
DECRYPTING DEMAT: LEGAL INNOVATIONS AND REGULATORY SHIFTS FOR PRIVATE COMPANIES IN THE POST-JUNE 2025 ERA

Mahak Jain, UPES

ABSTRACT

India has witnessed a transformation in the securities market, a shift from the physical securities to electronic ones after 30th June 2025, and the shift is known as dematerialization. In the process of dematerialization, the physical securities are converted into electronic form and held in a demat account. The purpose of this change is to improve efficiency, security of transactions, and transparency. It has also streamlined the trading of securities by removing the physical formalities required for buying and selling securities and by reducing several corporate risks, thefts, and frauds. Although the demat form seems convenient and risk-free, it is also prone to certain risks, like cybersecurity threats, and can create digital discrepancies. The research paper will explore the dematerialization process for a private company post-June 2025. It will focus on the key factors, like the depositary participant, the company's registrar, and depositors, that play a major role in the process of dematerialization. As the research is a take on the private companies, it will include the provisions of the Companies Act, 2013; the Companies (Prospectus and Allotment of Securities) Rules, 2014; the SEBI (Depositories and Participants) Regulations, 2018; and regulations issued by SEBI. This paper aims to explore the legal, regulatory, and practical implications of the June 2025 dematerialization mandate for private companies in India. It examines the legislative framework underlying dematerialization, the procedural roadmap for implementation, relevant jurisprudence and regulatory guidance, and the potential benefits and hurdles of this digital shift. Additionally, it will critically analyse the benefits and challenges for converting the physical securities into electronic after June 2025 and anticipate the impact and implications on private companies. It will also highlight the mandatory compliance for dematerialization for public companies and how it shaped the corporate efficiency, and after the Ministry of Corporate Affairs (MCA) issued a notification, the same compulsion for the private companies, excluding the small companies from that mandate. The research concludes with process, legal transitions, and jurisprudence development addressing dematerialization for private companies.

Keywords: Dematerialization, Depository participant, Private Companies, DEMAT account.

Introduction: The Digital Turn in Securities Regulation for Private Companies in India

Dematerialization is a process by which physical shares, debentures, securities, certificates, or funds issued are converted into electronic form and held in a DEMAT account.¹

In the past few years India has embarked on a remarkable journey in the field of digitalization. With this concept, there was a shift in the Indian securities market where the transformation of physical shares into digitalized form can be witnessed to improve the accountability, transparency, and compliance with the corporate governance principles. Initially this transformation was mandatory for the public companies, but after the 2023 notification issued by the Ministry of Corporate Affairs (MCA), it became a compulsion for a private company to issue all its shares and debentures in electronic form post June 2025 and convert the physical share into the electronic one.

In India, traditionally, the private companies had certain leverage in relation to the rules, regulations, and corporate compliances. The Companies Act, 2013, SEBI regulations, and other rules had limited intervention regarding securities in the regulatory market, so when the compliances and provisions come to a private company, the implementation is almost null, or, in other words, it can be said that the laws or regulations are too flexible for private companies. So, in terms of physical shares, the private company has limited mechanisms like manual registers for the issuance of securities, but the flexibility and limited mechanisms have resulted in many offenses like forgery or misplacement of documents, certificates, and delay in procedures.

In comparison, the public companies registered under the Companies Act, 2013, must comply with the norms and regulations laid out by SEBI and the Depositories Act, 1996. Public companies, as per the Companies (Prospectus and Allotment of Securities) Rules, 2014, is required to hold all the securities in DEMAT form. The securities are registered and maintained through depositors under SEBI (Depositories and Participants) Regulations and the

¹ Dematerialization of Shares under Companies Act, 2013: A Paradigm Shift in Corporate Governance, <https://taxguru.in/company-law/dematerialisation-shares-companies-act-2013-shift-corporate-governance.html> (last visited July 29. 2025)

Depositories Act, 1996. The process substantially enhanced investor confidence, regulatory compliance, and operational efficiency.

After making it a mandate for public companies to convert the physical shares into the DEMAT form, MCA issued a notification for private companies, making it compulsory for them to convert or hold securities in electronic format. Through the Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023, Rule 9B was inserted into the Companies (PAS) Rules, 2014.² The transition has redefined the holding and issuing of securities rights of private companies and the shift of focusing on the electronic form because it reduces the paperwork and potential risks associated with it.

