CLAT PG Company Law
Sample Paper – 4

Duration: 20 Minutes | Max Marks: 20

Instructions

- This paper contains **20 Multiple Choice Questions (MCQs)**.
- Each correct answer carries **+1 mark**.
- Each wrong answer carries a **penalty of -0.25 marks** (negative marking).
- Only **one option** is correct for each question.
- Syllabus: **Companies Act, 2013**, **SEBI Regulations**, and related company law principles (LLB level).
- Use of calculators or any electronic devices is **strictly prohibited**.

SECTION A – Questions

Q1. Aaron incorporated *Aaron Boots Ltd.* with himself as the majority shareholder, sole director, and a secured creditor holding debentures over the company's entire undertaking. When the company became insolvent, unsecured trade creditors sought to hold Aaron personally liable for the company's debts, arguing that the company was merely his "alter ego" and had no independent existence in commercial reality.

Which of the following best states the legal principle applicable to the trade creditors' claim?

(A) A majority shareholder who controls a company is personally liable for all its debts because the company acts merely as his agent.

(B) A company is a legal person entirely distinct from its members; once duly incorporated, it alone is liable for its own debts and its members are protected by the principle of limited liability.

(C) The debentures created in favour of a member-director are void as they constitute a conflict of interest under the Companies Act, 2013.

(D) Courts must always look behind the corporate form to ensure equitable distribution of company assets among all classes of creditors.

Q2. Mr. Horne left *Speedy Motors Ltd.* as its sales manager and was bound by a contractual covenant not to solicit its customers for five years. Within weeks of his departure, he incorporated *Rival Cars Pvt. Ltd.* – of which he was the sole shareholder and director – and immediately began soliciting the same customers through that company. *Speedy Motors Ltd.* applied for an injunction against both Mr. Horne and the newly incorporated company.

Which legal doctrine would the court most appropriately apply to grant relief to Speedy Motors Ltd.?

(A) The Salomon principle, which establishes that Rival Cars Pvt. Ltd. is a separate legal entity and its commercial actions cannot be imputed to Mr. Horne.

(B) The doctrine of indoor management, which protects outsiders dealing with a company from the effects of internal irregularities.

(C) The ultra vires doctrine, which renders the objects of Rival Cars Pvt. Ltd. void insofar as they conflict with a personal contractual prohibition.

(D) The lifting of the corporate veil on the ground that the company was incorporated and used as a mere sham or device to evade a legal obligation binding on Mr. Horne personally.

Q3. During the winding up of *Phantom Traders Ltd.*, the Official Liquidator found that two directors – Mr. Kapoor and Mr. Arora – had continued to accept substantial advance payments from customers for a period of six months after they knew the company was hopelessly insolvent and could never fulfil those orders. The Liquidator seeks to make them personally responsible for the resultant loss to creditors.

Under which provision of the Companies Act, 2013 can the Tribunal make such directors personally liable without limitation of liability?

(A) Section 339, which empowers the Tribunal, during winding up, to hold any person who knowingly carried on business with intent to defraud creditors personally liable for all or any of the debts of the company.

(B) Section 271, which sets out the grounds upon which a company may be wound up by the Tribunal.

(C) Section 166, which prescribes the fiduciary duties owed by directors to the company and its shareholders.

(D) Section 188, which requires Board or shareholder approval for contracts in which a director has a material interest (related party transactions).

Q4. *Green Energy Pvt. Ltd.* holds 60% of the paid-up share capital of *Apex Holdings Ltd. Apex Holdings Ltd.*, in turn, holds 55% of the paid-up share capital of *Base Minerals Ltd.* and also has the contractual right to appoint a majority of the Board of Directors of *Base Minerals Ltd.*

Which of the following correctly identifies the relationship between Green Energy Pvt. Ltd. and Base Minerals Ltd. under the Companies Act, 2013?

(A) Green Energy Pvt. Ltd. is an associate company and Base Minerals Ltd. is a joint venture company; there is no holding-subsidiary relationship.

(B) Green Energy Pvt. Ltd. and Base Minerals Ltd. are fellow subsidiaries of a common holding company with no hierarchical relationship between them.

(C) Green Energy Pvt. Ltd. is the holding company and Base Minerals Ltd. is its subsidiary, since the subsidiary of a subsidiary is also a subsidiary of the holding company.

(D) Green Energy Pvt. Ltd. is the subsidiary and Base Minerals Ltd. is its ultimate holding company because Base Minerals has the largest operational base.

Q5. Mr. Iyer transferred 1,000 equity shares of *Sunrise Textiles Ltd.* to Ms. Lata. A duly stamped and completed instrument of transfer in Form SH-4, signed by both transferor and transferee, was delivered to the company on 5 June. The company registered neither the transfer nor delivered the new share certificate, and Ms. Lata seeks to enforce her right.

What is the maximum time limit within which a company must register a transfer of shares and deliver the certificate after receiving a valid instrument of transfer, under Section 56 of the Companies Act, 2013?

(A) 7 days from the date of lodgement of the transfer instrument.

(B) 30 days from the date of delivery of the instrument of transfer to the company.

(C) 60 days from the date on which the instrument of transfer was executed by the transferor.

(D) 90 days from the date on which the transferee makes a written demand to the company.

Q6. Mr. Mehta borrowed money from Mr. Sinha and, as collateral, handed over both his share certificate for 500 equity shares of a listed company and a transfer deed signed by Mr. Mehta as transferor with the transferee's name deliberately left blank. Mr. Sinha later filled in the name of a third party, Ms. Pinto, and had the shares registered in her name without Mr. Mehta's knowledge.

Which of the following best describes the legal consequences of the blank transfer deed arrangement?

(A) The blank transfer deed is absolutely void; Mr. Sinha could not fill in any name and the shares must revert to Mr. Mehta regardless of the company's good faith.

(B) The transfer to Ms. Pinto is entirely valid because Mr. Mehta voluntarily handed over both documents, giving Mr. Sinha express authority to transfer to any person of his choice.

(C) Blank transfer deeds are expressly prohibited under the Companies Act, 2013 and any registration based on one attracts criminal liability on the company's officers.

(D) Handing over a share certificate together with a blank transfer deed passes implied authority to the holder to fill in a transferee's name; the company is not liable for registering in good faith, but the original shareholder bears the risk of any unauthorised transfer.

Q7. Mr. Gupta, a registered holder of 2,000 shares in *National Cement Ltd.*, died without leaving a will. His son Rohit is the only legal heir. Rohit approaches the company to have the shares registered in his name, stating that he does not wish to execute a fresh instrument of transfer and will not pay stamp duty, as he claims entitlement by operation of law.

Which of the following correctly distinguishes transmission from transfer of shares in Rohit's case?

(A) Transmission occurs by operation of law upon the death or insolvency of a shareholder; no instrument of transfer or payment of stamp duty is required, and the legal representative is entitled to registration upon furnishing satisfactory proof of entitlement.

