NBFC

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Introduction

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However, they do not have permission to perform banking operations of accepting demand deposits from the public. They also cannot issue cheques drawn on it.

NBFCs are registered as per the rules and regulations prescribed under Companies Act, 2013 and the Reserve Bank of India Act, 1934. They are playing a vital role in executing financial functions in the economy. They help to meet the demand that remains unfulfilled by the traditional banking system in shorter processing time.

An NBFC can provide both secured and unsecured loans to the takers based on alternative lending models. The government has been promoting NBFC so that the unorganized money lenders and people willing to run financial services can organize their lending operations.

Roles and Functions of an NBFC

NBFCs play a significant role in conducting financial services in the Indian economy. NBFC in India have undergone too many transformations in recent years. At present, most of the NBFC Start-ups have adopted high-end tech based business model.

These NBFCs are working actively to promote financial inclusion & as well aggressively complementing the banking sector.

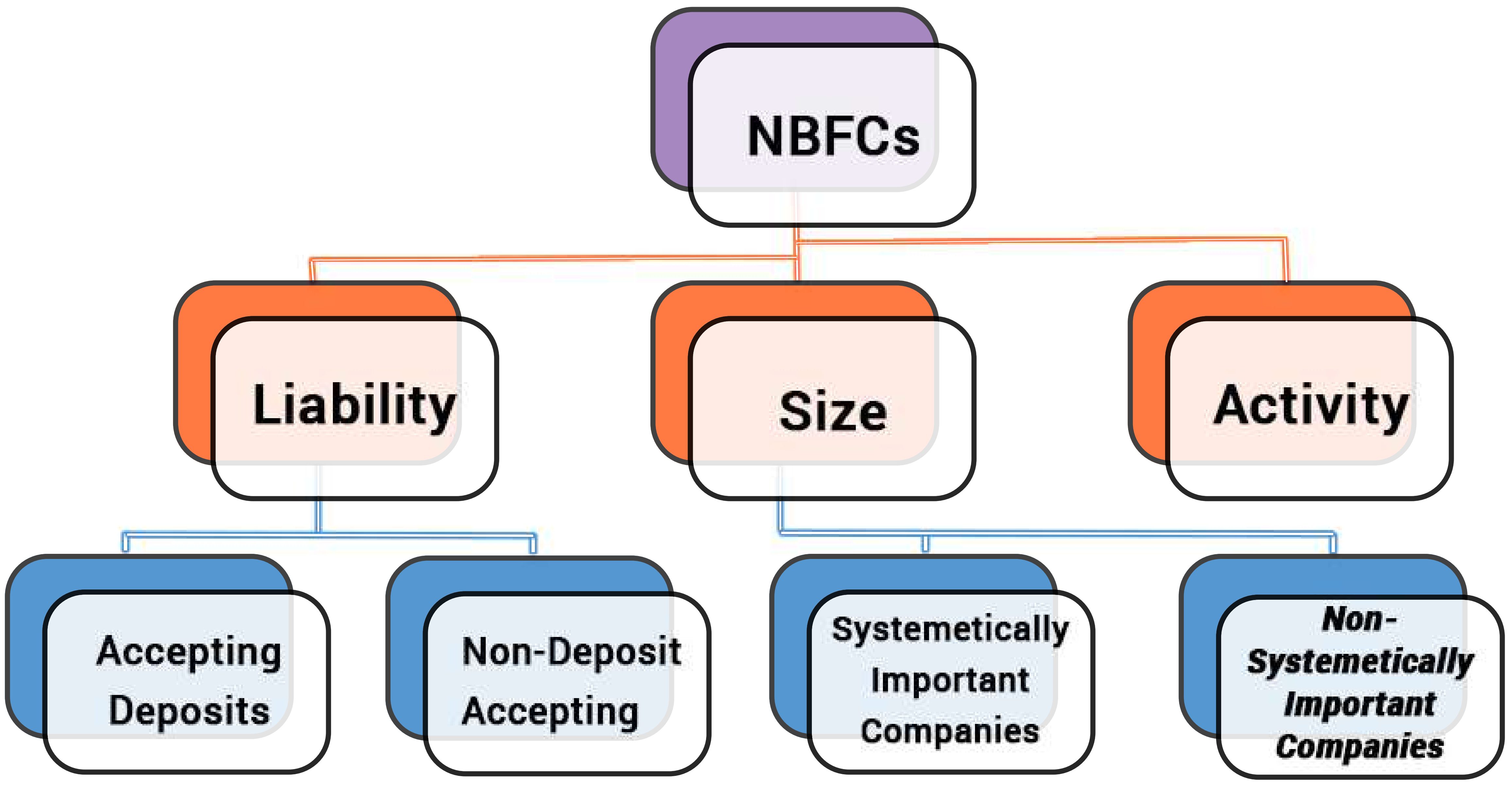
- NBFC creates a favorable balance in addressing the financial needs of the country, where a large number of applicants are turned down by traditional Banks of India.
- NBFC provides loans based on alternative credit scoring model to assess the loan application.
- Indian Fintech Start-ups have been using NBFC model to offer financial services.
- Credit growth of registered NBFCs is recorded at 24.3% per year as against 21.4% for banks.

