

## **Companies' Resort to Rights Issue**

### **Why in news?**

- Reliance Industries Limited (RIL) recently concluded its rights issue to raise funds.
- Reportedly, several other companies are planning to raise funds through rights issue amidst the Covid-19 pandemic, and here is why.

### **What is a rights issue?**

- A rights issue is a mechanism by which companies can raise additional capital from existing shareholders.
- Under this, the company gives its existing shareholders the right to subscribe to newly issued shares in proportion to their existing holdings.
- Rights issue is a more democratic approach to raising funds.
- This is because it allows the existing shareholders the right to invest first in the company.

### **How successful was RIL's attempt?**

- With recent rights issue, RIL raised a total of Rs 53,124 crore.
- It witnessed an oversubscription of 1.59 times or received applications worth over Rs 84,000 crore.
- Several companies including Mahindra finance, Tata Power, Shriram Transport Finance among others are planning to raise funds through rights issue amidst the Covid-19 pandemic.

### **Why are companies going for rights issue now?**

- For a rights issue, there is no requirement of shareholders' meeting.
- An approval from the board of directors is sufficient and adequate.
- Therefore, the turnaround time for raising this capital is short.
- This is unlike other forms that require shareholders' approval which may take some time to fructify.
- Thus, the rights issue is much suited for the current situation and a more efficient mechanism of raising capital.
- The success of RIL and the big demand shows that there is investor appetite in the market for good companies with strong credentials at a good price.
- However, it is important to note that the capital markets regulator,

Securities and Exchange Board of India (SEBI), undertook certain reforms over the last one year.

### **What are the recent changes made by the SEBI?**

- Over the last one year, SEBI has undertaken significant steps to reform the rights issue process.
- Besides some permanent reforms, it also provided some temporary relaxations in the wake of Covid-19 pandemic.
- SEBI relaxed certain guidelines for right issues that open on or before March 31, 2021.
- This is to expand the universe of listed entities that are eligible for raising funds through fast track rights issuance.
- It also aims at easing the process for companies to raise funds during the present crisis.
- SEBI reduced the eligibility requirement of average market capitalisation of public shareholding from Rs 250 crore to Rs 100 crore for a fast track rights issuance.
- It also reduced the minimum subscription requirement from 90% to 75% of the issue size.
- Also, listed entities raising funds up to Rs 25 crores (erstwhile limit was Rs 10 crores) through a rights issue are now not required to file draft offer document with SEBI.

**Source: Indian Express**