DIRECTORATE OF DISTANCE EDUCATION
NALSAR UNIVERSITY OF LAW, HYDERABAD

M.A. (Corporate Law)
Advanced Diploma in Corporate Law

Academic Year: 2024-2025

First Semester Repeat Examination (May, 2025)

Paper III - 1.1.3. Administration of Company

Duration of the Examination: 2 ½ hours **Total Marks : 70 marks**

INSTRUCTIONS TO CANDIDATES

a) **Read the instructions carefully and adhere to the same.**
b) **Please mention your DDE ID No., date of the exam, name of the programme & subject on the Answer Sheet and the Additional Answer Sheets, if any.**
c) **The questions to be interpreted as given and no clarification can be sought from the Invigilator.**
d) **Clearly indicate the question numbers while answering them. Answers without question numbers / wrong question numbers will not be evaluated.**
e) **Write the answers clearly and neatly. Answers in illegible handwriting will not be taken into consideration.**
f) **Candidates are prohibited to carry phones or any other electronic devices, books, material etc. in the Examination Hall.**
g) **Copying is strictly prohibited and is considered as a serious academic mis-conduct and the University will take action as it deems fit.**

Section – A

Answer FIVE questions out of SEVEN questions and each question carries 10 marks.
(5 x 10 marks = 50 marks)

1. M/s. Lonava Private Limited, a closely held private company, is planning to convert itself into a public limited company with the intention of getting its shares listed on a recognized stock exchange in India within the next financial year. The current structure of the company is as follows:

- It has 4 directors, all of whom are executive directors.
- None of the directors are independent.
- There is no woman on the Board.
- The proposed structure after conversion will have a Chairman, who is one of the existing executive directors and also a promoter of the company.
- The company's paid-up share capital will exceed Rs. 10 crore, and its turnover is expected to cross Rs. 100 crore post-conversion.

The company has approached you, as their legal advisor, to assist with complying with the Companies Act, 2013 and SEBI (LODR) Regulations, 2015, with respect to the composition of its Board of Directors after conversion into a public listed company.

a. **a.** Examine and explain the statutory and regulatory requirements that M/s. Lonava Private Limited must fulfil regarding the composition of its Board of Directors after becoming a listed public company.
b. What changes must the company make to its existing board structure to ensure compliance?
c. Comment on whether the appointment of independent directors and a woman director is mandatory in this case. Discuss the implications if the company fails to comply with the prescribed board composition after becoming listed.

2. M/s. Amulya Ltd., a listed public company, is facing a crisis. A whistleblower complaint has been received alleging serious corporate governance lapses and related party transactions that were not disclosed to the Board. These transactions involve large sums being paid to a promoter-owned entity without proper contracts or board approval.

The Audit Committee, chaired by an Independent Director, has been asked to immediately look into the matter. Meanwhile, shareholders and media are demanding transparency, and the company's stock price is falling.

The Board of Directors consists of:

- 2 Promoter Executive Directors
- 1 Non-executive Director related to promoters
- 3 Independent Directors

One of the independent directors has expressed concerns that their inputs were often ignored in board meetings, and minutes were being drafted selectively.

a. What is the role and responsibility of Independent Directors in such a situation?
b. How can the Independent Directors ensure effective oversight and uphold their duties under the Companies Act, 2013?
c. What powers does the Audit Committee have in this scenario, and what actions can it take?
d. What are the legal protections available to Independent Directors when serious allegations arise within the company?

3. Akshaya Pvt. Ltd. is a closely-held private company incorporated under the Companies Act, 2013. The company is engaged in the manufacture of industrial machinery and has seen considerable growth over the past five years.
The company has five shareholders:

- Mr. X – 35%
- Mr. Y – 30%
- Mr. Z – 20%
- Ms. A – 10%
- Ms. B – 5%

Mr. X and Mr. Y, holding together 65% of the equity shares, exercise complete control over the management and decision-making processes of the company. They are also the only directors actively participating in day-to-day operations.

Over the last year, Mr. Z, Ms. A, and Ms. B have raised several concerns about the way the affairs of the company are being conducted by Mr. X and Mr. Y. Their concerns include the following:

Diversion of Funds: Mr. X and Mr. Y have been siphoning off company funds by awarding contracts and purchase orders to a sister company in which they have a substantial personal interest. These transactions are allegedly made at inflated prices and without proper disclosure or board approvals.

Lack of Transparency: Several board meetings were conducted without proper notice to all directors. Important decisions such as approval of financial statements, appointment of auditors, and director remuneration have been made without informing or involving the minority shareholders.

