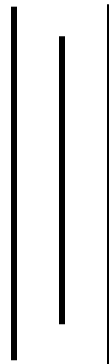


**ROLE OF RIGHT OFFERING ON THE STOCK PRICE MOVEMENT  
(A STUDY OF LUMBINI BANK LIMITED & NEPAL  
DEVELOPMENT BANK LIMITED)**

**By  
SUMAN MAHAT  
Shanker Dev Campus  
T.U. Regd. No. 7-2-25-169-2001  
Campus Roll No. : 1345/061**

**A Thesis Submitted to:  
Office of the Dean  
Faculty of Management  
Tribhuvan University**



*In partial fulfillment of the requirement for the Degree of  
Master of Business Studies (M.B.S)*

**Kathmandu, Nepal  
July, 2009**

## **RECOMMENDATION**

This is to certify that the Thesis

Submitted by:

**SUMAN MAHAT**

**Entitled:**

**ROLE OF RIGHT OFFERING ON THE STOCK PRICE MOVEMENT  
(A STUDY OF LUMBINI BANK LIMITED & NEPAL  
DEVELOPMENT BANK LIMITED)**

*has been prepared as approved by this Department in the prescribed format of the  
Faculty of Management. This thesis is forwarded for examination.*

### **Supervisors**

.....

**Ruchila Pandey**  
**Reader**

.....

**Prof. Bisheshwor Man Shrestha**  
**(Head of Research Department)**

.....

**Prof. Dr. Kamal Deep Dhakal**  
**(Campus Chief)**

.....

**Sajeeb Kumar Shrestha**

# VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by

**SUMAN MAHAT**

Entitled:

**ROLE OF RIGHT OFFERING ON THE STOCK PRICE MOVEMENT  
(A STUDY OF LUMBINI BANK LIMITED & NEPAL  
DEVELOPMENT BANK LIMITED)**

*And found the thesis to be the original work of the student and written  
according to the prescribed format. We recommend the thesis to  
be accepted as partial fulfillment of the requirement for*

**Master Degree of Business Studies (M.B.S.)**

## Viva-Voce Committee

Head, Research Department .....

Member (Thesis Supervisor) .....

Member (Thesis Supervisor) .....

Member (External Expert) .....

# **TRIBHUVAN UNIVERSITY**

**Faculty of Management**

**Shanker Dev Campus**

## **DECLARATION**

I hereby declare that the work reported in this thesis entitled “**ROLE OF RIGHT OFFERING ON THE STOCK PRICE MOVEMENT (A STUDY OF LUMBINI BANK LIMITED & NEPAL DEVELOPMENT BANK LIMITED)**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of **Ruchila Pandey, Reader** and **Sajeeb Kumar Shrestha** of Shanker Dev Campus.

.....

**Suman Mahat**

**Researcher**

**T.U. Regd. No. : 7-2-25-169-2001**

**Campus Roll No. : 1345/061**

## ACKNOWLEDGEMENT

This thesis entitle "*Role of Right Offering on the Stock Price Movement ( Study of Lumbini Bank Limited And Nepal Development Bank Limited)*" has been prepared in partial fulfillment for the degree of Masters of Business Studies (MBS) under the supervision of Mr. Sajeeb Kumar Shrestha and Reader Ruchila Pandey of Shanker Dev Campus. It is my privilege of getting helps and co-operation from different persons. It is not possible to enumerate the names of all of them. However, it will be matter of injustice if I forget the names of those personalities whose valuable suggestions and co-operation escorted to complete this thesis report.

First and foremost, I would like to offer special thanks to Mr Suraj Man Saiju, Mr. Prakash Dhakal and Miss Sharmila Parajuli for their proper suggestions. I would like to thank all the staff of the concerned banks for their full support in providing all the necessary data, which helped me in preparing this thesis report. I could not remain without thanking to my teachers and lecturers who all helped me during my study of MBS and during preparation of this thesis report.

I especially appreciate my father Prem Bhadur Mahat, and mother Rama Mahat who always created the environment for my success. I wish to express my special appreciation to Mr. Hari Raj Thapalia for his encouragement and suggestions.

I am thankful to the librarians of Central Library, TU Kritipur and Library of Shanker Dev for providing me with related books and thesis and the entire teacher involved there who made me capable of writing this thesis. I alone am responsible for whatever weaknesses it may still contain.

Suman Mahat  
Researcher

# TABLE OF CONTENTS

Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	

## Page No.

### CHAPTER – I INTRODUCTION

1.1 Background of the Study	1
1.1.1 Financial Market in Nepal	4
1.2 Focus of the Study	6
1.3 Statement of the Problem	6
1.4 Objectives of the Study	10
1.5 Significance of the Study	13
1.6 Limitation of the Study	14
1.7 Organization of the Study	14

### CHAPTER – II REVIEW OF LITERATURE

2.1 Introduction	16
2.2 Conceptual Dimension (Theoretical Review)	16
2.2.1 Information	16
2.3 Security Market and Common Stocks	17
2.4 Efficient Market Theories and Information	19
2.5 Historical Development of Capital Market in Nepal; A Brief Review	22
2.6 Establishment of Nepal Stock Exchange (NEPSE)	23
2.6.1 Introduction	23
2.6.2 Board of Directors of NEPSE	25
2.6.3 Capital Structure of NEPSE	26

2.6.4 Trading Arrangements in NEPSE	26
2.6.5 Listing Fees of NEPSE	29
2.7 Securities Board of Nepal (SEBO/N)	29
2.7.1 General Objectives of Securities Board of Nepal (SEBO)	30
2.7.2 Functions, Duties and Power of SEBO	30
2.8 Initial Financing	32
2.8.1 Venture Capital	32
2.8.2 Initial Public Offering (IPOs)	32
2.9 Right Offering: A Theoretical Framework	34
2.9.1 Pre-emptive Right	35
2.9.2 Reason of Right Offering in the Context of Nepalese Stock Market	37
2.10 Right Offering Vs Public Offering	43
2.11 Market Vs Theoretical Value of Right	44
2.12 Procedural Aspects of Right Offering	44
2.13 Procedures of the Issue of Right Shares in Nepal	46
2.14 Success of Right Offering	48
2.15 Over and Under Subscription of Right Offerings	49
2.16 Nepalese Laws Relevant to Public	50
2.17 Review of Journals/ Articles	51
2.18 Review of Master's Thesis	52
2.19 Research Gap	62

### **CHAPTER- III RESEARCH METHODOLOGY**

3.1 Introduction	64
3.2 Research Design	64
3.3 Population and Sample	65
3.4 Sources of Data	67
3.5 Data Processing Technique and Procedure	68
3.5.1 Percentage Change in MPS	69

3.5.2 Percentage Change in Actual Market Price and Theoretical Price Run Test	69
3.5.3 Run Test	70
3.5.4 Hypothesis Test	70
3.5.4 Mean Test	71

## **CHAPTER- IV DATA PRESENTATION AND ANALYSIS**

4.1 Exercise of Rights Issue in Nepal	73
4.2 Contribution of Rights Issue on the Total Public Flotation	77
4.3 Comparison of Stock Price Before and After Right Share Issue	80
4.4 Comparison of Theoretical and Actual Market Price after Right Share Issue	82
4.5 Testing of Hypothesis	85
4.5.1 Testing of difference in Actual Market Price and Theoretical Price	85
4.5.2 Testing of Hypothesis	87
4.6 Run Test	89
4.7 Mean Test	91
4.8 Analysis of Primary Data	92
4.9 Test of Hypothesis	97
4.10 Major Findings	102

## **CHAPTER –V SUMMARY, CONCLUSION AND RECOMMENDATIONS**

5.1 Summary	105
5.2 Conclusion	106
5.3 Recommendations	108

### **Bibliography**

### **Appendix**

## LIST OF TABLES

<b>Table No.</b>	<b>Title</b>	<b>Page No.</b>
2.1	Board of Directors of NEPSE	25
2.2	Capital Structure of NEPSE	26
2.3	Trading Days and Hours of NEPSE	27
2.4	Commission on Shares Transactions	28
2.5	Commission on Corporate Bond Transactions	28
2.6	Listing Fees of NEPSE	29
3.1	Right Share of Corporate Firms in NepalSources for Data	65
3.2	Sample and Response as a Primary Source of DataData Processing Technique and Procedure	68
4.1	Right Share of Corporate Firms in Nepal	75
4.2	Contribution of Rights Issue on Total Public Flotation	78
4.3	MPS of Sample Companies before and after Right Share Issue	81
4.4	Comparison Between Actual Market Price and Theoretical Price after Right Share Issue	83
4.5	Testing of Difference in Actual Market Price and Theoretical Price	86
4.6	Hypothesis Test Regarding Practices of Right Share by Nepalese Corporate Firms	97
4.7	Hypothesis Test on Right Share Issue, Its Impact & Role on Stock Price Movement	100

## LIST OF FIGURES

<b>Figure No.</b>	<b>Title</b>	<b>Page No.</b>
4.1	The Companies Who Issued Right Shares	77
4.2	Contribution of Right Issue on Total Public Flotation	79

# **CHAPTER - I**

## **INTRODUCTION**

### **1.2 Background of the Study**

The whole framework of our society is financial. Not only does the wealth we create depend upon the availability of finance, but also the distribution of that wealth is arranged through the money system. All the wealth created is distributed as rent; wages, interest or profits to those who helped provide it, the landlords, workers, investors and risk bearers. It is then subject to tax in such a way that a wide variety of social programs can be supported. These, includes welfare programs - education, health, defense etc. In all these arrangements the financial institution are playing their part, and their influence extends down to the grass root of our society. Since the financial institutions are rendering a wide range of services to people of different walks of life, they have become an essential part of modern society. The resource allocation of the country is done by the financial system. Financial service firms acts as an intermediaries in the allocation of financial resources. The major players of the financial system are the Banks, Insurance companies, Finance companies, Mutual Funds, Government of the country (through central bank) and other non-financial corporations.

To run any type of company, it must be financed. Some companies often get financed by founders, their friends and families. Retained earning is sufficient for some companies, no more equity is needed. Some companies issue common stock to raise equity capital. Common stock represents ownership of the company. So, common stockholders are the real owners of the company. Common stock holders have right to claim on assets. The nature of equity ownership depends upon the types of organization.

Every organization has to suffer the financial problems because of different reasons. A growing organization or firm is suffering from destitute of funds either for sustainment in the competitive market or for expansion of its business. Firms generally issue common stocks to general investors to cope with various financial situations or they issue preference shares or they issue debentures or they issue right shares. The types of stock which has to be issued, depends upon the target of capital structure. But this thesis mainly focuses on the right offering to the existing shareholders. If the firm's charter contains the preemptive right, then the firm should offer any new common stock to existing shareholders. But if the preemptive right is not contained in the firm's charter, then the firm has a choice of making the sale of the existing stockholders or to entirely new investors.

The firms are using mainly three important securities to raise funds to fulfill their financial need. They are common stocks or ordinary shares, preference shares and debentures. Common stock provides right to common stockholders, they are the real and legal owners of the company. Common stockholders have many rights. Some of them are specified by the law and some of them are specified by the company. Their rights can be grouped into two types which are collectively rights and specific rights.

### **Collective Rights**

- They have right to elect the board of directors.
- They have right to issue preferred stock, debentures bonds and other securities.
- They have right to change the amount of authorized capital.
- They have right to authorize the sale of fixed assets.
- They have right to enter into merger.
- They have right to amend the corporate charter.
- They have right to adopt and amend by laws.

## **Specific Rights**

- They have right to sell their stock certificate through which their ownership is also transferred.
- They have right to vote in the elections of directors and in other major decisions. They have right to maintain their proportional ownership in the company called preemptive right.
- They have right to claim proportionately on the residual amount of assets when the company is at the time of liquidation.
- They have right to inspect the corporate books.

Right issue does not affect the wealth of the shareholders. If the company needs more capital, then it generally issues right shares to existing shareholders instead of issue of bonus share because the current reserve is not sufficient. The common stockholders have no obligation to purchase the additional shares. They have an option to purchase right shares at subscription price which is generally below the current market price of the shares but they have to exercise the rights within the specified time period.

There are intrinsic financial values of rights because they are issued at lower price than the current market price of the stock. The lower price would help to maximize the capital gain of the shareholders. Consequently the buying and selling of rights can be existed in the market. In our country, if rights can be sold partially or fully, then rights can be sold or bought in the security market to get benefit. And there will be especially attractive investment in buying and selling of rights with the hope of increasing the value of rights (Van Horn, 2002: 126).

Selling a security issues to new investors some firms offers the security first to exiting shareholders on a privileged subscription basis. Sometimes the corporate charter requires that a new issue of common stock or an issue of security

convertible into common stock be offered first to existing shareholder because of their preemptive rights (Van Horn, 2002: 99).

New common stock are issued giving the right to purchase first by the existing shareholders than it's called right offering each shareholder is issued an option to by a certain no. of new shares and the term of the option are contained on a piece of paper called right. Each stock holder receives one right for each share of stock owned (Weston and Copland, 1992).

### **1.1.1 Financial Market in Nepal**

Financial market in Nepal is in the growing stage. So the history of the financial market in Nepal is not very old. In comparison to the developed country, the development of the speed of financial market is not satisfactory. Financial market is very important in the development country like Nepal because it plays vital role in the economic growth and use of resources.

According to Lawrence J. Gilman, "financial markets provide a firm in which suppliers of funds and demands of loans and investments can transact business directly."

