



The Companies Act 2013

Enlightening Nation

E-newsletter

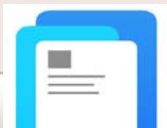
JULY, 2018

ABOUT THE E-NEWSLETTER

Dear Users,

Thecompaniesact2013.com imports yet another innovation for all the valuable users in the form of e-newsletter. This is the first issue of the **July month** comprising contemporary articles, latest notifications, circulars & orders.

The notion is to render all the updates about Company law of the current month in a compiled format and serve a better pavement for easy accessibility to the users.



CONTENTS

ARTICLE

CIRCULAR

WEBSITE UPDATES



ARTICLE

• INITIAL PUBLIC OFFER

Meaning of Initial Public Offer (IPO)

An initial public offering is when a private company or corporation raises investment capital by offering its stock to the public for the first time. Growing companies seeking capital to expand are those that generally use initial public offerings, but large, privately owned companies or corporations looking to become publicly traded can also do them.

In an initial public offering, the issuer, or company raising capital, brings in an underwriting firm or investment bank, to help determine the best type of security to issue, offering price, amount of shares and timeframe for the market offering.

Why go public?

- To raise capital
- Provide liquidity to shareholders.
- Set a Market Value for Company's Share.
- Going public provides a sense of corporate stability.

The process involved in IPO:

Underwriting-

IPO is done through the process called underwriting. Underwriting is the process of raising money through debt or equity. The chosen underwriters facilitate these steps.

- An external initial public offering team is formed, comprising an underwriter, lawyers, certified public accountants and Securities and Exchange Commission experts.
- Information regarding the company is compiled, including financial performance and expected future operations. This becomes part of the company prospectus, which is circulated for review.
- The financial statements are submitted for an official audit.
- The company files its prospectus with the SEC and sets a date for the offering.

The first step towards doing an IPO is to appoint an investment banker. Although theoretically a company can sell its shares on its own, on realistic terms, the investment bank is the prime requisite. The underwriters are the middlemen between the company and the public. There is a deal negotiated between the two.

The different factors that are considered with the investment bankers include:

- The amount of money the company will raise
- The type of securities to be issued
- Other negotiating details in the underwriting agreement

The deal could be a firm commitment where the underwriter guarantees that a certain amount will be raised by buying the entire offer and then reselling to the public, or best efforts agreement, where the underwriter sells securities for the company but doesn't guarantee the amount raised. Also to off shoulder the risk in the offering, there is a syndicate of underwriters that is formed led by one and the others in the syndicate sell a part of the issue.

Filing with SEBI-

Once the deal is agreed upon; the investment bank puts together a registration statement to be filed with the SEBI. This document contains information about the offering as well as company information such as financial statements, management background, any legal problems, where the money is to be used etc. The SEBI then requires cooling off period, in which they investigate and make sure all material information has been disclosed. Once the SEBI approves the offering, a date (the effective date) is set when the stock will be offered to the public.

Red Herring-

During the cooling off period, the underwriter puts together there herring. This is an initial prospectus that contains all the information about the company except for the offer price and the effective date. With the red herring in hand, the underwriter and company attempt to hype and build up interest for the issue. With the red herring, efforts are made where the big institutional investors are targeted.

As the effective date approaches, the underwriter and the company decide on the price of the issue. This depends on the company, the success of the various promotional activities and most importantly the current market conditions. The crux is to get the maximum in the interest of both parties.

Finally, the securities are sold on the stock market and the money is collected from investors.

How does IPO work in India?

The IPO process starts when the company lodges a registration declaration in accordance with SEBI. The entire listing declaration is then studied by the SEBI. This is followed by the prelude brochure proposed by the sponsor and then an authorized catalogue prior to the share offering. The value and time of the IPO are then determined.

Applying for an IPO in India:

When a firm proposes a public issue or IPO, it offers forms for submission to be filled by the shareholders. Public shares can be bought for a limited period only. The submission form should be duly filled up and submitted by cash, cheque or DD prior to the closing date, in accordance with the guidelines mentioned in the form.

Investor can apply for **IPO Stocks** by filling an IPO Application Form. These forms are usually available with stock brokers for free. Investor can also apply for IPO Stocks online through Online Stock Brokers like ICICI bank, Share Khan, and Reliance Money.

