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What is Nidhi Company?

NIDHI stands for National Initiative for Developing and Harnessing Innovations. It is a non-banking investment corporation performing the business of lending and investing with its members.

Nidhi as the Hindi word denotes "sampatti" is a type of public company which may be incorporated under Section 406 of the Companies Act, 2013, with an exclusive object of cultivating the habit of thrift and savings amongst its members, deposits from, and lending to, its members only, for their mutual benefit.

Although the activities of a Nidhi company is similar to that of a non-banking financial company, as to accepting deposits and granting loans, however, they have been exempted from the purview of the RBI Act, 1934 by virtue of the RBI Master Direction- Exemptions from the provisions of RBI Act, 1934.

Requirements for Nidhi Company at the time of incorporation

- A Nidhi company to be incorporated under this Act shall be a Public Company;
- Minimum 7 Shareholders
- Minimum 3 Directors
- It shall have a minimum paid up equity share capital of 5,00,000/-;
- No preference shares shall be issued.
- The object of the company shall be cultivating the habit of thrift and savings amongst its members, receiving deposits from and lending to its members only for their mutual benefits;
- It shall have the words 'Nidhi Limited' as part of its name;

Requirement after Incorporation:

Every Nidhi shall, within a period of one year from Incorporation, ensure that it has—

- Minimum number of members should be 200;
- Net owned funds shall be Rs.10,00,000/- or more (Note: Net Owned Funds= aggregate of paid up equity share capital + free reserves – 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 deposits must exceed 10 percent of the outstanding deposits.

General Restrictions on Nidhi Company

No Nidhi shall carry on the business of:

- Chit Fund,
- Hire Purchase Finance,
- Leasing Finance,

- Insurance or Acquisition of Securities issued by anybody 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 Nidhi;
- Carry on any business other than the business of borrowing or lending in its own name;
- 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 anybody 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;
- Pay any brokerage or incentive for mobilizing deposits from members or for deployment of funds or the granting loans.

Membership

- A Nidhi shall not submit a body corporate or trust as a member.
- Except as otherwise permitted under these rules, every Nidhi shall ensure that its membership is not reduced to less than 200 members at any time.
- A minor shall not be admitted as a member of Nidhi.
- But 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.

Share capital and allotment

- Rule 7 provides that every Nidhi shall issue equity shares of the nominal value of not less than Rs.10/- each.
- Every Nidhi shall allot to each deposit holder at least a minimum of 10 equity shares or shares equivalent to Rs.100/-.

Acceptance of deposits:

The Nidhi company shall be allowed to accept deposits with the following timelines:

- Fixed deposits- 6 to 60 months
- Recurring deposits- 12-60 months
- Recurring deposits relating to mortgage loans- Maximum period shall correspond to the repayment period of loans granted.

Interest rate on deposits

- Savings Account- Maximum 2% above the rate allowed by nationalized banks. The maximum balance in a savings deposit account at any given time qualifying for interest shall not exceed Rs.1,00,000/-
- Fixed and Recurring deposits- At par with the RBI rate

Loan to members:

A Nidhi shall provide loans only to its members. The loans given to a member shall be subject to the following limits:

- 2,00,000/- where the total amount of deposits from members is less than Rs.2 crores;

- 7,50,000/- where the total amount of deposits from its members more than Rs.2 crores but less than Rs.20 crores;
- 12,00,000/- where the total amount of deposits from its members is more than Rs.25 crores but less than Rs.50 crores;
- 15,00,000/- where the total amount of deposits from its members is more than Rs.50 crores.

Security against loan: 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 one 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.

Interest rates of loans

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

Dividend:

- A Nidhi shall not declare dividend exceeding 25% or Such higher amount as may be specifically approved by the Regional Director for reasons to be recorded in writing and further subject to the following conditions-
- An equal amount is transferred to General Reserve;
- There has been no default in repayment of matured deposits and interest; and
- It has completed with all the rules as applicable to Nidhis.

Director:

- The director shall be a MEMBER of Nidhi.
- He shall hold office for a term up to 10 consecutive years on the Board.
- He shall be eligible for re-appointment only after the expiration of 2 years ceasing to be a director.
- 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.
- The person to be appointed as a Director shall comply with the requirements of Section 152(4) of the Act and shall not have been disqualified as provided in Section 164 of the Act.

Auditor:

- The tenure of Auditor is five consecutive years.
- No auditor or audit firm as auditor shall be appointed for more than two terms of five consecutive years.
- The auditor shall be eligible for subsequent appointment after the expiration of two years from the completion of his term.
- The Auditor of the company shall furnish a Certificate every year to the effect that the company has complied with all the provision contained in the rules and such certificates shall be annexed to the audit report and in case of non-compliance he shall specifically state the rules which have not been complied with.

