

UNDER WRITING OF SHARES

Meaning of Underwriting

Underwriting is an agreement between the underwriters and the company where the underwriters ensure the company that in case the shares and debentures offered to the public are not subscribed by the public then such shares and debentures will be taken up by the underwriters.

Meaning of Underwriters.

The person or institutions underwriting a public issue of shares and debentures are called underwriters.

The underwriters may be individuals, partnership firms, joint stock companies, banks and financial institutions.

Ex : ICICI, SFC's, LIC etc.,

Meaning of underwriting Commission.

The underwriters are entitled to some consideration for the risk they undertake in underwriting the shares or debentures of a public company.

In the words the consideration payable to the underwriters for underwriting the shares and debentures is called underwriting commission.

Maximum Limit for underwriting commission.

For the services rendered by the underwriters : they are entitled to a maximum commission of 5% of the issue price of the shares and debentures at 2.5% on the issue price according to company's act of 1956.

According to SEBI the maximum commission payable to underwriters for underwriting the shares and debentures is 2.5% of the issued price.

Advantages of Underwriting.

1. As underwriters guarantee the sale of shares and debentures, subscription of capital of the company becomes certain.
2. When there is an underwriting arrangement, a company is relieved from the trouble of raising the required capital.
3. When there is an underwriting arrangement, a company can be sure of getting the required capital within a specified period of time.
4. With an underwriting arrangement, a company need not bother about money market conditions.

Types of Underwriting

1. On the basis of number of shares or debentures underwritten:

According to this basis underwriting contracts are classified in 2 type they are,

- a) **Complete underwriting** : It is one under which the whole of the issue of shares or debentures of a company is underwritten by one or more underwriters.
- b) **Partial Underwriting** : It is one under which a part of the issue of shares or debentures of a company is underwritten by one or more underwriters.

2. On the basis of liability of underwriters:

According to this basis underwriting contracts are classified into 2 types they are,

- a) **Pure / Open Underwriting** : it is an arrangement under which and underwriters or underwriters agree to take up the shares or debentures of a company only when the shares or debentures underwritten by him or them is not fully subscribed by the public.
- b) **Firm Underwriting** : It is an arrangement where underwriters agrees to buy a definite number of shares and debentures irrespective of the number of shares or debentures subscribed by the public.
In case of firm underwriting, the underwriters gets priority over general public if shares / debentures are over subscribed.

Calculation of underwriters liability

Liability of underwriters refer to the number of shares, the underwriters must subscribed on account of underwriting agreement.

Statement showing underwriter's liability

Particulars	No.of Shares
Gross liability	XXX
(-) Unmarked application	XXX
	XXX
(-) marked application	XXX
Net liability	XXX
(+) Firm Underwriting	XXX
Total Liability	XXX

Marked and unmarked applications.

The applications received by the company bearing the officials stamp of the individual underwriter or the respective underwriters are called Marked application.

Applications received by the company directly from the public which do not bear the official stamp of the underwriter or underwriters are called unmarked applications.

PROBLEMS :

1. A Ltd issued 100000 equity shares the whole of the issue was underwritten as follows.

X – 40%, Y-30% , 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 that of Y and 20,000 shares that of Z.

Your required to determine the net liability of each underwriter.

i. Calculation of unmarked applications

Total applications received	80,000
(-)Marked applications (X-20,000, Y-10,000, Z-20,000)	50,000
Unmarked application	<u>30,000</u>

ii. Statement showing Net Liability of underwriter

Particulars	X	Y	Z	Total
Gross Liability	40,000	30,000	30,000	1,00,000
(-)unmarked application (30,000*4:3:3)	12,000	9,000	9,000	30,000
(-) marked application	28,000	21,000	21,000	70,000
	20,000	10,000	20,000	50,000
Net Liability	8,000	11,000	1,000	20,000

