



VIT[®]

Vellore Institute of Technology
(Deemed to be University under section 3 of UGC Act, 1956)

Legal Aspects of Business

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Recapitulate

The companies Act, 2013

Articles of Association (AOA)

- Introduction
- Contents of AOA
- Provisions relating to Private Limited Company to be included
- Alteration of Articles of Association
- Distinction – MOA & AOA
- Doctrine of Constructive Notice
- Doctrine of Indoor Management

The Companies Act, 2013

Prospectus

A prospectus is a legal document that contains all the material information which investors need about the company.

Section 2 (36) of the Companies Act, defined, 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 securities of a body corporate

The Companies Act, 2013

Types of Prospectus

- **Draft Offer Document**

This is the first, filed with the SEBI. The Securities and Exchange Board of India (SEBI). The SEBI may specify changes, if any, to be made. After the changes are made, it is filed with the Registrar of Companies (ROC) or the Stock Exchange.

- **Red Herring Prospectus**

This one does not have details of either the price or the number of shares being offered or the amount the IPO aims to raise. Because, this kind of prospectus is used in book building issues. Nowadays, all IPOs launch their issues through the book building process.

The Companies Act, 2013

Formalities in issuing a prospectus

- Every company is issued by or on behalf of a company must be dated; this date is regarded as a date of its publication
- It should be signed by every director \ agent delivered to registrar on or before the date of application
- The prospectus issued to the public should mention copy of prospectus along with specified with document filed with registrar.
- Authorized form securities exchange board of India
- A prospectus must contain the necessary information

The Companies Act, 2013

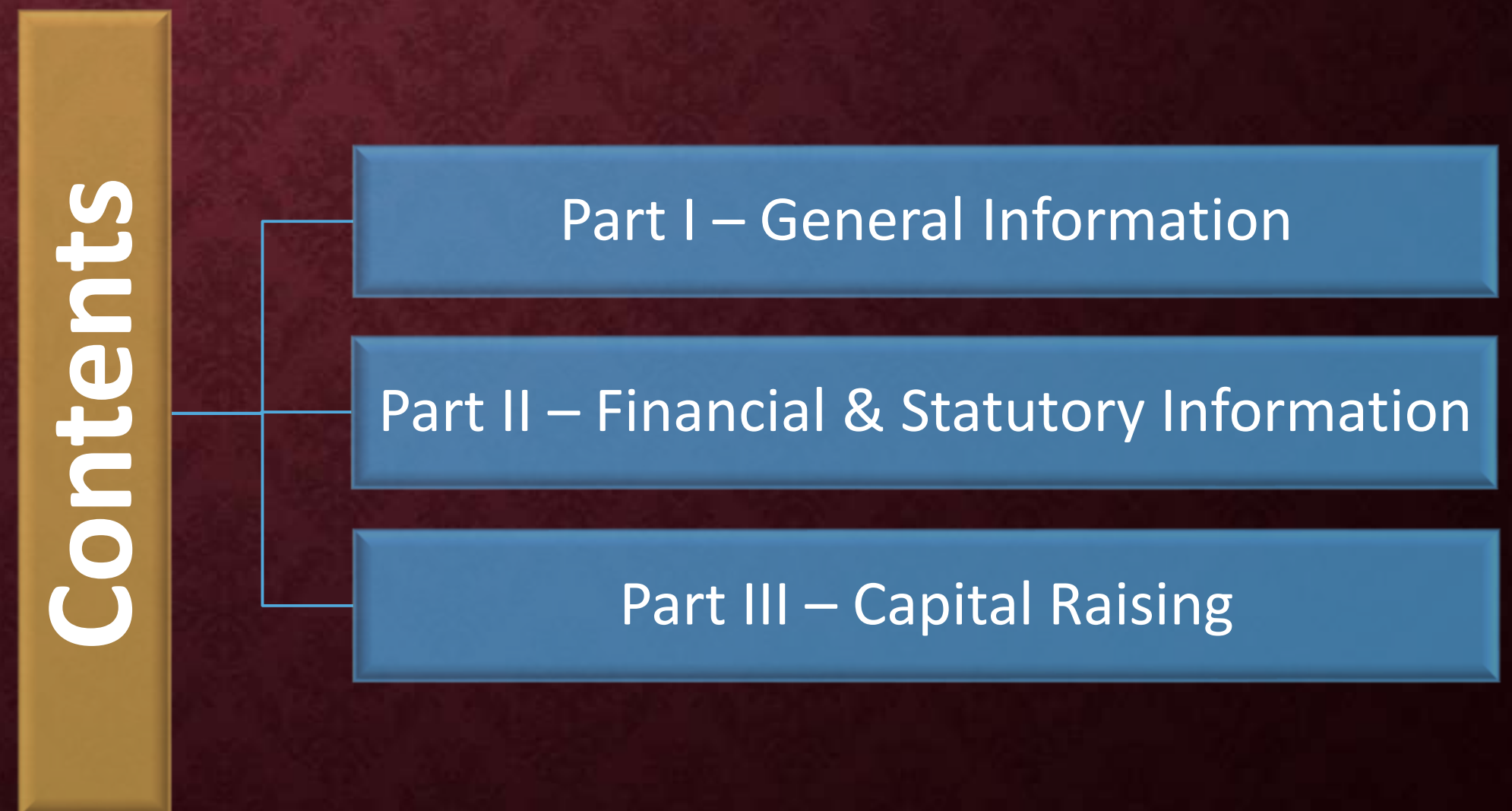
Golden Rule as to the Framing of Prospectus

