

## Chapter 17

# COMPANIES

**17.1 Introduction :** Companies, corporates, industries and other such terms are often used to refer to economic entities largely pertaining to the organised sector. However, there are differences in the referent depending upon the context of use. Applied to Ministry of Corporate Affairs (Previously known as Ministry of Company Affairs), the term corporate sector comprises the companies incorporated under Companies Act, 2013 (or its precursors). However, as per National Accounts Statistics, Corporate Sector comprises all financial, non financial corporate enterprises and cooperative institutions. Non financial enterprises include public & private limited companies registered as Joint Stock Companies under Companies Act whereas financial institutions constitute all scheduled and non scheduled banks & other financial, investment & insurance companies. Cooperative institutions comprise all cooperative banks, cooperative credit & non credit societies. For certain estimates like GDP, entire organised sector is used as proxy for the corporate sector. Several other users use the term corporate interchangeably with companies incorporated under Companies Act, with proprietary & partnership firms along with the cooperatives constituting the unincorporated sector which also includes a large unorganised sector. Indian private corporate sector accounts for about 1/3<sup>rd</sup> of Gross Domestic Capital Formation (GDCF) and 1/4<sup>th</sup> of the Gross Domestic Savings (GDS).

17.2 A company comes into existence only when it has been registered after completion of all formalities required by the Indian Companies Act, 1956. A company has its own separate existence independent of its members. It means that a company can own property, enter into contracts and conduct any lawful business in its own name. It can sue and can be sued by others in the court of law. The shareholders are not the owners of the property owned by the company. Also, the shareholders cannot be held responsible for the acts of the company. Further, a company continues to exist as long as it fulfils the requirements of law. It is not affected by the death, lunacy, insolvency or retirement of any of its members. Companies have democratic management and control. Normally, the shareholders elect representatives from among themselves known as 'Directors' to manage the affairs of the company.

**17.3 Business Scenario & Responses of Indian Corporate Sector :** Large-scale trading networks of merchants belonging to particular ethnic and sectarian groups go back centuries, and modern Indian **business groups (business houses)** often correspond to these same groupings. When India began industrializing under the British Raj, these groups had the capital both to compete and to cooperate with Indian subsidiaries of the great British business groups of the era. The **Tata family**, of priestly Parsi origin, controlled the largest business group in India for the past sixty years. The group grew to prominence under the Raj, nurtured by colonial government contracts and protected by Imperial tariffs. While Tatas chose to be neutral, the **Birla family**, of the prosperous Marwari community, financed Mohandas Gandhi and the Congress Party generously and it expanded dramatically in the post-independence period; and by 1969 was the second largest Indian business group. The rise of **Reliance Group** has also been meteoric. The business groups as an organizational form persisted (Bajaj, **Modi**,

**Shriram, Thapar** etc), but many individual business groups, especially smaller ones, did not. Various factors are attributed for the success of business houses. However, the logic of industry specialisation to harness economies of scale and adoption of new technologies to cut down costs of production does not appear to be a strong point with most of the Big Business Houses in India as each large House appears to be wanting to produce as many varieties of goods as possible. The diversity is impressive and specialisation, the least significant.

17.4 In the process and the mechanism of Business House construction and rapid expansion, with consequential concentration, some factors that might have played the main role could be

- (i) Participation of public sector financial institutions in risk capital - Business houses happen to enjoy command over vast financial & other resources of the society even when their real stake might be marginal .
- (ii) Intra-House corporate investments;
- (iii) New joint sector enterprises wherein state level institutions join with House companies - projects in which the obtaining of industrial licences, foreign collaborations, financial and other infrastructural support is organised by the State Governments but the management is left to the private co-promoter/private company which in larger projects happens to be an associate company of one or the other Big Business Houses.
- (iv) Financial and technical collaborations with transnational companies (TNCs)- For obvious reasons transnational corporations would prefer to join in establishing joint projects with large companies and the Houses which command control over large economic resources, enjoy high status as also have capabilities to obtain political and administrative patronage. Examples of such collaborations include establishment of Tata Engineering Locomotive Company (TELCO- a joint venture of the Tatas and the Daimler-Benz; Formation of Voltas by Volkart Brothers and the Tatas; setting up of Hindustan Aluminium, by Birlas , through financial collaboration of Kaiser Aluminum and Chemical Company of the USA .

17.5 Many of the transnationals which had been operating as single companies have now become big Houses with multiple associates and subsidiaries. The ICI, **Hindustan Lever, ITC**, Brooke Bond, GEC, and Philips are the well known instances. Their growth too has been phenomenal.

17.6 The 70's and 80's saw market concentration in the Indian private corporate sector with the assets of the top 20 `Business Houses' multiplying more than five times during 1972 to 1984. A similar picture emerges if one takes the turnover as a base to reflect changes in the market concentration .