Recent IPO's in India:

Issuer Company	Issue Open	Issue Close	Issue Size (Crore Rs.)	Offer Prize (Rs.)
Raw Edge Industrial Solutions Ltd. IPO	05.07.2018	10.07.2018	16.50	72
Avon MoldPlast Limited IPO	12.07.2018	18.07.2018	4.51	51
Supershakti Metaliks Limited IPO	17.07.2018	20.07.2018	60.01	375
HDFC Asset Management Company IPO	25.07.2018	27.07.2018	2,800.33	1100
Powerful Technologies Limited IPO	09.08.2018	14.08.2018	11.62	175

IPO: Pros and Cons

Advantages

The IPO is an exciting time for a company. It means it has become successful enough to require a lot more capital to continue to grow. It's often the only way for the company to get enough cash to fund a massive expansion. For the owners, it's finally time to cash in on all their hard work. They usually award themselves a significant percentage of the initial shares of stock. They stand to make millions the day the company goes public.

For investors, it's called getting in on "the ground floor." That's because IPO shares often skyrocket in value when they are first made available on the stock market.

The IPO also allows the company to attract top talent because it can offer stock options. It can pay its executives fairly low wages up front because of its promises that execs can cash out later with the IPO.

Disadvantages

The IPO process requires a lot of work. It can distract the company leaders from their business. That can hurt profits. They also must hire an investment bank, such as **Goldman Sachs** or **Morgan Stanley**. These investment firms are tasked with guiding the company as it goes through the complexities of the IPO process. Not surprisingly, these firms charge a hefty fee.

Second, the business owners may not be able to take many shares for themselves. In some cases, the original investors might require them to put all the money back into the company. Even if they take their shares, they may not be able to sell them for years. That's because they could hurt the stock price if they start selling large blocks and investors would see it as a lack of confidence in the business.

Third, business owners could lose ownership control of the business because the Board of Directors has the power to fire them.

Fourth, a public company faces intense scrutiny from regulators including the **Securities and Exchange Commission** and adherence to the **Sarbanes-Oxley Act**. A lot of details about the company's business and its owners become public and that could give valuable information to competitors.

What IPOs Mean to the Economy

The number of IPOs being issued is usually a sign of the stock market's (and economy's) health. During a recession, IPOs drop because it's not worth the hassle when share prices are depressed. When IPOs increase, it usually means the economy is getting back on its feet again.

Risks and other factors to consider when investing in an IPO

IPOs can be speculative investments and involve special risks and other considerations which are important to take into account when making a purchase decision. Some of those risks and considerations are described below. The prospectus for each IPO will contain a "Risk Factors" section that describes the specific risks applicable to that IPO, including risks associated with the company and the common stock.

➤ Offering price:

The public offering or IPO price is determined by the company in consultation and negotiation with the underwriters, taking into account market condition, analyses of possible valuations and the underwriters' order book. The public offering price is not a reflection of the market price, as no market price has been established prior to the IPO. On the one hand, the company seeks to maximize the public offering price because the higher the price the more capital it can raise without having to issue more shares. Often, the market or trading price of shares that were offered in an IPO may vary dramatically from the IPO price, even shortly after the IPO is completed. The market price can be higher or lower than the IPO price.

➤ Market risk.

The market price of shares issued in the IPO will move up or down based on various factors, including macro-economic conditions, governmental policies, prevailing interest rates, movements in the stock markets generally, consumer and investor sentiment, conditions or developments affecting the industry or sector in which the company operates, and conditions, events or developments that are specific to the Company.

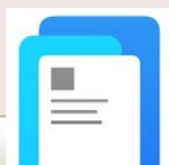
➤ Price volatility and liquidity risk.

The market price of shares issued in an IPO may fluctuate significantly, particularly in the brief period of time after the IPO. The market price may also be affected by a limited supply of shares in the market following the IPO. The shares that are traded in the early days after the IPO are generally only those that were sold in the IPO. Although shares issued in an IPO may be listed on a national exchange and be

freely saleable, trading volumes may be limited because of supply and demand which may create challenges in selling the shares in sufficient quantities or at attractive prices.