NBFC vs. Bank - What is the Difference between an NBFC and Bank?

Banks are similar to an NBFC, but they perform extra banking functions. Member of both the categories is counted among the top finance companies in India.

Basis	NBFC	Bank
Meaning	NBFC provides banking services to people without holding a bank license	Bank is a government authorized financial intermediary which provides banking services to the general public
Incorporated under	Companies Act 1956 and 2013	Banking Regulation Act, 1949
Demand Deposit	Not Accepted	Accepted
Foreign Investment	Allowed up to 100%	Allowed up to 74% for private sector banks
Payment and Settlement system	Not a part of system.	Integral part of the system.
Deposit insurance facility	Not available	Available
Credit creation	NBFC do not create credit.	Banks create credit.
Transaction services	Not provided by NBFC.	Provided by banks.

Types of NBFC in India



Deposit Accepting NBFC's:

All NBFCs are not entitled to accept public deposits. Only those NBFCs holding a valid CoR with authorization to accept Public Deposits can accept/hold public deposits. Section 45I(bb) of the RBI Act, 1934 defines the term deposits as - "deposit" includes and shall be deemed always to have included any receipt of money by way of deposit or loan or in any other form, but does not include,–

- amounts raised by way of share capital;
- amounts contributed as capital by partners of a firm;
- amounts received from a scheduled bank or a co-operative bank or any other banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949;
- any amount received from,– (b) a State Financial Corporation, (c) any financial institution specified in or under section 6A of the IDBI Act, 1964, or (d) any other institution that may be specified by the Bank in this behalf:

- amounts received in the ordinary course of business, by way of– NBFCs Liability Deposit accepting Non-Deposit accepting Size Systemically important NBFCs Non Systemically important NBFCs Activity Figure 5 10 (a) security deposit, (b) dealership deposit, (c) earnest money, (d) advance against orders for goods, properties or services,

- any amount received from an individual or a firm or an association of individuals not being a body corporate, registered under any enactment relating to money lending which is for the time being in force in any State; and

- Any amount received by way of subscriptions in respect of a chit. Further, exclusions are provided under Para 2(1) (Xii) of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.

Systematically Important NBFCs

NBFCs whose asset size are of Rs. 500 crore or more as per last audited balance sheet are considered as systemically important NBFCs. The rationale for such classification is that the activities of such NBFCs will have a bearing on the financial stability of the overall economy.

NBFCs based on their activities

- Non-Banking Financial Company – Investment and Credit Company
- Infrastructure Debt Fund (IDF-NBFC)
- Non-Banking Financial Company – Factors (NBFC-Factors)
- Peer to Peer Lending Marketplace.
- Infrastructure Finance Company
- Core Investment Company.
- Non-Banking Financial Company-Micro Finance Institution (NBFC-MFI)
- Mortgage Guarantee Company.
- Housing Finance Company
- Chit Fund Company
- Mutual Benefit Finance Company
- Core Investment Company

Few Important Categories and Terms

Asset Finance Company (AFC):

An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.

Investment Company (IC):

IC means any company which is a financial institution carrying on as its principal business the acquisition of securities,

Loan Company (LC):

LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

Infrastructure Finance Company (IFC):

IFC is a non-banking finance company

a) which deploys at least 75 per cent of its total assets in infrastructure loans,
b) has a minimum Net Owned Funds of Rs. 300 crore,
c) has a minimum credit rating of 'A 'or equivalent
d) and a CRAR of 15%.

