



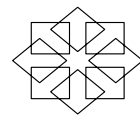
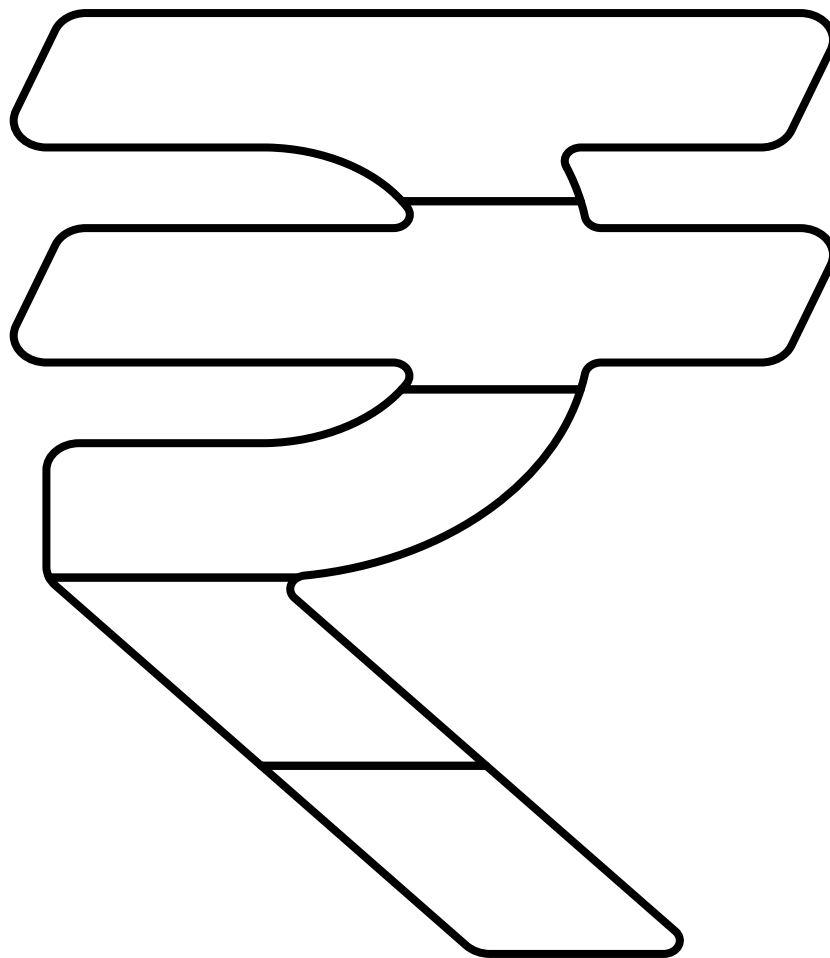
**Corporate
Professionals**
WHERE EXCELLENCE IS LAW



Rights Issue: Balanced Path to **Corporate Funding** and Shareholders Value



Capital Raising Methods



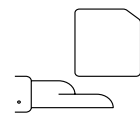
Rights Issue

Offering shares to existing shareholders



QIP Issue

Offering shares to QIBs



Bonus Issue

Distributing free shares to shareholders



Preferential Issue

Issuing shares to select investors



Further Public Offering (FPO)

Issuing additional shares to the public



INTRODUCTION

Rights Issue



An offering of rights:

