NeuSource STARTUP MINDS®
HELPING STARTUPS TO START

A COMPREHENSIVE GUIDE TO FORMING AND MANAGING A PRIVATE LIMITED COMPANY

"A PRIVATE LIMITED COMPANY CAN BE FORMED BY AT LEAST TWO INDIVIDUALS, WHERE THEIR LIABILITY IS LIMITED. SHARES OF SUCH COMPANIES CANNOT BE SOLD ON THE STOCK MARKET"

WE HELP STARTUPS TO START

"There's nothing better than the Private Limited format for a startup. If you've got a brilliant startup idea brewing in your mind, the best way to bring it to life is through the Private Limited Company format. This format is like Dhoni's helicopter shot in cricket. Why? Because your wallet won't feel the heat – even if the company falls into debt, your personal assets remain safe, untouched by anyone. Moreover, when you set up a Private Limited Company, your respect in the market will soar. Investors will take you seriously, and funding will become easier. You'll also have the option to raise funds through the stock market. This can propel your startup's engine to full speed. There are many more advantages, like if you ever feel the need to take a break from business or hand over responsibility to someone else, transferring shares is a simple task. In other words, the reins of the company can easily be handed over to someone else, without any hassle. And the biggest point is that in a Private Limited Company, the existence of the company is separate from its owners, meaning the company will continue to operate even if the owners change. It's like how a cricket team continues to play even if the captain changes. So, what are you waiting for? Start the engine of your startup and set off on the path of creating a Private Limited Company."

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Private limited companies are not required to publicly disclose their financial information like a public limited company. These companies can enjoy the benefits of autonomy and confidentiality

Comparison with Other Formats

"The process of establishing a private limited company may be complex, but the long-term benefits make it worthwhile"

As soon as you step into the world of business, the first puzzle you face is which format to choose. When we talk about a private limited company, it's a fantastic option that puts your business on the fast track. Why? Because the risk is limited. This means that even if something goes wrong in the company, your personal finances won't be affected. Additionally, it's great for raising capital and expanding your business. On the other hand, if we talk about proprietorship, it's like the rickshaw of the business world that you pull all by yourself. It's simple and cost-effective. But remember, the risk falls entirely on your shoulders. Then comes partnership, which you can think of as two or more friends coming together to start a business. There's personal risk here too, but more hands to share the load. And yes, there's a newer version called LLP, or Limited Liability Partnership. Here, your pocket is safe, meaning you're not personally liable. If we talk about OPC (One Person Company), it's the new player in the business world that lets you play solo, but without risking your personal assets. It's a solid option for solo entrepreneurs. Then there's the Section-8 company, which waves the flag of social service. These are not meant for profit or making money. Their job is to do something for social welfare. Lastly, there's the public limited company, which is the king of the business world. There's no limit to raising capital here. Big players for the big field. These are the different faces of business. Each one has its strengths and weaknesses. Choose wisely, because this is the biggest decision on your business journey!

01

PRIVATE LIMITED VS ONE PERSON COMPANY

In a private limited company, at least 2 individuals are required, but in an OPC, one person can handle everything. Both have limited liability, meaning your personal assets are safe from the company's debts. If you have your own capital and want complete control over your business, then OPC might be right for you. However, if you need funding, then a private limited company is more appropriate as it is the first choice for investors.

02

PRIVATE LIMITED VS PUBLIC LIMITED COMPANY

In a private limited company, the number of shareholders can range from 2 to 200. Shares cannot be sold to outsiders, and there is more privacy. On the other hand, a public limited company starts with 7 shareholders, and there's no upper limit, but it comes with more transparency and scrutiny. If you want to keep your company's information confidential, go for a private limited company. But if you aim to raise large amounts of capital and can work with more transparency, then a public limited company might be the right option for your startup.

03

PRIVATE LIMITED VS SECTION-8 COMPANY

The main objective of a private limited company is to make a profit. In contrast, the primary goal of a Section-8 company is not profit but doing something good for society. It is more suitable for NGOs and social welfare organizations. After establishing it, you may also get some tax benefits. If your goal is to earn money and grow your business, then a private limited company is ideal. But if you want to help as many people as possible and your startup aims to contribute to society, then a Section-8 company is the way to go.

04

PRIVATE LIMITED VS LIMITED LIABILITY PARTNERSHIP

Talking about initial costs, LLP is less expensive, while starting a Pvt Ltd requires more money and time. Pvt Ltd has shareholders, whereas LLP has partners. When it comes to future business expansion, Pvt Ltd proves to be more suitable, although LLP is easier to operate compared to Pvt Ltd. Most professional service providers choose LLP.