In other words, the rule is that nothing should be stated as a fact which is not so and no fact should be omitted the existence of which might in any degree affect the nature or quality of the privileges and advantages which the prospectus holds out as an inducement to take shares.

The Companies Act, 2013

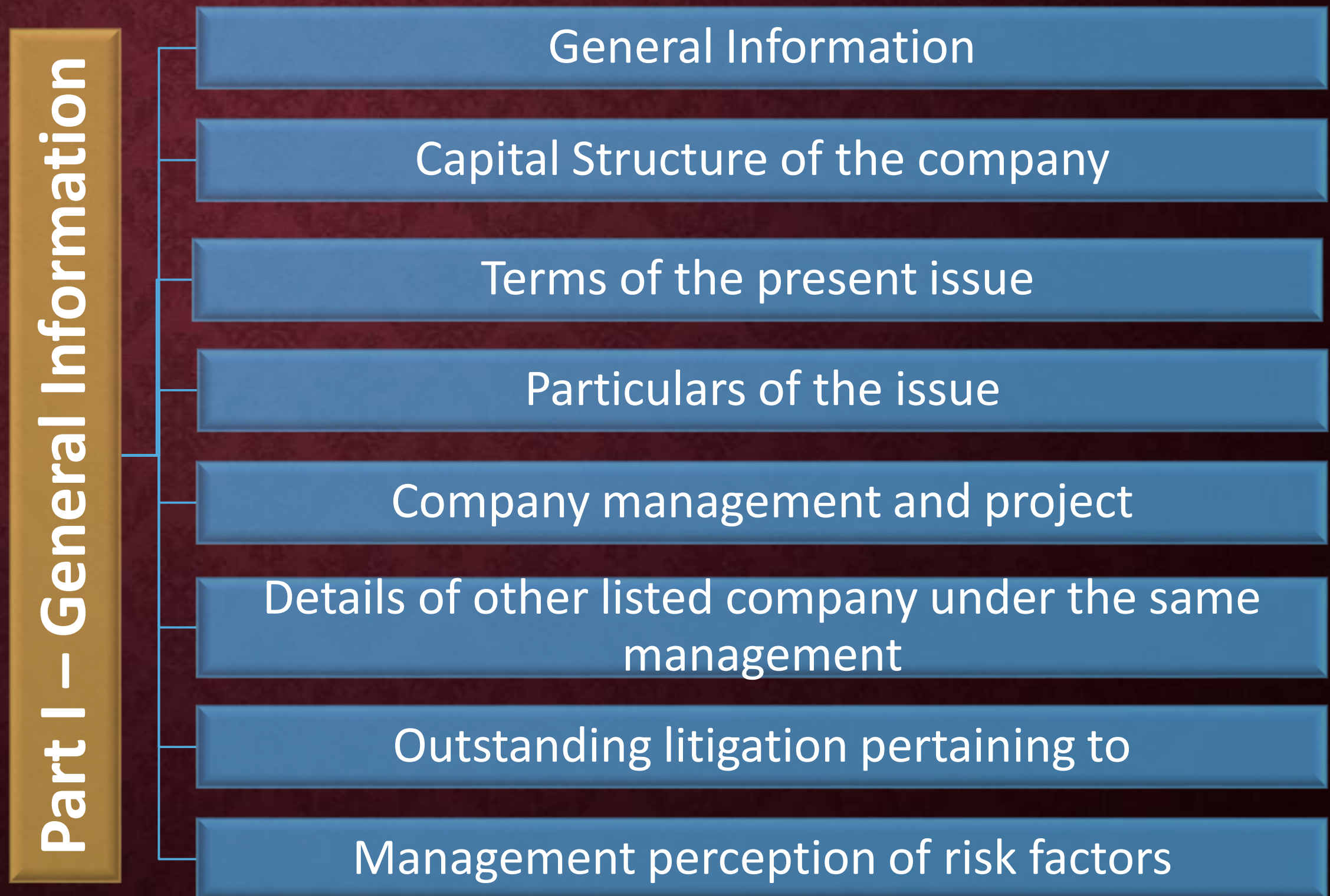
Contents of Prospectus

The revised format of Schedule II of the Companies Act requires the prospectus to be divided into three parts;



The Companies Act, 2013

Contents of Prospectus



The Companies Act, 2013

Contents of Prospectus

- Name and address of registered office
- Consent from central government
- Industrial license from central government
- Declaration about refund of the issue
- Declaration about the issue of allotment letters
- Date of opening of the issue
- Date of closing of the issue
- Name and address of auditors and the lead managers
- Name and address of trustee under debenture
- Rating from CRISIL or any other rating agency
- Name and address of the underwriters

Part I – General Information

General Information

Capital Structure of the company

Terms of the present issue

Particulars of the issue

Company management and project

Details of other listed company under the same management

Outstanding litigation pertaining to

Management perception of risk factors

The Companies Act, 2013

Contents of Prospectus

- Authorised, issued, subscribed and paid-up capital
- Size of present issue and reservation for preferential allotment to promoters and others
- Paid-up capital
 - After the present issue
 - After conversion of debentures (if applicable)

Part I – General Information

General Information

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The Companies Act, 2013

Contents of Prospectus

- Terms of payment
- Rights of the instrument holders
- How to apply – availability of forms, prospectus, and mode of payment
- Any special tax benefits for company and its shareholders

Part I – General Information

General Information

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Contents of Prospectus

- Objects of the issue
- Project cost
- Means of financing

Part I – General Information

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The Companies Act, 2013

Contents of Prospectus

- History and main objects
- Subsidiary (ies) of the company
- Promoters and their background
- Name and address of management
- Location of the project
- Plant, machinery, technology, process, etc.,
- Collaboration, if any
- Infrastructure facilities, etc.,
- Project implementation schedule
- About the products and marketing
- Future prospectus

