

Registrations drop sharply after new Companies Act comes into force

The number of new companies registered in India between April and August has more than halved from the same period last year following the passage of the Companies Act, 2013, which was aimed at overhauling a 57-year-old law to make it more relevant and contemporary.

During the first five months of this financial year, 21,780 companies were incorporated, compared with 43,148 last year, according to data from the Ministry of Corporate Affairs.

"There are many issues under the new Companies Act that are adversely impacting corporate structures in India and hence a lot of new businesses are structured under LLPs instead of companies in India," said Ruchi Biyani, head of the European office of law firm Nishith Desai Associates. "Further, the level of disclosures and compliances for companies is significantly more as compared to Limited Liability Partnerships." LLPs are a relatively new way of doing business in India, unlike private limited companies.

The Companies Act, 2013, was implemented with the purpose of meeting the requirements of India's growing economy. The objective, according to industry experts, was to replace the archaic Companies Act of 1956 with new legislation that would make doing business in India easier and ensure that the primary corporate governance laws were on par with those in other countries.

"One of the basic purposes of the act was to encourage small and medium businesses to corporatise so as to hope to become large," said Vinod Kothari, a company law practitioner based out of Mumbai and Kolkata, adding that the lower registration numbers only underscore its cumbersome nature.

The new act withdraws some exemptions and privileges that were available to private companies, including the filing of a declaration of commencement of business and getting the central government's sanction for appointment of managing or whole-time directors or managers.

Private companies constitute 92% of the total number of companies in the country, according to Kothari.

"One of the other problems is that it takes a long time to incorporate a company in India, compared with 2-3 days in places like Singapore, Hong Kong and other developed countries," Biyani said.

The act does not provide a statutory time line for the Registrar of Companies to approve a name and provide a certificate of incorporation.

Compliance under the new rules is too rigid for private limited companies, which is one of the reasons for slow new company registrations, said Ramnath Pradeep, a corporate legal advisor and former chairman of Corporation Bank.

Other reasons for the lower number of companies being registered include the economic environment and political uncertainty.

(Economic Times)