



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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Draft Circular

All Non-Banking Financial Companies (NBFCs)

Madam / Dear Sir,

Declaration of Dividend by NBFCs

In order to infuse greater transparency and uniformity in practice, it has been decided to prescribe guidelines on distribution of dividend by NBFCs. NBFCs may declare dividend, subject to compliance with the guidelines laid down below:

2. Eligibility criteria for declaration of dividend

Only those NBFCs, which comply with the following minimum prudential requirements, would be eligible to declare dividend:

i) Capital Adequacy and Leverage: NBFCs should comply with the prescribed minimum capital adequacy and leverage ratio as under:

- a) **Deposit taking Non-Banking Financial Company (NBFC-D) and Systemically Important Non-Deposit taking Non-Banking Financial Company (NBFC-ND-SI)** should have CRAR of at least 15% for last 3 years, including the accounting year for which it proposes to declare dividend.
- b) **Non-Systemically Important Non-Deposit taking Non-Banking Financial Company (NBFC-ND)** should have leverage ratio of less than 7 for the last 3 years, including the accounting year for which it proposes to declare dividend.
- c) **Core Investment Company (CIC)** should have Adjusted Net Worth (ANW) of at least 30% of its aggregate risk weighted assets on balance sheet and risk adjusted value of off-balance sheet items for last 3 years, including the accounting year for which it proposes to declare dividend.

ii) Non-Performing Assets (NPA)

- d) The net NPA ratio should be less than 6% in each of the last three years, including the accounting year for which it proposes to declare dividend.

iii) Other Criteria

- e) NBFCs should comply with the provisions of Section 45 IC of the RBI Act, 1934.
- f) NBFCs should comply with the prevailing regulations/ guideline issued by RBI.

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- g) The proposed dividend should be payable only out of the current year's profit.
- h) The Reserve Bank should not have placed any explicit restrictions on the NBFC on declaration of dividend.

However, if the CRAR/ leverage/ ANW norms are not met (as provided at a, b & c above) in the previous two years, the applicable NBFCs¹/ CICs would be eligible to pay dividend as per category D of the matrix ([Annex 1](#) & [Annex 2](#)), provided, they have achieved minimum regulatory CRAR/ leverage/ ANW norms and their net NPA is less than 4% in the accounting year for which they propose to declare dividend.

3. Quantum of dividend payable

NBFCs, which fulfil the eligibility criteria set out at paragraph 2 above, may declare and pay dividend, subject to the following:

- a) The Dividend pay-out ratio for NBFC-D and NBFC-ND-SI shall be as per the matrix furnished at [Annex 1](#).
- b) The dividend pay-out ratio for CIC shall be as per the matrix furnished at [Annex 2](#).
- c) In case the profit for the relevant period includes any extra-ordinary profits/ income, the pay-out ratio shall be computed after excluding such extra-ordinary items.
- d) The financial statements pertaining to the year for which the NBFC is declaring dividend should be free of any qualifications by the auditors, which have an adverse bearing on the profit during that year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend pay-out ratio.
- e) In case, subject to meeting the minimum regulatory requirement, an NBFC has different CRAR and CIC has different ANW in the last three years, dividend pay-out will be determined based on the lowest CRAR/ ANW.
- f) Dividend pay-out ratio shall be calculated as a percentage of 'dividend payable in a year' to 'net profit during the year'.

The above-mentioned matrix is not applicable to NBFC-ND² and Type I NBFCs³. While NBFC-ND may declare dividend subject to a ceiling of 50% on the dividend pay-out ratio, as per the Board approved policy, Type I NBFC shall not be subject to any ceiling on the dividend pay-out.

¹ Applicable NBFCs as defined in Paragraph 2 (2) of [Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company \(Reserve Bank\) Directions, 2016](#) and Paragraph 2 (2) of [Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company \(Reserve Bank\) Directions, 2016](#).

² "Non-Systemically important non-deposit taking non-banking financial company" as defined in Paragraph 2 (1)(i) of [Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company \(Reserve Bank\) Directions, 2016](#).

³ Type 1 NBFC-ND as defined in [RBI press release dated June 17, 2016](#).



