

**Ganpat University – Institute of Computer Technology**

**Course on: Entrepreneurship Development (2HS309)**

# **Company Formation, Legal Aspects**

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# Benefits of a Juristic Person

Protection of Personal Assets

Professional Management

Distribution of Risk

Tax Advantages

Unlimited Life

Raising Capital

# Terms and Definitions

Boot-Strap

Compliances

MSME and DPIIT Recognition

GST Registration

Intellectual Property

# Common Forms of Business

## Unlimited Liability

### Sole Proprietorship

- Owned by a single individual
- Owner is liable to unlimited risk.

### Partnership Firm

- Owned by a 2 or more partners
- All partners are liable to unlimited risk.

## Limited Liability

### Private Limited Company

- Owned by a 2 or more Shareholders
- Owners liability is limited to their Capital
- Tax Efficient form of Business

### Limited Liability Partnership (LLP)

- Owned by a 2 or more partners
- Only negligent partner is liable to Risk
- Tax Efficient form of Business

# Points to Ponder

Upfront Cost make the Company

Recurring Cost to run the Company

Compliances

Liability

Tax Benefits

# What is a Private Limited Company?

A company is a work of Legal Fiction

It is another person in the eyes of law, therefore, it is basically shifting of liability to another person, altogether.

Only form where you can give shares of the Company in exchange for investment

# Private Limited Company

## Compliances:

- Two Directors with DIN numbers
- Application for CIN Number
- PAN Number
- Tax Deduction and Collection Account Number
- Employees Provident Fund Organization Registration
- Employee State Insurance Corporation Registration
- Company Account and GST Registration
- MoA, AoA and Annual General Body Meeting



# Private Limited Company

## Major Advantages

- No minimum Capital
- Business Privacy
- Separate Legal Entity
- Limited Liability
- Uninterrupted Existence
- FDI Allowed

## Major Advantages

- Too many compliances and recurring expenses
- Divided Ownership
- Limited Personal Control

# Questions that are raised

Who will sign?

Who is the owner?

Who will make decisions?

Nationality?

# Sole Proprietorship

The proprietorship business is owned by a single person known as proprietor. The sole proprietorship is perhaps the most simple business type.

Most of the neighbourhood bread and butter shops, grocery shops, miscellaneous stores are the perfect examples of proprietorship firm.

# Sole Proprietorship

## Major Advantages

- Easy to Start to Business
- Easier to Operate & Control
- No profit-sharing
- Simple Compliance & Taxation
- Higher Privacy
- Easy to Windup a Proprietorship Business

## Major Disadvantages

- Unlimited Liability to Proprietor
- Limited Scope of Raising Capital (Funding)
- Limited Size & Scope
- Higher Tax Incidence
- Lack of Continuity After Death of Proprietor
- Dispute on Trademark

# Sole Proprietorship

Compliances:

Indian Citizenship only

GST Registration

ITR Return

Industry Specific Registrations

# Sole Proprietorship: Points to Ponder

Less Compliances

Less upfront cost

All Liability

Personal Assets at Risk

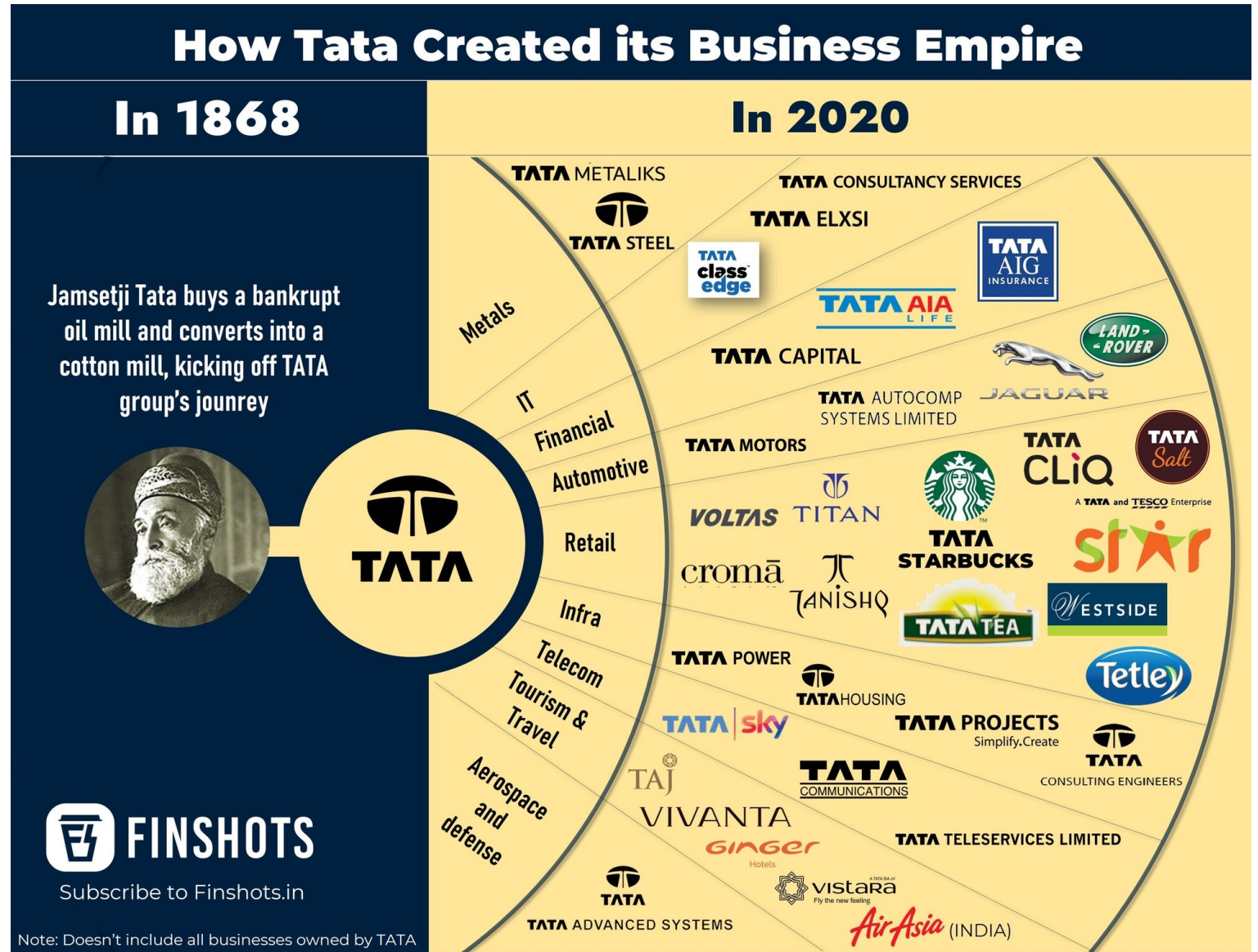
Funding: not favorable

# Case Analysis

## Tata Group and all their Companies

Company	Tata Group Shareholding*
Indian Hotels Company	39.1%
Tata Chemicals	30.8%
Tata Communications	48.9%
Tata Consultancy Services	71.9%
Tata Elxsi	44.6%
Tata Global Beverages	34.5%
Tata Investment Corporation	73.0%
Tata Motors**	35.8%
Tata Power	33.0%
Tata Steel***	33.2%
Titan Company	25.0%
Trent	32.6%
Voltas	30.3%