2. Super India Ltd., issued 75,000 equity shares the whole of the issue was underwritten as follows.

A-50%, B-25%, C-25%

Applications for 60,000 shares were received in all out of which applications for 15,000 shares had stamp of A, those for 7500 shares had stamp of B and 15,000 of C

Determine the net liability of the underwriters.

i. Calculation of unmarked applications

Total application received	60,000
(-) marked application (A-15,000, B-7,500, C-15,000)	37,500
Unmarked application	<u>22,500</u>

ii. Statement showing net liability of underwriters

Particulars	A	B	C	Total
Gross Liability	37,500	18,750	18,750	75,000
(-)unmarked application	11,250	5,625	5,625	22,500

	26,250	13,125	13,125	52,500
(-) marked application	15,000	7,500	15,000	37,500
Liability	11,250	5,625	1,875	15,000
(-) Excess of 'C' (1875*2:1)	1,250	625	-	--
Net Liability	10,000	5,000		15,000

3. Adithya Co. Ltd was incorporated on 1.01.2014, issued a prospectus inviting applications for 5 lakhs equity shares of Rs.10 each. The whole issue was fully underwritten by A, B, C & D as follows A-2,00,000. B - 1,50,000 C-1,00,000 & D-50,000 shares.

Applications were received for 4,50,000 shares of which marked applications were as follows: A-2,20,000 , B - 1,10,000 , C - 90,000 , D-10,000 you are required to find out the Net liability of each underwriter and also calculate the commission received by each underwriters as per company's Act of 1956.

i. Calculation of unmarked applications

Total application received	4,50,000
(-) marked application	4,30,000
(2,20,000+1,10,000+90,000+10,000)	_____
Unmarked application	20,000

ii. Statement showing net liability of underwriters

Particulars	A	B	C	D	Total
Gross Liability	2,00,000	1,50,000	1,00,000	50,000	5,00,000
(-) unmarked application	8,000	6,000	4,000	2,000	20,000
	1,92,000	1,44,000	96,000	48,000	4,80,000
(-) marked application	2,20,000	1,10,000	90,000	10,000	4,30,000
Liability	-28,000	34,000	6,000	38,000	50,000
(-) Excess of 'A' (3:2:1*28,000)	--	14,000	9,333	4,667	--
(-) Excess of 'C' shared among 'B' & 'D' (3,333*3:1)	--	20,000	-3,333	33,333	--
		2,500		833	--
Net Liability	-	17,500	-	32,500	50,000

iii. Calculation of underwriters Commission

- A- 2,00,000*10*5%= Rs.1,00,000
 B- 1,50,000*10*5%=Rs.75,000
 C- 1,00,000*10*5%=Rs.50,000
 D- 50,000*10*5%Rs.25,000

4. A Company issued 1, 00,000 shares of Rs.10 each. The whole issue was fully underwritten by A, B, C & D as follows: A-40,000, B-30,000 C - 10,000 & D - 20,000 the company received applications for 90,000 shares of which marked applications were as follows. A-44,000, B-22,000, C-2,000 and D-18,000 shares. Determine the liability of each underwriter.

i. Calculation of unmarked applications

Total application received	90,000
(-) marked application	86,000
(44,000+22,000+2,000+18,000)	<hr/>
Unmarked application	4,000

ii. Statement showing net liability of underwriters

Particulars	A	B	C	D	Total
Gross Liability	40,000	30,000	10,000	20,000	1,00,000
(-) unmarked application	1,600	1,200	400	800	4,000
(4,000*4:3:1:2)	38,400	28,800	9,600	19,200	96,000
(-) marked application	44,000	22,000	2,000	18,000	86,000
Liability	-5,600	6,800	7,600	1,200	
(-) Excess of 'A'		2,800	933	1,867	
(5,600*3:1:2)		4,000	6,667	-667	
(-) Excess of 'C'	-	500	167		
(667*3:1)					
Net Liability	-	3,500	6,500	-	10,000