Incorporation as a Private Limited Company

"Being a Private Limited Company means limiting risks while expanding opportunities"

By forming a company, you can give your business a separate legal identity, but the process of formation can be quite cumbersome. First, you need to decide on the name of the company and get it approved, obtain DIN and DSC, prepare the MOA and AOA, and then provide details like the company's address and the directors' information, among other things. All these steps are necessary; otherwise, the process won't move forward. However, once the company is established, it becomes easier to get loans and funding. Both banks and business partners are more comfortable. But it's not all smooth sailing—there are strict rules and regulations to follow. You need to maintain your accounts properly and get them audited every year. In short, everything has to be transparent. In reality, this is a solid step that secures your business and enhances its brand value. Although it requires some effort and investment, it proves beneficial in the long run. If you also want to take your business to new heights, this is a path worth exploring.

01

NAME RESERVATION

They say a good name is the first step toward success. When you're planning your business, it should have a name that catches attention in the market. However, there's a twist here—your chosen name should not already be in use by someone else. So, the first step is to reserve your business name, which you can later use for your company.

02

ACQUIRE DIN & DSC

If you're new to the business world, you'll need to establish your identity. This identity comes through the DIN (Director Identification Number). It's a unique number that you must obtain to become a director in any company. Additionally, DSC (Digital Signature Certificate) is your digital signature. In today's age, where everything is going digital, having a digital signature is essential for signing various documents required for Private Limited Company incorporation.

03

PREPARE DOCUMENTATION

To form a Private Limited Company, the most important documents you need to prepare are the MOA (Memorandum of Association) and AOA (Articles of Association). The MOA outlines your company's main objectives, while the AOA contains the internal rules and procedures of the company. You should also have ready the PAN cards, address proofs, ID proofs, and photos of all promoters, along with proof of the company's registered office, such as a rent agreement and the owner's NOC (No Objection Certificate).

04

INCORPORATION CERTIFICATE

Once all the documents are correctly prepared and filed on the MCA (Ministry of Corporate Affairs) portal with the professional DSC and stamp duty, within 3-4 days, you'll receive the certificate of your dreams, known as the Incorporation Certificate. It's also worth noting that along with Private Limited Company registration, you automatically get a few things like a company bank account, PF and ESI registration, PAN and TAN, and professional tax registration.

Advantage & Disadvantage

"This structure can attract investors, but at the same time, they expect high dividends and transparency"

Before diving into the complexities of a private limited company, let's first understand its ABCs. Talking about the advantages, first and foremost, your personal assets are protected. Secondly, you get professional management, meaning your company is in the hands of experts who have the ability to drive the business forward. Thirdly, the company continues to operate even in your absence.

However, where there are benefits, there are also drawbacks. The biggest hassle is starting it. The paperwork, registration, accounting, and auditing not only add to the complexity but also increases costs. Then comes the issue of transparency—you'll need to maintain clear and precise records of every penny. Otherwise, you might attract unwanted attention from the government. Additionally, there are restrictions on selling shares. You can't easily sell your shares to just anyone, and if you think you can make major decisions alone, think again. Every major decision requires shareholder approval, which can sometimes delay decision-making.

Despite these challenges, opening a private limited company can be highly beneficial for a startup because whether it's an investor, banker, employee, or customer, everyone trusts it. So, if you're considering going down this path, make sure you're fully prepared. There are benefits, but the challenges are also significant. Therefore, it's crucial to weigh every aspect carefully and make a balanced decision. After all, in business, along with luck, a good strategy and well-thought-out steps are essential.

01

LIMITED SHAREHOLDER LIABILITY

The responsibility of the shareholders is limited to the amount they have invested. If the company fails, only the money invested by the shareholder is lost, meaning that in a private limited company, your personal assets are protected from the company's debts. If the company incurs a loss, your personal assets will remain unaffected.

02

EASY FUNDING

It is easier to attract investors to a private limited company because of limited liability, legal recognition (the company can enter into contracts, purchase property, etc., as an individual entity), ownership control (investors can become shareholders and participate in the management decisions of the company), and public trust, which assures investors that their investment is safe and potentially profitable.

03

REGULATION BURDEN

According to the Companies Act, 2013, you are required to share your financial reports and other documents with the government officials at regular intervals. If you fail to comply, you may face heavy fines and penalties. Every year, you need to appoint an auditor who examines your company's financial records and submits an audit report to the government departments. This adds to your costs and the complexity of running the company.

04

RISK OF OWNERSHIP CONTROL

n a private limited company, the number of shareholders is limited, meaning that only a few people have purchased shares in the company. The more shares one has, the greater their voting power, which can be a disadvantage to other shareholders, as they may not be able to influence the company's decisions. This can lead to conflicts and power struggles among shareholders, making company administration quite challenging.

