**Context Summary: Trailer Manufacturing Joint Venture**

**Partners:**

* **Partner A**: Owns the existing manufacturing plant with Rs 2 Cr sunk CapEx; will handle Finance & Purchase. The plant remains under Partner A’s legal entity. The JV will operate using this plant through a formal usage agreement between A’s firm and the JV.
* **Partner B**: Tractor dealer with a strong customer base; provides Working Capital (Rs 2 Cr) and Market Access.
* **Partner C**: Mechanical engineer and operations expert; appointed as Plant Head; brings operational excellence and will draw a salary.
* **BC Partners**: A partnership of Partner B (70%) and Partner C (30%) representing a united front.

**Key Contributions:**

* Partner A: Rs 2 Cr existing plant and equipment (under A’s existing company, used by JV via formal lease/use agreement)
* Partner BC:
  + Rs 50L: Plant renovation, licenses, and new equipment
  + Rs 2 Cr: Working capital
  + Rs 50L: Value of Market (Partner B) and Operations (Partner C)
* **Total Contribution Pool**: Rs 5 Cr → Partner A = 40%, Partner BC = 60%
* **Internal Split within BC**: B = 42%, C = 18%

**Conservative vs Expanded Contribution Perspective:** While the agreed capital and role-based values have been conservatively fixed for the purpose of fairness and good faith, the partners acknowledge that the true business-enabling value of contributions—especially from Partner B (market access) and Partner C (operational execution)—may be higher:

| **Category** | **Partner** | **Basis** | **Expanded Estimate (Possibility)** | **Conservative Value (Considered)** |
| --- | --- | --- | --- | --- |
| Existing Plant + Equipment | A | Actual CapEx sunk into facility | ₹2.0 Cr | ₹2.0 Cr |
| Plant Renovation & Setup | BC (B+C) | Cost of license, office, machinery | ₹50 Lacs | ₹50 Lacs |
| Working Capital | BC (B+C) | Initial capital to start production | ₹2.0 Cr | ₹2.0 Cr |
| Market & Sales Value | B | Margin of ₹50,000 × 78 units in 1 quarter | ₹40L (1 Qtr) ₹1.6 Cr (Annual projection) | ₹40 Lacs |
| Operations & Plant Execution | C | Equivalent value of multi-role plant head | ₹32L savings/year = ₹8L/Qtr → Scaled up to ₹25–30L (industry benchmark) | ₹10 Lacs |
| **Total Contribution Pool** |  |  | ₹6.2 Cr+ (possibility) | ₹5.0 Cr (used for equity split) |

The value assigned to Market Access (₹40L) and Operational Leadership (₹10L) is conservative by design. It reflects only the initial enabling value and not the cumulative, recurring benefit to the business. The partners acknowledge this gap but proceed with mutual understanding and long-term faith.

**Operational Assumptions:**

* Unit cost: Rs 13.5L, Unit sale: Rs 14L
* One cycle = 7 days → 6 units
* 13 cycles per quarter = 78 units → Rs 39L gross margin/quarter
* Salaries:
  + Partner A: Rs 12 LPA (Rs 3L/quarter)
  + Partner C: Rs 18 LPA (Rs 4.5L/quarter)

**Profit Treatment:**

* Salaries of all partners are treated as **operational expenses (Opex)**.
* **Net Profit** = Gross Profit – Salaries and all running costs.
* Profit is calculated at **each quarter-end**.
* **Disbursement of Profits:**
  + 50% of calculated profit is disbursed at the **next quarter-end**.
  + For **Partner A**, due to active EMIs on CapEx, a **monthly draw** is permitted as an advance against his share of quarterly profits.
  + Remaining amount (after monthly draw) follows the same disbursement timeline as other partners.

**Reinvestment Policy:**

* By default, **40% of quarterly profits** are set aside for reinvestment.
* This reinvestment reserve is capped at **Rs 1 Cr** total.
* The reserve is held in a separate JV account, operated by Partner A in their Finance role.
* **Spending decisions** from this reserve require **unanimous partner approval**.
* If no reinvestment is needed or reserve has hit the cap:
  + Surplus is **carried forward** as internal reserve, or
  + **Reallocated** to partners as additional profit in the next disbursement cycle, in proportion to equity shares.
* A **≥70% partner vote** can override the reinvestment rule in special circumstances.