(B) Transmission requires a fresh instrument of transfer executed by the legal representative and attested by the company's registrar, and attracts stamp duty at the same rate applicable to a voluntary transfer.

(C) Rohit must first obtain probate from a competent court even though the estate is intestate, before the company is obliged to act upon his request for registration.

(D) National Cement Ltd. may indefinitely refuse to register the transmission unless specifically directed by the NCLT, since transmission is not separately recognised under the Companies Act, 2013.

Q8. The Articles of Association of *Family Forge Pvt. Ltd.* contain a clause requiring any shareholder who wishes to sell shares to first offer them to the remaining shareholders at a price fixed by the Board, and only if all existing shareholders decline may the selling shareholder transfer to an outsider. Mr. Patel, a 15% shareholder, challenges this clause as an unreasonable restraint on alienation.

What is the correct legal position regarding pre-emption clauses of this nature in private companies?

(A) Pre-emption clauses in Articles of Association are unconstitutional as they violate the right to property and are therefore unenforceable against any shareholder.

(B) Such a clause is invalid under the Companies Act, 2013 because a private company may only restrict transfer by requiring Board approval; a right of pre-emption is an impermissible restriction.

(C) Pre-emption clauses are a lawful and recognised restriction on the free transferability of shares; they are a defining characteristic of a private company and are binding on all shareholders as part of the company's constitution.

(D) A pre-emption clause is valid only if the offeree shareholders are required to pay the prevailing market price; a Board-determined price makes the clause void for uncertainty.

Q9. *Metro Pharma Ltd.*, a listed public company, has the following senior officials: Mr. Verma (Managing Director), Ms. Roy (Chief Financial Officer), Mr. Singh (Company Secretary), Mr. Das (Chief Executive Officer), and Mr. Joshi (Non-executive Independent Director nominated by an institutional shareholder).

*Who among the following is **NOT** classified as a Key Managerial Personnel (KMP) under Section 2(51) of the Companies Act, 2013?*

(A) Mr. Verma (Managing Director)

(B) Mr. Joshi (Non-executive Independent Director)

(C) Ms. Roy (Chief Financial Officer)

(D) Mr. Das (Chief Executive Officer)

Q10. *Prime Steel Ltd.* failed to file its annual return within the prescribed time limit. The Registrar of Companies initiated penalty proceedings and issued notices to the company. The company contended that only the Managing Director could be treated as the "officer in default" because he alone took executive decisions.

Which of the following most accurately describes who qualifies as an "officer in default" under Section 2(60) of the Companies Act, 2013?

(A) Only the Managing Director, since he is the principal executive authority of the company and ultimately responsible for all compliance.

(B) Only the Company Secretary, given that the obligation to file annual returns is a specific statutory duty assigned to him.

(C) The Chairman of the Board of Directors alone, as he presides over all Board decisions including compliance-related matters.

(D) Any whole-time director, every Key Managerial Personnel, and any director who – in the absence of a designated KMP – is responsible for the default by virtue of the Board's express approval or acquiescence.

Q11. Ms. Nair works in the legal department of *Stellar Semiconductors Ltd.*, a company listed on the NSE. She came to know through internal communications that the company was on the verge of announcing a transformative acquisition worth Rs. 2,000 crore. Before any public announcement, she purchased 10,000 shares of the company through a demat account held in her brother's name.

Which of the following correctly identifies Ms. Nair's liability under the SEBI (Prohibition of Insider Trading) Regulations, 2015?

(A) Ms. Nair is an "insider" as a connected person in possession of unpublished price sensitive information (UPSI); trading on UPSI – whether directly or through another person – is prohibited, and she is personally liable under the Regulations.

(B) Ms. Nair is not liable because she did not trade personally; only her brother, as the account holder, can be held responsible.

(C) Insider trading liability can arise only against directors and officers of the company; a legal department employee does not qualify as a "connected person" or "insider."

(D) The SEBI (PIT) Regulations, 2015 prohibit trading only in derivatives; purchase of equity shares on the basis of inside information is governed exclusively by the Companies Act, 2013.

Q12. The Board of Directors of *Horizon Telecom Ltd.* resolved on 10 March to declare a dividend of 50% – double the rate paid in the preceding year. The decision was not communicated to the stock exchanges until 20 March. Mr. Rao, a friend of one of the directors who had heard about the imminent announcement, purchased 50,000 shares of the company on 15 March.

Which of the following correctly states the legal position regarding Unpublished Price Sensitive Information (UPSI) in this scenario?

(A) Dividend decisions are routine corporate actions and do not constitute UPSI; Mr. Rao has therefore not violated any insider trading regulation.

(B) Information qualifies as UPSI only if it relates to quarterly financial results or a merger or acquisition; a dividend decision is expressly excluded from the definition under the SEBI (PIT) Regulations, 2015.

(C) The Board's decision to declare a significantly enhanced dividend is information that is not generally available and is likely to materially affect the price of shares; it constitutes UPSI from the date of Board approval (10 March) until public disclosure (20 March), and Mr. Rao's purchase on 15 March violates the Regulations.

(D) Mr. Rao's trading is permissible because he received the information socially and not through a fiduciary or employment relationship with the company.

Q13. *Quantum Infra Ltd.*, a listed company, announced closure of the trading window from 1 April to 30 April, 2025, in anticipation of the declaration of its quarterly financial results. Ms. Tara, the Chief Financial Officer, sold 5,000 shares of the company on 20 April citing an urgent personal financial obligation and stating she had no specific knowledge of the results.

Which of the following correctly states the legal position regarding Ms. Tara's trade?

(A) Trading during a trading window closure is permissible for designated persons if they obtain prior written approval from any two independent directors of the company before executing the trade.

(B) Trading by designated persons – including the CFO – during the trading window closure period is absolutely prohibited regardless of personal reasons or subjective knowledge; Ms. Tara has violated the SEBI (Prohibition of Insider Trading) Regulations, 2015, and is liable to regulatory action.

(C) The trading window restriction under the SEBI (PIT) Regulations, 2015 applies only to directors and promoters; a KMP such as the CFO is not a "designated person" and may trade freely during closure.

(D) A CFO who trades during window closure is exempt from penalty if she discloses the transaction to the compliance officer within 48 hours and the trade value is below Rs. 10 lakh.

Q14. *Omega Chemicals Ltd.* proposes a compromise with its secured and unsecured creditors under which creditors holding 65% of the total debt value agree to accept a one-time settlement at 70 paise to the rupee. A minority creditor group holding 20% of the debt value objects and refuses to participate in the scheme.

Which of the following correctly describes the process for sanctioning a compromise or arrangement under Section 230 of the Companies Act, 2013, and its binding effect?

(A) The scheme becomes binding once creditors holding a simple majority (more than 50% in value) vote in favour at the meeting; no NCLT sanction is needed.

