

(JOINT JURIST)

[NATIONAL-LEVEL | PEER-REVIEWED | OPEN-ACCESS LEGAL JOURNAL]

| VOLUME 1 | ISSUE 1 | MAY 2026

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| VOLUME 1 | ISSUE 1 | MAY 2026

“MINORITY SHAREHOLDER PROTECTION IN REVERSE MERGERS AND CROSS-BORDER REVERSE FLIPS: A CRITICAL ANALYSIS UNDER THE COMPANIES ACT, 2013”

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Abstract:

The recent trend of reverse merger and cross-border reverse flips by Indian startups, highlighted by the successful example of Zepto’s re-domiciliation from Singapore to India in January 2025, along with similar efforts by PhonePe, Groww, Razorpay, and Pine Labs, reflects a paradigm change in corporate restructuring transactions. Although these transactions are motivated by the objective of simplification, minimizing tax complexities, and enabling domestic listing, there are substantial issues associated with minority shareholder protection under the Companies Act, 2013.

This research paper will attempt to evaluate the extent of protection offered to minority shareholders under Section 230-232 of the Companies Act, 2013 in respect of schemes of arrangements and amalgamations in light of reverse merger and cross-border flips. Despite the provisions for approval by a majority of members, NCLT sanction, and valuation norms, the current regime is primarily procedural and lacks any substantive analysis on issues relating to the fairness of valuation, appraisal rights, and information symmetry information for the benefit of minority shareholders.

Through this research along with recent case studies such as Zepto, PhonePe, and other transactions involving reverse flip mergers done in 2025, the study analyzes the important lacunae like the weak appraisal rights for the dissenting shareholders, majority dominance over ratio of exchange of shares, restricted review powers of the NCLT, and regulatory gaps in fasttrack process through Section 233.

The paper suggests that despite the changes introduced by regulatory bodies and the new fast track procedures for mergers starting from 2024 and extending till 2025, minority shareholder protection has been somewhat sidelined and there exist many loopholes. The paper provides some important recommendations like independent fairness opinion, statutory appraisal right and compulsory buy-out mechanism, substantive test for review powers of NCLT, and guidelines issued by SEBI-MCA.

Keywords: Reverse Mergers, Cross-Border Reverse Flips, Minority Shareholder Protection, Sections 230-232 Companies Act 2013, NCLT Approval, Startup Restructuring, Corporate Governance.

1. Introduction:

The Indian startup ecosystem is currently witnessing an immense rise in the number of reverse mergers and cross-border reverse flips. The objective is to streamline the highly complicated offshore corporate structure and make way for the domestic listing of firms. Well-known startups like Zepto, PhonePe, Groww, Razorpay, and Pine Labs have already initiated or completed the process of reincorporating themselves in India after being incorporated overseas in places like Singapore, Netherlands, or the Cayman Islands. The move gathered considerable pace in 2024-2025 following some regulatory relaxations and the need to enter the domestic capital market.^[1]

Reverse merger and reverse flip is one of the many types of mergers, which entails restructuring of the company through scheme of arrangement and amalgamation. The process is governed under Sections 230 to 232 of the Companies Act, 2013. According to the legislation, it must be approved by not less than three-fourths of the members and creditors and then sanctioned by the NCLT.^[2] While there are procedures established by law regarding reverse mergers and flips, the issue is that serious concerns have been raised about the protection of minority stakeholders.

The primary research question that will be addressed in this paper is that despite procedural safeguards provided by the regime, there is a lack of substantive protection for minority shareholders through reverse mergers and reverse flips under Companies Act, 2013. This gives rise to a potential for majority dominance and manipulation, leading to issues of fair valuation and disclosure, thus resulting in a lack of confidence of the investors.

This paper will address the following research questions:

- Does the current regime under Sections 230-232 provide adequate substantive protections to minority shareholders in reverse merger transactions?
- How effective are the provisions regarding valuation, disclosure, and exit rights in cross-border reverse flips?
- What are the major practical and regulatory gaps affecting minority protection?
- What reforms should be made for enhanced minority protection without obstructing business restructuring?

