Corporatization for MSMEs

Walk-In Kit

SIDBI
भारतीय लघु उद्योग विकास बैंक
SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

DFID Department for International Developement

SME Financing and Development Project [SMEFDP]

SIDBI is implementing a World Bank-led multi agency / multi activity Project on Financing and Development of MSMEs. While SIDBI has been assigned with the responsibility of implementing the project, the Department of Financial Services, Ministry of Finance, Government of India is the nodal agency for the same. The World Bank, Department for International Development (DFID) UK, KfW Germany and GTZ Germany are the international partners in the Project. Project Management Division is the dedicated division of SIDBI managing the Project.

The Project is aimed at making MSME lending an attractive and viable financing option as also facilitate increased turnover and employment in the sector. The Project has three major components: A] Line of Credit from World Bank, B] Risk Sharing Facility, and C] Technical Assistance (TA). In order to achieve its aims, the Project, besides upgrading direct flow of credit to MSMEs, addresses demand side issues of credit and streamline access to qualitative financial and non-financial enterprise oriented services. Technical Assistance (TA) from DFID is being utilized for strengthening the credit information system, credit rating, structuring of innovative products, capacity building of the participating banks, policy and regulatory issues and promotion of market oriented business development services for the sector.

The critical TA component of "Strengthening policy/legal/regulatory framework and its enforcement" aims at preparing and implementing a time bound action plan for key policy, legal and regulatory measures that are critical to establishing a more efficient framework underpinning MSME financing and development. It emphasizes on promoting informed and evidence based dialogue in public domain for systemic change. The project besides undertaking study, research, workshop, seminars, etc, attempts at institutionalizing the advocacy on important thrust / theme areas concerning MSMEs.

SMEFDP intends to render thrust on areas which can foster the growth and development and create an enabling sustainable ecosystem for MSMEs.

DFID Department for International Development

The Department for International Development (DFID) is the British government department responsible for Britain's contribution towards international efforts to eliminate poverty. DFID works in partnership with developing country governments towards poverty alleviation. DFID supports long-term programmes to help tackle the underlying causes of poverty.

DFID recognizes that the development of MSMEs is key to creating jobs and income needed to reduce poverty. DFID is supporting the development of the MSME sector in India through SMEFDP being implemented by SIDBI.

Disclaimer

Walk-In Kit

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for

MSMEs

FOREWORD

MSME sector in India is the engine of economic growth and play an important role in the domestic output and exports. Besides job creation, it also contributes to balanced regional development. Over the years, MSMEs faced many challenges but stood the test of time. In order to maintain its competitive edge in the constantly changing global scenario, it needs to gear up and continuously introduce changes in controls, systems and procedures, within itself. An intrinsically strong MSME is better equipped to withstand the challenges that it is constantly exposed to.

Corporatization is one such step for building a strong internal system. A commonly misunderstood premise is that corporatization implies an investment that does not provide immediate value and returns. However, in reality, corporatization improves customer interface and ensures effective management and informed decision making.

Besides easier access to finance from the formal financial services sector, corporatization opens up the doors for strategic partnerships, attracting foreign investments and enables mergers and acquisitions, which are gaining increasing importance in the existing scenario. Innovative and new generation MSMEs looking at diversification and targeting the opportunities in emerging markets would benefit from a proactive approach to corporatization. Looking to the long term gains that an MSME derives from corporatization, a transition from proprietary system to a corporatized structure should be the aim of every growing entrepreneur.

The "Walk-in Kit for Corporatization" based on the report from Deloitte Haskins and Sells is a simplified solution for a MSME with a long term perspective which is seeking to corporatize. It will give a step by step insight into the process of corporatization, in a manner that even the smallest MSME would find useful and easy to understand.

This endeavor has been supported under the Technical Assistance component of the Multilateral Project being implemented by SIDBI and I would like to thank DFID for the support extended for such initiatives. The feedback from users of this Walk-in Kit is extremely important to enable SIDBI to update it.

R. M. Malla
CMD
SIDBI

P R E F A C E

MSMEs are the nursery where entrepreneurship blooms and foundations of innovation are laid down. In India, MSMEs are predominantly proprietorship or partnerships concerns. After reaching a particular scale of operations, many MSMEs find such constitution inhibiting their upward growth momentum. In this era of globalization , there is a need to look beyond the traditional approaches of comparative advantage. An enterprise has to constantly reinvent the wheel for deriving sustained competitive advantage.

In its endeavor to assimilate the global best practices and disseminate them amongst MSMEs, SIDBI, through its SME Financing and Development Project, has been taking many concerted initiatives. In line with this strategy, SIDBI had commissioned a study on "Corporatization" (the process of converting to a corporate entity) of MSMEs through M/s Deloitte Haskins and Sells, a reputed consulting agency. The assignment required the agency to outline the possible benefits of Corporatization, various attendant costs and legal and other compliances required from MSMEs (both pre/post conversion), broad time frame for going through the process etc. The agency was also assigned the task of including the recommendatory steps / list of suggested relaxations, simplification of procedures etc. which were required to be addressed from the policy angle. As a sequel to the above study, a quick feedback from a few MSMEs was also compiled by us which only reinforced the major findings of the study. While the study would eventually culminate into a policy paper to be submitted to policy makers, it has been felt that immediate promotional steps need to be taken to promote the process of corporatization of MSMEs.

Based on the findings of the study and feedback of MSMEs, SIDBI has taken proactive steps to bring out the present tool kit to enable desirous MSMEs to walk smoothly through the process of Corporatization. We have tried to include major information pertaining to conversion to a corporate entity including availability of forms, in a CD enclosed with this kit. We have also included inspirational story of a corporate entity from MSME. A few professionals have vetted this document, including the Company Secretary of India SME Technology Services Ltd. (an associate company of SIDBI), to all of whom, we express our sincere thanks.

Corporatization brings with it manifold advantages like professional, transparent and accountable systems, coupled with financial discipline. Corporatization also enables MSMEs to not only tap alternate sources of finance (Private Equity, Angel Networks, VCs etc.) on mutually favorable terms, but also facilitate enhanced market outreach and competitiveness. With ongoing GoI initiatives like creation of “Risk Fund” and likelihood of an SME Exchange being setup, new vistas are opening up for MSMEs. In the current global scenario, consolidation of internal systems is the need of the hour. Resources (amount and time) spent at this juncture shall stand MSMEs in good stead and offer a value for money in the long run, thus enhancing their USP.

We dedicate this kit to the MSME sector of India. We are confident that the stakeholders in MSME sector, particularly Industry Association, would disseminate this information extensively. We look forward to your feedback and inputs to improve upon the kit.

N K Maini
Executive Director
SIDBI

MESSAGE

The Corporatization of SMEs is inevitable & an instrumental part of their growth & evolution. In context of the current economic crisis, most of today's small and midsize businesses face the same age-old difficulties of controlling cashflow, justifying capital expenditure, negotiating favourable deals with suppliers, balancing quality and costs, and predicting market demand. These activities are hard enough in times of stability, but in more uncertain periods like the present, the ability to exert firm financial control over all aspects of their business becomes critical – the answer therefore is "Corporatization".

Though, traditionally the SME Community has never believed in the need for corporatizing primarily because thought process has been that my business is my best financial security and that it is the best investment as long as it is under my control. Therefore, SMEs hitherto have been following the approach of re-investing the wealth created out of their businesses back into their business.

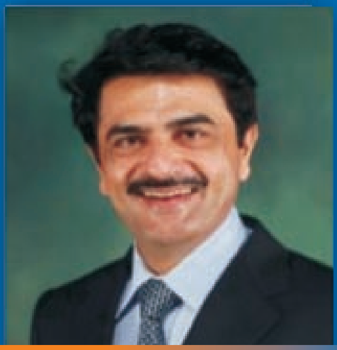
While, the present slow down will certainly be a setback for growth of the SMEs in India, however, the underlying dynamics have not changed. The productive potential of the SMEs remains great, and there is a significant, unmet need for investment. The CII – L M Thapar Centre for Competitiveness for SMEs has successfully established 145 Clusters all over country impacting almost 1500 SMEs.

There are more than 13 million SMEs in the country and a transparent SME Exchange platform will create a huge market for SMEs. Looking at the underlying long-term trend, SMEs will likely continue to find attractive opportunities in emerging economies, even if growth there has also been slow. CII would therefore reiterate the need to develop a neutral platform, which will provide cost effective solution to SMEs by reducing the IPO cost and without undervaluing the companies. A dedicated SME exchange will provide such neutral platform.

I take this opportunity to congratulate the Small Industries Development Bank of India (SIDBI), for taking such a revolutionary step to promote corporatization by SMEs. We at CII eagerly look forward to this tool kit, for facilitating the SME corporatization.

