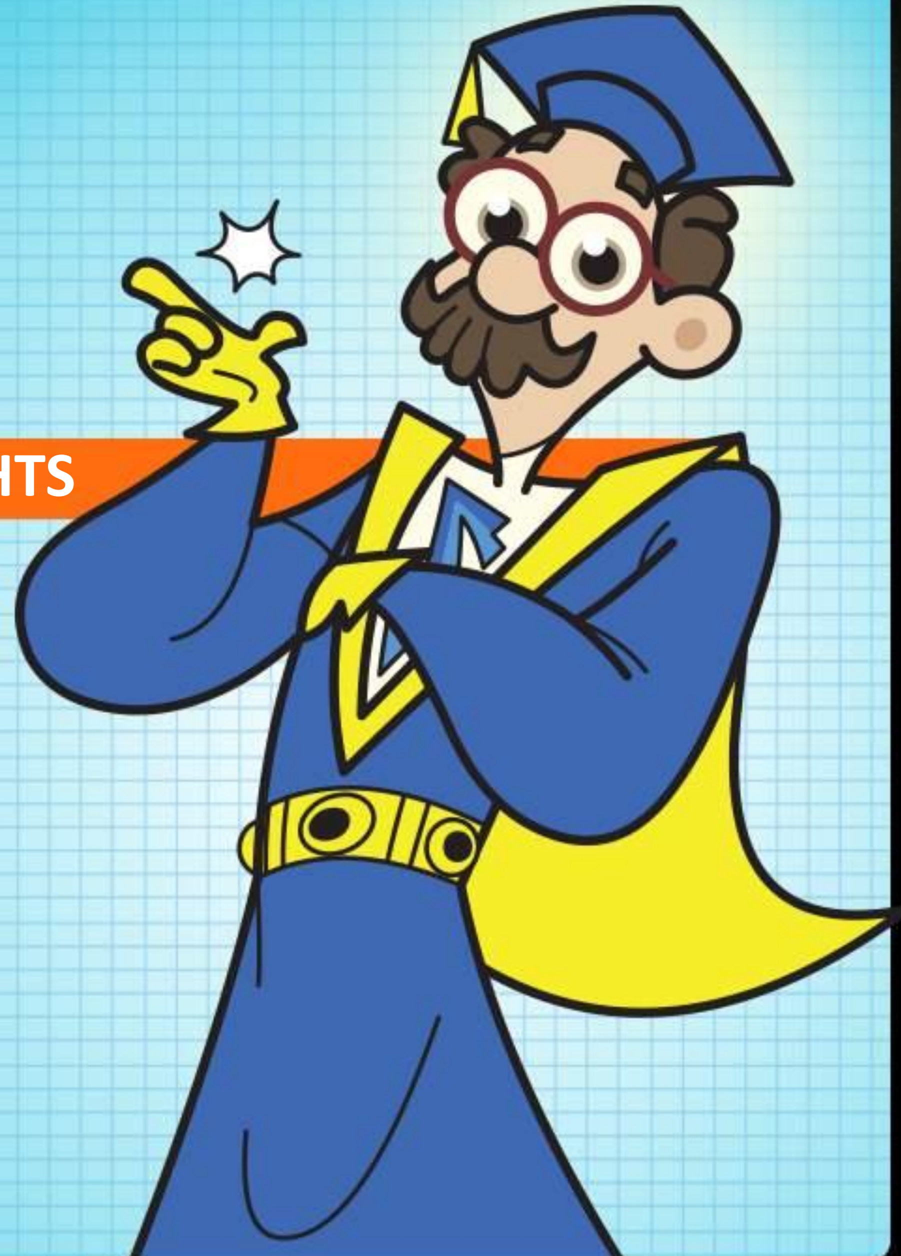
DIFFERENTIAL VOTING RIGHTS



DIFFERENTIAL VOTING RIGHTS

You may have received communication from banks or telecom companies promising rewards in exchange for “going green” with monthly bills.

DIFFERENTIAL VOTING RIGHTS

Such incentives are advantageous to both the company as well as the customer.

