

CORPORATE LAW

ALLOTMENT OF SECURITIES

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INTRODUCTION TO SECURITIES

In the modern corporate world, companies require huge amounts of capital for formation, expansion, and diversification. One of the most important methods of raising capital is through the **issue of securities**. Securities represent an ownership or creditor relationship between the company and investors.

Meaning of Securities

According to the **Companies Act, 2013**, securities include:

- Shares
- Debentures
- Bonds
- Any other marketable financial instruments
- Securities can be issued to:
 - General public
 - Existing shareholders
 - Institutional investors

MEANING OF ALLOTMENT OF SECURITIES

Definition

Allotment of securities means the **acceptance by a company of the offer made by applicants to subscribe for its securities**, resulting in a binding contract between the company and the applicant.

In simple words, allotment is the process by which a company:

- Selects applicants
- Decides the number of securities to be given
- Communicates acceptance to applicants

LEGAL NATURE OF ALLOTMENT

Allotment has a **contractual nature**:

- Application for shares = Offer
- Allotment = Acceptance
- Once allotment is made:
- A legal relationship is created
- The applicant becomes a shareholder or debenture holder
- The company becomes liable to issue certificates

TYPES OF SECURITIES

1 Equity Shares

- Represent ownership
- Carry voting rights
- Dividend depends on profits

2 Preference Shares

- Preferential right to dividend
- Preferential right to capital repayment
- May be cumulative or non-cumulative

3 Debentures

- Represent a loan to a company
- Fixed rate of interest
- Can be secured or unsecured

MODES OF ISSUE OF SECURITIES

1 Issue of Securities to the Public

- This involves inviting the public through a **prospectus**.

2 Private Placement

- Offer made to a selected group
- Not exceeding 200 persons (excluding QIBs)

3 Rights Issue

- Offered to existing shareholders
- In proportion to existing holdings

4 Bonus Issue

- Issued out of accumulated profits
- No cash involved

ISSUE OF SECURITIES TO PUBLIC

Steps Involved:

- Issue of Prospectus
- Receipt of Applications
- Minimum Subscription
- Allotment of Securities
- Issue of Certificates

APPLICATION FOR SECURITIES

Meaning

Application is the **offer by the investor** to purchase securities of the company.

Important Points:

- Application must be in the prescribed form
- Application money must be paid
- Applications are irrevocable

MINIMUM SUBSCRIPTION

Meaning

Minimum subscription refers to the **minimum amount stated in the prospectus**, which must be raised before allotment.

Legal Requirement:

As per SEBI guidelines

- Usually, **90% of the issue**

If Minimum Subscription is Not Received:

- No allotment can be made
- Application money must be refunded

TIME LIMIT FOR ALLOTMENT

As per Companies Act, 2013:

- Allotment must be made within **60 days** of receiving application money
- If not, money must be refunded within **15 days**
- Interest @ 12% p.a. payable for delay

ESSENTIAL CONDITIONS FOR A VALID ALLOTMENT

1 Allotment by Proper Authority

- Must be made by Board of Directors
- Authority cannot be delegated unless allowed

2 Allotment Must Be Within Reasonable Time

- Delay may make allotment invalid

3 Allotment Must Be Absolute and Unconditional

- No conditions can be attached
- Must be final acceptance

4 Communication of Allotment

- Allotment must be communicated to applicant
- Posting of allotment letter is sufficient

IRREGULAR ALLOTMENT

Meaning

An allotment made **in violation of legal provisions** is called an irregular allotment.

Instances of Irregular Allotment:

- Before the minimum subscription
- Before filing the prospectus
- Without receiving the application money

EFFECTS OF IRREGULAR ALLOTMENT

Rights of Allottees:

- Can rescind (cancel) allotment within:
 - 2 months of statutory meetings
 - Or within a reasonable time

Liability of Directors:

- Directors are liable to compensate
- Penalties may be imposed

OVERSUBSCRIPTION AND UNDER-SUBSCRIPTION

Oversubscription

Applications received exceed securities offered.

Methods of Handling:

- Pro-rata allotment
- Rejection of some applications
- Combination of both

Under-subscription

- Applications received are less than securities offered.

PRO-RATA ALLOTMENT

Meaning

Allotment made in **proportion to applications received**.

Example:

- Shares offered: 10,000
- Applications received: 20,000
- Allotment ratio: 1:2

ISSUE OF LETTER OF ALLOTMENT

Meaning

A formal document informing the applicant about allotment.

Contents:

- Number of securities allotted
- Amount payable
- Due date

SHARE CERTIFICATE

Meaning

A document issued by the company as **evidence of ownership**.

Time Limit:

Within 2 months from allotment

FORFEITURE AND RE-ISSUE (Brief Overview)

If the allottee fails to pay the allotment or call money:

- Shares may be forfeited
- Can be reissued

ROLE OF SEBI IN ALLOTMENT

SEBI regulates:

- Disclosure norms
- Fair allotment
- Investor protection
- Timely refunds

SUMMARY AND CONCLUSION

Allotment of securities is a **crucial stage in capital formation** of a company. It establishes a legal relationship between the company and investors. The Companies Act, 2013 and SEBI guidelines ensure transparency, fairness, and investor protection. Proper compliance with allotment provisions strengthens corporate governance and public confidence.