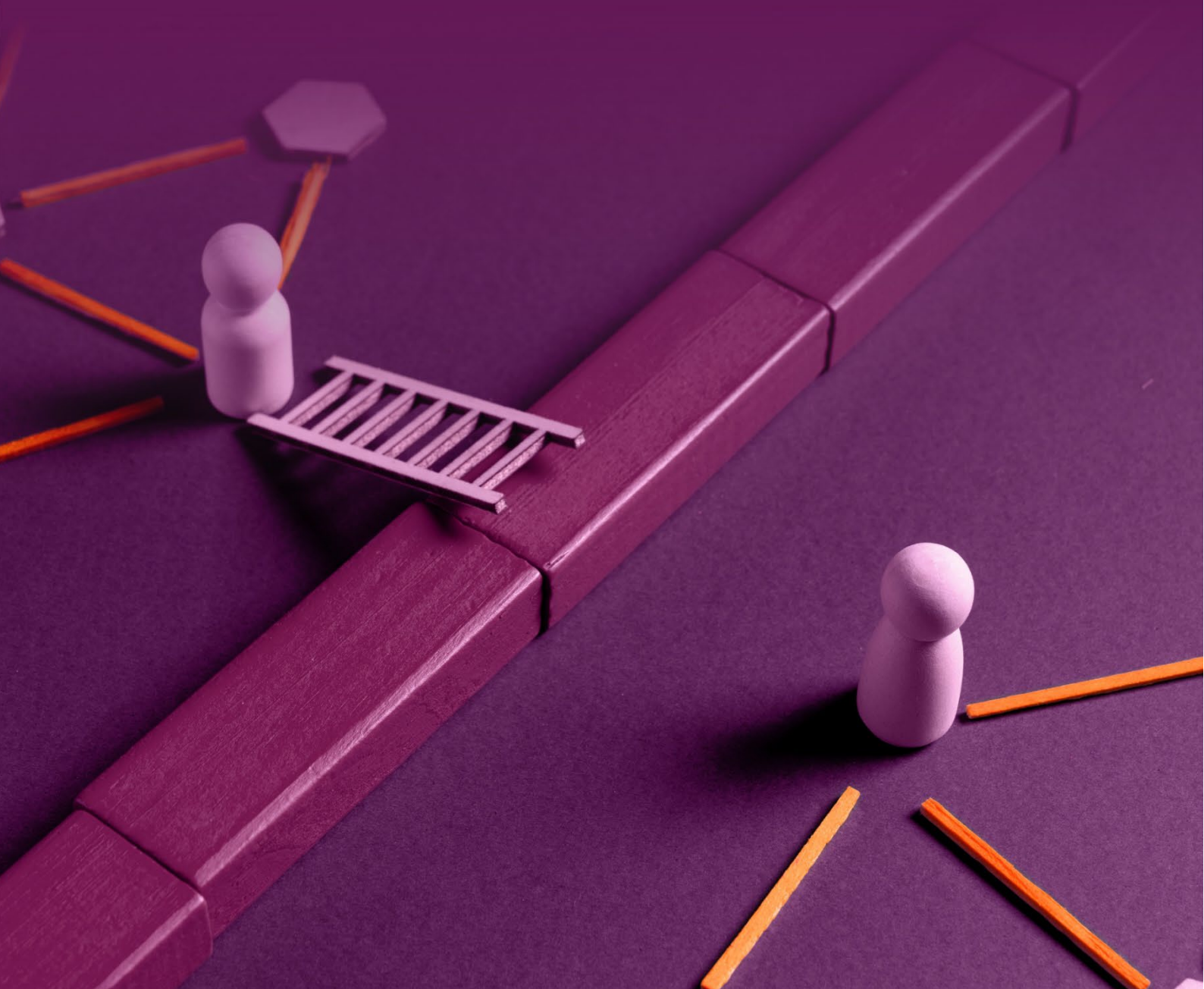




cyril amarchand mangaldas
ahead of the curve

India's Acquisition Financing Revolution

What it means for Banks, Acquirers
and Trusted Advisors



India has witnessed a sustained increase in domestic and cross-border M&A transactions over the past few years. India's M&A deal market in 2025 saw a massive resurgence, characterized by high-value strategic consolidations and a notable increase in total volume, marking a 41% year on year increase, while deal values climbed 36% to USD 60.2 billion. Of this total M&A value, 26% or USD 15.7 billion across 84 deals was in the banking and financial services space, supported by consolidation in NBFCs, financial services platforms and strategic stake sales. (source: *Grant Thornton Bharat's Annual Deal Tracker 2026*).

