

**Faster Rights Issue with flexibility of allotment to specific investors under  
Chapter III of SEBI (Issue of Capital and Disclosure Requirements)  
Regulations, 2018**

**1. Objective**

1.1. This memorandum seeks approval of the Board for enabling faster Rights Issue with flexibility of allotment to specific investors under Chapter III of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (**SEBI ICDR Regulations**) and amendment of SEBI ICDR Regulations and issuance of Circular.

**2. Background**

2.1. Section 62(1)(a) of the Companies Act, 2013, inter-alia, provides for the further issuance of shares to persons who, at the date of the offer, are holders of equity shares of the company in proportion, by way of passing a resolution by the Board of Directors. In case of listed entities, provisions of Rights Issue are governed by Chapter III of SEBI ICDR Regulations, which has laid down the regulatory provisions for an issuer offering specified securities of aggregate value of fifty crores rupees or more through a Rights Issue, such as eligibility requirements, disclosures requirement and filing of letter of offer, issuance conditions and procedure etc.

2.2. It is observed from the past data, that the funds raised through Rights Issues and number of total Rights Issues are lesser than other modes of funds raising such as Preferential Issue. Total funds raised during last three Financial Years (F.Y. 2021-22, F.Y. 2022-23 and F.Y. 2023-24) are as follows:

Financial Year	Mode of fund raising					
	Rights Issue		Preferential Issue		Qualified Institutional Placement (QIP)	
	No. of issues	Amount (INR Cr.)	No. of issues	Amount (INR Cr.)	No. of issues	Amount (INR Cr.)
<b>2021-22</b>	43	26,327	349	60,697	29	31,441
<b>2022-23</b>	73	6,751	454	83,832	11	8,212
<b>2023-24</b>	67	15,110	689	45,155	61	68,972

2.3. Rights Issue gives an opportunity to all existing shareholders to participate in fund raising whereas Preferential Issue is made to any select person or group of persons. Rights Issue is generally made at a discount to current market price

and this is an advantage/benefit to shareholders to participate in Rights Issue.

- 2.4. In order to make Rights Issue a preferred mode vis-à-vis other modes of fund raising i.e. Preferential Issue, etc. SEBI undertook a review of the existing Rights Issue process and in this regard, discussions were held with market participants viz. Market Infrastructure Institutions (MIIs), Registrar to the issue (RTAs) and Merchant Bankers.
- 2.5. Pursuant to the discussions held with market participants and internal deliberations regarding the current Rights Issue process, a detailed agenda note was placed before the Primary Market Advisory Committee (PMAC) in its meeting held on July 22, 2024 for its consideration and deliberations. The Committee deliberated upon the proposals and provided their recommendations on the proposals.
- 2.6. A consultation paper, dated August 20, 2024 was placed on SEBI website seeking public comments on the recommendations of the PMAC. The consultation paper is placed at **Annexure-I**. In response to the consultation paper, 15 entities have given their comments on various proposals. The entities include stakeholders such as Law Firms, Merchant Bankers, Market Intermediaries, ICAI, Individuals, etc. and details of comments received are placed at **Annexure-II**. The existing regulatory provisions, recommendations of PMAC, analysis of the public comments, rationale for acceptance of the recommendations and the proposals for the consideration of the Board are discussed in detail in the following paragraphs.

### **3. Review of existing Rights Issue Process**

#### **3.1. Detailed disclosures requirement at the time of filing Draft Letter of Offer (DLoF) and Letter of Offer (LoF) under SEBI ICDR Regulations-**

3.1.1. **Existing Regulatory Provisions:** In terms of Regulation 70(1) of SEBI ICDR Regulations, the DLoF and LoF shall contain all material disclosures which are true and adequate to enable the applicants to take an informed investment decision. Regulation 70(2) provides that the DLoF and LoF shall contain disclosures as specified in Part B or Part B-1 of Schedule VI of SEBI ICDR Regulations, as applicable.

#### **3.1.2. Issues for consideration:**

3.1.2.1. Preparation of a detailed DLoF/LoF is usually a time consuming exercise that may result in compilation of information, which is

already available in the public domain.

3.1.2.2. As per the general practice, it takes approximately 50-60 days in completing due diligence process and preparation of DLoF/LoF by the Merchant Bankers, which makes the Rights Issue process lengthy and time consuming.

3.1.2.3. In view of longer timelines involved, sometimes issuers may opt for alternative fund raising mode like Preferential Issue, which usually takes lesser time vis-à-vis Rights Issue. This is primarily because, in Preferential Issue there is no detailed document like DLoF/LoF and the company is required to disclose only brief information regarding the issue such as objects of the issue, maximum number of specified securities to be issued, time frame within which the issue shall be completed, etc. Also, there is no requirement of exercising due diligence by Merchant Bankers. While Preferential Issue process involves shorter timelines, the priority given to specific investors over the existing public shareholders deprives them of participating in fund raising and also result in dilution of their shareholding.

### 3.1.3. Recommendations of the PMAC:

3.1.3.1. PMAC recommended to do away with the requirement of filing DLoF with SEBI for issuance of its observation and to rationalize the content of LoF by requiring to disclose only the relevant information regarding the Rights Issue such as object of the issue, price, record date, entitlement ratio, etc.

3.1.4. **Analysis of Public Comments:** The break-up of the comments received in respect of the proposals are as under. The detailed analysis of public comments is placed at **Annexure-III** (Page no. 1, Para 1.1.1 and 1.1.2).

Sr. No.	Proposals	Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
1.	To discontinue the current requirement of filing DLoF with SEBI for issuance of its observation.	13	8	0	5
2.	To rationalize the content of LoF by requiring to disclose only the relevant information regarding Rights Issue such as object of the issue, price, record date, entitlement ratio, etc.	13	7	3	3

**3.1.5. Rationale for acceptance:** After considering the recommendations of PMAC and the public comments, the rationale for acceptance of recommendations is as under –

3.1.5.1. Rights Issue is one of the method of raising additional capital that involves issuance of shares to the existing shareholders in proportion to their shareholding in the company proposing such issue. The issuer proposing the Rights Issue is already listed and thus, is obligated to comply with periodic disclosures requirements as specified under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (**SEBI LODR Regulations**) such as Corporate Governance Report, Annual Report, Financial Results, disclosure of material events etc.

3.1.5.2. Further, usually investors invest in the secondary market on the basis of information available in public domain. In case of Rights Issue, for an investor to take an investment decision, only additional information is required viz. object of the issue, price, entitlement ratio, promoter's participation, etc. Thus, it can be inferred that investing in a company by way of Rights Issue is more or less akin to a secondary market purchase. Hence, in case of Rights Issue, there seems to be no compelling requirement for aggregating the information which is already available in the public domain except the information relevant to the issue.

**3.1.6. Proposal for consideration of the Board:**

3.1.6.1. To discontinue with the requirement of filing Draft Letter of Offer with SEBI for issuance of its observations.

3.1.6.2. To rationalize the content of Letter of Offer by requiring to disclose only the relevant information regarding the Rights Issue such as object of the issue, price, record date, entitlement ratio, etc.

**3.2. Requirement of appointment of Merchant Bankers**

**3.2.1. Existing Regulatory Provisions:**

3.2.1.1. In terms of Regulation 69 of SEBI ICDR Regulations, the issuer shall appoint one or more Merchant Bankers, which are registered with the Board, as lead managers to the issue.

3.2.1.2. Schedule I of SEBI ICDR Regulations, specifies the activities to be

performed by the Lead Managers during the Rights Issue process which includes drafting and designing of offer document, application form and abridged LoF, marketing of issue, finalisation of basis of allotment, dispatch of certificates, coordination with various agencies etc.

### 3.2.2. Issues for consideration:

3.2.2.1. Currently it takes on an average 50-60 days in conducting due-diligence and preparation of detailed offer document by the Merchant Bankers. Further, there are no specific timelines specified to complete the due-diligence and filing of DLoF/LoF which results in a longer duration to complete the entire process and raising of funds.

