

Detailed guidelines for formation of Producer Company

A. Aims and Objectives of a Producer Company

- PCs are owner-based organizations comprising of members of weavers, craftsmen, etc.
- A PC is a legal entity & registered body formed by primary producers (the stakeholders of the organization). The business activities consist of the activities related to the primary product. The organization works for the benefit of the member producers.
- Each artisan/member shall contribute some fixed amount as share capital. This also normally works as the ratio for profit sharing until and unless there is any other mutually agreed method.
- A portion of the profits is divided among members and rest is ploughed back into the company capital.
- As a company the PC can get subsidized loans for long term and also working capital.

B. Advantages of a Producer Company:

- Small producers do not have individual capacity for procurement of raw material and sale of quality products to get benefit of economies of scale. PCs help in gaining better bargaining power for making purchases for raw material as well as marketing of products.
- PCs will ensure income flow for the producers / members through improved technology, skill upgradation, procurement & supply of Raw Materials, aggregation and Market linkage.
- Design / Innovations and market exposure are critical areas where PC lack in. PCs offer better organization, procurement of raw material at low prices, capacity building, pricing and branding, value addition, direct market linkage.
- A Producer Company is a hybrid between a Private Limited Company and a Cooperative Society, thus enjoying the benefits of professional management of a Private Limited Company as well as mutual benefits derived from a Cooperative Society.
- Ownership and membership of a Producer Company is held only by “primary producers” or “Producer Institution/s” and member’s equity cannot be traded. Hence, nobody can take over the company or deprive the primary producers of their organization.
- The area of operation for a PC is the entire country giving flexibility to expand and do business in a free and professional manner.
- The liability of the members is limited to unpaid amount of the shares held by them. Hence, the private assets of the members are safe from company losses.
- The minimum paid up capital being Rs. 1 lakh and minimum authorized capital being Rs. 5 Lakh for a PC, it is easy to mobilise the small amount.
- Minimum number of producers required to form a PC is 10, while there is no limit for maximum number of members and the membership can be increased as per feasibility and need.
- There cannot be any Government or Private equity stake in the PCs which implies that, PC cannot become a Public or Deemed Public Ltd. Company. Hence any Government or other corporate threat is nonexistent in professional functioning of the company.

C. Marketing support to the Producer companies

- Exclusive slots to be allotted for Producer Companies in Dilli Haat, Urban Haats & Expos.
- Special marketing events of DLEs/SHEs are to be organized for PCs.
- Producer Companies to be developed as suppliers of Niche handloom Products for proposed flagship retail stores to be run by NHDC.
- Buyer-seller-meets to be organized for providing marketing support to the Producer Companies.
- Domestic and International marketing support channels of National Small Industries Corporation (NSIC) to be explored and utilized.

D. Capacity Building

Producers have skill of producing but the need is to build their capacity by establishing the **Complete Value Chain Management viz:**

- Procurement of Raw Material
- Facilitating Finance for Inputs and Sale
- Design Intervention & Upgradation as per the market trends
- Disseminating Market Information
- Dissemination of technology & Innovations
- Trainings for Product Diversification as per the market
- Aggregation & Storage of Products
- Branding, Packaging, Labeling & Standardizing
- Quality Control
- Marketing (within & outside the country)
- Legal, Management and Accounting knowledge

E. Support from Consultants/Professionals

Private individuals in the sector may not have the capacity to run a producer company on professional lines in the initial phase. Therefore, professionals would need to be inducted to run these producer companies. In the initial phase (say for first 3 years). Government could identify a pool of professionals who would professionally manage these producer companies and also transfer knowledge to the producer members. Government may bear the cost of these professionals and also set performance parameters for them.

F. Facilitation by O/o DC (HL) and WSCs

- Identification of clusters/artisans/weavers for PC
- Provision of Initial/Seed Capital and Working Capital
- Identification of managers and Board Members
- Training the management in Finance/Inventory/Marketing/Legal
- Profit sharing methods

G. Share capital for a Producer Company:

- The minimum Authorized Capital of Producer Company is Rs.5 lakh.
- The Authorized Capital of the Company can be more than Rs. 5 lakh as indicated in the Memorandum of Association (MoA).
- The minimum paid up capital for PC is Rs. 1 Lakh.
- Rest of the Authorised Capital for Rs. 4 Lakh of PC can be Cash or Kind.

H. Eligible Members of Producer Company and their Position:

- In a Producer Company, only primary producers or producer organization can become members. Any 10 or more producers (individuals) can join together to form a PC.
- Membership is required by purchase of shares in a Producer Company.
- A Producer Company can act only through its members.
- Members create the company.
- Members can also wind up the company.
- Members act through their General Meetings.