Appointment of Family Members: Mr. X and Mr. Y have appointed their relatives as directors and senior officers in the company without holding proper board or general meetings or obtaining the required consents.

Suppression of Dividends: Despite the company earning substantial profits over the last three financial years, no dividends have been declared. The retained profits are alleged to be diverted or used for unrelated purposes.

Oppression of Minority: Ms. A, who was also employed as the company's Finance Manager, was suddenly terminated without any disciplinary proceedings or notice, after raising questions about financial irregularities.
The minority shareholders—Mr. Z, Ms. A, and Ms. B—holding a combined stake of 35%, feel that the affairs of the company are being conducted in a manner that is oppressive, prejudicial, and amounts to mismanagement.

a. Whether the minority shareholders can approach the National Company Law Tribunal (NCLT)?
b. Under which provisions of the Companies Act, 2013 can they initiate action?
c. What constitutes "oppression" and "mismanagement" under the Act in the given case?
d. What are the possible remedies the NCLT can grant in such a case?

4. Beta Technologies Ltd., a public company listed on the NSE, has over 20,000 shareholders and a large base of debenture holders. The company's latest financial statements revealed significant write-offs and losses, despite previously declaring a strong financial position. Following this:

- A group of 500 shareholders holding a cumulative 2.5% of the issued share capital alleged that the company's management intentionally misled investors by falsifying financial statements.
- These shareholders allege that the auditors, M&Co. LLP, colluded with the management and failed to report material irregularities, thereby misleading investors.

- The Registrar of Companies (RoC) had earlier flagged certain suspicious transactions, including related party transactions with shell entities.
- The debenture holders claim that the company defaulted on payments even though it showed adequate reserves on paper.
- Share prices plummeted drastically within weeks, causing huge losses to small investors.

The aggrieved shareholders and debenture holders believe that the conduct of the management, the Board of Directors, and the auditors has been prejudicial to the interests of the company and its members. Based on the above facts answer the following:

a. Can the shareholders and debenture holders initiate a class action suit under the Companies Act, 2013?
b. Who can be made respondents in a class action suit?
c. What kinds of relief can be sought by the applicants?

d. Discuss the scope of NCLT's powers in dealing with class action suits.

5. Explain the legal framework relating to corporate governance in India.

6. "Insider trading undermines investor confidence and the integrity of the securities market."
Critically examine the law relating to insider trading in India with reference to:
a. The meaning and scope of "insider" and "unpublished price sensitive information (UPSI)" under the SEBI (Prohibition of Insider Trading) Regulations, 2015.
b. The prohibitions imposed under the Regulations and the penal provisions for contravention.

7. M/s. Xylon Industries Ltd. is a listed public company engaged in the manufacturing of electric appliances. The company has a diverse board, and its key managerial personnel (KMP) include Mr. A (Managing Director), Ms. B (CFO), and Mr. C (Company Secretary).

During the financial year 2023–24, the following transactions were noticed:
- The company entered into a contract with M/s Bright Supplies, a firm in which Mr. A's brother is a partner, for the supply of raw materials worth Rs. 8 crores in a financial year. This transaction was approved by the Board but not placed before the shareholders.
- Ms. B's spouse was appointed as a consultant for digital transformation services for a remuneration of Rs. 25 lakhs per annum. No disclosures were made to the Board regarding the relationship.
- The Audit Committee was not consulted prior to entering into these transactions, and the agreements were executed directly by the procurement team on the advice of Mr. A.

- A minority shareholder later raised concerns, alleging that the transactions are not at arm's length and may be prejudicial to the interests of the company.

In the light of above facts answer the following:

a. Whether the above transactions qualify as Related Party Transactions under Section 188 of the Companies Act, 2013?

b. What are the approval requirements for these transactions under the Act and applicable SEBI (LODR) Regulations?

c. Was there a violation of any statutory provisions? If yes, who is responsible for the non-compliance?

d. What are the consequences and penalties for non-compliance with the provisions relating to Related Party Transactions?

Section – B

Write short notes on any FOUR questions out of SIX questions and each question carries 05 marks. (4 x 5 marks = 20 marks)

A) Write a note on Extra-ordinary General Meeting

B) Write a note on quorum for general meeting

C) Write a note on Nomination and Remuneration Committee.

D) Explain the rule of *Foss v. Harbottle* and the exceptions to the rule.

E) Write a note on Corporate Criminal Liability in UK

F) Elucidate the Whistleblower policy under SEBI Regulations