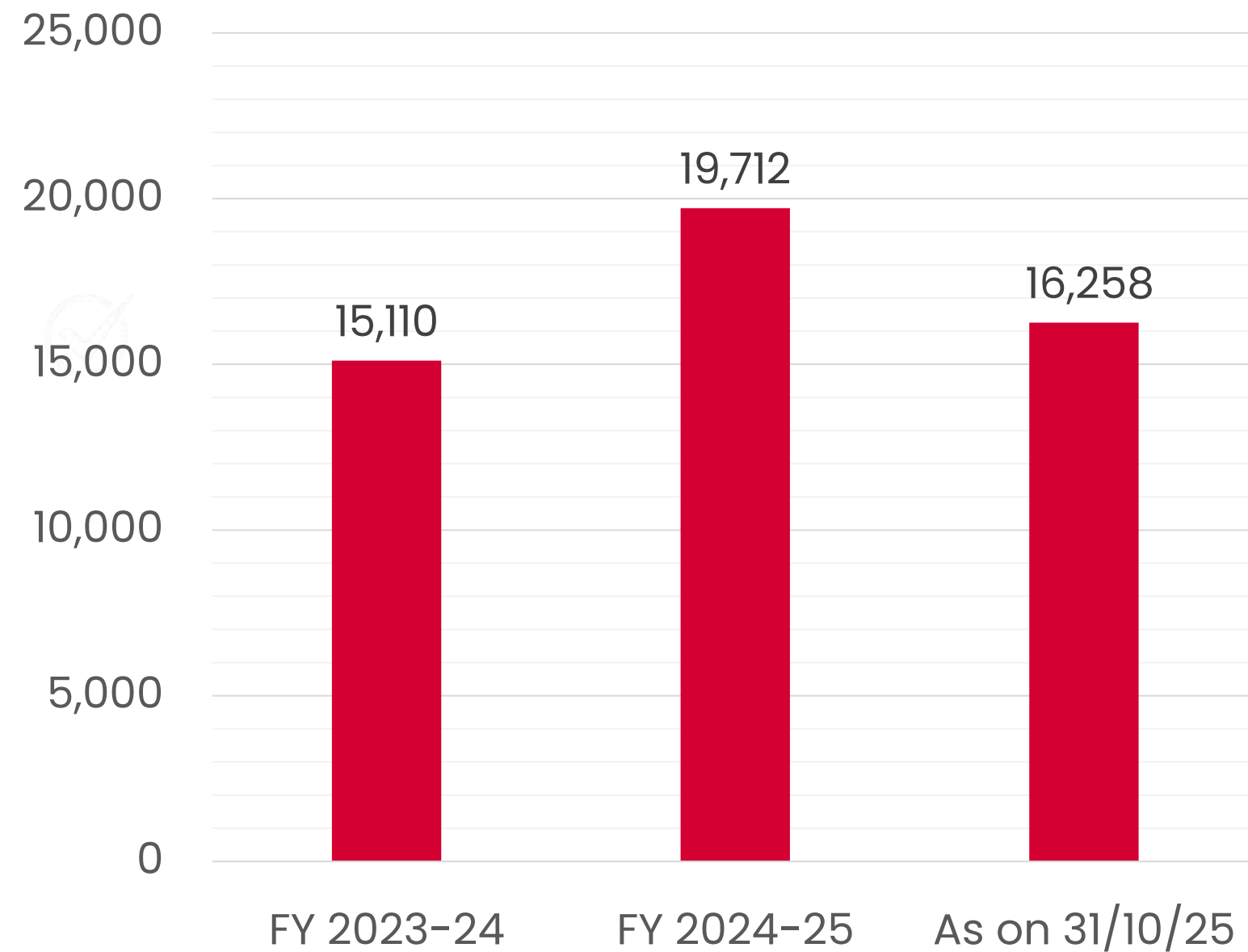
- to the existing shareholders;
- to give them an opportunity to buy additional shares directly from the company;
- generally, at a discounted price.



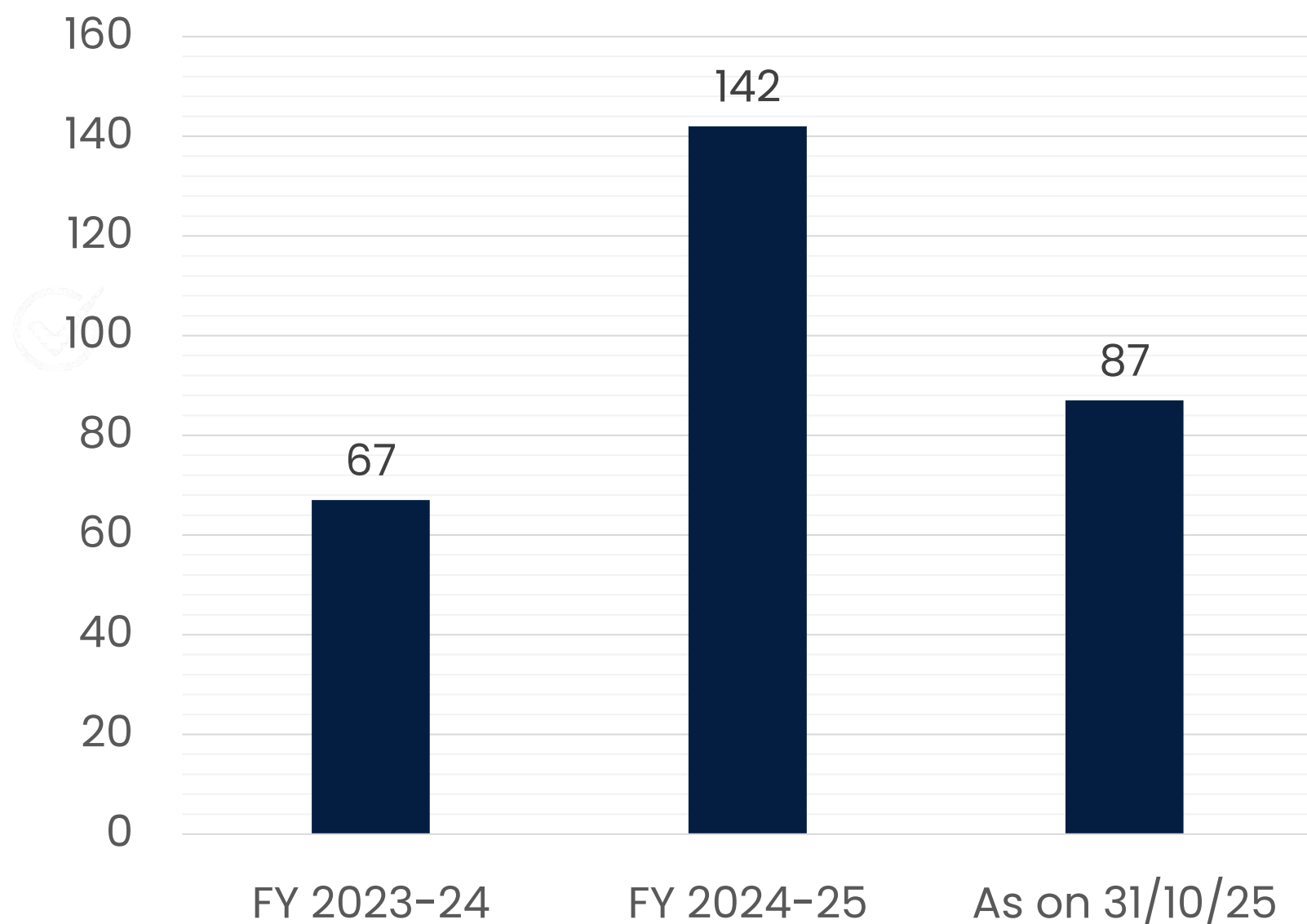
Rights Issues - spectrum during last 2 years



