

How to Start an NBFC in India: Legal and Financial Aspects

Starting a Non-Banking Financial Company (NBFC) in India can be a great business opportunity, especially with the growing demand for credit and financial services. Unlike banks, NBFCs do not hold banking licenses but still offer loans, asset financing, investment services, and more.



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However, setting up an NBFC requires proper licensing, compliance with RBI regulations, and a strong financial foundation. In this blog, we'll guide you through the legal and financial aspects of starting an NBFC in India, covering essential topics like NBFC account aggregator license, [how to get an NBFC license in India](#), PPI license RBI, and NBFC takeover procedure RBI.

Step 1: Understand the Different Types of NBFCs

Before starting, you must decide which type of NBFC you want to establish. Some common types include:

- Asset Finance Company (AFC) – Provides loans for equipment, vehicles, or machinery.
- Loan Company (LC) – Offers various types of loans like personal, business, and vehicle loans.
- Investment Company (IC) – Engages in investment activities such as stocks and bonds.
- NBFC Account Aggregator – Collects and shares financial data between financial institutions after customer consent.
- NBFC-P2P Lending – Operates peer-to-peer lending platforms.

Choosing the right category depends on your business goals and regulatory requirements.

Step 2: How to Get an NBFC License in India

To operate legally, every NBFC must be registered with the Reserve Bank of India (RBI). Here's the step-by-step process:

1. Register Your Company

First, you need to register a Private Limited Company or a Public Limited Company under the Companies Act, 2013.

2. Meet the Minimum Capital Requirement

- A minimum net-owned fund (NOF) of ₹2 crore is required (except for certain categories like Microfinance NBFCs).
- The capital must be deposited in a bank and must not be used until RBI grants the NBFC license.

3. Prepare the Necessary Documents

You need to submit the following documents to RBI:

- ✓ Incorporation Certificate of the company
- ✓ Memorandum of Association (MoA) and Articles of Association (AoA)
- ✓ Detailed business plan for five years
- ✓ Net-worth certificate of directors and company
- ✓ Banker's report and income proof
- ✓ Board resolution approving the formation of an NBFC

4. Apply for the NBFC License

- Submit an online application through the RBI COSMOS portal.
- After submitting the application, send the physical documents to the RBI regional office.
- RBI will verify the details, and if everything is in order, the NBFC license will be granted.

Step 3: Additional Licenses You May Need

NBFC Account Aggregator License

If you plan to offer financial data aggregation services, you need an [NBFC Account Aggregator \(AA\) license from RBI](#). This license allows you to collect and share customers' financial information with their consent.

PPI License RBI (Prepaid Payment Instruments License)

For NBFCs looking to offer digital wallets, prepaid cards, or mobile payments, obtaining a [PPI license from RBI](#) is necessary. This helps in providing smooth digital transactions for customers.

Step 4: NBFC Takeover Procedure RBI

If you wish to take over an existing NBFC, you must follow [RBI's NBFC takeover approval process](#):

1. Sign a Memorandum of Understanding (MoU) between the buyer and seller.
2. Conduct Due Diligence to check financial records, compliance, and legal matters.

3. Apply to RBI for approval by submitting a takeover request with the necessary documents.
4. Receive RBI's permission before making any changes in management or control.
5. Complete the transfer of ownership, ensuring compliance with RBI guidelines.

This process ensures transparency and prevents financial fraud in NBFC takeovers.

Step 5: Compliance and Financial Management

After getting the license, your NBFC must comply with RBI regulations, including:

- Maintaining the minimum net-owned fund (NOF).
- Submitting regular financial reports to RBI.
- Following fair lending practices to avoid fraud.
- Conducting KYC (Know Your Customer) and AML (Anti-Money Laundering) checks.
- Maintaining a proper debt recovery mechanism to manage NPAs (Non-Performing Assets).

Good financial management, risk assessment, and compliance with RBI guidelines will help in the long-term success of your NBFC.

Conclusion

Starting an NBFC in India requires careful planning, legal compliance, and financial readiness. Whether you are applying for a fresh NBFC license, an NBFC account aggregator license, a PPI license RBI, or going through the NBFC takeover procedure RBI, following the correct steps ensures smooth approval.

If you're ready to start your own NBFC, consult a financial expert or legal advisor to make the process hassle-free. A well-managed NBFC can be a game-changer in India's financial sector! 🚀