

## Settingup of New Business

---

### 4.0 Introduction

The concept of small scale sector was conceived sometime around 1950 as a means to continue the entrepreneurial skills among the general population, apart from the fact that substantial employment would be generated over a wide geographical areas so that people do not migrate to look for jobs either in large industries or with the Government. To protect this sector, certain advantages were specified in terms of investment in land, plant and machinery so that the large industries do not creep into this sector. To continue the support, the sector was allowed to enjoy host of excise and other concessions. Some 47 items were initially reserved for exclusive manufacture by the small scale sector so that this sector did not have to face competition from established units. This list was progressively increased to protect this strategic sector. Now this sector is being offered various supports including finance, infrastructures, technology, marketing etc. by the government and by different institutions.

### 4.1 Meaning of Small Business

A Small business is a business that is privately owned and operated, with a smaller number of employees and relatively low volume of sales. Small businesses are normally privately owned corporations, partnerships, or sole proprietorships. Small businesses are common in many countries, depending on the economic system in operation.

Typical examples include convenience stores, hairdressers, bakeries, tradesmen, lawyers, accountants, restaurants, guesthouses, photographers, small manufactures etc.,

The legal definition of "small" often varies by country and industry, but is generally under 100 employees in the United states and under 50 employees in the European Union. In Australia, a small business is defined as a unit with 1 to 19 employees.

#### 4.2 Definitions of Small Scale Business

Small Scale business includes the following:

**1. Small Scale Industrial Unit (SSI):** An industrial undertaking in which the investment in fixed assets in plant and machinery, whether held on ownership basis or lease basis or hire purchase basis, does not exceed Rs.100 lakhs (i.e. Rs.1 Crore) as on March 31, 2001, is to be treated as a small scale industrial unit.

**2. Ancillary Industrial Unit:** This is a sub class of small scale industrial unit. An industrial undertaking engaged in or proposed to be engaged in (i) the manufacture of parts, components, sub-assemblies, tooling or intermediaries or (ii) the rendering of services or supplying or rendering not less than 50 percent of its production or services, as the case may be to other units for production of other articles and whose investment in fixed assets in plant and machinery, whether held on ownership terms or on lease or on hire purchase, does not exceed Rs.1 Crore as on March 31, 2001, is to be considered as an ancillary industrial unit.

**3. Tiny Unit:** An undertaking having fixed investment in plant and machinery not exceeding Rs.25 lakh irrespective of its location is considered as a tiny unit.

**4. Export-oriented undertaking (EOU):** An industrial undertaking in which the investment in fixed assets in plant



and machinery, whether held on ownership basis, or on lease or on hire purchase basis, does not exceed Rs.1 Crore and has to fulfil an obligation to export atleast not less than 30 percent of its production, is called an export oriented undertaking.

**5. Small scale service and Business (industry related) Establishments (SSSBES):** These refer to industry-related service and business-related enterprises with investment in fixed assets, excluding land and building, upto Rs.10 lakh, irrespective of location as on March 31, 2001, are considered as small-scale service and Business Establishments.

A few examples of SSSBES are listed below:

- Advertising enterprises
- Marketing and industrial consultants
- Photo copying (xerox) centers
- Industrial testing and R&D laboratories
- Internet browsing services
- Auto repair services and garages, etc.
- Laundry and dry cleaning services
- X-ray clinics
- ISD/STD booths
- Tailoring
- Fax services
- Beauty parlours and crèches
- Installation and operation of cable TV network
- Studios (coloured/black and white) with processing laboratory
- EDP institutions established by voluntary associations/NGOs

However, the following activities are not recognized as small-scale industries and small scale service and business establishments:

### 4.3 Role of Small Scale business in India's Economic Development

Small scale industrial sector plays an important role in the economic development of a country. It is still more relevant in case of developing countries like India. The socio-economic transformation of India cannot be achieved without the development of small scale industrial sector. It has been estimated that small scale industrial sector contributes about 47 percent of gross value of output manufactured in India. Besides, this sector creates large number of employment opportunities directly and indirectly. The importance of small scale industrial sector can be made known from the following.

1. Generation of employment ✓
2. Self Employment
3. Lesser Capital requirement ✓
4. Mobilisation of local resources ✓
5. Balanced regional development ✓
6. Increasing standard of living
7. Export Promotion
8. Feeder to large scale industries
9. Diversity in production
10. Social advantage
11. Share in Industrial production
12. Optimisation of capital
13. Conservation of foreign exchange

#### 1) **Generation of employment :**

Small scale industries employ labour intensive technology and therefore generate more employment opportunities. A given amount of capital invested in small business sector generates more employment than the same amount of capital in large scale



business sector. Indian economy is confronted with twin major problems. They are - a) Unemployment and b) Scarcity of capital. The small scale industry can solve these two problems. Small scale industrial units can be established anywhere and thus they generate large scale employment. They employ labour intensive technology and thereby reduce the dependence on capital. The following table illustrates the data on employment in small scale industrial sector over the years.

