



RBI · M&A FINANCE · APRIL 2026

# RBI Allows Banks to Fund Acquisitions from April 1, 2026

New Credit Facilities Framework for Strategic M&A Financing in India

POLICY UPDATE

# What Changed and Why It Matters

The Reserve Bank of India issued landmark amendment directions on **February 13, 2026** (effective **April 1, 2026**), allowing commercial banks to directly finance corporate acquisitions for the first time in India's banking history. Previously, banks were categorically barred from funding share purchases or acquisition transactions.

This represents a **fundamental shift** in India's M&A financing landscape — opening a new, structured credit channel for strategic deals that were previously reliant on alternative funding mechanisms such as promoter pledges, NBFCs, or foreign capital.

## Why This Matters

- First-ever direct acquisition financing by Indian commercial banks
- Reduces dependence on costly alternative funding sources
- Formalizes M&A credit within the regulated banking framework
- **Early adoption permitted** before the April 1 effective date

# Who Can Borrow — Eligibility Criteria

The framework sets stringent qualifying conditions to ensure only creditworthy, strategically-oriented entities access acquisition financing. All six criteria must be satisfied simultaneously.

1

## Net Worth Threshold

Minimum **Rs. 500 crore** net worth required. This is a hard floor — non-negotiable and verified at the time of credit sanction.

2

## Listed Companies

Must demonstrate **profits in the last 3 consecutive financial years**. Loss-making listed entities are ineligible regardless of net worth.

3

## Unlisted Companies

Must carry a minimum **investment-grade credit rating of BBB- or higher** from a recognized rating agency. Unrated entities are excluded.

4

## Entity Type

**Non-financial companies only**. Banks, NBFCs, insurance companies, and other financial entities cannot use this facility to acquire targets.

5

## Transaction Type

**Strategic control transactions exclusively**. Portfolio investments and passive minority stakes do not qualify under this framework.

6

## Stake Thresholds

Incremental acquisitions must cross defined voting rights thresholds: **26%, 51%, 75%, or 90%** of total voting rights in the target entity.

# Financing Structure and Limits

75%

## Max Bank Funding

Of the independently assessed acquisition value. Valuation by a registered valuer is mandatory.

25%

## Min Equity Contribution

Borrower must contribute at least 25% from own equity funds — no borrowed equity permitted.

3:1

## Debt-to-Equity Ratio

Post-acquisition consolidated D/E must not exceed 3:1. Continuous compliance is mandatory.

20%

## Bank Exposure Cap

Individual bank exposure is capped at 20% of eligible capital base across all acquisition borrowers.

## How the Structure Works

The framework enforces a disciplined co-investment model. For every acquisition, the borrowing company must deploy at least one rupee of equity for every three rupees of bank debt. The bank's independent valuation acts as the reference price — preventing inflated deal structures.

- ❑ The 20% individual bank exposure cap ensures systemic risk is distributed. Large acquisitions will likely require **consortium lending** arrangements between multiple banks.

Post-acquisition, the consolidated group entity must maintain the 3:1 D/E ratio on a rolling basis — not merely at closing. Breach at any point constitutes a covenant violation.

# Collateral, Security, and LTV Norms

## Security Structure

**Primary Security:** Pledge of acquired shares or compulsorily convertible debentures (CCDs).

**Corporate Guarantee:** Mandatory from the acquirer entity — not discretionary.

**Additional Collateral:** Discretionary, at the bank's assessment, depending on deal risk profile.

- ❏ **Daily LTV compliance monitoring** is required from April 1, 2026. Breaches must be remedied promptly or margin calls are triggered.

## Loan-to-Value (LTV) Norms by Collateral Type

Collateral Type	LTV Limit
Listed shares & convertible debentures	60%
Equity mutual funds, REITs, InvITs	75%
AAA-rated debt securities	85%
Government securities	90%

Individual borrower cap for loans against securities is **Rs. 1 crore per borrower**. LTV ratios reflect the risk profile of each collateral class — listed equity carries the tightest haircut at 40%, while government securities allow the highest leverage.