Important Terms You Need to Know

"Understand the words first, then the subject; when the words are clear, the subject becomes easier to grasp"

When we talk about a "Private Limited Company," there are many terms that are frequently used, and it is important to understand them. Understanding these terms is particularly useful, especially if you are new to the business or corporate world. First, there is the term "Shareholder." These are the people who hold shares in the company, meaning they own a portion of the company. Next, we have the "Board of Directors," which is a group of people responsible for running the company. These individuals make major decisions and set the direction for the company. The "Registered Office" is the place where the company's main office is located, and from where all important documents and operations are handled.
Following this is "Share Capital," which refers to the amount of money the company has that it invests in its business. Then, there are terms like "Annual Compliances" and "Audit," which refer to the company's obligation to report its income and expenses to the government. Every year, the company issues an "Annual Report," which details its financial position and progress. Additionally, there are terms like "Share Certificate," which are given to shareholders as proof of their ownership of shares. The "MOA" (Memorandum of Association) is a document that outlines the company's objectives and powers, while the "AOA" (Articles of Association) details the internal rules and procedures of the company. "Debentures" are debt instruments issued by the company to raise funds.
It is crucial to be familiar with these terms, especially when you are starting in the world of business. These terms not only help you understand the legal and financial intricacies but also assist you in making better business decisions.

01

SHARE CAPITAL & SHARE CERTIFICATE

From the company's perspective, share capital is the money that a shareholder invests in the company in exchange for shares. Most Indian companies have shares with a face value of ₹10. For example, if a company has an authorized capital of ₹1 lakh, it can issue 10,000 shares to its shareholders, raising ₹1 lakh as share capital. In exchange for this capital, the company issues share certificates to its shareholders, which include the shareholder's name, the number of shares, and their type.

02

DIRECTORS & SHAREHOLDERS

A person can be both a director and a shareholder of a company, but these are two distinct roles. A director is responsible for the management and decision-making of the company. Their job is to run the company, make decisions, and manage its operations. They play a crucial role in conducting the company's affairs and are compensated with a salary from the company. On the other hand, shareholders are the owners of the company and have a right to the company's profits and losses.

03

MOA & AOA

The MOA (Memorandum of Association) serves to outline the company's objectives and scope, essentially detailing the company's mission and how it will operate. On the other hand, the AOA (Articles of Association) provides details of the company's internal rules and regulations, including the rights and duties of directors, shareholders, and employees. Any changes to the MOA require government approval, while changes to the AOA can be made with the majority approval of the shareholders.

04

AGM & BOARD MEETINGS

Both the AGM (Annual General Meeting) and Board Meetings are crucial events for the management and operation of the company. During the AGM, the company's annual report, audit report, appointment of directors, and distribution of dividends are discussed. Board Meetings, held among the company's directors, involve decisions related to the day-to-day management of the company. While the AGM is an annual event, Board Meetings are held at regular intervals. Every company must hold its first Board Meeting within thirty days of its registration, and thereafter, at least four times a year. It is also required that the gap between two such meetings should not exceed one hundred and twenty days.

Compliances

If you want to understand how costly it can be to comply with regulations, just try not to comply once

When a private limited company is established in India, it must follow several legal and business regulations. The most important among these is the Companies Act, of 2013, which guides companies on how they should operate, maintain their accounts, and share information with their directors and shareholders. Every year, the company must submit its annual return and balance sheet to the government, so the government can see how much the company is earning and spending. This also helps the government understand how transparent the company is in its financial matters.

Regarding income tax, every company is required to pay its taxes on time and deduct TDS (Tax Deducted at Source) if it has made any payments. This helps in preventing tax evasion and keeps the economic system on the right track. Then there is GST, a type of tax levied on goods and services. Companies need to pay this on time, ensuring the government receives its revenue, which is then used for the country's development.

Companies must also adhere to labour laws, such as paying the correct salaries to employees, providing them with leaves, and setting their working hours. This helps create a pleasant and safe working environment within the company.

In today's digital age, companies must also ensure data security and safeguard online transactions. This ensures that the company's and its customers' information remains secure and prevents any kind of fraud.

Complying with all these regulations on time means that the company is not only legally compliant but also responsible towards its employees, customers, and society.

01

ONE-TIME COMPLIANCES

- Opening a bank account for the company and depositing the subscribed capital.
- Filing eForm INC-20A within 180 days of company registration to declare the commencement of business.
- Holding the first board meeting after company registration within 30 days to appoint the first auditor.
- Issuing share certificates to shareholders within two months of company registration.
- Maintaining a Statutory Register at the company's registered office.

02

REGULAR COMPLIANCES

Holding meetings of the directors and preparing minutes of these meetings.
Maintaining accounting records and Statutory Registers.
Filing TDS and GST returns.
Paying advance tax.
Deducting PF & ESI contributions from employees' salaries, adding the company's contribution, and depositing them.
Additionally, depending on the state, it may be required to deduct and deposit professional tax from employees' salaries.

03

ANNUAL COMPLIANCES

Holding an AGM (Annual General Meeting) within 180 days from the end of the financial year (usually by 30th September). During the AGM, presenting and approving the balance sheet and profit and loss account, and appointing the auditor.
After this, submitting the company's financial statements to the Registrar of Companies (ROC) through Form AOC-4.
Submitting the annual return (MGT-7) to the ROC within 60 days of the AGM.
Filing income tax returns for the company and directors, and also filing the GST Annual Return, if applicable.