17.7 All this happened despite the increased regulation which began during 1960's .In the 1960s, Prime Minister Jawarharlal Nehru led India with a distinctly socialist path, building a dense thicket of regulation and bureaucratic oversight that came to be called the **License Raj**. Nehru's daughter, Prime Minister Indira Gandhi, asserted even greater state control over private sector firms' pursuit of growth opportunities, access to finance, and collaboration with foreign partners and forced many multinational companies out of the country. This policy proved economically disastrous, and a period of slow

deregulation began in the mid 1980s. A financial crisis spurred a much more radical **liberalization in the 1990s**.

17.8 Economic reforms initiated in 1991 comprising a variety of deregulatory measures have significantly altered the environment in which the Indian corporate sector now operates. The pace of economic reform has faltered in recent years but the overall direction of policy change remains the same and seeks to strengthen market discipline and enhance competition.

17.9 The Indian corporate sector responded to the policy change in a variety of ways in the initial years of economic reforms. For example, there was vigorous business consolidation and restructuring by the firms in a few chosen areas to correct the inefficiencies caused by overdiversification in the pre-reform era. This entailed a significant increase in the number of **mergers and acquisitions** (M&As) with majority of them being horizontal in nature (Khanna, 1997; Basant, 2000; Beena 2000; Mishra, 2005). Given the policy induced flexibilities, while the domestic firms (especially, the private sector enterprises, usually of the same business group ) took the route of M&A to restructure their business and grow, the MNCs used the same to enter into and raise control in Indian industry. State-owned enterprises did not restructure their business through merger and acquisitions possibly due to stiff resistance on the part of the employees. However, research and development activities did not see an upturn and export orientation was limited (Basant, 2000). Although many of the industries recorded significant increase in in-house R&D efforts, the average R&D intensity as well as the foreign technology purchase intensity remained very low during the early years of liberalization (Mishra, 2005). Indeed, the firms in many of the technology intensive industries relied largely on equity linked foreign technology collaborations (which might have replaced disembodied technology purchase from foreign sources ). While firms spent less on product differentiation through investments in marketing and distribution related complementary assets, the emphasis on advertising based product differentiation increased at a faster rate (Basant, 2000; Mishra, 2005). However, selling expenses as a share of sales declined from about 7 per cent in early 1990s to less than 5 per cent towards the end of the last decade. Enhanced competition in the market restricted the firms from increasing their profitability, but forced them to improve cost-efficiency, inventory management and export penetration (Mishra, 2005). Competitive pressures have also resulted in growing importance of business strategies of **sub-contracting and outsourcing** manufacturing. Consequently, the degrees of vertical integration declined.

17.10 Besides, **removal of restrictions on imports** has increased reliance on imports and the degree of import-based competition in the market. Export orientation of the firms has increased significantly in the current decade vis-à-vis that in the 1990s and this increase in exports intensity is spread across the industries. The significantly high exports intensity and its increase across the major industries signals enhanced global competitiveness of Indian firms following economic reforms, though this increase is not high enough when compared with imports, which have grown faster.

Profitability of the firms measured as the ratio of Profit before interest and taxes (PBIT) to sales, rate of return on capital employed, and rate of return on assets showed a declining tendency till the initial years of the last decade and an increasing tendency thereafter. When the entire post-reform period is taken together, all indicators show increasing trend, though the rate of growth has been only marginal for PBIT to sales ratio. This means that reforms have forced the firms towards **more efficient use of capital or assets**.

### **Evolution of Corporate Governance in India :**

17.11 At independence, India inherited one of the world's poorest economies but one which had a factory sector accounting for a tenth of the national product; four functioning stock markets with clearly defined rules governing listing, trading and settlements; a well-developed equity culture only among the urban rich; and a banking system replete with well-developed lending norms and recovery procedures. In terms of corporate laws and financial system, therefore, India emerged far better endowed than most other colonies.

17.12 The years since liberalization, have witnessed wide-ranging changes in both laws and regulations driving corporate governance as well as general consciousness about it. Perhaps the single most important development in the field of corporate governance and investor protection in India has been the **establishment of the Securities and Exchange Board of India (SEBI) in 1992** and its gradual empowerment since then. Established primarily to regulate and monitor stock trading, it has played a crucial role in establishing the basic minimum ground rules of corporate conduct in the country.

