



**KHADI AND VILLAGE INDUSTRIES COMMISSION**  
**DIRECTORATE OF REFORM IMPLEMENTATION DIVISION**  
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No.DRID/KRDP/PC model KIs/210/2011-12

Date: 29.04.2011

## **C I R C U L A R**

Sub: Implementation of Khadi Reform and Development Programme (KRDP) – Empowering khadi artisans by organizing khadi activities under Producer Company (PC) model and formation of SHGs among khadi artisans – reg.

The major objective of KRDP is to ensure better earning for artisans and involve them in the management of Khadi programme implementation. KVIC has taken several measures and many more are being taken under KRDP to ensure better earning for artisans. Involvement of artisans in the implementation of Khadi programme needs more emphasis.

2. As of now, the artisans are primarily working in or for the institutions registered under Societies / Charitable Trust /Co-operatives Act. Under the present dispensation the Khadi artisans are mainly wage earners with no or very little say in the management of the khadi institutions.

3. The existing Khadi certification guideline stipulates nomination of two artisans in the managing committee of the khadi institutions. The policy matrix of KRDP has provided specific condition for such initiatives and an essential component of KRDP is to set up of new khadi

institutions under Producer Company (PC) model promoted and managed by the Khadi artisans only.

4. The issue was placed before the Commission in its meeting held on 15th March, 2011. The Commission approved implementation of Khadi programme by institutions set up under producer company model by artisans' viz. spinners, weavers and artisans engaged in pre-spinning, pre & post weaving activities.

5. The frame work of Producer Company, road map for setting up of Producer Company as well as model Memorandum of Association (MoA) and Article of Association (AoA) of the PC model as approved by the Commission are placed at Annexure I, II, III & IV respectively.

6. Commission also directed that to facilitate formation of Producer Companies, "Stakeholders' Workshop" should be conducted at the location of the prospective members.

7. The State /Divisional Directors are requested to circulate the contents of this circular to all new and working institutions under their jurisdiction and make endeavour to identify suitable new institutions promoted by SHG groups as well as working Khadi institutions which are desirous of organizing their activities under PC model of KVIC with the help of SHG groups promoted by them.

8. All State/Divisional Directors are also requested to take necessary action as per the Roadmap attached at Annexure-II under their jurisdiction in consultation with the Chief Executive Officer, State KVI Boards as well as Zonal Dy. Chief Executive Officer and send requisite proposal to the Central Office, Mumbai.

- a) for issue of khadi certificate to Director (CCC)
- b) arrange enlistment of institutions following the prescribed guidelines
- c) develop need based projects / action plan seeking release of funds to Director (KPM)

9. It is also requested that appropriate publicity to the programme may also be given utilizing the funds available with State and Divisional Offices under RMU head so that the potential artisans become aware of the programme and submit their project to State/ Divisional Offices seeking need based assistance. This will help KVIC to select Producer Companies (PCs) in a transparent manner.

**Chief Executive Officer**

To

1. All State/Divisional Directors
2. All Chief Executive Officers / Secretaries /  
Managing Directors of State / UT KVI Boards

Copy for favour of information:

1. All Members of the Commission.
2. Chairman, Central Certification Committee
3. All Members of Central Certification Committee
4. Chairman of the Zonal Certification Committees (North Zone, East Zone, North-East Zone, South Zone, West Zone and Central Zone)
5. Zonal Dy. Chief Executive Officers (North Zone, East Zone, North-East Zone, South Zone, West Zone and Central Zone)
6. All Members of the Zonal Certification Committee
7. Director (KPM)
8. Director (CCC)
9. All Programme / Industry Directors in the Central Office
10. Secretary to Hon'ble Chairperson
11. O.S.D. to Chief Executive Officer.
12. Accounts Officer to Financial Advisor
13. P.A. to Chief Vigilance Officer
14. Director (Information Technology) for placing the circular on web site.
15. Director (Publicity) with a request to publish the same in the ensuing issue of 'Jagriti' and also arrange to organize appropriate publicity to the scheme so as to reach the information to the targeted beneficiaries of the scheme.
16. Circular file.

Director (RID)

**Producer Company Model Framework**

**Foreword**

The Indian craft sector plays an important role in providing employment in the rural areas, with comparatively low per capita investment and adoption of simple technology. The sector has grown steadily over the last five decades with support from the Government of India. However, in the recent times it is facing significant challenges because of the dearth of innovative business models for bridging the gap between the indigenous produce of the rural India with the needs of the urban market. Increased competition across various levels has also become one of the key challenges to the sector. On one hand there are low cost industrial products which are targeting the lower income consumers and on the other hand there are organized players who are targeting the high income urban consumers with effective branding and marketing initiatives. In this scenario the craft producers are undergoing a tough time to find a place in the market.

The sector requires significant investment in the area of production, distribution, marketing, promotion, sales, capacity building and infrastructure. It also needs a great degree of professional expertise in the areas of branding, supply chain, quality control and performance management. As this is not feasible and sustainable at the individual level, the need of the hour is to move in the direction of collective mechanism. In the past, similar principles had led to the formation of the Cooperatives. However, the Indian experience with the Cooperative model has not been very successful. The key issues hampering the progress of the cooperatives include lack of adequate capital and the agility in taking decisions to adapt with the changing market demands.

An expert committee led by noted economist, Y. K. Alagh, was given the mandate to frame a legislation that would have the benefit of the unique elements of a cooperative business along with a regulatory framework and flexibility similar to that of a company. The act was intended to allow primary producers to band together under a cooperative structure, but still access the benefits of being registered as a company. The concept of Producer Company was introduced in 2002 by incorporating a new Part IXA into the Companies Act based on the recommendations of the above Committee.

## **What is a Producer Company?**

The Producer Company (PC) is a legal institution, registered under Company Amendment Act 2002. It gives primary producers the flexibility to organize themselves as a normal company but on the basis of a one man-one vote principle.

In a Producer Company, only persons engaged in an activity connected with, or related to, primary produce can participate in the ownership. The members have necessarily to be the 'primary producers'. Primary produce has been defined as a produce of farmers arising from agriculture including animal husbandry, horticulture, floriculture, pisciculture, viticulture, forestry, forest products, re-vegetation, bee raising and farming plantation products: produce of persons engaged in handloom, handicraft and other cottage industries: by - products of such products; and products arising out of ancillary industries.

For KVIC promoted PCs, 'Primary Producer' means **artisans** i.e. an individual undertaking activities including pre-spinning, spinning, pre-weaving, weaving and all post weaving activities.

A producer company is a hybrid between a private limited company and a cooperative society. It combines the benefits of a cooperative enterprise and the vibrancy and efficiency of a company. The members of the Company are the shareholders and the primary beneficiary. The business operations are run professionally through the appointed Board, CEO and office bearers.

## **Who can form a producer company?**

A producer company can be formed by

- Any ten or more individuals, each of them being a primary producer or
- Any two or more Producer institutions or
- Combination of ten or more individuals and Producer institutions

Meeting with any of the above criteria, and compliance with the registration requirements of the provisions of the Act, the Company can be incorporated as a Producer Company. The company shall be

termed as "Producer Company Limited" and the liability of the members will be limited to the amount, if any, unpaid on the shares.

The Khadi and Village Industries consist of numerous numbers of artisans who lack in terms of the financial, infrastructure and technical capacity. Under this light, if the potential prospects can be brought together under the Producer Company model, then they can benefit substantially on their collective strength.

