

Underwriting of Shares and Debentures

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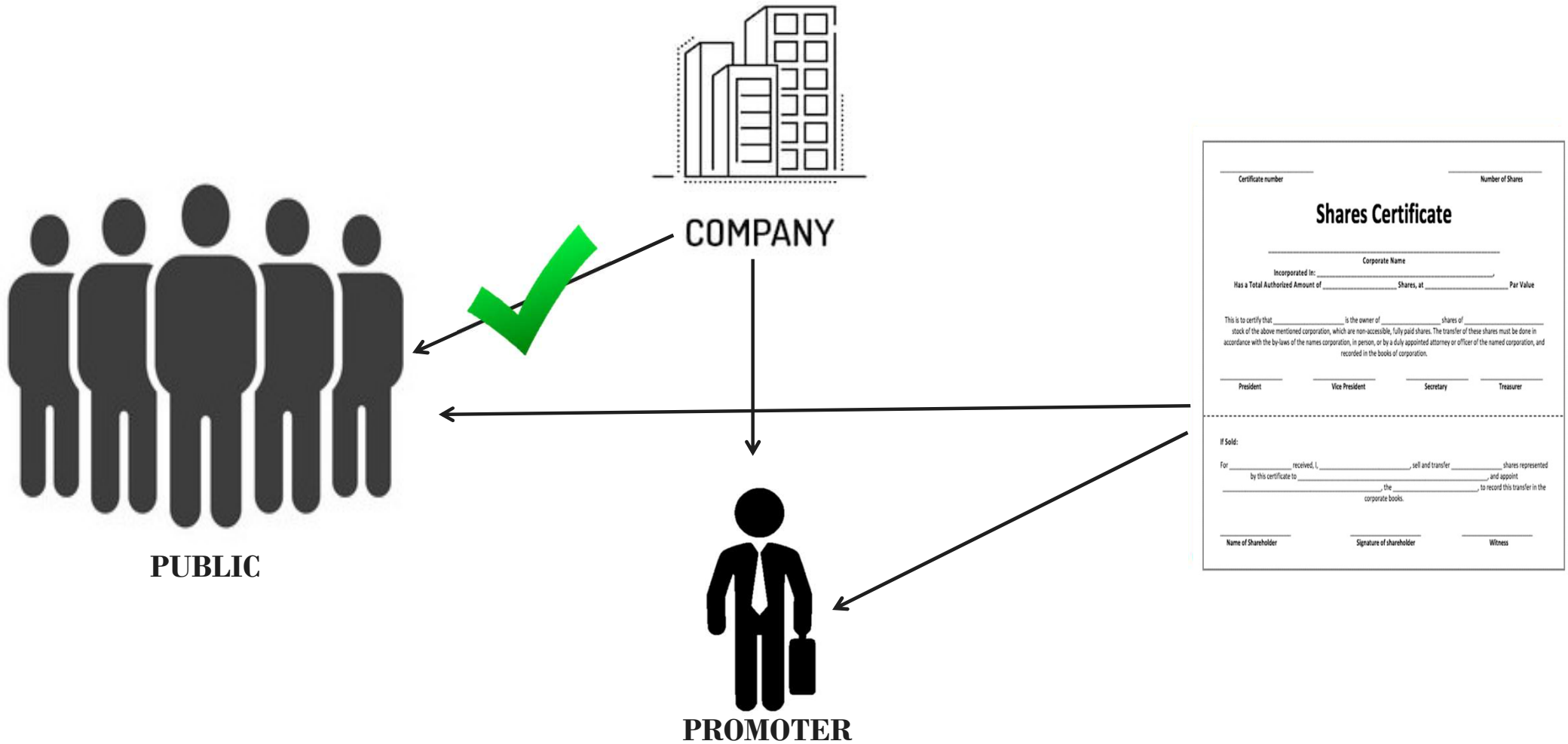
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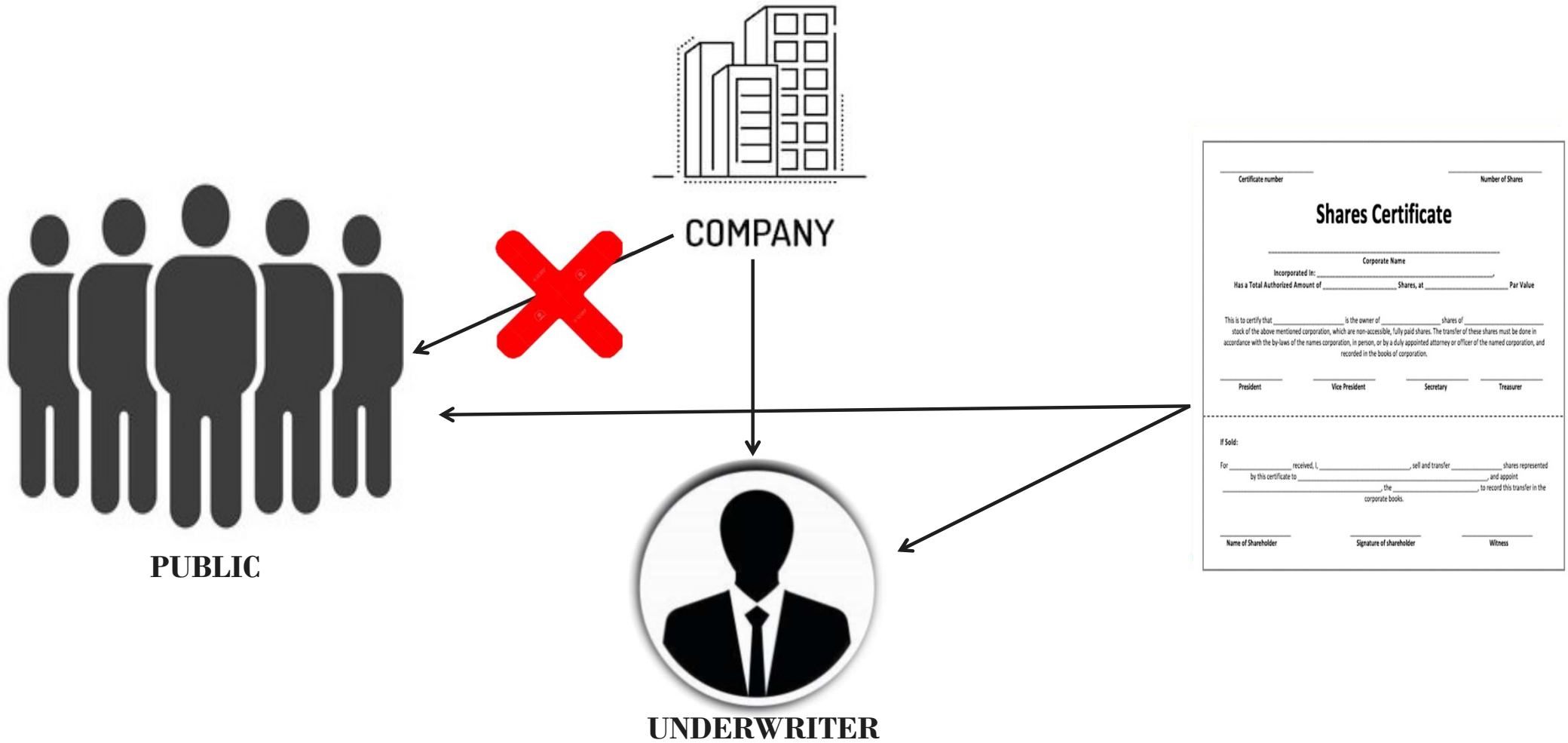
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Underwriting of Shares and Debentures