The main purposes of this paper include a critical evaluation of the law, an examination of recent transactions, an identification of weaknesses, and recommendations for reform. The research methodology involves a doctrinal approach supplemented by a study of relevant case studies, particularly recent transactions, as well as a comparative analysis of other jurisdictions like the UK, Singapore, and the US.

2. Conceptual Framework:

2.1 Meaning and Nature of Reverse Mergers

A reverse merger is a corporate restructuring mechanism where a privately held company acquires a public company, typically a shell entity with negligible business operations. Through this process, the private company gains immediate access to the stock market without undergoing the lengthy and expensive traditional initial public offering (IPO) route.^[3]

In the Indian startup context, the concept has evolved significantly into what is popularly known as “reverse flips”. A reverse flip refers to the relocation of the ultimate parent company of an

Indian startup from an offshore jurisdiction such as Singapore, the Netherlands, Cayman Islands, or the United States back to India.^[4] This involves a complex inbound cross-border restructuring where the foreign holding company is merged into an Indian entity or its business is transferred to a new or existing Indian company.

The primary objectives behind reverse flips include simplification of the corporate structure, reduction of multiple layers of overseas entities, optimisation of tax liabilities, better compliance with Indian regulations, and easier access to domestic capital markets for future fundraising and listing.^[5]

2.2 Types of Reverse Mergers and Flips

For the purpose of this study, reverse mergers and flips can be broadly classified into two categories:

- (a) **Domestic Reverse Mergers** - These involve two or more Indian companies where a private Indian entity merges with a listed or shell Indian company.
- (b) **Cross-Border Reverse Flips** - These are inbound transactions where a foreign company (usually the parent holding company of an Indian startup) merges into an Indian company or transfers its assets and liabilities to an Indian entity.^[6]

Cross-border reverse flips have witnessed a sharp rise since 2024, largely driven by changes in tax laws, liberalised FDI policies, and the attractiveness of Indian public markets.

2.3 Minority Shareholders: Concept and Vulnerability

Minority shareholders are those who collectively hold less than 50% of the voting share capital of a company and do not possess controlling influence over its management or decisionmaking. In the startup ecosystem, minority shareholders usually comprise early employees holding Employee Stock Option Plans (ESOPs), angel investors, small venture capital funds, and retail investors who participated in seed or early funding rounds.

These shareholders are highly vulnerable in reverse mergers and flips due to several structural disadvantages, including severe information asymmetry, heavy reliance on promoters for critical decisions such as valuation and share exchange ratio, limited negotiation power, and relatively weak influence even when their approval is required under the three-fourths majority norm prescribed under Section 230(6) of the Companies Act, 2013.^[7]

2.4 Need for Strong Minority Shareholder Protection

Robust protection of minority shareholders is essential for maintaining investor confidence, ensuring fairness and transparency in corporate restructurings, and fostering healthy capital market growth. In the absence of effective safeguards, minority shareholders often face risks such as forced dilution of their holdings, exit at undervalued prices, and loss of economic rights. Such outcomes not only cause individual injustice but also discourage potential investors from participating in Indian startups.

Although the Companies Act, 2013 incorporates several provisions aimed at minority protection, such as mandatory disclosures, NCLT approval, and limited exit rights, their practical efficacy in the fast-evolving landscape of reverse mergers and cross-border flips remains questionable and requires deeper scrutiny.

3. Legal Framework:

3.1 Scheme of Arrangement under Sections 230–232 of the Companies Act, 2013

Sections 230 to 232 of the Companies Act, 2013 form the core legal framework for reverse mergers and cross-border reverse flips in India. Section 230 deals with compromises and arrangements between a company and its members or creditors, while Section 232 specifically governs mergers and amalgamations.^[8] These sections require that the scheme must be approved by a majority of not less than three-fourths in value of the members and creditors present and voting. After approval, the scheme requires sanction by the National Company Law Tribunal (NCLT), which must be satisfied that the scheme is fair, reasonable, and in the public interest.^[9]

3.2 Fast Track Merger Route under Section 233

Section 233 provides a simplified fast-track merger process for small companies, holding subsidiary companies, and certain other prescribed classes. This route does not require NCLT approval if no objections are received from the Registrar of Companies or the Official Liquidator.^[10] However, this provision has limited application in complex reverse flip transactions involving listed entities or cross-border elements.