3.2.2.2. Also, Rights Issue Chapter of SEBI ICDR Regulations, 2018 is not applicable on Rights Issues of size of less than fifty crores rupees. Accordingly, it is not mandatory for the issuer to appoint a Merchant Banker.

### 3.2.3. Recommendations of the PMAC:

3.2.3.1. PMAC recommended to dispense with the requirement of appointing a Merchant Banker by an issuer for Rights Issue.

3.2.3.2. PMAC also recommended that the activities which are presently carried out by the Merchant Bankers during the Rights Issue may be assigned to the Issuer, Registrar to the issue and Stock Exchanges/Designated Stock Exchanges.

3.2.4. **Analysis of Public Comments:** The break-up of the comments received in respect of the proposals are as under. The detailed analysis of public comments is placed at **Annexure-III** (Page No. 2, Para 2.1.1 and 2.1.2)

Sr. No.	Proposal	Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in disagreement
1.	To dispense with the requirement of appointing a Merchant Banker by an issuer for Rights Issue	13	4	0	9*
2.	To assign the activities of Merchant Banker to the issuer, Registrar to the issue, Stock Exchanges/Designated Stock Exchange and Issuer.	14	4	2	8#
* These 9 commenters include 4 merchant bankers. Out of 9 commenters, 4 have disagreed without giving any rationale.					
# These 8 commenters include 3 merchant bankers. Out of 8 commenters, 2 have disagreed without giving any rationale.					

**3.2.5. Rationale for acceptance:** After considering the recommendations of PMAC and the public comments, the rationale for acceptance of the recommendations are as under –

3.2.5.1. In light of the above proposal to discontinue the requirement of filing DLoF with SEBI, simplification of content of LoF and due diligence thereof, the role of Merchant Banker would be reduced to a large extent. Further, the sub-activities carried out by the Merchant Bankers such as selection of other intermediaries, marketing of the issue, availability of issue material, finalization of basis of allotment, submission of post issue report can be performed by MIs, RTAs and Issuer.

3.2.5.2. In Preferential Issues there is no requirement of appointing a Merchant Banker, as there is no need to involve them or exercise any due-diligence of any document, because the salient features of capital raising are disclosed in the explanatory statement to the notice for the general meeting proposed for passing special resolution.

3.2.5.3. In Rights Issue of size less than fifty crore rupees, it is not mandated to appoint a Merchant Banker. Further, in the proposed framework of Rights Issue, the DLoF need not be filed with SEBI, where Merchant Banker interacts and finalize the LoF based on the observations by SEBI. Further, in the proposed framework appointing of Merchant Banker will be optional at the discretion of the issuer.

**3.2.6. Proposal for consideration of the Board:**

3.2.6.1. To dispense with the mandatory requirement of appointing a Merchant Banker by an issuer for Rights Issue. However, appointment of Merchant Banker would be optional subject to adhering to the proposed timelines.

3.2.6.2. To assign the activities which are presently carried out by the Merchant Banker to the Issuer, Registrar to issue and Market Infrastructure Institutions.

**3.3. Requirement of appointment of Registrar to the Issue**

**3.3.1. Existing Regulatory Provisions:**

3.3.1.1. In terms of Regulation 69(7) of SEBI ICDR Regulations, the issuer

shall appoint a Registrar to the issue registered with the Board, which has connectivity with all the Depositories.

3.3.1.2. Major activities presently performed by the Registrar to the issue includes identification of blocked or frozen demat accounts of shareholders, determination of Rights Entitlement (REs) of shareholders, assisting in opening Escrow demat account, validation with Depositories and sharing daily bid data with Stock Exchanges, weeding out multiple and technical rejections in consultation with lead manager, submitting the basis of allotment with Designated Stock Exchange etc.

**3.3.2. Issues for consideration:**

3.3.2.1. SEBI ICDR Regulations, primarily does not specify any activity which needs to be performed by Registrar to the issue independently, apart from the requirement of providing a certificate to the lead manager certifying that at least 90% of the offer through LoF has been subscribed, as specified in Regulation 84(3) of SEBI ICDR Regulations.

3.3.2.2. Further, the activities such as identification of frozen or blocked demat accounts, determination of REs of every shareholder, validation with Depositories and sharing daily bid data with Stock Exchanges, finalizing the format for allotment and refund intimation to investors, submitting the basis of allotment with Designated Stock Exchange, etc. are carried out by Registrar to the issue on the basis of information / data provided by Stock Exchanges or Depositories.

**3.3.3. Recommendations of the PMAC:**

3.3.3.1. PMAC recommended that validation of applications and finalization of basis of allotment which is presently carried out by the Registrar to the issue, may also be carried out by Stock Exchanges and Depositories concurrently.

3.3.3.2. PMAC also recommended that Stock Exchanges and Depositories should develop a system for real time validation of the applications in a period of six months from implementation of the proposals.

**3.3.4. Analysis of Public comments:** The break-up of the comments received in respect of the proposals are as under. The detailed analysis of public

comments is placed at **Annexure-III** (Page No. 6, Para 3.1.1 and 3.1.2).

<b>Sr. No.</b>	<b>Proposal</b>	<b>Total Comments received</b>	<b>No. of Comments in agreement</b>	<b>No. of Comments in partial agreement</b>	<b>No. of Comments in dis-agreement</b>
1.	Certain activities such as validation of applications and finalization of basis of allotment which is presently carried out by Registrar to the issue may also be carried out by Stock Exchanges and Depositories concurrently.	12	7	1	4
2.	To develop a system for real time validation of the applications by Stock Exchanges and Depositories in a period of six months from the implementation of the proposals.	10	7	1	2

**3.3.5. Rationale for acceptance:** After considering the recommendations of the PMAC and the public comments, the rationale for acceptance of the recommendation is as under –

3.3.5.1. Since, Registrar to the issue perform certain activities based on the information sought from the Stock Exchanges and Depositories such as validating the applications, finalizing the basis of allotment and refund intimation to investors, etc., these activities can also be performed by Stock Exchanges and Depositories themselves.

**3.3.6. Proposal for consideration of the Board:**

3.3.6.1. Validation of applications and finalization of basis of allotment which is presently carried out by the Registrar to the issue, may also be carried out by Stock Exchanges and Depositories concurrently.

3.3.6.2. Stock Exchanges and Depositories will develop a system for real time validation of the applications in a period of six months from the date of implementation of the proposed framework of Rights Issue contained in this memorandum.

#### **3.4. Streamlining the timelines involved in Rights Issue Process**

3.4.1. **Current Timelines involved in Rights Issue Process from the date of Board meeting approving Rights Issue till date of listing and trading:** Currently, for Non-Fast Track Rights Issues, it takes on an average 317 days to complete the process i.e. from the date of Issuer's Board approval till the date of listing and trading, whereas for Fast Track

Right Issues, it takes on an average 126 days from the date of Issuer's Board approval till the date of listing and trading. This also include an average of 18 days for issue period i.e. from issue opening day to issue closure day and 7-8 days after issue closure till the date of listing and trading.

### 3.4.2. **Issues for Consideration:**

3.4.2.1. Currently, SEBI Regulations do not prescribe any specific timelines for various activities carried out in respect of the Rights Issue Process i.e. from the date of Issuer's Board meeting approving the Rights Issue till the date of listing and trading. This may result in longer time to complete the Rights Issue process.

### 3.4.3. **Recommendations of the PMAC:**

3.4.3.1. PMAC recommended that the current timelines involved in the Rights Issue Process from the date of Issuer's Board meeting approving the Rights Issue till the date of issue closure may be reduced to T+20 working days (here 'T' being the date of Issuer's Board meeting approving the Rights Issue). Further, in case of Rights Issue of convertible debt instruments, wherein shareholders' approval is required, then the timeline of T+20 working days shall be longer to the extent of time taken to obtain such shareholders' approval.