Underwriting of Shares and Debentures



Underwriting of Shares and Debentures

Underwriting is an agreement, with or without conditions, to subscribe to the securities of a body corporate when existing shareholders of the body corporate or the public do not subscribe to the securities offered to them.

As per SEBI Guidelines, it is required that if the body corporate is not able to collect 90% of the offer amount, then it needs to compulsorily return the money to those who have subscribed to the shares and causing lot of issue expenses to go waste. This uncertainty could be avoided by the help of a specialised group of risk-redeemers — called Underwriters.

Underwriting Commission

Company decided to issue 10,000 Shares of Rs 10 each at Rs15 each.



COMPANY

Directors Subscribed for 4,000 Shares



PROMOTER / DIRECTORS

Underwriting Commission is **Not Payable** on the shares taken up by the promoters, employees, directors, their friends and business associates.

Maximum Commission

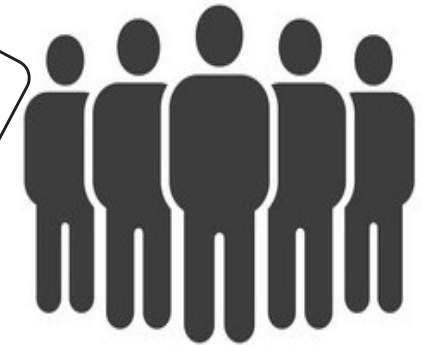
- Shares - 5% of IP
- Debentures - 2.5% of IP
- Rate as per AOA

Whichever is less



UNDERWRITER

Public Subscribed for 6,000 Shares



PUBLIC

Underwriting Commission is payable on the whole issue underwritten irrespective of the fact that whole of the issue may be taken over by the public. Commission is calculated on Issue Price unless otherwise mentioned.

