

## Farmers Producer Organization (FPO) under Indian Companies Act 2013

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### SUMMARY

Thomas Jefferson rightly puts in “Agriculture is our wisest pursuit, because it will, in the end, contribute most to real wealth, good morals and happiness.” The majority of farmers in India find it hard to realize the optimal value for their primary Agriculture production due to lack of facilities and fragmentation of landholdings. But Agriculture producer companies in India Registered Under Indian Companies Act 2013 help them to utilize economies of scale to procure inputs at lowest cost rates, adopt new Agriculture technologies, easy access to Agriculture finance and Agriculture loans, building up direct linkages to the market and develop facilities related to post-harvest processing. Agriculture Farmer Producer Company (PO) is a cluster of farmers that comes together to make their lives better and to improve their standards of living. Company registration provides separate legal entity to the company and provides various tax exemptions and benefits. Other than that it has various benefits for the members including bonus, ease in availability of various loans & investment at low-interest rates and many more.

### INTRODUCTION

Agriculture being the backbone of the Indian economy, the sector employs more than 50% of India's total workforce and contributes almost 17-18% to the country's GDP. Producer Company shall relate to all or any of the following matters, namely:- Agriculture production, harvesting, procurement, Agriculture grading, pooling, handling, marketing, selling, export of primary produce of the Members or import of goods or services for their benefit the concept of “Agriculture Producer company” was introduced in 2002. In this blog, we will further know about what producer company means, what are the registration procedures of a producer company, the formation and the benefits of agriculture producer company under India in companies' act 2013.

### Producer Company

- A producer company is a hybrid between a private limited company and a cooperative society.
- It combines the goodness of a cooperative enterprise and the vibrancy and efficiency of a company.
- It accommodates the unique elements of cooperative business with a regulatory framework similar to that of a private limited company.

### Section 465 of the Companies Act, 2013

- The Companies Act, 1956 and the Registration of Companies (Sikkim) Act,1961 (hereafter in this section referred to as the repealed enactments) shall stand repealed
- The provisions of Part IX A of the Companies Act, 1956 shall be applicable mutatis mutandis to a Producer Company in a manner as if the Companies Act, 1956 has not been repealed until a special Act is enacted for Producer Companies ( 1<sup>st</sup> Proviso to Section 465(1))
- Concept of Producer Company - Introduced Introduced in 2002 by incorporating a new Part IXA (section 581A to 581ZT) into the Companies Act,1956 Based on recommendations given by expert committee led by economist, Y. K. Alagh.

### What is a famer Producer Organisation (P.O.)

Famer or Group of Farmer Registered Under Companies Act 2013 one Legal Entity for Starting Business and for sharing of profits/benefits among the members. Following as their business objective: Indian agriculture broadly consists of four sub-sectors. Agriculture proper including all food-crops oilseeds, fiber, plantation crops, fruits and vegetables is the largest accounting for nearly 70 percent of the agriculture sector as a whole

- Production
- Harvesting
- Grading
- Procurement
- Pooling
- Handling
- Marketing
- Export
- Selling

### Meaning of Producer Company

Agriculture producer company is basically a body corporate registered as Producer Company under Companies Act, 1956 and shall carry on or relate to any of following activities classified broadly:-

- (a) Agriculture production, harvesting, processing, procurement, grading, pooling, handling, marketing, selling, export of primary produce of the Members or import of goods or services for their benefit ;
- (b) Agriculture rendering technical services, consultancy services, training, education, research and development and all other activities for the promotion of the interests of its Members;
- (c) Generation, transmission and distribution of power, revitalization of land and water resources, their use, conservation and communications relating to primary Agriculture produce;
- (d) Agriculture promoting mutual assistance, welfare measures, financial services, insurance of producers or their primary produce;

### Documents required for Producer Company Registration

#### From All Directors And Shareholder

1. PAN Card or Passport or Election ID Card
2. Latest Bank Statement/Telephone or Mobile Bill
3. Voter's ID/Passport/Driver's License
4. Passport-sized photograph of all directors and shareholder

#### For Proposed Registered Office (Residential Or Commercial)

1. Copy of any Utility bill
2. Scan copy of Rent agreement with NOC from the owner
3. In case of owned Property then copy of Property Papers.