### **What are the characteristics of a Producer Company?**

- The producer company should be registered under the Companies Act
- The minimum numbers of members have to be ten
- Producer Company is formed with limited liabilities and limited only by share capital. The liability of the members is limited to the unpaid amount of the shares held by them
- The voting rights shall be based on a single vote for every member, irrespective of his shareholding or patronage
- The member would be the primary producers. The PC will have a management team to conduct day to day operations and will be governed by a Board of Members
- The PC would have a Board elected from among the members. The Board may co-opt one or more expert directors or an additional director not exceeding one- fifth of the total number of directors
- The surplus arising out of the operations of the Producer Company shall be distributed in an equitable manner by providing for the development of the business, providing for common facilities and for distributing amongst the members in proportion to their participation in business.
- It shall never become a public (or deemed public) limited company
- Members' equity cannot be publicly traded but be only transferred

### **What are the various advantages of a Producer Company**

- A Producer Company offers a statutory and regulatory framework that creates the potential for producer-owned enterprises to compete with other enterprises on a competitive footing. It provides the possibility of small producers to form their own companies, without loss of control of their assets

- The format provides higher legitimacy and credibility in the immediate business environment
- It allows membership of registered and non-registered groups (such as self-help groups or user groups), offering enhanced possibilities for creating a member-controlled organisation
- Outsiders cannot capture control of these companies. In other words, the Act permits only “primary producers” and persons or associations connected with the primary producers to participate in the ownership of producer companies
- The format provides for patronage based participation in governance. Surplus distribution also may be determined by the level of patronage provided by members
- It has regulations related to disclosure and reporting, thereby, protecting members’ interests

### **What are the financial benefits to the members of the Producer Company?**

The members of the Producer Company receive several financial benefits. The most important ones are:

- Subject to the provisions made in articles, every Member shall initially receive only such value for the produce or products pooled and supplied as the Board of Producer Company may determine, and the withheld price may be disbursed later in cash or in kind or by allotment of equity shares, in proportion to the produce supplied to the Producer Company during the financial year
- Every Member shall, on the share capital contributed, receive a limited return. Limited return means the maximum dividend as may be specified by the articles
- The surplus if any, remaining after making provision for payment of limited return and reserves, may be disbursed as patronage bonus, amongst the Members, in proportion to their participation in the business of the Producer Company, either in cash or by way of allotment of equity shares, or both, as may be decided by the Members at the general meeting

### **Can a Producer Company provide loan to its Members?**

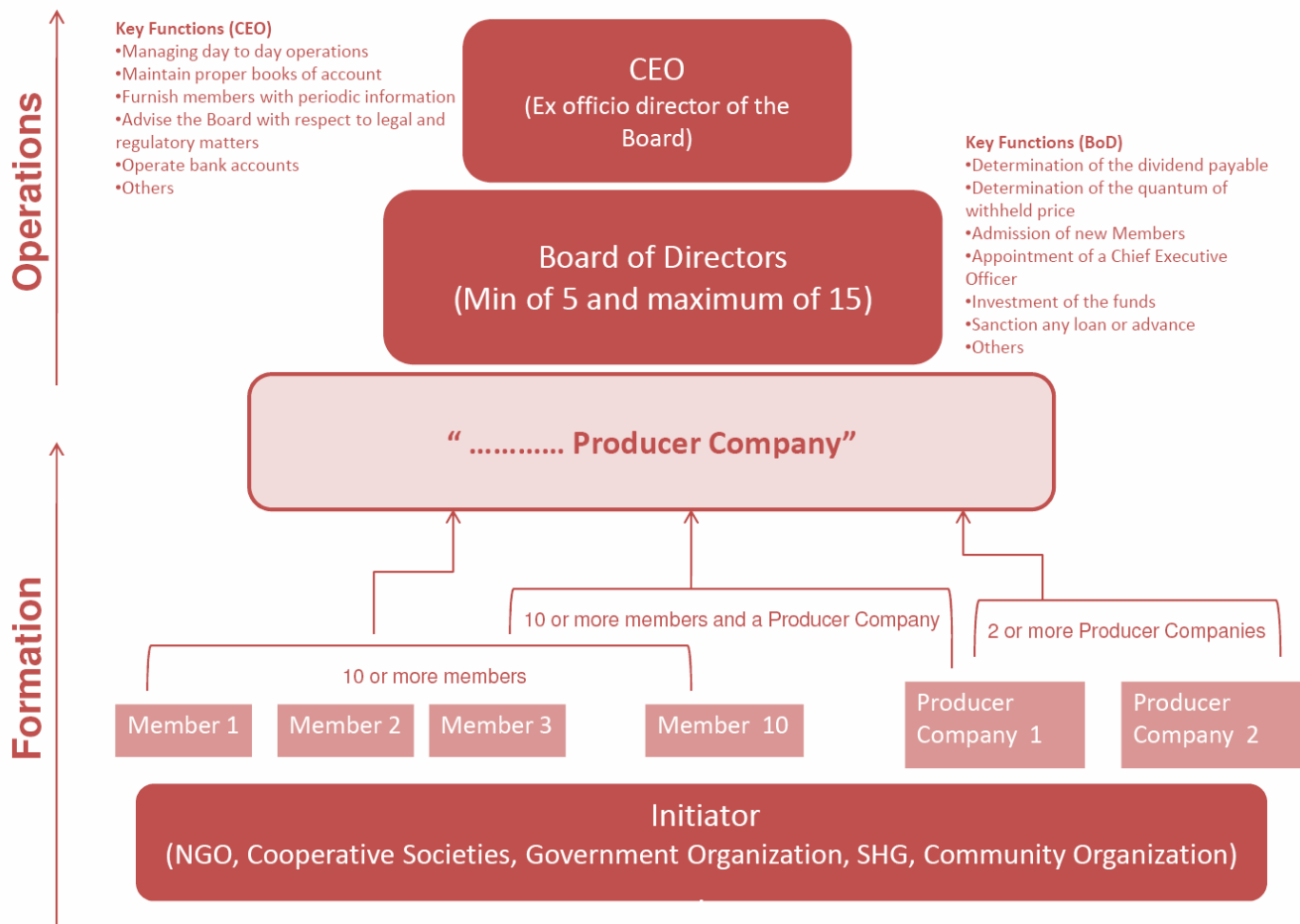
The members of the Producer Company are primary producers, and thus, require financial assistance from time to time. Hence, a special provision has been made in the Act of Producer Company to give financial assistance /loans to its members. The Company can provide financial assistance through the following methods:



- Credit facility, to any member, in connection with the business of the Company, for a period not exceeding six months.
- Loans and advances, against security specified in articles to any Member, repayable within a period exceeding three months but not exceeding seven years from the date of disbursement if such loans or advances.

**How would a Producer Company operate? What would be the structure of the organization?**

As the Company is formed, the members appoint the Board of Directors, within a period of ninety days of the registration of the Company. The total number of members in the Board of Directors should range between a minimum of five and a maximum of fifteen. The Board of Directors will then appoint a full time Chief Executive Officer who shall be the ex-officio Director and shall be entrusted with substantial powers of management as the board may determine. The CEO would manage the day- to- day affairs of the Company apart from the various other administrative and strategic activities. At the macro level, the organization design would look like the following:



### **Would the Books of Accounts have to be maintained?**

Every Producer Company shall keep at its registered office a proper books of account with respect to (a) all sums of money received and expended by the Producer Company and the matters in respect of which the receipts and expenditure take place; (b) all sales and purchase of goods by the Producer Company; (c) the instruments of liability executed by or on behalf of the Producer Company (d) the assets and liabilities of the Producer Company. The company records are to be verified by the auditors and presented in the AGM.

### **Does a Producer Company have to maintain reserves?**

Every Producer Company shall maintain a general reserve in every financial year, in addition to any reserve maintained by it as may be specified in articles. In case, where the Producer Company does not have sufficient funds in any financial year for transfer to maintain the reserves as may be specified in articles, the contribution to the reserve shall be shared amongst the Members in proportion to their patronage in the business of that company in that year.

### **Would Producer Company conduct Annual General Meeting?**

Members are the shareholders and the owners of the Producer Company. As per the Act, the Company should, in each year, hold an annual general meeting (in addition to any other meetings). A Company shall hold the first general meeting within a period of 90 days from the date of its incorporation. The key activities of an AGM include discussion of the performance of the company, decision on dividend distribution and withheld price, elections/ re election of directors, discussion in relation to operations and so on.

### **Are the shares transferrable?**

A member after obtaining the previous approval of the Board, transfer the whole or part of his shares along with any special rights, to an active Member at par value. In case a Member has failed to retain his qualifications to be a Member as specified in articles, the Board shall direct the member to surrender the shares together with special rights, if any, to the Company at par value or such other value as may be determined by the Board.

## How can KVIC help in promoting the Producer Company model?

The Producer Company model has an immense potential to benefit its stakeholders. In the current scenario, the level of awareness about its concept and benefits among the rural artisans is relatively low. KVIC can contribute significantly in promoting the same. Incorporation of Producer companies is spread across various stages and requires professional guidance. KVIC would introduce frameworks which can help Producer Companies seek financial assistance / technical guidance in a convenient manner. It can also promote special structures where the Producer Company can work closely with the 'to be formed Marketing organisation' thus bridging the gap between the demand and the supply.

## What is the procedure of Incorporation of a Producer Company?

The incorporation process has various stages. Following are the key activities under each one of them. The key activities



## **What are the costs involved in incorporating a Producer Company?**

The incorporation of the Producer Company is spread across various processes and involves costs across various areas including stamp duty, registration / filing fee, affidavit expenses, consultancy fee and others. A ballpark cost of approximately INR 35,000 can be considered as an initial investment towards the same. These costs can be financed by the promoters of the company which can be reimbursed to them later. The payment, however, needs to be approved by the members in the first general meeting of the Producer Company.

