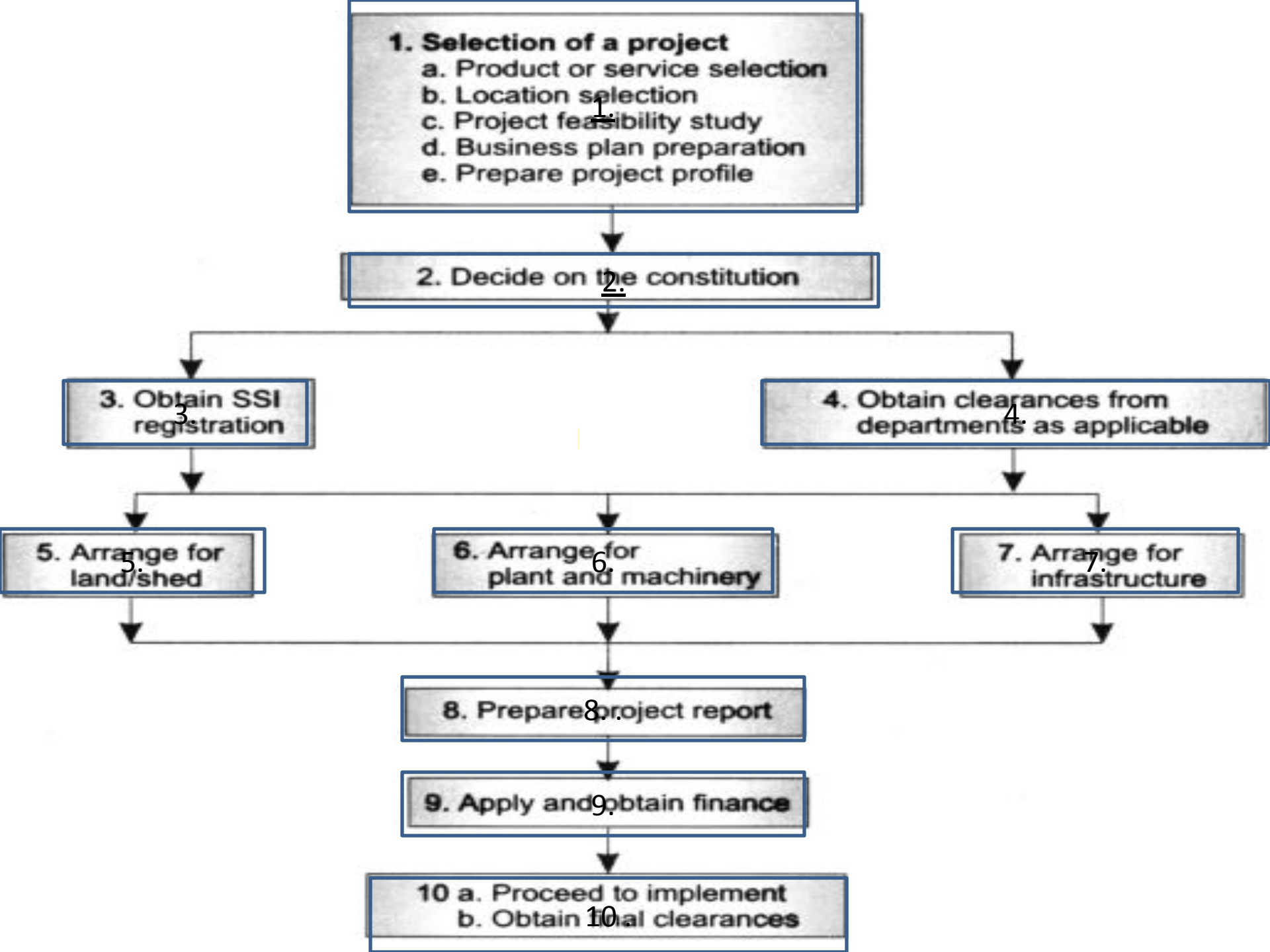


# **FORMALITIES FOR SETTING UP OF A SMALL BUSINESS ENTERPRISE/ INDUSTRIAL UNIT**



# 1. Selection of a Project

- An entrepreneur has to prepare a business plan.
- Depending on the type of project, location, investment involved, and so on, the entrepreneur has to proceed to take further steps in establishing the unit.
- **Project selection and preliminary activities involve the following.**
  - Product or service selection
  - Location selection
  - Project feasibility study
  - Business plan preparation
  - Preparation of a project profile

