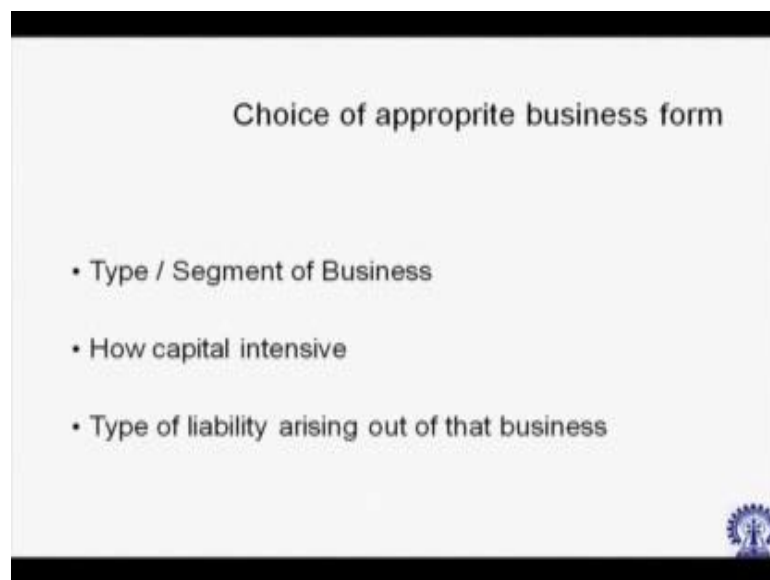


**Legal Compliance for Incorporating Startup**  
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**Lecture - 02**  
**How to Choose Appropriate Business Form for Startup**

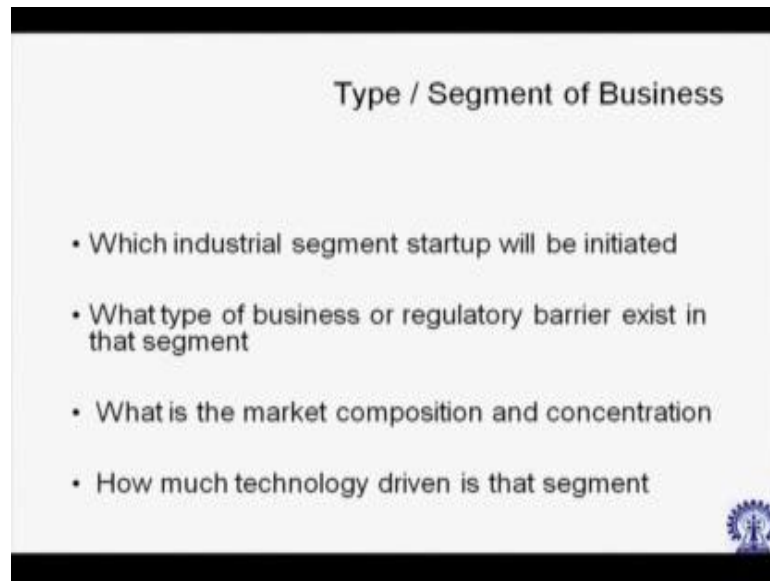
I welcome you in my 2nd Lecture on the Fundamental of Incorporating Startup. And I am going to talk on How to Choose Appropriate Business Form for Startup. In my previous lecture I told you that choosing a right form of business is as important as your idea is for the startup.

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And there are several reasons for that. I have a listed the three reason. The first one is type or segment of business where you want to start your startup. Second is capital intensiveness. How much capital incentive your startup is or that particular sector is. The next one is type of liability may arise out of that particular business or the startup you want to incorporate.

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So, let me explain this particular thing one of the other to you which will give you some idea of choosing the appropriate form of business. Now in the first step issue regarding the type or the segment of the business; you might need to consider that which industrial segment you want to initiate your startup. First of all is it a service segment or a production. If it is service segment, what is the sub segment? Is it a IT and IT's related solution. Is it IT related part financial solutions like, Pay tm? Is it some other type of service provider like, travel agencies or you wanted to start a hardcore production unit. If it is sure in that case again which subsector is it a mining. Is it a manufacturing? If it is a manufacturing in what area of manufacturing; what type of manufacturing? Is it a manufacturing of motor car, or is it a manufacturing of electronic bike or it is the manufacturing of electronic lamps or solar lamps. So, there are so many variations.