## **What are the key Challenges for Producer Companies?**

As Producer Companies take stronger roots, they will require large capital support from the banking Institutions. Largely these companies are not established and do not possess a strong asset backing. This would require the financial institutions to take unconventional approaches in assessing their financial capability and extend financial help to help them grow.

## **What would happen in the case of the failure of a Producer Company?**

The winding up of a Producer Company may be either voluntary or directed by the Tribunal (Court). In an untoward situation, where the Company decides to wind up, provisions applicable to the private companies will also be applicable to the Producer Company. Members shall have claim over the residual assets of the Producer Company after preferential payments and debts have been duly discharged.

## **How has been the Indian Experience?**

With the introduction of regulation on PC, many producer companies have been incorporated across India. Most of the companies emerging in this space are start-ups which have been promoted by NGO's or development agencies. Currently the services are extended to the technical know-how and inputs on pooling produce for collective marketing. Participation of the large Inter-State cooperatives to leverage the benefits of the new framework is still sluggish.

However despite of all the odds, the concept is picking up on a slow and steady basis. Some of the PC's operating successfully across India are:

- (i). Masuta Producer Company Limited
- (ii). Vanilla India Producer Company Limited
- (iii). ESAF Swasraya Producers Company Limited (ESPCL)
- (iv). Indian Organic Farmers Producer Company Limited
- (v). Chetna Organic Agriculture Producer Ltd (COAPCL)
- (vi). Sironj Crop Producers Company Private Limited (SCPCL)

### **What is the future outlook for the Producer Companies?**

In future, as the Producer Companies framework gains maturity, they would not only have better control over their operations and but also possess successful marketing and branding strategies. Through this the producers will be able to connect with the consumers and have command over the markets. This will help them get a greater share in the retail pie. It would also entail a greater participation from the large private retailers and corporate institutions to corroborate together.

### **Can Inter-State Cooperative Societies form Producer Companies?**

Inter-State Cooperative Societies not confined to one State can also make an application to the Registrar for recognition as Producer Companies. The statute also provides for re-conversion of such Producer Companies to their former status as inter-State cooperative societies subject to the approval of High Court. Further, all the limitations, restrictions and provision of the Act, (other than those specified in Part IXA), applicable to a private limited company, shall apply to a producer company, as if it is a private limited company. The following are the key differences between a Cooperative and a Producer Company

- Cooperatives are registered under the Cooperative Act while the Producer Company is registered under Companies Act
- Role of registering authority is minimal in the Producer Companies unlike the case of Cooperatives.
- The shares of Cooperatives are not tradable however shares of Producer Company are not tradable but transferable
- The disputes are to be settled through arbitration in the Producer Companies unlike the cooperative mechanism in case of Cooperatives

- Cooperatives adhere to the concept of one person one vote, with Government and RCS holds veto powers. In the case of Producer Company, each member has one vote irrespective of its shareholding pattern. Also there is no concept of veto vote

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## Annexure - II

### **Roadmap for establishing khadi institutions under Producer Company (PC) Model and implementation of khadi programme by such KIs with assistance available under KRDP.**

Under the Khadi Reform and Development program, 50 new Khadi institutions will be assisted which are to be organized and managed either on Producer Company Model or Entrepreneurship Model. KVIC seeks active participation from all the stakeholders including its state / divisional offices, Khadi Institutions, prospective SHGs and the artisans & weavers in successful organising of khadi programme through KIs set up under Producer Company Model.

Producer Company (PC) is a legal institution, registered under Company Amendment Act 2002. It gives primary producers' the flexibility to organize themselves as a normal company but on the basis of a one man-one vote principle.

- PC provides for an effective alternate organisational form for rural producers offering an opportunity for competing on an even footing with other business organisations. It provides a professional management and flexibility in organisational operations, which are now necessary in a changing economic environment. It combines the institutional strengths of Mutual Assistance and the Cooperative Principles within the liberal regulatory framework; as well as strict disclosure norms that the Company law offers.
- The PC framework allows only persons engaged in the primary produce to qualify as a member and participate in the ownership. Under the KVIC promoted PC, 'primary producer' would cover persons engaged in the production of Khadi including spinners, weavers, allied artisans engaging in pre-weaving and post-weaving activities.

Formation of PC can be initiated with a limited number of members. However over time, the operation and financial viability of the PC will require substantial strength of members which could be in a range of 1000-2000 or more depending on the location and various other factors. In this respect the existing / new Khadi Institutions are requested to partner actively with KVIC for the formation of PC's

Steps	Activities	Role of KVIC and Stake holders
1.	Identification of Primary Producers	For KVIC promoted PCs, primary producer is defined as persons engaged in the production of Khadi including spinners, weavers, allied artisans engaged in pre-

		<p>spinning, spinning and pre-weaving and post-weaving activities.</p> <p>State /Divisional offices of KVIC are required to identify the potential SHGs / new Khadi Institutions which can be enrolled in the PC framework. Each of the SO/DO offices are required to nominate a minimum of 2/3 groups under their jurisdiction.</p>
2.	Identification of Initiators / Implementation Agencies (IA)	<p>For the formation of a PC, an initiator / IA is required to guide and handhold the members on various functions, modalities of the PC.</p> <p>State / Divisional offices have to identify potential IA which can conduct the handholding exercises. A list of such agencies is given below:</p> <p>With the introduction of regulation on PC, many producer companies have been incorporated across India. Some of the PC's operating successfully across India include</p> <ul style="list-style-type: none"> <li>(i). Masuta Producer Company Limited</li> <li>(ii). Vanilla India Producer Company Limited</li> <li>(iii). ESAF Swasraya Producers Company Limited (ESPCL)</li> <li>(iv). Indian Organic Farmers Producer Company Limited</li> <li>(v). Chetna Organic Agriculture Producer Ltd (COAPCL)</li> <li>(vi). Sironj Crop Producers Company Private Limited (SCPCL)</li> </ul> <p>It is observed that the involvement of promoting agencies play a significant role and many agencies like PRADAN, ASA have made an important contribution in the Producer Company arena. For example, ASA promoted 16 PCs in the state of MP and Bihar with over 30,000 small and marginal farmers, and an average membership of about 2,000 farmers per PC.</p>
3.	Awareness workshop	<p>The Producer Company Model has various facets which are to be understood by the members and various stakeholders.</p>



		<p>An awareness workshop is to be conducted with all the stakeholders including artisans, spinners, weavers, representatives from KIs, KVIC and the implementation agency.</p> <p>All the aspects of the framework including benefits, challenges, roadmap etc is to be put forward and discussed with the stakeholders.</p>
4.	Formalization of SHG for PC	<p>The Implementation agencies can also suggest potential SHGs which are capable to bring in the Producer Company Framework.</p> <p>State / Divisional offices may provide model MoA and AoA and documents required for certification and direct enlistment.</p>
5.	Implementation	<p>The implementation process would be spread across various processes like registration of PC, setting up operations, management etc.</p> <p>The Implementation Agency has to guide the members through the various processes.</p> <p>State / Divisional offices of KVIC may arrange necessary training for artisan members.</p>
6.	Release of Assistance by KVIC	<p>After completion of the due process of khadi certification and enlistment, State / Divisional Directors may arrange preparation of project and Action Plan for mobilising assistance available under KRDP to the PC.</p>
7.	Monitoring & Guidance	<p>KVIC would monitor the working of PC and guide them in the implementation of khadi programme. State / Divisional offices would help PCs in marketing of khadi produced by them through the KI channel and Marketing Organization.</p>

#### Financial assistance available under KRDP

In the KRDP budget has been earmarked for assisting new khadi institutions organized and managed either on Producer Company or entrepreneurship model. The proposed assistance per institution is furnished in the table below. The proposed assistance indicates

funding ceiling. Assistance to institutions will be extended based on the implementing capacity of the PC institution.

Sr. No.	Particulars	Amount (Rs. in lakhs)
1	Implements	17.00
2	Shed	5.00
3	Working capital	10.00
4	Sales outlet	11.00
5	Training & IT	5.00
	Total	48.00

\* \* \*

**THE COMPANIES ACT, 1956  
COMPANY LIMITED BY SHARES**

**MEMORANDUM OF ASSOCIATION  
OF  
XXXXX PRODUCER COMPANY PRIVATE LIMITED**

- I. The name of the Company is "XXXXX PRODUCER COMPANY PRIVATE LIMITED"
- II. The registered office of the company will be situated in the State of XXXXX.
- III. The objects for which the Company is established are:
  - (A). The main objects to be pursued on its incorporation are:
    1. To carry on the business of procurement, production, processing, storage, packing, trading, marketing, export and import (as per National & International norms and standards) of Khadi and its products. "Khadi" is defined as any cloth woven on handlooms in India from cotton, silk or woollen yarn handspun in India or from a mixture of any two or all of such yarns;
    2. To plan, promote, organize and implement programs for the development of artisans, weavers and other associated persons with Khadi either independently or in coordination with other agencies engaged in rural development wherever necessary.
    3. To manufacture, sell or supply machinery, equipment or consumables to the members and non members.
    4. To render technical services, consultancy services, training, research and development and all other activities for the welfare and promotion of the interests of its members.
    5. To enable producers to get insurance for themselves, their family members, employees, and for the there livestock and other productive assets as also for their primary produce.
    6. To promote the techniques of mutuality and mutual assistance, including thrift and savings among member and collaboration & linkage with similar organizations
    7. To undertake any welfare measures or provide facilities for the benefit of the members, as decided by the Board.

