

SAMPADA

News and views on Non-Banking Financial Services



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Editorial:

Here we are again, with another issue of **Sampada**, a news and views letter on Non Banking Finance Companies (NBFCs).

NBFCs perform important role in our financial system. We are aware that due to globalization, banking industry and finance sector has undergone significant reforms.

This issue contains important article on Infrastructure Debt Financing Companies and also provides a comparison of the regulatory aspects of the recently formed NBFCs.

As readers would note, our articles are highly timely, informative and articulate.

Sampada, the newsletter continues to bring you upto speed on what is happening on NBFC sector, not just in India, but globally. So keep reading, preserving and circulating. Please do ask your colleagues to join our mailing list to receive copies of the Newsletter as also other relevant write-ups. In this regard please note the box on the left to join our group.

We would be pleased to get feedback from you.

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Today, one of the most critical needs to restart the Indian economy is infrastructure spending. It is common knowledge that lots of infrastructure investments are running dry of funds – partly because of lack of policy decisions, and partly because of government's inaction on several fronts. Infrastructure bonds were talked about in the Budget 2010 – after good one and half years, the RBI has finally come with guidelines for infrastructure debt financing companies (IDFCs).

It may be noted that Infrastructure Debt Funds (IDFs) can be set up either as mutual funds (trusts) or as companies (NBFCs). If the IDF is set up as a mutual fund (IDFMF), it would come under SEBI's regulatory ambit, while if it is set up as an NBFC (IDF-NBFC), it would come under the regulatory ambit of the Reserve Bank India.

Amendments in SEBI's mutual fund regulations had already been made vide Notification No. LAD-NRO/GN/2011-12/27668, DATED 30-8-2011 permitting mutual funds to come with schemes for infrastructure debt financing. Now, the RBI has come with a press release dated September 23, 2011, which provides for IDFs to be sponsored by all NBFCs, including Infrastructure Finance Companies (IFCs) either in the Mutual Funds format, or in the NBFC format. As regards mutual funds, the same may be sponsored by any NBFC, including an infrastructure finance company (IFC). However, if it is in company or NBFC format, only IFCs can sponsor IDF-NBFCs.

In essence, the scope for floating IDFs now stands as follows:

- All SEBI-registered mutual funds may come up with schemes for infrastructure debt financing.
- All NBFCs may sponsor infrastructure debt financing mutual funds.
- IFCs may sponsor infrastructure debt financing companies.

Eligibility Parameters for NBFCs as Sponsors of IDF-MFs

Sponsoring of IDFs by NBFCs would require prior approval of RBI and compliance with the following parameters in addition to those prescribed by SEBI

1. The NBFC should have a minimum Net Owned Funds (NOF) of Rs. 300 crores and Capital to Risk Weighted Assets (CRAR) of 15%;
2. Its net NPAs should be less than 3% of net advances;
3. It should have been in existence for at least 5 years.
4. It should be earning profits for the last three years and its performance should be satisfactory;
5. The CRAR of the NBFC post investment in the IDF-MF should not be less than the regulatory minimum prescribed for it;
6. The NBFC should continue to maintain the required level of NOF after accounting for investment in the proposed IDF and
7. There should be no supervisory concerns with respect to the NBFC

Eligibility Parameters for IFCs setting up IDF-NBFCs

The following would require to be complied with by the IFCs along with prior approval of RBI

1. Sponsor IFCs would be allowed to contribute a maximum of 49 percent to the equity of the IDF-NBFCs with a minimum equity holding of 30 percent of the equity of IDF-NBFCs,;
2. Post investment in the IDF-NBFC, the sponsor NBFC-IFC must maintain minimum CRAR and NOF prescribed for IFCs
3. There are no supervisory concerns with respect to the IFC

Infrastructure Debt Financing Companies: Will this new vehicle garner infrastructure financing?

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Regulatory Directions to IDF-NBFCs

To regulate the functioning of IFCs sponsoring IDF-NBFCs, RBI1 has prescribed the 'Infrastructure Debt Fund-Non-Banking Financial Companies (Reserve Bank) Directions, 2011' (the Directions) which shall come into force with immediate effect.

