SEBI ACT

IMP QUESTIONS FOR MAY 13

QUES 1

Mr. Clever who is registered as an Intermediary fails to enter into an agreement with his client and hence penalised by SEBI under section 15B of the SEBI Act. Advise Mr. Clever as to what remedies are available to him against the order of SEBI.

QUES 2

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?

QUES 3

SEBI received a complaint from an investor that he has not received the payment due to him from a registered stock broker. Explain the action that can be taken by SEBI against the stock broker under the provisions of Securities and Exchange Board of India Act, 1992 and the factors that will be taken into account while taking such action.

QUES 4

ABC Company Ltd. an unlisted company, decided to offer Equity Shares through Initial Public issue. Under the provisions of SEBI Act, 1992, the company is required to file draft prospectus and other documents with SEBI and get the documents registered with the Registrar of Companies. Board of Directors of the company seek your advice about the conditions to be complied for the initial public offer (I.P.O.).

QUES 5

You being a practicing Chartered Accountant, advise the Board.

(ii) 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.

(i) 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?

(ii) What are the restrictions, if the company wants to revise the price band during the bidding period?

(iii) How the shares are to be allocated to different categories of investors like Qualified institutional buyers, Retail individual investors, etc.?

QUES 6

SEBI received complaints from some investors alleging that ABC Ltd. and some brokers are indulging in price manipulation in the shares of ABC Ltd. Explain the powers that can be exercised by SEBI under the Securities and Exchange Board of India Act, 1992 in case the allegations are found to be correct.

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QUES 7

Sunshine Limited was incorporated on 1st April, 2007. The Company got its shares listed at Bombay Stock Exchange on 30th September, 2008. The Company at an Extra- Ordinary General Meeting held on 31st October, 2010, decided to go for public issue of equity shares to an extent of Rs 300 crores. The net worth of the Company as per the audited Balance sheets in the financial years 2008-09 and 2009-10 was Rs 50 crores and Rs 60 crores respectively. During the financial year 2009-10 the Company had already issued equity shares amounting to Rs 20 crores. There is no change in the name of the Company or its business activities during the financial year 2009-10. Referring to the guidelines issued by Securities and Exchange Board of India, advise the Company on the following:

(i) Whether the Company can go ahead with the public issue of equity shares as stated above.

(ii) What would by your advice in case the net worth of the Company as per audited balance sheets in the financial years 2008-09 and 2009-10 was Rs 20 crores and Rs 30 crores respectively?

(iii) What would be the position in case the Company in question changed its name to Sunshine Limited during the year 2009-10, three months before filing the offer document and the revenue due to change of business activity suggested by the new name during the financial year 2009-10 was 40% less than the total revenue for the financial year 2008-09 reckoned from the date of filing the offer document?

QUES 8

Explain briefly the powers of SEBI under Securities and Exchange Board of India Act, 1992 to seize the records of a Stock broker or other Intermediaries associated with Securities Market.

QUES 9

M/s Earth Chemicals and Engineering Ltd. is a closely held unlisted company with a paid up share capital of Rs. 3.00 crores, since 1st April, 2001 and its net worth as on 31st March, 2007 was Rs. 5.00 crores. The net tangible assets of the company as per last three audited balance sheets as at 31st March, 2005, 2006 and 2007 were Rs. 4.00 crores, 4.50 crores and 5.00 crores respectively out of which monetary assets were less than Rs. 50 lakhs in each of the three years. The company was incorporated in 1998 and commenced its business on 1st April, 1998 and since then it was earned good profits and it has not incurred any loss in any year in the past. The company has not declared any dividend so far. But according to the profits earned so far, the management could have declared dividends in each of the last five years. The name of the company was changed from Earth Engineering ltd. to its present name effective from 1st October, 2006. 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 30th September, 2007 showing segment wise revenue, which reveals that revenue from chemical segment was more than the revenue from engineering segment. Keeping the relevant guidelines issued by SEBI into account, examine whether the company can make the desired issue of equity shares based on the facts stated above.

QUES 10

Mr. Rahim is a member of Rose Wood Limited. He obtains an order against the company for redressal of his grievances against the company. But the company fails to redress the grievances of Mr. Rahim within the time fixed by the SEBI. The Board thereafter imposed penalty upon the company u/s 15C of the SEBI Act. Rose Wood Limited seeks your advice whether it has any remedy against the order of SEBI. Advise.

