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# **TYPES OF COMPANIES UNDER THE COMPANIES ACT, 2013**

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## **Abstract**

The company of any nature is formed with the common purpose and common trade or common business in order to share profit and loss arising therefrom. As we know company is a legal entity as per legislation provided. Certain characteristics are there related with company that has to be expressly discussed. There are different kinds of companies provided under the companies act, 2013. There is specific procedures and rules for the formation of each kinds of company. There are certain beliefs and behaviours that determine how employees of the company's interact and transact with each other. The culture of company may vary from company to company. The present study is about the nature of company alongwith its characteristics. The kinds of companies and also the rules for formation of companies are discussed.

**Keywords:** Act, Certain, Company, Kinds, Nature

## **1. Introduction**

In India, there are different kinds of businesses, each with its own set of rules. These rules are set by Indian Company Law. Whether a person is starting a small or big business, it is very essential to know about the types of companies covered by Indian law. These types decide things like who owns the business, who is responsible if something goes wrong, how the company is managed, and what rules it must follow.

According to Section 2(20) of the Companies Act, 2013, a "company" means a company incorporated under the Companies Act, 2013 or under any previous company law. The Companies Act of 2013 replaced the Companies Act, 1956. The Companies Act, 2013 makes

provisions to govern all listed and unlisted companies in the country. The Companies Act 2013 implemented many new sections and repealed the relevant corresponding sections of the Companies Act 1956. This is landmark legislation with far-reaching consequences for all companies incorporated in India.

It is needless to say that we have a multitude of companies of various kinds. From corporate companies to one-person companies, we have so many kinds of companies. Mainly, these companies can be classified on the basis of size of the company, number of members, control, liability, and manner of access to capital. This article shall be talking in- depth about all such companies and various other kinds of companies too.

## **2. Types of companies in Company Law**

### **2.1. Types of companies on the basis of size or number of members in a company**

#### **2.1.1. Private company**

According to Section 2(68) of the Companies Act, 2013 (as amended in 2015), "private company" is defined as a company having a minimum paid-up share capital as may be prescribed and which, by its articles, restricts the right to transfer its shares. It can have a maximum of 200 members. As per this Section, the private company consists of the following rules:

- 1) A private company needs to have a certain minimum amount of money invested in its shares. This amount is determined by the Act, but previously it was specified as one lakh rupees or a higher amount as prescribed by the government, but after the amendment made in the year 2015, it was omitted.
- 2) In a private company, the rules called Articles of Association (AoA) restrict how shares can be sold or transferred to others. This means shareholders cannot freely sell their shares to anyone outside the company without following specific procedures outlined in the company's AoA.
- 3) Typically, a private company can have a maximum of 200 members. However, there is an exception for one-person companies, which can have only one member. If multiple people jointly own shares, they count as a single member.
- 4) Employees and former employees who still hold shares are not counted in this limit.
- 5) Private companies cannot publicly invite people to buy their shares or other securities. They cannot advertise or solicit the general public to invest in their company. These rules are designed to provide certain benefits and protections to shareholders while also

regulating the operations of the company. They ensure that private companies operate within a controlled environment and maintain a close-knit structure.

### **2.1.1.1. Advantages of private company**

A private limited company enjoys the following advantages:

- 1) Owners have more control over decision-making and operations since there are fewer shareholders.
- 2) Private companies have greater flexibility in terms of management structure, business strategies, and financial decisions.
- 3) There is less public scrutiny compared to public companies; therefore, it allows for greater privacy in financial matters and business operations.
- 4) Private companies can often act more swiftly in response to market changes or business opportunities without the bureaucratic processes required by public companies.
- 5) Private companies can focus on long-term growth strategies without the pressure of meeting short-term quarterly earnings expectations.
- 6) A private company can be formed merely by two persons. It can start its business just after incorporation and doesn't have to wait for the certificate of commencement of business.
- 7) There are comparatively fewer legal formalities that are to be performed by a private company as compared to a public company. It also enjoys special exemptions and privileges under the company law. Thus, it can be concluded that there is greater flexibility in operations in a private company.
- 8) In a private company, fewer people are to be consulted. The core people of the company who are to make decisions have a closer relationship (so to speak) and thus a better mutual understanding; hence, obtaining consent is usually not a problem, therefore making the process of making decisions faster.
- 9) A private company is not required to publish its accounts or file several documents. Therefore, it is in a much better position than a public company when it comes to the maintenance of business secrets.
- 10) The same core people with close relations continue to manage the affairs of a private company. Due to their close relations, the continuity of policy can be maintained, as there is mutual trust and a low dispute attitude.

- 11) There is a greater personal touch with employees and customers in a private company. There is also a comparatively greater incentive to work hard and to take initiative in the management of business.

#### **2.1.1.2. Disadvantages of private companies**

- 1) Private companies may find it challenging to raise capital since they cannot sell shares to the public. They rely on personal savings, bank loans, or investments from a smaller pool of investors.
- 2) Without access to public markets, private companies may face constraints in expanding their operations or undertaking large-scale projects.
- 3) Private companies may have limited access to specialised skills and resources compared to larger public companies.
- 4) Since private companies often have limited resources and access to capital, they may face a higher risk of failure, especially during economic downturns or market disruptions.
- 5) Exiting or selling shares in a private company can be more difficult and may require the agreement of all shareholders. Thus, it makes it more challenging for investors to realise their investment.

#### **2.1.2. Public company**

Section 2(71) of the Companies Act, 2013 defines a "public company" as a company that is not classified as a private company and has a minimum paid-up share capital as prescribed by law. As per this Act, a public company consists of the following aspects:

- 1) As per Section 3(1) of the Companies Act 2013, a public company must have a minimum of seven members, and there is no restriction on the maximum number of members. As per Section 149(1) of the Act, a public company consists of a minimum of 3 directors.
- 2) As per Section 4(1)a of the Act, a public company having limited liability must add the word "limited" at the end of the name. The shares of a public company are freely transferable.
- 3) A public company differs from a private company in various ways. Unlike private companies, which have restrictions on share transfers, public companies have more flexibility in trading their shares and can have a larger number of shareholders. This

distinction impacts how the company operates, its governance structure, and its obligations to shareholders and regulatory authorities.

- 4) Earlier, public companies were required to have a certain minimum amount of money invested in their shares. This is known as the paid-up share capital. The law sets the minimum threshold at five lakh rupees, but the government may prescribe a higher amount. This requirement ensures that public companies have sufficient financial backing and stability to operate on a larger scale. However, the minimum requirement of paid capital of five lakh was omitted in the Amendment Act of 2015.
- 5) If a company is owned by another company that is not private, such as a public company, even if it is still considered private according to its own rules, it is treated as a public company.