3.4.3.2. PMAC further recommended that the current timelines involved in the Rights Issue Process from the date of issue closure till the date of listing and trading may be reduced to T+3 working days (here 'T' being the date of issue closure).

3.4.4. **Analysis of Public Comments:** The break-up of the comments received in respect of the proposals are as under. The detailed analysis of public comments is placed at **Annexure-III** (Page No. 7, Para 4.1.1 and 4.1.2).

Sr. No.	Proposal	Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
1.	To reduce the current indicative timelines of Rights Issue to T+20 working days from the date of board meeting approving Rights Issue till the date of closure of Rights Issue.	14	8	1	5

Sr. No.	Proposal	Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in disagreement
2.	To reduce the current indicative timelines of Rights Issue to T+3 working days from the date of date of issue closure till the date of listing and trading.	12	6	4	2

**3.4.5. Rationale for acceptance:** After considering the recommendations of PMAC and public comments, the rationale for acceptance of the recommendation is as under –

3.4.5.1. Since, the requirement of filing of DLoF with SEBI is proposed to be discontinued with and appointment of Merchant Bankers along with due diligence is proposed to be dispensed with, the timeline for Rights Issue would be reduced.

3.4.5.2. Further, to make fund raising through Rights Issue more efficient in a time bound manner, the specific timelines may be prescribed for various activities involved in Rights Issue process.

3.4.5.3. The proposed timelines for Rights Issue will be less than the timelines involved in Preferential Issue (T+40 working days). It will be faster to raise capital through Rights Issue and opportunity will be given to shareholders to participate in fund raising.

**3.4.6. Proposal for consideration of the Board:**

3.4.6.1. To reduce the current indicative timelines of Rights Issue to T+20 working days from the date of Issuer's Board meeting approving Rights Issue till the date of closure of Rights Issue (here 'T' being the date of Issuer's Board meeting approving the Rights Issue). Further, in case of Rights Issue of convertible debt instruments, wherein shareholders' approval is required, then the timeline of T+20 working days shall be longer to the extent of time taken to obtain such shareholders' approval.

3.4.6.2. To reduce the current indicative timelines of Rights Issue to T+3 working days from the date of closure of Rights Issue till the date of listing and trading of Rights Issue, (here 'T' being the date of issue closure).

The indicative timelines with respect to aforesaid proposals are given in **Annexure-IV**.

**3.5. Enabling allotment to specific investors in Rights Issue:**

**3.5.1. Existing Regulatory Provisions:**

3.5.1.1. **Priority of Allotment:** Regulation 90(2) of SEBI ICDR Regulations provides the manner of allotment in which allotment against the REs are made by the issuer to the eligible shareholders, renounce(s) and to the shareholders who have applied for additional shares in addition to their REs.

**3.5.1.2. Renunciation of Rights Entitlements by the promoters:**

- a) Regulation 62(1) of SEBI ICDR Regulations, states that the issuer making the Rights Issue of specified securities shall ensure that where the issuer or any of its promoters or directors is a willful defaulter or a fraudulent borrower, the promoter or promoter group of the issuer shall not renounce their rights except to the extent of renunciation within the promoter group.
- b) Regulation 86(1) of SEBI ICDR Regulations, provides for the minimum subscription to be received in the issue and states that the minimum subscription shall be at least ninety percent of the offer through offer document.

Provided that minimum subscription criteria shall not be applicable to an issuer if:

- i)* the object of the issue involves financing other than financing of capital expenditure for a project; and
  - ii)* the promoters and the promoter group of the issuer undertake to subscribe fully to their portion of REs and not renounce their rights except to the extent of renunciation within the promoter group.
- c) Furthermore, under Regulation 99(l) of SEBI ICDR Regulations, 2018, one of the eligibility conditions for making a Fast Track Rights Issue is that promoter and promoter group shall mandatorily subscribe to their REs and shall not renounce their REs except to the extent of renunciation within the promoter group or for the purpose of complying with Minimum Public Shareholding

(MPS) norms.

### 3.5.1.3. Allotment in current Rights Issues:

- a) A study of some of the companies which undertook Rights Issue in the past four financial year (2020-21 to 2023-24) was carried out and the analysis of the same is as follows:

No. of Companies	Average allotment (%) to the original RE holders	Average allotment (%) to other than original RE holders	Average additional allotment (%) to promoters
48	55%	45%	13%
Note: The above details are as per the information provided by the RTAs			

- b) From the above table, it is observed that in 48 Rights Issues in last four years on an average 55% of the rights shares are allotted to original RE holders and remaining 45% are allotted to other than original RE holders. This 45% includes shares subscribed by renounees, applications for additional shares by existing shareholders and renounees and promoters subscribing to the under-subscribed portion.

### 3.5.2. Issues for Consideration:

- 3.5.2.1. It is observed that current regulations restrict the promoters to renounce their rights (other than to the extent of renoucement within the promoter group) in case the issue has not achieved the minimum subscription criteria and in Fast Track Rights Issues.
- 3.5.2.2. From the priority of allotment under Regulation 90(2), it is observed that SEBI ICDR Regulations are silent regarding the allotment of the under-subscribed portion to any persons other than REs holders.
- 3.5.2.3. It is also observed that despite the fact that the existing shareholders have the first right to participate in fund raising activity of the issuer, the listed entities have preferred to raise fund though Preferential Issue by offering it to select few investors including promoters. The plausible reasons for the Preferential Issue being a preferred mode are swift fundraising, attracting strategic investors and increase in promoter's stake etc.

### 3.5.3. Recommendations of the PMAC:

- 3.5.3.1. PMAC recommended to relax the restrictions with respect to renunciation by promoters and allowing the promoter/promoter group

to renounce their REs in favour of any specific investor(s) with upfront disclosures of the details of such renunciation through advertisement. Such advertisement shall be made in at least one English national daily newspaper, one Hindi national daily newspaper and one regional language daily newspaper with wide circulation, at least two days prior to the issue opening date. Further, the same shall also be disclosed to the Stock Exchange(s) for dissemination on their website. The details of the disclosure shall include name of the renounee(s) i.e. specific investor(s), name of the renouncer i.e. promoter / promoter group, number of REs that would be renounced.

- 3.5.3.2. It is further recommended that in order to protect the interest of investors and ensure that the promoters and specific investor(s) are committed to the disclosures made, promoter would be required to renounce the REs to specific investor(s) and such specific investor(s) would make the application through ASBA by 11:00 A.M. on the first day of issue opening period. Issuer shall disclose the same to the Stock Exchanges by 11.30 A.M. for dissemination.
- 3.5.3.3. It is also recommended that once the application is made by the specific investor(s) against the REs renounced to them by the promoters, such specific investor(s) will not be permitted to withdraw such applications.
- 3.5.3.4. PMAC also recommended to allow the allotment of under-subscribed portion of the issue to specific investor(s) at the discretion of the issuer with upfront disclosures of the details of such specific investor(s) through advertisement which will be made at least two days prior to the issue opening date. Further, the same shall also be disclosed to the Stock Exchange(s) for dissemination on their website. In case the under-subscribed portion of the issue would be allotted to selective investor(s), then such investor(s) would bring additional application money before the finalization of basis of allotment.
- 3.5.3.5. It is further recommended that the present condition would continue where the issuer or any of its promoters or directors is a willful

defaulter or a fraudulent borrower, the promoters or promoter group of the issuer are not allowed to renounce their rights except to the extent of renunciation within the promoter group.

**3.5.4. Analysis of Public Comments:** The break-up of the comments received in respect of the proposals are as under. The detailed analysis of public comments is placed at **Annexure-III** (Page No. 9, Para 5.1.1 to 5.1.5).