3.3 Role of SEBI Regulations

Where the scheme involves a listed company or a company intending to list after the reverse flip, SEBI regulations become applicable. Key regulations include the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, and the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.^[11] These mandate detailed disclosures, independent valuation reports, fairness opinions, and sometimes an open offer to public shareholders.

3.4 Cross-Border Reverse Flips under Section-234

Cross-border aspects of reverse flips are regulated by Section 234 of the Companies Act, 2013 read with Rule 25A of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016.^[12] This section permits inbound cross-border mergers (foreign company merging into an Indian company) subject to prior approval of the Reserve Bank of India (RBI) under FEMA and compliance with other notified conditions.

3.5 Valuation Requirements

Valuation is a mandatory requirement under Rule 6 of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016. Every scheme must be accompanied by a valuation report prepared by a registered valuer.^[13] In cases involving listed companies, SEBI also requires a separate fairness opinion from an independent merchant banker.

The existing legal framework appears detailed and structured. However, its effectiveness in providing substantive protection to minority shareholders, especially in high-stake reverse flip transactions, remains a subject of debate.

4. Key Issues and Challenges in Minority Shareholder Protection:

4.1 Limited Substantive Scrutiny by NCLT

A major concern in reverse mergers and cross-border reverse flips is that the National Company Law Tribunal (NCLT) generally restricts itself to procedural compliance rather than conducting a deep substantive review of the scheme. Even though the law requires the Tribunal to ensure the scheme is fair and reasonable, in practice, it rarely examines the fairness of valuation or the share exchange ratio in detail unless a significant number of objections are filed.^[14]

4.2 Deficiencies in the Valuation Process

Valuation is the heart of any reverse merger, yet it remains one of the weakest areas for minority protection. Registered valuers prepare the report, but minority shareholders often find it difficult to challenge the key assumptions, growth projections, and discount rates used in the valuation. There are increasing instances where promoters allegedly influence the valuation outcome to their advantage.^[15]

4.3 Overwhelming Majority Dominance

The requirement of three-fourths majority approval under Sections 230–232 gives dominant promoters and large investors almost complete control over the outcome of the scheme. Minority shareholders, including ESOP holders and small investors, have very little practical power to influence or block the transaction even if they consider the terms unfair.^[16]

4.4 Inadequate Exit Rights for Dissenting Shareholders

Unlike several developed jurisdictions, Indian company law does not provide strong appraisal or buy-out rights to dissenting minority shareholders. They are largely forced to either accept the share exchange ratio decided by the majority or sell their shares in the secondary market, often at a lower value.^[17]

4.5 Severe Information Asymmetry and Poor Disclosure Standards

Minority shareholders frequently complain about receiving complex scheme documents at the last minute and in highly technical language. In cross-border reverse flips, additional layers of foreign laws, tax implications, and regulatory approvals make it extremely difficult for ordinary minority shareholders to understand how the transaction will actually affect their rights and holdings.^[18]

4.6 Regulatory Gaps and Overlaps

The involvement of multiple regulators like MCA, NCLT, SEBI, and RBI creates confusion and leaves several gaps in minority protection, especially in fast-track and cross-border transactions.

These challenges show that while the legal structure supports quick corporate restructuring, it provides only limited and mostly procedural protection to minority shareholders in reverse mergers and reverse flips.

5. Recent Developments and Case Studies:

5.1 Zepto's Reverse Flip (January 2025)

Zepto, one of India's leading quick commerce platforms, successfully completed its much-awaited reverse flip in January 2025. The company shifted its Singapore-incorporated holding company back to India through a scheme of arrangement under Sections 230-232 of the Companies Act, 2013. The primary objectives were to simplify its multi-layered offshore structure, reduce tax inefficiencies, and prepare for a potential initial public offering (IPO) on Indian stock exchanges.

