Issue of rights and bonus shares

Concept of right shares (Sec 62)

- **Right shares** are the **shares** that are issued by a company for its existing shareholders. The existing shareholders have their **right** to subscribe to these **shares** unless some special **rights** reserve them for some other persons. **Rights** Issue. **Right** to Privacy.

- Right issue is an invitation to existing shareholders to purchase additional new shares in the company at a discount to the market price on a stated future date.

- Right shares are given only to those shareholders who own the company's shares on the record date. Those who buys the shares of the company after the record date, will not be entitled to right shares despite the fact that the right shares will be issued after that.

Why Would A Company Issue A Rights Offering?

Companies most commonly issue a rights offering to raise additional capital. A company may need extra capital to meet its current financial obligations. Troubled companies typically use rights issues to pay down debt, especially when they are unable to borrow more money.

However, not all companies that pursue rights offerings are in financial trouble. Even companies with clean balance sheets may use rights issues. These issues might be a way to raise extra capital to fund expenditures

designed to expand the company's business, such as acquisitions or opening new facilities for manufacturing or sales. If the company is using the extra capital to fund expansion, it can eventually lead to increased capital gains for shareholders despite the dilution of the outstanding shares as a result of the rights offering.

Distinction between public issue and rights issue

Basis	Public issue	Rights issue
Invitation of Applications	**From general public**	**Offered to existing shareholders**
Cost of issue	**high**	**Comparatively low**
communication	**Through prospectus/newspaper**	**Between co and shareholders**

Calculation of value of right

Usually a company offers right issue at a price which is lower than the market price of the shares so that the existing shareholders may get the monetary benefit of being associated with the company for a long time. Existing shareholders who have been offered rights shares and do not want to purchase these offered shares may renounce their right in favour of some other person within the specified period.

In such a case, the existing shareholders can make a profit by selling his right to such other person because generally the rights shares are offered to the existing

shareholders at a price lower than the market price of the shares. The right of purchase more shares is valuable if the market price of the shares is more than the issue price.

Formula for calculating theoretical market price after rights issue is

i) Market price before rights issue x no of existing shares+ rights issue price x no of rights shared price x no of rights shares offered

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Total no of shares after rights issue

ii)Value of rights

Market value-assumed market value after rights issue

We can also make other calculations in relation to rights issue as:

iii)Percentage increase in share capital is:

Increase in share capital after rights issue x100

Share capital before rights issue

iv) percentage increase in total funds

increase in shareholders equity x100

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existing shareholders equity