When Nepal Bank limited established in 1994 B.S., the system of collecting deposit and granting loans in the organized sector had began. But the trading of securities to the general public has begun through the establishment of Biratnagar Jute Mill. Because of the financial liberalization, financial systems of Nepal are changing. The activities of business are growing rapidly.

- **Classification of Financial Market**

Mainly, the financial markets are two types and they are money market and capital market. From money market short-term funds are raised. However, from secondary market long-term funds of the organization are raised.

- **Money Market**

If the funds are borrowed for short period, then that financial market is called money market. So it is also known as short-term financial market. Government treasury bills, short-term bonds, commercial paper and certificate of deposits are generally traded in the money market.

- **Capital Market**

The financial market, in which long-term funds having more than one year of maturity period are raised, is known as capital market. According to Peter s. Rose, “The capital market is designed to finance long term investments, financial instrument traded in the capital market have original maturities of more than one year.” For any type of organization capital is the blood to conduct the activities of business. Common stock, preferred stock and long term debt are the key instruments in the capital structure. Optimum capital structures decrease the cost of capital and increases the earning per share. Government, industry, trade and agriculture are the important members of capital market which creates the demand of capital in the capital market. The sources of funds are collected from individuals, multinational investors, corporate. Therefore, bank, Investment Company, stock exchange, specialized financial institutions etc in Nepal. “The main objective of the capital market is to create opportunity for maximum numbers of people to get benefit from return obtained by directing the economy towards the productive sector by mobilizing the long term capital. “The objective can be fulfilled only by the rational accountable behaviors relating to the three factors of capital market such as institution, mediator and investor” (Ninth Plan,

1997: 167). Trading of long term securities are done in the capital market. Capital market is such a powerful market which gives opportunity to the investors to invest their savings in ordinary share, debenture and government securities to get benefit which helps to develop the economic condition of the country. Now days, the industrialization is growing rapidly. So the capital market plays an important role in this situation. The trend of issuing right share to the existing shareholders is arrived in our country which helps to raise the capital or funds for the company. Right offering helps to reduce flotation costs and protects the existing shareholders from dilution of wealth and control power. In Nepal security board of Nepal (SEBO) is responsible for the development of security market and it also protects and promotes the investment of the investors.

### **1.2 Focus of the Study**

Right offering affects the value of the firm. So right offering is the important financial decision in an organization. The main focus of this study is to find out the trends of right offering in the context of Nepalese stock market The purpose of this study is to provide the clear vision of the role of right offering on the stock price movement. This study also finds out the uses of right offering, stock price movement and current legal provision regarding right share issue.

### **1.3 Statement of the Problem**

When a company needs additional funds for long-term purpose, it can issue right shares to existing shareholders in pro-rata basis. A shareholder can buy proportionate number of new shares at subscription price if his/her name is in the company book before record date. Because of the right shares, there will be increment in the number of shares. So there is a view which is given by finance directors, professional investors and some financial institutions in the context of right shares. The view is that, there will be dilution of market price of the shares because of the right offering. Because of this reason some theoretical relationship

in right offering should be considered. Pure stock split effect of right shares should be considered if the financial manager is deciding to issue right offering. The financial manager should face the following questions to decide the right offering:

- How many rights will be required to purchase a new share?
- What is the value of each right?
- What is the effect of right offering on the existing share?

The company should decide how many total funds required to be raised. Then, if the total funds to be raised, is divided by subscription price, it gives the total number of shares to be issued. Number of rights to be required to purchase one new share is got if the total number of old shares is divided by total number of new shares. It creates the relation of low subscription price makes less rights needed for purchasing of a new share and vice versa.

When annual report (2063/64) of Nepal stock Exchange is observed, the mixed results have been found about the share price movement after announcement of right offering by some companies. For example, the market price of Siddhartha Bank Limited was Rs.546 before one month of right offering but after one month of the right offering, the market price is higher Rs.778 than before. Similarly, the market price of Lumbini Bank Limited was Rs.172 before the announcement of right offering which was the closing price but after one month of announcement, the market price is decreased to Rs.167 per share. This dilution in the market price of Lumbini Bank Limited might be affected by the increment of number of shares of common stock or other factors. Similarly, about the Alpice Everest Finance Limited, the market price is Rs.150 before and after the announcement of right offering which is same. In this way, the role of right offering in the stock price movement is sometime positive and sometime negative which is a great problem of this research work.

After, study of the rights share allotment reports of those three companies, in case of Lumbini Bank Limited (LBL) full subscription of right shares has been found out but in case of Nepal Development Bank limited (NDBL) and Peoples Finance Limited (PEOFL) , no full subscription has been found out varying degrees of under subscription of shares have been found for different companies. The following table shows to clarify this statement.

### **Rights Offering and its Subscription**

<b>Number of shares</b>	<b>Lumbini Bank Limited</b>	<b>Nepal Development Bank Limited</b>	<b>Peoples Finance Limited</b>
Issued (in million)	100.00	160.00	40.00
Subscribed (in %)	100	54	56

*Source: Annual Report of SEBO/N (2063/64)*

The above table shows that the shares of Lumbini Bank Limited were subscribed fully by the existing shareholders but the shares of Nepal Development Bank Limited and Peoples Finance Limited were remained unsubscribed by the existing shareholders. But the company Act is silent on the right shares. If the full subscription of right shares takes place, there is no question of dilution of shareholders wealth but if there were a lot of shares that were remained unsubscribed by the existing shareholders, then there will be the dilution of shareholders wealth takes place. If the number of shareholders who do not want to purchase new shares by using rights, can sell their rights separately, then they can protect themselves from incurring loss by selling only the rights through which they can maintain their wealth position. But the company Act is silent on this topic. Hence, the absence of the right instrument and the implicit of the shareholders' wealth, which do no exercise the rights, is another aspect of the research problem.

When a company sells securities by privileged subscription, it should be informed to its shareholders. One share is equal to one right (i.e. legally transferable written instrument). Common stockholders have option to purchase new shares according to the terms of offering. When a company issues right offering to existing shareholders, a shareholder has three choices and they are (i) subscribe the new share or use right, (ii) sell the right and (iii) let the right expire or do nothing. The shareholder takes the decision if he/ she feels the following points:

i. Subscribe the new share or use right:

- If the shareholder has sufficient cash to purchase new shares.
- If he/ she feels that the company is in the profitability position and the fund will be used for better performance.

ii. Sell the right:

- If the shareholder has not sufficient cash to purchase new shares.
- If the newly issued shares are cheaper than the current market price.
- If the shareholders are not happy about the right offering.

iii. Let the right expire or do nothing:

- If the shareholders do not get the information regarding the right offering because of many reasons. If it happens so then he has to suffer from the dilution of wealth.

There is an important question about the right offering which is that is there full subscription of right shares? The company act is also silent on behave of right offering. Hence, the absence of the right instrument and the implicit of the shareholders' wealth, which do no exercise the rights, is another aspect of the research problem. But the major issues are given below:

1. When right offering should be made?

2. What is the trend of the shareholders about the right offering? That means use the right, or sell the right or let the right expire.
3. What is the relationship between right share and stock price movement?
4. What is the theoretical value of right and its practical effect on stock price?
5. What are the reasons of the price movement after the right offering?

#### **1.4 Objectives of the Study**

The main objective of this study is to find out the role of right offering on the stock price movement. Before right offering company should be registered in securities board of Nepal and should take permission from it. This study includes two aspects which are given below:

- Share price movement after right offering
- Characteristics of rights offering of the listed company in the securities board of Nepal

Some of the important objectives of this study are given below:

- To examine the role of right offering on the stock price movement.
- To find out the impact of right offering before and after the announcement and its changes on the market price of the stock.
- To find out the theoretical value of right share and examine the practical effect of right share on stock price.
- To suggest about right share to the related ones.

#### **Lumbini Bank Limited**

Lumbini Bank Limited is a national level commercial bank offering a wide range of banking solutions and services meticulously customized to the needs of the customers. Established in 1998, this is the first regional commercial bank in Nepal, which started its operation from Narayangarh.

The bank has restructured various products, as a part of an ongoing process, to cater to the retail segment. The newly structured products cover Personal Loan, Home Loan, Vehicle Loan, Mortgage Loan, Educational Loan, Time Loan etc.

(Fiscal Year 2007/08)

1.Share Capital	995,710,100
2.Reserves and Funds	(702,016,312)
3.Debentures & Bonds	-
4.Borrowings	-
5.Deposit Liabilities	5,703,733,802
6.Bills Payable	29,075,428
7.Proposed Dividend & Dividend Payable	-
8.Income Tax Liabilities	-
9.Other Liabilities	124,974,662
Total	6,151,477,680

### **Nepal Development Bank Limited**

Nepal Development Bank Limited (NDBL) has been established under the Company Act, 2053 (1997) in Chaitra 6, 2054 (March 19,1998). It is the first national level development bank established by the private sector in Nepal. It has commenced its operation since Magh 17, 2055 (January 31, 1999) as per Development Bank Act, 2052 (1996). Since Baisakh 21, 2063 (May 4, 2006) it has been imparting its services in accordance with Bank and Financial Institution Act, 2063.

<b>Authorized Capital</b>		<b>Rs. 1260 million</b>
<b>Issued Capital</b>		<b>Rs. 1060 million</b>
1. Ordinary Share @ Rs. 100		Rs. 640 million
2. Preference Share @ Rs. 100		Rs. 420 million
<b>Paid Up Capital</b>		<b>Rs. 246.2 million*</b>
<b>Share Holding Pattern</b> The Share holding pattern is as under :		
<b>Promoters</b>		
<b>1. Private Sector Promoters</b>		<b>26.40%</b>
<b>2. Institutional Promoters</b>		<b>15.60%</b>
Nepal Rastra Bank [NRB]		6.50%
Employees' Provident Fund [EPF]		3.25%
Ratriya Beema Sansthan [RBS]		3.25%
Nepal Co- operative Society Ltd. [NCSL]		2.60%
<b>General Public</b>		
<b>3. Foreign / Local Financial Institution</b>		<b>22.10%</b>
Industrial Development Bank of India Ltd. (IDBI)		13.00%
Nepal Cooperative Society Ltd. (NCSL)		9.10%
<b>4. Public Shareholder</b>		<b>35.90%</b>
* After allotment of 1:1 right shares it will reach to Rs. 320 million.		

### **People's Finance Limited**

1. Category (A,B,C,D): C
  2. Date of license by NRB: 2050/12/4 (Relicense date 2063/1/13)
  3. Date of operation: 2051/1/2
  4. Head office: Tripureshwore, Kathmandu GPO 9416
  5. Branch offices / Liaison Office (Specify): No
  6. TSA with foreign institutions, if any (including shareholding percentage):No
  7. Details of shareholders and shareholding pattern
- S.N. Particulars Amount of share  
(Rs. in 000)

### Shareholding

1.	Individual Promoters	20400 (51%)
2.	Institutional Promoters	
3.	Public Shareholders	19600 (49%)
4.	Others	
	Total	40000 (100%)

### **1.5 Significance of the Study**

Now days, people are interested to invest their funds in shares to get more return. Because of this reason the companies are trying to provide higher return and also trying to maximize the value of shareholders. This study is based on right share which is a new concept for Nepalese investors. This study is being important for all the related people of the capital market. However it is important decision for corporate from different point of view. The companies are trying to lunch a new promotion strategy to attract the investors as well as to maintain goodwill. For this means, issuing of right shares to existing shareholders is new concept for them. Right shares can be bought only by existing shareholders in pro- rata basis. The practice of right share is very old in worldwide but it is started in Nepal from fiscal year 2052/53. This research will help to existing shareholders, company management, brokers and issue managers of companies etc. It will be benefit for security board of Nepal (SEBO), Nepal Stock Exchange (NEPSE) and Research board of Nepal Rastra Bank (NRB) to analyze right share. The importance of this study is that it will provide some valuable input for the further scholar in this area. Similarly this report is equally important to the financial institutions that are involved in the marketing activities in NEPSE.

## **1.6 Limitation of the Study**

This report is held within the following limitation and constant:

- This study is limited within the annual report of securities board of Nepal (SEBO), respected company, experts and issue manager.
- Primary and secondary data will be taken from SEBO, respected company, experts and issue manager.
- This report is limited within those companies who have already issued right shares.
- This study includes the listed companies which imply that the conclusion drawn from each selected companies does not represent the entire industry in which it falls. So it only represents its industry group.
- Various reference and resources will be taken as constraints if they are unavailable.
- There may be various factors which affect the share price but this study considers only right shares.
- This study includes the fiscal year

## **1.7 Organization of the Study**

The whole study has been divided into five chapters:

### **Chapter I: Introduction**

The first chapter deals with the introduction of the study, background of the study, introduction of financial market, focus of the study, statement of the problems, objectives of the study, limitation of the study, significance of the study, statement of hypothesis and organization of the study.

### **Chapter II: Review of Literature**

The second chapter deals with review of the different available literature review of books, article, reports and thesis related to the study field.

**Chapter III: Research Methodology**

The third chapter deals with the research methodology which explains the research method used in the study. It includes research design, sources of data, population and samples, sources and techniques of data collection and data analysis tools.

**Chapter IV: Data Presentation & Analysis**

The fourth chapter is the main part of the study which is the most important chapter of this study. It includes presentation and analysis of data by using financial and statistical tools.

**Chapter V: Summary, Conclusion & Recommendations**

The fifth and last chapter includes summary of the study, conclusion and recommendation.