Branches:

- A Nidhi may open branches only if it has earned net profits after tax continuously during the preceding three financial years.

- 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 and intimation is to be given to the Registrar about opening of every branch within 30 days of such opening.
- No Nidhi shall open branches or collection centers or offices or deposit centers, or by whatever name called outside the State where its registered office is situated.
- Further branches or collection centers or offices or deposit centers shall be opened unless financial statement and annual return are filed with the Registrar.

Close of Branch:

- A Nidhi shall not close any branch unless:
- It publishes an advertisement in a newspaper in vernacular language in the place where it carries on business at least 30 days prior to such closure.
- Informing the public about such closure; fixes a copy of such advertisement or a notice informing such closure of the branch on the notice board of Nidhi for a period of at least 30 days from the date on which advertisement was published and
- Gives intimation to the Registrar within 30 days of such closure.

Compliances to be made by Nidhi companies

Nidhi companies shall be required to do the following compliances:

NDH-1-Filing of list of members in E-Form NDH-1– Within 90 days of the close of first F.Y. and where applicable, the second F.Y.

NDH-2-If in case the company is not able to meet the target of 200 members in the first financial year, then it can request the MCA (Ministry of Corporate Affairs) for granting an extension in this Form. Filing of non-compliance with the conditions mentioned w.r.t incorporation of a Nidhi company such as minimum no. of members, Net Owned Funds etc. in e-Form NDH-2– **Within 30 days of the close of first F.Y.**

NDH-3-Filing of half-yearly return –giving business structure of in e-Form NDH-3– Within 30 days of the conclusion of each half year.

NDH-4- is required to be filed pursuant to section 406 of Companies Act, 2013 3A, 23A and 23B of Nidhi Rules, 2014 as application for declaration as Nidhi Company.

Every company which is incorporated on or after 28th April 2014 needs to file Form NDH-4 for declaration of status of Nidhi Company –within 60 days from the expiry of one year from incorporation or extended validity obtained by filing NDH-2 & every company which is incorporated before 28th April 2014 needs to file Form NDH-4 for updation of status by Nidhi Company (i) within 1 year from the date of incorporation or ii) Within a period of 9 months from the date of commencement of these rules.

DOCUMENTS REQUIRED FOR INCORPORATION:

- Copy of KYC, Address Proof, of 7 Subscribers including 3 Directors including passport if any
- E mail, Contact, Qualification, Profession of Subscribers
- Address Proof- Company
- Photos of Subscribers

FEW THINGS TO BE TAKEN INTO ACCOUNT

- No, a person who has earlier defaulted in a loan from Nidhi Company cannot borrow again from the Nidhi.
- No, Nidhi Company is not qualified to issue unsecured loans. However, it can issue Secured Loans to its shareholders or members.
- No, a Nidhi Company is not allowed to operate outside the state in which it is registered.
- No, the profits earned from a Nidhi Company cannot be invested in any other business.
- No, only an NBFC after the approval from RBI can start Micro Finance Business in India.
- No, a Nidhi Company cannot purchase securities and shares from any other organisation.
- No, a Nidhi Company is not allowed to open a Current Bank Account with its shareholders or members.

APPLICATION FOR DECLARATION AS NIDHI COMPANY

Ministry of Corporate Affairs has issued a note of caution to investors looking to invest or investing their hard earned money in Nidhi Companies saying that they should verify the status of a Nidhi company before becoming a member and investing in such companies.

Under the amended Companies Act 2013 and the Nidhi Rules 2014, companies need to get themselves updated (those companies which were earlier declared as Nidhi company under the Companies Act 1956) or declared as Nidhi company (those companies which were incorporated as Nidhi company after April 1, 2014) by applying to the MCA in form NDH-4

Every company which is incorporated on or after 28th April 2014 needs to file Form NDH-4 for ***DECLARATION OF STATUS OF NIDHI COMPANY*** –within 60 days from the expiry of one year from incorporation or extended validity obtained by filing NDH-2 AND;

APPLICATION FOR UPDATION OF STATUS BY NIDHI- every company which is incorporated before 28th April 2014 needs to file Form NDH-4 for updation of status by Nidhi Company (i) within 1 year from the date of incorporation or ii) Within a period of 9 months from the date of commencement of these rules.

Consequences of Non Filing of Form NDH-4

In case a company does not File Form NDH-4, 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 Allotrnent).

Information Required to file Form NDH-4

1) Net Owned Fund of the company as on date of application/ updation of status,

2) Total No. of members as on date of application/ updation of status

3) Deposits Outstanding

4) Unencumbered term deposits

5) No of Branches

Thank You
CS Neha Sarpal
Sr. Executive, Blueair India (Unilever Group)