UNIT 4: ISSUE OF EQUITY SHARES

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INTRODUCTION
Most companies are usually started privately by their promoter(s). However, the promoters’ capital and the borrowings from banks and financial institutions may not be sufficient for setting up or running the business over a long term, especially when the business grows and looks to expand. So companies invite the public to contribute towards the equity and issue shares to individual investors. The way to invite share capital from the public is through a “Public Issue”. Simply stated, a public issue is an offer to the public to subscribe to the share capital of a company. Generally, equity shares are issued to the public to raise the capital required by a company. Once this is done, the company allots shares to the applicants as per the prescribed rules and regulations laid down by SEBI.

MEANING OF EQUITY SHARES:
Equity shares are the main source of finance of a firm. It is issued to the general public. Equity shareholders do not enjoy any preferential rights with regard to repayment of capital and dividend. They are entitled to residual income of the company, but they enjoy the right to control the affairs of the business and all the shareholders collectively are the owners of the company.

FEATURES OF EQUITY SHARES
1. They are permanent in nature.
2. Equity shareholders are the actual owners of the company and they bear the highest risk.
3. Equity shares are transferable, i.e. ownership of equity shares can be transferred with or without consideration to other person.
4. Dividend payable to equity shareholders is an appropriation of profit.
5. Equity shareholders do not get fixed rate of dividend.
6. Equity shareholders have the right to control the affairs of the company.
7. The liability of equity shareholders is limited to the extent of their investment.
RATIONALE/REASON FOR ISSUE OF EQUITY SHARES

The equity shares are issued to raise equity capital. Following are the reasons for which equity capital is used:

1. Organic Growth

A company requires capital for expansion, entering into new market, and modernisation of business. In these cases, capital is required on a permanent basis. Equity capital is a long term source of finance which need not be paid back until the liquidation of the company. In short, to finance the organic growth of the company, equity capital is the best source of finance.

2. Working Capital

Working capital is used to finance the day to day activities of the business. It is the amount required on permanent basis to run day to day activities of the business. To finance permanent working capital, equity capital is the best source of finance.

3. Mergers and Takeovers

When there is merger and take over, purchase consideration involves payment of huge amount. In this case, equity capital is the best source of finance as it creates no financial burden to the company.

4. Financial Restructuring

When high cost debt borrowed creates problems to the company, capital restructuring becomes essential. Under this, debt burden is reduced either by repayment or by converting the debt into equity capital. Thus, equity capital helps the company to get rid of high cost debt.

5. Exit Route for Venture Capital
Venture capital is a risky capital which is invested in the early stage of a business involving high risk. It is provided by the Venture Capitalists. This capital is be repaid once the new business becomes profitable or after certain period of time. This is done by issuing equity shares to the public.

ADVANTAGES OF EQUITY SHARES

Equity shares are amongst the most important sources of capital and have certain advantages which are mentioned below:

i. Advantages to the Shareholders
   (a) Equity shares are very liquid and can be easily sold in the capital market.
   (b) In case of high profit, they get dividend at higher rate.
   (c) Equity shareholders have the right to control the management of the company.
   (d) The equity shareholders get benefit in two ways, yearly dividend and appreciation in the value of their investment.

ii. Advantages to the Issuing Company:
   (a) They are a permanent source of capital and as such; do not involve any repayment liability.
   (b) They do not have any obligation regarding payment of dividend.
   (c) Larger equity capital base increases the creditworthiness of the company among the creditors and investors.

DISADVANTAGES OF EQUITY SHARES:

Despite their many advantages, equity shares suffer from certain limitations. These are:

i. Disadvantages to the Shareholders:
   (a) Equity shareholders get dividend only if there remains any profit after paying debenture interest, tax and preference dividend. Thus, getting dividend on equity shares is uncertain every year.
   (b) Equity shareholders are scattered and unorganized, and hence they are unable to exercise any effective control over the affairs of the company.
   (c) Equity shareholders bear the highest degree of risk of the company.
(d) Market price of equity shares fluctuate very widely which, in most occasions, erode the value of investment.
(e) Issue of fresh shares reduces the earnings of existing shareholders.

ii. Disadvantage to the Issuing Company:
(a) Cost of equity is the highest among all the sources of finance.
(b) Payment of dividend on equity shares is not tax deductible expenditure.
(c) As compared to other sources of finance, issue of equity shares involves higher floatation expenses of brokerage, underwriting commission, etc.

