



# The Statesman

The first completely customisable news site on the web  
133 years in print

Search in  The Statesman  Web[Search](#)[Advanced Search](#)

Monday, 13 October 2008

[Home](#) | [Classified](#) | [Jobs](#) | [Matrimonials](#) | [Archives](#) | [Advertise](#) | [Feedback](#) | [About Us](#)

## News

[Page one](#)[India](#)[World](#)[Editorial](#)[Perspective](#)[Business](#)[Sport](#)[Bengal](#)

## Magazine

[Sports & Leisure](#)[Career & Campus](#)[Science &](#)[Technology](#)[Voices](#)[Lifestyle](#)[Kolkata Plus](#)[Bengal Plus](#)[Unplugged](#)[Viewpoint](#)[North East Page](#)[Orissa Plus](#)[Note Book](#)[N.B & Sikkim Plus](#)[Entertainment](#)[NB Extra](#)[World Focus](#)
[\[Archives\]](#)
[Back to archives for 2007-10-25](#)
[\[Page One\]](#)

## Sebi guidelines and Mr Ambani

Aditi Roy Ghatak

The Securities and Exchange Board of India is or ought to be concerned with leveling the playing field for all categories of investors. It has issued a series of guidelines for an IPO by an unlisted company and mandates that such promoters, making their mandatory promoter's contribution within the preceding one year, contribute in cash at the IPO price. This is to ensure that the promoters take the same financial risk as the IPO investors. Is Mr Anil Ambani doing so? As we have seen, the expectations are that the IPO will fetch Rs 500 per share while Mr Ambani secured them for Rs 2 apiece. Under provisions of Clause 4.6.1 the SEBI seeks to check the abuse by promoters by allotting shares to themselves, for consideration other than cash by (i) merger schemes (ii) allotment of bonus shares out of revaluation reserves (out of reserves not earned in cash) (iii) or in any other manner other than for cash (for example contributing an asset to the business at higher unfair value), within three years prior to public issue.

The only exception is when a merger scheme is sanctioned by a High Court. This provision is to take care of genuine mergers and acquisitions, which may have taken place before the public issues.

When Mr Anil Ambani decided to float an IPO of Reliance Power Limited in the last week of July, 2007, he adopted a simple course of action. The draft red herring prospectus explains how Mr Ambani organised the changes in the authorised share capital of RPL:

Step one: 20 December 2004 ~ The initial authorised share capital of Rs 500,000 divided into 50,000 equity shares of Rs 10 each was increased to Rs 2,500,000 divided into 250,000 equity shares of Rs 10 each pursuant to resolution of shareholders passed at an EGM held on 20 December 2004.

Step two: 24 May 2006 ~ The authorised share capital of Rs 2,500,000 divided into 250,000 equity shares of Rs 10 each was increased to Rs 10,000,000,000 divided into 1,000,000,000 equity shares of Rs 10 each pursuant to a resolution of shareholders passed at an extraordinary general meeting.

Step three: 1 September 2007 ~ The authorised share capital of Rs 10,000,000,000 divided into 1,000,000,000 equity shares of Rs 10 each was increased to Rs 150,000,000,000 divided into 10,000,000,000 equity shares of Rs 10 each and 5,000,000,000 preference shares of Rs 10 each, pursuant to a resolution of shareholders passed at an EGM.

Step four: 29 September 2007 ~ The authorised share capital of Rs 150,000,000,000 divided into 10,000,000,000 equity shares of Rs 10 each and 5,000,000,000 preference shares of Rs 10 each increased to Rs 160,000,000,000 divided into 11,000,000,000 equity shares of Rs 10 each and 5,000,000,000 preference shares of Rs 10 each, pursuant to the scheme of amalgamation of RPUPL with Reliance Power, which became effective on 29 September 2007.

## News Flash

ICICI bank files FIR  
against brokers

13 killed in Chechnyan  
quake

## Login

Username Password [Login](#)[New user? Sign-in](#)

# 8TH DAY



Step five: 30 September 2007 ~ The authorised share capital of Rs 160,000,000,000 divided into 11,000,000,000 equity shares of Rs 10 each and 5,000,000,000 preference shares of Rs 10 each was changed to Rs 160,000,000,000 divided into 55,000,000,000 equity shares of Rs 2 each and 5,000,000,000 preference shares of Rs 10 each, pursuant to resolution of shareholders passed at an EGM held on 30 September 2007. In essence, Anil Ambani's personal investment company and Reliance Power Ltd (controlled by him) invested Rs 500 crore each in the equity share capital of RPUPL on August 3, 2007, even though RPUPL continued to be a shell company with just Rs 1,000 crore of share capital and Rs 1,000-crore investment - made exclusively in Anil Ambani group companies ensuring that the money remained in the same kitty. In real terms, money was transferred from one account to another.

The issue at hand is the minimum "promoter's contribution" to be brought in by the promoters in terms of clauses 4.1 to 4.6 of SEBI (Disclosure and Investor Protection) Guidelines, 2000:

Clause 4.1.1, requires promoters to contribute at least 20 per cent of the post issue capital in a public issue by an unlisted company while clause 4.6.2, requires promoters to contribute this 20 per cent at least at the IPO price if they have contributed this 20 per cent during the one year preceding the public issue.

Further, as per clause 4.6.1, shares acquired by promoters during the previous three years for consideration other than cash (for example shares issued to the promoters on merger of a company with the IPO company) are not considered for computing the 20 per cent promoter's contribution. The promoters have to make a contribution of this 20 per cent in cash at IPO price.

Clause 4.6.4, says that such otherwise ineligible shares shall be eligible to be considered a part of the promoters' contribution if such shares have been allotted to the promoters pursuant to a scheme of merger of amalgamation approved by High Court.

The amalgamation scheme as submitted to the Bombay High Court shows that 50,000 paid up shares of Rs 10 each valued at Rs 5 lakhs and 99,99,50,000 equity shares of Rs 10 each ~ with only Rs 2 paid-up ~ valued at Rs 199.00 lakhs was the share capital of the transferee company or Reliance Power.

Further, according to the draft red herring prospectus, the promoter's contribution to the proposed issue of 1,300,000,000 shares is only 160,000,000 shares. This translates to 12.3 per cent of the issue. Accordingly, retail investors, who have been designated 342,000,000, have 26.3 per cent of the issue. The balance 61 per cent is split between qualified institutional buyers and mutual funds. Thus, in lay terms, the risk to be assumed by the non-promoting investors in the issue will be over seven times that of the promoter.

(To be continued)

Tomorrow: A different kind of truth ~ What Mr Ambani did not tell the High Court

#### [Online Share Trading](#)

Trade Share CFDs online commission free, 24 hours a day

#### [Share Market News](#)

Complete Financial Market Coverage Analysis, Stock Quotes at UTVi

Ads by Google

#### [Free Investment Advice.](#)

New To Investing In Shares? Let Our Experienced And Easy Guide Help You  
[ShareKhan-FirstStep.com](http://ShareKhan-FirstStep.com)

#### [Free Investment Advice.](#)

New To Investing In Shares? Let Our Experienced And Easy Guide Help You  
[www.Sharekhan.com/Inv](http://www.Sharekhan.com/Inv)

#### [Share Market Portfolio](#)

Leave the Hassle of Monitoring the Market to the Experts. Contact Us!  
[www.Kotak-Securities.co](http://www.Kotak-Securities.co)

#### [Wall Street's Secret IPO](#)

Shell Stocks that are waiting to complete a reverse merger.  
[www.ShellStockReview.c](http://www.ShellStockReview.c)