Decoding Dematerialization: Concept and Statutory Framework

➤ Meaning and understanding Dematerialization

Dematerialization is a statutory process of converting physical share certificates and securities into digital form by starting or opening a DEMAT account through a depository participant, which acts as an intermediary between the investing party and depository. The electronic holdings are stored in the DEMAT account. In India there are two major depositories that manage the account, which are registered with SEBI, namely National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL).³ The depository participant ensures the abidance of the provisions, informs the investor, and intimates the depository about the securities.

The dematerialization of securities and other provisions related to this is governed by the Depository Act, 1996, along with the Companies Act, 2013, and the Companies (Prospectus and Allotment of Securities) Rules, 2014, read with the MCA 2023 notification. All the abovementioned mandates the dematerialization of securities in both public and private companies.

The compliance is laid out under section 29 of the Companies Act, 2013, which states that all the companies making public offerings, including other companies as specified

² Ibid

³ R. LALTHASANGZELI and JYOTIRMOY BANERJEE, *What is Dematerialisation: Meaning, Benefits & Process*, Volume 7 Issue 1, IJLSI ,120, 121-122 July 29 (2025), <https://www.bajajbroking.in/knowledgecenter/what-is-dematerialisation>

under the act or rules, are required to issue securities only in dematerialized form; the rules regarding this are set by the Depositories Act, 1996, and related guidelines. Additionally, prescribed classes of unlisted companies must hold and transfer securities exclusively in dematerialized form. Companies not falling under these categories have an option to issue or convert securities either in physical or electronic form as prescribed under rules and regulations.⁴

The Depositories Act, 1996, governs the operations and procedure for the transition of securities. A depository participant, being an intermediary, gets the physical certificates for transforming into electronic form; this occurs after intimating that to the NSDL and requesting dematerialization. Then the depository participant sends the physical certificate to the issuer or Registrar and Transfer (R&T) agent for the purpose of verification. After the confirmation that the documents are valid and verified, the issuer or agent registers NSDL as the holder of securities, and the investor remains a beneficial owner.⁵ After completion of all the formalities, the depositor credits securities into the beneficial owner's DEMAT account and holds them with the depository participant. This process streamlines the handling of physical securities; now the dematerialized securities are more efficient and secure for the purpose of managing.

➤ Purpose and Policy Objectives Behind the Demat Mandate

The legal foundation for the purpose of dematerialization lies in the Depositories Act, 1996, and the Companies (Prospectus and Allotment of Securities) Rules, 2014, which are for a centralized or uniform system for electronic maintenance and transfer of securities. So, for private companies, before issuing the notification, there was enough flexibility in the context of issuing securities and other certificates. Rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014, (Amended in 2023), currently mandates the private companies to issue all the securities in digital form.

The primary objective is to enhance transparency, reduce risks of fraud or forgery, and rationalize transfer procedures. The policy aligns with a broader and uniform goal of

⁴ The Companies Act, No. 18 of 2013, § 9 (Ind.)

⁵ Dematerialization of Securities in India: Process, Benefits, and Challenges, <https://ijlsi.com/wp-content/uploads/Dematerialization-of-Securities-in-India.pdf> (last visited July 29, 2025)

digitalization, including financial flows, by removing all the physical shareholding drawbacks and standardizing the corporate governance for all kinds of entities.

Rule 9B was inserted in the companies rules through a notification in 2023 issued by the MCA that all the private companies, except small companies, must issue securities only in dematerialized format and facilitate this in the existing securities as per the Depositories Act, 1996, and related regulation. Companies not classified as small companies based on their audited financial year (March 31, 2023) are required to comply within 18 months after the end of the financial year. After compliance, any issuance or transfer of securities, including offers, buybacks, bonus shares, or rights, must be done only through dematerialization in accordance with the provisions of the Depositories Act, 1996 (22 of 1996) and regulations. Holders must dematerialize their securities before issuing any new ones. The dematerialization rules applicable to public companies (9A) apply in the case of private companies also, provided that this rule does not apply to government companies.⁶

Process of Dematerialization:

With the recent regulatory changes, dematerialization of securities has become mandatory for the private companies in India. The Companies Act, 2013, empowers the central government under section 29(1A) read with section 469, specify classes of companies that are required to issue and hold securities in dematerialized format⁷. Before the amendment was introduced (Rule 9B), private companies in India were not required to issue securities in electronic form. The mandate is to dematerialize shares, and the related procedure applies strictly to public listed companies and, after 2018, to unlisted public companies via Rule 9A. The amendment made compulsion for private companies as well, but it clearly stated that small and government companies are excluded under Rule 9B.⁸ The latest notification, issued in the year 2023, mandated all the companies to comply with the provisions after the publication in the official gazette, but the compliance deadline was extended till 30th June 2025 on 12th February 2025.