PUBLIC ISSUE OF EQUITY SHARES

Every Company needs funds for its business. Funds requirement can be for short term or for long term. To meet short term requirements, the company may approach banks, lenders and may even accept fixed deposits from public/shareholders. To meet its long term requirements, funds can be raised either through loan from lenders, Banks, Institutions etc. These loans carry financial burden as interest to be payable periodically. Another option raise long term capital is through public issue. Public issue means raising funds from public.

Meaning

When a company raises funds by selling or issuing its shares to the public through issue of offer document/prospectus, it is called a public issue.

There are two forms of public issue:

1) Initial Public Offer (IPO): When a company makes a public issue for the first time, the public issue is called as initial public offer (IPO).

2) Further public offer (FPO): When a company makes another public issue to raise capital, it is called further public /follow-on offer (FPO).

ADVANTAGES OF PUBLIC ISSUE

- Money non-refundable except in the case of winding up or buy back of shares.
• No financial burden i.e. no fixed rate of interest payable. However, in order to service the equity, dividend may be paid.
• Enhance shareholders’ value if the Company performs well.
• Greater Transferability.
• Trading and Listing of securities at stock exchanges.
• Better liquidity of securities.
• Helps building reputation of promoters, Company and its products/services, provided the Company performs well.

DISADVANTAGES OF PUBLIC ISSUE

• Time consuming process.
• Expensive.
• Several legal formalities.
• Involvement of many intermediaries.
• Transparency requirements and public disclosure of information may lead to lack of privacy.
• Continuous compliance of provisions of listing agreement and other legal requirements.
• Constant scrutiny of performance by investors.
• May lead to takeover of the company.
• Securities of the Company may be made subjective to speculative attacks.

(D) INTERMEDIARIES IN IPO

Many intermediaries are involved in connection with the public issue. Following are the intermediaries who have to be registered with SEBI and must have valid certificate from SEBI to act as an intermediaries:
• Merchant Bankers
• Registrar & Share Transfer Agents
• Bankers to the issue
• Underwriters
• Stock Brokers and sub-brokers
• Depositories

PUBLIC ISSUE: THE PROCEDURE

1. Appointment of Merchant Banker

The first thing that company management must do when they have taken a decision to go public is to find a Merchant Banker who will manage the entire process of public issue. Merchant Banker is a financial intermediary/institution who is an expert in managing public
issue, dealing with SEBI Regulations and Registrar of Companies on public issue. Following are the services rendered by the Merchant Banker with regard to Public Issue:

- **Advisory Service:**
  The Merchant Banker advises the issuing company about size, mode and timing of public issue. The issuing company can finalise its decision based on this advice.

- **Preparation of Basic Documents:** It includes the following
  (a) **Prospectus:** The merchant banker first prepares the draft prospects (red herring prospectus) and at later stage of issue prepares the final Prospectus. Prospectus is a document by way of which the investor gets all the information pertaining to the issuing company in which they are going to invest. It gives the detailed information about the Company, Promoter/Directors, group companies, capital structure, terms of the present issue, details of proposed project, particulars of the issue etc. On behalf of the company, these are filed with SEBI and Registrar of Companies by the Merchant Banker.
  (b) **Memorandum of Understanding (MOU):** It is contract between the issuing company and the Merchant Banker. It defines the rights, duties and obligations of the merchant banker with regard to public issue.
  (c) **Due Diligence Certificate:** It is a declaration made by the Merchant Banker that all the information furnished by the company is reliable and all SEBI guidelines are duly fulfilled for the public issue. If SEBI is satisfied with information, it will suggest the Merchant Banker to prepare the final prospectus.

- **Appointment of other Merchant Bankers and Allocation of Responsibilities:**
  If more than one Merchant Banker required for the public issue, the appointment is made by the main Merchant Banker and the main Merchant Banker is called as Lead Manager. Further, all the responsibilities of public issue are distributed among the Merchant Bankers.

2. **Application to Stock Exchange**
After the public issue, the shares are to be listed/included in recognised stock exchanges for trading. For this, an application to be filed with recognised stock exchanges seeking permission for listing. Listing is allowed by the stock exchange when issuing company fulfils all the regulations of listing issued by the stock exchanges.
3. Agreement with Depository

Today, the shares are allotted to the investors in an electronic form. This requires opening of Demat Account with depositories and all the shares allotted are credited to Demat Account. A depository is an organization where the securities of an investor are held in electronic form. The issuing company enters into contract with the Depositories for allotment of shares. There are two depositories in India who maintain the Demat Account:

a. National Securities Depository Limited (NSDL) promoted by National Stock Exchange (NSE)
b. Central Depository Services Limited (CDSL) promoted by Bombay Stock Exchange (BSE)

4. Appointment of Underwriters

Underwriter is a financial intermediary who guarantees the subscription/purchase of shares if public does not subscribe to the required quantity of shares. The Lead Manager verifies the net worth and outstanding commitments of the underwriter appointed and send this information as a report to SEBI.