04

EVENT-BASED COMPLIANCES

A company may need to undergo various changes at any time, such as changing a director or auditor. Similarly, there might be a need to change the registered office, increase the company's capital, issue new share certificates, take loans if needed, or make changes to the Memorandum of Association (MOA) and Articles of Association (AOA). Sometimes, the company's name may also need to be changed. Compliances related to these changes must be completed whenever such changes occur.

Change of Name

"A new name, a new identity, a new hope"

In the Indian business world, it is common to hear about companies changing their names. But what are the reasons behind this? The first and foremost reason is voluntary name change. Sometimes, companies may change their names to reflect their internal plans and perspectives. This change can also be a way to showcase their new thinking and new direction. Another important reason is a change in business activity. As a company's business evolves, its name may also change to better represent that business. In today's digital era, where brand identity plays a crucial role in the competitive market, companies often change their names to become more impactful in the market. Ownership change is another significant reason. When a new team or management takes over a company, they often change the name to reflect their identity and authority. Lastly, from a regulatory perspective, if other companies claim priority or there is a trademark conflict, the company may be required to change its name as per the ROC's instructions.

01

PROCESS

The first step is the Board of Directors' meeting! Just like how a family gathers to discuss important decisions at home, similarly, the board meets before changing the company name. Then comes the RUN application! This is to check the availability of the new name. The third step is the EGM, which is called for the shareholders, much like how family members' opinions are sought before major decisions. Once everyone in the EGM gives their approval, the MGT-14 form is filed. The final step is filing Form INC-24 to officially change the company's name. Once all this is done, the ROC sends a fresh certificate with the new name.

02

REQUIRED DOCUMENTS

Two types of documents are required to apply for a name change for an existing company. The first set includes documents the company already has, such as the current COI, MOA & AOA, the list of directors and shareholders, and the digital signatures of the authorized director. The second set includes documents prepared for the name change, such as the Board & EGM Resolution, EGM Notice & Attendance Sheet, Altered MOA & AOA, and the Name Approval Letter.

03

LEGAL PROVISION

In most cases, whether a company is new or has been around for some time, it is eligible to apply for a name change. However, if a company has not filed its annual returns, financial statements, or any other report or document on time with the Registrar of Companies (ROC), it may not be allowed to change its name. This means that a company must ensure that all its ROC-related compliances are up to date at the time of applying for a name chang

04

EFFECT OF NAME CHANGE

After changing the company's name, it is very important to update it properly, or else it may lead to legal issues later. The company's bank accounts, PAN & TAN, MOA & AOA, and all business stationery must be updated. Additionally, all government registrations and licenses or permissions that the company holds must also be updated. If the company is in an agreement with a third party, that agreement will need to be updated as well. And yes, by law, you are required to mention your old name along with the new name for two years.

Change of Address

"New Place, New Ideas, New Successes"

Section 12 of the Companies Act, 2013, states that when you start a company, you must have an address where the government can contact you. This address must be provided at the time of registration or within 30 days of registration. This address is considered the primary address for your company by the government. Your company may have other locations, such as a head office, branch, or administrative office. However, the government only needs to know the address you have registered. If you change the addresses of your other offices or open a new one, there is no need to inform the government. The address you provide to the government is very important. The government sends all information and notifications to this address. All important files and documents of your company are also kept at this address. Therefore, it is essential to ensure that the address you have given to the government is correct, and if any changes occur, you should inform the government immediately. Otherwise, you may face legal issues in the future, and both your company and directors could be fined, and your company's registration might even be cancelled.

01

CHANGE IN THE REGISTERED OFFICE WITHIN THE SAME CITY

Changing the registered office within the same city, village, or town is the easiest. The company needs to hold a board meeting and pass a board resolution to change the registered office. The company must file Form INC-22 with the ROC within fifteen days of passing the board resolution.

02

CHANGE IN THE REGISTERED OFFICE ADDRESS OUTSIDE THE LOCAL LIMITS WITHIN THE SAME ROC AND STATE

To change the registered office address, if it is outside the city or town limits but still within the jurisdiction of the same ROC, the company must first pass a resolution in the board meeting to call an Extraordinary General Meeting (EGM). In this EGM, a special resolution must be passed to change the registered office address. Within 30 days of this, the company needs to file Form INC-22 and MGT-14.

03

CHANGE OF ADDRESS WITHIN THE SAME STATE BUT DIFFERENT ROC

When a company needs to change its office address from one ROC to another within the same state, the company must follow the process mentioned above. After passing the special resolution in the EGM to change the registered office address, within 30 days, the company must file two forms, INC-23 and MGT-14, with the old ROC. One month before filing these two forms, the company must publish an advertisement in the newspaper about the change of office address. Every depositor and creditor of the company must be given prior notice. The company must settle any outstanding payments to its employees, and no employee should be laid off as a result of the office transfer. The consent of creditors must be obtained for the office transfer. If the old ROC has no objections, they will send a letter stating that everything is in order. The company can then complete the process by sending a copy of this letter to the new ROC within 60 days via Form INC-22.

