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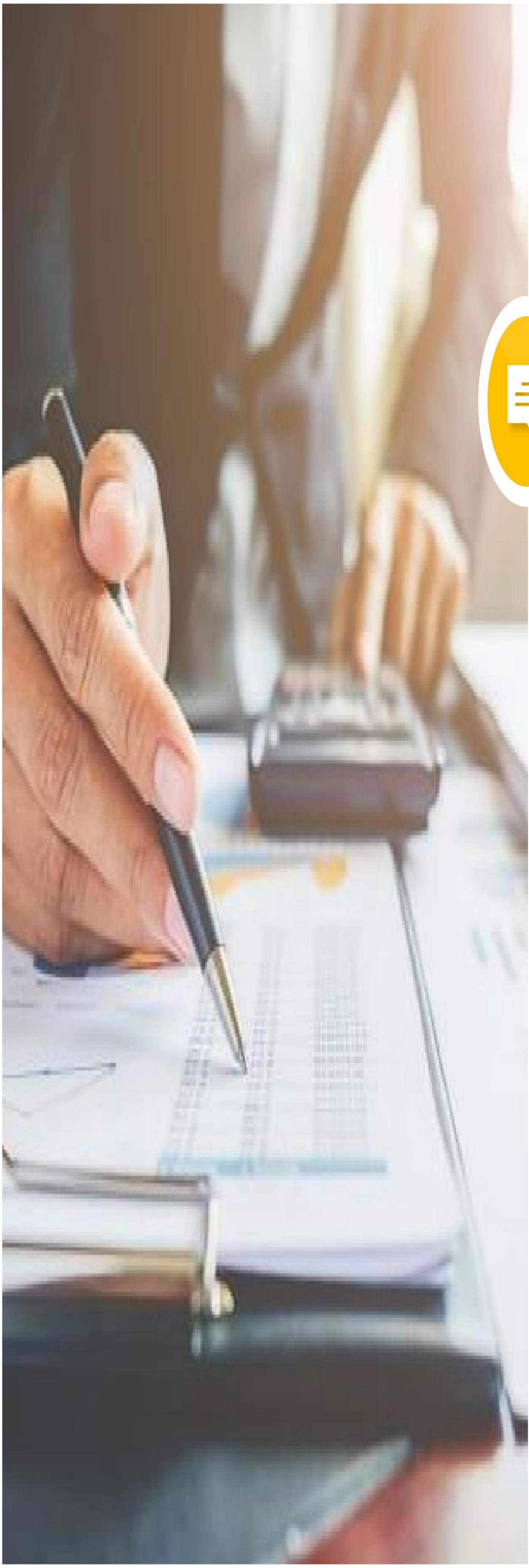
Rajput Jain & Associates

Chartered Accountants

An ISO 9001:2008 Certified Firm

JOINT VENTURE CONSULTANCY



About

Rajput Jain & Associates, Chartered Accountants, is one of the leading providers of financial and business advisory, internal audit, statutory audit, corporate governance, & international taxation and regulatory services. With a global approach to service delivery, we are responds to clients' complex business challenges with a broad range of services

across industry sectors and national boundaries. The Firm has been set up by a group of energetic, open minded, highly skilled and motivated professionals who have gained experience from top consulting companies and are extensively experienced in their chosen fields has providing a wide array of Accounting, Auditing, Assurance, Risk, Taxation, & Business advisory services to various clients & their stake holders. We have been associated with various national & International recognized associations in the field of our profession; Association of International tax consultants (AITC) is one of them.

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JOINT VENTURE CONSULTANCY

Joint Venture (JV) is the ideal solution, if two or more companies in certain geographical regions or business functions want to share their unique strengths, synergies and capabilities but not want their identity lost. The new company will bring their domain knowledge and expertise to/transfer partners to the joint venture and continue running their own businesses simultaneously.

Although a joint venture is a partnership in the colloquial sense, it can have any legal structure. JVs can be formed using corporations, partnerships, limited liability companies (LLCs), and other business entities. Regardless of the fact that JVs are typically formed for production or research, they can also be formed for a long-term purpose. Joint ventures can bring together large and small companies to take on one or more large or small projects and deals.