Issue Size (in Cr.)



No. of issues



Recent Rights Issues



Few of the recent Rights Issues and their Issue Prices/ Discounts are as follows:

Name of Company	Issue Price	Market Price	Discount %	Issue Size (in Cr)
Arunis Abode Ltd	12.6	599.25	97.90	60.48
Covance Softsol Ltd	10	36.89	72.89	7.38
Lloyds Enterprises Limited	39	83.84	53.48	992.26
Ethos Limited	1800	2,859.20	37.05	409.91
Mahindra & Mahindra Financial Services Limited	194	262.05	25.97	2,996.16
Max India Limited	150	202.4	25.89	124.23
Kati Patang Lifestyle Limited	20	25.02	20.06	21.02



Reason for this surge in RIs



SEBI's Circular streamlining the timelines

In the present timelines, a RI may be completed in just 23 Working Days



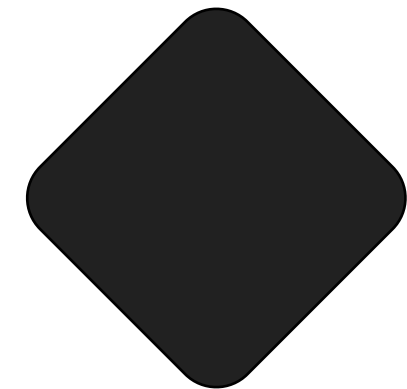
New concept of Specific Investors introduced