04

CHANGE OF ADDRESS TO ANOTHER STATE

To change a company's registered office from one state to another, the process is similar to the one mentioned above. In addition to passing a special resolution to change the registered office address in the EGM, a special resolution must also be passed to amend the Memorandum of Association (MOA). After that, the process will be the same as described in the previous point. However, in this case, the company must also obtain approval from the Central Government, and this approval letter must be filed with both the ROCs of the states involved through Form INC-28.

Change of Directors

"Changing directors can be a strategic move that can give a new direction to a company's success."

The change of directors in private limited companies is a common process that can occur for various reasons. These changes not only bring a fresh perspective to the company's operations but also often open up opportunities for growth in new directions. The selection and change of directors play a crucial role in determining the future direction and success of the company.
The primary reason for such changes is the need for strategic restructuring. Whenever a company needs to alter its business goals or enter new markets, new ideas and perspectives are required. In such cases, bringing in new directors can prove to be beneficial. Another reason is the need for performance improvement. If the company is experiencing stagnation or a decline in results, new directors can bring fresh energy and efficiency. With their experience and expertise, they can introduce innovations into the company's operations.
A third reason might be the resolution of conflicts. Occasionally, when there are ideological differences or conflicts among board members, the selection of new directors becomes necessary to resolve the conflict and maintain the company's stability. Another reason is the voluntary resignation or retirement of directors. It is a common occurrence where directors step down due to personal reasons, retirement, or health issues. In such cases, it is important to appoint new and enthusiastic individuals in their place.
The aim of changing directors is to ensure the company's progress and growth. New directors, with their fresh ideas, experience, and perspectives, are capable of guiding the company in a new direction. Thus, the change of directors benefits not only the company but also its stakeholders, employees, and customers.

01

DIRECTOR APPOINTMENT

First, a resolution is passed in a board meeting to convene an ordinary meeting of shareholders, where a director can be appointed. The proposed director must provide their consent to the company in Form DIR-2. Every director must have a Director Identification Number (DIN) and a Digital Signature Certificate (DSC). The company must file DIR-3 to obtain DIN, and DIR-12 with the Registrar of Companies within 30 days of the director's appointment.

02

WHO CANNOT BE APPOINTED AS A DIRECTOR

A person who has been declared disqualified cannot be appointed as a director. There are several reasons for disqualification, such as individuals facing bankruptcy, those who are not mentally sound, those who have been convicted of a crime, especially if it involves dishonesty or fraud, those who have violated the rules set under company law, such as improper maintenance of the company's accounts, and individuals who have not yet reached the age of 21 years.

03

DIRECTOR RESIGNATION

First, the director must give written notice of their resignation to the company. Upon receiving this notice, the company's board must consider it. The company must notify the Registrar of Companies within 30 days of the resignation using Form DIR-12. The resignation must be reported in the directors' report at the next general meeting of the company. The director must also file Form DIR-11 with the Registrar within 30 days of their resignation.

04

REMOVAL OF DIRECTOR

The company has the right to remove a director by passing an ordinary resolution in an Extraordinary General Meeting (EGM). First, a resolution is passed in a board meeting to convene an EGM. If the resolution to remove the director is passed by a majority in the EGM, the Registrar must be notified within 30 days using Form DIR-12. Before such a resolution is passed, the director must be given an opportunity to be heard. The director must also file Form DIR-11 with the Registrar within 30 days of the resolution being passed. Additionally, if a director fails to attend board meetings for 12 consecutive months, it will be considered that they have vacated their position, and the Registrar must be notified within 30 days using Form DIR-12.

Change of Objectives

Change of Objectives, Exploring New Possibilities

As your company grows, new ideas often come to mind. Sometimes, the direction you originally set out on changes, and when that happens, you need to officially update your company's objectives. This usually involves making changes to the Memorandum of Association (MoA). Let's understand this with some examples.
Suppose your company is now expanding into new areas, launching new products or services—naturally, the objectives will need to change. Similarly, if another company acquires your business, many things will change. The brand might remain the same, but the direction and vision often shift, leading to a change in objectives.
There are also times when certain activities are no longer necessary or profitable, and in such cases, it's better to discontinue them. Government policies also change over time—what may be legal today could become illegal tomorrow, or the government might impose restrictions on certain activities. In these situations, the objectives need to be updated as well to avoid legal complications.

01 MOA & AOA

The MOA outlines the nature of the business the company will conduct, its boundaries, office location, and details regarding shares. It describes the relationship between the company and the outside world. On the other hand, the AOA contains the internal rules of the company, such as the roles of shareholders, how directors will be chosen, how meetings will be conducted, how profits will be distributed, and how internal matters will be managed. These documents form the legal foundation for the company.