(B) The scheme must be agreed to by 100% of creditors in value; a single dissenting creditor retains an absolute right to veto the scheme even after court scrutiny.

(C) Jurisdiction over compromise and arrangements lies exclusively with the Central Government through the Ministry of Corporate Affairs; the NCLT has no sanctioning power.

(D) The scheme must be approved by a majority in number representing at least three-fourths in value of creditors (or members) present and voting, and must thereafter be sanctioned by the NCLT, upon which it becomes binding on all creditors, including the dissenting minority.

Q15. *Micro Bakers Pvt. Ltd.* and *Nano Foods Pvt. Ltd.* are both small companies within the meaning of the Companies Act, 2013. Seeking to consolidate their operations, they wish to merge under a simplified statutory route that does not require them to approach the National Company Law Tribunal.

Which provision of the Companies Act, 2013 enables this simplified merger, and who sanctions it?

(A) Section 233, which provides a fast-track merger process available to (i) two or more small companies or (ii) a holding company merging with its wholly-owned subsidiary; such mergers are sanctioned by the Regional Director without requiring an application to the NCLT.

(B) Section 230, which – read with the NCLT (Procedure) Rules – is the only statutory route governing all mergers and cannot be bypassed irrespective of the size or category of the companies.

(C) Section 232, which requires NCLT sanction for every merger but mandates an expedited 30-day timeline when the merging companies are both small companies.

(D) Section 237, which empowers the Central Government to order amalgamation in the national interest; it applies automatically to small companies without any application or court order.

Q16. *Indian Motors Ltd.*, incorporated in India, proposes to merge with *Global Auto GmbH*, incorporated in Germany. Under the proposed scheme, the merged entity will be incorporated and registered in Germany; Indian shareholders of Indian Motors Ltd. will receive shares in Global Auto GmbH. The Board seeks legal advice on the applicable framework and regulatory approvals required.

Which of the following correctly describes the legal framework and conditions for this outbound cross-border merger?

(A) Cross-border mergers involving an Indian company are not permissible under Indian law; the Companies Act, 2013 recognises only domestic mergers between two companies incorporated in India.

(B) An outbound merger is automatically valid upon NCLT sanction alone; no approval from the Reserve Bank of India is required because foreign exchange considerations are governed entirely by a separate agreement between the two companies.

(C) Section 234 of the Companies Act, 2013 permits cross-border mergers; for an outbound merger where the resultant company is a foreign entity, NCLT sanction as well as prior approval of the Reserve Bank of India is mandatory, and the procedure is governed by the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016.

(D) Section 234 applies exclusively to inbound mergers where a foreign company merges into an Indian company; outbound mergers require a separate Presidential ordinance and cannot be effectuated under the Companies Act, 2013.

Q17. *Venture Corp Ltd.* currently holds 20% of the total shares of *Regal Hospitality Ltd.*, a listed company. Venture Corp proposes to acquire an additional 6% from the secondary market over the next fortnight, which would take its aggregate holding to 26%.

What obligation, if any, arises for Venture Corp Ltd. under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011?

(A) No obligation arises because Venture Corp already held more than 15% and the incremental acquisition of 6% in a financial year does not exceed the permissible creeping acquisition limit.

(B) Venture Corp Ltd. is obligated to make a public announcement to acquire at least 26% of the total shares of Regal Hospitality Ltd. from public shareholders through an open offer, because the proposed acquisition will cause its holding to reach or exceed the 25% open offer threshold prescribed under Regulation 3.

(C) Venture Corp Ltd. must obtain prior approval from the stock exchange on which Regal Hospitality Ltd. is listed before it can purchase even a single share in the open market.

(D) The open offer threshold under the SEBI Takeover Regulations is 30%; since Venture Corp will hold only 26% after the acquisition, no open offer obligation is triggered.

Q18. The promoters of *Star Retail Ltd.*, a company listed on the BSE, currently hold 68% of its total shares. They wish to delist the company from all stock exchanges by acquiring the remaining publicly held shares. They seek advice on the correct delisting mechanism and the minimum post-acquisition shareholding that must be achieved for the delisting to succeed.

Which of the following correctly describes the delisting process and the post-offer shareholding threshold under the SEBI (Delisting of Equity Shares) Regulations?

(A) Delisting is effectuated through a fixed-price tender offer at the face value of shares; the promoter must acquire until their holding reaches 75%, upon which the stock exchange automatically delists the company.

(B) Delisting requires approval of at least two-thirds of public shareholders by a postal ballot, after which the stock exchange cancels the listing without any requirement for the promoter to buy out remaining shareholders.

(C) SEBI suo motu delists a company when it fails to maintain the minimum public shareholding; the promoter's initiative or consent is not required for such involuntary delisting.

(D) Voluntary delisting is achieved through a reverse book-building process in which public shareholders tender shares at or above a floor price; the delisting succeeds only if the promoter's post-offer shareholding reaches at least 90% of the total shares, and the exit price is determined by the reverse book-building outcome.

Q19. *Crest Automobiles Ltd.* has a paid-up share capital of Rs. 50 crore and free reserves of Rs. 150 crore. The company's Board of Directors proposes to buy back shares using free reserves. The company's last buyback offer closed 8 months ago.

Which of the following correctly states the maximum permissible amount of the proposed buyback and the cooling-off period requirement under Section 68 of the Companies Act, 2013?

(A) The maximum buyback is 25% of the aggregate of paid-up share capital and free reserves (Rs. 50 crore in this case); a company may not make another offer of buyback within one year from the date of closure of the preceding buyback offer, and accordingly the present offer cannot proceed yet.

(B) The maximum buyback in a financial year is 10% of the total paid-up equity share capital; there is no statutory cooling-off period between successive buybacks.

(C) A company may buy back any amount of its own shares from free reserves provided it maintains the minimum statutory reserve required under the Companies Act, 2013, subject only to Board approval.

(D) The maximum buyback is 50% of net worth; multiple buybacks may be undertaken within the same financial year provided each is separately approved by a special resolution of shareholders.

Q20. *Orbit Technologies Ltd.*, a listed company, proposes to issue 5,00,000 equity shares on a preferential basis to *Zenith Ventures Pvt. Ltd.* at Rs. 80 per share. The relevant date for pricing purposes is 15 August. The average of the weekly high and low closing prices of the company's shares during the 26 weeks preceding the relevant date is Rs. 95 per share; the average for the 2 weeks preceding the relevant date is Rs. 100 per share.

Which of the following correctly states the minimum price at which this preferential allotment can lawfully be made under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018?

(A) Rs. 80 per share, because the issue price for a preferential allotment is a matter of mutual agreement between the company and the allottee and is not subject to a SEBI floor price.

(B) Rs. 95 per share, being the higher of the 26-week and 2-week averages of weekly high and low closing prices preceding the relevant date.

