

Update

DIPP makes downstream investment by FDI NBFCs easier



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October 11, 2012

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Update

Department of Industrial Policy & Promotion (DIPP) vide its Press Note 9 (2012 Series)¹ dated 3rd October, 2012 further RBI came with the Notification No. A. P. (DIR Series) Circular No. 41² dated October 10, 2012 has notified that NBFCs having foreign investment above 75% and below 100% and with a minimum capitalization of US\$ 50 million can set up their step down (operating) subsidiaries.

Existing Scenario:

Currently, only 100% foreign owned NBFCs with a minimum capitalization of US\$ 50 million can set up step down subsidiaries for specific NBFC activities. Such NBFCs do not have any restrictions on the number of operating subsidiaries and are not required to bring in any additional capital also. Further, joint operating NBFCs with 75% or less foreign investments can also set up subsidiaries for undertaking other NBFC activities however; these subsidiaries are required to comply with applicable minimum capitalization norms.

Picture after the notification:

The Government, with this new press release, has permitted NBFCs (i) having foreign investment above 75% and below 100% **and** (ii) with a minimum capitalization of US\$ 50 million, to set up step down subsidiaries for specific NBFC activities, without making any restriction on the number of operating subsidiaries and without bringing in additional capital. The NBFCs having a major foreign investment and fulfilling the capitalization norm as mentioned above are now free to open and establish its subsidiaries without fulfilling any other criteria.

Necessary amendments in *Para 6.2.24.2 (1) (iv) of Circular 1 of 2012 – Consolidated FDI Policy* have already been notified and carried out in the said Policy.

Conclusion

This move of the Ministry will surely raise foreign investments in India in form of step down subsidiaries of existing NBFCs having a major foreign stake. No limit on number of step down subsidiaries to be opened and no requirement of bringing additional capital by the step down subsidiaries are the garnishing provided to make the relaxation more attractive.

¹ http://dipp.nic.in/English/acts_rules/Press_Notes/pn9_2012.pdf

² <http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=7616&Mode=0>