# Who Is Affected and How



## CA & Finance Professionals

- Verify and certify net worth thresholds at deal inception
- Structure and document the mandatory 25% equity contribution
- Coordinate independent registered valuations for target assessment
- Set up ongoing covenant compliance monitoring for D/E ratio



## Growth-Stage Companies & Unicorns

- New formal bank funding pathway for strategic domestic acquisitions
- Applicable to unicorns and late-stage startups exceeding Rs. 500 crore net worth
- Enables domestic consolidation with regulated, lower-cost bank capital
- Replaces costly NBFC or offshore funding structures for eligible entities



## MSME Owners

- Rs. 500 crore net worth threshold creates direct exclusion for most MSMEs
- Revised LTV norms (60% for listed shares) affect existing loans against securities
- Daily LTV monitoring may trigger margin calls from April 1
- Review pledged security portfolios proactively before effective date

# Important Caveats and Warnings

Before structuring an acquisition finance facility, legal and finance teams must internalize these critical limitations. Non-compliance can invalidate the facility or trigger covenant breaches.

## **Strategic Control Only**

Only transactions conferring strategic control qualify. **Passive portfolio investments or minority stakes below threshold levels are categorically excluded**, regardless of deal size.

## **Rs. 500 Crore Exclusion**

The net worth floor **excludes the vast majority of Indian SMEs and mid-market companies**. This is not a technicality — it is an absolute prerequisite with no waiver mechanism.

## **Continuous D/E Covenant**

The 3:1 debt-to-equity ratio must be maintained **continuously post-acquisition, not merely at closing**. Any subsequent deterioration constitutes an immediate covenant violation.

## **No Acquisition of Financial Companies**

Banks cannot finance acquisitions of **banks, NBFCs, insurance companies, or any other regulated financial entities** under this framework.

## **Mandatory Independent Valuation**


Valuation by an **independent registered valuer is non-negotiable**. Internal or promoter-commissioned valuations do not satisfy this requirement.


## **Capital Market Intermediaries**


**Stockbrokers, mutual fund houses, and merchant bankers** are subject to separate, detailed credit rules distinct from the general acquisition finance framework.


# Action Plan for Companies Planning Acquisitions


With early adoption permitted immediately, companies with live M&A pipelines should begin structuring now. Here is a sequenced roadmap to get deal-ready before April 1, 2026.


- **Step 1 — Verify Eligibility**

Confirm your company meets the **Rs. 500 crore net worth threshold**. For listed companies, confirm 3 years of consecutive profitability. For unlisted, obtain or confirm investment-grade rating.
- **Step 2 — Commission Independent Valuation**

Engage an **independent registered valuer** for a formal assessment of the target company. This is mandatory and cannot be substituted by any internal exercise.
- **Step 3 — Structure Equity Contribution**

Identify and ring-fence the **minimum 25% equity contribution** from own funds. Document the source of funds clearly — lenders will scrutinize this at underwriting.
- **Step 4 — Initiate Bank Conversations**

**Early adoption is permitted before April 1.** Approach lenders now to begin credit assessment, term sheet negotiation, and consortium structuring for larger deals.
- **Step 5 — Model Post-Acquisition Capital Structure**

Run consolidated balance sheet projections to confirm the **3:1 debt-to-equity ratio** is maintainable not just at closing but through the full loan tenor under stress scenarios.
- **Step 6 — Prepare Legal Documentation**

Draft **corporate guarantee documentation and share pledge agreements** in line with RBI norms. Ensure collateral is structured to meet the applicable LTV thresholds from day one.

## KEY DATES

### Timeline at a Glance

**February 13,  
2026**

RBI Amendment  
Directions officially  
notified and published.

**April 1, 2026**

Framework becomes  
fully effective. Daily  
LTV compliance  
monitoring  
commences.

### Immediately

Early adoption  
permitted — banks  
may begin  
underwriting  
acquisition credit  
facilities now.

## FINAL TAKEAWAY

# The Most Significant Shift in India's Acquisition Finance in Decades

This RBI framework fundamentally restructures how strategic M&A is financed in India. For the first time, regulated bank capital — at scale and with clear structural rules — is available for acquisition transactions. Companies with net worth above Rs. 500 crore and strategic acquisition plans should treat this as an immediate opportunity, not a future consideration.

📌 **Start structuring now.** The early adoption window is open, and first-mover advantage in bank relationship positioning is real.

## Expert Guidance

### A S Banka Advisors Private Limited

Book a 30-minute consultation to structure your acquisition financing:  
[calendly.com/asbanka-info/30min](https://calendly.com/asbanka-info/30min)