

# **RIGHTS ISSUE-** **Options available** **and modalities** **involved**



  
June 16, 2023

# **MODES OF RAISING CAPITAL**



Bonus  
Issue

QIP  
Issue

Preferenti  
al Issue

Rights  
Issue

Further  
Public  
Offering  
(FPO)



# Comparative

Parameters	FPO	Rights Issue	Preferential Issue	QIP Issue	Bonus Issue
Investors	Offer to Public	Existing Shareholders	Identified Investors	Identified Investors	Existing Shareholders
Pricing	Free Pricing	Free Pricing	As per ICDR	As per ICDR	N.A.
Lock-in	Yes- For Promoter Quota	No Lock-in	Yes	Yes	No
Fund Infusion	Yes	Yes	Yes	Yes	No
Shareholders Approval	Yes	No	Yes	Yes	Yes

# RIGHTS ISSUE

**Rights issue is an offering of rights:**

- to the **existing shareholders**;
- to gives them an **opportunity to buy additional shares** directly from the company;
- **generally, at a discounted price** rather than buying them in the secondary market.



Market trend:  
Quantum of  
Discount

Name of company	% Discount
PTC Industries	99.76
Mahindra and Mahindra Fin Services	78.22
Arvind Fashions	48.67
PVR Limited	26.92
Ajooni Biotech Limited	18.92
Compuage Infocom Limited	16.67
Som Distilleries and Breweries Limited	11.39
Mittal Life Style Limited	9.09
Gautam Gems Limited	2.74





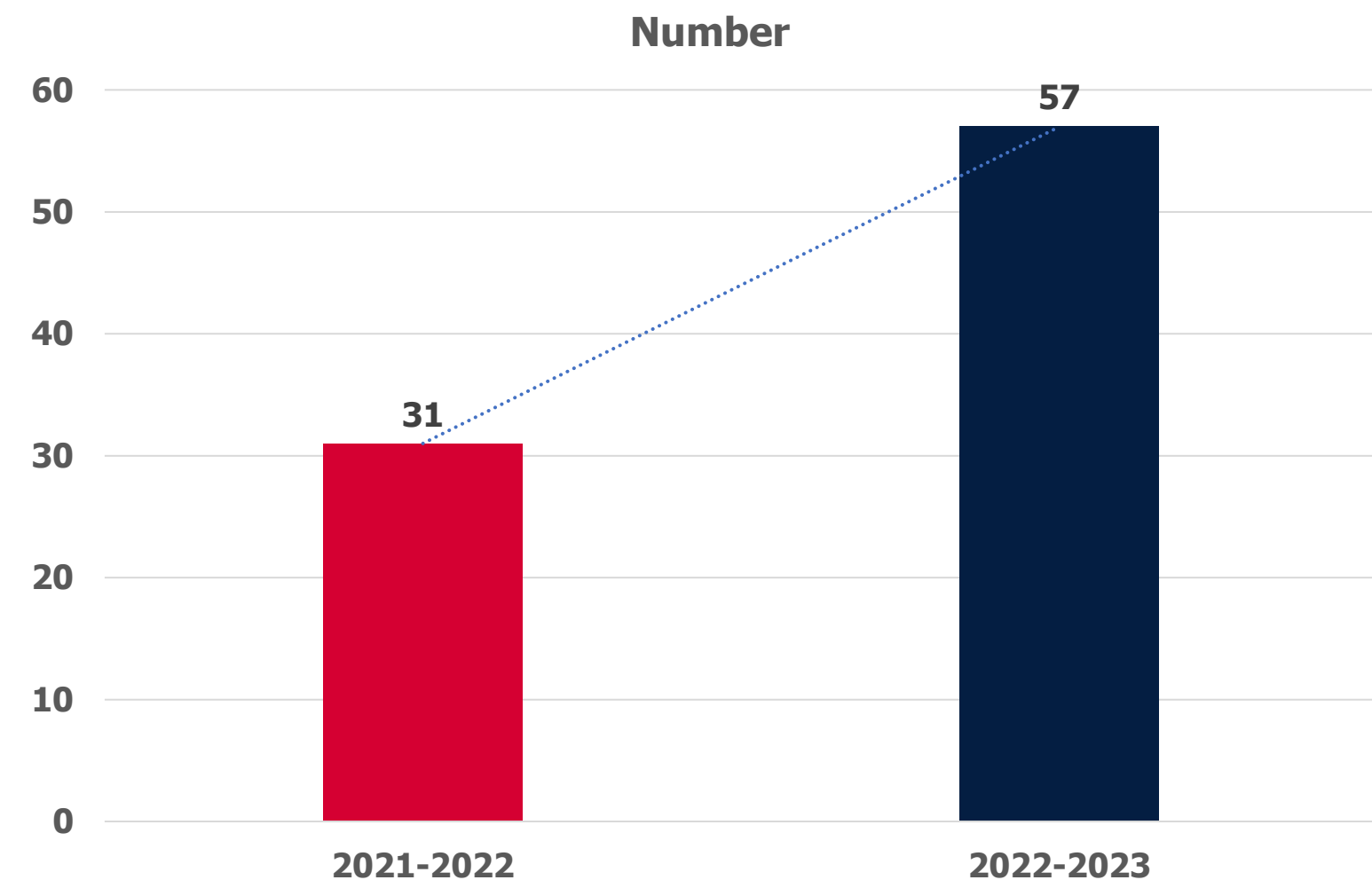
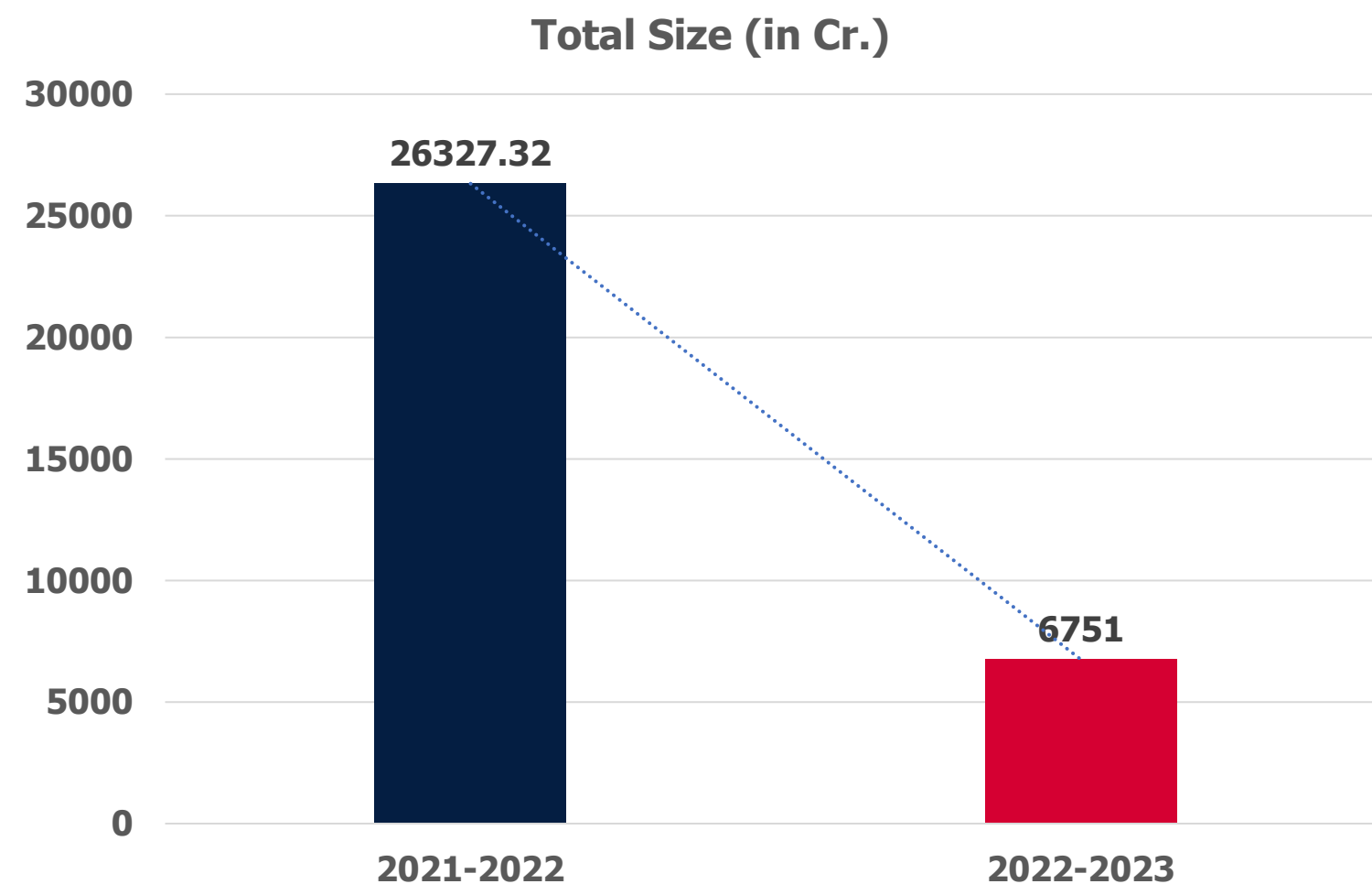
# KEY OBJECTIVES TO COME OUT WITH A RIGHTS ISSUE



