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INDEX

ONE PERSON COMPANY- A PARADIGM SHIFT IN THE CORPORATE REALM

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ABSTRACT:

The Companies Act is one of the most powerful legislations which monitor the ***journey of a corporate entity from cradle to grave*** i.e. from inception to the liquidation. The corporate sector is also one of the indicators of economic growth of the country. In common parlance the word company means association/group of two or more persons. As per Webster's Dictionary company is "The state or condition of being with another person", while the Macmillan Dictionary defines company as "being together, combined, joined with someone else". Even the Companies Act explains the meaning of the company as an association of two or more persons formed and incorporated for the purpose of carrying on legitimate business. The previous Acts were silent on the concept of **One Person Company (OPC)** but the new companies Act 2013 has introduced several changes, new concepts, rules and regulations for the ease of business and to align with the best international corporate practices. One of the innovations is the OPC. Though the concept is new to India, it has been in vogue in many of the countries across the word since a long time prominent being Liechtenstein, United Kingdom, Singapore, Hong Kong, Delaware, Turkey, UAE and China.This article examines the concept of OPC as introduced in Companies Act 2013, find its relevance in the modern day context, take a peek into the global scenario, examine the advantages of OPC, and extent to which it meets the aspirations of the industry, Government and entrepreneurs.

Key Words: Company, Companies Act, Corporate Sector, Industry and Business, Limited liability,One person company, Professionalism, Separate Legal entity.

1. HISTORY OF INDIAN COMPANY LAW AND THE JOURNEY OF COMPANIES ACT 2013:

1.1 The Company law is that branch of law which deals exclusively with all aspects of companies starting from birth i.e. incorporation, development, growth, management, mergers, acquisition till the

end i.e. winding up. It deals with and defines the rights, liabilities and status of various stakeholders like owners (shareholders), creditors, lenders, investors and depositors. The Indian Companies Act largely borrows its contour and contents from the English Companies Act. The first legislative act was passed in the year 1850 which was based on the English Companies Act, 1844; it was amended time and again in last being in 1913. While dwelling on the topic it is necessary to familiarize with certain basic terms. Joint Stock Company- An association formed and incorporated for carrying on lawful business with a distinctive name and a Common seal. It is a separate legal entity with perpetual succession and limited liability. The classes of companies are- *Chartered companies*: Incorporated under a special charter, *Statutory Companies*: Incorporated under a special act, *Registered Companies***:** (i) Limited by Shares- the liability of a member is limited to the face value of shares, (ii) Limited by Guarantee- The members liable to pay the guaranteed amount when company is wound up. (iii) Unlimited Companies: The liability of members is unlimited (iv) Government companies- 51% or more share capital is held by central government and or by state government/s, (v) Foreign companies incorporated in a foreign country, having a place of business in India (vi) Domestic companies which are incorporated in India (vii) Holding and Subsidiary Companies- controlling and controlled company, (viii) Private Companies- which has maximum 50 members (now 200) restricts the right to transfer shares and prohibits public issue of its shares/debentures, (ix) Public Companies-which do not have the restriction, like private companies. (x) **One person company** refers to a company in which one person holds practically the whole or the substantial no of shares with control over the company (xi) Licenced Companies (non profit associations) incorporated for promoting art, science, education, sports, religion, charity etc.

1.2 The Indian Companies Act, 1913 failed to withstand the test of time therefore after the end of World War II, the need for revision and strengthening of the company law was felt strongly. The Government of India, on 25th October, 1950 appointed a Bhabha committee for a comprehensive review of the Indian companies Act 1913. Based on its recommendation of the committee in 1952, the Companies Act 1956 was passed. This Act was perhaps the bulkiest law in India containing 658 Sections and 14 Schedules and reined for more than five decades. It did not have the clear cut definition of One Person Company. Though the Companies act 1956 by and large stood the vagaries of time it failed the litmus test. The Act was amended more than twenty times from 1960 till 2009. The latest amendment introduced on 23/10/2008 by withdrawing the earlier bill of 2003 was based on the recommendations of J.J Irani committee's report of 2004. The amendment proposed inter-alia strengthening internal governance and shareholders democracy**,** a **new entity in the form of One-Person Company (OPC),** e-Governance initiative of the Ministry of Corporate Affairs (MCA-21), Key Managerial Personnel (KMP) etc. However the bill did not see the light of the day consequent upon dissolution of the 14thLoksabha so it was reintroduced on 03/08/2009 as amendment bill 2009. Finally Bill No. 121-C of 2011 was introduced in Loksabha on 14th December 2011, and passed on

18-12-2012. It received the assent of the President of India on 29th August, 2013 and has been published in the Gazette of India on August, 30, 2013. The Act has 470 Sections, VII Schedules as against 658 Sections and 15 Schedules in the Act of 1956. It extends to the whole of India.

ONE PERSON COMPANY:

2.1 Background: The concept of OPC is comparatively new to India. As mentioned earlier, the concept was already in vogue in other countries across the world. In **USA** several states have given their assent for companies registering as OPC and they are known as Limited Liability Companies. Many other countries like **Singapore** introduced the concept of OPC in 2004, followed by **China** in 2005. The concept of OPC also exists in other countries like Mauritius, UK, Ireland, Qatar, Bahrain and Pakistan. In most countries the law provides that OPC can have more than one director and exempts from holding annual general meeting.

2.2OPC introduced by the Companies Act, 2013 is essentially a legal entity which functions on the same principle as a Company, but with only one member and one shareholder. It works as an alternative for the sole proprietorship firm**.** As the name suggests OPC has only one person as a member and legal and financial liability is limited to the company only. The Companies Act 1956 had made it compulsory for a Company to have minimum two members so that it could be clearly separated from a sole proprietorship. However, this provision was blatantly and rampantly misused by some people who started forming companies by having a titular member/ director allotting one share and retaining all the share capital for themselves. Thus a person could enjoy the status and benefits of a Company while functioning like sole proprietor. To obviate this and to make things transparent and more rational an entity of OPC has been created. Section 2(62) of the Companies Act, 2013 defines OPC as a company which has only one person as a member where all the legal and financial liabilities are limited to the company and not to its members. Further Section 3 classifies OPC as a Private Limited Company for all the legal purposes with only one member. Perhaps the only exception provided by the Act is only "Naturally-Born" person resident of India can incorporate an OPC and that a person cannot form more than five OPCs.

2.3 Salient Features: - As said earlieronly one member is required to incorporate OPC which offers opportunity to start a new venture. The words “One person Company” is to be written in the bracket below the name of the company. OPC enjoys several benefits like-limited liability, separate legal entity, perpetual secession, corporate status and credibility etc. The sole member will also be the Director however more directors can be appointed.