# ***(a) Product or Service Selection***

- **The main factors are as follows.**

- **Background and experience of the entrepreneur(s)**
- **Availability of technology and know-how for the project**
- **Marketability of the product/service**
- **Investment capacity**
- **Availability of plant and machinery**
- **Availability of raw materials**
- **Availability of proper infrastructure facilities** (land/shed, power, water, transport, and so on).

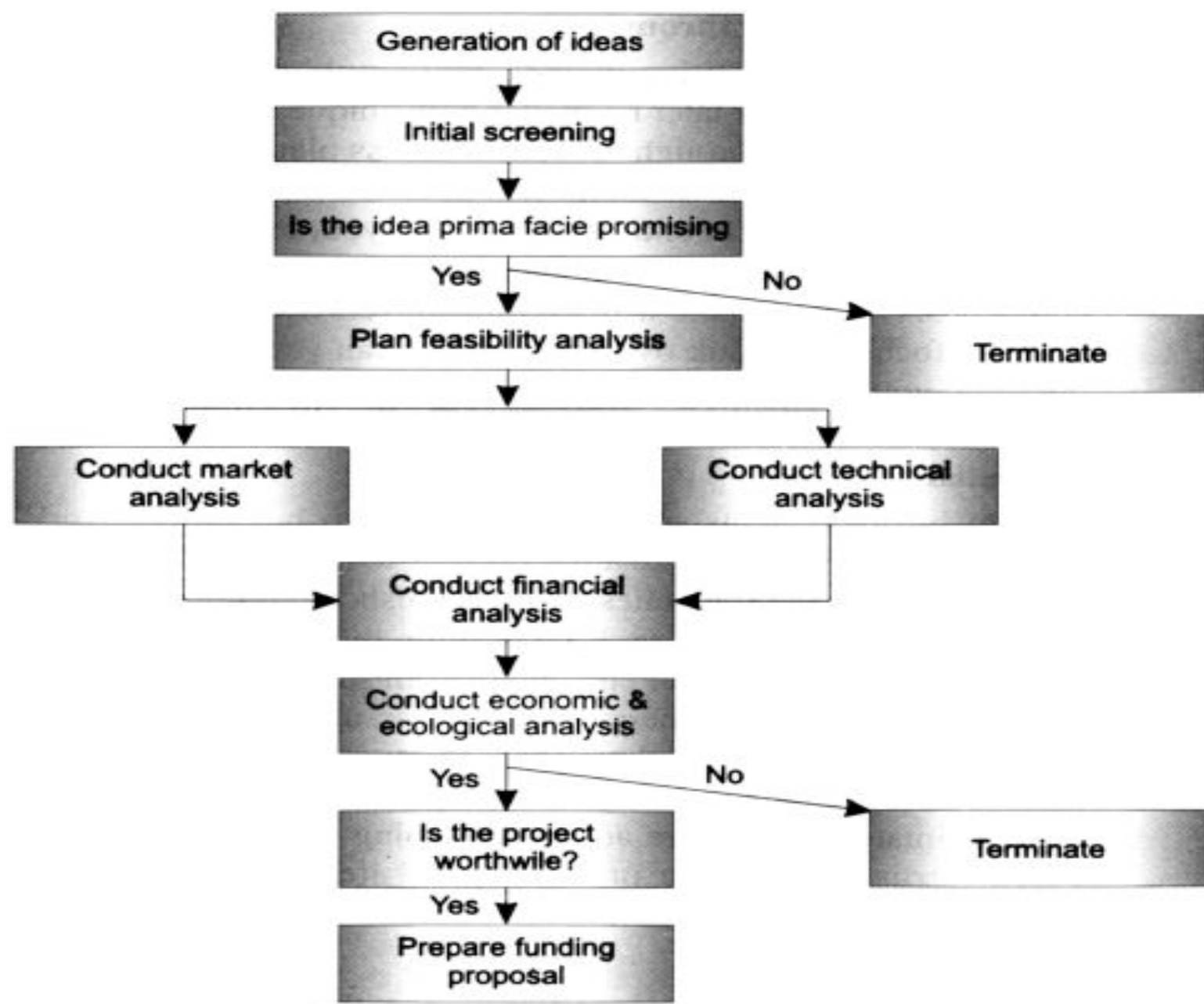
## ***(b) Location Selection***

- The location of the project—where to set, the unit.
  - Proximity to market;
  - Availability of raw materials;
  - Availability of transportation and communication facilities;
  - Availability of incentives/concessions;
  - Government policy;
  - Availability of suitable infrastructure facilities; and
  - Convenience for the promoter.

Preliminary Work

Analysis

Evaluation



## ***(d) Business Plan Preparation***

- Written documents
- An organized and effective response to a situation which may arise in future.
- Not only for start up firm but also growing firm
- To establish realistic goals or targets to achieve and to determine the current position.
- To help make crucial start-up decisions; to reassure lenders, investors or backers; to measure operational progress; to test planning assumptions; to adjust forecasts; and to set the standard for good operational management.



## ***(e) Project profile***

- A project profile gives a bird's-eye view of the proposed project.
- This may be used for obtaining the Provisional Registration Certificate (PRC) from the District Industries Centre and for making, applying for Industrial Areas Development Board for land or State Small Industries Development Corporation (SSIDC) for shed and other infrastructures.

## 2. Decide on the Constitution

- In India setting up a private limited company is the most popular choice among entrepreneurs.