The Directions have defined "IDF-NBFC" as a non-deposit taking NBFC that has Net Owned Fund of Rs 300 crores or more and which invests only in Public Private Partnerships (PPP) and post commencement operations date (COD) infrastructure projects which have completed at least one year of satisfactory commercial operation and becomes a party to a Tripartite Agreement.

The above definition is laying three conditions to be fulfilled by an NBFC to be categorized as IDF-NBFC:

1. It should have a NOF of at least Rs.300 crores
2. It should be investing in PPP which have completed at least one year of satisfactory commercial operation, and
3. It should be a party to a Tripartite Agreement

The highlights of the Directions are:

1) Credit Rating

a) A minimum grade of 'A' of CRISIL or equivalent rating issued by other accredited rating agencies is required

2) Eligible Investors

a) Domestic and off-shore institutional investors, especially insurance and pension funds which would have long term resources.

3) Fund raising

a) IDF-NBFCs can raise resources through issue of either Rupee or Dollar denominated bonds of minimum 5 year maturity.

4) Capital Adequacy

- a) A minimum CRAR of 15 percent is must
- b) Tier II Capital of IDF-NBFC shall not exceed Tier I

5) Credit Concentration norms

- a) Maximum exposure on individual projects will be at 50 percent of its total Capital Funds (Tier I plus Tier II)
- b) An additional exposure up to 10 percent could be taken at the discretion of the Board of the IDF-NBFC
- c) Additional exposure up to 15 percent (over 60 percent) may be permitted by RBI on an application

6) Risk Weights for calculating capital adequacy

- a) bonds covering PPP and post commercial operations date (COD) projects in existence over a year of commercial operation shall be assigned a risk weight of 50 percent
- b) All other assets shall be risk weighted as per the extant regulations as given in para 16 of the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007

7) Other Prudential Norms

a) Other norms like income recognition, asset classification, provisioning requirement etc are applicable as specified in Non Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007

ARTICLE



"Tier I Capital" means owned fund as reduced by investment in shares of other NBFCs and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, 10% of the owned fund; and perpetual debt instruments issued by a Systemically important non-deposit taking non-banking financial company in each year to the extent it does not exceed 15% of the aggregate Tier I Capital of such company as on March 31 of the previous accounting year;

Foreign direct investments in IDFs

RBI, after issuing the regulatory directions for IDF-NBFCs, has also allowed FDI in IDF-MFs and IDF-NBFCs on repatriation basis vide circular RBI/2011-12/271 A.P. (DIR Series) Circular No. 49 dated November 22, 2011 amending the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000. FDI by eligible investors has been allowed, subject to the terms and conditions as may be laid down from time to time, in following securities:

1. Rupee and Foreign currency denominated bonds issued by the IDF-NBFCs
2. Rupee denominated units issued by IDF-MFs Foreign currency denominated bonds shall be regulated by ECB Guidelines, however, reporting requirement under the ECB Guidelines shall not be applicable to such bonds.

The terms and conditions stipulated by the circular are:

1) Eligible investors:

- a) Sovereign Wealth Funds, Multilateral Agencies, Pension Funds, Insurance Funds and Endowment Funds registered with SEBI (s (hereinafter referred to as 'SEBI registered eligible non- resident investors in IDFs)
- b) Registered FIIs
- c) NRIs
- d) High Networth Individuals (HNIs) registered with SEBI

2) Eligible Securities

Eligible Investor	Eligible Securities
SEBI registered eligible nonresident investors in IDFs and HNIs	SEBI registered eligible nonresident investors in IDFs and HNIs
FIIs not included above and NRIs	Rupee denominated bonds and units issued by IDFs

3) Maturity and Lock-in requirements

- a) The original / initial maturity of all eligible securities shall be five years.
- b) Applicable lock-in period is 3 years. However, all non-resident investors can trade amongst themselves within this lock in period.