Part I – General Information

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Contents of Prospectus

- Details about the issue during the last three years

Part I – General Information

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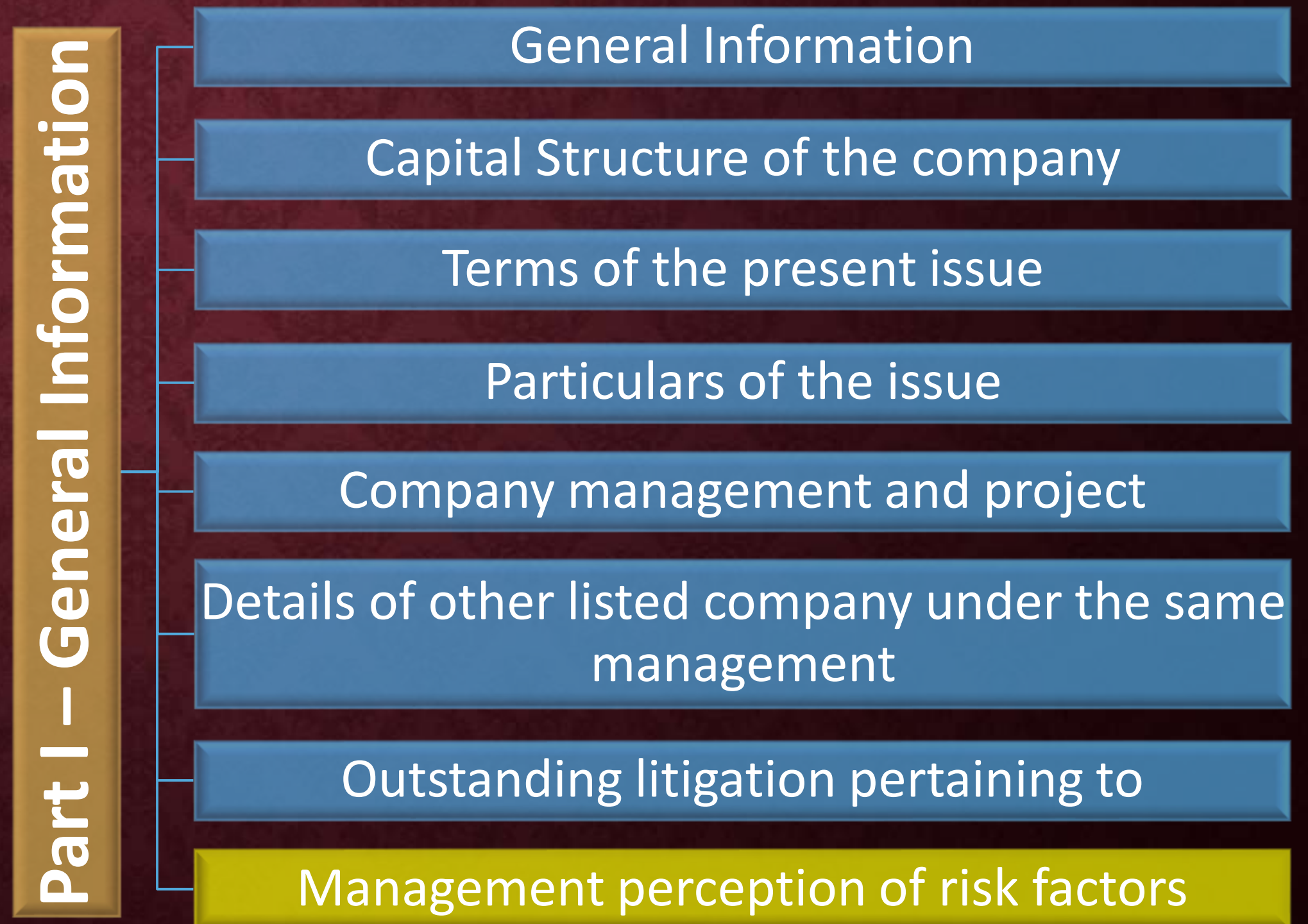
Contents of Prospectus

