

MSME bodies seek RBI support for easier priority sector lending

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The micro, small and medium enterprise (MSME) industry bodies have requested that the Reserve Bank of India (RBI) classify credit provided by banks to non-banking financial companies (NBFCs) for on-lending to MSMEs as indirect finance, making it eligible for classification under the priority sector lending (PSL) of banks. They have also urged the RBI to remove the ceiling of ₹20 lakh per borrower or raise it to at least ₹1 crore per borrower.

Since April 1, 2011, the RBI has made all loans sanctioned to NBFCs (other than microfinance institutions) for on-lending to micro and small enterprises (MSEs) ineligible for classification as direct or indirect finance to the MSE sector, effectively removing these loans from the priority sector classification.

“Due to this policy change, many NBFCs that were helping MSEs with their day-to-day working capital requirements have faced financial strain due to the stoppage of funds from banks,” according to an official with an industry body.

The official further said that the RBI partially restored this classification to the extent of ₹20 lakh per borrower. As a result, NBFCs’ funding to MSEs is now restricted. PSL includes sectors that



SETTING PRIORITY

- Industry requests the RBI to classify credit provided by banks to NBFCs as indirect finance under priority sector lending (PSL)
- MSMEs urge to either remove or raise the PSL ceiling to ₹1 cr/borrower from ₹20 lakh
- Since April 2011, loans to NBFCs (other than MFIs) have been excluded from PSL classification, financially straining NBFCs supporting MSMEs

impact large swathes of the population, the weaker sections, and employment-intensive sectors such as agriculture and MSE.

As of March 31, 2024, PSL for scheduled commercial banks (SCBs) stood at 45.1 per cent of adjusted net bank credit. Each of the bank groups achieved the prescribed 40 per cent overall PSL target during 2023-24 (FY24).

PSL for SCBs rose by 16.9 per cent in FY24, up from 10.8 per cent the previous year, with growth accelerating in both private sector banks (to 23.5 per cent from 15.7 per cent) and public sector banks (to 12.3 per cent from 7.1 per cent), according to the latest RBI report.

The gross non-performing asset (NPA) ratio of PSL declined to 4.4 per cent at the end of March 2024, down from 5.4 per cent at the end of March

PSL TALLY

Lending by SCBs accounted for 45.1% of adjusted net bank credit, exceeding the 40% target

Y-0-Y GROWTH (for FY24)

23.5% PVT BANKS **12.3%** PUBLIC BANKS

PSL GNPA RATIO

FY24 **4.4%** FY23 **5.4%**

2023. However, the share of the priority sector in total gross NPA of SCBs increased to 57.3 per cent at the end of March 2024, up from 51.1 per cent at the end of March 2023, as NPAs in the non-priority sector declined more sharply. NPAs in the priority sector were primarily driven by agricultural defaults.

MSMEs are defined based on their investment and turnover thresholds: A micro enterprise is one where the investment in plant and machinery or equipment does not exceed ₹1 crore, and turnover is capped at ₹5 crore; a small enterprise has an investment limit of ₹10 crore and a turnover limit of ₹50 crore; and a medium enterprise is characterised by an investment in plant and machinery or equipment of up to ₹50 crore and a turnover not exceeding ₹250 crore.