Some Reason to form Joint Venture:

There are three main reasons for forming joint ventures between companies:

- **Utilize resources.**

To achieve the objective of the enterprise, a joint venture can use the combined resources of both companies. One company may have a well-established production process, and the other may have higher distribution channels.

- **Savings on costs**

In the JV both companies can leverage their production per unit at a lower cost than would be separately by using economies of scale. This is particularly suitable with costly technological advances. Additional costs savings due to the JV may include advertising sharing and labour costs.

- **Combination of expertise.**

A joint venture between two companies or parties may have distinct backgrounds, professional skills, and knowledge & experience. In combination with a JV, each company can take advantage of their company's expertise and talent.

The JV agreement, which sets out all partners' rights and obligations, shall constitute the most important document, regardless of the legal structure used for JV. The aims of the JV are all set out in this document, the partners' initial contributions, the day-to-day activities and the right to profits and the responsibility for the losses of the JV. To avoid litigation along the way, it is important to draught with care.

Key Consideration before forming Joint Venture:

A joint venture can take several forms, ranging from a contractual arrangement to the formation of a new legal entity with each party as shareholders. Joint ventures, when done properly, can be extremely profitable. However, there is a significant risk of things going wrong if parties do not take the time to consider their goals and the fundamental elements of their JV.

Before entering into a Joint Venture Agreement (JV), you should carefully consider the legal and practical implications. We've compiled a list of issues to think about before forming a joint venture.

Below are some ideas for parties to consider before entering into a joint venture. Above all, it is critical that parties engage in open and honest discussions in order to maximize the commercial benefits of the JV.

- **Background Check on Partners:**

The reputation of a party to a JV will be linked to the reputation of their JV business partners. Many years of goodwill can be lost if the wrong partner is chosen. Parties should consider conducting a thorough review of their business partners' qualifications and experience to ensure that there are no hidden deathtraps that could negatively impact the JV. Court documents, credit histories, and financial/accounting records can all be included in these searches. Be conscious that your future JV partners will conduct a background check on you, so it may be in your best interests to report any potential problems early on.

- **JV Agreement and its Scope:**

Before beginning work on the JV itself, the parties should agree on the JV's objective and their respective roles.

- ✓ What will each party should do, and how should they go about doing it?
- ✓ How does any property generated by the JV (including intellectual property) be owned and managed?
- ✓ Who will be on the JV's management team, and what will their responsibilities be?
- ✓ Is there any place for carve-outs or exclusions that each party should keep for themselves?

Consider the JV's business scope and territory as well. Once agreed upon, these terms should be documented in writing, including performance indicators, so that each party understands how each partner contributes to the JV.

- **Structure:**

It is critical that each participant obtain independent legal advice in order to select the best structure, as there will be issues regarding individual liability and tax consequences. JVs can be incorporated (a company governed by a shareholders agreement) or unincorporated (a contractual arrangement regulated by a joint venture agreement).How will each JV member fund the venture should be considered (and in what proportion).

- ✓ Will parties be able to use their JV interest to fund this or their own ventures?
- ✓ What will happen to the earnings, losses, obligations, and responsibilities?

- **Dispute Resolution and Exit Strategy**

These should be thought about and written thoroughly.

- ✓ What constitutes a JV violation or default, and what are the consequences of default?
- ✓ What is the protocol for parties to settle their conflict if things don't work out or if there's a disagreement?
- ✓ Is the case going to mediation, arbitration, or mediated negotiation?
- ✓ What are the deadlines for resolving any disagreements?

In most cases, an unconsented termination will result in protracted and costly litigation. The JV agreement should also specify how and when a party can pass its interest, as well as whether or not pre-emptive rights exist, which allow a participant to purchase the interest of an existing participant.

Consider including ‘deadlock' provisions, particularly in 50/50 joint ventures, so that if parties cannot agree on fundamental issues, a mechanism allows a party to buy out the interests of, or to be bought out by, anyone involved in the deadlock.

