

NON-BANKING FINANCIAL COMPANIES (Products, Legalities & Risks)

December 2018 | DAVINTA FINANCIAL SERVICES PRIVATE LIMITED

Learning objectives:

- Understanding concept of non-banking finance in India
- Putting non-banking finance in context of Indian financial system
- Evaluating credit and security interest
- Structuring different forms of funding transactions
- Pricing of credit assets
- Regulatory framework of NBFCs
- RBI regulations & revised regulatory framework for NBFCs
- Capital structure and refinancing of NBFC business
- Managing risks in NBFC business

Who should attend?

- Chief Executive Officer / Managing Director
- Chief Financial Officer
- Chief Risk Officer
- Chief Investment Officer
- Company Secretary & Head of Legal / Regulatory Affairs
- Head of Compliance
- Head of Treasury/ Debt Markets
- Head of Credit
- Head of Strategy & Planning
- Product & Business Heads
- Head of Private Equity / Venture Capital
- Head of Asset & Fund Management



Course Facilitator:

**Mr. Vinod Kothari, Director,
Vinod Kothari Consultants Pvt. Ltd.
Qualification: Company Secretary &
Chartered Accountant**

Vinod Kothari is internationally recognized as an author, trainer and consultant on specialized financial subjects, viz., housing finance, securitisation, credit derivatives, accounting for financial instruments, structured finance, banking regulations etc. As such, he lectures all over the world. The locations where he has lectured on these subjects include New York, Washington, London, Milan, Frankfurt, Singapore, Hong Kong, Sydney, Colombia (South America), South Africa, Malaysia, Jordan, Dubai, Kuwait, Egypt, Sri Lanka, Bangladesh, etc.

Mr. Kothari with his efficient team has handled very diverse groups - from rating agency professionals in Malaysia, to group of investors in Sydney, to tax officers in South Africa, to group of lawyers in India, to executives of the World's largest securitisation agency in Washington, to a group of quants in New York.

Vinod Kothari through his firm Vinod Kothari and Company is also engaged in practice of corporate laws for over 25 years. He is acclaimed for his deep understanding of the various facets of corporate laws and his expertise in areas of FEMA, leasing, NBFCs. He is renowned for offering services to a number of listed companies which not only include advisory or consultancy related services or conduct of due diligences, but also litigation related services.

He also has a vast experience in working with the various regulators like SEBI, NHB and Government of India and multilateral organisations like IFC and ADB.

WORKSHOP AGENDA – DAY ONE

Non-Banking Financial Companies (NBFCs) have rapidly emerged as an important segment of the Indian financial system. Besides generally contributing to economic growth by rapid growth of financial assets, NBFCs have contributed greatly to financial inclusion by meeting the funding needs of the unorganized sector, including wholesale & retail traders, small-scale industries, small borrowers, farmers, transporters, and the like. NBFCs are noted for their outreach, informal modes of credit evaluation, strong recovery mechanism, speed of decision-making, etc.

NBFCs form a heterogeneous group of financial institutions, performing a wide range of activities like hire-purchase finance, vehicle financing, equipment leasing, personal loans, working capital loans, consumer loans, housing loans, loans against shares, loans against properties, and so on. NBFCs are broadly divided into three categories namely (i) NBFCs accepting deposits from banks (NBFC-D); (ii) NBFCs not accepting/holding public deposits (NBFC-ND); and (iii) core investment companies (i.e. those acquiring share/securities of their group/holding/subsidiary companies to the extent of not less than 90% of total assets and which do not accept public deposits.)

The segment has witnessed considerable growth in the last few years and is widely recognized as complementary to the banking sector due to implementation of innovative marketing strategies, introduction of tailor-made products, customer-oriented services, and simplified procedures, etc.

This 2-day workshop is intended to provide a comprehensive view of the business of NBFCs in India, putting them into context within the overall architecture of the financial system. The workshop will intend to engage the participants' attention on the basic drivers of economic value for the NBFCs, focusing of the sweet spots and value drivers.

Depending on the perceived needs of the participants, the workshop will get into major NBFC products, focusing on the product structure, features, client segment, distribution channels, security interest or cashflow trapping, recovery mechanisms, legal documentation, etc.

An important part of the understanding of the NBFC business in India is the regulatory framework. The workshop will deal at length with the various legal and regulatory parameters that govern NBFC business. In addition to full-scale discussion on the RBI Act, RBI Directions and circulars of the RBI, the workshop will deal with several other relevant laws, including the Transfer of Property Act, SARFAESI Act, FDI and ECB considerations, Payment and Settlement Systems Act, Negotiable Instruments Act, etc.

The growth of NBFC business is integrally connected with capital structure and refinancing. The workshop will also discuss capital structure considerations and the impact of leverage, as also traditional and alternative modes of refinancing, including securitization and direct assignments.