Systemically Important Core Investment Company (CIC-ND-SI):

CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities which satisfies the following conditions:-

a) it holds not less than 90% of its Total Assets in the form of investment in equity shares, preference shares, debt or loans in group companies;

b) its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60% of its Total Assets;

c) it does not trade in its investments in shares, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment;

d) it does not carry on any other financial activity referred to in Section 45I(c) and 45I(f) of the RBI act, 1934 except investment in bank deposits, money market instruments, government securities, loans to and investments in debt issuances of group companies or guarantees issued on behalf of group companies.

e) Its asset size is Rs. 100 crore or above and

f) It accepts public funds

Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC):

IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI):

NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:

a) loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 1,00,000 or urban and semi-urban household income not exceeding Rs. 1,60,000;

b) loan amount does not exceed Rs. 50,000 in the first cycle and Rs. 1,00,000 in subsequent cycles;

c) total indebtedness of the borrower does not exceed Rs. 1,00,000;

d) tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 15,000 with prepayment without penalty;

e) loan to be extended without collateral;

f) aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs;

g) loan is repayable on weekly, fortnightly or monthly installments at the choice of the borrower

Non-Banking Financial Company – Factors (NBFC-Factors):

NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.

Mortgage Guarantee Companies (MGC):

MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is Rs. 100 crore.

NBFC- Non-Operative Financial Holding Company (NOFHC) is financial institution through which promoter / promoter groups will be permitted to set up a new bank .It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

50-50 Criteria

RBI vide its press release 1998-99/1269 dated April 8, 19995, laid down the criteria for determining the principality of business (popularly known as 50-50 principal business criteria). The asset and income pattern as evidenced from the last audited balance sheet of the company shall be considered.

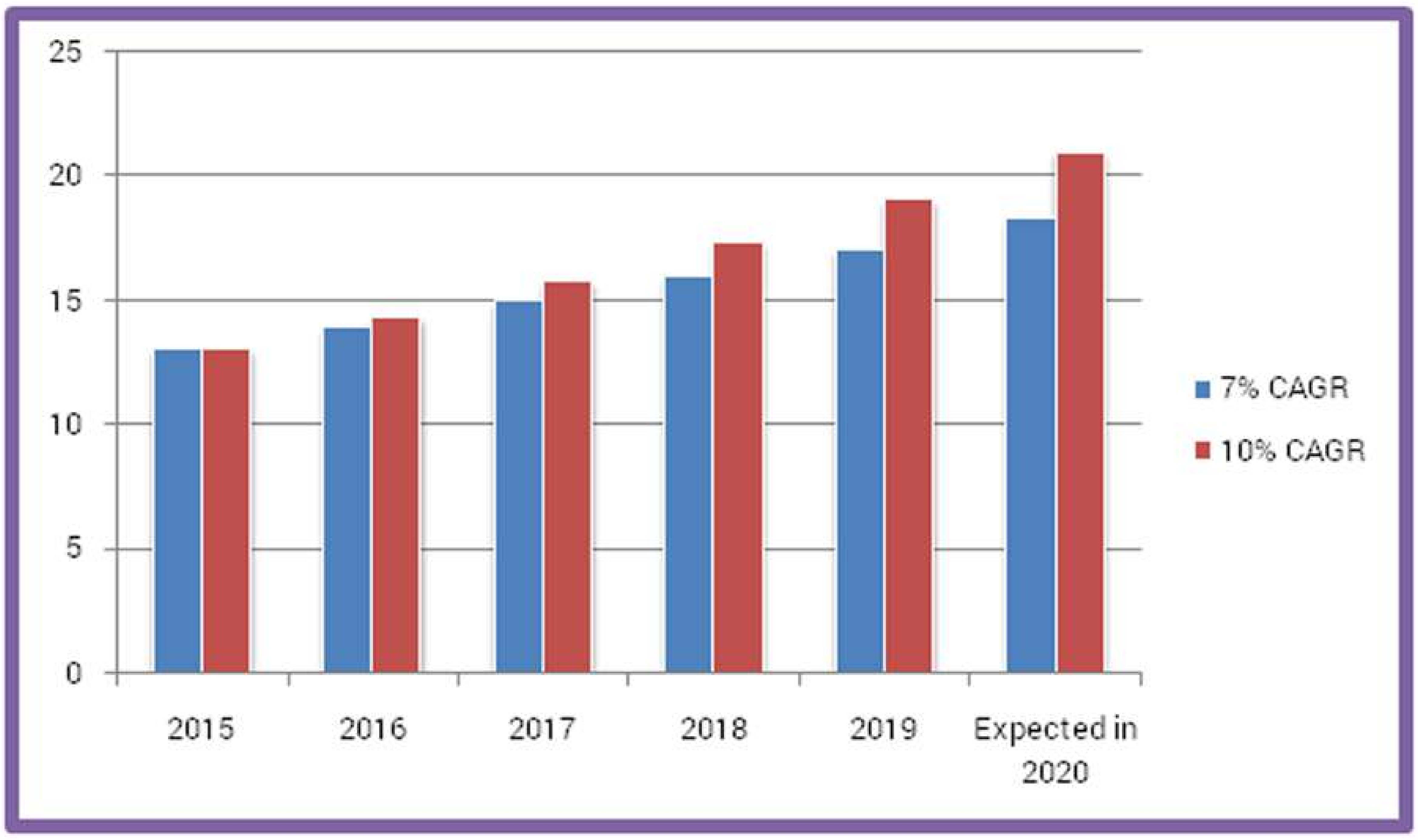
The following criteria shall be satisfied by a company to be known as an NBFC