Promoter can renounce their RE to Specific Investors

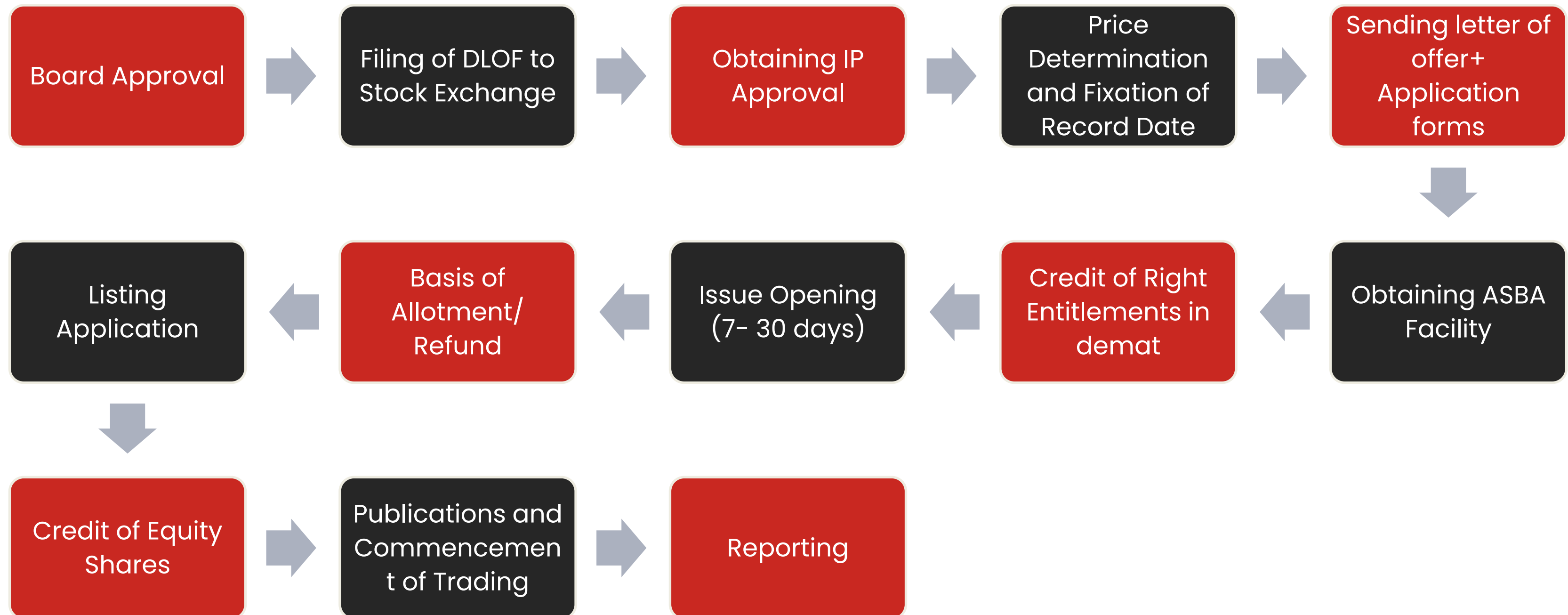


Unsubscribed portion can be subscribed by Specific investors



Process of Rights Issue

...



The entire process takes appx. 60-65 Days



Time Limit for Rights Issue



 **T+3**

Receipt of In-principle Approval



 **T+14**

Issue opening

 **T+22**

Receiving Listing Approval

 **T+23**

Commencement of trading of shares

T+23

Working Days

T being the BM date, approving the Rights Issue



Rights Offerings – Regulatory Framework

1 Companies Act (Sec 62)

2 Chapter III of the ICDR Regulations

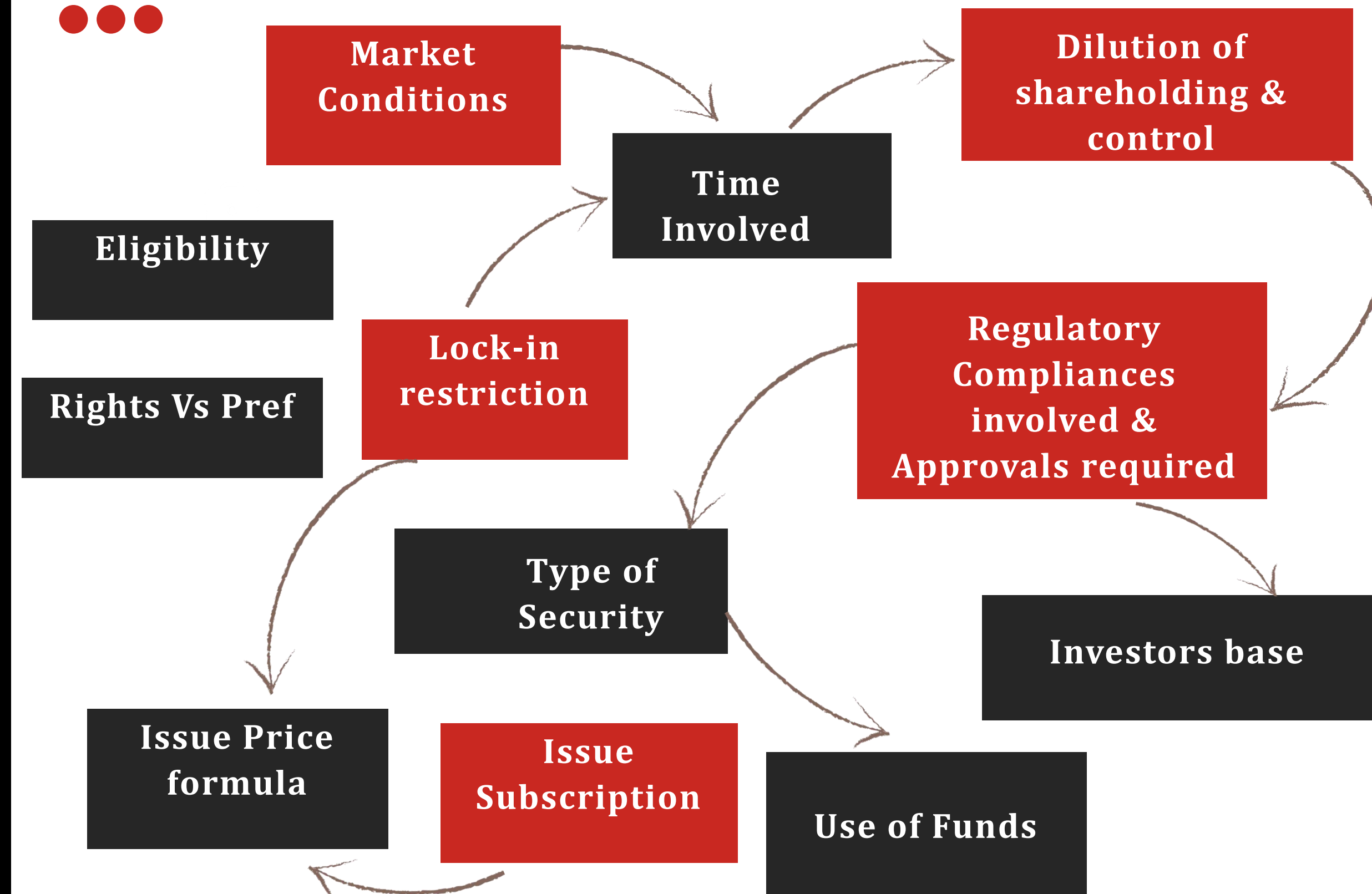
3 Insider Trading and Takeover Code

4 FEMA

Regulatory Framework



MANAGEMENT'S KEY QUESTIONS BEFORE DECIDING THE MODE OF FUND RAISING



Key Questions in Mind



Discount limit?