(C) Rs. 100 per share, being the higher of (i) the 26-week average (Rs. 95) and (ii) the 2-week average (Rs. 100) of the weekly high and low closing prices of the shares preceding the relevant date, as mandated by the SEBI ICDR Regulations, 2018.

(D) Rs. 80 per share, because the SEBI ICDR pricing norms apply only to public issues and rights issues; preferential allotments to institutional investors are exempt from minimum pricing requirements.

DETAILED SOLUTIONS

Sol. 1.

Solution

Concept — Salomon Principle / Separate Legal Personality: The landmark case of *Salomon v. Salomon & Co. Ltd.* [1897] AC 22 (House of Lords) established that a company, once duly incorporated, is an independent legal person entirely distinct from its members, even when one person holds virtually all shares and exercises complete control. The company's liabilities are its own; members are liable only to the extent of their unpaid share capital, regardless of how dominant their role in the company is.

Analysis: Aaron's company was validly incorporated under the applicable Companies Act. The fact that he held nearly all shares and secured a floating charge over the company's undertaking does not make the company his agent. The company, as a separate legal person, alone owes the trade debts. Unsecured creditors cannot override Aaron's validly registered secured debenture by claiming that the company is his "alter ego."

Why other options are wrong:

- Option (A): Incorrect. Majority control does not generate personal liability; the entire force of the Salomon decision is that the corporate form protects the member from personal liability for corporate debts.
- Option (B): **Correct.** The Salomon principle – the company is a legal entity distinct from its members; the company alone is liable for its own debts.
- Option (C): Incorrect. A floating charge granted in favour of a member-creditor is not void per se; this was directly upheld in *Salomon* itself.
- Option (D): Incorrect. Lifting the corporate veil is an exceptional remedy; courts do not "always" pierce it – they do so only in specific circumstances such as fraud or sham.

Final Answer: Once duly incorporated, a company alone is liable for its debts; members are protected by limited liability. $\Rightarrow \boxed{B}$

Answer: (B) Go Back to Q1

Sol. 2.

Solution

Concept — Lifting the Corporate Veil / Fraud or Sham Exception: While the separate legal personality of a company is the general rule (*Salomon*), courts will "lift" or "pierce" the corporate veil where the company is used as a mere sham or device to evade a legal obligation or perpetrate a fraud. The leading authority is *Gilford Motor Co. Ltd. v. Horne* [1933] Ch 935 (Court of Appeal), where an injunction was granted against both the former employee and his company incorporated solely to circumvent a non-solicitation covenant.

Analysis: Mr. Horne formed Rival Cars Pvt. Ltd. not for any genuine commercial purpose but solely as a vehicle to circumvent his personal restrictive covenant. The company was a sham designed to enable evasion of a legal obligation. Courts would disregard the corporate form, treat the company's acts as Mr. Horne's own, and grant the injunction against both.

Why other options are wrong:

- Option (A): Incorrect. The Salomon principle protects genuinely independent companies; it cannot shield a sham company formed solely to evade a legal obligation.
- Option (B): Incorrect. The indoor management rule (Turquand's rule) protects third-party outsiders dealing with a company from internal irregularities; it has no application here.
- Option (C): Incorrect. The ultra vires doctrine concerns acts beyond the scope of the company's stated objects; the issue is evasion of a personal obligation, not objects.
- Option (D): **Correct.** The corporate veil is lifted when the company is used as a sham or device to evade a legal or contractual obligation of a member.

Final Answer: Lifting of corporate veil – the company was a sham to evade a personal legal obligation. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q2

Sol. 3.

Solution

Concept — Statutory Lifting of Veil / Fraudulent Trading (Section 339): Section 339 of the Companies Act, 2013 deals with liability for fraudulent conduct of business in the course of winding up. Where the Tribunal finds that any business of the company was carried on with intent to defraud creditors or for any fraudulent purpose, it may declare that any persons who were knowingly parties to such conduct are personally liable, without any limitation, for all or any of the debts or other liabilities of the company. This is one of the most significant instances of statutory lifting of the corporate veil.

Analysis: Kapoor and Arora continued collecting customer advances for six months after knowing the company was hopelessly insolvent, with the intent to defraud those customers. This is a textbook case of fraudulent trading within the meaning of Section 339. The Tribunal may declare them personally liable without limit for the resulting liabilities.

Why other options are wrong:

- Option (A): **Correct.** Section 339 expressly imposes personal, unlimited liability on persons who knowingly carried on fraudulent business in the course of winding up.
- Option (B): Incorrect. Section 271 lists the grounds for winding up by the Tribunal; it confers no personal liability on directors.
- Option (C): Incorrect. Section 166 prescribes general fiduciary duties of directors; it does not provide the personal liability remedy applicable during winding up proceedings.
- Option (D): Incorrect. Section 188 governs related party transactions requiring Board or shareholder approval; it is entirely unrelated to fraudulent trading liability.

Final Answer: Section 339 – fraudulent trading in the course of winding up attracts personal unlimited liability. $\Rightarrow \boxed{A}$

Answer: (A) Go Back to Q3

Sol. 4.

Solution

Concept — Holding and Subsidiary Company (Sections 2(46) and 2(87)): Under the Companies Act, 2013, a "subsidiary company" [s. 2(87)] is one in which the holding company controls the composition of the Board of Directors or holds more than half the total voting power. Critically, a subsidiary's subsidiary is also a subsidiary of the ultimate holding company (the "chain" principle). A "holding company" [s. 2(46)] is a company of which another is a subsidiary.

Analysis: Green Energy Pvt. Ltd. holds 60% of Apex Holdings Ltd. ⇒ Apex is a subsidiary of Green Energy. Apex Holdings Ltd. holds 55% of Base Minerals Ltd. and controls its Board ⇒ Base Minerals is a subsidiary of Apex. By the chain principle, since Apex is itself a subsidiary of Green Energy, Base Minerals Ltd. is also a subsidiary of Green Energy Pvt. Ltd. Therefore, Green Energy is the ultimate holding company and Base Minerals is its indirect subsidiary.

Why other options are wrong:

- Option (A): Incorrect. "Associate company" [s. 2(6)] requires significant influence (20–50% shareholding) but not control. Green Energy holds 60% of Apex – a controlling stake – making the relationship one of holding-subsidiary, not associate.
- Option (B): Incorrect. There is a clear hierarchical chain: Green Energy (ultimate holding) – Apex (intermediate subsidiary) – Base Minerals (indirect subsidiary). They are not in a lateral "fellow subsidiary" relationship with each other.
- Option (C): **Correct.** Green Energy is the ultimate holding company; Base Minerals is its indirect subsidiary through Apex, by virtue of the subsidiary-of-subsidiary principle.
- Option (D): Incorrect. The corporate hierarchy is inverted in this option; Green Energy is the controlling entity, not a subsidiary.

