

**GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS
LOK SABHA
UNSTARRED QUESTION NO. 1585
ANSWERED ON MONDAY, 09TH FEBRUARY 2026
MAGHA 20, 1947 (SAKA)**

ROTATION OF CAPITAL BY SHELL AND DORMANT COMPANIES

QUESTION

1585. SHRI PRAVEEN KHANDELWAL:

WILL THE MINISTER OF CORPORATE AFFAIRS BE PLEASED TO STATE:

- (a) whether the Government has examined the issue of shell and dormant companies being used to rotate capital and evade regulatory scrutiny despite repeated strike-off drives, if so, the details thereof;**
- (b) whether any analytics-based monitoring mechanism is being developed to identify such entities at an early stage, if so, the details thereof;**
- (c) the steps taken by the Government to ensure that genuine start-ups and Micro, Small and Medium Enterprises (MSMEs) are not adversely affected by such compliance actions;**
- (d) whether the Government has reviewed compliance costs imposed on small private companies under the Companies Act, 2013, if so, the details thereof;**
- (e) whether any simplified, digital-first compliance pathway is under consideration; and**
- (f) if so, the expected timeline for its implementation?**

ANSWER

**MINISTER OF STATE IN THE MINISTRY OF CORPORATE AFFAIRS;
MINISTER OF STATE IN THE MINISTRY OF ROAD TRANSPORT AND
HIGHWAYS**

(SHRI HARSH MALHOTRA)

- (a) The term Shell Company has not been defined under the Companies Act, 2013. Section 455 of the Companies Act, 2013 provides that where a company is formed and registered under this**

Act for a future project or to hold an asset or intellectual property and has no significant accounting transaction, such a company or an inactive company may make an application to the Registrar in such manner as may be prescribed for obtaining the status of a dormant company. This Ministry orders Inquiry, Inspection, Investigation under sections 206(4), 206(5) and section 210/212 of the Companies Act, 2013 respectively on case to case basis depending upon facts of the case. This Ministry also uses Red Flag Indicators including features such as nil /insignificant business, nil/ insignificant assets, company not maintaining registered office, etc. for suitable regulatory actions.

(b) Under the MCA-21, a risk profiling rule based analytical system for compliances has been developed. Further, through MCA21 V3 various functionalities like Web filings, Limited Liability Partnership (LLP) Module, Company module, have been implemented. Filings are now being made through this system, which provides for real time validation with pre-filled master data, thereby reducing possibility of falsification of data.

(c) and (d) The Government has relaxed the compliance cost of small companies and start-ups, through several measures taken from time to time. Some of the important measures are at Annexure-I.

(e) and (f) The service delivery and compliance mechanism is already digitized under the MCA21 system. The important measures taken to further simplify the process are at Annexure-II.

Annexure-I

In reply to Part (c) and (d) of Lok Sabha Unstarred Question No. 1585

Important measures for ease of doing business for small companies

Sr. No.	Section	Subject	Provisions in the Company Act, 2013 to support Small Companies
1.	2 (40) proviso	Financial Statement	Requirement of cash flow statement to be part of financial statement made optional.
2.	92(1) Proviso	Annual return	(i) Shall be signed by a company secretary or where there is no company secretary by a Director of the company. (ii) Abridged annual return prescribed for small companies.
3.	92(1)(g)	Disclosure in annual return about remuneration of directors	Disclosure as to aggregate of amount of remuneration drawn by directors adequate for small companies.
4.	134(3A)	Board's Report	Abridged Board Report prescribed for small companies.
5.	139(2) read with rule 5 of Companies (Audit and Auditors) rules, 2014	Rotation of auditors	Rotation of auditors in small companies is not mandatory.
6.	141(3)(g)	Restriction on auditor-ships	Restriction w.r.t. maximum auditor-ships not applicable to auditors of small companies.
7.	143(3)(i)	Disclosure in Auditors report on internal financial controls	These disclosures are not applicable for small companies.