4. Board Oversight

A copy of these guidelines may be placed before the Board of the NBFC at its next meeting. The Board should take into account the interests of all stakeholders and the following aspects while deciding on the proposals for declaring dividend:

- the supervisory findings of the Reserve Bank with regard to divergence in identification of NPAs and shortfall in provisioning,
- the auditors' qualifications pertaining to the statement of accounts, and
- the NBFC's long term growth plans.

5. Reporting System

NBFC-D, NBFC-ND-SI & CICs declaring dividend should report details of dividend declared during the accounting year as per the proforma prescribed in [Annex 3](#). The report should be furnished within a fortnight after declaration of dividend to the Regional Office of the Department of Supervision of the Bank, under whose jurisdiction it is registered.

6. Directions specific to Standalone Primary Dealers (SPDs)

SPDs pay dividend as per instructions contained in paragraph 30 of the [Master Direction - Standalone Primary Dealers \(Reserve Bank\) Directions, 2016](#). On a review, it has been decided that for SPDs having CRAR at 20 per cent or above during all the four quarters of the accounting year in which dividend is proposed, the dividend pay-out ratio shall not exceed 60 per cent. The Reserve Bank will not entertain any request for ad-hoc dispensation on declaration of dividend from SPDs.

7. Applicability

The above guidelines will be applicable for dividend to be declared for the financial year beginning April 01, 2020 (FY 2020-21) onwards.

8. The [Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company \(Reserve Bank\) Directions, 2016](#), the [Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company \(Reserve Bank\) Directions, 2016](#) the [Core Investment Companies \(Reserve Bank\) Directions, 2016](#) and [Master Direction - Standalone Primary Dealers \(Reserve Bank\) Directions, 2016](#) have been suitably updated.

Yours faithfully,

(Manoranjan Mishra)

Chief General Manager



Matrix of Criteria for Maximum Permissible Range of Dividend Payout Ratio

Category	CRAR	Net NPA Ratio			
		Zero	More than Zero but less than 2%	From 2 % to less than 4%	From 4 % to less than 6 %
		Range of Dividend Payout Ratio			
A	20% or more for each of the last 3 years*	Up to 50	Up to 45	Up to 35	Up to 25
B	18% to less than 20% for each of the last 3 years*	Up to 45	Up to 40	Up to 30	Up to 20
C	15% to less than 18% for each of the last 3 years*	Up to 40	Up to 35	Up to 25	Up to 15
D	15% or more in the accounting year for which dividend is to be declared	Up to 15		Up to 10	Nil

*** including the accounting year for which it proposes to declare dividend**

Illustrations

NBFC	CRAR (%)			Net NPA ratio (%) as on March 31, 2020	Category	Maximum dividend pay-out ratio (%) for which the NBFC would qualify
	2019-20	2018-19	2017-18			
U	25	24	23	6.2	-	No Dividend
V	21	19	24	2.3	B	Up to 30
W	19	20	21	3.8	B	Up to 30
X	21	15	18	5.8	C	Up to 15
Y	15	14	16	3.2	D	Up to 10
Z	21	22	24	1.6	A	Up to 45



ANNEX 2

Matrix of Criteria for Maximum Permissible Range of Dividend Payout Ratio for CICs

Category	ANW to RWA	Net NPA Ratio			
		Zero	More than Zero but less than 2%	From 2 % to less than 4%	From 4 % to less than 6 %
		Range of Dividend Payout Ratio			
A	40% or more for each of the last 3 years*	Up to 50	Up to 45	Up to 35	Up to 25
B	35% to less than 40% for each of the last 3 years*	Up to 45	Up to 40	Up to 30	Up to 20
C	30 % to less than 35% for each of the last 3 years*	Up to 40	Up to 35	Up to 25	Up to 15
D	30 % or more only in the accounting year for which dividend is to be declared	Up to 15		Up to 10	Nil

*** including the accounting year for which it proposes to declare dividend**



Annex 3

Reporting format for NBFCs declaring dividend

Details of dividend declared during the financial year

Name of the NBFC – _____

Accounting period *	Net profit for the accounting period (₹ in crore)	Rate of dividend	Amount of dividend (₹ in Crore)	Dividend Pay out ratio

* quarter or half year or year ended ----- as the case may be