

NBFCs may get 5k-cr credit line

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THE government may extend a fresh credit line of Rs 5,000 crore to non-banking finance corporations (NBFCs) and asset financing companies (AFCs), said a finance ministry official who asked not to be named. A proposal to this effect is under consideration. This follows setting up of a special purpose vehicle in the second stimulus package —announced by the government on January 2 — aimed at providing liquidity to NBFCs, and a separate line of credit earmarked for financing sales of commercial vehicles.

“In the second stimulus package, it was decided to assist the NBFCs, especially those providing credit for purchase of commercial vehicles by extending a line of credit through leading public sector banks. If the new proposal goes through it will assist NBFCs to lend more and stimulate demand in various important sectors,” the official told ET.

Various NBFCs had written to the finance ministry, asking for a separate line of credit, which should be available irrespective of size of the company concerned, with performance and track record being the only criteria.

The industry forum for NBFCs, Finance Industry Development Council (FIDC), had also requested the government should allow a differential rate of interest for NBFCs.

Lending by NBFCs is considered critical to rev up small and medium industries who rely on quick credit from these organisations. After the global meltdown hit liquidity, NBFCs had virtually stopped lending.

NBFC-AFCs have complained that even after providing a line of credit through arrangement with public sector banks, cost of credit continued to be unaffordable. Banks lend to NBFCs at 50-100 basis points over and above their prime lending rate (PLR).

“Historically banks have been considering NBFCs as their competitors and with funds at such high rates, it becomes uncompetitive for us to lend further,” said a senior official of a leading NBFC, who didn’t want to be identified.