— India M&A 2025 Overview —



Given these numbers, access to acquisition financing has become ever more critical and is often the decisive variable in determining the commercial viability of a corporate acquisition.

Recent changes to India's banking laws have permitted acquisition financing by banks in India. But before we delve into the changes and their implications, it stands to reason that we consider the erstwhile framework and their rationale.

Why the RBI Kept Banks Out: The Regulatory Rationale

The Reserve Bank of India (**RBI**), India's central bank, has historically restricted an Indian bank's ability to finance the acquisition of equity shares. These included restrictions on bank funding for promoters' contribution towards equity and financing the acquisition of equity shares, save for very exceptional cases.

The Banking Regulation Act 1949 (**BR Act**) and related guidelines further reinforced this position, providing that no advances made by a bank are to be used by a borrower to acquire or retain a controlling interest in a company or to facilitate or retain inter-corporate investments. The RBI also imposed minimum requirements on the resources and liquidity of domestic banks and placed limits on the amount of their exposure to loans whose repayment or value is linked to equity shares or capital market linked instruments, whether listed or unlisted (capital market exposure).

RBI's focus has been on increasing access to formal banking and achieving financial inclusion at scale. The prohibition on banks financing acquisitions of companies was a policy choice rooted in India's developmental context and was on account of the following macro-economic considerations:



Concerns around the equity market exposure of banks

Exposing entities that were funded by public deposits and which performed a critical function in the payments and credit architecture of the economy to the inherently cyclical and speculative nature of equity markets was seen as too risky by the regulator.



Demand for liquidity

When a bank lends against the security of shares in the acquisition financing context, its ability to meet depositor withdrawals could be compromised at moments of market downturns and corporate distress, when the demand for liquidity is the highest. The consequences of this in a developing economy were far more critical.



Diversion of bank credit

The prohibition against acquisition financing was also put in place to ensure that the banking system was reserved for productive economic activity through providing working capital, project finance and infrastructure development. As a policy imperative, these created a distinction between equity markets and credit markets.

The regulatory prohibition on bank lending did not suppress demand for acquisition finance; it merely channeled that demand to less regulated and often more expensive sources of capital in the private credit market, such as NBFCs, FPIs and AIFs. Unlike banks, NBFCs are comparatively less regulated and are permitted to fund equity acquisitions through loans or other debt instruments like NCDs.

However, the borrowing cost from NBFCs is significantly higher because NBFCs themselves borrow from banks/ financial institutions, and the interest margins are therefore higher. Further, the risk appetite that acquisition financing demands also came at a premium.

Alternatively, funds for facilitating acquisitions were also routed through international banks, capital markets, overseas financial institutions and offshore debt funds, where permissible under the extant foreign exchange laws and where the transaction demanded immediate foreign currency liquidity. Notable examples include the acquisition of CORUS plc. U.K. by Tata Steel in 2007.

Why change now?

As the banking sector in India matured and the equity capital markets deepened, it also brought with it a degree of stability. The concentration of acquisition finance in the less regulated NBFC and private credit sector created its own systemic risks, and NBFCs in general had pivoted towards retail lending owing to the RBI provisioning norms.

RBI came to recognise that allowing regulated banks into this space would deepen the market and bring more supervised credit into acquisition financing.



In this context, the RBI governor in a landmark move announced on **October 1, 2025** that it will permit Indian banks to fund M&A transactions by Indian corporates.

Following this announcement, the RBI issued the draft RBI (Commercial Banks – Capital Market Exposure) Directions, 2025 for comments in October 2025. This was subsequently replaced by and crystallised into two sets of Amendment Directions – (a) RBI (Commercial Banks - Credit Facilities) Amendment Directions, 2026; and (b) RBI (Commercial Banks - Concentration Risk Management) Amendment Directions, 2026 (**Amendment Directions**).

The Amendment Directions shall come into force from July 1, 2026. Briefly put, while the Credit Facilities Amendment Directions govern the substantive rules for acquisition financing (i.e. eligible borrowers, eligible targets, conditionalities, securities and structural considerations), the Concentration Risk Management Amendment Directions govern the exposure limits on banks extending such finance.

