

RBI INTRODUCES REFORMS FOR BUYOUTS AND ACQUISITION FINANCE BY BANKS (2026)

INTRODUCTION

In February 2026, the Reserve Bank of India (“**RBI**”) introduced a significant regulatory reform enabling banks to finance corporate acquisitions. The reform was implemented through the Reserve Bank of India (Commercial Banks – Credit Facilities) Amendment Directions, 2026, read with the Reserve Bank of India (Commercial Banks – Concentration Risk Management) Amendment Directions, 2026, issued on February 13, 2026. Both sets of directions are scheduled to come into effect from April 1, 2026.

Historically, Indian banks were largely restricted from financing acquisitions involving equity purchases or leveraged buyouts. The RBI’s regulatory stance was driven by prudential concerns, including safeguarding depositor funds, preventing excessive leverage in corporate takeovers, and limiting banks’ exposure to volatile capital markets. Consequently, acquisition financing in India was typically undertaken by non-banking financial companies (NBFCs), offshore lenders, or structured private credit funds, rather than domestic banks.

The 2026 amendments represent a significant policy shift aimed at aligning India’s banking framework with global credit markets and enabling banks to participate in financing strategic corporate acquisitions. The revised directions introduce a detailed regulatory framework governing eligible borrowers, financing limits, valuation requirements, leverage thresholds, and security structures applicable to acquisition finance transactions.

In addition to acquisition finance, the amendment directions also restructure the regulatory framework governing:

- loans against financial assets and eligible securities;
- credit facilities to capital market intermediaries (“**CMIs**”); and
- prudential exposure limits under the capital markets exposure (“**CME**”) regime.

However, this note primarily focuses on the new framework governing acquisition finance by banks and its prudential safeguards.

KEY HIGHLIGHTS

The RBI’s 2026 amendments introduce several structural changes to the banking regulatory framework. Key highlights include:

- (i) **Formal recognition of “Acquisition Finance”:** The amendments formally define acquisition finance as credit facilities extended to an eligible borrower for acquiring equity shares or compulsorily convertible debentures in a target company resulting in acquisition of control, including refinancing of existing debt where integral to the acquisition.
- (ii) **Banks permitted to finance strategic acquisitions:** Banks may extend acquisition finance to Indian non-financial companies undertaking acquisitions of domestic or foreign entities for strategic purposes intended to create long-term value and operational synergies.

- (iii) **Eligibility and financial thresholds for borrowers:** The framework introduces minimum financial eligibility criteria for acquiring companies, including: (a) Minimum net worth of INR 500 crore; (ii) Positive net profit for the preceding 3 (three) financial years; and (iii) an investment-grade credit rating (BBB- or above) (only for unlisted companies).
- (iv) **Mandatory equity contribution:** Bank financing for acquisitions is capped at 75% of the acquisition value, requiring at least 25% contribution from the acquirer's own funds.
- (v) **Post-acquisition leverage restrictions:** The consolidated debt-to-equity ratio of the acquiring entity cannot exceed 3:1 on an ongoing basis following the acquisition.
- (vi) **Exposure limits under capital market exposure framework:** Banks' exposure to acquisition finance is subject to prudential ceilings, including: (i) aggregate capital market exposure capped at 40% of eligible capital base; (ii) direct investment exposure capped at 20%; and (iii) aggregate acquisition finance exposure capped at 20% of eligible capital base.
- (vii) **Mandatory security and guarantee requirements:** Acquisition finance must be secured by shares or CCDs acquired in the target company, along with corporate guarantees from the acquiring company or its parent entity.
- (viii) **Board-approved policy requirements:** Banks must adopt a board-approved acquisition finance policy governing underwriting standards, leverage thresholds, equity contribution requirements, and risk assessment mechanisms.

IMPACT ANALYSIS

A. Definition and Scope of Acquisition Finance

The amendment directions define acquisition finance as financial assistance extended to enable a borrower entity to acquire equity shares or compulsorily convertible debentures of a target company or its holding company resulting in control over the target entity. The definition is broad and includes financing that also refinances existing debt of the target company, provided such refinancing forms an integral part of the acquisition structure.

Importantly, the framework clarifies that acquisition finance must be strategic in nature, meaning that the transaction must be intended to create long-term economic value or operational synergies, rather than short-term financial engineering or speculative investment. This distinction suggests that pure financial sponsor-led leveraged buyouts may remain subject to tighter scrutiny under the RBI framework.

