ANNEXURE NO. 2

*C.C.I. GUIDELINES FOR ISSUE OF FRESH CAPITAL**

NOTES

4.11.01 Premium on Shares

No premium is allowed in respect of a new company making its first issue of shares This has been decided officially as stated by the Finance Secretary, Government of India on 1st August 1986 in response to a question from the Pressmen In other cases premium may be fixed and the issue price is usually decided after discussion and agreement with the company, taking into account the following factors.

i) market trend of the share already issued and of similar shares of other similar companies and the trend of capital market,
ii) breakup value of the shares,
iii) the value of the share on the basis of the Company's profit earning capacity
iv) future growth prospects of the company,
v) the ratio of the issue to the total paid-up capital;
vi) present and future dividend paying capacity of the company.

The method used to examine the question of premium on further issues are objective ones although the Controller has absolute discretion to fix the share premium

4.11.02 Calculation of Premium on Shares

While sanctioning the premium on shares the Controller of Capital Issues normally takes into account the following two considerations :

i) The net worth per share and
ii) Average 3 years earning per share capitalised at 15% in the case of manufacturing companies 17 5% in the case of trading companies and 20% in other companies

The figures arrived at (i) and (ii) are averaged. Then this average figure is compared with the market price of the shares, if the shares are listed If the market price is higher by 20% of the average figure then consideration is also given to this factor

An official committee consisting of the following persons generally decided the premium on shares·

I The Controller of Capital Issues

II Additional Controller of Capital Issues

III. A representative from UTI.

IV A representative from RBI (in case of FERA company).

V A representative from the Financial Institution etc.

There may be from time to time some variation in the constitution of the committee

4.11.03 | VALUE OF SHARES BASED ON YIELD-PROFORMA WORKING

For the year ending

1984 1985 1986 Profits (after depreciation but before tax and after providing for development rebate reserve)

Add

a) Development Rebate Reserve
b) Loss on sale of assets
c) Project expanses
d) Share Issue Expanses written off
e) Interest & Commitment charges

A Less·

  a) Dividend on investments (other than trade investments)
  b) Investment on Govt. Securities
  c) Profit on sale of fixed assets investments & other non-business profit
  d) Excess provision written back

4.11.03 VALUE OF SHARES BASED ON YIELD - PROFORMA WORKING

	For the year ending		
	1984	1985	1986
Profits (after depreciation but before tax and after providing for development rebate reserve)	--	--	--
Add			
a)Development Rebate Reserve	--	--	--
b)Loss on sale of assets	--	--	--
c)Project expenses	--	--	--
d)Share Issue Expenses written off	--	--	--
e)Interest & Committment charges	--	--	--
A:			
Less			
a)Dividend on investments(other than trade investments)	--	--	--
b)Investment on Govt.Securities	--	--	--
c)Profit on sale of fixed assets investments & other non-business profit	--	--	--
d)Excess provision written back	--	--	--
B:			
Pre-tax Profit(A-B)...:	--	--	--

Average yearlyPre-tax profit	Rs.	--	--	--
less.Estimated Tax liability 60%	Rs	--	--	--

Avearge Net Profits afterTaxation	C.. Rs	-------------------------		
Capitalising "C" @ 12% @ 15%		--	--	--
Add				
Market Value of Investment on which dividend interest has been deducted in the above calculation.		--	--	--
Net worth				
Less: Preference capital if any		--	--	--
Net worth of Equity		--	--	--

4.11.04 BREAK UP VALUE OF SHARES:

Paid up capital	Rs ----------
Add Reserve & surplus	Rs. -----------
Less:	
a) Misc Expenditure to the extent not written off	Rs ----------
b) Debit balance of P & L Account	Rs ----------
c) Arrears of depreciation not provided for	Rs. ----------
d) Conti.Liabilities such as.	
I) Gratuity(Net of tax)	Rs. ----------
ii) Income tax liability not provided for	Rs ----------
iii) Incentive for employee(Net of tax)	Rs. ----------
iv) Disputed Sales Tax	Rs. ----------
v) Disputed Excise duty	Rs. ----------
vi) Interest on Income tax	Rs ----------
e) Capital reserve Resulting from amalgamation	Rs ----------
Total Net Worth..	
Preference Capital If any	Rs ----------
Net worth of equity	Rs. ----------
Break up value per equity share	Rs. ----------

4.11.04.A MRTP ACT METHOD

The following methods are prescribed for the purpose of section 30B and 30C of the MRTP Act may also be adopted for ascertaining the break value and value of shares based on yield

1. BREAK-UP VALUE OF SHARES AS ON DATE OF LATEST BALANCE-SHEET

(Rs. in thousands)

Paid up Capital		Rs. ----------
Add Reserves and Surplus		Rs ----------
Less		
a) Mis Expenditure to the extent not written off		Rs. ----------
b)Debit Balance of P&L Account		Rs. ----------
c)Arrears of depreciation not provided for		Rs. ----------
d)Contingent liabilities such as		
i)Gratuity taxes,etc with details.		Rs. ----------
ii)Dividend proposed to be paid out of reserves		Rs. ----------
iii)Incometax liability not provided for		Rs. ----------

Total Net Worth	**A**	----------------------
Preference Capital	**B**	Rs ----------
Net woth of equity	**A - B**	Rs. ----------

Break-up vaule for equity share = A - B / Total No.of Equity Shares

2. VALUE OF SHARES BASED ON YIELD

(Figures are to be given from Balance-Sheet for the last three years)

	Year ending	Year ending	Year ending
Profit:			
Profit (after depreciation but before tax and / after providing for development Rebate Reserve)	--	--	--
Add: Development Rebate Reserve	--	--	--
Loss on sale of assets and any item of expenditure of non-recurring nature	--	--	--
A:	A1	A2	A3

Less:

i) Dividends on Investments (other than trade investrment)

ii) Interest on Govt Securities

iii)Profit on sale of fixed assets / investments and other non business profit

iv) Excess provision written back

B:	B1	B2	B3
Pre Tax Profit **C = (A-B)**	C1	C2	C3

⇒ Average yearly pre tax profit C

1/3rd of (C1+C2+C3)

less:

Estimated tax liability @ 60% T

Average net profit after taxation (C-T) = D

Capitalising 'D' at 15%

Return = D * 100 / 15 = E

Add market value of investments on which dividend has been

deducted in the above calculation F

Net worth (E + F) G

Less preference Capital H

Net worth of equity = G - H

Net worth of one equity share = G - H / No of Equity Share

- The working would presumably apply also to issue of shares by private arrangements.

Note: In case profit fluctuates considerably during the last three years average of five year working should be taken

4.11.06 Premium on First Issue:

Generally, the question of premium will not arise in the case of first issue by a new company as the company would not have a basis for supporting a premium issue.