Final Answer: Green Energy Pvt. Ltd. is the holding company; Base Minerals Ltd. is its indirect subsidiary. ⇒ $\boxed{\text{C}}$

Answer: (C) Go Back to Q4

Sol. 5.

Solution

Concept — Transfer of Shares / Section 56 of the Companies Act, 2013: Section 56 of the Companies Act, 2013 prescribes the procedure for transfer of shares. Under Section 56(4)(b), every company must, unless prohibited by a court, Tribunal, or other authority, deliver the certificates of all securities transferred within **30 days** from the date of receipt of the instrument of transfer by the company. The prescribed form for the instrument of transfer of shares is **Form SH-4**. Failure to comply renders the company and its officers in default liable to penalty under Section 56(6).

Analysis: A valid, duly stamped, and completed instrument of transfer (Form SH-4) was delivered to Sunrise Textiles Ltd. on 5 June. The company was required to register the transfer and deliver the new share certificate to Ms. Lata within 30 days of receipt – i.e., by 5 July at the latest. The clock starts from delivery to the company, not from the date of execution.

Why other options are wrong:

- Option (A): Incorrect. 7 days is not the prescribed period under Section 56 for share certificate delivery; other time limits exist in company law for different purposes.
- Option (B): **Correct.** 30 days from the date of delivery of the instrument of transfer to the company is the statutory period under Section 56(4)(b).
- Option (C): Incorrect. The 60-day period does not correspond to any provision under Section 56; the trigger is receipt by the company, not the date of execution by the parties.
- Option (D): Incorrect. 90 days is not prescribed under Section 56, and the trigger is the company's receipt of the instrument – not a written demand by the transferee.

Final Answer: 30 days from receipt of the instrument of transfer is the statutory limit under Section 56(4). $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q5

Sol. 6.

Solution

Concept — Blank Transfer Deed: A "blank transfer deed" is an instrument of transfer signed by the transferor as transferor but with the transferee's name left blank. When a shareholder delivers both the share certificate and a signed blank transfer deed to another person, the law implies that the holder is authorised to fill in the name of a transferee. The risk of misuse falls on the original shareholder who created and handed over the blank instrument. A company that acts in good faith upon such an instrument is generally not held liable; the original shareholder who created the risk bears the loss.

Analysis: Mr. Mehta handed both the share certificate and a blank transfer deed to Mr. Sinha, thereby implying authority for Mr. Sinha (or any subsequent holder) to fill in a transferee's name. Mr. Sinha's act of filling in Ms. Pinto's name falls within the apparent authority created. If the company registered the transfer in good faith without notice of any fraud, it is protected. The loss falls on Mr. Mehta for creating the risk by handing over a blank deed.

Why other options are wrong:

- Option (A): Incorrect. A blank transfer deed is not absolutely void; it creates an implied authority recognised by courts. Declaring it void would prejudice bona fide transferees and companies.
- Option (B): Incorrect. While implied authority is correctly identified, characterising the transfer as "entirely valid" without qualification ignores the nuance that authority flows from implied permission, not express authorisation, and the limits of that authority.
- Option (C): Incorrect. There is no express statutory provision in the Companies Act, 2013 declaring blank transfer deeds prohibited or attracting criminal liability on company officers for registering them.
- Option (D): **Correct.** The holder receives implied authority to complete the deed; the company registering in good faith is protected; the original shareholder bears the risk of any unauthorised or abusive use.

Final Answer: Blank transfer deed passes implied authority; the risk of misuse falls on the shareholder who created it. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q6

Sol. 7.

Solution

Concept — Transmission of Shares: "Transmission" is the devolution of title to shares by operation of law upon the death, insolvency, or lunacy of a registered shareholder. It is fundamentally distinct from a voluntary "transfer." Key legal characteristics of transmission: (i) no instrument of transfer is required; (ii) no stamp duty is payable; (iii) the legal representative or heir acquires the right to be registered as a member upon furnishing proof of entitlement (succession certificate, letters of administration, indemnity bond, or other satisfactory evidence depending on the case). The right is recognised under Section 56 of the Companies Act, 2013.

Analysis: Mr. Gupta died intestate. Rohit, as sole legal heir, is entitled to the shares by operation of law – no transfer instrument or stamp duty is needed. He must provide proof of entitlement (e.g., a succession certificate from a competent civil court), and the company is obliged to register the transmission in his favour.

Why other options are wrong:

- Option (A): **Correct.** Transmission by operation of law upon death requires no instrument of transfer or stamp duty; proof of entitlement is sufficient for registration.
- Option (B): Incorrect. Transmission does not require a fresh instrument of transfer or stamp duty; those requirements apply only to voluntary transfers.
- Option (C): Incorrect. Probate is required only when the deceased left a registered will (testate succession). For intestate succession, a succession certificate issued by a civil court suffices; probate is not required.
- Option (D): Incorrect. The Companies Act, 2013 expressly recognises transmission in Section 56; the company cannot indefinitely withhold registration without NCLT direction.

Final Answer: Transmission by operation of law on death – no instrument of transfer or stamp duty required. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q7

Sol. 8.

Solution

Concept — Right of Pre-emption in Private Companies: Section 2(68) of the Companies Act, 2013 defines a "private company" as one that, inter alia, restricts the right to transfer its shares by its Articles. One of the most common and recognised forms of such restriction is a **right of pre-emption** – a clause requiring a member wishing to sell shares to first offer them to existing members before transferring to any outsider. Such clauses are part of the company's constitution (its Articles of Association) and are binding on all members.

Analysis: Family Forge Pvt. Ltd.'s pre-emption clause is a lawful restriction expressly contemplated by the Companies Act for private companies. Mr. Patel, as a shareholder, agreed to be bound by the Articles when he became a member. The clause is not an unconstitutional restraint on property (Article 300A does not invalidate lawful statutory restrictions) nor does the Companies Act prohibit pre-emption pricing by the Board.

Why other options are wrong:

- Option (A): Incorrect. Pre-emption clauses in Articles of a private company are constitutionally permissible; property rights are subject to reasonable restrictions imposed by law, and company law expressly authorises such restrictions.
- Option (B): Incorrect. There is no statutory provision limiting private company transfer restrictions to Board-approval only; pre-emption clauses and other mechanisms are equally valid.
- Option (C): **Correct.** Pre-emption clauses are a lawful, defining characteristic of private companies and are binding on all shareholders as part of the Articles.
- Option (D): Incorrect. The Companies Act imposes no requirement that pre-emption prices must equal market price; the pricing mechanism in the Articles (including Board determination) is a matter of contract between the shareholders.

Final Answer: Pre-emption clauses are a lawful defining feature of private companies and bind all shareholders. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q8

Sol. 9.