### Producer Company Member Required

- 10 or more member
- 2 or More Producer Institutions
- 10 or more Producer Institute

### What are the types of Producer Companies?

1. Production Business
2. Agriculture Marketing Business
3. Agriculture Technical Services Business
4. Agriculture Financial Service Business
5. Agriculture Infrastructure Business

### Procedure and Documentation required to incorporate a Producer Company

- The first step is to obtain a Digital Signature Certificate (DSC) by all the directors. Documents required to obtain a DSC are: PAN Card of the Director, Aadhaar Card of the Director, Photo, Email Id and Contact Number.
- After obtaining the DSC, the next step is to obtain the Director Identification Number (DIN) by filing form DIR – 3 along with a self-attested Identity proof, address proof, and a photo
- Then the name of the production company is to be finalized. For that, Form INC – 1 to the Registrar of Companies (ROC) is to be filed by giving 6 names in the order of preference along with the significance of the names. The name shall have the words PRODUCER COMPANY at the end
- After the name is approved by the ROC, the following documents are to be prepared:
  - The Memorandum of Association is to be drafted by incorporating all the objects that the company intends to follow
  - The Articles of Association is to be drafted containing all the by-laws of the company
  - A declaration by a professional has to be drafted in the format of form INC – 8
  - An affidavit has to be signed by all the subscribers of the proposed company declaring their legal competency to act as the subscribers
  - A utility bill and a NOC have to be taken from the owner whose address is to be used as the registered office of the company. If it is not owned, a lease agreement will be attached to the form
  - The directors will give their consent to act in the Form DIR – 2 and details in DIR – 8

- All the drafted documents will be attached to Form INC – 7, INC – 22 and DIR – 12 and uploaded to the ROC website.
- On proper verification, the ROC will issue a Certificate of Incorporation and the company can start its business operations.
- This form of establishment promotes the primary producer who is in a low-income group to optimize their income with collective bargaining and by selling the products directly to consumers.

**How to register a Producer Company in 5 steps**

The procedure for a Producer Company registration is almost similar to that of a Private Limited Company.

**Step 1:** Obtain Digital Signature Certificate (DSC) and Director’s Identification Number (DIN) from all the Directors with self-attested copies of documents like PAN, Aadhaar card, and contact details.

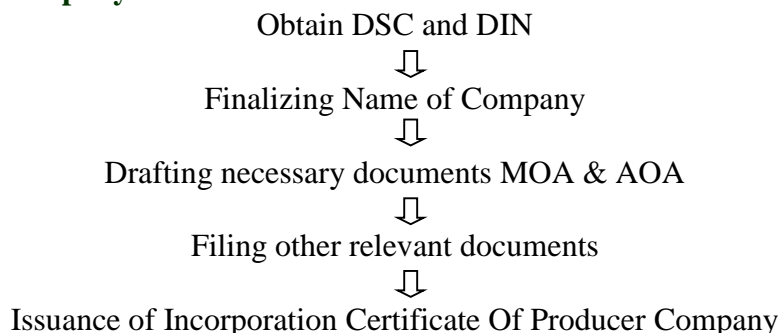
**Step 2:** File the proposed company name in FORM-1A with the RoC of the respective state along with the prescribed fee. Once the name is available, the ROC informs about the availability of the name.

**Step 3:** Draft the necessary documents like MoA to incorporate the objects of the company and the amount of share capital to be registered, AoA to contain the by-laws of the company.

**Step 4: Filing of other documents** like Statutory declaration in the Form-1 declaring compliance of all and incidental matters regarding the formation of companies; affidavit signed by the subscribers of the proposed company. Director’s consent, utility bill, and NOC are required.

