

RBI moots ₹1 trn asset threshold for NBFC upper layer

Opens door for inclusion of state-owned NBFCs

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The Reserve Bank of India (RBI) has proposed an overhaul of how “upper layer (UL)” non-banking financial companies (NBFCs) are classified, suggesting a shift to size as the defining criterion.

Although there’s no mention of any specific company-related issue, the draft proposal on upper layer NBFCs comes against the backdrop of a momentum building up for stock exchange listing of Tata Sons, the holding company of the salt-to-software conglomerate. In 2022, the RBI had mandated upper layer NBFCs, including Tata Sons, to list within three years. The deadline for listing expired in September 2025.

Under the draft proposal issued on Friday, NBFCs with assets of ₹1 trillion or more, based on their latest audited balance sheet, would be designated as “upper layer” entities.

The central bank has also proposed bringing state-backed NBFCs into this category if they meet the threshold. At present, such entities sit in the base or middle layers and are excluded from the upper tier.

According to the RBI’s proposal, once designated as NBFC-UL, an entity would remain subject to enhanced regulatory requirements for at least five years, even if it falls short of the threshold in subsequent years. Exit from the stricter regime, in other words, would require failing to meet the classification criteria for five consecutive years.

Comments on the draft directions have been invited from NBFCs, the public and other stakeholders until May 4.

At present, 15 NBFCs occupy the upper layer, a number likely to rise if state-owned entities are added. The current list includes Bajaj Finance, Shriram Finance, L&T Finance, Tata Capital, LIC Housing Finance, Cholamandalam Investment & Finance, Mahindra & Mahindra Financial Services, Aditya Birla Finance, Piramal Capital & Housing Finance, Muthoot Finance, HDB Financial Services, Sammaan Capital, Bajaj Housing Finance, PNB Housing Finance and Tata Sons.

“Inclusion of Tata Sons in the list of NBFC-UL is without prejudice to the outcome of its application for de-registration,



New entrants?

■ NBFCs having over ₹1 trn assets but not part of the upper layer under scale-based regulation for 2024-25:

- Power Finance Corporation (₹11.2 trn)
- REC (₹5.7 trn)
- Bajaj Finserv (₹4.8 trn)
- IRFC (₹4.6 trn)

- Cholamandalam Financial Holdings (₹2.01 trn)
- Jio Financial Services (₹1.2 trn)
- Housing & Urban Development Corporation (₹1.2 trn)

Overview

- There are 15 upper-layer NBFCs on the 2024-25 list; they include deposit-taking housing finance companies (HFCs), non-deposit-taking HFCs, deposit-taking NBFC-investment and credit companies (ICCs), and non-deposit taking NBFC-ICCs
- Tata Sons, with ₹6.64 trn in assets, is the only core investment company on the list
- NBFCs below ₹1 trillion assets but on the 2024-25 list are PNB Housing Finance (₹79,172.74 crore), Piramal Finance (₹72,752.71 crore, standalone), and Sammaan Capital (₹64,548.09 crore)

which is under examination,” the RBI had said when it published the list in January 2025. This followed Tata Sons’ request for an exemption from listing after it became net debt-free.

The existing scale-based regulatory (SBR) framework identifies upper-layer NBFCs through a scoring model combining quantitative and qualitative parameters, weighted at 70 per cent and 30 per cent respectively. “With a view to adopt transparent, simple and absolute criteria for identification of NBFC-UL, it is proposed to replace the existing methodology with an asset size criterion, which is currently proposed as ₹1 trillion and above,” the RBI said.

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The proposed inclusion of government-owned NBFCs reflects what the central bank describes as an ownership-neutral regulatory approach. "In pursuance of the principle of ownership-neutral regulatory regime for NBFCs, it is now proposed to consider eligible government-owned NBFCs also for inclusion in the list of NBFC-UL based on the revised criteria," it said. The draft also allows all upper-layer NBFCs to use state government guarantees as a credit risk transfer instrument without limit.

A M Karthik, senior vice-president and co-group head for financial sector ratings at ICRA, said the shift to a size-based threshold brings clarity. "Further inclusion of government-owned entities, based on their size, indicates a more harmonised way of identifying NBFC-ULs. Based on the existing position, the number of NBFC-ULs would go up vis-à-vis 15 entities identified previously," he said. Some current upper-layer NBFCs fall short of the proposed ₹1 trillion threshold. However, under the RBI's framework, entities once classified as NBFC-UL remain under enhanced regulation for at least five years, regardless of subsequent changes in

size. As a result, those already in the category are likely to remain there for now.

"It does not materially change anything. The framework is essentially a governance measure, and rightly so. Being classified as an upper-layer NBFC did not offer any real operational advantage; it primarily required entities to adhere to higher standards such as maintaining additional capital, listing requirements, and appointing key roles like chief compliance and risk officers. These are, in any case, good governance practices," said the MD & CEO of an upper-layer NBFC.

"The change may be more relevant for companies that were previously unlisted, as it could ease the compulsory listing requirement for some of them. Beyond that, the impact appears limited," he said. He added that a key question is what happens to NBFCs currently classified in the upper layer but below the ₹1 trillion threshold. While there is no clarity yet, under the earlier framework, even if an NBFC moved out of the upper layer, it was required to continue complying with upper-layer norms for a few years. There is little reason to expect that principle to be diluted, he said.

Another industry insider described the move as a simplification rather than a substantive shift. "Earlier, the RBI had a mix of quantitative and qualitative criteria and created a scorecard. Now, the reading is that they have simplified the whole thing and said size is what is more important. So, ₹1 trillion and above becomes the threshold, and every five years they will revisit that number.

Entities that were likely to become upper layer at lower thresholds will no longer qualify. However, for those already classified as upper layer, the earlier framework stated that once an entity enters the upper layer, it continues to remain there for five years even if it does not meet the criteria subsequently. The current draft does not explicitly revoke that clause, so the assumption is that it may continue. This means existing upper-layer entities may remain, and the overall number could increase with the inclusion of some state-backed NBFCs," he said.

The industry insider added that uncertainty persists around entities such as Tata Sons, structurally distinct as a core investment company, despite its earlier inclusion in the upper layer.