17.13 Concerns about corporate governance in India were, however, largely triggered by a spate of crises in the early 90's the Harshad Mehta stock market scam of 1992 followed by incidents of companies allotting preferential shares to their promoters at deeply discounted prices as well as those of companies simply disappearing with investors' money. The enforceability of **corporate governance** has however been oscillatory as it changed its nature from voluntary to mandatory and back to voluntary before finally moving towards being a mandatory measure. It started in the wake of liberalization during the 1990's after being introduced by **Confederation of Indian Industry (CII)** as a **voluntary measure** to be adopted by the companies. It soon acquired a **mandatory** status in the early 2000's through the introduction of the **Clause 49 of the Listing Agreement** , as all companies ( of a certain size) listed on stock exchanges were required to comply with these norms. In late **2009** , **Ministry of Corporate Affairs** released a set of **voluntary guidelines** for corporate governance , which addresses a myriad corporate governance issues. These voluntary guidelines marked a reversal of the earlier approach , signifying the preference to revert to a voluntary approach as opposed to the more mandatory approach prevalent in the form of Clause 49. However, key corporate governance norms have been consolidated into an amendment to the Companies Act , 1965 and with the new **Companies Act , 2013** , the corporate governance reforms in India would have completed two full cycles – moving from voluntary to mandatory , and then to voluntary, and now back to the **mandatory** approach.

17.14 Various legal and regulatory frameworks and Committees set for the functioning of corporate sector may be summarised as under :

1. The Companies Act, 2013 and its precursors
  - (i) Acts relating to companies in force before the Indian Companies Act, 1866;
  - (ii) The Indian Companies Act, 1866;
  - (iii) The Indian Companies Act, 1882;
  - (iv) The Indian Companies Act, 1913;
  - (v) The Registration of Transferred Companies Ordinance, 1942;
  - (vi) The Companies Act, 1956;
2. Monopolies and Restrictive Trade Practices Act, 1969 (replaced by new Competition Law)
  - a. The Competition Act 2002
  - b. The Competition (Amendment) Act 2007
3. Foreign Exchange Management Act, 2000
4. Securities and Exchange Board of India Act, 1992
5. Securities Contract Regulation Act, 1956
6. The Depositories Act, 1996
7. Arbitration and Conciliation Act, 1996
8. SEBI Code on Corporate Governance

17.15 Apart from the above Acts, many committees have been set up over the years to legislate the concept called 'corporate governance' eg **Naresh Chandra Committee** relating to the Auditor-Company relationship and the role of Auditors, **Birla Committee** to promote & raise the standards of good corporate governance, **Narayana Murthy Committee** on recommendations to clause 49 of the Listing Agreement etc. The Corporate

17.16 **Competition Commission of India (CCI)** was established by the Central Government with effect from 14th October 2003 to accomplish the objectives of the Competition Act 2002 . It is the duty of the Commission to eliminate practices having adverse effect on competition, to promote and sustain competition, protect the interests of consumers and ensure freedom of trade in the markets of India. The Commission is also required to give opinion on competition issues on a reference received from a statutory authority established under any law and to undertake competition advocacy, create public awareness and impart training on competition issues

17.17 The Ministry of Corporate Affairs has set up **National Foundation for Corporate Governance (NFCG)** as a not-for-profit Trust to provide a platform for deliberating on issues relating to good corporate governance, sensitize corporate leaders on the importance of good corporate governance practices, and facilitate exchange of experiences and ideas between corporate leaders, policy makers, regulators, law enforcing agencies and non-government organizations. Earlier **Serious Fraud Investigation Office (SFIO)** was set up by the Government of India under the Ministry of Corporate Affairs by a resolution dated 2.7.2003. The office has been set up to investigate corporate frauds of serious and complex nature.

17.18 With a view to enhance efficiency in delivery of services and move towards electronic corporate governance, Ministry of Corporate Affairs has implemented the '**MCA21 e-Governance Project**'. It is a holistic initiative offering 100 plus MCA services through a single portal. All registry related services, such as name availability, incorporation of company, filing of all annual statutory returns, registration, modification and satisfaction of charges, statutory filings related to all events as stipulated in the Act (with the exception of matters related to liquidation), inspection of documents, issue of certified copies, approvals from Regional Directors, approvals of the Central Government and investor complaints are introduced through electronic filing and offered through a secure portal. The portal services can be accessed/ availed from anywhere, at any time that best suits corporate entities, professionals and the public at large.

17.19 **Trends in Growth of Corporate Sector:** Indian corporate sector is largely constituted by Companies Limited by Shares. Amongst them, the registered **Government companies** even though far less in number (1,375 as on 31<sup>st</sup> March 2014: about 0.15 % of total of 9,46,651 companies limited by shares ) account for about a quarter of the Paid up Capital of all joint stock companies. Government companies are mainly in the basic, heavy and capital intensive industries whereas the private sector is predominantly in industries which cater to the consumer markets directly.