QUES 11

The Annual Accounts of CALM Ltd., a listed company from for the year ended 31st March, 2010 were finalized on 31st May, 2011. The Company had a paid up capital of Rs 50.00 Lacs and free reserves of Rs 100.00 Lacs. The Company did not have any accumulated losses. The Board of Directors of the Company wishes to make a public issue of Equity Shares amounting to Rs 10.00 Crores comprising of offer to public through offer document, firm allotment and promoters contribution. State, how this can be done under SEBI Regulations.

QUES 12

The management of ABC Ltd. a listed company is contemplating to issue bonus shares in the ratio of 1 : 1. Explain briefly the provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations 2009 to be followed by the management in this regard. Examine whether a bonus issue when announced can be withdrawn.

QUES 13

As on 31st December, 2004, following information and figures are noticed from the Annual
Accounts for the year ended 31st March, 2004 of SKP Ltd., a Company listed with The Stock
Exchange, Mumbai:

(i) Authorised Share Capital Rs 20.00 Crores comprising of 2 Crore Equity Shares of Rs 10 each.

(ii) Paid up Share Capital Rs 9.00 Crores comprising of 80 lac Equity Shares of Rs 10 each fully paid up and 20 lac Equity Shares of Rs 10 each called and paid up to Rs 5 each. The total paid up capital is paid up in cash.

(iii) Securities Premium Account Rs 20.00 Crores.

(iv) 5 lac Fully Convertible Debentures of Rs 100 each. These debentures are due for conversion on 31st March, 2005 in full into fully paid Equity Shares of Rs 10 each in the ratio of one Debenture: two Equity Shares.

(v) General Reserve Rs 30.00 Crores.

(vi) Fixed Assets Revaluation Reserve Rs 10.00 Crores.

(vii) Outstanding Liabilities in respect of Bonus to Employees and Workers Rs 25.00 lacs.

(viii) Outstanding Liabilities in respect of Interest payable on Public Deposits comprising of Fixed Deposits from general public Rs 15.00 lacs.

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Following other information is gathered from the books of account and other records of the said Company for the period upto 31st December, 2004:

(a) The partly paid shares were made fully paid prior to 30th September, 2004.

(b) Bonus to employees and workers was paid on 15th September, 2004.

(c) Interest on Public Deposits was outstanding on 31st December, 2004.

The Directors of SKP Ltd. wants to issue Bonus Shares on or after 1st April, 2005 in the ratio of 1:1. Advise the Directors on the matter with reference to the guidelines issued by Securities and Exchange Board of India on Bonus Issue.

QUES 14

Excel Ltd., a public limited company listed with The Stock Exchange, Mumbai, wants to make issue of equity shares on preferential basis pursuant to a scheme approved under Corporate

Debt Restructuring framework specified by Reserve Bank of India to various persons as may be selected by the Board of director of the company. Following information relevant to the preferential issue is available:

(i) Total No. of equity shares to be issued: 50 Lac equity shares of Rs 10 each out of which 30 lac equity shares will be allotted on 30th June, 2005 as fully paid up and balance 20 lac equity shares shall be allotted on the same date but paid up to Rs 5 each and balance Rs 5 shall be called upon at a later date and shall be paid up on 30th November, 2005.

(ii) Out of the proposed allottees some persons are holding their shares in Excel Ltd. In physical form and not in dematerialed form and some persons had sold their entire shareholding in Excel Ltd. in January, 2005.

(iii) The meeting of general body of shareholders for approving the preferential issue was held on 15th March, 2005.

Based on the above information you are required to answer the following queries with reference to the SEBI (ICDR) Regulations:

(i) What would be the lock-in period for the shares allotted on preferential basis?

(ii) Who are the persons not entitled for allotment of shares on preferential basis?

QUES 15

An unlisted Company, having paid-up Share Capital of Rs 3 crores consisting of 30,00,000

Equity Shares of Rs 10 each fully paid-up, proposes to make an initial Public offer of 90,000

Equity Shares of Rs 10 each at a premium of Rs 5 per share, in July, 2004. The promoters acquired 10,00,000 shares on 1st January, 2000 and another 10,00,000 shares on 1st January,

2004 at face value:

(i) What should be the minimum contribution that should be made by the promoters of the above company in order to comply with the guidelines issued by SEBI?

(ii) State also the period for which the promoters are required to hold these shares and also the shares, if any acquired by the promoters in excess of the required minimum contribution.

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