An OPC may be registered as a private Company and can be formed either as-

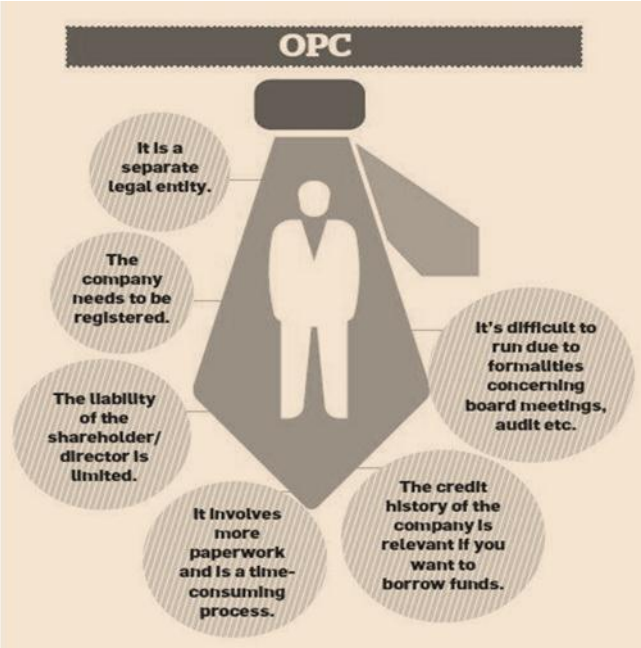
- Company limited by guarantee

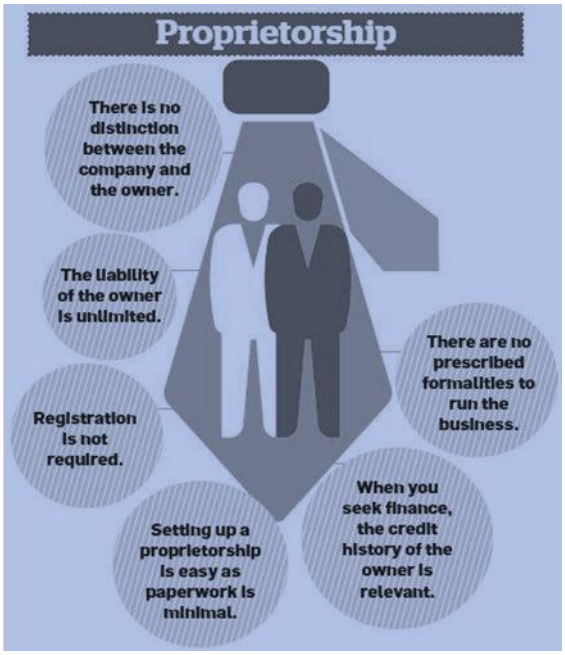
- Company limited by shares

The prerequisites for an OPC limited by shares:

- Minimum paid up capital of INR One Lakh.
- Restricts the right to transfer its shares.
- Prohibits any invitations to public to subscribe for the securities of the company.
- An OPC is required to give a legal identity by specifying a name under which the activities of the business could be carried on.
- The member of an OPC has to nominate a person, obtain his written consent and file with the Registrar of Companies (ROC). The nominee becomes a member of OPC in the event of death/any other incapacity of promoter and is automatically entitled for all shares and liabilities of OPC.
- The member of an OPC at any time can change the nominee giving a notice to the ROC.
- If the share capital/turnover of OPC exceeds certain limits it must get converted into private/public limited company.

2.4 OPC & Sole Proprietorship: A quick look at both the organisations will reveal why OPC is more preferable- i] Succession: In OPC there is a nominee designated by the member who in the event of his death becomes the member and will be responsible for the running of the company. But in the case of sole proprietorship the succession ensues through an execution of will which is challengeable in the court of law. ii] Limited Liability: OPC is a separate entity distinct from the promoter so the liability of the promoter is limited to the unpaid amount. In a sole proprietorship, the liability of the owner is unlimited. iii] Incidence of Tax: OPC has been recognised in the Companies Act, 2013 but not yet under the existing tax laws so it will be put in the same bracket as private company which is charged @30% on total income with surcharge of 5% if the income exceeds 10 million and 3% education cess. iv] Compliance- OPC has to file annual returns and get its accounts audited like a company while a sole proprietorship has to get its accounts audited as per provisions of Section 44 AB of the Income Tax Act, 1961 if the turnover crosses certain limits. v] OPC has a structure of a Private Limited company which is the most popular format of business across the world and generally big organizations prefer to deal with them instead of proprietorship firms.vi] Private Limited company structure enjoys corporate status which helps the entrepreneur to attract /retain quality workforce by giving corporate designations like directors etc which cannot be used by proprietorship firms.vii] Banking and financial institutions prefer to lend money to a company rather than proprietary firms. Despite the advantages of OPC, it is easy to establish a proprietorship firm as the paperwork is minimal and limited to a few approvals. But OPC scores high on the issue of limited liability, credibility and tax rates. The following diagrams highlight major features/differences.





3. <u>ADVANTAGES AND LIMITATIONS OF ONE PERSON COMPANY:</u>

3.1 * Due to limited liability any loss or debts arising out of business transactions will not impact the personal assets of the promoter. * OPC has a structure of a Private Limited company which is the most popular form of business organisation across the world so better credibility. It also enjoys corporate status that helps the entrepreneur to have good human resources. * As per Section 122(1) of Companies Act, 2013 the provisions of Sections 98, 100 and 111 relating to General Meeting/Extra-Ordinary General are not applicable.* The Financial Statement shall be signed by only one director and the annual return to be signed by company secretary or by the director of the OPC where there is no company secretary. Cash Flow Statement is not a mandatory part of financial statements.* If the OPC has only one director it need not hold Board Meeting. In case of more than one director- at least one board meeting shall be conducted in each half of calendar year and the gap between two meetings shall not be less than ninety days. * Flexibility in appointment of Directors: minimum one director is compulsory but OPC can appoint up to maximum fifteen directors facilitating fast decision making.* OPC helps the entrepreneurs to establish startups and after successful growth easily convert into Private /Public limited company.* Banks and financial institutions prefer to lend money to the company rather than proprietary firms. * OPC is one of the easiest forms of corporate entities to manage.A director can enter into contract with OPC, get remuneration, invest his money, extend loans and bring down the incidence of tax.

3.2 Limitations:- # The Government of India enacted first law on Limited Liability Partnerships (LLP) in 2008 which gave a choice to the small business and professionals to form a LLP, partnership or private Limited Company either at the time of setting up a new business, or the Conversion of an existing partnership/Limited Liability Company into LLP. However LLP has not been much successful and till date approximately 13,600 entities are registered. Therefore the success of OPC is

also doubtful to some extent. The proprietors can raise funds from their relatives, friends and others while OPC being a private limited company is not permitted to borrow from others. # Existing private limited companies can now increase the shareholders up to 200 to get more capital whereas the resources of OPC are restricted to available funds of the promoter. # In proprietorship business assets are shared by legal heir/s while conversion of existing proprietorship business into OPC requires providing one nominee which can lead to disputes among other family members if any. # Foreign companies may face difficulties to incorporate their subsidiaries as OPC's since the subscriber is an individual with another individual as a nominee, further it cannot become a wholly owned subsidiary, # OPC will pose difficulties in FDI, # Banks generally insists on collateral/other securities for extending credit to small entrepreneurs as such they may not provide funds easily to OPC. # It is not easy to set up OPC as it requires a lot of paperwork a time-consuming process. # OPC can not undertake NBFC activities, # Last but not the least the requirement of filing documents with the Regulator may not encourage small entrepreneurs to incorporate as or to switch over to OPCs. Experts feel the key challenge for OPC will be to ensure that supporting legislations like Income Tax also recognize such a company as an entity and not just an extension of a sole proprietorship.