### Employment in SSI

Year	No. of Units (In Lakh)	Employment (In Lakh)
2004-05	118.59	282.57
2005-06	123.42	294.91
2006-07	261.01	594.61
2007-08	272.79	626.34
2008-09	285.16	659.35
2009-10	298.08	695.38
2010-11	311.52	732.17
2011-12	325.60	771.27

(Source: Ministry of Small Scale Industries)

From the above table, it is seen that employment in the SSIs sector is continuously increased over the years.

#### 2) Self Employment :

Small scale industrial sector offers limitless opportunities for self employment. Therefore, it is suited to a country like India where there is a big problem of unemployment and under employment. Small scale sector has provided self-employment opportunities to technically qualified persons, artisans, professionals etc. A self employed person instead of seeking a job for himself, provides employment opportunities to others also.

### 3) **Lesser Capital requirement :**

Small scale industrial units require relatively lesser amount of capital than that required by large scale industrial units. India is a developing country, which is facing shortage of capital. Therefore, small scale industrial sector is a boon to Indian economy. In addition to it SSIs are labour intensive.

### 4) **Mobilisation of local resources:**

Small scale industries facilitate to mobilize and utilize local resources like small savings, entrepreneurial talent etc. which might otherwise would remain idle. India has vast traditional entrepreneurial expertise, family skills and handicrafts. Small scale industries help to utilize these resources in small towns and villages.

### 5) **Balanced regional development:**

Small scale Industries help to remove regional imbalances by industrialising rural and economically backward areas. Thus they promote decentralized development of industries on a large scale. Decentralisation of industries is the only means to achieve balanced regional development. Through decentralization, they help to reduce the problems of congestion, slums and pollution in cities.

### 6) **Increasing standard of living:**

Small scale industries start their operations in rural and economically backward regions. They utilize all sorts of local resources and creates employment opportunities. This process collectively contributes for higher national income and per capita income. This increases the standard of living of the people.

### 7) **Export Promotion:**

Small scale industries earn valuable foreign exchange. The revenue from exports increased continuously over the years. This can be seen from the following table:



### Export in SSI

Year	No. of Units (In Lakh)	Export (Rs. In Crore)
2004-05	118.59	1,24,417
2005-06	123.42	1,50,242
2006-07	261.01	17,7600
2007-08	272.79	1,82,538
2008-09	285.16	2,02,017
2009-10	298.08	2,23,572
2010-11	311.52	2,45,127
2011-12	325.60	2,69,125

(Source: Ministry of Small Scale Industries)

From the above data, it is observed that the value of exports increasing considerably over the years. Through exports they not only encourage the establishment of export oriented undertakings (EOU), but also earn valuable foreign exchange.

#### 8. Feeder to large scale industries:

Small Scale Industries play a complementary role to large scale industrial sector. They manufacture spare parts, components, accessories, etc. and supply to large scale industries. Small scale units have built in system to manufacture these items and ensure economies of scale in production. They serve as ancillaries to large units.

#### 9. Diversity in production:

Small scale industries ensure diversity in production. There will be flourishing and well grounded markets for the products of these industries. They produce all kinds of products including the products (or services) needed by general public for their daily use.

**10. Social advantage:**

Small scale industries help in equitable distribution of national wealth. They contribute towards the establishment of a socialistic pattern of society by reducing the concentration of income. They provide an opportunity to lead life with limited resources. They encourage wider participation of public in the process of economic development.

**11. Share in Industrial production:**

Small scale industrial sector contributes significantly to the total industrial production. More than 5000 Products are manufactured by small scale industries.

**12. Optimisation of capital:**

Small scale industries units require less capital per unit of output and offer quick returns on investment due to their shorter gestation period. However, this is not possible in case of large scale sector, small scale units help to mobilize small and scattered resources and channelise them into productive activities. Thus they help to mobilize capital.

**13) Conservation of foreign exchange :**

Small scale industrial sector helps in conserving foreign exchange. Firstly small scale industrial units utilise local raw materials and indigeneous machinery. They are not dependent on costly imports. Secondly, they contribute towards exports. Thus they help the country to save precious foreign exchange.