Dr Sarita Nagpal
Deputy Director General
Confederation of Indian Industry (CII)

Opinion Leader Speaks



Rajiv Chawla
President,
Faridabad Small Industries Association

"In view of intrinsic advantages, the natural habitat for MSME startups remains as Proprietorships or Partnerships. This is reflected in predominance of Proprietorships or Partnerships in the Indian MSME sector. It takes no time, energy or money to start as Proprietorships or Partnerships as is required to incorporate a Company. There is relaxation too on TDS and FBT provisions for small Proprietorships. However, after a micro enterprise reaches a certain level of stabilization and is bubbling with growth orientation, it aims to rise in scale and stature. To realize this, it has to gear up for competition ahead by strengthening itself internally as also externally. Innovation and improvisation in all spheres is called for, be it product, processes, pricing, packaging, marketing, advertising etc. Capacity building, expansion, future growth and preparedness are a must. It needs additional and alternate resources to tap new openings as also enhance its delivery capacity. At this stage, turning into a corporate entity acts as a growth driver. It enables MSMEs to enhance their USPs by appropriate upgradation, market positioning coupled with effective management to become more credit-worthy and, therefore, attract and tap new sources and instruments of finance."

C O N T E N T S

Introduction

SME Financing and Development Project [SMEFDP] had commissioned a study (based on secondary information) through Deloitte Haskins and Sells- a reputed consultancy outfit to outline the possible benefits of Corporatization, various cost and compliances by MSME [both pre and post conversion], broad time frame , for completion of the entire process etc. The output of the study could act as a tool to understand the nuances of Corporatization in a simplistic manner and enable smooth drive for Corporatization of MSMEs. The study is also supported by a quick feedback from a few MSMEs who have gone through the process of Corporatization.

Experiential Learning

The Project Management Division [PMD] SIDBI, by sharing a questionnaire with those who have undergone the process of corporatization in the last two years had obtained feedback from MSMEs (12 locations, 19 MSMEs). A brief of the feedback which offered multiple response options to respondents, is as under

Reason for conversion- Majority (74%) indicated raising of the capital in the future while 68% indicated enhancing the market outreach as the key reasons for conversion.

Benefits derived- 79% mentioned that they could have easier access to banks/FIs while 68% felt the advantage of flexibility in operations. Over 63% could also raise additional capital, 42% MSMEs indicated control by regulatory authority and some indicated good market reputation as benefits derived out of conversion to a company.

Brief Feedback

REASON FOR CONVERSION	**Raising of Capital**	**Market Outreach**	**Transfer of Ownership**
	74%	68%	32%
BENEFITS DERIVED	**Easy Access**	**Flexible Operation**	**Raise Additional Capital**
	79%	68%	63%

MSMEs - The Nursery of Entrepreneurship

MSMEs are inherently flexible in operation and offer greater responsiveness to constantly changing customer needs. In a highly competitive & integrated world economy, most MSMEs operate in a dynamic business environment and the importance of size/scale cannot be over emphasized. Sustained Growth is an essential trait for survival and stability. MSMEs have to continuously offer value to their customers. The growth strategy largely depends on constant product and market development, product expansion & diversification, quality improvement and so on. This requires infusion of financial resources. In India, majority of MSMEs have shown dynamism and resilience. However, almost 73% of Indian MSMEs are non corporate entities. During their upward growth journey, they generally find themselves handicapped and look for the right kind of support – both financial and non financial. Present endeavour is a step in the direction of meeting the information gap.

Definitions & Features

Meaning of the term 'Company'

The word 'company' is derived from the Latin word (Com = with or together; panis = bread), and originally referred to an association of persons who took their meals together. A company has a separate legal entity, with a perpetual succession, a common seal, a common capital (comprising of transferable shares) and carrying limited liability.

Corporatization is the need of the hour. The entire world is gradually drifting towards one global market without any trade barriers between the countries. A small organization led by few partners cannot think of growth on large scale without corporatizing itself.

Sharing Success Story: Growing from strength to strength

We are a MSME unit based in Jamshedpur. We were a Proprietorship entity by origin and got converted as a company entity in the year 2006 with focus on expanding our market outreach for the product as also to widen our capital base.

We are processing minerals particularly Quartz and Quartzie mainly used in ceramic Glass and Steel Industries.

Earlier, we were marketing only regionally and had recorded a turnover of Rs 209 lakh. After Corporatization we have achieved flexibility in operations, expanded our product basket, market reach and got greater accessibility to banks. We are now marketing our product on national basis and have recorded a turnover of Rs 1000 lakh and significant jump in our profitability.

In terms of instilling a systematic approach to entity management and outlook towards us of outside world, corporatization has really been a boon. Initially, we had some inhibitions in getting corporatized. However, we could find that the process of conversion could be done within six months involving a cost (less than a lakh of Rupees) and returns have been found to be much higher.

The main problem was the adequate finance for expansion of the unit that was easily made available by SIDBI after corporatization.

We recommend corporatization to all MSMEs as it paves way for enhanced competitiveness, enables efficient harnessing of opportunities, scaling up, technology upgradation and diversification as also equip for challenges of globalization.

Mr. Sangam Agarwal,
Director,
Chanduka Minerals and Chemicals Pvt. Ltd.
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Benefits of a Company

1. Separate legal entity
2. Limited liability
3. Continuity - Perpetual Succession
4. Transferability of Shares - New shareholders and investors can be easily introduced
5. Increased Capital - Formal Financing, Private Equity, Angel Networks etc.
6. Liquidity

Separate Legal Entity

The company has its own name and its own seal, its assets and liabilities are separate and distinct from those of its members. It is capable of owning property, incurring debt, borrowing money, having a bank account, employing people, entering into contracts and suing and being sued in its own name.

Limited Liability

Unlike non corporate entities, the liability of the members of the company is limited to their contribution to the assets of the company upto the face value of shares held by them. Take the example of a partnership firm where partners have unlimited liability i.e. if the assets of the firm are inadequate to pay the liabilities of the firm, the creditors can require the partners to make good the deficit from their personal assets. In a company, a member is liable to pay only the uncalled money due on shares held by him when called upon to pay. Thus, there is no further liability, once the members have paid all their dues towards the shares held by them in the company and nothing more, even if liabilities of the company far exceed its assets.

Perpetual Succession

A company does not die or cease to exist unless it is specifically wound up or the task for which it was formed has been completed. Membership of a company may keep on changing from time to time but that does not affect the life of the company. Death or insolvency of a member does not affect the existence of the company.

Separate Property

A company is a distinct legal entity. The company can hold property in its own name. A member cannot claim to be owner of the company's property during the existence of the company.

What Constrains Non Corporate Entity

1. Lack of separate legal status
2. Carries unlimited liability
3. Transfer/ broadening of Management not possible
4. Capital Constraints
5. Illiquidity

Common Seal

A company is an artificial person and does not have a physical existence. Therefore, it acts through its Board of Directors for carrying out its activities and entering into various agreements. Such contracts must be executed under the seal of the company. The common seal is the signature of the company.

Transferability of Shares

Shares in a company are freely transferable, subject to certain conditions, so that no share-holder is permanently or necessarily wedded to a company. When a member transfers his shares to another person, the transferee steps into the shoes of the transferor and acquires all the rights of the transferor in respect of those shares.

Separate Management

A company is administered and managed by Board of Directors. The shareholders are simply the holders of the shares in the company and need not necessarily be the Directors of the company.

Major differences between Company, Proprietorship and Partnership

Head	Company	Proprietorship	Partnership
Legal Status	Separate Legal Entity	No Legal Entity	No Legal Entity
Liability	Limited Liability	Unlimited	Unlimited
Property	Belongs to the Company	Ownership by Proprietor	Belongs to the Partners and they are collectively entitled to it
Ownership	Shares may be Transferred without the permission of the other Members	Transfer through Sale	Cannot Transfer without the consent of all other partners
Access to Capital	Can raise capital on Company's Assets	Has to merge own Asset	Can raise capital on strength of Partners' Assets
Decision	Board based (Board ensuring corporate Governance, CSR etc.)	Alone	Among partners or only active partner

Limited Liability Company

In India, there are two type of Limited Liability Companies:

1. Private Limited Company
2. Public Limited Company

Major differences between Public Company and Private Company

S. No.	Head	Private Ltd.	Public Ltd.
1	Shareholders	Minimum 2 & Maximum 50	Minimum - 7 & Maximum - no limits
2	Directors	Minimum 2 directors	Minimum 3 directors/ At least 1/3rd Directors retire every year.
3	Transfer of shares	Transfer of shares is restricted - no invitation can be made to the public for subscription of shares or debentures.	Shares can be transferred freely.
4	Statutory meeting and Records	Provision of holding statutory meeting and submission of statutory record does not apply.	Provision of holding statutory meeting and submission of statutory record before statutory meeting applies.
5	Paid up capital at the time of incorporation	Minimum Rs.1 Lakh	Minimum Rs. 5 Lakh
		It can be increased any time, by payment of additional stamp duty and registration fee.	
6	Managerial remuneration	No restrictions	Restrictions apply

Private Limited Company has lesser number of compliance requirements. Whenever, ownership is intended to be closely held by limited number of persons, Private Limited Company is the best choice. However to expand sustainably in sync with growth aspirations and market needs, one has to opt for limited liability company.