Sr. No.	Proposal	Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in disagreement
1.	To enable promoters/promoter group to renounce their rights in favour of any specific investor(s) with upfront disclosures through public advertisement at least two days prior to the issue opening date along with disclosing the same to Stock Exchange(s) for dissemination.	13	7	2	4
2.	Renunciation by promoters to specific investor(s) and such specific investor(s) to apply for the rights entitlement through ASBA by 11 AM on the first day of issue opening and intimation of same by the issuer to the Stock Exchanges for dissemination by 11.30 A.M. on first day of issue opening.	10	5	0	5
3.	To restrict the specific investor(s) from withdrawing the application made by them against rights entitlement renounced by promoter.	10	7	1	2
4.	To allow the allotment of under-subscribed portion of the issue to specific investor(s) at the discretion of the issuer with upfront disclosures through public advertisement atleast two days prior to the issue opening date along with disclosing the same to Stock Exchange(s) for dissemination.	11	5	3	3
5.	To retain the present condition where the issuer or any of its promoters or directors is a wilful defaulter or a fraudulent borrower, the promoters/promoter group of the issuer are not allowed to renounce their rights except to the extent of renunciation within the promoter group.	10	9	0	1

**3.5.5. Rationale for acceptance:** After considering the recommendations of PMAC and the public comments, the rationale for acceptance of the recommendations are as under –

3.5.5.1. The proposed Rights Issue process not only addresses the major shortcoming associated with the present Rights Issue process i.e. lengthy time period and requirements of filing detailed DLoF/LoF, appointment of intermediaries etc., but also have various advantages such as quicker fund raising vis-a-vis Preferential Issue, giving

opportunity to existing shareholders to participate in fund raising and strategic investors to participate through REs.

3.5.5.2. Further, relaxing the restrictions on renouncement of right entitlements of promoter/promoter group will provide flexibility to issuer/promoter to on-board specific investors as shareholder of the company.

3.5.5.3. Allowing allotment to specific investors may also result in additional benefits such as the safeguard against the failure of the issue, reduce the requirement of underwriting and also help issuer to better price the Rights Issue.

**3.5.6. Proposal for consideration of the Board:**

3.5.6.1. To relax the restrictions with respect to renunciation by promoters and allow the promoter / promoter group to renounce their rights entitlements in favour of any specific investor(s) provided upfront disclosure of the details of such renunciation would be made through advertisement. Such advertisement shall be made in at least one English national daily newspaper, one Hindi national daily newspaper and one regional language daily newspaper with wide circulation at least two days prior to the issue opening date. Further, the same shall also be disclosed to the Stock Exchange(s) for dissemination on their website. Disclosure of details of renunciation by Promoter/Promoter group shall be made in the aforesaid advertisement and website of Stock Exchanges. The disclosures shall include name of the renouncee(s) i.e. specific investor(s), name of the renouncer i.e. promoter / promoter group, number of REs that would be renounced etc.

3.5.6.2. Promoter is required to renounce the REs to such specific investor(s) and such specific investor(s) would make the application through ASBA by 11:00 A.M. on the first day of issue opening period. Issuer shall disclose to the Stock Exchanges whether the specific investor(s) has made the application or not, for dissemination by 11.30 A.M on the first day of issue opening period.

3.5.6.3. Once the application is made by the specific investor(s) against the REs renounced to them by the promoters, such specific investor will

not be permitted to withdraw such applications.

3.5.6.4. Allow the allotment of under-subscribed portion of the issue to specific investor(s) at the discretion of the issuer, provided upfront disclosure of the details of such specific investor(s) would be made at least two days prior to the issue opening date along with advertisement as mentioned at para 3.5.6.1 above. Further, the same shall also be disclosed to the Stock Exchange(s) for dissemination on their website. Furthermore, such investor(s) would bring additional application money before the finalization of basis of allotment.

### 3.6. **Mandatory Disclosures in proposed simplified Letter of Offer:**

#### 3.6.1. **Existing Regulatory Provisions:**

3.6.1.1. Regulation 99(f) of SEBI ICDR Regulations requires that the issuer has been in compliance with the equity listing agreement or the SEBI LODR Regulations as applicable, for a period of at least three years immediately preceding the reference date.

3.6.1.2. Regulation 99(g) of SEBI ICDR Regulations requires that the issuer has redressed at least ninety-five per cent of the complaints received from the investors till the end of the quarter immediately preceding the month of the reference date.

3.6.1.3. Regulation 99(h) of SEBI ICDR Regulations requires that no show-cause notices, excluding proceedings for imposition of penalty, have been issued by the Board and pending against the issuer or its promoters or whole time directors as on the reference date. Further, in cases, where against the issuer or promoters or whole time directors, any show-cause notice has been issued by the Board or the Adjudicating Officer, in a proceeding for imposition of penalty or prosecution proceedings have been initiated by the Board, necessary disclosures in respect of such actions along with potential adverse impact on the issuer shall be made in the letter of offer.

3.6.1.4. Regulation 99 (j) of SEBI ICDR Regulations requires that the equity shares of the issuer have not been suspended from trading as a disciplinary measure during last three years immediately preceding the reference date.

3.6.2. **Recommendations of the PMAC:** PMAC recommended that the issuer should disclose the details of compliance and non-compliance with relevant provisions of Regulation 99 of SEBI ICDR Regulations in the DLoF / LoF.

3.6.3. **Analysis of Public Comments:** The break-up of the comments received in respect of the proposals are as under. The detailed analysis of public comments is placed at **Annexure-III** (Page No. 14, Para no. 6.1.1).

Sr. No.	Proposal	Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in disagreement
1.	To disclose the details in LoF regarding compliance with SEBI LODR Regulations, redressal of complaints received from investors, show-cause notice issued by Board and suspension of trading as a disciplinary measure.	11	7	1	3

3.6.4. **Rationale for acceptance:** After considering the recommendations of PMAC and the public comments, the rationale for acceptance of the recommendation is as under –

3.6.4.1. The above mentioned requirements are the present eligibility conditions for Fast Track Rights Issue. Since, it is proposed that there will be no different modes of Rights Issue like Fast Track, Non-Fast Track etc., the above eligibility requirements may be made as disclosures requirement to be disclosed in the DLoF/LoF.

3.6.5. **Proposal for consideration of the Board:** It is proposed that issuer may be mandated to disclose the following in the Draft Letter of Offer / Letter of Offer–

3.6.5.1. the details of the non-compliances, if any, with the listing agreement or the SEBI LODR Regulations, as applicable, for a period of at least three years immediately preceding the reference date.

3.6.5.2. the percentage of the complaints redressed by the issuer received from the investors till the end of the quarter immediately preceding the month of the reference date and in case the redressed is less than ninety-five percent, the reasons thereof.

3.6.5.3. the details of any show-cause notices, excluding proceedings for

imposition of penalty, that have been issued by the Board and pending against the issuer or its promoters or whole time directors as on the reference date and in cases, where against the issuer or promoters or whole time directors, any show-cause notice has been issued by the Board or the Adjudicating Officer, in a proceeding for imposition of penalty or prosecution proceedings have been initiated by the Board, necessary disclosures in respect of such actions along with potential adverse impact on the issuer shall be made in the DLoF/LoF.

3.6.5.4. Details of suspension of trading, if any, of equity shares of the issuer during last three years immediately preceding the reference date.

### 3.7. **Eligibility requirement for making Rights Issue**

3.7.1. **Existing Regulatory Provisions:** Currently ICDR Regulations do not provide any clarity on eligibility for making Rights Issue where the trading of shares of the issuer is suspended at the time of making Rights Issue.

3.7.2. **Recommendations of the PMAC:** PMAC recommended that the issuer should not be allowed to make Rights Issue, if the trading in the shares of the issuer is suspended as on the reference date.

3.7.3. **Analysis of Public Comments:** The break-up of the comments received in respect of the proposals are as under. The detailed analysis of public comments is placed at **Annexure-III.** (Page No. 15, Para no. 7.1.1)

Sr. No.	Proposal	Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
1.	To disallow issuer from making Rights Issue in case the trading in the shares of the issuer is suspended at the time of making Rights Issue.	11	9	1	1

3.7.4. **Rationale for acceptance:** After considering the recommendations of PMAC and the public comments, the rationale for acceptance of the recommendation is as under –

3.7.4.1. In order to ensure that the issuer whose shares are suspended from trading at the time of Rights Issue, may not be allowed to raise funds from shareholders / investors. This would necessitate such issuers to restore the trading in its shares by complying/fulfilling the deficiencies for which trading has been suspended.