**4.4 Establishment of a New Enterprise****Introduction**

Setting up of a new industrial enterprise is not an easy task. Many entrepreneurs have considered it as a very challenging and rewarding task. Many problems will crop up while assuming this task. Beginning from the inception



of **business ideas** up to the start of production, several decisions have to be made. In order to succeed in this task, an entrepreneur must properly understand the nature and intensity of hindrances or obstacles. Only after understanding and analysing obstacles (or problems) in the right direction, an entrepreneur has to decide to set up an industrial enterprise.

Before taking concrete decision to start an industrial enterprise, an entrepreneur should be familiar with the economic, political, legal and social environment of that country. The main components of such environment identified by **C.B. Gupta and Dr. S.S.Khanka** are given below:

- a) Priorities and policies of the government.
- b) Assistance and facilities offered by different states.
- c) Different organisations assisting entrepreneurs.
- d) Incentives for starting industry.
- e) Licensing and Registration procedures.
- f) Policies and regulations relating to imports, exports, excise and sales tax, Factories' Act, foreign collaborations etc.

After becoming familiar about the aspects stated above, an entrepreneur should understand the various steps involved in establishing a business enterprise.

#### **Steps Involved in Establishing a New Enterprise**

The following steps are generally involved in setting up a new business enterprise.

#### **Step 1: Selection of a project (inception stage)**

- 1 Selection of a product/service
- 2 Selection of a location
- 3 Project feasibility study

- 4 Preparing business plan
- 5 Preparing project profile
- Step 2: Deciding on constitution or choice of form of ownership**
  - 1 Sole proprietorship
  - 2 Partnership
  - 3 Limited Companies
  - 4 Co-operatives
- Step 3: Obtaining Registration**
- Step 4: Obtaining clearances**
- Step 5: Arranging for land or shed**
- Step 6: Arranging for Plant and Machinery**
- Step 7: Procuring Rawmaterials**
- Step 8: araanging Finance**
- Step 9: Obtaining Finance**
- Step 10: Implementing the Project**

The steps given above are quite exhaustive and includes almost every typical processes involved in starting an industrial enterprise. All these steps have been explained as under:

### **Step 1. Selection of a Project (Inception Stage)**

This stage is also known as an inception (or beginning) stage. Selection of a project is the first and most important among all the stages involved in establishing an enterprise. An entrepreneur should be very careful while selecting a project. He should be very cautious at this stage otherwise he may fail in his attempt. The failure of many enterprises has been attributed to this cause only. This stage involves the following activities:



1. Selection of a product or service;
2. Selection of a location
3. Project feasibility study
4. Preparing business plan
5. Preparing project profile

### **1. Selection of a product or service**

It is considered as an important activity in the inception stage. An entrepreneur has to decide a suitable product or a service based on which a project can be implemented. Before taking any decision on a suitable product he has to consider various factors. The important factors are as follows:

- Background and experience possessed by him
- Availability of technology and know how available to the proposed project
- Marketability of product or service
- Availability of plant and machinery
- Availability of raw materials
- Availability of labour, power, transport and other facilities needed for the proposed project
- Availability of finance

An entrepreneur has to analyse the above factors very carefully before deciding upon selecting a product or a service. Only when he is convinced with the above factors, it is better for him to go ahead in choosing a most promising product or service.

There are many institutions or organizations which are in possession of information on business opportunities. An entrepreneur can contact these organizations and get an idea about a product or a service. Such organizations include the following;

- District Industries Centres (DIC)
- Technical Consultancy Organisations (TCOs)
- Centres for Entrepreneurship Development
- Small Industries Service Institute (SISI)
- Industrial Extension Bureaus (IEBs)
- National Industries Development Corporation, New Delhi (NIDC)
- Khadi and Village Industries Commission (KVIC)
- Commissioner of Cottage Industries
- Small Industries Development Bank of India (SIDBI)
- National Institute of Entrepreneurship and Small Business Development, New Delhi
- Commissioner for Cottage Industries

The information could be obtained in the form of project profiles, feasibility studies, industry studies, area development studies etc.

Apart from the above organizations, still there are other institutions (government sponsored/non-sponsored) which are other engaged in providing information on business opportunities.

Following factors should be considered while selecting a product (or a service) to be manufactured.

- i) Market potential (or Market Information)
- ii) Prevailing competition
- iii) Profit potential
- iv) Easy availability of raw material, labour etc.
- v) Process technology involved
- vi) Product line depth and width
- vii) Government help and policy including regulations



viii) Packaging

ix) Branding

x) After sale services etc.

After observing the above formalities an entrepreneur has to take a decision on the selection of a product or a service. While doing so, it is advisable for him to avoid the ones that are likely to have a number of players in the market.