Requirements of Pre-incorporation

There are certain requirements for conversion which are common for both Proprietorship and Partnership. However, some additional requirements shall be dealt separately.

COMMON- Conversion into a Company

The first requirement is to form a new Limited company, either a Private Limited Company or a Public Limited Company.

Stage 1

APPLICATION FOR DIRECTOR'S IDENTIFICATION NUMBER AND DIGITAL SIGNATURES CERTIFICATE

A) **Director's Identification Number [DIN]** is mandatory for each Director.

Following are the details required for DIN:

Name(s), Father's Name(s), Permanent Residential Address(es), Present Residential Address(es), Occupation, Name of the Companies in which the applicant is Director/Promoter, Date of Birth, E-mail IDs (Minimum 2 for private company).

B) Process of E-filing of the Documents, wherein either of the Director needs to have Digital Signature Certificate. For the matter of convenience of submission of documents with Registrar of Companies and expediting the processing, it is advisable to obtain the Digital Signature Certificate(DSC) from prescribed authorities. The documents required for DIN/Digital Signature includes:

- ❖ Copy of Passport/ Voter ID/Ration Card/Driving License/ PAN Card/Telephone Bill/Electricity Bill/Bank Statement
- ❖ The application is required to be counter signed by the promoter(s).
- ❖ Normally, the process takes 5 to 7 working days after submitting the documents with DIN Cell.

NAME TIPS

A. Choose name (avail services of checking name availability on the portal - mca.gov.inportal) indicative of the main objects of the company.

B. Suggest maximum of six names.

C. Ensure that the name

  I. Does not resemble the name of any other already registered company.

  II. Does not violate the provisions of emblems and names (Prevention of Improper Use Act 1950).

e Forms

a] Log on to www.mca.gov.in portal and fill the forms and attach the mandatory documents listed in the e Form.

b] Submit the eForms after attaching the digital signature.

c] Pay the requisite filing and registration fees and send the physical copy of Memorandum and Article of Association to the RoC.

d] After processing of the Form is complete and Corporate Identity is generated, obtain Certificate of Incorporation from RoC.

Stage 2

NAME APPROVAL

Before incorporation, name of entity needs to be approved by the Registrar of Companies (ROC). The procedure for the same is as follows:

1. An application in Form No. 1A along with prescribed fees needs to be filed with the ROC. The application is required to be digitally signed by one of the Promoters.
2. The Registrar of Companies will ordinarily inform within a period of seven days from the date of submission of the application whether any of the names applied for is available.
3. If the name is not made available, the Registrar of Companies may reject the application and new names can be provided for approval.

The details to be stated in the said application are as follows:

1. Maximum six alternative names for the proposed company (in order of preference).
2. Name, Father's/ Husband's Name, Permanent Residential Addresses, Present Residential Address, Occupation, Name of the Companies in which the Promoter is Director/Promoter, Date of Birth, DIN of the Promoters.
3. Authorized Capital of the proposed Company.
4. Main objects of the proposed Company.
5. State of Registered Office of Company.
6. Copy of Trade Mark Application/Certificate (if name of proposed Company is based on a Trade Mark).
7. In case, there is a logo associated with the trademark then image of the logo to be attached.
8. Balance sheet & Income Tax returns for last two years.

Stage 3

REGISTRATION OF COMPANY

After getting the approval for availability of name, the following documents are required to be executed (signed) before they are submitted to the ROC for registration.

Memorandum of Association (MOA) and Articles of Association (AOA)

The MOA and AOA are the most important documents to be submitted to the ROC for the purpose of incorporation of a company. While MOA primarily sets out the constitution and objects of the company, the AOA contains the rules, procedures and powers of the proposed company. MOA should contain provisions in main objects (in object clause) about takeover of the business of Proprietorship/ Partnership firm, as the case may be.

Generally, standard MOA and AOA are easily available or a professional can draft them as per the requirements of the promoters. Once these are drafted, these are required to be stamped as per the Indian Stamp Act (in Delhi its Rs. 200/- on MOA & 0.15% of Authorized Capital on AOA).

Thereafter, these documents are required to be executed by the promoters in their own hand in the presence of Professionals in duplicate stating their full name, father's name, residential address, occupation, number of shares subscribed for & signature etc.

If any director is a foreigner and not present in India after the date of Stamping of the Memorandum & Article of Association, his signature should be attested by notary in Indian High Commission Embassy located in his home country.

Following are the documents to be filed with the Registrar of Companies (ROC)

- **Form No. 1** - This is a declaration to be executed on a non-judicial stamp paper by one of the directors of the proposed company or other specified persons such as Chartered Accountants, Company Secretaries, Advocates, etc. who is engaged in the formation of a company, stating that all the requirements of the Companies Act, 1956 and the rules thereunder have been complied in respect of registration.
- **Form No. 18** - This is a form to be filed by one of the directors of the company informing the ROC about the registered office of the proposed company.
- **Form No. 32** - This is a form stating the fact of appointment of the proposed directors on the board of directors from the date of incorporation of the proposed company and is signed by one of the proposed directors.
- **Power of Attorney** signed by all the subscribers of MOA authorizing one of the subscribers or any other person to act on their behalf for the purpose of incorporation and accepting the certificate of incorporation.
- Filing fees as may be applicable. A chart of fee structure is annexed with this kit in CD.

These documents are required to be filed with ROC within 60 days from the date of name approval. ROC shall thereafter process the documents. In case any correction is required, then ROC will call the attorney holder for correction, and if all the documents are in order, then it will issue a Certificate of Incorporation.

Additional Steps for Incorporation of a Public Limited Company

After completion of the first three stages, a Private Limited Company may commence its business but a public limited company is required to obtain Certificate for Commencement of Business from Registrar of Companies. For this, the following documents are required to be submitted to Registrar of Companies:

I. Form 20 to be executed on a Non-Judicial Stamp Paper (NJS)
ii. Statement in lieu of Prospectus
iii. Affidavit from each director stating that the Company has not commenced its Business
iv. Board resolution for approval of preliminary expenses, appointment of first auditors, (also enclose their consent letter)

Registrar of Companies thereafter shall process the documents and if all the documents are in order then it will issue a Certificate for commencement of Business.

Other features

Additionally, there are a few precautions and requirements to be separately complied by Proprietorship and Partnership for conversion into a Corporate entity as under :

I. Proprietorship to a Company

- The proprietorship may or may not be dissolved. The company can carry on the business of the proprietorship.
- The transfer may be at book value/ market value or at any other revalued figure.
- In case any immovable property is involved, a separate conveyance deed may be required.
- Subsequent to the transfer, new shareholders may be admitted to the company on subscribing to the shares in the company at negotiated values, considering the value of the entire business.
- Under Section 47 (xiv) of the Income Tax Act, 1961, where a sole Proprietary concern is succeeded by a company in the business carried on by it as a result of which the sole proprietary concern sells or otherwise transfers any capital asset or intangible asset to the company, this shall not be regarded as transfer attracting capital gain tax.
- Ensure that one of the subscribers to the memorandum of association is the proprietor of the proprietorship firm which is to be converted into a limited company.
- Form 1A for name approval should state the fact that the proposed company [to be registered under companies act] would takeover the business of the proprietorship entity.

Provided that

1. All the assets and liabilities of the sole proprietory concern relating to the business immediately before the succession become the assets and liabilities of the company;
2. The shareholding of the sole Proprietor in the company is not less than fifty per cent of the total voting power in the company and his shareholding continues to remain as such for a period of five years from the date of the succession; and
3. The sole proprietor does not receive any consideration or benefit, directly or indirectly, in any form or manner, other than by way of allotment of shares in the company.

II. Partnership Firm to a Company

Some of the most common method of conversion are

a. Take- over of Firm(s) business by a company
b. Conversion under Part - IX of Companies Act 1956

a] Takeover- Apart from stage 1to 3, following steps need to be taken for takeover

- The firm may or may not be dissolved. The company can carry on the business of the firm.
- The transfer may be at book value or at market value or at any other revalued figure.
- In case any immovable property is involved, a separate conveyance deed may be required.
- Subsequent to the transfer, new shareholders may be admitted to the company on subscribing to the shares in the company at negotiated values, considering the value of the entire business.
- Section 47 (xiii) of the Income Tax Act, 1961 interalia mentions that any transfer of a capital asset or intangible asset by a firm to a company as a result of succession of the firm by a company in the business carried on by the firm it shall not be regarded as transfer attracting capital gain tax.