Solution

Concept — Key Managerial Personnel (KMP) / Section 2(51): Section 2(51) of the Companies Act, 2013 defines "Key Managerial Personnel" to include: (i) the Chief Executive Officer (CEO), Managing Director (MD), or Manager; (ii) the Company Secretary; (iii) the Whole-time Director (WTD); (iv) the Chief Financial Officer (CFO); and (v) such other officers as may be prescribed (including officers not more than one level below the directors who are in whole-time employment, as prescribed). A **non-executive independent director** is not included in this definition; independent directors perform an oversight role and are not "managerial" personnel.

Analysis: Mr. Verma (MD), Ms. Roy (CFO), Mr. Singh (CS), and Mr. Das (CEO) each fall squarely within the statutory definition of KMP. Mr. Joshi, as a non-executive independent director, performs a supervisory and advisory role on the Board and does not hold any executive or managerial position; he is not a KMP under Section 2(51).

Why other options are wrong:

- Option (A): Incorrect. The Managing Director is expressly included in the KMP definition under s. 2(51)(a).
- Option (B): **Correct.** A non-executive independent director is NOT a KMP; Mr. Joshi does not fall within any category listed in Section 2(51).
- Option (C): Incorrect. The Chief Financial Officer is expressly listed as KMP under s. 2(51)(d).
- Option (D): Incorrect. The Chief Executive Officer is expressly listed as KMP under s. 2(51)(a) (alongside the MD).

Final Answer: A non-executive independent director is NOT a Key Managerial Personnel under Section 2(51). $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q9

Sol. 10.

Solution

Concept — Officer in Default / Section 2(60): Section 2(60) of the Companies Act, 2013 defines the "officer who is in default" for purposes of penal provisions. It includes: (i) whole-time directors; (ii) Key Managerial Personnel; (iii) where there is no KMP, each director; (iv) any person who – under the authority of the Board or by reason of the duties assigned to them – is responsible for the maintenance, filing, or delivery of the document or act that constitutes the default; and (v) every director who knowingly and wilfully authorised or permitted the default. The definition is functional and broad – it is not limited to any single officer by title.

Analysis: Prime Steel Ltd.'s failure to file the annual return is a default under the Act. The Company Secretary is specifically responsible for filing; all whole-time directors and KMPs are also officers in default by statutory definition. The company's argument that only the MD is liable is legally incorrect – the definition sweeps in all KMPs and whole-time directors, as well as any director whose conduct or acquiescence contributed to the default.

Why other options are wrong:

- Option (A): Incorrect. The definition of "officer in default" is not limited to the MD; it extends to all whole-time directors and KMPs.
- Option (B): Incorrect. While the CS bears specific responsibility for filing the annual return, the definition of officer in default is broader and also covers other KMPs and whole-time directors.
- Option (C): Incorrect. The Chairman is not automatically the officer in default; the definition is based on function, responsibility, and knowledge – not designation.
- Option (D): **Correct.** Whole-time directors, KMPs, and every director responsible by virtue of Board approval or acquiescence are covered under Section 2(60).

Final Answer: Officers in default include whole-time directors, KMPs, and directors responsible by Board approval or acquiescence. $\Rightarrow \boxed{D}$

Answer: (D) Go Back to Q10

Sol. 11.

Solution

Concept — Insider Trading / SEBI (Prohibition of Insider Trading) Regulations, 2015: The SEBI (PIT) Regulations, 2015 define an "insider" as any person who is a "connected person" or who is in possession of UPSI. A "connected person" includes any person who is or has been associated with the company in any capacity – including as an employee. Trading on the basis of UPSI is prohibited whether done directly or indirectly (through another person, entity, or account). The use of a third party's account to execute the trade does not shield the original insider from liability.

Analysis: Ms. Nair, as a legal department employee of Stellar Semiconductors Ltd., is a "connected person" and therefore an "insider" under the Regulations. She possessed UPSI (the imminent major acquisition) before its public announcement. Her trading through her brother's demat account constitutes indirect trading on UPSI, which is equally prohibited. She is personally liable under the Regulations; her brother may also face liability as a person who facilitated the violation.

Why other options are wrong:

- Option (A): **Correct.** Ms. Nair is an insider (connected person + UPSI possession); indirect trading through a relative's account is equally prohibited.
- Option (B): Incorrect. The person who possesses UPSI and directs the trade bears primary liability; routing the trade through another person's account does not transfer or eliminate liability.
- Option (C): Incorrect. The definition of "connected person" expressly encompasses employees, not just directors and officers; employment creates a connection sufficient to constitute insider status.
- Option (D): Incorrect. The SEBI (PIT) Regulations, 2015 apply to all securities (equity, derivatives, debt); the prohibition is not confined to derivatives markets.

Final Answer: Ms. Nair is an insider; indirect trading on UPSI through another's account is equally prohibited. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q11

Sol. 12.

Solution

Concept — Unpublished Price Sensitive Information (UPSI): Under the SEBI (PIT) Regulations, 2015, “unpublished price sensitive information” (UPSI) means any information relating to a company or its securities, directly or indirectly, that (i) is not generally available, and (ii) upon becoming generally available, is likely to **materially affect** the price of the company’s securities. Regulation 2(1)(n) provides examples including financial results, dividends, change in capital structure, mergers, acquisitions, and changes in KMPs. A dividend decision – particularly a significantly enhanced one – is expressly within the scope of UPSI.

Analysis: The Board approved a 50% dividend (double the previous year’s rate) on 10 March. This decision was not publicly disclosed until 20 March. During 10 March to 20 March, the decision was “not generally available” and, upon announcement, would plainly cause the share price to move materially. Mr. Rao’s purchase on 15 March, while in possession of this UPSI, violates the Regulations. His receipt of the information socially (from a director) does not legalise the trade.

Why other options are wrong:

- Option (A): Incorrect. Dividends are expressly identified as a category of UPSI in the Regulations; they are not excluded.
- Option (B): Incorrect. UPSI is not limited to financial results and mergers; the definition is broad and explicitly includes dividends and other material corporate events.
- Option (C): **Correct.** Enhanced dividend decision = UPSI from Board approval until public disclosure; trading during this period by any person in possession of it is prohibited.
- Option (D): Incorrect. The prohibition on trading on UPSI is not qualified by the manner in which the information was received; informal or social receipt of UPSI does not confer any licence to trade.

Final Answer: Enhanced dividend decision is UPSI from Board approval to public disclosure; Mr. Rao’s trade violates SEBI (PIT) Regulations. $\Rightarrow \boxed{C}$

Answer: (C) Go Back to Q12

Sol. 13.

Solution

Concept — Trading Window Closure: The SEBI (Prohibition of Insider Trading) Regulations, 2015 require listed companies to frame a Code of Conduct and establish a "trading window" policy. Designated persons – which include directors, KMPs, and other employees specified by the company who are likely to have access to UPSI – are **absolutely prohibited** from trading in the company's securities during the trading window closure period. The closure is typically imposed before financial results and other UPSI-generating events. No personal reason or urgency can override the closure. Pre-clearance from the compliance officer is a mechanism that operates *outside* closure periods, not within them.

