

What is meant by Differential Voting Rights? How does it help in the development of startup ecosystem in India? Explain

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Differential voting rights (DVR) are instruments that enable promoters to retain control over their company, even when new investors come in, when their shares are diluted.

- Such shares give a higher dividend in lieu of voting rights taken away.
- Superior voting rights in DVR's are exclusively held for promoters or founders only, cannot be traded in exchange platforms.

Recent amendments and impact on startup ecosystems:-

- 1) Companies Act 2013 amended to increase in the cap on DVR on paid up capital from 26% to 74%.
  - a) Boost in fund raising activity from investors, who expect better returns, without wanting of management control
  - b) Raise capital base without compromising on management, from the promoters or founders.
  - c) Lower the chance of hostile takeovers that could affect valuations. This helps in upholding Rights of minority shareholders. eg. Recent Flepleasts takeover by walmart
- 2) Higher dividends on DVR's masks the risk factor, Improve the investor confidence.
- 3) Brings in multiple stakeholders from various fields. Expands knowledgebase of startups.
- 4) Technology transfer in selected areas of communication, databank, cybersecurity can happen. This is in the event of SEBI allowing listing of superior voting rights of unlisted companies.



5) Conversion of startups as gig economy to full fledged business ventures, by removing requirement of 3 year continuous profit record to issue DVRs. Stability of startup maintained. (2)

6) By treating DVR's as ordinary shares in voting; it prevents erratic takeover, dissolution through resolution IBC process

7) Reduce the share of debt funding in startup ecosystem, that has been the source of startup failures in long run.

On the flip side:

1) Ineffective corporate governance and disclosure requirements negates the positives of DVR

2) Superior voting rights share in public listing can aggravate instances of misgovernance

3) Lack of awareness can cast doubt for investors in case of liquidity crunch

Fundraising is intrinsic part of startups to diversify their base. In a time, when India is facing unemployment, promotion of entrepreneurship can tide the crisis. However, long term policy safeguards are prerequisite for actual economic growth.