Nidhi Company

- **This is complete summary of study material for Nidhi companies chapter. I have included all of the questions from Past years, RTP and MTP (Including May 21 RTP) I advise you not to spend too much time on this chapter. Max 3 /Nil marks were expected from this chapter.**

- "Nidhi" means a company which has been incorporated as a Nidhi with the object of

  1. **Cultivating habit of thrift** and **saving** among its members
  2. Receiving **deposits and lending** to its **members only**

Examples of Nidhi Companies just your knowledge: SREE TEJA BENEFIT FUND LIMITED, DHANACHAKRA PERMANENT FUND (INDIA) LIMITED.(Google these companies only to memorize concept better)

- Nidhi companies allowed to do few activities and there is a specific restriction on other activities. Accordingly, this chapter summarized into 3 categories

1. Prohibitions
2. Requirements
3. Others

Prohibitions

- Nidhi company **should not** carry Lease, Hire purchase and Insurance.
- It **cannot operate Current account** with members
- It can issue **only fully paid equity shares** of having nominal value INR 10. Cannot issue Debentures and Preference shares
- Object of Nidhi company should only to cultivate the habit of savings and not any other object.
- **Exception:** Nidhi companies are allowed to provide **locker facility** to its members. Rental income from locker facility should **not exceed 20% of its to gross income** at any point during the financial year.
- **Example:** Sunshine Benefit Fund Limited, incorporated as a Nidhi Company under the Companies Act, 2013. The Board of Directors have decided to provide Locker Facilities on rent to its members and have estimated that rental income from such letting would be around 25% of the gross income of the company. Examine the validity of the given case? (**Study Material Question)**

Answer/Clue: Locker rent income restricted only to 20%. So it should not be 25%. Company is violating Nidhi Rules.

- Nidhi company **should not** have any subsidiary
- **Minor/Body corporate cannot be a member** of Nidhi Company
- Maximum **dividend** they can declare is **25%**. With prior approval of Regional director, they can increase beyond 25%.Before declaring dividend, It should **transfer equal amount to GR**, Comply with Nidhi Rules and no default in any repayments.
- pledge any of the assets lodged by its members only as security.
- **Should not pay any brokerage or incentive** for mobilizing deposits from members or for deployment of funds or for granting loans
- Issue or cause to be issued any advertisement in any form for soliciting deposit (Exception: Advertisement containing "for private circulation to members only" shall not be considered as advertisement.

Requirements

- It should be **incorporated only as public company** and should have minimum **paid up equity share capital of INR 5 lakhs**
- Object in MOA is only to cultivate the habit of savings and deposit and lending service among members.
- At the time of incorporation/Within one year from the date of incorporation of Nidhi company should ensure the following:
- **Minimum number of members 200**
- **unencumbered term deposits** (Means free of debt and no liability) should not be less than 10% of outstanding deposits
- Net owned funds of 10 Lakh rupees or more
- **Net Owned Fund to Deposit Ratio 1:20**

Others

- Nidhi company can acquire another Nidhi co by **passing a special resolution** and with prior approval of regional director.
- Director should also be a member . Director of Nidhi can hold a **continues term of 10 years.** Post that there will be **cooling off period of 2 years.**
- Director shall comply with Sec 152(4) (Furnish DIN to the company he was appointed) and shall not be disqualified under sec 164 (Related to disqualification of directors) of the act.
- Nidhi company can appoint Individual as Auditor for one consecutive term of 5 Years and for Firm 2 consecutive terms of 5 years.

  Cooling off period is 2 years.
- Max interest can be charged on loans/Advances is 7.5% above highest interest rate offered on deposit. Interest charged will be calculated on reducing balance method.
- **File NDH-1 within 90 days** from close of financial year with a prescribed fee and it should be **certified by CA/CS/CWA** in practice.

Form number	When need to file
NDH-1	Comply with Nidhi rules.Need to file within 90 days from end of FY
NDH-2	Extension of time beyond one year to comply with Rules related to number of members and Ratio of net owned funds to deposits
NDH-3	Half yearly return filed with registrar with 30 days closing one half year certified by CA/CS/CMA
NDH-4	Application to declare as Nidhi company and to update the status of the company

- **NDH-4: If Nidhi company incorporated before commencement of this act, Application to declare the same as Nidhi company must be given to the CG within 1 year from the date of incorporation or within 6 months of enforcement of Rules whichever is earlier in form NDH-4.. If Nidhi company incorporated after commencement of this act, then application shall be made with in 60 days from date of expiry of one year from date of incorporation**.
- If company does not comply with rules related NDH-4, Company is not allowed to file Form No. SH-7 (Notice to Registrar of any alteration of share capital) and Form PAS-3 (Return of Allotment) (May 20 Amendment)

Previous year Questions

- **M/s Kashi Mutual Benefits Nidhi Ltd. is incorporated as a Nidhi Company under the Companies Act, 2013. The Board of Directors of the company seeks your advice on the following issues as per the provisions of the Companies Act, 2013 read with rules. Advise.**

(i) **The Board of Directors is planning to issue preference shares.**

(ii) **The Board of Directors have decided to provide Locker Facilities on rent to its members and have estimated that rental income from such letting will be around 30 of the gross income of the company.**

(iii) **The Board of Directors of the company is planning to declare dividend for the current year at 45%.**

iv) The Board of Directors of the company have decided to appoint Mr. Prince (a minor) as a member of the company.

- Answer/Clue:(i)Nidhi company cannot issue Preference shares(ii) Nidhi companies can provide locker facilities. Income from such business should not cross 20% of total income.(iii) Max dividend allowed is 25%. Higher dividend needs RD approval.(iv) Minor cannot be member of Nidhi

- **Akri Nidhi Limited proposes (May 2019-Old)**

(i) **To reappoint Mr. X, a Director who has completed a term of 10 consecutive year as a**

Director of the Nidhi.

(ii) **To pay dividend at the rate of 45%.**

- Answer/Clue: (i) Director can serve a continuous term of only 10 Years. He can be appointed only after a cooling off period of 2 years.(ii) Max dividend allowed is 25%. Higher dividend needs RD approval.

MCQ:

- Best Nidhi Limited has been incorporated on 01/04/2020as a Nidhi Company under section 406 of the Companies Act, 2013 with 250 members. Its main object is to accept deposits from members and lend loans to members for the mutual benefit of the members. It also provides locker facilities to members. For FY 2020-2021, the income of the company (before deducting any expense) was Rs.40,00,000. Expenses incurred during the year amounted to Rs.10,00,000. Calculate the maximum amount of rental income that could have been earned during the FY 2020-2021by the company.(MTP-May21)

(a) Rs.10,00,000 (b) Rs.7,50,000 (c) Rs.8,00,000 (d) Rs.6,00,000

Answer: Maximum rental income allowed is 20% of INR 40,00,000