NIDHI COMPANIES

Nidhi Companies have been in existence since centuries. They existed even prior to the existence of the Companies Act, 1956.

ANidhi Company, is one that belongs to the non-banking finance sector and is recognized under section 406 of theCompanies Act, 2013.Their core business is borrowing and lending money between their members. They are also known as Permanent Fund, Benefit Funds, Mutual Benefit Funds and Mutual Benefit Company. They are regulated bythe Ministry of Corporate Affairs, Government of India and are registered under the Companies Act, 2013(or any earlier enactments). Nidhis are more popular in South India and are highly localized single office institutions. They are mutual benefit societies, because their dealings are restricted only to the members; and membership is limited to individuals. The principal source of funds is the contribution from the members. The loans are given to the members at relatively reasonable rates for purposes such as house construction or repairs and are generally secured. The deposits mobilized by Nidhis are not much when compared to the organized banking sector.

Nidhi company is governed by Nidhi Rules, 2014. They are incorporated in the nature of Public Limited company and hence, they have to comply with two set of norms, one of Public limited company as per Companies Act, 2013 and another is the Nidhi Rules, 2014. No RBI approval is necessary to register the company, as RBI has specifically exempted this category of NBFC in India to comply its core provisions such as registration with RBI etc.Even though Nidhis are regulated by the provisions of the Companies Act, 2013, they are exempted from certain provisions of the Act, as applicable to other companies, due to limiting their operations within members. The exemptions are contained in the Notification F.No. 2/11/2014-CL.V dated June 5, 2015 issued by the Ministry of Corporate Affairs.

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Characteristics of a Nidhi Company

The characteristics of a Nidhi Company may be summarised below:

(1) It is allowed to transact business only with its members and with nobody else. Hence, in case a person wishes to place deposit with a Nidhi or borrow money from a Nidhi, he must first become a member(shareholder) of the Nidhi by subscribing to 10 equity shares or shares equivalent to Rs. 100.

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(2) After commencement of the Companies Act, 2013, no Nidhi shall issue preference shares.

(3) They are allowed to open branches subject to compliance with Rule 10 of the Nidhi Rules, 2014, but do not operate on a pan India basis.

(4) They are incorporated as public companies with a minimum paid up equity share capital of ₹5,00,000. check

(5) Loans may be provided only to its members and should be fully secured.

(6) A director of a Nidhi shall be a member and shall hold office for a term upto 10 consecutive years on the Board of a Nidhi.

(7) Nidhi can declare dividend not exceeding 25% and any higher amount shall be specifically approved by the Regional Director.

(8) Nidhi shall adhere to the prudential norms for revenue recognition and classification of assets in respect of mortgage loans or jewel loans as provided in Rule 20 of the Nidhi Rules, 2014.

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General restrictions or prohibitions on Nidhis (Rule 6)

No Nidhi shall-

- carry on the business of chit fund, hire purchase finance, leasing finance, insurance or acquisition of securities issued by any body corporate;
- issue preference shares, debentures or any other debt instrument by any name or in any form whatsoever;
- open any current account with its members;
- acquire another company by purchase of securities or control the composition of the Board of Directors of any other company in any manner whatsoever or enter into any arrangement for the change of its management, unless it has passed a special resolution in its general meeting and also obtained the previous approval of the Regional Director having jurisdiction over such Nidhi.
- carry on any business other than the business of borrowing or lending in its own name. Nidhis which have adhered to all the provisions of these rules may provide locker facilities on rent to its members subject to the rental income from such facilities not exceeding twenty per cent of the gross income of the Nidhi at any point of time during a financial year.
- accept deposits from or lend to any person, other than its members;
- pledge any of the assets lodged by its members as security;
- take deposits from or lend money to any body corporate;
- enter into any partnership arrangement in its borrowing or lending activities;
- issue or cause to be issued any advertisement in any form for soliciting deposit. Private circulation of the details of fixed deposit Schemes among the members of the Nidhi carrying the words "for private circulation to members only" shall not be considered to be an advertisement for soliciting deposits.
- pay any brokerage or incentive for mobilising deposits from members or for deployment of funds or for granting loans.

Benefits of incorporating a Nidhi Company

1. A Nidhi mobilises small savings, mostly of the middle class and disburses loans to eligible borrowers. Owing to their small size and closeness to the customers, disbursement of loans is speedy. This is especially useful in case the borrower is in urgent needs of funds.
2. The repayment is guaranteed, as the loans are secured and due to peer pressure, borrowers ensure that loan is repaid on due dates.
3. Nidhis offer a higher rate of interest on deposits. This makes it an attractive investment opportunity for people, especially the senior citizens.
4. The Board of Directors of a Nidhi normally consists of senior persons who have experience in handling finances and who are well respected in social circles. This lends credibility to the institution and instils confidence in the minds of borrowers and depositors.

Incorporation of a Nidhi Company

For incorporation, the normal procedure for incorporating a public company is required to be complied with, such as obtaining availability of name, filing of Memorandum and Articles of Association and other related

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documents. Care must be taken to see that the Objects Clause of the Memorandum should restrict itself to the object of cultivating the habit of thrift and savings amongst its members, receiving deposits from and lending to its members only for their mutual benefit and for other permitted purposes. The name of the company should end with the words "Nidhi Limited".

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After incorporation as a Nidhi, according to Rule 5 of the Nidhi Rules, 2014, every Nidhi shall within a period of one year from the commencement of these rules, ensure that it has

Rule 5 easy

i. not less than two hundred members;

ii. Net Owned Funds of ten lakh rupees or more;

?? iii. unencumbered term deposits of not less than ten per cent of the outstanding deposits as specified in rule 14; and

iv. ratio of Net Owned Funds to deposits of not more than 1:20.

PAYMENT BANKS

Payments banks is a new model of banks conceptualised by the Reserve Bank of India(RBI). These banks