



Non-Banking Financial Companies



- **Company holding Certificate of Registration as NBFC issued by the Reserve Bank of India for carrying out financial activities like :**
 - Financing by way of loans, advances or otherwise;
 - Acquisition of Shares, debentures and other securities &
 - Hire purchase/lease finance etc.
- **NBFC has minimum Net Owned Fund requirement of INR 2 Cores**
 - Net Owned Fund = Owned Fund – (Investment in Loans, Debentures, bonds, shares of Subsidiaries & Companies in same Group and investment in shares of other NBFC in excess of 10% of Owned Fund)



Why NBFC ?

1. Common Investment vehicle for Group

Family investments can be made through NBFC instead of various individuals with benefits of :

- Quick investment/lending
- Better monitoring and control of investments/loans from single entity
- Reduced administrative efforts
- Economies of scale for investment related costs
- Helps/indicate sound financial management of the group investments

2. Better legal structure for lending activities

- Does not require Money lending license for taking legal action for bad loans
- Monthly Credit Score reporting of borrower by NBFC – good tool to ensure timely repayment
- Can Enforce security interest on bad loans (if asset size > Rs. 100 Cr and bad loan > Rs. 50 Lacs)
- Tax deduction for bad loans (100%) and provision for Bad loans (upto 5% of Gross Total Income)

3. Funding and Investment Flexibility

- It can borrow loan from its shareholders (max. leverage upto 7X of net worth)
- On lending side, NBFC is exempted from following provisions
 - Deemed dividend provision of Income Tax (Sec. 2(22)(e))
 - Restriction under Companies Act (Sec. 185) on loan to directors and related parties
 - Requirement of minimum interest under Companies Act (Sec. 186)

4. Status of Qualified Institutional Buyer (QIB)

- NBFC with asset size of **Rs. 500 Cr or more** is considered as **QIB** by SEBI and hence:
 - It can participate in **Qualified Institution Placement (QIP)** (if they are not promoter of issuer company) and listed Shares issued under QIP are free from lock in requirement.
 - It can apply under **QIB Quota for IPO**. In IPO (where issuer **does not satisfy** min. net worth, tangible asset, operating profit criteria) allocation to QIB is - at least 75% of offer.

5. Overseas Direct Investment

- Overseas Direct Investment into Financial Service Sector can be made only by the NBFC subject to specified condition.
- However, Overseas Direct Investment in non-financial service sector is not allowed by NBFC.

6. Business Integration

- Providing working capital finance to Customers of Business entities of the Group
- Provision of finance through Bill discounting to Vendors of Business entities of the Group

7. Income Tax Efficiency:

Individual	LLP/Firm	Company (NBFC)
TAXABILITY OF DIVIDEND INCOME		
Slab Rate (Max. Rate 35.88%)	Income \leq 1 Cr : 31.20%	Tax at 25.16%
	Income $>$ 1 Cr : 34.94%	
TAXABILITY OF INTEREST INCOME / SHORT TERM CAPITAL GAINS (NON STT PAID)		
Slab Rate (Max. Rate 42.74%)	Income \leq 1 Cr : 31.20%	Tax at 25.16%
	Income $>$ 1 Cr : 34.94%	
TAXABILITY OF LONG TERM CAPITAL GAINS		
Same basic rate but surcharge maximum possible 35%*	Same basic rate but surcharge maximum possible 12%	Same basic rate but surcharge maximum possible 12%
<p>*Long term capital gains u/s 112A (i.e. STT paid equity shares/units of Mutual Fund) or short term capital gains STT paid - surcharge for Individuals is capped @ 15%.</p> <p># Withdrawal of profit from LLP/firm is tax free, whereas withdrawal of profit from Company will be taxable as dividend (in the hands of shareholder) or buy back (taxable in the hands of Company)</p>		

NBFC – Registration Process

Process for Registration NBFC

Incorporation of new company with minimum capital of **Rs. 2 Crores.**

**Time frame:
6 to 9
months**

Deciding shareholding pattern and board to decide composition of "Group". Various details like bankers report, credit reports, financials, auditors certificates etc. are required to be submitted for group entities.

At least 1/3rd of the Board shall have relevant financial service sector experience. Various details of directors viz. KYC documents, education certificates, Banker Report, Credit Reports, Experience Letters are to be submitted to RBI

No application fees of RBI. The professional fees may range from Rs. 7.50 Lacs to 10 Lacs

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