SUPERCFO

NEWS WATCH

Date : 23rd March, 2010 Edition : National

Publication : Economic Times Page No : 13 (SME Factory)

PODIUM

Q. We are two partners who plan to start a polymer manufacturing unit. Should we incorporate a partnership firm or a private limited company to better suit our business needs? What are the legal requirements for the venture?

A. A partnership firm is comparatively easy and cost-effective to set up and manage. However, from the point of view of risk and liability exposure, a private limited company is better, as, in the case of a partnership firm, all partners have unlimited liability. Moreover, if you are planning to raise private equity or venture capital funds, it is necessary to have a private limited company.

Though this may entail some additional costs during setup, a private limited company is your best bet if you are planning to expand.

To start a polymer manufacturing unit, you will need to acquire a number of registrations and licenses, including basic registrations of PAN and TAN from the Income Tax Department, Professional Tax registration and registrations like Provident Fund and Employees' State Insurance.

You will have to ensure compliance with labour laws (child labour regulations, the Labour Welfare Act and Minimum Wages Act), as well as register with the Excise and Sales Tax departments. Registration of the factory under the Factories Act will also be necessary. Licenses will also have to be acquired from the State Pollution Board and from relevant local authorities, such as with the Shop and Establishment Act.

Q. How should we go about procuring required finance? Is there any regulatory support for the same?

A. For bank financing, you will need to put together a detailed project report. When assessing your loan eligibility, banks would look at your complete business plan, which would include company overview, product details, manufacturing process, industry overview, business opportunity, management team, financials (Profit and Loss, Balance Sheet and Cash Flow), financial ratios, repayment capacity and finally use of funds. It will be prudent to evaluate certain sensitivity scenarios against forecast assumptions to answer any 'what if' questions. Banks would also ask you to submit your financials in credit monitoring arrangements (CMA) form and it will be helpful for you analyse these before submission.

You may also try the Credit Guarantee Fund Trust Scheme (CGTS), under which you could obtain a collateral-free loan up to Rs 1 crore.

Financing is very subjective and case-specific, so getting bank finance depends on various factors. However, as a thumb rule, banks would typically finance up to 70–75% of the overall project cost. When submitting the bank proposal, you should request an appropriate moratorium term before commencement of the loan repayment.

As regards working capital, as long as it is against eligible inventory stock and debtors, banks would finance upto 75% of net working capital or 60% of book debts (debtors) and 75% of inventory stock. Another source of funding is equity funding from angel investors or seed funds.

RESPONSES BY BHAIRAV KOTHARI, FOUNDER AND CFO PARTNER, SUPERCFO SERVICES PVT LTD