## 2. Selection of a location

Deciding about the location of a project is the other important activity. Some of the major aspects to be considered before deciding on the location of the project (i.e. the unit) are as follows:

- i Availability of raw materials
- ii Nearness to market
- iii Availability of power resources
- iv Availability of transportation and communication facilities
- v Suitability of climate (temperature, humidity etc)
- vi Government policy and assistance
- vii Availability of incentives and concessions
- viii Availability of other infrastructural facilities
- ix Convenience for an entrepreneur
- x Competition prevailing in different states

During these years, central and state governments have created industrial estates (or industrial parks) at identified places. The objective of creating industrial estates is to provide suitable locations/sites for the project. All facilities such as power, water, transport, banking, insurance, warehousing, dispensary, good canteen, facilities for

treatment of wastages, police outpost etc. have been created in industrial estates. Therefore, it is advisable for entrepreneurs to select sites at these centers to locate their units/enterprises. Before selecting a particular site, it is advisable for an entrepreneur to consider a few possible sites and select the one which is most promising (i.e. helpful) in all respects. To achieve this purpose, an entrepreneur has to prepare a checklist of items and evaluate them in the best interest of his project.

### **3. Conducting project feasibility studies**

Before starting an industrial enterprise, it is essential to judge the feasibility and profitability of the proposed project. The important facts of a project feasibility study includes the following:

- a) Technical Feasibility
- b) Economic Feasibility
- c) Financial Feasibility
- d) Market Feasibility
- e) Social Feasibility

#### **a) Technical Feasibility**

When a project is formulated, its technical and engineering needs are analysed continuously. This activity seeks to determine whether prerequisites for the successful commissioning of the project have been undertaken and reasonable good choices have been made with respect to location, size, process etc. The following activities have been analysed under this heading:

- The scale of operation chosen - whether it is optimal or not
- The selection of a production process - whether the selected scale of production is suitable or not



- The selection of equipment and materials. The selected equipment and machine are appropriate or not.
- Treatment of effluent - whether provision is made for treating effluents or not.
- Availability of auxiliary services to machines - whether available or not.
- Social considerations - whether the proposed technology is appropriate from the society's point of view or not.
- Availability of necessary inputs - whether all inputs are available or not.

After analysing the above aspects, an entrepreneur is required to prepare an outline of the manufacturing process including flow process charts.

### **b) Economic Feasibility**

Economic feasibility of a new project can be judged from the larger social point of view. In such an evaluation the thrust is on the social costs and benefits of a project, which may be often different from its monetary and cost benefits. The following statements have been analysed in social cost benefit analysis:

- Impact of the project on the distributions of income in the society.
- Impact of the project on the level of savings and investments in the society.
- Contribution of the project towards the fulfillment of certain criterias like employment, social values etc.

### **c) Financial Feasibility**

Financial feasibility analysis proposes to find out whether

the project proposed to setup will be financially viable or not. In other words, whether the proposed project will satisfy the return (income/profit) expectations of those who provide the capital. Generally, the following aspects have to be considered while conducting financial feasibility analysis of a proposed project:

- Investment outlay and cost involved in the project
- Sources of financing, Loan availability, equity loan schedule, credit worthiness, land purchase, lease options
- Projected profitability
- Break-even analysis
- Cash flows of the project
- Projected financial position
- Level of risk

#### **d) Market Feasibility**

Market feasibility analysis includes in identifying the aggregate demand of the proposed product/service in future days and the market share of the product/service. Market feasibility analysis is undertaken with great care.

At the time of undertaking this activity all entrepreneurs should collect information from different sources. The kinds of information include the following:

- Consumption trends in the past and the present consumption level
- Supply position present and past
- Production possibilities and constraints
- Imports and exports in the country
- Structure of Competition existing
- Cost structure



- Elasticity of demand
- Consumer behaviour, attitudes, preferences etc

#### e) Social feasibility :

Social feasibility means the acceptability of the proposed project by the society. The project is launched in the society. Therefore its on launching effect is analysed prior to final decision. The business has to assess social cost and benefits from the proposed project. Social feasibility study involves the following issues:

- \* Social impact on community
- \* Impact on quality of life and livelihoods
- \* Impact on the environment including environment pollution and issues relating to it.
- \* Requirement for resettlement of affected families.
- \* Quantifiable social costs and benefits
- \* Options for mitigating adverse impacts and cost of mitigation
- \* Assessment of public reaction of the projected area for operation
- \* Permits and license required for operation of the project.
- \* Health and safety rules / standards

#### 4. Preparing Business Plan:

A Business Plan (BP) is an important document that facilitate an entrepreneur to implement and run his project successfully. A business plan is prepared by not only new entrants but also by those who are already in the field. It can be used to establish realistic goals to achieve and to determine the current position of an enterprise. A business plan has the following merits:

- It helps an entrepreneur to take up inception (or start-up) decisions
- It assures lenders, investors, creditors etc.
- It helps to measure operations progress
- It helps to test planning assumptions
- It helps to adjust forecasts
- It set the standard for good operations management
- It forewarns the possible constraints along the way.
- It formulates remedial measures to overcome constraints.
- It helps to keep the business on track to reach its planned goals.