- financial assets are more than 50 per cent of its total assets (netted off by intangible assets) and
- Income from financial assets should be more than 50 per cent of the gross income.

The aforementioned criteria are a thumb rule for determining whether a company qualifies to be an NBFC. The conditions are cumulative, that is, both the tests are required to be satisfied simultaneously as the determinant factor for principal business of a company.

Based on the above press release, the RBI came with another circular no. DNBS (PD) C.C. No. 81/03.05.002/2006-07 dated October 18, 20066, insisting NBFCs to obtain an annual certificate from the auditor of the company certifying that the company continues to carry on the business of NBFI and is fulfilling the criteria of the principal business as detailed in the press release dated April 8, 1999.

Credit Growth at NBFC as a % of total growth



Factors contributing to the growth of NBFCs

- Stress on public sector units (PSUs).
- Latent credit demand
- Digital disruption, especially for micro, small and medium enterprises (MSMEs) and small and medium enterprises (SMEs).
- Increased consumption
- Distribution reach and sectors where traditional banks do not lend

NBFC Registration Departments

The founders are required to follow both online as well offline NBFC application process to obtain the NBFC license. The Reserve bank of India is an autonomous body, and it has two departments to regulate and supervise the function of an NBFC.

DNBR (Department of Non-banking Regulation)

The DNBR is responsible for conducting the Fresh NBFC Registration process as well for preparing the regulation for the NBFC. The DNBR has transparent as well innovative assessment process of NBFC Application.

The DNBR will email you or send you a formal notice if they need of any additional documents during the NBFC registration process. The RBI expects your submission/response to a notice within 30 days as per the NBFC regulations.

DNBS (Department of Non-Banking Supervision)

DNBS is responsible for post-registration compliance and other administrative issues about NBFCs.

Applicants can expect an NBFC license in 90 to 120 days after successful acceptance of an NBFC application.

NBFC Compulsory Registration with RBI

In terms of Section 45-IA of the RBI Act, 1934,

- ***No Non-banking Financial company can commence or carry on business of a non-banking financial institution without obtaining a certificate of registration from the Bank***

- ***No NBFC can commence business without having Net Owned Funds of Rs. 2 Crore.***

However, in terms of the powers given to the Bank, to prevent dual regulation, certain categories of NBFCs which are regulated by other regulators are exempted from the requirement of registration with RBI like:

- Venture Capital Fund/Merchant Banking companies/Stock broking companies registered with SEBI,
- Insurance Company holding a valid Certificate of Registration issued by IRDA,
- Nidhi companies as notified under Companies Act, 1956/2013
- Chit companies as defined in clause (b) of Section 2 of the Chit Funds Act, 1982,
- Housing Finance Companies regulated by National Housing Bank, Stock Exchange or a Mutual Benefit company.

Requirements for Registration with RBI

A company incorporated under the Companies Act, 1956 or 2013 and is desirous of commencing business of non-banking financial institution as defined under Section 45 I (a) of the RBI Act, 1934 should comply with the following:

- It should be a company registered under Companies Act, 2013
- It should have a minimum net owned fund of Rs. 2 crores
- Create a Fixed Deposit of Rs. 2 crore
- FDI Compliance as per FEMA Act - In the case of foreign investment
- Complete documentation for an NBFC license
- Submission of necessary documents with FD receipt before RBI

Procedure for application to the Reserve Bank for Registration

- The applicant company is required to apply online and submit a physical copy of the application along with the necessary documents to the Regional Office of the Reserve Bank of India.
- The application can be submitted online by accessing RBI's secured website https://cosmos.rbi.org.in .
- Now the applicant company will not need to log on to the COSMOS application and hence user ids are not required.
- The company can click on "CLICK" for Company Registration on the login page of the COSMOS Application.
- A window showing the Excel application form available for download would be displayed.
- The company can then download suitable application form (i.e. NBFC or SC/RC) from the above website, key in the data and upload the application form.
- The company may note to indicate the correct name of the Regional Office in the field "C-8" of the "Annex-I dentification Particulars" in the Excel application form.
- The company would then get a Company Application Reference Number for the CoR application filed on-line.
- Thereafter, the company has to submit the hard copy of the application form (indicating the online Company Application Reference Number, along with the supporting documents, to the concerned Regional Office.

