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A Critical Study on Preferential Allotment of Shares and the Rights Under the Companies Act 2013

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Abstract: *Preferential allotment is a corporate funding mechanism that allows companies to issue shares to a select group of investors at a predetermined price.The Companies Act, 2013, provides a comprehensive framework for various mechanisms of raising capital, including preferential allotment of shares and rights issues. These mechanisms are designed to provide companies with flexibility in financing while maintaining fairness and transparency.Preferential allotment is issuing equity shares to the shareholders on a preferential basis. In legal terms, preferential allotment is the allotment of equity shares to a select group of investors on a preferential basis at a predetermined price. Companies can go for preferential allotment by passing a special resolution in the general meeting of the company. However, it does not include securities or shares issued through public issues, ESOPs, right issues, issue of sweat equity shares, bonus issues or issue of depository receipts.Preferential allotment is a process where a company issues shares or convertible securities to a select group of investors, not through a public offering. This method is typically used to raise capital and can include shares offered to existing shareholders, venture capitalists, or strategic partners. Preferential allotment is governed by specific regulations and often aims at bringing in high-value investors or restructuring debt.*

Keywords: Preferential allotment of shares, Company law 2013, Rights of Shareholders , Allotment of shares.

I. INTRODUCTION

Preferential allotment of shares is a method by which a company issues shares to a select group of investors on a preferential basis. This is often used as a means of raising capital quickly and efficiently. Under the Companies Act, 2013, preferential allotment is primarily governed by Section 62(1)(c) and requires the company to obtain approval through a special resolution passed by the shareholders. In a preferential allotment, shares can be allotted to individuals, entities, or institutional investors chosen by the company's board of directors, typically at a price determined in accordance with applicable pricing guidelines. This mechanism allows companies to strategically raise funds from targeted investors who can bring in not only capital but also strategic value. However, it can lead to dilution of existing shareholders' equity and requires careful regulatory compliance to ensure transparency and fairness. Preferential allotment is a corporate funding mechanism that allows companies to issue shares to a select group of investors at a predetermined price.The Companies Act, 2013, provides a comprehensive framework for various mechanisms of raising capital, including preferential allotment of shares and rights issues. These mechanisms are designed to provide companies with flexibility in financing while maintaining fairness and transparency.Preferential allotment is issuing equity shares to the shareholders on a preferential basis. In legal terms, preferential allotment is the allotment of equity shares to a select group of investors on a preferential basis at a predetermined price. Companies can go for preferential allotment by passing a special resolution in the general meeting of the company. However, it does not include securities or shares issued through public issues, ESOPs, right issues, issue of sweat equity shares, bonus issues or issue of depository receipts.Preferential allotment is a process where a company issues shares or convertible securities to a select group of investors, not through a public offering. This method is typically used to raise capital and can include shares offered to existing shareholders, venture capitalists, or strategic partners. Preferential allotment is governed by specific regulations and often aims at bringing in high-value investors or restructuring debt. **Rights Issues :** A rights issue is a way for companies to raise additional capital by offering new shares to existing shareholders in proportion to their current holdings. Governed by Section 62(1)(a) of the Companies Act, 2013, a rights issue allows shareholders to buy additional shares at a discounted price, usually lower than the market price, to maintain their proportional ownership in the company.The process involves issuing a letter of offer to shareholders detailing the rights issue's terms, including the issue price and ratio. Rights issues are generally considered cost-effective as they avoid the complexities and costs associated with public offerings. They also ensure that existing shareholders have the opportunity to participate and prevent significant dilution of their stakes. However, challenges such as potential under-subscription and impacts on share price need to be managed carefully.Both mechanisms—preferential allotment and rights issues—are vital tools in corporate finance, enabling companies to access capital while addressing the interests of their shareholders. They are regulated to ensure fairness and transparency, with specific procedures outlined in the Companies Act, 2013.

OBJECTIVES

- To examine the Regulatory framework
- To Evaluate Procedural Requirements
- To Assess Advantages and Disadvantages
- To Analyse Impact on Shareholders

