

P.G. SEM - II
CC - 8 (CORPORATE LEGAL FRAMEWORK)
TOPIC - MEANING OF PRIVATE COMPANY

Meaning of Private Company

A private company is a type of business organization that is owned by a limited number of members and is formed under the provisions of the Companies Act, 2013. It is established to carry on business with the objective of earning profit while enjoying limited liability and a separate legal identity. A private company is generally preferred by small and medium-sized enterprises due to fewer legal formalities and greater control over management.

According to Section 2(68) of the Companies Act, 2013, a private company means a company which, by its articles of association:

1. Restricts the right to transfer its shares,
2. Limits the number of its members to 200 (excluding present and former employees), and
3. Prohibits any invitation to the public to subscribe for its shares or debentures.

A private company must have a minimum of two members and two directors, while the maximum number of members is limited to two hundred. The name of a private company must end with the words "Private Limited" to indicate its legal status.

One of the most important features of a private company is limited liability, which means the liability of members is limited to the amount unpaid on their shares. The personal property of the shareholders is not used to pay the company's debts. Another key characteristic is separate legal entity, meaning the company has its own legal existence independent of its members. It can own property, enter into contracts, and sue or be sued in its own name.

Private companies enjoy greater managerial control because shares are closely held and ownership remains within a small group. They also enjoy flexibility in management and decision-making, as compared to public companies, due to fewer statutory requirements and relaxed compliance norms.

Private companies are commonly used for family businesses, startups, and closely held enterprises where confidentiality, control, and long-term stability are important.

A private company is a suitable form of business organization for entrepreneurs who want limited liability, legal recognition, and control over ownership. Its simple structure and fewer legal restrictions make it an ideal choice for small and growing businesses.