5. A company issued prospectus inviting applications for 3,50,000 equity shares of Rs.10 each the whole issue was fully underwritten by A, B, C & D as follows A-1,40,000 , B-1,05,000, C-70,000 & D-35,000 applications were received for 3,15,000 shares of which marked applications were as follows: A-1,54,000 B - 77,000 C - 63,000 & D-7,000 Determine the Net liability of each underwriter.

i. Calculation of unmarked applications

Total application received	3,15,000
(-) marked application	3,01,000
(1,54,000+77)	<hr/>
Unmarked application	14,000

ii. Statement showing net liability of underwriters

Particulars	A	B	C	D	Total
Gross Liability	1,14,000	1,05,000	70,000	35,000	3,50,000
(-) unmarked application	5,600	4,200	2,800	1,400	14,000
(14,000*4:3:2:1)	1,34,400	1,00,800	67,200	33,600	3,36,000
(-) marked application	1,54,000	77,000	63,000	7,000	3,01,000
Liability	-19,600	23,800	4,200	26,600	
(-) Excess of 'A'		9,800	6,533	3,267	
(19,600*3:2:1)		14,000	-2333	23,333	
(-) Excess of 'C' (2333*3:1)		1,750		583	
Net Liability		12,250		22,750	35,000

6. ABC company issued 1,00,000 equity shares of Rs.10 each. The whole issue was fully underwritten by the following underwriters. A -35,000 B-30,000 C-20,000 D-10,000 E-3,000 F-2,000. The application forms marked by the underwriters were A-10,000 B-22,500 C-20,000 D-7,500 E-5,000 F-Nil.

Application for 20,000 shares were received as unmarked. You are required to find out Net liability of underwriters.

→ **Statement showing net liability of underwriters**

Particular	A	B	C	D	E	F	Total
Gross Liability	35,000	30,000	20,000	10,000	3,000	2,000	1,00,000
(-) unmarked application (20,000*35:30:20:10:3:2)	7,000	6,000	4,000	2,000	600	400	20,000
(-) marked application	28,000	24,000	16,000	8,000	2,400	1,600	80,000
(-) Excess of (C+E) (6,600*35:30:10:2)	10,000	22,500	20,000	7,500	5,000		65,000
(-) Excess of (B+D)	18,000	1,500	-4,000	500	-2,600	1,600	15,000
(-) Excess of (C+E) (6,600*35:30:10:2)	3,000	2,571	-	857	-	172	-
(-) Excess of (B+D) (1428-35:2)	15,000	-1,071	-	-357	-	1,428	
(-) Excess of (B+D) (1428-35:2)	1,351	-	-	-	-	77	
Net Liability	13,649	-	-	-	-	1,351	15,000

7. A Public limited company with a capital of Rs.10,00,000 divided into equity share of Rs.10 each, places its entire issue in the market. The whole issue has been underwritten as follows: A-30,000 B-35,000 C-10,000, D-15,000 E-2,000 F-8,000. The application received on the forms marked by the underwriters are: A-25,000 B-23,500 C-6,500, D-1,000 E-2,000 F-7,000.

20,000 equity shares were received as unmarked applications calculate the liability of each underwriters.

→ **Statement showing net liability of underwriters**

Particular	A	B	C	D	E	F	Total
Gross Liability	30,000	35,000	10,000	15,000	2,000	8,000	1,00,000
(-) unmarked application (20,000*30:35:10:15:2:8)	6,000	7,000	2,000	3,000	400	1,600	20,000
(-) marked application	24,000	28,000	8,000	12,000	1,600	6,400	80,000
(-) marked application	25,000	23,500	6,500	1,000	2,000	7,000	65,000
(-) Excess of (A+E+F) (2000*35:10:15)	-1,000	4,500	1,500	11,000	-400	-600	15,000
(-) Excess of (A+E+F) (2000*35:10:15)	-	1,167	333	500	-	-	
Net Liability	-	3,333	1,167	10,500	-	-	15,000