#### **5. Preparation of project report:**

A project report provides a bird's eye view of the proposed project. This document may be used to obtain provisional Registration Certificate from the DIC and to obtain allotment of land from Industrial Area Development Board. This document may also be used for obtaining infrastructural facilities from different authorities. (Details of project report at the end of this chapter)

The project profile includes the following:

- Introduction about the product
- Prospective entrepreneur's background
- Product proposed for manufacturing-details
- Market and marketing aspects
- Infrastructure needed to project
- Details of plant and machinery- cost etc.
- Details about raw materials, man power etc.
- Process details



- Cost of the project, means of finance
- Cost of production and profitability

## **Step 2. Deciding on the constitution Or Selecting the form of ownership**

An important decision which an entrepreneur has to make is to decide on the constitution of the proposed enterprise. This stage is very important since the choice of ownership form affects the rights, duties and obligations of entrepreneurs. Several structural alternatives are available from which the best choice can be made. There are four major alternatives. The factors affecting the choice of each are explained briefly.

### **1. Sole proprietorship**

Sole proprietorship is a business concern owned and operated by a single individual. A sole proprietor is a person who carries on business exclusively by and for himself.

#### **Suitability of sole proprietorship**

The sole proprietor-ship business is suitable in the following cases:

- Business enterprises which need small amount of capital, such as sweet shops, bakery, milk vending, stationery, book shops etc.
- Business enterprises which need quick decisions, e.g. share broking
- Businesses where limited risk involved e.g. small retail store, auto repair shops etc.
- Business enterprises which provides personal services, e.g. beauty parlours, tailoring shops, advocates etc.
- Business enterprises which deals in goods whose fashion changes quickly e.g. artistic, furniture, garments etc.

The sole proprietorship is quite common form of business organization in retail-trade, professional firms, household and personal services.

## 2. Partnership Firm

The limitations of sole proprietorship give birth to partnership form of business enterprises. When a business enterprise expands beyond the capacity of an individual a group of persons come together to supply necessary capital and skills. This leads to formation of partnership.

Partnership firms are governed by the Indian Partnership Act, 1932 and rules framed there under by the state government. Partnership is an association of two or more persons, subject to a maximum of 20 persons.

A partnership offers many advantages to an entrepreneur. An entrepreneur with meager financial resources, lack of intelligency and skill is benefited with this kind of business undertaking. Therefore partnership form of business organizations have succeeded in achieving their objectives.

## 3. Limited Company

A company form of business organisation is evolved to overcome limitations of sole proprietorship and partnership. A company may be either private limited or public limited. A private limited company can be formed with a minimum of 2 members and a maximum of 50 members. A public limited company can be formed with a minimum of seven members and there shall be no maximum limit for membership. The companies are governed by the Indian Companies Act, 2013.

In the case of a private limited company, the liability of entrepreneurs is limited to the amount contributed by them. A company registered in accordance with the Companies Act claims a separate legal entity, distinct from



its shareholders, directors and managers. The liability of shareholders is limited to the amount paid or due. A company has unlimited life, further there is no limit on the number of members. However, the Companies Act place certain restrictions on its day to day activities.

### **Step 3. Obtaining Registration**

This is the third step. Registration is voluntary and not compulsory. Entrepreneurs, organising small scale and ancillary units with an investment in plant and machinery of less than one crore rupees should obtain registration from the Director of Industries of the concerned state government.

#### **Two types of Registrations:**

##### **(1) Provisional Registration Certificate (PRC):**

Entrepreneurs desiring to start a small scale industry have to initially obtain a provisional registration certificate. PRC is generally issued for a period of one year (subsequently renewed for the periods of 6 months each). The extension is necessary because the entrepreneur is not in a position to commence production due to circumstances beyond his control.

**Uses of Provisional Registration Certificate:** A PRC is more helpful. It enables the entrepreneur to initiate necessary steps to bring the unit into existence. The other uses of PRC are listed below:

- To apply for a shed in an industrial estate or a developed plot in an industrial estate.
- To apply for obtaining a license form municipality/ corporation
- To apply for obtaining power supply
- To apply for obtaining financial assistance from banks and financial institutions

- To apply for procuring machinery through NISC/SIDO
- To take other steps

**(2) Permanent Registration Certificate:** A Permanent Registration Certificate can be obtained when a unit goes into commercial production.

