Policy Reforms for Startups

Recently, the Ministry of Corporate Affairs has brought a slew of policy reforms to promote **India's startup** environment.

- The move is likely to help start-ups raise funds, while allowing promoters to retain control over their companies.
- It **removed** the earlier **requirement of distributable profits for three years** for a company to be eligible to issue shares with differential voting rights.
- **Indian companies are now allowed to issue more shares with Differential Voting Rights (DVR).**
    - The revised cap on differential voting rights shares is raised to 74% of the total voting power from the existing 26%.

Differential Voting Rights (DVRs)

- Promoters or founders of a start up, often lose control of the firm when they dilute their stakes to raise multiple rounds of funding. **This issue can be resolved by Differential Voting Rights (DVRs).**
- A DVR share is like **an ordinary equity share,** but it does not follow the **common rule of one share-one vote,**
- It **enables promoters to retain control over the company** even after many new investors come in, by allowing shares with **superior voting rights** or lower or **fractional voting rights** to public investors.

Significance

- Earlier, due to the requirement of raising capital by issuing equity to foreign investors.,Indian promoters have had to cede control of their companies.
    - Some of which had prospects of **becoming Unicorns** (startups that have a market valuation of at least $1 billion).
- These two changes are expected to **give a boost to the start-up ecosystem.**
- It will also **strengthen Indian companies,** who have lately been targeted by **deep-pocketed global investors** for acquisition of controlling stakes in order to **gain access to their cutting-edge innovation and Indian market.**
    - For example **Flipkart's take over by Walmart in 2018.**

Source:THBL