3.3 Conversion of OPC into Public/Private Limited Company and Vice-Versa- The circumstances and process of conversion of OPC in to other entity is delineated as follows- When the paid up share capital of an OPC exceeds fifty lakh rupees or its average annual turnover during the relevant period exceeds two crore rupees; within a period of sixty days it has to give a notice to the ROC and convert itself into a public/private limited company within six months. OPC shall alter its memorandum and articles by passing a resolution as per section 122(3) of the Act to give effect to conversion. If OPC or any of its officers contravenes the provisions of these rules, it shall be punishable with fine. OPC can also get itself converted into Public/Private limited company by increasing the number of members and directors with maintaining the minimum paid-up capital as per requirements of the Act. Conversion of Private company into OPC- A private company other than a company registered under section 8 of the Act having paid up share capital of fifty lakhs rupees or less or average annual turnover during the relevant period is two crore rupees or less may convert itself into OPC by obtaining 'No objection' in writing from its members and creditors and passing special resolution in general meeting. OPC shall file such special resolution with ROC within thirty days. The company shall file an application in Form No.INC.6 for its conversion into OPC along with documents like- declaration by directors through affidavit confirming consent of members & creditors and status of paid up share capital and average annual turnover, the latest Audited Balance Sheet and the Profit and Loss Account; and copy of 'No Objection' letter of secured creditors. Thus conversion of OPC in to Private/Public limited company and vice versa is permitted under the Act.

GLOBAL SCENARIO:

Most of the industrialized and progressive countries have quite elaborate statutes for governing and regulating their corporate sector; glance at such legislation from some of the European and Asian countries-

- **China:** One of the prominent amendments introduced in the New Company Law 2006, of China is to permit natural/legal persons to form single shareholder limited liability companies. However in order to prevent abuse of the corporate structure in single shareholder companies, the New Law has provided i] the capital requirement of 100,000 Yuan to be paid in a single installment; ii] single investor may form only one single shareholder company, and iii] if the shareholder tries to mix up the finances of the company and his own personal finances, he will lose the protection of limited liability and will have joint financial liability for company's debts.
- **Pakistan**: OPC can be incorporated under the Single Member Companies Rules, 2003 of Pakistan. The amended law permits one person to form a single member company by filing with the Registrar, at the time of incorporation, a nomination in the prescribed form indicating at least two individuals to act as nominee director and alternate nominee director.
- **Turkey-** According to Turkish Commercial Code since 2012 a joint stock company or limited liability company may be established with one or more shareholders. The code also sets forth certain obligations and conditions for such companies. In addition, limited liability companies and joint stock companies can have a board of directors that consists of only one board member.
- **UK:** The first statute on the subject of Companies Act was passed in 1834 and amended several times since then latest in 2006. The Act and the Companies (Single Member) Private Companies Regulations 1992 provides for such a concept and the procedure of incorporation is quite simple.
- **Singapore:**Singapore permits One Person Company under Companies Amendment Act of 2004.
- **United Arab Emirates**: One Person Company was recognized with only Articles of Association.
- **Corporate law in the United States-** There is no single piece of corporate law in USA like India and Canada. Each state in USA has a different system of corporate law about fifty one, different systems i.e. one law for each state plus for the District of Columbia. In USA several States permit the formation of a single member Limited Liability Company (LLC).
- **EU Proposal of 2014-** On 9th April European Commission put forward a proposal for establishment of European Private Company Statute. The initiative is in line with recommendations of report of the Reflection Group on the future of EU Company Law issued on 5th April 2011. The company will have minimum capital € 1 and will be known by the name ***"SocietasUnius Personae".*** The European small & medium sized enterprises (SMEs) which are the backbone of the economy of the EU will be largely benefitted by this novel and innovative initiative.

- **Hong Kong-** The Hong Kong Companies Ordinance 2003 has been amended to enable the incorporation of single member company. The amendments are mainly based on the UK Law of 2006.
- **Delaware-**In Delaware the Limited Liability Company Act allows the incorporation of a single member company. The single member can be a natural person, a corporation or even a limited liability partnership and the member need not be a citizen of Delaware. Moreover a single member company can be treated as "disregarded entity" for federal tax purposes meaning that it will be charged the rates of personal taxation.

SUMMARY AND CONCLUSIONS:

The main purpose for introduction of OPC was to encourage the sole proprietors, micro and small enterprises etc, to enter into corporate sector and to make their liability coextensive on the lines of international trends. The other reasons advanced in support of OPC were that it will help foreign companies to set up subsidiaries conveniently which would encourage flow of foreign funds into India. Despite the limitations it is expected that OPC will provide a stronger platform and greater flexibility to individual entrepreneurs to manage their business efficiently while enjoying the benefits of corporate structure. As the process of starting a business is getting simpler it will open up new vistas of opportunities and could prove a boon for every form of small business. OPC will also help many foreign companies which need to appoint a minimum of two nominees now when they form a wholly-owned subsidiary. OPC will open avenues for favorable banking facilities. Foreign Investors will be dealing with one member to establish a corporate relationship and not with a score of shareholders/directors resulting into ease of doing business. The concept of OPC is still in its nascent stage in India and would require some more time to mature and to be fully accepted by the business world. With passage of time, the OPC mode of business organization is all set to become the most preferred form of business organization especially for small entrepreneurs. OPC would act as a spring board for small entrepreneurs, professionals and other service providers. The experts however feel that the OPC needs some amendments like doing away with the limit of turnover, filing of some reports/returns and simplification of incorporation process. Expectedly, there will be good Foreign Investments, Joint Ventures, and Mergers etc. OPC is doing well in European Countries, Asia, and USA etc and in the upcoming years the impact of OPC will be remarkable and it certainly has a promising future for Indian Entrepreneurs.

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AN ANALYTICAL STUDY OF CRUDE OIL PRICE CHANGES AND ITS DERIVATIVES PRCING IN INDIA

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ABSTRACT

The crude oil price has seen a consistent fall in last 1 year because of the over production of some countries in OPEC(Organization of Petroleum Exporting Countries) group particularly Saudi Arabia .Increased local production of crude oil by U.S. and lowering of demand from China and Europe has resulted in a higher supply of crude in market. This sudden development has positively impacted India reducing the import bills which was reeling under the pressure of a strong dollar. Under recovery in some products like diesel has been almost wiped out after government's decision to deregulate diesel prices.Such bold steps in other products like LPG will further help curtail fiscal deficit**.**

INTRODUCTION

Efficient, reliable and competitively priced energy supplies are necessities of economic growth. For any developing country, energy development is an integral part of the overall economic strategy.Impact on Govt Fiscal and Current Account Deficit GoI to benefit from lower fuel subsidy along with higher excise collections; exports and capital inflows likely to be hit: Lower crude oil prices are likely to ease the pressure on Government of India's (GoI's) fiscal balances.Iran, Iraq, Venezuela, Saudi Arabia these are the largest oil exporters and Opec's most influential member, could support global oil prices by cutting back its own production, but there is little sign it wants to do this.Added to this is the fact that the oil

cartel Opec is determined not to cut production as a way to prop up prices.There could be two reasons - to try to instill some discipline among fellow Opec oil producers, and perhaps to put the US's burgeoning shale oil and gas industry under pressure.

2) OBJECTIVES

- To understand the reasons for changes in prices of crude oil.
- To study the determinants of crude oil prices.

