A Study of Issue of Securities to Existing Shareholders in Special Reference to Right Issues & Bonus Shares

Dr. Shamsuddin

(Amity Law School / Amity University Rajasthan, Jaipur, India)

Corresponding Author: Dr. Shamsuddin

Abstract: When a company proposes to increase the share capital by issue of equity shares, convertible debentures (fully or partly), convertible preference shares to its existing equity shareholders, bonus shares, right shares, sweat equity shares then companies have to comply with the new procedures laid out under Companies Act 2013, regulations of SEBI (ICDR) Guidelines- 2009 and different Rule of ‘Companies (Share Capital and Debentures) Rules 2014’ as per the case may be. Here in this article a brief procedure and their characteristic features of rights share & bonus shares are explained in very lucid manner.

Keywords: Issue of Share, Right Share, Bonus Share, Private Company, Public Company, Existing Shareholder

Date of Submission: 13-11-2017

Date of acceptance: 07-12-2017

I. INTRODUCTION

The company’s capital is divided into small shares of definite price, wherein each share is regarded as a unit of ownership that is offered to the general public for sale, to raise funds from the market. It can be ordinary shares or preferred ones. The Companies Act provides that the subscribed capital of the companies can be increased, by issuing further shares to the existing shareholders at discounted prices, in the form of rights shares.

Contrary to this, when a company possess the huge amount of distributable profits, it transforms such profits into capital and divides it among the shareholders, in the proportion of their holdings, for which the members are not required to pay anything for such shares, called as bonus shares.

II. DEFINITION OF RIGHT SHARES & BONUS SHARES

Right shares are the shares which are issued by the company, with the aim of increasing the subscribed share capital of the company, by further issue. The rights shares are primarily issued to the current equity shareholders through a letter of an issue, on pro rata basis. The company sends a notice to each shareholder that gives a choice of buying the shares offered to them at discounted prices by the company. The shareholder is required to inform the company about the number of shares opted by them, within stipulated period. The shareholders can forfeit this right, partially or completely, to enable the company issue shares to the general public or selected investors on preferential basis, through the special resolution.

Bonus Shares denotes free share of stock issued to the existing shareholders of the company, depending on the number of shares held by the shareholder. The bonus issue only raises the total number of shares issued, but it does not make any change in the entity’s net worth. Nevertheless, the total number of shares issued by the companies as bonus issue increases, but the ratio of shares owned by the shareholder remains same.

Bonus shares do not inject fresh capital into the company, as they are issued to the shareholders without any consideration. As per Section 63 of the Companies Act 2013, the company can issue fully paid up bonus shares, out of any of the following reserves / account:
Free reserves
Securities premium account
Capital redemption reserve account

However, bonus shares cannot be issued by capitalising reserves created out of revaluation of assets.

III. BONUS SHARES – A SHAREHOLDER’S PLEASURE

One thing which every shareholder across various Companies would dream for is receipt of Bonus shares. The word ‘Bonus’ has a very positive connotation, implying something extra or some gains at no cost. Issue of Bonus shares are the most popular way by which companies like to utilize their large accumulated reserves. Over the years of operation, most growing companies build significant accumulated profits and reserves by ploughing back profits. Sometimes, this accumulated surplus is well above company’s current and likely future operational needs. In such cases, the company finds it appropriate and desirable to reward the shareholders by utilizing retained earnings. Bonus shares are issued to the existing shareholders free of cost in proportion to their shareholding by capitalizing the amount of ‘Reserves and Surplus’.

Theoretically, when the earnings per share (EPS) reduce, the price of the share also decreases proportionately. But practically, the situation is different. With more shares in the market, the stock becomes liquid. This liquidity will lead to price discovery and identifying true and fair value of the share. Bonus issue is perceived as a good signal because the company is capable of serving a larger equity base and at the same time the net worth of the company remains intact. Shares normally trade in green after issue of bonus shares.

A. Examples of Issue of Bonus Shares- ‘Kothari Products Ltd.’ announced issue of bonus shares on 05 January 2016. The bonus shares will be issued in the proportion of one equity share for every two equity shares held by its shareholders. The company fixed 06, January 2016 as the record date for the purpose of issuing the bonus shares. Bharat Electronics (BEL), a the public sector defense company, had passed an resolution by board to issue of bonus shares to the shareholders of the company in the ratio of 1:1 on 10th Aug. 2017.