**Step 5: The Certificate will be issued** after which the Company shall become a corporate body as if it is a private limited company. Under any circumstances, it cannot become a public limited company

**Registration of a Producer Company**



**Cost items for incorporation of a producer company**

Particulars	Item of expenditure
Application for Name of PC	Fees
Digital signature	Fees
Stamp duty	Memorandum of Association and Articles of Association
Registration/Filing fees	MoA, AoA, Form-1, Form-18, Form-32
Fees of Chartered Accountant or Secretary	Consultancy charges
Stamps cancellation	
Affidavit expenses	Fees of Notary
Share transfer fees and processing	
Miscellaneous expenses	

Note : As per Fees Charges may Change Time to Time

**Statutory Financial Compliance to Submitted by Agriculture Producer Company**

It is compulsory to conduct Internal Audit in the case of Producer Company/Organization. Internal audit of its accounts should be carried out, at such interval and in such manner as may be specified in its Articles of Association, by a chartered accountant. Electronic filing is mandatory. As a part of Annual Filing, companies

incorporated under the Companies Act, 1956 are required to file the following documents along with the e-Forms to the Registrar of Companies (RoC):

Document	e-Form
Balance-Sheet	Form 23AC to be filed by all companies
Profit & Loss Account	Form 23ACA to be filed by all companies
Annual Return	Form 20B to be filed by companies having share capital
Annual Return	Form 21A to be filed by companies without share capital

### Benefits for Producer Companies

- The members of the producer company initially will receive the value for the produce pooled and supplied as determined by the directors. This amount will be given out later in the form of cash/ kind/ equity shares.
- producer company will be entitled to get bonus shares in the same proportion to the shares held by them.
- The surplus (after providing provision for payment of limited return and reserves) may be given as patronage bonus\* to the members of the producer company.

### Loans and Investments

As mentioned above the Producer Company consist of individuals who are primary producers, and thus, are in need of financial support from time to time A Producer Company can provide financial assistance to its members through:

- **Credit facility:** This is available to any member for a period not exceeding six months (such facility must be in connection with the business of the Producer Company).
- **Loans and Advances:** These are provided to the producer member against security, repayable within a period not exceeding seven years from the date of disbursement of such loans or advances.
- **NABARD Loan:** NABARD provides support and financial assistance to meet the needs of Producer Companies.

### Tax Benefit Taxability of Producer Company

Income Tax Act, 1961, under As per the provisions of section 10(1) of the exempts the agricultural income, but it is vital to know that the exemption provided for the agricultural income under section 10(1) sometimes varies on the basis of the agricultural activity carried out.

### Definition of Agriculture Income in Income Tax Act, 1961

Agricultural income is defined under section 2(1A) of the Income-tax Act. As per section 2(1A), agricultural income generally means:

- (a) Any rent or revenue derived from land which is situated in India and is used for agricultural purposes. The Income Tax Act, 1961 under section 10(1) exempts the agricultural income. However, the exemption provided under section 10(1) for the agricultural income sometimes varies on the basis of the agricultural activity carried out.
- (b) Specify any specific tax benefit under The Income Tax Act does not which essentially provides special tax benefits or exemptions to producer companies by its definition. But subject to the agricultural activity carried out by the producer company, certain tax benefits and exemption can be availed. Thus, it is apparent that the tax benefit and exemption to a producer company is totally depending upon the activity it carries on.

### Examples of Producer Companies in India

- Karnavati Producer Company Limited in Madhya Pradesh
- Vanilla India Producer Company Ltd (VANILCO) has been promoted by Kerala based Indian Farmers Movement (Infarm)
- The Indian Organic Farmer Producer Company Limited is an Aluva company of farmers producing organic products.

**CONCLUSION**

Producer Company is thus a hybrid between a private limited company and a cooperative society. concept of Producer Company in Companies Act 2013 will not only ensure a follow-up on the required regulations and law and order . But also a progressive step for the better ment of its members and the agricultural sector development and growth in India.

(**Note:** Refer Companies act 2013, Income tax act 1961, GST Act 2017(Including CGST, SGST,IGST), Time to time Change in Procedure Govt Press Release Notification, Circular, Govt Ministry Decision, Companies Act 1956 and Companies Act 2013 and also the notifications, thereof and The Companies Act 2013 is an Act of the Parliament of India)

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