

UNDERWRITER OF DEBENTURE OR SHARE

According to SEBI, “Underwriter means an agreement with or without conditions. To subscribe to the securities of a body corporate when the existing shareholders of such body corporate or the public do not subscribe to the securities offered to them.

As per the law if the subscription is not at least 90% of the offer amount then all the application money refunded to avoid these types of risk the company takes the help of underwriter.

- **UNDERWRITER COMMITMENT:** The consideration payable to the underwriter the issue of share or debenture of a company is called underwriter commit on.
- **RATE OF COMMITMENT**

Nature of issue	Amount devolving on underwriter	Amount subscribed by public
1.Equity share	2.5%	2.5%
2. Preference share/ debentures a. issue amount up to ₹ 500000 b.issue amount exciding ₹ 500000	2.5%	1.5%
	2%	1%

Note: Amount of securities taken up by the underwriter is known as ‘amount devolve underwriter’

Underwriter: “Underwriter” means a person who engages in the business of underwriter of on issue of securities of a body. A person can only act as an underwriter if he/she a certificates granted by SEBI.

TYPES OF UNDERWRITER:

1. Open or conditional- In this type the underwriter agrees to take up the shares which are not taken up by a public.
2. Firm underwriter: In these types of the underwriter agrees to take up the numbers of share irrespective of shares subscribe by the public. If are over subscribe is liable underwriter to take greed number of debenture.
3. Full underwriter: If the whole issue of share or debenture is underwritten it is call as full underwriter.

4. Partial underwriter: If the part issue of share or debenture is underwritten it is said to be partial underwriter it is said to be partial underwriter.

5. Sole underwriter: When the underwriter, is done by the single person.

6. Joint underwriter: when the underwriter is done by joint underwriters.

7. Market application: When the application is stamped with the name of underwriters is known as market application.

8. Underwriter application: When the application is not stamped with the name of the underwriter is known as unmarked application.

Liabilities of the underwriter:

Step	Particulars	Basis	A	B	C	Total
A	Gross liability	Agreed ratio				
B	Less:- marked application	Actual				
C	Balance	[A-B]				
D	Less:- unmarked	GC				
E	Balance	[C-D]				
F	application	Actual/GL				
G	Balance	[E-F]				
H	Less:- firm underwriting	Actual				
I	Net balance	[G-H]				

1. R Ltd issued 1, 00,000 @12% debenture of Rs.10 each at a discount of 10% on Face value the whole issue was underwritten by m/s A for the maximum commission as permitted by the law. Application for 90,000 debentures was received in call. You are requiring calculating net liabilities of m's Alco. And the commission payable to them a per law.

2. A Ltd. Issued 50,000 debenture @14% of Rs.100 each at a premium of 5% 50% of issue was underwriter by M/s B & co at a commission legally permissible on the issue price of the debenture. All the money due from the allotted was received in one installment. Prepare (i) the statement showing liability of M/s B & Co. and (ii) compute the underwriting commission received as per law.

3. (Unmarked Applications – 2 methods)

A Ltd. Issued 1, 00,000 Equity shares. The whole of the issue was underwritten as:

X – 40%, Y – 30% and Z – 30%.

Applications for 80,000 shares were received in all, out of which application for 20,000 shares had the stamp of X; those for 10,000 shares had that of Y, and 20,000 shares had that of Z. the remaining application for 30,000 shares did not bear any stamp. Show the liability of the underwriters.

4. Cybertech Ltd. Issued 1, 00,000 shares of public subscription and these were underwritten by A, B and C in the ratio of 25%, 30% and 45% respectively. Applications were received for 80,000 shares and of these, application for 16,000 shares had the stamp of A, those for 20,000 shares had the stamp of B and those of 24,000 shares had the stamp of C. the remaining application did not bear any stamp. Unmarked application is to be distributed amongst the underwriters in the ratio of their gross liability. On the basis of above information, work out the liability of the individual underwriters.

5. Albert Ltd. Issued 50,000 Equity shares of the Rs.10. the whole issue was underwritten by A, B and C as below:

A 15, 00,000 shares

B 25, 00,000 shares

C 10, 00,000 shares

Application was received for 48, 50,000 shares of which the marked application were as follows:

A 12, 00,000 shares

B 25, 00,000 shares

C 8, 50,000 shares

Calculate the number of shares to be taken up by the underwriters. Unmarked application is to be distributed amongst the underwriters in the ratio of gross liability.