The customer gains from discounts and the banks or telecom companies save on printing and dispatching cost.

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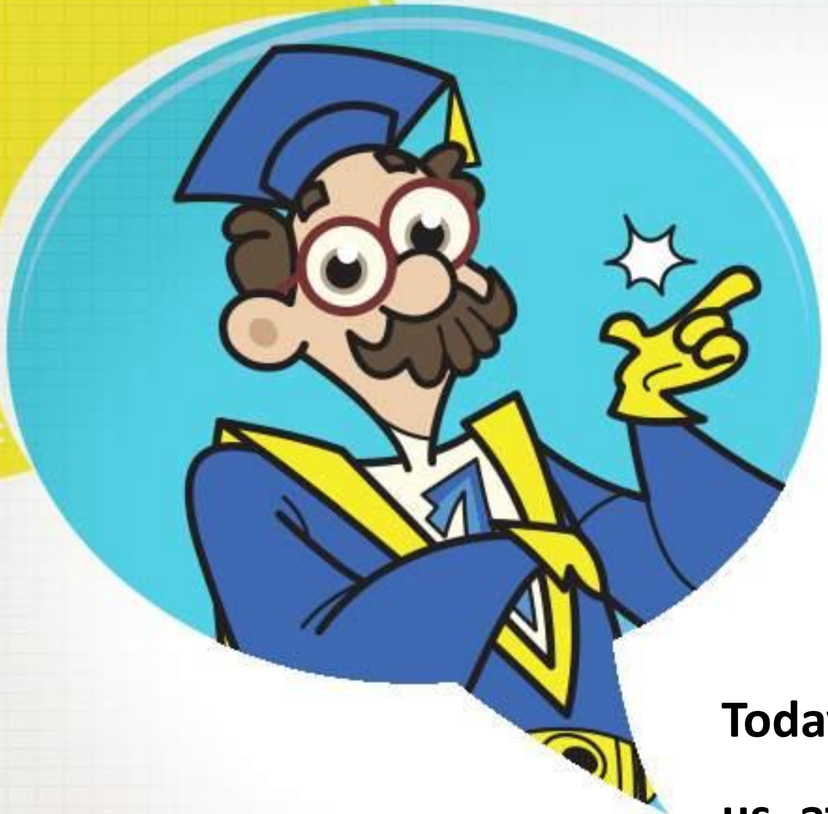

Today's lesson is somewhat similar. Let us attempt to explain the interesting concept of ‘Differential Voting Rights’ (DVR) to you.

What are DVRs?

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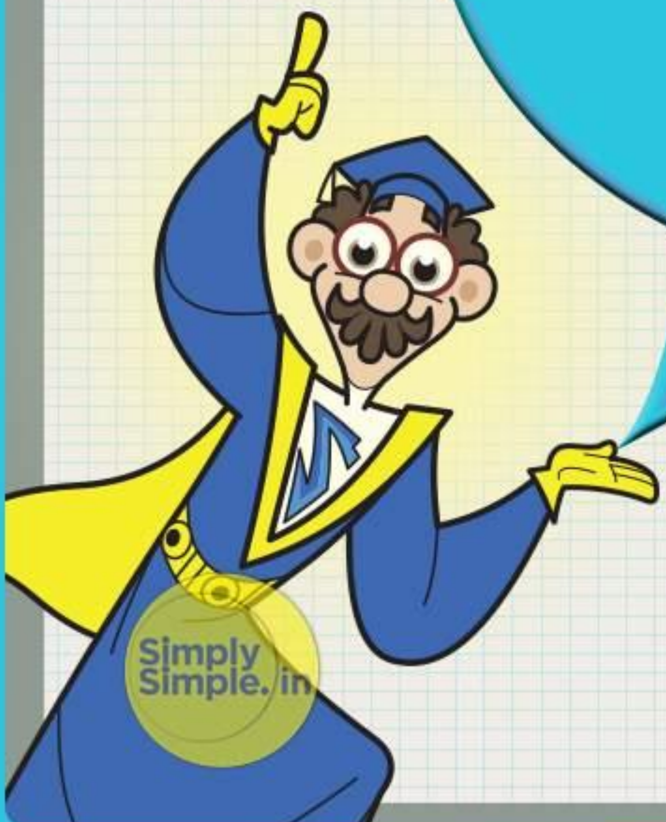
Differential Voting Rights shares are like ordinary equity shares, but with fewer voting rights.