Consider how a change of ownership or control of a party's interest is handled, as well as how a new party is admitted to the JV (if any).The specifics of these provisions and their application to each individual must be carefully considered; all potential situations (from both sides, as you might be continuing or leaving the JV) should be considered, and any relevant exceptions should be recorded (such as restraint of trade clause).

- **Record and Confidentiality:**

Maintaining organized and reliable records (both financial and company) is critical for audit and regulatory purposes, just as it is for every other business. When it comes to settling conflicts between JV partners, accurate records are crucial.The Courts have consistently held that parties to a JV must maintain books and accounts in order for the JV to be assessed with reasonable ease and within a reasonable period of time if required.

Parties to a JV may also wish to consider implementing a system of confidentiality agreements to ensure that any information disclosed during the course of negotiating, setting up, and operating the JV is not later used to the disadvantage of those parties.

- **Culture Clashes and Fiduciary Obligations:**

Each business operates differently and employs and owns people with diverse personalities. The possibility of significant differences between JV partners should be considered carefully.Alignment, or at least consideration of the different business cultures, is crucial to the success of any JV and avoiding potentially damaging situations.

Parties to a JV should be informed that during the course of JV negotiations and operations, a fiduciary relationship will develop. As a result, parties negotiating a JV can be subjected to additional trust and confidence obligations (such as non-disclosure of confidential information).

- **Expert Advice:**

Parties to a JV should consult their attorneys, accountants, and financial advisors so that they can provide guidance about what is being sought to be accomplished and the approach to be used.All such experts can help parties explore any potential issues that may apply to their specific circumstances in order to reduce future mental anguish, stress, and costs.

- **Communication:**

Above everything, communication is essential, particularly when you are involved in a joint venture. Simply communicate the venture to key stakeholders such as financiers, JV partners, experts, and consumers, and then keep those lines of communication open to ensure success.

Document required for creating a Joint Venture:

- Letter of Intent (LoI) or Memorandum of Understanding (MoU)
- Definitive Agreements (depending upon the chosen structure)

Type of Structure	Definitive Agreement Required
Company	• Joint venture Agreement or Shareholders' Agreement • MOA and AOA
LLP	Limited Liability Agreement
Partnership	Partnership Deed/Agreement
Strategic Alliance/Cooperation	Strategic Alliance Agreement or Cooperation Agreement

- Other Agreements (for example, technology transfer agreements/BTAs, etc.)
  - ✓ Technology transfer Agreement(BTA)
  - ✓ Transfer of Intellectual property

Advantages of Joint Venture:

- **New perspectives and experience:**
  Creating a joint venture allows you to obtain new perspectives and experience. Consider this: the market will be much easier for you to understand as a result of your short-term partnership.

- **Better Sources:**
  Creating a joint venture would provide you with more services, such as trained personnel and technology. You can share and use all of the equipment and capital that you need for your project.

- **Temporary:**
  A joint venture is merely a temporary partnership between two companies. You won't be sticking to it long term by definition.

- **Share Risk and Cost:**
  You will be share the cost bearing of the joint-group project's failure if it fails.Because you two decided to volunteer to split the costs, you will both bear the losses.

- **Flexibility:**
  A joint venture, for example, has a limited lifespan and can only cover a fraction of what you do, limiting your commitment as well as your business's exposure, according to assignment writing service writers.

- **There are ways to exit a joint venture:**
  A joint venture provides a creative way for companies to exit non-core businesses in the context of divestiture and consolidation.
- **You'll know what you own and be able to sell it:**
  Firms can gradually separate their business from the rest of the organization and then sell it to the other parent company. Around 80% of all joint ventures end in a sale from one partner to the other.

- **Likely to success:**
  Because you are already riding with a well-known brand, your chances of success will increase. As a result, your credibility will skyrocket.

- **Network:**
  Even if your partnership is only for a specific goal, this move will allow you to establish long-term business relationships.

- **Potential:**
  You can create more venture deals even if you have little to no money. You will gain traction and gain collaborators. Take advantage of it!

- **Saving Money:**
  By sharing marketing and advertising cost/expenses, you can save money and it applies to a wide range of other costs as well. Creating a joint venture is a worthwhile investment and/or split total cost.

