



INCENTIVE EQUITY

Rights Shares

RIGHTS ISSUE

The issue of shares by an existing shareholders are known as rights issues.

Advantages:

- Satisfaction of existing shareholders
- Expenses of public offering are avoided

Disadvantages:

- Leads to dilution in market value of shares;
- Objective assessment of price of rights issue may be challenging

VALUATION OF RIGHTS

Steps:

- Calculate the market value of shares which an existing shareholder is required to have in order to get fresh shares;
- Add to the above price paid for the fresh shares;
- Find out the average price of existing shares and fresh shares;
- The average price of the share should be deducted from the market price and the difference ascertained is value of right.

VALUATION OF RIGHTS

Formula:

$$R = (M - S) / (N + 1)$$

Where,

R = Value of one right share

M = Cum right market price of a share

S = Subscription price or issue price for a new share

N = No. of old shares required to purchase one right share.