FLDG norms: Fintech firms seek greater default cover

SHINE JACOB
Chennai, 11 June

The default cover for up to 5 per cent of the loan portfolio under the FLDG (first loan default guarantee) framework could be inadequate, according to some fintech players, which otherwise welcomed the Reserve Bank of India's (RBI's) recent guidelines permitting the use of FLDG arrangements in digital lending. Earlier, some entities were offering almost 100 per cent FLDG to banking partners.

"It is a good first move. But they (RBI) have still limited it (default cover) to 5 per cent, which in my view is insufficient. I think FLDG has to be more. I agree with them that it cannot be 100 per cent. In an ideal condition, it should become 50 per cent. This will help fintech companies and MSMEs to get access to credit," said Rohit Arora, chief executive and co-founder, Biz2Credit, an online financing platform for small businesses.

Through the FLDG model, fintech players and banks or non-banking financial companies (NBFCs) used to enter into arrangements through which the former provided a guarantee to compensate for up to a certain percentage of default in a loan portfolio, in some cases it went up to as high as 100 per cent. Banks were keen on this model because fintech companies were sharing part of the risk.

However, the RBI was not comfortable with the model as fintech firms are not regulated entities under the central bank. "This obviously was not good as lenders were approving everything. Despite the guarantee, they still have the duty to do the right kind of underwriting and manage the risk well," Arora said.

Based on the new regulation, the default cover could be provided for up to 5 per cent of the loan portfolio and shall be invoked within a maximum overdue period of 120 days. In addition to this, fintech players will have to submit a guarantee in the form of cash deposit, fixed deposit, or bank guarantee in favour of the lender. According to the new guidelines, only an RBI-regulated entity is entitled to have an FLDG agreement with a lending service provider or other regulated entities. Another senior executive of a company from the sector batted for an increase in the 5 per cent cap, terming the RBI's move "a good beginning".

"Fintech firms are not directly regulated by the RBI, and hence they do not get a sense of exposure from the fintech side about NPAs. Now by ensuring there is a 5 per cent limit, you can restrict NPAs. This makes it a win-win combination," said Praveen Khanna, vice-president, alliances, ScoreMe Solutions.

The Fintech Convergence Council, an industry body for regulated financial service providers and fintech firms, welcomed the RBI move. "One key aspect of the FLDG is the emphasis on increased transparency within the lending ecosystem. Lending service providers will be required to disclose all their relationships and portfolios, including any default, to relevant entities. This heightened transparency will foster greater trust among stakeholders and enhance accountability within the industry," it stated.

ABOUT THE NORMS

- Regulated entities (RE) or lender shall ensure that total amount of FLDG cover on any outstanding portfolio shall not exceed 5 per cent of the amount of that loan portfolio
- Fintech players will have to submit a guarantee in the form of cash deposit, fixed deposit, or bank guarantee in favour of the lender
- Recognition of individual loan assets in the portfolio as NPA and consequent provisioning shall be RE's responsibility

FROM PAGE 1

Asset monetisation 18% short of target in FY23

LAGGARDS IN FY23 (in ₹cr)

Sector	Target	Achieved	Gap (%)
Roads	32,855	17,384	-47.09
Rail	30,000	7,750	-74.17
Power	15,308	9,436	-38.36
Telecom	20,180	0	
Aviation	7,299	426	-94.16

FRONTRUNNERS IN FY23 (in ₹cr)

Sector	Target	Achieved	Gap (%)
Petroleum and Natural Gas	9,176	19,000	107.06
Coal	30,000	57,180	90.60
Shipping	3,553	4,377	23.19
Mines	3,281	9,856	200.40
Urban development		2,500	

Source: Government

One of the persons cited above said ministries/departments that failed to meet their target in FY23 also included the Ministry of Civil Aviation, the Ministry of Youth Affairs and Sports, and the Department of Food & Public Distribution.

On the other hand, the ministries of coal, mines, petroleum and natural gas, and shipping achieved their targets during 2022-23.

To ensure FY24 targets are met, the panel has asked key infrastructure ministries and departments to make asset monetisation their 'priority' and an important route for raising capital. During the meeting, ministries and public sector enterprises were also asked to develop a strong pipeline of proposals and increase their capacities.

"The ministries were given these instructions since some of them were only relying on budgetary outlays to fund their capital expenditure, without making efforts to monetise their assets," the person cited above said.

