

EVALUATION OF ONE PERSON COMPANY: GROWTH AND CHALLENGES

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ABSTRACT

One-person company stands best option for the individuals having innovative ideas to start their own company. As per Companies Act 2013, One Person Company can be started with small capital by a single individual who acts both as a shareholder and the director too. There is a tremendous growth in the registrations of the One person companies from 2013 to 2019. This paper studies about the growth of the One person companies since its inception and also identifies the problems faced by the shareholders during the registration process.

Key words: One-person company, New Companies Act 2013, Growth & Challenges of OPC.

1 Introduction

One Person Company is a ray of opportunity for many individuals who have desire to take risk and responsibility to implement their innovative ideas with minimum investment. Though this revolutionary concept is familiar in many other countries, India adopted and introduced in legal system with The Companies Act, 2013.

OPC provide the start-up entrepreneurs with new business idea, advantages of limited liability, need not bother too much about compliances, require minimal capital, raising of capital is possible from others sources, mandatory rotation of auditor after expiry of maximum term is not applicable etc.

It started with a slow phase of 20 registrations in 2013 and increased to 23,526 registrations till March 2019 in overall sectors. The authorized capital also raised from 350 lakhs to 60,596 lakhs. The Total number of One person companies registered in March 2015 were 2,238 and it has gradually increased to 25,763 companies in the month of November 2019.

2 Literature Review

Dubey (2014) studied the relevance of OPC and found beneficial to both the market players and market regulators. Yati and Krusch analysed that with proper implementation of new idea of OPC, small entrepreneurs are provided with incentives and will help in boosting up economic growth of India. Swathi Ramachandran and Vishnumaya found the merits and demerits and the conversion of private to OPC. Dash (2015) suggested that the limited liability and less compliance burden benefit the small-scale sector and self-employment. Dang & Sharma (2015) studied and stated that idea of OPC encourages entrepreneurship and it gives full freedom to contribute the economic activities. Bina (2015) discussed about retail business and are facing credit crunches because of their business model. By adopting OPC, the business can be converted into organised retail. Ukey (2015) highlighted that, OPC can be preferred by professionals and small entrepreneurs. Mary (2017) studied the merits and challenges of One Person Company (OPC) and also concluded that awareness of all legal processes is necessary to start an OPC. Govindan. P (2018)

studied the growth aspects of OPC's and stated that most of the companies are into service sector and suggested to revise the existing policies of OPC.

2.1 Objectives of The Study

The objectives of the study are-

- To evaluate sector-wise growth of OPC from the period of inception
- To identify the challenges faced by One Person Companies during the establishment process.

2.2 Methodology

The present study is an exploratory study based on secondary data. The data was collected from various sources like articles, websites, ICAI, ICSI, LAW Forms, research papers and the portal of Ministry of Corporate Affairs. The duration of the study was restricted to March 2013 to March 2019. Variables such as registration and authorized capital has been considered as parameter of growth. Graphs and percentages were used to analyse and interpret to draw inferences. Excel was for data analysis.

2.3 Results & Discussion

In this chapter, the growth of the one person companies regarding the number of registrations and their authorized capital was analyzed. Along with this the proportion of total number of registrations of different sectors and authorized capital of different sectors was also analyzed. An interview was conducted to understand the challenges faced at the time to establishment of one person companies. The respondents for the interview was director of Zastra solutions (OPC) Private Limited.

2.3.1 Trend Of One-Person Company - Sectoral Wise

The economy has been divided into three sectors, i.e., primary, secondary and service sector. The study discusses the growth in each sector in terms of number of registrations and authorised capital from each sector.

we can observe that the number of registrations has increased gradually. The reasons are as follows:

- Increase in population
- Development of agriculture and industrial sectors has increased the need of services like transportation and storage & trade.
- Increase in the income leading to increase in the clothing, travelling etc
- Increase in the tourism
- Increase in the productivity of the labour
- Higher education in abroad or any other places increases the need for communication.

Primary sector.

Though the number of registrations regarding OPC in primary sector started with 0 in the year 2013-14 it gradually increased with the time i.e., 36 in 2014-15, 63 in 2015-16, 65 in 2016-17, 79 in 2017-18, 116 in 2018-19 and 74 during the period April-november, 2019.