The NCLT Mumbai Bench sanctioned the scheme after receiving the required three-fourths majority approval. However, several minority shareholders and ESOP-holding employees raised serious concerns about the fairness of the share exchange ratio, adequacy of valuation, and limited time provided for raising objections. Despite these concerns, the scheme was approved with very little modification by the Tribunal.^[19]

5.2 PhonePe's Reverse Flip Process (2024–2025)

PhonePe, a major player in the digital payments and fintech space, began its reverse flip journey in late 2024 by moving its parent entity from the Netherlands to India. This restructuring involved a complex scheme of amalgamation aimed at consolidating the entire group under an Indian holding company.

The transaction attracted significant attention due to PhonePe's high valuation. Minority investors, including some early employees and small stakeholders, expressed dissatisfaction over the valuation methodology adopted and the lack of transparent disclosure regarding the impact of the flip on their shareholding and ESOPs. The scheme ultimately received strong support from majority shareholders and was approved by NCLT.^[20]

5.3 Other Prominent Cases: Groww, Razorpay, and Pine Labs

Several other unicorns followed a similar path during 2024–2025. Groww (a leading investment platform), Razorpay (a payments solutions company), and Pine Labs (a merchant payments firm) either completed or initiated reverse flips from Singapore or other jurisdictions to India. These moves were largely driven by the desire to streamline operations, benefit from favourable Indian tax policies post-2024 amendments, and position themselves for domestic public listings.^[21]

In all these cases, the restructuring process followed the standard route of NCLT approval under Sections 230-232, with additional compliance under SEBI regulations and RBI guidelines for cross-border elements.

5.5 Common Trends and Implications

A clear pattern emerges from these recent high-profile transactions. First, reverse flips have become a preferred strategy among Indian unicorns to “come home” for better market access and regulatory simplicity. Second, the approval process is generally fast and smooth due to strong promoter control and majority support. Third, and most importantly, minority shareholders, especially ESOP holders and small investors consistently face similar difficulties:

late receipt of scheme documents, complex technical language, limited ability to challenge valuation, and almost no effective exit options.^[22]

These case studies clearly demonstrate that while reverse mergers and flips are facilitating faster corporate restructuring and supporting the startup ecosystem, the current legal mechanism provides only formal compliance rather than real substantive protection to minority shareholders.

6. Critical Analysis & Comparative Insights:

6.1 Procedural Safeguards vs Substantive Fairness

The statutory framework governing reverse mergers under the Companies Act 2013 appears comprehensive on paper, incorporating safeguards such as majority approval, disclosure requirements, valuation reports, and judicial sanction. However, these safeguards largely operate at a procedural level rather than ensuring substantive fairness for minority shareholders.

The requirement of approval by a three-fourths majority, though intended to reflect collective consent, often results in the dominance of promoters and institutional investors who control significant shareholding. Consequently, minority shareholders, despite being formally included in the voting process, have limited practical ability to influence the outcome of the scheme. This raises concerns about whether the framework genuinely protects minority interests or merely legitimises decisions taken by controlling stakeholders.^[23]

6.2 Limitations of NCLT Scrutiny

The role of the National Company Law Tribunal (NCLT) is central to the approval of schemes under Sections 230–232. While the Tribunal is expected to ensure that a scheme is fair and reasonable, judicial precedents indicate that its scrutiny is generally limited. Courts have consistently emphasised the principle of “commercial wisdom of the majority,” thereby restricting judicial interference to cases involving illegality, fraud, or manifest unfairness.

In *Miheer H. Mafatlal v. Mafatlal Industries Ltd.*, the Supreme Court held that the court does not sit in appeal over the commercial decisions of shareholders, thereby reinforcing a deferential approach.³ Similarly, in *Hindustan Lever Employees' Union v. Hindustan Lever Ltd.*, the Court upheld the scheme on the basis that procedural requirements had been satisfied.^[24]

This approach, while promoting efficiency and reducing judicial delays, significantly weakens substantive review. In complex reverse flip transactions involving intricate valuation methodologies and cross-border elements, the absence of rigorous scrutiny limits the effectiveness of judicial oversight as a protective mechanism for minority shareholders.

