Non-Banking Financial Companies

Non-Banking Financial Company
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Abbreviations:

ALM  Asset Liability Management
CG   Corporate Governance
CoR  Certificate of Registration
CP   Commercial Paper
CRAR Capital to Risk Weighted Assets Ratio
FDI  Foreign Direct Investment
IC   Investment Company
ICD  Inter Corporate Deposits
IDBI Industrial Development Bank of India
IDF  Infrastructure Debt Fund
IFC  Infrastructure Finance Company
IRDA Insurance Regulatory and Development Authority
LC   Loan Company
MFI  Micro Finance Institution
NBFC Non-Banking Financial Company
NBFC-D Deposit taking Non-Banking Financial Company
NBFC-ND Non Deposit taking Non-Banking Financial Company
NBFC-ND-SI Systemically important Non Deposit taking Non-Banking Financial Company
NBFI Non-Banking Financial Institutions
NCD  Non-convertible debentures
NOF  Net Owned Funds
NPA  Non-Performing Asset
PD   Public Deposits
PFI  Public Financial Institution
RBI  Reserve Bank of India
RNBC Residuuary Non Banking Company
RoA  Return on Assets
RoE  Return on Equity
SARFAESI Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SCB  Scheduled Commercial Bank
SEBI Securities and Exchange Board of India
CRILC Central Repository of Information on Large Credits
Introduction:

Non-Banking Financial Companies (‘NBFCs’) are financial institutions which are not banks, but they accept deposits and carry out functions similar to banks. NBFCs garnered the attention of the Reserve Bank of India (‘RBI’) when several depositors lost their money, during the failure of several banks in the late 1950s and early 1960s. In order to prevent the large number of depositors, RBI initiated regulating them by introducing Chapter IIIB in the Reserve Bank of India Act, 1934. In March 1996, there were around 41,000 NBFCs in India and they were not recognised as a separate class. However, due to the failure of some of the institutions the regulatory structure along with the reporting and supervision was constricted by RBI. In the late 90s, sweeping changes were brought to protect the interest of depositors and ensuring the desired functioning of NBFCs.

The capital requirement was changed in the year 1999, NBFCs getting registered on or after the issuance of notification dated April 21, 1999\(^1\) were required to have the minimum net owned funds of ₹200 lakhs in order to commence the business of an NBFC. Due to snowballing trend in the sector and to ensure the growth of the sector in a healthy and efficient manner various regulatory measures were taken for identifying the systemically important companies and bringing them under the austere norms. The NBFC-ND with asset size of ₹100 crores or more were considered to be systemically important companies. During the FY 2011-12, two new categories of NBFCs were introduced viz., IDF and MFI. In September 2012, a new category of NBFC- Factors was introduced and three separate regulations were introduced for regulating these categories. The RBI vide its press release 2013-2014/1931 dated April 1, 2014\(^2\) suspended fresh registration of NBFCs which was uplifted vide its press release 2014-2015/952 dated November 10, 2014\(^3\). With a view to transform the sector, entire regulatory framework was reviewed and circular on revised regulatory framework was issued on November 10, 2014, with a notification to follow. The regulations were in line with the recommendations made by the committee on Issues and Concerns in the NBFC Sector, chaired by Smt. Usha Thorat and the Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households, chaired by Dr. Nachiket Mor. In March 27, 2015\(^4\) the most awaited notifications were issued amending the net owned fund requirements, Acceptance of Public Deposits Directions, 1998, Deposit Accepting or Holding Prudential Norms Directions, 2007, Factor Directions, 2012 and issued two new directions viz. NBFC-ND-NSI Prudential Norms Directions, 2015 and NBFC-ND-SI Prudential Norms Directions, 2015.

\(^1\) [https://www.rbi.org.in/scripts/NotificationUser.aspx?id=33&Mode=0](https://www.rbi.org.in/scripts/NotificationUser.aspx?id=33&Mode=0)
Non-Banking Financial Companies

Meaning

An NBFC is a company registered under the Companies Act, 1956 (‘Act, 1956’) or Companies Act, 2013 (‘Act, 2013’) and is engaged in the business of financial institution.

Section 45I(f) of the RBI Act, 1934 defines “non-banking financial company” as –

(i) a **financial institution** which is a company;
(ii) a non-banking institution which is a company and which has as its **principal business** the receiving of deposits, under any scheme or arrangement or in any other manner, or lending in any manner;
(iii) such other non-banking institution or class of such institutions, as the Bank may, with the previous approval of the Central Government and by notification in the Official Gazette, specify;

Section 45I(c) of the RBI Act, 1934 defines the term “financial institution” as -

“financial institution” means any non-banking institution which carries on as its business or part of its business any of the following activities, namely:–

(i) the financing, whether by way of making loans or advances or otherwise, of any activity other than its own;
(ii) the acquisition of shares, stock, bonds, debentures or securities issued by a Government or local authority or other marketable securities of a like nature;
(iii) letting or delivering of any goods to a hirer under a hire-purchase agreement as defined in clause (c) of section 2 of the Hire-Purchase Act, 1972:
(iv) the carrying on of any class of insurance business;
(v) managing, conducting or supervising, as foreman, agent or in any other capacity, of chits or kuries as defined in any law which is for the time being in force in any State, or any business, which is similar thereto;
(vi) collecting, for any purpose or under any scheme or arrangement by whatever name called, monies in lumpsum or otherwise, by way of subscriptions or by sale of units, or other instruments or in any other manner and awarding prizes or gifts, whether in cash or kind, or disbursing monies in any other way, to persons from whom monies are collected or to any other person, **but does not include** any institution, which carries on as its principal business,–

(a) agricultural operations; or
(aa) industrial activity; or
(b) the purchase or sale of any goods (other than securities) or the providing of any services; or
(c) the purchase, construction or sale of immovable property, so however, that no portion of the income of the institution is derived from the financing of purchases, constructions or sales of immovable property by other persons

The Companies which falls outside the purview of the definition - financial institution those companies are known as non-banking non-financial companies. Also, the term principal business has not been defined by RBI. However, there are various ruling which emphasize on the various parameters viz. past history of the party, current and past year's deployment of the capital, breakup of the income earned during the relevant and past years, the nature of activities and the intent of the party. In order to identify a particular company as an NBFC, RBI came with a principal business criteria.

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 is 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.