Bibliography and appendix will be attached at the end of the study.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

#### **2.1 Introduction**

Literature review is an act of stocking available literatures in one's chosen field of study. This helps the researchers to explore what kind of research studies have already been done in their field of study. This chapter deals with the review relating to the Right Share and Capital Market in more detail and descriptive manner. Various books, journals, magazines, articles from newspaper and other related studies have been reviewed for this purpose. No specific research studies have been found regarding right issue and the role of right offering on the stock price movement in the context of Nepal. However the topic of research is absolutely new one. Because of this study, the adequate feedback could be obtained to broaden the base and input to the study. This study includes Theories of Stock Price Movement, Historical Development of Capital Market in Nepal, Initial financing, Right offering: A theoretical Framework, Right Offering Vs Public Offering, Market Vs Theoretical Value of Right, Procedural Aspects of Right Offering, Success of Right Offering, Under and Oversubscription of Right Offerings, Nepalese Laws relevant to Public Issue and Review of different Studies.

#### **2.2 Conceptual Dimension (Theoretical Review)**

This section of this chapter is presented to describe some theoretical terms that are relevant to this study.

##### **2.2.1 Information**

Information is an important source in decision making and also in updating the level of knowledge. Information can be defined as the facts that are heard, told or discovered about something or someone. It improves representation of entity and

reduces uncertainty. It can be transferred from source to destination through communication without loss of content. In this research, the term “information” has been used to indicate those informational variables that have certain influences on the share price. It has been used to refer to the dissemination of information regarding the firm’s policy and performance to the existing shareholders, investors and other related parties. There are two groups such as macro-economic information and firm specific information. Macro-economic information includes the overall situation of the country’s economic environment, issues of new directives, legalization of tax, announcement of new policy and promulgation of new laws and by-laws. Firm’s specific information is concerned by firm to the participants of the capital market such as a declaration of right offering, dividend, stock splits, holding annual general meetings etc.

It plays an important role in the development of fair and competent capital market. After getting investors detail information about performance of firms, the investors buy stocks of the company. Disclosure of the information is advantageous for both the investors as well as the company. The disclosure of qualitative and authentic information enhances the company’s goodwill. So the new investors may have optional to buy the stocks of the company.

### **2.3 Security Market and Common Stocks**

A security market can be defined as a place for bringing together buyers and sellers of financial assets in order to facilitate trading. “A securities market can be defined as a place where people buy and sell financials instruments.” In other words, “An organized security market is a place where, or a system through which securities are created and transferred”.

Securities market can be divided into primary market and secondary market. A primary market is the place where corporations and government issue new

securities. Primary market is the place for the original sale of securities by an issuer to the public. This is the market in which the government or corporation is directly taken part in the transaction and receives direct benefits from an issue. It is often referred to as initial public offerings. It involves new issues of securities for the first time. In other hand, secondary market is the market for existing shareholders. Secondary markets are those markets in which financial securities already outstanding are exchanged among investors. In this market, the trading between investors to investors takes place. The original issuer has no role in the secondary market and proceeds from securities transactions do not go to them. Nepal Stock Exchange (NEPSE) is an example of organized stock exchange which is the only one stock exchange in Nepal. The function of secondary market is to provide liquidity for securities purchased in the primary market.

A securities market can be classified into money market and capital market on the basis of the maturity of the securities traded in. Money market deals with the trading of securities with less than one year of maturity. It is created for borrowing and lending for relatively short-term funds. Money market instruments include commercial papers, bankers' acceptance, certificate of deposits, promissory notes, bills of exchange, Treasury bill etc. On the other hand, capital market deals with the securities having more than one year of maturity. All long-term securities issued by corporations and government such as common stock, preferred stock, corporate bonds, government bonds etc are the instruments of the capital market. These capital market instruments can be traded in both primary as well as secondary markets.

Security is a claim against real resources either in the form of an income stream or in the form of physical capital or assets. This means security is a piece of paper which serves as evidence of rights. It can be transferred from one investor to another through which rights and conditions are transferred. In other words, it is a

legal representation of right to receive future benefits under stated conditions. There are different kinds of securities such as debentures, common stocks, preferred stocks, treasury bills etc. But among them, common stock is being popular. Now days, common stockholders are the real owners of the company. They have rights and privileges like voting and preemptive rights. As owners, they do not get priority in the distribution of assets resulting from a liquidation of the corporation. From this view, common stockholders have to bear risk than bonds and preferred stockholders.

There are three terms which are associated with the common stocks. They are par value, book value and market value. Par value is also known as face value of the common stocks. Par value is the value established at the time of initial issuance. On the other hand, book value means the asset value after deducting liabilities and preferred stock. Market value of common stock is the value determined by the supply and demand factors.

#### **2.4 Efficient Market Theories and Information**

An efficient market is defined as the market in which the prices of securities fully reflect all known information quickly and accurately. Its concept assumes that all known information is reflected in the price, including not only past information but also current information as well as events that have been announced but have not yet transpired. The word “Efficiency” as applied to securities market has unfortunately been used to represent a variety of logically distinct concepts. Efficiency can be particularly classified into (a) exchange efficiency, (b) production efficiency and (c) information efficiency. In an efficient market, the prices of securities fully reflect available information. Regardless of the form of information, it is the key to the determination of stock prices. Therefore, it is the central issue of the efficient market concept. An efficient market can exist if the following events occur:

- A large numbers of rational profit maximizing investors exist who actively participate in the market by analyzing, valuing and trading stocks. These investors are price takers; that is one participant alone can not affect the price of a security.
- All investors obtain information without cost and have access to information at approximately the same time.
- Information is generated in a random fashion such that announcements are basically independent of one another.
- Investors react quickly and accurately to the new information, causing stock prices to adjust accordingly.
- Furthermore, this concept states that prices changes due to information are independent of one another and move in a random fashion. The piece change occurring today is independent of the one yesterday because it is based on investors' reaction to new independent information coming into the market today.

According to Professor Eugene Fama, there are three hypothesizes of market efficiency. They are explained as follows:

### **I. Weakly Efficient Market Hypothesis**

Weakly efficient market hypothesizes that today's security prices fully reflect all information contained in historical security prices. This implies that no investor can earn excess return by developing trading rules based on historical price or return information. According to Kean (1983) "The market is efficient in the weak sense if share prices fully reflect the information implied by all prior price movements. Price movements in effects are totally independent of previous movements implying the absence of any price patterns with prophetic significance". So the past prices have no meaningful information to predict future course of price fluctuations which can be used to earn above average return.

Furthermore, this hypothesis stipulates that the price of the stocks have absorbed only the stock market information but not the public information. The implication of this hypothesis is that knowing and using the past sequence of price information is of no value to an investor.

## **II. Semi Strong Efficient Market Hypothesis**

This hypothesis says that market is efficient enough for prices to reflect all publicly available information. Thus, no investor could earn excess return using publicly available resources such as corporate annual reports, NEPSE price information or published investment advisory reports. All publicly available data are earnings, stock splits announcements, dividends, financing difficulties, new products developments and accounting changes. This hypothesis also states that current prices of the stock reflect not only stock market information but also publicly known and available data. A market that quickly incorporates all such information into prices is said to be Semi Strong Efficient. “If the semi strong hypothesis is true, then only a few than what could be earned by using a naïve buy-and-hold strategy.

## **III. Strong Efficient Market Hypothesis**

Strong efficient market hypothesis states that stock prices fully reflect all information; public and non public. This means that no group of investors can excess return through a superior capacity to analyze publicly available information. In other words, if investors transform public information into private information, they do not gain by doing so. “An extreme version of the strong form holds that all non public information, including information that may be restricted to certain groups such as corporate insiders and specialists on the exchanges is immediately reflected in prices. In effect, this hypothesis asserts that stock prices fully reflect all public and non public information and there by no investor can earn abnormal returns.

## **2.5 Historical Development of Capital Market in Nepal; A Brief Review**

Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange in 1993

“Capital market plays a crucial role in mobilizing a constant flow of saving and channeling the financial resources for expanding productive capacity in the countries.” This means that capital market is a crucial element in the National economy. Its role in reinvigorating and boosting the economic activity in the country is significant. Capital market can be divided into two groups which are securities market and non securities market. Stock market is a major component of securities market which plays a mediator role through which corporate sector mobilizes funds for financing in productive sectors by issuing shares in the market.

The history of securities market began with the flotation of shares by Biratnagar Jute Mills Ltd and Nepal Bank Ltd in 1937. Since the period of Rana Prime Minister Judha Shamsher. This mills issued eight thousands ordinary shares of hundred rupees as the first modern industry in the country.

In 1964 and the establishment of Securities Exchange Center Ltd. in 1976 were other significant development relating to capital markets. Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital

markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Exchange Center was established and this event can be taken as the most remarkable event in the history of securities market. Its aim was to facilitate and promote the growth of securities market. The job of brokering, managing of public issues and underwriting were the main functions of this security exchange center. There was no secondary market for the corporate securities in Nepal till 1984 A D. Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange in 1993

## **2.6 Establishment of Nepal Stock Exchange (NEPSE)**

### **2.6.1 Introduction**

Nepal Stock Exchange, in short NEPSE, is a non profit organization, operating under Securities Exchange Act 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13<sup>th</sup> January 1994. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of NEPSE. The entire broker companies who have received the certificate of stock trading and become the member of NEPSE, trades in the trading floor of NEPSE. Members of NEPSE are permitted to act as intermediaries is buying and selling of government bonds and listed securities. At present, there are 23 member brokers and 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, rules and bye-laws. This is the secondary market of stock, which was operated over the counter facility managed by securities exchange center. In the year 1993, securities exchange center limited was converted into Nepal Stock Exchange (NEPSE) and then it started to work under the jurisdiction of security board. At the beginning, there were 15 listed companies in 1993/94. The numbers of listed

companies were increased to 135 by the fiscal year 2063/64. Both annual turnover and market capitalization of listed companies have increased by 142.22% in comparison to fiscal year 2062/63.

Nepal government, Nepal Rastra Bank (NRB), Nepal Industrial Development Corporations (NIDC) and Licensed Members are the shareholders of NEPSE whose efforts are for initiating the establishment of security market center (SMC) and mobilizing the public savings to ensure public ownership in the shares of public limited companies. In the beginning, the stock exchange center made a series of studies about public limited companies to promote the stock exchange business and devising the ways and mean of understanding the business of buying and selling of securities. Moreover, it has been empowered to promulgate various bye-laws in order to ensure orderly and fairly transaction of securities. Accordingly, the securities listing bye-laws 1996 made by which can be taken as the most important bye-law and which prescribes the terms and conditions for listing and disclosure requirements for listed companies. The security exchange center focused much more on the long list of objectives without really understanding the operational mechanism of securities exchange activities in the early period of incorporations. Multifold objectives such as promoting public savings, mobilizing capital funds for investment, encouraging peoples' participation in ownership of business and industries and providing marketing facilities for channeling securities exchange business were prescribed on its introductory brochure. Underwriting, collection of essential information, listing of securities, management of share prices etc were mentioned on that brochure. But in reality, the center provided service to support the selling function of Nepal Rastra Bank (NRB) in disposing government securities comprising to treasury bills, promissory notes, development bonds etc.

Nepal Stock Exchange (NEPSE) is non profit organization operating under securities exchange act 1983. The basic objective of NEPSE is to provide free marketability and liquidity to the government and corporate securities by facilitating transaction in its trading floor through market intermediaries like brokers, market and market makers etc. Nepal government, Nepal Rastra Bank, Nepal Industrial Development Corporation and Licensed Members are the shareholders of the NEPSE.

### **2.6.2 Board of Directors of NEPSE**

The board of directors of NEPSE consists of nine directors in accordance with Securities Exchange Act, 1983. Six directors are nominated by Government of Nepal and different institutional investors. Two from the licensed members and the last one is general manager of NEPSE who is the Ex- Office Director of the Board.

**Table 2.1**

**Board of Directors of NEPSE**

<b>S. N.</b>	<b>Name of Organization</b>	<b>No. of Directors</b>	<b>Designation</b>
1	Ministry of Finance	1	Chairman
2	Security Board	2	Director
3	Nepal Rastra Bank	2	Director
4	Nepal Industrial Development Corporation	1	Director
5	Licensed Members	2	Director
6	General Manager	1	Director

*(Source: NEPSE Index Annual Report 2064/65)*

### **2.6.3 Capital Structure of NEPSE**

The authorized and issued capital of the exchanged is Rs 50 million. Of this Rs 30.41 millions is subscribed by Nepal government, Nepal Rastra Bank, Nepal Industrial Development Corporation and Licensed Members.

**Table 2.2**  
**Capital Structure of NEPSE**

<b>S. N.</b>	<b>Shareholders</b>	<b>Rs (millions)</b>	<b>Percentage (%)</b>
2	Nepal Government	20.48	58.67
3	NRB	12.08	34.60
4	NIDC	2.14	6.13
5	MEMBERS	0.21	0.60
	<b>Total</b>	<b>34.91</b>	<b>100</b>

*(Source: NEPSE Index Annual Report 2064/65)*

#### **2.6.4 Trading Arrangements in NEPSE**

##### **I. Trading System of NEPSE**

NEPSE has adopted an “Open Out-Cry System”. It means transactions of securities are conducted on the open action principle on trading floor. The buying broker with the highest bid will post the price and his code number on the buying columns while selling broker with the lowest offer will post the price and his code number on the selling column on the quotation board. The market quotes their bid and offer price match contracts between the buying and the selling brokers or between the brokers and market makers that are concluded on their floor.

##### **II. Trading Days and Hours of NEPSE**

NEPSE has fixed the trading days and hours during which the brokers are allowed to enter the floor to make the transactions.

