

Pivotal juncture for M&A financing:

RBI propels Indian banks into Acquisition Finance

19 February 2026

Introduction

On 13 February 2026, the Reserve Bank of India (RBI) has issued Reserve Bank of India (Commercial Banks - Credit Facilities) Amendment Directions, 2026 (Credit Facilities Amendment Directions), Reserve Bank of India (Concentration Risk Management Amendment Directions, 2026 (Concentration Risk Management Directions) along with other related amendment directions¹ (collectively, 'CME Amendment Directions') that together implement a revised framework governing capital market exposures (CME) and connected lending activities of 'Commercial Banks'².

These CME Amendment Directions are based on extensive stakeholder feedback received on the [draft directions on capital market exposure of commercial banks](#) issued by the RBI for comments on 24 October 2025 (Draft CME Directions) and covered by our [earlier Ergo](#) dated 6 November 2025. The CME Amendment Directions aim to, *inter alia*, implement a framework for enabling financing of acquisition by Indian corporates.

RBI has been very welcoming to the changes proposed by various stakeholders and has largely considered the commonly placed suggestions by the stakeholders positively. While the below update summarises and analyses they key updates in relation to acquisition finance under the CME Amendment Directions, we have, for ease of reference, also provided a comparative table in the Annexure setting out some of the key differences under the CME Amendment Directions when compared with the Draft CME Directions.

Key updates

(a) Applicability

The Credit Facilities Amendment Directions shall become effective in respect of commercial banks from the earlier of:

- (i) 1 April 2026; or
- (ii) when the Credit Facilities Amendment Directions are adopted in entirety by the bank.

Any outstanding loan / guarantee up to this date shall be permitted to continue until their respective maturity. However, any fresh loans or guarantees or existing loans or guarantees renewed shall comply

¹ In addition to the Credit Facilities Amendment Directions and Concentration Risk Management Amendment Directions, RBI has also released the Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Second Amendment Directions, 2026, Reserve Bank of India (Commercial Banks - Financial Statements: Presentation and Disclosures) Third Amendment Directions, 2026 and the Reserve Bank of India (Commercial Banks - Undertaking of Financial Services) - Amendment Directions, 2026.

² Commercial Banks mean banking companies (other than Small Finance Banks, Payment Banks, and Local Area Banks), corresponding new banks, and the State Bank of India, as defined respectively under clauses (c), (da), and (nc) of Section 5 of the Banking Regulation Act, 1949.

with the Credit Facilities Amendment Directions from the date of adoption / coming into force of the Credit Facilities Amendment Directions.

(b) **Definition Clarified**

Acquisition finance has been defined as financial facility or assistance provided to an eligible borrower for acquiring equity shares or compulsorily convertible debentures (CCDs) in a target (or its holding company) where the transaction results in the borrower acquiring control over the target (which can be either onshore or offshore). This definitional clarity is notable since RBI has clarified that acquisition financing does not include financing of purchase of fixed assets by an acquirer through a slump sale method (which continues to remain permissible without being subjected to the capital market thresholds prescribed for acquisition financing).

Additionally, the Amendment CME Directions expressly recognise acquisition of CCDs, thereby including convertibles which on fully diluted basis may constitute control with or without equity stake transfer within the scope of 'acquisition finance'.

(c) **Timelines to complete the Acquisition defined – staggered acquisition with an intent to control and creeping acquisitions - permitted**

The CME Amendment Direction require that the acquirer who has availed leverage from Indian Banks under the CME Directions must, within 12 months from the date of execution of the acquisition agreement, obtain control of the target through a single or a series of interconnected transactions.

Additionally, the RBI has also permitted acquisition finance where the acquirer already controls the target in cases where the proposed acquisition crosses significant control thresholds of 26%, 51%, 75%, or 90% of voting rights, each of which is treated as conferring materially enhanced governance or control rights. For indirect acquisitions *via* a holding or intermediate entity, financing is assessed based on the ultimate control gained over the target company.

(d) **Related Party Restrictions**

Acquisition finance is barred if the acquirer and target are related parties by virtue of being: (i) 'related parties' as defined under Section 2(76) of the Companies Act, 2013; or (ii) under common control, common management, or common promoter group, whether directly or indirectly. This restriction, however, does not extend to an acquisition financing availed for acquiring additional stake of voting rights (for crossing substantial thresholds as set out in the previous paragraph) in a target by an existing controlling shareholder.

(e) **Refinancing of acquisition debt permitted within defined parameters**

- (i) As part of an acquisition finance transaction, the lender may choose to refinance the existing debt of the target provided such refinancing is integral to the acquisition finance transaction. As per the Concentration Risk Management Directions, exposure on such refinancing which is used for refinancing the debt of the target company shall be excluded from the capital market exposure computation.
- (ii) Further, any refinancing of existing acquisition financing debt may be done subject to compliance with Reserve Bank of India (Commercial Banks – Resolution of Stressed Assets).