02 OBJECT CLAUSE IN MOA

the company will undertake. It acts as a guiding principle for the company, indicating the type of business the company will be involved in and what it may pursue in the future. This clause also informs investors about the company's focus areas. However, if the company ever needs to change its line of work, this clause must be amended.

03 THE PROCESS TO AMEND THE OBJECT CLAUSE

First, a board meeting of the company's directors needs to be called, where it is decided to convene an Extraordinary General Meeting (EGM) involving all shareholders. In this meeting, the shareholders decide whether or not to amend the Object Clause. If 75% of the shareholders agree, the proposal for amendment is passed. Afterwards, the company must file this change with the Registrar of Companies through Form MGT-14 and obtain approval. Once approval is received, the changes are made to the company's MOA.

04 DOCUMENTS PROVIDED AFTER CHANGE

Firstly, you will be provided the minutes of the board meeting where the change was discussed, followed by the minutes of the EGM where shareholders approved the change. Additionally, you'll be provided a copy of the special resolution passed by the shareholders, the amended MOA, and Form MGT-14.

Increase of Authorized Capital & Share Transfer

"An increase in authorized capital brings significant changes not just financially, but also in the organizational structure"

When a company starts, it usually has limited funds. But as the company grows, it needs more money, especially if it wants to expand its business or take on new projects. Initially, the company may borrow from banks, but to secure funds for the long term, it needs to increase its 'authorized capital'—the maximum amount of money it can raise by issuing shares. To do this, the company must follow certain legal procedures, such as holding a shareholders' meeting and making the necessary changes in its Memorandum of Association (MOA). These changes must then be submitted to the Registrar of Companies (ROC). Another important aspect is the 'Paid-up Capital,' which is the actual amount of money shareholders have invested in the company. The goal of these actions is to allow the company to issue more shares and raise more funds, so it can grow larger and strengthen its position in the market. In simple terms, this entire process is essential for the company's growth and future success. If done correctly, it can pave the way for a prosperous future for the company.

01

PROCESS OF INCREASING AUTHORIZED CAPITAL

To increase the authorized capital of a private limited company, the first step is to review the company's Articles of Association (AoA). Then, a board meeting must be called, where a resolution regarding the increase will be discussed and passed. If the AoA needs to be amended, an Extraordinary General Meeting (EGM) must be held, where shareholders' approval is required. After this, Form SH-7 must be filled out and submitted to the Registrar of Companies (ROC) to obtain approval.

02

DOCUMENTS REQUIRED

Various documents are required to increase the authorized capital of a private limited company, including the notice for the directors' meeting, the board resolution, the notice for the general meeting, the resolution passed at the Extraordinary General Meeting (EGM), the revised MOA and AOA, Form SH-7, minutes of the board meeting and the general meeting, the auditor's report, certified balance sheet, and the payment of necessary fees and charges.

03

SHARE ALLOTMENT

First, the company's MOA and AOA determine how and to whom shares will be allotted. Then, those interested in acquiring shares submit their applications, after which the company allots the shares to them. Once shares are allotted, each shareholder receives a certificate that indicates how many shares they own in the company. Additionally, the company must inform the Ministry of Corporate Affairs (MCA) about how the shares have been allotted. Finally, those who receive the shares pay the required amount, and the company maintains records of these transactions.

04

SHARE TRANSFER

In a private limited company, share transfer means selling or transferring the company's shares from one person or entity to another. To do this, Form SH-4 must be filled out, which includes details of both the seller and the buyer, and the applicable stamp duty, which can vary by location, must be paid. This form is then submitted to the company's board for approval. Once approved by the board, the new owner's name is recorded in the company's register, and a new share certificate is issued.

Windup

"An ending is just a pause, a windup for a new beginning."

Private limited companies, which enter the business world by choice, sometimes find themselves in trouble and end up on the path of "Windup." Windup essentially means packing up, locking the doors, and going home. But why does this happen? There can be many reasons. The first major reason is when expenses don't add up. If a company is unable to manage its debts and its business is sinking in the market, then winding up seems like the only solution. Another reason could be conflicts among the bosses, which disrupts work and leads to the downfall of the company. Additionally, with new technologies emerging in the market, if a company is still operating in old ways, it can't keep up and move forward. Sometimes, companies get caught up in new regulations or end up merging with a larger company, losing their identity in the process.

When it comes to winding up, it's no easy task. Every small and big detail needs to be taken care of, including the feelings of shareholders, employees, and customers. Therefore, it's important to think seriously before making such decisions. Winding up is not just about closing a business, but also about managing every aspect carefully. It involves the future and interests of everyone associated with the company. Hence, it is crucial to handle this process with care, keeping everyone's interests in mind.

01 VOLUNTARY WINDING UP

Voluntarily winding up a company is a long and challenging process. First, the shareholders of the company or a general meeting needs to pass a special resolution to wind up the company. After that, the company's directors must provide a Solvency Declaration, which means they need to confirm that the company is capable of paying off all its debts. Following this, approval from the company's trade creditors is required. Then, a Liquidator is appointed, who is responsible for selling the company's assets, paying off its debts, and eventually closing the company. Once the company is closed, its name cannot be used by anyone else for some time.