8. To finance the production, procurement, processing, marketing and other activities mentioned above, including the extension of credit facilities or any other manner of financial services to the members of the company.
9. Any other activity ancillary or incidental to any of the above mentioned activities (1-8) or other activities, which promote the principles of mutuality and mutual assistance amongst the members in any other manner.

The objects of the company shall not be confined to only one state and they shall extend to the whole of India and outside India also.

(B) The objects incidental or ancillary to the attainment of the main objects are:

1. To acquire and take over any business or undertaking carried on, upon or in connection with/without any land or building which the Company may desire to acquire as aforesaid or become interested in the whole or any of the assets and liabilities of such business or undertaking and to carry on the same or to dispose or remove or put an end thereto.
2. To acquire, purchase, start, run, erect and maintain lands, building, factories, workshop, nursery raising on common lands or private lands, seed go-down, cold storage, warehouses, branch offices, depots and showrooms for the business of the company.
3. To acquire and/or give to/from any person, firm or body corporate incorporated whether in India or elsewhere, technical information, know how, processes, engineering, manufacturing and operating data plants, layouts and blue prints useful for the design, erection and operation of plants required for any of the businesses of the Company and to acquire any grant of licenses and other rights and benefits in the foregoing matters and things.
4. To invest any money of the Company in the equity or preference shares or debentures of any company where such investment fulfils the business objects of the Company and to invest any money of the Company not immediately required for the purposes of its business in such investments or securities as may be thought expedient including, but not limited to, securities issued and/or guaranteed by Central or State Government, Corporations, Trusts and Financial institutions.
5. To carry out in any part of the world all or any part of the Company's objects as principal, agent, factor,

- trustee, contractor either alone or any conjunction with any other person, firm, association, body corporate or government agency or the government department.
6. To secure or discharge any debt or obligations of or binding on the Company in such manner as may be thought fit and in particular by mortgage, charges upon the undertaking and all or any of the assets and properties (present and future) and the uncalled capital of the Company or by the creation and issue on such terms as may be though expedient of debentures, debenture-stock or other securities of any description or by the issue of shares credited as fully or partly paid up.
  7. To purchase or otherwise acquire, sell, dispose off, concerns and undertakings, mortgages, charges, annuities, for certain period or on deferred basis, patterns, license, securities, concessions, policies, book debts and claims, any interests in real property and any claim against such property or against any person or company.
  8. To amalgamate, enter into partnership or into any arrangements for sharing profits or losses, union of interests, co-operation, joint ventures or reciprocal concessions with any person or company carrying on or engaged in or about to carry on or engage in or which can be carried on in conjunction there with or which is capable of being conducted so as directly or indirectly to benefit the Company and to give or accept by way of consideration for any of the acts or things aforesaid or properties acquired, any shares, debentures, debenture-stock or securities that may be agreed upon and to hold and retain or sell, mortgage and deal with any shares, debentures, debenture-stock or securities so received.
  9. To become member of and to communicate with any Chamber of Commerce and other mercantile and public bodies in India or abroad and to advise on, consult, promote and support measures for the protection, advancement, growth of commerce and industry and for protection and welfare of persons engaged therein.
  10. To undertake and execute any trust or discretion the undertaking whereof may seem desirable and the distribution amongst the beneficiaries, pensioners or other persons entitled to thereof, any income, capital, annuity or other sums or moneys or other properties whether the periodically or otherwise and whether in money or in specie in furtherance of any trust, discretion or other obligations or permissions  
To lend money to and guarantee the performance of

- the obligations of and the payment of interest on any stocks, shares and securities of the company, firm or person in any case in which such loan or guarantee may be considered likely directly or indirectly to further the objects of this Company and generally to give any guarantee whatsoever which may be deemed likely, directly or indirectly, to bank to benefit the company or its members
11. To apply for tender, purchase or otherwise acquire any contracts, sub-contract, license and concessions for or in relation to the objects or business herein mentioned or any of them and to undertake, execute, carry out, dispose off or otherwise turn to account the same
  12. To dedicate, present or otherwise dispose off either voluntarily or for value any property of the Company deemed to be of national, public or local interest to any national trust, public body, museum, corporation or authority or any trustees for or on behalf of the same or on behalf of the public
  13. To promote, assist or take part and appear or plead evidence before any commission, investigation, inquiry, trial or hearing whether public or private relating to matters connected with any trade, business or industry
  14. To sublet all or any of the works, contracts from the time to time and upon such terms and conditions as may be thought expedient
  15. To form, manage, join or subscribe to any syndicate, pool or cartel for the business of the Company
  16. Subject to the provision of the Companies Act, 1956 to distribute among the members in specie any property of Company or any proceeds of sale or disposal of any property in the event of winding up
  17. To enter into any arrangement with any Government Authority, state, municipal, local or otherwise or any person or company that may seem conducive to the Company's objects or any of them and to obtain from any such Government authority, person or Company any rights, privileges, charters, license and concession, which the Company may think fit and desirable to obtain and to carry out, exercise and comply therewith
  18. To apply for, promote and obtain any act, charter, order, regulation, privilege, concession, license or authorization of any Government, State or Municipality or any Authority or any Corporation or any Public body which may be empowered to grant for enabling the Company to carry on its objects into affect or for extending any of the powers of the company or for affecting any modification of the Company's constitution or for any other purpose which may seem

- expedient and to oppose any bills, proceedings, applications which may seem calculated directly or indirectly to prejudice the Company's interest and to appropriate any of the Company's shares, debentures, debenture-stock or other securities and assets to defray the necessary cost, charges and expenses thereof
19. To make donations to such persons or institutions either of cash or any other assets as may be thought directly or indirectly conducive to any of Company's objects or otherwise and in particular to remunerate any person or corporation introducing businesses to this also to subscribe, contribute or otherwise assist or guarantee money for charitable, scientific, religious or benevolent, national, public, cultural, educational or other institutions or objects or for any exhibitions of any public, general or other objects
  20. To refer or agree to refer any claims, demands, disputes or any other questions by or against the Company or in which the Company is interested or concerned and whether between the Company and the member or members or his or their representatives or between the Company and third parties to arbitration in India or any places outside India and to observe and perform awards made thereon and to do all acts, deeds, matters and thing to carry out or enforce the awards in accordance with the provisions of law relating to arbitration from time to time
  21. To pay, out of the funds of the Company, all expenses which the Company may lawfully pay with respect to the promotion, formation and registration of the Company
  22. To pay for any rights of properties acquired by the Company and to pay or to remunerate any person or company for services rendered or to be rendered in placing or assisting to place or guaranteeing the placing of shares in Company's capital or any debentures, debenture-stocks or other securities of the Company or in or about the formation or promotion of the Company or the acquisition of properties by the Company for the purpose of the Company whether by cash payment or by the allotment of shares, debentures, debenture-stocks or other securities of the Company credited as paid-up in full, part or otherwise as the case may be
  23. To open current or fixed deposit accounts with any bank, bankers, shroffs, or merchants and to pay into and draw money from such accounts and to draw, make endorse, discount and execute all types of