Banks vs. NBFCs

NBFCs activities are akin to that of Banks. However, below mentioned are few differences:

- NBFC cannot accept demand deposits;

NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
- deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks;
- NBFCs do not have power under SARFAESI;
- 100 per cent FDI in NBFCs is allowed under the automatic route in 18 specified activities, subject to minimum capitalisation norms;
- 74 per cent (incl. investment by FIIs/ FPIs) FDI permitted in private sector banking, 49 percent under automatic route and beyond 49 per cent and up to 74 per cent under approval route.

**Multi-regulator model**

Unlike UK, India works on a multi-regulator model. There are certain class of NBFCs regulated by other regulators are exempted from the requirement of registration under Section 45-IA of the RBI Act, 1934 with RBI.

![Figure 1: Multi Regulatory Model](image-url)
Classification of NBFCs

Types of NBFCs

NBFCs are broadly categorised based on liability, size and activities carried on by the company.

Figure 2: Types of NBFCs

Deposits accepting NBFCs

All NBFCs are not entitled to accept public deposits. Only those NBFCs holding a valid CoR with authorisation 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,-
  (i) amounts raised by way of share capital;
  (ii) amounts contributed as capital by partners of a firm;
  (iii) 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;
  (iv) 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;
  (v) amounts received in the ordinary course of business, by way of-
(a) security deposit,  
(b) dealership deposit, 
(c) earnest money,  
(d) advance against orders for goods, properties or services,  
(vi) 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  
(vii) 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.

![Figure 3: Number of NBFCs registered with RBI](source)

*Source: Financial trend of RBI*

The total number of NBFCs registered with RBI has been consistently tumbling from 12,809 as at end March, 2008 to 11,842 as at end March, 2015. There has also been a decline in deposit accepting NBFC (‘NBFC-D’) from 784 as at end March, 2008 to 220 as at end March, 2015. This decline is mainly due to -

- Cancellation of Certificate of Registrations of NBFCs - during the year⁷, RBI has cancelled CoR of the 56 NBFCs;

➢ Restricting the companies to register as NBFC-D;
➢ Restricting the companies from accepting deposits.

**Size of NBFCs**

NBFCs are categorised into two different categories viz. deposit accepting and non-deposit accepting. The non-deposit accepting NBFC is further bifurcated into systemically important and non-systemically important companies. The term ‘Systemically important non-deposit taking non-banking financial company’ has been defined to mean a non-banking financial company not accepting / holding public deposits and having total assets of ₹500 crore and above as shown in the last audited balance sheet.

![Diagram of NBFCs registered with RBI]

**Figure 4: Size of NBFCs**

*Source: Financial trend of RBI*

The total number of NBFCs registered with RBI as at end March 31, 2015 were 11,842 of which deposit taking NBFCs are 220 and non-deposit taking NBFCs are 11,622. The non-deposit taking NBFCs is further classified into two classes i.e. non-deposit taking NBFCs with asset size of ₹100 crore and above⁸ (generally known as systemically important companies) are 200 and non-deposit taking NBFCs with asset size ₹100 crore are 11,422.

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⁸ Prior to the issuance of Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 the term systemically important was defined to mean a company with asset size of ₹100 crore or more.
**Kind of Activities**

Based on the activities undertaken NBFCs, they are further classified as follows:

**Asset Finance Company (AFC):**

The term asset financing generally means underlying one or more asset as security for availing credit. 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. The financial assets and the income from such financial assets shall not be less than 60% of its total assets and total income respectively.

**Eg.** Magma Fincorp Limited, Srei Equipment Finance Limited.
**Investment Company (IC):**

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

*Eg.* Tata Investment Corporation Limited.

**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.

*Eg.* Fullerton India Credit Company Limited, India Infoline Finance Limited.

**Infrastructure Finance Company (IFC):**

IFC is a non-deposit taking 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 ₹300 crore,  
c) has a minimum credit rating of ‘A’ or equivalent  
d) and a CRAR of 15 per cent.

*Eg.* L&T Infrastructure Finance Company Limited, IDFC Limited.

**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\(^9\)

\textbf{Eg.} Tata Capital Limited.

\textbf{Infrastructure Debt Fund: Non-Banking Financial Company (IDF-NBFC):}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{IDF_Structure.png}
\caption{IDF Structure}
\end{figure}

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.

\(^9\) "Public funds" includes funds raised either directly or indirectly through public deposits, Commercial Papers, debentures, inter-corporate deposits and bank finance but excludes funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding 5 years from the date of issue.
Eg. As on June 30, 2015 only 3 companies are registered with RBI i.e. India Infradebt Limited, L&T Infra Debt Fund Limited, IDFC Infra Debt Fund Limited.

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

NBFC-MFI is a non-deposit taking NBFC (other than Section 8 companies) having minimum net owned fund of ₹ 5 crores (if registered in the North Eastern Region - ₹ 2 crores) and shall 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 ₹ 1,00,000 or urban and semi-urban household income not exceeding ₹ 1,60,000;

b. loan amount does not exceed ₹ 60,000 in the first cycle and ₹ 1,00,000 in subsequent cycles;

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

d. tenure of the loan not to be less than 24 months for loan amount in excess of ₹ 30,000 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 instalments at the choice of the borrower

Eg. SKS Microfinance Limited, Asmitha Microfin Limited.

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

NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The term factoring business has been defined under Section 2(j) of the Factoring Act, 2011 as “the business of acquisition of receivables of assignor by accepting assignment of

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10 MFI - Direction has been amended from the limit of ₹ 15,000 to ₹ 30,000 vide notification no. DNBR.CC.PD.No.071/03.10.038/ 2015-16 dated November 26, 2015 - https://www.rbi.org.in/scripts/FS_Notification.aspx?Id=10144&fn=14&Mode=0
such receivables or financing, whether by way of making loans or advances or in any other manner against the security interest over any receivables but does not include-

(i) credit facilities provided by a bank in its ordinary course of business against security of receivables;
(ii) any activity as commission agent or otherwise for sale of agricultural produce or goods of any kind what so ever or any activity relating to the production, storage, supply, distribution, acquisition or control of such produce or goods or provision of any services”.

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.

Eg. SBI Global Factors Ltd., India Factoring & Finance Solutions Pvt Ltd.

**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 ₹ 100 crore.

Eg. India Mortgage Guarantee Corporation.

