

Bonus Issue

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5.1 ISSUE OF BONUS SHARES

The issue of bonus shares is one of the common features in the Corporate world. When the Company has accumulated large surplus of profits and it decides to convert this surplus into share capital, then the Company can issue bonus shares to its shareholders in proportion to their respective holding.

Bonus Shares are issued by way of capitalisation of profits or reserves of the Company. It is also popularly known as “Capitalisation Shares” as these shares are issued on capitalisation of profits or reserves. The main purpose is to broad base the share capital of the Company. The issue of bonus shares does not entail any cash outflow.

Section 63 of the Companies Act, 2013 contains the provisions for issue of bonus shares.

5.2. CONDITIONS AS SPECIFIED FOR ISSUE OF BONUS SHARES AS PER SECTION 63 READ WITH RULE 14 OF COMPANIES (SHARE CAPITAL & DEBENTURES) RULES, 2014

5.2.1 Source of Issue of Bonus Shares

A company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of—

- (i) its free reserves;
- (ii) the securities premium account; or
- (iii) the capital redemption reserve account:

The Company cannot issue bonus shares by capitalising reserves created by the revaluation of assets.

5.2.2 Authorization by its Articles of Association

The Bonus issue shall be authorized by Articles of Association. In case the Articles of Association does not authorize the Issue of bonus shares, the same is required to be amended by following the provisions of Section 14 of the Act.

5.2.3 Authorization of Bonus Issue in General Meeting

The issue of bonus shares shall be previously authorized in the General meeting of the Company, by way of passing ordinary resolution, in case Articles of Association provides for Special resolution, then by way of passing special resolution.

The above said resolution shall be passed on the recommendation of the Board of Directors.

5.2.4 Bonus Shares are not allowed in case of Partly paid shares

The Company cannot issue bonus shares to the Shareholders holding partly paid-up shares, however the partly paid shares as outstanding on the date of allotment, are made fully paid-up, before issuing bonus shares.

5.2.5 Prohibition on issue of Bonus Shares

The company can capitalise its profits or reserves for the purpose of issuing fully paid-up bonus shares, only if:

- (i) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
- (ii) it has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus.

5.2.6 Bonus shares in lieu of Dividend

The bonus shares shall not be issued in lieu of dividend.

5.2.7 Bonus issue cannot be withdrawn

Rule 14 of Companies (Share Capital & Debentures) Rules, 2014, provides that the Company which has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same.

5.3 IMPORTANT ISSUES RELATING TO ISSUE OF BONUS SHARES

(i) Quantum of Bonus Shares

The quantum of bonus shares or the ratio of bonus share shall depend on the Reserves and Surplus of the Company and also the intent of the management regarding quantum of reserves and surplus to be capitalized.

(ii) Where authorized capital was exhausted

In the case of *Sanjay Paliwal v. Paliwal Hotels P. Ltd.*, (2007) 79 CLA 431 (CLB), it was held that where the authorized capital was already exhausted on the date of the alleged allotment, no further allotment of shares could take place.

Therefore, before initiating the process of the issue of shares, the Company should first increase the authorized share capital, and then subsequently, the Company can initiate the process of issue of shares. However, in the case of passing Shareholders resolution for increase in Authorised Share Capital and resolution for issue of bonus shares, can be passed simultaneously in the same general meeting.

(iii) Entitlement of Bonus Shares

The entitlement of bonus shares shall be to those persons who are the members on the cut off date as decided by the Board of Director. A person who has transferred his shares before the cut off date shall not be entitled for the bonus share [*Rajiv Nag v. Quality Assurance Institute (India) Ltd.*]

PROCEDURE & PRACTICE

PROCEDURE FOR BONUS SHARES

1. Before proceeding for the decision for issue of bonus shares, the management should ensure that all the conditions or prohibitions as specified under Section 63 of the Companies Act, 2013 and Rule 14 of Companies (Share Capital & Debentures) Rules, 2014, are duly taken care of.
2. Convene a Board Meeting, after giving seven days notice as per section 173(3) to all the directors of the company, to approve the following:
 - Issue of Bonus Shares to the shareholders

- Quantum of bonus shares to be issued and the ratio at which the shares are to be offered as Bonus Shares.
 - Decide the date, time and place to hold the Extraordinary General Meeting (EGM).
3. File Form MGT-14 within 30 days of passing Board Resolution* for issue of bonus shares as per sections 117 & 179(3)(c). The requirement to file MGT-14 is exempt in case of *private companies vide Notification No. GSR 464(E) dt. 05.06.2015 and for IFSC Public Limited Company vide notification GSR 8(E) dated 04-01-2017.*
 4. Convene Extraordinary General Meeting for the following purposes:
 - Pass Ordinary Resolution** (or Special Resolution, in case specified in the Articles of Association of the Company) to approve the Bonus Issue.
 - Quantum of bonus shares to be issued and the ratio at which the shares are to be offered as Bonus Shares.
 5. File Form MGT-14 with ROC within 30 days in case Company passes the Special Resolution approving the Bonus Issue along with explanatory statement***.
 6. Convene a Board Meeting, after giving seven days notice as per section 173(3) to all the directors of the company, for the purpose of passing resolution for allotment of Bonus Shares and issuing of Shares Certificates.
 7. File the return of allotment in Form PAS-3 within 30 days from the date of allotment made along with the following as its attachments:
 - List of allottees**** which shall include the following information:
 - ◆ the full name, address, Permanent Account Number and E-mail ID of such shareholders;
 - ◆ the class of shares held;
 - ◆ the date of allotment of shares;
 - the number of shares held, nominal value.

* draft Board resolution for issue of bonus shares is as per Annexure 5.1

**draft Special resolution for issue of bonus shares is as per Annexure 5.2

*** draft Explanatory Statement for issue of bonus shares is as per Annexure 5.3

**** draft List of Allottees is as per Annexure 5.4

- Certified copy of the Board Resolution* passed for allotment of Bonus shares.
8. In case of allotment of shares, issue fresh shares certificates in Form SH-1 or to any other specified format to all such persons to whom shares have been allotted within 60 days from the date of allotment.
 9. Update the Register of Members on issue of share certificates to the shareholders.

* draft Board resolution for allotment of securities is as per Annexure 5.5