#### **2.1.2.1. Registration of public company**

In order to register the public company, the following aspects need to be considered:

- 1) There must be at least 7 shareholders and 3 directors to start a public limited company. Shareholders can be individuals, other companies, or Limited Liability Partnerships (LLPs), while directors must be individuals.
- 2) Directors need a Director Identification Number (DIN), which can be obtained by applying online through the Ministry of Corporate Affairs. Indian nationals need a PAN card for this.
- 3) All promoters and directors must have a digital signature certificate for online document submission. These certificates are obtained from certifying authorities in India. For the Director Identification Number (DIN), a copy of a PAN card self-attested for Indian nationals and proof of address utility bills not older than 2 months, or a passport for foreign nationals, are required.
- 4) Choose a location for the registered office and decide on the authorised capital of the company. The registered office can be any identifiable address, and there is no minimum capital requirement for a public limited company.
- 5) The company's name should end with 'Limited'. Apply for name approval from the Registrar of Companies (ROC) through the Ministry of Corporate Affairs website. Submit multiple names in order of preference, and ensure they comply with the guidelines.
- 6) Once a company name is approved, one needs to prepare the Memorandum of Association (MOA) and Articles of Association (AOA) in the prescribed format. These

documents are now prepared electronically (eMoA and eAOA). Submit the eMoA and eAOA to the ROC for registration of the company.

- 7) After due verification, the ROC will register the company and issue a Certificate of Incorporation (COI). After the issuance of the COI, a Corporate Identification Number (CIN) will be allocated to the company. For the Digital Signature Certificate (DSC), application forms need to be filled out and signed, and ID proof (passport, driving licence, PAN card, etc.), and address proof (passport, driving licence, utility bills, etc.) are required.
- 8) Within a period of approximately six months, that is, 180 days from the official date of incorporation, a newly established company is required to complete and submit a form.

#### **2.1.2.2. Advantages of a public company**

- 1) Public companies can easily raise funds by selling shares to the public through the stock market; this will facilitate their ability to expand and undertake activities like research. Thus, investors can easily buy and sell parts of a public company on the stock market. Hence, this makes it easier for investors to get in and out whenever they need.
- 2) Public companies have more opportunities to team up with or buy other companies, which helps them to expand and do different things.
- 3) Public companies are usually bigger and more noticeable, so they can offer better jobs and pay.
- 4) They have greater access to mergers, acquisitions, and partnerships, which can help them grow and diversify their business.
- 5) Public companies are more visible; hence, they can offer better job opportunities and pay.

#### **2.1.2.3. Disadvantages of a public company**

- 1) It's harder to start a public company because one needs to create and file a detailed document called a prospectus, and rules must also be followed when giving out shares.
- 2) Public companies have many directors and managers. Decisions are made in meetings, which can take a long time.
- 3) Public companies must share lots of documents with the government. Their financial information is made public. So, keeping business secrets is tough.
- 4) Public companies must follow many rules. The government controls them a lot. This will limit the flexibility.

- 5) In public companies, the owners and managers are often different. Paid managers may not have a strong reason to work hard. Further, it's hard to maintain close relationships with customers and employees. Sometimes, there are conflicts between shareholders, lenders, and managers.
- 6) Shares of public companies are traded every day. Some people may try to make quick money by gambling on these shares. This may have an impact on smaller shareholders.
- 7) The people who own parts of the company, called shareholders, often want quick financial growth. They might push for quick profits, even if it means sacrificing long-term growth.
- 8) When a company goes public, it loses some control. Shareholders and market expectations start to affect decisions, and the original owners might have less opportunity.
- 9) Public companies might get sued by shareholders or government regulators, which can cost a lot and impact the company's reputation.
- 10) Public companies might face lawsuits from shareholders or regulators; this will be more costly and adversely impact the company's reputation.
- 11) Some investors might try to influence the company's decisions to serve their own interests; this can create conflicts and cause disruptions in how the company operates.

### 2.1.3. Small company

Section 2(85) of the Act defines 'small company' as a type of company that is not a public company. There are two main things that determine a small company, which include:

- 1) **Paid-Up Share Capital:** This is the total value of shares paid to shareholders. This amount should not be too high. It used to be fifty lakh rupees, but now it can be higher, up to ten crore rupees or five crore rupees.
- 2) **Turnover:** This is the total revenue a company makes from its business activities. In small companies, the turnover for the previous year should not be too high. It used to be two crore rupees, but now it can be up to four crore rupees or forty crore rupees.

#### 2.1.3.1. Exceptions

There are some exceptions to the above mentioned amount criteria. The companies stated below are exempt from such requirements, which include:

1. **Holding or Subsidiary Companies:** These are companies owned or controlled by another company, known as a holding company, which manages and controls its

subsidiaries.

2. **Section 8 Companies:** These are non-profit companies formed for specific purposes.
3. **Companies Governed by Special Acts:** These are companies governed by special laws for particular sectors.

#### **2.1.3.2. Recent changes in the definition of small company**

The definition of a small company changed recently. The Companies Act of 2013 introduced the idea of small companies based on their paid-up share capital and turnover. Recently, the Ministry of Corporate Affairs made changes to the definition of a small company through an amendment on September 15, 2022. Previously, the threshold for categorising a company as small based on turnover and paid-up share capital was two crore rupees and twenty crore rupees, respectively. However, with this amendment, the limit was increased to four crore rupees for paid-up capital and forty crore rupees for turnover. Now, the threshold for being small based on turnover and paid-up share capital is higher.

#### **2.1.3.3. Effect of amendment**

The changes in the definition of a small company reduce the certification requirements for e-forms submitted to the Register of Companies (ROC) by practising professionals such as Chartered Accountants, Company Secretaries, and Cost Accountants. However, holding a Certificate of Practice (COP) opens up various opportunities beyond ROC compliance, including areas like intellectual property rights, litigation, and investment banking.

#### **2.1.3.4. Role of small companies**

Small companies are important for the economy. They contribute to the growth and development of the economy. They are registered similarly to private limited companies, but their status is determined by their paid-up share capital and turnover, not by a separate registration process.

