

Incorporation of one-person companies sees spurt since April

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The new Companies Act has made it legal to set up a company with just one director, limiting the liability of a business owner to the assets of the firm, unlike the alternative sole proprietorship model where an owner is personally liable for business debt.

Data from the corporate affairs ministry show that between 1 April, when the new Companies Act came into force, and 31 August, 478 such one-person firms were incorporated across the country.

A one-person company is required to have a paid-up capital of less than Rs.50 lakh and an annual average revenue of not more than Rs.2 crore in three consecutive years preceding its incorporation, according to the Companies Act, 2013. While a sole proprietorship is easy to form and manage, it is not a legal entity separate from its owner and will cease to exist once the owner dies or is declared insolvent.

While just 78 one-person companies (OPCs) had been incorporated till the end of June, the next two months saw 400 new OPCs being formed as the legal set-up gained popularity among entrepreneurs, corporate affairs ministry data show. Several countries including the US, the UK, Singapore, China, the UAE, Turkey and Pakistan already have laws that allow the setting up of such companies.

While IT firms dominate the list of such firms, traditional businesses are also being set up as OPCs.

Till 31 August, 275 OPCs are classified as registered in the business services segment, followed by community, personal and social services (54), manufacturing (39) and trading (36), according to the corporate affairs ministry data.

The companies Mint spoke to typically have an annual turnover of anywhere from Rs.3 lakh to about Rs.1.5 crore and a staff strength of one to 23 people.

Interestingly, the creation of OPCs is limited not just to the bigger cities. Businessmen from smaller cities, including Jodhpur, Vadodara, Agartala, Indore and Sultanpur in Uttar Pradesh have formed such firms.

Several entrepreneurs said they formed OPCs and not private limited companies because they wanted complete control over their businesses and to save them from the additional burden of hiring and paying directors.

A private limited company must have at least two directors, according to the Companies Act.

Shivam Parikh, who owns Ahmedabad-based Heal Internet Services (OPC) Pvt. Ltd, said he converted his firm from a proprietorship since he noticed that clients tend to prefer private

limited companies over the former. “But I did not want to involve other people in the business; so I formed an OPC,” said Parikh.

Kiran Kumar Hembrom of Agartala in Tripura, who owns Hembro Infotech Pvt. Ltd (OPC), a web development company, claims to be the only such company registered in his state. Hembrom, whose company had a revenue of Rs.3 lakh last year, said his company had been functioning as a proprietorship since 2010. “In June, we registered as an OPC, since this would allow us to operate throughout the country and also outside,” he said. Since incorporating the OPC, Hembrom has received queries from prospective clients both from India and outside, he said.

Several OPCs are still setting up shop and are, therefore, still operating as shell companies. Ramesh Ojha, a distributor of fire protection equipment in Vadodara, said his firm Radhekrishna Fire Protection OPC Pvt. Ltd, will begin operations next year. “I am getting out of a partnership. My legal adviser suggested that I register my new company as an OPC, since I can take direct decisions, without involving anyone else. It will be much simpler,” he said over the phone. “Moreover, in future, we plan to start a school under the same company.”

Gagandeep Singh Sethi, who runs Indore-based Sethi Gagandeep Singh OPC Pvt. Ltd, has a similar story. “I had to get out of a partnership as I had a dispute with my partner. I found out about the new concept of OPC over the Internet, and decided to go this way instead of setting up a proprietorship since I felt I would be able to gain more trust from my clients,” said Sethi, whose company, besides running a fashion school, also runs a consulting business in the textile and fashion sector.

Some other firms like Mumbai-based Kleverk Designs (OPC) Pvt. Ltd and Hyderabad-based Dhatri Info Solutions Pvt. Ltd (OPC), both IT firms, have been set up by foreign companies.

Ajay Lembhe, who is currently the only director and employee of Kleverk Designs, said the firm was originally founded in New Zealand. “We had to set up operations in India as the cost of hiring people in New Zealand is high,” Lembhe said. “OPC is a much better concept as decision-making is fast and there are less headaches.”

Prasad Mandava, founder of Dhatri Info Solutions, said his company has 22 employees in India and offices in Australia and the US. “This is a start-up; so, I did not want more directors on board,” Mandava said.

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