**NBFC- Non-Operative Financial Holding Company (NOFHC):**

NOFHC is a non-deposit taking 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 shares of a bank as well as all other financial services companies in the group, whether regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.
As at the end of June 2015, RBI has cancelled CoR of 2,607 NBFCs and prohibited 9 NBFCs from accepting deposits. Out of total 11,842 NBFCs registered with RBI, 3 companies are registered as Infrastructure Debt Funds, 65 companies are registered as Micro-Finance Institutions, 4 companies are registered as NBFC-Factors, 38 companies are registered as Core Investment Companies, 1 company is registered as Mortgage Guarantee Company, 442 companies are registered as Asset Finance Companies and 11,289 companies are registered as other viz. Loan Company or Investment Company.
Requirement for registration with RBI

Section 45-IA of the RBI Act, 1934 states that –

no non-banking financial company shall commence or carry on the business of a non-banking financial institution without –

- obtaining a certificate of registration; and
- having the net owned fund ₹ 2 crores (Prior to the issuance of notification dated April 21, 1999 the requirement of having minimum NOF was revised from ₹ 25 lakhs to ₹ 2 crores)

However, as per revised regulatory framework if a NBFC is having NOF of less than ₹ 2 crores then such companies need to increase the NOF in the following manner –

- ₹ 1 crores before April 1, 2016; and
- ₹ 2 crores before April 1, 2017

An application for registration needs to be submitted by the Company in the prescribed format along with necessary documents for RBI’s consideration. RBI has specified different indicative list of documentations/ information to be submitted along with the application for NBFC-CIC, NBFC-Factors, NBFC-MFI and other NBFCs. However, in order to avert dual registration, RBI has exempted certain class of companies from the requirement of registration with RBI.

Net Owned Fund

Net Owned Fund is defined in the Explanation to Section 45-IA of the RBI Act, 1934 as follows -

(a) the aggregate of the paid-up equity capital and free reserves as disclosed in the latest balance sheet of the company after deducting there from-

(i) accumulated balance of loss;
(ii) deferred revenue expenditure; and
(iii) other intangible assets; and

(b) further reduced by the amounts representing-

(1) investments of such company in shares of-
   (i) its subsidiaries;
   (ii) companies in the same group;
   (iii) all other non-banking financial companies; and

(2) The book value of debentures, bonds, outstanding loans and advances (including hire-purchase and lease finance) made to, and deposits with-
   (i) subsidiaries of such company; and
   (ii) companies in the same group,

   to the extent such amount exceeds ten per cent, of (a) above
Residuary Non-Banking Companies

Residuary Non-Banking Company (RNBC) are separate category of NBFCs. The principal business of RNBCs is receiving of deposits, under any scheme or arrangement or in any other manner and not being Investment, Asset Financing, Loan Company. In addition to liquid assets, RNBCs are required to maintain investments as per the directions of RBI. As such, there is no ceiling on raising of deposits by RNBCs. However, every RNBC has to ensure that the amounts deposited with it are fully invested in approved investments. In order to secure the interests of depositor, such companies are required to invest 100 per cent of their deposit liability into highly liquid and secure instruments, viz., Central/State Government securities, fixed deposits with scheduled commercial banks (SCB), Certificate of Deposits of SCB/FIs, units of Mutual Funds, etc.

Number of deposit accepting NBFCs and RNBCs

![Chart showing the number of deposit accepting NBFCs and RNBCs from 1997-98 to 2014-15.]

Figure 8: Deposit accepting NBFCs and RNBCs

Source: RBI data

As at the end of June, 2015, there had been decline in the number of companies accepting deposits. During the FY ending March 1998, there were 1,420 NBFCs and 9 RNBCs.
accepting public deposits which has been reduced to 220 NBFC and 2 RNBCs at the end of March, 2015.

**Aggregate deposits of NBFC Sector**

![Image of chart showing aggregate deposits of NBFC Sector]

**Figure 9: Aggregate deposits of NBFC Sector**


As per the RBI data, there has been a decline in the amount accepted as public deposits by RNBCs from the FY 2011-12. RNBCs has accepted total deposit amounting to ₹ 106.44 as at the end of March, 1999 to ₹ 79.02 as at the end of March, 2011 and NBFCs* has accepted total deposit amounting to ₹ 97.85 as at the end of March, 1999 to ₹ 40.98 as at the end of March, 2011. However, during the FY 2014-15, NBFCs has accepted total public deposits amounting to ₹ 275.04 as compared to RNBCs which stood at ₹ 31.83. The decline is due to migration of the business of RNBCs to another business.

*NBFCs include Deposit taking NBFCs (NBFCs-D), Mutual Benefit Financial Companies (MBFCs) (Notified Nidhis), Mutual Benefit Companies (MBCs) (Potential Nidhis) etc., till 2004-05 and only NBFCs-D thereafter.*
Performance of NBFC-D and NBFC-ND-SI

Source of funding

In case of funding, NBFCs majorly rely on various sources of funds viz., Owned funds, debentures and bonds, mutual funds, commercial papers, preference shares, government securities and other investments. Figure 10 shows the sources of funding of NBFC-D.

Figure 10: Sources of Funding - NBFC-D

Source: RBI data
Borrowings by NBFC-D and NBFC-ND-SI

![Bar Chart: Borrowings by NBFC-D & NBFC-ND-SI]

**Figure 11: Borrowings by NBFC-D & NBFC-ND-SI**

*Source: RBI data*

As evident from above, borrowings of NBFC sector largely depends on debentures and banks. As per the RBI data, an amount borrowed by the systemically important non-deposit accepting NBFCs is much higher as compared to the deposit accepting NBFCs. As at the end of March 2015, the amount borrowed by NBFC-D and NBFC-ND-SI through issuance of debentures is ₹ 363 billion and ₹ 4,190 billion; inter-corporate borrowings is ₹ 1 billion and ₹ 245 billion; commercial paper is ₹ 45 billion and ₹ 417 billion and through bank borrowing is ₹ 532 billion and ₹ 1,885 billion respectively.

**Financial ratios**

The NBFC sector is growing rapidly with borrowings comprising the largest source of funding. The financial performance of NBFC-D and NBFC-ND-SI sector has shown a consistent year-to-year growth in the financial ratios over the last few years.
The asset quality of NBFCs-D and NBFCs-ND-SI exacerbated as compared to last year’s. The gross NPA-to-gross advances of NBFC-D and NBFC-ND-SI increased to 3.1% and 4% as at the end of March, 2014 as against 2.7% and 3.1% at the end of March, 2012. Simultaneously, net NPAs-to-net advances increased to 1.0% and 2% compare with 0.8% and 1.8% respectively.
Some Important Concepts

Asset Classification

**Standard Assets:**
No default in repayment of principal or interest and does not disclose any problem or carry more than normal risk attached to the business.

**Sub-standard Assets:**
Asset has been classified as non-performing asset for a period of not exceeding 18 months* or an asset where the terms of the agreement regarding interest and/or principal have been renegotiated or rescheduled or restructured after commencement of operations, until the expiry of one year of satisfactory performance under the renegotiated or rescheduled or restructured terms.

