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This note covers every exam questions asked till now along with RTP's and recent amendements also which are highlighted in italics.

(ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009

RTP May 2011: What are the Common restrictions for issuers in case of public and rights issues?

COMMON CONDITIONS FOR PUBLIC ISSUES AND RIGHTS ISSUES to be satisfied by issuer both at the time of

- Filing draft offer document with board
- Filing final offer document with ROC or Designated Stock Exchange.

No issuer shall make a public issue or rights issue of specified securities:

(a) if the **issuer, any of its promoters**, promoter group or directors or persons in control of the issuer are **debarred from accessing the capital market** by the Board;

(b) if any of the promoters, directors or persons in control of the issuer was or **also is a promoter, director or person in control of any other company which is debarred from accessing the capital market** under any order or directions made by the Board;

(c) if the issuer of convertible debt instruments is **in the list of willful defaulters** published by the Reserve Bank of India

or

it is in **default of payment of interest or repayment of principal amount** in respect of debt instruments issued by it to the public, if any, **for a period of more than six months;**

(d) unless it has made **an application to one or more recognised stock exchanges for listing** of specified securities on such stock exchanges and has chosen one of them as the designated stock exchange:

(e) unless it has entered into an **agreement with a depository for dematerialisation of specified securities** already issued or proposed to be issued;

(f) unless all existing **partly paid-up equity shares** of the issuer have either been **fully paid up or forfeited;**

(f) unless **firm arrangements of finance** through verifiable means **towards seventy five per cent. of the stated means of finance**, excluding the amount to be raised through the proposed public issue or rights issue or through existing identifiable internal accruals, have been made.

Warrants may be issued along with public issue or rights issue of specified securities subject to the following:
*(a) the **tenure of such warrants shall not exceed twelve months** from their date of allotment in the public/rights issue;*
*(b) **not more than one warrant shall be attached to one specified security**.*

*The **amount for general corporate purposes**#, as mentioned in objects of the issue in the draft offer document filed with the Board, **shall not exceed twenty five per cent of the amount raised** by the issuer by issuance of specified securities.*

#"General Corporate Purposes" include such identified purposes for which no specific amount is allocated or any amount so specified towards General Corporate Purpose or any such purpose by whatever name called, in the draft offer document filed with the Board:
Provided that any issue related expenses shall not be considered as a part of General Corporate Purpose merely because no specific amount has been allocated for such expenses in the draft offer document filed with the Board."

Filing of offer document

No issuer shall make,

(a) a public issue; or

(b) a rights issue, where the aggregate value of the specified securities offered is fifty lakh rupees or more,

unless a **draft offer document**, along with fees has been **filed with the Board** through the lead merchant banker, **at least 30 days prior to**

registering the prospectus with the ROC or

filing the letter of offer with the designated stx, as the case may be.

The Board may specify changes or issue observations, if any, on the draft offer document within thirty days from the **later of the following dates:**

- Date of receipt of the **draft offer document** or
- Date of **receipt of satisfactory reply from the lead merchant bankers**, where the Board has sought any clarification or additional information from them or
- Date of **receipt of clarification or information from any regulator or agency**, where the Board has sought any clarification or information from such regulator or agency; or
- Date of **receipt of a copy of in-principle approval letter** issued by the recognised stock exchanges.

If the Board specifies changes or issues observations on the draft offer document, the **issuer and lead merchant banker shall carry out such changes** in the draft offer document and comply with the observations issued by the Board **before registering the prospectus** with the ROC or filing the letter of offer with the designated stock exchange.

In-principle approval from recognised stock exchanges

In case of an **initial public offer**, from all the recognised stock exchanges in which the issuer proposes to get its specified securities listed; and

In case of a further public offer and rights issue:

- where the specified securities are **listed only on recognised stock exchanges having nationwide trading terminals, from all such stock exchanges**

- where the specified securities are **not listed on any recognised stock exchange having nationwide trading terminals,** from all the stock exchanges in which the specified securities of the issuer are proposed to be listed

- where the specified securities are **listed on recognised stock exchanges having nationwide trading terminals as well as on the recognised stock exchanges not having nationwide trading terminals,** from all recognised stock exchanges having nationwide trading terminals.

Fast Track Issue

Without complying any of the conditions discussed till now, any issuer can make a public issue if he satisfies following conditions:

(a) the equity shares of the issuer have been **listed on** any recognised stock **exchange having nationwide trading terminals** for a period of **at least 3 years** immediately preceding the reference date;

(b) the **average market capitalisation** of public shareholding of the issuer is at least ***3,000 crore*** rupees

(c) the issuer has **redressed at least ninety five per cent. of the complaints received** from the investors till the end of the quarter immediately preceding the month of the reference date;

(d) the issuer has **been in compliance with the equity listing agreement** for a period of **at least 3 years** immediately preceding the reference date:

(e) the **impact of auditors' qualifications**, if any, on the audited accounts of the issuer in respect of those financial years for which such accounts **are disclosed** in the offer document **does not exceed five per cent. of the net profit or loss after tax** of the issuer for the respective years;

(f) **no show-cause notices have been issued or prosecution proceedings initiated** by the Board or pending against the issuer or its promoters or whole time directors as on the reference date;

(g) the **entire shareholding of the promoter group** of the issuer is **held in dematerialised form** on the reference date.

