

REGULATORY ANALYSIS OF NOF NORMS AND NPA CLASSIFICATION FRAMEWORK FOR NBFCs

Revised Net Owned Funds (NOF) Requirements for NBFCs

Pursuant to **Paragraph 6** of Chapter III of the SBR Master Directions, and exercising the powers conferred upon it, RBI has revised the NOF requirements for various categories of NBFCs to commence or continue business operations. The revised NOF requirements are as follows:

- ₹10 Crore for **NBFC-ICC** (Infrastructure Capital Companies), **NBFC-MFI** (Microfinance Institutions), and **NBFC-Factor** (Factoring Companies).
- ₹2 Crore for **NBFC-P2P** (Peer-to-Peer Lending), **NBFC-AA** (Account Aggregators), and NBFCs not availing public funds and not having any customer interface.
- ₹300 Crore for **NBFC-IFC** (Investment and Finance Companies) and **IDF-NBFC** (Infrastructure Debt Fund NBFCs).

It is crucial to note that NBFC's which currently hold a Certificate of Registration from the RBI and have a NOF below the prescribed ₹10 Crore threshold are required to increase their NOF within the following timelines:

NBFC Category	Current NOF	By March 31, 2025	By March 31, 2027
NBFC-ICC	₹2 Crore	<u>₹5 Crore</u>	₹10 Crore
NBFC-MFI	₹5 Crore (₹2 Crore for NE Region)	<u>₹7 Crore (₹5 Crore for NE Region)</u>	₹10 Crore
NBFC-Factor	₹5 Crore	<u>₹7 Crore</u>	₹10 Crore

Consequences for NBFCs Failing to Meet NOF Requirements: The RBI views the NOF requirements as a crucial measure to ensure that NBFCs maintain adequate capital buffers, remain solvent, and continue to operate in a financially sound manner. Non-compliance with these requirements can prompt a range of actions from the RBI, ranging from warnings and penalties to more severe measures such as suspension of licenses or winding up of operations.

Revised NPA Classification Norms and Transition Period under SBR Master Directions, 2023

An integral provision of the SBR Master Directions pertains to the revised classification of NPA for NBFCs. Under the updated framework, the overdue period for all categories of NBFCs has been standardized, with a uniform threshold of more than 90 days for the classification of an asset as non-performing.

This marks a shift from previous norms, requiring stricter adherence to mitigate risk and improve asset quality. NBFCs must now comply with the revised classification timelines. Additionally, a transition period has been granted for Base Layer NBFCs to align with the new requirement as outlined below:

NPA Overdue Period	Transition Timeline
> 120 days overdue	By March 31, 2025
> 90 days overdue	By March 31, 2026

In light of the above guidelines, it is imperative that you take immediate steps to augment your Net Owned Funds (NOF) and ensure the appropriate classification of NPAs within the specified timelines.

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