**Doubtful Assets:**
Term loan, lease asset, hire purchase asset or any other asset remaining sub-standard for a period exceeding 18 months or such shorter period*.

**Loss Assets:**
Identified by the Company/ external or internal auditor/ RBI or an asset which is adversely affected by a potential threat of non-recoverability due to either erosion in the value of security or non-availability of security or due to any fraudulent act or omission on the part of the borrower.

* The period of 18 months shall be reduced to 16 months for the FY ended March 31, 2016; 14 months for the FY ended March 31, 2017 and 12 months for the FY ended March 31, 2018.

Provisioning requirement

<table>
<thead>
<tr>
<th>Asset Classification</th>
<th>NBFC-ND-NSI</th>
<th>NBFC-ND-SI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Asset</td>
<td>0.25 per cent as on March 31, 15;</td>
<td>☑ 0.25 per cent as on March 31, 15;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>☑ 0.30 per cent as on March 31, 16;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>☑ 0.35 per cent as on March 31, 17;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>☑ 0.40 per cent as on March 31, 18 and thereafter</td>
</tr>
<tr>
<td>Asset Classification</td>
<td>NBFC-ND-NSI</td>
<td>NBFC-ND-SI</td>
</tr>
<tr>
<td>----------------------</td>
<td>-------------</td>
<td>------------</td>
</tr>
<tr>
<td>Sub-standard Asset</td>
<td>10 per cent of total outstanding</td>
<td>10 per cent of total outstanding</td>
</tr>
</tbody>
</table>
| Doubtful Asset       | ● 100 per cent provision to the extent to which the advance is not covered by the realisable value of the security to which the NBFC has a valid recourse shall be made. The realisable value is to be estimated on a realistic basis;  
● In addition to item (a) above, depending upon the period for which the asset as remained doubtful, provision shall be made on the following basis:  
  o 20 per cent up to one year;  
  o 30 per cent from one year to third year;  
  o 50 per cent from forth year onwards. | ● 100 per cent provision to the extent to which the advance is not covered by the realisable value of the security to which the NBFC has a valid recourse shall be made. The realisable value is to be estimated on a realistic basis;  
● In addition to item (a) above, depending upon the period for which the asset as remained doubtful, provision shall be made on the following basis:  
  o 20 per cent up to one year;  
  o 30 per cent from one year to third year;  
  o 50 per cent from forth year onwards. |
| Loss Asset           | The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100 per cent of the outstanding | The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100 per cent of the outstanding |

**Capital Risk Adequacy Ratio**

Every NBFC-ND-SI, NBFC-D, NBFC-MFI*, NBFC-IFC** shall maintain a minimum CRAR of 15 percent.

\[
\text{CRAR} = \frac{\text{Tier I} + \text{Tier II Capital}}{\text{Aggregate Risk Weighted Assets}}
\]

The total Tier I capital, at any point of time shall not be less than 8.5 per cent by March 31, 2016 and 10 per cent by March 31, 2017.
NBFCs primarily engaged in lending against gold jewellery (such loans comprising 50 percent or more of their financial assets) shall maintain a minimum Tier I capital of 12 percent.

* The total Tier II Capital for NBFC-MFIs, at any point of time, shall not exceed 100 percent of Tier I Capital.

** The Tier I capital of an IFC, at any point of time, shall not be less than 10%

**Tier I**

“Tier I capital” means owned fund as reduced by investment in shares of other NBFC and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten per cent of the owned fund; and perpetual debt instruments issued by a non-deposit taking non-banking financial company in each year to the extent it does not exceed 15% of the aggregate Tier I Capital of such company as on March 31 of the previous accounting year;

“owned fund” means 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, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any.

**Tier II**

“Tier II capital” includes the following:

- preference shares other than those which are compulsorily convertible into equity;
- revaluation reserves at discounted rate of fifty five per cent;
- general provisions (including that for standard assets) and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses, to the extent of one and one fourth per cent of risk weighted assets;
- hybrid debt capital instruments;
- subordinated debt; and
- perpetual debt instruments issued by a non-deposit taking non-banking financial company which is in excess of what qualifies for Tier I Capital, to the extent the aggregate does not exceed Tier I capital.

**Risk Weighted Assets**
Degrees of credit risk expressed as percentage weightages have been assigned to balance sheet assets in the prudential norms.

Eg. Cash and bank balance, FDs – 0
Inter corporate loans/ deposits – 100
Loans to Staff – 0
Fixed Assets (net of depreciation) - 100

- Risk Weighted Assets = the value of each asset/item X the relevant risk weights

For off-balance sheet items - the notional amount of the transaction is converted into a credit equivalent amount

- Risk Weighted Assets = credit equivalent amount X risk weight applicable.

**Leverage Ratio**

The NBFC-ND-SI (except NBFC-MFI and NBFC-CIC) shall maintain a leverage ratio of not more than 7 at any point of time, w.e.f 27th March, 2015. The CIC-ND-SI shall maintain a leverage ratio of not more than 2.5 at any point of time.

- Leverage Ratio = \( \frac{\text{Total Outside Liabilities}}{\text{Owned Funds}} \)

“Outside Liabilities” means total liabilities as appearing on the liabilities side of the balance sheet excluding ‘paid up capital’ and ‘reserves and surplus’, instruments compulsorily convertible into equity shares within a period not exceeding 5 years from the date of issue but including all forms of debt and obligations having the characteristics of debt, whether created by issue of hybrid instruments or otherwise, and value of guarantees issued, whether appearing on the balance sheet or not.
RBI came up with the Non-Banking Financial Companies - Corporate Governance (Reserve bank) Directions, 2015 (hereinafter referred to as “CG Directions”) dated April 10, 2015\(^\text{11}\). The provisions of the directions shall not apply to NBFC-CIC-SI and NBFC-ND-NSI. The CG Directions required the NBFCs to constitute the following committees:

**Constitution of Committees**

**Audit Committee (‘AC’):**

The constitution, power, function and duties of the AC is same as laid down in Section 177 of the Act, 2013.

AC shall consist of at least three members of the board of directors of the company.

In order to mitigate the risk faced by the Company the AC shall ensure that an Information System Audit of the internal systems and process is conducted at least once in every two years.

**Nomination Committee (‘NC’):**

The constitution, power, function and duties of the NC is same as laid down in Section 178 of the Act, 2013.

NC shall be constituted to ensure that the directors appointed on the board of the company are fit and proper.