Volatile market – what's the option?

Physical holders – can they apply?

Minimum Subscription?

Can promoters renounce REs?

Specific investors – need shareholder approval?

Can outsiders other than shareholders invest?

Lenders' prior consent needed or not?



I. Entities **not** **eligible**

...



Debarred

the Co/ Promoter/ PG/ Directors are debarred from accessing the capital market by SEBI.



Economic Offender

Co's Promoters/ Directors are a fugitive economic offender.



Debarred

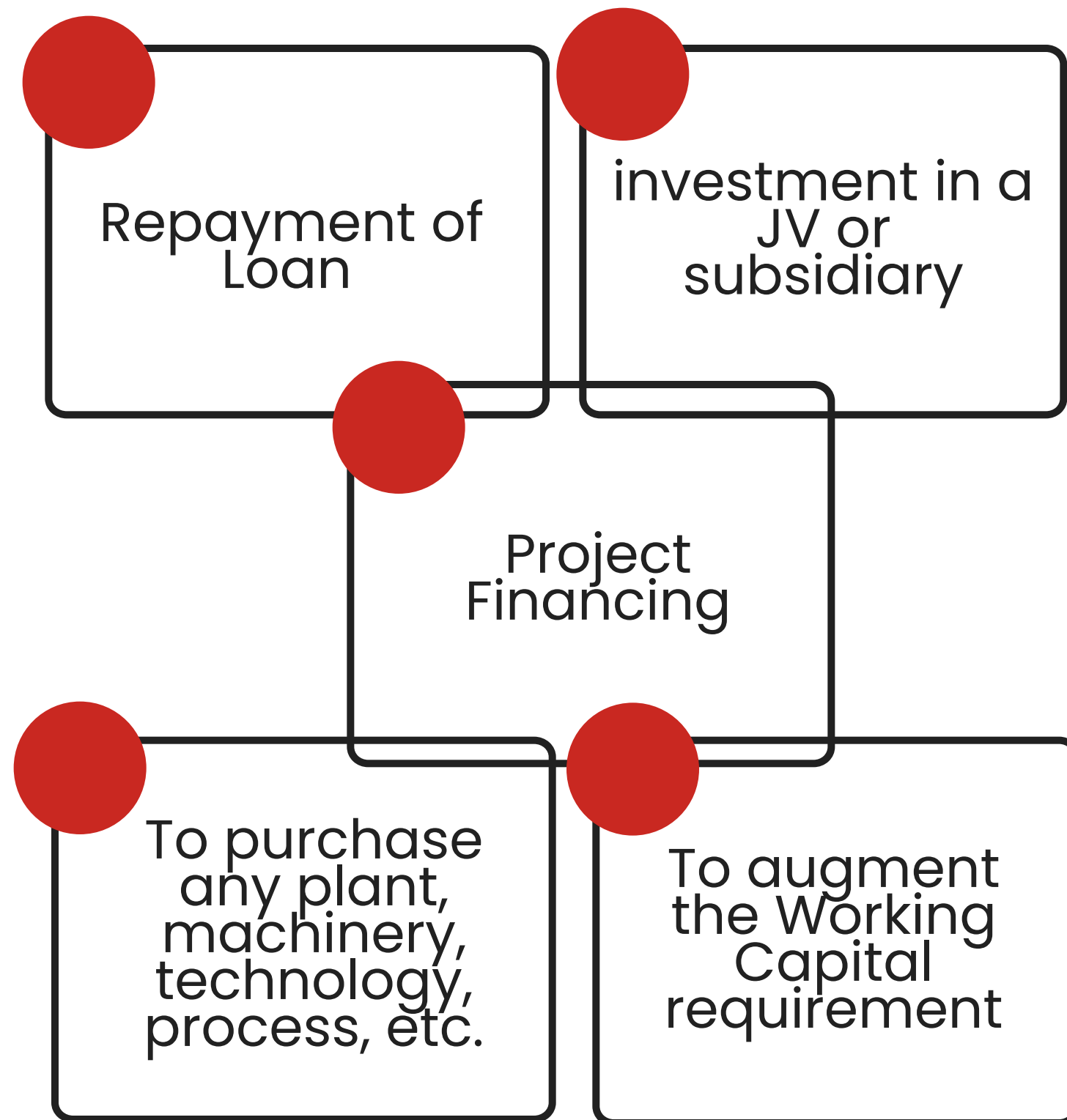
any of the Promoter/ Director of the issuer is a promoter/ director of any other company which is debarred from accessing the capital market by SEBI.