Analysis: Ms. Tara, as CFO of Quantum Infra Ltd., is unambiguously a "designated person" within the meaning of the Code of Conduct required under SEBI (PIT) Regulations. Trading any amount during the declared closure period (1–30 April) is prohibited – personal financial need is not a statutory exception. Her sale on 20 April is a violation entailing regulatory sanctions, disgorgement, and potential criminal liability.

Why other options are wrong:

- Option (A): Incorrect. There is no provision allowing designated persons to trade during window closure on the basis of two directors' approval; the closure is an absolute prohibition for all designated persons.
- Option (B): **Correct.** Designated persons (including the CFO) are absolutely prohibited from trading during window closure; personal reasons provide no exception and Ms. Tara is in violation.
- Option (C): Incorrect. The SEBI (PIT) Regulations expressly designate KMPs (including the CFO) as persons covered by the trading window restriction; directors are not the only class covered.
- Option (D): Incorrect. Pre-clearance and post-trade disclosure are requirements that apply to trading *outside* closure periods; no retroactive filing can cure a trade executed during window closure.

Final Answer: Trading by designated persons during window closure is absolutely prohibited; Ms. Tara has violated the SEBI (PIT) Regulations. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q13

Sol. 14.

Solution

Concept — Scheme of Arrangement / Section 230 of the Companies Act, 2013: Section 230 governs compromises, arrangements, and reconstructions between a company and its creditors or members. The procedural steps are: (i) application to the NCLT; (ii) NCLT orders meetings of creditors/members; (iii) the scheme requires approval by a **majority in number** representing **three-fourths in value** of creditors (or members) present and voting; (iv) the NCLT considers objections and, if satisfied, **sanctions** the scheme; (v) upon sanction and filing with the Registrar, the scheme becomes **binding on all creditors**, including those who voted against it.

Analysis: The 65% (in value) approval falls short of the three-fourths (75%) threshold required. Regardless, the question tests knowledge of the overall process. Option D correctly describes the dual requirement (three-fourths majority in value + NCLT sanction) and the binding effect on dissenting creditors.

Why other options are wrong:

- Option (A): Incorrect. A simple majority (50%+1) is insufficient; three-fourths in value is required. NCLT sanction is also mandatory and cannot be dispensed with.
- Option (B): Incorrect. Unanimity is not required; the entire utility of Section 230 is that a super-majority can bind the dissenting minority after NCLT scrutiny.
- Option (C): Incorrect. NCLT has express statutory jurisdiction over compromises and arrangements; Central Government approval is not required.
- Option (D): **Correct.** Three-fourths in value approval at a meeting + NCLT sanction = scheme becomes binding on all creditors including dissenters.

Final Answer: Three-fourths in value majority + NCLT sanction makes the scheme binding on all creditors, including dissenters. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q14

Sol. 15.

Solution

Concept — Fast-Track Merger / Section 233 of the Companies Act, 2013: Section 233 was introduced to provide a simplified, expedited merger process for certain categories of companies, avoiding the time and cost of NCLT proceedings. It is available to: (i) two or more **small companies**; (ii) a **holding company** merging with its **wholly-owned subsidiary**; and (iii) such other classes as may be prescribed by the Central Government. Under Section 233, after obtaining shareholder and creditor approvals, the scheme is filed with the **Regional Director** (not the NCLT). The Regional Director, after considering objections from the Official Liquidator and Registrar of Companies, issues an order confirming the merger.

Analysis: Both Micro Bakers Pvt. Ltd. and Nano Foods Pvt. Ltd. are small companies. They squarely qualify for the fast-track merger route under Section 233. The Regional Director – and not the NCLT – sanctions the merger after the prescribed procedure.

Why other options are wrong:

- Option (A): **Correct.** Section 233 enables fast-track mergers for small companies and holding-wholly-owned subsidiary mergers, sanctioned by the Regional Director without NCLT involvement.
- Option (B): Incorrect. Section 230 governs compromises and arrangements broadly and requires NCLT involvement; it does not provide a simplified or NCLT-free route for small companies.
- Option (C): Incorrect. Section 232 governs mergers and demergers through the NCLT; it contains no 30-day fast-track provision for small companies.
- Option (D): Incorrect. Section 237 empowers the Central Government to order amalgamation in the national interest – it is a coercive provision aimed at public interest situations, not a routine merger mechanism for small companies.

Final Answer: Section 233 – fast-track merger for small companies, sanctioned by the Regional Director without NCLT. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q15

Sol. 16.

Solution

Concept — Cross-Border Merger / Section 234 of the Companies Act, 2013: Section 234 (inserted by the Companies (Amendment) Act, 2017, effective 13 April 2017) enables cross-border mergers between Indian companies and companies incorporated in permitted foreign jurisdictions. Two types are recognised: (i) **Inbound merger** – foreign company merges into an Indian company (resultant entity is Indian); and (ii) **Outbound merger** – Indian company merges into a foreign company (resultant entity is foreign). For outbound mergers, the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016 (specifically Rule 25A) require: **NCLT sanction** and **prior approval of the Reserve Bank of India**, in addition to compliance with FEMA provisions. The foreign jurisdiction must be notified by the Central Government.

Analysis: Indian Motors Ltd. is merging into Global Auto GmbH with the resultant entity incorporated in Germany – this is an outbound cross-border merger governed by Section 234 read with Rule 25A. Both NCLT sanction and RBI prior approval are mandatory. German law requirements must also be satisfied.

Why other options are wrong:

- Option (A): Incorrect. Section 234 expressly permits cross-border mergers; Indian law is not limited to domestic mergers.
- Option (B): Incorrect. RBI prior approval is a mandatory requirement for outbound mergers; NCLT sanction alone is insufficient.
- Option (C): **Correct.** Section 234 + Rule 25A of the CAA Rules, 2016 govern outbound mergers; NCLT sanction and RBI prior approval are both required.
- Option (D): Incorrect. Section 234 applies to both inbound and outbound mergers; outbound mergers do not require a Presidential ordinance.

Final Answer: Section 234 permits cross-border mergers; outbound mergers require NCLT sanction and prior RBI approval. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q16

Sol. 17.

Solution

Concept — Takeover / Open Offer / SEBI (SAST) Regulations, 2011: Regulation 3(1) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 mandates that any acquirer whose shareholding, along with persons acting in concert, reaches **25% or more** of the total shares or voting rights of a target company must make a **public announcement** for an open offer to acquire at least **26%** of the total shares of the target company from public shareholders. This is the primary threshold trigger. Additionally, Regulation 3(2) provides for the "creeping acquisition" trigger: an acquirer already holding 25% or more may acquire up to an additional 5% per financial year without making an open offer, but crossing this limit triggers a fresh open offer obligation.

