



Amendments to the Share Capital and Debentures Rules

On 5th June 2020, the Ministry of Corporate Affairs notified certain amendments to the Companies (Share Capital and Debentures) Rules, 2014 (“**Rules**”) with respect to issuance of sweat equity shares and debenture redemption reserve (“**Notification**”).

A. Sweat Equity

Start-up companies were allowed to issue sweat equity shares to their directors or employees at discount or for consideration other than cash, for providing know-how or making available rights in the nature of intellectual property rights or value addition, upto fifty per cent of paid up share capital of the Company for a period upto 5 years from the date of incorporation or registration.

Pursuant to the Notification, start-up companies can issue sweat equity shares for 10 years from the date of incorporation or registration instead of 5 years. This move should surely help startups boost the morale of the employees during the slowdown caused by the pandemic Covid-19 crisis.

Further, in the said provision, the reference to old definition of a startup company which was issued by the Department of Industrial Policy and Promotion (“**DIPP**”) vide Notification No. G.S.R. 180(E) dated 17th February, 2016 is substituted with the new definition as issued vide Notification No. G.S.R. 127(E) dated 19th February, 2019. This is a welcome change after the DIPP broadened the definition of a startup in February 2019. It recognized an entity as a startup if it had been incorporated for less than 10 years and did not have a turnover of more than Rs. 100 crores for the financial year from the earlier turnover not exceeding Rs. 25 crores.

B. Debenture Redemption Reserve

The Notification further provides that all listed companies in context of their issuance of privately placed debentures will now not be required to invest or deposit a sum of 15% of the amount of its debentures maturing during the year, ending on the 31st day of March of the next year on or before 30th day of April in each year.

The amendment to the Rules will free up vital cash resources of listed companies which would have been otherwise blocked for the requirement of such mandatory investment.

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For further clarification and details on the above, you may write to Mr. Vaishakh Kapadia (Partner) at vkapadia@almtlegal.com, Mr. Ankit Parekh (Senior Associate) at aparekh@almtlegal.com, and Mr. Vinit Shah (Associate) at vshah@almtlegal.com.