And I will suggest before you choose which business form you are going to accept for your startup you should clear about the type of business form already existing in that particular segment and sector. If you find that most of the existing players in that particular segment are private limited company, then it is advisable that you should also incorporate as a private limited company if there is a no other reason which compels you to choose any other form of business. Or you think that the choosing limited liability partnership will be more efficient than forming a private limited company for this

particular purpose. So, what I am trying to drawing your attention is that you should be very careful about choosing the form of business best on what segment you are entering in.

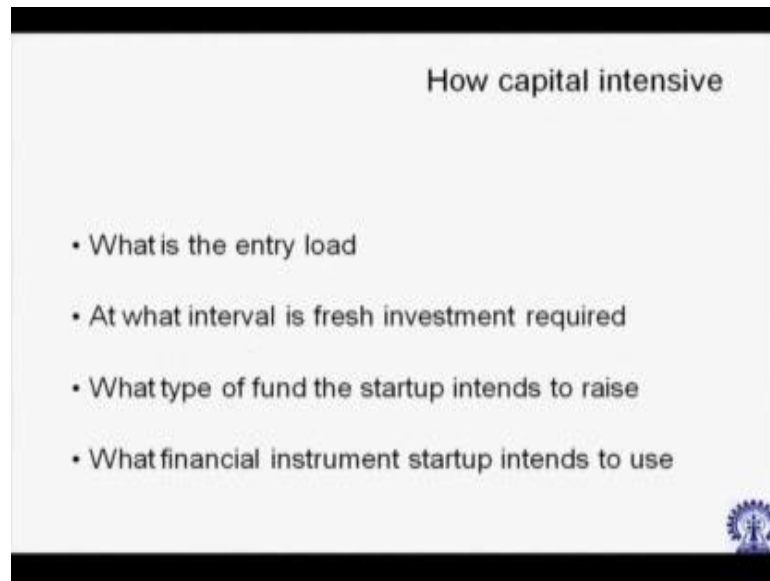
Now, the next point which I thought to talk with you relating to business and regulatory barrier which might exist into that particular segment itself. Like, if there is a business association of that particular segment some time they act as a SRO; Self Regulatory Organization and they prescribe that which business form you should choose for your startup or business initiative. Sometimes even you will find the regulatory prescribe the form of business which you should choose if you want to enter into that particular segment. So, there might be a business or regulatory barrier already existing which prescribe your particular form of business to embrace for your startup or the business initiation.

It might be the market composition and the consideration which is important for choosing the right kind of business form. If you find that the market is only very few player and they are quite a large player, then it is always advisable that you should go for a more formal type of a business form like either private limited company or a public limited company instead of LLP or one man company or partnership or proprietorship.

If you find that market concentration is very high, that means there is one or two or three company who are basically operating into that particular market and they are basically holding that particular market, then at that time you should also choose a formal form of a business like private limited company or public limited company instead of other form. Because, if tomorrow you want to go a financial institution to get a financing which I am going to talk as a next point they will insist you to have a particular form of business to give you even the finance for doing the business into that particular market.

Now, if the segment is technology driven and the technology which they embrace life cycle is very less, the cost of changing the technology is very high. In those circumstances also you should choose a formal form of business. It is depending on what kind of a segment you are entering into or going enter or when you will scale up will be fitted you base your choice or the business form according to that.

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Let me take you the next point of the discussion. You should also aware of the fact that how capital intensive this particular sector is. Now sometimes if you wanted to enter into a market you need to have a higher entry load. That means, in the last slide which we have discussed with you that the market is highly concentrated. So, if you wanted to enter into the market you have to have a huge investment to do the business or a substantial investment to do the business. And if you want to have a substantial investment for doing the business then in that case you cannot choose a form of a one person company rather you need to have public limited company. Because, the finance which is required to entering you might not get that particular finance either from your own savings or from your friends or the family, but you need to access the existing financial institutions or bank to get that fund.