- The company can then check the status of the application from the above mentioned secure address, by keying in the acknowledgement number.

- The application form and an indicative checklist of the documents required to be submitted along with the application is available at www.rbi.org.in ⊠ Site Map ⊠ NBFC List ⊠ Forms/ Returns.

Fresh NBFC Registration vs. Takeover of Pre-Existing NBFC

Applying for new NBFC Application is always a better option than a takeover of existing ones. The registration of NBFC is simpler than before. This is especially for Foreign Companies, who intends to enter into the Indian Financial service market.

We always advise them to apply for the new NBFC registration instead of buying existing NBFC.

Advantages of Fresh NBFC Registration above NBFC Takeover

Low Legal Risk

In case of NBFC takeover, any past Non-compliance with RBI Act may lead to cancellation of the NBFC License.

Timeline

Fresh NBFC Registration can be completed in a period of 90 to 120 days whereas an NBFC Takeover usually takes 5 to 9 Months.

Title Risk

There is no title risk of Ownership after new registration of NBFC. You are the 1st shareholder of the company at another side in acquiring an existing NBFC. You will not be able to establish the precise title of shares.

Tax Liability

Entities are responsible for a tax liability of existing NBFC they are willing to take over.

Capital

In case of new NBFC License application, you may need to block your Rs. 2 Cr / Rs. 20 Million FD in Bank Account. However, the proposed shareholders are required to submit the Bankers report in a case of the NBFC takeover. The report states that the Bank Balance is equivalent to book value of the shares.

List of Registered NBFCs

The list of registered NBFCs is available on the web site of Reserve Bank of India and can be viewed at www.rbi.org.in -> Sitemap -> NBFC List.

The instructions issued to NBFCs from time to time are also hosted at www.rbi.org.in -> Notifications -> Master Circulars -> Non-banking, besides, being issued through Official Gazette notifications and press releases.

Regulations applicable on non-deposit accepting NBFCs with asset size of less than ₹ 500 crore

The regulation on non-deposit accepting NBFCs with asset size of less than ₹ 500 crore would be as under:

- They shall not be subjected to any regulation either prudential or conduct of business regulations viz., Fair Practices Code (FPC), KYC, etc., if they have not accessed any public funds and do not have a customer interface.
- Those having customer interface will be subjected only to conduct of business regulations including FPC, KYC etc., if they are not accessing public funds.
- Those accepting public funds will be subjected to limited prudential regulations but not conduct of business regulations if they have no customer interface.
- Where both public funds are accepted and customer interface exist, such companies will be subjected both to limited prudential regulations and conduct of business regulations.

Public Funds vs. Public Deposits

Public funds are not the same as public deposits. Public funds include public deposits, inter-corporate deposits, bank finance and all funds received whether directly or indirectly from outside sources such as funds raised by issue of Commercial Papers, debentures etc. However, even though public funds include public deposits in the general course, it may be noted that CICs/CICs-ND-SI cannot accept public deposits.

Further, indirect receipt of public funds means funds received not directly but through associates and group entities which have access to public funds.

Prudential regulations applicable to NBFCs

The Bank has issued detailed directions on prudential norms; vide Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 and Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015. Applicable regulations vary based on the deposit acceptance or systemic importance of the NBFC.

The directions inter alia, prescribe guidelines on income recognition, asset classification and provisioning requirements applicable to NBFCs, exposure norms, disclosures in the balance sheet, requirement of capital adequacy, restrictions on investments in land and building and unquoted shares, loan to value (LTV) ratio for NBFCs predominantly engaged in business of lending against gold jewellery, besides others. Deposit accepting NBFCs have also to comply with the statutory liquidity requirements. Details of the prudential regulations applicable to NBFCs holding deposits and those not holding deposits is available in the section 'Regulation – Non-Banking – Notifications - Master Circulars' in the RBI website.

Owned fund and Net owned fund

- **Owned Fund** means aggregate of the paid-up equity capital, preference shares which are compulsorily convertible into equity, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, after deducting there from accumulated balance of loss, deferred revenue expenditure and other intangible assets.