4) Quantitative limits

- a) SEBI registered investors (as defined above), FIIs and HNIs can invest (both in rupee and foreign currency denominated securities) within an overall cap / limit of USD 10 billion only
 - i) This cap / limit of USD 10 billion would be within the overall cap of USD 25 billion for FII investment in bonds / non convertible debentures of Indian companies in infrastructure and IFCs
- b) No limit has been prescribed for NRIs

5) End Use

- a) For IDF-NBFCs - As stated above in the Directions, may invest in debt securities of only Public Private Partnership (PPP) infrastructure projects which have a buyout guarantee and have completed at least one year of commercial operations. Refinance by IDF would be up to 85% of the total debt covered by the concession agreement

IDFs set up as NBFCs can invest in debt securities of only public private partnership (PPP) infrastructure projects which have a buyout guarantee and have completed at least one year of commercial operations. Refinance by IDF would be up to 85 per cent of the total debt covered by the concession agreement.

IDFs set up as MFs would invest minimum of 90 per cent of its funds in debt securities of infrastructure companies or special purpose vehicles across all infrastructure sectors, project stages and project types.

b) For IDF-MFs - invest minimum of 90% of its funds in debt securities of infrastructure companies or SPVs across all infrastructure sectors, project stages and project types

Our Analysis

I. Mutual funds vs. NBFCs

Regulations permit an IDF to be set up either as a company (IDF-NBFC) or a mutual fund (IDF-MF). The broad differences between the two are as follows:

1. **Who can sponsor:** IDF –MF can be sponsored either by an NBFC or by an IFC. However, IDF-NBFC can be sponsored only by an IFC.
2. **Leverage:** Going by the general feature of mutual funds, mutual funds issue units which are in the nature of beneficial interest certificates. Mutual funds don't issue debt paper or bonds. IDF-NBFCs, however, are explicitly allowed to issue bonds, and hence can leverage themselves. In fact, given the risk weights for infrastructure assets and the required capital adequacy norms for IDF-NBFCs, the leverage may be several times of equity of the IDF-NBFC. Leverage provides higher returns on equity in case of IDF-NBFCs.
3. **Tax transparency:** Going by the general tax exemption under sec 10 (23D), an IDF-MF will have only one-point tax on the distributed income of the fund, thereby achieving full tax transparency. However, in case of IDF-NBFCs, the company itself will remain liable to pay taxes on its income
4. **Capital adequacy:** Capital required in case of IDF-NBFCs is 15% of risk weighted assets. In case of IDF-MFs, question of capital adequacy does not arise as mutual funds only issue units, which is effectively capital only.
5. **Applicable regulations:** in case of mutual funds, SEBI's mutual fund regulations will be applicable. In case of IDF-NBFCs, the above mentioned Directions issued for IDF-NBFCs, Companies Act and the RBI regulations in case of NBFCs apply. Most of the prudential regulations have been extended in case of IDF-NBFCs as well. For IDF-MFs, new chapter VI-B has been introduced in the MF Regulations which provides for setting up and operating of IDF-MFs.
6. **Eligibility:** IDF-MF schemes may be launched by the existing MFs if it has an adequate number of key personnel having adequate experience in infrastructure sector. IDF-NBFCs would require minimum NOF of Rs. 300 crores
7. **Permissible Investments:** For IDF-MFs, at least 90 per cent of the net assets of the IDF scheme shall be invested in debt securities or securitized debt instruments of infrastructure companies. On the other hand, IDF-NBFCs has been allowed to invest 100% only in PPP and post COD infrastructure projects which have completed at least one year of satisfactory commercial operation and are a party to a Tripartite Agreement.

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Capital adequacy ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world.

Two types of capital are measured: tier one capital, which can absorb losses without a bank being required to cease trading, and tier two capital, which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors.

8. **Minimum amount for raising funds:** The IDF schemes to be issued by IDFMFs should have an upfront firm commitment of INR 250 million, however, IDF- NBFC would raise resources through issue of either Rupee or Dollar denominated bonds of minimum 5 year maturity. No minimum amount has been prescribed for IDF-NBFCs.

