

NBFCs hope Budget will ensure equality

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KOLKATA | CHENNAI: Non-banking finance companies (NBFCs) expect Budget 2010-11 to address some of their long-pending issues in recognition of the critical role they play as financial intermediaries.

Senior NBFC company executives argue that unlike in the past, they are now well-regulated and supervised. Like banks, NBFCs have to be registered with RBI, follow KYC as well as other norms.

Since the central bank has clearly articulated its intent of bringing the regulatory playing field between banks on par with that of asset financing NBFCs, the latter expects the Budget to treat them on par with other players in the financial system with regard to taxation, availability of funds, broad basing the source of finance, recovery of NPAs, etc.

Finance companies' association (India) advisor PS Balasubramaniam said after the shakeout in the early 90s, the sector saw some 300 players engaged in asset financing (HP and infrastructure financing), mortgage finance, loan financing (gold and personal loans).

He wants RBI and the union government to recognise the relevance of NBFCs in the changing landscape and play a meaningful role in the financial as well as the overall economy of the country.

“In recognition of the role played by NBFCs — AFCs and the special classification given by RBI, we request the ministry of finance to treat such companies on a different footing and consider some of the long pending issues,” said TT Srinivasaraghavan, MD of Sundaram Finance and chairman, Finance Industry Development Council.

Incidentally, the commercial vehicle financing industry estimated at Rs 15,000 crore is growing fast. Another Rs 6,000 crore would be required for phasing out of commercial vehicles which are more than 15 years old.

Magma Fincorp vice-chairman & managing director Sanjay Chamria feels: “NBFCs should be brought under the TDS exemption purview of section 194A of the Act like banking companies and public financial institutions so that their cash flow is not affected and the operational problems of TDS-related compliances are minimised.

The government should also consider removal of service tax on hire purchase and leasing transactions.”

Infrastructure financing companies like Srei, IDFC and REC expect the Budget to recognise their critical role in financing infrastructure projects and take a relook at several direct and indirect tax issues for such NBFCs.

They claim that with government withdrawing the tax exemption on interest paid on ECB loans, the cost advantage of raising funds through the ECB route has been compromised to a large extent. If the need for funds for infrastructure development is any indication, there is a need to reintroduce the tax exemption.

Unlike most commercial vehicles select, specialised equipment meant for pollution control and renewable energy, which are allowed high rates of depreciation or even 100% depreciation, construction equipment do not enjoy any such benefit. The Budget, industry circle adds, needs to address this anomaly and allow CE registered under the MV Act to avail of the benefit of higher

depreciation.

“All this apart, infrastructure financing NBFCs do not enjoy coverage under the SARFAESI Act. They cannot avail of the services of the debt recovery tribunals. These facilities also need to be extended to infrastructure financing NBFCs so that they can operate more competitively,” Srei Infrastructure Finance CMD Hemant Kanoria pointed out.