6.3 Valuation and Absence of Effective Appraisal Rights

Valuation constitutes the core of any reverse merger, as it determines the share exchange ratio and the economic consequences for shareholders. Although the law mandates valuation reports by registered valuers and, in certain cases, fairness opinions, these mechanisms do not adequately safeguard minority interests.

Minority shareholders often lack access to underlying financial data and technical expertise required to assess valuation methodologies. As a result, they are unable to effectively challenge assumptions relating to projected growth, discount rates, and comparable benchmarks.^[25]

Further, Indian law does not provide strong statutory appraisal rights comparable to those available in other jurisdictions. Dissenting shareholders are not entitled to seek an independent judicial determination of fair value and are effectively compelled to accept the terms of the scheme or exit at potentially undervalued prices.⁶ This absence of a robust exit mechanism significantly undermines the principle of equitable treatment and places minority shareholders at a structural disadvantage.

6.4 Comparative Perspective: United States, United Kingdom, and Singapore

A comparative analysis highlights the structural limitations of the Indian framework in ensuring effective minority shareholder protection in reverse merger transactions. While Indian law under the Companies Act 2013 provides procedural safeguards such as majority approval, valuation reports, and tribunal sanction, comparable jurisdictions adopt a more substantive approach that places greater emphasis on fairness and investor protection.

In the United States, particularly under Delaware corporate law, dissenting shareholders are granted strong statutory appraisal rights that enable them to seek a judicial determination of the “fair value” of their shares.^[26] Courts in Delaware actively examine valuation methodologies, including discounted cash flow analysis, comparable company benchmarks, and deal price indicators. Importantly, courts are not bound by the company’s valuation and may independently reassess the economic fairness of the transaction.^[27] This ensures that minority shareholders are not compelled to accept undervalued exit terms and acts as a significant check on managerial and majority shareholder power.

In the United Kingdom, schemes of arrangement under the Companies Act 2006 are subject to a two-stage court approval process, which incorporates both procedural and substantive scrutiny. Courts assess whether the statutory requirements have been fulfilled and whether the scheme is fair to all classes of shareholders. The well-established “reasonable shareholder” test requires the court to determine whether an intelligent and honest shareholder, acting in their own interest, could reasonably approve the scheme.^[28] This standard ensures that majority approval does not automatically validate a transaction and that minority interests are meaningfully considered.

Similarly, Singapore adopts a hybrid approach that combines judicial oversight with strong disclosure obligations. Under the Singapore Companies Act, courts examine whether shareholders have been provided with adequate and comprehensible information to evaluate the scheme.^[29] The emphasis on transparency reduces information asymmetry and enables minority shareholders to participate more effectively in decision-making. Additionally, Singapore courts have demonstrated a willingness to scrutinise schemes where there is evidence of unequal treatment or inadequate disclosure.

In contrast, the Indian framework remains largely compliance-oriented. The National Company Law Tribunal (NCLT), while empowered to assess whether a scheme is fair and reasonable, generally adopts a deferential approach and relies heavily on the approval of the majority. The absence of strong statutory appraisal rights and the limited scope of judicial scrutiny restrict the ability of minority shareholders to challenge valuation or restructuring terms effectively. As a result, procedural compliance often substitutes for substantive fairness.

This comparative perspective demonstrates that, unlike jurisdictions such as the United States, the United Kingdom, and Singapore, where minority protection is embedded in both procedural and substantive safeguards, the Indian approach continues to prioritise efficiency and ease of doing business. While this facilitates faster corporate restructuring, it raises serious concerns regarding the adequacy of minority shareholder protection in reverse mergers and cross-border reverse flips.

6.5 Emerging Trends and Practical Implications

Recent developments in the Indian startup ecosystem, particularly the surge in reverse flips during 2024-2025, further illustrate these systemic limitations. Transactions involving companies such as Zepto and PhonePe demonstrate that minority concerns relating to valuation, disclosure, and participation are often acknowledged but rarely addressed in a meaningful manner.

The speed and efficiency of approvals, driven by strong promoter control and majority support, often come at the cost of deeper scrutiny. Minority shareholders frequently face challenges such as delayed access to information, complex documentation, and lack of effective exit options.