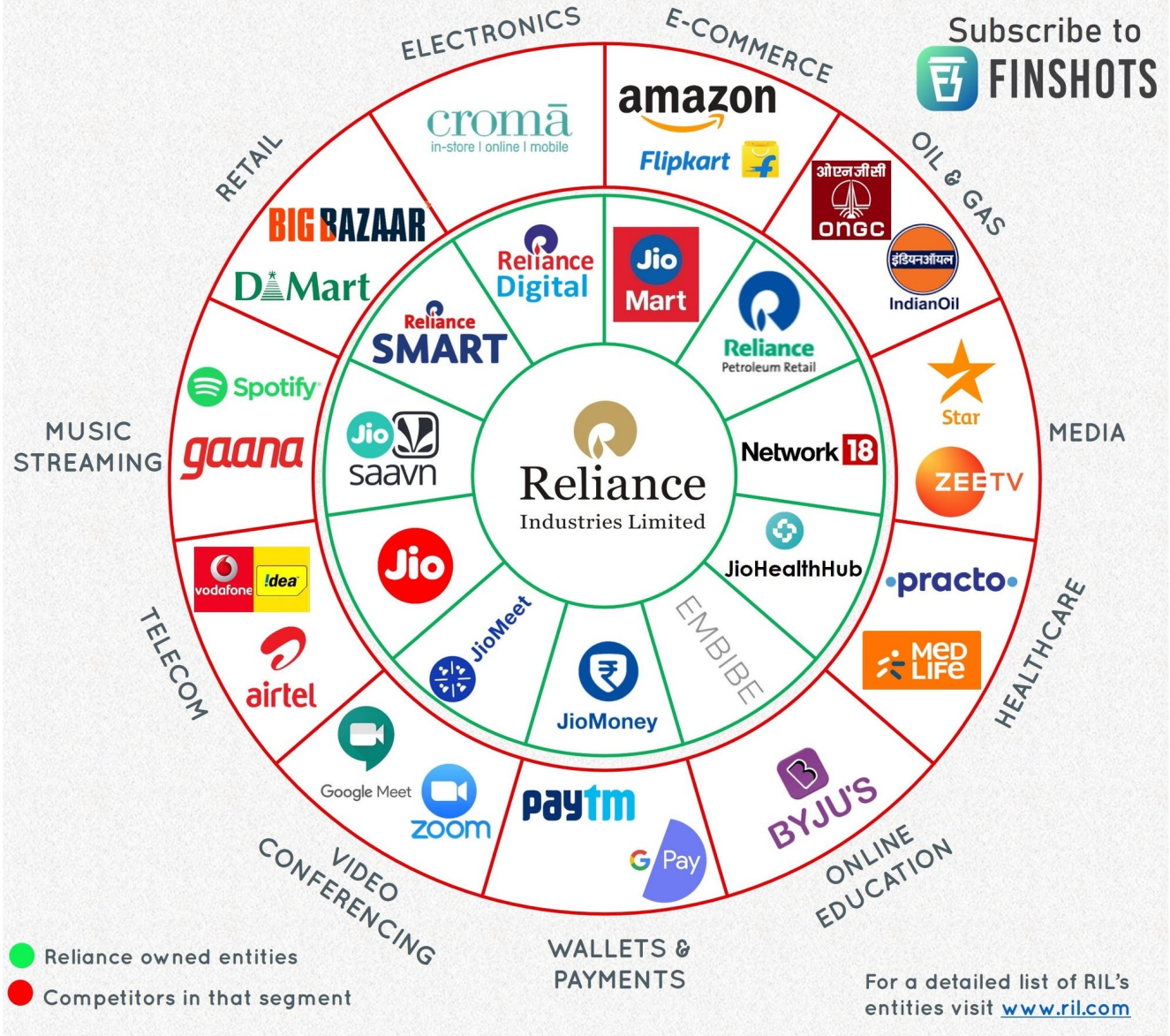
# Case Analysis: Tata Group





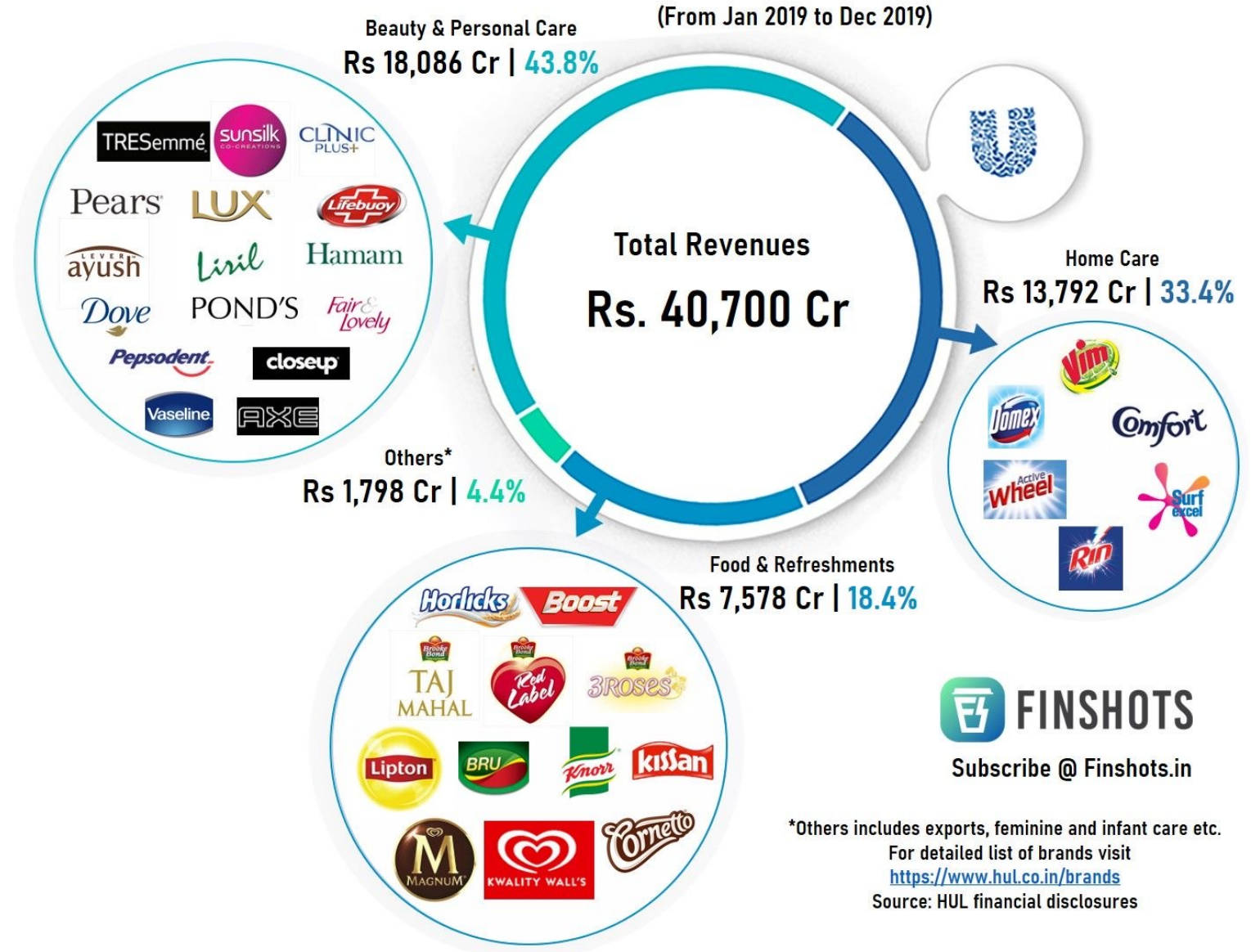
# Case Analysis: Reliance Industries

## RELIANCE IS AT WAR WITH EVERYONE



# Hindustan Unilever Limited

## BREAKING DOWN THE REVENUE STREAMS OF HUL



# Partnership Firm

A partnership firm can be set up by any two Indian citizens.

To start a partnership, all you have to do is draft an agreement between the partners setting the terms of association and you are ready to go.

Co-founder's Agreement

# Partnership Firm

## Major Advantages

- Easy to Start to Business
- Only basic agreement is required
- Operation & Control lies with Partners
- Freedom to operate
- Useful for personal brands as partnerships are not separate juristic person
- Termination of the Partnership is easier than winding up the Company

## Major Disadvantages

- Collective Responsibility
- Liability of Future Debt even after you leave the firm
- Shared responsibility can lead to disputes and indecisiveness.

# Partnership Firm

Compliances:

Registered Partnership Deed

PAN Card

TDS Number

GST Registration

Registration with Registrar of Firms

# Partnership Firm: Points to Ponder

Less Compliances

Less upfront cost

All Liability : Responsible for Partner's Loss

Personal Assets at Risk

Funding: not favorable

## Limited Liability Partnership

A partnership where the risk, profit and loss is based on the partner's paid up capital

# Limited Liability Partnership

## Benefits:

- Reduces Liability
- No principal-agent relationship
- Everyone shares the loss or profit according to the paid-up capital



# One Person Company

The benefits of a corporate form of business are now available for a single person company, thanks to the introduction of One Person Company.