The Permanent Registration Certificate is helpful in many ways. They are:

- To apply for scarce raw materials and for imported raw materials.
- To get working capital from banks and other financial institutions
- To get the concessions of central excise duty
- To apply for registration under the Govt. stores purchase programme or Ancillary Development Programme etc. and to obtain the benefits of purchase and price preference.
- To apply for incentives.
- To get the benefits of income-tax and sales tax exemptions.
- And any other benefits/concessions/promotions extended by the Govt. from time to time.

**Registration Formalities:** The entrepreneur should make an application in duplicate in the prescribed application form along with the following:

- Prescribed court fee
- Copy of the project profile
- Partnership Deed (in case of partnership)
- Memorandum and Articles of Association (in case of a company)
- An affidavit as per format on appropriate stamp paper



A provisional registration certificate is issued immediately (within 7 days). For permanent registration certificate, the entrepreneur is required to apply in triplicate in the prescribed form. The following are to be submitted by an entrepreneur along with the application.

- Prescribed court fee stamp
- Affidavit, as per prescribed format on stamp paper

It must be noted that small scale industries is essentially a state subject. States use the same registration scheme for implementing their own policies. It is found that some states follow SIDO registration formalities and others a state registration scheme.

#### **Step 4. Obtaining Clearances**

A small scale industrial unit is required to obtain clearance certificate from various authorities. According to existing rules of the Acts, specific clearance for various activities is a must. A birds eye view of areas of clearance and the granting authorities have been given below:

##### **Product specific clearance:**

- 1) **Establishing a printing press** - District Magistrate
- 2) **License for cold storage construction** - Designated official in the state
- 3) **Pesticides** - Central/State Agricultural Department
- 4) **Drugs and Pharmaceuticals** - Drug License from State Drug Controller
- 5) **Safety matches/fireworks** - license under Explosives Act from Director of Explosives
- 6) **Household electrical appliances** - License from Bureau of Indian Standards
- 7) **Wood working Industry within 8 km from forest** - District Forest Officer

8) Milk processing and Milk products manufacturing units - Approval under milk and milk products order from State Agricultural or Food processing Industries Department.

**(2) Regulatory or Taxation Clearance:**

- 1) **Registration under Sales Tax Act** - G.S.T Officer of the area concerned.
- 2) **Registration under Central Excise Act** - Controller of Central Excise or his nominee.
- 3) **Payment of Income Tax** - ITO of the area
- 4) **Registration of Partnership Deed** - Inspector General of the area
- 5) **Calibration of weights and Measures** - Weights and Measures Inspector of the State
- 6) **Power connection** - designated officer of the State Electricity Voard
- 7) **Employee strength exceeding 10 with power connection or 20 without power** - Chief Inspector of Factories

**(3) Environment pollution related clearances:**

- 1) **Pollution control** - No Objection Certificate from the State Pollution Control Board
- 2) **Industries requiring water and affecting effluent disposal** - no objection certificate from the State Pollution Control Board
- 3) **For units functioning outside the industrial area** - permission has to be obtained from the Municipal Corporation or Municipality or Panchayath.

In case, an entrepreneur willing to erect his project on a private agricultural land, then the land has to be converted. To convert it into an industrial zone, necessary permission



has to be obtained from the local office of the Director of Town and Country Planning before the actual start of the construction.

**Registration and Licensing of Boiler:** Clearance Certificate from the Chief Electrical Inspector and the Chief Inspector of Boilers should be obtained before commencing operations.

**For registration as 100% export oriented unit -** The clearance of the Development Commissioner of the Export Processing Zone (EPZ) is needed.

### **Step 5. Arranging for Land or Shed**

An entrepreneur, once decides the location of the unit, the land for the project could be conveniently taken from the State Industrial Area Development Board. In Karnataka, factory accommodation is provided by KSSIDC and KIADB. An entrepreneur may also consider private land, but such land requires conversion and needs extra formalities. Therefore, it is convenient for him to obtain an industrial site or factory shed from industrial estates or industrial parks.

To obtain an industrial site or factory shed, an entrepreneur should submit a prescribed application form along with the following documents:

- Copy of Provisional Registration Certificate
- Detailed Project Report
- Certified copies of educational qualification, experience, etc.
- Application earnest money deposit

### **Step 6. Arrange for Plant and Machinery**

It is advisable to an entrepreneur to purchase required plant and machinery from recognized manufacturers or

dealers. The plant and machinery could also be obtained on a hire purchase scheme operated by the National Small Industries Corporation (NSIC).

Choosing and ordering the right machinery is of great importance to an entrepreneur. He has to search out various sources, schemes and options available at the time of purchase. It is always better to purchase the first hand machinery instead of going for second hand machinery.

