

PROSPECTUS

INTRODUCTION:

In Company Law, prospectus plays a significant role, where it contains all the material information (General, Financial & Statutory) of the company i.e., prices and shares detail of the specific company, which helps the public who wishes to buy a share in that specific company. As the prospectus is a legally mandated document it must be registered under Register of companies.

DEFINITION OF PROSPECTUS: (Companies Act, 2013)

First of all, let us know What is a prospectus, before going into the statutory definition.

As per dictionary definition Prospectus means – “A Prospectus is an offer document or information booklet issued by a public company used for inviting offers from the general public for subscribing of shares”.

According to the Companies Act 2013: – Prospectus is defined under section 2(70).
Prospectus can be defined as:

- any document described or published as a prospectus”
- It includes notices, circulars, advertisements, or any document acting as an invitation to offers from the public.

WHAT ARE ESSENTIALS FOR A DOCUMENT TO BE CALLED AS A PROSPECTUS:

To consider the certain document like a prospectus following essentials are must:

1. The document should invite the general public for the subscription of shares.
2. It must be made to the general public.
3. It must be made by the company.
4. It should relate to shares, debentures, and such other information pertaining to the company.
One important proposition here is, every public company must either issue a prospectus or file a statement in lieu of prospectus, whereas the private company it is not mandatory for issuing of the prospectus. But If a private company converted into the public company then it must issue the prospectus.

ISSUE OF PROSPECTUS: (Companies Act, 2013)

The issue of the prospectus is defined under section 26 of Companies Act, 2013:

- If a company does not issue prospectus before 90 days from the date from which a copy was delivered before the registrar, then it is considered to be invalid.
- If a prospectus was issued in contravention under section 26 of Companies Act, 2013 then the company can be punished with a fine of 50,000/- which may exceed up to 3,00,000/-.

CONTENTS OF PROSPECTUS: (Companies Act, 2013)

1. Registered company office address.
2. Company secretary, auditors, bankers, underwriters, etc., their respective names and address.
3. Opening and closing dates of the issue.
4. **Allotment** letters and refunds declaration within the prescribed time.
5. A statement by the board of directors about the separate bank account where all monies received out of shares issued are to be transferred.
6. Underwriting of the issue their details.
7. **Directors**, auditors, bankers Consent to the issue, expert's opinion if any.
8. The authority for the issue and the details of the resolution passed thereof.
9. Procedure and time schedule for allotment and issue of securities.
10. **The Capital** structure of the company with a comprehensive outlook.
11. Main objects and location of the present business of the company.
12. **Public offer** and terms of the present issue and its objective.
13. Minimum subscription, amount payable by way of premium, issue of shares otherwise than on cash.
14. **Appointment** and remuneration details of the director
15. **Sources** of promoter's contribution.

KINDS OF PROSPECTUS: (Companies Act, 2013)

Kinds of prospectus are:

- Red Herring Prospectus
- Shelf Prospectus
- Abridged prospectus
- Deemed Prospectus

RED HERRING PROSPECTUS:

- The prospectus which lacks the complete particulars about the quantum of the price of the securities.
- Issues this prospectus **prior to the issue of** prospectus when it is proposing to make an offer of securities.

- Red Herring prospectus needs to be filed with the registrar at least three days prior to the opening of the subscription list or the offer.

SHELF PROSPECTUS:

- Provisions related to shelf-prospectus has been discussed under 31 of Companies Act, 2013.
- Issued by the public financial institutions, company, or bank.
- When a shelf prospectus is issued then the issuer does not need to issue a separate prospectus for each offering, he can offer and sell without issuing a further prospectus.
- The Company that is filing a shelf prospectus is required to file the **information memorandum**.
- **Information Memorandum** consists of all the facts regarding the new charges created, what changes have undergone in the financial position of the company since the first offer of the security or between the two offers.

ABRIDGED PROSPECTUS:

- Provisions related to Abridged prospectus has been discussed under section 2(1) of Companies Act, 2013.
- Consists of a memorandum, which contains the prospectus all the information of the prospectus in brief so that it should be convenient and quick for an investor to know all the useful information in short.

DEEMED PROSPECTUS:

- Provisions related to Deemed prospectus has been discussed under section 25(1) of Companies Act, 2013.
- Provided that any company to offer securities for sale to the public, allots or agrees to allot securities, the document will be considered as a deemed prospectus through which the offer is made to the public for sale.

CONCLUSION:

For a public company, the prospectus is one of the important booklets which explains about the company in a comprehensive manner about its shares and debentures, whereas it is not mandatory for the private company to issue the prospectus. One of the important requirements of the prospectus is that it must have to be registered, in case not registered it is not valid and may lead to penal actions that are enshrined under Companies Act, 2013.

Prospectus plays a prominent role in any public company for its development.