Indian Economy · GS - III

Rights issues provide companies with an alternative means of raising equity capital. Examine their significance, benefits and limitations for companies and existing shareholders, with reference to India's capital market. (150 words, 10 marks)

EXAM YEAR	PAPER	SUBJECT
Daily Practice 11/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Explain rights issues as equity financing, benefits of debt reduction and expansion, shareholder participation, dilution risks, discounted pricing, investor choice and transparent corporate governance.

Model Answer

A rights issue is a method of raising equity capital in which a company offers additional shares to existing shareholders, generally in proportion to their holdings.

Significance: It enables companies to raise funds for expansion, working capital, debt repayment and other corporate purposes without relying entirely on fresh borrowing. It can strengthen the balance sheet and provide existing shareholders an opportunity to maintain their proportional ownership.

Benefits and limitations: Rights issues may be offered at a discount to the prevailing market price, making participation attractive. However, shareholders must contribute additional funds and assess the company's financial position and intended use of proceeds. Those who do not participate may experience ownership dilution if new shares are issued. A discounted issue price also does not guarantee future investment returns.

Way Forward: Companies should disclose the purpose of fundraising, expected benefits, financial risks and utilisation of proceeds. Investors should evaluate business fundamentals rather than relying solely on the discount.

Conclusion: Rights issues can support corporate growth and financial restructuring when accompanied by transparent disclosures and prudent capital allocation.

BECOME IAS
AI POWERED UPSC PREP