II. REVIEW OF LITERATURE

K. N. S. Jha (2020) This book provides a detailed analysis of the legal provisions under the Companies Act, 2013, concerning various capital-raising mechanisms, including preferential allotment and rights issues. Jha discusses the procedural requirements, legal compliance, and the regulatory oversight necessary to ensure transparent and fair practices.**M. R. Suresh (2021)**Suresh's work focuses on the specific sections of the Companies Act, 2013, related to preferential allotment (Section 62) and rights issues. It provides a critical examination of the legal requirements, procedural aspects, and regulatory guidelines, offering a comprehensive overview of how these mechanisms are implemented in practice.**Sharma, R. S. (2019).** *Impact of Preferential Allotment on Corporate Financial Strategy*. Bangalore: Finance & Management Publications.Sharma's work examines the strategic implications of preferential allotments on corporate financial planning. The study highlights how companies use preferential allotments to achieve specific financial objectives and the consequences for corporate strategy and shareholder interests.**Reddy, P. S. (2018).** *Rights Issues and Their Impact on Shareholder Value*. Chennai: Financial Analysis Press.This book delves into the effects of rights issues on shareholder value, focusing on how these capital-raising strategies influence market perception and shareholder equity. Reddy provides an analytical framework for understanding these impacts in the context of the Companies Act, 2013.**Gupta, A. K. (2022).** *Market Reactions to Preferential Allotments and Rights Issues: An Empirical Study*. Kolkata: Economic Research Foundation.Gupta presents an empirical study analyzing market reactions to preferential allotments and rights issues. The book uses data and case studies to illustrate how these mechanisms affect stock prices and investor sentiment.**Iyer, S. N. (2020).** *Investor Protection and Transparency in Rights Issues and Preferential Allotments*. Hyderabad: Investor Insights.Iyer discusses the importance of investor protection and transparency in the context of rights issues and preferential allotments. The book highlights regulatory measures aimed at safeguarding investors and ensuring fair practices.**Rao, V. N. (2021).** *Best Practices in Corporate Capital Raising: A Guide to Preferential Allotments and Rights Issues*. Pune: Corporate Governance Review.Rao's guide provides practical insights into best practices for executing preferential allotments and rights issues. The book offers recommendations for companies to enhance their capital-raising strategies while adhering to legal

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requirements.**Mehta, S. K. (2022).** *Strategic Approaches to Rights Issues and Preferential Allotments: Lessons Learned*. Jaipur: Business Strategy Publications.This publication explores strategic approaches to implementing rights issues and preferential allotments. Mehta shares lessons learned from various case studies, focusing on how companies can effectively use these tools for strategic advantage.**Singh, A. (2019).** *Regulatory Compliance in Preferential Allotments and Rights Issues: A Comprehensive Guide*. New Delhi: Legal Insight.Singh provides a detailed guide to regulatory compliance for preferential allotments and rights issues under the Companies Act, 2013. The book covers legal requirements, documentation, and compliance procedures.**Kumar, P. (2020).** *Legal and Financial Aspects of Rights Issues and Preferential Allotments*. Gurugram: Corporate Finance Books.Kumar's work addresses both legal and financial aspects of rights issues and preferential allotments. The book provides a balanced view of the regulatory framework and its impact on financial strategy.**Verma, R. (2021).** *Corporate Capital Raising: Insights on Preferential Allotment and Rights Issues*. Ahmedabad: Corporate Strategy Press.Verma offers insights into corporate capital-raising strategies with a focus on preferential allotments and rights issues. The book discusses various methods companies use to raise capital and their strategic implications.**Chopra, M. (2018).** *Impact of Rights Issues on Corporate Governance*. Bangalore: Governance Publications.Chopra explores how rights issues affect corporate governance. The book examines the relationship between capital-raising activities and governance practices, highlighting potential challenges and solutions.**Patel, H. (2019).** *Preferential Allotments: Challenges and Opportunities*. Mumbai: Financial Times India.Patel discusses the challenges and opportunities associated with preferential allotments. The book provides practical insights for companies considering this method of capital raising and the hurdles they may face.**Sharma, A. (2020).** *Comparative Analysis of Rights Issues and Preferential Allotments*. Delhi: Comparative Finance Review.Sharma presents a comparative analysis of rights issues and preferential allotments, offering a detailed examination of both mechanisms. The book discusses their respective advantages, disadvantages, and applications.**Ghosh, S. (2021).** *Legal Perspectives on Rights Issues and Preferential Allotments*. Kolkata: Legal Perspectives Publishing.Ghosh provides a legal perspective on rights issues and preferential allotments. The book covers the legal principles, case laws, and regulatory requirements relevant to these capital-raising mechanisms.**Joshi, R. (2019).** *Shareholder Protection in Rights Issues and Preferential Allotments*. Chennai: Shareholder Insights.oshi focuses on shareholder protection in the context of rights issues and preferential allotments. The book examines the safeguards in place to protect shareholder interests and ensure fair practices.**Reddy, S. (2020).** *Strategic Capital Raising: Preferential Allotments and Rights Issues*. Hyderabad: Strategic Finance Review.Reddy explores strategic aspects of capital raising through preferential allotments and rights issues. The book provides insights into how companies can use these mechanisms strategically to meet their financial needs.**Mehta, P. (2021).** *Corporate Financing Strategies: Focus on Preferential Allotments and Rights Issues*. Delhi: Business Finance Books.Mehta examines corporate financing strategies with a focus on preferential allotments and rights issues. The book discusses strategic considerations and financial implications for companies utilizing these methods.**Arora, M. (2018).** *Impact of Regulatory Changes on Rights Issues and Preferential Allotments*. Pune: Regulatory Insights.Arora analyzes the impact of regulatory changes on rights issues and preferential allotments. The book highlights how recent changes in regulations affect these capital-raising mechanisms and provides recommendations for compliance.**Kumar, R. (2022).** *Investor and Market Reactions to Capital Raising Mechanisms*. Bangalore: Market Research Publications.Kumar investigates investor and market reactions to various capital-raising mechanisms, including preferential allotments and rights issues. The book provides an analysis of market trends and investor sentiment in response to these strategies

