Companies Act ,2013 – Section 406

Section 406 of the Companies Act, 2013, deals specifically with the **power of the Central Government to modify the Act's application to Nidhi Companies** (also known as Mutual Benefit Societies). Nidhi companies are a specific type of Non-Banking Financial Company (NBFC) operating for the mutual benefit of their members.

Key Provisions of Section 406

- **Definition of "Nidhi":** A "Nidhi" is a public company focused on encouraging savings among its members, receiving deposits from and lending only to its members for their mutual benefit.
- **Government's Power to Modify:** The Central Government can issue notifications to exclude or modify specific provisions of the Companies Act, 2013, for Nidhis.
- **Parliamentary Oversight:** Draft notifications must be presented before each House of Parliament for thirty days for review.
- **Regulation via Rules:** Nidhi Companies are primarily governed by the *Nidhi Rules, 2014*, established under the authority of this section.

Operational Aspects of Nidhi Companies

Nidhi Companies operate under regulations to maintain their mutual-benefit focus and limit systemic risk.

- **Membership:** Membership is restricted to individuals; companies and trusts are not allowed. A Nidhi must have at least 200 members within a year of incorporation.
- **Capital & Funds:** They need a minimum Net Owned Fund (NOF) of ₹10 lakh and an NOF to deposit ratio of no more than 1:20.
- **Restrictions:** Nidhis are prohibited from engaging in activities like chit funds, hire purchase, leasing, insurance, or acquiring securities of other companies. They also cannot advertise for public deposits.
- **RBI Exemption:** Due to their member-only transactions, Nidhis are exempt from extensive RBI registration and compliance.
- **Filings:** Key forms include NDH-1, NDH-2, NDH-3, and NDH-4. Section 406 establishes the legal basis for Nidhi Companies and their distinct regulatory framework within Indian corporate law.