

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)
Tel: 022 21027324/9820035553 • E-mail:maheshthakkar45@yahoo.inwebsite: www.fidcindia.org

March 21, 2017

Ms. Richa Agarwal,
Deputy General Manager,
Investment Management Department,
Division of Funds I,
Securities & Exchange Board of India,
SEBI Bhavan, C4-A, G Block,
Bandra-Kurla Complex,
MUMBAI 400 051.

Madam/Sir,

SUB: Consultation Paper dated February 02, 2017 on Consolidation and re-issuance of debt securities issued under the SEBI (Issue and Listing of Debt Securities) Regulations, 2008.

Finance Industry Development Council (FIDC) is a Self-Regulatory Organization (SRO) cum Representative Body of the NBFCs, registered with the Reserve Bank of India and engaged in Asset and Loan Financing. FIDC was formed 12 years ago, and is the recognized face of NBFCs. FIDC has been engaged in regular interactions both with Reserve Bank of India and Govt. of India, SEBI and other authorities. Almost all the leading NBFCs and a large number of small and medium sized NBFCs are our members.

We refer to the consultation paper on “Consolidation and Re-issuance of debt securities issued under the SEBI (Issue and Listing of Debt Securities) Regulations, 2008” and our suggestions are given below:

1. **Criteria for consolidation and re-issuance of debt securities:**

The Companies Act 2013 is silent on the provisions regarding consolidation and re-issuance of debt securities and hence the onus is placed on the enabling provision in Articles of Association (AOA) of the respective issuer.

Currently, our AOA does not provide for consolidation and re-issuance of debt securities. Any change to the AOA will require shareholders resolution, either through an AGM/EGM or Postal Ballot. Hence, we request to provide adequate time to have the AOA amended.

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2. **Passive consolidation – Restrictions on number of ISINs:**

We are a frequent issuer of NCDs by way of private placement. Generally, we issue NCDs for a tenor of 2 to 5 years and on an average we do 9 issuances in a quarter. In the past 3 years, we had a maximum of 34 issuances in a quarter. Further we also issue 10 year NCDs to augment Tier-II capital, in a couple of tranches a year. The present outstanding of NCDs is over Rs.7200 cr., with maximum maturities during any quarter being around Rs.1000 cr.

In view of the above, restricting the number of ISINs to 4 or 6 a year and bundling of liabilities to a single maturity date which would otherwise spread across the quarter, would not only limit our ability to tap the market but would also result in liquidity and asset-liability mismatches. Also, tapping the market for refinancing of bunched up liabilities may potentially increase the cost of funds. Further, there are genuine constraints on opting for staggered repayments at maturity as majority of the investors prefer bullet maturity.

We therefore suggest the following options:

- a) Option 1 – To permit 2 ISINs for 2 months. In this case, the issuer will have the option to issue 2 ISINs in the same month with different maturities providing flexibility to their borrowing programme and take advantage of the market conditions. In any case the number of ISINs per year shall be restricted to 12.
- b) Option 2 – To permit 1 ISIN per month.

Under both the above options, separate ISINs shall be allowed for structured debt securities (zero coupon NCDs, payable at maturity, put/call option) and tier II capital issuances.

3. **Active consolidation - Switching and Conversion of outstanding NCDs:**

Though this clause is not applicable to us as per the consultation paper (we have around 85 ISINs outstanding), we still suggest that switching and conversion of outstanding ISINs may be made recommendatory and not mandatory.

4. **Clarifications required on the following two points:**

- a) We need clarification for the illustration 1.3 provided in the consultation paper, about the maturity dates of issuances in a quarter, for a single ISIN.

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For example, we issue 3 year NCD of Rs.1000 cr. in 5 tranches during Apr–Jun 17 and the first of such issuance is on 10th Apr 17 (maturity date 10th Apr 2020). These NCDs would mature during the quarter Apr–Jun 20. Since the number of ISIN is restricted to 1 per quarter, kindly clarify whether we need to have the same maturity date of 10th Apr 2020 for all the subsequent 4 issues referred above. Then the entire NCDs of Rs.1000 cr. would mature on a single day and it would be difficult for the issuer to arrange liquidity for such a sizable amount. Instead, if it falls for payment at the end of 3 years from the date of issuance of each tranche, then it would be convenient for the issuer to redeem such NCDs on various dates, thus eliminating bunching of maturities and the consequent liquidity risk.

b) Whether existing ISINs can be re-used to raise fresh NCDs?

If the company had issued a 3 year NCD on 01/09/16, it will mature on 01/09/19. Can the same ISIN be used to raise a 2 year NCD on 01/09/17, which also will have the same maturity date of 01/09/19?

We hope that the above suggestions shall be considered favorably.

Assuring you of our full co-operation always and thanking you in anticipation.

With Warm Regards

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
Director General
Mobile: 9820035553