**Risk Management Committee (‘RMC’):**

RMC shall be constituted for managing the integrated risk. However, the composition, power, functions are not specified in the CG Directions. The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 requires top 100 listed entities (determined on the basis of market capitalisation) to constitute RMC comprising of majority of members of the board of directors and senior executives of the company.

**Asset Liability Management Committee (‘ALCO’):**

In addition to the RMC, CG Directions requires the NBFC to constitute an ALCO for managing the asset liability mismatch risk.

Fit and Proper Criteria

NBFCs shall put in place a board approved policy for ascertaining the fit and proper criteria of the directors (existing and new directors). The policy duly framed by the board shall be in accordance with the guidelines laid down by the RBI in the CG Directions. The company shall ensure that they obtain a declaration and undertaking from the directors and deed of covenant duly signed by the director in the format as given in Annex 2 and 3 under the CG Directions, respectively.

The company shall furnish a statement on change of directors, and a certificate from the Managing Director of the NBFC that fit and proper criteria in selection of the directors has been followed on the quarterly basis within 15 days from the end of the quarter to the RBI. The statement submitted by NBFCs for the quarter ending March 31, should be certified by the auditors.

Age limit:

In terms of the Fit and Proper criteria for directors of NBFCs given in Annex 1 of the Framework (Revised Regulatory Framework for NBFCs dated November 10, 201412), independent / non-executive directors of an NBFC should be between 35 to 70 years of age. However, the requirement was done away with in the final guidelines issued by the RBI requiring NBFCs to comply with the provisions in Companies Act, 2013.

Section 196(3) of the Act, 2013 requires the company to appoint any person as managing director, whole-time director or manager who is twenty-one years or above and has not attained the age of seventy years.

Rotation of partners

In order to ensure that the same partner does not conduct audit of the company continuously for more than a period of three year, NBFCs shall rotate the partner(s) of the Chartered Accountant firm conducting the audit, every three years. However, the partner so rotated will be eligible for conducting the audit of the NBFC after an interval of three years.

Internal guidelines

The board of an NBFC shall frame an internal guidelines on corporate governance enhancing the scope of the guidelines and the same shall be published on the web-site of the company.

Auditors Report


The auditor of the Company shall in addition to report made under Section 143(2) of the Act, 2013, make a separate report to the Board of the company on the matters specified in para 3 and 4 of the Directions, 2008. The report shall be restricted only to the contraventions of the provisions of RBI Act, 1934, Directions, Guidelines, instructions and Circulars. In case where the auditor is of the opinion that the statement regarding any of the items referred to in paragraph 3, is unfavourable or qualified, or in the opinion of the auditor the company has not complied with:

- the provisions of Chapter III B of Reserve Bank of India Act, 1934 (Act 2 of 1934); or
- the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998; or
- Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007; or
- Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 and Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015;

the auditor shall be responsible for preparing a report containing the details of such unfavourable or qualified statements and/or about the non-compliance, as the case may be, in respect of the company to the concerned Regional Office of the Department of Non-Banking Supervision of the Bank under whose jurisdiction the registered office of the company is located as per Second Schedule to the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.

Para 3 provides the list of items to be covered in the auditor’s report depending on whether the company accepts deposits or not. The auditor while giving the report to the Company shall ensure that the Company is in compliance with the provisions of the Directions, 2008. If there is some qualification remark in the report then same need to be justified with the supporting.

\(^{13}\) [https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9818](https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9818)
Fair Practice Code

The Companies engaged in the business of lending need to adopt Fair Practice Code (‘FPC’) issued by RBI dated September 28, 2006 and revised on March 26, 2012 due to rapid growth in lending against gold jewellery. The guidelines generally covers the principles on adequate disclosures on the terms and conditions of a loan. The guidelines requires the Company to -

- make communications to the borrower in the vernacular language or any such language as understood by them;
- convey in writing to the borrower the amount of loan sanctioned along with the terms and conditions including annualised rate of interest and method of application thereof;
- ensure that changes in interest rates and charges are effected only prospectively;
- appoint a grievance redressal officer who shall look after resolving the public complaints against the Company;
- display name and contact details of the GRO and complete contact details of Officer-in charge of Regional office of DNBS of RBI at their branches/places where business is transacted
- frame a FPC for the information of stakeholders and publish the same on the web-site;
- framework w.r.t. the rate of interest and the approach for gradation of risks shall also be made available on the web-site.

The Board of Directors of NBFCs shall lay down the appropriate grievance redressal mechanism within the organization. The mechanism shall ensure that all the disputes are heard and disposed in timely manner. It shall be the responsibility of the board to ensure that the functioning of the grievances redressal mechanism is periodically reviewed and any findings are properly addressed.
Acquisition / Transfer of Control of NBFCs

The Non-Banking Financial Companies (Approval of Acquisition or Transfer of Control) Directions, 2015 (hereinafter referred to as ‘Directions’) was revised by the RBI on July 9, 2015 covering every non-banking financial company whether accepting deposits or not within the purview of the aforementioned directions. The directions are more stringent as compared to the notification issued by the RBI in May 26, 2014. The Directions requires the promoters to make a complete application to the RBI for the circumstances mentioned below -

Prior written approval of the RBI needs to be obtained for –

i. Any takeover or acquisition of control of an NBFC, though the same would not result in change of management;

ii. Any change in the shareholding of an NBFC, including progressive increases over time, which would result in acquisition/transfer of shareholding of 26 per cent or more of the paid up equity capital of the NBFC. Prior approval would not be required where the increase in the shareholding is due to a buyback of shares/reduction in capital where it has obtained the approval of a competent court;

iii. Any change in management of the NBFC that would result in change in more than 30 per cent of the directors. Change in the number of independent directors shall not be considered for the purpose of determining change in management. Also, prior approval would not be required for those directors who get re-elected on retirement by rotation.

If there is a change in management due to fulfilment of any of the aforementioned conditions then the company shall submit an application containing 29 items on the letter head of the company along with the supporting documents mentioned under para 4 of the Directions for obtaining prior approval of the RBI.

The Directions also specifies the requirement of giving public notice by the NBFC and the other party or jointly by the parties concerned within a period of 30 (thirty) days before effecting the sale of, or transfer of the ownership by sale of shares, or transfer of control, whether with or without sale of shares after obtaining prior approve of the RBI. The notice shall indicate the intention behind doing so and the same shall be published in one English and one vernacular newspaper.