- **Opportunity of Globalization:**
  International joint ventures are very common these days.This is an excellent opportunity to collaborate with people from various countries and combine our strengths!

Disadvantages of Joint Venture:

- **Objectives are not Clear:**
  The goals of a joint venture are not always clear and are rarely communicated clearly to all parties involved.

- **Flexibility can be restricted:**
  There are times when a joint venture's flexibility is limited. When this occurs, participants must focus on the joint venture, and their individual businesses suffer as a result.

- **Equal Involvement:**
  Equal pay may be possible, but all companies working together are unlikely to share the same involvement and responsibilities.

  For example, Company A is working on the manufacturing process, while Company B is in charge of production and Company C is in charge of market strategy planning and implementation. Because Company A is not directly involved in the production and promotion processes, the responsibility is on both. It will have an impact on individual companies.

- **Imbalance:**
  Because different companies are collaborating, there is a significant disparity in expertise, assets, and investment. This can have a negative impact on the joint venture's effectiveness.

- **Clash Culture:**
  A clash of cultures and management styles can lead to poor collaboration and integration. People with differing beliefs, tastes, and preferences can cause problems if left unchecked.

- **Restrict on Outside Opportunity:**
  It is very common for joint venture contracts to restrict participant companies' outside activities even when working on a venture project. If you don't want to have a negative impact on your entire business, make sure you understand what you're getting into.

- **Time consuming:**
  The success of a joint venture is heavily reliant on thorough research and analysis of the goals.

- **Difficult to exit:**
  Again, even if a joint venture is only temporary, it is critical to understand what you are getting into if you would not want to be stuck into a partnership. In the early stages of a joint venture, you will receive adequate leadership and support and may be tempted to leave.

- **Lack of Communication:**

Because a joint venture involves companies from various horizons with varying goals, there is frequently a severe lack of communication between partners.

- **Unreliable Partner:**
  Due to the distinct nature of a joint venture, it is likely that the partners will not devote their full attention to the project and will become ineffective.

- **Ambiguous and unrealistic Objectives:**
  It is possible to set unrealistic and ambiguous goals. To avoid this, you and your partners must conduct extensive research prior to launching your joint venture.

Frequently asked Questions on JV

Why do companies form joint ventures?

There are a variety of reasons to collaborate with another company on a temporary basis, including growth, product creation, and market entry (particularly overseas). JVs are a popular way to bring together the business prowess, market knowledge, and staff of two organizations that are otherwise unrelated. This form of collaboration helps each participating organization to scale its resources to complete a particular project or mission while lowering overall costs and spreading out the risk and liabilities that require work.

What are the most significant benefits of establishing a joint venture?

A joint venture allows each party to benefit from the wealth of the other(s) without having to invest a lot of money. If the joint venture is completed, each company can retain its own identity and resume regular business operations. Joint projects also have the advantage of risk sharing.

What are some of the drawbacks of establishing a joint venture?

Joint venture agreements generally restrict partner companies' outside activities while the project is in progress.Exclusivity agreements or non-compete agreements that impact existing relationships with suppliers or other business contacts may be expected of each company participating in a joint venture. Unless a separate business entity is established for the joint venture, the contract under which joint ventures are formed may subject each company to the liability inherent in a partnership. Furthermore, though joint venture partners share ownership, work tasks, and resource allocation are not always distributed equally.

Is it necessary to have an exit strategy in a joint venture?

A joint venture is formed to complete a specific project with specific objectives, and it ends when the project is completed.An exit plan is critical because it lays out a straightforward path for dissolving the joint venture, avoiding prolonged negotiations, expensive legal challenges, unfair practices, negative consumer effects, and potential financial loss. An exit strategy in most joint ventures will take one of three forms: the sale of the new company, a spinoff of operations, or employee ownership. Each exit strategy has its own set of benefits and drawbacks for joint venture partners, as well as the potential for conflict.

Joint ventures can be long-term relationships or short-term project work. Is this statement true or false?

Yes, It is true. A joint venture will operate entirely on the terms decided upon by the parties involved. It can be a long-term or short-term agreement, depending on their needs and requirements.

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