



INDIAN JOURNAL OF
LEGAL REVIEW

VOLUME 5 AND ISSUE 13 OF 2025

INSTITUTE OF LEGAL EDUCATION



INDIAN JOURNAL OF LEGAL REVIEW

APIS – 3920 – 0001 | ISSN – 2583-2344

(Open Access Journal)

Journal's Home Page – <https://ijlr.iledu.in/>

Journal's Editorial Page – <https://ijlr.iledu.in/editorial-board/>

Volume 5 and Issue 13 of 2025 (Access Full Issue on – <https://ijlr.iledu.in/volume-5-and-issue-13-of-2025/>)

Publisher

Prasanna S,

Chairman of Institute of Legal Education

No. 08, Arul Nagar, Seera Thoppu,

Maudhanda Kurichi, Srirangam,

Tiruchirappalli – 620102

Phone : +91 73059 14348 – info@iledu.in / Chairman@iledu.in



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CHARACTERISTICS OF A COMPANY AND ITS TYPES UNDER THE COMPANY ACT, 2013

AUTHOR – ADITYA JAISWAL, STUDENT AT AMITY LAW SCHOOL, AMITY UNIVERSITY, PATNA

BEST CITATION – ADITYA JAISWAL, CHARACTERISTICS OF A COMPANY AND ITS TYPES UNDER THE COMPANY ACT, 2013, *INDIAN JOURNAL OF LEGAL REVIEW (IJLR)*, 5 (13) OF 2025, PG. 315-319, APIS – 3920 – 0001 & ISSN – 2583-2344

ABSTRACT

The Companies Act, 2013 represents a landmark shift in India's corporate governance framework, emphasizing transparency, accountability, and investor protection. A company, as recognized under this Act, is a distinct legal entity established for lawful business objectives, possessing perpetual succession, limited liability, and a separate legal personality from its members. These defining characteristics distinguish a company from other forms of business organizations, such as partnerships or sole proprietorships. The Act not only codifies the essential features of corporate existence but also provides a comprehensive classification of companies based on incorporation, liability, ownership, and control.

This paper explores in depth the essential characteristics of a company—its separate legal entity, perpetual succession, common seal, capacity to own property, limited liability, and transferability of shares—while examining the rationale and implications of each under the Companies Act, 2013. It further analyzes the various types of companies recognized under the law, including public and private companies, one person companies, government and foreign companies, and those limited by shares, guarantee, or unlimited liability. Special emphasis is placed on the legislative intent behind such classification, the evolving role of one person and small companies, and their significance in promoting entrepreneurship and ease of doing business in India.

By integrating statutory provisions, judicial interpretations, and doctrinal principles, this study provides a holistic understanding of the modern corporate structure in India. The paper concludes that the Companies Act, 2013 establishes a dynamic, adaptable framework that aligns with global corporate standards while catering to India's socio-economic context, thereby reinforcing the foundational role of companies as engines of economic growth and development.

Keywords: Companies Act 2013, Company Characteristics, Limited Liability, Corporate Personality.

I. Introduction

The Companies Act, 2013 (hereinafter "the Act") marks a fundamental reform of India's corporate legal framework, replacing the earlier Companies Act, 1956 with a structure better suited to modern governance, accountability, and transparency. The Act integrates lessons from global corporate practices, encourages entrepreneurship through new forms such as the One Person Company (OPC), and enhances

compliance and corporate responsibility mechanisms.

A company, in its simplest sense, is a form of organization that allows individuals to pool resources and operate collectively as a separate legal entity. The Act does not define a company in descriptive terms but identifies it by its mode of incorporation. This formal legal act of incorporation creates a distinct legal personality that separates the company from its owners, shareholders, and directors.

This paper examines, in depth, the characteristics that define a company and the various types recognized under the Companies Act, 2013, in line with statutory provisions, case law, and corporate practice.

II. Definition of a Company

A. Statutory Definition

Section 2(20) of the Companies Act, 2013 defines a company as:

“A company incorporated under this Act or under any previous company law.”¹

This definition emphasizes incorporation as the fundamental act that gives life to a company. Unlike other business forms, a company's existence is derived entirely from statutory registration.

B. Judicial Understanding

The courts have consistently recognized that incorporation gives rise to a separate legal entity, distinct from its members. The concept was famously established in *Salomon v. Salomon & Co. Ltd.*,² which affirmed that once incorporated, a company acquires a legal personality independent of its shareholders.

III. Characteristics of a Company

A company possesses several unique legal characteristics that distinguish it from partnerships, sole proprietorships, and other associations.

A. Artificial Legal Person

A company is an artificial person created by law.³ It cannot act on its own and must function through human agents – its directors, officers, and employees. Despite this, it enjoys many of the rights and duties of a natural person, such as owning property, entering contracts, and initiating or defending legal actions.

B. Separate Legal Entity

Upon incorporation, the company becomes a separate legal entity.⁴ The assets and liabilities of the company belong to it alone and not to its

shareholders. This separation is a cornerstone of modern corporate law.

C. Perpetual Succession

Perpetual succession means that the company's existence continues unaffected by changes in membership, death, or insolvency of its shareholders.⁵ The company remains a continuing entity until dissolved according to law.

D. Limited Liability

The liability of a company's members is limited to the amount unpaid on their shares or the amount they have undertaken to contribute in the case of companies limited by guarantee.⁶ This protection of personal assets is one of the most significant advantages of incorporation.