There was no specific section under the Companies Act, 1956 governing the issue of Bonus Shares. However, Section 63 of the Companies Act, 2013 read with rule 14 of the Companies (Share Capital and Debentures) Rules, 2014 have laid the turf to regulate such issuance. The provisions are applicable to all classes of companies, listed or unlisted companies. Besides, Chapter IX of SEBI (ICDR) Regulations comprise of regulations 92 to 95 also regulate issuance of bonus shares in listed companies.

B. Source for Issue of Bonus Shares: As per Section- 63(1) a company may issue fully paid up bonus shares to its members out of following:

a. Free Reserves: If a Company is profit making, its accumulated profits and free reserves keep increasing. Hence profits earned appear to be much higher compared to the share capital. So it might consider that part of its accumulated profits may be distributed amongst members as bonus shares.

b. Securities Premium Account: In case of unlisted companies, Securities Premium amount on shares could be utilized for issuing bonus issue regardless of whether received in cash or kind. While in case of listed companies only that part of securities premium that can be realized in cash can be capitalized for issuing bonus shares.

c. Capital Redemption Reserve Account: If preference shares are redeemed out of profits, a sum equal to the nominal value of shares so redeemed shall be transferred to the capital redemption reserve Account. The Capital redemption reserve Account shall be applied by the company towards issue of unissued shares to members of the company as fully paid bonus shares. The capital redemption reserve created out of buy back of shares can also be utilized for bonus shares. No issue of bonus shares shall be made out of revaluation of assets. Capitalization of profits refers to the process of converting profits or reserves into paid up share capital. A company may capitalize its profits or reserves which otherwise are available for distribution as dividend.

---

1 Section 52(2)(a) & Section 52(3)(a) of the Companies Act 2013
2 Section 55(4) of the Companies Act 2013
3 Section 69(2) of the Companies Act 2013
A Study of Issue of Securities to Existing Shareholders in Special Reference to Right Issues & Bonus ..

amongst members by issuing fully paid bonus shares. While the 1956 Act had permitted utilization of the reserves arising from revaluation of assets for the purpose of issuing fully paid bonus shares.

d. The Company shall not issue shares in lieu of Dividend.

C. Conditions for Issue of Bonus shares: A Company shall not capitalize its profits or reserves for the purpose of raising bonus shares unless the following conditions are satisfied:

- Authorization in Articles,
- Bonus issue must be authorized by the members of the company in General meeting on recommendation of Board.

The clause envisages passing of an ordinary resolution in general meeting. ICDR Regulations do not prescribe anything in this regard. As per Rule 14 of the Companies (Share capital and debentures) Rules, 2014 a company which has once announced the decision of the Board recommending a bonus issue shall not subsequently with draw the same.

Once the Board recommends, the Bonus issue cannot be withdrawn even if the members decide so. In other words you are forcing the shareholders to accept the recommendation of the Board. So it is only a formality to seek approval of the Shareholders and even if it is rejected or not passed by the members in the EGM, the company still has to go ahead with the Issue of Bonus Shares by virtue of Section 63(2)(f) of the Companies Act 2013.

- Rule 12 (6) of the Companies (Prospectus and Allotment of Securities) Rules, 2014 (the Rules) requires a company to pass shareholder’s resolution for the purpose of capitalising its profits or reserves, amongst other conditions prescribed under the sub-section. Form PAS 3 deals with return of allotment of securities and therefore, allotment pursuant to issue of bonus shares under section 63 of the Companies Act 2013 will require filing under PAS3.

The section read with the rules nowhere requires that the shareholder’s resolution will be a special resolution, however, on perusal of the form under point 5 (e), we find that the date of “special resolution” is required. Further, such special resolution shall also be attached to the form. The anomaly is now very apparent that the provision of law does not require any special resolution, but surprisingly form PAS 3 suggests that special resolution shall be passed.

- Company should not have defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it.
- Company should not have defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus.

