

FIDC

Finance Industry Development Council

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

October 04, 2012

To
Mr. Anand Sinha,
Deputy Governor,
Reserve Bank of India,
Central Office,
Central Office Building,
Shahid Bhagat Singh Road,
MUMBAI 400 001.

Sir,

Classification of Asset Financing NBFCs

Some of our members in Tamilnadu, Kerala and other parts have brought to our notice a recent objection being raised by inspecting officials from RBI while carrying out inspection of Asset Finance NBFCs (NBFC-AFC). (Copy of letter dt 10 09 12 from RBI Chennai office **enclosed** herewith).

They appear to have contended that finance for the purchase of Passenger cars, Two-wheelers, etc would not qualify to be treated as Asset finance and such Assets should be excluded while calculating the percentage of income and Assets for the 60% norm prescribed for determining the status as an AFC. They have further contended that the Assets referred above are for the personal use of the borrowers and do not generate any income and therefore should be excluded for the purpose of classification as AFC. (A copy of the letter from RBI, Trivandrum is enclosed). They have further instructed the company not to accept fresh deposits or renew existing deposits, till the matter is finally disposed off.

It may please be recalled that it was pursuant to a detailed representation made by FIDC in October 2006 that RBI was kind enough to recognise Asset financing NBFCs as a distinct class of companies. It is relevant to reproduce this extract from the Mid-term Review of Annual Policy for the Year 2006-07. "A request had been received from the representatives of the NBFC sector to provide a separate classification for NBFCs engaged in financing tangible assets. Companies engaged in financing real/physical assets supporting economic activity such as automobiles, general purpose industrial machinery and the like would generally correspond to the classification as asset financing companies. Accordingly, it is proposed to re-group them as asset financing companies. Detailed operational instructions in this regard would be issued separately."

RBI has all along been recognising such Assets for classification purposes and its present stand that they are personal Assets is therefore very surprising, to say the least. The RBI Directions define an NBFC- AFC as follows:

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" AFC would be defined as any company which is a financial institution carrying on as its Principal business, the financing of physical Assets supporting productive/economic activity, such as, Automobiles, Tractors, Lathe machines, generator sets, earth moving and material handling equipments moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising there from is not less than 60% of its total Assets and total income respectively".

A plain reading of the above would show that in order to be classified as an AFC-

1. The financing should be for real/physical Assets and
2. The Assets should be such that they support productive/economic activity. The interpretation that such Assets should be used for commercial purposes or generate income is without any basis. It is pertinent to note that over 80% of all Automobiles sold in the country are financed and a narrow interpretation of this nature would virtually bring automobile sales in the country to a grinding halt. It is well accepted that financing of tangible assets is safer since, irrespective of their end-use, they are quickly realizable, without much erosion in value.
3. We submit that the laudable objective of creating a distinct class of finance companies who finance tangible assets would be completely defeated if they are classified as loan companies.

We hope you will look into the matter and do the needful.

Thanking you,

Yours sincerely,

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
Director General