Many Trade fairs and engineering fairs provide useful information about machinery and equipments. These are said to be good options to lookout new opportunities for selecting the source. In addition to this, an entrepreneur must also consult experts, dealers or suppliers as well as users, before making a selection of equipment and machinery.

An entrepreneur must also seek advice from DIC, SISI, TCOs, NSIC etc. in this respect. NSIC supplies indigenous as well as imported machinery on hire purchase basis.

After deciding upon the sources of supply and the nature of equipment and machinery, an entrepreneur must go ahead with the function of actual purchase and installation formalities.

### **Step 7. Procuring Raw Materials**

Procurement of raw materials is the other step to be followed by an entrepreneur while establishing his enterprise. Before procurement, he must locate the good sources of supply. Generally the following institutions help to procure the needed raw materials.

(1) **Development Commissioner, Small Scale Industries, New Delhi (DC SSI):** This organization is engaged in procuring raw materials for the small industry and distributes among State Government, KSSIDC is responsible in Karnataka for distribution.



It also arranges import of raw materials through MMTC and the State Trading Corporation of India.

(2) **Directorate of Industries:** Scarce raw materials are allotted among SSI on the basis of predetermined quotes.

(3) **State Small Industries Corporation (SSIC):** Every state has SSIC. In Karnataka, KSSIDC is responsible for supply of raw materials.

To import raw materials Chief Controller of imports and exports issue necessary license.

### **Step 8. Arrange for Infrastructure**

The important infrastructure facilities needed for a SSI unit are power connection, water supply and telephone facility.

To facilitate easy process, Single Window Agencies (SWA) have been setup at each district level. The SWA provides clearances for various infrastructure and other facilities for an SSIs. The following assistance can be expected from SWA:

- Grant of land in industrial areas, allotment of sheds in industrial estates.
- Grant of power up to the limit prescribed by the State Government
- To review and recommend sanction of term loans, working capital loans by the SFC and commercial banks.
- Grant and disbursement of all incentives and concession for tiny and SSIs

An entrepreneur has to submit a formal application in a specified form to the state electricity board. An electrical inspector is deputed to the unit for evaluation, after which appropriate load is sanctioned. In areas of power shortage

it is advisable to make alternative arrangement for power supply.

Similarly for obtaining water service, an entrepreneur is required to submit an application in a prescribed form to the nearest civic authorities.

An entrepreneur should also take note that many state governments offers a number of concessions and incentives to SSIs in water tariff, power subsidy subsidy on generating sets, transport subsidy, incentive for pollution control and quality equipment depending upon the location, size of investment, nature of industry etc.

### **Step 9. Obtaining Finance**

Small Scale Industrial enterprises need two types of fiancé. They are (1) Term Loan and (2) Working Capital Loan.

**(1) Term Loan:** State Financial corporations, SIDBI and State Industrial Development Corporations provide term loans (long term and medium term). Commercial banks also started lending term loans. This type of finance is needed to purchase land, construction of factory building, purchase of shed, machinery, equipment, furniture, vehicles, etc. Term loans are provided by financial institutions on the security of tangible assets. Generally the land, building, machines, equipment and other stocks have been used as security while providing term finance.

**(2) Working Capital loan:** A working capital loan is a short term loan. Such a loan is needed for day to day operations of the unit. Working capital loan is needed to purchase raw materials and consumables, payment of wages and meeting other immediate manufacturing and administrative expenses. Generally, the security for such loans include raw materials, work in progress, finished



goods, book debts, bills etc. Such loans are generally available from banks.

A Single Window Scheme (SWS) is in existence for SSI units. Under this scheme, one agency, either a commercial bank or a financial institution, provides both the term loan and working capital loan. An entrepreneur can make use of this unique opportunity while establishing his enterprise. However, this facility will be available to those industrial units whose project cost is up to Rs.50 lakhs.

In India, the following financial institutions are engaged in providing financial assistance to SSI units.

- SIDBI
- SICS
- NSIC
- NIDC
- Commercial Banks
- All India Financial Institutions, such as IDBI, IFCI, ICICI, EXIM BANK, ECGC etc.

### **Step 10. Implementing the Project**

The last step is to implement the project to practice. The following formalities have to be observed at this stage:

1. To take possession of an industrial shed (either constructed/allotted in industrial estates/rented)
2. To take possession of machinery and erect it at his plant (machineries and other equipments have been purchased through designated authorities)
3. Recruit the needed personnel - skilled or unskilled, through proper channel
4. To get ready the needed raw materials (purchased through the proper channel)

5. To obtain any other clearances (if not obtained earlier)
6. Marketing the product.

### 4.6 Project Report (PR)

A project report is a written document which provides details on the overall picture of the proposed business. It contains a detailed information about a proposed investment opportunity. It contains data on the basis of which the project has been appraised and found feasible.