**Table 2.3**

**Trading Days and Hours of NEPSE**

<b>Types of trading</b>	<b>Days</b>	<b>Trading Time</b>
Regular trading	Sunday to Thursday	12 Noon to 1 pm
Odd trading	Monday	2 pm to 3 pm
Odd trading	Friday	11am to 12 Noon

*(Source: NEPSE Index Annual Report 2064/65)*

**III. Ordering Lots in NEPSE**

Trading lots of securities listed in the NEPSE are fixed on the basis of the face value of securities. If the listed securities are shares or other than shares in this case the board lot is fixed on the basis of the face value of the securities. If the face value of the securities is Rs 10, the minimum number of shares that is to be traded is 100. In the same way, if the face value of the shares is Rs 100, then it is 10. The securities other than shares, having the face value of the Rs 1000 must be traded in number of one and in multiples of the same. If the listed securities are debentures or bonds, the minimum tradable lot is fixed on the basis of face value of the securities. If the face value is Rs 100, the tradable lot is 100 and if it is Rs 1000, the tradable lot is 10. In the both cases any number of securities more than started above can be traded. It is to be notified that no securities can be traded in fraction. The transaction of regular trading should be on at least lot. The transactions of less than 10 shares are admitted by an odd lot trading hours. There is no odd lot transaction in case of debenture.

**IV. Price Regulation**

The percentage for the fixation of an opening price has been reduced from 10% to 5% since the fiscal years 2003/04. It means the opening price of any day shall not be more or less than 5% of the previous trading day's closing price. Once the transactions are done within this range, the price can be changed within a limit of 2% in each consecutive transaction.

## V. Settlement

NEPSE adopted a T+5 system. The existing system of settlement has been changed from T+5 to T+3. The changed system has been implemented since 17 July 2003. Under the prevailing system the transactions done on the trading floor need to be settled within 3 working days excluding the transaction date. Settlement will be carried out on the paper- versus- payment basis.

## VI. Brokerage Commission

The rate of brokerage commission on equity transactions ranges from 1% to 1.5% depending on the traded amount. The rate of brokerage commission on debenture ranges from 0.15% to 0.75%. As per the rules, the rate of brokerage commission is listed below:

**Table 2.4**  
**Commission on Shares Transactions**

<b>Traded Amount</b>	<b>Rate of Commission</b>
Up to Rs 25000	1.5%
Rs 25001 to Rs 50000	1.4%
Rs 50001 to Rs 100000	1.3%
Rs 100001 to Rs 500000	1.2%
Rs 500001 to Rs 1000000	1.1%
Above Rs 1000000	1.0%

**Table 2.5**  
**Commission on Corporate Bond Transactions**

<b>Traded Amount</b>	<b>Rate of Commission</b>
Up to Rs 100000	0.75%
Rs 100001 to Rs 500000	0.60%
Rs 500001 to Rs 1000000	0.45%
Rs 1000001 to Rs 5000000	0.30%
Above Rs 5000000	0.15%

### 2.7.5 Listing Fees of NEPSE

The listing fees and the annual fees to be paid by the listed companies are based on the capital of the company. The rates currently applications are as follows:

**Table 2.6**  
**Listing Fees of NEPSE**

<b>Paid up to capital</b>	<b>Fees (Listing)</b>	<b>Fees (annual)</b>
Up to Rs 10 million	0.20% or minimum Rs 15000	Rs 15000
Above Rs 10 million to Rs 50 million	0.15% or minimum Rs 45000	Rs 25000
Above Rs 50 million to Rs 100 million	0.10% or minimum Rs 75000	Rs 35000
Above Rs 100 million	0.075% or minimum Rs 100000	Rs 50000

*(Source: NEPSE Index Annual Report 2064/65)*

### 2.8 Securities Board of Nepal ( SEBO/N)

The security board of Nepal (SEBO) was established in 25<sup>th</sup> Jestha 2050 B. S. (or June 7, 1993) under the provision of security exchange act 1983 (first amendment 2040 B. S. ). There are seven board members representing various government and non- government sectors. The seven-member board, includes a full-time Chairman appointed by the government of Nepal for the tenure of four years. Other members of the board are joint secretary from Ministry of Finance, joint secretary from Ministry of Law, Justice and Parliamentary Affairs, a representative from the Central Bank, a representative from Institute of Chartered Accounts of Nepal, representative from Federal of Nepalese Chambers of Commerce and Industries and a member appointed by the Government of Nepal amongst market experts. Since its establishment, it has been concentrating its efforts on improving the legal and statutory frameworks which are the bases for the healthy development of the capital market. Under the present act, it is responsible for the supervision of NEPSE. The board has established with the objectives of promoting and protecting the interest of investors by regulating the securities market. It is also responsible for the development of securities market in the country. As a part of its continuous efforts to build a sound system, the Securities Exchange Act 1983 was amended

for the second time on January 30<sup>th</sup> 1997. this amendment paved the way for establishing SEBO as apex regulatory body as it widened the horizon of SEBO by bringing market intermediaries directly under its jurisdiction and also made it mandatory for the corporate bodies to report SEBO annually as well as semi-annually regarding their performance. Although the second amendment in the act established a direct relationship of SEBO with the market intermediaries and the listed companies, supremacy in its jurisdiction is yet to be established and clearly recognized.

### **2.7.1 General Objectives of Securities Board of Nepal (SEBO)**

General Objectives of Securities Board of Nepal (SEBO) are as follows:

- To promote and protect the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities.
- To supervise, look after and monitor the activities of stock exchange and corporate bodies carrying on securities business.
- To render contribution to the development of capital market by making securities transaction fair, healthy, efficient and responsible.

### **2.7.2 Functions, Duties and Power of SEBO**

As per the Securities Related Act, 2006, the major functions, duties and power of Securities Board of Nepal (SEBO/N) are as follows:

- Register securities and approve prospectus of public companies.
- Provide license to operate stock exchanges.
- Provide license to operate securities business.
- Permit the operation of collective investment schemes and investment fund program.

- Draft regulations, issue directives and guidelines, and approve bylaws of stock exchanges.
- Supervise and monitor stock exchanges and securities business activities.
- Take enforcement measures to ensure market integrity.
- Review reporting of issuer and listing companies and securities businesspersons.
- Conduct research, study and awareness programs regarding securities markets.
- Coordinate and cooperate with other domestic as well as international securities related regulatory agencies.
- Formulate policies and programs relating to securities markets and advise the Government of Nepal as and when required

At last meaning of right offer is to selling a security issues to new investors some firms offers the security first to exiting shareholders on a privileged subscription basis. Sometimes the corporate charter requires that a new issue of common stock or an issue of security convertible into common stock be offered first to existing shareholder because of their preemptive rights.

In my view new common stock are issued giving the right to purchase first by the existing shareholders than it's called right offering each shareholder is issued an option to by a certain no. of new shares and the term of the option are contained on a piece of paper called right. Each stock holder receives one right for each share of stock owned. Concluding the right offer by the sentence "Right offer is to selling a security issues to new investors some firms offers the security first to exiting shareholders on a privileged subscription basis" .

## **2.8 Initial Financing**

### **2.8.1 Venture Capital**

When a company is formed, it obviously must be financed. Often seed money comes from the founder and their friends and families. For some companies, this is sufficient to get things launched but for others, additional external equity are necessary. There are two ways in which additional equity can be managed and they are venture capital and initial public offering. Venture capital (VC) represents fund invested in an existing, relatively new enterprises. Wealthy investors and financial institutions are the major sources of venture capital but there are several sources as well. A venture capital firm will seek capital in advance from external investor. Such investors include insurance companies, public pension funds, endowments and foundations, bank holding companies, individuals and others. “One reason that new companies find venture capital firms attractive in that a venture capitalist typically view their investment as long-term and are willing to wait several years before repaying their return” (Rao, 1982:542).

It is another way financing a business. Venture capitalists invest in new or young firms in return for equity in the firm. They are not lenders but they are equity investors at a stage at which the firm’s shares do not yet trade on public market. Unlike most equity investors, venture capitalists typically play an active role in selecting management and overseeing strategy. They normally seek to sell their shares within a few years, usually by taking the firm public and selling their shares on the public equity markets. Venture capital is a well-established form of financing in the many countries.

### **2.8.2 Initial Public Offering (IPOs)**

A closely held firm can raise fund through initial public offering. If a new firm is growing, usually the owners will want to take the company public with a sale of

common stock to outsiders. This procedure and alternatives for raising funds is called going public. "Going public means selling some of a company's stock to outside investors and then letting the stock trade in public market, and desire to convert into corporations" (Brigham, Gapenski & Gerhardt, 2001:698). In other words, whenever stock in a closely held company is offered to the public for the first time, the company is said to be going public. The market for the stock which is just being offered to the public is called the initial public offering (IPO) market.

Public offering of various securities for raising funds by both government and corporations to the general public are made through the investment bankers. Investment banker acts as a middleman who brings together suppliers and users of long-term funds in Capital market. The major function of investment banker is to buy the securities from the issuing company and then resell them to investors at a high price. This difference in the purchasing price and selling price is called 'spread' or commission to the investment banker. Thus public offering involves raising of funds for government or corporations from public through the issuance of various securities in the primary market and is often the only major source of obtaining large sums of long-term funds. There are substantial one-time costs related with IPOs that may be either direct or indirect costs. Direct costs are legal, administrative, underwriting fees, auditing and the dilution related with selling shares of an offering price.

The company can issue new shares to raise funds through one of the following ways:

- i. Through investment bankers to the general public in a public offering.
- ii. On a pro-rata basis to existing shareholders through a right offering.
- iii. Through a dividend reinvestment plan.
- iv. To employee through employee stock purchase plan.
- v. To single buyer (or very small number of buyers) in private placement.

When a firm goes public, the various changes arise with the firm, which are described below:

- i. The firm is being systematically controlled and formal after going public. The financial techniques like ratio analysis and DuPont system of financial planning and control are needed for the system control.
- ii. The outside investors should get information on time after going public though the founders may continue to have majority control.
- iii. The publicly owned typically draws on a board of directors which should include representatives of the public owners and other external interest group to hold ultimate sound plans and policies.
- iv. The firm must have breadth of management in all business effectively.

A number of securities are issued in the new issue market which is a primary market for raising funds. A number of securities include equity shares, preference shares, debentures, warrants, convertible securities, zero coupon bond & convertible and cumulative convertible preference shares.

### **2.9 Right Offering: A Theoretical Framework**

When a company needs additional funds for a long-term purpose, it can raise the fund by issuing common stocks at a subscribed price on a pro-rata basis to existing shareholders instead of selling common stocks to new investors. This method of issuance is called Right Offering. Right offering is very much popular in Nepalese capital market and it is also known as privileged subscription. The existing shareholders have right to purchase certain number of new shares at subscribed price on pro-rata basis. The existing shareholders receive one right for each share of stock they hold, so this type of issuance of shares is known as right offering. They have an option to buy new shares at subscription price by using rights and terms of the option are contained on a piece of paper called a right. A specified

number of rights are required to purchase the new shares. The companies are allowed to issue right share provided the shares already issued are fully paid who have already issued shares to the public. The companies can issue right shares to the existing shareholders under the principle of pre-emptive right. Right offering helps to reduce flotation costs. It also protects the existing shareholders from dilution in wealth and control power.

### **2.9.1 Pre-emptive Right**

In simply, preemptive right is the right to do something before others. The common stockholders are the real owner of the company so that they have certain right which is called Preemptive Right. In this right, the existing stockholders have right to purchase any additional shares issued by the company before they are offered to public. If the firm's charter contains preemptive right, then the firm must offer any new common stock to existing shareholders. If the preemptive right is not contained by the firm's charter, then there is no compulsory to issue new common stocks to the existing shareholders. The company has choice of making the sale of the existing stockholders or to an entirely new set of investors. If it sells to the existing shareholders, this issue is called right offering.

“Common stock holders often have the right, called the pre-emptive right, to purchase any additional share sold by the firm. In some states the pre-emptive is automatically included in every corporate charter, in other it is necessary” (Weston & Brigham, 1990:677). The existing shareholders have right to purchase new additional shares under the preemptive right so that they can preserve their proportionate ownership in the company. They can purchase new shares of the stock at subscription price on pro-rata basis. For example- if one of the existing shareholders has 1000 shares of the company which declared 10:1 right shares issue, then he can purchase 100 additional shares of the company. In this way, he can preserve his proportionate ownership in the company. Under the preemptive

right, the existing shareholders have option to buy new common stocks. If the company sells the new shares to the existing shareholders, it is called right offering. "Each shareholder is issued an option to buy a certain number of new shares, and the terms of the option are listed on a certificate called a stock purchase right, or simply a right. If a stockholder does not wish to purchase any additional shares, then he or she can sell the rights to some other person who wants to buy the stock" (Brigham, Gapenski & Ehrhardt 1988:607). In many countries 'Right' is a negotiable instrument and therefore transferable. And it must be logically transferable and negotiable because while someone may have sufficient money to exercise the rights and they may actually exercise such rights but some others may not have the sufficient money to exercise all the rights, so they can exercise the rights partially. That means some rights are exercised and some might be sold.

