On whether banks are becoming more cautious about lending to NBFCs following the RBI action, Vishakha Mulye of Aditya Birla Capital said, she would not generalise it to say that the bankers will take the view that they will not lend it to all NBFCs.

"It (banks behaviour towards NBFCs) will be NBFC-specific. Probably the due diligence will be slightly more than what they would have done for the smaller entity," she said.

On the draft guidelines by RBI for higher provisioning for under-construction projects which are delayed, Vivek Kumar Dewangan of REC said the spirit is good that we need to have closer monitoring of the infrastructure projects.

"We need to have closer monitoring of the infrastructure projects. We do have the history of time-overrun, cost-overrun in infrastructure. The draft guidelines, which was issued by the RBI, was quite useful, but it was merely draft guidelines. They are to come up with the final guidelines. And these guidelines apply uniformly to the bank as well as to the NBFC," he said.

Dewangan said the RBI had issued the draft guidelines in the month of May, which would affect the profitability of those banks or NBFCs which are not following India's accounting standard.

"But those who are already following India's accounting standards such as REC, their profitability is not going to be affected," he said.

However, ultimately, it will lead to higher cost of lending for the borrower, he said adding that was the main concern.

"It will push up the cost of funding. So we have given our comments to the RBI, and we have also taken up the matter with the Department of Financial Services. We hope that a balanced view will be taken by the RBI, and they'll come up with the final guidelines." he hoped.

When asked whether NBFCs are losing the arbitrage over banks since they have also been asked to provide for liquidity coverage ratio (LCR), Mulye said various lending models are required to serve 1.3 billion people.

On whether it is no longer worthwhile to run NBFCs, she said the only solution for somebody to thrive is to do a profitable business. "All models are important and each one of us will have to find that niche and really look at the cost-benefit to see how we can really service our customers at a very affordable price," she said.

She said that innovations will happen on the customer segment as well as geographical. If we really believe in their story, it is a Bharat story. Almost 80 per cent of the population is unbanked today. There is huge innovation, processes, products, etc. which can happen in a different customer segment and geography.

Revankar said that unlike NBFCs, most banks look the same.

"All their (banks') products look the same, but if you look at NBFCs they are different. They have different niche segments. They are geographically closer to the customer, and they service a particular set of customers, so everyone has a choice," he said.

He said anyone can choose to be a bank since now on-tap banking license is available. "Unless there is a glide path for changing into a bank, I don't think there is a necessity for an NBFC to become a bank," he explained.

Sridharan said NBFCs in India have historically been the vanguards of innovation. "NBFCs started the gold loans business, housing finance business, car loans business, micro finance business, each of these were started as NBFCs eventually became banking businesses," he explained.

THE RECENT ACTION IS A BIT MORE IN OUR MIND. BUT IN GENERAL, THE RBI HAS BEEN CONCERNED ABOUT THE CONDUCT ISSUES OF ALL LENDERS OVER THE PAST 18 MONTHS, AND VERY APPROPRIATELY

**JAIRAM SRIDHARAN**
MD, Piramal Capital & Housing Finance

WHAT I HAVE SEEN WITH THE RBI IS THEY NEVER SURPRISE YOU. THEY WILL TELL YOU THEY WILL ADVISE YOU WHAT IS RIGHT AND WHAT IS WRONG. AND, IF WITHIN THE TIME FRAME THAT ACTION DOES NOT HAPPEN, IT LEADS TO THIS (ACTION BY RBI)

**RAJIV SABHARWAL**
MD & CEO, Tata Capital

(*From left*) Vivek Kumar Dewangan, chairman & MD, REC; Vishakha Mulye, CEO, Aditya Birla Capital; Umesh Revankar, executive vice-chairman, Shriram Finance; Jairam Sridharan, MD, Piramal Capital & Housing Finance; Rajiv Sabharwal, MD & CEO, Tata Capital

PHOTO: KAMLESH PEDNEKAR

THOSE WHO ARE FOLLOWING INDIA'S ACCOUNTING STANDARDS, THEIR PROFITABILITY IS NOT GOING TO BE AFFECTED. HOWEVER, IT WILL LEAD TO A HIGHER COST OF LENDING FOR THE BORROWER

**VIVEK KUMAR DEWANGAN**
CMD, REC

IT (BANKS' BEHAVIOUR TOWARDS NBFCs) WILL BE NBFC-SPECIFIC. PROBABLY DUE DILIGENCE WILL BE SLIGHTLY MORE THAN WHAT THEY WOULD HAVE DONE FOR THE SMALLER ENTITY

**VISHAKHA MULYE**
CEO, Aditya Birla Capital

UNLESS THERE IS A GLIDE PATH FOR CHANGING INTO A BANK, I DON'T THINK THERE IS A NECESSITY FOR A NON-BANKING FIANANCIAL COMPANY TO BECOME A BANK

**UMESH REVANKAR**
Executive Vice Chairman,
Shriram Finance

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