

NIDHI COMPANY

Nidhi Companies in India are created for cultivating the habit of thrift and savings amongst its members. It is a company classified as an NBFC (a Non-banking financing company) and registered under Section 406 of Companies Act, 2013. Nidhi companies are allowed to borrow from its members and lend to its members. Therefore, the funds contributed to a Nidhi company are only from its members (shareholders). The main business of such a company is to facilitate lending money between the core members of the company. This way members (or shareholders) are encouraged to save money and invest them within the company. These deposits are then used by the company for its members (or shareholders), to provide loans or advances, and to acquire government-issued stocks/bonds/debentures/securities. It is regulated by the Ministry of Corporate Affairs, while the RBI monitors all its financial dealings.

❖ **Why Nidhi Company?**

A Nidhi company offers following benefits to its members.

▪ **Low Cost Borrowing**

Rate of interest on loans to members are relatively cheaper compared to Banks. This comes handy particularly in times of need.

▪ **Promotes Savings**

It encourages all its members to save money and encourages a thrifty lifestyle. A Nidhi Company, after all, is a mutual benefit society wherein members can lend or borrow money and accept financial aid amongst them.

▪ **Fewer Compliances**

Since borrowing and deposits are among members only, compliance requirements are lower compared to mainstream banking.

❖ **Word of Caution**

A Nidhi company is special form of business entity specifically designed to promote savings among the members. As such, it is restricted from operating many activities that other entities can normally engage in. A Nidhi company cannot deal in the following –

- Chit fund business
- Hire purchase finance
- Acquisition/insurance of securities issued by any corporate
- Engaging as an NBFC in the business of advances or loans
- Leasing finance
- Acquisition of stocks/shares /bonds/securities/debentures issued by any local authority /Govt./marketable securities

❖ Checklist

1. At least seven members are mandatory to form a Nidhi company. Out of these, three should be designated as the directors.
2. Within one year of commencement, no of members should not be less than 200.
3. Minimum paid up share capital of Rs.5 lakhs for registering as a Nidhi Company subject to the condition that within a year of registration the Net Owned Fund (NOF) should be increased to Rs. 10 Lakhs.
4. At least 10% of its outstanding deposits should comprise of un-encumbered term deposits.
5. Net Owned Fund to Deposits ratio should be 1:20.
6. In case Nidhi Company fails to meet conditions 2 to 5 within a year of commencement, the Company may within thirty days from the close of the first financial year, apply to the Regional Director in Form NDH-2 for extension of time.
7. If even after the second financial year the Nidhi Company is not able to meet the requirements for a Nidhi Company, then the Nidhi Company shall not accept any further deposits from the commencement of the second financial year till it complies with the provisions for operating as a Nidhi Company and be liable for penal consequences.

❖ Incorporation Process

1. Firstly, a limited liability company should be incorporated with minimum 7 shareholders and 3 directors.(Refer company formation in Private Limited company)
2. In Memorandum of Association, objects clause must state that the object of the company is to cultivate the habit of thrift and savings amongst its members, receiving deposits from, and lending to, its members only, for their mutual benefit.
3. Within a year of formation, following conditions must be satisfied:-
 - No of members is not less than 200
 - Net Owned Fund is not less than 10 Lakhs
 - At least 10% of its outstanding deposits should comprise of un-encumbered term deposits.
 - Net Owned Fund to Deposits ratio should be 1:20.
4. A Nidhi company is exempted from taking registration from RBI and are generally outside the regulatory framework of RBI. However, RBI can issue directions to Nidhi Company

❖ Documents Required

- **Following Documents require from Members/Directors**
 - ✓ Copy of PAN Card
 - ✓ Passport size photograph
 - ✓ Copy of Aadhaar Card

✓ Bank Statement/Electricity Bill/Telephone Bill

▪ **Proof of Registered office**

- ✓ Copy of Rent agreement of office premises executed on the name of Company.(If rented property)
- ✓ Copy of latest Electricity/Water/Gas/Telephone bill of registered office
- ✓ NOC from Landlord that he has no objection for using his premises as the registered office of Company.

❖ **Expected Delivery Time – 10-24 Days**

