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

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