Provided that

1 All the assets and liabilities of the firm or of the association of persons or body of individuals relating to the business immediately before the succession become the assets and liabilities of the company;

2 All the partners of the firm immediately before the succession become the shareholders of the company in the same proportion in which their capital accounts stood in the books of the firm on the date of the succession;

3 The partners of the firm do not receive any consideration or benefit, directly or indirectly, in any form or manner, other than by way of allotment of shares in the company; and

4 The aggregate of the shareholding in the company of the partners of the firm is not less than fifty per cent of the total voting power in the company and their shareholding continues to be as such for a period of five years from the date of the succession.

b] Conversion of Partnership under Part IX

The firm may be converted into a company by following the provisions of Part IX of the Companies Act, 1956. Sections 565 to 581of the Companies Act, 1956 deal with conversion of firms into a company .

For the purpose of Part IX so far as it relates to the registration of companies limited by shares, a joint stock company means a company having a permanent paid up or nominal share capital of fixed amount divided into shares, also of fixed amount, or held and transferable as stock, or divided and held partly in the one way and partly in the other, and formed on the principle of having for its members the holders of those shares or that stock, and no other persons. Such a company, when registered with limited liability under the Companies Act, 1956 shall be deemed to be a company limited by shares.

Since the liability of the members of the firm is unlimited, when a firm desires to register itself as a company under Part IX as a limited company, the majority required to assent as aforesaid shall consist of not less than ¾ of the members as are present in person or where proxies are allowed, by proxy, at a general meeting summoned for the purpose.

The following are the steps required:

Step 1 - Hold a meeting of the partners to transact the following business

1. Obtaining assent of majority of its members, at a general meeting summoned for the purpose of registering the firm under Part IX of the Companies Act, 1956 is a must.
2. To authorize one or more partners to take all steps necessary and to execute all papers, deeds, documents etc. pursuant to registration of the firm as a Company.
3. To execute a supplementary Partnership Deed to align it with the requirements as under:
   a. There must be at least 7 partners in the partnership firm
   b. The firm may be registered with the Registrar of Firms
   c. There must be a fixed capital divided into units
   d. There must be provision of converting a firm into company
   e. There must be an agreement by the partners to convert the partnership to a company. This can be done by a contract in writing to this effect to which the partner's resolution for conversion can be attached as annexure.
4. Execute a settlement deed.

Next steps are same as mentioned earlier as stage 1 to 3. On completion of formalities, ROC issues certificate of incorporation.

Stamp Duty

In case of conversion of Proprietorship/ Partnership concerns to companies, there may be an incidence of stamp duty if such Proprietorship/ Partnership concerns possess any immovable assets. Such levy of stamp duty is made in accordance with the stamp duty legislation of the state in which such Proprietorship/ Partnership are located.

Mortgage of Assets

In case any assets of the Proprietorship/ Partnership are mortgaged to any financial institutions before conversion into a limited company, then the Proprietorship/ Partnership should follow the procedures prescribed by the financial institutions for transferring the mortgage assets to the limited company.

c] Effect of Registration under part IX

Vesting of Property:

a) All property, movable as well as immovable belonging to or vested in the firm at the time of registration shall, on such registration pass to and vest in the company as incorporated under Part IX.

b) The Registration of a company under Part IX shall not in any manner affect its rights or liabilities in respect of any debt or obligation incurred or any contract entered into, by, to, with or on behalf of the firm before registration.

c) All suits and other legal proceedings taken by or against the company or any public officer or member thereof which where pending at the time of registration may be continued in the same manner as if registration had not taken place. However, no execution can be done against the property or person of any individual member of the company on any decree or order obtained in such suit or proceeding. If the property of the company is inadequate to satisfy the decree or order, an order for winding up the company may be obtained.

d) All provisions of any Indian law or other instrument constituting or regulating the company shall apply to the registered company in the same manner as if the company had been formed under the Companies Act, 1956 and those conditions were required to be contained and were contained in its Memorandum and Articles of Association (MAOA).

e) Debts and liabilities are not automatically transferred to the new company and therefore an agreement will have to be entered into by the company with its debtors and creditors.

f) Obtain an indemnity from the company to the partnership firm for all acts, deeds and things done after the registration under Part IX and vice versa.

g) Comply with all the relevant provisions of the Companies Act, 1956 i.e. call requisite meetings, register charges, comply with section 58A if necessary, etc.

III. Compliance for a Private Company (Post Incorporation)

a) Once the new company is formed, the takeover agreement would be entered between the proprietorship/ partnership firm and the newly incorporated company.

b) Convene a Board Meeting after giving notice to all the directors of the newly incorporated company immediately after incorporation as per section 286 of the Companies Act, 1956 to adopt the agreement entered into by the company and the proprietor/partners of the firm for the acquisition of business of the entity.

c) In such a situation, the entire business along with all its assets and liabilities are transferred to the company.

d) The company may issue shares or other securities to the Proprietor/ Partners of the entity.

IV. Compliance for a Public Company (Post Incorporation)

In addition to the above requirements, a Public company ,in the above Board Meeting, has to fix up the date, time, place and agenda for calling a General Meeting to pass a Special Resolution under section 81(1A) of the Companies Act, 1956 giving powers to the Board of Directors to issue and allot equity shares to Proprietor/Partners of the entity in consideration of the takeover.

Post-Incorporation Compliances

Non corporate entities are wary of the compliances required to be followed post conversion. In the evolving era of emphasis on transparency as also proactive social, economic and environmental responsiveness, it requires any business entity to voluntarily become part of compliance system and this is what a corporate entity does and derives advantage. These are illustrated below:

Conducting of Board Meetings and Committee Meetings

As per the Companies Act, 1956, at least four Board meetings should be held each year and the gap between two Board meetings should not exceed 120 days.

Conducting of Shareholders Meetings

As per the Companies Act, 1956 atleast one meeting of shareholders should be held each year.

Registered Office

The Company has to maintain a Registered Office in the state where it is registered. All the statutory records, registers and books of accounts would be maintained at that office. The company has flexibility to shift its registered office after compliance of the relevant provisions of the Companies Act, 1956.

Head Office

Apart from the Registered Office, the Company may maintain a Head Office in India and the books of accounts may be kept there at with the approval of Board of directors. However, the company is required to intimate to the ROC within seven days of the decision.

Share Transfer

The shares of the Companies are freely transferable unless the company has any preemption clause in its Articles of Association. In case of transfer, the buyer & seller are required to execute share transfer deed and after being stamped as per Stamp Act, it would be submitted to the company along with share certificate and if all the documents are in order, the company would transfer these shares.

Books of account

Every company is required to maintain the books of accounts either at Registered Office or Head Office as mentioned above with respect to:

1. all sums of money received and expended by the company and the matters in respect of which the receipt & expenditure take place;
2. all sales & purchases of the goods by the Company;
3. the assets & liabilities of the Company; and
4. in case of company engaged in production, processing, manufacturing or mining activities, such particulars relating to utilization of material or labour or other items of the cost as may be prescribed by the Central Government to be included in the books of accounts.

Share Certificates

Every Company is required to issue share certificates to its shareholders in compliance of companies (Issue of Share Certificates) Rules. These share certificates are to be issued after taking note of the allotments made by the Company and shares transferred from time to time.

Records to be maintained

Minutes Book

Minutes are to be drafted for every meeting of the Board of Directors and shareholders. Thereafter, the same need to be signed by the Chairman of the meeting. Following Minutes are to be drafted:

1. Minutes of Board Meeting and its committees
2. Minutes of Extra Ordinary General Meeting [EOGM]
3. Minutes of Annual General Meeting [AGM]

These minutes are drafted considering the decisions taken by the Board and its committees in day to day working of the Company.

Other Statutory Registers

Companies Act, 1956 specifies the following Statutory registers to be maintained by every Company:

1. Register of Members
2. Register of Directors
3. Register of Transfers
4. Register of Director's Shareholding
5. Register of Contracts in which Directors are interested
6. Register of Charges
7. Meetings attendance register

Permanent Account Number

As per section 139A of the Income Tax Act, 1961, every person whose income exceeds the maximum amount not chargeable to tax is required to obtain Permanent Account Number (PAN).

Requirement of PAN

Applying for new PAN in Form 49A (available on http://incometaxindia.gov.in and annexed in the CD) requires following:

- Registered Address of the Company: Complete address along with the PIN.
- Email ID of the contact person / or a company email id.
- Telephone number of the company.
- Date of Incorporation and registration number of the company: Copy of certificate of incorporation of the company.
- Name of the Authorized Signatory: The form is required to be signed by the authorized signatory under the Company Seal.