Suspended from trading

the Co is suspended from trading as a disciplinary measure as on the reference date.

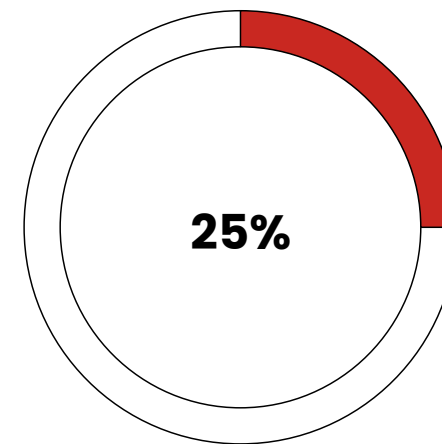
II. Objects of Rights Issue



Fund Utilization

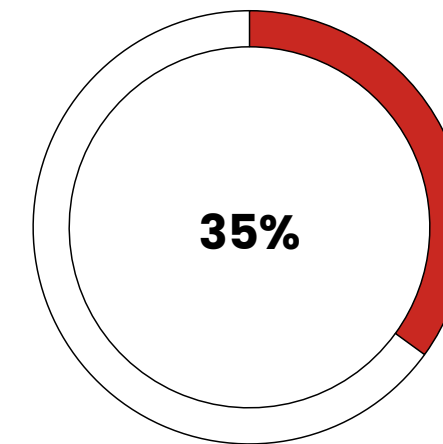
General Corporate Purposes Limit

Maximum allocation of funds raised.



General & Unidentified Acquisition Limit

Maximum allocation of funds raised.



Subject to minimum 10% for General Corporate Purpose



A Specific Investor–Why & Who?

...

Why:

1. safeguard against the failure of the issue
2. reduce the requirement of under writing
3. help issuer to better price

Who:

Any person can be specific investor.

Example

1. Individual
2. Body corporate
3. venture capitalists
4. private equity investor.

- ✓ The unsubscribed shares used to go waste and reduce dependency on underwriters to achieve minimum subscription.



III.SPECIFIC INVESTOR



OFFER TO SPECIFIC INVESTOR

In case of P/ PG Renunciation – Can be made in favor of any specific investor(s)

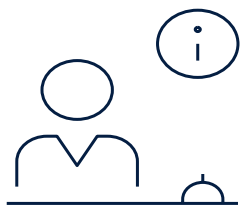
In case of Unsubscribed Portion – Can be allocated to specific investor(s) at the discretion of the Co.



IMPORTANT POINTS – Strategic Investor

Specific Investor Disclosure

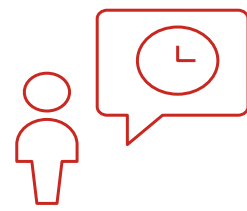
First Day of
Issue
Opening



11:00 AM

Investor Application
Deadline | Specific
investors must
submit applications
before 11 A.M.

First Day of
Issue
Opening

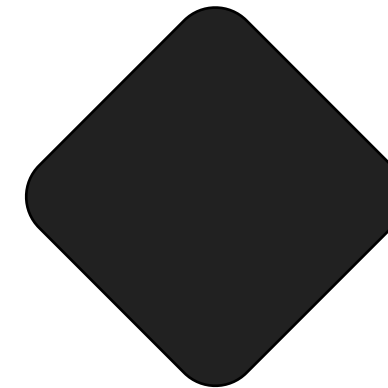


11:30 AM

Issuer Disclosure to
Exchange | Issuer
discloses investor
details to stock
exchange(s) by
11:30 A.M.

Application Withdrawal:

Specific investors are
not allowed to
withdraw their
applications.



Companies – Specific Investors



Ugro Capital Ltd

Bodhtree Consulting Ltd

Kati Patang Lifestyle Ltd

Kilitch Drugs (india) Ltd.