"reference date" means:
(a) in case of a public issue by a listed issuer, the date of registering the red herring prospectus (in case of a book built issue) or prospectus (in case of a fixed price issue) with the Registrar of Companies; and
(b) in case of a rights issue by a listed issuer, the date of filing the letter of offer with the designated stock exchange.

Minimum subscription.

Limit of Minimum Subscription

The minimum subscription to be received in an issue shall not **be less than ninety per cent.** of the offer through offer document.

What if issuer did not received 90%

In the event of **non-receipt of minimum subscription** referred to above, all application moneys received shall be **refunded** to the applicants forthwith, **but not later than:**

(a) **15 days** of the closure of the issue, **in case of a non-underwritten issue**; and
(b) **70 days** of the closure of the issue, **in the case of an underwritten issue** where minimum subscription paid by the underwriters is not received within sixty days of the closure of the issue.

Not applicable

Nothing contained in this regulation shall apply to offer for sale of specified securities.*
**(Eg: Ambani offers his share holding in RIL for sale is an example of offer for sale)*

Oversubscription

No allotment shall be made by the issuer **in excess** of the specified securities offered through the offer document:
Provided that in case of oversubscription, an **allotment of not more than 10%** of the net offer to public **may be made** for the purpose of **making allotment in minimum lots.**

PROVISIONS AS TO PUBLIC ISSUE

M/s Ambitious Financers Ltd an existing unlisted public company, is planning to issue five lakhs share to public. Explain the eligibility norms to be fulfilled as per SEBI Guidelines.

CA Final -May 2001,May 2003(Similir),Nov 2010(Similar).

PART I-ELIGIBILITY REQUIREMENTS

Reference date

An issuer making a public issue shall **satisfy the conditions** of this Chapter as on the
- **Date of filing** draft offer document with the **Board** and
- also as on the **date of registering** the offer document with the **Registrar of Companies.**

Conditions for initial public offer

Regulation 26(1):
An issuer may make an initial public offer, if:
(a) Net tangible assets = at least **3 crore** rupees **in each** of the **preceding three full years** (of twelve months each) out of which **not more than fifty per cent. are held in monetary assets**.

What if more than 50% held in monetary asset?

The issuer has to **made a firm commitments to utilise such excess** monetary assets in its business or project;

(b) Minimum average pre-tax operating profit **=15 crore**, calculated on a consolidated basis, during the **three most profitable years out of the immediately preceding five years.**

(c) Net worth = **1 crore** rupees in each of the preceding three full years

(d) the **aggregate of the proposed issue and all previous issues** made in the same financial year in terms of issue size **does not exceed 5 times its pre-issue net worth** as per the audited balance sheet of the preceding financial year;

(e) if it has **changed its name within the last one year** than **more than half** of the **revenue for the preceding <u>one full year</u> has been earned by it** from the activity indicated **by the new name.**

<u>Regulation 26(2): For those who are not satisfying conditions of Regulation 26(1)</u>
An issuer not satisfying the condition stipulated in sub-regulation (1) may make an initial public offer
if the issue is made through the **book-building process** and
the issuer undertakes to **allot, at least 75%** of the net offer to public, **to qualified institutional buyers** and
to **refund full subscription money if it fails to make the said minimum allotment** to qualified institutional buyers.
<u>Comman points for Regulation 26(1) & 26(2):</u>
An issuer shall **not make an allotment** pursuant to a public issue **if the number of prospective allottees is less than 1000.**

No issuer shall make an initial public offer, **unless** as on the date of registering prospectus or red herring prospectus with the Registrar of Companies, the issuer has **obtained grading for the initial public offer from <u>at least one</u> credit rating agency** registered with the Board**.**

Questions on IPO
RTP MAY 2011(Similar RTP Nov 2010, CA Final Nov 2004,2005, 2007, June 2009)
Following information is available from the Records of Chirag Chemicals & Engineering Ltd.:
(i) The company is a closely held *unlisted company**.
(* The use of expression unlisted company indicates this is a question of IPO and not FPO)
(ii) The paid up share capital of the company since 1st April, 2001 is Rs.3.00 crores and its net worth as at 31st March,2010 was Rs. 5.00 crores as per audited Balance Sheet.
(iii)The Net Tangible Assets of the company as per last 3(three) audited Balance Sheets as at 31st March, 2007, 2008 and 2009 were Rs.4.00 crores, 4.50 crores and 5.00 crores respectively, out of which monetary assets were less than Rs. 50 lacs in each of the three years.

