



Relaxation to Start-ups for sweat equity shares | Relaxation to listed companies for mandatory 15% investment/deposit of maturing debentures

June 9, 2020

Dear Readers,

The Ministry of Corporate Affairs has enforced certain changes with respect to start-ups and debentures, which are summarized below:

- **Aligning change in the definition of the start-up and clarifying issuance of sweat equity shares | Relaxation to start-ups to issue 50% sweat equity shares extended from 5 years to 10 years**

As per the Companies (Share Capital and Debentures) Rules, 2014, a company shall not issue sweat equity shares for more than 15% of the existing paid up equity share capital in a year or shares of the issue value of INR 5 crore whichever is higher, provided that the issuance of sweat equity shares in the company shall not exceed 20% of the paid up equity capital of the company at any time. The aforementioned restriction was relaxed for start-up companies, and the relaxation provided that a start-up company, as defined in notification number GSR 180(E) dated February 17, 2016 issued by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India, may issue sweat equity shares not exceeding 50% of its paid up capital upto 5 years from the date of its incorporation or registration. However, the definition of start-up was changed vide notification number G.S.R. 127(E), dated February 19, 2019 ([available here](#)), which was not updated in the rules. This change in definition of start-up has been effected now. Further, the timeline of 5 years has been extended to 10 years.

- **Relaxation to listed companies issuing privately placed debentures from mandatory 15% investment/deposit of amounts of debentures maturing during the year**

Under Rule 18 of the Companies (Share Capital and Debentures) Rules, 2014, certain companies are obligated to, invest or deposit, a sum which shall not be less than 15%, of the amount of its debentures maturing during the year, ending on the 31st day of March of the next year in any one or more methods of investments or deposits as provided therein, on or before the 30th day of April in each year, provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below 15% of the amount of the debentures maturing during the year ending on 31st day of March of that year. From the categories of companies which were required to comply with this norm, a company covered in item (B) of sub-clause (iii) of clause (b) of Rule 18(7) has been removed (that is, in case of privately placed debentures by listed companies, as more particularly provided therein).

Aforementioned changes have been enforced vide the Companies (Share Capital and Debentures) Amendment Rules, 2020 dated June 5, 2020 ([available here](#)).

We trust you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at insights@elp-in.com

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