Credit rating:

The regulations lay down minimum rating requirement – ‘A’ or better. The regulations leave several things open to interpretation, and in fact, speculation:

a) First, it is not clear what is the rating of? Rating of the IDF-NBFC, or rating of the bonds issued by the entity? Usually, ratings refer to an instrument, as there is no rating of an entity. A single entity may have different instruments carrying different ratings. Obviously, the RBI seems to have used the public deposits template where ratings were to be assigned to the public deposit scheme of the NBFC. Logical answer to the question is – it is rating of the bond, and not rating of the IDF-NBFC itself. However, one would have expected the regulator to draft the rules in unambiguous language, not to leave readers perplexed.

b) If the first question is answered, then the next question becomes easy to answer – when does the rating have to be obtained? Is it rating at the time of start of business, or rating only at the time of issue of bonds? Once again, logically, there is no way any entity can expect to get an A rating at the very start of business. So, as we taken the view above that the rating is only rating for the bonds, the rating has to be obtained whenever the IDF-NBFC comes up with its bond issue.

c) A third and critical question is - what if the rating gets downgraded? There is no answer to that in the guidelines at all. Once again, our interpretation that the rating pertains to the bonds, and to the entity, comes to rescue. If an entity bonds already in issue get downgraded to below A, there is nothing that the issuer can do about it. However, any new issue of bonds, rated less than A, cannot be sold to investors. It is quite possible that there is an existing bond issue which has been downgraded, and yet the entity continues to issue further bonds, if the further bonds have an A rating. On the key question of whether it is possible to have infrastructure bonds, if issued by a single entity, having different ratings – the possibility seems quite clear. Though the bonds are the unconditional obligation of the issuer, the bonds may be backed by cash flows from a particular project.

III. What all business can an IDF do?

There is only a vague statement as to what business can an IDF-NBFC do – Rule 7 says that IDF-NBFCs shall invest only in PPP and post COD infrastructure projects which have completed at least one year of satisfactory commercial operation and are a party to a Tripartite Agreement with the Concessionaire and the Project Authority for ensuring a compulsory buyout with termination payment. This may be seen as laying down a qualifying condition for the projects that the IDF-NBFC finances. That is to say, IDFNBF shall only in such projects as are backed by a tripartite agreement, and compulsory buyout with a termination payment. But it is not clear as to what is the business that can IDF-NBFC do, pending investment in qualifying projects. Surely enough, an IDF-NBFC cannot correlate the issue of infrastructure bonds with its own investments in

Did you know?

So far, CRISIL has rated 30,000 debt instruments, covering the entire debt market.

The debt obligations rated by CRISIL include:

- Non-convertible debentures/bonds/preference shares
- Commercial papers/certificates of deposits/short-term debt
- Fixed deposits
- Loans
- Structured debt

CRISIL Ratings' clientele includes all the industry majors - 23 of the BSE Sensex constituent companies and 39 of the NSE Nifty constituent companies, accounting for 80 per cent of the equity market capitalisation, are CRISIL's clients.



infrastructure financing. It is possible to get one indirect hint from the language of Reg 9 – this provides a risk weight of 50% in case of qualifying project investments, and 100% in other cases. If the assets of the IDF-NBFC were limited only to qualifying projects, the question of a risk weight of 100% in case of other assets would not arise at all.

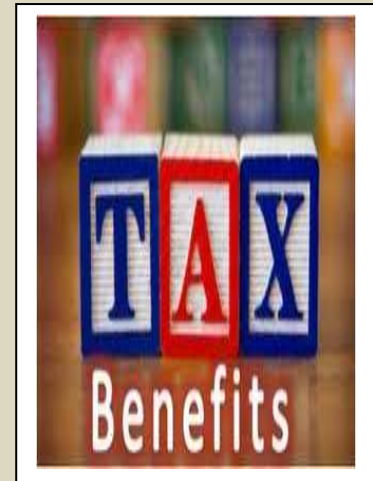
Hence, it may be logical to conclude that there is no bar on IDF NBFC making investments other than for qualifying projects – however, these should be passive investments, no designed constitute the business of the IDF-NBFC.

IV. Tax benefits to investors

Under sec 80CCF, individuals and HUFs making investment in infrastructure bonds as may be notified from time to time. Hence, investments in infrastructure bonds are expected to have a tax appeal for retail investors. As tax oriented schemes try to hit the capital market typically towards the year-end, it is high time that NBFCs and IFCs interested to sponsor IDFs quickly prepare themselves for launch.