8.	173 (5)	Meetings of Board.	Under Companies Act, 2013, Board of Directors of a company are required to meet at least once in 120 days, 4 board meetings in a year. However, in case of a small company, one board meeting in each half of a calendar year with a gap between two meetings of not less than 90 days is sufficient to comply with the requirement of section 173(5) of the Companies Act.
9.	446B	Lesser penalties	Small companies are entitled for lesser penalties as per section 446B.
10.	Rule 8(12)(a)	Companies (Registration offices and Fees) amendment Rules, 2014	Small companies are exempted from requirements w.r.t. pre-certification of forms by professionals.
11.	Annexure- Table of fees	Companies (Registration offices and Fees) amendment Rules, 2014	Lesser fees allowed for small companies.
12.	Clause 1(2)(iv)	Companies (Auditor's Report) Order, 2020 (CARO 2020)	The Companies (Auditor's Report) Order (CARO) 2020 is not applicable on small companies

Important measures for ease of doing business for Start-ups

Sl. No.	Section/ Rules	Subject	Provisions in the Company Act, 2013 to support Start-ups
1.	Section 2(40)	Financial Statement	Requirement of cash flow statement to be part of financial statement is optional for Start-ups.
2.	Section 73(2) clause (a) to (e)	Acceptance of deposits	Start-ups were exempted from procedural compliance at the time of accepting deposits from its members (such as issuance of a circular to its members showing the financial position of company, credit rating, depositing 20% of the maturing deposits, and certification regarding default in repayments).
3.	Section 92(1)	Annual Return	Directors of a start-up are allowed to sign annual returns of the private limited company if the Company does not have Company Secretary.
4.	Section 173(5)	Meetings of Board	Under Companies Act, 2013, Board of Directors of a company are required to meet at least once in 120 days, 4 board meetings in a year. However, Start-ups are exempted from holding quarterly board meetings and are allowed to hold two board meetings in a calendar year, i.e., once every six months.
5.	Rule 6 of Companies (Incorporation) Rules, 2014	Conversion of OPCs into Public and Private Companies	The requirement that an OPC must convert itself after its paid-up capital exceeds Rs 50 lakh and its average annual turnover exceeds Rs 2 crore was omitted. Since many start-ups are One Person Company, this allows them to retain the status as an OPC.

6.	Rule 8(4) of Companies (Share Capital and Debenture) Rules, 2014)	Sweat Equity	In general, the issuance of sweat equity shares in a company shall not exceed 25% of the paid-up capital of the company at any time. However, in case of start-ups, this limit is up to 50% of its paid-up share capital.
7.	Rule 12(1)(c) of Companies (Share Capital and Debentures) Rules, 2014	Employee Stock Options (ESOPs)	In general, ESOPs are not given to employee who is a promoter or a person belonging to the promoter group and a director who either himself or through his relative or a body corporate, directly or indirectly holds more than 10% equity of the company. Start-ups are allowed to issue ESOPs to promoters and directors.
8.	Rule 2 (1)(c) (xvii) Companies (Acceptance of Deposits) Rules, 2014	Convertible Note	Start-ups can receive an amount of Rs 25 lakh or more by way of a convertible note (convertible into equity shares or repayable within a period not exceeding ten years from the date of issue) in a single tranche, from a person, and such transactions are not considered deposit.
9.	Rule 3(3) of Companies (Acceptance of Deposits) Rules, 2014	Acceptance of deposits	Companies may ordinarily accept or renew any deposits from its members not exceeding 35% of the paid-up share capital, free reserves and securities premium account of the company. But start-ups have been permitted to accept deposits from members without any restriction on the amount.

In reply to Part (e) and (f) of Lok Sabha Unstarred Question No. 1585

- 1. Conversion of more than 54 forms to Straight Through Process (STP) which earlier required approval of field offices.**
- 2. Setting up of a Centralized Registrar of Companies (CRC) for incorporation to provide uniformity in the incorporation process.**
- 3. Setting up of a Central Scrutiny Centre (CSC) for centralised scrutiny of e-Forms filed under STP.**
- 4. Setting up a Central Processing Centre (CPC) for centralised processing of specified non-STP e-forms.**
- 5. Setting up an e-Adjudication Portal for faceless adjudication of offences related to the Companies Act.**
- 6. Introducing e-Form SPICe+ along with a linked form called AGILE PRO-S for providing different services at one place such as Name Reservation, Incorporation, Allotment of PAN, TAN, DIN, EPFO Registration, ESIC Registration, GST number, opening of Bank Account etc. at the time of incorporation of company to start the business immediately. Similarly, new e-Form FiLLiP (Form for incorporation of Limited Liability Partnership) was introduced for providing the same services in a single application.**