(iv)The company was incorporated in 1998 and commenced its business on 1st April, 1998 and since then it has earned good profits and it has not incurred any loss in any year in past.

(v) The company has not declared any dividend so far, but according to the profits earned so far, the management could have declared the dividend in each of the last five years.
(vi)The name of the company was changed from Star Engineering Ltd. to its present name with effect from 1st January, 2009
(vii) The company's turnover in the years ended 31st March, 2008, 2009 and 2010 was Rs.20 crores, 30 crores and 35 crores respectively.

The company wants to make a public issue of shares to raise Rs. 20.00 crores by issuing equity shares at premium. For the purpose of including the information in the prospectus the Company has prepared its accounts for 12 months ended 31st December, 2009 showing segment wise revenue which reveals that revenue from chemical segment is more than the revenue from Engineering segment.

You are required to state the relevant guidelines issued by SEBI and your conclusion whether the Company can make the desired issue of equity shares based on the facts stated above.

<u>Conditions for further public offer</u>
An issuer may make a further public offer if it satisfies the conditions specified in clauses (d) and (e) of sub-regulation (1) of regulation 26 and if it does not satisfy those conditions, it may make a further public offer if it satisfies the conditions specified in sub-regulation (2) of regulation 26.

<u>PART II - PRICING IN PUBLIC ISSUE</u>
What are the SEBI's important guidelines regarding pricing of first issue of equity shares of new company.
(CA Final Nov 2000)

An unlisted company, having a paid up capital of Rs. 5 Crores consisting of 50,00,000 equity shares of Rs.10 each fully paid up proposes to reduce the denomination of equity shares to less than 10 per share. Is it possible to do so.?
(CA Final Nov 2009)

Pricing

An issuer may **determine the price** of specified securities **in consultation with the lead merchant banker or through the book building process*.**
*"book building" means a process undertaken to elicit demand and to assess the price for determination of the quantum or value of specified securities or Indian Depository Receipts, as the case may be, in accordance with these regulations.

Differential pricing

An issuer may offer specified securities at different prices, subject to the following:
(a) retail individual investors or retail individual shareholders making an application for specified securities of value not more than two lakhs rupees, **may be offered** specified **securities at a price lower than the price at which net offer is made to other categories of applicants** however such difference shall **not be more than 10% of the price** at which securities are **offered to other categories.**

(b) **in case of a book built issue**, the **price** of the specified securities offered **to an anchor investor* shall not be lower than the price offered to other applicants**;

(c) **in case of a composite issue**, the **price of** the specified **securities** offered in the public issue **may be different from the price offered in rights issue** and justification for such price difference shall be given in the offer document.
*"anchor investor" means a qualified institutional buyer who makes an application for a value of ten crore rupees or more in a public issue made through the book building process in accordance with these regulations

Price and price band

The issuer **may mention**
- a **price or price band** in the draft prospectus (in case of a fixed price issue) and
- **floor price or price band** in the red herring prospectus (in case of a book built issue) and **determine the price at a later date** before registering the prospectus with the ROC.

Please note that the prospectus registered with the ROC shall contain only one price.

The issuer shall **announce the floor price or price band**
- **at least 5 working days** before the opening of the bid (in case of an IPO) and
- **at least 1 working day** before the opening of the bid (in case of a FPO),
- in all the newspapers in which the pre issue advertisement was released.

The **cap on the price band** shall be **less than or equal to125%** of the floor price.
The floor price or the final price shall **not be less than the face value** of the specified securities.

Questions on Pricing:
RTP Nov 2012: XYZ Automobiles Ltd. intends to make a public issue of 2,00,00,000 equity shares of Rs. 10 each through the 100% book building process indicating a price band. You are required to answer the following with reference to the SEBI Regulations.
3. What is the price band that can be indicated in the red herring prospectus, if the floor price is proposed to be fixed at Rs. 300 per equity share?
4. What are the restrictions, if the company wants to revise the price band during the bidding period?

Hint:

(i) The price band that can be indicated in the red herring prospectus, if the floor price is to be fixed at Rs. 300 per share will be 20% of the floor price ie. Rs. 300 + 20% = Rs. 360 per share.
(ii) If the company wants to revise the price band during the bidding period, the maximum revision on either side shall not exceed 20% i.e floor of price band

can move up or down to the extent of 20% of floor of the price and the cap of the revised price band shall not be more than 20% of the revised floor price band. In other words, on the lower side it can be down by Rs. 240 (300 – 20% = Rs. 260) and 360 being the revised price band – 20% = Rs. 288) and on the upper side, it can be Rs. 360 (Rs. 300 + 20%) and Rs. 432 (360 + 20%).

