**Issue of Bonus Shares by Public Sector Undertakings simplifying the Procedures.**

It has come to the notice of the Govt. that a number of Central Govt. Public Sector Undertakings are carrying substantial reserves in their balance sheets against a relatively small paid up capital base. The question of the need for these enterprises to capitalize a portion of their reserves by issuing Bonus Shares to the existing shareholders has been under consideration of the Govt.

2. The issue of Bonus Shares helps in bringing about at proper balance between paid up capital and accumulated reserves, elicit good public response to equity issues of the public enterprises and helps in improving the market image of the company.

3. Therefore, the Government has decided that the public enterprises, which are carrying substantial reserves in comparison to their paid up capital sold issue Bonus Shares to capitalize the reserves for which the following norms/conditions and criteria may be followed and fulfilled.

4. SEBI guidelines may be followed in deciding the correct proportion of reserves to be capitalized by issuing Bonus Shares. A copy of the bonus issue guidelines of SEBI is enclosed.

5. For the purpose of determining the quantum of bonus issue, PSUs should be guided by the following factors:

(i) Likely increase in capital base from fresh public issues by PSUs in the next two to three years (which will dilute the GOI's equity).

(ii) PSUs should prepare profit projections for the next three years on realistic basis as projected by them in their corporate plan and estimate their ability to service the enlarged equity after taking into account any fresh equity issue they expect to make for their expansion/diversification needs.

6. PSUs are at liberty to engage public/private sector merchant bankers to determine the quantum of bonus and provide advice on related matters. The mode of selection of merchant bankers and any fee payable for their services may be decided by PSU Boards.

7. While recommending proposals for capitalizing reserves, PSUs should also consider the need for increasing their authorized capital to accommodate the release of bonus shares and any subsequent public issues and recommend increase in the capital where necessary.

8. PSUs should ensure that after making the bonus there are enough reserves left which together with future plough-back of profit will be sufficiently large to inspire confidence and support from existing and potential shareholders. This is necessary to remain as an attractive scrip in the market.

9. Each administrative Ministry may direct the enterprises under their control that PSUs having reserves in excess of three times their paid-up capital should immediately consider the scope for issuing bonus shares to GOI (and pro-rata to other existing shareholders if partial disinvestment had occurred so far). PSUs having large reserves may be allowed to make any public issue only after examining the scope for capitalizing a portion of reserves.

10. Ministries/Departments should expeditiously examine and approve bonus issue proposals if the quantum of bonus and profit projections are found to be properly assessed and the PSUs certify that the proposals are in conformity with the SEBI guidelines.

11. Bonus issue proposals need not be referred to Ministry of Finance (MoF) for approval unless there are special reasons to do so. Likewise proposals involving increase in authorized capital need not be referred to MoF. It has been clarified earlier that increase in authorized capital does not require Cabinet approval.

12. Ministries should keep the Department of Public Enterprises informed about bonus issue proposals and authorized capital increases approved by them.

13. The above conditions shall cut down the procedural delays in obtaining the approval for bonus shares besides enabling the PSUs to finalize public issue plans quickly and tap the capital market when conditions are favourable.

14. The Financial Advisers in the administrative Ministries shall keep a control over the fulfillment of various conditions/criteria as mentioned above before agreeing to the bonus issues.

**(DPE O.M. No. 12(6)/95-Fin. dated 10/11/1995)**

**ENCLOSURE**

**Copy of**

**Securities and Exchange Board of India (SEBI)' s guidelines dated 13/04/1994 for Disclosure and Investor Protection—Bonus Issue Guidelines.**

In keeping with current pace of liberalization and reforms in the Primary Market, the Board of SEBI has decided to modify the extant guidelines for bonus shares, forming Section M of the Guidelines for Disclosure and Investor Protection issued by SEBI on June 11, 1992.

SEBI believes that the Board of Directors of the companies wishing to make bonus issues will take into due consideration the relevant financial factors while deciding on bonus issues and observe the following guidelines.

**Section M**

(i) These guidelines are applicable to existing listed companies who shall forward a certificate duly signed by the issuer and duly countersigned by its statutory auditor or by a company secretary in practice to the effect that the terms and conditions for issue of bonus shares as laid down in these guidelines, have been complied with.

(ii) Issue of bonus shares after any public/right issue is subject to the condition that no bonus issue shall be made which will dilute the value or rights of the holders of debentures, convertible fully or partly.

In other words, no company shall, pending conversion of FCDs/PCDs, issue any shares by way of bonus unless similar benefit is extended to the holders of such FDCs/PCDs, through reservation of shares in proportion to such convertible part of FCDs or PCDs. The shares so reserved may be issued at the time of conversion(s) of such debentures on the same terms on which the bonus issues were made.

(iii) The bonus issue is made out of free reserves built out of the genuine profits or share premium collected in cash only.

(iv) Reserves created by revaluation of fixed assets are not capitalized.

(v) The declaration of bonus issue, in lieu of dividend, is not made.

(vi) The bonus issue is not made unless the partly-paid shares, if any existing, are made fully paid-up.

(vii) The Company –

1. has not defaulted in payment of interest or principal in respect of fixed deposits and interest on existing debentures or principal on redemption thereof and.

2. has sufficient reason to believe that it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity bonus etc.

(viii) A company, which announces bonus issue after the approval of the Board of Directors must implement the proposals within a period of six months from the date of such approval and shall not have the option of changing the decision.

(ix) There should be a provision in the Articles of Association of the company for capitalization of reserves, etc. and if not, the company shall pass a Resolution at its General Body Meeting making provisions in the Articles of Association for capitalization.

(x) Consequent to the issue of bonus shares if the subscribed and paid-up capital exceed the authorized capital, a Resolution shall be passed by company at its General Body Meeting for increasing the authorized capital.

**ENCLOSURE**

**Copy of**

**Securities and Exchange Board of India (SEBI)'s RMB (DIP Series) Circular No. 2(94-95) dated 15/041994 – Guidelines for Disclosure and Investor Protection.**

In tune with the process of liberalization and reforms in the primary market, it has been decided to modify the extant guidelines for issue of bonus shares contained in Section M of the guidelines for Disclosure and Investor Protection issued by SEBI on June 11, 1992. The revised guidelines have done away with certain requirements relating to issue of bonus, namely profitability Test, Residual Reserves Test etc.

A copy of the Press Release dated April 13, 1994 issued by SEBI in this connection is enclosed for your information.

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