A Company cannot issue Bonus Shares if it has defaulted in repayment of deposits, interest on deposits, debt securities, and statutory dues like, Provident fund, gratuity and Bonus. The word ‘default’ has not been defined in the Companies Act, 2013. Besides, there is no mentioning whether default should be continuing or not.

- Partly paid-up shares, if any outstanding on the date of allotment, should be made fully paid-up.
- The bonus shares shall not be issued in lieu of dividend.

D. Issue of Bonus shares by listed Companies: Chapter IX of SEBI (ICDR) Regulations-2009, comprise of regulations 92 to 95. It deals with bonus issue of listed companies.

Conditions for bonus issue (Regulation 92): -A listed issuer may issue bonus shares to its members if-

a. It is authorised by its articles of association for issue of bonus shares, capitalisation of reserves, etc. if there is no such provision in the articles of association, the issuer shall pass a resolution for authorizing the same;

b. It has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;

c. 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;

d. The partly paid shares are made fully paid up.
Restriction on Bonus Issue (Regulation 93):- An issuer shall not make a bonus issue of equity shares if it has outstanding fully or partly convertible debt instruments at the time of making the 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 partly convertible debt instruments shall be issued at the time of conversion of such convertible debt instruments on the same terms or same proportion on which the bonus shares were issued.

Bonus Shares only against reserves, etc. if capitalised in cash. (Regulation 94):- 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. the bonus share shall not be issued in lieu of dividend.

Completion of Bonus Issue (Regulation 95):- An issuer, announcing a bonus issue after the approval of its board of directors and not requiring shareholders’ approval for capitalisation of profits or reserves for making the bonus issue, shall implement the bonus issue within fifteen days from the date of approval of the issue by its board of directors.

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 wherein the decision to announce the bonus issue was taken subject to shareholders’ approval. The Companies Act does not prescribe any time limits for issue of bonus shares.

Issue of Bonus Shares to Non Resident Entity: - FEMA provisions allow Indian companies to freely issue Bonus shares to existing non-resident shareholders, subject to adherence to sectoral cap, if any. However, such issue of bonus shares has to be in accordance with other laws/statutes like the Companies Act, as applicable, SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (in case of listed companies), etc. OCBs have been de-recognised as a class of investors from September 16, 2003. However bonus shares can be issued to erstwhile OCBs without the approval of RBI.

- Reporting of Issue of Shares
- After issue of bonus shares, the Indian company has to file Form FC-GPR, not later than 30 days from the date of issue of shares.
- Issue of bonus shares or stock options to persons resident outside India, has to be reported in Form FCGPR.

Listing obligation- On September 02, 2015, SEBI notified and brought the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (‘Listing Regulations’) into effect. SEBI’s provisions for listed entities have now been aligned with the provisions of the Companies Act, 2013. The Listing Regulations finalised after consultations, will consolidate and streamline the provisions of existing listing agreements for different segments of the capital market. The Listing Regulations shall come into force on the ninetieth day from date of publication in the official gazette i.e. 1 December 2015.

As per regulation 29 of the listing Regulations, 2015, the listed entity shall give prior intimation to stock exchange about the meeting of the board of directors in which any of the following proposals is due to be considered:
- The proposal for declaration of bonus securities where such proposal is communicated to the board of directors of the listed entity as part of the agenda papers. However, in case the declaration of bonus by the listed entity is not on the agenda of the meeting of board of directors, prior intimation is not required to be given to the stock exchange(s).
- As per regulation 42 of the listing Regulations, 2015, the listed entity shall intimate the record date to all the stock exchange(s) where it is listed for the following purposes,
  - Issue of right or bonus shares
  - The listed entity shall recommend or declare all dividend and/or cash bonuses at least five working days (excluding the date of intimation and the record date) before the record date fixed for the purpose.
• The listed entity shall disclose to the Exchange(s), within 30 minutes of the closure of the meeting, held to consider the cash bonuses recommended.

IV. LEGAL PROVISION FOR ISSUE OF SHARES ON RIGHTS BASIS

Section 62 of Companies Act, 2013 contains provisions on “further issue of capital”, and enacts the principle of pre-emptive rights of shareholders of a company to subscribe to new shares of the company. Provisions of Section 62 of Companies Act, 2013 are mandatory for all Private companies, public companies, listed as well as unlisted companies but as per Notification dated 5th June 2015, entire provision of Right issue of shares and will not be applicable to Nidhi Company. According to Section 23(2) of Companies Act 2013, issue of Prospectus is not necessary in Right issue whether with or without right of renouncement. All the persons, holding equity share capital, in terms of clause (a) of sub-section 1 of section 62 of the Companies Act, 2013, as on the record date are eligible and shall be offered shares on right basis.