14 https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9833
Insurance Agency Business

RBI vide its circular DNBS (PD) CC No.13/02.01/99-2000 dated June 30, 2000 permitted NBFCs registered with the Reserve Bank to set up insurance joint ventures for undertaking insurance business with risk participation and also to undertake insurance business as agents of insurance companies on fee basis, without any risk participation with the prior approval of the Insurance Regulatory and Development Authority (IRDA) and RBI. RBI came up with another circular DNBS (PD) C.C. No. 35 / 10.24 / 2003-04 dated February 10, 2004 permitting NBFCs registered with RBI to take up an insurance agency business on fee basis and without risk participation, without the approval of RBI subject to the following conditions:

(i) The NBFCs should obtain requisite permission from IRDA and comply with the IRDA regulations for acting as ‘composite corporate agent’ with insurance companies.

(ii) The NBFCs should not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company in respect of assets financed by the NBFC. The customers should be allowed to exercise their own choice.

(iii) As the participation by a NBFC’s customer in insurance products is purely on a voluntary basis, it should be stated in all publicity material distributed by the NBFC in a prominent way. There should be no ‘linkage’ either direct or indirect between the provision of financial services offered by the NBFC to its customers and use of the insurance products.

(iv) The premium should be paid by the insured directly to the insurance company without routing through the NBFC.

(v) The risks, if any, involved in insurance agency should not get transferred to the business of the NBFC.

Guidelines for entry of NBFCs into insurance business:

- NBFC shall be registered with RBI and have net owned fund of ₹2 crores;
- Maximum equity contribution by an NBFC along with other companies in the same group (irrespective of doing financial activity or not) shall not hold more than 50 per cent of the paid-up capital of the insurance company in the joint venture company

https://rbi.org.in/Scripts/BS_NBFCNotificationView.aspx?id=1481
The restriction shall not apply where IRDA issues calls for capital infusion into the Insurance JV company -- the bank on case basis consider relaxation

- More than one NBFC may be allowed to participate in the equity of the insurance joint venture in case where a foreign partner contributes 26 per cent of the equity with the approval of IRDA/ FIPB;
- Registered NBFCs which are not eligible as joint venture participant can make investments up to 10 per cent of the owned fund of the NBFC or ₹ 50 crore, whichever is lower, in the insurance company.
  - Such participation shall be treated as an investment and should be without any contingent liability for the NBFC.

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White Label ATMs

RBI vide its notification no. DPSS.CO.PD. No. 2298/02.10.002/2011-2012 dated June 20, 2012 permitted non-bank entities incorporated in India under the Companies Act, 1956, to set-up, own and operate ATMs (such ATMs to be known as ‘White Label ATMs’/‘WLA’) in India. Non-bank entities intending to setting up, owning and operating ATMs (hereinafter referred to as ‘White Label ATMs Operators’/‘WLAO’) would require obtaining authorisation from RBI under the Payment and Settlement Systems (PSS) Act, 2007. According to data available on the National Payments Corporation of India (NCPI) website, there are seven companies who are authorised by RBI for setting-up WLA, which have collectively opened 10,983 WLA until October 2015.

Classification of centers:

The classification of centers based on population prescribed under Census of India 2011 is as follows:

<table>
<thead>
<tr>
<th>Tier</th>
<th>Population</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier I</td>
<td>1,00,000 and above</td>
<td>Metropolitan and Urban center</td>
</tr>
<tr>
<td>Tier II</td>
<td>50,000 to 99,999</td>
<td>Semi-urban center</td>
</tr>
<tr>
<td>Tier III</td>
<td>20,000 to 49,999</td>
<td></td>
</tr>
<tr>
<td>Tier IV</td>
<td>10,000 to 19,999</td>
<td>Rural center</td>
</tr>
<tr>
<td>Tier V</td>
<td>5,000 to 9,999</td>
<td></td>
</tr>
<tr>
<td>Tier VI</td>
<td>Less than 5000</td>
<td></td>
</tr>
</tbody>
</table>

Eligibility Criteria:

The object clause of Memorandum of Association (MOA) shall specify that the company can undertake WLAs activity:

WLAO shall have a minimum net worth of ₹ 100 crores as per the latest FY’s audited balance sheet and the same shall be maintained at all times.

Scenario prior to the press note:

In case of any Foreign Direct Investment (FDI) in the applicant entity, necessary approval from the competent authority as required was required to be submitted while seeking authorization.

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18 [http://www.npci.org.in/nfsatm.aspx](http://www.npci.org.in/nfsatm.aspx)
19 [https://rbidocs.rbi.org.in/rdocs/content/pdfs/APP1_21102013.pdf](https://rbidocs.rbi.org.in/rdocs/content/pdfs/APP1_21102013.pdf)
Scenario post press note:

Sub-para 6.2.18.8.3 is inserted after para 6.2.18.8 permitting NBFCs under automatic route to undertake WLAO up to 100 per cent;

If the entity is engaged in any other 18 NBFC activity then such entities will have to comply with the minimum capitalisation norms for foreign investments as applicable.

**Scheme:**

The RBI authorisation for setting up WLA operations is valid for a period of one year. The application made by the applicant shall specify the scheme adopted by the entity and the number of WLAs sought to be installed.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Scheme A</th>
<th>Scheme B</th>
<th>Scheme C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No. of WLAs to be installed</strong></td>
<td>Year 1: min. 1000 WLAs; Year 2: min. 2000 WLAs; Year 3: min. 6000 WLAs</td>
<td>Year 1,2 and 3: min. 5000 WLAs; Year 2; Year 2 and 3: min. 25000 WLAs</td>
<td>Year 1: min. 25000 WLAs; Year 2; Year 2 and 3: min. 25000 WLAs</td>
</tr>
<tr>
<td><strong>Ratio to be applicable</strong></td>
<td>3:1</td>
<td>2:1</td>
<td>1:1</td>
</tr>
<tr>
<td><strong>What do we mean by the ratio</strong></td>
<td>For every 3 WLAs installed in Tier III to VI centers, 1 WLA can be installed in Tier I to II centers. Out of the 3 WLAs installed in Tier III to VI centers, a minimum of 10 % should be installed in Tier V &amp; VI centers.</td>
<td>For every 2 WLAs installed in Tier III to VI centers, 1 WLA can be installed in Tier I to II centers. Out of the WLAs installed in Tier III to VI centers, a minimum of 10 % should be installed in Tier V &amp; VI centers.</td>
<td>Out of the WLAs installed in Tier III to VI centers, a minimum of 10 % should be installed in Tier V &amp; VI centers</td>
</tr>
</tbody>
</table>
Some general points:

- WLAO shall not transfer/assign the authorisation without prior approval of RBI;
- Switchover from one scheme to another is not permissible;
- A certificate indicating adherence to the targets and ratios needs to be submitted by WLAO to the RBI within a time frame of one month of completion of one year;
- Deposits shall not be accepted at the WLAs by the WLAO, their operations is limited to withdrawal of cash;
- Transaction effected by the customer at WLAs shall be considered while permitting five/three free transactions per month for using other bank ATMs.