(iii)Any revision in the price band shall be widely disseminated by informing the stock exchanges, by issuing press release and also indicating the change on the relevant website and the terminals of the syndicate members. Regarding the period of subscription, Regulation 46 provides that a public issue shall be kept open for at least three working days but not more than ten

working days including the days for which the issue is kept open in case of revision in price band. In case the price band in a public issue made through the book building process is revised, the bidding (issue) period disclosed in the red herring prospectus shall be extended for a minimum period of three working days, provided that the total bidding period shall not exceed ten working days.

Face value of equity shares

An issuer making an initial public offer may **determine the face value** of the equity shares **in the following manner:**

(a) if the **issue price=Rs. 500 per equity share or more**, the issuer shall have the option to determine the **face value at less than Rs. 10** per equity share **but not less than Rs.1.**

(b) if the **issue price=Less than Rs. 500 per equity share**, the face value of the equity shares **shall be Rs.10** per equity share.

PART III - PROMOTERS' CONTRIBUTION

Minimum promoters' contribution

The promoters of the issuer shall contribute in the public issue as follows:

(a) in case of an IPO, **not less than 20%** of the post issue capital.

Provided that in case the **post issue shareholding of the promoters is less than 20%**., **alternative investment funds may contribute** for the purpose of meeting the shortfall in minimum contribution as specified for promoters, **subject to a maximum of 10% of the post issue capital.**

(b) in case of a FPO, either to the extent of **20% of the proposed issue size or to the extent of 20% of the post-issue capital.**

In case of a further public offer where the promoters contribute more than the stipulated minimum promoters' contribution, the **allotment with respect to excess contribution shall be made at a price** determined **in terms of the provisions of regulation 76 or the issue price, whichever is higher**.

The promoters shall **satisfy the requirements** of this regulation **at least one day prior to the date of opening of the issue** and the **amount of** promoters' **contribution shall be kept in an escrow account** with a scheduled commercial bank and **shall be released to the issuer along with the release of the issue proceeds**:

Provided that **where the minimum promoters' contribution is more than Rs.1,000 crore**, the promoters shall **bring in Rs.1,000 crore** before the date of opening of the issue and the **remaining amount may be brought on pro-rata basis** before the calls are made to public.

PART IV - RESTRICTION ON TRANSFERABILITY (LOCK-IN) OF PROMOTERS' CONTRIBUTION, ETC.

Lock-in of specified securities held by promoters.

In a public issue, the specified securities held by **promoters shall be locked-in for the period stipulated hereunder**:

(a)**minimum promoters' contribution** including contribution made by alternative investment funds shall be **locked-in for a period of three years** from the date of **commencement of commercial production** or date of **allotment** in the public issue, **whichever is later**;

(b) promoters' **holding in excess of minimum promoters' contribution** shall be locked-in **for a period of one year.**

Lock-in of specified securities lent to stabilising agent under green shoe option

The **lock-in provisions** of this Chapter **shall not apply** with respect **to** the specified **securities lent to stabilising agent for the purpose of green shoe option**, during the period starting from the date of lending of such specified securities and ending on the date on which they are returned to the lender.

Provided that the specified **securities shall be locked-**in for the remaining period from the date on which they are returned to the lender.

Allocation in net offer to public

No person shall make an application in the net offer to public category for that number of specified securities **which exceeds the number of specified securities offered to public**.

In an issue made through the **book building process under sub-regulation (1) of regulation 26**, the allocation in the net offer to public category shall be as follows:

(a) **not less** than **35%** to retail individual investors;

(b) **not less** than **15%** to non-institutional investors;

(c) **not more** than **50%** to qualified institutional buyers, **5% of which shall be allocated to mutual funds**.

Provided that **in addition to five per cent allocation** available in terms of clause (c), **mutual funds shall be eligible for allocation under the balance** available for qualified institutional buyers.

In an issue made through the **book building process under sub-regulation (2) of regulation 26**, the allocation in the net offer to public category shall be as follows:

(a) **not more** than **10%** to retail individual investors;

(b) **not more** than **15%** to non-institutional investors;

(c) **not less** than **75%** to qualified institutional buyers**, five per cent of which shall be allocated to mutual funds**.

Provided that **in addition to 5% allocation** available in terms of clause (c), mutual funds shall be **eligible for allocation under the balance available** for qualified institutional buyers."

In an **issue made through the book building process**, the issuer may allocate upto **30%** of the portion available for allocation to qualified institutional buyers to an anchor investor.

Safety-net arrangement*

An issuer may **provide for a safety-net arrangement** for the specified securities offered in any public issue in consultation with the merchant banker **after ascertaining the financial capacity of the person offering** the safety-net arrangement.

Provided that any such arrangement shall provide for an offer to purchase up to a **maximum of 1000 specified securities per original resident retail individual allottee** at the issue price **within a period of six months** from the last date of despatch of security certificates or credit of demat account.