The Ministry of Road Transport and Highways — the front runner in asset monetisation in FY22 – could meet only 49 per cent of its target of ₹17,384 crore in FY23 because some transactions were not concluded due to operational issues. Its target for the current fiscal year is ₹44,000 crore, which is slated to be met through accruals from the toll-operate-transfer (TOT) model, two rounds of infrastructure investment trust (InvIT), and securitisation of toll.

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Smartphones..

The rise in exports from India is significant as the ICEA has projected that in FY23, the industry would hit exports of ₹1.2 trillion and reach over ₹4 trillion by FY26, a plan endorsed by the government in its electronics policy.

Apple has played a key role in pushing smartphones up to fifth position. It accounted for half of the value of exports, followed by Samsung. By FY26, Apple hopes to shift 25 per cent of its production capacity from China to India which will be the equivalent of $18-$20 billion, closing in the gap between the two countries. In FY23, the gap between smartphones and the number four ranking product, which is motor gasoline confirming to a certain standard, is not too wide; it is currently pegged at ₹1.19 trillion.

In a recent research study, the ICRA said it expected diamond exports to fall by 10-15 per cent in FY24 due to a global recession and impact on demand. If smartphone exports reach ₹4 trillion, they could outshine diamonds.

However, the import intensity of exports of smartphones still remains high with value addition ranging between only 12-18 per cent. The industry hopes that the production-linked incentive scheme, by offering financial incentives to eligible players, could push up the value addition to 40 per cent by FY26, or the last year of the scheme's eligibility for mobile devices. The value addition in China is already 40 per cent.

Pharmacists...

The centres have also screened 870 million for non-communicable diseases.

Singhal says that prescriptions are generated and medicines sold through government channels or private pharmacies. At any rate, they add to the volume and demand in the hinterland.

According to rough estimates, tier II through tier VI towns represent roughly 21 per cent of the Indian pharma market (IPM).

Pharma companies, too, are not left behind. They are adding a field force that is focusing on tier II and tier III towns.

India's largest drugmaker by market share, Sun Pharmaceutical Industries (Sun Pharma), says that over the past few years, it has expanded its field force, focusing on tier II and tier III towns. "Our wider reach is enabling us to accelerate access to high-quality medicines at affordable prices," says a spokesperson for Sun Pharma.

Rajeev Juneja, vice-chairman and MD, Mankind Pharma, says, "I have travelled extensively across the country to meet people, our stockists, our salesforce, etc. I have seen this gradual shift in infrastructure — roads, hospitals, electricity. This has ensured more people don't leave their hometowns for metropolitan (metro) cities. After the pandemic, we have seen people choosing to stay in their hometowns as they now have better prospects." He adds that government schemes like Ayushman Bharat, the overall volumes have gone up, but that is not necessarily a lot of incremental sales for pharma companies. However, overall volumes and demand have gone up in the hinterland.

V Krishnakumar, executive director and chief operating officer of Eris Lifesciences, a company that focuses primarily on the domestic market, says there has been an increase in the number of Doctor of Medicine personnel in smaller towns of late.

"We have 140 points of presence, and from there a medical representative (MR) typically covers up to a 50-kilometre radius in the upcountry, taking our reach to about 300 points, or covering about 85 per cent of IPM. A point of presence is not equivalent to a pincode. For instance, Mumbai is a point of presence but has several pincodes. Similarly, Sangli is a node from where we would cover upcountry," elaborates Krishnakumar.

Cipla's MD and Global Chief Executive Officer Umang Vohra recently said in an analyst call after the FY23 fourth-quarter results that the pharma multinational has eight brands in its trade generics business that are over ₹50 crore in sales and much larger in volume terms.

Trade generics are medicines not sold via the doctor channel (prescription route), but pushed directly to the trade. Cipla operates India's largest trade generics franchise, covering tier II and below towns with a network of 5,500 stockists and ministering to 15,000 pincodes.

In a December note, Motilal Oswal said that Cipla was reformulating its strategy in non-metro cities. "In addition to gaining traction via the trade generics route in non-metro cities, the management is contemplating using MRs to generate business through prescriptions. It is also expanding the therapies within the trade generics segment," the brokerage had said.

The company, therefore, sees potential for the prescription business in smaller towns. Motilal Oswal further added: "Cipla is contemplating whether to build its Rx (prescription) franchise in non-metro cities. Given the increased awareness about medicines among the patient pool and its higher reliability on prescriptions, it will utilise existing as well as additional MR resources towards the Rx business in non-metro cities."

PLI review...