Accounting standards applicable to financial entities have undergone a major change with the applicability of IFRS. Very complicated and mathematically intensive computations are required for fair valuation as also assessment of impairment losses on an ongoing basis. The workshop intends to deal with these issues also at length.

Session 1: What is non-banking finance?

- Meaning of non-banking financial companies as per RBI Act.
- Overview of regulatory set up distinguishing between non-banking non-financial companies and banking companies.
- Distinction between banks and non-banking financial companies - What can NBFCs do and not banks? What can banks do and not NBFCs?
- Regulatory arbitrage
- NBFCs – their value drivers and sources of value addition

Session 2: Basic law of unsecured and secured lending:

- Unsecured lending
 - Basic relation of parties – lender, borrower, guarantor, co-borrower, etc.
 - Lending to different types of entities – individuals, HUFs, firms, cooperatives, societies, trusts, LLPs, companies, etc
 - State money lending laws
- Secured lending laws
- Different forms of security interest
 - Against movable and immovable property
 - Possessory and non possessory security interest
 - Mortgage and charges
 - Conditional sales
- Creation of security interest
- Perfection of security interest
- Enforcement of security interest
 - Self-help enforcement; differences between rights of banks and NBFCs
 - Judicial enforcement
 - Non-judicial arbitral enforcement
- Guarantees and third-party security interests
- Overview of security interest laws globally and emerging trends
- SARFAESI Act as applicable to NBFCs

Session 3: Credit and security interest evaluation:

- Credit evaluation of a funding proposal
- Basics of evaluation and analysis of financial statements
- Evaluation of the asset
- Two critical ratios – loan to value ratio and debt service coverage
- Movement of LTV ratio over time
- Assessing residual value of the security interest

WORKSHOP AGENDA – DAY ONE (CONTINUED)

Session 4: Different forms of funding transactions:

- Asset-backed lending business – loans against commercial assets
 - Creation of security interest on commercial assets
 - Alternative forms of asset-backed funding: hire purchase and leasing
- Loans against financial assets (shares and securities)
 - Essential rules of pledging and procedures in case of physical and demat securities
 - Restrictions on loans against shares by SEBI and stock exchanges
 - Rights of a pawnee under contracts law
- Trade finance
 - Financing of trade receivables
 - LC financing
 - Bills discounting and factoring
- Unsecured personal loans:
 - Money lending laws
 - Enforcement of personal loans

Session 5: Pricing of a credit asset:

- Assessment of probability of default
- Essential of structural model for predicting the probability of default
- Establishing recovery rate
- Pricing of credit risk
- Assessing economic capital requirements and portfolio pricing

END OF DAY ONE

WORKSHOP AGENDA – DAY TWO

Session 1: Risk management in NBFC business

- Assessing credit risk and providing for credit risk capital
- Asset liability management:
 - Assessing asset liability mismatches and sources of liquidity risk
- Interest rate risk and other sources of market risk
- Introduction to value-at-risk and its computation methodology

Session 2: Basel II and regulatory capital for NBFC business

- Introduction to Basel II capital norms
- Standardized and IRB approaches
- Introduction of Basel II norms in India
- Operational risk
- Regulatory capital management through securitisation and credit risk mitigation devices

Session 3: RBI regulations on NBFC business

- RBI regulatory framework
- Systemically important and unimportant companies
- Corporate governance norms
- Other norms applicable to NBFCs

Session 4: Revised regulatory framework for NBFCs:

- Prudential Norms for Systematically Important and Non Systematically Important Non – Deposit taking Non-Banking Financial Companies
- Accounting implications for NBFCs due to such changes
- Changes brought in with respect to –
 - Net owned funds
 - Deposit taking NBFCs
 - Acceptance of deposit Directions

Session 5: Capital structure and refinancing for NBFCs

- The capital structure – the role of leverage and the impact of capital structure on RoE
- Different modes of debt funding – bank borrowings, commercial paper, ECBs, bond issues, securitization, etc.
- Different forms of capital instruments and their impact – preference shares, CCDs, warrants, etc.
- Direct assignment and securitization

WORKSHOP AGENDA – DAY TWO (CONTINUED)

Session 6: Accounting for NBFCs:

- IFRS convergence in case of NBFCs
- Computation of effective rates of return and income recognition
- Fair value assets and fair value options – FVOCI and FVTPL
- Modes of fair valuation and Ind AS 113

Session 7: Other recent changes in the NBFC sector:

- Regulations on Change in control for NBFCs
- Corporate Governance Directions
- Draft guidelines on outsourcing of core services
- Miscellaneous changes

Session 8: Q&A

****End of workshop****