I. Producer Companies are to be **registered** under Section 581 (C) of Indian Companies Act, 1956, as amended in 2013.

J. Preparatory arrangements for registration and incorporation of a PC:

- Identify a cluster where the Producer Company (PC) can be formed.
- Conduct Baseline and Feasibility Studies to ensure that a viable PC can form in the cluster. Plan for business activities that are possible to improve the incomes.
- Meet the primary producers and introduce the concept of Producer Company to them.
- Explore the need for a Producer Company (PC) with the primary producers. The primary producers should understand the benefits and feel the need for it.
- Create a critical group of primary producers, who are very enthusiastic about the idea of Producer Company and empower them further with the concept and details and benefits of a Producer Company.
- Use the critical group for canvassing among other eligible members about the need, urgency and benefits of a Producer Company.
- Have focused group meeting and motivate eligible members to become shareholders.
- Hold meetings with prospective shareholders, discuss objectives and possible business ideas for the company.
- Once the primary producers are willing to form a Producer Company and are ready to contribute the share capital.
 - a Identify Promoter Directors.
 - b Prepare a draft Articles of Association (AoA).
 - c Prepare a draft Memorandum of Association (MoA). Hire services of a consultant to get the AoA and MoA drafted, if necessary.

- d Call first informal meeting of the shareholders to approve.
 - i. Articles of Association.
 - ii Memorandum of Association.
 - iii. Authorized capital and cost of each share.

K. Legal formalities for formation of a Producer Company :

- Obtain Digital Signature of the Nominated Directors, who will affix DSC (Digital Signature Certificate) on all the documents to be submitted to Registrar of Companies online, on behalf of the Company.
- Choose maximum 4 names for the Producer Company in order of preference.
- Apply for the name availability in Form – INC1.
- Once name is available, a letter is received from Registrar of Companies indicating it. The documents to be submitted to Registrar of Companies thereafter are:
 - a Articles of Association (AoA).

(AoA is a document that specifies the rules for a company’s operations. It defines the company’s purpose and lays out how tasks are to be accomplished within the organization).
 - b Memorandum of Association (MoA).

(MoA is a document that indicates what activities the company can undertake.
MoA needs to be prepared carefully to cover all the activities planned for the present and future of the Producer Company in a broad manner).
 - c Form No.INC-22 indicating Registered Office.
 - d Form No.DIR-12 for Directors’ Appointment.
- Apply online for Directors Identification Number (DIN) for the proposed Directors.
- Submit the documents to Registrar of Companies for incorporation of Producer Company. Ministry of Corporate Affairs (MCA) maintains the details of all the Directors of all the companies with a Unique Identification Number which is called Director Identification Number (DIN). Every Director needs to have a DIN form MCA. DIN form is available on the website of MCA. Before formation of the PC all the Directors should have DIN.
- Issuing of Certificate of Incorporation with PAN & TAN in the name PC.
- Apply for Trade License, Professional Tax
- Opening of Bank Account with a minimum two officially nominated signatories in the name of PC.
- Obtain Certificate of Commencement (CoC) in INC-21.

(Certificate of Commencement is issued by the Registrar of Companies as a conclusive proof of formation of a Producer Company. Producer Company is effective and comes into existence from the date mentioned in the Certificate of Registration granted by the Registrar of Companies).

L. Name of the Company:

- Every Producer Company name should be unique and should be end with “**Producer Company Limited**” which indicates its status as Producer Company.
- The Producer Company may be named in such a way that it inspires the entire membership and creates a sense of ownership for its members and is to be indicative of the objectives of the Company.
- Apply for the name online to Ministry of Corporate Affairs (MCA) in e-form INC-1.
- A fee of Rs.1000/- is to be paid along with e-form INC-1.
- Digital Signature of the applicant for the name is to be attached.
- If the name is not available, Registrar of Companies will inform about the same. This necessitates submission of fresh set of names in the same application.

M. Documents to be submitted to the Registrar of Companies for incorporation of a Producer Company:

- Copy of the letter of Registrar of Companies confirming the availability of name.
- MoA and AoA duly stamped and signed.
- Form INC-22 indicating the Registered Office of the Company with full address.
- Form DIR-12 in duplicate with details about the Directors of the Company.
- Form INC-7 on stamp paper declaring compliance with all the incidental matters regarding formation of companies.
- Consent of each of the Directors along with form DIR-12.

N. Legal status of a Producer Company:

- On incorporation and from the date mentioned in the Certificate of Commencement (CoC), the Company becomes a person in the eyes of law.
- It is empowered to hold the properties in its own name and has its own right.

O. Time for registration of a Producer Company:

- It may take 2 to 3 months to form a PC.

P. Costs for registration of a Producer Company:

- It may cost Rs.40,000/- approximately.
- It depends on the fee charged by CA, Company Secretary and Authorized Agents, etc.

Cost break-up :

Particulars	Amount (Rs)
Name availability	1000
Digital Signature	5000
Director Identification Number (DIN)	2500
Stamp duty / Registration/ Preparation of MoA & AoA / filing fees etc.	9500
Professional fees of Chartered Accountant	12000
Incidental Expenses	10000
TOTAL	40000

Note: The above amount may vary from place to place.

Q. Board of Directors (BoD) of PC :

- Board of Directors is chosen by the members. Board of Directors will comprise primarily of the educated children of weavers of the zone of operation of the Producer Company.
- Board of Directors may act collectively only through meetings.
- A producer company can have a minimum of 5 Directors and not more than 15 Directors.
- The name of the first Board of Directors is indicated in the MoA.
- The AGM chooses the Directors in the first meeting and thereafter whenever required.
- The tenure of a director appointed by AGM is minimum one year and a maximum of 5 years.