For the process of dematerialization, a registered owner submits a request to an intermediary that is a depository participant using the Dematerialization Request Form (DRF) accompanied

⁶The Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023 Rule. 9B (Ind.)

⁷ Ibid.

⁸ Supra note 6

by the physical share certificate showing securities issued in good faith. On receiving the request, all the documents are verified. After verification the depository participant will issue an acknowledgement slip, duly signed and stamped. If any issue arises in the verification process, the depository participant will return the certificates to the beneficial owner and advise them to contact the issuer or agent. After the securities are in order, the depository participant enters a request into a Depository Participant Module (DPM), a system in NSDL, which will generate a Dematerialization Request Number (DRN), and once again all the details are verified and then electronically transferred to the depository module and then to the issuer or the agent.⁹

Implementation Framework: Navigating the Dematerialization Process in India's Private Sector

The transition from physical to electronic format is a fundamental shift that requires private companies to diligently implement a structured framework. The process must ensure legal compliance, smooth functioning and minimize the disruption for holding physical shares.

Briefly understanding the steps that can be taken by the private companies is required for better and smoother implementation. Firstly, companies must amend the Article of Association to explicitly mention the obligation to issue the shares in dematerialized form. The amended AoA should empower the company to recognize DEMAT accounts as a legitimate instrument of share ownership and authorize digital transfers in persistent to the Depositories Act, 1996, the Companies Act, 2013, the Companies (Prospectus and Allotment of Securities) Second Amendment 2023, and other SEBI Regulations. This legal modification might create a foundation that can be legally recognized.¹⁰

For facilitation and administration of securities, companies must engage an R&T registered under SEBI or prescribed law that acts as an intermediary between the company, shareholder, and depositors, assisting in the transfer of securities through depository participants.¹¹ The class of securities is then assigned the International Securities Identification Number (ISIN) issued by NSDL or CDSL to enable electronic trading or transfer in dematerialized form. Without

⁹ Supra Note 3.

¹⁰ Dematerialisation of Shares by Private Companies - MCA's Rule 9B, <https://www.equitylist.co/blog-post/dematerialisation-of-shares-by-private-companies-mcas-rule-9b>, (last visited July 30. 2025)

¹¹ SEBI's Circular for RTAs Explained: Insights for Investors, <https://enrichmoney.in/blog-article/sebis-circular-for-rtas-explained> (Last visited July 29.2025)

issuing ISIN, securities cannot be debited or credited.¹²

The company is required to operate a DEMAT account with a depository participant (DP) for managing the securities held by the company. Also, the existing shareholders must be instructed to open an account with an authorized DP to convert their physical certificates into electronic ones, then it will be sent to RTA (R&T) for verifying the legitimacy of the certificates.¹³ After that the physical shares will be surrendered and replaced by the electronic holding of shares. All the securities will be credited by the depository in the DEMAT account. There should be transparency regarding all the changes undertaken by the company among the board members.

On the completion of all the formalities regarding dematerialization, the company is required to make timely disclosures of audits and other documents, complying with the current regulations. Private companies need to make their internal controls and digital systems resilient to handle electronic transactions.

Legal Precedents and Statutory Interpretation in the Demat Era

➤ Legal Foundation: Rule 9B and Its Implications

The cornerstone of this legal shift is Rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014, introduced via an MCA notification in October 2023. This rule mandates that every private company (other than small companies) must issue and maintain all securities only in dematerialized form.¹⁴ Furthermore, companies must ensure the dematerialization of existing securities within eighteen months from the end of the financial year in which they cease to qualify as a small company. This deadline was officially extended to June 30, 2025.