#### **2.1.4. One Person Company**

The Companies Act, 2013 also provides for a new type of business entity in the form of a company in which only one person makes the entire company. It is like a one man-army. Under Section 2(62), One Person Company (OPC) means a company that has only one person as a member. Features of OPC include:

1. One person can set up and run the whole company as both the owner and director.

2. While an OPC can have up to 15 directors, only one person can own it.
3. At least one director must be an Indian resident who has lived in India for at least 182 days in the last financial year.
4. No minimum capital is needed to register an OPC. The owner can invest as much as they want, and government fees are based on this.
5. The owner's liability is limited to the capital they have invested. This means their personal belongings are safe if the business faces losses or debts.
6. OPCs are great for small businesses and startups with turnover below Rs. 2 crores and capital investment under Rs. 50 lakhs.
7. Only Indian citizens can register an OPC. Foreign investment is not allowed, ensuring full ownership by Indian residents.
8. The company's name should include "One Person Company" in brackets as per Section 3(1)(c) of the law.

#### **2.1.4.1. Members and directors**

1. As per Section 3(1) (c), OPC can have only one member.
2. As per Section 152(1), the individual member is deemed the first director until other directors are appointed.
3. As per Section 149 (7), an OPC can have a minimum of one director and a maximum of fifteen directors, and a special resolution must be passed by the OPC in order to exceed fifteen directors.

An OPC must select one person as a 'Nominee' who will take over in case the sole member is unable to run the OPC due to reasons like death or incapacity. The nominee will:

1. Become a new member of the OPC.
2. Receive all the shares in the OPC
3. Be responsible for all the liabilities of the OPC.

The nominee's consent to act as a nominee must be obtained and submitted to the Registrar of Companies (RoC) at the time of incorporation, along with the Memorandum of Association (MoA) and Articles of Association (AoA).

#### **2.1.4.2. Withdrawal and replacement of nominee**

1. The nominee can withdraw their consent by giving written notice to both the sole member and the OPC.

2. Upon withdrawal, the sole member must nominate another person as the new nominee within 15 days.
3. The OPC must inform the RoC about the withdrawal of consent, name the new nominee, and obtain the written consent of the new nominee within 30 days of receiving the withdrawal notice.
4. This information must be filed with the RoC using Form No. INC-4 along with the required fee, and the written consent must be submitted using Form No. INC-3.
5. The nominee can be changed at any time by informing the RoC.

#### **2.1.4.3. Limit on multiple memberships**

If a person is a member of one OPC and becomes a member of another OPC as a nominee, they must choose to remain a member of only one OPC within 180 days. They need to withdraw their membership from one of the OPCs within this period.

#### **2.1.4.4. Registration of OPC**

In order to register an OPC, here are the steps one needs to follow:

1. Get a Digital Signature Certificate (DSC) for the proposed director. This requires documents like address proof, an Aadhaar card, a PAN card, and contact details.
2. Apply for the Director Identification Number (DIN) using the SPICE+ form. This form allows for applying for DIN for up to three directors at once.
3. Apply for name approval for the company using the SPICE+ application. One needs to specify a preferred name. If rejected, another name can be submitted.
4. Once the name is approved, prepare the necessary documents including the Memorandum of Association (MoA), Articles of Association (AoA), proof of registered office, and consent from the nominee in case the director becomes unable to act.
5. File these documents along with forms like INC-9 and DIR-2 with the Registrar of Companies (ROC) using the SPICE+ Form, SPICE-MOA, and SPICE-AOA.
6. The PAN number is automatically generated during incorporation.
7. After verification, the ROC issues a Certificate of Incorporation, and the company can start operating.
8. The OPC must have at least one member and a nominee, with the nominee's consent obtained in Form INC-3.

9. Make sure to comply with the Companies (Incorporation Rules) 2014 regarding the company name.

The whole process, from getting DSC and DIN to receiving the Certificate of Incorporation, usually takes around 10 days, on departmental approval and response times.

#### **2.1.4.5. Advantages of OPC**

1. Setting up an OPC is relatively easy and requires only one person to start.
2. An OPC offers limited liability protection to its owner; accordingly, personal assets are not at risk in the case of business debts.
3. The owner has complete control over the company without sharing decision-making power with anyone else.
4. An OPC is seen as its own legal entity, separate from its owner. This makes it look more credible and makes it easier to get funding.
5. Compared to bigger companies, OPCs usually have fewer legal rules to follow and less paperwork to deal with, making it simpler to run the business.
6. OPCs might enjoy tax benefits and incentives from the government, which can save money on taxes.
7. Since there is only one owner, decisions can be made easily without needing to consult or get approval from others. This makes it easier to adapt to changes in the market.

#### **2.1.4.6. Disadvantages of OPC**

1. Only one person can own an OPC, which might cause difficulty in growing and getting investments compared to larger companies with multiple owners.
2. OPCs are owned by just one person and have to deal with a lot of legal paperwork and rules, which can be more complicated compared to businesses.
3. Some people might think OPCs are less stable or reliable than bigger companies with more owners.
4. OPCs have to appoint someone else to represent them, which might bother entrepreneurs who want to make all the decisions themselves.
5. With just one owner, OPCs might find it hard to get enough money, expertise, or connections, making it tough for them to grow.
6. If something happens to the owner, like if they get sick or pass away, it can be hard to figure out what to do with the OPC next, especially if there is no plan in place.

7. Selling or giving away an OPC can be complicated and might scare off potential buyers or investors because of all the legal stuff involved.

## **2.2. Types of companies on the basis of control**

### **2.2.1. Holding company**

A holding company is a company that owns one or more other companies. These other companies are called subsidiary companies because they are controlled by the holding company. So, the holding company is like the parent company, and the subsidiaries are its smaller companies. Such a type of company, directly or indirectly, via another company, either holds more than half of the equity share capital of another company or controls the composition of the Board of Directors of another company.

#### **2.2.1.1. Definition of holding company**

Section 2(46) of the Companies Act, 2013 defines a holding company as a holding company, in relation to one or more other companies, means a company of which such companies are subsidiary companies."

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

##### **➤ Further explanation**

1. The composition of a company's Board of Directors would be deemed to be controlled by another company if that other company, by the exercise of some power exercisable by it at its discretion, could appoint or remove all or a majority of the directors;
2. The expression "company" includes any body corporate;
3. "Layer" in relation to a holding company means its subsidiary or subsidiaries."

A company can become the holding company of another company in any of the following ways:

1. by holding more than 50% of the issued equity capital of the company,
2. by holding more than 50% of the voting rights in the company,
3. by holding the right to appoint the majority of the directors of the company.

#### **2.2.1.2. How it works**

A corporation can become a holding company in two main ways. One way is by buying enough shares in another company to have control over it. The other way is by starting a new company

and keeping some or all of its shares. Even if a holding company owns just a small part of another company's shares, like 10%, it can still control its decisions. The main connection between a holding company and the companies it controls is called a parent- subsidiary relationship. The holding company is like the parent, and the company it buys or controls is like the child, called the subsidiary. If the parent company owns all the shares of the other company, it's called a wholly-owned subsidiary.