Requirement for Tax Deduction Account Number (TAN)

As per section 203A of the Income Tax Act, 1961, every company deducting tax is required to obtain tax deduction account number (TAN) from the tax department. Application for TAN (Form 49B - annexed in CD as also available on http://incometaxindia.gov.in) requires following:

- Designation of the person responsible for making payment of tax
- Registered Address of the Company: Complete address along with the PIN
- Name and designation of Authorised signatory: The form is required to be signed by the authorised signatory under the company seal

VAT and Service Tax Registration

In case a Proprietorship/ Partnership had obtained registration under VAT and service tax before conversion, the company has to make an application to the Commissioner for fresh registration.

Details of Tax Returns to be filed by the Company

Tax Returns	Due Dates
Quarterly Withholding Statement for Salary Payments in Form 24Q.	July 15 for the first quarter, October 15 for the second quarter, January 15 for the third quarter and June 30 for the last quarter.
Quarterly Withholding Statement other than Salary Payments in Form 26Q.	
Payment of Advance Income and Fringe Benefit tax.	June 15 for the first quarter, September 15 for the second quarter, December 15 for the third quarter and March 15 for the last quarter.
Corporate Income Tax and Fringe Benefit tax Return in ITR 6	September 30

Tax Rates

For Sole Proprietorship, the rates are as applicable to individuals. The tax rates for Partnership and Company are as prescribed under the Income Tax Act 1961, which presently is 33%. In case of Services, there are variations regarding limits, registration, TDS deduction and so on.

In general, tax issues do not substantially influence the decision making process of the entrepreneurs going for corporatization.

Private Company can be created with a minimum authorized capital of Rs. 1 lakh and Public Limited Company with Rs. 5 lakh.

Compliance to Company Law and Accounting Standards

Business Units have to comply with the following as they transit to Companies:

- ☐ Mandatory Audit: Appointment of Auditors
- ☐ Maintenance of Proper Books and Accounts (Sec 209 of Company's Act)
- ☐ Compliance to Accounting Standards (also provided in CD)
- ☐ File Periodical returns to ROC
- ☐ File Returns to ROC during specific events- eg: Change of Board of Directors.
- ☐ Greater transparency
- ☐ Regular Board Meetings and recording of Minutes: Minimum of one Board Meeting per quarter.
- ☐ Maintenance of Statutory Registers
- ☐ Statutory Audit
- ☐ Appointment of Company Secretary (Sec 383 A of Companies Act):
    - Paid up Capital upto Rs. 10 lakh: No need for appointment of Company Secretary
    - Rs. 10-200 lakh- Provision for certification from Practicing Company Secretary
    - Above Rs. 200 lakh- Compulsory appointment of Whole-time Company Secretary
- ☐ Inspection by ROC
- ☐ Penalty and Prosecution for non-compliances
- ☐ Appointment of MD or whole time Director or Manager is applicable if paid up capital of company is Rs. 500 lakh or above.

The responses to these issues vary among Chartered Accountants and MSME Entrepreneurs.

Cost Structure

Apart from the statutory fees required to be paid to ROC (generally it is Rs 500) for such conversion to private limited /public limited company, the following costs may be incurred:

A) Cost of Creation/Registration

The Cost of creation of a sole Proprietorship is almost nil or around Rs. 2000/- while cost of registration of Companies varies according to the authorized capital. The fee is telescopic in structure. Given below is a table of fee for an authorized capital of Upto Rs. 10 Cr.

Authorized Capital	Registration Fee (In Rs)
1 Lakh	4,500
10 Lakh	27,200
1 Crore	1,58,000
10 Crore	6,08,000

B) Cost of Compliance

The cost of compliance is generally as per below:

- Fee for PAN is Rs. 67 and for TAN Rs. 57
- Filing Fee for ROC: Around Rs. 500/- per occasion
- The minimum professional fee for the conversion of Proprietorship into a Private limited company would be in the region of Rs. 20,000 to Rs. 30,000 (per conversion)
- The minimum cost for maintaining statutory records would be in the range of Rs. 15000 to Rs. 25000(per month) if outsourced
- Cost of Appointing Auditors:Minimum Rs. 20,000/-, Internal Auditor from Rs. 25,000/- to Rs. 75,000/-
- Cost of Engaging Company Secretary(CS): Rs. 0.10 lakh to Rs. 3 lakh, depending on the manner of contract- such as Certification from Individual CSs

The quick feedback of MSMEs obtained by us has shown that , towards conversion, the expenses incurred range between < Rs. 1.5 lakh (63% cases), the rest being > Rs. 1.5 lakh which generally goes up to Rs. 6 lakh [largely affected by capital size]. In the feedback, 31% indicated about requirement of additional manpower showing dependence on part time professional support. In general, the cost of compliance is not considered high.

Time Line

The quick feedback has shown that the time involved in conversion is generally less than six months, with 57% (11 out of 19) respondents citing this. A unit whose Proprietor was a CA himself took as low as 10 days only indicating that, if guided properly, conversion happens in short time.

Glossary

Accounting Standards: A common standard for accounting and reporting. Accounting Standards contain the principles governing accounting practices and determine the appropriate treatment of financial transactions. In India, Companies are divided into two categories viz' Small and Medium Sized Companies' and 'Others' for complying with Accounting Standards.

For this purpose, Small and Medium Sized Company" (SMC) means, a company-

(I) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;

(ii) which is not a bank, financial institution or an insurance company;

(iii) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;

(iv) which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and

(v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

AOA: The Articles of Association contains the rules and procedures for the routine conduct of the proposed company. It also states the authorized share capital of the proposed company and the names of its first / permanent directors. The Articles of Association of a newly formed company should provide the powers of the directors of the company to enter into agreements and adapt agreements relating to acquisition of the business and also the assets and liabilities of the proprietorship or partnership firm.

Authorized: Issuance of approval to complete a transaction or pay funds.

Book Value: The monetary amount by which an asset is valued in business records, a figure not necessarily identical to the amount the asset could bring on the open market.

1. The value at which an asset is carried on a balance sheet. In other words, the cost of an asset minus accumulated depreciation.

2. The net asset value of a company, calculated by total assets minus intangible assets (patents, goodwill) and liabilities.

3. The initial outlay for an investment. This number may be net or gross of expenses such as trading costs, sales taxes, service charges and so on.

Capital: Broadly, all the money and other property of a corporation or other enterprise used in transacting its business.

Compliance: Fulfillment

Conveyance deed: The deed a buyer receives from the seller when buying property.

Deed: The document that transfers ownership of a property.

Entity: An entity is something that has a distinct, separate existence, though it need not be a material existence.

Fringe Benefit Tax : The taxation of perquisites -- or fringe benefits -- provided by an employer to his employees, in addition to the cash salary or wages paid.

Limited Liability: Limitation of shareholders' losses to the amount invested.

Market value: The amount that a seller may expect to obtain for merchandise, services, or securities in the open market .The current quoted price at which investors buy or sell a share of stock or a bond at a given time.

MOA: The Memorandum of Association is a document that sets out the constitution of the company. It contains, amongst others, the objectives and the scope of activity of the company. It also defines the relationship of the company with the outside world. The Memorandum of Association also states the main, ancillary / subsidiary and other objects of the proposed company.

MSME (MICRO, SMALL AND MEDIUM ENTERPRISES): As per THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006, Indian MSMEs are categorized thus:

Manufacturing Sector: refers to enterprises engaged in manufacture or production, processing or preservation of goods. First Schedule to the Industries (Development and Regulation) Act, 1951 provides the list of eligible industries.

Services Sector: refers to enterprises engaged in providing or rendering of services. These will include small road & water transport operators (owning a fleet of vehicles not exceeding ten vehicles), small business (whose original cost price of the equipment used for the purpose of business does not exceed Rs. 20 lakh) and professional & self employed persons (whose borrowing limits do not exceed Rs. 10 lakh of which not more than Rs. 2 lakh should be for working capital requirements except in case of professionally qualified medical practitioners setting up of practice in semi-urban and rural areas, the borrowing limits should not exceed Rs.15 lakh with a sub-ceiling of Rs. 3 lakh for working capital requirement s).

Type of Enterprise	Investment in Plant & Machinery (Rs. Lakh-not exceeding)	
	Manufacturing Sector	Service Sector
Micro	25	10
Small	500	200
Medium	1000	500

Paid-up capital: The amount of money that has been received by shareholders who have completely paid for their purchased shares. This would not include any shares that have been bid on, but not yet purchased.

PAN: Permanent Account Number (PAN) is a national identification number, issued to all taxpayers of India whose income is taxable. This number is issued by the Income Tax Office. This number is required for many activities such as opening an account, getting a phone line, receiving salary or professional fees. The primary purpose of PAN is to keep track of monetary transactions. The PAN is unique, national, and permanent. It is unaffected by a change of address, even between states.