- negotiable instruments
24. To insure the whole or any part of the property and personnel of the Company either fully or partially, to protect and indemnify any part or portion thereof either on mutual, principal or otherwise basis
  25. To employ experts to investigate and examine into conditions, value, character and circumstances of any business, concerns and undertakings having similar objects and generally of any assets, property or rights
  26. To carry on any branch of business any where in India, which this Company is authorized to carry on by means or through the agency of any subsidiary company or companies and to enter into any arrangement with such subsidiary company for taking the profits and bearing the losses of any business or branch so carried on or for finance any such subsidiary, guaranteeing its liabilities or to make any other arrangement which seems desirable with reference to any business or branch so carried on including the power and provision at any time either temporarily or permanently to close any such branch or business
  27. To take part in the management, supervision, conduct and control of the business or operations of any company or undertaking having similar objects and for that purpose to appoint and remunerate the directors, trustees, accountants or other experts, personnel or agents for any such operations or purpose
  28. To accept as consideration for or on lieu of the whole or any part of the Company's properties either land or cash or Government security or securities guaranteed by the Government or shares in joint stock companies or partly the one and partly the other and such other properties or securities as may be determined by the Company and to take back or acquire the property so disposed off by repurchasing or taking lease the same at such price or prices and on such terms and conditions as may be agreed upon by the Company
  29. To let on lease or license or on hire purchase or to lend any properties belonging to the Company and to finance for the purpose of any article whether made by the Company or not by way of loans or by hire purchase system
  30. To sell, purchase, mortgage, grants, easements and other rights over and in any other manner deal with the undertakings, properties, assets both movable and immovable, rights, effects of the Company or any part thereof and whether real or personal for such consideration as the Company may think fit and in particular for share, debenture, debenture-stock,



- securities of any other company whether or not having objects altogether or in part similar to those of the Company and to make advances upon the security of land and/or buildings and/or other properties movable and/ or any interest therein and to take or hold mortgages, liens and charges, to secure the payment of the purchase price or any unpaid balance of the purchase price of any part of the Company's property of whatsoever kind sold by the Company and money due to the Company from the purchaser and others
31. To create any depreciation fund, reserve fund, sinking fund, insurance fund or any other special fund whether for depreciation or for repairing, improving, extending or maintaining any of the properties of the Company or for redemption of debentures or redeemable preference shares or any other purpose whatsoever conducive to the interest of the Company
  32. To adopt such means of making known the business/activities of the Company as may seem expedient and in particular by advertising in the press, by circulars, by purchase and exhibitions of works of art or interest, by publication of books and periodicals by employing audio-visual media or by granting prizes, rewards and donations
  33. To raise or borrow money from time to time for any of the purposes and objects of the Company by receiving advances of any sum or sums with or without security upon such terms as the Directors may deem expedient and in any particular by taking deposits from or open current accounts with any individual or firms, including the agents of the Company, whether with or without giving the security or by mortgaging or selling or receiving advances on the sale of any lands, buildings, machineries, goods or other properties of the Company or by the issue of the debentures or debenture-stocks, perpetual or otherwise, charged upon all or any of the Company's properties (both present and future) including its uncalled capital or by such other means as Directors may in their absolute discretion deem expedient

IV. The liability of the members is limited.

V. The authorized share capital of the company is Rs. XXXXX.<sup>1</sup> (Rupees ..... only) divided into XXXX Equity Shares of Rs. 10/- (Rupees ten only) each.

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<sup>1</sup> Minimum amount shall be Rs. 5, 00,000/- (Rupees Five Lakhs only) divided into 50,000 Equity Shares of Rs.10/- (Rupees Ten only) each.

We, the several persons, whose names and addresses are subscribed, are desirous of being formed into a company in pursuance of this Memorandum of Association and we respectively agree to take the number of shares in the capital of the Company set opposite our respective names:

Sr. No.	Name, Father name, address and Occupation of Subscriber	Number of Equity shares	Signature of Subscribers	Name, Father name, Addresses and Signature of Witness

Place:

Date:

\* \* \*

**THE COMPANIES ACT, 1956  
COMPANY LIMITED BY SHARES**

**ARTICLES OF ASSOCIATION  
OF  
XXXX PRODUCER COMPANY PRIVATE LIMITED**

**1) PRELIMINARY**

The regulations contained in table 'A' in the first schedule to the Companies Act, 1956 shall not apply to this producer company.

**2) INTERPRETATIONS**

- (I) In these Articles unless there be anything repugnant to the subject or context the following words shall have the meaning written against them:
- a. **"The Act"** or "The Companies Act" means the Companies Act, 1956 and its statutory modifications from time to time and all rules made there under.
  - b. **"The Company"** or "this company" when used with reference to this company shall mean "XXXX PRODUCER COMPANY PRIVATE LIMITED".
  - c. "Articles of Association" means these articles, which may be amended by the Company with approval by a General Meeting and filed with the Registrar of Companies.
  - d. "The Seal" shall mean the Common Seal of the company approved by the Board of Directors from time to time.
  - e. 'Member' means a person admitted as a member of the Company under the provisions of these Articles.
  - f. 'Active Member' means a member of this producer company, which fulfils all qualifications for active membership as laid down in the Articles (Clause No. 6.5)
  - g. "Person" shall include any Association, Corporation, Company as well as individual.
  - h. 'Chairman' means a member of the Board who has been elected as Chairman by the directors of the Board under the provisions of these Articles.

- i. 'Board' means the Board of Directors constituted under the provisions of these Articles
- j. 'Commodity' includes Khadi and its products
- k. "General Meeting" includes annual and special general meetings.
- l. '**Managing Director**' an individual, who has been appointed by the Board as chief executive for the management of the affairs of the Company.
- m. '**Mutual Assistance Principles**' means the principles set out in these Articles.
- n. 'Primary Producer' means persons (khadi artisans) engaged in khadi activities as spinners, weavers and allied artisans working in pre-spinning and pre as well as post weaving activities.
- o. 'Patronage' means the use of services offered by the Company to its Members by participation in its business activities;
- p. 'Patronage Bonus' means payments made to members of the Company from out of the resultant surplus income.
- q. CIG/SHG means common interest and self help groups respectively formed by KVIC
- r. "Withheld price" means part of the price due and payable for various crop produces and inputs supplied by any Member to the Producer Company; and withheld by the Producer Company for payment on a subsequent date.
- s. "Auditors" shall mean and includes those persons appointed as such for the time being by the company.
- t. "Special Resolution", "Ordinary Resolution" and "Resolution requiring Special Notice" respectively by the Act shall have the meaning assigned thereto.
- u. "The Office" means the Registered Office for time being of the company.
- v. "The Registrar" means the Registrar of Companies with whom the company is registered for the time being under section 2(4) of the Act.
- w. "Proxy" includes attorney duly constituted under a power of attorney.
- x. "Ex-Officio Director" means the Director appointed by some person by virtue of a power contained in these

articles or in agreement between the company and the appointer.

- y. Words importing the singular shall include the plural and the words importing the plural shall include the singular.
  - z. Words importing the masculine gender include the feminine gender and vice versa.
- (II) Unless the context otherwise requires, words or expressions contained in these Regulations shall bear the same meaning as in the Act or any statutory modification thereof in force.

### 3) THE COMPANY TO BE A PRIVATE COMPANY:

- a. The Company shall become a body corporate as if it is a private limited company to which the provisions contained in the Part IX-A of the Companies Act 1956 apply, without, however, any limit to the number of Members thereof, and the Producer Company shall not, under any circumstance, whatsoever, become or be deemed to become a public limited company under this Act.
- b. The right to transfer shares of the company is restricted in the manner and to the extent hereinafter provided.
- c. No invitation shall be issued to the public to subscribe for any share or debenture of the Producer Company.
- d. No deposits shall be accepted from the public by the Company except from the members, directors or their relatives.

### 4) MUTUAL ASSISTANCE PRINCIPLES:

The company shall adopt the following mutual assistance principles, namely: -

- a. The membership shall be voluntary and is available to all eligible members of CIGs/SHGs who can participate and avail the facilities or services of the Producer Company, or to persons engaged in providing any organizational, technical or financial assistance to CIGs/SHGs, or to primary producers who are willing to accept the duties of membership;
- b. Each member shall, save as otherwise provided in the Part IX A of the Companies Act, have only a single vote irrespective of the share holding;

- c. The Producer Company shall be administered by a Board consisting of persons elected or appointed as directors in the manner consistent with the provisions of the Part IX A of the Companies Act and the Board shall be accountable to the Members;
- d. Save as provided in the Part IX A of the Companies Act, there shall be limited return on share capital;
- e. The surplus arising out of the operations of the Producer Company shall be distributed in an equitable manner by-
  - (i) Providing for the development of the business of the Producer Company;
  - (ii) Providing for common facilities; and
  - (iii) Distributing amongst the Members, as may be admissible in proportion to their respective participation in the business;
- f. Provision shall be made for the education of Members, employees and others, on the principles of mutuality and techniques of mutual assistance;
- g. The Producer Company shall actively co-operate with other Producer Companies (and other organizations following similar principles) at local, national or international level so as to best serve the interest of their Members and the communities it purports to serve.

## 5) FUNDS:

### (i) Funds may be raised by:

- a. Shares from new members;
- b. Additional shares in proportion to the business transacted with the Producer Company from time to time on the terms and conditions as decided by the Board of the Producer Company and communicated to the members
- c. Deposits and/or Debentures from members;
- d. Loans from any financial institution;
- e. Grants, aids and subsidies;
- f. Donations

The Producer Company may accept funds from any development agency or any other financing institution in the form of loans or

grants or in any other forms except equity capital, as per the terms and conditions prescribed by such institutions as may be mutually agreed upon.

