

**O/o Registrar of Chits and
Commissioner and Inspector General
of Registration and Stamps,
Andhra Pradesh, Hyderabad.**

Circular Memo.No.CF/3639/2011, Dt.29-04-2011.

**Sub:- Chit Fund Act, 1982 – Certain instructions with regard to opening of
New Branches of Chit Fund Companies Issued – Regarding.**

Attention of all the Deputy Registrars of Chits and District Registrars in the state is invited to the subject cited. It has come to the notice of the Registrar of Chits and Commissioner and Inspector General of Registration and Stamps that now-a-days many a Chit Fund Company are resorting to opening of New Branches on the ground that the Sec.13(3) of the Chit Fund Act, 1982 stipulates that they are eligible for conduct of Chit Business to the extent of 10 times of their share capital.

The Sec.13(3) prescribing ten times of business of New Owned Funds takes into account only Chit amount (One Chit Value) for reckoning the limit. But, each Chit Bye-law (Chit Group) has 20 to 50 Members in each such group. Hence, it is observed that the risk of operation gets stepped up to 20 – 50 times during which period, the Company may also run into losses. It is observed that the Assistant Registrars of Chits find it very difficult to stop the Chits already permitted in the event of registering losses subsequently. Unless certain parameters for sanctioning of limits, number of reviews per year, the action to be taken in case of erosion of capital / reserves etc. are not clearly spelt out, the department cannot satisfactorily regulate the Chit Business and the subscribers' interest may suffer irreparably in the event of payment defaults to the subscribers.

Therefore, it is necessary that the business and the profits are closely watched for about 5 years time and it is not desirable to accord permission for every time capital is increased. Similarly, past profits for the last 5 years may be appraised and certain limits for raising the capital can be prescribed. The Chit Business immovable properties may also be similarly considered for estimating the Net Owned Funds and volume of business. The Chit Fund Companies may be permitted to do business commensurate with financial soundness but not on makeshift increase of capital at frequent intervals.

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Hence, the Dy. Registrars of Chits are hereby directed to follow the following instructions before forwarding the applications for opening of New Branches of Chit Fund Companies as detailed hereunder:-

No. of Completed years with Profits	Permissible Limit.
Below 3 Years	Up to only 5 times of Net Owned Funds.
Above 5 years and below 10 Years	Up to 6-9 times of Net Owned Funds
Above 10 Years	Up to 10 times of Net Owned Funds.

The Deputy Registrars of Chits may consider review of augmentation of Capital / Reserves only once in Six Months and not exceeding two per year. In all cases where a foreman has not done 5 Years of business, the financial capability of making profits be reviewed every month and foreman may be called upon to augment the capital so eroded or furnish immovable property security twice the erosion of the capital on account of sustaining losses or for any other reason. In case of non compliance to these directions winding up proceedings proportionate to shortfall of capital / free reserves may be initiated to protect the interests of the subscribers. In cases of Companies functioning more than 5 years with profits, similar review/action shall be held every quarter by the end of June, September, December and March and similar action to cover shortfall, if any, shall be taken.

The Deputy Registrars of Chits are directed to follow the instructions issued supra scrupulously before sending proposals for opening of New Branches of any Chit Fund Company hereafter. The receipt of the Circular Memo. shall be acknowledged immediately.

**Sd/-B.Aravinda Reddy,
Registrar of Chits and
Commissioner and Inspector General
of Registration and Stamps,
Andhra Pradesh, Hyderabad.**

**To
All the Deputy Registrars of Chits
And District Registrars in the State.**

/f.b.o/

**Sd/-A.V.Kumari,
Superintendent**