

**GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS
LOK SABHA
UN-STARRED QUESTION NO. 1686
TO BE ANSWERED ON MONDAY, JULY 31, 2023/ SRAVANA 9, 1945 (SAKA)
NON-FUNCTIONAL COMPANIES
QUESTION**

1686. SHRI GNANATHIRAVIAM S:

**Will the Minister of CORPORATE AFFAIRS
be pleased to state:**

- (a) the steps taken or proposed to be taken by the Government against listed companies which are not functional;**
- (b) the number of companies which have closed down during the last two years and the details of the major reasons for their closure; and**
- (c) the number of persons from such companies who gained employment in new companies during the last one year and the number of people who were rendered unemployed because of closure of companies?**

ANSWER

Minister of State (Independent Charge) of the Ministry of Statistics and Programme Implementation; Minister of State (Independent Charge) of the Ministry of Planning and Minister of State in the Ministry of Corporate Affairs.

(Rao Inderjit Singh)

(a): As per Companies Act, 2013 all companies are functional unless they have declared themselves to be dormant. Listed companies are regulated by the Securities and Exchange Board of India (SEBI) and as informed by Stock Exchange that they do not classify a company into functional and non-functional.

The SEBI has informed that a Listed Company is considered as non-compliant listed company when it fails to comply with the provisions of Securities Contracts (Regulation) Rules/Listing Agreement /Regulations. The following is followed with respect to listed companies which are non-compliant -

Securities Contracts (Regulation) Rules, 1957

1. Rule 21 of Securities Contracts (Regulation) Rules, 1957 deals with delisting of securities, which provides that a recognized stock exchange may delist any securities listed thereon on any of the following grounds-

- a) the company has incurred losses during the preceding three consecutive years and it has negative networth;**
- b) trading in the securities of the company has remained suspended for a period of more than six months;**
- c) the securities of the company have remained infrequently traded during the preceding three years;**
- d) the company or any of its promoters or any of its director has been convicted for failure to comply with any of the provisions of the Act or the Securities and Exchange Board of India Act, 1992 or the Depositories Act, 1996 (22 of 1996) or rules, regulations, agreements made thereunder, as the case may be and awarded a penalty of not less than rupees one crore or imprisonment of not less than three years;**

e) the addresses of the company or any of its promoter or any of its directors, are not known or false addresses have been furnished or the company has changed its registered office in contravention of the provisions of the Companies Act, 1956 (1 of 1956); or shareholding of the company held by the public has come below the minimum level applicable to the company as per the listing agreement under the Act and the company has failed to raise public holding to the required level within the time specified by the recognized stock exchange.

f) shareholding of the company held by the public has come below the minimum level applicable to the company as per the listing agreement under the Act and the company has failed to raise public holding to the required level within the time specified by the recognized stock exchange.

SEBI (Delisting of Equity Shares) Regulations, 2021

2. Further, in terms of Regulation 32 of SEBI (Delisting of Equity Shares) Regulations, 2021, SEBI has provided that recognised stock exchange may compulsory delist equity shares of a company on the aforesaid grounds by way of reasoned order.

Moreover, in terms of Regulation 34 of SEBI (Delisting of Equity Shares) Regulations, 2021, SEBI has also imposed certain consequences in case of compulsory delisting, which are as follows-

i. Where a company has been compulsorily delisted, the company, its whole-time directors, person(s) responsible for ensuring compliance with the securities laws, its promoters and the companies which are promoted by any of them are not permitted to directly or indirectly access the securities market or seek listing of any equity shares or act as an intermediary in the securities market for a period of ten years from the date of such delisting.

ii Further, in case of where promoters of such company does not provide an exit option to the public shareholders within a specified period, certain additional consequences are imposed, as provided under-

a) such a company and the depositories are not permitted to effect transfer, by way of sale, pledge, etc., of any of the equity shares held by the promoters / promoter group and the corporate benefits like dividend, rights, bonus shares, split, etc. are frozen for all the equity shares held by the promoters/ promoter group.

b) the promoters, whole-time directors and person(s) responsible for ensuring compliance with the securities laws, of the compulsorily delisted company are also not eligible to become directors of any listed company.

As per the information submitted by National Stock Exchange and Bombay Stock Exchange, the number of such companies compulsorily delisted are 781 in past 5 years i.e. January 2018 to July 18, 2023.

(b): There are 150505 companies which have closed down during the last two years i.e. 01.04.2021 to 31.03.2023. Major reasons of closure of these companies are action initiated by Registrar of Companies (RoC) under section 248(1) of the Companies Act, 2013 (Act) for striking off names of companies and voluntary applications made by companies for striking off their names u/s 248(2) of the Act, amalgamation/merger of companies under the Act, dissolution of the companies under the Companies Act, 2013 and under the Insolvency of Bankruptcy Code (IBC), 2016.

(c): No such data is maintained by this Ministry.