5. Appointment of Registrar to Issue

The Registrar to Issues a bank or a similar company generally performs the following record keeping activities by coordinating with Lead Manager:

- Printing and processing of IPO applications,
- Advising the company to appoint Bankers to the Issue
- Despatching application to banks and brokers for distribution to investors
- Monitoring subscription when public issue is open and collecting information from banks
- Collecting application when subscription is closed
- Tabulating the details of subscription
- Allotment of shares to applicants based on SEBI guidelines
- Process of refunds through ECS or cheque
- Transfer allocated shares to Demat accounts of investors

6. Appointment of Bankers

The issuing company does not directly collect Application money from the investors. The issuing company with the help of Lead Manager and Registrar to the Issue appoints Bankers to the Issue. A separate bank account is opened with Bankers to the Issue to collect application money from investors through its branches.
7. Appointment of Brokers
When issue of share process is to start, the brokers are appointed by the company management, in consultation with merchant bankers to the issue. Broker is the member of the stock exchange who has large contact of investors. Merchant bankers appoint a broker of huge reputation and these brokers ensures the sale of shares to the public.

8. Appointment of Advertising Agency
Appointment of Advertising Agency is made for marketing of public issue. Advertisements are given both print and electronic media to gain wide publicity for the public issue. The Road Shows are also organised to create interest among prospective investors. In the advertisement, date of opening and closing of subscription list, number of shares offered, price band, basis of allotment are highlighted.

9. Issue of Shares
After the appointment of various competent authorities and finalisation of prospectus, listing agreement, applications etc., the steps given below are followed in the public issue of shares:

a. Filing Prospectus
The Lead Manager shall arrange to file the final prospectus with SEBI, Registrar of Companies and Stock Exchange

b. Press Conference
The press conference/investor meet is arranged to announce the public issue of shares

b. Despatch of Application Forms
The Registrar to the Issue shall arrange for the distribution of application forms to the bankers, brokers etc.

d. Opening of Subscription List
The subscription list is kept open for minimum of 3 days and maximum of 7 days during which public can apply for the public issue of shares. The bankers accept the application along with money and inform the Registrar the status of response on a daily basis.

e. Closure of Subscription List
The company announces the closure of public issue through the media. After closure, the bankers send the applications to the Registrar to the Issue.

f. Allotment of Shares
The Registrar allots the shares in consultation with Issuing Company, SEBI and Stock Exchanges. The allotment is made to the Demat Account of the investors and refund of excess application money received is also undertaken.

g. Listing of Shares
Finally shares are listed in the stock exchanges where listing agreement is made and company informs the SEBI about the listing. Thereafter, regular trading in shares are undertaken.

CLASSIFICATION OF ISSUES
(a) Public issue
   • Initial Public Offer (IPO)
   • Follow on Public Offer (FPO)
(b) Rights issue
(c) Bonus issue
(d) Private placement
   • Preferential issue
   • Qualified institutional placement

Public Issue:
When an issue/offer of securities is made to the public for subscription/purchase, it is called a public issue. Public issue can be further classified into Initial Public Offer (IPO) and Follow on Public Offer (FPO).

Initial Public Offer (IPO):
When an unlisted company makes a fresh issue/first time issue of securities to the public, it is called an IPO.

Follow on Public Offer (FPO):
When an already listed company makes further issue of securities to the public, it is called a Follow on Public Offer (FPO). Thus, the process of FPO starts after an IPO.

Right Issue
When an issue of securities is made by an issuer to its present/existing shareholders, it is called a right issue. The rights are offered in a particular ratio to the number of securities held as on the record date.

Bonus Issue
When an issuer makes an additional issue of securities to its existing shareholders free of cost, it is called a bonus issue.
Private Placement

A private placement is the sale of securities to a relatively small number of select investors as a way of raising capital. Investors involved in private placements are usually large banks, mutual funds, insurance companies and pension funds. A private placement is different from a public issue. In public issue, securities are made available for sale on the open market to any type of investor. Private placement of shares or convertible securities by listed issuer can be of two types:

Preferential Allotment:

When a listed issuer issues shares to a selected group of persons as per SEBI guidelines, it is called a preferential allotment. The issuer is required to comply with various provisions which inter-alia include pricing, disclosures in the notice, lock-in etc., in addition to the requirements specified in the Companies Act.