*"safety net arrangement" means an arrangement provided by the issuer under which a person offers to purchase specified securities from the original resident retail individual allottees at the issue price.

RTP May 2013

Explain clearly the meaning of the term "Green shoe option" in relation to a public company going for public offer of equity shares. What disclosures is such a company required to make in the draft red herring prospectus in accordance with SEBI (Issue of Capital and Disclosure) Requirements?

Price stabilization through green shoe option*

*"green shoe option" means an option of allotting equity shares in excess of the equity shares offered in the public issue as a post-listing price stabilizing mechanism

An issuer making a public issue of specified securities **may provide green shoe option for stabilising the post listing price of its specified securities**, if following conditions is satisfied:

(a) the issuer has been **authorized, by a resolution passed in the general meeting** of shareholders approving the public issue, **to allot specified securities to the stabilising agent, if required,** on the expiry of the stabilisation period; *(please note authorization is for allotting securities to agent and not for green shoe)*

(b) the issuer has **appointed a merchant banker or book runner**, as the case may be, from amongst the merchant bankers appointed by the issuer **as a stabilising agent,** who shall be responsible for the price stabilisation process;
(c)prior to filing the draft offer document with the Board, the **issuer and the stabilising agent have entered into an agreement, stating all the terms and conditions** relating to the green shoe option **including fees charged** and expenses to be incurred by the stabilising agent for discharging his responsibilities;

(d) prior to filing the offer document with the Board, the stabilising agent has **entered into an agreement with the promoters or pre-issue shareholders or both for borrowing specified securities from them**, specifying therein the **maximum number of** specified **securities that may be borrowed** for the purpose of allotment or allocation of specified securities **in excess of the issue size** (hereinafter referred to as the "over- allotment"), ***which shall not be in excess of fifteen per cent. of the issue size;***

(e)the draft and final offer documents shall contain all material disclosures about the green shoe option.

(g) in case of an initial public offer pre-issue shareholders and promoters and
in case of a further public offer promoters and pre-issue shareholders *holding more than five per cent. specified securities*,* **(This condition is not there for IPO)*
may lend specified **securities to the extent of the proposed over-allotment**;

(h) the specified **securities borrowed shall be in dematerialised form** and allocation of these securities shall be made pro-rata to all successful applicants.
Other Points:
The **stabilisation process** shall be **available for a period not exceeding 30 days** from the date on which trading permission is given by the recognised stock exchanges in respect of the specified securities allotted in the public issue.

The stabilising agent shall **open a special account***(separate bank account)*, distinct from the issue account, with a bank for crediting the monies received from the applicants against the over-allotment and a special account with a depository participant*(separate demat account)* for crediting specified securities to be bought from the market during the stabilization period out of the monies credited in the special bank account.

The specified **securities bought from the market and credited in the special account** with the depository participant **shall be returned to the promoters or pre-issue shareholders immediately**, in any case **not later than 2 working days** after the end of the stabilization period.

On expiry of the stabilisation period, **if the stabilising agent has not been able to buy specified securities from the market** to the extent of such securities over-allotted, the **issuer shall allot specified securities at issue price in dematerialised form to the extent of the shortfall to the special account** with the depository participant, **within 5 days** of the closure of the stabilisation period and
such specified **securities shall be returned to the promoters or pre-issue shareholders** by the stabilising agent in lieu of the specified securities borrowed from them **and the account with the depository participant shall be closed thereafter.**

The issuer shall **make a listing application in respect of the further specified securities allotted** as above, to all the recognised stock exchanges where the specified securities allotted in the public issue are listed. Also note that provisions of preferential issue is not applicable to this issue.

The **stabilising agent shall remit the monies to the issuer from the special bank account** for the specified securities allotted as above.

Any monies left in the special bank account after remittance of monies to the issuer under sub- regulation (8) and deduction of expenses incurred by the stabilising agent for the stabilisation process **shall be transferred to the Investor Protection and Education Fund established by the Board** and the special bank account shall be closed soon thereafter.

Period of subscription
A public issue shall be **kept open for at least 3 working days but not more than 10 working days** including the

days for which the issue is kept open in case of revision in price band.
(2) **In case the price band** in a public issue made through the book building process **is revised**, the bidding (issue) period disclosed in the red herring prospectus shall be **extended for a minimum period of three working days**.

Minimum application value.

The issuer shall **stipulate in the offer document, the minimum application size** *in terms of* ***NUMBER*** of specified securities which shall fall **within the range of minimum application VALUE** of Rs. 10,000 to Rs. 15,000.

The issuer shall **invite applications in multiples of the minimum application value**.