Additionally, Rule 9B applies the compliance structure of Rule 9A (meant for unlisted public companies) to private companies. This includes obligations like obtaining ISINs, filing half-yearly reconciliation statements (Form PAS-6), appointing a Registrar and Share Transfer Agent (RTA), and adhering to the SEBI (Depositories and Participants) Regulations, 2018. Together, these rules form a seamless regulatory bridge, compelling

¹² Dematerialization of Shares in India, <https://neerajbhagat.com/dematerialization-of-shares-in-india/> (last visited on July 29, 2025)

¹³ Supra note 11.

¹⁴ Supra note 6.

private companies to integrate their corporate governance practices with electronic systems.

➤ **Judicial Affirmation of Depository Primacy**

Indian courts have repeatedly held that once shares are dematerialized, the records maintained by depositories (NSDL/CDSL) serve as the conclusive evidence of ownership. The Supreme Court and various High Courts have ruled that in case of disputes, electronic entries override internal registers or physical share certificates. In *Jry Investments Pvt. Ltd. v. Deccan Leather Fashions Ltd.*, the court affirmed that disputes regarding shareholding must be adjudicated with reference to depository records. This solidified the legal principle that dematerialized securities are governed by their digital trail, not by company-maintained registers.¹⁵

➤ **Enforcement of Pledges and Dematerialized Rights**

A landmark judgment in *PTC India Financial Services Ltd. v. Venkateswarlu Kari* (2022) clarified the legal consequences of pledging dematerialized shares. The Court held that pledging of shares under the Depositories Act must be harmonized with the Indian Contract Act.¹⁶ The decision emphasized that a pledge does not transfer ownership until the pledged securities are sold; merely acquiring beneficial ownership does not extinguish the pledgor's right of redemption. This ruling is crucial for private companies, as it draws a clear line between security enforcement and unlawful appropriation, especially in demat contexts where legal nuances can be obscured by electronic entries.

➤ **Succession and Nominee Supremacy**

Another major legal aspect clarified by courts is the supremacy of nomination under Section 9 of the Depositories Act, 1996. In case of the death of a shareholder, the nominee registered with the depository becomes the rightful owner of the dematerialized securities, irrespective of any contradictory testamentary instruments

¹⁵ *Jry Investments Pvt. Ltd. v. Deccan Leafine Services Ltd.*, No. C.S. (O.S.) 11 of 2003 (Cal. H.C. Mar. 11, 2003), reported in [2003] 47 C.L.R. 362 (Calcutta H.C.)

¹⁶ *PTC India Fin. Servs. Ltd. v. Venkateswarlu Kari*, Civil Appeal No. 5443 of 2019 (S.C. India May 12, 2022), 2022 INSC 562, [2022] 9 S.C.R. 1063 (Supreme Court of India)

like wills.¹⁷ This principle highlights the importance of proper nomination procedures in the demat regime and signals a departure from the traditional inheritance processes applicable to physical securities.

➤ **Contractual Restrictions and Company Charters**

Private companies often place restrictions on share transfers through their Articles of Association, such as rights of first refusal or approval clauses. Post-dematerialization, it becomes essential that these restrictions are communicated to depositories and the DPs (Depository Participants), as courts have maintained that depository systems do not independently recognize internal corporate restrictions unless expressly recorded.¹⁸ This imposes a duty on private companies to ensure that contractual governance tools are aligned with the electronic structure. Failing to do so could render such protections ineffective and legally unenforceable.

➤ **Compliance Failures and Legal Consequences**

Failure to comply with Rule 9B's mandate has serious legal consequences. Any issue of securities in physical form after the cutoff date will be rendered invalid.¹⁹ Additionally, companies may face penalties under Section 450 of the Companies Act, 2013, which provides for fines up to ₹10,000 per day of default.²⁰ Moreover, such companies may become ineligible to undertake corporate actions like buybacks, bonus issues, or rights offerings until they become compliant. These judicial interpretations and statutory mandates make it clear that non-compliance is not a mere technical lapse but a substantive violation with wide-ranging consequences for corporate activity and investor trust.

➤ **SEBI Enforcement Precedents – K.K. Modi v. SEBI**

SEBI's power to investigate manipulation or insider trading involving dematerialized securities has been upheld. The courts validated SEBI's jurisdiction to access depository records and investigate wrongdoing in private and public contexts. Demat increases

¹⁷ The Depositories Act, § 9, No. 22 of 1996, Acts of Parliament, 1996 (India)

¹⁸ The Depositories Act, No. 22 of 1996, Acts of Parliament, 1996 (India), <https://www.indiacode.nic.in/handle/123456789/1842>.