- 🎯 **Fund raising for expansion, diversification, etc**
- 🎯 **To pay-off existing debt obligations;**
- 🎯 **To reward existing shareholders**
- 🎯 **To consolidate the holdings**



## Rights Issue: Funds Mobilization





# RIGHTS OFFERINGS – FRAMEWORK





# Regulatory Framework

1

Section 62 of the Companies Act

2

Chapter III of the ICDR Regulations

3

Insider Trading and Takeover Code

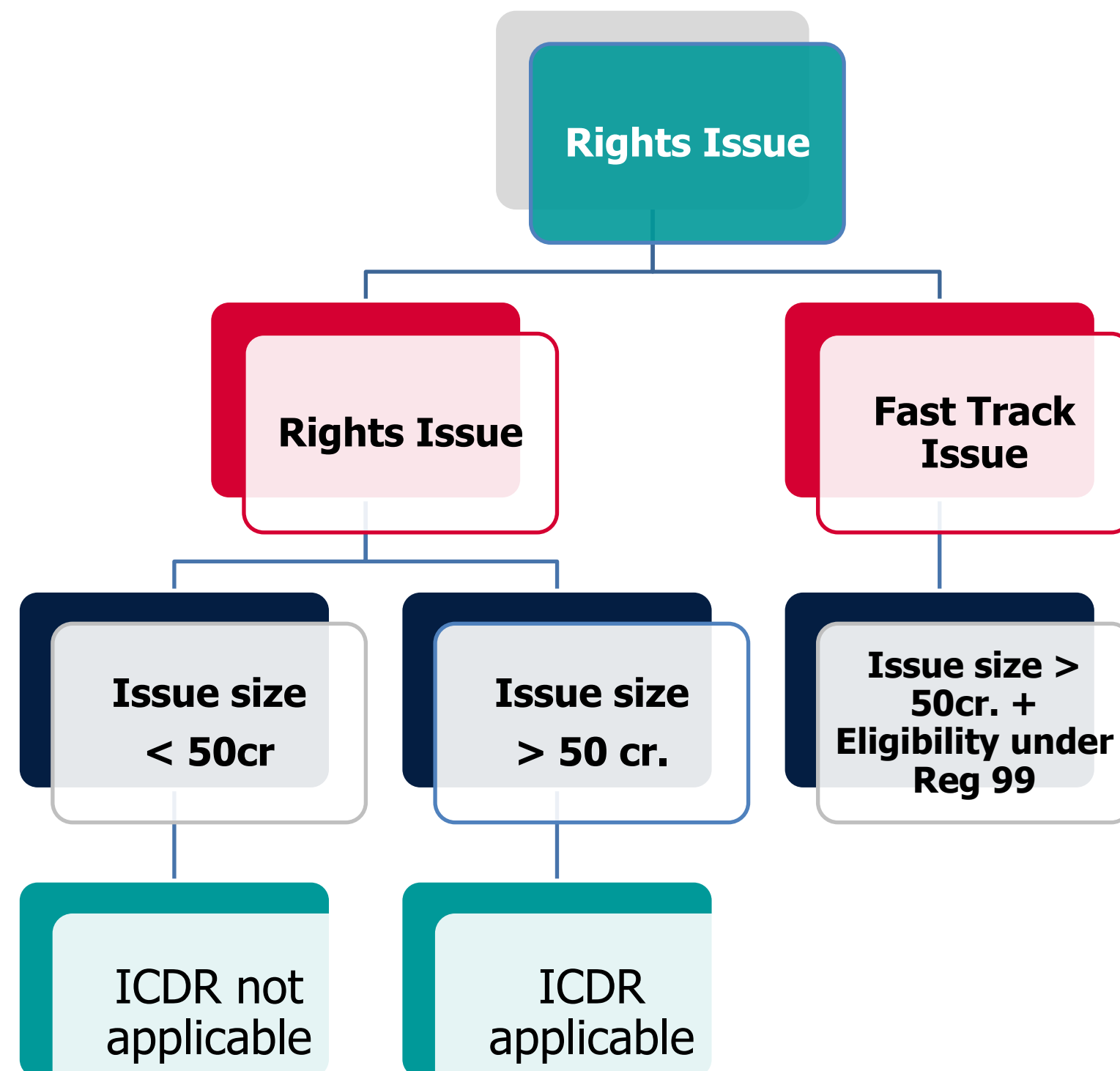
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FEMA