17.20 A look at the number of companies (Limited by shares) at work since 1956-57 reveals that the companies limited by shares have recorded a phenomenal growth. The number of such companies at work increased to about 30 times from 29,357 at the end of 1956-57 to 9,46,651 (excluding 146556 dormant companies) at the end of 2013-14. Unlike companies limited by shares, the companies limited by Guarantee and Associations that are not for profit have not shown much increase. At the end of 1956-57, there were 1364 such companies which increased to 5407 (excluding dormant companies) at the end of 2013-14. The first company with unlimited liability was registered in 1973-74. The number of such companies at the end of 2013-14 was 375 (excluding dormant companies). Besides the companies registered under the Companies Act , there are branches of Foreign Companies, as defined under Section 591 of the Act operating in the country. The number of branches of Foreign Companies operating in the country, which was 551 at the end of 1956-57, remained almost constant till 1974-75. Thereafter, the number of branches of Foreign Companies recorded gradual decline till the end of 1980-81 when it touched 300 branches. The number has steadily increased since then, and as on 31.3.2014, stood at 3,240. A new trend that has been observed of-late is that more and more entrepreneurs have started opting for Limited Liability Partnerships(LLPs) which combine the flexibility & ease of operation of partnership firms and limited liability of owners as in a limited company.

17.21 As per **Monthly Information Bulletin on Corporate Sector** , February, 2015, Ministry of Corporate Affairs, The total number of companies registered in the country as on 28<sup>th</sup> February, 2015, stood at 1,452,243. Of them, 266,401 companies were closed; 151 companies were assigned dormant status as per the Companies Act, 2013; 139,507 companies have not filed their statutory annual filings for 3 years consecutively; 5,276 companies were under liquidation; 23,148 companies were in the process of

being struck-off and 184 companies were in the process of being re-activated. Taking the above into account, there were 1,017,576 active companies as on 28th February, 2015. Out of the 266,401 closed companies, about 10,264 companies were liquidated/dissolved; 237,668 companies were defunct (and hence struck-off); 15,238 companies were amalgamated/ merged with other companies; 3,231 companies were dissolved and converted to LLP. Authorized Capital wise distribution of active companies as on 28<sup>th</sup> February, 2015 is that around 65.67% of companies (668,269 in number) have authorized capital less than or equal to Rs.10 lakh each and about 2.13% of companies (21,659 in number) have authorized capital of above Rs.10 crore each.

### Companies At Work 1956-57 to 2013-14

As on 31st March	Companies Limited by Shares						No. of Companies		
	Government Companies		Non Government Companies		Total Companies		Companies with unlimited liability (No.)	Companies limited by Guarantee and Association not for profit	Foreign companies as defined under Sec. 591 of the Companies Act 1956
	Number	Estimated Paid up Capital (Rs Crore)	Number	Estimated Paid up Capital (Rs Crore)	Number	Estimated Paid up Capital (Rs Crore)			
1957	74	72.6	29283	1005.0	29357	1077.6		1364	551
1958	91	256.8	28189	1049.5	28280	1306.3		1356	561
1959	104	428.9	27299	1086.7	27403	1515.6		1323	572
1960	125	477.2	26772	1141.5	26897	1618.7		1180	565
1961	142	547.0	26007	1271.5	26149	1818.5		1169	569
1962	154	629.7	24821	1389.4	24975	2019.1		1143	564
1963	160	786.2	25462	1470.3	25622	2256.5		1153	582
1964	176	960.8	25756	1640.0	25932	2600.8		1162	580
1965	183	1114.9	26038	1727.9	26221	2842.8		1162	582
1966	214	1247.7	26551	1878.4	26765	3126.1		1161	579
1967	232	1391.5	26795	2009.8	27027	3401.3		1152	578
1968	241	1559.3	27103	2114.5	27344	3673.8		1160	581
1969	259	1714.9	27765	2259.4	28024	3974.3		1188	564
1970	282	1790.6	28727	2299.9	29009	4090.5		1206	561
1971	314	2064.4	30008	2439.2	30322	4503.6		1220	543
1972	352	2369.1	31915	2571.7	32267	4940.8		1242	541
1973	390	2998.4	33966	2750.1	34356	5748.5		1262	538
1974	450	4645.1	37035	2985.9	37485	7631.0	1	1294	540
1975	573	4966.0	40007	3234.8	40580	8200.8	4	1326	510
1976	651	6122.3	42755	3497.2	43406	9619.5	15	1337	481
1977	701	7174.5	45165	3705.2	45866	10879.7	43	1356	482
1978	745	8527.6	47549	4070.4	48294	12598.0	47	1381	473
1979	782	8315.2	50736	4260.0	51518	12575.2	62	1414	358
1980	825	10070.3	55668	4536.3	56493	14606.6	78	1447	315
1981	851	11442.6	61863	4914.1	62714	16356.7	176	1478	300
1982	894	13309.3	71508	5626.2	72402	18935.5	219	1496	311
1983	943	16734.9	81960	6321.4	82903	23056.3	252	1536	320
1984	973	19510.6	93291	6989.8	94264	26500.4	282	1598	326
1985	980	22447.0	108329	8149.7	109309	30596.7	295	1677	324
1986	1020	27087.8	123359	9506.8	124379	36594.6	298	1739	335
1987	1053	32872.7	139617	11095.1	140670	43967.8	299	1817	371
1988	1104	37169.3	157220	12954.8	158324	50124.1	309	1881	401
1989	1134	42572.4	179194	15131.1	180328	57703.5	319	1954	420