3.7.5. **Proposal for consideration of the Board:** Making a clear provision in SEBI ICDR Regulations by disallowing the issuer to make Rights Issue, if the trading of equity shares is suspended as on reference date.

3.8. **Applicability of SEBI ICDR Regulations on Rights Issue of size less than fifty crore rupees and Appointment of Monitoring Agency**

3.8.1. **Existing Regulatory Provisions:**

3.8.1.1. Currently in terms of Regulation 60 of SEBI ICDR Regulations, an issuer offering specified securities of aggregate value of less than fifty crores rupees through a Rights Issue, is not required to comply with provisions of SEBI ICDR Regulations.

3.8.1.2. Regulation 82(1) of SEBI ICDR Regulations provides that if the Rights Issue size exceeds one hundred crore rupees, the issuer shall make arrangements for the use of proceeds of the issue to be monitored by a monitoring agency i.e. credit rating agency registered with the Board. The monitoring agency shall submit its report to the issuer in the format specified in Schedule XI on a quarterly basis, till hundred per cent of the proceeds of the issue actually raised have been utilized. Further, in terms of Regulation 32 (7) of SEBI LODR Regulations, issuer is required to place monitoring report before the audit committee on quarterly basis.

3.8.2. **Recommendations of the PMAC:** PMAC recommended that Rights Issues of size less than fifty crore rupees should be brought under the purview of SEBI ICDR Regulations and some checks in form of monitoring agency should be put in place to protect the interest of investors.

3.8.3. **Analysis of Public Comments:** The break-up of the comments received in respect of the proposals are as under. The detailed analysis of public comments is placed at **Annexure-III** (Page No. 16, Para 8.1.1 and 8.1.2)

Sr. No.	Proposal	Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
1.	To make SEBI ICDR Regulations applicable to all Rights Issues irrespective of issue size.	10	7	1	2
2.	To mandate the appointment of Monitoring Agency to monitor the use of proceeds of issue for all	12	8	2	2

Sr. No.	Proposal	Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in disagreement
	types of issue irrespective of issue size.				

### 3.8.4. Rationale for acceptance:

3.8.4.1. Since it is proposed to discontinue with the requirement of filing DLoF with SEBI, requirement of carrying out the due-diligence by Merchant Banker and dispense with the appointment of Merchant Banker for all issue sizes, Rights Issue of size less than fifty crore rupees may be brought under the purview of SEBI ICDR Regulations. Further, as it is proposed to dispense with the requirement of appointing a Merchant banker, there can be a check in the form of monitoring of utilization of issue proceeds by a Monitoring Agency for all Rights issues, in order to protect the interest of shareholders.

3.8.4.2. It is also observed that, some issuers come up with multiple Rights Issues in a financial year having issue size less than fifty crore rupees in order to circumvent applicability of SEBI ICDR Regulations e.g. due diligence by Merchant Banker, filing of DLoF with SEBI, etc. Mandating the appointment of monitoring agency for all Rights Issues irrespective of the issue size will address the same. It will also lead to effective monitoring of utilization of issue proceeds in all Rights Issues, which will be in the interest of shareholders of such companies.

### 3.8.5. Proposal for Board Consideration:

3.8.5.1. SEBI ICDR Regulations would be made applicable to all Rights Issues irrespective of issue size.

3.8.5.2. Mandating the appointment of monitoring agency to monitor the use of issue proceeds for all Rights Issues.

## 4. Proposal to the Board

4.1. The Board is requested to consider and approve:

4.1.1.1. The proposals mentioned under paras 3.1.6, 3.2.6, 3.5.6, 3.6.5, 3.7.5 and 3.8.5, which would require amendments to the SEBI ICDR

Regulations.

4.1.1.2. The proposals mentioned under paras 3.3.6, 3.4.6, which would be implemented by way of circular.

4.2. The proposed amendments shall come into force from the date of their publication in the official gazette and would be applicable to the Rights Issues approved by the board of directors of the issuer from the thirty-first day of the date of publication of these amendments in the official gazette.

However, in order to assist smooth transition from old regime to the new regime, the Rights Issues approved by the board of the issuer on or before thirty-first day of the date of publication of these amendments in the official gazette would continue to follow the old regime.

4.3. The proposed amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 are placed at **Annexure- V**.

4.4. The Board is also requested to authorize the Chairperson to carry out suitable amendments to the regulations and to take any other consequential or incidental steps for implementation of decisions of the Board.

**Enclosures:**

1. Annexure I – Consultation Paper (37 pages)
2. Annexure II – Details of public comments (21 pages)
3. Annexure III – Analysis of public comments (16 pages)
4. Annexure IV – Proposed indicative timelines for Rights Issue (2 pages)
5. Annexure V – Proposed amendment to SEBI ICDR Regulations (35 pages)

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## **Annexure I**

(Consultation Paper is available on SEBI Website)

## **Annexure II**

(This has been excised for reasons of confidentiality)

## Proposal wise analysis of Public Comments

### 1. Detailed disclosures requirement at the time of filing Draft Letter of Offer (DLoF) or Letter of Offer (LoF) under SEBI ICDR Regulations-

1.1. Public Comments and SEBI's analysis on the proposals in the consultation paper are as under-

**1.1.1.** Proposal - To discontinue the current requirement of filing DLoF with SEBI for issuance of its observation.

• Public comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
13	8	0	5

While five entities have disagreed or strongly disagreed with the proposal, only one entity has provided rationale for its disagreement, which is as under-

a) removal of filing of DLoF with SEBI and absence of SEBI's observation may increase the risk of misleading or inadequate disclosures.

• SEBI's analysis

Analysis of the comments of the entities on this issue is as under –

a) Issuer is already listed and is obligated to comply with regulatory requirements related to periodic disclosures. Further, the governance requirements and investor grievance redress mechanisms would ensure the accountability would be continued in the streamlined process. Further, stock exchanges, before giving in-principle approval would be required to peruse the DLOF filed by the issuer.

**1.1.2.** Proposal - To rationalize the content of Letter of Offer by requiring to disclose only the relevant information regarding the Rights Issues such as object of the issue, price, record date, entitlement ratio, etc.

- Public comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
13	7	3	3

The entities who have disagreed or have partially agreed with the proposal to rationalize the content of LoF, have commented the following -

- a) rationalising the content of LoF could lead to less comprehensive disclosures, potentially depriving investors of crucial information needed to make informed decisions.
- b) many new investors also participate in Rights Issues apart from the shareholders as on record date, hence complete information regarding business and industry should be included in LoF.
- c) Standard format be released which will reduce the scope for deliberations and remove ambiguity on regulatory expectations on the disclosures.

- SEBI's analysis-

Analysis of the comments of the entities on this issue is as under –

- a) Material information such as objects of issue, risk-factors, outstanding litigations, capital structure, etc. shall continue to be disclosed in the simplified DLoF/ LoF.
- b) New investors in rights issues can access detailed business and industry information through publicly available reports, including annual reports and financial filings. The DLoF/LoF should remain focused on the issue's critical details, as broader business information is already available in public domain.
- c) The format of the content of DLoF/LoF is already provided, thus further standardisation may not be required.

## 2. Requirement of appointment of Merchant Bankers

2.1. Public Comments and SEBI's analysis on the proposals in the consultation paper are as under-

**2.1.1.** Proposal - To dispense with the requirement of appointing a Merchant

Banker by an issuer for Rights Issues.

