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RIGHTS ISSUES REIMAGINED: SEBI'S NEW FRAMEWORK FOR SPEED AND SIMPLICITY

- SEBI introduced a new framework for rights issues on March 8, 2025, effective for issues approved from April 7, 2025.
- The revised regulations aim to expedite the process, allowing completion within 23 working days and enabling flexible timelines for subscription.
- Key changes include flexibility to allot shares to strategic/anchor investors, automated bid validation, and enhanced digital compliance.
- The framework enhances capital-raising efficiency while ensuring transparency and investor protection.

BACKGROUND

On March 8, 2025, the Securities and Exchange Board of India ("**SEBI**") notified the SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2025[1], which, *inter alia*, introduced a new framework for rights issues, aiming to expedite the process and enhance flexibility for issuers. Subsequently, on March 11, 2025, SEBI issued a circular setting out the timelines for completing various activities involved in rights issues and permit selective allotment to specific investors ("**New Framework**"). The provisions of the circular shall be applicable to rights issues approved by the board of directors of issuers from April 7, 2025 onwards.

A rights issue is a method used by companies to raise additional capital by offering existing shareholders the opportunity to purchase additional shares at a discounted price, typically in proportion to their current shareholding. This form of equity financing allows companies to strengthen their capital base without relying solely on external investors. Shareholders are provided with rights entitlements, which can either be exercised to purchase shares or sold in the secondary market. Rights issues are often used by companies to fund business expansion, repay debt, or meet working capital requirements. It ensures existing shareholders have the first right to maintain their proportional ownership.

KEY CHANGES INTRODUCED

- **Expedited Timelines –** The new framework mandates that rights issues be completed within 23 working days from the date of the issuer's board of directors approving the issue. This accelerated timeline is expected to provide issuers quicker access to capital, while ensuring regulatory oversight. Under the erstwhile regime[2]: (i) the timeline for completion of a rights issue extended up to 55-60 days from the date of board approval; (ii) companies were required to follow a rigid structure for allotment without any flexibility for strategic investor participation; and (iii) the subscription period for rights issues was capped at 15 days, which sometimes proved insufficient for shareholders to make informed decisions. The new framework provides a flexible subscription period ranging from 7 to 30 days, offering both issuers and investors greater adaptability.
- **Specific Consideration for Convertible Debt Instruments –** For convertible debt instruments requiring shareholder approval, the timeline following the date of board approval will be adjusted to account for the shareholder approval process. Under the new framework, the directors of the issuer may give notice for convening the second board meeting (to fix the record date, price, entitlement ratio, etc. of the rights issue) on the date of shareholder approval for the issuance. This approval is generally required under Section 62(1)(c) of the Companies Act, 2013[3], which governs the issuance of shares and other securities on a preferential basis. Once shareholder approval is obtained, the company can proceed with the rights issue. The time taken for holding the meeting and securing necessary approvals is not included within the 23 working days timeline. SEBI has also streamlined the post-approval process to ensure timely execution of the rights issue. Companies are required to submit the results of the shareholders' meeting to stock exchanges within 24 hours of such shareholders' meeting being convened by the company. Additionally, disclosures regarding the terms of the convertible instruments, potential dilution, and impact on shareholding structure must be clearly outlined in the letter of offer.
- **Flexibility for Allotment –** A notable aspect of the new framework is the flexibility granted to issuers for allotting shares to specific investors, *i.e.*, strategic and anchor investors during rights issues. Traditionally, rights issues were primarily designed to offer shares to existing shareholders in proportion to their holdings, ensuring their interests were protected. While companies had the option to accommodate additional investors through other routes such as preferential allotments or private placements, these involved longer timelines, greater compliance requirements, and additional approvals. The inability to directly involve strategic or anchor investors within the

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rights issue framework often resulted in challenges for companies, particularly when there was a risk of under-subscription. The new framework is particularly beneficial for issuers seeking to onboard strategic investors or anchor investors through the rights issue mechanism.

- **Implementation of Automated Bid Validation -** To further streamline the process, SEBI has mandated the implementation of an automated bid validation system by stock exchanges and depositories. This system, expected to be operational within 6 months, will reduce errors in the application process and ensure the accurate processing of bids. Under the previous framework, bid mismatches often caused delays, adding unnecessary complexity to the process.
- **Disclosure Requirements and Compliance -** Certain changes in the disclosure requirements in the letter of offer, revised timelines for the correction of bid data, and provisions for online fee payments, have also been introduced. Unlike the earlier requirement of manual submissions, the digitized process will reduce procedural delays and enhance regulatory oversight.

CONCLUDING NOTE

The new framework represents a significant step towards expediting the process of raising capital. By reducing timelines and offering greater flexibility in investor participation, the new framework enhances market efficiency while safeguarding investor interests. Listed companies must ensure compliance with the revised timelines for bid data corrections and the enhanced disclosure requirements in the Letter of Offer (LOF) to provide greater transparency to investors. Companies will need to coordinate closely with intermediaries, including registrars, depositories, and stock exchanges, to ensure seamless execution of rights issues and mitigate any compliance risks. Overall, the new framework may be seen as a welcome step by listed companies as it provides them an avenue to diversify their investor base with lesser hurdles and delays.

Authors

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You can direct your queries or comments to the relevant member.

[1]Available at https://www.sebi.gov.in/legal/circulars/mar-2025/faster-rights-issue-with-a-flexibility-of-allotment-to-specific-investor-s-_92622.html

[2]Available at https://www.sebi.gov.in/legal/regulations/may-2024/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-regulations-2018-last-amended-on-may-17-2024-_80421.html

[3]Section 62(1)(c), Companies Act, 2013 – "*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 - to any persons, if it is authorised by a special resolution, whether or not those persons include the persons referred to in clause (a) or clause (b), either for cash or for a consideration other than cash, if the price of such shares is determined by the valuation report of a registered valuer, subject to the compliance with the applicable provisions of Chapter III and any other conditions as may be prescribed.*"

Vaibhav Parikh, Partner, Nishith Desai Associate on Tech, M&A, and Ease of Doing Business

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