Valiant Laboratories Limited

Sarveshwar Foods Limited

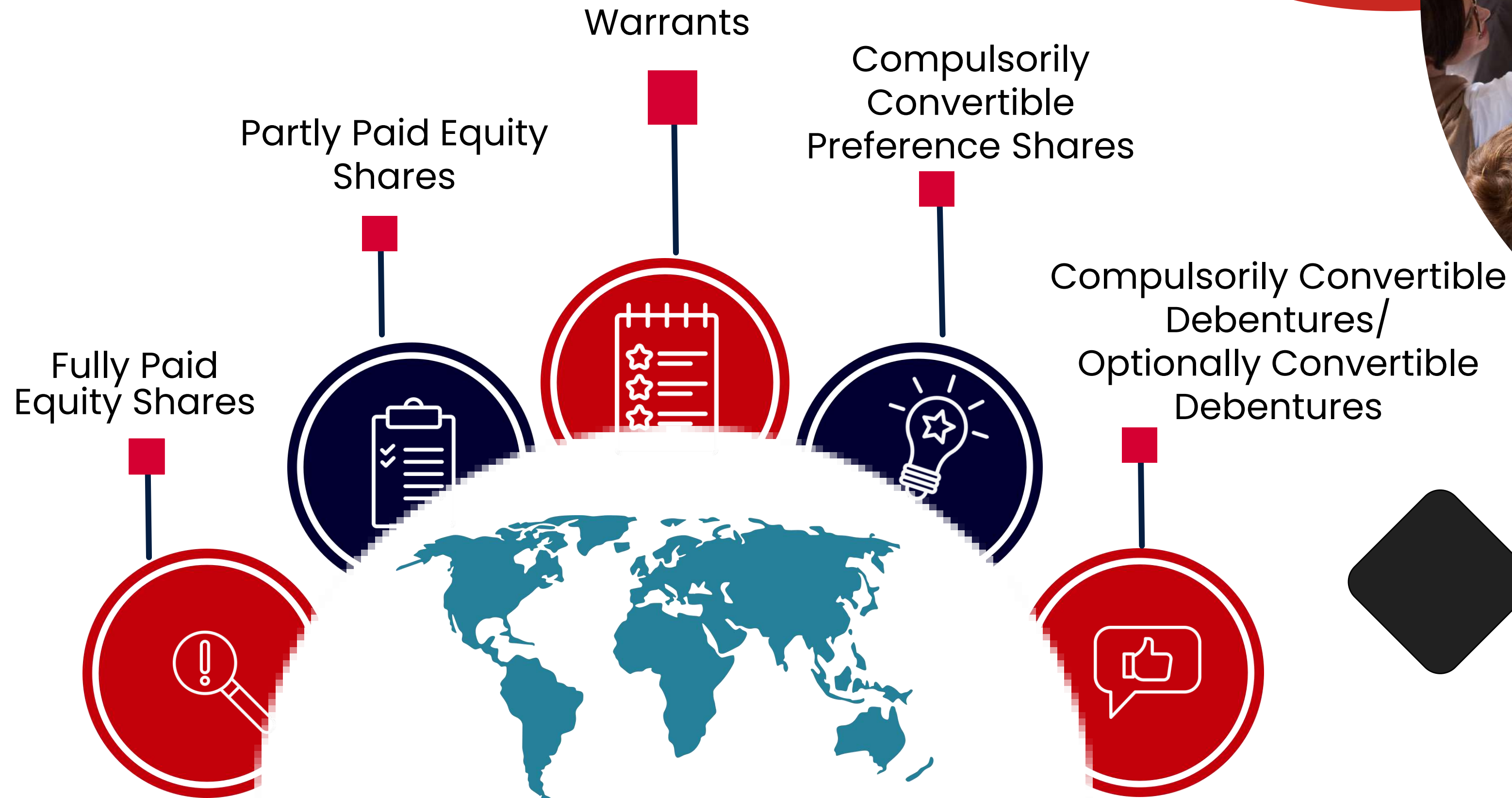
Qms Medical Allied Services Limited

Utkarsh Small Finance Bank Limited

Covidh Technologies Ltd



IV. SECURITIES THAT MAY BE ISSUED



V. Rights Issue Pricing



Market
Conditions

Discount

Issue price under Rights Issue is **freely** priceable and generally, at **discount** from the prevailing market price of the shares.

Rationale of Issue Price is to be informed

*To claim exemption under Takeover Regulations, the **Rights Issue price** < **the ex-rights price**.*



VI. Exemption to Promoters – SAST Regulations



Promoters can acquire their Entitlement + additional shares ➤ **5%** in a rights issue **without triggering an open offer** u/r 3(2) of SAST, subject to compliance with the following conditions:

1. No renunciation of REs; and

2. RI price \leq Ex-rights price of company's shares.

**ACQUISITION > 25% [3(1)]:
NO TAKEOVER EXEMPTION**

**MPS
Compliance**

Promoters' holding must not exceed 75%



VI. Exemption to Promoters – SAST Regulations

...



Computation of Ex-Rights Price		
Ratio	3:1	
Rights Issue Price	50.00	(A)
VWAP (60 TD)	100.00	(B)
Pre Issue Shares	1,00,000.00	(C)
Post Rights Issue	4,00,000.00	(D)
Shares offered in RI	3,00,000.00	(E)
PRICE A	25.00	$(B * C) / D$
PRICE B	37.50	$(A * E) / D$
Ex Rights Price (A+B)	62.50	



VII. PIT Regulations applicability

...