- Public Comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
13	4	0	9

Total thirteen entities including four Merchant Bankers have provided their comments on this proposal out of which nine entities including all the four Merchant Bankers have disagreed with the same. The entities who have disagreed have commented the following:

- a) requirement of Merchant Bankers become more relevant considering the removal of filing of DLoF with SEBI for its observations. Removal of Merchant Bankers may lead to a situation where no independent review or diligence is conducted on the disclosures made by the issuer. This might expose investors to higher risks associated with the issuer's financial health. Issuers drafting their own risk factors may lead to a conflict of interest scenario or lack of knowhow. Merchant Bankers may remain continue to be appointed by the issuer for Rights Issues.
- b) Rights Issues involves fund raising from the existing shareholders makes it necessary for an independent intermediary to be there which can act as a reliable conduit between the listed company and its shareholders who generally rely upon the pertinent contents as contained in the LoF.

- SEBI's analysis-

Analysis of the comments by the entities on this issue is as under –

- a) Presently, for Rights Issue of size less than fifty crores rupees provisions of ICDR Regulations are not applicable. In such cases most of the issuers are managing rights issues without Merchant Bankers. Further, in Rights Issue of size fifty crore rupees or more, the value added by the Merchant Bankers i.e. aggregating the information already available in public domain, conducting due-diligence, drafting of offer document etc. falls short vis-à-vis the present time taken in completing the right issue process. By discontinuing the requirement of Merchant Banker, the efficiency gained in fund raising through proposed framework of right issue

would tend to outweigh the value added by the Merchant Bankers in the present process. Further, the proposed disclosures in simplified LoF would be perused by the stock exchanges independently before giving in-principle approval.

With respect to the concern on use of issue proceeds, it is submitted that as proposed, mandatory appointment of monitoring agency would act as a check for utilisation of issue proceeds.

- b) Shareholders of the issuer are expected to be familiar with the company's information, performance, disclosures made in public domain. Any new investor or existing shareholders may further increase their investment in the company basis the public information. The investment in rights issue is similar to investing through secondary market barring additional information which would be disclosed in LoF. Thus, the need of merchant banker as conduit in rights issue may not be required mandatorily.

**2.1.2. Proposal - To assign the activities of Merchant Banker to the Issuer, Registrar to the issue, Stock Exchanges/Designated Stock Exchange.**

- Public Comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
14	4	2	8

Total fourteen entities including three Merchant Bankers have provided their comments on this proposal out of which eight entities including all the three Merchant Bankers have disagreed with the same. The entities who have disagreed have commented the following-

- a) in case all the activities are assigned to the Issuer, Registrar and Stock Exchanges instead of Merchant Bankers there will no longer be a single point of contact. Absence of a dedicated intermediary may result in oversights, errors and may also increase burden on the issuer.
- b) issuer company is largely involved in managing the business affairs and have limited resourced. Crucial responsibility like self-due-diligence, preparation of offer document, managing issue

proceeds, co-ordinating with the investors may be difficult for the issuer.

- c) considering the risks and the complexity involved w.r.t. operational execution, interaction with MIs, due-diligence, disclosures, pre and post compliances including rights entitlements, stringent timelines, investor interest, etc. along with conflict of interest giving rise to incomplete and inaccurate disclosures, inappropriate due-diligence w.r.t. existing compliance requirement, we believe for large size Rights Issues of more than 500 crores, a merchant banker is a must.
- d) stock exchanges, while responsible for overseeing the listing and trading of securities, might face a conflict of interest when also tasked with certain responsibilities related to the Rights Issues process, such as approving the basis of allotment or managing the escrow account. This could compromise the fairness and transparency of the process. It may also lead to overburdening of Registrars.

- SEBI's analysis-

Analysis of the comments of the entities on this issue is as under –

- a) The activities which are proposed to be assigned to other entities are ancillary in nature. Further, the activities which have relevance to investors are proposed to be assigned to Issuer only and thus there will be single point of contact for investors.
- b) Presently, in Rights Issue, Merchant Bankers play the role of coordination only and all the information required are provide by the issuers only. Also in Rights Issue of size less than fifty crore rupees provisions of ICDR Regulations are not applicable and most of the issuers are already managing such rights issues without Merchant Bankers. Thus the discontinuation of Merchant Banker in the Rights Issues of all sizes would not increase any additional burden on the issuer.
- c) For any listed issuer, interaction with MIs is a regular phenomenon. Further, providing information in relation to Rights Issue is independent of issue size. The activities such as pre and

post issue compliances including rights entitlement are ancillary in nature and can be managed by issuer independently. Therefore, the suggestion to continue the Merchant Banker in Rights Issue of size above five hundred crore rupees may not be accepted.

- d) The argument that assigning the activity of finalisation of basis of allotment and management of escrow account to stock exchanges would lead to conflict of interest is unfounded, as stock exchanges are self-regulatory organisations with robust governance structure and acts as an independent entity in the process.

### 3. Requirement of appointment of Registrar to the Issue

3.1. Public Comments and SEBI's analysis on the questions asked in the consultation paper are as under-

**3.1.1. Proposal** - Certain activities such as validation of applications and finalization of basis of allotment which is presently carried out by Registrar to the issue, may also be carried out by Stock Exchanges and Depositories concurrently.

- Public Comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
12	7	1	4

The entities who have disagreed or partially agreed with the proposal, have commented the following-

- a) Introducing concurrent processing of critical activities by multiple entities could lead to operational complexities, dilution of checks and controls, potential conflicts, risk of errors and discrepancies in data handling and delays. The need for constant coordination and reconciliation between Stock Exchanges, Depositories, and the Registrar could create bottlenecks, impacting the efficiency and timeliness of the Rights Issues process. It may also lead to lack of clear accountability among all the intermediaries.

- SEBI's analysis-

Analysis of the comments of the entities on this issue is as under –

- a) Validation of applications and finalisation of basis of allotment which is presently carried out by the Registrar to the Issue by gathering information from Stock Exchanges and Depositories only. In fact, assigning the activity of validation of applications and finalisation of basis of allotment to Stock Exchanges and Depositories would on the contrary bring more efficiency in the process rather than errors, discrepancies or delays. Further the proposal is intended to leverage the advancement of technology to bring efficiency in the system.

**3.1.2.** Proposal - To develop a system for real time validation of the applications by Stock Exchanges and Depositories in a period of six months from the implementation of the proposals.

- Public Comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
10	7	1	2

One entity who has partially agreed with the proposal has suggested to adopt present validation system of IPO processing. Further, two entities who have disagreed with the proposal, have not provided rationale for their disagreement.

4. Streamlining the timelines involved in Rights Issues Process

4.1. Public Comments and SEBI's analysis on the questions asked in the consultation paper are as under-

**4.1.1.** Proposal - To reduce the current indicative timelines of Rights Issues to T+20 working days from the date of board meeting approving Rights Issues till the date of closure of Rights Issues.

- Public Comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
14	8	1	5

Majority of the entities, who have either disagreed or partially agreed with the proposal have suggested the following-

- a) The proposed timeline does not factor requirement of shareholder approval in case of authorized capital or any regulatory approval for further equity issue such as Banks.
- b) companies should be allowed at least 5 working days from the record date to complete the credit of rights entitlements and dispatch of LoF.
- c) in order to comply with the proposed timelines and to file the DLoF within one day of Board Meeting outcome, the issuer would need to initiate the Rights Issues process internally before the Board of Directors officially approves it. It may lead to a risk of leaking Unpublished Price Sensitive Information.

- SEBI's analysis-

Analysis of the comments of the entities on this issue is as under –

- a) In case where the company requires shareholders' approval for increase in authorized capital or any other regulatory approval such as from banks for further issue, such company should seek approvals prior to consideration of rights issue.
- b) Considering the advancement in technology, credit of right entitlements is being done on an immediate basis. Further, dispatching of LoF is done through electronic form. Thus, with this rationale coupled with an aim to complete the right issue process swiftly, the need for providing 5 working days from the record date to undertake these activities may not be warranted.
- c) SEBI already has regulatory guidelines in place to deal with the leakage of Unpublished Price Sensitive Information (UPSI). With proper oversight and security protocols, initiating the internal rights issue process before board approval won't lead to information leaks. This ensures that companies can meet the new, reduced timelines without compromising on compliances.