****For more on related research/articles/materials on NBFCs, click http://www.india-financing.com/staffpublications_NBFC.htm**

ARTICLE



NEWS

Venture financing company, Gujarat Venture Finance Limited (GVFL) is set to increase its focus on clean energy projects for funding under its Rs 1000-crore infrastructure fund. GVFL is confident of raising about half of the total fund size by the end of December 2011.

GVFL had announced the Rs 1000-crore infrastructure fund - Golden Gujarat Growth Fund Series-1 during the Vibrant Gujarat Global Investors' Summit 2011 held in January 2011. According to sources, a larger part of the fund will go to clean energy projects, besides financing projects for infrastructure development including industrial parks and textile parks. The company is interested to fund projects in solar and wind power generation space.

Small is ugly! - Courtesy RBI; new NBFC-MFIs category christened

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RBI has been mulling over need for regulations with regard to micro-finance activities of NBFCs and on several occasions has mentioned the need for a separate category of NBFCs that cater to the microfinance sector. RBI, recently, vide its notification dated 2nd December, 2011¹, has set the ball rolling with briefly stating the regulatory framework, classification and norms applicable, to be complied with from April 1, 2012.

Ignited by the Andhra ordinance and the subsequent brouhaha in the microfinance industry, concerns came from all corners and regulatory needs were felt like never before. The notification has taken into consideration the recommendations of the Malegam Committee report with several modifications.

An NBFC-ND would be categorized as NBFC-MFI that has a Minimum Net Owned Funds of Rs.5 crore (except for MFIs in north east) and not less than 85% of the net assets in the nature of qualifying assets. The Malegam Committee had recommendations of 90% of the net assets in the nature of qualifying assets. Also, unlike the Malegam Committee recommendations, for the definition of qualifying assets, one of the criteria for annual household income exceeding a particular limit, the rural – urban distinction has been kept, in line with the priority sector lending norms¹. The highlights of the notification are as follows:

- Defining criteria for net assets in the nature of “qualifying assets” are in line with the Master Circular on Lending to Priority Sector:
 - Loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding – Rs. 60,000/- and Urban and semi-urban household annual income not exceeding – Rs. 120,000/-
 - Loan amount not exceeding Rs. 35,000/- in first and Rs. 50,000/- in subsequent cycles
 - Total indebtedness not to exceed Rs. 50,000/-
 - Tenure not less than 24 months for loan amount exceeding Rs.15,000 and no penalty to be applicable on prepayment
 - No collateral for loan
 - Aggregate amount of loans to be given for income generation to be atleast 75% of the total loans given by the MFIs.
- Non-NBFC-MFI not to extend more than 10% of its total assets to microfinance sector
- Capital adequacy requirement 15% of its aggregate risk weighted assets; whether asset size above or below Rs.100 crores
- Asset classification and provisioning norms
 - Provision to be made of a) 1% of the outstanding loan portfolio or b) 50% of the aggregate loan instalments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan instalments which are overdue for 180 days or more.
- Interest to be charged not more than 26% p.a and an aggregate margin cap of not more than 12%, processing fee not more than 1% of the gross loan amount. The Malegam Committee however had recommended a cap of 24% interest. The three components of loan pricing 1) interest, 2) processing fees and 3) insurance cost. The Malegam Committee recommended margin cap of 10% for MFIs having an outstanding loan portfolio more than Rs. 100 crores and 12% for MFIs having outstanding loan portfolio of less than Rs. 100 crores.

- No penalty for delayed payment
- Borrower may or may not be a member of JLG, however borrower cannot be a member of more than one SHG/JLG and not more than two NBFC-MFIs should lend to the same borrower.

MFIs are into the business of small lending, there are several such MFIs that have a very small capital base, not sure how they would raise their capital levels to Rs. 5/ 2 crores to get the NBFC-MFIs status. If these companies do not get the NBFCs status, priority sector norms would not be applicable to such non-NBFC-MFIs, strangulating their flow on funds and ultimately pushing them out of business altogether, as per these directions. This means that big would become bigger and small would be ugly and pushed out of the sector. Would it mean that the larger MFI fishes would enjoy a bigger share of the cake and while the smaller fishes would be down-trodden.

Further, while there seems to be some relaxation granted to the industry from the Malegam Committee's recommendations, there is no clarity on computation of margin cap and its components, securitization of portfolios, applicability of money lenders act, no definition of ghost borrowers and so.