As on 31st March	Companies Limited by Shares						No. of Companies		
	Government Companies		Non Government Companies		Total Companies		Companies with unlimited liability (No.)	Companies limited by Guarantee and Association not for profit	Foreign companies as defined under Sec. 591 of the Companies Act 1956
	Number	Estimtaed Paid up Capital (Rs Crore)	Number	Estimtaed Paid up Capital (Rs Crore)	Number	Estimtaed Paid up Capital (Rs Crore)			
1990	1160	47450.7	200968	17192.7	202128	64643.4	303	2041	469
1991	1167	54484.6	223285	20313.3	224452	74797.9	317	2117	489
1992	1180	57911.0	249181	26731.3	250361	84642.3	330	2192	507
1993	1190	61163.4	274474	32891.7	275664	94055.1	337	2262	529
1994	1203	67380.5	304422	46441.4	305625	113821.9	349	2350	565
1995	1199	73299.5	352093	62719.2	353292	136018.7	375	2416	619
1996	1216	76962.8	407926	87125.6	409142	164088.4	392	2506	679
1997	1220	84317.8	449730	106200.8	450950	190518.6	419	2578	772
1998	1223	88958.9	483277	128689.7	484500	217648.6	420	2652	871
1999	1229	95918.4	510761	167440.9	511990	263359.3	427	2727	956
2000	1245	102849.9	541189	215960.4	542434	318810.3	449	2824	1045
2001	1266	109745.6	567834	247501.2	569100	357246.8	461	2918	1141
2002	1261	120505.2	587985	285248.0	589246	405753.2	479	3007	1285
2003	1283	130482.3	610872	326576.4	612155	457058.7	490	3108	1497
2004	1309	146358.3	640203	352432.5	641512	498790.8	496	3244	1654
2005	1328	155814.1	678321	498207.5	679649	654021.6	496	3432	1840
2006	1352	167614*(1136)	730817	451538*(478870)	732169	619152*(480006)	498	3605	2040
2007	1669	199269*(1232)	742009	507291*(534782)	743678	706560*(536014)	520	3846	2310
2008	1628	253124*(1321)	767517	670904*(579411)	769145	924028*(580732)	559	4039	2609
2009	1591	229939*(1372)	785183	689004*(642023)	786774	918943*(643395)	639	13014	2903
2010	1642	277258*(1088)	834218	867867*(519973)	835860	1145125*(521061)	678	7577	3050
2011	1316	337421*(1154)	713239	1028493*(636407)	714555	1365914*(637561)	437	3600	3127
2012	1349	396670*(1225)	799412	1226965*(745243)	800761	1623635*(746468)	428	3956	3191
2013(R)	1381	446278*(1269)	882230	1365611*(833415)	883611	1811889*(834684)	431	4242	2554
2014(P)	1375	532785*(1275)	945276	1585444*(849974)	946651	2118229*(851249)	375	5407	3240

\* Paid up Capital data for companies (No.'s given in parenthesis) as compiled from MCA 21. Source: Ministry of Corporate Affairs

**17.22 Registration of New Companies :** Registration of new companies limited by shares since 2007-08 is tabulated below:

### Registration of New Government Companies

Year	Public Limited		Private Limited		Total	
	No. of Companies	Authorised Capital (` Crore)	No. of Companies	Authorised Capital (` Crore)	No. of Companies	Authorised Capital (` Crore)
2007 - 08	41	1752.81	68	167.05	109	1919.86
2008 - 09	64	3813.35	20	35.88	84	3849.23
2009 - 10	41	4947.70	20	133.55	61	5081.25
2010 - 11	38	28399.50	13	258.12	51	28657.62
2011 - 12	40	5642.60	12	106.97	52	5749.57
2012-13	37	4695.05	9	711.06	46	5406.11
2013-14	51	15,161.90	12	145.57	63	15,307.47