"Right are important tool of common stock financing without which, stockholders would run the risk of losing their proportionate control of the corporation" (Giman, 1988:607). The purpose of preemptive right is to protect the control power of present stockholders. It also protects the stockholders against a dilution of value of the stocks. For example- suppose 1000 shares of common stock each with a price of Rs. 32, were outstanding making the total market value of the firm Rs. 32000. If additional 1000 shares were sold to new investors at Rs. 20 per share or for Rs. 20000, this would raise the total market value is divided by the new total shares outstanding a value of Rs 22 per share is obtained. The old shareholders thus lose Rs 10 per share and the new stockholders will get Rs 10 profit per share. Thus selling common stocks at a price below the market value would dilute the value of stock of present stockholders. Similarly, new stockholders get benefit because of this issuance. Thus preemptive right prevents such occurrence

As the preemptive right states that the existing shareholders get first chance to buy newly issued common stocks as well as new issued securities convertible into

common stock. The existing shareholders can purchase certain number of shares which is determined the number of old shares in relation to the total shares outstanding. One share means one share. The company declares how many rights are required to purchase one new share by the existing shareholders. For example- if Mr. X owned 5 shares in ABC company which declared 3:1 right share issue. Then Mr. X can purchase 1 new share of the company through right offering.

### **2.9.2 Reason of Right Offering in the Context of Nepalese Stock Market**

The offering of additional shares to the existing shareholders through right is known as right offering. The company offers to buy new shares of common stocks to the existing shareholders. Right issue is a privileged given to the existing shareholders that helps them to keep their control position proportionately equal and the issuing price will also be lesser than the market price. When the company issues securities by privileged subscription, it mails to shareholders one right for share of the stock held. The existing shareholders can purchase additional new shares according to the term & condition of right offering. The subscription price per share, the expiration date of the offering and the number of rights required to purchase one new share of the stock are specified by the term & condition of the right offering. Generally subscription price will be lower than market price of the stock. So it will help to maximize the capital gain of the shareholders. The exiting shareholders have three choices which are (I) exercise the right, (II) sell the right and (III) let the right expire. The stockholders exercise the right to purchase additional new shares of the stock at subscription price on pro-rata basis because the subscription price is generally less than the current market price and they may have sufficient money. Similarly, in second case, the existing shareholders sell the rights partially, if they have not sufficient money to purchase new shares. Similarly, some people may have the money but for them the right share may not be so profitable option in comparison to other options available. So they have right to sell the right. Likewise, somebody may not have the money to exercise the

right, so they can sell all the rights. If the shareholders have not sufficient rights to purchase one new share or the value of the rights is negotiable then only they let the rights to expire. That means they do not exercise the rights. Generally the subscription period is about three weeks.

Nepal Rastra Bank is the central bank of Nepalese banks. So it imposes legal requirement for increment of the equity base at certain standard level. To fulfill the legal requirements, right share issue is one of the popular practice for raising the additional capital funds and it is enthusiastically increased because it minimize the flotation cost, lower the cost of funds and avoids the difficulties in raising funds through public offering. Now a day, the issuing of right shares is being popular and right shares are issued by the company which is formed by the combination of certain number of banks and finance companies because only one finance company or the bank can not fulfill the legal requirements which is imposed by the Nepal Rastra Bank.

The reason of the issuing right shares by the company is to raise the additional capital fund. Right is an option of the existing shareholders to purchase the certain number of new shares at subscription price during a given period of time. So right share is an opportunity to the existing shareholders given by the company . The company issue the right shares to raise additional needed fund which contains; (I) the number of rights required to purchase one new share, (II) the theoretical value of right and (III) the effect of right issuing on the value of ordinary shares. Rights can be exercised at a subscription price which is generally below than the current market price. If the stockholders are the stockiest want to hold control power on the management of the company by electing as a director and if the value of the right is higher, then rights are exercised. If the shareholders exercise the rights, then right offering can not hamper on the shareholders' wealth. Rights can be either exercised or sold on the stock market. But the wealth of the shareholders

will be reduced if they neither exercise nor sell the rights. Some of the shareholders own few numbers of shares and they feel that it does not matter to them about the changes of the management. Because of this type of nature, their wealth will be reduced. Right has expiration date, so shareholders have to purchase before expiration date otherwise their rights will be expired and cannot purchase new shares. There are some irrational investors or shareholders who neither exercise nor sell the rights. As a result, they will get their wealth reduced. So the company normally must be sure that the rights will be exercised without fearing any adverse wealth implications for its existing shareholders. Because of this reason, the company fixes the subscription price which is much below than the current market price.

### **I. Significance of Right Offering**

The company has various reasons to issue the further new shares i.e. right issue and that may be for need of additional capital funds, the expansion of the company etc. it is least costly way to raise capital funds. So it has many significances which are described below:

- **Minimization of Flotation Cost**

One of the important advantages of right offering is the minimization of flotation cost. The flotation cost of right offering will be lower than the flotation cost of public offering. The adjusted or the downward price pressure may be avoided through right offering.

- **Retention of Proportional Ownership for Shareholders**

Another significance of right offering is that the existing shareholders can maintain their ownership proportion. This means if the company issues new shares to new investors and the existing shareholders may not have sufficient funds to purchase new shares, then their ownership proportion will decline. So right

offering is the way to maintain ownership proportion by the existing shareholders. But there is no obligation to purchase new additional shares by the existing shareholders through right offering.

- **Achievement of fully Subscribed of Right Issue**

Generally subscription price is lower than the current market price of the stock. And the company sets such price of the stock because of the rational investors. This means if the company sets the subscription price higher than the current market price, then the rational investors would prefer to purchase shares in the market rather than the expensive new shares of the company. Because of this reason, the subscription price must be set in such a way that is lower than the current market price and the issue is more likely to be successful.

- **Increment in the Number of Outstanding Shares**

The number of outstanding shares is increased by the issue of right shares. This increment in the number of shares promotes the active trading in the stock market. If a large amount of funds is required to trade the stock, then small investors may be unable to trade minimum unit of stocks. They are unable to trade because of the holding additional number of shares and reduction in share price which diversify in their portfolios.

- **Being Permanent Capital**

Ordinary shares or the right shares both are irredeemable. So the company gets a permanent capital funds. Because of the irredeemable nature of right shares, the company has no liability for cash outflow.

- **Expansion of the Company**

For the purpose of expanding the company, additional fund is required to finance the expansion. So the right share is issued to expand the company.

- **Indication of Higher Profit**

Right share is declared by the board of directors and whose expectation is raising in earnings of offset the additional shares. So it is an indication of higher future profit.

- **For bringing the Market Price of Share within more Popular Range**

The effect of right shares is to decrease in share price and to increase in the number of outstanding shares. If the performance of a share is strong which leads to increase in market value than popular range, then the determination of the company's management is that the price of the share will be higher than (moving and of) the popular trading range and the company will be sure that the price of the shares becomes high within the popular range. If it happens the smaller investor can also be able to involve in trading and also can make a large number of different stock in their portfolios.

- **Getting Positive Psychological Value by the Shareholders**

The company has brought prospects with growing earning and the announcement of right offering is taken as favorable news by the investors. They can take part in this offering for increment in future dividends. If the investors accepts right offering, the company gets cash to invest for profitable investment opportunities and which indicates the positive psychological value of the investors or the shareholders. The price of the stock may be actually rise after certain time period instead of decrement in value of share after right issue. The stockholders can protect their value of the shares and control position of the company through preemptive right.

- **Achievement of a more Respective size in the Capital Market**

Every shareholders get additional share on pro-rata basis after the right offering by the company. And some of the new shares are sold by old shareholders which indicates that the achievement of the company as a more respectable size in the capital market.

- **Fulfillment of The Legal Requirement Imposed by the Authority**

Nepal Rastra Bank is the central bank of Nepalese banks. So it imposes legal requirement for increment of the equity base at certain standard level. To fulfill the legal requirements, right share issue is one of the popular practice for raising the additional capital funds and it is enthusiastically increased because it minimize the flotation cost, lower the cost of funds and avoids the difficulties in raising funds through public offering.

### **I. Limitations of Right Offering**

There are many advantages of right offering like it indicates the company's growth to shareholders and it has favorable psychological value on shareholders which is the main advantage. But in spite of all advantages, it has also some limitations which are described below:

- The existing shareholders have an option to purchase new shares but the company can't force them, which is the drawback of right offering
- The shareholders who neither exercise nor sell their rights, their wealth position will be decreased. There is no obligation about the subscription by the shareholders, so most of the right issues are underwritten.
- The market value of the existing shares is also decreased after the right share issue which may possess negative impact of particular share on the capital market.
- There is no reason for outside investors who want to buy rights to take them up. So, the proposed right issue could be fail if the company does not get its desired injection of new equity funding.
- "Yet another disadvantage is for those companies whose shareholding is concentrated in the hand of financial institutions because of the conversion

of loan into equity. They would prefer public of share rather than right issue” (Pandey, 1999:1006).

- If the profit does not increase immediately in proportion to the increment of the number of ordinary shares, then the earning per share of the existing share will be diluted because of right share issue.
- The control position of the management remains same because of this, the right issues depresses the new investors from being the shareholders of the company. And the current management may misuse its control power.

### **2.10 Right Offering Vs Public Offering**

Right offering and public offering both are the issue of common stocks. But right offering is issued for the existing shareholders and public offering is issued for new investors. However, there are some differences exist between these offerings which are described below:

- A right issue is likely to be more successful than public offering because the right offering is made to the investors who are familiar with the operations of the company.
- Right issue is not underwritten, so flotation cost of right issue is lower than public offering.
- A right issue has issue price lower than the public offering.
- The principal sales tool in the right offering is the discount from the current market price, whereas with the public offering, the major selling tool is the investment banking organization.

### **2.11 Market Vs Theoretical Value of Right**

Immediately after the announcement of the right offering, the market price of the stock would increase by some amount but theoretically it is said that the right offering does not affect the value of the shareholders. So we should be aware that the actual value of a right may differ somewhat from theoretical value because of

irregular exercise, sale of right over the subscription period, transaction cost and speculation. However, arbitrage limits the deviation of actual value from the theoretical value. If the price of right is significantly lower than its theoretical value, the arbitragers will buy the rights and exercise to purchase new stocks, and downward pressure on the theoretical value of the right. If the price of right is significantly higher than its theoretical value, shareholders will sell the rights and buy the stocks in the market. Such action will avert downward pressure on the market price of the right and upward pressure on the market price of the stock. These arbitrage actions will contribute as long as they are profitable. The market price of the right is generally different from the theoretical value of right. The difference between market as well as theoretical value of right is depended upon how the firm's price is expected to behave during the period when the right is exercisable. The investors can get much higher returns when stock price is raised if they buy rights instead of the stocks itself (Gutam, 2007).

## **2.12 Procedural Aspects of Right Offering**

A right issue is the selling of the ordinary shares to existing shareholders of the company. The new shares must be issued to the existing shareholders on pro-rata basis. When the stocks traded in the capital market during announcing period, then the investors (buyers and sellers of the stocks) may get problem, who will get the right? To avoid this confusion, the board of directors of the company fixed record date to give certainty about the possession of right. This record date is the last date on which the recipient of a right must be legal owner indicated in the company stock ledger. Ex-right date is the date on and after which the right no longer goes to the stock. Ex-right date is the book closer date on which and after which bookkeeping entries will not be done. Ex-right date is normally four days before the holder of record date. The issuing firm sends rights to holders of record owners of the firm share on the date of record, who are free to exercise their rights, sell them or let them expire. Rights are transferable, so they must be exercised within

specify period of time which is generally not more than few months at the subscription price. The company also declares that how many numbers of rights are required to purchase one new share and there is not possible about the trading of fractions of shares. So the existing shareholders may purchase the additional rights or sell the extra rights. The value of right depends largely on the number of rights required to purchase one new share of the stock and the amount by which the right's subscription price is below than the current market price. If the value of right is high, the rights will be exercised but if the value of the right is low and the small investors have less number of shares, then the rights are not exercised. For example - if the XYZ Company needs Rs 400 million funds and the board of directors (BOD) decided to raise the funds through right offerings. The BOD met on 1<sup>st</sup> January 2004 and declared right offering under the preemptive right of the existing shareholders. The shareholders must record their name until 15<sup>th</sup> February 2004 which was declared by BOD. 11<sup>th</sup> February is the ex-right date and those who purchase shares on and after this date will not receive rights and receive by the seller of the shares. In the above example 15<sup>th</sup> February 2004 is record date and any investor who buys shares before 11<sup>th</sup> February (ex-right date) must record his or her name in the company until 15<sup>th</sup> February 2004 to receive right shares.

If a company needs additional fund for a long-term purpose, it can issue new common stocks by privilege subscription. If the company sells such stocks, then it must mail to its stockholders. Each stockholder receives one right for each share of the stock owned. The stockholders have right to purchase new additional shares but the company can't force to buy such securities because the stockholders have an option to purchase new stocks according to the term of the right offering. The term specify that how many rights are required to purchase one new share, the expiration date of offering and the subscription price per share. The stockholders have three choices about their rights which are (1) exercise the rights to purchase additional new shares, (2) sell the rights because they are transferable or (3) let

the right expire that means do nothing. The subscription period is generally 3 weeks. If a stockholder wants to purchase shares of additional stock but he or she has less right to purchase additional shares. For example- if he or she 58 shares of the stock in a company, then he or she has 58 rights and the number of rights required to purchase new share is 4. Then he or she can buy 14 full shares. If he or she likes to buy 15<sup>th</sup> share, then he or she should purchase 2 additional rights. But the shareholders should buy the stock before ex-right date. The stock is said to be sell with right-on through the record date and after record date, the stock is said to be sell ex-right that is the stock is traded without rights attached. Investors those who purchase stocks after this date do not receive the rights to subscribe additional stocks.

### **2.13 Procedures of the Issue of Right Shares in Nepal**

The company act 2053 of Nepal conducts about the right issue which is regulated by Security Board of Nepal (SEBO/N). There are some complications about the actual mechanics and the sequence of events in the case of rights offerings in the context of Nepal. This will therefore be useful to outline briefly the actual procedure by which a right issue practice is typically made in Nepal. Certain rules and regulation must be followed by the companies which are described by the company act 2053 and their respective memorandum and article of association.

