



ALL ABOUT NIDHI COMPANY AND IT'S COMPLIANCES

- “Nidhi” or “Mutual Benefit Society” is a type of an NBFC, Nidhi in the Indian context / language means “Treasure” or “Wealth. It is referred to any mutual benefit society notified by the Central / Union Government as a Nidhi Company which are created mainly for cultivating the habit of thrift and savings amongst its members.
- The companies doing Nidhi business, viz. cultivating the habit of thrift and saving, receiving deposits from, and lending to, its members only, for their mutual benefit, are known under different names such as Nidhi, Permanent Fund, Benefit Funds, Mutual Benefit Funds and Mutual Benefit Company.
- Nidhi’s 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 its 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 Nidhi’s are not much when compared to the organized banking sector.
- Since Nidhi’s come under one class of Non-Banking Finance Companies, RBI is empowered to issue directions to them in matters relating to their deposit acceptance activities. However, in recognition of the fact that these Nidhi’s deal with their shareholder/members only, RBI has exempted the notified Nidhi’s from the core provisions of the RBI Act and other directions

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applicable to NBFCs. As on date RBI does not have any specified regulatory framework for Nidhi's.

Nidhi Company and Companies Act, 2013

Nidhi Company is a company registered under Companies Act, 2013 and notified as a Nidhi company by Central Government under Section 406 of Companies Act, 2013.

Applicability of Nidhi Rules, 2014

The Central Government made 'Nidhi Rules, 2014' for the purpose of carrying out the objectives of 'Nidhi' companies.

These rules shall be applicable to-

- Every company which had been declared as a Nidhi or Mutual Benefit Society under sub-section (1) of section 620A of the Companies Act, 1956;
- Every company functioning on the lines of a Nidhi company or Mutual Benefit Society but has either not applied for or has applied for and is awaiting notification to be a Nidhi or Mutual Benefit Society under sub-section (1) of section 620A of the Companies Act, 1956; and;
- Every company incorporated as a Nidhi pursuant to the provisions of section 406 of the Act.
- Every company declared as Nidhi or Mutual Benefit Society under sub-section (1) of section 406 of the Act.

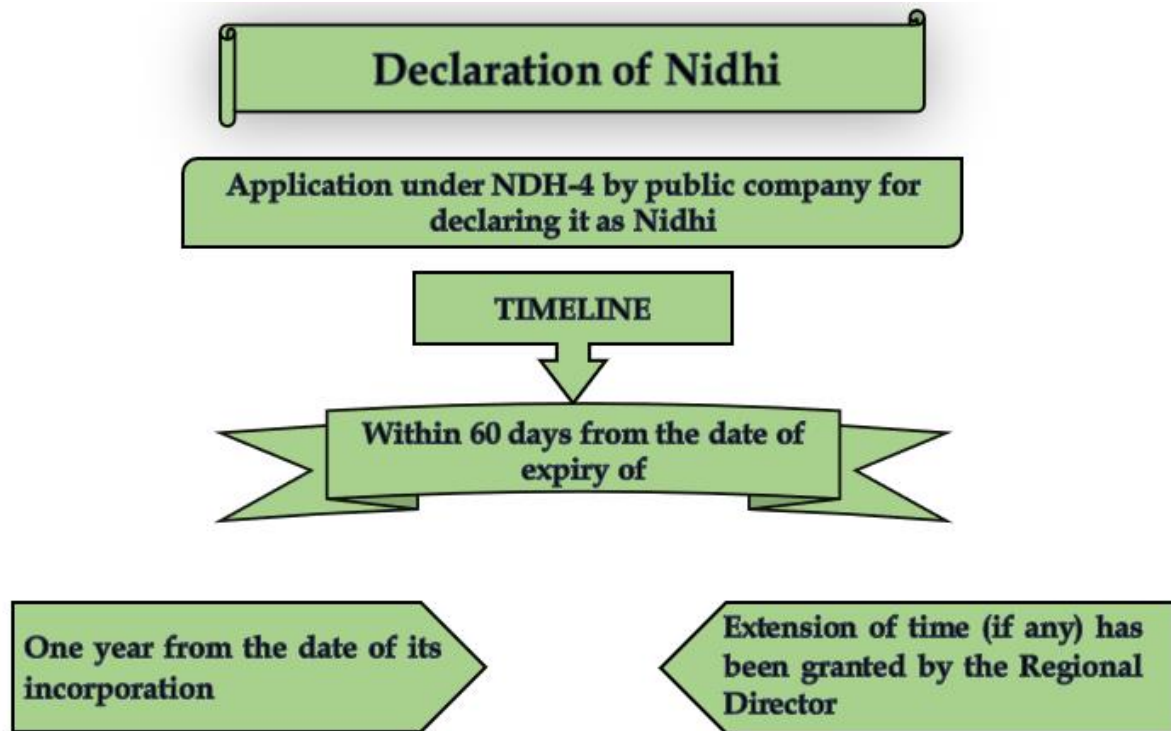
Things to be taken into consideration for the incorporation of a Nidhi Company:

A Nidhi company to be incorporated as public company	It shall have the last words "Nidhi Limited" as a part of its name	It shall have a minimum paid up Equity share capital of INR 10,00,000/- (Ten Lakh Only)	Minimum 3 Directors are required to establish the company	Minimum 7 Members: Subscribers to the MOA for inception of Nidhi, 3 of them must be the director as well	Nidhi's are not allowed to issue preference share
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Declaration of Nidhi:

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PTN: If above is not Complied by the Nidhi, it shall not be allowed to file

- *Form No. SH-7 (Notice to Registrar of any alteration of share capital) and*
- *Form PAS-3 (Return of Allotment).*

Requirement after Incorporation:

- Every Nidhi shall, within a period of one year from date of its Incorporation, ensure that it has –
 - Minimum number of members should be 200;
 - Net owned funds shall be Rs.20,00,000/- (Twenty Lakh) or more *(‘Net owned funds’ means the aggregate of paid-up equity share capital and free reserves as reduced by accumulated losses and intangible assets appearing in the last audited balance sheet);
 - Ratio of Net Owned Funds to deposit shall be not more than 1:20;
 - Unencumbered term deposits of not less than 10% of the outstanding deposits.



What are the Restrictions/Prohibition on Nidhi?

a. To carry on the business of:

- Chit Fund,
- Hire Purchase Finance,
- Leasing Finance,
- Insurance or Acquisition of Securities issued by anybody corporate;

b. To issue

- Preference Shares;
- Debentures or;
- Any other Debt Instrument by any name or in any form whatsoever.

c. To open any Current Account with its members;

d. To acquire or purchase securities of any other company;

e. To control the composition of the Board of Directors of any other company;

f. To carry on any business other than the business of borrowing or lending in its own name.

PTN: Nidhi may provide locker facilities on rent to its members subject to the rental income from such facilities not exceeding 20% of the gross income of the Nidhi at any point of time during a financial year while adhering the required provisions as applicable.

g. To accept deposits from or lend to any person, other than its members;

h. To pledge any of the assets lodged by its members as security;

i. To take deposits from or lend money to any Body corporate;

j. To enter into any partnership arrangement in its borrowing or lending activities;

k. To issue or cause to be issued any advertisement in any form for soliciting deposit;

l. To pay any brokerage or incentive for mobilising deposits from members or for deployment of funds or for granting loans;

m. To raise loans from banks or financial institutions or any other source for the purpose of advancing loans to members of Nidhi

- Nidhi cannot issue fully paid Equity shares of Nominal value less than Rs.10 (Ten) Each;
- No service charge shall be levied for issue of shares;
- Every Nidhi shall allot to each deposit holder at least minimum of Ten equity shares or shares equivalent to Rs.100 (One hundred);
- A savings account holder and a recurring deposit account holder shall hold at least 1 (One) Equity share of Rs. 10 (Ten).

Facts to grasp for Share Capital and Allotment in Nidhi Company



Who can be the Member of Nidhi?

- a. A body corporate or trust could not become the member of Nidhi;
- b. Every Nidhi must ensure that its membership is not reduced to less than 200 (Two hundred) members at any time during its operation;
- c. A Minor shall not be admitted as a member of Nidhi.

PTN: 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.

Acceptance of deposits:

- A Nidhi shall not accept deposits exceeding 20 times of its Net Owned Assets as per last audited financial statements.

Acceptance of Deposit (Periodicity)		
Type of Deposit	Minimum	Maximum
Fixed Deposits	6 months	60 months
Recurring deposits	12 months	60 months

- In case of recurring deposits relating to mortgage loans, the maximum period of recurring deposits shall correspond to the repayment period of such loans granted by Nidhi.
- The maximum balance in a savings deposit account at any given time qualifying for interest shall not exceed Rs.1,00,000/- and the interest shall not exceed 2% above the rate of interest payable to savings bank account by nationalized banks.

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Perfection at Your Service

- Interest for fixed and recurring deposits shall be at a rate not exceeding the maximum rate of interest prescribed by the Reserve bank of India which the NBFC can pay on their public deposits.
- Every Nidhi shall have to invest and continue to keep invested, in unencumbered term deposits with a scheduled commercial bank or post office deposits in its own name an amount which shall not be less than 10% of the deposits outstanding at the close of the business on the last working day of the second preceding month.
- In case of unforeseen commitments, temporary withdrawal may be permitted with the prior approval of the Regional Director by making application in Form NDH-2 for the purpose of repayment to depositors, subject to such conditions and time limit which may be specified by the Regional Director to ensure restoration of the prescribed limit of 10%

Loan:

A Nidhi shall provide loans only to its members.

