

# Nidhi Companies – Regulatory perspective

April, 06 2020

## In brief

The name "Nidhi" in Nidhi Company means "**Treasure**".

The purpose of incorporating a Nidhi Company is to encourage savings as well as thrift amongst its members. To fulfil this objective of cultivating the habit of saving and frugality amongst its members, Nidhi companies are allowed to take a deposit from and lend to the members only. In other words, the funds contributed to a Nidhi company come only from its members (shareholders) and are to be used only by the shareholders of the Nidhi Company.

## In detail

Nidhi Companies in India are formed, governed, and regulated under Section 406 of the Companies Act, 2013, the Companies (Nidhi Companies) Rules of 2014, and the Chapter XXVI of the Companies Rules, 2014.

Nidhi Company is a certain category of NBFC. Though not directly regulated by the RBI, still RBI has powers to issue directives for them related to their deposit acceptance activities.

Moreover, because these Nidhi Companies deal with their shareholder-members only, they have been exempted from the core provisions of the RBI Act and other directions applicable to NBFCs. Therefore, Nidhi Company is an ideal legal entity to take a deposit from and lend to a specific group of people.

The central goal behind establishing a Nidhi Company is to encourage its members to save so that they can meet their financial requirements arising from time to time, smoothly. By being thrifty they become self-sufficient and would meet the future expenses that may come up and the benefit of getting a company registered as Nidhi doesn't end there. Some of them are listed below:

**Better Credibility:** Nidhi companies enjoy better credibility as opposed to any other members-based organizations like Trusts, Cooperative Societies or NGOs.

**Better Option for Savings:** The main purpose of Nidhi Company's incorporation is to encourage the

habit of saving among the members of the Company. This is how it achieves the other goal of its registration of being mutually beneficial. The Nidhi Companies are to lend and borrow money to and from its shareholders/members only.

**Easy Access of Public Funds:** The loans from the Nidhi Company come at a cheaper rate than loans from banks and other NBFCs, for its shareholders. The process of obtaining the loan and customized services are much more convenient and quicker.

**Ease of Fund:** Nidhi Company is the safest and the cheapest way of inviting deposits from the general public. You just need to take them as registered members.

**Micro Banking:** Nidhi's provide banking services to the remote and rural public of India which still is based in far-off locations and is, hence, devoid of accessing finance from national banks and NBFCs.

**Better Credit Co-operative Society:** Nidhi Company is a close substitute for credit co-operative society. Therefore, more preferred by the small financier. Once a Nidhi company has been registered, the members can avail of all the benefits of credit co-operative society.

**Single Regulatory Body:** After the Amendment in Companies Act, 2013, Nidhi Companies are governed by Nidhi Company Rules.

## Incorporation of Nidhi Company

### Requirement before Registration

1. Minimum number of shareholders or members should be 7
2. Minimum number of Directors should be 3
3. The minimum capital requirement is of Rs. 5 lakhs
4. DIN for Directors
5. No Preference Shares shall be issued
6. The objective of the company shall be cultivating the habit of saving by receiving deposits from and lending to its members only for their mutual benefits

### Requirement for Registration

1. Memorandum of Association
2. Articles of Association
3. PAN Card of subscribers
4. Id Proof of First Directors
5. Address Proof of First Directors
6. Address Proof of Registered Office (Rent Agreement/Sale Deed)
7. Latest Utility Bill of Registered Office (Electricity/Telephone/Gas)
8. NOC of Owner of Registered Office
9. Consent and Declaration from first Director in form DIR-2 and other required documents, depending on case to case basis.

### Requirements after Registration

1. By the end of the 1st year, the number of members or shareholders of the Nidhi Company must be 200 at least.
2. Net owned funds should be more than Rs. 10 lakhs.

3. The ratio for Net owned funds to Deposit should be more than 1:20.
4. Unencumbered deposits should exceed 10 % of outstanding deposits.

#### Membership

- (1) A Nidhi shall not admit a body corporate or trust as a member.
- (2) Except as otherwise permitted under these rules, every Nidhi shall ensure that its membership is not reduced to less than two hundred members at any time.
- (3) A minor shall not be admitted as a member of Nidhi. Provided that deposits may be accepted in the name of a minor, if they are made by the natural or legal guardian who is a member of Nidhi.

#### Rate of Interest

The rate of interest shall not exceed 7.5% above the highest rate of interest offered on deposits by Nidhi and shall be calculated on reducing balance method.