Qualified Institutions Placement (QIP): When a listed issuer issues equity shares to qualified institutions buyers only in terms of provisions as per SEBI guidelines, it is called a QIP. Qualified Institutional Buyers are those institutional investors who are generally possess expertise and the financial strength to invest in the capital markets. ‘Qualified Institutional Buyer’ include:

- Scheduled commercial banks;
- Mutual funds;
- Foreign institutional investor registered with SEBI;
- Multilateral and bilateral development financial institutions;
- Venture capital funds registered with SEBI.
- Foreign Venture capital investors registered with SEBI.
- State Industrial Development Corporations.
- Insurance Companies registered with the Insurance Regulatory and Development Authority (IRDA).
- Provident Funds with stipulated minimum corpus
- Pension Funds with stipulated minimum corpus
- Public financial institution as defined in Companies Act, 2013

METHODS OF PRICING PUBLIC ISSUE

There are two methods

a. Fixed Price Method:
In an Initial public offering (IPO), if the shares are offered at a fixed price, such is issue is known as Fixed price issue. This is the second most preferred way of Initial public offering. In the offer document, the issuer has to give the reasoning and proper justification for the price fixed. Generally, companies go for fixed price issue only when the management is of the opinion that a fair price can be decided among them without having tested in the market like in the case of book building.

b. Book Building Method

It is a process used in IPOs for efficient price discovery and determination of quantity of shares to be issued. The price at which securities would be offered is not known initially. It is known only after the closure of the book building process. It is a common method of marketing of new issues in several developed countries. In book building method, the market discovers the price instead of the company determining the price.

Working of Book Building Method

Under this method, no price is fixed for the shares; instead, the company fixes a price band at which a share can be sold. The maximum price cannot be more than 120% of the floor price. Bids are then invited for the shares. The IPO should be kept open for a minimum of three days and bids are invited during this period. Investors can bid at the floor price or within the price band. The actual price of the share is arrived at depending on the number of bids (depending on the price band) received from investor.

The Lead Manager known as the Book runner determines the level of interest from investors at various price levels and obtains commitments. As the book is being built, the demand at various prices can be known and investors can submit their bids accordingly.

Bids are collected from investors during the IPO period. The bids may be above or at the floor price. The offer price is then finalized based on the bids received and is fixed after the bid closing date.

Example:

In this method, the company doesn’t fix up a particular price for the shares, but instead gives a price range, e.g., Rs. 80 to 100. When bidding for the shares, investors have to decide at which price they would like to bid for the shares, e.g., Rs. 80, Rs. 90 or Rs. 100. They can bid
for the shares at any price within this range. Based on the demand and supply of the shares, the final price is fixed.

The lowest price (Rs. 80) is known as the floor price and the highest price (Rs. 100) is known as cap price. The price at which the shares are allotted is known as cut off price. The entire process begins with the selection of the lead manager, an investment banker whose job is to bring the issue to the public.

Both the lead manager and the issuing company fix the price range and the issue size. Next, syndicate members are hired to obtain bids from the investors. Normally, the issue is kept open for 5 days. Once the offer period is over, the lead manager and issuing company fix the price at which the shares are sold to the investors.

If the issue price is less than the cap price, the investors who bid at the cap price will get a refund and those who bid at the floor price will end up paying the additional money. For example, if the cut off in the above example is fixed at Rs. 90, those who bid at Rs. 80, will have to pay Rs. 10 per share and those who bid at Rs. 100, will end up getting the refund of Rs. 10 per share. Once each investor pays the actual issue price, the share are allotted.

**Book Building vs. Fixed Price Method:**

The main difference between the book building method and the fixed price method is that in the former, the issue price not decided initially. The investors have to bid for the shares within the price range given. The issue price is fixed on the basis of demand and supply of the shares.

On the other hand, in the fixed price method, the price is decided right at the start. Investors cannot choose the price. They have to buy the shares at the price decided by the company. In the book building method, the demand is known every day during the offer period, but in fixed price method, the demand is known only after the issue closes.

