



Lex Favios
Advocates & Solicitors

9th January 2026

Department for Promotion of Industry and Internal Trade. Notification dated 4 February 2026 – Startup & Deep Tech Startup

The DPIIT Notification dated 4 February 2026 revises and supersedes the 2019 Startup framework. It updates the definition and eligibility criteria for Startups, formally introduces “Deep Tech Startups”, and prescribes rules for recognition, tax certification under Section 80-IAC, fund usage, revocation, and governmental relaxations.

Analysis

➤ **Definition of Startup:** An entity qualifies as a Startup if it:

- Is registered in India as a Private Limited Company, LLP, Partnership Firm, or Cooperative Society;
- Is within 10 years of incorporation;
- Has turnover not exceeding ₹200 crore in any financial year;
- Works towards innovation, development, improvement, or scalable business models with employment or wealth creation potential.

Entities formed through splitting or reconstruction are excluded.

➤ A Deep Tech Startup is a category of Startup that develops solutions based on advanced scientific or engineering knowledge, involves high research and development (R&D) intensity, and owns or creates novel intellectual property. Such ventures typically face long development timelines, substantial capital requirements, and technical uncertainty, distinguishing them from conventional startups and justifying the need for a separate regulatory recognition framework.

➤ **Relaxed limits:**

- Validity up to 20 years;
- Turnover cap increased to ₹300 crore.

➤ **Recognition Process**

- Application through the DPIIT portal with incorporation documents and innovation/scalability details.
- Additional documentation required for Deep Tech recognition.
- DPIIT may approve or reject with reasons.



Lex Favios
Advocates & Solicitors

➤ **Tax Certification (Section 80-IAC)**

- Eligible Startups (Private Limited Companies or LLPs) may apply to the Inter-Ministerial Board for tax exemption certification.
- The Board has discretion to grant or reject applications after scrutiny.

➤ **Conditions on Fund Utilisation**

Startups must deploy funds mainly for core business, innovation, R&D, and scaling. They are restricted from investing in real estate, loans, securities, luxury assets, or speculative activities, unless such investments are integral to business operations.

➤ **Revocation and Relaxation**

- Certifications obtained by false information may be revoked, and deemed never granted.
- The Central Government may relax or modify conditions in special cases.

- The notification impacts startup founders and early-stage companies seeking DPIIT recognition and tax exemptions, as well as deep tech ventures operating in sectors such as artificial intelligence, biotechnology, semiconductors, robotics, space technology, and clean energy. It also affects investors and venture capital funds who assess eligibility and incentives linked to recognised startups, along with incubators and accelerators that support innovation-driven enterprises. In addition, tax, legal, and compliance professionals advising startups on structuring, certification, and regulatory compliance will need to align their practices with the revised framework.

➤ **Key Takeaways**

- The 2026 DPIIT framework redefines Startup eligibility and introduces Deep Tech Startups.
- Higher thresholds and longer validity support innovation- and R&D-driven ventures.
- Recognition and tax benefits remain subject to regulatory oversight and compliance.

- The notification is attached herein.

[Click Here](#)



Lex Favios
Advocates & Solicitors

SEBI Opens Special Window for Transfer and Dematerialisation of Physical Securities

SEBI has announced a special one-time window to facilitate the transfer and dematerialisation of physical securities that could not be processed earlier due to procedural gaps. The window will remain open for one year from 5 February 2026 to 4 February 2027. The initiative aims to clean up legacy physical holdings, provide relief to investors stuck with untransferable certificates, and further strengthen India's move towards a fully dematerialised securities ecosystem.

Analysis

➤ **One-Year Special Window**

- SEBI has opened a special window from 5 February 2026 to 4 February 2027.
- It allows investors to lodge physical securities for transfer and dematerialisation during this period.

- The eligibility criteria apply only to cases where the transfer deed was executed prior to 1 April 2019. The special window covers both fresh lodgements and transfer requests that were earlier rejected, returned, or not processed due to procedural deficiencies, ensuring that only genuine legacy cases are regularised under the mechanism.