Section 62(1) the Companies Act 2013

Section 62(1) the Companies Act 2013 provides that - “Where at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares shall be offered:

(a) to persons who, at the date of the offer, are holders of equity shares of the company in proportion, as nearly as circumstances admit, to the paid-up share capital on those shares by sending a letter of offer subject to the following conditions, namely:
   (i) 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;
   (ii) 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 referred to in clause (i) shall contain a statement of this right;
   (iii) 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 dis-adverse to the shareholders and the company;”

Rule 13 of Companies (Share Capital and Debentures) Rules 2014

“ Issue of shares on preferential basis- (1) For the purposes of clause (c) of sub-section (1) of section 62, If authorized by a special resolution passed in a general meeting, shares may be issued by any company in any manner whatsoever including by way of a preferential offer, to any persons whether or not those persons include the persons referred to in clause (a) or clause (b) of sub-section (1) of section 62 and such issue on preferential basis should also comply with conditions laid down in section 42 of the Act:
Provided that the price of shares to be issued on a preferential basis by a listed company shall not be required to be determined by the valuation report of a registered valuer.

Explanation- For the purposes of this rule, (i) the expression ‘Preferential Offer’ means an issue of shares or other securities, by a company to any select person or group of persons on a preferential basis and does not include shares or other securities offered through a public issue, rights issue, employee stock option scheme, employee stock purchase scheme or an issue of sweat equity shares or bonus shares or depository receipts issued in a country outside India or foreign securities;
(ii) the expression, “shares or other securities” means equity shares, fully convertible debentures, partly convertible debentures or any other securities, which would be convertible into or exchanged with equity shares at a later date.

(2) Where the preferential offer of shares or other securities is made by a company whose share or other securities are listed on a recognized stock exchange, such preferential offer shall be made in accordance with the provisions of the Act and regulations made by the Securities and Exchange Board, and if they are not listed, the preferential offer shall be made in accordance with the provisions of the Act and rules made hereunder and subject to compliance with the following requirements, namely:-
(a) the issue is authorized by its articles of association;
A Study of Issue of Securities to Existing Shareholders in Special Reference to Right Issues & Bonus..

(b) the issue has been authorized by a special resolution of the members;
(c) the securities allotted by way of preferential offer shall be made fully paid up at the time of their allotment.
(d) The company shall make the following disclosures in the explanatory statement to be annexed to the notice of the general meeting pursuant to section 102 of the Act:
(i) the objects of the issue;
(ii) the total number of shares or other securities to be issued;
(iii) the price or price band at/within which the allotment is proposed;
(iv) basis on which the price has been arrived at along with report of the registered valuer;
(v) relevant date with reference to which the price has been arrived at;
(vi) the class or classes of persons to whom the allotment is proposed to be made;
(vii) intention of promoters, directors or key managerial personnel to subscribe to the offer;
(viii) the proposed time within which the allotment shall be completed;
(ix) the names of the proposed allottees and the percentage of post preferential offer capital that may be held by them;
(x) the change in control, if any, in the company that would occur consequent to the preferential offer;
(xi) the number of persons to whom allotment on preferential basis have already been made during the year, in terms of number of securities as well as price;
(xii) the justification for the allotment proposed to be made for consideration other than cash together with valuation report of the registered valuer.
(xiii) The pre issue and post issue shareholding pattern of the company in the prescribed format.
(e) the allotment of securities on a preferential basis made pursuant to the special resolution passed pursuant to sub rule (2)(b) shall be completed within a period of twelve months from the date of passing of the special resolution.
(f) if the allotment of securities is not completed within twelve months from the date of passing of the special resolution, another special resolution shall be passed for the company to complete such allotment thereafter.
(g) the price of the shares or other securities to be issued on a preferential basis, either for cash or for consideration other than cash, shall be determined on the basis of valuation report of a registered valuer;
(h) where convertible securities are offered on a preferential basis with an option to apply for and get equity shares allotted, the price of the resultant shares shall be determined beforehand on the basis of a valuation report of a registered valuer and also complied with the provisions of section 62 of the Act;
(i) where shares or other securities are to be allotted for consideration other than cash, the valuation of such consideration shall be done by a registered valuer who shall submit a valuation report to the company giving justification for the valuation;
(j) where the preferential offer of shares is made for a non-cash consideration, such non-cash consideration shall be treated in the following manner in the books of account of the company-
(i) where the non-cash consideration takes the form of a depreciable or amortizable asset, it shall be carried to the balance sheet of the company in accordance with the accounting standards; or
(ii) where clause (i) is not applicable, it shall be expensed as provided in the accounting standards.”