The loans given to a member shall be subject to the following limits:		
S.No.	Total amount of Deposits from Members	Limit of Loan (in Rs.)
1.	Rs. 2 crores	2,00,000/-
2.	Rs. 2 crores but less than Rs.20 crores	7,50,000/-
3.	More than Rs. 20 crores but less than Rs. 50 crores	12,00,000/-
4.	Rs. 50 crores	15,00,000/-

NOTE: A Nidhi shall give loans to its members only against the following securities, namely: —

- Loans to the members shall be given against the securities of gold, silver and jewellery and immovable property.
- Repayment period of such loan shall not exceed 1 year in case of gold, silver and jewellery.
- In case of immovable property, the loan shall not exceed 50% of the value of the property offered as security and the period of repayment of such loan shall not exceed 7 years.
- Loan may be given against the fixed deposit receipts, National Savings Certificates and other Government securities and insurance policies.

Provided that such securities duly discharged shall be pledged with Nidhi and the maturity date of such securities shall not fall beyond the loan period or one year whichever is earlier:

Provided further that in the case of loan against fixed deposits, the period of loan shall not exceed the unexpired period of the fixed deposits.

Every Nidhi shall adhere to the prudential norms for revenue recognition and classification of assets in respect of mortgage loans or jewel loans.

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

Directors:

- (1) The Director shall be a member of Nidhi.
- (2) The Director of a Nidhi shall hold office for a term up to ten consecutive years on the Board of Nidhi.
- (3) The Director shall be eligible for re-appointment only after the expiration of two years of ceasing to be a Director.
- (4) Where the tenure of any Director in any case had already been extended by the Central Government, it shall terminate on expiry of such extended tenure.
- (5) The person to be appointed as a Director shall comply with the requirements of sub-section (4) of section 152 of the Act and shall not have been disqualified from appointment as provided in section 164 of the Act.

Dividend:

A Nidhi shall not declare dividend exceeding 25 % in a financial year.

Auditor:

- The tenure of Individual Auditor shall be 1 term of 5 consecutive years.
- The tenure of Auditor Firm shall be 2 terms of 5 consecutive years.
- There should be Cooling period of 2 years for subsequent appointment after the expiration of the term of appointment of the Auditor.
- Every year Auditor of the company shall furnish a compliance certificate to the effect that the company has complied with all the provision contained in the rules applicable to the company and such certificates shall be annexed to the audit report, any non-compliance to be mentioned specifically in the certificate.

Branches:

- If Nidhi has earned net profits after tax continuously during the preceding 3 financial years, only than it may open branches.
- Maximum 3 Branches are allowed within the district.
- The company may open up to 3 branches only within the district.
- If it proposes to open more than 3 branches within the district or any branch outside the district, it shall obtain prior permission of the Regional Director by applying in Form NDH-2 and intimation is to be given to the Registrar about opening of every branch within 30 days of such opening.

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Restriction on Opening of Branch:

No Nidhi shall be allowed to open branch or whatever name called:

- Outside the State where its registered office is situated.
- If financial statement and annual return are not filed with the Registrar.

Closure of Branch:

A Nidhi shall not close any branch unless:

- It publishes an advertisement (NDH-5) in a newspaper in vernacular language at the place where it carries on business at least 30 days prior to such closure.
- Fixes a copy of such advertisement or a notice informing such closure of the branch on the notice board of Nidhi as well as the relevant Branch for a period of at least 30 days from the date on which advertisement was published.
- It should give intimation to the Registrar in NDH-2 within 30 days of such closure.

◆ **Form NDH-1:** Within 90 days from the closure of the first financial year after its incorporation and where applicable, the second financial year, Nidhi shall file a **return of statutory compliances in Form NDH-1** with the Registrar duly certified by a Company Secretary in practice or a Chartered Accountant in practice or a Cost Accountant in practice.

◆ **Form NDH-3:** Within 30 days from the conclusion of each half year, a half yearly return to be filed with Registrar, duly certified by a company secretary in practice or chartered accountant in practice or cost accountant in practice.

Returns to be filed by every Nidhi Company

◆ **Form NDH-2:** If the company is not complying with the above it shall **within 30 days** from the close of the first financial year, apply for extension to the Regional Director in Form NDH -2 along with fee.

The Regional Director may consider the application and pass orders within 30 days of the receipt of the application.

Maximum Extension to be granted by the ROC, upto 1 year.

No acceptance of further Deposits in case of non-compliance with the provisions, from the commencement of the second financial year till it complies with the provisions besides being liable for penal consequences provided in the Act.



Power to enforce compliance:

- The **Registrar of Companies** may call for such information or returns from Nidhi as he deems necessary and may engage the services of Chartered Accountants, Company Secretaries in practice, Cost Accountants or any firm thereof from time to time for assisting him in the discharge of his duties.
- The **Central Government** may appoint a **Special Officer** to take over the management of Nidhi in case the Nidhi has violated Nidhi rules, 2014 or has failed to function in terms of the Memorandum and Articles of Association.
- The Special Officer shall function as per the guidelines given by Central Government.

PTN: An opportunity of being heard shall be given to the concerned Nidhi by the Central Government before appointing any Special Officer.