## Registration of Non-Government Companies Limited by Shares

Year	Public Limited		Private Limited		Total	
	No. of Companies	Authorised Capital (₹ Crore)	No. of Companies	Authorised Capital (₹ Crore)	No. of Companies	Authorised Capital (₹ Crore)
2007 - 08	2556	31,015.92	62694	42,272.59	65250	73,288.51
2008 - 09	2332	7,172.29	62166	19,606.37	64498	26,778.66
2009 - 10	1990	21,012.79	65519	15,702.79	67509	36,715.58
2010 - 11	2998	12,675.48	88588	27,583.88	91586	40,259.36
2011- 12	3440	5,957.78	96147	23,110.99	99587	29,068.77
2012-13	3348	21,423.43	8889	30,707.07	92337	52,130.50
2013-14	3,054	4,012.19	94,912	19,552.46	97,966	23,564.65

**17.23 Distribution of Companies :** During 2013-14, 63 new Government companies were registered with their total authorised capital at Rs. 15,307.47 crore. During 2013-14, 97,966 Non-Government companies (limited by shares) were registered in the country with aggregate authorised capital of Rs. 23,564.65 crore. Of these, 3,054 were Public limited companies with aggregate authorised capital of Rs. 4,012.19 crore and 94,912 were Private limited companies with aggregate authorized capital of Rs. 19,552.46 crore. Out of 97,966 Non-Government companies limited by shares registered during 2013-14, 57,791 companies or 59 % of the total were registered in 5 States, namely, Maharashtra (17.9%), Delhi (17.08%), West Bengal (10.10%), Andhra Pradesh (7.3%) and Tamil Nadu (6.57 %). The other States and Union Territories together accounted for 40,175 registrations of new Non- Government companies. “Business Services” had the largest share (32.84%) among the Non- Government companies registered during the 2013-14, followed by “Manufacturing”, which had a share of 15.28%.

**17.24 : Economic Activity-wise classification of companies with limited liability by shares registered during the year 2013-14 :** The predominant share of companies are in Business Services (32,254) followed by Manufacturing (14,996), Real Estate and Renting (10,752), Trading (10,646), and Construction (10,335). Business Services comprise Information Technology, Research & Development and other business activities (such as law, audit & accounts and consultancy, etc.)

**17.25** The Economic-activity wise classification of active companies reveals that as on 31<sup>st</sup> March, 2014, large number of companies were engaged in Manufacturing (2.03 Lakh) followed by Business Services (2.01 Lakh), Trading (1.44 Lakh) and Construction (1.02 Lakh). State/UT-wise distribution of registered companies indicates that Maharashtra has the highest number of companies (293,407), followed by Delhi (271,185) and West Bengal (184,630). Similarly, amongst ‘Active Companies’, Maharashtra has the maximum number of active companies (214,528), followed by Delhi (196,536) and West Bengal (137,169) as on 28<sup>th</sup> February, 2015

## 17.26 Foreign Companies in India

As per Section 591 of the Act, Foreign Companies are those companies as are incorporated outside India, but establish a place of business within India. During the year 2013-14, a total of 216 Foreign Companies were registered. Maharashtra has registered 63 (29.2%) foreign companies, followed by Delhi with 62 (28.7%). The number of active Foreign Companies reported to have a place of business in the country as on 31.03.2014 was 3240. United States of America with 444 companies, Singapore (305 companies), UK (255 companies), Japan (200 companies) & Germany (142) accounted for 42 % of the total foreign companies (3191 companies) in India as on 31<sup>st</sup> March 2012. The Number of foreign companies decreased to 2554 as on 31<sup>st</sup> March 2013 with United States of America, Singapore, UK, Japan & Germany being country of incorporation in case of 318, 220, 177, 141 and 130 companies respectively. But as on 31<sup>st</sup> March, 2014, the number of foreign companies increased to 3240 with United States of America, Singapore, UK, Japan & Germany being country of incorporation in case of 451, 284, 252, 201 and 150 companies respectively.