For one person company registration, only one person is required who shall be the shareholder and director

# One Person Company

## Benefits:

- Sole Ownership
- All liability
- Protected Personal Assets
- Formation of a judicial person

# Requirements to pitch for Funding

- Pitch Deck: Teaser

Essence of the Story, highlight the problem you would be solving, PPT

<https://www.youtube.com/watch?v=QLUyzXhoBik>

- Executive Summary: Trailer

Sometimes called a summary memo, is a two-to-three-page overview of your business. It's a document that investors can share with their partners and others in their firm to provide an overview of your business. Your executive summary should cover what's in your pitch deck but in written form.

# Requirements to pitch for Funding

- Correct Business Plan: Movie

Inflow, Outflow, Marketing, Cost of getting a customer, profit margin, manufacture and shipping

- Correct Legal structure
- Capitalization Table, if required
- Accounting and Administration

# Additional Terms

## Shareholders/ Investor's Agreement

Due diligence is the term given to the investigatory work done around a transaction such as investment where the investor conducts detailed research into the financial, corporate and contractual status of your company.

## Turnover

Turnover is an accounting concept that calculates how quickly a business conducts its operations. The most common measures of corporate turnover look at ratios involving accounts receivable and inventories.

# Additional Terms

## Due Diligence

Due diligence is the term given to the investigatory work done around a transaction such as investment where the investor conducts detailed research into the financial, corporate and contractual status of your company.

## Term Sheet

The term sheet sets out the terms on which your investor is going to give you funding, be that by taking equity in your company, a convertible note, or another arrangement.

# Additional Terms

## Equity: Pure Profit

Equity, represents the amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debt was paid off in the case of liquidation.

## Shares

A company's capital is divided into small equal units of a finite number. Each unit is known as a share. In simple terms, a share is a percentage of ownership in a company or a financial asset. Investors who hold shares of any company are known as shareholders

# Ways of Fund Raising

Boot-strapping: Self funding, profits go in the Start-up.

Crowdfunding: Donation or a pre-buy. Financial and Marketing success.

Angel Investment, Venture Capital Investment and Seed Funding:

Difference is in the amount, stage when they invest and urgency for recovering funds

Business Incubators and Accelerators: Support, knowledge and Assistance



# Ways of Fund Raising

Win a contest, Build a side hustle, Bank Loan, Government Programmes

Other unexpected ways: Pre-Launch

Nothing.tech

# Start-Up India Scheme

Making a startup is now a lot easier.

Department for Promotion of Industry and internal Trade (DPIIT)

The Following Documents have been waived off:

- Letter of Funding
- Udyog Aadhar
- MSME Certificate
- GST Certificate

# Qualifications for a Start-up

- Company Age should be less than 10 years
- Company type: Private Ltd Company, Partnership or LLP
- Annual turnover less than Rs 100 Crore
- Original Entity: Not by splitting up or reconstructing
- Innovative & Scalable: Product, process or service which is scalable and capable of wealth and employment

# Benefits of Registering under the Scheme

## Self Certification

- Self certify for 6 Labour Laws and 3 environmental laws simply online
- No inspections will be conducted for a period of 5 years for labour laws
- Only random checks will happen for environmental laws

# Legal Exemptions

- The Water (Prevention & Control of Pollution) Act, 1974
- The Water (Prevention & Control of Pollution) Cess (Amendment) Act, 2003
- The Air (Prevention & Control of Pollution) Act, 1981

No exemption from POSH.

# Legal Exemptions

- The Building and Other Constructions Workers' (Regulation of Employment & Conditions of Service) Act, 1996
- The Inter-State Migrant Workmen (Regulation of Employment & Conditions of Service) Act, 1979
- The Payment of Gratuity Act, 1972
- The Contract Labour (Regulation and Abolition) Act, 1970
- The Employees' Provident Funds and Miscellaneous Provisions Act, 1952
- The Employees' State Insurance Act, 1948

# Benefits of Registering under the Scheme

## Faster Patent and IPR Filing process

- Fast tracking of the patent applications
- Panel of facilitators to assist in filing of IP applications
- Government to bear facilitation cost:
- Rebate on filing of application: 80% in comparison to companies

## Tax Exemption under S 80IAC

Eligible startups can be exempted from paying income tax for 3 consecutive financial years out of their first ten years since incorporation.

# DPIIT Recognition

- Company Name, CIN, registered address, authorized signatory
  - Industry, Sector, Entity, PAN
  - Awards won
  - Minimum Viable Product
  - Problem solving
- 
- 2-3 business days



Thank  
you



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