

# Formation of New Cos Soars in FY21, with a Covid Bent

Sectors that gained prominence during pandemic, such as health, agri, sanitation, drove the surge; ease of incorporation too a factor

Kiran.Somvanshi  
@timesgroup.com

**ET Intelligence Group:** Amid the pandemic, 147,247 new companies were incorporated during the financial year 2020-21 — a 43% increase over the preceding financial year, as per Ministry of Corporate Affairs data sourced from Prime Database. The increase is stark when compared with a 2% on-year drop in new company formations in FY19-20.

Sectors whose business found salience during the lockdown, such as health & social work, agriculture, education, wholesale trade, retail trade, recreation and sewage & sanitation, drove the surge in company formations.

There was an over six-fold increase in the incorporation of health & social work companies. In the agri (and allied) sector, new company formations more than doubled from

the year before to 11,037. The number of new companies set up tripled in the education sector and rose 68% in the case of food and beverages. In the case of recreation and sporting activities, it rose five-fold — with a high likelihood of them having online business models.

Interestingly, there has been a tenfold increase in the number of companies set up in the sewage, garbage disposal and sanitation sector. The number rose around 30% in both retail and wholesale trade.

In contrast, there has been a decline in new company incorporations in sectors of transport activities & travel agencies, hotels & restaurants, and financial intermediation, which were among the worst affected by the pandemic.

Two-thirds of the new companies were formed during July-Decem-

ber 2020 — hinting at a strong digitalisation model of the business. Over half of the companies incorporated were in Maharashtra (18%), Uttar Pradesh (10%), Delhi (10%), Karnataka (8%), and Tamil Nadu (6%).

Improved ease of incorporating companies seems to be one of the reasons for the jump in company incorporations.

“The cost and hassle of incorporation have come down and there is no minimum capital required to incorporate a private limited company,” said

SN Viswanathan, a practising company secretary. “However, it remains to be seen how many of the newly incorporated companies continue to be in business over the next five years,” he said.

The data seem to support the view that entrepreneurship tends to rise

## SILVER LININGS

COMING BACK FROM COVID

### No Pandemic Cloud

Trends in New Company Incorporations



|                                 | FY1920  | FY2021  | YoY<br>chg |
|---------------------------------|---------|---------|------------|
| Total                           | 103,064 | 147,247 | 43         |
| Agriculture & Allied Activities | 5,010   | 11,037  | 120        |
| Health & Social Work            | 1,110   | 6,934   | 525        |
| Education                       | 1,079   | 4,476   | 315        |
| Food Products & Beverages       | 4,483   | 7,525   | 68         |
| Wholesale Trade                 | 7,256   | 9,614   | 32         |
| Retail Trade                    | 5,201   | 6,689   | 29         |
| Recreation & Sports             | 367     | 1,906   | 419        |
| Sewage & Sanitation             | 19      | 190     | 900        |

Source: MCA, Prime Database

during economic crises.

“In the US, on an average over the past 100 years, firm creation has always gone up during a recession,” said Shashwat Alok, assistant professor, finance, at the Indian School

of Business.

According to a 2009 study by the Ewing Marion Kauffman Foundation, 57% of Fortune 500 companies had been founded in a recession or bear market year, even though

only 31% of the years since 1855 had been counted as recessionary years. “If the economy improves, a lot of the new firm creation may go back to normal levels,” Alok said.

According to Alok, one possibility that could explain the rise in new company creation is that people were being opportunistic and opened a business in the absence of any other opportunities and not necessarily because they had the skill sets to do so. The quality of such businesses tends to be bad, and they tend to disappear over time, he said.

Another possibility is of high-skilled labour turning to entrepreneurship during a difficult time with their employment opportunities becoming limited. Firms started thus tend to sustain in creating profitable businesses, Alok said. Research has shown that the second possibility dominates the first one — especially during a recessionary period.