The **minimum sum payable** on application shall **not be less than 25%.** of the issue price:

RIGHTS ISSUE

Record Date

A listed issuer making a rights issue shall **announce a record date** for the purpose of determining the shareholders eligible to apply for specified securities in the proposed rights issue.
The issuer **shall not withdraw rights issue after announcement** of the record date.

If the issuer **withdraws** the rights issue after announcing the record date, it **shall not make an application for listing** of any of its specified securities on any recognised stock exchange **for a period of twelve months** from the record date.
However the issuer may seek listing of its equity shares allotted pursuant to conversion or exchange of **convertible securities issued prior to the announcement of the record date**, on the recognised stock exchange where its securities are listed.

Restriction on rights issue.

No issuer shall make a rights issue of equity shares **unless** it has **made reservation of equity shares of the same class in favour of the holders of outstanding compulsorily convertible debt instruments** if any, in proportion to the convertible part thereof.

The equity **shares so reserved** for the holders of fully or partially compusorily convertible debt instruments **shall be issued at the time of conversion of such convertible debt instruments** on the same terms at which the equity shares offered in the rights issue were issued.

Letter of offer, abridged letter of offer, pricing and period of subscription.

The **abridged letter of offer, along with application form**, shall be **dispatched** through registered post or speed post **to all the existing shareholders at least 3 days before** the date of opening of the issue:

Provided that the **letter of offer shall be given by the issuer** or lead merchant banker **to any existing shareholder who has made a request** in this regard.

The **shareholders who have not received** the application form **may apply in writing on a plain paper**, along with the requisite application money.

The **shareholders making application otherwise than on the application form** shall **not renounce their rights** and shall **not utilise the application form for any purpose** including renunciation even if it is received subsequently.

Where any shareholder makes an application on application form as well as on plain paper, the application is liable to be rejected.

The **issue price shall be decided before determining the record date** which shall be determined in consultation with the designated stock exchange.

A rights issue shall be **open for subscription** for a **minimum period of 15 days** and for a **maximum period of 30 days.**

The issuer shall give only one payment option out of the following to all the investors -
(a)**part payment** on application with balance money to be paid in calls; or
(b) **full payment** on application:

Utilisation of funds raised in rights issue.
The issuer shall **utilise funds** collected in rights issues after **the finalisation of the basis of allotment.**

PREFERENTIAL ISSUE*
The provisions of this Chapter **shall not apply** where the preferential issue of equity shares is made:
(a)pursuant to **conversion of loan**.
(b) pursuant to **option attached to convertible debt instruments**.
(c)pursuant to a **scheme approved by a High Court** under section 391 to 394 of the Companies Act, 1956.
*preferential issue" means an issue of specified securities by a listed issuer to any select person or group of persons on a private placement basis.

Relevant date
(a)in case of preferential issue of equity shares, the date **30 days PRIOR to the date on which the meeting of shareholders is held** to consider the proposed preferential issue.

(b) in case of preferential issue of convertible securities, either the relevant date referred to in clause (a) of this regulation or a date **30 days prior to the date on which the holders of the convertible securities become entitled to apply** for the equity shares.

Explanation: *Where the relevant date falls on a Weekday/Holiday, the day* ***preceding*** *the Weekday/Holiday will be reckoned to be the relevant date.*

Conditions for preferential issue
(a)a **special resolution** has been passed by its shareholders.

(b) all the equity **shares,** if any**, held by the proposed allottees** in the issuer are **in dematerialised form.**

(c)the issuer is in **compliance with the conditions for continuous listing of equity shares as specified in the listing agreement** with the recognised stock exchange where the equity shares of the issuer are listed.

(d) the issuer has **obtained the Permanent Account Number** of the proposed allottees.

Restriction on issue:
The issuer shall **not make preferential issue** of specified securities **to any person who has sold any equity shares of the issuer during the six months preceding the relevant date**:

Disclosures
The issuer shall, **in addition to the disclosures required under section 173** of the Companies Act, 1956 or any other applicable law, **disclose the following** in the explanatory statement to the notice for the general meeting proposed for passing special resolution:

(a)the **objects** of the preferential issue;

(b) the **proposal of the promoters**, directors or key management personnel of the issuer **to subscribe to the offer;**

(c)the **shareholding pattern of the issuer** before and after the preferential issue;

(d) the **time within which** the preferential **issue shall be completed**;

(e)an **undertaking that the issuer shall re-compute the price** of the specified securities in terms of the provision of these regulations where it is required to do so;

(f) an **undertaking that if the amount payable on account of the re-computation of price is not paid** within the time stipulated in these regulations, the specified **securities shall continue to be locked- in till the time such amount is paid by the allottees.**

Allotment pursuant to special resolution.

- **Allotment** pursuant to the special resolution **shall be completed within a period of 15 days** from the date of passing of such resolution.

- **If** the allotment of specified securities is **not completed within fifteen days** from the date of special resolution, **a fresh special resolution shall be passed** and the relevant date for determining the price of specified securities under this Chapter will be taken with reference to the date of latter special resolution.