**4.1.2.** Proposal - To reduce the current indicative timelines of rights, issue to T+3 working days from the date of issue closure till the date of trading.

- Public Comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
12	6	4	2

Majority of the entities, who have either disagreed or partially agreed with the proposal have commented the following-

- a) timeline for trading of shares after the issue closure date should be kept at T+5 days, as few practical challenges are there in complying with the proposed timelines such as submission of documents to stock exchanges for final listing approval, obtaining auditors certificate confirming allotment made as per the basis of allotment, finalization of post issue shareholding pattern, credit confirmation by depositories etc. These activities may take time to complete.

- SEBI's analysis-

Analysis of the comments of the entities on this issue is as under –

- a) The post completion activities are not sequential and can be undertaken simultaneously. Further, in case of public issues, issuers are already following the timeline of T+3 working days from the date of closure of issue till listing and trading. In view of the same, the suggestion may not be accepted.

## 5. Enabling allotment to specific investors in Rights Issues:

5.1.Public Comments and SEBI's analysis on the questions asked in the consultation paper are as under-

**5.1.1.** Proposal - To enable promoters/promoter group to renounce their rights in favour of any specific investor(s) with upfront disclosures through public advertisement at least two days prior to the issue opening date along with disclosing the same to stock exchange(s) for dissemination.

- Public Comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
13	7	2	4

Majority of the entities, who have either disagreed or partially agreed

with the proposal have commented the following-

- a) the requirement to publish this information in newspapers should be eliminated. Disclosure to the stock exchanges should be sufficient given the company's listed status.
  - b) there should be a lock-in requirement for the specific investors and price at which renunciation will take place should also be disclosed upfront.
  - c) it may be misused by promoters to consolidate control or favor specific investors, potentially at the expense of other shareholders. The upfront disclosure requirement might not be sufficient to prevent such actions, as the specific investors could be related parties or entities acting in concert with the promoters. Further, the ability of promoters to renounce their rights to specific investors could reduce the opportunity for existing shareholders to participate in the Rights Issues and increase their stake in the company
  - d) the knowledge of promoters renouncing their rights to specific investors could create opportunities for insider trading and market manipulation.
  - e) the perception of favoritism and potential manipulation could negatively impact market sentiment and investor confidence in the company and the overall market. This may also lead to decline in share price and reduced liquidity affecting all the shareholder.
- SEBI's analysis-

Analysis of the comments of the entities on this issue is as under –

    - a) The requirement to publish in newspapers ensures that information reaches a broader audience, including those who might not have access to real-time digital platforms. The issuer is also required to disclose the intention of promoters/promoters group to renounce their REs to any specific investors in the DLoF/LoF also.
    - b) Presently, in Rights Issues there are no requirements for lock-in of rights shares, irrespective whether the shares are issued to

existing shareholders or the new investors who have acquired the rights entitlement by way of renunciation. Similarly, in the proposed framework in case the REs are renounced by the promoters to specific investors or otherwise may not be locked-in. Further, prescribing lock-in requirement particularly for the specific investors and not to other shareholders would be unfair and may create difference between two class of shareholders.

- c) With respect to the argument that the proposal may be misused by promoters to consolidate control or favour specific investors, potentially at the expense of other shareholders, it is stated that the rights of the existing shareholders are not diluted and thus the fear is unfounded. Further, to address the concern of specific investors being related parties or entities acting in concert with the promoters, it is stated that such scenarios shall be dealt with under relevant SEBI regulations.
- d) The proposal of renouncing promoters' rights to specific investors is similar as in case prevailing under preferential allotments where preferential allottees are identified at the time of board resolution itself. In view of the same, such scenarios have to be dealt as being done in case of preferential allotments.
- e) With respect to concern of favouritism, presently, it is the prerogative of the RE holders to renounce it to any person and the proposed framework also provide for the same. With respect to the concern of potential manipulation, it is stated that with surveillance mechanism in place possibility of such scenarios may be mitigated.

**5.1.2.** Proposal - Renunciation by promoters to specific investor(s) and such specific investor(s) to apply for the rights entitlement through ASBA by 11 AM on the first day of issue opening and intimation of same by the issuer to the Stock Exchanges for dissemination by 11.30 A.M. on first day of issue opening.

- Public Comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
10	5	0	5

Majority of the entities, who have either disagreed with the proposal have suggested the following-

- a) the proposed timelines to apply by 11.00 AM on first day is not feasible, it should be extended to at least 3 to 7 days depending on the period of subscription.

- SEBI's analysis-

Analysis of the comments of the entities on this issue is as under –

- a) In order to protect the interest of investors and ensure that the promoters and specific investor(s) are committed to the disclosures made, promoter have been required to renounce the REs to specific investor(s) and such specific investor(s) would make the application through ASBA by 11:00 A.M. on the first day of issue opening period.

**5.1.3.** Proposal - To restrict the specific investor(s) from withdrawing the application made by them against Rights Entitlement renounced by promoter.

- Public Comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
10	7	1	2

Majority of the entities, who have either disagreed or partially agreed with the proposal have suggested the following-

- a) limited carve out may be created allowing the specific investor to withdraw from the application due to the occurrence of a material adverse change such as occurrence of any event, development that may affect the ability of such investor to communicate the transaction.

- SEBI's analysis-

Analysis of the comments of the entities on this issue is as under –

- a) In order to protect the interest of investors and ensure that the promoters and specific investor(s) are committed to the disclosures made the withdrawal may not be permitted by specific investors. Permitting withdrawals for any reasons may result in breach of trust among the other market participants and the shareholders who have participated in the rights issue on the basis of this information.

**5.1.4. Proposal** - To allow the allotment of under-subscribed portion of the issue to specific investor(s) at the discretion of the issuer with upfront disclosures through public advertisement at least two days prior to the issue opening date along with disclosing the same to stock exchange(s) for dissemination

- Public Comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
11	5	3	3

Majority of the entities, who have either disagreed or partially agreed with the proposal have suggested the following-

- a) disclosure in the public advertisement should also include rationale for identification of such specific investors and there should be some checks and balances in selecting the specific investors so that the existing composition of investors and cap table is not altered to the detriment of small shareholders.
- b) specific investors may end up getting more shares than the right of existing promoters or promoter group thereby making it a method to increase shareholding without compliance of preferential regulations and other regulations.

- SEBI's analysis-

Analysis of the comments of the entities on this issue is as under –

- a) Presently, in preferential issue any specific investors can become shareholder at the discretion of issuer/promoter without giving any opportunity to existing shareholders to participate in fund raising. Similarly, in the proposed Rights issue framework, while allowing the flexibility of allotment to specific investors, opportunity to

existing shareholders is also provided. Thus, the fear that allotment to specific investors would be detrimental to small shareholders is unfounded.

- b) the concern that specific investors could increase their shareholding without adhering to preferential regulations is unfounded, because the regulatory framework of SEBI already includes safeguards to deal with such instances.

**5.1.5.** Proposal - To retain the present condition where the issuer or any of its promoters or directors is a wilful defaulter or a fraudulent borrower, the promoters/promoter group of the issuer are not allowed to renounce their rights except to the extent of renunciation within the promoter group.

- Public Comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
10	9	0	1

No rationale was given by the entities disagreeing with the proposal.

6. Mandatory Disclosures in proposed simplified Letter of Offer:

6.1. Public Comments and SEBI's analysis on the questions asked in the consultation paper are as under-

**6.1.1.** Proposal - To disclose the details in LoF regarding compliance with SEBI LODR Regulations, redressal of complaints received from investors, show-cause notice issued by Board and suspension of trading as a disciplinary measure.