8. A public issue of 10,000 shares of Rs.10 each were offered by a company. These shares were underwritten as follows: A-7,000 B-3,000 the public applied for 8,000 Shares which include marked applications of A-5,000 B-2,000 determine the liability of A & B if unmarked shares were apportioned to underwriters on the basis of (a) Gross Liability (b) Remaining Liability.

i. Calculation of unmarked applications

Total applications received	8,000
(-)Marked applications (5,000+2,000)	7,000
Unmarked application	<u>1,000</u>

a. Statement showing Net Liability of underwriter

Particulars	A	B	Total
Gross Liability	7,000	3,000	10,000
(-)unmarked application (1,000*7:3)	700	300	1,000
(-) marked application	6,300	2,700	9,000
	5,000	2,000	7,000
Net Liability	1,300	700	2,000

b. Statement showing Net Liability of underwriter (remaining liability)

Particulars	A	B	Total
Gross Liability	7,000	3,000	10,000
(-)marked application	5,000	2,000	7,000
(-) unmarked application (1,000*2:1)	2,000	1,000	3,000
	667	333	1,000
Net Liability	1,333	667	2,000

9. X company Ltd. Was incorporate with a capital of Rs.10,00,000 divided into shares of Rs.10 each. The whole issue was underwritten by the underwriters as follows : M-35,000 N-30,000 O-20,000 P-10,000 Q-3,000 R-2000.

All the marked application forms were to go in relief of the underwriters whose names choose. The following application forms were marked by the underwriters : M-10,000 N-22,500 O-20,000 P-7,500 Q-5,000 R-Nil.

Application for 20,000 shares were received as unmarked applications. prepare a statement showing the number of shares each underwriter had to take up.

→ **Statement showing underwriters liability**

Particular	M	N	O	P	Q	R	Total
Gross Liability	35,000	30,000	20,000	10,000	3,000	2,000	1,00,000
(-)marked application	10,000	22,500	20,000	7,500	5,000	-	65,000
	25,000	7,500	-	2,500	-2000	2,000	35,000
Excess of Q is diotr. Among (M,N,P,R) (2,000*35:30:10:2)	909	779	-	260	-	52	
	24,091	6,721	-	2,240	-	1,948	35,000
(-) unmarked application (20,000*35:30:10:2)	9,091	7,792	-	2,597	-	520	25,000
	15,000	-1,071	-	-357	-	1,428	15,000
(-)Excess of (N+P) (1,428*35:2)	1,351	-	-	-	-	77	
Net Liability	13,649					1,351	15,000

10. A company issued 80,000 shares of Rs.10each at a premium of 20% 'A' underwriter underwriters 80% of the issue. The company receives applications for 75% of the issue of which 40,000 application had the rubber stamp of Mr.A Underwriters commission in 4% of the issue price. Determine the liability of Mr.A and calculate the Underwriting commission.

i. Calculation of Co's share

$$\begin{aligned}
 \text{Co's share} &= \text{Total issue} - \text{underwriters share} \\
 &= 80,000 - (80,000 * 80\%) \\
 &= 80,000 - 64,000 \\
 &= 16,000
 \end{aligned}$$

ii. Calculation of unmarked applications

Total applications received (75% of 80,000)	60,000
(-)Marked applications of 'A'	40,000
Unmarked application	20,000

iii. Statement showing Net Liability of underwriter

Particulars	A	Company	Total
Gross Liability	64,000	16,000	80,000
(-)unmarked application	-	20,000	20,000
	64,000	-4,000	60,000
(-) surplus of company distributed to underwriter 'A'	4,000	-	-
	60,000	-	60,000
(-) marked application	40,000	-	60,000
		-	40,000
Net Liability	20,000		20,000

iv. Calculation of underwriters commission.