A project report incorporates information on economic, technical, financial, managerial and production aspects of the proposed business. It enables an entrepreneur to convince the various authorities while applying for various benefits.

A project report contains detailed information about land, buildings and shed required, production capacity, equipments, plant and machinery with their prices, requirements of raw materials, power, water, manpower needs, marketing cost, viability status etc.

#### 4.6.1 Importance of a Project Report

A project report is an important document for setting up an enterprise. It contains every details relating to technical, financial, marketing social aspects affecting the proposed project. It incorporates factual data for the purpose of appraising the project. It acts as a guide and a good friend. It is like a blue print for any economic activity to become success. Without this successful implementation of any business plan is not possible.

The importance of a project report is as follows :

1. Serves as a Master Plan
2. Describes road map
3. Contains the feasibility study



4. Foresees requirements for a project
5. Forecasts financial rewards
6. Decision making
7. Raising finance
8. Ensures Survival
9. Permissions and concession
10. Evaluation of organization goals

**1. Serves as a Master Plan :**

For successful management, effective planning is necessary. A project report serves as a business plan. It indicates the objectives of an enterprise and explains in detail how these objectives will be achieved at different stages of an enterprise. Thus, a PR serves as a master plan.

**2. Describes road map :**

A project report is like a road map. It provides the direction in which the enterprise should move and how to reach the final goal. Without a clear road map, it is difficult to go ahead and reach the goal.

**3. Contains the feasibility study :**

A project report contains the feasibility study of the proposed business. It explains whether a project is feasible from different angles, such as – economic, financial, marketing, social etc. From this, it is possible to determine the profitability of the proposed project at the early stage.

**4. Foresees requirements for a project :**

A project report enables an entrepreneur to ascertain his requirements well in advance. Raw materials, manpower, finance, land, building and other infrastructure are needed to execute a project. A project report helps an entrepreneur determine the means of procuring them. Thus, it enables an entrepreneur to

foresee his requirements and helps him to take proper decisions well in advance.

#### **5. Forecasts financial rewards :**

A project report gives an indication of likely benefits from the proposed project. This profitability indication will help an entrepreneur to take proper investment decision in advance.

#### **6. Decision making :**

An entrepreneur has to take strategic decisions at various levels of operations. For example, the quantity needed to achieve Break even, fixing repayment of loan, cost of capital etc. It also anticipates problems in advance. Therefore suitable decisions can be taken to solve any kind of problems arising during execution of the project.

#### **7. Raising finance :**

The project report is absolutely essential for raising finance from banks. Financial assistance is made available only on the submission of the project report. The quality of the business, soundness, repayment capacity, area of operation growth prospects can be made known from project report only.

#### **8. Ensures Survival :**

The marketability of products determines the fate of the business. The project report projects the demand and supply status, competitors' position in the market etc. These aspects will guide the worth of the proposed business.

#### **9. Permissions and concessions :**

A project report helps an entrepreneur to obtain various permissions from different government departments before the execution of the proposed project. Further it enables an entrepreneur to obtain the concessions available. concessions are in the form of subsidised interest Capital subsidy etc.



## 10. Evaluation of organization goals :

A project report helps an entrepreneur to evaluate organization goals. It helps an entrepreneur to compare the actual performance with the planned performance. This helps to locate the deficiencies and to take proper action.

### 4.6.2 Project Report Format for a new business

The contents of a project report for a new business includes the following :

1. Background of the business
2. Customer's profile
3. Corporate objectives (Short term and long term)
4. Market analysis :
  - a) Brief discussion on the type of market, chief influencing factors players etc.
  - b) Market description
  - c) Reasons for starting business in the market.
  - d) Services offered by the new business and their advantages
  - e) Market consumption pattern
  - f) Past and existing supply location
  - g) Flexibility of demand
  - h) Supply chain
  - i) Restriction / technical limitations imposed by the government. On the promotion of the proposed product.
5. Financial Assessment / Analysis :
  - a) Investment in the proposed project
  - b) Methods of investment

- c) Anticipated / estimated productivity
  - d) Money / cash flows of the project
  - e) Evaluation of investment from different view points.
  - f) Estimated financial ranking
6. Marketing Mix Assessment
- a) Product
  - b) Price
  - c) Place
  - d) Promotion
7. Operational plan
- a) Business Models
  - b) Production of goods and service
8. Management structure (Ownership, staff etc.)
9. SWOC analysis
10. Appendices
- a) Break-even analysis
  - b) Profit and loss synopsis
  - c) Fund flow summary
  - d) Any other aspects considered relevant.