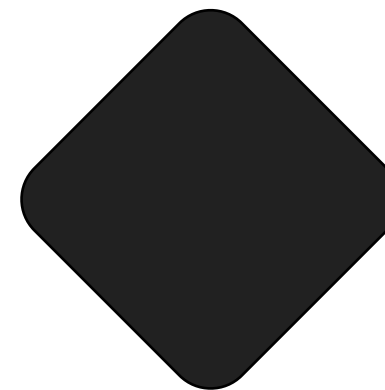
Pre-Clearance

pre-clearance from the compliance officer under the SEBI (PIT) Regulations, 2015 is **not required**



contra trade

Promoters and designated persons are exempted from the six-month contra trade restriction for trades made in connection with a rights issue



IX. Minimum Subscription

90% of Issue Size

If object of the issue is:

Capital Expenditure	Other than Capital Expenditure
Minimum Subscription: 90% of Issue Size	Minimum Subscription not applicable

Condition: P/PG should not renounce their rights except to the extent of renunciation within the PG or to the specific investor(s)



X. Promoter's Participation



Promoter's Participation

1. Promoters to **disclose in the Letter of Offer, their intention and extent** of participation in the proposed Rights Issue.
2. Promoters **can even renounce their RE**



XI. RE's Trading



RE s are issued in Demat form, under a separate ISIN.

REs are tradeable on market + off market



XII. Options available to Eligible Equity Shareholders



- Apply for the full extent of their Rights Entitlements; or
- Apply for their Rights Entitlements and apply for additional Shares; or
- Apply for partial Entitlements and renounce balance; or
- Apply for their Rights Equity Shares to the extent of a part of their Rights Entitlements; or
- Renounce their Rights Entitlements in full.



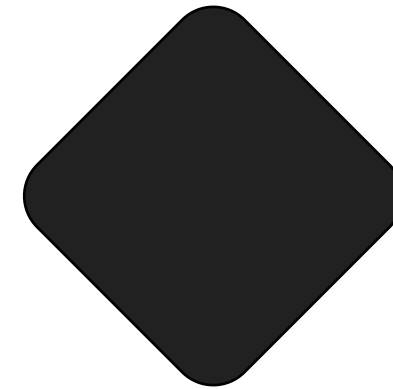
XIII. Intermediaries Required



Bankers to the
Issue



Registrar to the
Issue



Monitoring
Agency



Statutory
Auditor



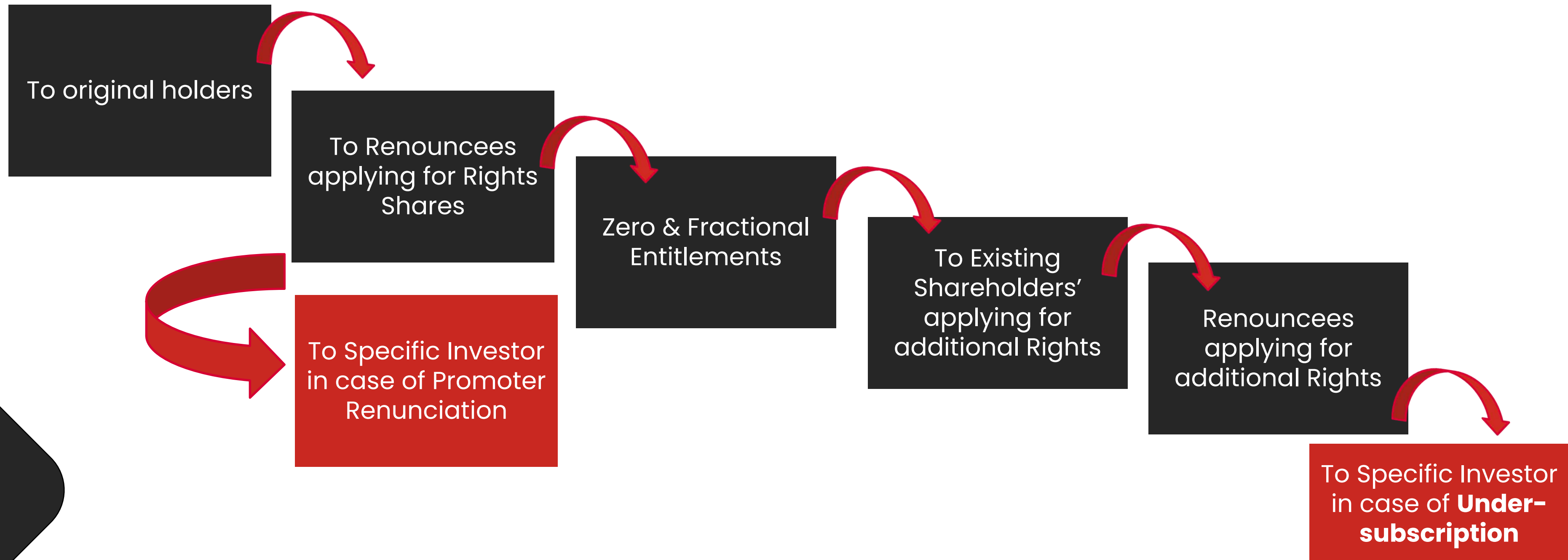
Printing &
Publication
Agency



Offer to specific investor → more rationale basis of allotment



Water Fall Mechanism





**Corporate
Professionals**
WHERE EXCELLENCE IS LAW



Thank you!

Anjali Aggarwal

**Partner and Head – Capital Market
Services**

D-28, South Extn. Part- I,
New Delhi 110049

T: +91 1140622230/ +919971673336

E: anjali@indiacp.com

W: www.corporateprofessionals.com