Right Issue under SEBI ICDR Regulations can be categorized as follows:

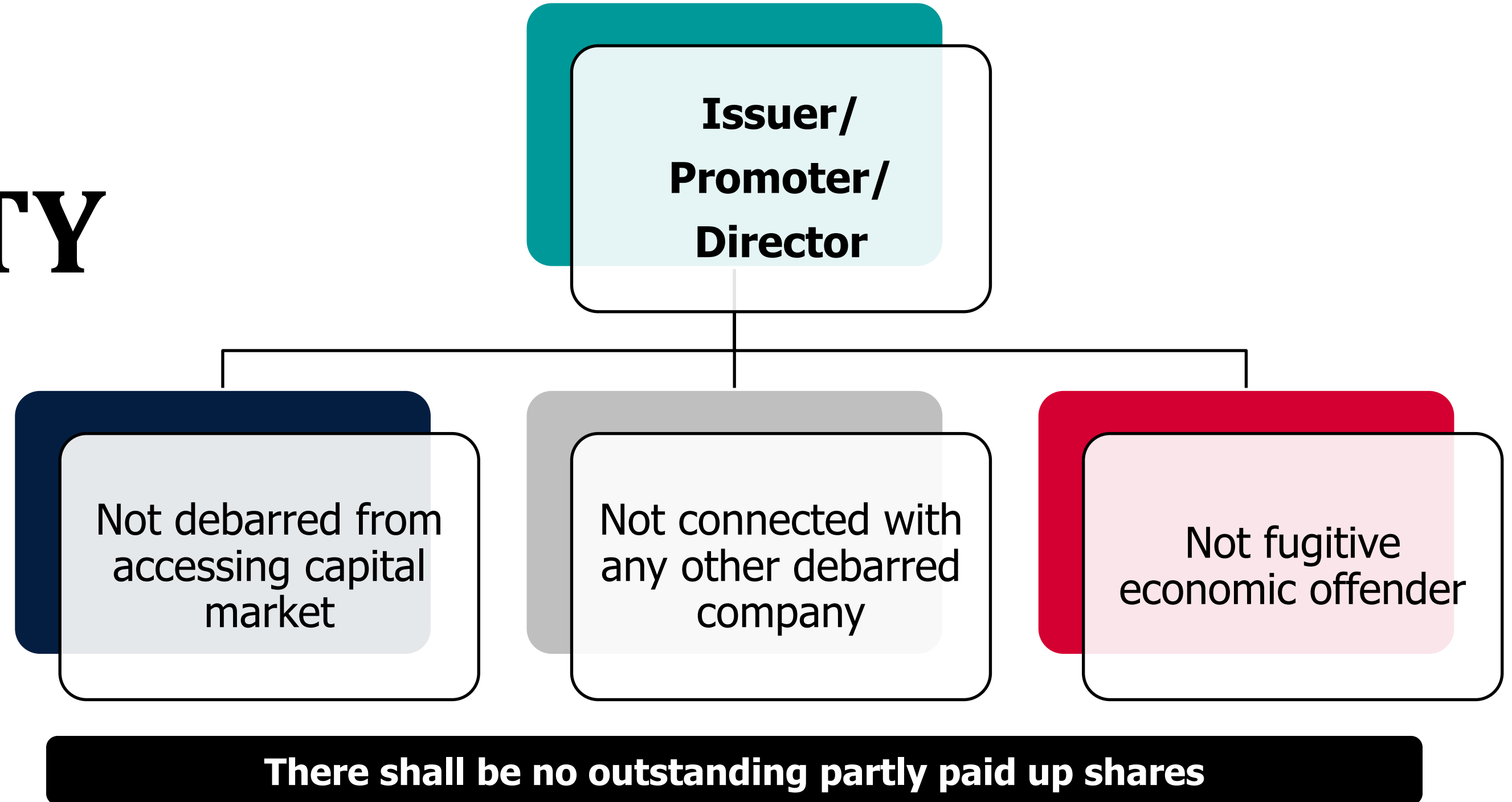
## Issue size and Eligibility criteria:



# RIGHTS OFFERINGS- ELIGIBILITY



# GENERAL ELIGIBILITY



If promoter or directors are willful defaulter: give disclosures in the LOF



## Rights Offerings – Eligibility

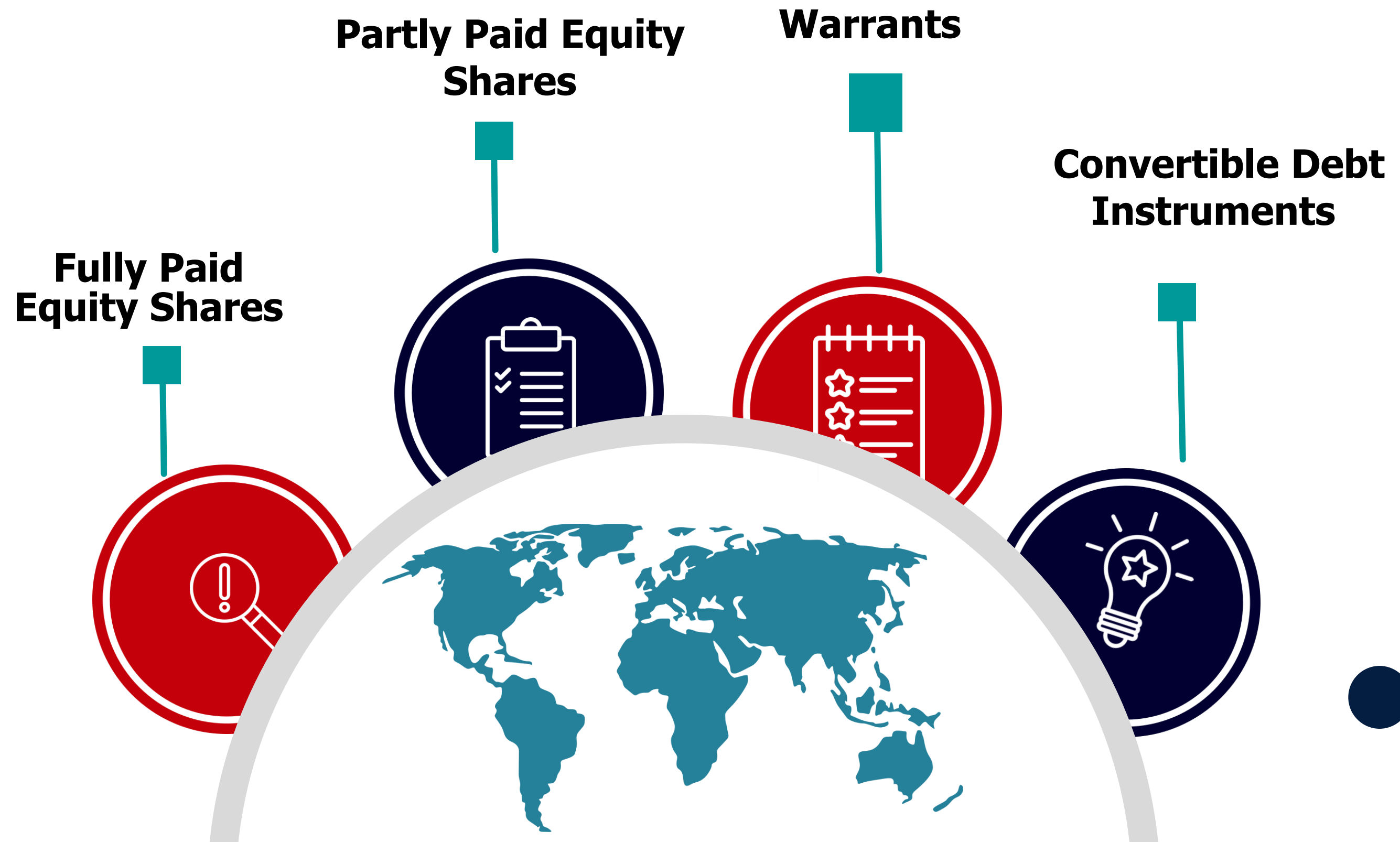
- ✓ Equity shares listed for 3 years
- ✓ 100% promoter shareholding in demat form
- ✓ Avg. Mkt. Cap of Public Shareholding: Min 250 cr.
- ✓ Annualised trading turnover of 6 months: 2% of listed share capital
- ✓ Annualised delivery based trading turnover of 6 months: 10% of annualized trading turnover
- ✓ Compliance with LODR for last 3 years
- ✓ No show cause notice issued & pending against issuer/promoters/directors
- ✓ Shares not suspended during last 3 years
- ✓ Promoters shall mandatorily subscribe their RE and shall not renounce

# FAST TRACK ISSUE RELATED ELIGIBILITY



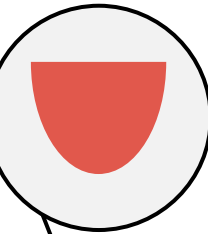


# INSTRUMENTS

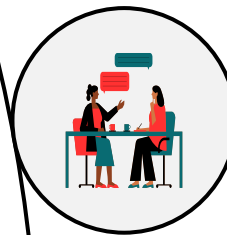


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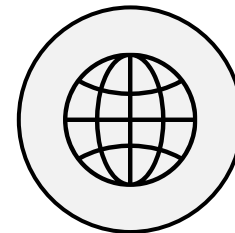
# Fully Paid Up Equity Shares



**100% consideration  
payable upfront**



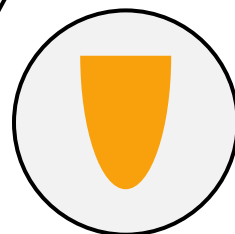
**Faster Completion, Less  
Hassles**



**Less investor complaints**



**Easy exit to investors**

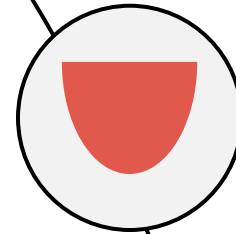


**No Separate ISIN required**

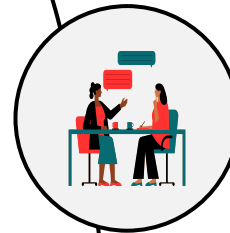


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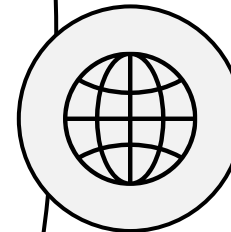
## Partly Paid-up Equity Shares



**Only 25% funds payable upfront. Bal in 12 months**



**No immediate increase in stake as per takeover code**



**Less complex as compared to Warrants**



**Trading in partly paid-up give easy exit from future obligation**

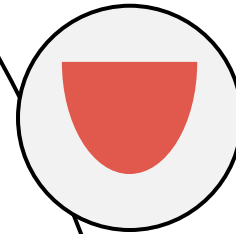


**Dividend payable proportionately**



3

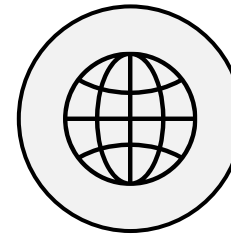
# Compulsorily Convertible Debentures



**100% fund infusion**



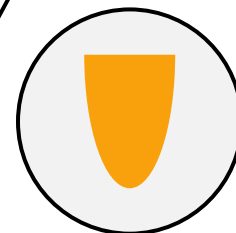
**No immediate increase in  
stake as per takeover code**