The study follows an exploratory pattern about the dynamics of price changes in international markets and subsequent changes which happen in India to adjust the prices of crude oil derivatives like diesel, petroleum and LPG and what has been the impact on Government exchequer. The study covers secondary data from Government websites disclosing information about crude oil imports and its derivatives.

3) ANALYSIS -

India has a 78.11% dependency on crude oil imports for its consumption.

			2013-14	January			April-January	
		Unit/Base						
				2014	2015		2014	2015
1	Crude Oil Production In India	MMT	37.8	3.3	3.2		31.7	31.1
2	Consumption of Petroleum Products	MMT	158.4	13.5	13.9		131.3	136.3
3	Production of Petroleum Products	MMT	220.2	18.4	19		183.2	184.1

4	Imports & Exports:							
	Crude Oil Imports	$ Billion	142.9	11.8	6.0		119.6	101.8
	Petroleum Products (POL) Imports	$ Billion	12.3	1.3	0.8		10.1	10.5
	Gross Petroleum Imports	$ Billion	155.2	13.1	6.8		129.7	112.3
	Petroleum Products Exports	$ Billion	60.7	3.8	2.5		50.4	42.0
	Petroleum Imports as % of India's							
5		%	34.4	36.1	21.1		34.6	29.3
	Gross Imports							
	Petroleum Exports as % of India's							
6		%	19.4	14.1	10.5		19.5	15.8
	Gross Exports							
7	Import Dependency	%	77.6%	76.45%	77.59%		77.24%	78.11%

(Source: ppac.org.in)

A fall of 1 dollar in crude oil price reduces the bill by approximately 1462 crores for the government. Diesel deregulation of prices has led to a drastic reduction in under recovery

from Rs.8.49/litre to Rs.2.70 per litre. The total under recovery in diesel has seen a drastic drop of 335% from 47655 crores to 10935 crores. However the government rolled back its scheme of providing LPG subsidy for only first 6 cylinders for consumers .This extension of providing subsidized cylinders has thus impacted the under recovery in LPG gas and the figures are on rise compared to 2013-14

	2013-14	**Apr-Dec`13**	**Apr-Dec`14**
Diesel	8.39	8.49	2.70*
PDS SKO	33.98	33.12	31.69
Sub. Dom LPG	499.52		428.31
	Total Under-recoveries (Rs. Crores)		
Diesel	62837	47655	10935*
PDS SKO	30575	22373	21216
Sub. Dom LPG	46458	30604	34941
Total	139869	100632	67091
	Burden Sharing (Rs. Crores)		
Government	70772	35772	22085
Upstream	67021	47971	42822
OMCs	2076	16889	2184

(Source : ppac.org.in)

4) CONCLUSION

1)As dollar appreciates oil prices go downward as countries have to convert their local currencies against dollar for crude oil imports. As it is , over supply of crude oil has sent oil prices tumbling. Appreciation of dollar would further weaken the demand of crude oil which means that low crude oil prices henceforth will see a rise subject to not only a cut in oil production but also a dollar depreciation.

2)Diesel price deregulation has almost wiped off the under recovery in diesel implying that government has significantly less subsidy burden to carry .This deregulation is a very important step in govt's efforts to curtail fiscal deficit. However such bold steps need to be taken for LPG as well as the treasury still bleeds over subsidy given for cooking gas.

3) Privatization is the key to reduce the deficit. With reducing under recoveries signaling less losses ,oil marketing companies could have a leaner balance sheet which could signal a ripe time for divesting them. This would not not only release funds which could be utilized for other development work ,it would also reduce the dependence of government on external funding.

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A CONCEPTUAL STUDY ON VENTURE CAPITAL AN EFFECTIVE WAY OF FUNDING NEW COMPANIES.

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ABSTRACT

I Sagar Suresh Gupta, Assistant Professor would like to present a conceptual paper on Venture Capital Funding. Venture Capital funding is the way to raise finance where it is difficult for developing countries like India who face the problem of finance to promote new entrepreneurs and promote business development for the growth of Economy. As is the case now with the change in the government and the new approach been taken towards growth of India and its Economy where in the concept of make in India is being promoted by our Prime Minister Shri NarendraModi. As we know finance is basic requirement for starting the business. Venture Capital funding is becoming an effective method of funding. As compared to Developing countries Venture Capital funding is still growing in India. The success behind venture capital funding in India is its risk taking ability and the different areas of investment. The investments of venture capital are concentrated in rural areas and the various sectors.

The sectors of investment are agriculture, dairy, education, energy, handicrafts, health, water and sanitation, technology for development, port services, container logistics and distribution warehousing.Healthcare, Financial Services, Consumer Brands, Infrastructure, Life sciences, Consumer Goods and Services, Business Services, Value Added Manufacturing. Lifestyle, Life skills and Education, Lifecare and Applied Technologies.

A Conceptual Study on Venture Capital an effective way of funding new companies.

Abstract: I Assistant Professor Sagar Suresh Gupta would like to present a conceptual paper on Venture Capital Funding. Venture Capital funding is the way to raise finance where it is difficult for developing countries like India who face the problem of finance to promote new entrepreneurs and promote business development for the growth of Economy. As is the case now with the change in the government and the new approach been taken towards growth of India and its Economy where in the concept of make in India is being promoted by our Prime Minister Shri NarendraModi. As we know finance is basic requirement for starting the business. Venture Capital funding is becoming an effective method of funding. As compared to Developing countries Venture Capital funding is still growing in India. The success behind

venture capital funding in India is its risk taking ability and the different areas of investment. The investments of venture capital are concentrated in rural areas and the various sectors.The sectors of investment are agriculture, dairy, education, energy, handicrafts, health, water and sanitation, technology for development, port services, container logistics and distribution warehousing.Healthcare, Financial Services, Consumer Brands, Infrastructure, Life sciences, Consumer Goods and Services, Business Services, Value Added Manufacturing. Lifestyle, Lifeskills and Education, Lifecare and Applied Technologies.

Statement of study

- Is Venture Capital Funding an easy and effective way of raising finance for new ventures and new business.
- How successful Venture Capital Funding is, in India

Venture Capital

Venture Capital is a source of financing for new business. This is a very important source of funding start-ups as they do not have enough capital and access to other sources of finance due to high risk associated with the business.

Most of the Venture Capital comes from Investment banks, wealthy investors and other financial institutions that pool such investments or partnerships. It is popular among new companies, or ventures with a limited operating history that cannot raise finance through debt finance and equity.

Venture Capital companies provide the required amount of capital to the start-ups or new ventures and become the major equity holders and also the part of management. Venture Capital companies also help the companies in decision making also give technical advice as and when required by the company.

In India Venture Capital has proved to be successful up till now. This method of raising finance is still new and the concept is still growing as compared to other developed nations in the world. In India venture capital companies provide finance in different areas and at different stages of financing.

The stages of Venture Capital Financing:

Angel Investors are most of individuals or friends or relatives who wish to help other

entrepreneurs to get their business of the ground and earn a high return on their investment. Angel Funding usually ranges from $150,000 to $1.5 million.

1. Seed stage: It is the first stage of financing. In this stage the financing is directed towards product development, R&D, market research, building a management team and developing a business plan. This means setting up the base of the company from scratch

   Its difficult to finance such companies as they require continuous financing for pre start-up R&D, product development and testing, or designing specialised equipment.