- **Net Owned Fund** is the amount as arrived at above, minus the amount of investments of such company in shares of its subsidiaries, companies in the same group and all other NBFCs and the book value of debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group, to the extent it exceeds 10% of the owned fund.

Legal Analysis of NBFC Annual Compliance

In recent times, RBI compliances are getting tougher for NBFCs as compared to before. There were times when Non-Banking Financial Companies had privileges over banks. In comparison to banks, compliance laid down by RBI for NBFCs were far more lenient but after the Sahara case, RBI has made new compliances for NBFCs and now it is under RBI's continuous screening. Some of the important guidelines are Securitization of Standard Assets and Guidelines for Private Placement of NBFCs. RBI is keeping making efforts for preventing speculation in NBFCs.

RBI releases notifications for the additional compliance requirement for NBFCs.

Submission of Annual Statements and Returns

NBFC-ND-SI (Non-Deposit category) are required to submit an annual statement of capital funds, risk assets ratio etc. It can be submitted electronically as well as physically.

Further Capital Adequacy, Liquidity, and other disclosure norms have been incorporated in Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.

- Capital Adequacy of 15% to be maintained.
- Disclosures in the Balances Sheet

CRAR

- Exposure to Realty Sector both direct and indirect
- Maturity Patterns for assets and liabilities

ALM Returns are required to be submitted by NBFC- ND-SI

- ALM1- Statement of short-term dynamic liquidity- Monthly
- ALM2- Statement of short-term structural liquidity- Half Yearly
- ALM3- Statement of Interest Rate Sensitivity – Half Yearly

Checklist for NBFC Non-Deposit Compliances with RBI

Annual Compliance

No.	Particulars	Time limit
1.	Unaudited March Monthly return/NBS7	on or before 30th June
2.	Audited March Monthly return/NBS7	Upon completion
3.	Statutory Auditors certificate on Income & Assets	on or before 30th June
4.	Information about Cos having FDI/Foreign Funds	on or before 30th June
5.	Resolution of Non-acceptance of Public Deposit	before the commencement of the new Financial year
6.	File Audited Annual Balance Sheet and P&L Account	One month from the date of signoff
7.	Declaration of Auditors to Act as Auditors of the Company	annual basis

Monthly compliance

Serial no.	Particulars	Time limit
1.	Monthly Return	by 7th of every month

Periodical compliances

Serial no.	Particulars	Time limit
1.	Appointment of Director	within 30 days of appointment
2.	Resignation of Director(DIR-12 + Challan Receipt)	within 30 days of resignation
3.	Adoption of any notification in the ensuing Board Meeting & filing the certified copy with RBI	

Future of NBFC in India

The NBFC sector has shown considerable growth in the last few years despite the slowdown in overall economic growth, accounting for 14% of the country's GDP by the end of March 2015. This has gone up from 8.4% in March 2006 only counting NBFCs with assets more than Rs 100 crore. If all the NBFCs are taken into consideration, the growth chart will go up further to 18 % by 2018-19.

NBFCs are proving to be a perfect alternative to mainstream banking in India as an integral part of Indian Financial System, thereby making a remarkable contribution toward the country's financial development. The Central Government and Reserve Bank of India are the major regulators of the NBFCs in India. The unorganized sector seeking loans and advances have been the most important beneficiary of NBFCs, providing easy access to the small local borrowers.

Residuary Non-Banking Companies (RNBCs)

Residuary Non-Banking Company is a class of NBFC which is a company and has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner and not being Investment, Asset Financing, Loan Company. These companies are required to maintain investments as per directions of RBI, in addition to liquid assets. The functioning of these companies is different from those of NBFCs in terms of method of mobilization of deposits and requirement of deployment of depositors' funds as per Directions. Besides, Prudential Norms Directions are applicable to these companies also.

Deposits and Public Deposits

The term 'deposit' is defined under Section 45 I(bb) of the RBI Act, 1934. 'Deposit' includes and shall be deemed always to have included any receipt of money by way of deposit or loan or in any other form but does not include:

- amount raised by way of share capital, or contributed as capital by partners of a firm;
- amount received from a scheduled bank, a co-operative bank, a banking company, Development bank, State Financial Corporation, IDBI or any other institution specified by RBI;
- amount received in ordinary course of business by way of security deposit, dealership deposit, earnest money, advance against orders for goods, properties or services;
- amount received by a registered money lender other than a body corporate;
- amount received by way of subscriptions in respect of a 'Chit'.

