MEHTA & MEHTA
Company Secretaries

Prompt Corrective Action (PCA) Framework for Non-Banking Financial Companies (NBFCs)

RBI has issued the revised PCA on 14th December 2021 for NBFCs. This was introduced to enable Supervisory intervention at appropriate time and require the Supervised Entity to initiate and implement remedial measures in a timely manner, so as to restore its financial health. It is placed to further strengthen the supervisory tools applicable to NBFCs.

Applicability:

a. All Deposit Taking NBFCs [Excluding Government Companies] (NBFCs-D)

b. All Non-Deposit Taking NBFCs in Middle, Upper and Top Layers (NBFCs-ND);

[Including Investment and Credit Companies, Core Investment Companies (CICs), Infrastructure Debt Funds, Infrastructure Finance Companies, Micro Finance Institutions and Factors]; but

[Excluding – (i) NBFCs not accepting/not intending to accept public funds; (ii) Government Companies, (iii) Primary Dealers and (iv) Housing Finance Companies

Effective Date:

It comes into effect from October 1, 2022, based on the financial position of NBFCs on or after March 31, 2022

Key Areas for monitoring:

Type	Key Areas
NBFCs-D and NBFCs-ND	Capital and Asset Quality
CICs	Capital, Leverage and Asset Quality

Following thresholds have been introduced for NBFCs, breach of which would lead to invocation of PCA.

For NBFCs-D and NBFCs-ND (excluding CICs):

Indicator	Risk Threshold-1	Risk Threshold-2	Risk Threshold-3
CRAR	Upto 300 bps below the regulatory minimum CRAR [currently, CRAR <15% but ≥12%]	More than 300 bps but upto 600 bps below regulatory minimum CRAR [currently, CRAR <12% but ≥9%]	More than 600 bps below regulatory minimum CRAR [currently, CRAR <9%]

Tier I Capital Ratio	Upto 200 bps below the regulatory minimum Tier I Capital Ratio [currently, Tier I Capital Ratio <10% but ≥8%]	More than 200 bps but upto 400 bps below the regulatory minimum Tier I Capital Ratio [currently, Tier I Capital Ratio <8% but ≥6%]	More than 400 bps below the regulatory minimum Tier I Capital Ratio [currently, Tier I Capital Ratio <6%]
NNPA Ratio (including NPIs)	>6% but ≤ 9%	>9% but ≤12%	>12%

For CICs:

Indicator	**Risk Threshold-1**	**Risk Threshold-2**	**Risk Threshold-3**
Adjusted Net Worth / Aggregate Risk Weighted Assets	Upto 600 bps below the regulatory minimum ANW/RWA [currently, ANW/RWA <30% but ≥24%]	More than 600 bps but upto 1200bps below regulatory minimum ANW/RWA [currently, ANW/RWA <24% but ≥18%]	More than 1200 bps below regulatory minimum ANW/RWA [currently, ANW/RWA <18%]
Leverage Ratio	≥2.5 times but <3 times	≥ 3 times but <3.5 times	≥3.5 times
NNPA Ratio (including NPIs)	>6% but ≤ 9%	>9% but ≤12%	>12%

Exit from PCA and Withdrawal of Restrictions under PCA:

Post invocation of PCA on NBFC, exit from PCA will be considered if:

a) if no breaches in risk thresholds in any of the parameters are observed as per four continuous quarterly financial statements, one of which should be Annual Audited Financial Statement (subject to assessment by RBI); and

b) based on Supervisory comfort of the RBI, including an assessment on sustainability of profitability of the NBFC.

Menu for corrective actions:

RBI has specified corrective actions for NBFCs in two categories: Mandatory and Discretionary. These menus are divided as per the risk thresholds.

Mandatory Action are:

Mandatory Actions	Applicability to Risk Thresholds
• Restriction on dividend distribution/remittance of profits; • Promoters/shareholders to infuse equity and reduction in leverage; • Restriction on issue of guarantees or taking on other contingent liabilities on behalf of group companies (only for CICs)	Risk Threshold 1
• Restriction on dividend distribution/remittance of profits; • Promoters/shareholders to infuse equity and reduction in leverage; • Restriction on issue of guarantees or taking on other contingent liabilities on behalf of group companies (only for CICs) • Restriction on branch expansion	Risk Threshold 2
• Restriction on dividend distribution/remittance of profits; • Promoters/shareholders to infuse equity and reduction in leverage; • Restriction on issue of guarantees or taking on other contingent liabilities on behalf of group companies (only for CICs) • Restriction on branch expansion • Appropriate restrictions on capital expenditure, other than for technological upgradation within Board approved limits • Restrictions/reduction in variable operating costs	Risk Threshold 3

Discretionary actions include various other actions based on

- Special Supervisory Actions
- Strategy related Actions
- Governance related Actions
- Capital related Actions
- Credit risk related Actions
- Market risk related Actions
- HR related Actions
- Profitability related Actions
- Operations/Business related Actions
- Any other.