- ***Allotment shall only be made in dematerialised form.***

Tenure of convertible securities

The tenure of the convertible securities of the issuer **shall not exceed 18 months** from the date of their allotment.

Pricing of equity shares.

Regulation 76(1)

- If the equity shares of the issuer have been **listed** on a recognised stock exchange **for a period of twenty six weeks or more** as on the relevant date, the equity shares **shall be allotted at a price not less than higher of the following**:

(a)The **average of the weekly high and low of the closing prices** of the related equity shares quoted on the recognised stock exchange **during the 26 weeks** preceding the relevant date; or

(b) The **average of the weekly high and low** of the closing prices of the related equity shares quoted on a recognised stock exchange **during the 2 weeks** preceding the relevant date.

Regulation 76(2)

- If the equity shares of the issuer have been **listed** on a recognised stock exchange **for a period of less than 26 weeks** as on the relevant date, the equity shares shall be allotted at a **price not less than the higher of the following:**

(a)the **price at which equity shares were issued by the issuer in its initial public offer**

(b) the **average of the weekly high and low of the closing prices** of the related equity shares quoted on the recognised stock exchange **during the period shares have been listed** preceding the relevant date; or

(c)the **average of the weekly high and low of the closing prices** of the related equity shares quoted on a recognised stock exchange **during the 2 weeks** preceding the relevant date.

Regulation 76(3)

Where the price of the equity shares is determined in terms of sub-regulation (2), such price shall be **recomputed by the issuer on completion of twenty six weeks** from the date of listing on a recognised stock exchange **with reference to the average of the weekly high and low of the closing prices** of the related equity shares quoted on the recognised stock exchange **during these 26 weeks** and

if such **recomputed price is higher** than the price paid on allotment, the **difference shall be paid by the allottees to the issuer.**

Payment of consideration

For Specified Securities:

Full consideration of specified securities **other than warrants** issued under this Chapter shall be **paid by the allottees at the time of allotment** of such specified securities.

For Warrants:

An amount equivalent to **at least 25%** of the consideration determined in terms of regulation 76 **shall be paid against each warrant** on the date of allotment of warrants.

The **balance 75%** of the consideration shall be **paid at the time of allotment of equity shares** pursuant to exercise of option against each such warrant by the warrant holder.

In case the warrant holder does not exercise the option to take equity shares against any of the warrants held by him, the **consideration paid in respect of such warrant shall be forfeited** by the issuer.

Other points:

The issuer shall ensure that the consideration *of specified securities, if paid in cash,* ***shall be received from respective allottee's bank account.***

Lock-in of specified securities

For Promoter or promoter group

The specified securities **allotted on preferential basis to promoter** or promoter group and the equity shares allotted pursuant to exercise of options attached to warrants issued on preferential basis to promoter or promoter group, shall be **locked-in for a period of 3/1 years** from the ***date of trading approval granted for*** specified securities or equity shares allotted pursuant to exercise of the option attached to warrant, as the case may be:

Provided that **not more than 20% of the total capital** of the issuer shall be **locked-in for 3 years** from the date of ***trading approval:***

Provided further that equity shares allotted **in excess of the 20%** shall be **locked- in for 1 year** from the date of ***trading approval*** pursuant to exercise of options or otherwise, as the case may be.

For persons other than promoter and promoter group

The specified securities **allotted on preferential basis to persons other than promoter** and promoter group and the equity shares allotted pursuant to exercise of options attached to warrants issued on preferential basis to such persons shall be **locked in for a period of 1 year** from the date of ***trading approval***.

If the amount payable by the allottee, in case of re-calculation of price under sub-regulation (3) of regulation 76 is not paid till the expiry of lock-in period, the equity shares shall continue to be locked in till such amount is paid by the allottee.

The **entire pre-*trading approval* shareholding** of the allottees, if any, shall be **locked-in** from the relevant date **upto a period of 6 months** from the date of preferential allotment.

Transferability of locked-in specified securities and warrants issued on preferential basis.

For Promoter or promoter group

Specified securities held by promoters and locked-in may be **transferred among promoters** or promoter **group or to a new promoter** or persons in control of the issuer:

Provided that lock-in on such specified securities **shall continue for the remaining period** with the transferee.

For persons other than promoter and promoter group

The specified securities allotted on preferential basis shall not be transferred by the allottee till trading approval is granted for such securities by all the recognised stock exchanges where the equity shares of the issuer are listed.

QUALIFIED INSTITUTIONS PLACEMENT(QIP)

Applicability

The provisions of this Chapter shall **apply to a QIP** made by a **listed issuer.**

Definitions

“qualified institutions placement” means **allotment** of eligible securities by a listed issuer **to QIB** on private placement basis in terms of these regulations.

