

COMPANY SECRETARY

**SBILL CHAPTER 4 (STARTUP AND ITS
REGISTRATION) HANDWRITTEN NOTES**

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Startup and its registration

A startup company is entrepreneurial venture which is typically emerging, fast-growing & aim at solving unmet need by develop innovative product.

It is designed to develop & validate scalable business model effectively.

Startup India policy

Startup policies

Govt. initiatives

Exemption for startup

Tax benefits

cooling period for startup.

Definition of startup.

A entity shall be considered as startup.

→ upto period of 10 year from date of incorp.

Public company

Partnership LLP.

- Turnover of entity shall not exceed 100 cr. rupees.
- Entity working towards innovation development of products and scalable busi. → with high potential employ. generation.

Funds Support & Incentives

- Fund of funds: → To provide fund to startup, Govt. has created fund for startup → (FFS) at SIDBI with corpus of 10000 cr.
- Startup India seed fund: → Govt. has launched startup India seed fund worth ₹1000 cr. for supporting startup.
- Credit Guarantee fund for startups: → is being setup with corpus of 500 crore. per year over next 4 years.
- Tax Incentives: → There is no Tax for startup for 3 years. Max. amt. can be invested is ₹50 lacs.
- Legal support & fast tracking: → facilitating fast track filing at Patents, Trademarks & design has been introduced. It provide for quicker examination of patents filed by startups, it reduce time taken in getting patents.
- Self-certification based compliance regime: → compliance norms relating to environmental & labour laws have been eased in order to reduce the regulatory burden on startup.
- Setting up Incubators: → Incubators not only offers high no. of services, they often also makes grants/debt/equity investments.

- Research Parks :- 7 research parks will be set up as per the Startup India action plan. Out of these 7 IIT Kharagpur already has a functional research park.
- Startup India Innovation Week :- Govt. Organise startup India Innovation week around the National Startup day and one for International stakeholders.

Penalty for startup

If any co. ~~does~~ fails to comply any provision, so penalty imposed on it but in startup penalty $\frac{1}{2}$ half legal. And maxi. 2 lakh in case of company and 1 lakh in case of officer in default.

Regd. Recognition of eligible entity as startup

- A startup shall make an online appli. over mobile app. or portal set up by the DPIIT.
- The appli. shall be go. along with.
 - A copy of certiff. of incorporation / regd.
 - A write up. about nature of Busi. highlighting that how it is working toward innovation, develop. process.
- The DPIIT may after calling for such documents / infor. & making ~~such documents~~ such inquiries.
 - recognise the eligible entity as startup.
 - Reject appli. by providing reasons.

Exemption for startups

- ① Simple process :- To get regd. is very simple process. full regd. process.
- ② Reduction in cost . There is 80% reduction in cost of filing patents for startup.
 - The Govt. has also provided the list of facilitators of patent & trademarks.
- ③ Easy access to funds :- To provide funds to startup. 10000 crore surplus fund is setup by govt.

The govt. is also giving guarantee to banks & other financial Insti. for providing funds to startups.
- ④ Tax holiday for 3 years → startup will be exempted from income tax for 3 years.
- ⑤ Research & develop. facilities :- seven new research parks will be setup to provide facilities to startup in R&D sector.
- ⑥ Easy exit :- startup can close its business within 90 days from date of application. of winding up.

7) Choose your investor → The & startup have option to choose many investors.

* Benefits/Exemption To startups. Under. Co. act 2013

- Section 73 → startup company receives amt of 25 lakh or more by a single tranche from a person & if it is repayable / convert. into equity within 10 years. then "It shall not be treated as deposit".
- Section 73 clause (a) to (e) shall not apply to startup up for 5 years from its incorp.
- startup are allowed to issue Employee stock options to promoters working as employee
- A startup company can issue sweat equity share not exceeding 50% of paid up share capital, upto 10 years.
- The annual return of startup must be signed by CS or if CS is not available then by director of company.
- Startup shall at least have one board meeting in half calendar year and gap b/w two board meeting shall not exceeds 90 days.

Registration

- Incorporation of Busi. Entity.
- Before getting regd. as startup, we have to regd. as LLP, Partnership firm, Private Ltd co.
- After incorp. It should state where the regd. office of new entity has been established.

Register with startup India

- To get regd. as startup visit startup. India website & click as button regd.
- After that enter his/her name email. p.d, mobile no. and password then click on "register" button.
- OTP will be sent to email id, & other details should be mentioned.
- After entering these details startup. India profile will be created.

Get recognition from DPIIT

- The recognition helps startup to avail various benefits.

Application for recognition

- On startup up "recognition form" the details has to be filled such as → full address
 - authorised representative details.
 - director/partner details.

- Info. required
- Start up activities & self certifi.

Documentation required for regis.

following documents shall be kept ready.

- Incorporation / regis. certifi. of startup
- Pan no.
- Proof of funding
- Authorization letter of author, super.
- Proof of concept.
- Patent & trademark details.
- List of awards.

Getting the recognition no.

- Once application has been made recog. no. will be generated after exami. of documents within 2 days after subm. details.

Important points for startup.

- choose the right legal structure for your startup.
- Regi. & busi. license
- Intellectual property protection
- founder equity: founder equity should be split amongst founder according to nature of role played by each founder.
- founder agreements: The agree. should represent clear under. b/w founders on all key issue related to startup.
- Employment contracts:
- Employee stock option pool (ESOP)
- Third party agreements
- Investment structuring
- compliance management.

