

Core Investment Company

(Understanding, Structure, and Regulatory Framework)

Introduction

A Core Investment Company (CIC) is a special type of Non-Banking Financial Company (NBFC) that is primarily engaged in the business of acquiring shares and securities. Unlike traditional NBFCs, CICs do not engage in lending or accepting public deposits but play a strategic role in holding and managing group investments.

Recognized under the regulatory framework of the Reserve Bank of India (RBI) in India and similar frameworks elsewhere, CICs serve as investment arms of corporate groups and conglomerates, helping in capital allocation and financial control.

Structure

Investments by families and family offices are usually routed through Investment Companies, where the family first invests in the equity shares or other instruments of the Investment Company; in some cases, each branch of the family may establish and invest in its own promoted Investment Company. In turn, these investment Companies either individually or as a group, subsequently invest in the main operating company or companies.

There are several advantages of this structure. The primary being that inter-se squabbles of family members (an increasingly common issue which is affecting all family-owned businesses) does not affect the main operating company. The other being the ability to raise more resources in a centralised manner, promoting rational investment, and of course the succession planning.

The tax planning is not the reason, as the taxation of dividend income under the present regime is almost neutral between holding equity shares directly in an operating company or through an Investment Company. However, there could be some capital gain tax advantage of direct holding shares in a listed operating company as compared to holding them through Investment Companies.

Such Investment Companies would be in the nature of Core Investment Companies (CICs). Accordingly, regulatory requirements prescribed by the Reserve Bank of India (RBI) would apply to specific classes of CICs.

What is Core Investment Company?

Any Non-Banking Financial Company (NBFC) carrying on the business of acquisition of shares & securities and which satisfies the following condition as on the date of the last audited Balance sheet:

- (i) It holds not less than 90% of its net assets in the form of investment in equity shares, preference shares, bonds, debentures, debts, or loans in group companies;

- (ii) Its investment in equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies and units of Infrastructure Investment Trusts (IITs) only as sponsor constitutes not less than 60% of its net assets;
- (iii) Provided that the exposure of such CICs towards IITs shall be limited to their holdings as sponsors and shall not, at any point in time, exceed the minimum holding of units and tenor prescribed in this regard by SEBI (Infrastructure Investment Trusts) Regulations, 2014, as amended from time to time. It does not trade in its investments in shares, bonds, debentures, debts, or loans in group companies except through block sale for the purpose of dilution or disinvestment;
- (iv) It does not carry on any other financial activity referred to in Section 45-I(c) and 45-I(f) of the Reserve Bank of India Act, 1934, except;
 - a. Investments in
 - Bank Deposits
 - Money market instruments, including money market mutual funds that make investments in debt/money market instruments with a maturity of up to 1 year
 - Government securities, and
 - Bonds or debentures issued by group companies
 - b. Granting of loans to group companies and
 - c. Issuing guarantees on behalf of group companies.

RBI has narrowed its control from the point of Registration & Regulation. The field of CICs has been narrowed by the RBI for the purpose of Registration and Regulations under the Core Investment Companies (Reserve Bank) Directions 2016. This has given rise to two categories of CIC's namely "unregistered CICs" & "Registered & Regulated CICs"

What are Unregistered CICs?

CIC's

- (i) with an asset size of less than ₹100 crore, irrespective of whether accessing public funds or not, and
- (ii) with an asset size of more than ₹100 crore and not accessing public funds.

The meaning of "asset size" [hereinafter referred to as 'total assets'] and "public funds" is defined in the Core Investment Companies Reserve Bank Directions 2016. Simply stated, total assets mean the total of all assets appearing on the assets side of the last audited balance sheet. Public funds include funds raised either directly or indirectly through public deposits, Inter-corporate deposits, Bank Finance and all funds received from outside sources such as funds raised by issue of ESOP's, debentures etc. but excludes funds raised by issue of investment compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue. Therefore, public funds would essentially mean outside borrowings. Public deposit has again been defined and would exclude excepted deposits. Therefore,

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Therefore, where the total assets as per the last audited balance sheet are ₹100 crore or less, such a company would be an unregistered CIC. This is irrespective of whether such an investment company accesses public funds or not. Even those CIC whose total assets exceeds ₹100 crore but do not avail public funds would be an unregistered CIC. These unregistered CICs do not require any form of registration with the RBI. It may be noted that the limit of ₹100 crore would be computed after taking into account all the Group CICs. “Companies in the group” are also defined in the said regulations.

Conclusion

Core Investment Companies play a vital role in facilitating group-level strategic investments and financial control. However, the systemic risks associated with their structure and leverage require robust regulation. The evolving regulatory framework in India is a step towards balancing operational flexibility with financial stability and transparency.

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Need more information on **CIC**?
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- ❖ 40+ years of practice in India
- ❖ 500+ Clients Globally
- ❖ 5 Partners
- ❖ 50+ Professionals
- ❖ 3 offices in India and one in Qatar
- ❖ Member of Integra International
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