### 2.2.1.3. Types of holding companies

In general, these companies can be bifurcated into the following types:

1. **Pure:** A pure holding company only owns shares in other companies and does not do any other business.
2. **Mixed:** A mixed holding company not only owns other companies but also does its own business.
3. **Immediate:** An immediate holding company owns another company, even if it is already owned by someone else.
4. **Intermediate:** An intermediate holding company is both a holding company and a subsidiary of a larger corporation. It might not have to share financial records like a regular holding company.

### 2.2.1.4. Merits of a holding company

1. A holding company owns different businesses, so if one business faces problems, the others can step in to help, lowering overall risk.
2. By managing everything together, a holding company can save money on things like purchasing supplies or advertising because they buy in bulk for all their businesses.
3. A holding company can choose where to invest money, people, and technology to help its businesses grow and succeed.
4. Sometimes, a holding company can pay less in taxes because it can balance out profits and losses between its businesses, potentially reducing its tax bill.
5. A holding company can control its different businesses while still allowing them to make their own decisions. This gives it flexibility in how it operates.

### 2.2.1.5. Demerits of a holding company

1. Managing many different businesses can be challenging, and it will slow down decision- making processes.

2. Holding companies have to follow rules for each business they own, which can be a lot of work and cost money to ensure compliance.
3. If one business owned by the holding company faces financial trouble, it can affect the other businesses, potentially amplifying the problem.
4. Sometimes, the holding company's objectives might clash with the goals of its businesses, which may lead to disagreements and conflicts in decision-making.

### **2.2.2. Subsidiary company**

A subsidiary company is a company that is both owned and controlled by another company. The owning company is called a parent company or a holding company. The parent of a subsidiary company may be the sole owner or one of several owners of the company. If a parent or holding company possesses complete ownership of another company, that company is referred to as a "wholly-owned subsidiary." There is a difference between a parent company and a holding company in terms of operations. A holding company doesn't have its own operations but owns most of the shares and assets of its subsidiary companies. It is basically a company that operates a business and also owns another business, known as the subsidiary. The holding company runs its own operations, while the subsidiary might engage in a related business. For example, the subsidiary might handle owning and managing the holding company's property assets to keep their liabilities separate.

#### **2.2.2.1. Definition of subsidiary company**

As per Section 2(87) of the Act, a subsidiary company is a company that is controlled by another company, called the holding company. Accordingly, a company that operates its business under the control of another (holding) company is known as a subsidiary company. Examples include Tata Capital, a wholly-owned subsidiary of Tata Sons Limited. This control can happen in two ways:

1. The holding company controls who sits on the subsidiary company's Board of Directors.
2. The holding company owns more than half of the total shares of the subsidiary company.

Even if the control is exercised through another subsidiary company of the holding company, the subsidiary is still considered part of the group. For instance, if the holding company's subsidiary controls the Board of Directors or owns more than half of the shares in another company, that company becomes a subsidiary too.

### 2.2.2.2. Types of subsidiary company

In general, the subsidiary company can be divided into the following categories:

1. **Wholly owned subsidiary company:** A wholly owned subsidiary is a company where the holding company owns all of its voting power. This means that 100% of the subsidiary's shares are held by the holding company.
2. **Deemed subsidiary company:** A deemed subsidiary is a company considered to be under the control of a holding company, even if that control comes from another subsidiary of the holding company.

### 2.2.2.3. Determination of subsidiary company

1. It is important to know the difference between the money invested in a company's shares and the voting power those shares carry. The ownership of a company is determined by its shareholders. The total value of shares that have voting rights is important. When a vote is taken at a meeting, each member usually gets one vote. But if there is a poll, the 'one share, one vote' rule applies.
2. For companies that are fully owned by another company, their AoA might give them special powers to appoint or remove directors. Checking these AoAs is important to understand the level of control the parent company has over the subsidiary.
3. Besides the AoA, there might be other agreements between the companies that outline their relationship and the powers the parent company has over the subsidiary. These agreements could come into play during mergers, acquisitions, or other business arrangements. Checking these agreements is important to understand the extent of control the parent company has over the subsidiary.

### 2.2.3. Shared relationships between holding company and subsidiary company.

A holding company and subsidiary have certain common grounds on which they share relationships, such as:

#### 2.2.3.1. Consolidated balance sheet

It is the accounting relationship between the holding company and the subsidiary company, which shows the combined assets and liabilities of both companies. The consolidated balance sheet shows the financial status of the entire business enterprise, which includes the parent company and all of its subsidiaries.

### **2.2.3.2. Management and control**

The autonomy of a subsidiary company may seem to be merely theoretical. Besides the majority stockholding, the holding company also controls the important business operations of a subsidiary. For example, the holding company takes charge of preparing the by-laws that govern the subsidiary, especially for matters pertaining to hiring and appointing senior management employees.

### **2.2.3.3. Responsibility**

The subsidiary and holding companies are two separate legal entities; any of them may be sued by other companies, or any of these companies may sue others. However, the parent company has the responsibility of acting in the best interest of the subsidiary by making the most favourable decisions that affect the management and finances of the subsidiary company. The holding company may be found guilty in court for breach of fiduciary duty if it does not fulfil its responsibilities. The holding company and the subsidiary company are perceived to be one and the same if the holding company fails to fulfil its fiduciary duties to the subsidiary company.

### **2.2.3.4. Investment in holding company**

A subsidiary company can't hold shares in its holding company. Any company can, neither by itself nor through its nominees, hold any shares in its holding company, and no holding company shall allot or transfer its shares to any of its subsidiary companies, and any such or transfer of shares of a holding company to its subsidiary company would be allotment or transfer void.

Provided that nothing in this subsection shall apply to a case;

1. where the subsidiary company holds such shares as the legal representative of a deceased member of the holding company; or
2. where the subsidiary company holds such shares as a trustee; or
3. where the subsidiary company was a shareholder even before it became a subsidiary company of the holding company.

## **2.3. Types of companies on the basis of ownership**

On the basis of ownership, companies can be divided into two categories:

### **2.3.1. Government company**

"Government company" under Section 2(45) of the Companies Act, 2013 is essentially defined as "any company in which not less than 51% of the paid-up share capital is held by the Central Government, or any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company." The definition ensures that any company falling within the ambit of equal to or more than 51% ownership by the central government, any state government or governments (including more than one state's government), or a combination of central and state ownership, is recognized as a government company. Further, this classification extends to subsidiary companies that are under the control or ownership of such government companies.