V. BENEFITS OF ISSUE OF RIGHT SHARES

Issue of rights share is beneficial for the issuing company as well as the investors; the advantages can be numbers as follows-

More control on existing shareholders: Because right shares are issued to existing shareholder, so there is no risk of losing of control of existing shareholders. Existing shareholders’ share will increase in company and they can take decision without any compromise with the principles of company. It is very helpful to achieve the missions of company.

No loss to existing shareholder: By issuing shares to existing shareholders, value of share will increase due to stability in controlling power of company. So, there will not be any loss to existing shareholders with right shares.

4 Rule 13 of Companies (Share Capital and Debentures) Rules 2014

DOI: 10.9790/0837-2212015462 www.iosrjournals.org 59 | Page
A Study of Issue of Securities to Existing Shareholders in Special Reference to Right Issues & Bonus

No cost for issuing shares to public: Company has not to give any invitation to public, so advertising cost and other new issue cost will decrease with right shares.

Helpful to increase the goodwill of company: It is also way to increase the goodwill and reputation of company in industry.

Capital formation: Company can get capital at any time without any delay because company can easily issue of shares to existing shareholders just sending right shares offer notice.

More scientific: Distribution technique of right shares issue is more scientific. Not all shares will get by single shareholders but it will be in the proportion of existing shares which is in the hand of old shareholders at this time.

FOR EXAMPLE
A company is planning to raise funds by making rights issue of equity shares to finance its expansion. The existing equity share capital of the company is Rs. 50, 00,000. The market value of its share is Rs.42. The company offers to its share the right to buy 2 shares at Rs. 11 each for every 5 share held. For evaluation the followings are required to calculate:
1. Theoretical market price after right issue
2. The value of right
3. % increase in share capital

Solution
Market value of 5 shares already held by a shareholder @ Rs. 42 = 210
Add the price to be paid by him for acquiring 2 more shares @ Rs. 11 per share = 2
Total Rs. 232
1. Theoretical market price of one share = 232/7 = Rs. 33.14
2. Value of Right = Market price – theoretical market price = 42 - 33.14 = 33.86
3. % increase in share capital

VI. PROCEDURE FOR ALLOTMENT OF RIGHT SHARES

As per the provisions of companies act the following procedure will be adopted by every private or public company for issue of rights share-
a) Issue notice in writing to every Director at least seven days’ before convening the Board meeting. [Sec 173 (3)] - Firstly, notice calling the Board Meeting shall be issued to all the Directors at least 7 days before the date of Board Meeting along with the agenda and other related note as required under section 173 of the Companies Act, 2013 read with the Secretarial Standard-1.
b) Convene a Board Meeting- On the date specified in the notice, the Board Meeting shall be convened and the Board will consider and approve the following:
   • Proposal of issue of shares on right basis
   • Price at which shares to be issued including Premium, if any
   • Draft Letter of Offer for Right Issue
   • Terms of Right Issue
   • Record Date
   • Any other ancillary matter