**Shareholders Approval  
required for Issue of CCDs**



**Listing & Trading of CCD**  
**Share Price of Equity  
remains unaffected**

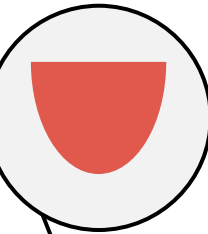


**Convertible into Equity  
Shares**



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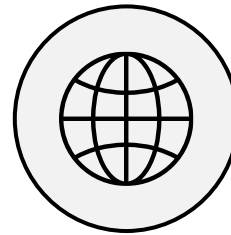
# Detachable Warrants



**Only 25% funds payable upfront. Bal in 18 months**



**No immediate increase in stake as per takeover code**



**Flexibility to exercise warrants by holder**



**Trading of Warrants**  
**Share Price of Equity remains unaffected**



**Foreign Resident cannot participate**





# Rights Offerings: Case Study



SHARE INDIA  
SECURITIES LIMITED

PAYMENT SCHEDULE FOR THE RIGHTS EQUITY SHARES			
Amount Payable per Rights Equity Share	Face Value (₹)	Premium (₹)	Total (₹)
100% on Application (A)	10	690	700

PAYMENT SCHEDULE FOR THE DETACHABLE WARRANTS	
Amount payable per Detachable Warrant	Total (₹)
On Application(B)	175
On Warrant Exercise	525
Total (₹)	700

Total Amount Payable on Application per Entitlement (₹) (A+B) (i.e. ₹700 for each Rights Equity Share and ₹2,975 for 17 Warrants @ ₹175 per Warrant)	3,675
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SHARE INDIA  
SECURITIES LIMITED

# Market Reaction on Warrants

Face Value	➡	700
Paid up value	➡	175
Issue open	➡	490
Current Market Price	➡	830



# OFFERING TO FOREIGN SHAREHOLDERS



# IMPLICATIONS UNDER FEMA

01

## Offer to Non-Resident shareholders

Rights Shares can be offered to 'NR'.  
At a price determined by the listed co.

02

## Renunciation between R and NR

- Allowed. RBI Approval not required.
- Provided within activities under Automatic Route.

03

## Mode of Payment

Can subscribe through ASBA under Rights Issue.

03

## US Citizen/ Other jurisdiction restricted as per local laws

Rights Shares or RE not offered in the United States.  
&  
Other Jurisdiction contravening local laws

**In all cases, PROI cannot make investment in Share Warrants under Rights Issue**



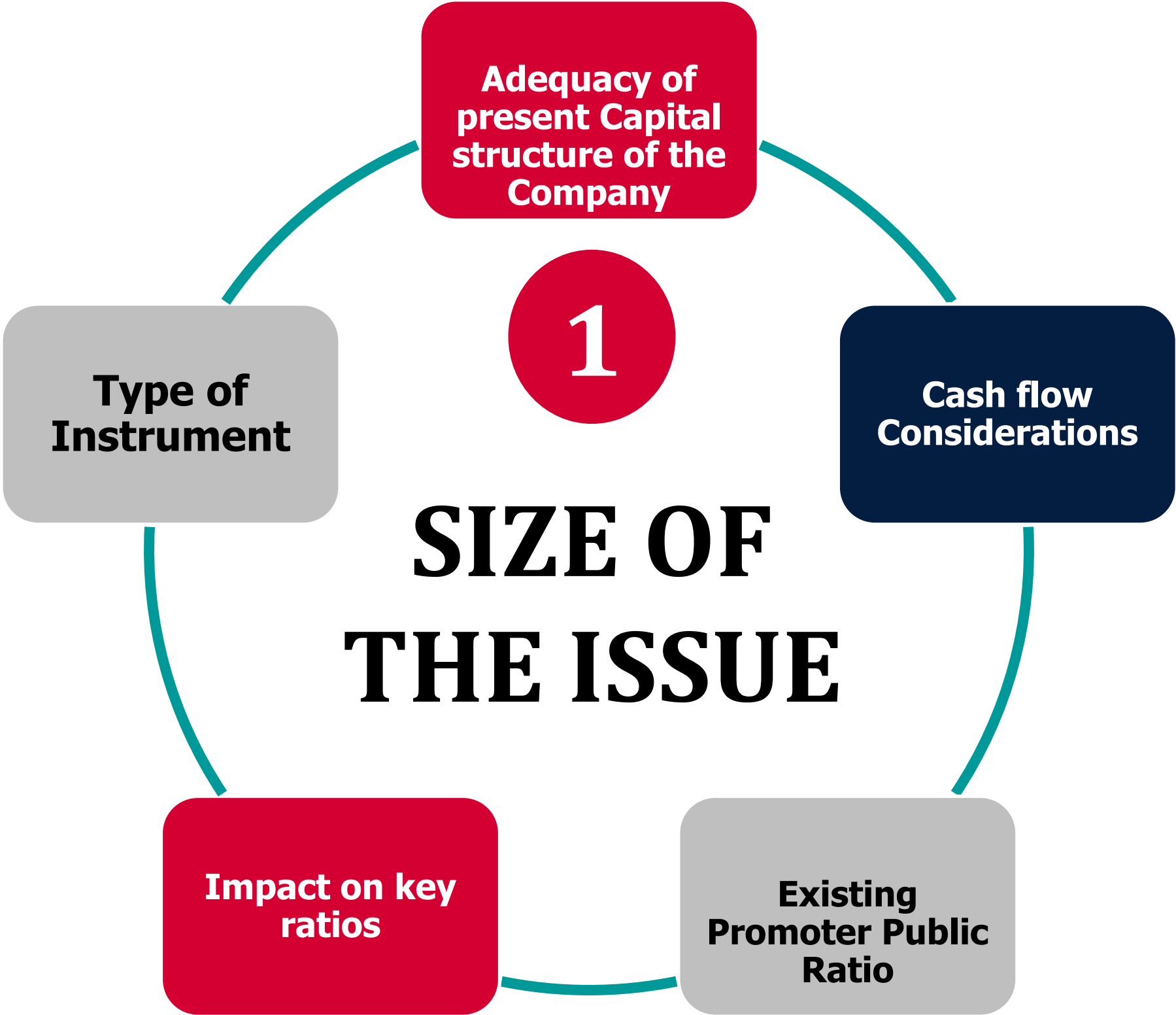


# PLANNING A RIGHTS- PRE-ISSUE CONSIDERATIONS





# PRE-ISSUE CONSIDERATIONS



2

## OBJECTS OF THE ISSUE

- Pre-Payment/ Repayment of Loans
- Investment in a joint venture or a subsidiary or an acquisition
- To grant a loan to an entity other than a subsidiary
- Long term working capital
- Land acquisition
- Project Finance
- Property
- Plant/ Equipment/ Technology/ Process etc.