The Devil is in the Detail

The key features of the Amendment Directions are as follows:

- (i) **Definitional understanding:** “Acquisition finance” is defined to mean a financial facility or assistance to an eligible borrower entity for the purpose of acquiring control in a target company (including through a scheme of merger or amalgamation), including to refinance existing debt of the target company if such refinancing is integral (a subjective assessment) to the acquisition finance.

- (a) The definition uses the word “acquiring” rather than the draft directions’ use of the word “purchase”, so there are reasonable grounds to suggest that both primary (subscription of new shares) and secondary (purchase from an existing shareholder) acquisitions may be covered, so long as the intention is to gain “control” over the target.
- (b) Further, the revised definition also clarifies that the transaction may be structured through a scheme of merger/ amalgamation, which opens up various structures for acquisition finance.
- (c) The primary definition therefore contains no reference to any specific instrument. The operative criterion is the acquisition of *control* — an outcome — and not the deployment of any particular class of financial instrument.

(ii) Control:

- (a) The regulations lay overarching emphasis on the acquisition of ‘control’ or increase of stake towards acquiring control by expressly stating that the financing should be extended for strategic investments. To this end, the regulations reference the definition of ‘control’ under the Companies Act, 2013 (**Companies Act**), which is the right to appoint majority of directors, control the management or policy decisions exercisable by a person/ persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding/ management rights/ shareholders agreements/ voting agreements or in any other manner.
- (b) This criterion for potential synergies has to be assessed for all companies that the acquirer gains control of as a result of acquisition of the target.
- (c) Where acquirer already controls the target, acquisition financing for proposed acquisition is permitted if it crosses significant control thresholds of 26%, 51%, 75% or 90% of voting rights in the target.
- (d) Overall, any control acquisition should be completed in a period of 12 months from the disbursement of the acquisition finance, whether in a single transaction or series of transactions.

As such, the policy is tuned forward, providing financing for investments driven by the core objective of creating long-term value for the acquirer through potential synergies, rather than mere financial restructuring for short-term gains. Banks will therefore need to satisfy themselves at the credit assessment stage that the acquisition is genuinely strategic, reinforcing the substance over form approach. This requirement may create scope for challenge if a bank-financed acquisition is later exited from or unwound quickly.

(iii) Eligibility requirements for the borrowing acquirer:

- (a) The acquisition financing may be extended to (1) the acquiring company, being an Indian non-financial company, directly or for on lending to its non-financial subsidiary incorporated in India or overseas for acquisition of the target; (2) an existing non-financial subsidiary of the acquiring company whether incorporated in India or overseas; or (3) a step-down SPV set up by the acquiring company singly or jointly with another non-financial company, whether in India or overseas, specifically for the purpose.



The RBI has therefore clarified that the basic objective of the 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. The step-down SPV route is expressly recognised, validating a common pre-existing structuring tool.

- (b) Where the acquiring company holds less than a majority of voting rights in an SPV or its subsidiary through which acquisition is being done, acquisition finance will be permitted only if: (1) the acquiring company holds the single largest voting block in the SPV or subsidiary; and (2) no other shareholder or group of shareholders acting in concert holds rights that could override or veto the acquiring company's control over the SPV or subsidiary.

This express recognition of jointly held SPVs — where the acquiring company holds less than a majority but is the single largest voting block — makes consortium acquisition structures more accessible to foreign investors who frequently partner with Indian co-investors. Accordingly, careful review of joint venture and consortium term sheets is required bearing in mind these conditions.

- (c) The acquiring company may be either listed or unlisted – both kinds of entities must satisfy the requirements of (1) minimum net worth of INR 500 crore; and (2) net profit after taxes reported in each of the previous three consecutive financial years. Additionally, an investment grade rating of BBB- or higher is essential for unlisted acquirers, whether pre-existing or obtained prior to the disbursement of the acquisition finance. The directions clarify that the financial criteria will be computed both at a standalone and consolidated entity level.

This dual-level assessment — across both the consolidated group and the standalone entity — means that acquirers who are profitable at the consolidated level but loss-making or below the net worth threshold at the standalone level will not qualify. This criterion must be assessed by advisors at the structuring stage. The directions have also increased the scope of the potential market for banks. The additional rating requirement for unlisted acquirers introduces an independent credit assessment beyond the bank's own underwriting — functioning as a mechanism for verifying the bona fides and creditworthiness of the borrower.