Generally the following procedures are considered before right offering in the context of Nepal:

- The determination of the quantum of further capital requirement and the corporations, in which the rights issue might be offered to existing shareholders, should be considered by Board of Directors (BOD).
- Annual General Meeting (AGM) should pass the proposal of Board of Directors (BOD) by its majority. The company should notify to Nepal Rastra

Bank (NRB), Nepal Stock Exchange (NEPSE), Security Board of Nepal (SEBO/N) and Office of the company Register sufficiently with prospectus in advance of the date of board of record meeting at which the rights issue is likely to be considered, and should get permission from them.

- Make announcement with prospectus which gives a general indication of the reasons, which have made the issue desirable, the purpose for which the new money is to be used.
- Letter of provisional allotment or rights offering to the shareholders with prospectus gives advising to the existing shareholders about the rights offerings, the number of new shares allocated to each given number of old shares, the subscription price of the right issue. After the announcement date, this letter will be sent.
- After the receipt of the letter of provisional allotment, the allotment must be accepted or renounced, and payment in full or partial, must be made for those shares which are renounced.
- The shareholders who participated in the rights offering announcement will get the certificates. Shareholders who have accepted and fully paid up their allotment can renounce the actual share certificate in favor of a third party. Because of nontransferable instrument such practice are not seen in Nepalese context.
- The resolution of the board of director to distribute the right share had to approve by shareholder's Annual General Meeting (AGM). This is very low chance that the resolution of the board of director (BOD) is disapproved by shareholders.
- Listing of the shares in the NEPSE again with increased number which must be approved by the stock exchange after which an application for listed new share could be made.

## **2.14 Success of Right Offering**

If the company wishes to issue right shares to the public, then the company should make two basic decisions which are (1) subscription price and (2) number of rights required to purchase one new share. For the successful of right offering, subscription price is an important decision for the company. This subscription price is the price at which the company is going to subscribe to the existing shareholders, which is set below than the current market price of the stock. If the subscription price is set in such a way that the current market price is lower than the subscription price, then the existing shareholders obviously will not subscribe to the stock. And they can buy the stock in the market at a lower price. Consequently, a company will set a subscription price in such a way that it is lower than the current market price to reduce the risk of the market price's falling below it.

“Apart from the number of rights required to purchase one share the risk that the market price of stock will below the subscription price is a function of the volatility of the company's stock, the tone of the market, expectations of earnings and other factors. To avoid all risk, a company could set the subscription price so far below the market price that there is virtually no possibility that the market price will fall below it” (Van Horne, 1998:573). So the company should consider all the risks set the subscription price below than the current market price of the stock. The company also must set the necessary number of rights required to purchase one new share and it is also an important decision taken by the management of the company.

The cash should be submitted along with a certain number of rights for order of the shares which are going to be purchased from the company at a subscription price by the existing shareholders. The success of the right offering is manipulated by the balance between the individual and institutional investors. The success of right offering is also influenced by the size of the capital outlay in relation to a

stockholders existing ownership of the stock. The current trend and the tone of the market are also influenced. If the current trend is upward and the market is relatively stable in the upward movement, the probability of the successful of right offering is high. But the current trend is downward and the market is also not so stable, in this case the probability of the successful of the right offering is very low. If the stock market is more uncertain and the under pricing is greater, then in this situation, it is necessary to sell the issue. To avoid uncertainty, an underwriting contract is very good choice which is a guarantee to take up, any of the new shares which are not purchased by existing shareholders or the buyers of their rights in the market at the issue price. So there are many risks associated with right offering which can be avoided by taking some important decisions by the management of the company.

### **2.15 Over and Under Subscription of Right Offerings**

“Underwriting is the insurance, function of bearing the risks of adverse price fluctuations during the period in which a new security is being distributed.” (Weston & Copeland, 1992:891). Most of the rights offerings are done by investment bankers who underwrite and issue the right shares. So the company is sure about the successful of the right offering with the help of investment bankers who underwrite the unsold portion of the issue. This investment banker agrees to be a standby arrangement. This agreement is a formal guarantee if any shares will not be subscribed, it will purchase the unsold shares. Because of this agreement, the investment banker takes high commission or fees from issuing company for making guarantee.

Oversubscription is a privilege given by the company to the stockholders that they can subscribe for their proportionate shares as well as they can also oversubscribe for any unsold shares because of having right. The numbers of unsold shares are oversubscribed on pro-rata basis by the some existing shareholders. Although the

use of the oversubscription increases the chances that the issue will be entirely sold, it does not assure this occurrence, as does the standby agreement. There is possibility of falling short of the amount of the stock of the company which wants to sell because of the combination of subscriptions and oversubscription. Though the ownership proportions may change slightly, this privilege is a method of restricted ownership to the some group. If the shares cannot be sold through the oversubscription privilege, later it may offer to the public. If an investment banker is used, the character of unsubscribed shares may be in case up to the banker.

### **2.17 Nepalese Laws Relevant to Public**

The entire corporation, who wants to issue its shares to the pubic, should follow certain rules and laws. In Nepal, the right issue guideline is not implemented yet. The public and the right offering both are the issue of shares to the public. The company can raise the capital fund by public offering or the right offering but the company should follow certain laws. So if the company is going to issue right share as well as other stocks, it should follow the given laws.

- i. Company Act 2053 (1997)
- ii. Securities Exchange Act 2040 (1983)
- iii. Securities Exchange Regulation 2050 (1993)
- iv. New Issue Management Guideline 2054 (1997)
- v. Securities Registration and Issue Approval Guideline 2057 (2000)
- vi. Securities Allotment Guidelines 2051(1994)
- vii. Bank and Financial Intuitions Ordinance 2060 (2003)

### **2.17 Review of Journals/ Articles**

This part deals with the review of journal and article by different expert relating to right share, published in various journals which is given below;

Kenneth J. Weller (1979) on his article “The Journal of Finance” has concerned with the technique of raising equity capital through the process of offering new shares of common stock to the present owners at a price below the current market price. The rights to the new shares issued on a pro-rata basis can be utilized or sold by the recipient shareholders. Funds, therefore, are supplied to the corporation by the original owners and by the purchases of rights. The decision making process for the establishing the terms of the offering is analyzed as it affects the relationship of the rights offering to other financial policies. There is a marked tendency for the market for shares during a right offering to decline as a result of the large increase in the supply of the stock during a short period of time. This price decline can be measured by determining the amount of the price decline and adjustment for changes in the general market. A statistical analysis of the major issues of 1956 and 1957 indicates that the average decline price was 5.97 per cent. The measure varied from 4.07 per cent for utilities to 8.04 per cent for industries. A considerable portion of the decline took place shortly before the actual rights period.

This price declines result from insufficient demand for the new shares by two groups the original holders of the stock and the non-holders who seek to obtain shares by purchasing the rights. The demand by holders as evidenced in subscriptions is not a published fact for most issues. A mail survey reveals that a number of firms have this type of information but that is very difficult to draw any conclusion from the reported data because of the wide variation in the methods of collection and reporting. These are sufficient information, however, to suggest that in many issues a large portion of the funds comes from outside the ranks of the original shareholders. Several factors influence the demand for shares by the existing holders. The fact that subscription is available at prices below the market is important to some. Others are influenced by special purchasing privileges, the relative size of the required additional investment, and general attitudes towards

the future to the company. Special underwriting techniques can be used to simulate subscriptions. Some of the factors influence the non-holders who purchase rights, but special attention should be given to the lay-off procedure. The lay-off is a financial operation in which investment bankers' purchase rights on the market and concurrently sell the corresponding shares through their selling organization. The development of this technique, its regulation by the Securities and Exchange Commission, its possibilities, and its limitations are considered at length. It appears that it can be an effective force in the prevention of excessive price declines during the issue.

The corporation can reduce the costs and increase the effectiveness of the rights offerings. Different concepts of the nature of costs complicate this matter, but there are many possibilities for reducing cash costs by adjusting the underwriting fees and eliminating certain of the underwriter's services. Non-cash costs associated with dilution can be controlled through various measures which seek to minimize the pressure on the prices of the stock during the issue.

## **2.18 Review of Master's Thesis**

There is many masters' thesis prepared by various researchers in the past years. Among them, some thesis is reviewed for the analysis of literature.

Bamshidhar Gautam (2001) had done research on "An Analysis of Share Price Movement Attributed to Right Offering Announcement". This study has set out the following objectives:

- *To analyze the inadequacy of the contents of the company act 2053 B.S. in regard to section 21 that explains about the matters to be disclosed in the issue prospectus.*
- *To find out if there is significant changes in share price after the announcement of right offering.*
- *To find out if there is any problem in the primary issue of securities.*

- *To prescribe some policies that will help to ratify the current problems in the issue in the issue of securities.*

His findings were following:

- Company Act is not clear regarding the issue of rights offering and subsequent allotment of the rights share.
- Company Act has nowhere mentioned about necessity of legally transferable rights instrument called rights, which must be mailed to the stockholders for each stock held before the rights offering.
- SEBO/N has failed to establish a ‘one-window policy’ causing various imbroglios for the companies that want to go primary issue market for raising the capital.
- Till the date there is no enactment of the ‘Investors Protection Act’.
- Our capital market has made least of use the ‘capital market instrument’ contingent securities like warrants and convertibles, options, and other various kinds of debentures are not in practice.
- Companies Act with regard to the contents of the issue prospectus is deemed to be insufficient on the ground that, it does not mention the companies are required to specify on the issue prospectus about the risk category on which their businesses fall.

Kabi Raj Lamsal (2002) had done research work on “A study on the impact of information on share price”. This study has set out the following objectives:

- To determine the impact of dividend declaration on share price.
- To analyze the effect of EPS on share price.
- To determine the impact of ROE on share price.
- To determine the impact of Nepal Rastra Bank’s directives on share price.

His major findings were as follows:

- *Among five cases of paired t-test carried out for SCBL, there are four significant cases, which imply that there is significant difference in the mean share price immediately after dividend declaration. Moreover, there are three significant cases of share price decrease among four significant cases.*
- *Four cases of paired t-test of NIBL show that share price differs significantly immediately after dividend declaration. However, one case shows that there is no effect of dividend declaration on share price. Moreover, there are two significant cases of share price decreases among four cases.*
- *Out of five cases of paired t-tests carried out for NSBL, there are also four significant cases, which indicate that share prices have either increased or decreased after dividend declaration.*
- *Four cases out of five cases of paired t-tests carried out for HBL show that there is significant difference in the mean share price immediately after dividend declaration.*
- *In the case of NBBL, out of three cases of paired t-tests, all cases are found significant. Further there are two significant cases of share price increases and one case of share price decreases.*
- *According to the result of paired t-tests carried out for analyzing NRB's directives issued in 7-5-2058 and share price, it is found that share prices of SCBL,NCBL,HBL and NBBL have decreased significantly immediately after the issuance of the directive. However, there is no effect of directives on share price of NIBL.*
- *According to the result of paired t-test carried out for analyzing NRB's directives issued on 5-9-2058 and the share price, it is found that share prices of the sampled banks have decreased significantly after the issuance of that directive.*
- *MPS of SCBL is positively correlated with DPS and ROE but negatively correlated with EPS. The relationship is statically insignificant at the level of 5%.*
- *MPS of NIBL is negatively correlated with EPS, DPS and ROE respectively. However, the relationship is statistically insignificant at the level of 5%.*

- *MPS of NCBL is also negatively correlated with EPS, DPS and RPE. However, the negative relationship of MPS with DPS is significant at the level of 5% in the case of NCBL.*
- *HBL's MPS has negative relationship with EPS, DPS and ROE. However, the relationship is statistically at the level of 5% in the case of HBL.*
- *There is higher positive relationship between MPS and EPS of NBBL, which is statistically significant at the level of 5%. However, its MPS has insignificant negative relationship with DPS. Similarly, its MPS has insignificant positive relationship with ROE.*
- *The regression analysis of MPS on EPS of NBBL shows positive regression coefficient and negative constant term. It implies an increase in EPS leads to an increase in MPS but MPS should not go below Rs 102.316 to maintain positive value. The relation so explained by the regression is statistically significant for NBBL at the level of 5% whereas it is insignificant for other sampled banks.*
- *The relationship between MPS and DPS as explained by the simple regression analysis is significant at the level of 5% only for NSBL. Therefore the model explains that NSBL's MPS highly depends upon DPS.*
- *According to the regression analysis of MPS on ROE, the regression coefficients of SCBL and NBBL are positive indicating that an increase in ROE also leads to an increase in MPS. But the relationship is not significant. On that other hand, the regression coefficients of NIBL, NSBL and HBL is negative. This relationship sounds quite ridiculous and contradictory.*
- *According to the multiple regressions analysis of MPS on EPS, DPS and ROE, there is no significant relationship of MPS with EPS, DPS and ROE for SCBL, NIBL, HBL and NBBL. However, the relationship is significant at the level of 5% for NSBL. It means EPS, DPS and ROE explains the variation in MPS of NSBL.*

Miss Devaki Pathak (2006) had done her research on “Stock Price Movement of Listed Companies on Securities Market of Nepal.” This study has defined the following objectives:

- To analyze the trend of the Nepalese stock market.
- To examine the stock market situation in Nepal.
- To analyze the related variable of the stock price movement.
- To examine and study the impact of the signaling factors on the stock price with the help of NEPSE index.