The total authorised capital from One Person Companies registered under Primary sector from 2013-November 30, 2019 is 1527.61. It was 0 in 2013-14, 123 in 2014-15, 244.60 in 2015-16, 267.15 in 2016-17, 180.50 in 2017-18, 437.65 in 2018-19 and 274.71 lakhs during April-November, 2019.

Secondary Sector

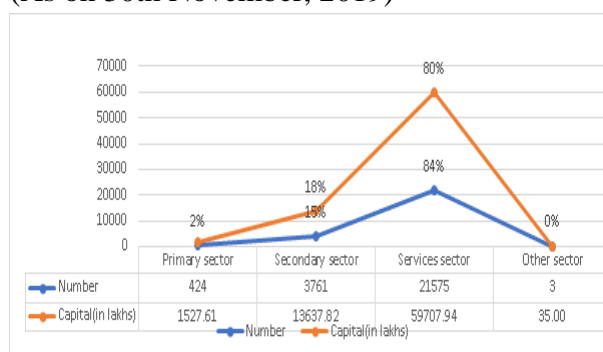
Though the number of registrations regarding OPC in secondary sector started with 2 in the year 2013-14 it gradually increased with the time i.e., 298 in 2014-15, 528 in 2015-16, 595 in 2016-17, 660 in 2017-18, 918 in 2018-19 and 760 during the period April-november, 2019.

The total authorised capital from One Person Companies registered under secondary sector from 2013-November 30, 2019 is 13637.82 lakhs. It was 11 in 2013-14,905 in 2014-15,1632.10 in 2015-16,1722.10 in 2016-17,2173.40 in 2017-18,3226.00 in 2018-19 and 3968.22 lakhs during April-November,2019.

Service sector:

Though the number of registrations regarding OPC in service sector started with 18 in the year 2013-14 it gradually increased with the time i.e., 1889 in 2014-15,3321 in 2015-16,4183 in 2016-17,5187 in 2017-18 ,5568 in 2018-19 and 1409 during the period April-november,2019. The total authorised capital from One Person Companies registered under service sector from 2013-November 30, 2019 is 59707.94. It was 338.5 in 2013-14,3969.75 in 2014-15,7554.34 in 2015-16,9725.53 in 2016-17,11676.30 in 2017-18,16408.76 in 2018-19 and 10034.76 lakhs during April-November,2019.

Exhibit:1 Sector-wise One Person Company
(As on 30th November, 2019)



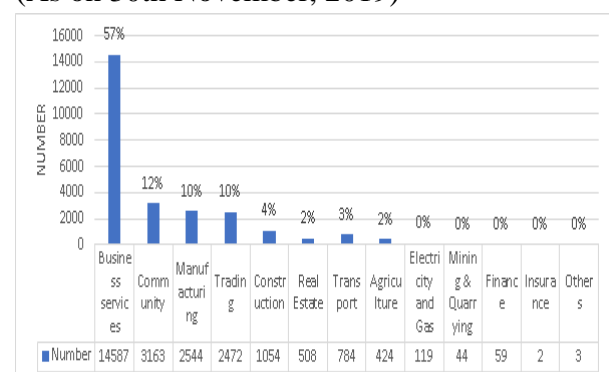
The above exhibit explains about the proportion of three sectors in total number of registrations as well as total authorised capital. Firstly, the service sector contributes the highest capital proportion of 80% followed by secondary sector with 18% and least of 2% by primary sector.

Secondly, the service sector contributes the highest proportion of 84% out of total registrations till date followed by secondary sector with 15% and least of 2% by primary sector.

Thirdly, though the contribution is negligible i.e., 0% till date 3 OPCs were registered under other sectors with the authorised capital of 35 lakhs.

Economic Activity-wise One Person Company
The following is the discussion about various economic activities covered under three different sectors. Agriculture and allied activities come under primary sector while Manufacturing, Construction, Electricity, gas & water companies and Mining & quarrying fall under Secondary sector. Service sector includes Business services, Trading, Finance, Insurance, Transport, storage & communications, Real estate & renting and Community, personal & social services.