#### Net Owned Funds

Every Nidhi shall maintain Net Owned Funds (excluding the proceeds of any preference share capital) of not less than ten lakh rupees or such higher amount as the Central Government may specify from time to time.

#### Restrictions on Nidhi Company

- Advertise themselves to invite deposits,
- Chit funds,
- Leasing Finance,
- Hire-Purchase finances,
- Lotteries, Insurance,
- Sell, pledge or mortgage the assets kept with it as security for a loan,
- Getting into a partnership for carrying out lending and borrowing activities, etc.
- Open a current account with its members (though it is allowed to open a Savings Account),
- Lend to or take a deposit from a corporate,
- Pay commission, fee or incentive for mobilizing deposits, and other prescribed restrictions.

#### Compliances for Nidhi Company

- **NDH-1 Form:** A Nidhi Company has to submit the list of members within 90 days from the end of every financial year, in this Form.
- **NDH-2 Form:** It can request MCA for an extension in this Form, in case it has not been able to add 200 members in its first financial year.
- **NDH-3 Form:** Other than the above NDH-1 Form, a half-yearly return is also required to be filed in NDH-3 Form.
- **Annual Returns with ROC:** The Nidhi Company has to file its Annual Returns with MCA through Form MGT-7.
- **Profit & Loss Statement and Balance sheet:** The financial statements and other related documents are to be submitted, annually, in Form AOC-4.
- **Income Tax Returns:** Nidhi Company, like all other businesses, must file its Annual Income Tax Returns by 30th September of the following year.

#### Deposits

Fixed deposits	Minimum period - 6 months Maximum period - 60 months
Recurring deposits	Minimum period - 12 months Maximum period - 60 months
Recurring deposits relating to mortgage loans	Maximum period of recurring deposits shall correspond to the repayment period of such loans granted by Nidhi

- (1) The maximum balance in a savings deposit account at any given time qualifying for interest shall not exceed one lakh rupees at any point of time and the rate of interest shall not exceed two per cent. above the rate of interest payable on savings bank account

by nationalised banks.

- (2) A Nidhi may offer interest on fixed and recurring deposits at a rate not exceeding the maximum rate of interest prescribed by the Reserve Bank of India which the Non-Banking Financial Companies can pay on their public deposits.

#### Loans

- (1) A Nidhi shall provide loans only to its members.
- (2) The loans given by a Nidhi to a member shall be subject to the following limits, namely:

Amount of loans	Total amount of deposit
2 Lakhs	2 Crore
7.5 Lakhs	More than 2 Crore but less than 20 Crore
12 Lakhs	More than 20 Crore but less than 50 Crore
15 Lakhs	More than 50 Crores

- (3) A Nidhi shall give loans to its members only against the following securities, namely:-
  - a. gold, silver and jewelry (the repayment period of such loan shall not exceed one year)
  - b. immovable property:
  - c. fixed deposit receipts, National Savings Certificates, other Government Securities and insurance policies.

#### Conclusion

Nidhi Company is basically a kind of Mutual Benefit Company as it promotes the habits of saving and utilizing the funds in the future amidst its members. As everything has its own benefits and other drawbacks, Nidhi Companies are operated by the newbies due to lack of funds and also, they are not licensed by the RBI due to which people are afraid of depositing in the Nidhi company.



**Our Offices** Mumbai, Maharashtra  
Jabalpur, Madhya Pradesh (M.P)

**Contact Details** **Mob:** +91 8454 989 789  
**Email:** [info@lawgicalstartup.com](mailto:info@lawgicalstartup.com)

### ***About Lawgical Startup***

We are Mumbai based digitized platform to provide legal and secretarial services, enabling Entrepreneurs to focus on their dream projects. One of the key factor with us is our affordable rates and 24x7 assistance to Entrepreneurs. Usually people who aspire to build a startup, give up on their dream projects due to complexities involved in statutory requirements and legal side of any industry, we at Lawgical Startup make sure that you can focus on building your dream business and we handle all your legal and secretarial work. Among many other benefits, cost involved with secretarial and legal services is always a considerable factor for all types of businesses, big or small, we make sure that our services are offered at affordable rates.

We are a team of Company Secretaries and Chartered Accountants having rich experience working with startups across various industries. Our focus is to make sure that our clients never have to worry about any statutory requirements or messy paper work involved in the process.

### ***Follow us on:***



This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, Lawgical Startup, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. Without prior permission of Lawgical Startup, this publication may not be quoted in whole or in part or otherwise referred to in any documents.