Some examples of government companies are National Thermal Power Corporation Limited (NTPC), Bharat Heavy Electricals Limited (BHEL), Steel Authority of India Limited, etc.

#### **2.3.1.1. Overview of government companies**

Government companies have to follow all the rules of the Companies Act, unless there are specific exceptions. They can be registered as either private or public companies, but their names must end with 'limited.' In the names of government companies, the word 'STATE' is allowed. When it comes to transferring shares or bonds in government companies, certain formalities, like executing transfer documents, are not needed when transferring securities held by government nominees. These companies can accept deposits up to a certain limit, and their annual general meetings must be held during business hours and on non-national holidays. A government company gives its annual reports, which have to be tabled in both the House of the Parliament and the state legislature, as per the nature of ownership.

In the director's report of government companies, certain clauses about policies on director appointments and remuneration do not need to be included, as these requirements are relaxed for government companies. A subsidiary of a government-owned company is also considered a government company. These companies, managed by the government, have both government and private individuals as shareholders. They are sometimes called mixed-ownership companies. As per Section 188, the requirements for seeking approval for contracts or arrangements between government companies or between a government company and another entity have been relaxed. As per Section 188(1), transactions between two government

companies or between an unlisted government company and another entity do not need special resolution approval, provided the administrative ministry or department gives prior approval.

### **2.3.1.2. Features of a government company**

There are several features of a government company that are helpful in increasing the potential and efficiency of the company to a great extent.

#### **2.3.1.2.1. Separate legal entity**

Perhaps one of the most important features of a government company is that it is a separate legal entity, which helps a government company to deal with many legal aspects. One main legal aspect is the non-dependence on any other body. In legal terms, as it is a separate entity in itself, this makes the system more fluent and efficient.

#### **2.3.1.2.2. Incorporation under the Companies Act 1956 & 2013**

A government company is incorporated under "the Companies Act, 1956 & 2013". This gives government companies boundaries to work within, and hence it profits the end-users of the services as there are fewer chances of fraud or improper working. Also, the employees get better working conditions and are not exploited, as they have the law as their backup to protect them.

#### **2.3.1.2.3. Management as per provisions of the Companies Act**

Management in a government company is governed and regulated by the provisions of the Companies Act. This makes sure that employees are not exploited and overburdened. This further ensures the smooth functioning of the company.

#### **2.3.1.2.4. Appointment of employees**

The appointment of employees is governed by the MoA and AoA (Memorandum of Association and Articles of Association). This ensures a fair appointment on the basis of meritocracy, and people don't misuse their contacts and enter government companies.

#### **2.3.1.2.5. Fund raising**

A government company gets its funding from the government and other private shareholdings. The company can also raise money from the capital market. Hence, a government company has several fund raising mechanisms, which helps it to be financially less burdened as finances

in a government company can be raised in a lot of ways.

### **2.3.1.3. Appointment of directors**

1. As per Section 134L (3)(p) of the Act, listed and certain public companies must report on how they evaluated their board, committees, and individual directors.
2. According to Section 149(1)(b), government companies can have more than 15 directors without needing a special resolution to appoint them.
3. In Section 149(6)(c), which states the criteria for selecting independent directors, it is usually required that these directors do not have any financial connections to the company or its affiliates. However, this rule does not apply to government companies. So, even if a director has financial ties to the government company or its related companies, they can still be appointed as independent directors.
4. If the Central or State Government appoints a director, they do not need to formally consent to the appointment or file paperwork with the Registrar of Companies within 30 days.
5. Under Section 196, government companies are exempt from certain provisions related to appointing or re-appointing managing directors, whole-time directors, or managers for terms exceeding 5 years. Section 196(2), Section 196(4), and Section 196(5) are also exempt from the requirement to seek approval from the board and members for such appointments, if not in accordance with Schedule V. The notice for board or general meetings does not need to include terms and conditions of appointment. There is no need to file returns of appointments within 60 days with the Registrar of Companies. Acts performed by the appointed personnel before approval at a general meeting are considered valid.

### **2.3.1.4. Merits of government companies**

1. Government companies have the freedom to make decisions independently. This autonomy allows them to respond quickly to changes in the market or in their operations.
2. Government companies play an important role in ensuring that the local market remains fair and competitive. They do this by controlling certain aspects of business activities, such as pricing or quality standards, to prevent unfair practices like monopolies or price gouging.

3. Government companies can bring together different strengths and resources to solve the complex problems of private companies. Private companies sometimes face challenges like not having enough money or struggling to achieve their goals. Government companies often have access to additional funding or resources that private companies may lack. By joining with government companies, private companies can benefit from the financial support, expertise, and networks of government companies to overcome obstacles

### **2.3.1.5. Limitations of a government Companies**

1. Government companies usually have to face a lot of government interference and the involvement of too many government officials. Hence, it has to go through lots of checks in order to make a stable decision. Governmental decisions are usually late as they follow an elaborate procedure before actual implementation.
2. These companies evade all constitutional responsibilities by not answering to the parliament because they are financed by the government.
3. The efficient operations of these companies are hampered, as the board of such companies comprises mainly politicians and civil servants, who have special emphasis and interest in pleasing their political party's co-workers or owners and are less concentrated on the growth and development of the company. They (politicians and civil servants) are essentially focused on their promotions, which are essentially in the hands of their seniors; hence, they keep on pleasing their seniors. In order to please their seniors, they usually make the wrong decisions too.

### **2.3.2. Non-Government Company**

All other companies, except the government companies, are known as non-government companies. They do not possess the features of a government company, as stated above.

### **2.3.3. Associate companies**

According to Section 2(6) of the Companies Act, 2013, when one company owns at least 20% of the shares of another company, the second company is considered an "associate company" of the first one. For companies say X and Y, X in relation to Y, where Y has a significant influence over X, but X is not a subsidiary of Y and includes a joint venture company. Here X is an associate company. Wherein;

1. The expression "significant influence" means control of at least twenty percent of total voting power, or control of or participation in business decisions under an agreement.
2. The expression "joint venture" means a joint agreement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

If a company is formed by two separate companies and each such company holds 20% of the shareholding, then the new company shall be known as an associate company or joint venture company. The Companies Act 2013, introduced for the first time the concept of an associate company or joint venture company in India through Section 2(6). A company must have a direct shareholding of more than 20%, and an indirect one is not allowed. For example, A holds 22% in B and B holds 30% in C. In this case, C Company is an associate of B but not of A.