Her major findings are given below:

- According to the major portion of respondents of Nepalese stock market, it was found that Nepal Government's policy is not clear, perfect and transparence about the stock market of Nepal.
- According to the field survey in Nepalese stock market; it is found that investors are not aware about the investment.
- It is found that investors of Nepalese stock market take decisions on the basis of their own analysis.
- Stock price is positively moved by the signaling factors and dividend of company as well as profit of company and vise versa.
- According to the majority proportion of the respondents; environment directly influences the price of the stock market.
- Analyzing to the respondents, bullish trend of the stock price movement is suitable Nepalese securities market.
- Most of the investors are asked for their preferences of investment sectors. Major portion of them said that they were attached with banking sectors for investment.
- Most of the respondents said that underwriters of Nepalese stock market are honest which was found at the time of field survey.
- Taking the interview with the experts of Nepalese stock market, most of them follow the technical as well as fundamental analysis method of stock price movement.

- Studying the annual trend analysis of Nepalese stock market, it is found that stock price trend is decreasing from earlier year as smoothly but from two year, price of stock is decreasing as rapidly taking the decision as long period, forecast of exports may be correct because of system wise decreasing trend.
- Investment process and its other factors like NEPSE index price trend and investment facilitators are not in systematic way.
- On analyzing the trend of four years NEPSE index in different months with the help of monthly trend, showed that the index in the year 2000 was in increasing trend, 2001 was in decreasing trend, 2002 was sometime increasing trend and 2003 was in rapidly decreasing trend. So, from this trend analysis we can say that there is negative correlation between 4 years.
- Studying the sector wise monthly analysis for one fiscal year (2002/2003). It was found that there exist unsystematic activities of the Nepalese stock price market. No expert can certainly forecast about the stock price.
- While analyzing the rate of listing new companies it was seen that there was increasing trend from the 1994/95 to the year 2000/01 and decreasing trend in 2001/02.
- From analyzing the multiple bar diagram to find out the leading companies in stock market. It is found that the insurance company, Development banks and Manufacturing and process industries are price leading in the study period (i.e. Shrawan 2063 to Ashadh 2065).

Nischal Regmi (2006) had done a research work on “Role of Financial Indicators in determining Share Price in Nepalese Financial Market.” This study set out the following objectives:

- To examine and evaluate the relationship of MPS with various financial indicators like NWPS, EPS, DPS, ROE etc.

- To analyze the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE etc.
- To find out whether stocks of the sampled companies are equilibrium-priced or not.
- To identify qualitative factors affecting the stock price.

His findings were as follows:

- Findings based on the Correlation Coefficient Analysis
  - i. NABIL's MPS is positively correlated with all financial indicators but these values are not statistically significant at either 5% or 10% level of significance.
  - ii. NIB's MPS has negative correlation with all financial indicators.
  - iii. For all other banks, the correlation coefficients of MPS with other financial indicators are both positive and negative. These values are statistically significant at either 5% or 10% level of significance.
  - iv. Relationship with all financial indicators of MPS for NFCL is positively correlated and the relationship is statistically significant at 5% level of confidence with EPS and at 10% level of confidence with NWPS and DPS.
  - v. For other finance companies, the correlation coefficient of MPS with other financial indicators, are both positively and negatively correlated and the relationship is statistically significant for KFL and UFCML and for others it is insignificant.

- Findings based on the Simple Regression Analysis

From simple regression analysis, it is found that MPS is largely dependent on EPS in the case of BOK, dependent on NWPS in the case of KFL, dependent on DPS, DPR and ROE in the case of SCBNL, all these value are statistically significant at 5% level of confidence.

- Findings based on the Multiple Regression Analysis of MPS on EPS and NWPS

This analysis shows that the value of MPS is determined by the value of EPS in the case of NABIL, SCBNL, HBL, NBBL, BOK, NFCL and KFL, and it is determined by the value of NWPS in the case of NIB, SBI, EBL, UFCML, HISEF, PFL, and ACE. These values are significant for SCBNL, NBBL, and NFCL at 5% level of significance.

- Findings based on the Multiple Regression Analysis of MPS on DPR and ROE  
This analysis shows that the value of MPS is determined by the value of DPR in the case of only NFCL and HISEF and in the case of all other companies it is determined by ROE and value is significant only for SCBNL, KFL and ACE at 5% level of significance.

- Findings based on the Cross Section Multiple Regression Analysis of Average MPS on Average EPS, NWPS, and DPS  
This shows that the average MPS is determined by the value of average EPS in the case of commercial banks and it is also determined by average DPS and in the case of Finance companies, it is highly determined by average EPS. The values are significant for Commercial banks at 5% level of confidence.

- Findings based on the Cross Section Multiple Regression Analysis of Average MPS on Average ROE and Average DPR  
This analysis shows that average ROE is the determining factor of the average MPS in the case of Commercial banks which is statistically significant at 5% level of confidence but for Finance companies both these financial indicators are not the determining factors.

- Findings based on Qualitative Analysis

Different qualitative factors, especially political ones, have the great affect in determining the market price of shares of different companies. Investors are very sensitive about various political and other factors and a very slight change in these factors causes the market price of shares of different companies to rise or fall.

Samir Khand (2007) had done a research work on “Stock Price Movement on NEPSE.” This study has set out the following objectives:

- To study about the occurring trend of stock price movement and volume of stock traded in NEPSE?
- To find the movement of stock price in Nepal stock market with the effect of different financial dependent and independent variables like DPD, EPS etc.
- To explain the relationship how the price of share fluctuate with the effect of different financial dependent and independent variables like DPS, EPS etc.
- To provide recommendation based on findings.

- Major Findings

After analyzing both the secondary and primary data during the study, different findings were made. The major findings of the study derived from both the secondary data and primary data analysis are presented below:

- Findings From Secondary Data Analysis

From the empirical analysis of simple and pool cross-sectional of secondary data, the following findings are pointed out:

- i. The correlation of determination  $R^2$  between MPS and EPS is 52.80%, it means that the MPS of each company can move up and down with the

increase/decrease with EPS, but it is not the single whole factor for the share price movement trading in NEPSE.

- ii. Such like then DPS per share does not show any impact in the share price of trading companies in NEPSE because the F-test show insignificant result whereas in the case of banking sector, it plays a vital role in market price per share.
- iii. From empirical analysis between the P/E ratios, Market to Book Value ratio when treat as the independent variable the analysis shows the insignificants i.e. it does not play a vital role for the movement of share.
- iv. The market price per share (MPS) and T/O ratio and leverage of the company shows a significant result it means that the rise or fall in the above financial variable can fall and rise in the market price per share in vice-versa.

- Finding from Primary Data Analysis

From the primary analysis of data collected from the questionnaire asked to the various financial sectors and experts and non-financial sectors like public, investors the following findings are noted below:

Higher the DPS, higher will be the fluctuations in the market price of share.

- i. There is also a need of monitoring role by the government for the price formations.
- ii. Whim and rumour plays a significant role in the share price movement.
- iii. Investment opportunities in the company can also affect the market price of share.
- iv. From the primary data analysis in context of the banking sector has distributed the dividend to attract the investor but in other trading, manufacturing are not distributing dividend.

- v. Stock dividend can change the priority of investors which has a negative impact towards the share price.
- vi. The company's announcement of earnings will help to increase the market price of share.

## **2.20 Research Gap**

Looking at the thirteen- year old history of the issue approval from the Security Board of Nepal (SEBO/N) we can find out the increasing trend of issuing right shares. Right share is one of the most important tool to raise additional equity capital. From fiscal year 2050/51 to fiscal year 2063/64 there are 196 companies who have been taken part in the issuing of different kinds of shares and there are 60 companies who issued the right shares. Right share is being popular for raising additional funds but there is still not done the specific research on right share. So this research is done to shed light on the role of right share on the stock price movement.

There are many research works about the stock price movement. However, there is no any research on the role of right offering on stock price movement. Pathak's research was based on stock price movement, Lamsal's study was based on the impact of information on share price, Gautam's study was based on right offering announcement on stock price movement, Khand's study was based on Stock Price Movement in NEPSE and Regmi's study was based on Role of Financial Indicators in determining Share Price in Nepalese Financial Market. We have found that there is only one research on the right offering by the Gautam. He took three samples only and that are very few sample sizes. He did not take the sufficient statistical tools in his research. In comparison to his research, this research has new objectives which are ignored by previous research works. This research provides clear vision on the right shares which have not given by the other researchers. Other research works which have done on the right offering

which are being old in the context of rapid changes in the capital market. So this research is essential to provide fresh study on the right offering because of the rapid changes in the capital market. At last we can say that this research is being useful as information for related bodies like SEBO/N. NEPSE, NRB, investors, managers etc.

## **CHAPTER- III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology is the main body of the study. It refers to the various sequential steps to be adopted by research in studying a problem with certain objectives in view. In other words, it is a systematic way to solve the research problems. This chapter, therefore, deals with the following aspects of methodology:

- Research design
- Population and sample
- Sources of data
- Data processing technique
- Data analysis procedure

#### **3.2 Research Design**

Research design is essential in each and every research work in which data is collected and analyzed. In other words, “Research design in the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances” (Kerlinger, 1978:300). The primary objective of this research is to analyze the right share and its role on the stock price movement of the stock. Therefore, to conduct the study, analytical descriptive approaches has been made to evaluate the role of right offering (shares) on the stock price movement of the sample firms and logical conclusion could be made. All the data used in this study, are secondary as well as some are primary in nature.

### 3.3 Population and Sample

The data collection activities include the taking order information from reality and transferring it into same recording system because this data can later be examined and analyzed from pattern. In most of cases, there is no possibility to collect data from whole population. So the sample is the best technique for the research work. A sample is simply the collection of data from population and comprises some observations selected from the population.

Four companies had issued right shares in 2059/60 in our country, Nepal. Likely wise, in 2060/61 four companies issued right shares, in 2061/62 five companies issued right shares, in 2062/63 eleven companies issued right shares and sixteen companies issued right shares in 2063/64. The corporate firms which issued right shares are given below.

**Table 3.1**  
**Right Share of Corporate Firms in Nepal**

<b>Fiscal Year</b>	<b>S.No.</b>	<b>Name of the Companies</b>
2059/60	1	Nepal Investment Bank Ltd.
	2	Nepal Share Market and Finance Ltd.
	3	Mahalaxmi Finance Ltd.
	4	Peoples Finance Ltd.
2060/61	5	Alphic Everest Finance Ltd.
	6	Siddhartha Finance Ltd.
	7	NB Finance and Leasing Co. Ltd.
	8	NB Bank Ltd.
2061/62	9	Annapurna Finance Co. Ltd.
	10	Nirdhan Uthan Bank Ltd.
	11	Nepal SBI Bank Ltd.
	12	Nepal Investment Bank Ltd.
	13	National Finance Co. Ltd.
2062/63	14	Development Credit Bank Ltd.
	15	Kumari Bank Ltd.
	16	Fewa Finance Co. Ltd.
	17	Om Finance Ltd.
	18	Goodwill Finance Ltd.

	19	Central Finance Ltd.
	20	Taragaun Regency Hotel Ltd.
	21	Janaki Finance Co. Ltd.
	22	Machhapuchhe Bank Ltd.
	23	KIST Merchant Banking and Finance Co. Ltd.
	24	Nepal Share Market & Finance Company Limited
2063/64	25	Pokhara Finance limited
	26	Peoples Finance limited
	27	Alpic Everest Finance limited
	28	Nawa Durga Finance Company Limited
	29	Ace Finance Company Limited
	30	Annapurna Finance Company Limited
	31	Yeti Finance Limited
	32	Capital Merchant Banking And Finance Limited
	33	Kist Merchant Banking And Finance Limited
	34	Lumbini Bank limited
	35	Laxmi Bank Limited
	36	Siddartha Bank Limited
	37	Pashchimanchal Development Bank limited
	38	Business Development Bank Limited
	39	Chhemek Development Bank limited
	40	Nepal Development Bank Limited
2064/065	41	Gorkha Development Bank Ltd.
	42	Laxmi Bank Limited
	43	NMB Bank Ltd.
	44	National Finance Limited
	45	Mallika Development Bank
	46	Nepal Hydro Power Company Limited
	47	Royal Merchant Banking and Finance Ltd
	48	Nepal Bangladesh Bank Ltd
	49	Bageshwori Development Bank Ltd.
	50	Union Finance Co. Ltd.
	51	Narayani Finance Ltd.
	52	KIST Merchant Bank. & Fin Ltd.
	53	Ace Development Bank
	54	Pokhara Finance Limited

*Source: Annual Report of SEBO/N (2064/65)*

For simplicity and unbiased result, samples are taken randomly. 16 sample companies are taken on the basis of higher no. of issue in fiscal year 2063/64.

### **3.4 Sources for Data**

This research is mainly based on secondary sources for reference as well as primary sources. Secondary sources used in this research are Annual report of SEBO/N, NEPSE, respective companies and some related information are taken from economic survey. Other data have been collected from newspapers, books, magazines and journals. Primary data is taken as personal interview with the official of SEBO/N, NEPSE, managers and officers of issue managing companies, issuing companies, investors and experts.

In order to bring out the answer, the research questions are put to managers and officers (concerned with the issue of rights share) of the issuing companies, regulatory bodies, investors issue, managing companies and experts for the primary source of data. Questionnaires are sent out to a sample of 60 people and 60 responses are obtained. The table below shows the sample and response of the primary source of data.

Questionnaire is presented in the appendix.