75% of fund  
raised to be  
utilized towards  
Specific Purpose

25% of fund  
raised towards  
General  
Corporate  
Purpose



# Rights Issue: With their object

<b>Praxis Home Retail Ltd</b> ✓	<b>Shree Rama Multi-Tech Limited</b> ✓	<b>North Eastern Carrying Corporation Limited</b> ✓
To reduce the current liabilities by repaying of outstanding trade payables	Repayment of Borrowings & Redemption of NCDs	Construction & Development of Warehouse
<b>Enbee Trade &amp; Finance Limited</b> ✓	<b>Rushil Decor Limited</b> ✓	<b>Amal Limited</b> ✓
Repayment of unsecured loans availed from Promoter Group	Repayment of unsecured loans availed from Promoter Group	Investment in Wholly Owned Subsidiary, for repayment of borrowings by such WOS



3

# PRICE DETERMINATION

To be determined in  
consultation with MB

Not Regulated, Generally at a  
discount from the running  
Market Price

Can it be higher than the  
running MP?

Rights Exercise Price < Ex-  
Rights Price [To claim Takeover  
Exemption]



# APPROVALS

## Regulatory Approvals

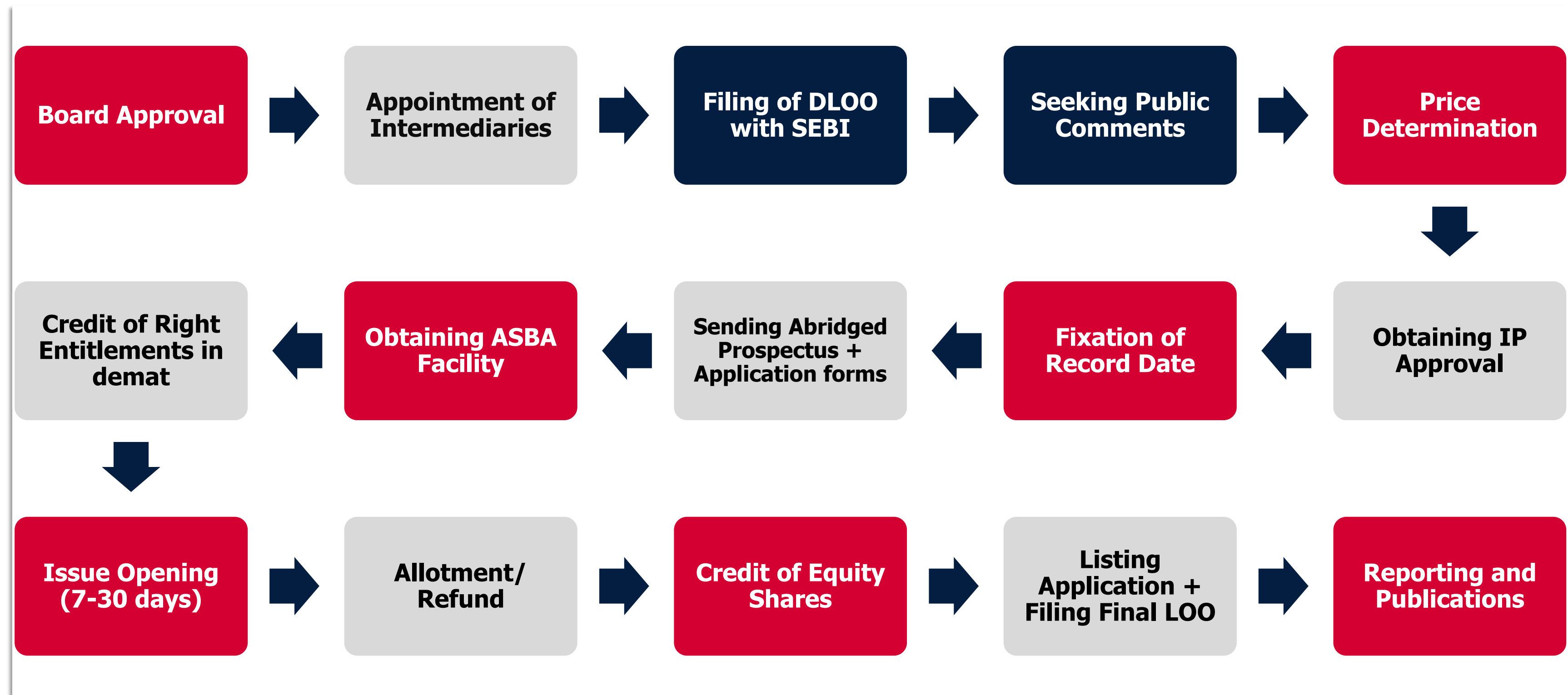
1. In-Principle Approval
2. SEBI Approval for DLOF
3. Basis of Allotment
4. Listing & Trading Approvals
5. SEBI Exemption (if applicable)

## Corporate Approvals

1. Issue Size & Issue Price
2. Entitlement Ratio
3. Object of Issue
4. Type of security
5. Record Date
6. Consent from Lenders
7. Allotment



# Corporate approvals and actions



The entire process takes appx. 3 to 4 months





# INTERMEDIARIES

	Lead Manager (Merchant Banker)
■	Self- Certified Syndicate Banks
■	Bankers to the issue/ Collection Centres
■	RTA
■	Compliance Officer: Responsible for monitoring the compliance of the securities laws and for Redressal of investors' grievances
■	Printers
■	Advertising Agencies
■	Underwriters [Optional]
■	Monitoring Agency: If issue > Rs. 100 cr.