(f) **Eligible Borrowers**

Acquisition finance may be extended to the following:

- (i) an Indian non-financial company which is the acquiring entity;
- (ii) an existing non-financial subsidiary of the acquiring company; or
- (iii) a step-down special purpose vehicle (SPV) set up by the acquiring company specifically for the purpose of acquisition.

Basis feedback received from stakeholders, the RBI has clarified that the basic objective of CME Amendment Directions is to permit only strategic investments and not amplify financial sector leverage. Accordingly, financial entities such as NBFCs, AIFs, etc. have not been allowed to raise acquisition finance.

However, InvITs acquiring equity / CCDs are permitted to avail acquisition finance, subject to compliance with the provisions pertaining to acquisition finance under the Credit Facilities Amendment Directions.

(g) Acquiring Company: Healthy Balance Sheet Eligibility Requirement and Removal of Mandatory 'Listing' Requirement

In a stark comparison to the Draft CME Directions, RBI has permitted banks to finance acquisitions undertaken even by 'unlisted companies' subject to meeting the additional requirement of investment grade rating.

The RBI has prescribed that at the time of sanction by the leverage providing bank, the acquiring company (or, where acquisition is through an SPV or subsidiary, the acquiring company controlling such SPV or subsidiary) must satisfy the following criteria depending upon their status as a listed or unlisted entity:

Criteria	Listed Acquirer	Unlisted Acquirer
Minimum Net Worth	INR 500 crores	Same as for a listed acquirer
Net Profits after Taxes	Required for previous three consecutive financial years	Same as for a listed acquirer
Rating	N.A.	An investment grade rating (BBB- or above) to be obtained prior to disbursement. Unrated acquirers will need to be rated.
Valuation Methodology	One independent valuer appointed by the bank, and as per SEBI norms for valuation of not frequently traded shares*	Lower valuation between two independent valuers appointed by the bank, and as per SEBI norms for valuation of not frequently traded shares*

**using valuation parameters including book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such companies*

(h) Financing Parameters for Credit Assessment to Fund Acquisition Finance

(i) Bank finance threshold

Total bank financing cannot exceed 75% (as against 70% earlier proposed in the Draft CME Directions) of the acquisition value (as independently assessed by the banks where the criterion for valuation differs for listed and unlisted target). This is paired with the following credit support requirements:

- A mandatory corporate guarantee from the acquiring company (in case the acquisition finance is availed by through a special purpose vehicle or a subsidiary of the acquiring company), or its parent or group holding entity for the financing; and
- The post-acquisition debt-to-equity ratio at the acquiring company level (on a consolidated basis) must not exceed 3:1 on a continuous basis.

(ii) Credit assessment by banks on pro-forma basis

Credit assessment will be conducted on a pro-forma consolidated basis, combining acquirer and target financial statements.

(iii) Minimum own funds of the acquirer required

The minimum balance portion of 25% (as reduced from 30% earlier proposed in the Draft CME Directions) required to fund the proposed acquisition (over and above the aforementioned maximum 75% which can be availed from banks) has to be met *vide* the following sources:

- A. own funds, such as internal accruals or fresh equity; or
- B. bridge finance (if the acquiring company is listed), subject to the following conditions:
 - clearly identified repayment source (e.g., an equity issue or asset sale) to replace the bridge finance within 12 months;
 - if the bridge finance³ is provided by a bank, it shall be on a secured basis; and
 - such bridge finance should not result in dilution of security coverage for the acquisition finance as provided in the Credit Facilities Amendment Directions.

(i) **Security Cover**

Acquisition finance must be secured primarily by the acquired equity shares or CCDs by way of pledge (subject to Section 19(2) of the Banking Regulation Act, 1949 ("BR Act")) and any acquired equity shares / CCDs not secured for the acquisition financing bank must remain unencumbered.

Additional / secondary collateral such as unencumbered assets of the acquirer or the target (subject to compliance with Companies Act, 2013) or promoter guarantees may be obtained to secure the acquisition finance as prescribed under the policy of the respective banks.

(j) **Maximum permissible exposure for each bank**

Aggregate exposure of any bank to acquisition finance shall not be more than 20% of its eligible capital base (as increased from 10% of Tier 1 capital earlier proposed in the Draft CME Directions), within the aggregate CME ceiling of 40% of eligible capital base as prescribed under the CRM Amendment Directions, both on a solo and consolidated basis.

Importantly, overseas branches of Indian banks are exempt from the Credit Facilities Amendment Direction when participating in syndicated acquisition finance, provided their total contribution across all its overseas branches does not exceed 20% of the overall funding.

Conclusion

The CME Amendment Directions signal a mindful shift and transformative leap in India's acquisition financing ecosystem. Indian banks can now participate in leveraged buyouts, takeovers and undertake transactions which were previously dominated by domestic private credit funds, foreign portfolio investors NBFCs or other alternative fund providers exclusively. For Indian corporates and sponsor led acquisitions, this creates a favourably priced leverage option compared to the complicated offshore financing sources, diverse and competitive options to raise leverage for buyouts and a never-before available domestic funding source for funding acquisitions.