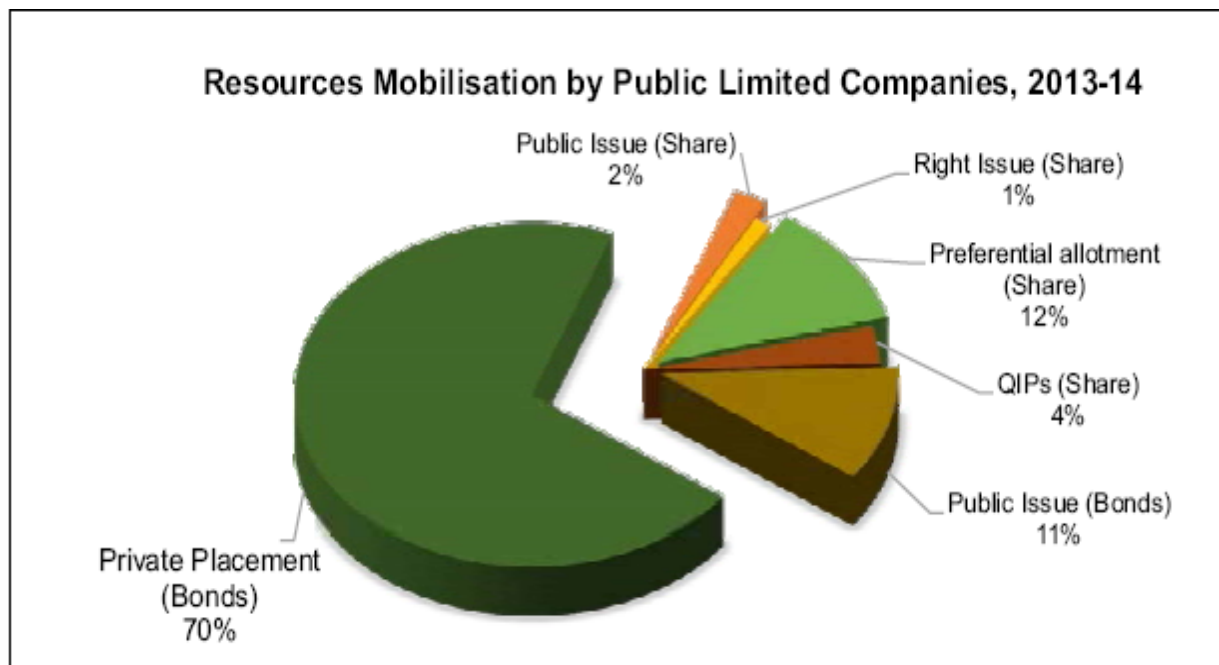
**17.27 Resources Raised By Corporate Sector:** Year wise resources raised by corporate sector is as follows:

### Year wise Resources Raised by Corporate Sector

(Amount Rs in Crore)

Year	Shares				Debt		Total Resource Mobilization
	Public Issues	Right Issues	Preferential allotments	QIPs	Public Issues	Private Placement of corporate bonds	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2008-09	2083	12637	48179	189	1500	173281	237869
2009-10	46,736	8,319	19,618	42,729	2,500	2,12,635	3,32,537
2010-11	48,654	9,503	30,511	25,850	9,451	2,18,785	3,42,754
2011-12	10,482	2,375	25,709	2,163	35,611	2,61,283	3,37,623
2012-13	6,528	8,945	46,939	15,996	16,982	3,61,462	4,56,852
2013-14	8,692	4,576	46,463	13,663	42,383	2,76,054	3,91,831

Source : SEBI



#### Sources of Data on Corporate Sector:

17.28 **Ministry of Corporate Affairs** maintains information on performance of corporate sector. Entities (called as companies) registered under Companies Act 2013, are registered with **Registrar of Companies** operating in each state. The companies are mandated to file their Annual Returns in the form of pdf files along with certain basic parameters of balance sheet and profit and loss account through e form which populates the database of financial parameters maintained by Ministry of Corporate Affairs. Earlier, the companies used to file the Annual returns in Hard copies but the same has been discontinued since 2006. Further, Vide Companies (Filing of documents and forms in Extensible Business Reporting Language) Rules, 2011, Ministry of Corporate Affairs has mandated that companies falling in the following categories will have to file their Balance Sheet and Profit & Loss Account under section 220 of the Companies Act, 1956 using the **Extensible Business Reporting Language (XBRL)** taxonomy for financial year ending on or after 31.03.2011:

1. all companies listed with any Stock Exchange(s) in India and their Indian subsidiaries; or
2. all companies having paid up capital of Rupees five crore and above; or
3. all companies having turnover of Rupees one hundred crore and above.

17.29 However, banking companies, Power companies, Non Banking Financial Companies (NBFC) and Insurance companies were exempted from XBRL filing. The new system would make the information available in format which can be queried to generate desired output.

17.30 The process of winding up of companies is mediated by **Official liquidators** appointed by the Central Government under Section 448 of the Companies Act, 1956 .

17.31 The data on corporate sector flows to the Ministry of Corporate sector as an **administrative by-product**. The information maintained includes that on newly registered companies- state wise, sector wise & type of company wise; information on financial performance of company through Annual Returns (pdf/XBRL) and e- forms including information on parameters like asset & liabilities, sales, income , profit etc ; information on companies struck off/ liquidated etc.