These trends indicate that while reverse mergers and reverse flips contribute to corporate restructuring and economic growth, they simultaneously expose gaps in the existing legal framework. The current regime, therefore, appears to prioritise procedural efficiency over substantive fairness, thereby limiting its effectiveness in protecting minority shareholders.

7. Suggestions & Reform Proposals:

7.1 Strengthening Valuation and Fairness Mechanisms

A primary reform should focus on improving the credibility and independence of valuation processes. The law should mandate a separate “fairness opinion” by an independent merchant banker in all reverse merger and reverse flip transactions, distinct from the valuation report prepared by registered valuers. Additionally, shareholders should be given a statutory right to access underlying financial assumptions and challenge valuation methodologies before approval of the scheme. This would enhance transparency and reduce the scope for promoter-driven valuation manipulation.

7.2 Introduction of Statutory Appraisal Rights

Indian law should incorporate explicit appraisal rights for dissenting shareholders, allowing them to seek an independent judicial determination of fair value within a specified time frame. Such a mechanism would align the Indian framework with global best practices and provide a meaningful exit option for minority shareholders who oppose the scheme. A time-bound buyout obligation on the company or promoters would further ensure that minority shareholders are not compelled to accept unfavourable terms.^[30]

7.3 Enhancing the Role of NCLT in Substantive Review

The National Company Law Tribunal (NCLT) should adopt a more proactive role in assessing the substantive fairness of schemes rather than limiting itself to procedural compliance. Legislative or regulatory guidelines may be introduced to require the Tribunal to specifically examine valuation fairness, adequacy of disclosures, and impact on minority shareholders. A

structured checklist-based review mechanism could ensure consistency and accountability in decision-making. ^[31]

7.4 Special Regulatory Framework for Cross-Border Reverse Flips

Given the increasing complexity of cross-border reverse flips, there is a need for **clear and coordinated guidelines** involving multiple regulators. The Securities and Exchange Board of India and the Reserve Bank of India should jointly issue a comprehensive framework addressing valuation standards, disclosure requirements, and shareholder rights in such transactions. This would reduce regulatory overlaps and provide greater certainty to investors.

7.5 Improving Disclosure and Shareholder Participation

To address information asymmetry, companies should be required to provide simplified and timely disclosures of scheme documents, including executive summaries explaining key implications for shareholders. Minimum notice periods should be strictly enforced, and digital platforms should be used to facilitate wider participation and informed voting. Enhanced disclosure norms would empower minority shareholders to make meaningful decisions. ^[32]

Conclusion:

This paper has examined the evolving landscape of reverse mergers and cross-border reverse flips in India and their implications for minority shareholder protection. While the statutory framework under the Companies Act 2013 provides a structured mechanism through Sections 230–232, the analysis reveals that the protection afforded to minority shareholders remains largely procedural rather than substantive.

The requirement of majority approval, combined with limited judicial scrutiny by the National Company Law Tribunal (NCLT), often results in the dominance of promoters and controlling shareholders. Minority shareholders, despite being formally included in the decision-making process, lack meaningful influence over critical aspects such as valuation, disclosure, and restructuring terms. The absence of strong appraisal rights and effective exit mechanisms further aggravates this imbalance.

Recent developments in the startup ecosystem, particularly the wave of reverse flips involving companies such as Zepto and PhonePe, demonstrate that while these transactions facilitate corporate restructuring and enhance access to domestic capital markets, they simultaneously expose structural gaps in minority protection. The comparative analysis with jurisdictions such as the United States, the United Kingdom, and Singapore further underscores the need for a more substantive and investor-centric approach in India.

In conclusion, while reverse mergers and reverse flips contribute to economic efficiency and ease of doing business, they must be balanced with stronger safeguards for minority shareholders. Strengthening valuation processes, introducing statutory appraisal rights, and enhancing judicial scrutiny are essential steps toward ensuring fairness and maintaining investor confidence. Future reforms must therefore aim to shift the framework from mere procedural compliance to genuine substantive protection.

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