(iv) Eligibility requirements for the target:

- (a) The target may be either a domestic or foreign non-financial company, whether listed or unlisted. *This indicates RBI's intention to make acquisition financing available for both domestic as well as outbound M&As.*
- (b) Acquisition finance is prohibited where the acquirer and the target are related parties (either as defined under the Companies Act or where entities are under the common control/management or common promoter group, whether directly or indirectly), except in cases of creeping acquisitions as mentioned above. *This allows limited flexibility for incremental stake*

acquisitions that satisfy the prescribed control thresholds. This restriction has considerable practical significance, particularly for group restructurings, intra-promoter transfers, and transactions where the acquirer and target share common sponsorship or management

- (c) Acquisition finance is also prohibited for the purposes of acquisition of a non-financial target company which has one or more financial subsidiaries/ joint ventures.

Advisors must carefully assess this restriction at the outset of any deal — any financial entity subsidiary at the target level (including an NBFC, insurance company or AIF) will disqualify the target from the acquisition finance framework.

(v) Financing parameters:

- (a) Credit assessment should be conducted on a pro-forma consolidated basis, incorporating the financials of the acquiring company and the financials of the target company on a consolidated basis, *thereby compelling banks to assess the combined entity's ability to service the debt, not just the acquirer's standalone balance sheet.*
- (b) Total bank financing should not exceed 75% of the acquisition value, as independently assessed by the bank on the basis of a valuation exercise conducted by the bank in accordance with the Indian Takeover Code, and *this ceiling ensures that acquirers continue to have skin in the game.*
- (c) The framework is calibrated around “acquisition value” rather than “equity value” or “share value”, reflecting an enterprise value orientation. The express inclusion of target debt refinancing within the definition of “acquisition finance” — where such refinancing is integral to the acquisition finance — reinforces that a purely equity-value framework would have no need to contemplate refinancing the debt layer of the target. The enterprise value lens is consistent with a framework that accommodates instruments across the capital structure of the target, not merely its pure equity layer. The “acquisition value” metric and the express permission to refinance target debt as part of acquisition finance means that the bank’s 75% contribution can, in principle, be applied across the full enterprise value of the target rather than being limited to the equity consideration. This has material implications for deal economics, particularly in leveraged transactions where the target carries legacy debt.

The enterprise value orientation reflected in the Indian framework — particularly the inclusion of target debt refinancing within the definition of acquisition finance and the calibration around “acquisition value” — is broadly consistent with how US and UK markets have long approached leveraged acquisition financing. The Indian framework is now aligning itself with the enterprise value lens that has been the default in these markets..

- (d) The remaining 25% must be funded by the acquirer from its own funds, such as through internal accruals, sale of assets or redemption of investments, or issuance of fresh equity. There are also stringent criteria laid down for what does **not** constitute own funds. Proceeds of any borrowing, or any instrument that carries a fixed repayment obligation or a put option exercisable by the investor, or any intragroup funding where the source entity has itself borrowed to make the contribution, will not constitute own funds.

- (e) **Listed** acquirers, however, can avail bridge finance provided that there is a definitive repayment plan within 12 months, and the financing is on a secured basis and does not result in the dilution of security coverage for the acquisition finance. *This means that the acquirer will either have to provide security over other assets or the target value should be sufficient to cover the equity financing on a subordinated basis.*
- (f) Post-acquisition, the debt-to-equity ratio at the acquiring company's consolidated balance sheet level shall not exceed 3:1 on a continuous basis.

(vi) Eligible Instruments

- (a) The directions have expanded the scope of the instruments through which control is sought to be achieved. These may include equity shares, compulsorily convertible preference shares and compulsorily convertible debentures conferring control over the target company.
- (b) The phrase "may include" is even more permissive, indicating that the listed items are examples of instruments that may be used, not a comprehensive catalogue of all instruments that can qualify. The directions have also expressly added compulsorily convertible preference shares (**CCPS**) to the illustrative list, demonstrating the RBI's willingness to expand the category of eligible instruments through regulatory evolution, and reinforcing that the list is not intended to be closed.
- (c) The directions further contain a qualifier that applies to all instruments, whether listed or otherwise – the instrument must be one through which "control is sought to be achieved". This is the operative test for any instrument not expressly listed in the illustrative catalogue. The qualifier is satisfied where the instrument, at the point of acquisition, is the primary or co-primary mechanism for achieving control, and not merely a contingent or optional future outcome.