Pre- emption clause: Provision in Article of Association or bylaws of the firm whereby current shareholders acquire pre-emption rights i.e. the right of the existing shareholder in the company to buy shares offered for sale before they are offered to the public.

Registrar of Companies (ROC): The registrar responsible for recording and maintaining certain details of the new and existing firms within his jurisdiction.

TAN (Tax Deduction Account Number) is a unique 10 digit alphanumeric code allotted by the Income Tax Department to all those persons who are required to deduct tax at the source of income. It is mandatory to quote TAN on all TDS (Tax Deduction at Source) returns (including e-TDS return) or any TDS payment challan.

TDS (Tax Deducted at source) is one of the modes of collecting Income-tax from the assessees in India. Such collection of tax is effected at the source when income arises or accrues.

Statutory Audit: Assesment of compliances based on standards set by the various regulatory authorities.

VAT: A tax on the estimated market value added to a product or material at each stage of its manufacture or distribution, ultimately passed on to the consumer. It is a fee that is assessed against businesses by a government at various points in the production of goods or services - usually any time a product is resold or value is added to it.

Chart A

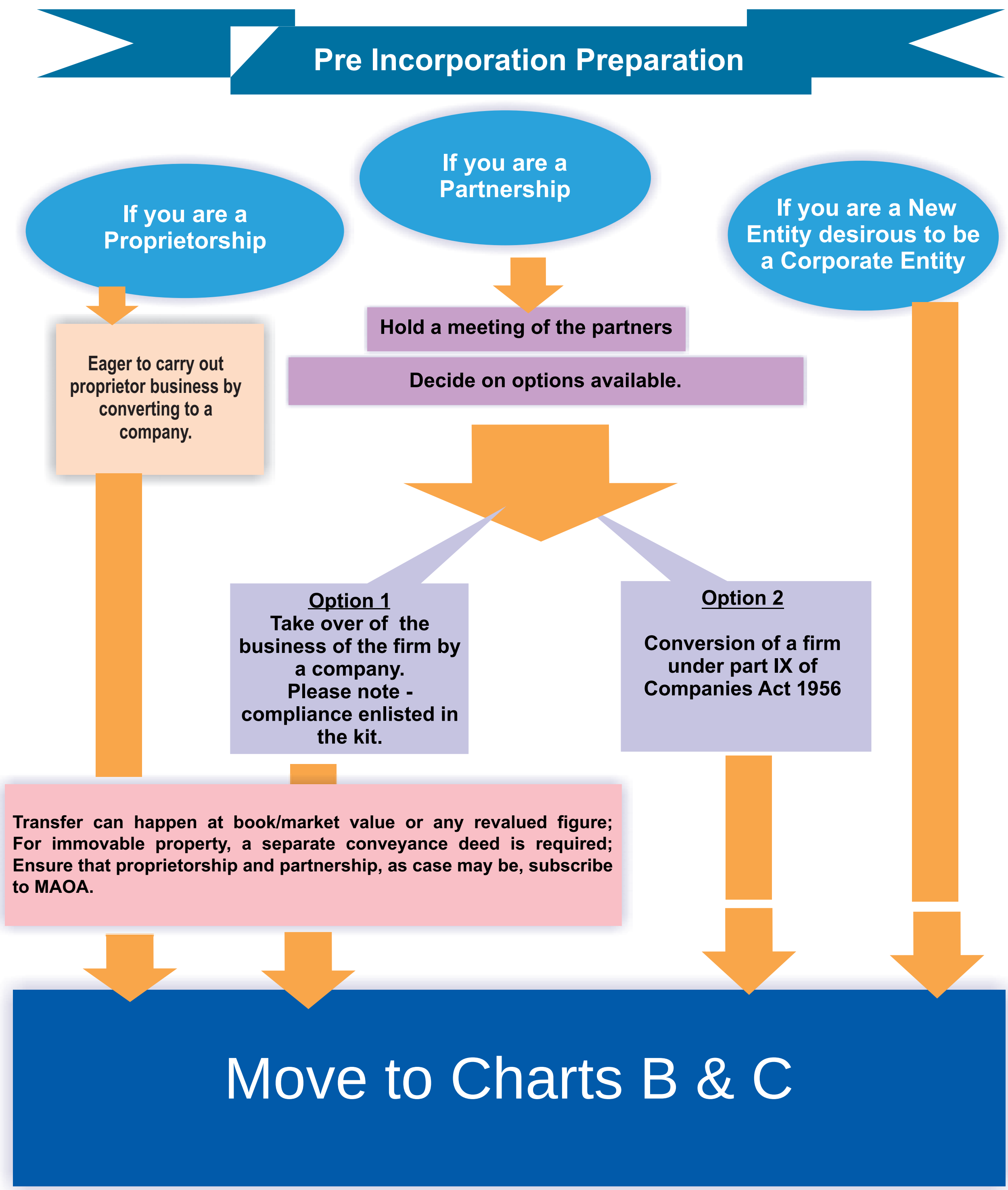

Pre Incorporation Preparation
If you are a Proprietorship
If you are a Partnership
If you are a New Entity desirous to be a Corporate Entity
Eager to carry out proprietor business by converting to a company.
Hold a meeting of the partners
Decide on options available.
Option 1
Take over of the business of the firm by a company.
Please note - compliance enlisted in the kit.
Option 2
Conversion of a firm under part IX of Companies Act 1956
Transfer can happen at book/market value or any revalued figure; For immovable property, a separate conveyance deed is required; Ensure that proprietorship and partnership, as case may be, subscribe to MAOA.
Move to Charts B & C

Chart B

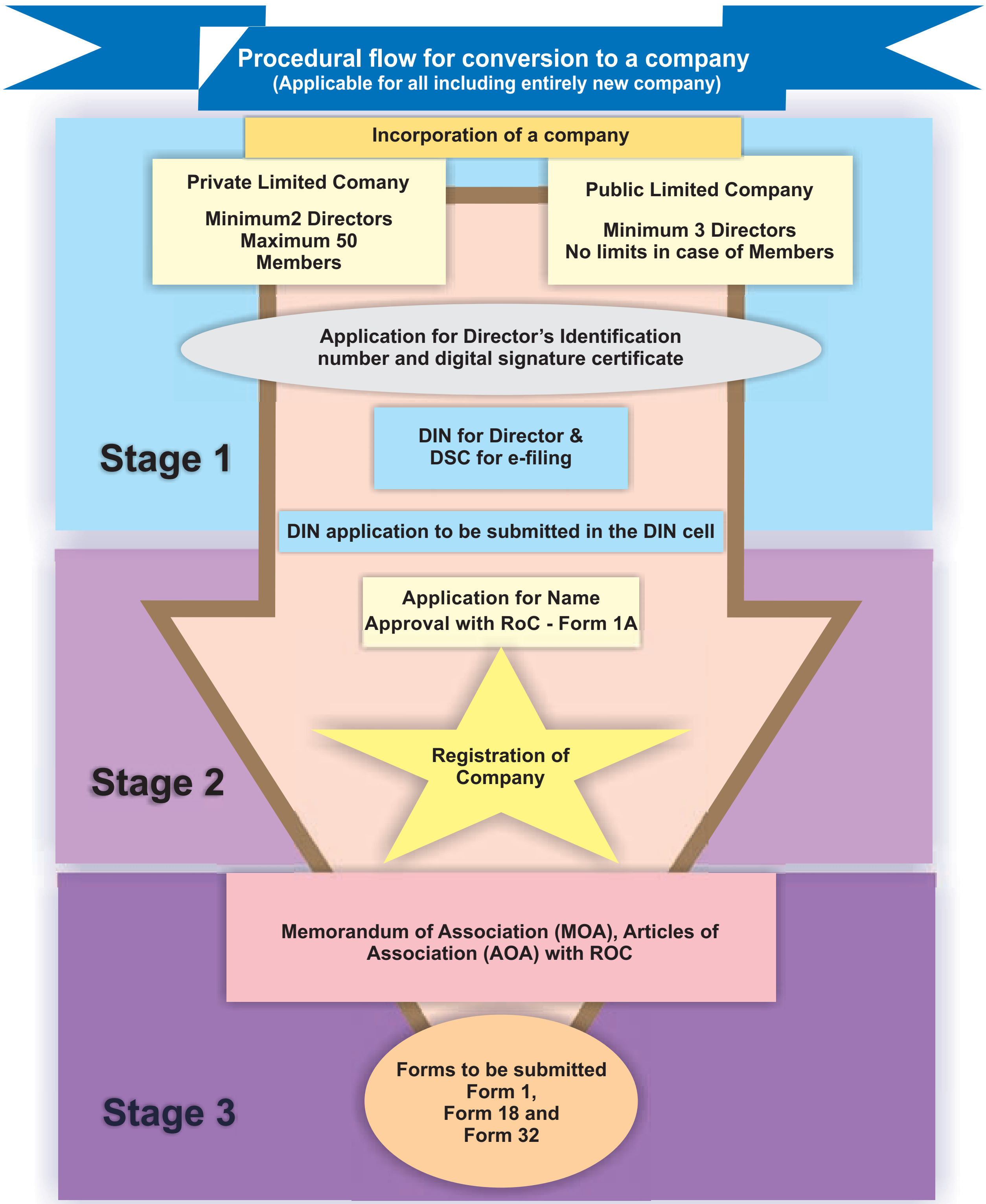

Procedural flow for conversion to a company
(Applicable for all including entirely new company)
Incorporation of a company
Private Limited Comany
Minimum2 Directors
Maximum 50
Members
Public Limited Company
Minimum 3 Directors
No limits in case of Members
Application for Director's Identification
number and digital signature certificate
DIN for Director &
DSC for e-filing
DIN application to be submitted in the DIN cell
Application for Name
Approval with RoC - Form 1A
Registration of
Company
Memorandum of Association (MOA), Articles of
Association (AOA) with ROC
Forms to be submitted
Form 1,
Form 18 and
Form 32
Stage 1
Stage 2
Stage 3

Chart C

Procedural Flow - Post Incorporation

After name approval and registration of company, the following procedures to be followed:

Public Limited Company is required to obtain the certificate for commencement of its business from ROC.

