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Acquisition Finance
Regulatory Update

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A DECADE YOUNG, A CENTURY STRONG

RBI Opens the Door to Bank-Led Acquisition Finance: A Watershed Moment for Indian M&A

On 13 February 2026, the Reserve Bank of India ("**RBI**") issued landmark amendments to the capital market exposure framework, permitting commercial banks in India ("**Banks**") to fund strategic acquisitions of equity shares and compulsorily convertible debentures ("**CCDs**") for the first time. These changes represent a momentous shift in the regulatory landscape and will fundamentally reshape how Indian corporates finance their mergers and acquisitions ("**M&A**"). The revised framework takes effect from 1 April 2026, with early adoption by Banks being permitted.[1]

The New Acquisition Finance Framework

Banks can now extend acquisition finance to eligible Indian non-financial companies for acquiring equity stakes or CCDs in target companies, provided the transaction qualifies as a strategic investment aimed at creating long-term value through synergies rather than short-term financial restructuring. Critically, the framework only applies where the acquiring company obtains control of the target, or where an existing controlling shareholder crosses key voting thresholds of 26%, 51%, 75% or 90% with enhanced governance rights.

Who can avail the financing?

Financing may be extended to the acquiring company directly, an existing non-financial subsidiary, or a step-down SPV established specifically for the acquisition. RBI has clarified that the objective of the new changes is not to amplify financial sector leverage but only promote strategic investment. NBFCs, AIFs or entities which are not in the nature of a 'company' have therefore specifically been excluded.

Refinancing of target company debt is also permitted where integral to the acquisition financing transaction. The scope of 'integral' is open to interpretation.

Eligibility Criteria and Financial Parameters

Loan Amount to be capped at 75% of acquisition value

The Directions impose rigorous eligibility requirements on acquiring companies. Key financing parameters include a maximum loan-to-value of 75% of the independently assessed acquisition value, with a mandatory 25% contribution from the acquirer's own funds through internal accruals or fresh equity.

1 Banks are permitted to adopt a board approved policy sooner and offer these services earlier than April 01, 2026.

Criterion	Listed Acquirer	Unlisted Acquirer
Minimum Net Worth	INR 500 crores	INR 500 crores
Profitability	Positive net profit after tax for last 3 consecutive FYs	Positive net profit after tax for last 3 consecutive FYs
Credit Rating	Not required	Investment grade (BBB- or above) from SEBI-registered agency
Valuation	By one independent valuer appointed by the Bank, and as per SEBI norms for valuation of not frequently traded shares;[2]	Lower valuation among two independent valuers appointed by the Bank, and as per SEBI norms for valuation of not frequently traded shares.[2]

Bridge Finance for minimum 25% owned funds contribution

- Listed companies may utilise bridge finance for this equity contribution, provided:
  - there is a clearly identified repayment source to replace the bridge finance with equity within 12 months (i.e. 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);
  - if provided by a bank, the bridge finance must be secured; and
  - the bridge finance must not dilute the security coverage for the acquisition financing.

Proforma Debt to Equity Ratio

The post-acquisition debt-to-equity ratio must not exceed 3:1 on a consolidated basis.

Security and Structural Considerations

Acquisition finance must be secured by the acquired equity shares or CCDs of the target company, subject to the ceiling under Banking Regulation Act, 1949 (i.e. 30%). Additional security over target assets, immovable property etc. may also be taken.

However, a corporate guarantee from the acquiring company or its parent or group holding entity is mandatory. The intent is not to permit classic leveraged buy out structures.

Acquisition finance for related party transactions are prohibited (i.e. the acquiring company and the target must not be related or share common control, management or promoter group), though this restriction does not apply to acquisitions of additional stake where control already exists.

Banks face a prudential ceiling of 20% of eligible capital base for aggregate acquisition finance exposure, within an overall 40% capital market exposure ceiling. Notably, overseas branch participation in syndicated acquisition financings is excluded from these restrictions where the bank's contribution does not exceed 20% of total deal funding.

Issues for Consideration

Definitional ambiguity. The Directions do not define what constitutes a "strategic investment" or when refinancing is " integral" to an acquisition—these determinations will rest with individual bank policies and could potentially lead to innovative structuring opportunities.

Security release mechanics. The requirement for target shares to be free from encumbrance at the time of acquisition may complicate refinancing structures where existing pledges are released from drawdown proceeds as the Directions do not expressly accommodate such arrangements.

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

Financial services exclusion. The framework is limited to non-financial acquiring companies, excluding banks, NBFCs and financial institutions from accessing acquisition finance under these Directions. Private equity funds and financial sponsors will need to consider whether their acquisition vehicles qualify.

Bridge Financing: Requires a firm plan for a borrower to repay in 12 months through among other ways, by issuance of equity, debt or hybrid instrument. How will borrowers show firm plans to raise debt / equity 12 months down the line – what will constitute firm plans in such a scenario remains to be seen.

Capital constraints. The 20% prudential ceiling and 3:1 debt-to-equity requirement may limit capacity for larger transactions, particularly where a single bank seeks a leading position or where target companies carry significant existing leverage.

Next Steps: Banks should prioritise updating their board-approved policies and internal credit frameworks well in advance of the 1 April 2026 effective date. Borrowers and advisers should engage early with relationship banks to understand how individual institutions intend to interpret the framework's more discretionary elements.

Conclusion

These amendments mark a historic inflection point for Indian acquisition finance. For decades, the prohibition on bank lending against shares has constrained Indian corporates in leveraged M&A, ceding ground to foreign lenders, private credit funds and offshore financing structures. The RBI's new framework brings India closer to international norms and will materially enhance the competitiveness of Indian banks in the acquisition finance market.

The practical impact of these Directions cannot be explained enough. Indian banks can now participate in leveraged buyouts, take-private transactions, and strategic consolidation plays that were previously the exclusive domain of offshore or alternative lenders. For sponsors and corporates, this creates meaningful optionality—deeper liquidity, potentially more favourable pricing, and the ability to structure domestic facilities rather than relying solely on complex offshore arrangements, NBFC / AIF / MF financings or FPI listed debt. Bank finance has traditionally always been the first port of call and opening up of acquisition finance will certainly pave the way for banks to strengthen their position in the growth and expansion phase of the Indian corporate sector.

Please feel free to address any further questions or request for advice to:

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