**KEY FINANCIAL INTERMEDIARIES IN BOOK BUILDING PROCESS**

Following are the financial intermediaries who take part in the Book Building Process

1. Merchant Bankers
A merchant banker is appointed as Lead Book-Runner. If more than one merchant banker is required to manage the issue, all other merchant bankers are called as Co-Book Runners. The Lead Book Runner has the following responsibilities

a. Appointment of Book Runners/Co-Book Runners
b. Appointment of Syndicate Members
c. Preparation of draft prospectus and other documents and filing it with SEBI
d. Deciding on the size, timing of a public issue and price band with the help of Syndicate Members
e. Appointment of Registrar to the Issue, Bankers to the Issue etc.
f. Filing Due Diligence Certificate with SEBI
g. Preparation of advertising and promotional material
h. Announcing the opening and closure of subscription/bid collection
i. Determination of cut off price and allotment of shares with the help of Registrar
j. Getting the shares listed on the stock exchange
k. Preparing Final Prospectus and filing it with SEBI and Registrar of Companies

2. Syndicate Members

They have the following responsibilities
a. Deciding on the size, timing of a public issue and price band
b. Underwriting of shares
c. Collection of Bid-Cum-Application Forms from the branches of bankers to issue

3. Registrar to the Issue

They have the following responsibilities
a. Appointment of Bankers to Issue to collect application money
b. Printing of Draft Prospectus, application cum bid forms and supplying these to syndicate members
c. Allotment of shares to the investors

THE IMPORTANT POINTS IN BOOK BUILDING PROCESS

1. The Issuing company which is planning an offer nominates lead merchant banker(s) as ‘book runners’.
2. The Issuing company specifies the number of securities to be issued and the price band for the bids.
3. The Issuer also appoints syndicate members with whom orders are to be placed by the investors.
4. The syndicate members put the orders into an ‘electronic book’. This process is called ‘bidding’ and is similar to open auction.
5. The book normally remains open for a period of 5 days.
6. Bids have to be entered within the specified price band.
7. Bids can be revised by the bidders before the book closes.
8. On the close of the book building period, the book runners evaluate the bids on the basis of the demand at various price levels.
9. The book runners and the Issuer decide the final price at which the securities shall be issued.
10. Generally, the number of shares is fixed; the issue size gets frozen based on the final price per share.
11. Allocation of securities is made to the successful bidders. The rest bidders get refund orders.

BOOK BUILDING ISSUE PROCEDURE
Following are the important stages in the issue of shares using book building method:

A. Quantity Assessment Stage
This stage involves the following activities:

1. **Appointment of Key Financial Intermediaries by Issuer Company**
   a. Appointment of a Merchant Banker as a Lead Book Runner
   b. Appointment of registrar of the issue
   c. Appointment of syndicate members

2. **Lead Book Runner Responsibilities (Pre Issue Role - Part 1)**
   a. Preparation of Information Memorandum (IM) which contains all information about the company. But the number of shares to be issued and the issue price is not specified in the Information Memorandum (IM).
   b. Sending copies of Information Memorandum (IM) to the Syndicate Members to circulate it among mutual funds, Financial Institutions, Foreign Institutional Investors etc. The syndicate members try to find out the prices and quantities these institutions are willing to buy and supply this information to the Lead Book Runner.
   c. On the basis of this information. The Lead Book Runner and the Issuing Company finalise the quantity of shares to be issued and the price band.
   d. Syndicate members sign an agreement with Lead Book Runner to underwrite specific quantity of shares and the price at which they are willing to buy.
e. Preparation of Red-Herring Prospectus by including the issue date, issue quantity and price band
f. Preparation of Due Diligence Certificate

B. Pre-issue Stage

It involves the following activities by the Lead Book Runner:

1. Filing Red-Herring Prospectus and Due Diligence Certificate with SEBI which reviews both the documents and revert it back to Lead Book Runner if need clarification or changes.
2. Submit the Red-Herring Prospectus to Stock Exchanges, Registrar of Companies, and Registrar of the Issue and get it approved. Listing agreement is made with the Stock Exchange for listing of shares after allotment.
3. Agreement with Depositories (NSDL and CDSL) to open demat account and facilitate electronic transfer of shares to the demat account of investors.
4. Appointment of Advertising Agencies and Organising road shows for the IPO.
5. Red Herring Prospectus & IPO Application Forms are printed and posted to syndicate members; through which they are distributed to investors.