Paragraph 2(1)(xii) of the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 defines a ' public deposit' as a 'deposit' as defined under Section 45 I(bb) of the RBI Act, 1934 and further excludes the following:

- amount received from the Central/ State Government or any other source where repayment is guaranteed by Central/ State Government or any amount received from local authority or foreign government or any foreign citizen/ authority/ person;
- any amount received from financial institutions specified by RBI for this purpose;

- any amount received by a company from any other company;
- amount received by way of subscriptions to shares, stock, bonds or debentures pending allotment or by way of calls in advance if such amount is not repayable to the members under the articles of association of the company;
- amount received from directors of a company or from its shareholders by private company or by a private company which has become a public company;
- amount raised by issue of bonds or debentures secured by mortgage of any immovable property or other asset of the company subject to conditions;
- Any amount raised by issuance of non-convertible debentures with a maturity more than one year and having the minimum subscription per investor at ₹ 1 crore and above, provided it is in accordance with the guidelines issued by the Bank.
- the amount brought in by the promoters by way of unsecured loan;
- amount received from a mutual fund;
- any amount received as hybrid debt or subordinated debt;
- amount received from a relative of the director of an NBFC;
- any amount received by issuance of Commercial Paper.
- any amount received by a systemically important non-deposit taking non-banking financial company by issuance of 'perpetual debt instruments'
- any amount raised by the issue of infrastructure bonds by an Infrastructure Finance Company

Thus, the directions exclude from the definition of public deposit, amount raised from certain set of informed lenders who can make independent decision.

Entities accepting deposits from Public

- Banks, including co-operative banks, can accept deposits.
- Non-bank finance companies, which have been issued Certificate of Registration by RBI with a specific license to accept deposits, are entitled to accept public deposit.

In other words, not all NBFCs registered with the Reserve Bank are entitled to accept deposits but only those that hold a deposit accepting Certificate of Registration can accept deposits. They can, however, accept deposits, only to the extent permissible.

- Housing Finance Companies, which are again specifically authorized to collect deposits and companies authorized by Ministry of Corporate Affairs under the Companies Acceptance of Deposits Rules framed by Central Government under the Companies Act can also accept deposits also upto a certain limit.
- Cooperative Credit Societies can accept deposits from their members but not from the general public. The Reserve Bank regulates the deposit acceptance only of banks, cooperative banks and NBFCs.

It is not legally permissible for other entities to accept public deposits. Unincorporated bodies like individuals, partnership firms, and other association of individuals are prohibited from carrying on the business of acceptance of deposits as their principal business. Such unincorporated bodies are prohibited from even accepting deposits if they are carrying on financial business.

Can NBFCs accept deposits from NRIs?

Effective from April 24, 2004, NBFCs cannot accept deposits from NRIs except deposits by debit to NRO account of NRI provided such amount does not represent inward remittance or transfer from NRE/FCNR (B) account. However, the existing NRI deposits can be renewed.

NBFCs specifically authorized by RBI to accept deposits

The Reserve Bank publishes the list of NBFCs that hold a valid Certificate of Registration for accepting deposits on its website: www.rbi.org.in -> Sitemap ->NBFC List -> List of NBFCs Permitted to Accept Deposits.

At times, some companies are temporarily prohibited from accepting public deposits. The Reserve Bank publishes the list of NBFCs temporarily prohibited also on its website. The Reserve Bank keeps both these lists updated. Members of the public are advised to check both these lists before placing deposits with NBFCs.

Salient features of NBFC regulations which the depositor may note at the time of investment

Some of the important regulations relating to acceptance of deposits by NBFCs are as under:

- The NBFCs are allowed to accept/renew public deposits for a minimum period of 12 months and maximum period of 60 months. They cannot accept deposits repayable on demand.
- NBFCs cannot offer interest rates higher than the ceiling rate prescribed by RBI from time to time. The present ceiling is 12.5 per cent per annum. The interest may be paid or compounded at rests not shorter than monthly rests.
- NBFCs cannot offer gifts/incentives or any other additional benefit to the depositors.
- NBFCs should have minimum investment grade credit rating.
- The deposits with NBFCs are not insured.
- The repayment of deposits by NBFCs is not guaranteed by RBI.
- Certain mandatory disclosures are to be made about the company in the Application Form issued by the company soliciting deposits.

Precautions a depositor take before placing deposit with an NBFC

A depositor wanting to place deposit with an NBFC must take the following precautions before placing deposits:

- That the NBFC is registered with RBI and specifically authorized by the RBI to accept deposits. A list of deposit taking NBFCs entitled to accept deposits is available at www.rbi.org.in -> Sitemap -> NBFC List. The depositor should check the list of NBFCs permitted to accept public deposits and also check that it is not appearing in the list of companies prohibited from accepting deposits, which is available at www.rbi.org.in -> Sitemap -> NBFC List -> NBFCs who have been issued prohibitory orders, winding up petitions filed and legal cases under Chapter IIIB, IIIC and others.

