

NBFCs seek priority lending status

By [Sanjay Vijay Kumar](#) Feb 15 2010 , Chennai

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Non-banking financial companies (NBFCs) expect the upcoming Union budget to address several issues vital for these lenders to flourish. NBFCs want to be granted priority lending status, easier laws for conversion into banks and continuation of stimulus packages.

The sector did not get any direct benefits from the last's year budget, except for the special liquidity window created to help those facing liquidity issues, which was underutilised. However, the sector has really bounced back due to improvements in economic conditions and stimulus packages for other related sectors.

“Overall, NBFCs should be granted priority lending status, given that we serve the unbanked areas and help in the goal of financial inclusion,” said G S Sundararajan, managing director of Shriram Capital, part of the Chennai-based Shriram Group.

Sanjay Chamria, vice-chairman and managing director of Magma Fincorp, added that NBFCs should be treated at par with banks because they are doing the same job, which is to provide credit to various sections of the society with a focus on rural and semi-urban areas of the country.

Sundararajan also called for easier norms for conversion into banks, at least for the top 10 NBFCs, which performed well. There should be a better valuation system for rating these NBFCs., he added.

He said although Shriram Group is not looking at setting up a bank right now, it might pursue that option if the regulatory environment is conducive.

L&T Finance, the financial services arm of construction and engineering major Larsen and Toubro (L&T), is also looking to set up a commercial bank as part of its efforts to have a presence in the entire gamut of financial services.

On the asset financing side, Chamria expects allowance of higher rate of depreciation under section 32 of the Motor Vehicles Act in respect of construction equipment, which are registered under the Act and used in the business of running them on hire because they are mainly used in the development of infrastructure facilities.

From the commercial vehicle financing perspective, Sundararajan expects the government to continue the stimulus package to continue. “Commercial vehicle sales have really bounced back helped by the stimulus packages of the government. Since the sales of the commercial vehicles is dependent on the economic activity, withdrawal of stimulus package would have an impact on commercial vehicle sales,” he added.

According to the Society of Indian Automobile Manufacturers (Siam), the commercial vehicles segment registered positive growth at 22.32 per cent during April-December 2009 as compared with the same period last year. While medium and heavy commercial vehicles grew at 9.73 per cent, light commercial vehicles grew at 34.65 per cent.

TT Srinivasaraghavan, MD of Sundaram Finance, another major player in the commercial vehicle space, agreed. He added that rolling back of measures such as cut in exercise duty would lead to an increase in prices and may have a negative impact on sales.

The asset financing NBFCs have a long-pending request of treating asset-financing companies at par with banks and housing finance firms with regard to tax treatment of income and provisioning in respect of non-performing assets.

Srinivasaraghavan, who is also the chairman of Finance Industries Development Council (FIDC), a self-regulatory organisation for asset-financing NBFCs, said he does not expect the issue to come up until the new tax code is implemented.

(With inputs from Kumar Shankar Roy in Kolkata)