#### **2.3.4. Foreign companies**

A foreign company, as per Section 2(42) of the Companies Act, means a company or a corporate body that is incorporated outside India which either has a place of business in India whether by itself or through an agent, either physically or through an electronic mode, and conducts any business activity in India in any other manner." The definition states that the company has some kind of physical location or representation in India. It could be an office, a store, a factory, or any other place of business. This presence could be established directly by the company itself or indirectly through an agent. Additionally, having an online presence or conducting business electronically also counts. For Section 2(42) of Companies Act, 2013, and Rule 2(c) of the Companies (Registration of Foreign Companies) Rules, 2014, 'electronic mode' means conducting activities electronically, regardless of whether the main server is in India. This includes:

1. Business transactions between businesses and consumers, exchanging data, and other digital supply transactions.
2. Accepting deposits, subscriptions in securities, or offering securities in India or to Indian citizens.
3. Financial settlements, online marketing, advisory and transactional services, managing databases, and supply chains.
4. Online services like telemarketing, telecommuting, telemedicine, education, and research.
5. Any related data communication services, whether using email, mobile devices, social media, cloud computing, document management, or voice and data transmission.

Provided that offering securities electronically, subscribing to them, or listing securities in

International Financial Services Centres under the Special Economic Zones Act, of 2005, is not considered 'electronic mode' for the purposes of the Companies Act, 2013.

#### **2.3.4.1. Accounts of foreign company**

Section 381 of the Companies Act, 2013 states the rules or instructions about how a foreign company's accounts are to be handled. It states that:

1. Every foreign company must, in every calendar year;
  - 1.1. make a balance sheet and profit and loss account in such a form as contains all such particulars and includes or has annexed or attached thereto such documents as may be prescribed,
  - 1.2. must deliver a copy of those documents to the Registrar, provided that the Central Government may, by notification, direct that, in the case of any foreign company or class of foreign companies, the requirements of above-pointer "a" wouldn't apply or would apply subject to such exceptions and modifications as may be specified in that notification.
2. If any document as mentioned in Section 381(1) of the Companies Act, 2013 is not in the English language, there shall be annexed to it a certified translation thereof in the English language.
3. Every foreign company shall send to the Registrar, along with the documents required to be delivered to him under sub-section (1), a copy of a list in the prescribed form of all places of business established by the company in India as of the date w.r.t. reference to which the balance sheet referred to in sub-section (1) is made.

#### **2.3.4.2. Registration requirements for foreign companies under the Companies Act**

##### **2.3.4.1. Submission of documents to registrar**

As per Section 380, foreign companies must provide certain documents to the registrar within 30 days of establishing their place of business in India. These include:

1. A certified copy of the company's charter, statutes, or memorandum and articles, translated into English if necessary.
2. Full address of the company's registered or principal office.
3. List of directors and secretary with required particulars.
4. Name and address of persons in India authorised to accept service of process.
5. Address of the company's principal place of business in India.
6. Details of previous establishment closures.

7. Declaration regarding directors and authorised representative's history.
8. Any other prescribed documents.

#### **2.3.4.2.2. Accounting obligations**

As per Section 381, foreign companies must prepare a balance sheet and profit and loss account annually in the prescribed format and language. These documents, along with a list of Indian business locations, must be filed with the registrar. If not in English, certified translations are required. Accounts must be audited by a practising chartered accountant in India.

#### **2.3.4.2.3. Name display requirement**

As per Section 382, foreign companies must display their name and country of incorporation outside all Indian offices and on business correspondence. Additionally, if applicable, they must indicate limited liability status.

#### **2.3.4.2.4. Service process on foreign companies**

As per Section 383, any documents served on a foreign company must be sent to the authorised persons in India whose details are provided to the registrar. However, now electronic services are acceptable for this purpose.

#### **2.3.4.2.5. Other compliance matters**

As per Section 384, foreign companies must adhere to regulations concerning debentures, annual returns, registration of charges, and bookkeeping. Charges on properties, whether in or outside India, must be registered. They must maintain proper accounts at their principal place of business in India. Inspection procedures apply to their Indian operations.

#### **2.3.4.2.6. Prospectus and winding Up**

As per Section 391, foreign companies issuing prospectuses or Indian Depository Receipts must comply with relevant regulations. Procedures for winding up foreign companies in India are outlined, including penalties for non-compliance. A foreign company that ceases business in India may be wound up as an unregistered company, according to Section 376 of the Companies Act, 2013.

#### **2.3.4.2.7. Capital Raising**

Foreign companies can raise capital in India privately or through public offerings, subject to

prospectus requirements. Indian Depository Receipts (IDRs) may be issued, provided specific conditions are met.

#### **2.3.4.3. Foreign companies can register in India through various means, including:**

1. **Private Limited Company:** This is the quickest option. Foreign nationals can establish a private limited company, allowing up to 100% Foreign Direct Investment (FDI) under the automatic route.
2. **Joint Venture:** Foreign entities can partner with local firms in India through a joint venture. A joint venture agreement outlines terms and must comply with legal standards.
3. **Wholly-Owned Subsidiary:** Foreign nationals or companies can invest 100% FDI in an Indian company, creating a wholly-owned subsidiary.
4. **Liaison Office:** This office facilitates communication between the foreign company and Indian entities. Expenses are covered by the parent company through foreign remittances.
5. **Project Office:** For specific projects awarded by Indian companies, foreign companies can set up project offices. Approval from the Reserve Bank of India may be necessary.
6. **Branch Office:** Large foreign businesses can establish branch offices in India, provided they demonstrate profitability and meet certain criteria.

#### **2.3.4.4. Compliance for foreign companies operating in India**

1. If a foreign company stops working in India, it might need to close down as per Section 376 of the Companies Act, 2013.
2. Under the Foreign Exchange Management Act (FEMA) 1999,
  - 2.1. Foreign companies in India fall into categories like Liaison Office (LO), Branch Office (BO), or Project Office (PO) under the Foreign Exchange Management Act (FEMA), 1999.
  - 2.2. When starting a Liaison or Branch Office, the company must inform the police within five days, as per FEMA regulations.
  - 2.3. Branch and liaison offices must provide a yearly report along with financial statements to the Reserve Bank of India (RBI) by September 30, according to FEMA rules.
  - 2.4. If a branch, liaison, or project office is closing down, it must submit the necessary documents to a designated bank by following FEMA provisions.

2.5. Indian companies receiving or investing foreign money must report their finances annually by July 15, as mandated by FEMA regulations.