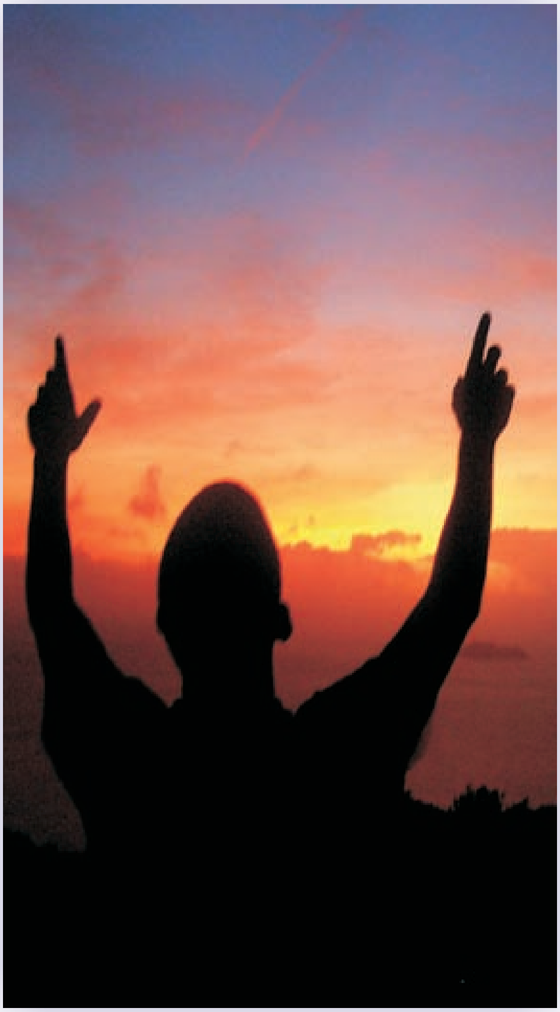
For Public Company (irrespective of earlier constitution being Proprietorship or Partnership)

1. **Form 20 to be executed on a Non-Judicial Stamp Paper;**
2. **Statement in lieu of Prospectus;**
3. **Affidavit from each Director stating that the Company has not commenced its business;**
4. **Consent letter from auditors for acting as statutory auditors.**

For Partnership converting to Public Limited Company (in addition to the above 4)

5. **Board Resolution for approval of preliminary expenses; and**
6. **Board resolution for appointment of first Auditors.**

Private Limited Company may commence business



Small Industries Development Bank of India [SIDBI]

SIDBI was established on April 2, 1990 under an Act passed by Indian Parliament as the Principal Financial Institution for Financing, Promotion and Development of industries in the small scale sector and to coordinate the functions of other institutions engaged in similar activities.

Mission

To empower the Micro, Small and Medium Enterprises (MSME) sector with a view to contributing to the process of economic growth, employment generation and balanced regional development.

Vision

To emerge as a single window for meeting the financial and development needs of the MSME sector to make it strong, vibrant and globally competitive, to position SIDBI Brand as the preferred and customer-friendly institution and for enhancement of share-holder wealth and highest corporate values through modern technology platform.

Since its inception, SIDBI has been endeavoring to meet the diverse needs of the MSMEs through the tailor- made schemes and fulfil its vision as stated above

In Brief

- Only financial institution dedicated exclusively for the MSME sector
- Presence in all major industrial centers and MSME clusters.
- Provides all banking services to MSME units.
- State-of-the -art technology platform to provide efficient services to customers.
- Automated processes for quick decisions.
- Nodal agency for several GOI schemes.
- Flexible and innovative credit products.
- Specialized products for clusters and new technology businesses.
- Risk capital support to growth oriented MSME.
- Flexible products for large corporates having SME vendors and suppliers
- Attractive interest rates.
- Incentive for MSME units rated by SMERA
- SIDBI is leveraging technology to provide customer services through website.

Direct Finance

Term Loan Assistance – For setting up of new projects & for technology up-gradation, diversification, expansion etc. of existing MSMEs, for Service sector entities & infrastructure development & up-gradation.

Various other schemes e.g. working capital, Inland Letter of Credit, Guarantee Scheme, Equity Support, Vendor Development Scheme & bill discounting facility etc.

Equity Support – Provided to well run MSMEs to enable them to scale up their operations & take advantage of growth opportunities offered by the economy.

Strategic Business Initiatives – Vendor Development Scheme provides finance for capital Expenditure, Working Capital Term Loan & Customized invoice discounting/Bill discounting facility.

Direct Credit Scheme

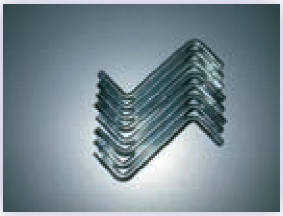
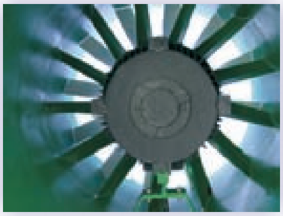
A. Fund Based

1. Term Loan for setting up of a new unit or Expansion / Diversification / Technology upgradation / Quality certification/ Energy saving investments by MSME / Service sector unit at competitive rates.
2. Working Capital Term Loan (WCTL) for meeting gap in MPBF or margin on selective basis.
3. Working Capital facility on selective basis.
4. Receivable Finance (Bills / Invoice discounting) to MSME for their supplies / services to large Corporate / other MSMEs.
5. Vendor Development Programme for customized products to meet the requirement of vendors of large corporate.
6. Cash flow based assistance.
7. Assistance for marketing related project (Brand Building, Franchisee/Retail outlet/Supply chain set up etc.)

Minimum loan	Generally not less than Rs 25 lakh
Debt Equity Ratio (DER)	Generally not more than 2:1 for the unit as a whole
Asset Coverage	Minimum 1.4 for new unit /1.3 for existing unit
Repayment period	Need based Depending on Cashflow of the unit
Interest rate	Competitive (based on rating)

B. Non Fund based facility

1. Letter of Credit:For purchase of capital equipment/ raw material against sanctioned loan / limit.
2. Bank Guarantee (BG): All types of BG to existing MSE customers of the Bank.

SIDBI Financing Schemes for Energy Saving Projects in MSME Sector

ELIGIBILITY CRITERIA FOR UNITS (DIRECT ASSISTANCE)

1. New/Existing MSME units having satisfactory track record of past performance.
2. Energy Saving Sub-Projects eligible under this initiative are:
   a. Acquisition (including lease and rental) of energy saving equipment / facilities, including newly installed, remodelling and upgrading of those existing equipments.
   b. Replacement of obsolete industrial furnaces and / or burners etc, or introduction of additional equipment which would improve performance.
   c. Installation or improvement or adoption of such manufacturing machinery and equipment that meets the specific requirement for energy performance standard, provided by the related Energy Conservation Act / Code in India (eg: Top Runner Equipment, Energy Labels etc.)
   d. Installing of building envelopes, equipment heating systems, lighting and electrical power/ motors in compliance with the energy performance standard provided in the Energy Conservation Building Code [ECBC].
   e. Introduction of equipment that utilize alternative energy sources such as natural gas, renewable energy, biogas etc., instead of fossil fuel such as oil and coal etc., to help reduce GHG emissions.
   f. Clean Development Mechanism (CDM) Projects at cluster level that involve a change in the process and technologies as a whole, duly supported by technical consultancy.
3. List of energy saving equipments is available on SIDBI website (www.sidbi.in)

FINANCIAL PARAMETERS

The Financial Parameters for appraising the projects are:

Parameter	Norms
Minimum Assistance	Rs 10 Lakh
Debt Equity Ratio	Maximum 2.5:1
Minimum Asset Coverage	1.4:1 for new units and 1.3:1 for existing units
Repayment Period	Need based. Normally, the repayment period should not extend beyond 7 years

Assistance under the scheme is also provided through banks and select NBFCs

Micro Finance

SIDBI Foundation for Micro Credit (SFMC)

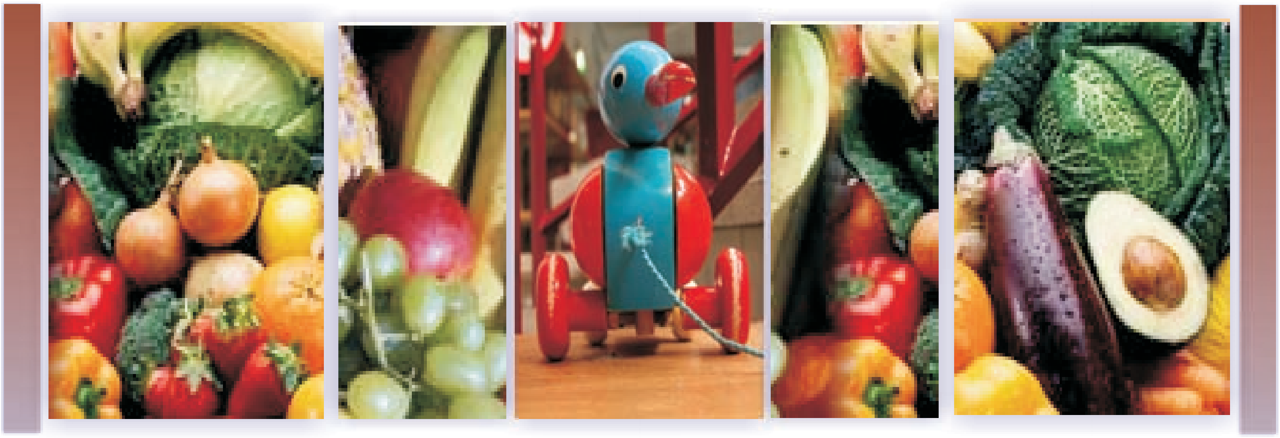
SFMC is a specialized department of SIDBI set up in 1999 for Micro credit. It carries a mission to create a national network of strong, viable and sustainable Micro Finance Institutions (MFIs) from the informal financial sector to provide micro finance services to the poor, especially women. SFMC is an apex wholesaler for Micro finance in India with a diverse range of financial products such as loan, grant, equity, quasi equity etc. It has set up a risk fund with support of DFID for small NGOs/ startups and under served states. It has been investing in MFIs through equity/ quasi equity instruments under SIDBI Growth Fund for MFIs. In keeping with its mission, SFMC identifies, nurtures and develops select potential MFIs as long term partners and provides credit support for their micro credit initiatives. Under the present dispensation, annual need based assistance is provided to enable MFIs to expand their scale of operations and achieve self sufficiency at the earliest. Lending is based strictly on an intensive in-house appraisal supplemented with the capacity assessment rating by an independent professional agency. Relaxed security norms have been adopted to reduce procedural bottlenecks as well as to facilitate easy disbursement.

Frequency and quantum of loan

SFMC provides annual / need based repeat assistance to its partner MFIs. Loan assistance per MFI for onlending is subject to a minimum of Rs 10 lakh. Variation in the minimum loan limit may also be considered depending upon the merits of the case.

Ceiling on individual loan amount per borrower

Normally, maximum amount lent by the MFIs to an individual borrower / SHG member may not exceed Rs 25000/-. In exceptional and extremely deserving cases, particularly for enterprises and housing, a higher amount per borrower could be considered.



Repayment period of loans to MFIs

Repayment period (including moratorium) is generally upto to 4-years from the date of disbursement. The initial moratorium on the principal outstanding ranges from 3-12 months from the date of first disbursement. Both repayment period and moratorium can be extended beyond stipulated period depending upon the merits of case.

Equity Assistance Scheme

SIDBI has introduced a scheme for providing equity assistance to well performing MSME. The support is considered towards businesses set up by entrepreneurs with track record, preferably in the same business line, for A] modernization/ expansion/ diversification, B] for marketing/R&D/ product development expenses, C] Working capital requirements, D] For acquisitions in India and abroad and E] Any other expenditure required for growth of the company.

SIDBI Foundation for Risk Capital (SFRC)

In the budget of 2008-09, GOI has announced setting up of a “Risk Capital Fund (RCF) for MSMEs” in SIDBI with a corpus of Rs 2000 Crore. MSMEs are traditionally dependent on promoter's equity and secured loans from banks for their long term capital requirements. SIDBI proposes to use the RCF to create an institutional framework for providing long term risk capital to MSMEs of different size, constitution and segments, which would complement the promoters financial resources and available bank finance to MSMEs and help them in their growth and sustenance. SIDBI has set SFRC (SIDBI Foundation for Risk Capital) to manage the fund operations. The foundation would, interalia, study successful models for risk capital for MSMEs in other parts of the world. SIDBI would use appropriate risk capital instruments for providing risk capital to MSMEs keeping in view the nuances of the local conditions.

Keeping in view the large geographical spread of the MSME's, SIDBI would use various channels for dispensing the risk capital assistance, including SIDBI's own branch network, SIDBI Venture Capital Ltd. [SVCL] and other MSME focused venture funds, Banks etc. SIDBI also proposes to create a mentor network for supporting start up and early stage enterprises in the country.

Small Industries Development Bank of India [SIDBI]

Head Office: SIDBI Tower, 15 Ashok Marg, Lucknow - 226 001, Uttar Pradesh, India
Tel: 0522 - 2288546-50 Fax: 0522 - 2288455-59 Telegram: LAGHUVIKAS
Toll free number: 1800226753
website: www.sidbi.in

SIDBI Branch Network

SIDBI has a country-wide network of 100 branches to service the MSME sector efficiently:

Eastern Zone Branches

Bhubaneswar | Bilaspur | Dhanbad | Durgapur | Jamshedpur | Kolkata | Patna | Raipur | Ranchi | Rourkela

Bhubaneswar Micro Finance Branch | Kolkata Micro Finance Branch

Northern Zone Branches

Aligarh | Alwar | Baddi | Chandigarh | Dehradun | Faridabad | Ghaziabad | Greater Noida | Gurgaon | Jaipur | Jalandhar | Jammu | Janakpuri

Jodhpur | Kishangarh | Kundli | Ludhiana | New Delhi | Noida | Okhla | Roorkee | Rudrapur | Shimla | Udaipur

Southern Zone Branches

Ambattur | Balanager | Bangalore | Bellary | Belgaum | Chennai | Coimbatore | Erode | Hyderabad | Hosur | Hubli | Kochi

Kozhikode | Mangalore | Nellore | Peenya | Puducherry | Rajahmundry | Tirupur | Trichy | Vijayawada | Vishakapatnam

Bangalore Micro Finance Branch | Chennai Micro Finance Branch | Hyderabad Micro Finance Branch

Western Zone Branches

Ahmedabad | Ahmednagar | Ankeleshwar | Andheri | Aurangabad | Bandra-Kurla Complex | Baroda | Bhopal | Chinchwad | Gandhidham

Indore | Jamnagar | Kolhapur | Nagpur | Nariman Point | Nashik | Panaji | Pune | Rajkot | Surat | Thane | Vapi | Vatva | Waluj

UP Zone Branches

Agra | Bareilly | Kanpur | Lucknow | Varanasi

Lucknow Micro Finance Branch

Guwahati Region

Agartala | Aizawl | Dimapur | Gangtok | Guwahati | Imphal | Itanagar | Shillong

Guwahati Micro Finance Branch

Micro Finance Branch

SIDBI has also set up following associate organisations to cater to specific needs of MSME sector:

SIDBI Venture Capital Ltd.(SVCL)	Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)	SME Rating Agency of India Ltd.(SMERA)	India SME Technology Services Ltd. (ISTSL)	India SME Asset Reconstruction Company Ltd (ISARC)
www.sidbiventure.co.in	www.cgtmse.in	www.smera.in	www.techsmall.com	www.isarc.com

CD for you contains

1. Applicable Forms for Corporatizatiion
2. Accounting Standards applicable to MSMEs
3. PAN 49 A and TAN49 B forms
4. Fee Structure

Published by

Project Management Division
Small Industries Development Bank of India

Lower Ground Floor, R. K. Khanna Tennis Stadium, Africa Avenue, New Delhi - 110029
Tel: 011-26186759 & 61 Fax: 011-26186733, Email: pmd_ndho@sidbi.in, Web: www.smefdp.net

Printed by onlineprinters 9899507719