Part I – General Information

- General Information
- Capital Structure of the company
- Terms of the present issue
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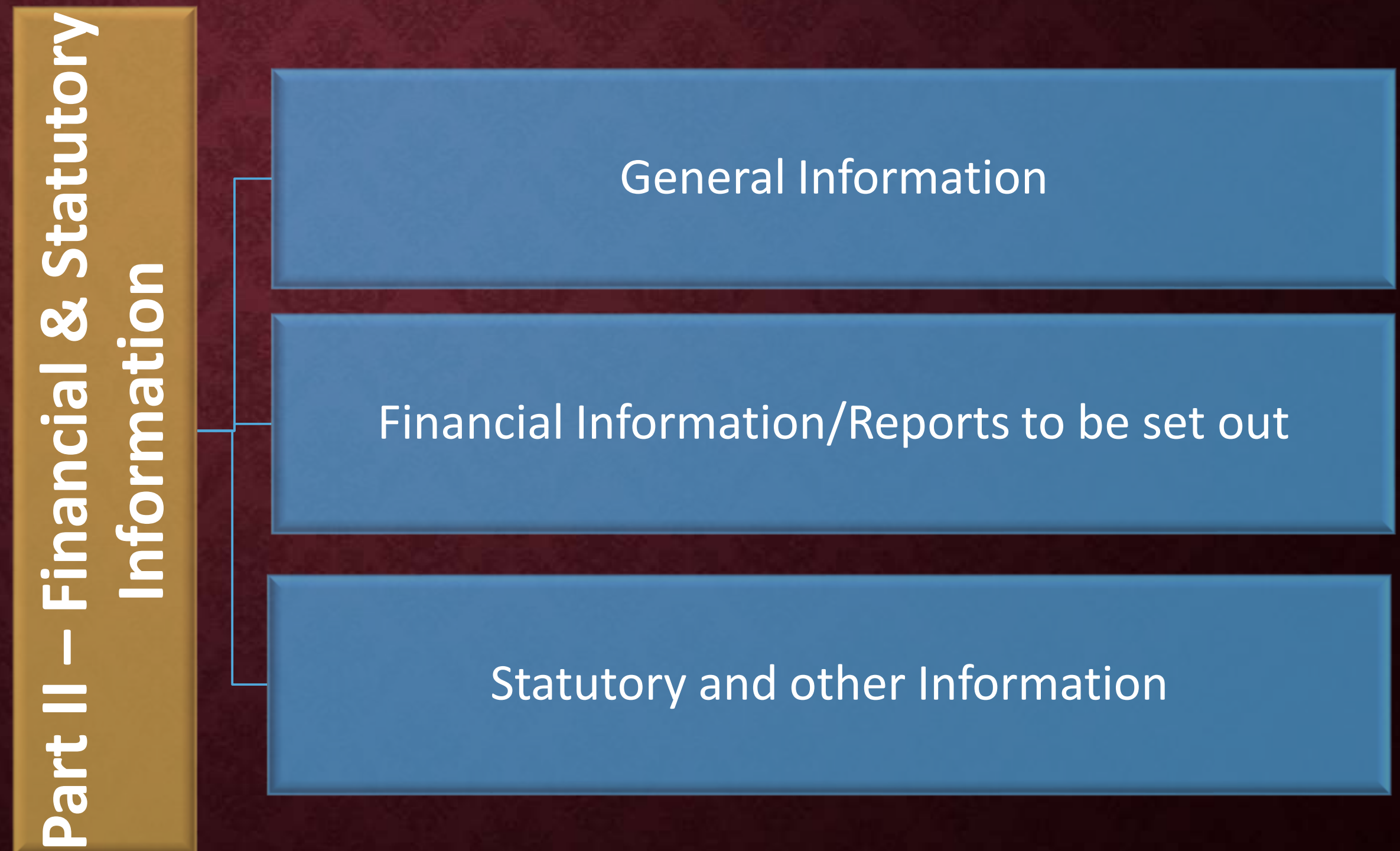
The Companies Act, 2013

Contents of Prospectus



The Companies Act, 2013

Contents of Prospectus



The Companies Act, 2013

Contents of Prospectus



The Companies Act, 2013

Liability for Misstatements in Prospectus

A. Civil Liability

A person who has been induced to subscribe for shares in a company on the strength of misstatement or omission in the prospectus may have a remedy either against the company or against the promoters or directors.

Remedies against the company

In order to succeed he must prove that;

- i. He is an allottee and not a purchaser on the market
- ii. He was in fact induced by the prospectus, and
- iii. The prospectus was issued by the company or someone with the authority

The Companies Act, 2013

Liability for Misstatements in Prospectus

- a. Recession of contract
- b. Claim for damages

Remedies against the directors \ promoters

Any person who has purchase shares \ debentures on the faith of the prospectus containing untrue statement may sue directors, promoters and experts

- a. Damages for deceit \ fraud
- b. Compensation

The Companies Act, 2013

Liability for Misstatements in Prospectus

B. Criminal Liability

Every person who authorizes the issue of prospectus shall be punishable for untrue statements with imprisonment for a term which may extend to 2 years or with fine extend upto Rs.50, 000.

Review Questions

1. Every person who authorizes the issue of prospectus shall be punishable for untrue statements with imprisonment or with fine.

True or False

2. A legal document that contains all the material information which investors need about the company.

- a. Memorandum of Association
- b. Articles of Association
- c. Doctrine of Indoor Management
- d. Prospectus

3. A purchased from B 1,000 shares of a company on the basis of a prospectus containing wrong statements. What remedies are available to A against the company?

Answer

1. Every person who authorizes the issue of prospectus shall be punishable for untrue statements with imprisonment or with fine.

Answer: True

2. A legal document that contains all the material information which investors need about the company.

Answer: d. Prospectus

3. A purchased from B 1,000 shares of a company on the basis of a prospectus containing wrong statements. What remedies are available to A against the company?

Answer: A has no remedies against the company. The remedy is available only to those who have taken shares directly from the company.

Thank You