(vii) Security package

- (a) The acquisition financing should be secured by the financial instruments issued by the target company through which control over it is acquired by the acquiring company, whether such instruments are equity shares, CCPS or CCDs. The security package is subject to Section 19(2) of the BR Act, which prohibits banking companies from holding shares as a pledgee in any company exceeding 30% of the paid-up share capital of that company or 30% of its own paid-up share capital and reserves, whichever is lesser.

The Directions do not clarify whether such a 30% limit should be computed at the acquirer or target level, considering that the pledgor is the acquirer, but the shares are of the target.

- (b) To ensure that any credit risk sits with the acquirer, the regulations require that a corporate guarantee from the acquiring company is mandatory in cases of acquisition finance extended to a subsidiary or an SPV of the acquiring company. Where acquisition finance is extended directly to the acquiring company itself, no corporate guarantee from a parent or affiliate is required.

- (c) All debt claims of the acquiring company or its group entities on the target company must rank subordinate to the claims of the bank(s) extending acquisition finance, for the full tenor of the credit facility.

This implies that prior to drawing down acquisition finance, any intragroup loans or advances from the acquiring group to the target will need to be assessed and, if necessary, contractually subordinated to the bank's claims.

- (d) Another security-related condition is that the instruments acquired by the acquiring company to effect control must be free from encumbrances at the time of acquisition.

This requirement has significant implications for transactions where the target company's shares or other instruments carry pre-existing pledges, liens, or other security interests in favour of the target's existing lenders, promoter-level creditors, or other third parties. In such cases, the encumbrances must be discharged before or alongside the acquisition and the creation of security in favour of the acquisition finance bank, and the transaction structuring and conditions precedent must be designed to ensure compliance with this requirement on a simultaneous and coordinated basis.

- (e) Banks may also take **additional collateral** over other unencumbered assets of the acquirer and/or target, and may seek **promoter guarantees**, but this is subject to the bank's policy.



(viii) Maximum possible exposure

- (a) The aggregate capital market exposure of banks including investment exposures and credit exposures, on both solo and consolidated basis, cannot exceed 40% of its eligible capital base.
- (b) Within this overall cap, a bank's aggregate exposure to acquisition finance is now permitted up to 20% of its eligible capital base.
- (c) Acquisition financing provided by overseas branches of Indian banks in offshore syndications is exempt from these directions, subject to their contribution not exceeding 20% of such financing.

- (ix) **Refinancing:** 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.



- (x) **Interface with Section 67(2) of the Companies Act:** Section 67(2) of the Companies Act contemplates a restriction on a company financing or facilitating the acquisition of its own shares. It provides that no public company shall give, whether directly or indirectly and whether by means of a loan, guarantee, the provision of security or otherwise, any financial assistance for the purpose of, or in connection with, a purchase or subscription of shares in the company or in its holding company. This provision would need to be suitably amended to clarify that the target's shares may be encumbered in cases where the acquirer is availing acquisition financing from banks, and to exempt such encumbrance from the restriction. *The way this is harmonized will be crucial for the effectiveness of the amendments.*

(xi) **Can acquisition financing be availed by overseas PE firms?**

- (a) A sizeable chunk of M&A in India is driven by bulge bracket PE firms which while incorporated overseas, have portfolio companies incorporated in India. However, even if such portfolio companies are incorporated in India and satisfy the eligibility criteria for availing acquisition finance from Indian banks, they would not be eligible from doing so under the extant FEMA regime by virtue of being a foreign owned and controlled company (**FOCC**).
- (b) This is because any investment by such portfolio companies would qualify as downstream investment made by an Indian entity which has received foreign investment and which is not owned and controlled by resident Indian citizens.
- (c) The Indian entity making the downstream investment that is treated as indirect foreign investment for the investee Indian entity is required to bring in the requisite funds from abroad and not use funds borrowed in the domestic markets.
- (d) Such downstream investments may be routed through internal accruals, which means profits transferred to reserve account after payment of taxes. Therefore, unless changes are made to FEMA, PE-backed transactions would continue to remain an untapped market for banks in India looking to extend acquisition financing.
- (e) A welcome change has been introduced to the ECB framework in India, where FOCCs are now permitted to borrow funds from the overseas lending markets for transacting in listed/unlisted securities pursuant to corporate actions (merger, demerger, amalgamation, arrangement, or acquisition of control) undertaken for strategic purposes to create long-term value through synergies, rather than short-term gains.