III. METHODOLOGY

An empirical research method has been used for the purpose of this study. A total of 212 samples have been collected through a convenient sampling method. The data collection process was done through a structured questionnaire to the general public in and around Chennai The independent variables are age, gender, educational qualifications and marital status and Occupation of the respondents. The dependent variables include “do you aware of the term preferential allotment of shares,What is required to approve a preferential allotment of shares?Which section of the Companies Act,

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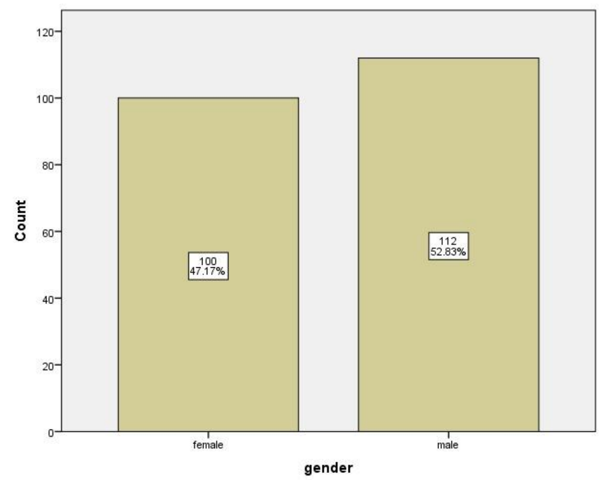
2013, governs the rights issue of shares?The Indian laws relating to companies are effective?what is your agree ability on the statement " whether the company law 2013 enacted to protect the rights of the shareholders"The statistical tool used for this research work is graphical representation.

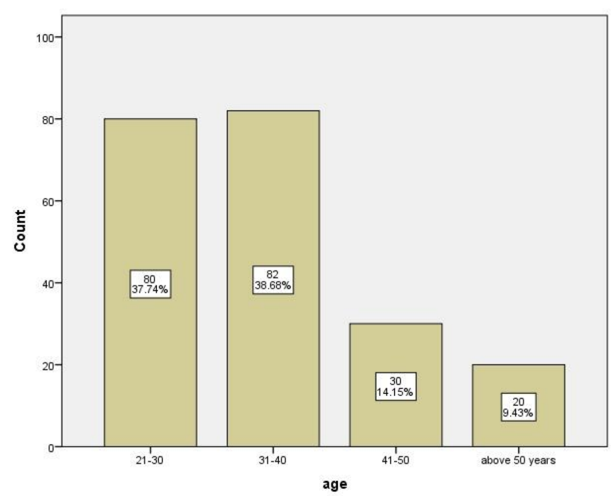
IV. ANALYSIS

Figure 1



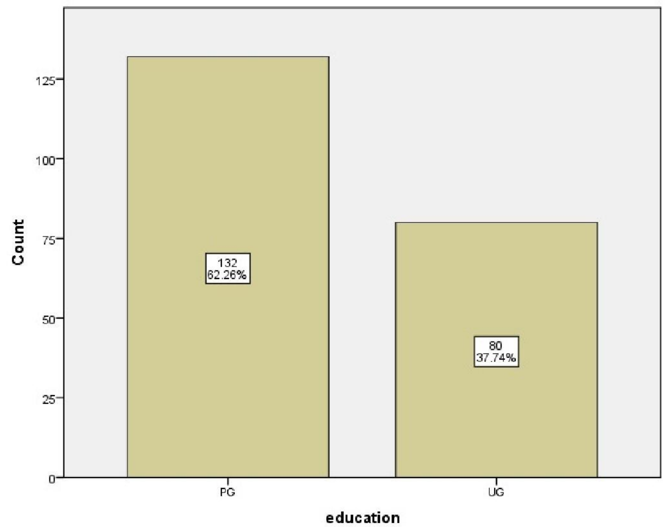
Legend: The figure 1 represents respondents gender distribution