02 COMPULSORY WINDING UP

Compulsory winding up occurs when a company is involved in fraud or illegal activities. In such cases, any stakeholder related to the company can file a petition in a tribunal or court. Once the petition is accepted, a Liquidator is appointed to liquidate the company's assets, review its accounts, and prepare a report. This report is submitted to the Windup Committee, and after their approval, the final report is presented to the tribunal. Following the tribunal's order, the Liquidator has to send the order to the Registrar within 30 days. If the Registrar is satisfied, they remove the company's name from the register, and a notification is published in the official gazette. All this is done in accordance with the Company (Winding Up) Rules, 2020, made under the Companies Act, 2019.

03 FAST TRACK EXIT SCHEME

On December 26, 2016, the Ministry of Corporate Affairs (MCA) of the Government of India introduced the Fast Track Exit (FTE) scheme, under which inactive companies are given a chance to remove their name from the Registrar of Companies' records. However, this scheme does not apply to certain companies like listed companies, companies delisted due to non-compliance, companies involved in government investigations, etc. To apply under this scheme, an affidavit, indemnity bond, statement of accounts, a copy of the board resolution, and a fee of ₹10,000 must be submitted. Disclosures of any disputes and government claims must be made, but there is no need for an NOC from government departments. If everything is in order, the Registrar removes the company's name from the register, and the notification is published in the gazette. However, the directors remain responsible for any legal claims and damages even after the company's name is removed.

04 STRIKE OFF BY MCA

The process of removing a company's name by the Registrar of Companies (ROC), known as "Strike off" under Section 248(1) of the Companies Act, 2013, occurs when a company has not been active in any business or trade for two financial years or fails to commence business within one year of incorporation. In this scenario, the ROC sends a notice to the company and its directors, asking for a response with the necessary documents within 30 days. This process is also known as the "Compulsory Removal of Company Name by the Registrar.

Penalties for Non Compliances

S. No.	Event	Form Name	Due Date for Compliance / Reporting	Penalty & Late Fees
1	Declaration of Commencement of Business	INC-20A	Within 180 days from the date of incorporation of the company	***Check Fees & late fees mentioned below** Penalty: Rs. 50,000 to Company & Rs. 1000 per day to every officer in default (Max. 1,00,000 per officer)
2	Notice of situation or change of situation of registered office	INC-22	Within 30 days from the date of incorporation or change	*Check Fees & late fees mentioned below
3	Conduct first board meeting & Appoint first auditor	ADT-1	Within 30 days from the date of incorporation	Penalty: Rs. 25,000 to company & Rs. 5,000 per officer to every officer in default
4	Notice of deposits	DPT-03	Within 90 days from the closure of financial year	***Check Fees & late fees mentioned below** Penalty: Rs. 5,000 to Company & Rs. 500 per day per officer to every officer in default
5	File form in relation to outstanding dues to MSME along with reason	MSME-1	(Half yearly) For period April to September – 31st October For period October to March – 30th April	No fees, Penalty: Rs. 25,000 to Company & Rs. 25,000 – 3,00,000 or Imprisonment upto 6 months or both to every officer in default
6	Update KYC of directors	DIR-3	on or before 30th September of the	Penalty after due date late fees Rs. 5,000
7	Conduct Annual General Meeting (AGM) every year and Board Meeting	MINUTES OF MEETING TO BE PREPARED	Within 6 months from the end of Financial Year (Except First AGM)	Penalty: Rs. 1,00,000 to company & every officer and if default Continuing then further Rs. 5,000 per day
8	Intimation of Appointment of auditor to ROC	ADT-1	Within 15 days from the date of conduct of AGM	*Check Fees & late fees mentioned below
9	Filing of financial statements and Directors Report along with Audit Report	AOC-4	Within 30 days from the date of conduct of AGM	Fees upto Rs. 600 and Additional fines of Rs. 100 Per Day for continued failure
10	File Details of Shareholders	MGT-7 or 7A	Within 60 days from the date of conduct of AGM	Fees upto Rs. 600 and Additional fines of Rs. 100 Per Day for continued failure
11	File details of appointment & resignations of directors	DIR-12	Within 30 days	*Check Fees & late fees mentioned below
12	Income Tax Return	ITR-6	The last date for submitting ITR on the e-filing ITR portal is October 31 every year	A penalty of Rs.5,000 is charged for the delay. However, if the total income is less than Rs.5 lakh, then the fee payable is Rs.1,000
13	TDS Return	24Q/26Q	1. TDS Payment : Seventh day of the next month 2. TDS Return Submission: Within 30 days of the end of each quarter	1. Failure to file your TDS returns within the due date will mean that you will be subject to a late filing fee of Rs.200 per day 2. Interest rate of 1.5% per month will be applicable from the date on which tax was deducted to the date on which it was paid.