Exhibit:2 Economic Activity-wise One Person Company
(As on 30th November, 2019)



From the exhibit 2, we can get to know that Business services have highest proportion of 57% and Insurance, Finance, Mining & Quarrying & other activity have least proportion of 0% regarding number of registrations. The remaining activities have proportions of 12% ,10%,10%,4% 3%,2%,2%

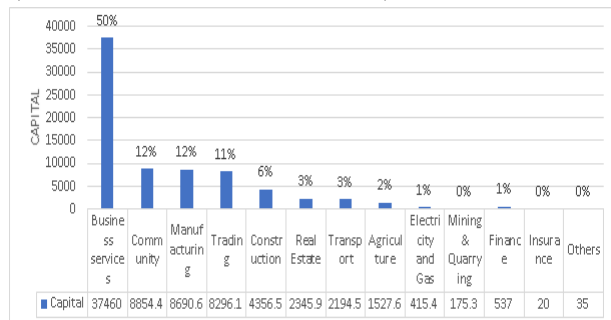
from Community services, Manufacturing industry, Trading services, Construction industry, Transport services, Real estate and Agriculture activities respectively.

Capital Contribution According to Economic Activity-wise

From the exhibit 3, we can get to know that Business services have highest proportion of 50% and Insurance, Mining & Quarrying & other activity have least proportion of 0% regarding contribution of authorised capital.

Exhibit:6 capital contribution According to Economic Activity-wise

(As on 30th November, 2019)



The remaining activities have proportions of 12%, 12%, 11%, 6%, 3%, 3%, 2%, 1%, 1% from Community services, Manufacturing industry, Trading services, Construction industry, Transport services, Real estate, Agriculture activities, Electricity & gas and Finance respectively.

Challenges Faced by One Person Company

Incorporation is the act of making a company or organization into legal corporation. It is the primary process through which every company should undergo. Though the process of incorporation is clear theoretically, there are some obstacles faced practically are as follows:

• **Name availability:** The availability of name is difficult though the services provided are different from each other. For example, if an existing company's name is XYZ solutions pvt

ltd which is into the legal services and when we apply for another new company XYZ logistics pvt ltd is into distribution services there arises a problem of availability of name since both the names contain XYZ as common.

• **Interlinkage between different departments:** While applying for the incorporation of new company stake holders can avail different services like name reservation, allotment of PAN & TAN, GSTIN, IEC (Importer Exporter Code). But practically the applicants are not getting the GSTIN, IEC code etc. They have to apply for those numbers again. This is due to lack of interlinkage between the departments.

• **No awareness of conversion:** One Person Company can be converted itself into a public company or a private company in certain cases.

• **No clarity in law regarding meetings: Meetings of Board {Section 173(5)}**

• At least one Board meeting should be conducted in every half of a calendar year

• At least ninety days should be the minimum gap between two meetings.

• The company which has only one director is exempted for the above meeting rules.

• The directors need to conduct meeting and take decisions according to the meeting. The problem arises when there is only one director and the meetings to be conducted as per legal framework might be manipulated.

• **No control/monitoring:** There is no proper control over the one person companies. Since there is freedom for the directors of the company there is chance of misunderstanding the rules and misusing the law.

• **Take Over:** It is easy to take over a one-person company if the director is available. If the director is not available or not active in the business activities, it will be difficult to take decisions and there arises the problem of

moving ahead which leads to lack of growth and losing opportunities.

- **Improper decision:** Since the decision criteria is in the hands of directors, there might be a chance of taking decisions for their benefits instead of taking for the company.

Suggestions of the Study

- The government should take various innovative measures with regard to reducing the obstacles in sustainable development of the corporate growth in India.
- The regulatory body should take a stand to solve the challenges faced by the entrepreneurs of one-person company.
- The primary sector can be encouraged by providing benefits like financial assistance and tax benefits.
- There is a need to create mass awareness to penetrate key benefits and advantages among general public.

3 Conclusion

The concept of OPC is still in its nascent stages in India and would require some more time to mature and to be fully accepted by the business world with the passage of time, the OPC mode of business organization is all set to become most preferred form of business organization especially for small entrepreneurs.

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