R. Office Bearers of PC:

- An Office bearer is a person who is selected / appointed to look after the day-to-day affairs of the Producer Company.
- The officer bearers include Chief Executive Officer (CEO), Accountant etc.
- The Company pays salaries to all the officer bearers.

S. Authority of the members of PC:

Members exert authority on the company only through General Meetings. The General Meetings alone can do the following:

- Approve Budget and adopt Annual Accounts of the Company.
- Approve the quantum of withheld price.
- Approve the patronage bonus.
- Authorize the issue of bonus share.
- Appoint an auditor
- Declare a dividend and decide on the distribution of patronage
- Amend the MoA and AoA.
- Specify the conditions and limits of loans that may be given by the Board to any Director.

T. Rights of the members:

- To transfer one's shares.
- To vote on resolutions at meetings of the Company.
- To move amendments to resolutions proposed at meetings.
- To enjoy the profits of the Company in the form of dividends.
- To choose Directors and to participate in the management of the company through them.
- Will comprise primarily of the educated children of weavers of the zone of operation of the Producer Company.

U. Voting rights of the member:

- In case of Producer Company comprising only of individual members or combination of individual members and producer institutions, then the voting rights shall be based on one vote per member.
- In case of Producer Company consisting only of producer institutions, then the voting rights shall be based on the participation in the business of the Producer Company in the previous year.

V. Cessation of membership:

- By complete transfer of member's shares.
- By forfeiting his/her shares.
- By a valid surrender.
- By death.
- By the company selling member's shares in exercise of its right under its Articles of Association.
- By order of a Court or any other competent authority attaching and selling the shares, in satisfaction of a decree or claim.

W. Functions of the Board:

- Will comprise primarily of the educated children of weavers of the zone of operation of the Producer Company
- The Board is responsible for formulating, supervising and monitoring the performance of the Producer Company.

X. Appointment of CEO and role:

- A full time CEO will be appointed by the Board of Directors as per AoA.
- The CEO is to be other than a member. However, endeavor should to have a CEO from amongst educated children of weavers of the zone of operation of the Producer Company
- The CEO is accountable to both the Board of Directors and members.
- Do administrative acts of routine nature including managing the day-to-day affairs of the Company.
- Operate bank accounts or authorize any person, subject to the general or special approval of the Board.
- Make arrangements for safe custody of cash and other assets of the Company.
- Sign business related documents as may be 'authorized by the Board' for and on behalf of the Producer Company.

Y. Seed Capital

- Options for seed capital to create a rolling fund for the Producer Company may be explore from various schemes of different Ministries and departments of Govt. of India viz. Ministry of Rural Development, MSME Ministry, National Small Industries Corporation (NSIC), NABARD, Venture Capital Assistance Scheme of Small Farmers Agri Businesses Consortium (SFAC) etc.

Z. Checks and Audit

- The existing co-operatives should be subjected to forensic auditing by a CA firm before being allowed to convert into a producer company, and receive any benefits from the Government
- One of the conditions for any producer company having an annual turnover above a certain threshold (of say Rs 2 crore) to be eligible to receive any kind of grant or assistance from Government would be to have professionals in their management especially on the marketing and finance side.
- Any entity receiving grants or any assistance from the Government would necessarily have to their accounts audited by a CA firm and have to give a mandatory report on the following:
 - i. Related Party transactions are being carried out at arms-length and deviations, if any.
 - ii. Details of loans and advances extended to directors, shareholders, related parties, etc.
 - iii. Details of debts due and bad debts
 - iv. Verification of cash balances, securities and liquid assets (FDs, etc.)
 - v. Details of assets and liabilities
 - vi. Details of donations and subscriptions.

AA. Additional Guiding Principles

For incorporation of Producer Companies and their successful functioning thereof, the following guiding principles are to be followed:

- (i) To choose an area which is geographically contiguous and has a homogenous population. Too much distance between handloom houses/pockets in a single producer company is to be avoided.
- (ii) The number of weavers should be sufficiently large to be able to generate sizeable market surplus.
- (iii) Educated children of Weavers (15-20) to be encouraged and associated in the functioning of Producer Companies.
- (iv) Each such person, based on their educational background and ability to be assigned a different role, such as raw material procurement and management thereof, finance, design, marketing etc. Each one of them to be trained in the area assigned to them by the field experts to be arranged by O/o DCHL or WSCs.
- (v) To develop synergy between such functionaries, the entire team to be trained in the finer aspects of supply chain and handheld to ensure supply of raw materials and access to market for the finished goods.
- (vi) Continuous interaction between the Producer Company and the designer/s to be ensured.
- (vii) In the above process of capacity building, one AD and one Director to be associated as Mentors.
- (viii) For marketing support, exclusive slots to be allotted for Producer Companies in Dilli Haat and Urban Haats.
- (ix) System of direct credit in sellers account to be explored for Dilli Haat.