(xii) Impact on outbound acquisitions

- (a) Even before the overhaul brought about by the Amendment Directions, Indian companies could raise loans from Indian banks for an outbound acquisition for utilising such loans towards the acquisition of equity in overseas joint ventures, wholly owned subsidiaries, or other overseas companies as a strategic investment, and also benefitted from the permissive regime under the ODI guidelines, where *inter alia* pledge could be created over the equity capital or charge created over the assets of the foreign entity in which it had made ODI.

(xiii) Syndication arrangements

- (a) The Amendment Directions are silent on how syndication arrangements between Indian and overseas lenders would play out. The limited clarification provided is that acquisition finance undertaken by overseas branches of an Indian bank as part of syndication arrangements, shall not be subject to directions given in the chapter provided that the funding contribution of a bank under such a syndication arrangement for a particular deal, across all its overseas branches, shall not exceed 20% of total funding under the deal.
- (b) However, the directions are silent on whether the total funding contribution made by a syndicate would be computed towards the exposure norms (or only to the extent of the contribution of an individual bank) where third-party overseas banks are involved.
- (c) Further, the extent and nature of securities provided in syndication arrangements, as well as the *inter se* rights of lenders, will have to be contractually chalked out given that overseas lenders may have separate norms applicable to them with respect to such matters.
- (d) For foreign acquirers structuring large cross-border acquisitions, this carve-out meaningfully expands the pool of available bank liquidity. An Indian bank's overseas branches can participate in an international acquisition finance syndicate, alongside foreign banks and other lenders, without the domestic regulatory framework applying to that tranche of the funding, if the 20% aggregate cap across all overseas branches of the same bank is observed. This is particularly relevant for foreign strategic investors structuring offshore acquisition vehicles with international syndicated facilities, where the inclusion of an Indian bank's overseas branches as a syndicate participant would otherwise raise questions about the applicability of domestic RBI Directions.

Acquisition Finance – Emerging Themes for Corporate Counsel

The above changes are seismic for the Indian M&A landscape, and there are some themes which emerge from this which would be relevant for transactional lawyers to consider:

- (i) Advising Lenders with acquisition finance policies.
- (ii) Legal Due Diligence for lenders participating in acquisition finance; and
- (iii) Establishing documentation and protocols.

We examine some of these emerging themes below.

Lender's Adviser: The Policy Making Conundrum

The RBI's requirement that each bank maintain a Board-approved policy on acquisition finance is the domestic expression of a regulatory expectation that is well established in international practice. In line with global best practices, the RBI requires that these policies suitably incorporate the underwriting benchmarks that address the structural complexities of such transactions, in particular relating to exposure limits, equity contribution, leverage multiples, and cash-flow certainty.

To this end, Indian banks could seek guidance on the following:

- Defining leveraged lending clearly within their lending policy, covering all business units and geographies, and limiting acquisition finance only to borrowers who meet the RBI's eligibility criteria.
- Setting metrics for internal risk appetite towards aggregate acquisition finance exposures, concentration controls across sponsors, sectors, geographies, and transaction types.
- Manner of conducting in-depth due diligence on any new, renewed, refinanced, or materially modified leveraged transaction.
- Establishing underwriting guidelines that address collateral requirements, loan-to-value limits, collateral margins, and appropriate valuation methodologies.
- Requirement of minimum contribution (~ at least 25%) from the acquirer, and prescription of higher contributions in cyclical or higher-risk sectors to ensure alignment of interests, while permitting bridge financing only with adequate safeguards in place.

The design of Board-approved leveraged lending policies and the transaction-level checklists that sit beneath them represents a structured and repeatable legal product that Indian banks will now need to commission as a matter of regulatory necessity.



Lender's Adviser: Diligence Matters

The traditional role of acquirer-only due diligence will need to be tailored toward lender due diligence in acquisition financing to assess whether that asset will continue generating the cash flows needed to service the debt over the life of the facility – a forward-looking, scenario-based inquiry that extends well beyond a point-in-time assessment of legal title.



Under the Credit Facilities Amendment Directions, banks are required to conduct credit assessment on a pro-forma consolidated basis, incorporating the financials of both the acquiring and target entities. This makes rigorous lender due diligence not merely a best practice, but a regulatory obligation.

The new framework imposes substantive obligations on banks in their credit assessment process, which will translate directly into more intensive due diligence requirements on prospective borrowers. The Amendment Directions also prohibit acquisition finance where the acquiring company and the target are related parties within the meaning of Section 2(76) of the Companies Act, or are under common control, common management, or a common promoter group (directly or indirectly), unless it is for the purposes of a creeping acquisition. These aspects will need to be considered in detail as a part of the substantive lender due diligence of the target and the transaction.