(ii)CAPITAL

- a. The Authorized Share Capital of the Company is such that stated in clause V of the Memorandum of Association of the company or altered thereat, from time to time. The Company has the power from time to time to increase or reduce its capital. Any of the said shares and new shares hereafter to be created may, from time to time, be divided. The shares may have or confer such preferential or other special rights and privileges may be issued under such restrictions and conditions whether in regard to dividend, voting, return of capital or otherwise as shall have been assigned thereto by or under provisions of the Articles of Association but so that the special rights or privileges belonging to holders of any share issued with preferred or other rights shall not be varied or abrogated or effected except with such sanction as is provided for hereinafter.
- b. The shares shall be under the control of the Board of Directors who may allot or otherwise dispose of the same to such institutions on such terms as the Board of Directors think fit and to give any persons any shares whether at par or at premium and for such consideration as the Board of Directors think fit.
- c. Subject to these presents and the provisions of the Act, the shares of the Company whenever issued shall be under the control and the disposal of Board of Directors who may allot, issue or otherwise dispose of the same or any of them to such institutions or on such terms and conditions and at such times and at par or premium or discount as they may, from time to time, think fit and proper, may also allot and issue shares incapital of the Company in payment or part payment for any property sold or transferred to or for service rendered to the Company in or about the conduct of its business and the shares which may be so allotted may be issued as fully paid up shares and if so issued deemed to be fully paid up shares.

6) MEMBERSHIP:

- 6.1) The Producer Company shall consist of members of CIGs/SHGs(common interest group or self help group) whether incorporated or not and to persons engaged in providing any organizational, technical or financial

assistance to CIGs/SHGs or to primary producers who are willing to accept the duties of membership;.

6.2) A Producer Institution who fulfils eligibility conditions under the provisions of these Articles may apply for membership in the prescribed form to the Board of the Producer Company undertaking to carry out the responsibilities of membership in writing.

6.3) Where admission is refused by the board, the decision with the reasons for refusal shall be communicated to the concerned person by registered post within fifteen days of the date of the decision, or within thirty days from the date of application for membership, whichever is earlier.

6.4) Qualifications for obtaining membership: A person primary desirous of becoming a member shall subscribe at least one share to the Producer Company

#### 7) BENEFITS TO MEMBERS:

7.1) Every Member shall initially receive only such value for the produces supplied to the Producer Company as the Board may determine, and the withheld price may be disbursed at a later date during the financial year, in cash or in kind or by allotment of equity shares, in proportion to the value of various produces supplied to the Producer Company to such extent and in such manner and subject to such conditions as may be decided by the Board.

7.2) The surplus, if any, arising after setting aside provision for payment of limited return and after making provisions for reserves as per the provisions of Article No. 18 may be disbursed as patronage bonus amongst the Members, in proportion to their participation in the business of the Producer Company, either in cash or by way of allotment of equity share or both, as may be decided by the general meeting.

#### 8) PROVISIONS FOR SPECIAL USER RIGHTS:

The Board of the Producer Company may from time to time, based on measurable criteria, issue special user rights valid for a specific duration to the active members, to promote the business interests of the Producer Company. Such user rights shall be issued in the form of appropriate instruments.

The instruments so issued shall, subject to the approval of the Board in that behalf, be transferable to any other active member of the Producer Company.



## 9) TRANSFER OF SHARES

- (a). Subject to the provisions of Section 108 of the Companies Act, 1956, A member of the Producer Company may, after holding the shares for a period of at least one year, may transfer the whole or part of his shares along with any special rights, must notify to the Board of Directors of the number of shares and the value the Board of Directors must offer to the other active members, the shares offered at the par value and if the offer is accepted, the shares shall be transferred to the acceptors.
- (b). The Board of Directors may refuse to register any transfer of shares (1) where the Company has a lien on the share, or (2) where the share is not a fully paid up share, subject to Section 111 of the Act.

## 10) SURRENDER OF SHARES:

- 10.1) If any member has ceased to be a producer institution, or has failed to retain qualifications to continue as a member as specified, the Board shall serve with a written notice to the concerned member/s and provide an opportunity of being heard in the next Board meeting.
- 10.2) If the Board is satisfied it may direct the member for surrender of shares together with special rights, if any to the Producer Company, at par value or the Board may determine such other value.

## 11) VOTING RIGHTS OF THE MEMBERS:

- 11.1) Every active member shall have one vote.

## 12) GENERAL MEETINGS

- 12.1 The general meeting shall consist of the following:
  - a. Any person competent/authorized to represent and act on behalf of the producer institution
  - b. All members of the Board of the producer Company. The Chairman of the Producer Company shall preside over the general meeting. In case of his absence, the members present and entitled to vote shall elect one of them as Chairman for the meeting.

12.2 . The first general meeting shall be held within 90 days from the date of its incorporation and have the same powers as are given to the annual general meeting.

13) ANNUAL GENERAL MEETING:

The Annual General meeting shall be called once in every year. However, not more than 15 months shall elapse between the date of one general meeting and that of the next.

13.1. The annual general meeting of the Producer Company shall be called by the Board with not less than fourteen days' notice, which shall specify the date, time, venue and the agenda. The notice of the annual general meeting shall be sent to each member along with the following documents.

- (I) The agenda of the meeting;
- (II) Minutes of the previous annual general meeting or extra ordinary general meeting, whichever occurred later;
- (III) Names of candidates for election, if any, to the Board of Directors including a copy of a statement of qualifications in respect of each candidate;
- (IV) Audited balance sheet and profit and loss accounts of the Producer Company and its subsidiary if any, together with a report of the Board of Directors with respect to:
  - a. the state of the Producer Company's affair,
  - b. the amounts proposed to be carried to reserves,
  - c. the amount to be paid as return on share capital,
  - d. material changes and commitments, if any, affecting the financial position of the Producer Company and its subsidiary, if any, which have occurred in between the date of the annual accounts of the Producer Company to which the balance sheet relates and the date of the report of the Board and
  - e. The text of the draft resolution for appointment of the auditors,

- f. Any other matter of importance relating to energy conservation and environmental protection, foreign exchange earnings or outgo, etc.
  - g. The text of any resolution or proposed amendment to the Memorandum of Association or articles of association to be considered at the annual general meeting along with the recommendations of the Board with respect to each;
  - h. Any other matter that is required to be, or may be, specified by the board.
- 13.2. The proceedings of every annual general meeting along with Directors Report, the audited balance sheet and the profit and loss account of the Producer Company and its subsidiary, if any shall be filed with the Registrar within thirty days from the date on which the annual general meeting is held, with an annual return along with the filing fees as applicable to a private limited Producer Company.
- 13.3. The notice of annual general meeting and extra-ordinary general meeting shall be placed on the notice board of the Producer Company and will also be published atleast in one newspaper.
- 13.4. Attendance of one third of the total number of active members shall form a quorum for the general meeting.
- 13.5. If there is no quorum within half an hour from the time of meeting, the meeting shall stand dissolved if it was called upon requisition. But in other cases the meeting is automatically adjourned to reassemble on the same day in next week. And if at the reassembled meeting also quorum is not present within half an hour, as many members as are actually present shall constitute the quorum.
- 13.6. Functions of the General Meeting:
- The annual general meeting shall, among other things, deal with the following:
- (i). Confirm the proceedings of the previous General Meeting.
  - (ii). Declare the names of Board of Directors elected as

- per the election rules.
- (iii). Approve the excess expenditure over the sanctioned budget.
  - (iv). Receive from the Board the Annual report together with profit and loss account and balance sheet as on 31st March of preceding financial year of the Producer Company and sanction the appropriation of profits.
  - (v). Approve the budget and program of activities of the Producer Company for the next year as recommended by the Board.
  - (vi). Consider and adopt the audit memorandum and audit rectification report.
  - (vii). The limit of the outside borrowings subject to the conditions specified in the Articles.
  - (viii). Fix the allowances to be paid to the members of the Board and the members attending the Board meeting and other meetings.
  - (ix). Appoint auditors and fix their remunerations.
  - (x). Amendment of the Articles as and when necessary
  - (xi). To take note of admission of new member during the year.
  - (xii). Approve the expenditure incurred on any of the elected members of the Board.
  - (xiii). Remove member(s) of the Board by simple majority of the active members present and voting at the General Meeting in accordance with provisions of section 284 of the ACT.
  - (xiv). Consider any other business brought forward by or with the consent of the Chairman.
  - (xv). With the permission of 2/3rd of the members present at the General Meeting any member may bring forward any matter not specified in the notice of the meeting provided that he may not propose an amendment in the Articles and removal of a director of the Board of the Producer Company.