For example, ABB is a foreign company that originally focused on manufacturing electronic equipment. ABB has since expanded its operations into various sectors, including robotics, automation, and rail transport. The parent company of ABB is owned by Investor AB, which is associated with the Wallenberg family.

### **2.3.5. Section 8 Companies (Non Profit Companies)**

Section 8 Companies, as defined under the Companies Act, 2013, are entities that promote various objectives such as commerce, art, science, education, research, social welfare, religion, charity, and environmental protection. These companies operate with the intention of utilising their profits for the betterment of society rather than distributing dividends to their members. If the Central Government is convinced that a person or group aims to form a company under the Companies Act, 2013 for purposes like promoting commerce, art, science, sports, education, charity, etc., intends to use its profits for these aims, and won't distribute dividends to its members, it can grant a licence for registration. When a Section 8 company is registered, it does not need to include words like 'limited' or 'Private Limited' in its name, unlike other types of limited companies. It is often referred to as a non-profit organisation because its main purpose is to benefit society rather than generate profits for its members.

#### **2.3.5.1. History of Section 8 Company**

Under the Companies Act of 1913, there were rules made for starting companies that wanted to do good things, like helping people or the environment. These companies didn't have to use words like 'limited' or 'private limited.' Later, the Companies Act of 1956 allowed for the creation of companies that were focused on doing charity work. These were called Section 25 companies. Later on, the Bhabha Committee suggested some changes to the laws about how companies are run and how charities are set up. In 2013, they updated the law, called Section 8, which replaced the old Section 25. It made it easier for companies to be formed for things like helping society, education, health, or the environment. These companies cannot give profits to their owners; instead, they have to use the money for their charity work. The Indian Constitution states that both the central and state governments can make rules about charities. 'Trust and Trustees' in Entry No. 10 of the Concurrent List, and 'Charities & Charitable Institutions, heritable and Religious Endowments, and Religious Institutions' in Entry No. 28 of the Indian Constitution allow that both the central and state governments have the authority

to legislate and regulate charitable organisations.

#### **2.3.5.2. Characteristics of Section 8 Company**

1. Section 8 Companies are established with a primary intention of social welfare and charitable activities rather than profit-making.
2. Unlike other companies, Section 8 companies do not require a minimum prescribed paid-up share capital.
3. These companies are licensed by the central government under Section 8 of the Companies Act, 2013, and are mandated to work for the betterment of society
4. These companies often receive donations from the general public for their welfare projects.
5. Section 8 Companies operate with limited liability, similar to private or public limited companies, where liability of members is restricted to the extent of their share subscription.
6. Section 8 Companies are legally prohibited from distributing dividends to their members. Instead, they can reinvest their profits to further their charitable projects. The company's objectives should align with promoting various social causes, and it should plan to use its profits for these objectives without distributing dividends to members.
7. Once a company is registered, it enjoys the benefits and must follow the obligations of other limited companies. Even a firm can be a member of such a company.
8. The company cannot change its memorandum or articles without prior approval from the Central Government. It can be converted into another type of company with prescribed conditions.
9. Existing limited companies with charitable objectives can apply to be registered under this section, omitting 'Limited' or 'Private Limited' from their name.

#### **2.3.5.3. Regulatory Control**

1. The Central Government can revoke the licence if the company violates the requirements or conducts affairs against the public interest. The government directs to change its name to include 'Limited' or 'Private Limited.'
2. If the licence is revoked, the company may be wound up or merged with another similar company in the public interest.
3. In the public interest, the Central Government can force amalgamation with another similar company, specifying terms and conditions.

4. After settling debts, remaining assets may be transferred to another similar company or credited to a government fund, subject to conditions.
5. After settling debts, remaining assets may be transferred to another similar company or credited to a government fund, subject to conditions.
6. Failure to comply with these rules may result in fines or imprisonment for directors and officers, especially if fraudulent conduct is proven.

#### **2.3.5.4. Steps to incorporating Section 8 companies**

1. Start by selecting a name for the company and applying for its reservation through the SPICE Plus (SPICE+) form. If the chosen name is rejected, one can try again with two new names within 15 days of rejection.
2. Apply for a DSC for each proposed director and member. This certificate will be used for electronically signing forms.
3. Once the company name is approved, it is valid for 20 days, and further, one needs to fill out the incorporation application form online within the given timeframe.
4. The SPICE+ form combines multiple forms into one, allowing applications for name reservation, incorporation, DIN, TAN, PAN, EPFO, and ESIC registration simultaneously.
5. Provide details such as the total number of directors and members, authorised and paid-up capital, company address, director and member details, and attach necessary documents like MOA, AOA, and EPFO/ESIC registration forms. For Section 8 companies, additional documents like physically signed MOA and AOA drafts and declarations in Form INC-14 are required.
6. Upon approval of a company's incorporation application and the issuance of the Certificate of Incorporation by the Registrar of Companies (ROC), it is necessary to obtain approval to commence business within 180 days.

#### **2.3.5.5. Eligibility requirements for registration**

To qualify for registration, the primary aim must be to advance social welfare, arts, education, science, commerce, or provide financial aid to underserved communities. All profits generated must be dedicated to furthering the organisation's goals and fulfilling its objectives. No dividends may be distributed to any members or directors, either directly or indirectly. Directors or promoters are prohibited from receiving any form of remuneration. A well-defined vision and project plan for the company's operations over the next three years are essential.

**2.3.5.6. Advantages 2.3.5.7. Disadvantages**

1. These companies have a distinct legal entity separate from their members, offering protection from personal liability for company debts.
2. Member's liability is limited to the extent of their shareholding, safeguarding personal assets from company debts.
3. Section 8 Companies can be incorporated without any minimum paid-up capital, facilitating easier establishment.
4. The incorporation of Section 8 companies incurs minimal stamp duty, as the government provides certain privileges to encourage such entities.
5. Unlike other companies, Section 8 companies may choose not to include suffixes like 'private limited' or 'limited', by offering flexibility in naming conventions.
6. Section 8 Companies can avail themselves of tax benefits by obtaining registration under Sections 80G and 12AA of the Income Tax Act.

**2.3.5.6. Disadvantages**

1. Section 8 companies cannot share profits with their owners. This might make it harder for them to attract investors or make money compared to regular companies.
2. These companies have to follow many rules set by the government. This means they might need to spend more time and money to make sure they are doing everything right.
3. Section 8 companies often rely on donations or grants to keep going. If they don't get enough donations, they might struggle financially.
4. They can't share profits or pay their leaders; they might find it tough to attract talented people or change how they do things when needed.
5. Since they cannot keep profits to help them grow, they might not be able to expand or improve as quickly as regular companies.