Timeline for regulatory approval:

As per the RBI timelines, the time period required for authorising the company to set-up the WLA is 120 days. However, section 7(4) of the PSS Act, 2007 states that RBI shall endeavour to dispose of applications for authorisation within six months from the date of filing.

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Issuance of privately placed debentures

In general parlance, the term debenture can be defined as an instrument issued by the company which is secured by backing the asset and which will yield interest to the investors.

Clause 20 of Section 2 of Act, 2013 defines the term debentures as follows -

“debenture” includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not

Debentures can be distinguished based on:

- Tenure -
  - Senior debt;
  - Subordinated debt;
  - Perpetual debt

- Security -
  - Secured;
  - Unsecured

- Convertibility -
  - Convertible debentures -
    - Compulsorily Convertible Debentures;
      - Should be compulsorily converted within 5 years
        - In case of failure - deposit rules shall apply
    - Optionally Convertible Debentures
      - Need to be backed by security
        - In case of failure - deposit rules shall apply
  - Non-convertible debentures

- Issuance -
  - Publically issued debentures;
  - Privately placed debentures
Regulations applicable

Figure 14: Debentures - regulations applicability
Private placement guidelines

RBI issued Issuance of Non-Convertible Debentures (Reserve Bank) Directions, 2010, dated June 23, 2010\(^{21}\) for the NCDs issued by the Company with maturity up to 1 year and Raising Money through Private Placement of Non-Convertible Debentures (NCDs) by NBFCs (hereinafter referred to as ‘Guidelines’) dated February 20, 2015\(^{22}\) with maturity more than 1 year. The Guidelines are categorised in two different categories viz. those with a maximum subscription of less than ₹ 1 crore (hereinafter referred to as ‘Category A’) and those with a minimum subscription of ₹ 1 crore and above per investor (hereinafter referred to as ‘Category B’).

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Category A</th>
<th>Category B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Subscription</td>
<td>20000</td>
<td>20000</td>
</tr>
<tr>
<td>No. of Subscribers</td>
<td>200</td>
<td>No Limit</td>
</tr>
<tr>
<td>Security</td>
<td>Secured</td>
<td>Optional</td>
</tr>
</tbody>
</table>

NBFCs are required to formulate a Board approved policy for resource planning, covering the planning perspective and periodicity of private placement.

Perpetual debt instruments

Perpetual debt instruments means an instrument which are issued by the Company with no maturity date. Considering the need for enhanced funds for increasing business requirements NBFC-ND-SI are permitted to issue perpetual debt instruments (‘PDI’) by RBI vide its Notification dated October 29, 2008. PDIs are eligible for inclusion as Tier I Capital to the extent of 15% of total Tier I capital as on March 31 of the previous accounting year, any amount in excess of amount admissible as Tier I shall qualify as Tier II capital. PDIs shall be issued in Indian rupees only and the minimum investment by single investor in each issue/ tranche shall be ₹ 5 lakh.

NBFC-ND-SI has an option to -

- issue PDIs with a call option only after complying with the conditions mentioned in the regulations;


• increase the rate of interest payable on PDI once during the whole life of the instrument after the lapse of ten years from the date of issue -- popularly known as ‘step-up option’.

Disclosure and reporting requirement -

• NBFCs-ND-SI shall submit a report along with the terms of issue and the offer document to the regional office of RBI;

• NBFCs-ND-SI shall make suitable disclosures in their Annual Report about:
  o Amount of funds raised through PDI during the year and outstanding at the close of the financial year;
  o Percentage of the amount of PDI of the amount of its Tier I Capital;
  o Mention the financial year in which interest on PDI has not been paid in accordance with clause 1(viii).

• The Company shall frame policy w.r.t PDI issuance.
FDI in NBFCs

100% FDI is allowed under automatic route, if NBFC is engaged in:

- Merchant Banking
- Underwriting
- Portfolio Management Services
- Investment advisory services
- Financial consultancy
- Stock broking
- Asset Management
- Venture Capital
- Custodian Services
- Factoring
- Credit Rating Agencies
- Leasing and Finance* (financial leases only)
- Housing Finance
- Forex Broking
- Credit Card business**
- Money changing business
- Micro Credit
- Rural Credit

*FDI in operating leases is permitted up to 100% on the automatic route

** Credit Card business includes issuance, sales, marketing & design of various payment products such as credit cards, charge cards, debit cards, stored value cards, smart card, value added cards etc.

An NBFC engaged in the aforementioned activities is permitted to get foreign equity upto 100 per cent under the automatic route subject to the following minimum capitalization requirements as specified in para 6.2.18.8.2 of the FDI Policy:

i. US $ 0.5 million for foreign capital up to 51% to be brought upfront.
ii. US $ 5 million for foreign capital more than 51% and up to 75% to be brought upfront.
iii. US $ 50 million for foreign capital more than 75% out of which US $ 7.5 million to be brought upfront and the balance in 24 months.
iv. Downstream investment by an NBFC (Figure 14)

http://dipp.nic.in/English/policies/FDI_Circular_2015.pdf
Figure 15: Downstream Subsidiary

**Non-Fund based activities:**

- Foreign investment > 75% and up to 100%
- Minimum capitalisation of US$ 50 mn.

Can set up step down subsidiary for specific NBFC activity - restriction on --

1. no. of operating subsidiaries;
2. additional funds; and
3. minimum capitalisation condition shall not apply
Figure 16: Non-Fund based activities

Investment in the non-fund based activities (Figure 15) shall be subject to minimum capitalisation norms of US $0.5 million to be brought upfront for all permitted non-fund based NBFCs irrespective of the level of foreign investment subject to the following condition that it would not be permissible for such a company to set up any subsidiary for any other activity, nor it can participate in any equity of an NBFC holding/operating company.

Auditors Certificate:

NBFCs having FDI whether under automatic route or under approval route are required to submit a certificate\(^\text{24}\) from their Statutory Auditors on half yearly basis certifying that the company is in compliance with the existing terms and conditions of FDI

- The certificate shall be submitted not later than one month from the close of the half year to which the certificate pertains, to the Regional Office in whose jurisdiction the head office of the company is registered.