- Public Comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
11	7	1	3

Majority of the entities, who have either disagreed or partially agreed with the proposal have suggested the following-

- a) The above conditions should remain as eligibility conditions for making a Rights Issues instead of merely disclosing in DLoF/LoF.

- SEBI's analysis-

Analysis of the comments of the entities on this issue is as under –

a) Since in the proposed framework there will be no distinction between different modes of rights issue i.e. fast track or non-fast track or rights issue of size less than fifty crore rupees and no observation would be issued by SEBI. In a way all the Rights Issues would become fast track issues. Thus, the eligibility requirement of existing fast track issues has been mandated as disclosures requirement in proposed framework.

## 7. Eligibility requirement for making Rights Issues

7.1. Public Comments and SEBI's analysis on the questions asked in the consultation paper are as under-

**7.1.1. Proposal -** To disallow issuer from making Rights Issues in case the trading in the shares of the issuer is suspended at the time of making Rights Issues.

- Public Comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
11	9	1	1

Majority of the entities, who have either disagreed or partially agreed with the proposal have suggested the following-

a) the bar on issuers from making a Rights Issues should only be limited to suspensions made due to violation of Listing Regulations and Securities Laws and discrepancies in financial reporting.

- SEBI's analysis-

Analysis of the comments of the entities on this issue is as under –

a) In case shares of the company are suspended, the shareholders/investors would not be able to sell/purchase the shares/REs of such issuer. In view of the same, irrespective of reason of suspension, companies may not be allowed to make a rights issue.

## 8. Applicability of SEBI ICDR Regulations on Rights Issues of size less than fifty crore rupees and Appointment of Monitoring Agency

8.1. Public Comments and SEBI's analysis on the questions asked in the

consultation paper are as under-

**8.1.1. Proposal - To make ICDR Regulations applicable to all Rights Issues irrespective of issue size.**

• Public Comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
10	7	1	2

Majority of the entities, who have either disagreed or partially agreed with the proposal have suggested the following-

- a) the current limit for non-applicability of SEBI ICDR Regulations on Rights Issues under issue size of 50 crores, as applying the SEBI ICDR Regulations to all Rights Issues regardless of size would significantly burden smaller issuers. These issuers who are often in critical need of swift capital infusion might face delays and increased costs due to the additional regulatory compliance. This could in turn negate the very purpose of a Rights Issues which is to provide an expedient mechanism for raising necessary funds.
- b) it may be applied only in issues where promoter or promoter group are holding and subscribing more than 50 of issue size or giving undertaking that they will subscribe more than 50 of the issue size, this will boost investor confidence and show promoter commitment towards object of the issue.

• SEBI's analysis-

Analysis of the comments of the entities on this issue is as under –

- a) Presently, Rights Issues under fifty crores rupees are exempt from SEBI ICDR regulations, i.e. are not required to file DLoF with SEBI for observation and in the proposed framework the same is proposed for all Rights Issue irrespective of size. Further, proposed framework also aims to make fund raising through right issue faster. Thus, bringing small issuer under the provision of SEBI ICDR Regulations would not impact them, instead it ensures protection to the shareholders.
- b) Restricting the application of SEBI ICDR regulations only to instances where promoters subscribe to more than 50% of the issue undermines investor protection. By applying SEBI

regulations to all the issues regardless of promoter subscription levels, the interests of all shareholders are safeguarded, ensuring a fair and transparent process.

**8.1.2.** Proposal - To mandate the appointment of Monitoring Agency to monitor the use of proceeds of issue for all types of issue irrespective of issue size.

- Public Comments

Total Comments received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in dis-agreement
12	8	2	2

Majority of the entities, who have either disagreed or partially agreed with the proposal have suggested the following-

- a) it should not be applicable to all the issues as it may increase the cost to small companies.

- SEBI's analysis-

Analysis of the comments of the entities on this issue is as under –

- a) In the proposed framework, the issuer would be benefited in the form of cost saving and efficiency i.e. cost saving by dispensing with requirement of appointment of merchant banker, simplification of LoF, reduction of timeline for fund raising, etc. At the same time in order to protect the interest of investors, requirement of monitoring agency has been brought in. Thus, the benefits of the proposed framework outweigh the costs incurred towards monitoring agency to protect the interest of investors.

## Proposed timelines for Rights Issue Process

**Table 1- Proposed indicative timelines from the date of Issuer's Board meeting approval till the date of closure of Rights Issue**

Sr. No.	Activity performed during Rights Issue Process	Timelines (Working Days)
1.	1 <sup>st</sup> Board meeting for approval of Rights Issue	T (The date of board meeting approving Rights Issue)
2.	Notice for 2 <sup>nd</sup> Board meeting to fix record date, price, entitlement ratio etc. (subject to Board's/ shareholders' approval*)	T*
3.	Application by the issuer for seeking in-principle approval along with filing of DLoF with Stock Exchanges	T+1
4.	Receipt of in-principle approval from Stock Exchanges	T+3
5.	2 <sup>nd</sup> Board meeting for fixing record date, price, entitlement ratio etc.	T+4
6.	Filing of final LoF with SEBI and Stock Exchanges	T+5 to T+7
7.	Record Date	T+8
8.	Receipt of BENPOS on Record date (at the end of the day)	T+8
9.	Credit of Right Entitlements (REs)	T+9
10.	Dispatch / Communication to the shareholders of LoF	T+10
11.	Publication of advertisement for completion of dispatch	T+11
12.	Publication of advertisement for disclosing details of specific investor(s)	T+11
13.	Issue opening and commencement of trading in REs (Issue to be kept open for minimum 7 days as per Companies Act, 2013)	T+14
14.	Validation of Bids	T+14 to T+20
15.	Closure of REs trading (3 working days prior to issue closure date)	T+17
16.	Closure of off-market transfer of REs	T+19
17.	Issue closure	T+20

\*If the issuer is making a Rights Issue of convertible debt instruments, wherein shareholder's approval is required, then the notice for 2<sup>nd</sup> Board meeting to fix record date, price, entitlement ratio etc. would be given on the date of receiving shareholders' approval and the remaining timeline would be adjusted accordingly.

**Table 2- Proposed indicative timelines from the date of closure of Rights Issue till the date of trading of Rights Issue**

<b>Sr. No.</b>	<b>Activity performed during Rights Issue Process</b>	<b>Timelines (Working Days)</b>
1.	Issue closure	T
2.	Suspension of RE ISIN (immediately on issue closure)	T
3.	RTA obtains bid file from Stock Exchanges (SEs)	T
4.	Reverting for correction files to SCSBs for ASBA bids	T
5.	Receiving rectified/final bid data from SEs	T
6.	Receipt of final certificate from the SCSBs	T
7.	Co-ordination with SCSBs for pending final certificates for ASBA application	T
8.	Complete reconciliation of valid ASBA, REs holding and technical rejection.	T
9.	Basis of allotment to be carried out by RTAs in coordination with Designated Stock Exchange (DSE)	T+1
10.	Stock Exchange to approve the basis of allotment	T+1
11.	Transfer of funds from ASBA accounts to allotment account for allottees and refund account and unblocking of accounts for non-allottees	T+1
12.	Listing application to be made to SEs	T+1
13.	Instructions to dispatch of allotment and refund/unblocking intimations	T+2
14.	Receiving in-principle listing approval for corporate action	T+2
15.	Submit application with depositories for credit to respective demat shareholder account	T+2
16.	Receipt of credit confirmation from NSDL/CDSL	T+2
17.	Filing Documents with SEs for trading approval	T+2
18.	Publication of basis of allotment advertisement in newspaper and submission of same with SEs	T+2
19.	Receipt of trading approval from SEs	T+2
20.	Shifting of shares from temporary ISIN to live ISIN	T+2
21.	Transfer of funds from Rights escrow account to Issuer's monitoring account	T+2
22.	Commencement of trading of shares issued pursuant to Rights Issue	T+3
23.	Submission of media compliance report with SEBI	T+3

## **Annexure-V**

(Amendments shall be notified after following the due process)