¹⁹ Supra note 6.

²⁰ The Companies Act, No. 18 of 2013, § 420 (Ind.)

auditability and accountability under SEBI oversight, a warning that clandestine manipulation through physical certificates is no longer possible.²¹

Implications for Private Companies Post-June 2025

- **Governance Infrastructure:** Directors and key managerial personnel must synchronize company share ledgers with depository data to maintain integrity and legal defensibility.
- **Contractual Precision:** Any agreements involving demat shares, pledge agreements, loan-collateral deals, or subscription documents must unambiguously reflect whether rights are transferred or merely secured.
- **Enhanced Succession Planning:** Companies must enforce nomination forms and digital record upkeep to avoid litigation over demat asset succession, especially in private family-owned firms.
- **Regulatory Exposure:** Dematerialization increases traceability. Even private companies may fall under SEBI scrutiny for insider dealings or misrepresentations if depository trails reveal irregularities.

Value Addition: Evaluating the Legal and Economic Benefits of Dematerialization

Private companies, after notification of issuing securities in dematerialized form post-June 2025, may enjoy certain legal and economic benefits to ascertain the corporate governance compliance:

- **Enhancement of Transparency**

The transition of physical securities into dematerialized form can enhance transparency in the corporate structure, as all the shares are electronically recorded and accessible to the company, regulators, and beneficial owners. Through digitalization, tracking records of the shares/securities would be less difficult and will prevent forgery of

²¹ Modipon Ltd. v. Securities & Exchange Board of India, Appeal No. 34/2001, before the Securities Appellate Tribunal, Mumbai (Bombay HC review) (Nov. 2001), reported as [2003] 113 Com. Cas. 418 (Bom. H.C.)

documents, maintaining clarity and accountability between the investors and depositors by the company.²²

➤ Investors Trust

Dematerialization has created a trustworthy environment for investors investing in a private company because of the electronic verification process and single source, creating more reliability. The digital records have become more efficient and have created a legal protection because of the diligent process involved in dematerialization; all these factors are responsible for building investor confidence.

➤ Efficiency in Maintaining Administrative Records

Transforming the physical records into electronic ones has brought benefits in the administration of shareholdings. Dematerialization has reduced the lengthy manual process and holding of physical shares; it has resulted in fewer clerical errors by generating compliance filings, review reports and reducing administrative costs.²³ Also, in AI generation, digitalization of securities would be more productive and may increase proficiency.

➤ Corporate Governance

The transition has introduced certain standards of corporate governance, enabling competent monitoring of beneficial ownership and other related party holdings. Digital data of transfers discourages clandestine structuring of any kind of related arrangements and will create an ethical corporate environment, reducing majority frauds, forgery, and other offenses.²⁴

➤ Market Integration—Capital Market Ecosystem

The mandated DEMAT compliance for private companies can align with one of the best

²² The Benefits of Dematerializing Your Share Certificate, <https://muds.co.in/the-benefits-of-dematerializing-your-share-certificates/> (last visited July 30. 2025)

²³ Only pros for mandatory demat: From making processes smoother to effective monitoring and reduced costs—dematerialisation is 21st-century imperative for market ecosystem, <https://www.financialexpress.com/opinion/only-pros-for-mandatory-demat-from-making-processes-more-smooth-to-effective-monitoring-and-reduced-costsdematerialisation-is-21st-century-imperative-for-market-ecosystem/3267797/> (last visited July 29. 2025)

²⁴ Ibid

practices for India's capital market. As this can increase more investor confidence, that can lead to more issuing and offering of securities. This can also facilitate a smoother process regarding mergers, acquisitions, and raising securities in the market.²⁵

➤ Reduction of Cost

The physical issuance, transfer, and storage of certificates involve various amounts of costs. Digitalization brings a cost-saving structure for the companies issuing securities in DEAMT format.²⁶ Before this, issuing shares required paperwork and manual inspection, but after dematerialization, the transfer process has become cost-effective and time efficient.

