

PROCEDURE FOR ISSUE OF SHARES THROUGH PRIVATE PLACEMENT

51

{Section 42 read with its Rules 9, 9A and 14 of the Companies (Prospectus and Allotment of Securities) Rules, 2014}

Synopsis

51.1	Procedure with check points	916
51.2	Forms to be filed	927
51.3	List of documents required	928
51.4	List of information required	930
Appendix 51.1	Format of offer letter in Form PAS-4	932
Appendix 51.2	Format of record of a private placement offer	937
Appendix 51.3	Format of list of allottees	937
Appendix 51.4	Format for share certificate	938
Appendix 51.5	Format of debt structure	939
Appendix 51.6	Format of nomination form	940
Appendix 51.7	Format of cancellation or variation of nomination	941
Appendix 51.8	Sample board resolutions	942
Appendix 51.9	Sample shareholders resolutions	946

Relevant Sections, Rules and Forms at a Glance

Particulars	Section(s), Rule(s) and Name of e-Form(s)
The Companies Act, 2013	Sections 42, 46, 88, 117, 118, 173, 179, 247 and 403
The Companies (Prospectus and Allotment of Securities) Rules, 2014	Rules 9, 9A, 12 and 14
The Companies (Management and Administration) Rules, 2014	Rules 3, 5 and 24
The Companies (Share Capital and Debentures) Rules, 2014	Rules 5, 13 and 19
The Companies (Registration Offices and Fees) Rules, 2014	Rules 7, 8 and 12
The Companies (Registered Valuers and Valuation) Rules, 2017	Rules 8 and 18
Secretarial Standard-1 of ICSI	Clauses 3, 4, 5, 6, 7 and 8
Secretarial Standard-2 of ICSI	Clauses 1, 3, 4, 5, 6, 7 and 17
e-Forms to be filed	MGT-14 PAS-3

Significant Relevant Approvals and Requirements

- ❖ Board resolution
- ❖ Special resolution
- ❖ Offer or invitation to subscribe or issue of shares only to a select group of persons as identified by the Board and whose number except in case of Non-banking Financial Company and Housing Finance Companies, in a financial year, shall not exceed 200 in aggregate
- ❖ No fresh offer or invitation shall be made unless the allotments with respect to any offer or invitation made earlier have been completed
- ❖ Entire holding of securities of its promoters, directors, key managerial personnel has been dematerialised in case of unlisted public company, except Nidhi company, Government company or wholly owned subsidiary company
- ❖ Private placement offer letter-cum- application form shall be issued only after filing of relevant board resolution or special resolution with the jurisdictional Registrar of Companies
- ❖ Offer shall not carry any right of renunciation
- ❖ Not to release any advertisements, or utilise any media, marketing or distribution channels or agents to inform the public at large
- ❖ Issue price shall be decided on the basis of valuation report of a registered valuer
- ❖ Open a separate bank account to receive subscription money
- ❖ Not to use subscription money unless allotment is made, and the return of allotment is filed in PAS-3 with the Registrar of Companies

51.1 PROCEDURE WITH CHECK POINTS

S. No.	Particulars
1.	<p>Ensure that—</p> <ul style="list-style-type: none"> • offer or invitation to subscribe or issue of shares shall be made only to a select group of persons who shall be identified by the Board and whose number* (except in case of Non-banking Financial Company and Housing Finance Companies*), in a financial year, shall not exceed 200** (two hundred) in aggregate, excluding the qualified institutional buyers and employees of the company being offered securities under employees stock option scheme in terms of provisions of section 62(1)(b) of the Act {<i>Section 42(2) read with Rule 14(2) of the Companies (Prospectus and Allotment of Securities) Rules, 2014</i>}. <p>* the provisions of sub-rule (2) in respect of numbers shall not be applicable to (a) non-banking financial companies which are registered with the Reserve Bank of India under the Reserve Bank of India Act, 1934, and (b) housing finance companies which are registered with the National Housing Bank under the National Housing Bank Act, 1987 , if they are complying with regulations made by the Reserve Bank of India or the National Housing Bank in respect of offer or invitation to be issued on private placement basis, however such companies shall comply with sub-rule (2) in case the Reserve Bank of India or the National Housing Bank have not specified similar regulations {<i>Rule 7 of the Companies (Prospectus and Allotment of Securities) Rules, 2014</i>}.</p>

S. No.	Particulars
	<p>The subscribers, who are individuals in the Memorandum of Association (MOA) shall be deemed as first directors until the directors are duly appointed by the members in accordance with Section 152 of the Companies Act, 2013 and rules made thereunder (Section 152 of the Act).</p> <ul style="list-style-type: none"> • Not the person intended/proposed to be appointed a director of a company has a valid Director Identification Number (DIN) under section 174 or any other number as may be prescribed under section 174 of the Companies Act, 2013, however, in case of first directors of a new company, the DIN up to 3 (three) persons can be obtained through incorporation with integrated form SPICe-1 (INC-32) (Section 152 of the Act read with rule 152 of the Companies Incorporation Rules, 2014). • Not a total number of directors, at least one director has stayed in India for a total period of not less than 182 days during the financial year. Provided that in case of newly incorporated company, residential status shall be determined proportionately. However, it is not required in case the director is appointed by the Central Government or State Government (Section 152 of the Act). • A person, who is intended to be appointed, shall not be eligible for appointment, if he/she has any disqualification for appointment under section 164 of the Act (Section 164 of the Act read with company provisions of government company and regulations in COA 2012 about COA 2012). • A person proposed to be appointed as a director in a company other than a company registered under Section 8 (non-profit company) of the Companies Act, 2013 (Section 152 of the Act) <ul style="list-style-type: none"> - shall not hold office as a director including any alternate directorship in more than 20 companies including directorship in dormant companies. - shall not hold office in more than 10 public companies including the private companies which are holding or subsidiary of public companies.
2.	In case of one person company, an individual being sole member is deemed to be the first director of the company, if the articles of association has not mentioned the names of first directors (Section 152 of the Act).
3.	Forms created in writing, on or before appointment, from the appointed director to act as director in the company as Form 208-2 (Part 2 of the Companies Appointment and Qualification of Directors) Rule, 2014.
4.	Form created in writing, on or before appointment, from the appointed director as Form 208-3 regarding that he/she is not disqualified under Section 164 of Companies Act, 2013, to act as a Director (Section 164 of the Act read with rule 164 of the Companies Appointment and Qualification of Directors) Rule, 2014.
5.	The particulars of first directors to be integrated with Form SPICe-1 (INC-32) at the time of incorporation of company.

For the detailed procedure, please refer Company Law Procedures & Compliances by Dr. Sanjeev Gupta, 2nd edn, 2021. You can buy from your bookseller or online at www.bharatlaws.com

[COMPANY LAW Procedures & Compliances \(in 2 vols.\)](#)