6. (No firm UW) (Full, Surplus of 1 UW)

Sampada Ltd. was formed with a capital of Rs. 20, 00,000 Equity shares of Rs. 10 each. All shares were issued to public for subscription. The issue was underwritten as follows:

Ajay: 80,000 shares; and Raja: 60,000 shares.

Marked applications were received in favor of Ajay for 32,000 shares; Bijoy for 58,000 shares and raja for 42,000 shares. Application for 30,000 shares was not marked. Prepare a statement

showing net liability of each underwriter. Unmarked applications are to be distributed amongst the underwriters in the ratio of their gross liability.

7. (Partial, Surplus of 1 Underwriter Adjusted)

Excel limited issued 40,000 shares of Rs.10 each. These shares were underwritten as follows: A – 20000 shares; and B – 12000 shares. The Public applied for 33,000 shares which included marked application from the underwriters as follows: A-5,000 shares; B-3,000 shares. Direct applications received by the company were for 5,000 shares. Determine the net liability of the underwriters. Unmarked application is to be distributed amongst underwriters in the ratio of their gross liability.

8. (Full, Benefit- No, Surplus of 1 underwriter)

ABC Co. Limited has an authorised capital of Rs 50 lakh, divided into 1, 00,000 equity shares of Rs 50 each. The company issued 50,000 share for subscription at a premium of Rs 10 each. The entire issue was underwritten as follows: X-30,000 shares (firm underwriting-5,000 shares); Y- 15,000 shares (firm underwriting -2,000 shares); and Z- 5,000 shares (firm underwriting- 1,000 shares). From the total issue 45,000 shares, including firm underwriting, were subscribed.

The following were the marked forms: X-16,000 shares; Y-10,000 shares; and Z- 4,000 shares. Calculate the liability of each underwriter, when benefit of firm underwriting is not given to individual underwriters.

9. (Partial underwriter, Benefit-No)

A, B and C underwrote 60 per cent of an issue of 1, 00,000 preference shares of Rs 10 each in the ratio of 3:2:1. The firm and marked application of the underwriters were as follows:

Underwriters	Firm	Marked
A	10,000	22,000
B	8,000	18,000
C	6,000	10,000

In all, applications for 80,000 shares were received. Prepare the statement showing the liability of each underwriter. (Firm underwriting applications are to be treated as unmarked applications.)

10. (Full, Benefit – Yes, Surplus of 1 Underwriter)

Noman Ltd. issued 80,000 Equity Shares which underwritten as follows:

Mr. A	48,000 Equity Shares
Messrs. B & Co.	20,000 Equity Shares
Messrs. C Corp.	12,000 Equity Shares

The above mentioned underwriters made applications for 'firm' underwritings as follows:

Mr. A	6,400 Equity Shares
Messrs. B & Co.	8,000 Equity Shares
Messrs. C Corp.	2,400 Equity Shares

The total applications excluding 'firm' underwriting, but including marked applications were for 40,000 Equity shares.

The marked application was as under:

Mr. A	8,000 Equity Shares
Messrs. B & Co.	10,000 Equity Shares
Messrs. C Corp.	4,000 Equity Shares

(the underwriting contracts provide that underwriters be given credit for 'firm' applications and that credit for unmarked application be given in proportion to the shares underwritten). You are required to show the allocation of liability . Workings will be considered as a part of your answer.

11.

Kusum Ltd. has authorised capital of Rs 25, 00,000 divided into 1, 00,000 Equity shares of Rs 25 each. The company issued for the subscription 25,000 shares at a premium of Rs 10 each. The entire issue was underwritten as follows:

A- 15,000 shares (firm underwriting -2,500 shares)

B- 7500 shares (firm underwriting -1000 shares)

C-2000 shares (firm underwriting -500 shares)

Out of the total issue, 22,500 shares including firm underwriting were subscribed.

The total following were the marked forms:

A- 8,000 shares

B- 5,000 shares

C- 2,000 shares

Calculate the liability of each underwriter.

12.

Jupiter Ltd. issued 10,000 shares of Rs 10 each. The entire issue was underwritten as follows:

Sun- 5,000 shares (firm underwriting – 1,000 shares)

Moon -3,000 shares (firm underwriting – 500 shares)

Star -2,000 shares (firm underwriting – 500 shares)

Shares applied for were 9,000 shares, the following being the marked application forms including firm underwriting:

Sun- 35, 00 shares

Moon- 14, 00 shares

Star- 16, 00 shares

Calculate the liability of each underwriter