➤ Rule of Law

Digitalized securities will increase legal certainty and enforceability. The authenticity of digital records is considered more reliable compared to the physical certificates, as there are system-generated audit trails, encryption, and regulatory oversight. Disputes regarding ownership, transfer, or entitlement can be resolved as there is time-stamped digital evidence.²⁷

The benefits regarding the transformation of securities can support a more inclusive economy by democratizing investment opportunities. The transformative leap for corporate governance, positioning private companies to operate with transparency, efficiency, and accountability.

Regulatory and Operational Roadblocks: Analysis of Key Impediments

While the transition brings significant benefits to private companies, it also introduces several challenges that can hinder proper and smooth implementation. The barriers may arise from regulatory complexities, cyber-crimes, irregularity in compliances, and stakeholder resistance. Below are the key impediments that can occur in the digitalization:

➤ Resistance from Promoters and Stakeholders

One of the major drawbacks arises from the promoters, members, and stakeholders;

²⁵ Supra note 22

²⁶ Supra note 23

²⁷ Supra note 22

they may be resistant to changing the traditional method of physical certificate of securities. This situation occurs mostly in family-run or promoter-driven companies; the reason they may lack familiarity with the digital technologies, leading to refusal to adapt dematerialization.²⁸ This can complicate the transition process and create difficulties in aligning stakeholder interests with regulatory compliances.

➤ **Operational and Infrastructure Constraints**

Dematerialization requires technological advancement and reliability on digital infrastructure. However, several private companies operate in the regions with limited digital development among the shareholders, and that may lead to adversity to providing access to DPs or R&T agents, impeding account opening, transfer of shares, and compliance filings. These obstacles can delay the DEMAT conversion process and can create an administrative burden.²⁹

➤ **Cost and Access Challenges for Small and Medium Enterprises**

In a general sense, dematerialization offers a long-term cost savings mechanism, but initially it involves various implementation costs, like DP fees for opening and maintaining a DEMAT account, brokerage fees, R&T service charges, and compliance-related costs.³⁰ Additionally, shareholders with small or fractional shareholdings may assume it to be inconvenient to maintain or set up DEMAT account, leading to reluctance. Transfer of securities should be accessible and affordable; these are some of the critical conditions that are required to be put into consideration.

➤ **Limited Awareness and Digital Divide**

One of the significant challenges is the inadequate awareness regarding the digitalization process regarding the mandatory compliances. In many cities, excluding the metropolitan cities, many private companies often have limited familiarity with digital finance and regulations. Without proper and targeted communication regarding the guidelines or regulations, the process of digitalization will not be effectively

²⁸ Enhancing Transparency and Liquidity: A Critical Analysis of the Compulsory Dematerialization of Shares in Private Companies, https://ijirt.org/publishedpaper/IJIRT163399_PAPER.pdf (last visited July 29. 2025)

²⁹ Ibid

³⁰ The Shift to Dematerialization: Challenges in Protecting Shareholder Rights for Private Companies, <https://www.icsi.edu/media/webmodules/CSJ/October-2024/21.pdf> (last visited July 29. 2025)

implemented.³¹ Also, in the initial phase, handling of physical certificates and validating shareholder identities can amount to data discrepancies and human errors, and that can lead to disputes over shareholdings, delay in crediting securities, and customer dissatisfaction. If this happens, rectification will be time-consuming and legally complex, requiring coordinated work of the company, R&T agent, DPs, and regulatory authorities.³²

➤ Governance challenges and AoA amendments

Implementing a dematerialized securities framework often necessitates modifications to the company's Articles of Association, especially when the provisions change in an irregular manner.³³ However, implementing the depository process established by NSDL and CDSL may create situations arising from procedural complexities and may lead to tensions between the beneficial owner and other shareholders.³⁴

Analysis: The DEMAT Revolution in Private Companies

The post-June 2025 mandate for dematerialization has fundamentally altered the landscape for private companies in India. The article critically examines the shift from physical shares to electronic ones that reshapes legal obligation, operational framework, and governance. Private companies after dematerialization must revise their AoA to recognize it for ownership purposes. Embedding depository participation provisions ensures enforceability of rights and transfer in the field of digitalization. The use of DRFs, depository participant modules, and ISIN allotment transforms manual processes into standardized electronic transactions while enhancing the procedure and reducing errors, demanding a proper IT infrastructure and data-security protocols to maintain system integrity. The comprehensive audit trails inherent in dematerialized holdings boost transparency and investor confidence by providing regulators and shareholders with shareholding patterns. At the same time, non-compliance with Rule 9B fine or penalty may be initiated.

