Investment in a company

- Factors to be taken into consideration while making an investment in a public limited company or private limited company

- Investment in Private and Unlisted public Company
- Investment in a Listed Public Company

Purchasing a stake by Individual and Company in into Another Company

This article explains the factors to be consider by an Individual and Company while investing in any another Company by purchasing its equity shares. The shares are purchased to get the maximum realization to our investment or to receive dividend income or to take control of management of that company. Investing in other company's capital is becomes risky when miss out to do due diligence of that company before investing. Due diligence helps us to take decision before investing as it gives us the clear idea whether we should move ahead with the investment or not. As it is famous saying of Benjamin Farnklin- ***"If you would be wealthy, think of saving as well as getting."*** This article will help you to think about the measures to be consider before investing in other company's Stock so that your hard earned money will also get the maximum realization value in future with the choice you made by investing at present.

- **Points to be remember before purchasing shares:**

1. Check company's last 3 to 5 years Balance Sheet, Profit and Loss Account, Cash Flow, annual report's and also the AOA and MOA. By checking this we will come to know the strength and weakness of the company. This information is available in public domain on Ministry of Corporate Affairs website we have to pay fees for inspection these documents and Annual reports are available on Company's website which shares we want to purchase, if it is listed company then we can also get the annual report form BSE or NSE website. Links are given below;

   http://www.mca.gov.in/, https://www.bseindia.com/, https://www.nseindia.com

2. Check the Share Capital of the company and current holdings of the promoter and other stockholders' equity, which details the stock ownership of the company. This information is given in the notes to financial statements.

3. Purpose of investing in other Company's equity must be clear that whether investment is being made to take control of company or for any other purpose like to receive dividend or in order to get the growth for our investment.

4. Calculate the number of shares you must buy. If you want to take control of Company's management then you have to purchase 51 percent of the shares capital outstanding to take a majority ownership stake in the company. For instance, if there are 100 shares outstanding in a company you need to purchase 51 shares to claim majority ownership over assets.

5. If you want to buy shares of listed entity in Stock exchange then you should mandatorily need the D-mat account as those shares are traded online. If any individual or company wants to invest by purchasing shares of private limited company or unlisted public company then the other company must issue offer letter for offer to purchase of their shares on private placement. This can be done only by way of Preferential allotment of shares as per Section 62 along with Rule 13 of the Companies (Share Capital and Debentures) Rules, 2014 and Section 42 along with Rule 14 of the

Companies (Prospectus and Allotment of Securities) Rules, 2014 prescribes the procedure and provisions for preferential allotment of shares.

- **<u>INVESTMENT IN PRIVATE AND UNLISTED PUBLIC COMPANY:</u>**

In private company maximum shareholder can be 200 and for unlisted public company there is no such limit they can increase the shareholder till their authorised share capital of the company. If an Individual or Company wants to invest in the private and unlisted public company that can be done only when company want to raise fund through preferential allotment of shares as per section 62 along with Rule 13 of the Companies (Share Capital and Debentures) Rules, 2014 and Section 42 along with Rule 14 of the Companies (Prospectus and Allotment of Securities) Rules, 2014 prescribes the procedure and provisions for preferential allotment of shares.

While investing in private and unlisted public company one should check the complete background of the company such as;

- The company's assets and Liabilities.
- Company's capacity to survive in the competitive market.
- Company's vision or goals set by their promoter to achieve in coming financial years.
- Current Capital Investment.
- Reserves and Surplus.
- Debts on Company.

In short one should do the SWOT analysis of the company before investing into it and if it is a Start-up company give main attention on the product or service which they will provide in the market.

Case Study: The best example for you to understand is the story of Infosys Limited. It was found by N R Narayan Murthy and six other co-founders on 02nd July, 1981 in the name of Infosys Consultants Private Limited with the capital of US$ 250 and now the company has grown to become USD 11.8 Billion (F.Y. 2019 revenues) company with market capitalization of approximately US$ 47.7 billion. From private limited they have grown their business and have listed the company in Indian stock exchanges on BSE and NSE and not only this Infosys it is first Indian IT Company to be listed on NASDAQ. This shows us when founders of the company are visionary they can achieve success and the stake holders in such company's gets the maximum realization of the value of their investment.

- **<u>INVESTMENT IN LISTED COMPANY:</u>**

The company whose shares are traded in the stock exchange can be purchased by opening a D-mat account with the bank or any broking company. There are two Stock exchanges in India BSE and NSE the company whose shares are listed in the stock exchanges are available to individual or company to purchase the shares in the trading hours of the stock exchange. In BSE there is SENSEX in which there are 30 companies and in NSE there is NIFTY in which there are 50 companies. While Purchasing shares in Listed Companies one should diversify their portfolio in Large Cap, MID Cap and Small Cap Companies to the returns for their investment.

Points to be remember while making an investment in the Public Listed Company:

- First of all, Investor needs to check the business viability of the company i.e. whether the business of the company is practically feasible or not.
- Once we get satisfied with the business then needs to check whether the business of the company is going to generate the good amount of the revenue or not.
- Investor should check the track record of 3 to 5 years of the company whether the company is not under the litigation or company is ethically compliant and should not defraud its stakeholder.
- Director of the company is well worse in the business in which company is operating and having clear track record & not facing any litigation.
- If an investor is making investment than he should check the returns on the investment made whether the investment is generating profit or not.
- The sustainability of their product or Service and its demand in the market.
- Business of the company whether the business is seasonable or year-around.
- Whether the company is having monopoly in the market for their particular products.
- Company is having reputation in the market or having goodwill.
- Risk factors such as company is having contingent liability like facing a litigation which is likely to be against of the company for which company may lost its business or which is considerably too much risky.

Legal provision investors should check:

- If Investment made by a company then company should check the investment is within the limit given under the provision of the companies act, 2013
- Investor company should also be aware of the provision which gives authorisation to make investment in the company.
- Investor company should also check the authority is given under the AOA and MOA of the company if not then should amend the MOA and AOA of the company.
- When an investor company is making investment for the purpose of acquiring the company then it should check whether the acquisition of the company legally viable or not.

Following are the Challenges investors are facing:

- Lack of awareness whether the company is actually operating in the way it is showing on the paper because sometimes it is altogether upside-down.

- Lack of diligence while making an investment means investor is not checking the background of the company or its directors whether they are trustworthy or not.
- Some companies are not following ethical standards of the business that can make big trouble sometimes so not only the companies' compliance check but also directors due-diligence will be necessary for the purpose of making investment for long term or acquiring business of the company.
- Lack of awareness of capital market is one of the challenges which investors are facing.
- Our country is having very much complex and numerous law which need to be followed while making an investment in the company.

Disclaimer:

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