#### 14) EXTRA ORDINARY GENERAL MEETING:

An Extra Ordinary general meeting may be called at any time:

- i. By a majority of the Board or
- ii. By the Chairman/Managing Director within one month of requisition in writing from not less than 1/3rd of the active members of the Producer Company; An extra ordinary meeting of the Producer Company shall be called

by the Board with not less than fourteen days' notice, which shall specify the date, time, venue and the agenda.

15) BOARD OF DIRECTORS:

15.1) Board of Directors of the Producer Company shall consist of not more than 15 members as follows:

- i. 5 members elected from amongst the members;
- ii. The Board may co-opt one or more expert directors or an additional director not exceeding one-fifth of the total number of directors or appoint any other person as additional director for such period as the Board may deem fit;
- iii. Managing Director / CEO shall be the ex-officio director of the board;
- iv. The Minimum and the Maximum number of Directors of the Company shall be 5 (Five) and 15 (Fifteen) respectively. The First Directors of the Company shall be:
  1. Mr./Mrs. A
  2. Mr./Mrs. B
  3. Mr./Mrs. C
  4. Mr./Mrs. D
  5. Mr./Mrs. E

15.2) The conduct of elections of directors to the board of the Producer Company shall be the responsibility of the incumbent board of the Producer Company, in the manner specified in these articles of association and election rules at least 10 days before the term of office of the outgoing directors comes to an end. The outgoing directors shall cease just after the expiry of the term and new directors shall takeover from the very next day.

15.3) Election of directors shall normally take place at the annual general meeting. The election rules shall be formulated by the Board and approved by the general meeting.

15.4) The first election of the Board after its incorporation shall take place within one 90 days of its incorporation. The candidates for contesting the election shall have to fulfill all the qualifications required for obtaining the membership except in case of the first election of the Board after its incorporation.

15.5) Where a board fails to conduct elections before the expiry of the term of the directors or where there are no directors

remaining on the board, the chief executive of the Company shall call an extra ordinary general meeting, within twenty days after the expiry of the term of the directors for the purpose. If the Board is not constituted in the meeting, a three-member ad-hoc board shall be appointed from among members for the specific purpose of conducting elections and to perform all functions of the articles of association.

- 15.6) The term of the ad-hoc board so appointed shall not exceed three months and the ad-hoc board shall cease to function as soon as a regular board is elected in accordance with the articles of association.
- 15.7) The term of the elected board shall be 3 years from the date of assumption of office, except for the first Board. After the third year of incorporation, at the end of every two-year after the constitution of the Board, one third of the elected board members shall retire and be eligible for reappointment. For the first such retirement, the directors who shall retire shall be determined by draw of lots. Provided, however, that no member can be a member of the Board for a consecutive period of more than nine years.
- 15.8) Every year after the constitution of the Board, in the first Board meeting, the Board shall elect the Chairman of the Producer Company for a period of two years.
- 15.9) The Chairman shall preside over the meeting of the board. In case of his absence, the directors present shall elect one of the elected director as the Chairman of the meeting.
- 15.10) The Board may meet as often as it may consider necessary for transaction of the business. However, it shall meet at least once in every two months.
- 15.11) The Board meeting shall be called generally with seven days' notice, but in case of exigencies it can be called at a shorter notice
- 15.12) The presence of at least three Directors or one third of its total strength, whichever is higher, shall form the quorum for the Board's meeting.
- 15.13) Each member of the Board shall have one vote.
- 15.14) Decisions at the meeting of Board shall be arrived at by majority votes of the directors present. In case of a tie the Chairman of the meeting shall have a casting vote in

addition to his usual vote except in case of election of the Chairman. Tie in case of election of chairman, the matter shall be decided by draw of lots.

15.15) An elected member of the Board who absents from three consecutive meetings of the Board without obtaining the leave of absence shall cease to be a member of the Board.

15.16) No member shall be present at discussion or vote on any matter in which he has personal interest.

15.17) A person competent to represent CIGs/SHGs, shall not be eligible for election/continuance as a director of the Board unless the CIGs/SHGs, which he is representing:

- (i). Has fulfilled all the obligations as mentioned in the articles of association as on 31st March of the preceding year;
- (ii). Is an active member of the Producer Company as on the day of election.
- (iii). Has not withdrawn/cancelled the authority in writing given to him to represent in the general meeting

15.18 The person representing the CIGs/SHGs shall also not be eligible for election and continue as such, if -

- (i). He is convicted by a Court of any offence involving moral turpitude and sentenced in respect thereof to imprisonment for not less than six months.
- (ii). The Producer Company, in which he is a director, has made a default in repayment of any advances or loans taken from any company or institutions or any other person and such default continues for ninety days.
- (iii). He has made a default in repayment of any advances or loans taken from the Producer Company in which he is a director;
  - a). He has direct or indirect interest in any contract made with the Producer Company or any property sold or purchased by the Producer Company or any other transaction of the Producer Company except in any investment made in or in any loan taken from the Producer Company
  - b). He is engaged directly or indirectly indulging in running the same type of business as that of the Producer Company, or is having direct or indirect interest in such activities.

#### 15.19 Vacation of office by the directors:

The office of the director of a Producer Company shall become vacant if, the Producer Company, in which he is a director-

- (i). Has not filed the annual accounts and annual returns for any continuous three financial years commencing on or after the 1st day of April, 2002; or.
- (ii). Has failed to, repay its deposit or withheld price or patronage bonus or interest thereon on due date, or pay dividend and such failure continues for one year or more.
- (iii). Has defaulted in holding elections for the office of directors, in the Producer Company in which he is a director, in accordance with the provisions of this Act and articles.
- (iv). Has failed to convene the annual general meeting or extraordinary general meeting of the Producer Company in which he is a director, in accordance with the provisions of this Act except due to natural calamities or such other reason.
- (v). He is convicted by a Court of any offence involving moral turpitude and sentenced in respect thereof to imprisonment for not less than six months.

#### 15.20 Powers and Functions of the Board of Directors:

Without prejudice to the generality of the foregoing, such power and functions of the Board of Directors shall include:

- (i). To admit members;
- (ii). To formulate a corporate mission; to establish specific long-term annual objectives to be achieved, consistent with the mission and the goals; formulate and approve corporate strategies;
- (iii). To approve corporate strategies and financial plans;
- (iv). To make periodic appraisal of operations of the Producer Company in relation to its mission and objectives;
- (v). To formulate, approve and periodically review corporate policies related to major functional activities of the Producer Company;
- (vi). To appoint Managing Director/ as per the provisions of Articles.
- (vii). To finalize the proposed annual budget, and supplementary budget, if any for approval at the



- General Meeting;
- (viii). To cause –
    - a). Proper books of accounts to be maintained by the Producer Company, including in computerized form as permitted by the Companies' Act
    - b). The annual accounts to be prepared for the financial year,
    - c). The annual accounts to be duly audited by a qualified chartered accountant appointed for that purpose by the General Meeting, and the duly audited accounts to be placed before the general Meeting at the annual general meeting.
  - (ix). To ensure the calling of annual and other meetings of the general Meeting including the delivery of formal notice; the agenda of the meeting; the names of candidates for election to the Board and a statement of their qualifications; the text of any amendment proposed to the Memorandum of Association and/or articles of association and the rationale for such amendment; and the audited statement of accounts with comments on the auditor's qualification or adverse remarks; and the proposed annual or supplementary budget to be considered by the General Meeting;
  - (x). To ensure that elections are conducted as provided in the articles of association;
  - (xi). To determine the quantum of withheld price to be disbursed at the end of any year;
  - (xii). To acquire or dispose property in the ordinary course of business;
  - (xiii). To raise funds as provided in these articles.
  - (xiv). To cause adequate security, insurance of the assets of the Producer Company.
  - (xv). If required, the Board may constitute Committee/s each for specific duration in framing policies or seeking suggestions in any matter that Board may deem fit under section 581U of the Act. The advisory committee shall cease to exist after finalizing its suggestions and recommendations in the matter for the Board. The committee/s may be formed of the following members;
    - a). Up to two members of the board
    - b). Experts in concerned field from outside as decided by the Board,
    - c). The Managing Director of the Producer Company as Member Secretary.
  - (xvi). Delegate to the Managing Director any of its

- powers under these articles of association of the Producer Company.
- (xvii). To ensure compliances, terms and conditions of agreement with the financing institution for loan and grant as mutually agreed upon.
  - (xviii). The Directors shall exercise their powers regarding the affairs of the Producer Company only at meetings of the Board.
  - (xix). **BORROWING POWERS**  
Subject to Section 58A and 292 of the Act, and Regulations made there under and Directors issued by the RBI the Board of Directors shall have the power, from time to time and at their discretion to borrow, raise or to secure the payment of any sum of money for the purpose of the Company in such manner and upon terms and conditions in all respects as they think fit and in particular by the issue of debentures or bonds of the Company or by mortgage charged upon all or any of the properties of the Company both present and future including its uncalled capital for the time being.