- To start an industry, the promoter(s) have to decide on the constitution of the unit. There are five major alternatives.
  1. Sole proprietorship
  2. Partnership
  3. Corporation/Limited company
  4. Cooperative
  5. Franchising

# 3. Registration

# ***Obtain SSI Registration***

- Small-scale and ancillary units that is undertakings with investment in plant and machinery of **less than Rs 1 crore**) should seek registration with the Director of Industries of the concerned State government.
- **Process**
  - Unit goes into production
  - The *provisional registration certificate (PRC)* has to be converted into a permanent registration certificate (PMC).

# ***Registration Formalities***

1. Prescribed court fee stamp
  2. Copy of the project profile
  3. Partnership deed/Memorandum and Articles of Association, as the case may be
  4. Affidavit, as per format on appropriate stamp paper
- The initial validity of the **PRC is for two years** and it can be renewed subsequently, if needed.

## 4. Clearances from Specific Departments

# Clearance of Specific Department

- Agricultural land conversion
- Urban land ceiling clearance
- Building plan approval
- Factories Act
- Trade licence
- Pollution Control Board clearances
- GST registration

- Bureau of Indian Standards (BIS) certificate
- Fruit Products Order (FPO) licence
- Food Adulteration Act licence
- Power loom registration
- Electronics industries registration
- Drugs and cosmetics licence
- Approvals of hotels
- 100 per cent export-oriented unit



## 5. Arrange for Land/Shed

- **Industrial Land**

- Once the location of the unit is decided, the land for the project could be conveniently taken from the State Industrial Areas Development Board.
- Private land could also be purchased, but it has to be converted for industrial purpose and other necessary legal/formalities will have to be completed.

- **Industrial shed**

- For setting up an SSI unit, the promoters could consider using a ready industrial shed. This could be on rent or on ownership basis.

