

Benefits of Private Limited Company

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In brief

Private Limited Company is one of the most popular business structure among startups and business houses. Many entrepreneurs while starting their business journey, struggle through a critical decision of selection of structure of business entity. Not every type of business structure (say partnership firm, sole proprietorship, private limited company, LLP, etc.) are suited for all kinds of businesses. Hence, it becomes crucial to consult your business plan and vision with a professional and understand the technicalities of various business structures and then choose a structure which is aligned with your vision.

In detail

Let's look at 8 major benefits of Private Limited Company

1. Improved Business Credibility

Credibility is more often decided by the information available about the business in public or in market at large. People tend to look for finding more and more information about the business, they are dealing with. In case of sole proprietorship or partnership, no information is available on any verified public sources, which is a usual cause of doubts on credibility, especially when the business is a startup.

Information relating to every Private Limited Company is available on a publicly searchable database which is maintained by Ministry of Corporate Affairs (MCA). This data is accessible by anyone from anywhere and it is free of cost. As this information is maintained by a government body which makes it reliable. Further, all the financial statements and other forms filed by the Company throughout the years of operation, can be accessed by making a payment of Rs. 100. This information authenticates the existence of the business and improves the credibility in the eyes of parties dealing with the Company.

2. Ideal Business Structure for

Investors

Equity funding is always a buzzword in startup eco-system but it is only Private or Public Limited Companies which can raise funds through issue of equity shares. Whether you are planning to raise funds through your friends or family, or through outside investment by way of debt or equity, Private Limited Company is the best way out for you.

As Private Limited Companies are allowed to issue shares, they can attract funding from various sources like angel investors, venture capitalists, bootstrapping, etc. and thus making it a viable business structure for early stage startups.

3. Attract and retain Talent

Building a great team of talented employees and retaining them is always one of the determinant factor for success of any business. In this highly competitive phase, employees are not only looking for a stable job with satisfactory salary but also number of benefits like trainings, flexi-working hours and stock ownerships.

Stock ownership implies issuing shares or ESOP (option to get shares in futures) of the Company to the employees. This not only works as guiding factor in retaining employees but also creates a sense of ownership among employees as their efforts and contribution in the business have a

direct impact on the value of the shares.

4. Create Multiple Businesses

Often entrepreneurs go on repeating their success of one startup by creating multiple businesses. Serial Entrepreneurs always have an eye for new opportunities of creating businesses.

Private Limited Companies have a separate legal identity which means that the identity of the business is not tied up with the Promoters (Founders) of the Company. Unlike, proprietorship or partnership in which there is no such difference in identity between the business and the owner. Also, any person can be a shareholder in as many Companies as he wants and can hold directorship in 20 Private Limited Companies at the same time. Hence, Private Limited Company is the most suitable route for creating multiple ventures at the same time and without having impact of one on the other.

5. Planning for going International

Trades and businesses have no boundaries now, gone are the days when only Indians were developing products for foreign businesses. Today many Indian Startups have created products

which are globally competitive. This change in the startup ecosystem has triggered investment and funding from foreign businesses in the form of Foreign Direct Investment (FDI).

Unlike, other business structures Private Limited Companies and Limited Companies are allowed to raise funds through FDI via automatic route or approval route. However, they're caps on the stake dilution and the process of raising funds through FDI, depending on the industry. Hence, if you aspire to become a Multi-National Corporation in the near future, Company is the form of business for you.

6. Exit Opportunity

We all have read about many entrepreneurs selling their start-ups for a certain amount. Exit strategy is a way of rewarding entrepreneurs for all their hard work and allow them to capitalize it. Often entrepreneurs sell a part of their stake of their venture in return of a huge amount of money but still continue to lead the venture in the capacity of Director or an employee.

The basic structure of a Private Limited allows transfer of shares of the Company whether in part or whole, without having any impact on the existence of the Company.

This implies the ownership of the Company can be completely transferred to someone else while the business keeps on running.

7. "Limited protection Liability"

In the initial phase of any business, entrepreneurs introduce their own funds and use their own assets for running the business. This increases the risk to the personal assets of the businessman, because in case the business goes through loss or reaches a point when it is required to shut off, all the money which needs to be paid will be from the pockets of the businessman.

The word "Limited" in the name Private Limited Company implies the concept of Limited Liability. This means that liability of the businessman or the shareholder of the Company is limited to the amount invested in the Company. This safeguards the personal assets of the shareholders, if the Company goes into a situation of loss or dissolution.

8. Separate Management and Ownership

When we talk about sole proprietorship or partnership, the business is usually managed by the Owners themselves and they are

answerable to no one else other than themselves for all the profits or the losses. In case of Private Limited Company, the Ownership (i.e. shareholding) can be with one person and the Management (i.e. directorship) can be with some one else.

This concept of separation between management and ownership of the business is best suited for the entrepreneurs who have bigger plans to disrupt the industry they are operating. As you can always appoint person as a Director to run the business on your behalf without your shareholding being diluted.

Conclusion

There are many other features and benefits of Private Limited Company from a legal perspective. We have covered everything which can be crucial factor while choosing the right structure of your Startup.

If you're planning to start your entrepreneurial journey and need to consult an expert to decide which structure is appropriate for your venture, we would be happy to assist you. Please click on the following to know more – <http://lawgicalstartup.com/private-company-registration/>



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