

# NIDHI Companies

March 18, 2020

**Source: PIB**

In order to make regulatory regime for Nidhi Companies more effective and also to accomplish the objectives of transparency & investor friendliness in the corporate environment of the country, the **Central Government has recently amended the provisions related to NIDHI under the Companies Act and the Rules**

## **Impact**

The amended provisions of the Companies Act (Section 406) and Nidhi rules (as amended w.e.f. 15.08.2019) require that the **Nidhi companies have to apply to the Central government for updation of their status/ declaration as Nidhi Company** in Form NDH-4.

## **What are NIDHI Companies?**

- **Under Nidhi Rules, 2014, Nidhi is a company which has been incorporated as a Nidhi with the object of cultivating the habit of thrift and saving amongst its members, receiving deposits from, and lending to, its members only, for their mutual benefit.**
- The companies doing Nidhi business, viz. borrowing from members and lending to members only, are **known under different names such as Nidhi, Permanent Fund, Benefit Funds, Mutual Benefit Funds and Mutual Benefit Company.**
- 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.

- **Nidhis are also included in the definition of Non-Banking Financial companies or (NBFCs) which operate mainly in the unorganized money market. However, since 1997, NBFCs have been brought increasingly under the regulatory ambit of the Indian Central Bank, RBI.**

## **RBI and NIDHI**

- Since Nidhis come under one class of NBFCs, RBI is empowered to issue directions to them in matters relating to their deposit acceptance activities.
- However, in recognition of the fact that these Nidhis deal with their shareholder-members only, RBI has **exempted the notified Nidhis from the core provisions of the RBI Act** and other directions applicable to NBFCs.