➤ **Market capitalization.**

Some IPO companies may have smaller market capitalizations. A company's market capitalization is determined by multiplying the market price of its common stock by the number of outstanding shares. Companies with smaller market capitalizations involve greater risk than larger companies. Stocks of smaller companies tend to be more volatile and less liquid than larger companies. The frequency and volume of trading of smaller company stocks may be substantially less than is typical of larger Companies.



CIRCULAR

A. GENERAL CIRCULAR NO. G.S.R.....(E).-

SUBJECT: -

In exercise of the powers conferred by sections 396,398,399, 403 and 404 read with sub-sections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following rules further to amend the Companies (Registration Offices and Fees) Rules, 2014, namely:-

1. (1) These rules may be called the Companies (Registration Offices and Fees) Third Amendment Rules, 2018.
- (2) They shall come into force with effect from 10.07.2018.

B. GENERAL CIRCULAR NO. G.S.R..... (E).-

SUBJECT: -

In exercise of the power conferred by section 73 and section 74 read with sub section (1) and sub section (2) of section 469 of the Companies Act, 2013 (18 of 2013), the central government in consultation with the Reserve Bank of India, hereby makes the following rules further to amend the Companies (Acceptance of Deposits)Rules, 2014, namely:-

1. (1) These rules may be called the Companies (Acceptance of Deposits) Amendment Rules, 2018.

(2) They shall come into force on 15th August, 2018.

C. GENERAL CIRCULAR NO. S.O..... (E).-

In exercise of the powers conferred by subsection (2) of section 1 of the Companies (Amendment) Act, 2017 (1 of 2018), the Central Government hereby appoints the 15th August, 2018 as the date on which the following provisions of the said Act shall come into force, namely:-

SI. No.	Section
(1)	Section 15;
(2)	Section 16;
(3)	Section 75; and
(4)	Section 76

D. GENERAL CIRCULAR NO. G.S.R. (E).-

In exercise of the powers conferred under second proviso to sub-section (1), sub-section (4), clause(f) of sub-section (6) of section 149, sub-section (3) and (4) of section 150, section 151, sub-section (5) of section 152, section 153, section 154, section 157, section 160, sub-section (1) of section 168 and section 170 read with section 469 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following rules further to amend the Companies (Appointment and Qualification of Directors) Rules, 2014, namely: -

1. (1) These rules may be called the Companies (Appointment and Qualification of Directors) fourth Amendment Rules, 2018.

(2) They shall come into force from 10th July, 2018.

E. GENERAL CIRCULAR NO. G.S.R. (E).-

In exercise of the powers conferred under by sub sections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following rules further to amend the Companies (Authorized to Register) Rules, 2014, namely:-

1. (1). Short title and commencement:- These rules may be called the Companies (Authorised to Register) Second Amendment Rules, 2018.

(2). They shall come into force with effect from 15th August, 2018.

F. GENERAL CIRCULAR NO. G.S.R.(E):-

In exercise of the powers conferred by sub-sections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following rules further to amend the Companies (Registration of Charges) Rules, 2014, namely:-

1. (1) These rules may be called the Companies (Registration of Charges) Amendment Rules, 2018.

(2) They shall come into force from the date of their publication in the Official Gazette.

G. GENERAL CIRCULAR NO. S.O.....(E)

In exercise of the powers conferred by subsection (2) of section 1 of the Companies (Amendment) Act, 2013 (1 of 2018), the Central Government hereby appoints the day of 27th July, 2018 as the date on which the following provisions of the said Act shall come into force, namely :-

SI. No.	Sections
1.	Section 5; and
2.	Section 6

H. GENERAL CIRCULAR NO. G.S.R.(E)._

In exercise of the powers conferred by section 3, sub-section (L) of section 7 and sub-sections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following rules further to amend the Companies (Incorporation) Rules, 2014, namely: -

1. (1) These rules may be called the Companies (Incorporation) Third Amendment Rules, 2018.

(2) They shall come into force on the date of their publication in the official Gazette

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In Association with:

Arms & Associates, LLP

Practicing Company Secretaries

24 ka 1 jyoti Nagar, Jaipur

Ph.No. 0141-3263017, 3111777

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