\(^{24}\text{https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=5488&Mode=0}\)
Revitalising Distressed Assets in the Economy

Due to the increasing NPAs and restructures account the financial distress assets deteriorate quickly in value. In order to determine financial distress and take adequate and prompt steps to resolve the stress, RBI came up with the measures for improving the financial system. Before a loan account turns into an NPA, NBFCs are required to identify incipient stress in the account by creating a sub-asset category viz. ‘Special Mention Accounts’ (SMA)

The sub-categories are as follows –

<table>
<thead>
<tr>
<th>SMA Sub-categories</th>
<th>Basis for classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMA-0</td>
<td>Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress as illustrated in the annex to the framework of Jan 30, 2014</td>
</tr>
<tr>
<td>SMA-1</td>
<td>Principal or interest payment overdue between 31-60 days</td>
</tr>
<tr>
<td>SMA-2</td>
<td>Principal or interest payment overdue between 61-180 days</td>
</tr>
</tbody>
</table>

Banks are required to furnish credit information to Central Repository of Information on Large Credits (‘CRILC’) on all their borrowers having aggregate fund-based and non-fund based exposure of ₹ 50 million and above. NBFC-ND-SI, NBFC-D, NBFC-Factors or any other NBFC are required to furnish relevant credit information of the all their borrowers having aggregate fund-based and non-fund based exposure of ₹ 50 million and above to CRILC on quarterly basis. Once the asset is classified as SMA-2, the Joint Lenders Forum has to be constituted for the purpose of formulating Corrective Action Plan.

NBFCs shall identify the non-co-operative borrowers, the decision to classify the borrower as non-cooperative borrower should be entrusted to a Committee of higher functionaries headed by an Executive Director and consisting of two other senior officers of the rank of General Managers/ Deputy General Managers as decided by the Board of the NBFC. The order of the Committee should be reviewed by another Committee headed by the Chairman / CEO and MD and consisting, in addition, of two independent directors of the NBFC and the order shall become final only after it is confirmed by the said Review Committee. Boards of NBFC should review on a half-yearly basis the status of non-cooperative borrowers for deciding whether their names can be declassified as evidenced by their return to credit discipline and cooperative dealings.
## Reporting Requirements

<table>
<thead>
<tr>
<th>Time Limit</th>
<th>NBFC-D</th>
<th>NBFC-ND</th>
<th>NBFC-ND-SI</th>
<th>RNBC</th>
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<tbody>
<tr>
<td>Holding valid CoR:</td>
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</tr>
<tr>
<td>Quarterly - within 15 days</td>
<td>NBS 1</td>
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<td>-</td>
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<td>Quarterly - within 15 days</td>
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<td>NBS 3</td>
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<tr>
<td>Monthly - within 7 days</td>
<td>NBS 6*</td>
<td>-</td>
<td>-</td>
<td>NBS 6 (for companies having asset size ≥ ₹ 100 crs - public deposit (PD) ≥ ₹ 20 crs)</td>
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<td>Quarterly - within 15 days</td>
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<td>NBS 7</td>
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<tr>
<td>Half yearly - within 1 month</td>
<td>ALM - Companies having PD ≥ ₹ 20 crs and asset size ≥ ₹ 100 crs</td>
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<td>Quarterly*** Monthly - within 7 days</td>
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<td>Return on Important Financial Parameters (Companies having asset size ≥ ₹ 100 crs)</td>
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<td>Quarterly*** Monthly - within 10 days</td>
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<td>ALM 1 (Companies having asset size ≥ ₹ 100 crs)</td>
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<tr>
<td>Half yearly - within 20 days</td>
<td>-</td>
<td>ALM 2 (Companies having asset</td>
<td>ALM 2</td>
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<tr>
<td>Time Limit</td>
<td>NBFC-D</td>
<td>NBFC-ND</td>
<td>NBFC-ND-SI</td>
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<td><strong>Holding valid CoR:</strong></td>
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<td>Yearly - within 15 days</td>
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<td>ALM (Companies having asset size &gt; = ₹100 crs)</td>
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<td>Quarterly - within 30 days</td>
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<td>Return on important financial parameter (Companies with asset size ₹50 - ₹100 crs)</td>
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<tr>
<td>Quarterly - within 15 days</td>
<td>Branch Info</td>
<td>Branch Info (NBFC with asset size &gt; = ₹50 crs)</td>
<td>Branch Info (NBFC with asset size &gt; = ₹50 crs)</td>
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<tr>
<td>Quarterly - within 30 days</td>
<td>Return on overseas investment</td>
<td>Return on overseas investment</td>
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<tr>
<td>Yearly - within **</td>
<td>Certificate from statutory auditor</td>
<td>Certificate from statutory auditor</td>
<td>Certificate from statutory auditor</td>
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<tr>
<td>Half yearly - within **</td>
<td>NBFC with FDI - submit a certificate stating that the company has complied with FEMA provisions</td>
<td>NBFC with FDI - submit a certificate stating that the company has complied with FEMA provisions</td>
<td>NBFC with FDI - submit a certificate stating that the company has complied with FEMA provisions</td>
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<td>Yearly - within 6 months</td>
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<td>NBS 1A</td>
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<td>Quarterly - within 15 days</td>
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<td>NBS 3A</td>
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<td><strong>Not-holding valid CoR:</strong></td>
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<tr>
<td>Yearly - within 15 days</td>
<td>NBS 4</td>
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</tbody>
</table>
*Return NBS 6 has been discontinued vide notification no. DNBS (PD).CC.No.03/03.02.02/2015-16 dated November 26, 2015.*

**The periodicity of filling return on important financial parameters has been changed from monthly to quarterly vide notification dated November 26, 2015.**

***The periodicity of filling ALM 1 has been changed from monthly to quarterly vide notification dated November 26, 2015.***

### Regulations applicable to NBFCs

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<td>Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015</td>
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<td>Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 1977</td>
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<td>All NBFCs</td>
<td>Non-Banking Financial Companies – Corporate Governance (Reserve Bank) Directions, 2015</td>
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<td>Miscellaneous Instructions to all Non-Banking Financial Companies</td>
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<td>All NBFCs</td>
<td>Miscellaneous Instructions to NBFC-ND-SI</td>
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<td>All NBFCs</td>
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<tr>
<td>All NBFCs</td>
<td>Know Your Customer’ (KYC) Guidelines – Anti Money Laundering Standards (AML) - ‘Prevention of Money Laundering Act, 2002 - Obligations of NBFCs in terms of Rules notified thereunder</td>
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<tr>
<td>All NBFCs</td>
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<tr>
<td>All NBFCs</td>
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</tr>
<tr>
<td>All NBFCs</td>
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</tr>
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