Gross liability of 'A' * issue price * Roc issue price = Rs.10 + 20% of premium
= 10 + 2 = 12

$$64,000 * 12 - 4\% = 30,720$$

11. 'H' Ltd issued 20,000 equity shares of Rs.100 each 80% of the issue was underwritten star brother's. Applications for 15,000 shares were received in all out of which 10,000 shares were marked. Determine the liability of Tsar Brother's and also the commission as per law (Act of 1956)

→ **i. Calculation of Co's share**

Co's share = Total issue - underwriters share
= 20,000 - (20,000 * 80%)
= 20,000 - 16,000
= 4,000

ii. Calculation of unmarked application

Total application received 15,000
(-) Marked application 10,000
Unmarked shares 5,000

iii. Calculation of star brothers commission

Issue price = 100 share
Gross liability * issue price * Roc (as per Co's act 1950)
= 16,000 * 100 * 5%
= Rs. 80,000

iv. Statement showing Net liability

Particulars	Star brother	Company	Total
Gross Liability	16,000	4,000	20,000
(-) unmarked application	-	5,000	5,000
	16,000	-1,000	15,000
(-) surplus of company distributed to star brothers	1,000	-	-
	15,000	-	15,000
(-) marked application	10,000	-	10,000
Net Liability	5,000		5,000

12. X company Ltd. Issued 1,00,000 shares of Rs.10 each. 60% of the issue was underwritten by A & B in the ration of 3:2 application for 80,000 shares were received in all out of which marked applications were A-25,000 B-12,000 determine the liability of underwriters and also commission payable as per SEBI (25%)

→ **i. Calculation of Co's share**

Co's share = Total - underwriters share
= 1,00,000 - (60% * 1,00,000)
= 1,00,000 - 60,000
= 40,000/-

ii. Calculation of unmarked application

Total application received	80,000
(-) Marked application (25,000+12,000)	37,000
Unmarked shares	<u>43,000</u>

iii. Statement showing Net liability

Particulars	A	B	Company	Total
Gross Liability	36,000	24,000	40,000	1,00,000
(-) unmarked application	-	-	43,000	43,000
	36,000	24,000	-3,000	57,000
(-) surplus of company distributed to underwriters (3,000*3:2)	1,800	1,200	-	
	34,200	22,800	-	57,000
(-) marked application	25,000	12,000	-	37,000
Net Liability	9,200	10,800		20,000

iv. Calculation of underwriters commission as per SEBI

$$A- 36,000 \times 10 \times 2.5\% = 9,000$$

$$B- 24,000 \times 10 \times 2.5\% = 6,000$$

13. A company issued 40,000 shares of Rs.10 each for public subscription.

Underwriters	% of Shares underwritten	Marked application
P	25% of issue	5,000
Q	30% of issue	6,000
R	40% of Issue	4,000

The company received application for 30,000 shares ascertain the net liability of each underwriters.

$$\rightarrow P- 40,000 \times 25\% = 10,000$$

$$Q- 40,000 \times 30\% = 12,000$$

$$R- 40,000 \times 40\% = 16,000$$

$$\underline{38,000}$$

i. Calculation of Co's share

$$\begin{aligned} \text{Co's share} &= \text{Total share} - \text{underwriters share} \\ &= 40,000 - 38,000 \\ &= 2,000 \end{aligned}$$

ii. Calculation of unmarked applications:

Total application received	30,000
(-) Marked application (5,000+6,000+4,000)	<u>15,000</u>
Unmarked shares	<u>15,000</u>

iii. Statement showing Net liability

Particulars	P	Q	R	Company	Total
Gross Liability	10,000	12,000	16,000	2,000	40,000
(-)unmarked application	-	-	-	15,000	15,000
(-) surplus is distributed among P,Q & R (13,000*5:6:8)	10,000	12,000	16,000	-13,000	25,000
	3,421	4,105	5,474	-	
(-) marked application	6,579	7,895	10,526	-	25,000
Net Liability	5,000	6,000	4,000		15,000
	1,579	1,895	6,526		10,000

14. A company issued 1,00,000 shares of Rs.10 each. These shares were underwriters as follows X-30,000 Y-50,00 the public applied for 70,000 shares Determine the liability of X & Y.