NEWS

An RBI-appointed panel headed by Y H Malegam had earlier this year recommended setting up of a special category of NBFCs operating in the micro finance sector.



Introduction of New Category of NBFCs - 'Non Banking Financial Company-Micro Finance Institutions'(NBFC-MFIs) - Directions

The Reserve Bank of India vide Circular RBI/2011-12/290DNBS.CC.PD.No. 250/03.10.01/2011-12 dated **December 02, 2011** has notified the creation of a new category of NBFC viz Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI). Henceforth, there will be seven classes of NBFCs:

1. Asset Finance Company (AFC)
2. Investment Company (IC)
3. Loan Company (LC)
4. Infrastructure Finance Company (IFC)
5. Core Investment Company (CIC)
6. Infrastructure Debt Fund- Non- Banking Financial Company (IDF-NBFC)
7. Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI).

The Sub-Committee of the Central Board of the Reserve Bank had recommended a role for industry associations in monitoring of compliance by NBFC-MFIs with the regulations. Separate guidelines in this regard are yet to come.

Click on the following link to read the entire circular that contains the prudential norms and guidelines for NBFC-MFI

<http://rbidocs.rbi.org.in/rdocs/notification/PDFs/CC250021211.pdf>

“In my view, only around 10 of the NBFC-MFIs can survive post-April unless a special dispensation is given by RBI”

- Mathew Titus, executive director, Sa-dhan, an association of microlenders.

Do you know?

“India has around 60 microlenders incorporated as NBFCs and nearly 300 run as not-for-profit bodies such as non-governmental organizations (NGOs), trusts and cooperative societies. Out of this, nearly 50 NBFC-MFIs and around 200 not-for-profit microlenders may have to wind up their operations or consolidate into large entities beginning next year because they will not be able to comply with the norms stipulated by RBI”

- Senior industry officials

Infrastructure Debt Funds (IDFs)

The Reserve Bank of India vide Circular RBI/2011-12/268 DNBS.PD.CC.No.249 /03.02.089/2011-12 dated November 21, 2011 has issued detailed guidelines prescribing the regulatory framework for Non Banking Financial Companies (NBFCs) to sponsor IDFs which are to be set up as Mutual Funds (MFs) and NBFCs. These guidelines further clarify, that such entities would be designated as “Infrastructure Debt Fund – Mutual Funds (IDF-MF) and “Infrastructure Debt Fund – Non-Banking Financial Company (IDF-NBFC)”. All NBFCs, including Infrastructure Finance Companies (IFCs) registered with the Bank may sponsor IDFs to be set up as Mutual Funds. However, only IFCs can sponsor IDF-NBFC.

Broadly the guidelines include:

- Eligibility Parameters for NBFCs as Sponsors of IDF-MFs
- Eligibility Parameters for IFCs setting up IDF-NBFCs
- Provisions with regard to tripartite Agreement
- Investment by NBFCs and IFCs in IDFs
- Credit Rating norms
- Capital Adequacy norms
- Credit Concentration Norms
- Risk Weights for the Purpose of Capital Adequacy

The Finance Minister had in his budget speech for the year 2011-2012 announced the setting up of Infrastructure Debt Funds (IDFs), to facilitate the flow of long-term debt into infrastructure projects. The IDF will be set up either as a trust or as a company. A trust based IDF would normally be a Mutual Fund (MF) while a company based IDF would normally be a NBFC. IDF- NBFC would raise resources through issue of either Rupee or Dollar denominated bonds of minimum 5 year maturity. The investors would be primarily domestic and off-shore institutional investors, especially insurance and pension funds which would have long term resources. IDF-MF would be regulated by SEBI while IDF-NBFC would be regulated by the Reserve Bank.