Certain finer details shall need to be fleshed out in the internal bank policies as there are several aspects which remain subject to individual bank policies, creating scope for divergent interpretation. Financial sponsors and funds will need to evaluate if their current structures will qualify and reassess strategy. Ambiguity continues to remain on certain positions such as the scope of refinancing, what comprises 'materially enhanced governance and control rights'.

In conclusion, it may be noted that from the draft stage to the final directions, several key issues have been streamlined and clarified to provide greater certainty and alignment with market practice.

- *Manisha Shroff (Partner), Dr. Siddharth Srivastava (Partner), Rajeev Vidhani (Partner), Manas Pandey (Principal Associate), Anushka Sinha (Senior Associate) and Yash Bhatt (Associate).*

³ Bridge finance is defined as financing availed by a borrower for an interim period, not exceeding one year, for a legitimate business purpose where the borrower has a firm plan and capability to repay such loans by raising financial resources either through issuance of equity, debt or hybrid instruments or by divestiture/hive-off of a part of existing business/assets within the interim period.

Annexure

Some of the key changes brought in by RBI in the CME Amendment Directions as against what was originally proposed by it in the Draft CME Amendment Directions are set out below:

Particular	Draft Directions	Final Directions	Remarks
Definition of acquisition finance	"Acquisition Finance" means providing finance to a company ('acquiring company'), or to an SPV set up as a company by the acquiring company, for purchase of all or a controlling portion of another company's ('target company') shares, or assets to gain control over the target company and its operations.	<p>(a) RBI has clarified that acquisition finance would not include standalone financing of purchase of fixed assets through a slump sale method.</p> <p>(b) Acquisition finance has been permitted in scenarios wherein the acquirer already holds controlling stake and intends to acquire additional stake resulting in crossing a substantial threshold of 26%, 51%, 75%, 90% of voting rights of the target.</p> <p>(c) Acquisition of compulsorily convertible debentures along with equity shares have been permitted.</p> <p>(d) Acquisition finance may also involve refinancing of existing debt of the target company, subject to certain conditions.</p> <p>(e) Acquisition finance undertaken by overseas branches of Indian banks under syndication arrangements shall not be subject to the CME Amendment Directions, provided the participation by all overseas branches of a bank is capped at 20% of the total debt funding under a particular deal.</p>	<p>The final directions provide greater clarity on the scope of 'acquisition finance' and clarify that standalone slump sale acquisition finance by banks would not be considered 'acquisition finance' and will continue to remain permitted.</p> <p>Further, RBI has broadened permissible structures (e.g., CCDs, refinancing) and introduced objective thresholds for incremental acquisitions, enhancing regulatory certainty.</p>
Limits on exposure towards	Banks shall fix limits for their aggregate exposures towards acquisition finance within the regulatory limit on 'Direct Capital	Acquisition financing shall be permitted up to 20% of the financing bank's eligible capital base, within the	This is a significant change from the draft directions which allows banks more headroom

acquisition finance	Market Exposures' as per paragraph 11 (b). Provided that aggregate exposure of a bank towards acquisition finance shall not exceed 10 per cent of its Tier 1 capital	overall CME limit of 40% of its eligible capital base.	to support acquisition transactions
Listed Status of borrowing entities	Acquiring company shall be a listed entity, having a satisfactory net worth and profit making for last three years	Unlisted companies have been permitted as eligible borrowers for acquisition finance, subject to minimum net worth requirement, post-tax profitability track record for both set of entities and additionally, a minimum credit rating requirement for unlisted entities.	Allowing unlisted companies (albeit with additional rating requirement) to borrow enhances inclusivity and supports M&A activity. Conditions for unlisted entities balance expanded access with safeguards to ensure borrower financial strength.
Maximizing bank finance towards acquisition value	A bank may finance at most 70% of the acquisition value, with at least 30% of the acquisition value to be funded by the acquiring company in the form of equity using own funds	The limit of maximum permissible bank finance in acquisition finance has been increased to 75% of the total acquisition value. Further, borrowers have been provided the flexibility to arrange for the balance 25% of own funds by way of internal accruals, fresh equity issuance or in case of listed entities, bridge finance subject to certain conditions.	The increase in permissible bank financing from 70% to 75% reflects the confidence reposed by RBI in the commercial judgement of the banks in undertaking and structuring acquisition finance .
Security for acquisition finance	Acquisition finance shall be fully secured by shares of the target company as primary security. Assets of the acquirer and/or target company, or other securities held by the acquiring company, may be taken as collateral security as per the bank's policy	<ul style="list-style-type: none"> (a) Acquisition finance shall be secured by the acquired equity shares/CCDs of the target company subject to compliance with Section 19(2) of the BR Act. (b) Other unencumbered assets of the acquirer and/or the target company may be taken as additional collateral, in line with the bank's policy. (c) A corporate guarantee from the acquiring company (in case the acquisition finance is availed by through a special purpose vehicle or a subsidiary of the acquiring company), its parent, or the group holding entity shall be mandatory. 	The final directions strengthen credit protection through mandatory corporate guarantees and security over primary assets, while retaining flexibility for banks to seek additional collateral.



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