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*The Reliance Power bonus proposal has been the talking point this week. The question that has cropped up is: Can a company selectively issue bonus shares to a group of shareholders? We sounded out some experts, and here's what they have to say.*



**Kartik Ganapathy, Head of Corporate and Securities Practice, Nishith Desai Associates**

THE plain reading of the law seems to suggest that unlike a rights issue of shares, which gives the shareholders a right to subscribe to or reject the offer shares in a company, a bonus issue is a benefit provided to a shareholder and is not construed as a right available to a shareholder which can be renounced/waived. However, there are counter views that since the current corporate and securities laws do not prohibit such a waiver, it may be possible for a shareholder to waive his right to get bonus shares, as long as necessary approvals are obtained from the shareholders, and such a waiver is not against the interest of the company or shareholders. Additionally, under the Companies Act, 1956, dividends, which have been unclaimed by shareholders, have to be transferred by the company to "unclaimed dividend account" to be opened by the company on that behalf. With respect to bonus shares, depending upon the resolutions passed in this regard, if a shareholder decides to waive his bonus shares, then the free reserves/security premium account of the company would not be capitalised to that extent.



**Akil Hirani, Managing Partner, Majumdar & Co**

A BONUS issue cannot be made selectively. It has to be made to all shareholders of a public company. However, as a bonus issue will be governed by the Companies Act, 1956, a shareholder has the right to renounce any bonus shares offer to him in favour of any other person. The law does not specify what happens if the person in whose favour the shares are renounced also renounces them. Presumably, this will be governed by the articles of association of the company. As such, if the articles provide that a company can cancel renounced shares and issue only so many bonus shares as are accepted by its shareholders, then such an issue is workable. Moreover, renunciation of bonus shares in favour of a third person or the eventual cancellation of such bonus shares will not amount to transfer of shares under law and will not be construed as a share transfer restriction, which a public company cannot have in its articles. Finally, there is no question of foregoing any right to dividend if a shareholder is fine with foregoing his or her right to the shares of the company itself.



**RA Shah, Senior Partner, Crawford Bayley & Co**

A BONUS issue of shares is required to be approved by the shareholders of a company by an ordinary resolution at a general meeting convened for the purpose. I assume that there is a provision to this effect in the articles of association of Reliance Power. Any opposition a shareholder may have in respect of the bonus issue can and should be voiced at such a general meeting. Once a resolution for the bonus issue has been approved by the general body of shareholders, a shareholder cannot refuse to accept the bonus shares. This flows from principles of corporate democracy, under which as a general rule, the majority decision of the shareholders binds the minority. The question of refusal to accept bonus shares does not arise.