17.32 **Reserve Bank of India** : The information pertaining to banking companies is also maintained by the Reserve Bank of India (such companies also being regulated under Banking Regulation act 1949) .The RBI makes available the requisite data based on its studies on company finances. The RBI studies are based on a sample of large companies (about 3000) and the analysis is undertaken separately for public limited companies and private limited companies. The RBI compiles the global estimates of savings and capital formation for the entire private corporate sector by multiplying the sample results with the ratio of PUC of all companies to the PUC of sample companies, which is done separately for public and private limited companies. Besides these two sources, data on private corporate sector is also available from the quarterly financial results of listed companies, which are consolidated by the RBI and some private agencies, like the **Centre for Monitoring Indian Economy** CMIE; as well as industry associations like the **NASSCOM**. Some other agencies like **Insurance Regulatory & Development Authority** (IRDA), **Central Electricity Authority (CEA)** also maintain & disseminate information on companies pertaining to their domain as these are also regulated by other Acts like Insurance Act, 1938 or the Insurance Regulatory and Development Authority Act, 1999, Electricity Act, 2003 etc .

17.33 The **Annual Survey of Industries** (ASI) of the Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation covers only the manufacturing industries and units employing 10/20 workers with/without power. Therefore, this coverage is independent of the definition of corporate sector. There could be units which are in the corporate sector but not covered in ASI and vice-versa. Thus, there may be units covered under ASI but not in corporate sector (proprietary and partnership firms).

#### 17.34 Terms & Definitions:

- **Company** means a company incorporated under The Companies Act 2013 or under any previous company law;
- **Company limited by guarantee** means a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up.
- **Company limited by shares** means a company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them

- **Unlimited company** means a company not having any limit on the liability of its members
- **Foreign company** means any company or body corporate incorporated outside India which—
  - (a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
  - (b) conducts any business activity in India in any other manner.
- **Government company** means any company in which not less than fifty one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.
- **Private company** means a company having a minimum paid-up share capital of one lakh rupees or such higher paid-up share capital as may be prescribed, and which by its articles,—
  - (i) restricts the right to transfer its shares;
  - (ii) except in case of One Person Company, limits the number of its members to two hundred: Provided that where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this clause, be treated as a single member:
    - Provided further that—
    - (A) persons who are in the employment of the company; and
    - (B) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased, shall not be included in the number of members; and
    - (iii) prohibits any invitation to the public to subscribe for any securities of the company;
- **Public company** means a company which—
  - (a) is not a private company;
  - (b) has a minimum paid-up share capital of five lakh rupees or such higher paid-up capital, as may be prescribed:
    - Provided that a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles .
- **Limited Liability Partnership(LLP)** : A corporate business vehicle that enables professional expertise and entrepreneurial initiative to combine and operate in flexible, innovative and efficient manner, providing benefits of limited liability while allowing its members the flexibility for organizing their internal structure as a partnership.
- **Holding company**, in relation to one or more other companies, means a company of which such companies are subsidiary companies;
- **Subsidiary company** or “subsidiary”, in relation to any other company (that is to say the holding company), means a company in which the holding company—
  - (i) controls the composition of the Board of Directors; or
  - (ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies: Provided that such class or

classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

*Explanation.*—For the purposes of this clause,—

(a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;

(b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;

(c) the expression "company" includes any body corporate;

(d) "layer" in relation to a holding company means its subsidiary or subsidiaries;

- **Associate company**, in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

*Explanation.*—For the purposes of this clause, "significant influence" means control of at least twenty per cent. of total share capital, or of business decisions under an agreement.

- **Listed company** means a company which has any of its securities listed on any recognised stock exchange.
- **Memorandum** means the memorandum of association of a company as originally framed or as altered from time to time in pursuance of any previous company law or of this Act;
- **Authorised Capital** or "nominal capital" means such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of the company;
- **Paid-Up Share Capital** or "share capital paid-up" means such aggregate amount of money credited as paid-up as is equivalent to the amount received as paid up in respect of shares issued and also includes any amount credited as paid-up in respect of shares of the company, but does not include any other amount received in respect of such shares, by whatever name called;

#### References :

- The Global History of Corporate Governance , an introduction , Randall K. Morck, Lloyd Steier, Working Paper 11062, National Bureau Of Economic Research, Cambridge
- Study on the State of Corporate Governance in India , Evolution, Issues & Challenges for Future- Santosh Pande, Kshama V Kaushik, Indian Institute of Corporate Affairs , Thought Arbitrage Research institute, Indian Institute of Management , Kolkata.
- 58<sup>th</sup> Annual Report on the Working & Administration of the Companies Act,1956 year ended March 31<sup>st</sup> 2014. & Monthly Information Bulletin on Corporate Sector Feb ,2015, Ministry of Corporate Affairs.
- Corporate Sector in National Accounts , Ramesh Kolli, The Journal of Income & Wealth Vol. 31 No. 2June- Dec 2009

- How has the Indian Corporate Sector responded to two decades of Economic Reforms in India ? an Exploration of Patterns and Trends – Rakesh Basant , Pulak Mishra , WP No. 2012-02-02, Indian Institute of Management, Ahemdabad.
- Nature & Growth of Indian Corporate Sector, SK Goyal, Institute for Studies in Industrial Development, New Delhi.