Implications: The introduction of a formal definition of acquisition finance represents a significant shift from the historically restrictive RBI stance that discouraged banks from directly financing share acquisitions. Earlier regulatory practice largely confined banks to financing operating businesses rather than equity acquisitions, with acquisition-related leverage typically routed through offshore lenders, private credit funds, NBFCs, or structured promoter financing. By explicitly recognizing acquisition finance, including refinancing of the target's existing debt as part of the transaction

structure, the framework legitimizes a structure that has long existed informally in M&A markets. However, the requirement that such financing be “strategic” in nature suggests that RBI intends to distinguish between industrial or strategic acquisitions and purely financial sponsor-driven leveraged buyouts. In practice, this may lead banks to apply heightened diligence where the acquirer lacks operational synergies with the target or where the transaction is heavily leveraged. Consequently, while the amendment expands the financing toolkit available for domestic M&A transactions, it is unlikely to fully replicate the leveraged buyout market seen in jurisdictions such as the US or UK.

B. Eligible Borrowers

The RBI restricts acquisition financing to Indian non-financial companies, thereby excluding: (i) NBFCs; (ii) financial institutions; and (iii) investment vehicles primarily engaged in financial activities. Acquisition finance may be extended to: (i) the acquiring company directly; (ii) an existing non-financial subsidiary of the acquiring company; or (iii) a special purpose vehicle (SPV) established for the acquisition.

Although the structure of acquisition through an SPV is common, the directions clarify that such SPV structures must comply with existing RBI norms relating to Core Investment Companies (CICs).

Implications: The restriction of acquisition finance to Indian non-financial companies narrows the universe of eligible borrowers and reflects RBI’s longstanding regulatory preference to avoid excessive leverage within the financial sector. By excluding NBFCs and other financial entities, the framework effectively prevents regulated financial intermediaries from using bank credit to undertake acquisition-driven financial investments. This may limit the ability of financial sponsors to structure acquisitions through regulated financing platforms and could result in continued reliance on offshore acquisition vehicles or alternative lenders. At the same time, the explicit recognition of acquisition SPVs aligns the framework with prevailing M&A practice, where transactions are commonly structured through newly incorporated holding entities for ring-fencing liabilities and facilitating leveraged financing. However, the requirement that such SPVs comply with the Core Investment Company (CIC) norms could create regulatory complexity in multi-layered holding structures and may require careful structuring to avoid inadvertent CIC classification.

C. Control Requirement and Transaction Structure

The acquisition must result in the acquirer obtaining control of the target company, either through: (i) a single transaction; or (ii) a series of interconnected transactions completed within 12 (twelve) months from execution of the acquisition agreement.

Where the acquirer already holds control, financing may still be permitted if the transaction results in crossing significant governance thresholds such as **26%**, **51%**, **75%** or **90%**. These thresholds correspond to critical corporate governance rights under the Companies Act, 2013.

Implications: By linking eligibility to acquisition of control, or to crossing key governance thresholds such as 26%, 51%, 75%, or 90%, the framework reinforces the view that bank credit should support transactions that involve genuine managerial or strategic influence rather than portfolio investments. From a market perspective, this

may exclude financing for minority stake acquisitions commonly seen in private equity transactions unless the investor obtains meaningful governance rights. However, the recognition that control may be achieved through a series of interconnected transactions within a twelve-month period introduces flexibility for staggered acquisitions, which are frequently used in negotiated M&A deals, open offers under the SEBI Takeover Regulations, and promoter buyouts.

D. Financial Eligibility Criteria

To qualify for acquisition finance, the acquiring company must satisfy specific financial benchmarks.

(i) For listed companies:

- Minimum net worth of INR 500 crore
- Positive net profit in each of the 3 (three) preceding financial years

(ii) For unlisted companies:

- Minimum INR 500 crore net worth
- Positive net profit for the previous 3 (three) years
- Investment-grade credit rating (BBB- or above). If a rating is not available at the time of sanction, it must be obtained prior to disbursement.

Implications: The financial eligibility thresholds indicate that RBI intends acquisition finance to be used primarily by financially stable and well-capitalized corporate groups. This effectively restricts access to larger corporate acquirers and excludes early-stage companies, distressed acquirers, or newly formed investment platforms that lack a track record of profitability. In market terms, this could reinforce the dominance of established industrial groups in domestic acquisition activity while limiting leveraged acquisitions by smaller promoters. The requirement of an investment-grade credit rating for unlisted entities also introduces an additional layer of external credit discipline that may increase transaction preparation time and costs. At the same time, the criteria may provide banks with regulatory comfort in extending acquisition-related leverage by ensuring that borrowers have adequate financial capacity to service the debt.

E. Financing Structure and Valuation Requirements

The RBI imposes several safeguards governing financing parameters. Banks may finance up to 75% of the acquisition value, determined based on an independent valuation while the acquiring entity must contribute at least 25% of acquisition value. For this purpose, the valuation shall be done by 1 (one) independent valuer (in case of listed target company) and by two independent valuers, with the lower valuation used (in case of unlisted listed target company). Further, the valuation parameters must follow the methodology under the SEBI Takeover Regulations.