2. Early Stage: Those companies who have started up the process but are not having funds for making the products for commercial use. In this type of funding the large amount of funds are required and the Venture Capital firm having lots of early stage companies incur high cost and it keeps increasing.
   a. Start Up: Supports product development and initial marketing. These firms have already prepared a business plan, assembled key management and market studies, but they have not yet sold their product in the market.
   b. First Stage: Capital is provided to start commercial manufacturing and sales. These companies are there in the market for less than three years and have their product or service in testing or pilot production. In some cases product may be available commercially.

3. Formative Stage: it includes both seed stage and early stage financing.
4. Later Stage: Capital provided after commercial manufacturing and sales but before any initial public offering. The product or service is in production and is commercially available. The company showing significant revenue growth, its presence more than three years in the market, but may or may not show profit.
   a. Third Stage: Capital provided for major expansion.
   b. Expansion Stage: It refers to second and third stages of financing.
   c. Mezzanine (bridge): Financing the step of going public and represents the bridge between expanding the company and IPO.
5. Balanced Stage: It refers to all the stages from seed to mezzanine.

Venture Capital in India:

Venture Capital funding is governed by Securities Exchange Board of India (SEBI). SEBI is the nodal agency for registration and regulation of both domestic and overseas venture capital funds. Accordingly it has made following regulations, namely, Securities and Exchange Board of India (Venture Capital Funds) Regulations 1996 and Securities and Exchange Board of India (Foreign Venture Capital Investors) Regulations 2000. These regulations provide broad guidelines and procedures for establishment of venture capital funds both with India and outside it; their management structure and set-up; as well as size and investment criteria of the funds.

In India Venture Capital funds can be categorised into the following groups:

1. Those promoted by Central Government controlled development finance institutions, example:
    - ICICI Venture Funds Ltd.
    - IFCI Venture Capital Funds Limited (IVCF)
    - SIDBI Venture Capital Limited (SVCL)
2. Those promoted by State Government controlled development finance institutions, example:
    - Gujarat Venture Finance Limited (GVFL)
    - Kerala Venture Capital Fund Pvt. Ltd.
    - Punjab InfoTech Venture Fund
    - Hyderabad Information Technology Venture Enterprise Limited (HITVEL)
3. Those promoted by public banks, example:
    - Can bank Venture Capital Fund
    - SBI Capital Markets Limited
4. Those promoted by private sector companies, example:
    - IL&FS Trust Company Limited
    - Infinity Venture India Fund
5. Those established as an overseas venture capital fund; for example:
    - Walden International Investment Group
    - SEAF India Investment & Growth Fund
    - BTS India Private Equity Fund Limited

As of 31st May 2012 there are in all 208 Venture Capital Fund registered with SEBI.

For the Purpose of Study only first five companies have been considered from the SEBI list due to time constraint.

Sr. No.	Name of the Venture Capital Fund	Registration No.	Date of Registration	Address
1	Aavishkaar India Micro Venture Capital Fund	IN/VCF/02-03/037	22.05.2002	8A, SAAHIL, 14 ALTAMOUNT ROAD MUMBAI - 400026 Tel: 022-56998955 arundiaz@singnet.com.sg
2	Aboyne India Trust	IN/VCF/09-10/161	10.11.2009	Aboyne India Trust, C/o. Eredene Infrastructure Private Limited Office No.3, Sarkar Heritage, Kane Road, Band Stand, Bandra, Mumbai - 400 050 Tel: 022-26593377, 022-26567000 022-26596327 neha.pathak@ilfsindia.com
3	ACA Private Equity Trust	IN/VCF/08-09/136	04.11.2008	Ascent Capital Advisors India Private Limited, Concorde Block, 16th Floor, U.B. City, 24 VittalMallaya Road, Banglore 560 001 Tel: 80-30551222 Fax: 80-30551200 jayashree@ascentcapital.in
4	Access India Fund	IN/VCF/10-11/0203	08.03.2011	Level-I, Trade Centre, BandraKurla Complex, Mumbai – 400051 nilesh@accesspe.in

5	Aditya Birla Private Equity Trust	IN/VCF/08-09/138	24.12.2008	C/o Aditya Birla Trustee Company Private Limited 1-A, Aditya Birla Centre, S.K Ahire Marg, Worli, Mumbai 400 030 Tel No: 022-6652 5728 Fax No: 022-6652 5229

Aavishkaar India Micro Venture Capital Fund

An innovator in early-stage investing. Founded in 2001, with a vision to catalyse development in India's underserved regions, it identifies capable entrepreneurs, provides them with capital, supplements it with a nurturing environment and helps build sustainable enterprises.

Over the last decade, Aavishkaar has established a successful track record with over US$ 155 million under management and a diverse portfolio of high – impact businesses at various levels of growth. This spans a range of sectors, namely agriculture, dairy, education, energy, handicrafts, health, water and sanitation, technology for development, microfinance and financial inclusion.

Aavishkar, the country's biggest social entrepreneurship-focused venture capital fund, is set to raise $400 million (Rs 2,500 crore) in 2015. This would be the biggest amount raised by any fund focusing on the social sector or impact investing in the country.

Aavishkarwould raise two separate funds, a $100 million and a $300 million one within the next 12 months. "We hope to close the first fund by the end of March as we are half way there. We are also raising a separate $300 million fund which would be closed by the end of 2015," said VineetRai. CEO and managing director, Aavishkar.

The $100-million fund would be an Africa-focused fund while the $300-million fund would invest in India. In the past 12 years, Aavishkar had raised $112 million and invested in the early stage social sector enterprises. However, with its upcoming $300 million India-focused fund, it plans to invest in companies at a later stage. This would also be the first time an Indian VC is investing in Africa.

In the past decade, Aavishkar had made 48 investments across eight sectors with 90 per cent

of the companies having rural and semi-urban marketsas their focus. All the companies that Aavishkar invested in through its first four funds were in their seed stages. In the past year, the funds have also managed to exit 15 investments, 11 of them fully, 4 partially.

Aboyne India Trust,

C/o. Eredene Infrastructure Private Limited

Eredene Capital Limited is a closed ended investment company registered and incorporated in England and Wales. It was established in 2005 to take advantage of long term investment opportunities in Indian infrastructure with a focus on port services, logistics and warehousing. Eredene has no employees but is managed by Ocean Dial Asset Management Limited and investments are made into private companies through a Mauritius subsidiary. Since 2012, in line with its stated strategy, Eredene has been focused on an orderly process of realising its investments in India and returning capital to shareholders.

Eredene has seven current investments in India, all in port services, container logistics and distribution warehousing.

Investing in India's Infrastructure Company MJ Logistics a warehousing and Third Party Logistics Company.

Ascent Capital Advisors India Private Limited

Ascent Capital is a leading India-focused independent private equity firm. We are one of the most experienced teams on ground with over 150+ years of collective experience in Indian capital markets. Over the past 15 years they have helped over 55 entrepreneurial teams build leading businesses across diverse sectors such as Technology, Ecommerce, Healthcare, Financial Services, Consumer Brands, Infrastructure, etc.

They currently manage US$ 600 million across multiple funds. Focused on Growth Capital, the typical investment through fund ranges from US$ 10 million to US$ 30 million.