This means 1.4 per cent of the ₹1.97 trillion, which has been allocated for five years towards the scheme, has been paid by the government as incentives.

While the disbursement of incentives was initially expected to triple to almost ₹8,083 crore in FY24 — the third year of the implementation of the PLI scheme — the outgo is further expected to touch around ₹13,000 crore by year-end. This is because the government expects the schemes to pick up, resulting in higher claims from the beneficiaries, two government officials said.

FY24 will be the first year of production for many companies under the PLI scheme, and major claims for incentives will begin in FY25.

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High-flying battles for satellite services

The industry is sharply divided over whether spectrum should be auctioned or distributed by administrative fiat

SURAJEET DAS GUPTA
New Delhi, 15 June

The market for satellite broadband services may be tiny still — just $10-15 million, according to Bharti Enterprises Chairman Sunil Mittal. But the big potential that lies in reaching remote locations, mainly in rural areas, factories and eventually homes and even mobile phones has attracted global satellite firms in droves to India. That is why industry arguments over spectrum pricing have become crucial to the future of the business.

The battle lines were clear last week following a consultation paper circulated by the Telecom Regulatory Authority of India (Trai) asking stakeholders about the best way to allocate spectrum.

There was broad consensus among low earth orbit (LEO) satellite constellation owners such as OneWeb controlled by Mittal, Elon Musk's Starlink, Canadian giant Telesat and Amazon's Kuiper and Tata Communications: They want satellite spectrum distributed by administrative fiat.

The lone player on the other side of the fence is Reliance Jio, which wants nothing but the auction route. The Department of Telecom (DoT) concurred and asked the regulator to prepare for a minimum base price and modalities of auction. But Trai is yet to take a call.

Satellite service providers contend that spectrum allocation for satellite communication services is fundamentally different from terrestrial communication services. In the latter, operators require exclusive frequencies carved out for each player in different bands and earmarked geographies with no interference. That is why spectrum auction is the preferred route.

But in satellite services, spectrum is globally shared by satellites that work mostly within a particular band (such as Ku and now Ka, which have high throughput and enable speeds equivalent to 5G telecom services). And spectrum use is already coordinated by satellite companies through a dynamic automated system on a good-faith basis. So, the argument runs, shared spectrum should be offered administratively. Some countries such as Thailand, Mexico, US and Brazil did try the auction route but eventually shifted to administrative allocation.

"Sharing increases spectrum efficiency of usage. It also enables, say, 200 small satellite start-ups offering services in India such as connectivity to fishermen at sea to get access to spectrum. In an auction they will all close down and the spectrum will be cornered by a few," said a senior executive of the Broadband India Forum.

But Jio, the country's largest mobile services and fixed broadband player, has equally strong logic. The company holds a licence to operate satellite services and has tied up with Luxembourg-based SES, which has geostationary and medium earth orbit satellite constellations, to provide broadband services in India. Jio could also launch its own LEO constellation if it looks viable, say sources in the know.

The company pointed out that the announcements of OneWeb, Starlink, Kuiper and Telesat suggest mega-plans to offer competing broadband services just like mobile players do. In that case, the assignment of spectrum has to be the same to ensure a level playing field.

The bigger concern, Jio sources pointed out, is that early entrants who have been given preferred orbital slots by the UN's International Telecommunication Union on a first come-first served basis could block later applicants for spectrum. In India, that could well mean that domestic players seeking to enter the business would be closed out by the three or four global players.

The concern is not without basis. In the US, in April the Federal Communications Commission (FCC) issued a series of orders to ensure that earlier non-geostationary orbit (NGSO) satellite systems that were licensed to coordinate spectrum in good faith do not block those who enter later. FCC has also acknowledged that spectrum is finite and should be used to increase competition.

First, it has capped to 10 years the protection that earlier NGSOs had in perpetuity, so that newer players get spectrum on an equal basis. Second, if early entrants do not come to an agreement on spectrum-sharing with later players, the latter would have to do an analysis to ensure that there is no interference on the operations of the incumbent operators to ensure fair play.

"FCC is already slowly acknowledging that the administrative method of spectrum allocation has problems. What Jio says is that to resolve this problem the best option is to auction spectrum, which is fair and transparent," said a source close to Jio.