- NBFCs have to prominently display the Certificate of Registration (CoR) issued by the Reserve Bank on its site. This certificate should also reflect that the NBFC has been specifically authorized by RBI to accept deposits. Depositors must scrutinize the certificate to ensure that the NBFC is authorized to accept deposits.

- The maximum interest rate that an NBFC can pay to a depositor should not exceed 12.5%. The Reserve Bank keeps altering the interest rates depending on the macro-economic environment. The Reserve Bank publishes the change in the interest rates on www.rbi.org.in -> Sitemap -> NBFC List -> FAQs.

- The depositor must insist on a proper receipt for every amount of deposit placed with the company. The receipt should be duly signed by an officer authorized by the company and should state the date of the deposit, the name of the depositor, the amount in words and figures, rate of interest payable, maturity date and amount.

- In the case of brokers/agents etc collecting public deposits on behalf of NBFCs, the depositors should satisfy themselves that the brokers/agents are duly authorized by the NBFC.

- The depositor must bear in mind that public deposits are unsecured and Deposit Insurance facility is not available to depositors of NBFCs.

- The Reserve Bank of India does not accept any responsibility or guarantee about the present position as to the financial soundness of the company or for the correctness of any of the statements or representations made or opinions expressed by the company and for repayment of deposits/discharge of the liabilities by the company.

Why is venture funding important in NBFC?

Any NBFC startup which is registered under RBI to serve its business objective needs fundraising. NBFC is always one of the most popular sectors for the investor as if you manage NBFC by use of technology and big data the risk in business reduce to 5%. Whenever a venture capitalist starts funding for a startup at SEED stage or startup stage or later stage, the financing plan depends on the current market scenario and business growth expected by the founders.

In the modern NBFC business, funding and fundraising act as the major resource which supports the growth of a startup. To achieve the goal of a startup, it is important to ensure the right allocation of fund to each business segment. Fundraising agenda needs to be carried by founder on a regular basis. There is no end of fundraising process for a startup.

Why Every NBFC startup raises foreign funding?

- Meeting the financial objective of a startup.
- Remove glitches from the path of success.
- Removing all the financial blockages from the path of success of startups.
- Matching the business standards and high level of competition.

100% foreign funding is allowed without any restriction in all type of NBFC other than Deposit taking NBFC.

- Investment advisory services.
- Financial consultancy.
- For-ex broking.
- Money changing business.
- Credit rating agencies.
- Loan Company
- Assets Finance company

NBFC Takeover

RBI has simplified the NBFC takeover can process and a takeover deal can be executed in 45 to 60 working days. Takeover of NBFC is easier than Fresh registration of NBFC.

Acquirer of NBFC should first conduct due diligence and overview the financials of the target company. Once The target NBFC is go to go and to execute acquisition of the said NBFC, MOU to be signed with some advance money.

What is Takeovers?

In the financial terms, means the purchase of one business entity by another. This can be either friendly takeover, wherein the seller entity consents to sell its assets to the acquirer entity. Or on the other hand, this can take form of hostile takeovers, where the acquirer entity deliberately and secretly acquires the control of the other entity. In both the conditions, the balance sheet of the seller entity stands nulls after all its assets and liabilities are transferred to the acquirer.

The concept of mergers and takeovers is not new to the economic world. Many business houses have experienced either a remarkable success or disheartening breakdown after such arrangements. NBFCs, being considered as near substitute to the conventional banks, have also not been left untouched by the takeover and acquisition drives. The Reserve Bank of India laid down the procedure for the Takeover of NBFCs so as to prescribe a systematic system eliminating every bias and ambiguity.

In case of the friendly takeovers of the NBFCs, the first step in the process is to sign the MOU with the proposed company after the decision for NBFC takeover is been approved by the Board of both the companies. Once the Board has consented for the aforesaid takeover, the next step in the process is to seek RBI's approval for the subject.

The whole process of NBFCs takeover is governed by the RBI regulations and the notifications issued by it from time to time in this regard. Although the concept of NBFCs takeovers is still in its infant stage, but the RBI has ensured that the process to be followed shall be systematic and comprehensive. All the compliances, as prescribed in this behalf shall be duly satisfied. The acquirer shall be well-versed with all the information connected with the transferor in order to avoid any delay in the process.

Thank You!