Let us now do a quick comparison of the regulatory aspects of the two new classes of NBFCs viz Infrastructure Finance Companies and NBFC-Micro Finance Institutions:

Particulars	NBFC-IFC	NBFC-MFI
Definition	<p>'Infrastructure Finance Company' means a non-banking finance company which :</p> <p>(i) deploys at least 75 per cent of its total assets in infrastructure loans”</p> <p>(ii) has minimum credit rating 'A' or equivalent of CRISIL, FITCH, CARE, ICRA or equivalent rating by any other accrediting rating agencies; and</p> <p>(iii) does not accept deposits from public</p>	<p>An NBFC-Micro Finance Institution is defined as a non-deposit taking NBFC(other than a company licensed under Section 25 of the Indian Companies Act, 1956) that fulfils the following conditions:</p> <p>(i) Minimum net owned funds of Rs, 5 crore;</p> <p>(ii) Not less than 85% of its net assets are in the nature of “qualifying assets.”</p> <p>(iii) The income derived from the remaining 15 percent of assets shall be in accordance with the regulations specified in that behalf.</p> <p>(iv) An NBFC which does not qualify as an NBFC-MFI shall not extend loans to micro finance sector, which in aggregate exceed 10% of its total assets.</p>
Net Owned Funds (NoF) requirement	Rs. 300 crore or above;	<p>NBFC-MFI located apart from North Eastern region of the country: Minimum NoF of Rs. 5 crore</p> <p>NBFC-MFI located in North Eastern Region of the Country: Minimum NoF of Rs. 2 crores</p>
Capital Requirement	<p>(1) CRAR of 15 percent (with a minimum Tier I and Tier II capital of 10 percent of its aggregate risk weighted assets on balance sheet and of risk adjusted value of off-balance sheet items)</p> <p>Note: Such ratio shall not be less than 12% by March 31, 2010 and 15% by March 31, 2011.)</p> <p>(2) The total of Tier II capital, at any point of time, shall not exceed one hundred per cent of Tier I capital.</p>	<p>(1) Capital adequacy ratio consisting of Tier I and Tier II Capital shall not be less than 15 percent of its aggregate risk weighted assets.</p> <p>(2) The total of Tier II Capital at any point of time, shall not exceed 100 percent of Tier I Capital.</p>
Asset classification norms	(1) shall, after taking into account the degree of well defined credit weaknesses and extent of dependence on collateral security for realisation, classify its lease/hire purchase assets, loans and advances and any other forms of credit	<p>Asset Classification Norms:</p> <p>i. Standard asset means the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more</p>

	<p>into the following classes, namely:</p> <p>(i) Standard assets;</p> <p>(ii) Sub-standard assets;</p> <p>(iii) Doubtful assets; and</p> <p>(iv) Loss assets.</p> <p>(2) The class of assets referred to above shall not be upgraded merely as a result of rescheduling, unless it satisfies the conditions required for the upgradation.</p>	<p>than normal risk attached to the business;</p> <p>ii. Nonperforming asset means an asset for which, interest/principal payment has remained overdue for a period of 90 days or more.</p>
Provisioning norms	<p>The provisions held by the non-banking financial companies against non-performing infrastructure loan, which may be classified as 'standard' in terms of sub-paragraph (3) hereinabove, shall continue to be held until full recovery of the loan is made.</p>	<p>The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of</p> <p>a) 1% of the outstanding loan portfolio or</p> <p>b) 50% of the aggregate loan instalments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan instalments which are overdue for 180 days or more.</p>
Credit Pricing norms	<p>may exceed the concentration of credit norms as under:</p> <p>(i) in lending to</p> <p>(a) any single borrower by ten per cent of its owned fund; and</p> <p>(b) any single group of borrowers by fifteen per cent of its owned fund;</p> <p>(ii) in lending and investing (loans/investments taken together) by</p> <p>(a) five percent of its owned fund to a single party; and</p> <p>(b) ten percent of its owned fund to a single group of parties.</p>	<p>shall maintain an aggregate margin cap of not more than 12%.</p> <p>The interest cost will be calculated on average fortnightly balances of outstanding borrowings and interest income is to be calculated on average fortnightly balances of outstanding loan portfolio of qualifying assets.</p> <p>Interest on individual loans will not exceed 26% per annum and calculated on a reducing balance basis.</p> <p>Processing charges shall not be more than 1 % of gross loan amount. Processing charges need not be included in the margin cap or the interest cap.</p> <p>NBFC-MFIs shall recover only the actual cost of insurance for group or livestock, life, health for borrower and spouse. Administrative charges where recovered, shall be as per IRDA guidelines.</p>



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