Access India Fund

Access Asset Managers is a fund manager set up to focus on Private Equity Investments in the Indian SME sector. The Manager is in the process of launching Access India Fund – I invest in high growth small and mid-cap companies in India

Access focuses on those sectors where they have a reasonable amount of understand and exposure to. The sectors that they focus on include

- Life sciences
- Infrastructure Services
- Consumer Goods and Services
- Business Services
- Value Added Manufacturing.

Aditya Birla Private Equity Trust

Aditya Birla Private Equity – Fund I is a sector-agnostic domestic Fund, focused on providing growth capital to mature sectors and businesses. The Fund has a corpus of INR 8.81 billion with a mandate to invest in and harvest business growth opportunities created by the strong prospects of the Indian economy. The Fund looks for substantial minority stakes while investing primarily in unlisted, mid-market, high-growth, India-centric businesses with a potential to play the role of an active investor.

Aditya Birla Private Equity – Sunrise Fund is a domestic Fund, focused on providing growth capital to proven businesses/ concepts within sectors that are in early stage of exponential growth. The Fund has mandate to invest in potential winners within innovation driven sunrise sectors based on specific themes including Lifestyle, Lifeskills and Education, Life care and Applied Technologies. The Fund looks for substantial minority stakes while investing primarily in unlisted, exponential-growth, India-centric businesses in sunrise sectors with a potential to play the role of an active investor.

Conclusion:

1. Venture Capital funding is growing in India.

2. The number of venture capital companies has increased over a decade now. The current number of companies registered with SEBI is 208 as of 31st May 2012.
3. The venture capitalist invests in various different sectors. This shows the future of investment in India and growth prospects in those sectors.
4. This method of raising finance is proving helpful for the growth of Economy.

Learnings:

1. Venture Capital funding is concentrated in different sectors in India.
2. Venture capital funding is helping to develop business in rural areas.
3. Areas like health care, water and sanitation, infrastructure, energy, agriculture, Education technologies, etc. are the areas getting concentrated for future investments and probably the areas for economic growt

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Determinants of export demands of India in the SAARC region:

An Empirical Analysis

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Abstract:

There are various factors which impact a country's economy. One of them being the export demands of the country. Keeping this in mind, for India to make sure that its economy is heading the right way, it is very important to realize and meet its export demand potential. One of the potential market for Indian export lies among the major SAARC economies; Bangladesh, Pakistan and Sri Lanka. This study is aimed at identifying and analysing the major determinants of export demands of India to the SAARC economies mentioned for the period 1995-2013. A multiple regression analysis is performed for each country pair and it is found that for India Bangladesh country pair, only GDPC is the significant factor. For India Pakistan, GDPC, real exchange rate and FDI Inflow are all significant. While for the India Sri Lanka country pair, GDPC and real exchange rate are significant.

Key Words: Export Demand, FDI, Exchange Rate

1. INTRODUCTION

Exports of a country play a very important role in the economy. Exports as a whole affect the industrial environment. Keeping that in mind, it is important for India to have a sustainable development with a balance between trade and foreign exchange reserves to maintain the country's export growth. ***(Source: Singh, 2013)***

South Asian Association for Regional Cooperation (SAARC) is an economic and geopolitical organisation of eight countries that are primarily located in South Asia. The organisation was established by the governments of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. Afghanistan was later added to the group to make it a total of 8 nations. However, there is a growing debate among academicians, politicians and researchers for the SAARC region since this region is considered as one of the most restrictive areas in international trade and recently the member countries of SAARC are trying to become more open.

However, among the 8 nations, India, Pakistan, Bangladesh and Sri Lanka are the major contributors in terms of trade value. Among these countries, India is one of the major exporters.

SAARC was created with the primary aim to create a free trade zone which could prove to be a catalyst for economic activity. If trade restrictions are loosened India could benefit economically in the long run. Although political complications like Pakistan's refusal to grant India MFN status whereas India granted Pakistan MFN status in 1996, are causing lot of issues. These kind of issues may restrict India's exports potential. An interesting comparison made shows the contrasting nature of trade volumes between neighboring countries. As of 2013, China-Taiwan annual bilateral trade stood at around $197 bn. while the corresponding figure for India-Pakistan was about $2.4 bn. *(Source: United Nations database)*.This goes to show the potential for stronger and closer economic ties among SAARC nations which may impact the Indian exports significantly. SAARC provides its member nations a platform to pool their bargaining power at the international forum. South Asia is one of the least economically integrated regions of the world. Intra-regional trade is just about 5% of total official trade. If we look at other regions, for instance, intra-regional trade in East Asia accounts for over 50% of total trade. Large population density of the SAARC region (highest in the world) makes it a huge potential market for the Indian

exports.*(Source: "Saarc: India needs to lead the way", Centre for Policy Research by SrinathRaghavan).*

The idea of the study is to understand and analyse the factors that might influence the export demands of India to the other 3 major SAARC economies (Bangladesh, Pakistan and Sri Lanka). The layout of the paper is as follows,section 2is about a brief review of literature and some preliminary dataanalysis. Section 3 covers the objectives of the study. Section 4 discusses the methodologyused and the data sources, section 5 displays the results and discussions. And finally section 6 concludes.

2. A BRIEF LITERATURE REVIEW

A lot of econometric studies have been done in the past to find out the impact of various macroeconomic factors on the export demands of India. Based on a study by **Choong & Lam (2011)**on 70 developed and developing countries for the time period 1988 to 2002, it is found that a certain level of financial sector development is a significant and prerequisite for FDI to have a positive effect on economic growth. The major finding of the study is that FDI generally has a positive impact on the economic growth rate of countries. In a study made exclusively on Sri Lanka for the time period 1977-2003,**Balamurali (2004)** in his study,examined the relationship between FDI and economic growth by considering relationship between real gross domestic product, foreign direct investment, domestic investment and openness. He found thatthe foreign direct investments exert an independent influence on economic growth and there is a bidirectional causality between foreign direct investment and economic growth. **Barua (2013)**in his paperstudied the impact of FDI on Indian exports for period 2000-2012 and concluded that FDI acts as a vehicle for accelerating the exports of India.**Kumar (2012)** examined the relationship between export demands of India and FDI for the period 1991-2010 and concluded that FDI has a positive impact on India's exports.

Coming to real exchange rate, **Chinn(2006)** investigates US datato check the effect of real effective exchange rate on real aggregate exports for goods and services. Results indicate that the real appreciation of the domestic currency against other major currencies has a strong negative effect on export volumes. **Flam & Nordstrom (2003)** in their studyintroduced the bilateral exchange rate variable in gravity model while working with aggregate data for 20 exporting and importing OECD countries for the period 1990-2002. They found that there is a negative elasticity of real exchange rate variations with respect to bilateral exports, which is close to unity.

Per capita income of a country can also have effects on the volume and composition of trade. **Helpman&Krugman(1985)** in their study analysed thispossibility by assuming that higher levels of per capita income correspond to greater capital abundance corresponding to higher level of trade.

