

# *An Analysis on the "Incorporation & Operation of Nidhi Company"*

**navneet k. arora & co.**  
COMPANY SECRETARIES

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# Proprietor 's Profile at a Glance

## Navneet K. Arora & Co., Company Secretaries

### BASIC DETAILS

- ✂ Name of the Proprietor – **CS Navneet Arora**
- ✂ Year of Passing of ICSI Final Examination – **June 1990**
- ✂ Date of becoming Associate Member of ICSI (ACS - 8421) – **3<sup>rd</sup> March 1992**
- ✂ Date of becoming Fellow Member of ICSI (FCS - 3214) – **21<sup>st</sup> July 1997**
- ✂ Date of holding Certificate of Practice (CP - 3005) – **20<sup>th</sup> November 1998**
- ✂ Experience (No. of Years) – **25 Years (15 Years in Practice)**



### EDUCATIONAL QUALIFICATION:

- ✂ Master of Commerce.
- ✂ Fellow Member of The Institute of Company Secretaries of India
- ✂ Post Graduate Diploma in Financial Management

### PROFESSIONAL ASSOCIATION / RECOGNITION / MEMBERSHIP OF CONFEDERATION BODIES:

- ✂ Member - **All India Management Association New Delhi (AIMA).**
- ✂ Professional Member - **PHD Chamber of Commerce and Industries, New Delhi.**
- ✂ Appointed as **Peer Reviewer** by ICSI to conduct peer review of Practicing Member of ICSI.
- ✂ ICSI Certified participant of **National Workshop on Diligence Report for Banks.**
- ✂ **Convener South Delhi Study Group of NIRC of the ICSI** -2011, 2012, 2013 & 2014. Also Past Governing Body Member of Kanpur Chapter of NIRC of the ICSI & Past Member of various Professional Development Committee of NIRC of the ICSI.
- ✂ Regular Participant, Speaker of Seminars / Workshop on the Professional Development Program of various Professional Management Institutes including Institute of Company Secretaries of India (ICSI), Asia Pacific Institute of Management (AIM), National Foundation for Corporate Governance (NFCG) etc.

# *An Overview of the Nidhi Company*

- Nidhi in the Indian context means treasure. However, in the Indian financial sector it refers to any mutual benefit society notified by the Central / Union Government as a Nidhi Company. They are created mainly for cultivating the habit of thrift and savings amongst its members.
- The Companies doing Nidhi business, viz. borrowing from members and lending to members only, are known under as Nidhi Company,
- Nidhi Company are formed only for the benefit of its members only, on outsider i.e. who is not the members of the Nidhi Company are not allowed to deposit any money or doing any kind of business with the concerned Nidhi Company.
- **Section 406 of Companies Act 2013 and Nidhi Rule 2014 governed the law and procedure for Nidhi Company.**

# ***Nidhi Company – Companies Act 2013***

- **Extract of the relevant provisions prescribed in Section 406 of the Companies Act, 2013 as under:-**
  - Nidhi means a Company which has been incorporated as a Nidhi with the object of cultivating the habit of thrift and savings amongst its members, receiving deposits from, and lending to, its members only, for their mutual benefit, and which complies with such rules as are prescribed by the Central Government for regulation of such class of companies.
  - Every Company which had been declared as a Nidhi Company or Mutual Benefit Society under sub-section (1) of section 620A of the Companies Act, 1956
  - Every company functioning on the lines of a Nidhi Company or Mutual Benefit Society but has either not applied for or has applied for and is awaiting notification to be a Nidhi Company or Mutual Benefit Society under sub-section (1) of section 620A of the Companies Act, 1956
- Every Company incorporated as a Nidhi Company pursuant to the provisions of section 406 of the Act.

# ***Incorporation of Nidhi Company***

- **Relevant Rules / Procedure in the Nidhi Rules, 2014 as under:-**
  - A Nidhi Company to be incorporated under the Act shall be a **public company** and shall have a minimum **paid up equity share capital of five lakh rupees**.
  - On and after the commencement of the Act, no Nidhi Company shall issue preference shares.
  - Except as provided under the proviso to sub-rule (e) to rule 6, no Nidhi Company shall have any object in its Memorandum of Association other than the object of cultivating the habit of thrift and savings amongst its members, receiving deposits from, and lending to, its members only, for their mutual benefit.
  - Every Company incorporated as a Nidhi shall have the last words 'Nidhi Limited' as part of its name.

# *Members and Net Owned Fund*

- **Relevant Rules in the Nidhi Rules, 2014 as under :-**
  - Every Nidhi Company shall, within a period of one year from the commencement of these rules, ensure that it has :-
    - (a) Not less than **two hundred members**
    - (b) Net Owned Funds of **ten lakh rupees or more**
    - (c) Unencumbered term deposits of **not less than ten%** Of the outstanding deposits as specified in rule 14
  - AND
  - (d) Ratio of Net Owned Funds to deposits of **not more than 1:20**
- A Nidhi Company shall not admit a body corporate or trust as a member.
- Except as otherwise permitted under these rules, every Nidhi Company shall ensure that its membership is not reduced to less than two hundred members at any time.
- A minor shall not be admitted as a member of Nidhi Company.