c) Filing of MGT-14-In case of public Companies the resolution approving the issue of shares on Right basis shall be filed with the concerned Registrar of Companies in E-Form-MGT-14 within 30 days of passing of such resolution.
d) Issue of Offer Letter- There is no prescribed format for “Letter of offer” to be issued, in case of right issue of securities. Format of “Letter of offer” prescribed in Companies Act, 2013 is Pursuant to section 42 and Rule
14(1) of Companies (Prospectus and Allotment of Securities) Rules, 2014 and not for Section 62. Letter of offer shall specify the number of shares offered and other information and prescribe time limits for subscription. The Offer Letter shall be dispatched by registered post or by speed post or through electronic mode to all the existing equity shareholders of the Company, at least three days before the opening of the issue. However, as per the recent exemptions given to private Companies, if the 90% or more shareholders of the private Company give their consent then in such case the period lesser then the specified above shall be applicable. Share Application Form shall also be attached with the Offer Letter. Sometime, company can contract with underwriter who promises that if existing shareholders will not buy, they will takeover all the unsubscribed rights share. Underwriters and sub-underwriters may be financial institutions, stock-brokers, major shareholders of the company or other related or unrelated parties.
e) Tendering Period-The Right Issue Offer shall be open for at least 15 days but shall not remain open for more than 30 days from the date of the offer, if the offer is not accepted within the time prescribed, than such offer shall be deemed to have been declined.
f) However, as per the recent exemptions given to private Companies, if the 90% or more shareholders of the private Company give their consent then in such case the period lesser then the specified above shall be applicable.
g) Right of Renunciation-Unless the articles otherwise provide, the Right Issue Offer shall be deemed to include a right to renounce the shares offered in favor of any other person. The Offer Letter shall also contain this statement.
h) Decline of Offer-If any shareholder, to whom the Right Offer is made, declines the offer or does not accept the offer, than in such cases, the Board shall have the power to dispose of such shares offered, in any manner, which is in the best interest of the Company and the Shareholders.
i) Receipt of Funds-The Shareholders, who accept the offer, shall pay the amount as indicated in the Offer Letter or the amount to the extent of shares accepted, as the case may be to the Company, at the time of accepting the offer.

It is pertinent to note here that such shares must be issued within 60 days of the receipt of the funds.
j) Issue of Notice of Board Meeting and Convening of Board Meeting:
After closure of the issue the Board Meeting shall be Convened on due notice as per the details prescribed above to consider and approve the allotment of shares.
k) Allotment in case of Foreign Shareholder-If there is any foreign shareholder, than receipt of funds towards issue of shares from such foreign shareholder shall amount to FDI, hence the Company shall also be required to file Form FC-GPR with the RBI within 30 days of the allotment of the shares. (For detailed note on issue of shares to foreign person, kindly write me back to my mail id given at the end.)
l) Filing of Return of Allotment-After allotment, the Company is required to file a return in the E-Form- PAS-3 with the concerned Registrar of Companies along with the complete list of Shareholders within 30 days of allotment of shares.
m) Issue of Share Certificate- After allotment the Company shall issue the share certificate as per the provisions and the time prescribed under Section 46 of the Companies Act, 2013.

VII. CONCLUSION

All Company who want to issue rights share firstly gives the offer to existing shareholder. An additional option is also available to them i.e. if the offered shareholders are not interested in accepting the offer or not in a situation that he can subscribe the rights due to short of funds but he is willing to avail his rights than he can renounce his right to specified number of shares by selling his right to others. They can partly subscribe the shares and partly can sale to others for subscription. Therefore it can be said the by issuing rights shares a company can raise fund easily without adopting a long process of issue of shares for public. The company can also develop the faith among the existing shareholders by obliging them in such manner. It is mandatory for the issuing company whose shares are quoted on a recognized stock exchange, must also be listed such shares on the respective stock exchanges. Right shares encompass selling shares in the primary market, by issuing the rights to the current shareholders. While there is nothing wrong with the practice of issuing bonuses, ignorance of investors about its actual implication leads to speculative trades. This may lift the stock price in the short
term. However, there is no addition to the stock’s intrinsic value which is based solely on fundamentals. In fact, in some cases, the corrupt management may exploit such ignorant investors by making such announcement to artificially inflate the stock prices. Unfortunately, for the investors who do not have pretty much knowledge and experience of securities market and buy shares with the hope of gain from such corporate activities, may be dangerous to them when the hype goes down and the market once again wake up to the long term fundamentals of the firm under consideration. As such, investors would do well not to fall for such gimmicks and base their investing decisions on fundamentals and growth prospects of a company.

REFERENCES