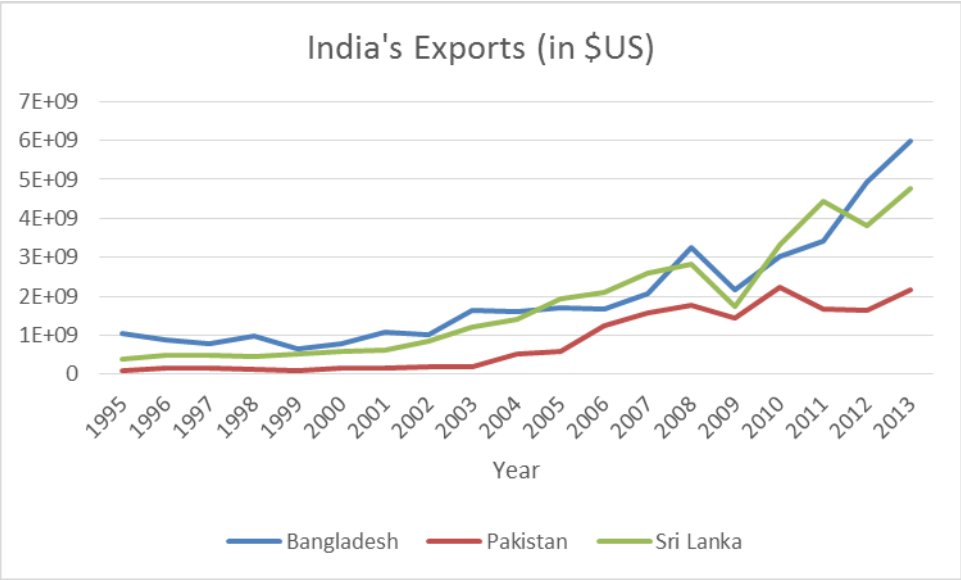
Atif, Zaman& Shah (2012)in their study tested the potential and impact of trade liberalization on aggregate export demand of Pakistan for the period 1972-2010 and founded that there exists a unique long-run relationship among real aggregate export and trade openness policies.

Blyde&Sinyavskaya(2007)used a large dataset in their study to explore whether the liberalization of trade in services is beneficial for the international trade in goods and they found that the empirical evidence was supporting this notion.

Though there are plenty of research works related to the determinants of export demand, it is found that very few empirical studies dealt with India's exports to major SAARC partners. Against this background, it will be interesting in investigating and analysing the impact of key determinants of India's export demands to the major economies of SAARC region.

3. Preliminary Analysis

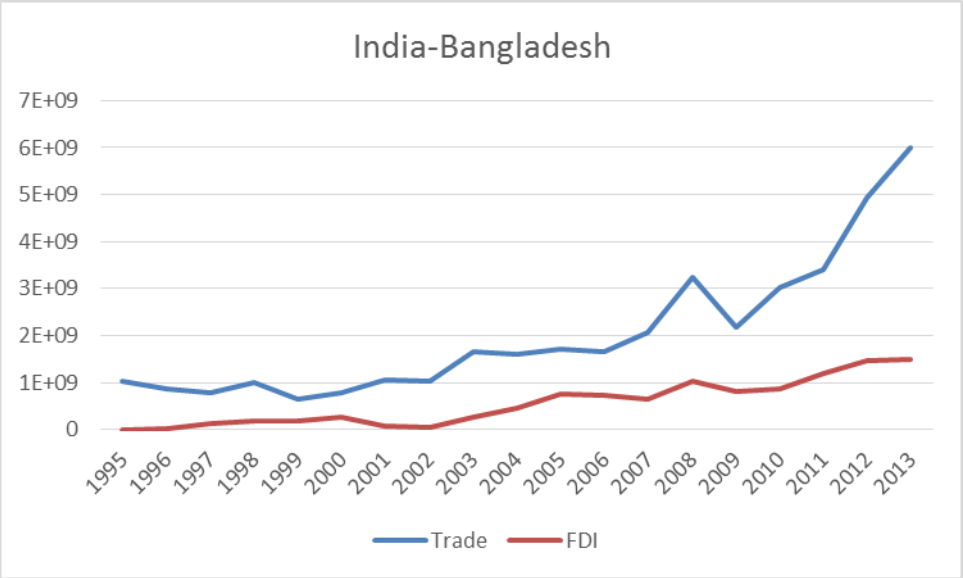
Chart 1. Trend of India's exports to major SAARC economies over the past two decades:



Source: Calculation based on data from UN Comtrade database

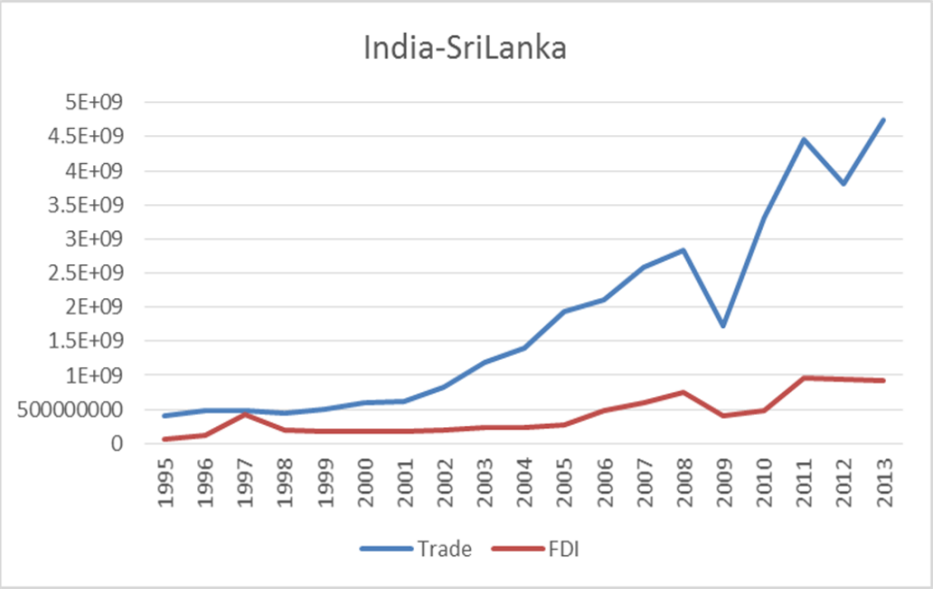
We can see from chart 1, the exports from India to the 3 major SAARC economies have increased over the time period 1995-2013. India has been exporting maximum to Bangladesh among the three nations with a huge jump in the past 3 years

Chart 2.1. Trend of FDI Net Inflows to Bangladesh with respect to total trade export from India:



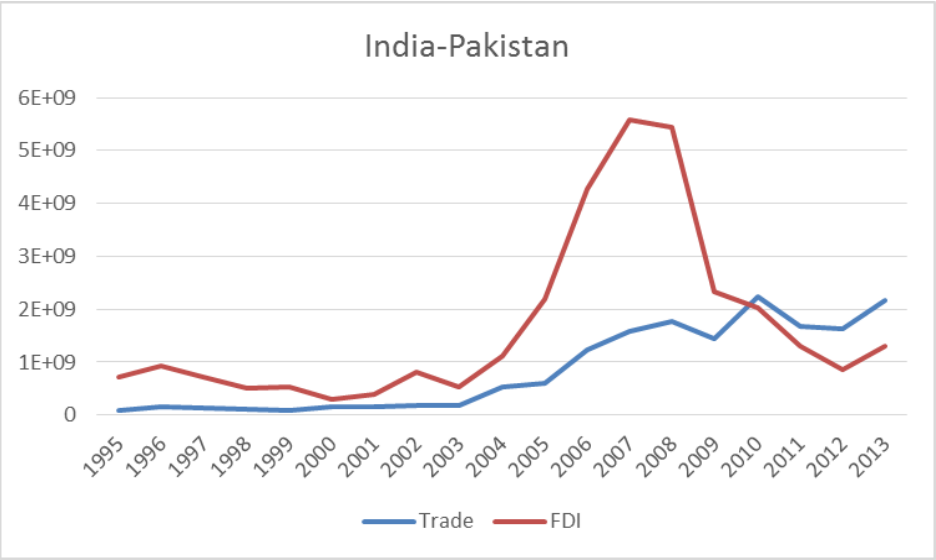
Source: Calculation based on data from UN Comtradeand WDI databases

Chart 2.2. Trend of FDI Net Inflows to Sri Lanka with respect to total trade export from India:



Source: Calculation based on data from UN Comtradeand WDI databases

Chart 2.3. Trend of FDI Net Inflows to Pakistan with respect to total trade export from India:



Source: Source: Calculation based on data from UN Comtrade and WDI databases

Here, the trend in the charts 2.1, 2.2 and 2.3 suggests some correlation between FDI inflow in these 3 countries and trade export from India. It will be interesting to find out whether FDI plays a significant role in effecting export demands from India to these countries or not.