NORMAL FEES FOR FORM FILING*

S. no	Authorized Share Capital of the Company	Fees (Rupees)
1	Less than 1,00,000	200
2	1,00,000 to 4,99,999	300
3	5,00,000 to 24,99,999	400
4	25,00,000 to 99,99,999	500
5	1,00,00,000 or more	600

LATE FEES FOR FORM FILING*

S. no.	Delay in filing (No. of Days)	Late Fees
1	Up to 30 days	2 times of normal fees
2	More than 30 days and up to 60 days	4 times of normal fees
3	More than 60 days and up to 90 days	6 times of normal fees
4	More than 90 days and up to 180 days	10 times of normal fees
5	More than 180 days	12 times of normal fees

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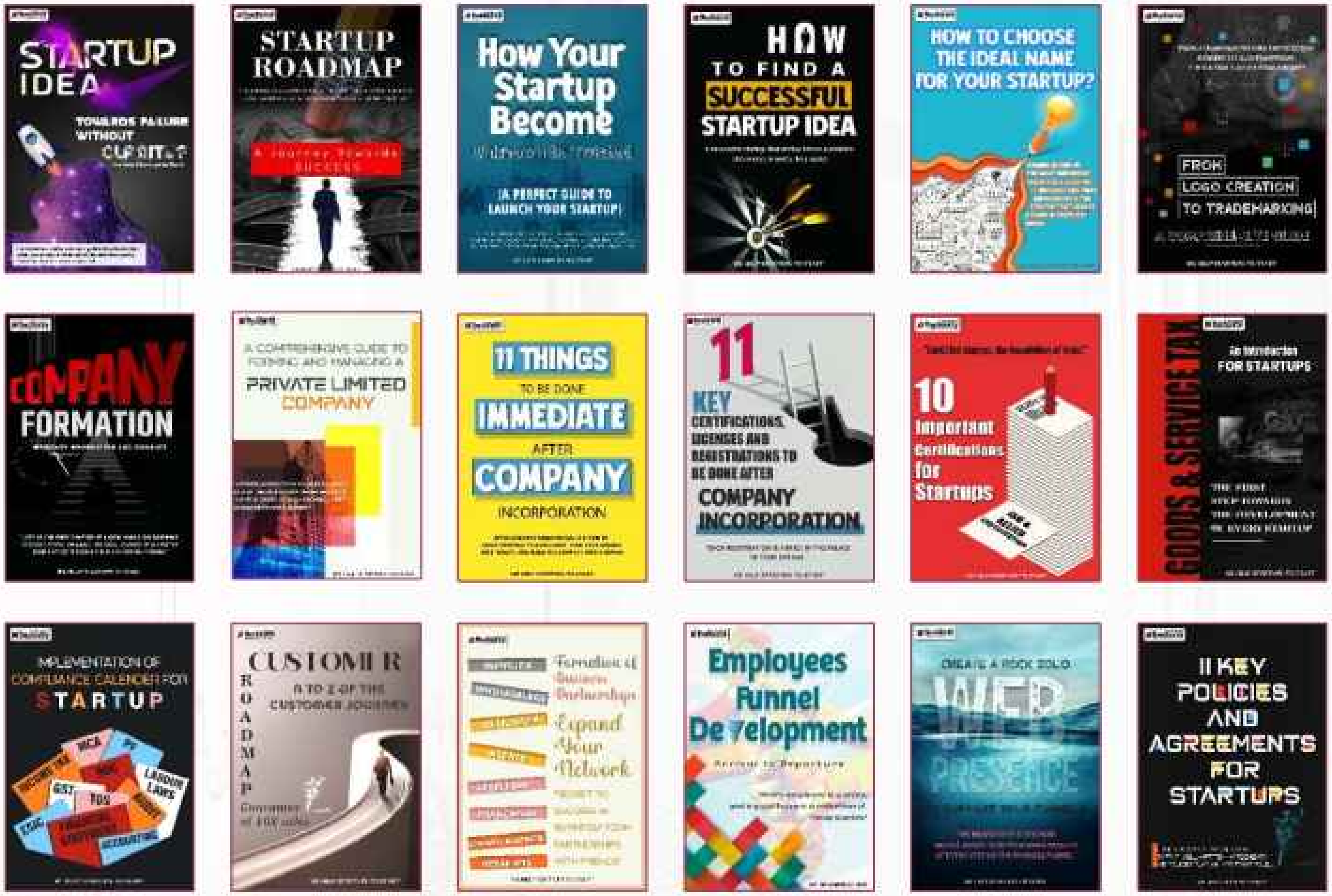

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NEUSOURCE STARTUP MINDS INDIA LIMITED

Corporate Office

B-11, Basement, Shankar Garden, Vikaspuri
New Delhi-110018 (India)
Email: Info@neusourcestartup.com
Website: www.neusourcestartup.com
Contact:- +91-7305145145, +91-11-46061463
Branches:- Delhi, Kolkata, Lucknow, Bangalore, Jaipur