Underwriting Commission may be paid in cash or as fully paid up shares or debentures or a combination of all.

Types of Underwriters

SOLE UNDERWRITERS

JOINT UNDERWRITERS

Company decided to issue
10,000 Shares.

Company decided to issue
10,000 Shares.



COMPANY



If public does not
subscribe for
shares, than
**I WILL
SUBSCRIBE**

When the issue is underwritten
by only one underwriter, such
underwriting is termed as 'Sole
Underwriting'.



If public does not
subscribe for
shares, than
**WE WILL
SUBSCRIBE**

The company may enter into underwriting
arrangement with number of underwriters.
This arrangement is called Joint Underwriting
(Co-underwriting). An individual underwriter
will be responsible only to the extent of shares
underwritten by him.

Underwriting of Shares and Debentures



COMPANY

**Company decided
to issue 1,00,000
Shares.**



**A
Underwrites
50,000 Shares.**



**B
Underwrites
30,000 Shares.**



**C
Underwrites
20,000 Shares.**

Underwriting of Shares and Debentures



COMPANY

Company decided to issue 1,00,000 Shares.

Company Received Applications for 80,000 Shares.



A Underwrites 50,000 Shares.



B Underwrites 30,000 Shares.



C Underwrites 20,000 Shares.

Now, how will you find out because of which underwriter company has received Applications for 80,000 Shares.



To avoid this conflict the concept of Marked and Un Marked Application is to be understood.

Underwriting of Shares and Debentures



COMPANY

Company decided to issue 1,00,000 Shares.

Company Received Applications for 80,000 Shares.

Un-Marked applications are those applications which DOES NOT BEAR the mark of underwriters.



A Underwrites 50,000 Shares.

30,000 Marked Applications.

20,000 Un-Marked Applications.



B Underwrites 30,000 Shares.

10,000 Marked Applications.

60,000 Marked Applications.



C Underwrites 20,000 Shares.

20,000 Marked Applications.

Marked applications are those applications which BEAR the mark of underwriters.

80,000 Total Applications.

Underwriting of Shares and Debentures

Open or Conditional



**Only If public
does not
subscribe for
shares I / We will
subscribe**

**Agrees to take up agreed portion of
shares not taken up by public.**

• Company decides to issue 10,000 Shares

• Underwriters Underwrites 10,000 Shares

1 • Company receives application for 10,000 Shares
• No Underwriters Liability

2 • Company receives application for 8,000 Shares
• Underwriters Liability will be 2,000 Shares

3 • Company receives application for 12,000 Shares
• No Underwriters Liability

Underwriting of Shares and Debentures

Firm Underwriting



Along with
Public I / We will
also Subscribe
for Shares

Agrees to take up specified no. of shares
irrespective of no. of shares subscribed
by public.

• Company decides to issue 50,000 Shares

• Underwriters Underwrites 50,000 Shares, With Firm
underwriting of 5,000 Shares.

1
• Company receives application for 50,000 Shares
• Underwriters Liability will be 5,000 Shares (Firm)

2
• Company receives application for 46,000 Shares
• Underwriters Liability will be 9,000 Shares (4,000 + 5,000)
(Under Subscribed + Firm)

3
• Company receives application for 72,000 Shares
• Underwriters Liability will be 5,000 Shares (Firm)

Underwriting of Shares and Debentures

Full Underwriting

Partial Underwriting

**I / We take
Full
Guarantee**



**I / We take
only Part
Guarantee**

Whole of the Issue is Underwritten

Part of the Issue is Underwritten

- Company decides to issue 10,000 Shares

- Underwriters Underwrites 10,000 Shares

- Company decides to issue 10,000 Shares

- Underwriters Underwrites 8,000 Shares

Underwriting of Shares and Debentures

Underwriter

Agreement For Guarantee
90% of the Amount

Underwriting Commission

Only for the risk taken
5% / 2.5% / AOA – IP

In Cash / Shares /
Debentures / Combination

Types of Underwriters

Sole Underwriter (I)

Joint Underwriter (WE)

Types of Application

Marked Application (BEARS)

Un Marked Application
(DOES NOT BEAR)

Open / Conditional
Underwriting

Firm Underwriting

Full Or Partial Underwriting

Thank You !!!

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