RIGHT ISSUE

CA PARVEEN JINDAL

Provisions of companies act 2013

Provisions of section 62(1) (a) govern any company, public or private, desirous of raising its subscribed share capital by issue of further shares. Whenever a company intends to issue new shares, the voting and governance rights of the existing shareholders may be diluted, if they are not allowed to preserve them. It may happen because new shareholders may subscribe to the issued share capital.

Companies Act, 2013 allows existing shareholders to preserve their position by offering those newly issued shares at the first instance to them. The existing shareholders are given a right to subscribe these shares, if they like.

Provisions of companies act 2013

However, if they do not desire to subscribe these shares, they are even given the right to renounce it in favour of someone else (unless the articles of the company prohibits such a right to renounce).

In nutshell, the existing shareholders have a right to subscribe to any fresh issue of shares by the company in proportion to their existing holding for shares. They have an implicit right to renounce this right in favour of anyone else, or even reject it completely. In other words, the existing shareholders have right of first refusal, i.e., the existing shareholders enjoy a right to either sub-scribe for these shares or sell their rights or reject the offer.

Other conditions

The offer shall be made by notice specifying the number of shares offered and limiting a time not being less than fifteen days and not exceeding thirty days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined;

Unless the articles of the company otherwise provide, the offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person; and the notice

After the expiry of the time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose of them in such manner which is not disadvantageous to the shareholders and the company

Value of right

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Cum-right value of share – *Ex-right value of share

*Ex-right value of the shares

[Cum-right value of the existing shares + (Rights shares X Issue Price)] / (Existing Number of shares + Number of right shares)

Example on value of right

Illustration 4

A company offers new shares of ` 100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is ` 150. Calculate the value of a right. What should be the ex-right market price of a share?

Solution :

Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares Issue Price) / (Existing Number of shares + Rights Number of shares)

= (` 150 X 4 Shares + ` 125 X 1 Share) / (4 + 1) Shares = ` 725 / 5 shares = ` 145 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= ` 150 – ` 145 = ` 5 per share.