



RIGHTS ISSUE AND BONUS ISSUE

- KEYUR SHAH

MEANING – RIGHTS ISSUE

- Rights issue is governed by Section 81(1) of the Companies Act, 1956
- The securities are offered to the existing shareholders of the Company through letter of offer
- “Rights Issue” means an offer of specified securities by a listed issuer to the shareholders of the issuer as on the record date fixed for the said purpose (ICDR Regulations)



RECORD DATE

- A listed issuer making a rights issue shall announce a record date **for the purpose of determining the shareholders eligible to apply** for specified securities in the proposed rights issue.
- The issuer **shall not withdraw** rights issue after announcement of the record date.
- If the issuer withdraws the rights issue after announcing the record date, it shall not make an application for listing of any of its specified securities on any recognised stock exchange **for a period of twelve months from the record date** announced under sub-regulation (1):
- Provided that the issuer may seek listing of its equity shares allotted pursuant to conversion or exchange of convertible securities issued prior to the announcement of the record date, on the recognised stock exchange where its securities are listed.



WHEN CONVERTIBLE DEBT OUTSTANDING

- No issuer shall make a rights issue of equity shares if it has outstanding fully or partly convertible debt instruments at the time of making rights issue, unless it has **made reservation of equity shares** of the same class in favour of the holders of such outstanding convertible debt instruments in proportion to the convertible part thereof.
- The equity shares reserved for the holders of fully or partially convertible debt instruments **shall be issued at the time of conversion** of such convertible debt instruments on the same terms on which the equity shares offered in the rights issue were issued.



LETTER OF OFFER AND ABRIDGED LETTER OF OFFER

- The abridged letter of offer, along with application form, shall be dispatched through **registered post or speed post** to all the existing shareholders at least three days before the date of opening of the issue:
- Provided that the letter of offer shall be given by the issuer or lead merchant banker to any existing shareholder **who has made a request in this regard.**



APPLICATION FORMS AND RIGHTS OF RENUNCIATION

- The shareholders who have not received the application form may apply in writing on a plain paper, along with the requisite application money.
- The shareholders making application otherwise than on the application form shall not renounce their rights and shall not utilise the application form for any purpose including renunciation even if it is received subsequently.
- Right of Renunciation – right of the shareholder to surrender his right to buy the securities and transfer such right to any other person



ISSUE PRICE AND SUBSCRIPTION PERIOD

- The issue price shall be decided before determining the record date which shall be determined in consultation with the designated stock exchange.
- A rights issue shall be open for subscription for a minimum period of fifteen days and for a maximum period of thirty days.
- The issuer shall utilise funds collected in rights issues after the finalisation of the basis of allotment.



PROCEDURE FOR RIGHTS ISSUE

- Increase authorised capital, if required
- Notify SE about the BM at least before 2 days when rights issue is proposed
- BM to decide – quantum and proportion of rights issue, record date, appointment of merchant bankers, authority to undertake process and signature on Letter of Offer
- Forward Letter of Offers to SE and dispatch to shareholders
- Advertisement – list of centers, etc.
- Arrangement with Bankers to receive application forms
- Prepare Basis of Allotment
- Allotment in BM
- Application for listing with SE and filing with ROC
- 3 day and 50 day monitoring report



BONUS ISSUE - MEANING

- Company can capitalise its profits by issuing fully paid up bonus shares
- Beneficial when company has accumulated large distributable profits
- Bonus shares are allotted with reference to existing share capital and members get proportionate share
- Paid up share capital of the Company increases
- Not a taxable income as no amount is to be paid



CONDITIONS FOR BONUS ISSUE

- The Company is authorised by its AOA for issue of bonus shares, Provided that if there is no such provision in the AOA, the issuer shall pass a resolution at its general body meeting making provisions in the AOA for capitalisation of reserve;
- it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
- it has sufficient reason to believe that it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity and bonus;
- the partly paid shares, if any outstanding on the date of allotment, are made fully paid up



WHEN CONVERTIBLE DEBT OUTSTANDING

- No issuer shall make a bonus issue of equity shares if it has outstanding fully or partly convertible debt instruments at the time of making bonus issue, unless it has **made reservation of equity shares** of the same class in favour of the holders of such outstanding convertible debt instruments in proportion to the convertible part thereof.
- The equity shares reserved for the holders of fully or partially convertible debt instruments **shall be issued at the time of conversion** of such convertible debt instruments on the same terms on which the equity shares offered in the bonus issue were issued.



OTHER CONDITIONS FOR BONUS ISSUE

- **The bonus issue shall be made out of free reserves built out of the genuine profits or securities premium** collected in cash only and reserves created by revaluation of fixed assets shall not be capitalised for the purpose of issuing bonus shares.
- Without prejudice to the provisions of sub-regulation (1), the bonus share shall not be issued in lieu of dividend.
- **An issuer, announcing a bonus issue after the approval of its board of directors,** shall implement the bonus issue within fifteen days from the date of approval of the issue by its board of directors:
- Provided that where the issuer is required to seek shareholders' approval for capitalisation of profits or reserves for making the bonus issue, the bonus issue shall be implemented within two months from the date of the meeting of its board of directors
- Once the decision to make a bonus issue is announced, the issue can not be withdrawn.