# *Branches*

- **Relevant Rules in the Nidhi Rules, 2014 as under:-**
  - A Nidhi may open branches, only if it has earned net profits after tax continuously during the preceding three financial years. Nidhi may open up to three branches within the district.
  - No Nidhi shall open branches or collection centres or offices or deposit centres, or by whatever name called outside the State where its registered office is situated.
  - 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 thirty days prior to such closure, informing the public about such closure;
    - Gives an intimation to the Registrar within thirty days of such closure.

# *Deposits*

- **Relevant Rules in Nidhi Rules, 2014 as under:-**
  - The fixed deposits shall be accepted for a minimum period of six months and a maximum period of sixty months.
  - Recurring deposits shall be accepted for a minimum period of twelve months and a maximum period of sixty months.
  - The maximum balance in a savings deposit account at any given time qualifying for interest shall not exceed one lakh rupees at any point of time and the rate of interest shall not exceed two per cent. above the rate of interest payable on savings bank account by nationalised banks.
  - A Nidhi may offer interest on fixed and recurring deposits at a rate not exceeding the maximum rate of interest prescribed by the Reserve Bank of India which the Non-Banking Financial Companies can pay on their public deposits.



# ***Loans & Directors***

- **Relevant rules in the Nidhi Rules, 2014 as under:-**
- **Loans**
  - A Nidhi shall provide loans only to its members.
  - For the purposes of sub-rule (2), the amount of deposits shall be calculated on the basis of the last audited annual financial statements.
  - A Nidhi shall give loans to its members only against the following securities, namely :-
    - gold, silver and jewellery
    - immovable property
    - fixed deposit receipts, National Savings Certificates, other Government Securities and insurance policies
- **Directors**
  - The Director shall be a member of Nidhi.
  - The Director of a Nidhi shall hold office for a term up to ten consecutive years on the Board of Nidhi.
  - The Director shall be eligible for re-appointment only after the expiration of two years of ceasing to be a Director.
  - The person to be appointed as a Director shall comply with the requirements of sub-section (4) of section 152 of the Act and shall not have been disqualified from appointment as provided in section 164 of the Act.

# ***Dividend & Auditor***

- **Relevant rules in the Nidhi Rules, 2014 as under:-**
- **Dividend**
  - A Nidhi Company shall not declare dividend exceeding twenty five per cent. 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, namely:-
    - (a) an equal amount is transferred to General Reserve
    - (b) there has been no default in repayment of matured deposits and interest and
    - (c) it has complied with all the rules as applicable to Nidhis.
- **Auditor**
  - No Nidhi Company shall appoint or re-appoint an individual as auditor for more than one term of five consecutive years.
  - No Nidhi Company shall appoint or re-appoint an audit firm as auditor for more than two terms of five consecutive years;
  - Provided that an auditor (whether an individual or an audit firm) shall be eligible for subsequent appointment after the expiration of two years from the completion of his or its term.

# Others

- **Relevant rules in the Nidhi Rules, 2014 as under:-**
  - **Filing of half yearly return** :- Every company covered under rule 2 shall file half yearly return with the Registrar in Form **NDH-3** within thirty days from the conclusion of each half year duly certified by a company secretary in practice or chartered accountant in practice or cost accountant in practice.
  - **Auditor's certificate** :- The Auditor of the company shall furnish a certificate every year to the effect that the company has complied with all the provisions contained in the rules and such certificate 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.
  - **Power to enforce compliance** :- For the purposes of enforcing compliance with these rules, the Registrar of companies may call for such information or returns from Nidhi as he deems necessary and may engage the services of chartered accountants, company secretaries in practice, cost accountants, or any firm thereof from time to time for assisting him in the discharge of his duties.

# *Acceptance of deposits by Nidhis*

- **Relevant rules in the Nidhi Rules, 2014 as under:-**
  - A Nidhi shall not accept deposits exceeding twenty times of its Net Owned Funds (NOF) as per its last audited financial statements.
  - The companies which are covered under the Table in sub-rule (2) above shall not accept fresh deposits or renew existing deposits if such acceptance or renewal leads to violation of the prescribed ratio.
  - The ratio specified in sub-rule (2) above shall also apply to incremental deposits.

## *Form to be filed*

- ❖ **NDH -1** :- Return of Statutory Compliances.
- ❖ **NDH -2** :- Apply to the Regional Director for extension of time
- ❖ **NDH -3** :- Half yearly return with the Registrar

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*Thanking you*

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