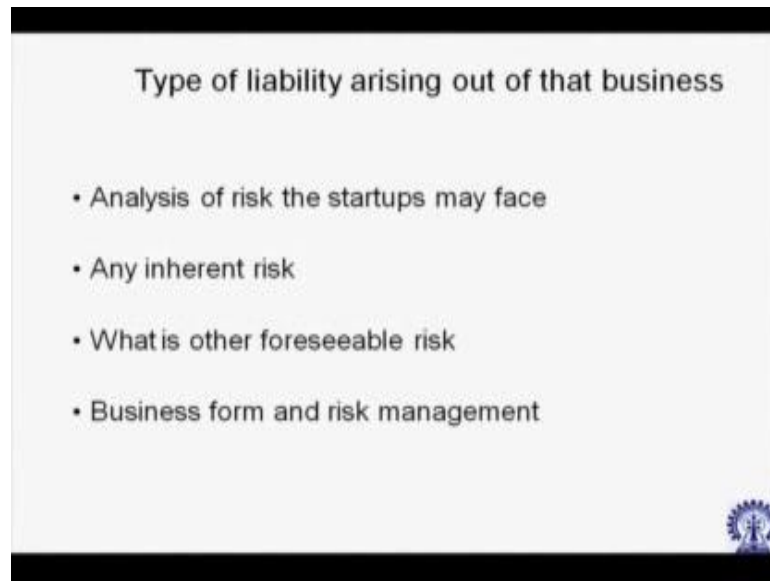
You might require a fresh investment in a frequent interval, because you have to grow quite first or segment is such there is every possibility that the business which you wanted to do it will expand very fast. Let us take example of e-commerce. If you look into the history of all successful e-commerce which is running in India now you might have find that they have started with the tiny organization and over couple of years time they are became a giant organization. And to address their particular need they need to get themselves financed in a frequent interval and from different sources. And to draw

your attention further some of the time even they have financed themselves not only from the domestic market from the international market.

And if you want to access the fund from outside India or international market you need kind of a very formal organizational set up like either a public limited company or even a public listed company. Otherwise, people who are going to finance you they might not get the confidence to finance you. Or they might think that well your organization process is not rightly placed, and because of that your internal processes are not transparent. So, financing your organization will be difficult. It is important also to know that what kind of a financial instrument you are going to use for raising these funds. Are you going to use a capital instruments like, equity, differential equity, or a debt instrument, debenture, bonds or you think that no we are going to use a convertible instrument.

So, that is also important for choosing your organization, because if you are interested to raise the fund through the instruments then your option to choose the organization is limited to company only. You can take a loan from bank and then you can run your proprietorship or partnership or LLP or society or cooperatives. But if you think no, I need to grow very fast I need different kind of capital which is long term capital, which are short term capital. The capitals which can create the asset, capital which can use as a working capital then you need to think about different kind of instrument. And if you are thinking about the different kind of instrument please do remember you need to have a very formal organizational setup like either it can be a private limited company or a public limited company or public listed company.

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Now, my next point is type of liability that might arise out of the business which you want to carry forward. And it is my advice to you that while you are initiating your business you should analyze the risk which your startup might face, at least couple of years may be in the scale of 5 to 10 years. So, you should do the mapping of the risk. Mapping of the risk is very important from the perspective of the organization which you are choosing. Every organization does not have the same kind of risk bearing capacity. And please do remember in some of the business there is an inherent risk which is known to you. There might be a risk which is foreseeable; some of the risks are not foreseeable which are unfortunate.

So, you should have a management in place, you should know what is the plan B. And as I have told you that the business form which you are choosing has a greater role to play in controlling the risk which that particular business might face or your startup might face. I will request you that while you are choosing your form of business you should see that what kind of risk which you might face during your business or even during your initial day, because the risk which you might face in the initial day is something different than the risk which you might face in the later stage. At the same time in the initial days your capital requirement might not be very high or you might not be able to arrange a good capital or high capital for your startup. So, you should choose a

business organization or the business form which is less capital intensive, but can manage the risk at the same time suitable for switching to the more formal organization, like you might initially think to incorporate your business as a LLP.

Then once your business is stabilized and started growing and you might require for infusion of a fund from different venture capitalist, you might convert it into a private limited company. And if you have grown faster and faster and you felt that well now it is a time for you to go to public to raise the fund or financial institution to raise the fund or to access the cheaper capital in international market, you might even convert your organization to a public limited company. So what I am advising, that there should be strategy in place while you are choosing the business form based on the segment you are entering. The capital need you have the liability the business might generate and the growth you want to address.

Thank you.