

TRACK CORPORATE BENEFITS TO MAXIMIZE INVESTMENT RETURNS / GAINS

What is a Rights Issue?

In very simple words, Rights Issue means a right given by a company to its existing shareholders to buy additional shares of the company. To be meaningful, this right is given to buy shares at a price lesser than the prevailing market price. It is always optional for shareholders to participate in rights issue. Rights are offered to shareholders in the proportion of their existing holdings in the company as on the record date decided for this purpose.

What is Rights Entitlement?

Till recently, the right to buy shares of a company has economic value only when it was exercised by the shareholder. In case the shareholder decides not to exercise his / her option to buy, it had no value.

Now it is possible for such shareholder to sell this right to other investors who are willing to get it in order to be able to buy shares at a price lesser than the market. This has been made possible by converting the simple 'Right to buy shares or Rights Entitlement' into a marketable instrument. Now stock exchanges allow trading of Rights Entitlements in their trading platform. The shareholders who are given such right by their company can now sell through their stock broker.

Should an investor buy Rights Entitlement?

Ability to sell Right Entitlement gives a monetary value to those shareholders who are unable to or not willing to exercise their right to buy shares (even though offered at a lesser price). On the other side, buying Right Entitlement makes economic sense only when you want to exercise it after buying it. In case, Rights Entitlement purchased from the market are not actually used to buy shares, they have no value left and the money spent for buying them becomes a waste.

Another important point here is what should be the price one can pay for Rights Entitlement? Let's understand this with an example.

Current market price of one share of ABC Limited - ₹100

Rights issue price declared by ABC Limited - ₹90

Maximum price that can be paid for buying Rights Entitlement of ABC Limited - ₹10

(Transaction cost are ignored here for simplicity. Actually the cost of transaction will reduce the price that can be paid).

What is a bonus issue?

Bonus shares are like rights shares, except that the shareholders are allotted these shares by the company without any consideration. Like rights shares, bonus shares are also allocated proportionately based on the number of shares held by them on the record date decided for this purpose.

For example, if you hold 100 shares of a company, and the company declares a bonus of 2:1 (meaning 1 bonus share for every two shares held). In this case, you would get 50 bonus shares without paying any price for them.

What is dividend?

Dividend is a reward shareholders receive from a company in cash form. It is a portion of profits made by the company which it distributes to its shareholders. It is not mandatory for companies to pay a dividend every year. But companies who pay regular dividend are loved by the investors as it gives them some regular income.

Like Rights and Bonus shares, dividend is also paid to those who hold shares on record date decided for this purpose. It is paid in proportion to the number of shares held. Amount of dividend is credited to bank account which is recorded in the demat account of the concerned investor. In case, shares are held in physical form, the company arranges the credit of dividend amount to bank account of the investor which are available in the company's record.

Investor/ Clients must remember to approach SMIFS Limited to update the bank account information in their demat account whenever there is any change. Refer to your demat account statement to find out what bank details are recorded in the demat account. If you are holding shares in physical form, then you need to send request for change in bank details to respective company or its Registrar and Transfer Agent.

Team Compliance
SMIFS Limited