## 6. Arrange for Plant and Machinery

- **Two type of Purchase**

- **Direct purchase** (Purchased from recognised manufacturers/dealers)
- **Hire Purchase** ( **scheme operated by the National Small Industries Corporation (NSIC)**)

## 7. Arrange for Infrastructure

- *Land and Construction of Building*
  - Availability of basic amenities like power, water
  - Connectivity to nearest rail, road, or port
  - Price of the land
- *Getting the Utility Connections*
  - Water Supply
  - Power Supply

## 8. Prepare Project Report

- The project report gives a detailed insight of the project and indicates the techno-economic viability of the project.
- **GENERAL POINTS**
- Expected use of the project report
- Elaborate details but retaining the confidential data
- Proper validation of the data and information based on reliable sources
- Effective presentation by use of charts, graphs, and pictorial forms
- Cost minimization and timeliness
- Proper estimation of the requirement of number of copies



## 9. Apply and Obtain Finance

# *Means of Finance*

- Own equity
- Internal accruals
- Inter corporate deposits/investment
- State financial institutions
- Other financial institutions
- Banks
- Other borrowings like ECB, CP, FDI, FCNRB
- State subsidy and seed capital
- Lease finance
- **Small-scale units can obtain finance for their projects under two main categories.**
- Term loan
- Working capital loan

# ***Arranging Finance***

- Small Industries Development Bank of India (refinance and direct lending)
- **State Financial Corporations**, for example, Delhi Financial Corporation and Gujarat State Financial Corporation
- National Small Industry Corporation
- **Small Industry Development Corporations of various States**
- **Commercial/cooperative banks**
- **District Industry Centre**
- In addition, large term loans are also available from **all-India financial institutions** such as **IDBI, IFCI, and ICICI.**
- The **Export Import Bank of India** and **Export Credit and Guarantee Corporation** are Central agencies which provide credit for export/import and EXIM guarantees respectively.

# 10. Implement the Project and Obtain Final Clearances

# **1. Construct Shed**

- If the entrepreneurs have taken a readymade shed from the **State Small Industries Development Corporation** or have made arrangements for rental sheds/premises, then they need not go through this step.
- **But not then concerned authorities like the municipal corporations or municipalities or village panchayats.**
- *Order for Machinery:*
- *Recruit Personnel:*
- *Arrange for Raw Materials:*
- *Marketing:*
- *Erection and Commissioning:*
- *Obtain Final Clearances:*

# Regulatory or Taxation Clearances

- Registration under Sales Tax Act—Commercial Tax officer of the area concerned.
- Registration under Central Excise Act—Collector of Central Excise or his nominee.
- Payment of Income Tax—i TO of the area concerned.
- Registration of Partnership deed—Inspector General of area concerned.
- Calibration of weights and measures—Weights and Measures Inspector of State.
- Power connection—designated officer of State Electricity Board.
- Employee strength exceeding 10 with power connection, or 20 without power – Chief Inspector of Factories.

## **ENVIRONMENT POLLUTION RELATED CLEARANCES**

- **Pollution control:**
- **Industries requiring water and affecting effluent disposal:**
- **For units functioning outside the industrial area:**
- **Registration and licensing of a boiler:**
- **For registration as a 100 per cent export-oriented unit (EOU)**

# Product Specific Clearances

- Establishing a printing press—District Magistrate.
- License for cold storage construction—designated official in State.
- Pesticides – Central/State Agricultural Department—Ministry of Agriculture.
- Drugs and pharmaceuticals—drug licence from State Drug Controller.
- Safety matches/fireworks—licence under Explosives Act from Directorate of Explosives, Nagpur.
- Household electrical appliances—licence from the Bureau of Indian Standards.
- Wood working industry within 8 km from forest—District Forest Officer.
- Milk processing and milk products manufacturing units-approval under Milk and milk Products Order from State Agricultural/Food Processing Industries Department above a designated capacity.