A satellite company executive counters that the regulator can intervene if competition is unfair. Mittal has also argued that there is no model that has demonstrated how auction can be implemented in this instance. Jio has taken up that challenge and suggested to Trai that auction of spectrum for the gateways (which uplink and downlink from the satellite) should be done district-wise where an exclusion zone of 1-2 km would be earmarked. In the exclusion zone, Jio has suggested, mobile operator towers will not be allowed to ensure that satellite operators do not face any frequency interference from them. And this spectrum would be auctioned in the same way as is done for mobile services with a minimum base price. They say that initial requirement for gateways from multiple players with satellites beaming to India would not be more than 20, but as the number of subscribers increases and spreads geographically, the number of constellations entering Indian space would hit 100. Spectrum needed to power user terminals would also be auctioned.

From a legal point of view, those supporting auction reinforce their view by saying that the Supreme Court judgment on the 2G scandal in 2012 makes it amply clear that when "transferring" or "alienating" all scarce resources the state must opt for auction.

But Starlink said assigning spectrum is in consonance with the order because it does not discuss the technical possibility of shared spectrum; in spectrum-sharing scarce resources are neither "alienated" nor "transferred" because its use by one operator does not stop its use by another service provider.

The final verdict lies with Trai — and for DoT and the government to take the tough final call.

UP IN THE AIR

The major global satellite NGSO players

Operator	Planned satellite count	Live satellite count
SpaceX	41,926	1,892
Kuiper	11,010	NS
OneWeb	13,392	394
Telesat	1,971	NS
Astra Space (US)	13,620	NS
O3b (UK)	94	20
Boeing	5,921	NS

NS: not launched; Source: Reports, industry estimates, articles. Numbers are approximates as new satellite launches are being made every day

Hero counting on rural-urban growth balance

DEEPAK PATEL
Jaipur, 15 June

Hero MotoCorp is expecting balanced growth in rural and urban sectors this year on the back of a good kharif season, rising penetration of retail finance options, and strong festival period sales, the two-wheeler maker's chief growth officer, Ranjivjit Singh, said on Thursday.

He also said that the company was not in an electric scooter "race", and was focusing on expanding its single product in the segment, Vida V1, to 100 cities during this financial year.

Hero MotoCorp is a leader in the commuter motorcycle segment (up to 125 cc internal combustion engine) that is popular in rural areas. Two-wheeler sales in rural areas have been affected during the last few years due to the downturn in the economy amid the Covid-19 pandemic.

"It will be a pretty balanced growth between urban and rural this year. In the last couple of years, it was maybe not as balanced. Now we are going to see the balance coming back," Singh told reporters. Hero MotoCorp's domestic sales grew by about 11 per cent to 4.8 million units in FY23.

"We are focusing on growing the core — which means going out and getting more customers — in the commuter segment," he said.

Hero MotoCorp has stepped up its play in the premium 150-200 cc bike segment with the launch of Xtreme 160R 4V here on Wednesday. The product, which comes with a four-valve 163 cc engine, is the first in a series of premium motorcycles that the company is planning to launch in FY24. TVS Motor is the leader in the 150-200 cc segment with its Apache. According to Society of Indian Automobile Manufacturers data, domestic sales in this motorcycle segment rose 33 per cent year-on-year to 1.05 million units in 2022-23.

In the commuter segment, Hero MotoCorp leads with 70-80 per cent share. Singh said, "Getting a few more percentage points (of market share) in this segment is not going to cut it…and it is not the point. The point is how do we go and bring in new customers, getting more and more first-time buyers."

PHOTO: DEEPAK PATEL

Hero MotoCorp stepped up its play in the 150-200 cc bike segment with the launch of Xtreme 160R 4V on Wednesday

Increasing penetration of retail finance options is one way to boost rural customers in this segment who are also feeling the heat of inflation. "Retail finance is a very important part for us. It allows people to break costs into monthly EMIs. That is definitely bringing people to our stores," he said.

Singh said that the kharif crop had been fruitful this year. "Once the farmers start selling wheat, it will also help our demand," he said.

Hero MotoCorp plans to attract more customers in the commuter segment by building more value in its products. Singh cited the example of HF Deluxe as a "bigger and bolder" product than its competitors' and structurally sturdier. "There will be another 125 cc motorcycle that we will come up with. It will be more on the commuter side. It will be a high-volume product," he added.

Asked when the two-wheeler industry in India could reach its pre-pandemic level, he said it was very difficult to forecast as it hinged on various macroeconomic factors. "Right now, we are getting positive signals," he added.

In electric vehicles, Hero is not in a race to launch more vehicles.

"We want to do it right in that space. We want to ensure that we have the right mix, which is more important than anything, because it is an emerging category," said Singh.