Financing options available for startup companies

Depending on the stage of a startup. major sources of financing

- entrepreneur includes.
- saving of founders
- venture capital
- crowd funding
- family & friends
- Incubator / company builder.
- Internal financing
- venture debt
- angel investors
- Govt. subsidies
- Bank loans

<u>Characteristics</u>	<u>Equity financing</u>	<u>Debt financing</u>	<u>Guarant.</u>
<u>Nature</u>	No comp. of Invest. fund.	Invested funds to be repaid within specific time with Int.	There is no component of invested fund.
<u>Risk</u>	Risk is high	lower than equity	No risk
<u>Pressure for repay</u>	less pressure.	more pressure	No pressure
<u>Return to Investor</u>	Capital growth for investor	Interest payments	No return
<u>Involve in Decision</u>	Investor are involved in decision making	less involvement in decision making process	No involvement in decision making process.
<u>Source</u>	Angel investor, Self financing	Bank, non banking financial Insti.	C. Govt & S. Govt.

* Seed Capital.

- Startup Business needs help of finance to grow and explore.
- The funding done at the early stage is called seed fund and the capital known as seed capital.
- Seed capital is the initial capital used at time of starting of BNS.
- this capital can come from the founders, families.

Equity financing

Startup are usually equity financed by way of a venture capital / private equity investor / angel investors.

Venture capital - V.C is first large investment. a startup can expect to receive. Usually, when a company invests into startup in venture capital.

① Angel Investors :- A.I are individuals who are willing to fund venture in return for equity stake.

Following restriction applicable to angel investors.

- ① all not related to industrial group whose turnover exceed ₹ 300 crore.
- ② all not companies with family connection. when any of angel investors who are investing in company
- ③ Investment by venture fund in cap. shall not less than ₹ 25 lakh & shall not exceed ₹ 10 cr.
- ④ Lock in period - one year.

Funding procedure from venture capitalists.

- MOU is made & setting out legal terms for agreement.
- Party will make share subs. agreement, deb. subscr. agreement
- Parties may enter into Shareholders agreement
- Issuance of securities through private placement process.
- Filing of necessary e-form with ROC.
- Amend AOA as per Shareholder's agreement.
- Bridge Round :- when startup needs additional capital b/w two round of funding. they may raise a ^{bridge} round
- series funding :- After seed funding round / Angel funding round then series funding round will start from A to Z.

* Things to know when raising a "Series A round."

① Be series ready :- If any startup is looking to raise Series A, then it might be good idea to get familiar with venture funds.

The following key factor are taken into consid.

- Promising unit economics.
- Revenue.
- Proof of Busi. model.

② Start early :- fund raising is the time-consuming process in the current environment.

It can be realistic about the timeframe

The deal process :- two part → pre-term sheet & post-term sheet

③ Leverage your network.

Startup shall leverage their network & shall build genuine relationship before starting Series A.

④ Practice your pitch

Every startup shall take as many meeting as possible.

Firstly startup should meet low priority investors they will ask relevant questions.

⑤ Create fundraise momentum.

Every startup shall try to keep conversation with interested investor as much as possible.

⑥ Know the "Standard market practice"

Startup shall keep themselves up to date with commonly offered deal term of Series A.

Best financing?

- ① Loans from Banks & NBFCs.
- ② External commercial borrowing
- ③ CUMSE loans.

Credit Guarantee trust for medium small enterprise.

* Initial Public Offering (IPO)

→ In IPO, company raise funds by offering its equity share to public.

* Unconventional modes of financing options

① crowd funding

→ Getting seed funding small amt. collected from large no. of people is known as crowd funding.

② Incubators

Incubators helps entrepreneurs to develop busi. idea by providing resource & services in return of 2-10% equity stake. the incubation period is 2-3 years.

* ENTREPRENEURSHIP

→ It is the process of making money, earning profits and increasing wealth.

→ The entrepreneur is the one who is willing to bear the risk of new venture if there is significant chance for profit.

Element of entrepreneurship.

- ① Innovation
- ② Risk taking
- ③ Vision
- ④ Organising skills.

Traits of entrepreneur

- ① He is the person who owns his own enterprise.
- ② He is a moderate risk taker.
- ③ He is innovative.
- ④ reflects strong urge to be independent.
- ⑤ He always tries to do something better.
- ⑥ Prepared to withstand the hardship.
- ⑦ He is determined but patient.
- ⑧ has sense of leadership
- ⑨ Takes personal responsibility.

Characteristics of entrepreneur

- ① mental ability
- ② Business security
- ③ clear objectives
- ④ human relation
- ⑤ communication ability.

Unicorn startup

A unicorn is a term used to indicate a privately held startup company with valuation of over 1 billion.

→ the journey of unicorn starts from growth stage, they solve everybody's problem with unique way

The reason for successful startup is their solutions on specific need in new & unique way.
The Indian startup ecosystem has developed dynamically in recent times.

* Life cycle of startup

Stage 1 - Ideation & development

It is categorised by importance of testing, capability of product & service offered.

Testing viability can help to answer larger questions about govt. aid.

→ Some considerations are:-

→ Target market, → Bus. model → Team skillset.

Stage 2 Validation

The process involves defining goals, developing a value proposition & validating same through customer feedback.

→ Some consi.

→ validating & testing, prototypes → modifications

Stage 3 Early Traction

At early traction stage set of target customers can test effectiveness of product offered validation of product can give definitive results to outside world.

Pivoting:- when company shifts its bus. strategy then pivoting occurs. comp. shifts its bus. strategy to provide changes in its industry.

Stage 4 Growth & Resist

When the company has attained some economic health & has sufficient size and earns avg or above avg, then at this stage company can choose to scale up or expand its market through IPO, mergers & acquisition.

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