Analysis: Venture Corp currently holds 20%. Its proposed acquisition of 6% will take its total to 26%, which crosses the 25% threshold for the first time. Regulation 3(1) is triggered, and Venture Corp must make a public announcement for an open offer to acquire at least 26% of Regal Hospitality Ltd.'s total shares from public shareholders before completing the acquisition.

Why other options are wrong:

- Option (A): Incorrect. The creeping acquisition exemption under Regulation 3(2) applies only to acquirers who already hold 25% or more; Venture Corp holds 20% (below 25%), so crossing 25% triggers the primary threshold under Regulation 3(1), not the creeping acquisition provisions.
- Option (B): **Correct.** Crossing 25% triggers the mandatory open offer obligation under Regulation 3(1) of the SEBI SAST Regulations, 2011.
- Option (C): Incorrect. No prior stock exchange approval is required for secondary market purchases; the obligation is to make an open offer – not to obtain exchange clearance.
- Option (D): Incorrect. The threshold is 25%, not 30%; since Venture Corp's holding will reach 26% (which is at or above 25%), the open offer obligation is triggered.

Final Answer: Crossing the 25% threshold triggers a mandatory open offer under SEBI SAST Regulations, 2011. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q17

Sol. 18.

Solution

Concept — Voluntary Delisting / Reverse Book Building: The SEBI (Delisting of Equity Shares) Regulations govern voluntary delisting of listed companies. Key features: (i) the exit price is discovered through a **reverse book-building (RBB)** process in which public shareholders tender shares and specify the minimum price they will accept; the price at which the maximum number of shares are tendered (which allows the promoter to reach the required threshold) is the exit price; (ii) the delisting succeeds only if the promoter's post-offer shareholding reaches at least **90%** of the company's total shares; (iii) if the 90% threshold is not reached, the delisting is deemed to have failed and the shares must be returned to the tenderers.

Analysis: The promoters hold 68%. For the delisting to succeed, they must acquire shares such that their total holding reaches 90% (i.e., they need to acquire at least 22% more shares, representing all shares in the public float required to meet the 90% threshold). The exit price is determined by the RBB process.

Why other options are wrong:

- Option (A): Incorrect. Delisting is not done at par value or through a fixed-price tender; the reverse book-building process is mandated. The threshold is 90%, not 75%.
- Option (B): Incorrect. A postal ballot approval of shareholders is one step in the process, but it does not complete the delisting; the RBB must be conducted and the 90% threshold must actually be achieved.
- Option (C): Incorrect. SEBI's action for non-compliance with minimum public shareholding (MPS) norms results in suspension of trading and other consequences – not automatic delisting; the MPS framework is separate from the voluntary delisting process.
- Option (D): **Correct.** Voluntary delisting uses reverse book-building; the promoter must achieve at least 90% post-offer shareholding; the exit price is determined by the RBB outcome.

Final Answer: Voluntary delisting requires reverse book-building; promoter must achieve at least 90% shareholding post-offer. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q18

Sol. 19.

Solution

Concept — Buyback of Shares / Section 68 of the Companies Act, 2013: Section 68 prescribes the following conditions for buyback of shares: (i) maximum amount: **25% of the aggregate of paid-up share capital and free reserves** (overall limit); the Board may further authorise buyback up to 10% of the total paid-up equity share capital without shareholder approval; (ii) post-buyback debt-equity ratio must not exceed 2:1; (iii) buyback must be from free reserves, securities premium account, or proceeds of a fresh issue; (iv) **cooling-off period**: a company cannot make another offer of buyback within **one year** from the date of closure of the preceding buyback offer. This ensures that buybacks are not used as a continuous capital return mechanism.

Analysis: Paid-up share capital = Rs. 50 crore; Free reserves = Rs. 150 crore; Aggregate = Rs. 200 crore. Maximum buyback = 25% of Rs. 200 crore = **Rs. 50 crore**. Since the preceding buyback closed only 8 months ago (less than one year), Crest Automobiles Ltd. **cannot** make a new offer of buyback at this time – it must wait until the one-year cooling-off period has elapsed.

Why other options are wrong:

- Option (A): **Correct.** Maximum buyback = 25% of aggregate paid-up capital and free reserves (Rs. 50 crore); one-year cooling-off period must be observed between successive buyback offers.
- Option (B): Incorrect. The 10% limit per financial year applies to Board-approved buybacks of paid-up equity share capital; it is a sub-limit for Board authority, not the overall maximum. There is a cooling-off period.
- Option (C): Incorrect. Section 68 imposes specific quantitative caps on buyback; it is not discretionary subject only to maintaining minimum statutory reserves.
- Option (D): Incorrect. The maximum is 25% of paid-up capital and free reserves (not 50% of net worth); multiple buybacks in the same year are restricted by the mandatory one-year cooling-off period.

Final Answer: Maximum buyback = 25% of paid-up capital + free reserves; one-year cooling-off period mandatory between buyback offers. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q19

Sol. 20.

Solution

Concept — Preferential Allotment Pricing / SEBI ICDR Regulations, 2018: Chapter V of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 governs preferential issues. Regulation 164(1) provides that shares issued on a preferential basis must be at a price not less than the **higher of**: (a) the average of the weekly high and low of the closing prices of the shares on the recognised stock exchange during the **26 weeks** preceding the relevant date; or (b) the average of the weekly high and low of the closing prices of the shares during the **2 weeks** preceding the relevant date. These pricing norms apply to **all** preferential allotments – including those to institutional investors – without exception.

Analysis: 26-week average = Rs. 95; 2-week average = Rs. 100. The minimum issue price = **higher of** Rs. 95 and Rs. 100 = **Rs. 100 per share**. The proposed issue price of Rs. 80 is below this minimum and is therefore not permissible. Orbit Technologies Ltd. must issue shares at a minimum of Rs. 100 per share.

Why other options are wrong:

- Option (A): Incorrect. Preferential allotment pricing is not freely negotiable; SEBI ICDR Regulations mandate a minimum floor price based on the prescribed formula.
- Option (B): Incorrect. Rs. 95 is only the 26-week average; the minimum price must be the *higher* of the 26-week and 2-week averages – which is Rs. 100, not Rs. 95.
- Option (C): **Correct.** Minimum price = higher of 26-week average (Rs. 95) and 2-week average (Rs. 100) = Rs. 100 per share under SEBI ICDR Regulations, 2018.
- Option (D): Incorrect. SEBI ICDR pricing norms apply to all preferential allotments regardless of the category of allottee; there is no exemption for institutional investors.

Final Answer: Minimum price for preferential allotment = higher of 26-week and 2-week averages = Rs. 100 per share. $\Rightarrow \boxed{C}$

Answer: (C) Go Back to Q20

ANSWER KEY

1	B	2	D	3	A	4	C	5	B
6	D	7	A	8	C	9	B	10	D
11	A	12	C	13	B	14	D	15	A
16	C	17	B	18	D	19	A	20	C