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RBI | Declaration of dividend by NBFCs

Declaration of dividends by banks is governed by RBI circular dated 4 May 2005 and subject to conditions mentioned therein. However, unlike banks, there were no guidelines in place for distribution of dividend by non-banking financial companies (NBFCs.) Keeping in view the increasing significance of NBFCs in the financial system and their interlinkages with different segments RBI has now notified regulations as regards the dividends declared by NBFCs. All housing finance companies (HFCs) must adhere to National Housing Bank's (NHB) regulations for declaration of dividends.

Summary of RBI regulations

- The guidelines will be applicable to the declaration of dividends from the profits of FY ended 31 March 2022 and onwards.

- While considering the proposals for dividend, Board of Directors (BOD) of NBFC must take into account:

  a. Supervisory findings of RBI (& of NHB for HFCs) on divergence in classification and provisioning for Non-Performing Assets (NPAs);
  b. Qualifications in the Auditors' Report to the financial statements; and
  c. Long-term growth plans of NBFC.

- Minimum prudential requirements for dividend declaration: NBFCs must meet the capital adequacy requirement for each of the last 3 financial years (FY) including the FY for which the dividend is proposed.

Standalone Primary Dealers (SPD) must have maintained CRAR of minimum 20% for all 4 quarters of FY for which dividend is proposed. Also the net NPAs should be less than 6% in each of the last 3 years (including the FY, for which dividend is proposed.) The concerned NBFC/HFC should be free from explicit restrictions placed by RBI regarding dividend declaration.

- Quantum of dividend:

Type of NBFC	Maximum dividend payout ratio (%)
NBFCs that do not accept public funds and do not have any customer interface	No ceiling specified
Core Investment Company	60%
Standalone Primary Dealers	60%
Other NBFCs	50%

Proposed dividend shall include both, dividend on equity shares and compulsorily convertible preference shares eligible for inclusion in Tier 1 Capital. The manner of calculation of net profit is given in the guidelines.

In case an NBFC fails to comply with the prudential guidelines, maximum dividend payout will be 10% and the same for SPD would be 33.33%, subject to other NPA conditions.

Weblink https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NBFCS2A8A6D0DFCD346B7BA78285EE25759A6.PDF

Therefore

Considering the increasing significance of NBFCs in financial sector, RBI has placed certain prudential guidelines on NBFCs while declaring dividends. The cap of 50% (which is also currently applicable to dividends declared by banks for the FY 2020-21) will ensure greater financial prudence and help conserve capital.