4. OBJECTIVE

Based on the literature review, it will be interesting in investigating and analysing the impact of key determinants of India's export demands to the major economies of SAARC region.

The key objective of the research is to determine the key parameters which impact the export demands of India. Based on the literature review, the key parameters identified are:

1. GDP per capita of the importing country

2. FDI net inflows to the importing country

3. Bilateral Real exchange rate of importing country

4. Trade openness of the importing country

After identifying them an analysis of these key parameters is to be performed for each of the three country pair (India-Bangladesh, India-Pakistan and India-Sri Lanka). The focus is on analyzing to what extent the export demand of India is being impacted by the above parameters.

5. Methodology and Data Sources

Strong quantitative analysis will be required. Multiple regressions analysis is run and estimated for each country pair (India- Bangladesh, India-Pakistan, India- Sri Lanka) individually on the following equation. There are a total of 3 equations for 3 country pairs.

The proposed equation is:

$$Ln\,(T_{ij})_t = \beta_0 + \beta_1\, Ln\,(GDPC_j)_t + \beta_2 Ln\,(Openness)_t + \beta_3\, Ln\,(REX_{ij})_t + \beta_4\, Ln\,(FDI_j)_t + e_{ijt}$$

Where,

i denotes India

j denotes Bangladesh, Pakistan and Sri Lanka (foreign country)

t denotes time

Ln is natural Logarithm (Base e)

T represents export demands from i to j

GDPC represents Gross Domestic Product per Capita of the foreign country

Openness (Trade openness) is calculated as sum of imports and exports as percentage of GDP

REX represents Bilateral Real Exchange Rate between i and j

FDI represents Net Inflow of Foreign Direct Investment in foreign country (j)

Data on bilateral trade flows, bilateral exchange rates, GDP per capita, and openness is collected. Data on bilateral trade flows are extracted from United Nations database(UNCOMTRADE). Data on exchange rate, openness and GDP per capita has been collected from World Bank database (WDI).

6. Results& Discussions

Based on the methodology discussed, after performing multiple regression analysis for each country pair, it is found that for each country pair, there are some specific factors which are significant. The individual analysis for each country pair is given:

6.1. India-Bangladesh

Time Period: 1995-2013

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(Intercept)	11.13223	2.034162	5.472638	0.0001
LNGDPC	1.316521	0.437444	3.009575	0.0094
LNFDI	-0.066255	0.052086	-1.272028	0.2241
LNREX	-1.037904	1.140520	-0.910027	0.3782
LNOPN	0.836421	0.941106	0.888764	0.3891

R-squared	0.910258	**Adjusted R-squared**	0.884618
No of Observations	19	**Prob(F-statistic)**	0.000000
F-Statistic	35.50084		

For the country pair, India-Bangladesh, the R-Square of the regression is coming to be 91% which shows a good fit. The regression analysis shows that the gross domestic product per capita (GDPC) of Bangladesh significantly impacts export demands of India to Bangladesh with a positive coefficient, which signifies that an increase in purchasing power of people of Bangladesh increases the export demands of India. The other factors taken into

consideration here, Net FDI inflows to Bangladesh, Real exchange rate between India and Bangladesh and trade openness of Bangladesh do no significantly impact the dependent variable.

6.2. India-Pakistan

Time Period: 1995-2013

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.995263	2.532402	-0.393012	0.7002
LNGDPC	2.055328	0.218506	9.406257	0.0000
LNOPN	-0.421813	0.976694	-0.431879	0.6724
LNREX	-1.928752	0.846024	-2.279785	0.0388
LNFDI	0.387887	0.084764	4.576060	0.0004

R-squared	0.982206	**Adjusted R-squared**	0.977123
No. of Observations	19	**Prob(F-statistic)**	0.000000
F-Statistic	193.1999		

For the country pair, India-Pakistan, the R-Square of the regression is coming to be 98.2% which shows an excellent fit. The regression analysis shows that except openness, all the other three factors are having a significant impact on the trade export demands of India to Pakistan.

6.3. India-Sri Lanka

Time Period: 1995-2013

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.487024	4.783077	0.519963	0.6112
LNGDPC	1.538987	0.394680	3.899326	0.0016
LNFDI	0.169349	0.156745	1.080411	0.2982
LNREX	-3.425418	1.184520	-2.891818	0.0118
LNOPN	0.246491	0.892133	0.276294	0.7864

R-squared	0.948567	**Adjusted R-squared**	0.933872
No. of Observations	19	**Prob(F-statistic)**	0.000000
F-Statistic	64.55008		

For the country pair, India-Sri Lanka, the R-Square of the regression is coming to be 94.8% which shows a good fit model. The regression analysis shows that the GDPC of Sri Lanka and the real exchange rate between the country pair significantly impacts the trade export demands of India. The other factors taken into consideration here, Net FDI Imports to Sri Lanka, trade openness of Sri Lanka do not significantly impact the dependent variable (the trade export demands of India).

Table 6.4.*Summarised Results*

Country-Pair	Factors impacting trade				
	GDPC	FDI	Openness	Real Exchange Rate	R-square
India-Bangladesh	Yes	No	No	No	91%
India-Pakistan	Yes	Yes	No	Yes	98.2%
India-Sri Lanka	Yes	No	No	Yes	94.8%

7. Concluding Remarks

The exports of a country play a very crucial role to the development of a countries' economy. This paper is an attempt at identifying and analyzing the important parameters that impact the export demands of India to its major SAARC economies. It is found that in case of India-Bangladesh, only GDPC of Bangladesh has a significant impact on export demands of India. While in case of India-Pakistan, GDPC of Pakistan, net FDI inflow to Pakistan and Real exchange rate between the two countries, all are significant variables. And between India- Sri Lanka, GDPC of Sri Lanka and the real effective exchange rate between the two countries are significant. Apart from these factors, export diversification index was also considered as an important factor, although due to data availability only up to 2010 it was not taken into the analysis and left as a scope for future research. Among the parameters included, preceding year's FDI, and GDPC were also tried, although they came out to be insignificant. As a future scope of study, some additional factors for individual country pair can be included in the regression equation. These factors could be some trade agreement signed between the two countries, or declaration-non declaration of MFN status and many more. Also in future study, bilateral FDI can be included as an independent variable.

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