

FIDC

Finance Industry Development Council

(A body incorporated as a Self Regulatory Organisation for Registered NBFCs – AFCs)

August 24, 2012

Hon'ble Shri P. Chidambaram
Union Minister of Finance
Government of India
North Block
New Delhi - 110001

Respected Sir,

Sub : Access to External Commercial Borrowings for NBFCs

Sir, the Asset Financing NBFCs, registered with Reserve Bank of India, have joined hands and formed a Self Regulatory Organization under the name of Finance Industry Development Council (FIDC). Please permit us to refer to ourselves as NBFC-AFC for the purpose of this note.

These NBFCs rely heavily on domestic bank borrowings as a source of long-term funds, and they on-lend to numerous Micro, Small and Medium Enterprises (MSMEs) in the infrastructure and other priority sectors, thereby promoting inclusive growth. Availability of long term funds at a lower cost helps the NBFCs to on lend at reasonable rates. External commercial borrowings (“ECB”) provide such stable long term funds at low rates. Access to ECB would greatly enhance the ability of NBFCs to fulfill their role in a manner beneficial to our economy and in promoting the goal of financial inclusion.

Financing productive asset creation and infrastructure projects is critical for the development of our economy. Banks have been providing commendable service in this respect. There is, however, a need for wider participation in this sector. Currently the benefit of access to ECBs and cheaper funds is restricted to those NBFCs that fall within the definition of “Infrastructure Finance Company” (“IFC”). We submit that similar access to ECBs as those available to IFCs be made available to systemically important asset financing NBFCs as well, so long as the end use of such loans and facilities is strictly for the purpose of on-lending for asset financing and infrastructure finance as defined under the relevant RBI guidelines.

At present even the IFCs are allowed ECB access only for financing imported equipment. With rising investments in infrastructure, the Indian infrastructure & construction equipment (ICE) industry is also growing. The number of domestic ICE players has increased over the years and many foreign ICE players are also setting up

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manufacturing bases in India. NBFC-AFCs fund a significant part of construction equipment purchase in the country. In this backdrop, we submit that there is a strong case for allowing NBFCs to utilize ECB for financing of domestically manufactured equipment also as this would provide a strong fillip to the growth of the domestic industry.

Union Budget 2012-13 has already reduced the withholding tax rate on ECB from 20% to 5% which is welcome. Keeping in mind the urgency of attracting ECB at this juncture, government may consider allowing full exemption of withholding tax on ECB.

The ECB window was available to NBFCs till November 2003. We sincerely believe that restoration of access to ECB would help addressing the needs of NBFCs and this, in turn, will facilitate them in making their due contribution to the India Growth Story.

We look forward to your kind support.

Thanking you,

Yours sincerely,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
Director General