# TRANSACTION AGREEMENTS



**Issue agreement**



**Escrow Agreement**



**Share escrow agreement**



**Registrar Agreement**



**Monitoring agency agreement**



4

## PROMOTER'S PARTICIPATION & OPEN OFFER TRIGGERING

Entitled to acquire shares in proportion of their existing shareholding



Apply for and Acquire shares over and above their entitlement



The Acquirer has **not renounced** his entitlement



**Rights Exercise Price < Ex-Rights Price**



**ACQUISITION > 5% in ONE FY [3(2)]:**

**TAKEOVER EXEMPTION → Reg. 10(4)(b) of SEBI SAST Regulations**

**ACQUISITION > 25% [3(1)]:**

***NO TAKEOVER EXEMPTION***



## DISCLOSURE

Disclosure: **Schedule VI** of the ICDR Regulations

### Part B –

Rationalized disclosures  
(compliance with certain  
conditions)

- Comply with LODR for last 1 year.
- Such compliances shall be available on the website.
- Issuer shall have investor grievance-handling mechanism.

### Part B1 –

Akin to IPO disclosures  
(extensive disclosure)

- Change in management in last 3 years.
- Equity shares are listed pursuant to Scheme of Arrangement in last 3 years.



➔ The issuer is a listed company: Degree of Information in Public Domain

6

DISCLOSURE

Disclosure: **Schedule VI** of the ICDR Regulations

Part B –

Part B1

<ul style="list-style-type: none"><li><input type="checkbox"/> Risk Factors</li><li><input type="checkbox"/> Capital Structure</li><li><input type="checkbox"/> Object of the issue</li><li><input type="checkbox"/> Expenses of the issue</li><li><input type="checkbox"/> Statement of tax benefits</li><li><input type="checkbox"/> Details of Board &amp; KMP</li><li><input type="checkbox"/> Financial statements</li><li><input type="checkbox"/> Proforma financial statements</li><li><input type="checkbox"/> Outstanding litigation and defaults</li></ul>	<ul style="list-style-type: none"><li><input type="checkbox"/> <b>Restated Financial statements</b></li><li><input type="checkbox"/> <b>Capitalization statements</b></li><li><input type="checkbox"/> <b>Stock market data</b></li></ul>
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**7**

**MINIMUM  
SUBSCRIPTION**

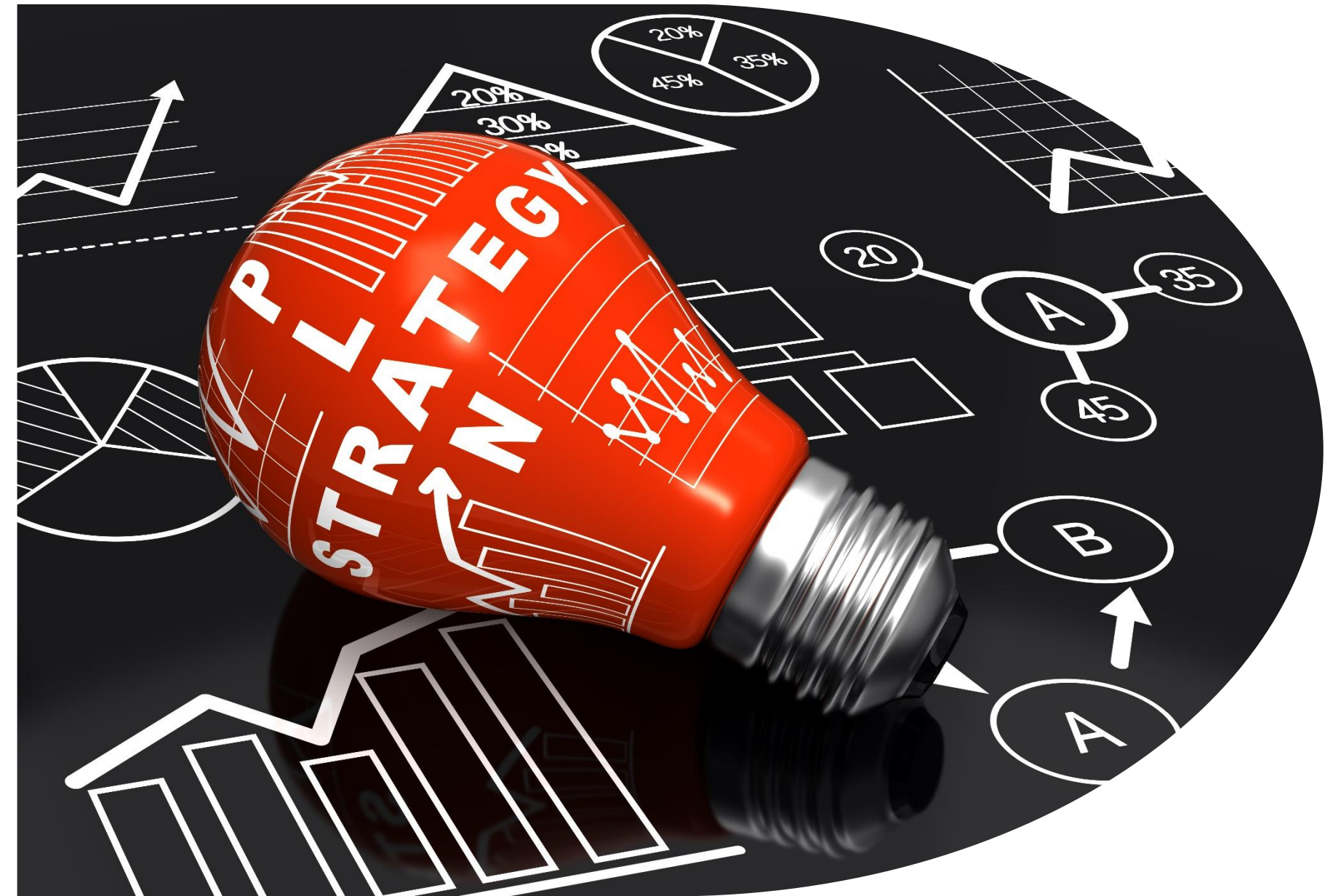
If object of the issue is:	
Capital Expenditure	Other than Capital Expenditure
↓	↓
Minimum Subscription: <b>90%</b> of Issue Size	Minimum Subscription not applicable

Fund Utilization [Reg 62(2)]	75% of funds raised towards specific purpose
	25% of funds raised towards General Corporate Purpose





# RIGHTS OFFERINGS –CONSIDERATIONS DURING THE ISSUE



# **1** Rights Entitlement (RE)

RE are credited (with a separate ISIN) to the shareholders' Demat A/c, before issue opening.

Shareholders with Demat RE can renounce their entitlement by trading on-market as well as off-market.