➤ **Demat-Only Credit**

- Securities processed under this window will be credited only in dematerialised form.
- No physical certificates will be reissued after transfer.

- Transferred securities processed under the special window will be subject to a one-year lock-in period from the date of registration of transfer, during which they cannot be sold or otherwise transferred. This restriction is intended to prevent immediate resale and misuse of the special window, ensuring that the facility is used only for genuine regularisation of legacy holdings.

➤ **Verification and Rectification Process**

- SEBI prescribes detailed procedures for:



Lex Favios
Advocates & Solicitors

- Identity and KYC verification;
- Rectification of name mismatches through gazette notifications; and
- Resolution of missing signatures through newspaper advertisements and alternative checks.

These mechanisms aim to resolve practical issues without compromising security.

- The special window affects investors holding old physical securities, listed companies processing such requests, RTAs handling verification and demat coordination, stock exchanges and depositories enforcing the mechanism and lock-in, and legal heirs seeking transmission of securities under prescribed procedures.
- SEBI has opened a one-year special window from 5 February 2026 to 4 February 2027 for the transfer and dematerialisation of physical securities, applicable only to cases where transfer deeds were executed before 1 April 2019. Securities processed under this facility will be credited exclusively in dematerialised form and will be subject to a one-year lock-in period. The framework also introduces detailed verification procedures to resolve name and signature mismatches, enabling investors to unlock legacy holdings while simultaneously strengthening market safety and transparency.
- The notification is attached herein.

[Click Here](#)

Penalty under SEBI Act Can Be Reduced Below Statutory Minimum on Mitigating Factors: Securities Appellate Tribunal

Facts of the Case

The appellants were found to have engaged in reversal trades in the stock options segment. These trades were held to be non-genuine and resulted in the creation of artificial trading volumes, thereby manipulating the market and misleading participants. On the basis of these findings, the Adjudicating Authority imposed penalties under Section 15HA of the SEBI Act, which prescribes a minimum monetary penalty for fraudulent and unfair trade practices. Aggrieved by the orders, the appellants challenged the penalties before the Securities Appellate Tribunal (SAT). Their primary contention was that the Adjudicating Authority had failed to exercise discretion available under Section 15J of the SEBI Act, which mandates consideration of mitigating factors while determining the quantum of penalty. They submitted that they had not earned disproportionate profits and that imposition of the statutory minimum penalty of ₹5 lakh was unjust and excessive in their circumstances. To resolve the controversy, SAT framed the following legal question suo motu:



Lex Favios
Advocates & Solicitors

Whether by considering the mitigating factors under Section 15J, penalty can be reduced below the minimum prescribed in specific penal provisions such as Section 15HA?

Reasoning of the Tribunal

The Tribunal examined the interplay between Section 15HA, which prescribes minimum penalties, and Section 15J, which provides guiding factors for determining the quantum of penalty. SAT held that Section 15J is a beneficial and mandatory provision, as it uses the expression “shall have due regard” to mitigating factors including disproportionate gain, loss caused to investors, and the repetitive nature of the default. The provision does not restrict the extent to which mitigation can operate. Importantly, the Tribunal noted that Section 15HA and other specific penal provisions do not contain a non-obstante clause overriding Section 15J. Therefore, a harmonious construction must prevail, under which mitigating factors are capable of reducing penalty even below the statutory minimum. The Tribunal further observed that the legislature had consciously not limited the application of Section 15J. In fact, judicial interpretation has expanded its scope by permitting consideration of additional factors beyond the three expressly mentioned in the statute. SAT also referred to its own prior practice and noted that in several cases, including *Nirmal Kumar Bhura v. SEBI* (Appeal No. 385 of 2025), penalties had been reduced below prescribed minimums after applying Section 15J considerations. Addressing the Supreme Court’s decision in *Bharti Goyal*, the Tribunal clarified that the said ruling merely disapproved substitution of monetary penalties with warnings, and did not prohibit reduction of penalty quantum under mitigating circumstances. A significant concern highlighted by SAT was the disproportionate impact of mandatory minimum penalties on small investors who may have unknowingly participated in illiquid stock option schemes involving relatively minor sums. Treating all market participants alike, regardless of scale and culpability, would defeat the purpose of equitable regulation.