#### 16) MANAGING DIRECTOR:

- 16.1. The Producer Company shall have a full time Managing director who shall function as chief executive and shall be appointed by the Board from amongst persons other than Members.
- 16.2. The Managing Director shall be ex officio director of the Board having voting rights equal to any other Director, but he shall not vote in the election of the Directors or Chairmen or on any matter in which he is an interested party. He shall not retire by rotation.
- 16.3. Save as otherwise provided in these articles, the qualifications, experience and the terms and conditions of service of the Managing Director shall be such as may be determined by the Board.
- 16.4. The Managing Director shall be entrusted with substantial powers of management as the Board may determine.
- 16.5. Without prejudice to the generality of sub-section (4) the Managing Director may exercise the powers and discharge the functions namely: -
  - (i). Do administrative acts of a routine nature including managing the day-to-day affairs of the Producer Company
  - (ii). Operate bank accounts or authorize any person, subject to the general or special approval of the

- Board in this behalf, to operate the bank account;
- (iii). Make arrangements for safe custody of cash and other assets of the Producer Company;
  - (iv). Sign such documents as may be authorized by the Board, for and on behalf of the company;
  - (v). Maintain proper books of account, prepare annual accounts and audit thereof; place the audited accounts before the Board and in the annual general meeting of the Members;
  - (vi). Furnish Members with periodic information to appraise them of the operation and functions to the Producer Company;
  - (vii). Make appointments to posts in accordance with the powers delegated to him by the Board;
  - (viii). Assist the Board in the formulation of goals, objectives, strategies, plans and policies;
  - (ix). Advise the Board with respect to legal and regulatory matters concerning the proposed and ongoing activities and take necessary action in respect thereof;
  - (x). Exercise the powers as may be necessary in the ordinary course of business;
  - (xi). Discharge such other functions, and exercise such other powers, as may be delegated by the Board;
  - (xii). Decide as per approved Board's policies, procedures and limits, purchase price and sale price of various products, purchase of materials, sale price of processed items, purchase of packaging materials, and all other items pertaining to the business and activities of the Union subject to budgetary provisions.
  - (xiii). Arrange to purchase machinery; equipment, and such capital items as are required for the Business of the Producer Company as per policies and procedures set for the purpose and subject to approved budgetary provisions.
  - (xiv). Decide the charges on services rendered by the Producer Company.
  - (xv). Arrange for adequate security against embezzlement, stealing, and misappropriation and for damage by employees handling cash, goods and securities.
  - (xvi). Arrange for insurance against loss of property and take up agency for insurance work.
  - (xvii). Shall make all the necessary arrangement for conduct of the business of the Producer Company.

- (xviii). Shall carry out negotiations with the Government and other organizations.
- (xix). Shall arrange to keep in custody all documents, promissory notes, bonds, etc.
- (xx). Subject to the provisions of the articles of association, the Managing Director shall have full authority to carry out the business of the Producer Company.
- (xxi). In absence of the Managing Director, a senior officer authorized by him shall discharge the work of the Managing Director.
- (xxii). The Managing Director shall manage the affairs of the Producer Company under the general superintendence, direction and control of the Board and be accountable for the performance of the Producer Company.

17). APPOINTMENT OF THE COMPANY SECRETARY:

- 17.1. If the average annual turnover exceeds five crore rupees in each of three consecutive financial years, the Producer Company shall have a whole-time secretary.
- 17.2. No individual shall be appointed as whole time secretary unless he possesses membership of the Institute of Company Secretaries of India constituted under the Company Secretaries Act, 1980.

18). APPROPRIATION OF NET PROFIT:

The Producer Company shall maintain a general reserve fund in which 10% of the Net profit or Rs. One lakh, whichever is more, shall be transferred to the general reserves.

- 18.1. There shall be a limited return up to 3% per annum, or as may be specified by the Board and approved by the General Body from time to time, on fully paid share capital;
- 18.2. The surplus arising out of the operations of the Producer Company shall be distributed in an equitable manner by-
  - (i). 5% for development of the business of the Producer Company on year to year basis;
  - (ii). 1% for common services;
  - (iii). distributing amongst the Members of the excess, as may be admissible in proportion to their respective participation in the business;
  - (iv). 1% for the education of Members, employees and others, on the principles of mutuality and techniques of mutual assistance;

19). WINDING UP

If the Company shall be wound up and the assets available for distribution among the Members as such shall be insufficient to repay the whole or the paid up Capital, such assets shall be distributed so that, as nearly as may be the losses shall be borne by the Members in proportion to the capital paid up at the commencement of the winding up, on the Shares held by them respectively at that time.

If in winding up, the assets available for distribution among the Members shall be more than sufficient to repay the whole of the paid up Capital such assets shall be distributed amongst the Members in proportion to the Capital paid up at the commencement of the winding up on the shares held by them respectively, but the provisions of this Article 56 are to be without prejudice to the rights of the holders of Shares issued upon special terms and conditions.

20). MISCELLANEOUS:

- 20.1. In addition to the sum as provided in the provision of these articles of association all subsidies, entrance fees, receipts on account of forfeited shares and fines other than those collected from the employees shall be carried to the Reserve Fund.
- 20.2. Any other income other than normal trading income, excess provisions and reserves, donations other than those for specific purposes etc. can be carried to a General Reserve Fund and shall be utilized with the permission of the Board from time to time.
- 20.3. The accounting year of the Producer Company shall be from 1st April to 31st March. The books of accounts and other records shall be maintained as prescribed.
- 20.4. The Producer Company shall not alter the conditions contained in its memorandum except in the cases, by the mode and to the extent for which express provision is made in the Act.
- 20.5. The Producer Company may, by special resolution, not inconsistent with section 581B, alter its objects specified in its memorandum. A copy of the amended memorandum, together with a copy of the special resolution duly certified by two directors, shall be filed with the Registrar within thirty days from the date of adoption of any resolution.

20.6. Any amendment of the articles shall be proposed by not less than two-thirds of the elected directors or by not less than one-third of the Members of the Producer Company, and adopted by the Members by a special resolution. A copy of the amended articles together with the copy of the special resolution, both duly certified by two directors, shall be filed with the Registrar within thirty days from the date of its adoption.

21). THE SEAL

The Board of Directors shall select a common seal for the Company and provide by resolution for the safe custody and affixing thereof. Unless otherwise determined, the Director may use and affix the seal of the company to any document and the Director in accordance with these articles sign every document to which the seal is so affixed.

22). SECRECY CLAUSE

Subject to the provisions of the Act, no member shall be entitled to visit or inspect works of the Company without the permission of the Director or Managing Director or of the officer authorised by the Director to grant such permission or to require inspection of any books of accounts or documents of the Company or any discovery of any information or any detail of the Company's business or trading or any other matter which is or may be in the nature of a trade secret, mystery of trade or secrete processor which may relate to the conduct of business of the Company and which in the opinion of the Managing Director or the Directors will not be expedient in the collective interest of the members of the Company to communicate to the public or any member.

23). DIRECTORS AND OTHERS' RIGHT TO INDEMNITY:

- a) Subject to the provisions of section 201 of the Act, every director and officer of the company shall be indemnified by the company and it shall be the duty of the Directors to pay out of funds of the Company all costs, losses and expenses (including travelling expenses) which any such director, officer or employee may incur or become liable to by any reason of any contract, or deed entered into by him as such Director, Officer or servant or in any way in the discharge of his duties.
- b) Subject to aforesaid every Director, Managing Director, Manager, Secretary, or other officers or employees of the

company shall be indemnified against any liability incurred by him/them in defending any proceedings whether civil or criminal in which judgment is given in his favour or in which he is acquitted or in connection with any application under section 613 of the Act in which relief is given to him by the Court.

We, the several persons, whose names and addresses are subscribed, are desirous of being formed into a company in pursuance of this Memorandum of Association and we respectively agree to take the number of shares in the capital of the Company set opposite our respective names:

Names, Addresses, Descriptions, Occupations and Signatures of the Subscribers	No. of Equity Shares taken by each subscriber	Name/s and Signature/s of the Witness/es and their Address/es, Description/s and Occupation/s
Total		

Place:

Date:

\* \* \*