→ **i. Calculation of Co's share**

$$\begin{aligned} \text{Co's share} &= \text{Total issue} - \text{underwriters share} \\ &= 1,00,000 - (30,000 + 50,000) \\ &= 1,00,000 - 80,000 \\ &= 20,000 \end{aligned}$$

ii. Calculation of marked & unmarked applications.

$$\begin{aligned} \text{Marked application of X} &= 70,000 * 3/10 \\ &= 21,000 \end{aligned}$$

$$\begin{aligned} \text{Marked application of Y} &= 70,000 * 5/10 \\ &= 35,000 \end{aligned}$$

$$\begin{aligned} \text{(-) unmarked application Co} &= 70,000 * 2/10 \\ &= 14,000 \end{aligned}$$

Note: in the absence of marked application the total subscription is divided among the underwriters & the Co's in their gross liability ration. The co's share is treated as unmarked applications.

iii. Statement showing underwriters liability

Particulars	X	Y	Company	Total
Gross Liability	30,000	50,000	20,000	1,00,000
(-)unmarked application	-	-	14,000	14,000
(-) marked application	30,000	50,000	6,000	86,000
Net Liability	21,000	35,000	-	56,000
	7,000	15,000	6,000	30,000

15. Popular Ltd issued 40,000 shares of Rs.10each for Public Subscription. The issue was underwritten as follows: Sriram – 25%, Raghu-30%, Tilak-25% the company received a total of 28,000 application of which marked application are follows : Sriram -8,000, Raghu-6,000 and Tilak-8,000. Determine the net liability of each underwriter.

i. Calculation of Co's share

$$\begin{aligned}\text{Co's share} &= \text{Total issue} - \text{underwriters share} \\ &= 40,000 - (10,000 + 12,000 + 10,000) \\ &= 40,000 - 32,000 \\ &= 8,000\end{aligned}$$

ii. Calculation of unmarked application

Total application received	28,000
(-) marked application (8,000+6,000+8,000)	<u>22,000</u>
	6,000

iii. Statement showing Net liability

Particulars	S	R	T	Company	Total
Gross Liability	10,000	12,000	10,000	8,000	40,000
(-) unmarked application	-	-	-	6,000	6,000
(-) marked application	10,000 8,000	12,000 6,000	10,000 8,000	2,000 -	34,000 22,000
Net Liability	2,000	6,000	2,000	2,000	12,000

16. Neeraj Ltd issued 10,000 shares of rs.10 each at a premium of 10% these shares were underwritten by the underwriters as follows: J-5000 K-3000. The applications received by the company were 8000 shares of which the marked applications were J-3600 K-900 shares calculate underwriters commission as per law and also prepare statement of underwriters Net liability.

→ i. Calculation of Co's share

$$\begin{aligned}\text{Co's share} &= \text{Total issue} - \text{underwriters share} \\ &= 10,000 - (5,000 + 3,000) \\ &= 10,000 - 8,000 \\ &= 2,000\end{aligned}$$

ii. Calculation of unmarked applications:

Total application received	8,000
(-) marked application (3,600+900)	<u>4,500</u>
	3,500

iii. Statement showing Net liability

Particulars	J	K	Company	Total
Gross Liability	5,000	3,000	2,000	10,000
(-) unmarked application	-	-	3,500	3,500
(-) surplus is distributed to J&K (1,500*5:3)	5,000 937	3,000 563	-1,500 -	6,500
(-) marked application	4,063 3,600	2,437 900	- -	6,500 4,500
Net Liability	463	1,537		2,000

iv. Calculation of commission of underwriters as per law:-

$$\begin{aligned} J &= 5,000 * 5\% * 11 \\ &= 2,750 \end{aligned}$$

$$\begin{aligned} K &= 3,000 * 5\% * 11 \\ &= 1,650 \end{aligned}$$

