

De Jure

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SEBI Relaxation Right Issue



THIS IS RIGHT



This year 2020 will go down in history for the pain, deaths, controversies and hardships it caused around the globe with the spread of coronavirus pandemic. The virus has instilled a fear in each of us like no other disease. We pray the virus vanishes from around the globe sooner than later never to return.

To lend a helping hand to Indian companies, the regulatory authorities have been doling out many relaxations, waivers and extensions from compliance of regulatory requirements.

One such recent relief is relaxation for Rights Issues during this calendar year and to close on or before March 31, 2021. SEBI has relaxed the eligibility norms for fast track issues, brought down minimum subscription and in certain circumstances (other than for issue of warrants) dispensed with the need to file a letter of offer.

Relaxations for Fast Track Rights Issues

- minimum period of shares being listed brought down to 18 months from the earlier 3 years;
- non-suspension requirement brought down to 18 months from the earlier 3 years;
- average market capitalisation of public shareholding brought down to Rs.100 crores from the earlier Rs.250 crores;
- issuers who have settled violations and/or adhered to directions under consent mechanism or SEBI show cause notice allowed to make rights issue; and
- issuer to submit restated financial statements if its audited financial statements are qualified and then make a rights issue.

Relaxation on Minimum Subscription

The threshold for minimum subscription, which was a minimum of 90% of the issue size has been brought down to 75%. Out of the funds raised, 75% of the funds (i.e. 56.25%) must not be used for general corporate purpose.

Relaxation from filing Letter of Offer

The requirement of filing a Letter of Offer for rights issues has been raised to issues of Rs.25 crores and more from the earlier requirement of Rs.10 crores.



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Other Relaxations



Usually, SEBI observations on public issues and rights issues are valid for a year from when they are issued. SEBI has extended the validity of these observations for another 6 months for issuers whose observations expire on March 1, 2020 to September 30, 2020. This will imply that the public issues and rights issues, which otherwise would have to make a fresh application to launch their issues because of expiry of one year of the observations during the pandemic now have a breather of 6 months to launch their public or rights issues. This is a very welcome move and will provide comfort to the issuers. Currently, an issuer is permitted to alter the issue size up to 20 per cent of the issue size. In another welcome move, SEBI has permitted issuers to alter the issue size up to 50 per cent without the need to file a fresh offer document.

These relaxations, along with the previous ones, are very welcome. At a time when promoters and companies are clueless about funding and re-starting their businesses, these relaxations will afford methods to promoters to raise funds, while at the same time not diluting their stake in the company. Although, a temporary relief, it will allow promoters and companies to re-launch their business, while they approach banks and financial institutions for further funding.

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