**2.3.6. Dormant Company**

A dormant company is a type of company that is inactive or not doing any business activities for a certain period. In other words, a company may be considered dormant if it has not carried out any business operations or significant transactions for a specific period, typically two consecutive financial years or If a company has not filed its financial statements or annual returns for two consecutive years, it might also be labelled as dormant.

Being dormant does not mean the company has shut down. It is still registered, but it is not

actively engaged in any business activities. Companies may become dormant for various reasons, such as waiting to start a new project, holding assets, or temporarily pausing operations. It is defined as an 'inactive company' under the Companies Act 2013. Even though a company is dormant, it still has some responsibilities. It needs to maintain a minimum number of directors, file certain documents, and pay any required fees to keep its dormant status. A dormant company can become active again by applying to the registrar and fulfilling the necessary requirements, such as submitting financial documents and paying any outstanding fees.

#### **2.3.6.1. Definition**

As per Section 455 of the Companies Act 2013, an 'inactive company' is one that has not done any business or significant transactions or filed financial documents for the past two years. A 'significant accounting transaction' is any transaction except for a few specific ones, like paying fees to the government or maintaining office records.

#### **2.2.6.2. Registration of a dormant company**

1. If a company hasn't been active and wants to be officially recognised as 'dormant,' it can apply to the registrar, the official in charge of company registrations, in a specific way.
2. The registrar will review the application and, if everything checks out, grant 'dormant' status to the company. They will provide a certificate to confirm this.
3. The registrar will keep a list of all dormant companies.
4. If a company hasn't filed its financial documents for two years in a row, the registrar will send a notice. If the company still doesn't comply, it'll be listed as dormant.

#### **2.3.6.3. Requirements to maintain dormant status**

A dormant company must have a minimum number of directors, submit certain documents, and pay a fee to the registrar to maintain its dormant status. If it wants to become active again, it can apply and fulfil the necessary requirements.

#### **2.3.6.4. Removal from dormant register**

If a dormant company does not meet the requirements or comply with the rules, the registrar can remove it from the list of dormant companies.

**2.2.6.5. Annual return.**

Dormant companies file an annual return of Dormant Company (MSC-3) within 30 days from the end of each financial year, along with audited financials.

**2.3.6.6. Board meetings**

At least 1 board meeting every 6 months with a gap of at least 90 days between meetings.

**2.3.6.7. Application for active status**

1. Use Form MSC-4 along with the MSC-3 return for the financial year.
2. If a company remains dormant for 5 consecutive years, the registrar may initiate the process to strike off its name.
3. If a dormant company starts operating again, an application for active status must be filed within 7 days.
4. If the registrar suspects a dormant company is operating, an inquiry may be initiated. If it is confirmed, the company's dormant status may be revoked.

**2.3.6.6. Merits of the dormant company**

1. Dormant status allows the company to remain registered and legally existent without actively engaging in business operations. This means the company can be revived and used in the future without the need for re-registration.
2. Dormant companies can hold assets such as properties, katellectual property rights, or investments without the need for an active business operation.
3. By maintaining dormant status, the company can retain its business name, preventing others from registering a company with the same name during the dormant period.
4. Reviving a dormant company is generally simpler and faster than incorporating a new company. This allows for a quicker resumption of business activities when needed.
5. Keeping the company dormant instead of closing it down entirely helps preserve its reputation and goodwill in the market.
6. Dormant status provides flexibility for future business ventures or projects. The company can be activated when there is a need to engage in business activities without the need for a new incorporation process.

**2.3.7. Nidhi companies**

Nidhi companies are a type of Non-Banking Financial Institution (NBFC) recognized under

the Companies Act, 2013, primarily dealing with lending and borrowing within their members. Nidhi companies are mutual benefit societies, meaning they are owned by their members who contribute to and benefit from the company. The core activity of a Nidhi company is to cultivate the habit of thrift and savings among its members and to lend funds to them for their mutual benefit.

Section 406 of the Act deals with the power of the Central Government to modify the application of the Companies Act to Nidhi companies. Accordingly, this section states that:

1. A Nidhi is a company formed with the goal of encouraging thrift and savings among its members. It collects deposits from and lends to its members only, for their mutual benefit, and follows rules set by the Central Government.
2. The Central Government can decide which provisions of the Companies Act should or should not apply to Nidhi companies. It can specify exceptions, modifications, or adaptations for these companies through notifications.
3. Before issuing such notifications, a draft must be presented to both Houses of Parliament for review. This draft must be available for a total of thirty days during parliamentary sessions. If both Houses agree to disapprove the notification or suggest modifications within this period, the notification won't be issued or will be issued in a modified form.

#### **2.3.7.1. Characteristics of the Nidhi companies:**

1. Nidhi companies cannot deal with any other type of financial business except lending and borrowing among their members. They are not allowed to deal with the public.
2. To become a Nidhi company, one needs to register as a public company under the Companies Act, 2013, and meet certain criteria set forth by the Ministry of Corporate Affairs.
3. Nidhi companies need to comply with specific regulations outlined by the government to maintain their status and function as per the law. Membership in a Nidhi company is limited to individuals only. Other types of entities, like companies or trusts, cannot become members.
4. Nidhi companies cannot accept deposits or loans from people who are not their members, ensuring that their activities are focused solely on the mutual benefit of their members.

### 3. Conclusion:

The Companies Act of 2013 plays a very important role in keeping different kinds of companies in check and making sure they follow the rules. This law isn't just good for the companies themselves but also for their workers, customers, and society overall. This defined scope ultimately helps the end-users, as the companies have a legal framework under which they are bound to work. Hence, these companies remain under a certain boundary wall, and hence they don't misuse their power. Thus, it helps in many ways, as the employees get protected in terms of their labour rights, the end-users get good-quality products, and society as a whole faces comparatively less company-related fraudulent issues because the law has it all in its hands.

The Companies Act of 2013, replacing the Company Law of 1956, has given wonderful amendments which have improved the "quality of this law" to a great level. The Act also improves women's employment in the corporate sector. It stipulates that certain classes of companies spend a certain amount of money every year on activities or initiatives that reflect corporate social responsibility. It has introduced the National Company Law Tribunal (NCLT) and the National Company Law Appellate Tribunal (NCLAT) in order to replace the company law board for industrial and financial reconstruction. Such tribunals relieve the courts of their burden and simultaneously provide specialised justice. However, it is important to consider the pros and cons of each type of company before deciding which one best fits business goals and circumstances.

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## 5. Referred books

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