DIFFERENTIAL VOTING RIGHTS

Also, DVR shares are priced lower at issuance and offer higher dividends in return of limited voting rights.

For instance, the DVR shares holders of XYZ Ltd. can exercise one vote for every 100 shares held versus a normal shareholder who can vote as per the number of shares he holds. The voting rights on DVRs differ from company to company. However, DVR shares get more dividend than ordinary shareholders.

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Why are these DVR issued by companies?

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Companies issue DVR shares for following reasons:

- **To prevent hostile takeovers and dilution of voting rights.**
- **Helps strategic investors who do not want control but are looking at a reasonably big investment in a company.**
- **At times, companies issue DVR shares to fund new large projects. Due to fewer voting rights, even a big issue does not trigger an open offer.**
- **Differential voting rights allow investors to earn better returns in lieu of surrendering their voting rights; it allows a company to dilute its equity without matching dilution in the promoters' stake.**

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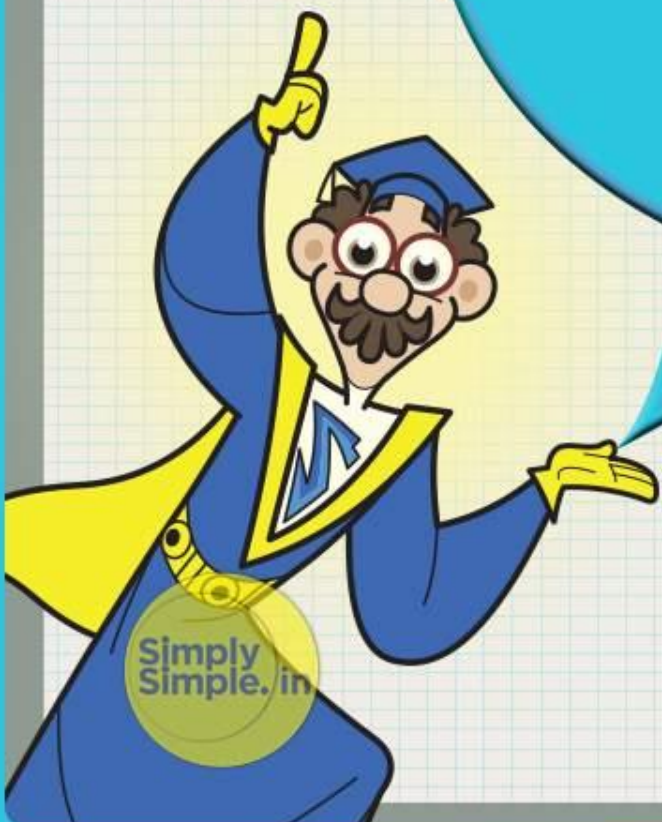
When can a company issue DVRs?



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The Companies Act permits a company to issue DVR shares when, among other conditions, the company has distributable profits and has not defaulted in filing annual accounts and returns for at least three financial years.

However, the issue of such shares cannot exceed 25 per cent of the total issued share capital.

Who should invest in DVR shares?

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DVRs are a good investment option for long-term investors, typically retail investors, who prefer to receive higher dividends and are not necessarily interested in taking part in the decision-making and voting process of a company.

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Though DVRs are listed on the bourses in the same way as ordinary equity shares, they trade at a discount to the price of the ordinary shares and are thinly traded shares, which mean these are highly illiquid stocks.

So finding buyers may be a little difficult.

DIFFERENTIAL VOTING RIGHTS

Hope you have understood the concept of 'DIFFERENTIAL VOTING RIGHTS'.

Thinking of Investment

Contact

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