Conditions for qualified institutions placement.

(a)a **special resolution** approving the qualified institutions placement has been passed by its shareholders;

(b) the **equity shares of the same class,** which are proposed to be allotted through qualified institutions placement or pursuant to conversion or exchange of eligible securities offered through qualified institutions placement, have been **listed on a recognised stock exchange having nation wide trading terminal for a period of at least one year prior to the date of issuance of notice** to its shareholders for convening the meeting to pass the special resolution:

(c)it is in **compliance with** the requirement of **minimum public shareholding** specified in the Securities Contracts

(Regulation) Rules, 1957;
(d) In the special resolution, it shall be **specified that the allotment is proposed to be made through QIP**.

Appointment of merchant banker
A qualified institutions placement shall be managed by merchant banker(s) registered with the Board who shall exercise due diligence.

Placement Document:
- The qualified institutions placement shall be **made on the basis of a placement document** which shall contain all material information.
- The placement document shall be **serially numbered** and copies shall be **circulated only to select investors.**
- The issuer shall, **while seeking in-principle approval** from the recognised stock exchange, **furnish a copy of the placement document**

Pricing
(1) The qualified institutions placement shall be made at a **price not less than the average of the weekly high and low of the closing prices** of the equity shares of the same class quoted on the stock exchange **during the two weeks** preceding the relevant date.

Restrictions on allotment.
Allotment under the qualified institutions placement shall be made **subject to the following conditions:**
(a)**Minimum of 10%**. of eligible securities shall be **allotted to mutual funds:**
But if the mutual funds do not subscribe to said minimum percentage or any part thereof, such minimum portion or part thereof may be allotted to other QIB;

(b) **No allotment** shall be made, either directly or indirectly, **to** any qualified institutional buyer who is **a promoter or any person related to promoters of the issuer.**

The applicants in qualified institutions placement shall **not withdraw their bids after the closure of the issue**.

Minimum number of allottees.
The minimum number of allottees for each placement of eligible securities made under qualified institutions placement shall **not be less than:**

(a)**two,** where the issue size is upto 250 Crores
(b) **five,** where the issue size is greater than 250 Crores.

Provided that **no single allottee shall be allotted more than fifty percent**. of the issue size.

Validity of the special resolution.
Allotment pursuant to the special resolution referred above **shall be completed within a period of twelve months** from the date of passing of the resolution.
The issuer **shall not make subsequent QIP until expiry of six months** from the date of the prior QIP.

Restrictions on amount raised
The aggregate of the proposed QIP and all previous QIP's made by the issuer **in the same financial year** shall **not exceed 5 times the net worth** of the issuer as per the audited balance sheet of the previous financial year.

Tenure
The tenure of the **convertible or exchangeable eligible securities** issued through QIP **shall not exceed <u>60 months</u>** from the date of allotment.

Transferability of eligible securities
The eligible securities allotted under QIP shall **not be sold by the allottee for a period of one year** from the date of allotment but QIB can sold the securities through recognized stock exchange.

BONUS ISSUE

Conditions for bonus issue.

Subject to the provisions of the Companies Act, 1956 or any other applicable law for the time being in force, a listed issuer may issue bonus shares to its members if:

(a)it is **authorised by its AOA** for issue of bonus shares, capitalisation of reserves, etc.:
(If there is no such provision in the AOA, the issuer shall **pass a resolution at its general body meeting** making provisions in the articles of associations for capitalisation of reserve;

(b) it has **not defaulted in payment of interest or principal** in respect of fixed deposits or debt securities issued by it;
(c)it has **sufficient reason to believe that it has not defaulted in respect of the payment of statutory dues of the employees** such as contribution to provident fund, gratuity and bonus;

(d) the **partly paid shares**, if any outstanding on the date of allotment, **are made fully paid up**
(e)Issuer has made **reservation of equity shares of the same class** in favour of the holders of outstanding compulsorily convertible debt instruments, if any, in proportion to the convertible part thereof.

Bonus shares only against reserves, etc. if capitalised in cash.

The bonus issue shall be **made out of free reserves built out of the genuine profits or securities premium collected in cash only** ~~(Reserves created by revaluation of fixed assets)~~
However,the bonus share shall not be issued in lieu of dividend.

Completion of bonus issue

An issuer, announcing a bonus issue after the approval of its board of directors
and

- **Not requiring shareholders' approval for capitalisation** of profits or reserves for making the bonus issue, **shall implement the bonus issue within fifteen days** from the date of approval of the issue by its board of directors.

- **Requiring shareholders' approval for capitalisation** of profits or reserves for making the bonus issue, the bonus issue shall be **implemented within two months** from the date of the meeting of its board of directors wherein the decision to announce the bonus issue was taken subject to shareholders' approval.

Once the decision to make a bonus issue is **announced**, the issue **cannot be withdrawn**.