February 2026

Reserve Bank of India's framework for acquisition financing by banks

On February 13, 2026, after years of regulatory caution and due to industry lobbying, the Reserve Bank of India ("**RBI**") amended the Commercial Banks – Credit Facilities Directions, 2025 and the Commercial Banks – Concentration Risk Management Directions, 2025 and implemented the proposal for permitting banks to fund acquisitions, which was first floated in the 'Draft Capital Market Exposure' framework.

From April 1, 2026 (or earlier, if banks choose to adopt them), the new directions will reset how acquisition finance for strategic investments will be treated under the regulatory framework. The framework now draws clearer lines around what counts as capital market-linked exposure and how such lending should sit within prudential limits.

The framework

Acquisition finance permitted

Control

Banks have now been permitted to extend finance for the acquisition of shares or Compulsorily Convertible Debentures ("**CCDs**") of a target entity or the holding company of the target where the objective is to secure long-term strategic 'control'.

The borrower may acquire control through a single or series of transactions as long as these are completed within 12 (twelve) months from signing of definitive acquisition documents. Where 'control' is acquired through acquisition of a holding company or intermediate entities that control the target company, the financing provided will need to be assessed based on the ultimate acquisition of control over the target company.

Where the acquirer already has 'control' over the target company, banks may finance acquisition of an additional stake. This applies where such acquisition crosses a substantial threshold of 26%, 51%, 75% or 90% of voting rights, each conferring materially enhanced governance or control rights under applicable law.

Therefore, banks are not permitted to finance minority acquisitions.

Eligible borrowers

Banks can only extend acquisition finance to non-financial entities. Acquisition finance may be extended to any of the following (each being a non-financial entity):

1. the acquiring company itself;
2. an existing non-financial subsidiary of the acquiring company; or

3. a step-down special purpose vehicle (SPV) set up specifically to undertake the acquisition.

The acquirer or, where the deal is routed through an SPV or subsidiary, the parent company controlling that SPV/subsidiary must meet the following financial thresholds:

1. if the acquirer is a listed company:
    a) minimum net worth of INR 500,00,00,000 (Indian Rupees five hundred crore); and
    b) profits after tax for the last 3 (three) consecutive financial years;
2. if the acquirer is an unlisted company:
    a) minimum net worth of INR 500,00,00,000 (Indian Rupees five hundred crore);
    b) profits after tax for the last 3 (three) consecutive financial years; and
    c) a minimum investment-grade credit rating of BBB- (or above) from a recognised credit rating agency.

Notably, under the earlier draft directions, unlisted companies were not eligible for acquisition finance in this manner. The amendments now expressly permit this increasing the ambit of the potential market for banks.

Limits on bank exposure

The RBI amendments recalibrate how much exposure banks can take to capital markets and specifically to acquisition finance:

1. **Overall capital market exposure cap**: A bank's total capital market exposure (on both a standalone and consolidated basis) is capped at 40% of its eligible capital base.
2. **Sub-limit for acquisition finance**: Within this overall 40% ceiling, exposure specifically towards acquisition financing cannot exceed 20% of the eligible capital base.

Refinancing of a target company's existing debt, as part of an acquisition, will still be treated as acquisition finance and must comply with the prescribed conditions. However, there is a meaningful relief: such refinancing of a target company's existing debt will not be counted as part of the bank's capital market exposure. This provides additional headroom to banks within their overall exposure limits.

Financing parameters

Funding limits

1. Banks can finance up to 75% of the acquisition value. The valuation must be independently determined in line with RBI prescribed parameters.
2. The balance 25% must come from the acquirer's own funds either through internal accruals, fresh equity, or other non-debt sources.
3. The acquiring entity is required to maintain a maximum consolidated debt-to-equity ratio of 3:1 on an ongoing basis. Simply, total borrowings cannot exceed 3 (three) times the equity.
4. This ensures meaningful skin in the game and prevents over-leveraging.

Mandatory collateral and guarantees

The credit protection measures include:

1. a mandatory corporate guarantee from the acquiring company, its parent, or the group holding entity. Effectively, not allowing no promoter recourse financing; and

2. a pledge over the target company's shares/CCDs (subject to Section 19(2) of the Banking Regulation Act, 1949).

In addition, banks may, as per internal policy:

1. take security over other unencumbered assets of the acquirer and/or target; and
2. seek promoter personal guarantees.

Related party considerations

Banks cannot fund acquisitions where the acquirer and target are related parties under the Companies Act, 2013, or where they are:

1. under common control or management; or
2. part of the same promoter group (directly or indirectly).

However, this restriction does not apply where an existing controlling shareholder is acquiring an additional stake that crosses the prescribed control thresholds (as discussed earlier).

Bridge finance for listed acquirers

If bridge finance is provided to listed acquirers, such listed acquirers may utilise the bridge finance for compliance with minimum own funds requirements of 25%.

Such bridge facilities:

1. must have a clearly identified repayment source to replace the bridge finance with equity within a maximum of 12 (twelve) months;
2. must be on a secured basis; and
3. should not result in dilution of the security coverage prescribed under the RBI amendments.

This ensures short-term transactional flexibility while preventing prolonged exposure under bridge structures.

Overseas branches

Acquisition finance extended by overseas branches of Indian banks under syndication arrangements is not subject to the RBI guidelines on acquisition finance. This exemption applies where the funding contribution of a bank under such a syndication arrangement for a particular deal, across all overseas branches, does not exceed 20% of total funding for the relevant deal.

Key takeaways

1. Access to bank funding for acquisition financing is limited to financially strong, well-capitalised companies that meet strict eligibility thresholds. Bank funding for acquisition financing is not available for financial entities.
2. This isn't flexible private credit. Bank debt will remain structured and conventional with monthly interest servicing, full security package, and mandatory corporate guarantees from the parent/group.
3. Banks can fund up to 75% of the deal value. The rest must come from equity or internal accruals. Real skin in the game is non-negotiable.
4. Off-balance sheet leverage strategies will be difficult. Non-consolidation structures may face challenges, given the requirement for a parent corporate guarantee and consolidated leverage monitoring.

5. Foreign-owned controlled companies cannot access bank-led acquisition finance. Their options remain non-convertible debentures (funded by foreign portfolio investors) and, where feasible, external commercial borrowings.

Conclusion

Bank balance sheets have been largely absent from India's acquisition financing landscape. With regulatory restrictions allowing bank funding only in narrow circumstances, the vacuum was filled by non-bank capital, alternative investment funds, foreign portfolio investors, mutual funds and non-banking financial companies. In effect, the mergers and acquisitions funding market evolved around private credit and structured capital, often at a higher cost and with tighter timelines.

The RBI amendments signal a structural shift. By opening the door for bank-led acquisition finance, the regulator is inviting mainstream institutional capital back into the mergers and acquisitions ecosystem. For Indian corporates and strategic buyers, this potentially means deeper pools of capital, more competitive pricing, and a broader set of structuring options. For banks, it is an opportunity to re-enter a sophisticated, high-value segment of corporate lending that has largely sat outside their domain in recent years.

The framework is tightly constructed with leverage caps, eligibility thresholds, security requirements and exposure limits, all acting as guardrails. How aggressively banks step in, how credit committees interpret the conditions, and whether pricing becomes competitive with existing private credit providers will determine the real impact.

The door has opened, but whether this becomes a steady stream of bank-led leveraged buyouts or a cautiously navigated corridor will depend on how the market responds.

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