C. Actual Stage

It involves the following activities:

1. Public Issue Open for investors bidding.
2. Investors fill the application forms and place orders to the syndicate members (syndicate member list is published on the application form).
3. Syndicate members provide the bidding information to BSE/NSE electronically and bidding status gets updated on BSE/NSE websites.
4. Syndicate members send all the physically filled forms and cheques to the registrar of the issue.
5. Investor can revise the bidding by filling a form and submitting it to Syndicate member.
6. Syndicate members keep updating stock exchange with the latest data.
7. Public Issue Closes for investors bidding.

D. Allotment Stage

It involves the following activities:

1. Based on the bids received, lead managers evaluate the final issue price.
2. Lead Book Runner update the 'Red Herring Prospectus' with the final issue price and send it to SEBI and Stock Exchanges.
3. The Registrar receives all application forms & cheques from Syndicate members and processes it. They send the cheques for clearance and all bogus applications are rejected.

4. The Registrar prepare 'Basis of Allotment' and transfer shares in the demat account of investors. Refund the remaining money though ECS or Cheques.

5. Once all allocated shares are transferred in investors demat accounts, Lead Book Runner with the help of Stock Exchange decides Issue Listing Date and finally share of the issuer company gets listed in Stock Market.

**BOOK BUILDING: MERITS**

1. **Realisation of High Price:**
   Book building issue is better than fixed price issue as it helps the issuing company to realise high price for its shares

2. **Quick Process:**
   Allotment of shares to the investors shall be made not later than 15 days from the closure of the issue

3. **Fast Availability of Funds:**
   The issuing company can make use of the funds raised soon after the allotment of shares.

4. **Lesser Issue Expenses:**
   As a few financial intermediaries are involved in the book building process, the issue expenses are less.

5. **Quick Update:**
   As bidding process is electronically done, the bid price and quantities are available on real time basis.

6. **Lack of Uncertainty:**
   The Syndicate Members assess the demand conditions for the shares of issuing company much before the public issue. Hence, there is not much uncertainty about the price and quantity of shares offered.

7. **Opportunities for Bid Revision:**
   The investors have multiple opportunities to revise their bid price and quantity depending on the market response.

8. **Quick Listing:**
   Shares are listed in the stock exchange within 7 days from the date of close of the issue
9. Less Administrative Expenses:
Since number of shareholders is less, the administrative costs are also less

10. Preference by Institutional Investors:
Book building issue receives good response from the Institutional Investors as they are the largest buyers of shares.

BOOK BUILDING: DEMERITS

1. Suitable for Mega Issues
It is suitable for large issues by big companies. The small companies cannot afford book building issue.

2. Well Developed Computerised System
Computerised system of trading and networking is required of book building issue.

3. Manipulation of Price
The large investors can manipulate the price as they have strong financial standing. Hence, small investors may find it difficult to buy shares.

4. Unfair Allotment
The Lead Book Runner may show favouritism towards large investors (mutual funds) in allotment of shares which will affect the small investors.

5. Concentrated Holding
A few large investors may buy large number of shares and influence the market price of shares in the stock exchange.

RIGHT ISSUE OF EQUITY SHARES

A rights issue is a primary market offer to the existing shareholders to buy additional shares of the company on a pro-rata basis within a specified date at a discounted price than the current market price.

It is important to note that the rights issue offer is an invitation that provides an opportunity for existing shareholders to increase their shareholding. It is a right that a shareholder may or may not choose to exercise and not an obligation to buy the shares.

Rights Issue Benefits
The rights issue offers various benefits to the shareholder as well as the company.
Benefits for the company

1. Rights issue is the **fastest mode of raising capital** for the company.
2. It is a **low-cost affair for the company** as company can save on the underwriters fees, advertisement expenses.
3. The **confidence of the existing shareholders is retained** by making the discounted offer to existing owners as payback for being part of the company.
4. The company can raise additional funds **without increasing the debt burden**.

Benefits for the Shareholders

1. Rights issues provide an opportunity for existing shareholders **to increase their stake in the company at a lesser price** than the current market price.
2. The rights issue **retains the control of the company with existing shareholders** when subscribed by the existing shareholders without renouncing their rights to outsiders.

Rights Issue Disadvantages

1. The rights issue would result in dilution in the value of holdings of the existing shareholders.
2. One of the reasons, the company looks to issue rights share is the need for cash on account of being cash strapped. This may sometimes give a wrong signal to investors that a company is struggling which may impact the reputation of the company and the share price.
3. The rights issue would increase the number of shares of a company and as a result it reduces earning per share (EPS).