Implications: The requirement that the acquirer contribute at least 25% of the acquisition value effectively imposes a minimum equity contribution similar to loan-to-value constraints used in project finance and leveraged lending. This requirement may limit highly leveraged acquisition structures and thereby moderate systemic credit risk arising from takeover financing. In practice, it also aligns acquisition finance with prudential lending norms by ensuring that borrowers retain meaningful “skin in the

game.” The requirement of independent valuation, particularly the use of two valuers for unlisted targets with the lower valuation being adopted, introduces a conservative safeguard against inflated valuations. However, it may create practical challenges in competitive auctions where valuations evolve rapidly. The linkage to valuation methodologies under the SEBI Takeover Regulations also signals regulatory intent to harmonize acquisition finance practices with existing securities law frameworks.

F. Security Structure

Acquisition finance must be secured by way of pledge of equity shares or CCDs acquired in the target company.

Banks may also obtain additional security such as:

- other unencumbered assets of the acquirer or target company;
- promoter guarantees; or
- other collateral assets.

However, the directions reiterate compliance with Section 19(2) of the Banking Regulation Act, which limits banks’ ability to hold shares in companies.

Implications: The requirement that acquisition finance be secured primarily through a pledge over the acquired shares reflects a conventional leveraged acquisition structure in which lenders rely on the economic value of the target entity. However, the framework’s reference to Section 19(2) of the Banking Regulation Act, restricting banks’ ability to hold shares in companies, means that banks must structure such security carefully to avoid regulatory breaches in enforcement scenarios. As a result, lenders may prefer layered security structures including pledges over shares of the acquisition vehicle, guarantees from promoter entities, and charges over other assets of the acquirer group. In market practice, this could lead to more sophisticated collateral packages similar to those used in structured corporate lending. The flexibility to obtain additional collateral may also mitigate lender risk in cases where the value of the target company’s shares fluctuates post-acquisition.

G. Exposure Limits under Capital Market Exposure Framework

The accompanying amendments to the Concentration Risk Management Directions incorporate acquisition finance into the Capital Market Exposure (CME) framework. Key exposure ceilings include:

- Aggregate CME: 40% of eligible capital base
- Direct investment exposure: 20% of eligible capital base
- Acquisition finance exposure: 20% of eligible capital base

These ceilings operate on both solo and consolidated basis for banks.

Implications: By including acquisition finance within the Capital Market Exposure (CME) framework, RBI ensures that banks’ participation in acquisition financing remains subject to prudential concentration limits. The 20% exposure cap for acquisition finance within the overall CME limit effectively prevents banks from building excessive balance-sheet exposure to leveraged takeover transactions. This is to

ensure that acquisition financing does not replicate the leveraged credit excesses seen in some international markets.

H. Overseas Branch Participation

Overseas branches of Indian banks participating in acquisition finance syndications are exempt from the acquisition finance framework, provided that the bank's total contribution across overseas branches does not exceed 20% of the total funding in the transaction. This allows Indian banks to continue participating in global acquisition financing markets.

Implications: The exemption granted to overseas branches of Indian banks allows them to continue participating in global acquisition financing markets without being constrained by the domestic acquisition finance framework, subject to the 20% contribution cap. This provision reflects RBI's recognition that Indian banks operating abroad often participate in large cross-border syndications where acquisition financing structures differ from domestic regulatory frameworks. The exemption therefore preserves the competitiveness of Indian banks in international leveraged finance markets while limiting the potential transmission of global acquisition-related credit risk to the domestic banking system. However, the cap on aggregate participation ensures that overseas exposures do not indirectly circumvent the prudential limits applicable to acquisition financing within India.

CONCLUSION

The RBI's 2026 amendments represent a significant structural shift in India's banking regulation, enabling commercial banks to participate in financing corporate acquisitions under a prudentially regulated framework. The framework attempts to strike a balance between facilitating corporate M&A activity and maintaining banking system stability through multiple safeguards, including borrower eligibility criteria, leverage caps, equity contribution requirements, valuation oversight, and exposure limits.

From a market perspective, the reforms are expected to: (i) increase availability of domestic debt capital for M&A transactions; (ii) reduce reliance on offshore acquisition financing and private credit funds; and (iii) strengthen the role of Indian banks in large-scale strategic acquisitions. At the same time, the stringent eligibility criteria and leverage restrictions suggest that the framework is designed primarily for large, financially strong corporate acquirers, rather than highly leveraged private equity transactions.

Overall, the reform signals the RBI's evolving regulatory approach toward modernizing India's credit markets while maintaining prudential risk controls within the banking system.