E. Transferability of Shares

In a company limited by shares, ownership interests are represented by shares, which can generally be transferred.⁷ In public companies, shares are freely transferable; in private companies, transfer is restricted by the articles of association.

F. Separate Property

The property of a company belongs to the company and not to its shareholders.⁸ This ensures that creditors can rely on the company's assets and not those of its members.

G. Capacity to Contract

A company, being a legal person, can enter into binding contracts.⁹ Such contracts are executed through authorized persons, usually the directors or officers, acting on behalf of the company.

H. Management through Directors

The shareholders (owners) do not directly manage company affairs; management is entrusted to directors who act as agents and fiduciaries of the company.¹⁰ The Companies Act, 2013 codifies directors' duties, emphasizing good faith, diligence, and avoidance of conflicts of interest.

I. Perpetual Life and Winding Up

A company's life does not depend on its members. It continues perpetually unless wound up through statutory procedure – voluntarily or by order of the National Company Law Tribunal (NCLT).¹¹

J. Raising of Capital

A company may raise capital by issuing shares or debentures. Public companies may invite subscriptions from the public, while private companies raise funds privately.¹² This flexibility supports growth and expansion.

K. Statutory Compliance

Companies must comply with an elaborate set of statutory requirements: board meetings, annual returns, audits, maintenance of records, and filings with the Registrar of Companies (RoC).¹³ Compliance is the price of enjoying corporate privileges.

L. Not a Citizen

A company, though a legal person, is not a citizen.¹⁴ It cannot claim fundamental rights reserved exclusively for individuals but can claim protection for property and commercial interests.

M. Ability to Sue and Be Sued

A company can sue and be sued in its own name.¹⁵ This principle flows from its independent legal status.

N. Lifting of the Corporate Veil

While the corporate veil protects members from liability, courts may pierce it in cases of fraud or evasion of law.¹⁶ Veil lifting ensures accountability when the company form is abused.

IV. Classification of Companies under the Companies Act, 2013

The Companies Act, 2013 classifies companies on various bases, including the number of members, liability, purpose, and mode of incorporation.

A. On the Basis of Number of Members

1. One Person Company (OPC)

The Companies Act, 2013 introduced the concept of the OPC, allowing a single individual to form a company.¹⁷ It provides limited liability while maintaining simplified compliance. The member must nominate another person to take over in case of death or incapacity.

2. Private Company

A private company restricts the transfer of shares, limits the number of members to 200, and prohibits public invitations for share subscription.¹⁸ It is suitable for family businesses and startups.

3. Public Company

A public company can invite the public to subscribe to its shares and has no upper limit on members.¹⁹ It must adhere to stricter governance standards and disclosure requirements.

B. On the Basis of Liability

1. Company Limited by Shares

Members' liability is limited to the unpaid portion of their shares.²⁰ This is the most common form for commercial enterprises.

2. Company Limited by Guarantee

Members undertake to contribute a specified amount in the event of winding up.²¹ This structure is common in non-profit and charitable entities.

3. Unlimited Company

Here, members' liability is unlimited.²² Though rare, such companies may be preferred in specific industries or for professional associations.

C. On the Basis of Purpose

1. Section 8 Company (Not-for-Profit Organization)

A Section 8 company is formed for charitable or non-profit purposes such as education, art, or

social welfare.²³ It cannot distribute dividends; profits must be used for its objectives.

2. Holding and Subsidiary Companies

A holding company controls another (subsidiary) by majority voting power or board control.²⁴ These relationships are crucial for financial consolidation and compliance.

D. On the Basis of Incorporation

1. Statutory Companies

These are created by special Acts of Parliament or State Legislatures (e.g., Reserve Bank of India, LIC). Their powers derive from the enabling statute.²⁵

2. Registered Companies

These are incorporated under the Companies Act, 2013 or earlier laws.²⁶ They follow standard corporate procedures and governance norms.

V. Comparative Analysis of Company Types

A. Capital Structure and Ownership

Public companies can access public capital markets, while private and OPC structures rely on private funding. Section 8 companies depend on grants and donations.²⁷

B. Control and Governance

Private and OPC forms permit close control by founders; public companies have dispersed ownership and board-driven governance.

C. Compliance Obligations

Public companies are subject to extensive regulatory oversight by SEBI and MCA.²⁸ Private and OPC structures enjoy relative procedural ease.

VI. Corporate Governance and Director Duties

The Companies Act, 2013 codifies the duties of directors in Section 166, including duties to act in good faith, avoid conflicts, and exercise due care and diligence.²⁹ These provisions align Indian corporate governance standards with global norms.

VII. Lifting the Corporate Veil: Exceptions to Separate Personality

Courts may disregard corporate personality where it is misused to commit fraud, evade taxes, or defeat public policy.³⁰ Indian courts follow principles laid down in *Life Insurance Corporation v. Escorts Ltd.*³¹ and other cases to ensure justice and accountability.

VIII. Conclusion

The Companies Act, 2013 represents a modern and comprehensive framework for corporate regulation in India. The company form, through its distinct legal personality, limited liability, and perpetual existence, offers flexibility and economic efficiency. The introduction of OPCs, Section 8 companies, and refined rules for public and private companies ensures inclusivity for both small entrepreneurs and large corporations.

However, with these privileges comes the responsibility of compliance and governance. The law balances flexibility with accountability, ensuring that companies serve not merely as instruments of private gain but as vehicles for responsible economic development.

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