Conclusion

Answering the framed question in the affirmative, the Securities Appellate Tribunal held that:

Penalties imposed under specific provisions of the SEBI Act, including Section 15HA, can be reduced below the statutory minimum by applying mitigating factors under Section 15J.

Consequently, SAT set aside the penalty orders in Appeal Nos. 63 and 89 of 2025, dismissed Appeal No. 99 of 2025, and suggested that SEBI consider introducing a fresh settlement scheme for cases relating to illiquid stock options.

Cause Title: *Sukhraj Kaur Rajbans v. Securities and Exchange Board of India*
Case No: Appeal Nos. 63, 89 & 99 of 2025



Lex Favios
Advocates & Solicitors

Statutory Authorities Empowered to Intervene in Housing Society Membership Delays: Supreme Court

The Supreme Court has clarified that statutory authorities are empowered to intervene in the affairs of co-operative housing societies when such societies refuse to decide, or unduly delay deciding, applications for membership. The Court held that while housing societies enjoy autonomy in managing their internal affairs, such autonomy is not absolute and cannot be exercised arbitrarily to the detriment of flat owners.

The ruling was delivered by a Bench comprising **Justice Vikram Nath and Justice Sandeep Mehta** in a dispute arising from the prolonged denial of membership to flat owners in **Malboro House Co-operative Housing Society Limited, Mumbai**, despite their peaceful occupation of the flats for several years.

Facts of the Case

The appellants, who were flat owners residing in the society for a considerable period, had applied for membership before the co-operative society. However, the society failed to take a decision on their applications. Faced with prolonged inaction, the appellants approached the **Divisional Joint Registrar** under the **Maharashtra Co-operative Societies Act, 1960**.

The Joint Registrar directed the society to grant membership to the appellants. This order was subsequently set aside by the **Bombay High Court**, which held that the decision to admit members lies exclusively within the domain of the co-operative society. Aggrieved by this decision, the flat owners approached the Supreme Court.

Reasoning of the Court

Allowing the appeal, the Supreme Court set aside the High Court's judgment and upheld the order of the Joint Registrar. The Court observed that although a co-operative housing society has the freedom to regulate its own affairs, such freedom is circumscribed by statutory obligations and principles of fairness.

Justice Mehta, authoring the judgment, noted that the appellants had initially approached the authorised officer of the society seeking membership. The officer declined to decide the matter on the ground of lack of jurisdiction to take policy decisions. It was only thereafter that the appellants invoked the appellate and revisional remedies available under the MCS Act, 1960.

The Court held that the High Court erred in concluding that the Joint Registrar had exceeded his jurisdiction. In circumstances where a society refuses to take a decision or keeps an application pending for years, statutory authorities are justified in stepping in to prevent injustice. The Supreme Court found the reasoning adopted by the High Court to be legally unsustainable.



Lex Favios
Advocates & Solicitors

Conclusion and Directions

Accordingly, the Supreme Court restored the Joint Registrar's order directing the grant of membership to the appellants and allowed the appeal. At the same time, the Court clarified that aggrieved members of the society were at liberty to approach the appropriate authority for determination of any additional or enhanced interest arising from the prolonged delay in payment of contribution amounts.

The Court further left open any challenge to the **Annual General Meeting decision dated 30 September 2025**, to be examined independently in accordance with law. The appeals were partly allowed, with no order as to costs.

Case Title: *Shashin Patel & Anr. v. Uday Dalal & Ors.* (with connected case)
Case No.: SLP (C) No. 36106 of 2025

In case you have suggestions or do not wish to receive our newsletter,
please email us at info@lexfavios.com

Contact details

Sumes Dewan

Managing Partner

Lex Favios

Email: sumes.dewan@lexfavios.com

Tel: 91-11-41435188/45264524