**Decision-Making Framework:**

* Adopted: **Hybrid Control Model**
  + **Day-to-Day Operations**: Managed solely by Partner C (Plant Head)
  + **Finance & Purchase Decisions**: Veto right with Partner A
  + **Customer & Order Commitments**: Final say with Partner B
  + **Major Strategic Decisions**: Require at least 70% voting power approval (e.g., A + B or B + C)

**Voting Structure Clarification:** To ensure governance balance and prevent bloc control:

**Tier 1 – Operational Decisions (Domain-Based Final Authority):**

* Finance: Partner A
* Market & Orders: Partner B
* Plant Operations: Partner C

**Tier 2 – Strategic Business Decisions (≥70% Approval Required):**

* CapEx expansion, major hires, external investments, long-term contracts
* Any two partners with a combined equity ≥70% can approve

**Tier 3 – Extraordinary Decisions (Unanimous or ≥75%):**

* Ownership structure changes, full sale, JV dissolution
* Require all partners or supermajority approval (≥75%)

While Partner B and C together may have more voting blocks, major business decisions are protected by structured thresholds. This prevents any single or combined block from dominating, while ensuring every partner's role and rights are safeguarded.

**Detailed Control Framework:**

1. **Domain-Based Responsibilities and Veto Rights**
   * **Finance & Purchase**: Handled by Partner A with authority on:
     + Vendor negotiations
     + Payment cycles
     + Loan/credit arrangements
     + License renewals
     + Any major asset acquisition (above Rs 5L)
   * **Order & Market Commitments**: Partner B holds final decision-making authority on:
     + Creditworthiness of clients
     + Bulk deal acceptances
     + Dealer and distributor appointments
     + Discounts and commissions
   * **Plant Operations**: Partner C retains daily autonomy on:
     + Production scheduling
     + Shift planning and staffing
     + Quality assurance
     + Maintenance schedules
     + Design and technical changes (subject to cost clearance by A)
2. **Strategic Business Decisions (Require ≥70% approval)**
   * Capital expansion or new loans
   * Change in profit distribution ratio
   * Appointment of CXOs or senior management
   * Long-term contracts or MoUs with new customers (>Rs 50L per quarter)
   * Mergers, acquisitions, or changes in partnership structure
3. **Lock-in Period and Breach Policy**
   * **Partner A**: Lock-in period of 3 years
   * **Partner B**: Lock-in period of 2 years
   * **Partner C**: Lock-in period of 2 years
   * No partner may exit or transfer equity during lock-in without **unanimous consent**.
   * **Breach of lock-in** triggers the following default penalties:
     + **Partner A**: Forfeits 15% of equity value upon violation
     + **Partner B**: Forfeits ₹50L or equivalent % of capital invested
     + **Partner C**: Forfeits entire sweat equity share if leaving without valid cause
   * A formal **mediation and justification process** is mandatory:
     + Breach is recorded and reviewed within 7 days
     + 15 days granted to rectify, explain, or reverse action
     + Remaining partners may accept justification and **waive penalties** by unanimous agreement
     + If not resolved, penalties enforced and partner exits at 70% of fair valuation
   * All such terms must be documented legally within the **Partnership Deed/Shareholders’ Agreement**
4. **Special Exit Provisions (Medical, Emergency, or Force Majeure)**
   * A partner may request early exit (without penalty) under:
     + Terminal illness or certified disability
     + Immediate family emergency
     + Legal restriction or government injunction
     + Natural disaster or similar force majeure
     + Death of a partner
   * **Exit Procedure:**
     + Formal written request with evidence
     + Verified by other partners within 15 days
     + Stake buyout at fair market valuation
     + Payout in 3 equal quarterly installments unless mutually agreed otherwise
   * **In case of death**:
     + Legal heir may:
       - Be bought out at fair value, or
       - Retain stake passively with no operational rights (requires partner vote)
   * Remaining partners have **first right to buy** the exiting stake before any external sale
5. **Buyout and Transfer Policy (Post Lock-in)**
   * **Valuation Method**:
     + Stake value = Book value of net assets + goodwill (3× average EBITDA of last 4 quarters)
     + Partner’s share = % equity × total business valuation
   * **Buyout Process**:
     + Exit notice with 90-day lead time
     + Jointly approved independent CA conducts valuation in 30 days
     + Remaining partners have first right to buy within 15 days
     + Buyout completed within 90 days, unless deferred by agreement
   * **Transfer Restrictions**:
     + **Internal transfers** allowed post lock-in with partner notification
     + **External transfers** **strongly discouraged** and allowed **only in financial distress or if internal buyout fails**, with ≥70% approval
   * **Tag-Along Clause**:
     + If a partner sells ≥25% stake externally, others may join the sale proportionally
   * **Drag-Along Clause**:
     + If ≥75% partners agree to sell full business or controlling interest, remaining partners must comply
   * Optional deferred payouts or conversion to fixed dividend-bearing stake (terms to be mutually decided when needed)
6. **Conflict Resolution**
   * Any deadlock to be resolved through external advisor/mediator acceptable to all 3 partners
   * Partner C will act as facilitator due to operational neutrality, unless conflict involves C directly