Figure 2



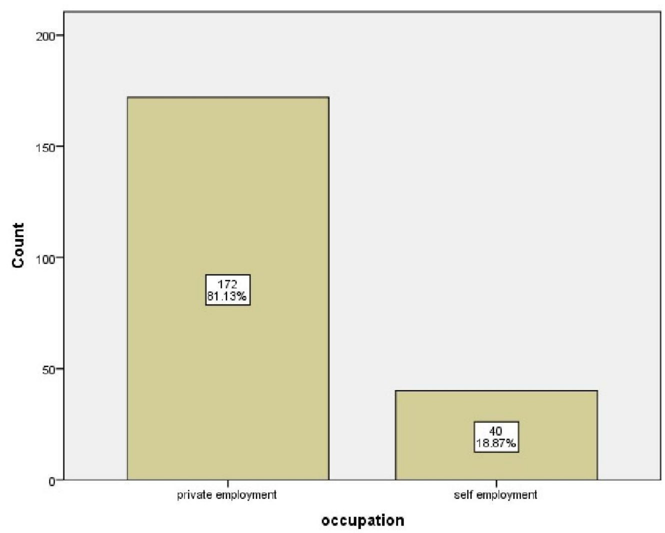
Legend : The figure 2 represents respondents age groups

Figure 3



Legend : The figure 3 represents Educational Qualification of respondents

Figure 4



Legend : The figure 4 represents occupation status of respondents

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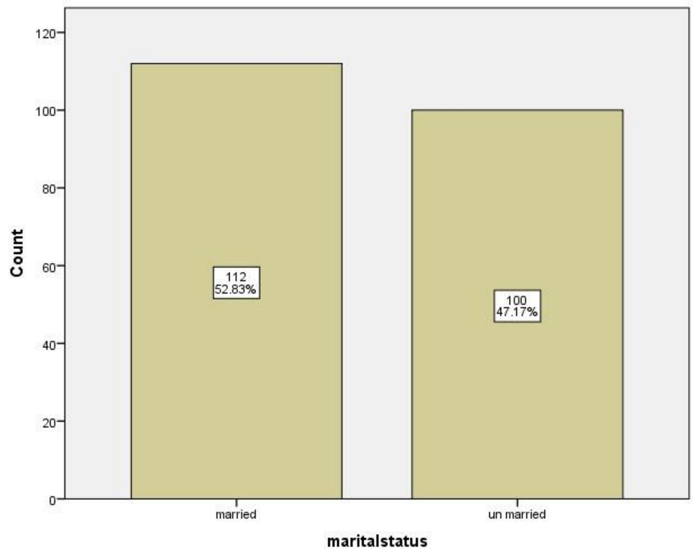
Figure 5



Legend : The Figure 5 represents marital status of Respondents

V. DISCUSSION

The majority of the respondents of gender group includes majority of the Female respondents (117) majority of male respondents (80) and majority of Other respondents (3) (Fig 1) The majority of respondents of age groups include below 20 (0) 21-30 (80)31-40(82) 41-50(30) above 50 years (20) (Fig 2) The majority of respondents of education includes No formal education(0) Primary (0) High school(0) Undergraduate (80) Postgraduate(132) (Fig 3) The majority of respondents of occupation includes Self employed (40) private employment (172) public employment (0) not yet employed(0) (Fig 4) The majority of respondents of marital status groups include married (112) unmarried(100) (Fig 5) The majority of the female respondents (100), majority of male respondents (112) strongly agree to the Statement that 'do you aware of term preferential allotment of shares'(

VI. CONCLUSION

The preferential allotment of shares and rights issues are critical mechanisms under the Companies Act, 2013, for companies seeking to raise capital while managing their financial strategies and shareholder dynamics. Both methods offer distinct advantages and are utilised for various strategic purposes, including financing expansion, restructuring, or meeting urgent capital needs.**Preferential Allotments** allow companies to issue shares to specific individuals or entities, typically at a predetermined price. This method provides companies with the flexibility to target investors who can offer strategic benefits or significant financial support. However, preferential allotments must be conducted with careful adherence to regulatory requirements to avoid issues such as dilution of existing shareholders' equity or potential conflicts of interest. **Rights Issues**, on the other hand, provide existing shareholders with the opportunity to purchase additional shares at a discounted rate. This approach helps maintain shareholder equity and provides a fair opportunity for current investors to increase their holdings. Rights issues are generally perceived as more equitable since they offer all existing shareholders the same opportunity to participate. In conclusion, while both preferential allotments and rights issues are valuable tools for capital raising, they must be executed with a thorough understanding of their legal, financial, and strategic implications. The Companies Act, 2013 provides a robust regulatory framework for these practices, but continuous refinement and adaptation are necessary to address emerging challenges and align with global best practices. Effective execution of these mechanisms requires careful planning, transparent processes,

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and stringent adherence to legal and ethical standards to ensure fair treatment of all stakeholders and to support the long-term success and stability of the company.

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