

Prospectus

Role	Name	Affiliation
Principal Investigator	Dr.Gyanendra Kumar sahu	Asst.Professor Utkal University
Content Reviewer	Dr.Gyanendra Kumar sahu	Asst.Professor Utkal University

Description of Module

Items	Description of Module
Subject Name	Law
Paper Name	Corporate Finance
Module Name /Title	Prospectus
Module No.	VI

Prospectus:

Objective: After reading this module, the learners will have a clear picture of :

1. To bring to the notice of the public that new company has been formed.
2. To arouse interest of the public to make investment in the company
3. To create confidence in the public about the company,
4. Its directors and profitability.

Learning Outcomes:

It is a document containing a statement of the property, business, undertaking, enterprise or project for the formation and development of a company for which an appeal is made to the public to subscribe for shares.

Prospectus:

Definition: According to section 2(36) of the companies Act 1956 Prospectus means any document described or issued as a prospectus and includes any notice, circular, advertisement or other document inviting deposits from the public or inviting offers from the public for the subscription or purchase of any shares or debentures.

Types of Prospectus

Shelf Prospectus (Sec.31) :Shelf prospectus means a prospectus in respect of which the securities or class of securities included therein are issued for subscription in one or more issues over a certain period without the issue of a further prospectus.

(i)Shelf prospectus may file with the registrar at the stage of first offer of securities which shall indicate a period not exceeding one year as the period of validity. A shelf prospectus contains all material facts relating to the financial position of the company.

Red herring Prospectus (Sec.32): Red herring Prospectus means a prospectus which does not include complete particulars of the quantum or price of the securities included therein.

I A company proposing to make an offer of securities may issue a red herring prospectus prior to the issue of a prospectus.

Ii Red herring Prospectus shall file with the Registrar at least three days prior to opening of subscription.

Iii Prospectus stating therein the total capital raised, where by way of debt or share capital and the closing price of securities and other detail. Herring prospectus shall be filed with the Registrar and the SEBI.

Issue of Shares:

1. **Meaning:** To put into circulation. Or Shares of a company issued by the company in return after **payment** of subscription.

2. In Clark's case 1878 :it was stand that issue of shares must be taken as meaning something distinct from allotment it is an act where the title of the allottee becomes complete.

3. **Public Issue:** means an invitation by a company to public to subscribe to the securities offered through a prospectus.

4. **Initial Public issue of shares:** A public company which offers shares to the public for subscription for the first time is called Initial public issue. Issue must be public not private communication.

5. **Subsequently issue:** Share issued subsequently by an established company is called further issue of public shares.

Allotment of Shares:

Meaning: The term allotment means to divide or distribute of shares among the shareholders.

Allotment: An application for shares is an offer to shareholders when an application is accepted it is an allotment.

Definition: According to palmer: Allotment means the appropriation to an application by a **resolution of the directors** of a certain numbers of shares in response to an application.

General Principles of allotment of shares:

1. **Allotment by proper authority:** An allotment must be made by a resolution of the Board of directors of the company.
2. **Within Reasonable time:** Allotment must be made within a reasonable period of time otherwise the application lapses.
3. **Must be communicated:** The allotment must be communicated to the applicant I;e the allottee.
4. **Absolute and Unconditional:** The allotment must be in accordance with the term of the offer. The allotment must be absolute and unconditional.

5. **Revocation:** Application may be withdrawn any time before communication of its acceptance.

Statutory Requirements or restrictions relating to allotment:

1. **Allotment of securities by a company (Sec.39):** No allotment of any securities of a company offered to the public for subscription shall be made unless the amount stated in prospectus paid to the company.
2. **Allotment of shares to be dealt with in stock exchanges (Sec.40):** Every company making public offer shall before making such offer obtain permission from the stock exchanges.
3. **Calls on Shares of same class to be made on Uniform basis (Sec.49):** Where any calls for further share capital are made on the shares such calls shall be made on a uniform basis.