The transferees of RE can apply for shares in the Rights Issues

The trading of RE is closed 3 working days prior to the issue closing days.



2

## Further Issuance of Shares during the Offer

Restriction on further capital issues either by way of Preferential Issue, QIP issue, Bonus issue etc.

Exception: Shares allotted pursuant to Employee Stock Option Scheme



3

# Renunciation of RE by the Promoters

## In Normal Rights Issue

- Can be Renounced in favour of Other Promoters
- + Other Than Promoters as well

## In Fast Track Issue

- Renunciation allowed **ONLY WITHIN** the Promoter Group



4

# Reporting of Transactions by Promoter Group

All transactions by Promoter & Promoter Group between filing of LOF till closure of issue

To be reported to Stock Exchanges within 24 hrs.



**5**

# Investor's Grievance

**Investor's Interest is Supreme**

**Interest of Foreign Shareholders**

**Interest of Shareholders holding physical**

**Investors' complaints to be resolved, FAQs to be provided**





## DEALING WITH UN- SUBSCRIBED PORTION



**Promoters can subscribe to all the unsubscribed shares**  
in the Issue, s.t. prior disclosure of the intent in the Offer Document.



May be offered by the BOD to whomsoever, it deems fit.

**(Only eligible shareholders/  
Renouncees)**




# IMPLICATIONS UNDER THE INSIDER TRADING REGULATIONS



Subscription to Rights Issue  
exempt from Trading Window  
restrictions



Contra Trade Restriction- Shall not  
apply in Rights Issue



Post Rights-Subsequent sale of  
share within 6 months will be  
treated as Contra



# To Sum-up

# A TWIN WIN STRATEGY

## SHAREHOLDERS INTEREST \*

Gives Equal Opportunity to All Shareholders to participate

No Preferential Treatment

Keeping interest of Institutional Investors

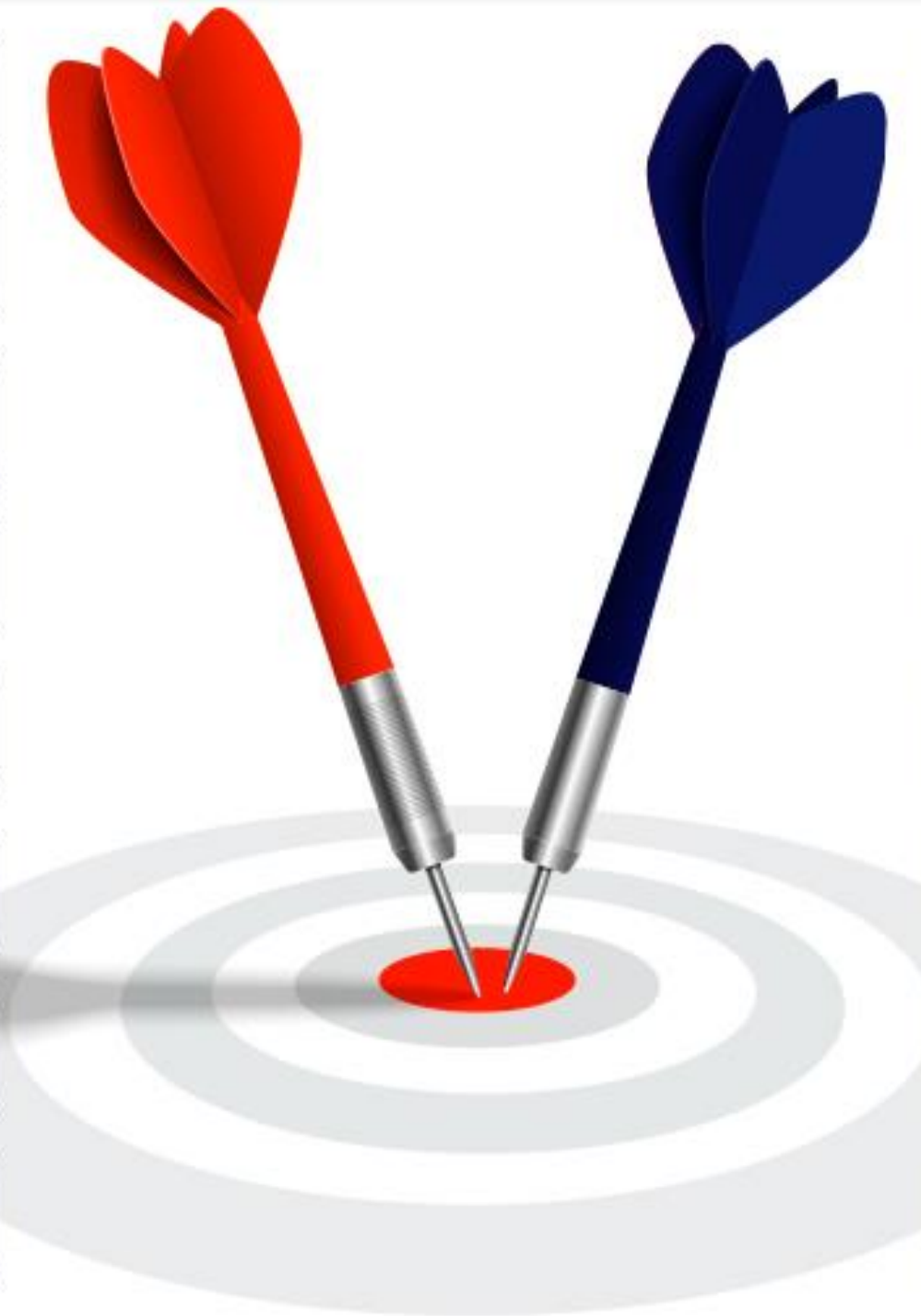
Attractive Pricing, generally at a discount from Market Price

Wider Disclosures

Trading of Rights Entitlement

Payment obligation arises in tranches for partly paid shares & warrants

The Rights Issue Warrants / CCDs are separately tradable



## MANAGEMENT PERSPECTIVE\*

No Dilution of Promoter Stake

Exemption from Takeover Regulations

Continued Investors' confidence

Free Pricing

No restrictions on investors eligibility including promoters

No lock-in on shares

Hybrid securities can be issued like Partly paid-up shares/ Warrants/ CCDs

Faster process  
[No shareholders approval required]



**THANK  
YOU**