Yet the benefits of dematerialization must be balanced against operational and socio-economic

³¹ Supra note 3.

³² Supra note 11.

³³ Supra note 10

³⁴ NSDL Circular on Off-Market Transfers: Aligning with Companies Act, 2013, <https://www.nishithdesai.com/NewsDetails/15391> (last visited July 30. 2025)

hurdles. In regions where digital literacy is limited, private companies should invest in training programs and subsidized depository account fees for shareholders and partner with experienced R&T firms to facilitate seamless procedures. By proactively addressing challenges and integrating electronic records into governance and other frameworks, private companies can not only comply with the new regulations but also build a transparent foundation for future capital-raising activities, mergers, and strategies.

CONCLUSION

The mandatory dematerialization of securities for private companies in India, effective post-June 2025, represents a watershed moment in the evolution of the country's corporate regulatory framework. By compelling unlisted private issuers, other than small companies, to cease issuance and transfer of physical share certificates and transition fully to electronic holdings, the Ministry of Corporate Affairs has closed a long-standing regulatory gap between public and private enterprises. This legislative realignment enhances transparency, strengthens investor protection, and fosters corporate governance standards that were once the exclusive domain of publicly listed companies. The benefit of this transition is the robust enhancement of transparency and auditability. Electronic records maintained by depositories (NSDL and CDSL) provide real-time, comprehensive shareholding data, drastically reducing opportunities for fraud, forgery, or disputes over ownership. The legal certainty inspires greater investor confidence, crucial for private companies seeking capital infusion from high-net-worth individuals, private equity, or venture capital. Dematerialization effectively aligns private issuers with the disclosure norms that undergird public markets, signalling to stakeholders that their transactions are governed by immutable, tamper-proof electronic trails. From a governance standpoint, the digital shift compels private companies to synchronize articles of association, share transfer restrictions, and pledge agreements with depository systems. Embedding electronic-ownership provisions in constitutional documents ensures that contractual protections, such as rights of first refusal and approval clauses, are recognized and enforced by Depository Participants. Compliance failures, conversely, carry significant penalties under Section 450 of the Companies Act, 2013, and invalidate any securities issued in physical form after the cut-off date, underscoring the gravity of adherence. Operationally, dematerialization streamlines administrative efficiencies and cost savings. Manual handling of certificates entailed substantial paperwork, storage overheads, and risk of physical misplacement. However, the digital revolution is not devoid of challenges. Private firms,

particularly those in non-metropolitan regions, must contend with limited digital literacy among shareholders, infrastructure constraints, and initial implementation costs, DP account fees, R&T charges, and system upgrades. Promoters and members accustomed to traditional paper-based processes may exhibit resistance, necessitating targeted training programs and stakeholder education campaigns. Small and medium-sized enterprises (SMEs) require tailored support, such as subsidized DP fees or centralized onboarding drives, to bridge the digital divide. Without such measures, the mandate risks exacerbating inequities in access to corporate ownership structures and financial markets. Data security and cybersecurity also emerge as critical considerations. Dematerialized securities are vulnerable to hacking, unauthorized access, and system failures. Private companies must invest in robust IT governance frameworks, encryption protocols, and disaster-recovery plans to safeguard electronic shareholding data. Integration with depository platforms demands stringent service-level agreements and periodic audits to ensure uninterrupted access and regulatory compliance.

Looking ahead, dematerialization lays the foundation for deeper market integration and potential innovation. Seamless electronic records can facilitate interoperability with capital-raising platforms, private placement exchanges, and digital securities offerings.

Ultimately, the post-June 2025 dematerialization mandate is more than a procedural tweak; it is a paradigm shift that propels private companies toward global best practices in corporate governance, investor protection, and operational efficiency. By embracing electronic securities, private issuers align themselves with a digital economy vision that values transparency, accountability, and technological resilience. To fully realize these gains, stakeholders, regulators, depositories, RTAs, technology providers, and company boards must collaborate to address implementation hurdles, fortify cybersecurity mechanisms, and promote digital literacy. In doing that, India's private sector may not only comply with statutory requirements but also unlock new avenues of growth and investor engagement, reaffirming its role as a dynamic engine of the nation's economic prosperity.