In cross border acquisitions, lender banks would also insist on foreign law opinions where the target's shares or assets are governed by foreign law – Indian counsel alone cannot determine compliance with foreign securities law requirements.

As the market matures, standardised lender DD checklists, reliance letter protocols, and data room access arrangements will develop, calibrated to the specific regulatory architecture that the RBI has now put in place.

Lenders Counsel - We call you for the paperwork

There is a compelling opportunity for Indian firms to develop an India-specific acquisition finance document suite (including facility agreements, security documentation and bridge finance agreements) adapted for the mandatory requirements of the Amendment Directions and other applicable Indian laws.

Borrowers Counsel - Protocols for Acquirers

As transactional lawyers who will be advising borrowers in relation to acquisition finance and being that acquisition finance by banks is a nascent area of practice in India, it is likely that firms would be called upon to advise on the transaction in three broad phases while representing borrowers.

(i) Phase I - Diligence and Board Approval by the Bank:

- (a) Legal Due Diligence towards eligibility assessment under the Amendment Directions (such as for net-worth, related party disqualifications, credit rating etc.), including obtaining external opinions from firms to certify compliance.
- (b) Corporate authorizations (whether from the board and/or shareholders) for sanctioning use of internal accruals, guarantees extended by the acquirer etc.

(ii) Phase II - Transaction Documentation:

- (a) Acquisition agreements for confirmation on acquisition price, structuring considerations, control outcome, pro-forma consolidated credit assessment mechanics, 75 per cent acquisition value cap etc.
- (b) Facility/ loan agreements, guarantees (where the borrower is an SPV or subsidiary), security documents for pledge creation and enforcement over the instruments through which control is effected, subordination agreements addressing intra-group debt ranking, along with ancillary documentation like powers of attorney.
- (c) In a bid scenario, the acquirer may be required to evidence the availability of financing as part of its offer, whereas lenders will be willing to disburse only upon deal certainty. *Here, an interim/ short-form facility agreement or term sheet may prove to be a useful middle ground.*

(iii) Implementation and compliance:

- (a) Assistance with regulatory approvals like those from the Competition Commission of India where the transaction meets applicable turnover/ asset thresholds and sectoral approvals from the relevant authorities where the target and/or acquirer are engaged in industries like pharmaceuticals, telecommunications etc.
- (b) Form filings for registration of charge with the jurisdictional registrar of companies, creation of pledge/ non-disposal undertakings with the depository participants, and relevant onward disclosures under SEBI regulations.
- (c) Compliance with applicable laws and regulations (such as labour laws and environmental standards) to ensure absence of penalties, fines, litigations, or reputational damage that undermine the investment value.
- (d) Periodical monitoring to ensure that the debt-equity ratio is maintained at all times and that the pledged shares are free of encumbrances so that the bank's interest remains perfect.
- (e) In cross border transactions, transaction counsel would need to ensure compliance under Indian laws and foreign laws, and may require vetting by target/seller counsel as well. These are areas that foreign firms and Indian firms can collaborate to ensure client delight.

Concluding thoughts

The Amendment Directions mark a structural turning point for Indian acquisition finance, transforming what was previously a patchwork of workarounds into a regulated, bankable product, including an exhaustive list of eligible instruments, and calibrating the framework around enterprise value.

For investors, the key takeaway is the analysis of whether a particular instrument is eligible for acquisition finance has fundamentally shifted. This is a principled, outcome-based test that rewards careful structuring and opens India's acquisition finance market to a considerably wider range of transaction architectures than was previously possible.

For banks, the challenge is to develop the internal credit frameworks, board-approved policies, and documentation precedents that this entirely new product demands. For acquirers and their advisers, the opportunity is to deploy the structural flexibility of the Amendment framework creatively, using the full range of eligible instruments and structuring tools the framework affords, while remaining firmly anchored to the policy objective that underpins the entire regime: genuine, long-term strategic value creation through the acquisition of control.

For law firms advising in this space, the new framework simultaneously deepens existing mandates and creates entirely new ones acting for lenders on policy design, credit diligence, and security review, advising borrowers through an unfamiliar eligibility and documentation process, and navigating the unintended and intended consequences of the proposed changes in law.

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