**Table 3.2**  
**Sample and Response as a Primary Source of Data**

S.N.	Responds	Sample	Response
1	Managers & Officers of Right Issuing Companies		
	a. Commercial Bank	10	10
	b. Development Bank	10	10
	c. Insurance Companies	2	2
	d. Finance Companies	2	2
	e. Others	1	1
		25	25
2	Managers & Officers of Issuing Manager and Regulatory Office		
	a. NIDC	3	3
	b. CIT	2	2
	c. NMB	2	2
	d. NEFINSCO	2	2
	e. Ace Finance Ltd.	2	2
	f. SEBO/N	4	4
	g. NEPSE	5	5
		20	20
3	Investor & Experts		
	a. Investor	10	10
	b. Experts	5	5
		15	15
4.	Total (100%)	60	60

*Source: Field Survey*

### **3.5 Data Processing Technique and Procedure**

The collected data from NEPSE, SEBO/S etc need to be aggregated into a form that presents the summary of answers from respondents. Data presenting and analyzing tools are trend bar, run test and Hypothesis test.

In this research work, theoretical market price will be used to measure the role of right share issue on market price of share. Theoretical market price of share after right share issue is given by

$$\text{Theoretical Value of Stock after right share issue} = \frac{P_0 \times \# + P^s}{\# + 1}$$

Pre right issue stock price =  $P_0$

Subscription price =  $P^s$

No. of general shares required to purchase one right share =  $\#$

### 3.5.1 Percentage Change in MPS

Percentage change in MPS provides the deviations of the share price due to right share issue phenomenon on the share price before right share issue. If the percentage changes become positive, it points out that the MPS has increased after right share issue. Likewise, if the percentage of change comes negative, it points out that the MPS has decreased after right share issue. And if the percentage change come zero, it specifies that there is no change in MPS before and after right issue. The percentage that has been changed in MPS after right share issue is computed by using the following formula.

$$\text{Change in Price (\%)} = \frac{\text{Post Rt.Issue Price} - \text{Pre Rt.Issue Price}}{\text{Pre Rt. Issue Price}}$$

### 3.5.2 Percentage Change in Actual Market Price and Theoretical Price

This provides the percentage deviation of actual price on theoretical price after right share issue. If the percentage change comes negative, it indicates that the theoretical price is greater than actual price after right share issue. Similarly, if the percentage change comes positive, it specifies that theoretical price is less than actual market price after right share issue.

And if the percentage change comes to be zero, it indicates that the theoretical price and actual price are same after right share issue. This has been calculated given by the formula.

$$\text{Percentage (\%)} \text{ Change} = \frac{\text{Actual Price} - \text{Theoretical Price}}{\text{Theoretical Price}}$$

### 3.5.3 Run Test

Run is based on the percentage change in prices. So it is one of the techniques used to evaluate the behavior of stock prices. A run takes place in a series of numbers wherever the change in numbers reverse sign. The run may be negative, positive and zero. The run test also discovers that the active traders who search for various types of non random trends from which to earn profit will not be able to beat a native buy and hold strategy on average. Until the price change, alter the total change are called one run.

**Null Hypothesis H<sub>0</sub>:** Price of the share is changed randomly before one month of right share issue.

**Alternative Hypothesis H<sub>1</sub>:** Share price change is not random before one month of right share issue.

$$Z = \frac{R - \mu_R}{\sigma_R}$$

Where,

R = No. of runs

$\mu_R$  = Mean

$\sigma_R$  = Standard Deviation

### 3.5.4 Hypothesis Test

“Hypothesis is a statement about the relationship between two or more variables which need to be investigated for its truth” (Wolf and Pant, 2003:62). It is a reasonably assumed relationship between two or more variables said in the form of testable statements. Following hypothesis are put in this research paper.

Null Hypothesis H0:  $\mu_x = \mu_y$  , that actual market price after right share issue and theoretical price after right share issue are same. In other words, there is no significance difference between theoretical price and actual market price after right share issue.

Alternative Hypothesis H1:  $\mu_x \neq \mu_y$  that is actual market price after rightly share issue is not equal to theoretical market price. In other words, there is significance difference between theoretical market price and actual market price after right share issue. (Two tail test)

Test Statistics are

$$\bar{d} = \frac{\sum d}{n}$$

$$s = \sqrt{\frac{1}{n-1} \left\{ \sum d^2 - \frac{(\sum d)^2}{n} \right\}}$$

$$t = \frac{\bar{d}}{\frac{sd}{\sqrt{n}}}$$

### 3.5.5 Mean Test

It is used to estimate the relationship between two or more than two variables.

#### I. Arithmetic Mean

The sum of all the observations divided by number observations is called arithmetic mean or simple average. In equation:

$$X = \frac{\sum X}{n}$$

Where,

$$\sum X = X_1 + X_2 + X_3 + \dots + X_n = \text{given set of observations}$$

n = Number of items observed.

## II. Standard Deviation ( $\sigma$ )

Standard deviation was first suggested by Karl Pearson in 1893 A.D. as a measure of dispersion. It is usually denoted by sigma ( $\sigma$ ). The measurement of the scatterness of the mass of figures in a series about an average is known as dispersion and standard deviation measures the absolute dispersion. Greater the amount of dispersion greater will be the standard deviation and vice versa. A small standard deviation means high degree of uniformity of the observation as well as homogeneity of a series. A large standard deviation refers low uniformity and homogeneity of the series.

Symbolically,

$$\text{SD } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

## II. Coefficient of Variation (C.V.)

The relative measure of dispersion based on standard deviation is known as coefficient of standard deviation. Coefficient of dispersion based on standard deviation multiplied by 100 is known as coefficient of variation (C.V.).

Symbolically,

$$\text{C.V.} = \frac{\sigma}{\bar{X}} \times 100$$

The coefficient of variation reflects the relationship between standard deviation and mean. Since C.V. is independent of unit, two distributions can bitterly be compared with the help of it for their variability. Higher C.V. denotes higher variability i.e. lesser uniformity and consistency and vice versa.

## **CHAPTER- IV**

### **DATA PRESENTATION AND ANALYSIS**

This chapter mainly represents the presentation and analysis of data. The data obtained from both primary and secondary sources are analyzed. The primary data mainly consists of the responses to questionnaires and personal interview with experts, investors, officers and other related persons. In the same way, the secondary data are obtained from annual reports of SEBO/N, NEPSE, sample companies etc. This chapter of this research work helps to achieve the objective of the study.

#### **4.1 Exercise of Rights Issue in Nepal**

The history of security market in Nepal began with the flotation of shares by Biratnagar Jute Mills limited and Nepal Bank Limited in 1937. It was first to initiate the issue of equity to the general public. The trend of selling corporate stock began only after the issuance of ordinary shares by the Biratnagar Jute Mills limited. At that time when the issue of shares was concept, there was no any capital market for selling and buying of stocks Legal provision about the capital market was not mentioned. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and establishment of Security Exchange Center in 1976 A. D. were other significant development relating to capital markets. When the Security Exchange Center was establishment, the trading of securities also began. At the current time, there are two secondary markets and they are Security Board of Nepal (SEBO/N) and Nepal Stock Exchange (NEPSE) which makes available the trading floor of the securities to the investors. SEBO/N is rigorously working for bringing out with the approval of Government, the Securities Registration and Issuance Regulation for effective provisions of prospectus approval and registration of securities issue, Mutual Fund Regulation

for registration and approval of mutual fund operation, and Securities Businesspersons (Merchant Banker) Regulation for developing more competitive and professional merchant banking services. Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and financial services. Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange in 1993. In the context of right shares, there is no particular guideline. Because of changing the political environment, the corporate sectors are also affected. The different factors like political establishment, unsustainable government policy, low economic growth, lack of industrialization and other current factors also affect the development of the corporate sectors. In Nepal, some joint venture companies were established because liberalization policy was implemented by Nepal Government. At that time when the issue of ordinary shares was new practice, there was no the trend of issuance of right shares. The issue of right share is new concept and is adopted by the investors. So the history of the issue and practice of right share is not so long in Nepalese Capital market. The practice of issue of right share has brought significant changes in the Nepalese corporate sector. Nepal Finance & Saving Co was the first company, who issued rights shares in Nepalese stock market in fiscal year 2052/53. The company issued the right shares on 2052/08/15, the ratio was 4:1, each existing shareholders who had 4 shares they owned, were permitted, to buy each additional share issued by the company.

From the fiscal year 2052/53 the issue of right shares has been started and till the fiscal year 2064/65, the issue of right shares is taken place. There are 61 companies who had issued right shares up to the fiscal year 2064/65. If the company needs additional fund for different purpose, then one of the alternative is

the right offerings. In Nepal, there are mostly Banks or the Finance companies who issued right shares. There are very few companies from other sectors who issued the right shares.

Each shareholder is issued an option to buy a certain number of new shares and the terms of the option are contained on a piece of paper called “right”. Each shareholder receives one right for each shares of the stock owned. This research includes sixteen companies about the right offering. The detail information of the right offering from fiscal year 2060/61 to 2064/65 is given below:

**Table 4.1**  
**Right Share of Corporate Firms in Nepal**

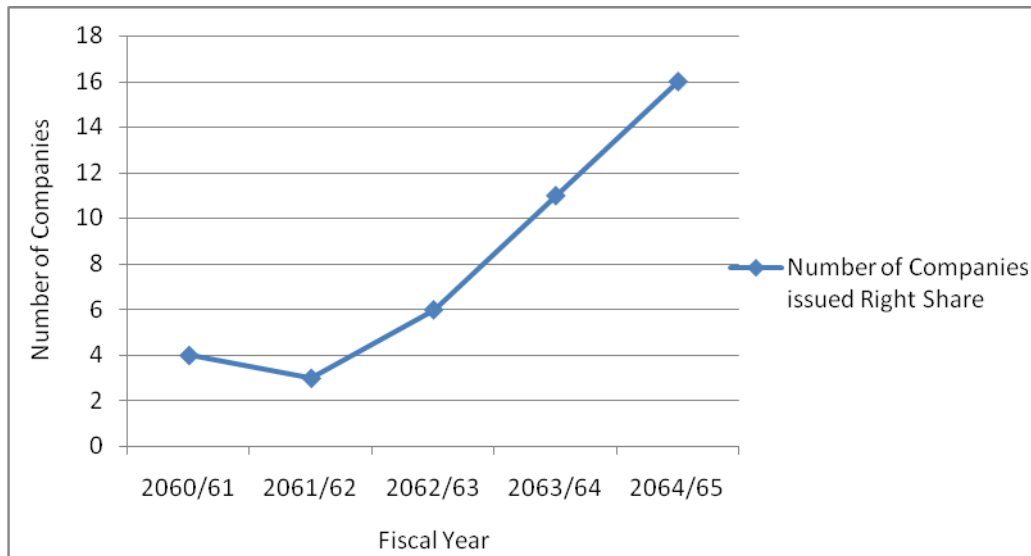
<b>Fiscal Year</b>	<b>S.No.</b>	<b>Name of the Companies</b>
2060/61	1	Nepal Investment Bank Ltd.
	2	Nepal Share Market and Finance Ltd.
	3	Mahalaxmi Finance Ltd.
	4	Peoples Finance Ltd.
2061/62	5	Alphic Everest Finance Ltd.
	6	Siddhartha Finance Ltd.
	7	NB Finance and Leasing Co. Ltd.
	8	NB Bank Ltd.
2062/63	9	Annapurna Finance Co. Ltd.
	10	Nirdhan Uthan Bank Ltd.
	11	Nepal SBI Bank Ltd.
	12	Nepal Investment Bank Ltd.
	13	National Finance Co. Ltd.
2063/64	14	Development Credit Bank Ltd.
	15	Kumari Bank Ltd.
	16	Fewa Finance Co. Ltd.
	17	Om Finance Ltd.
	18	Goodwill Finance Ltd.
	19	Central Finance Ltd.
	20	Taragaun Regency Hotel Ltd.
	21	Janaki Finance Co. Ltd.
	22	Machhapuchhe Bank Ltd.
	23	KIST Merchant Banking and Finance Co. Ltd.
	24	Nepal Share Market & Finance Company Limited

2064/65	25	Pokhara Finance limited
	26	Peoples Finance limited
	27	Alpic Everest Finance limited
	28	Nawa Durga Finance Company Limited
	29	Ace Finance Company Limited
	30	Annapurna Finance Company Limited
	31	Yeti Finance Limited
	32	Capital Merchant Banking And Finance Limited
	33	Kist Merchant Banking And Finance Limited
	34	Lumbini Bank limited
	35	Laxmi Bank Limited
	36	Siddartha Bank Limited
	37	Pashchimanchal Development Bank limited
	38	Business Development Bank Limited
	39	Chhemek Development Bank limited
	40	Nepal Development Bank Limited
2064/065	41	Gorkha Development Bank Ltd.
	42	Laxmi Bank Limited
	43	NMB Bank Ltd.
	44	National Finance Limited
	45	Mallika Development Bank
	46	Nepal Hydro Power Company Limited
	47	Royal Merchant Banking and Finance Ltd
	48	Nepal Bangladesh Bank Ltd
	49	Bageshwori Development Bank Ltd.
	50	Union Finance Co. Ltd.
	51	Narayani Finance Ltd.
	52	KIST Merchant Bank. & Fin Ltd.
	53	Ace Development Bank
	54	Pokhara Finance Limited

*Source: Annual Report of SEBO/N (2064/65)*

Most of the companies issue right share in order to increase paid up capital as directed by NRB. In the fiscal year 2064/65, 16 companies comprising three commercial banks, four development banks and nine Finance companies issued right shares amounting to Rs. 1265.30. Most of the companies issue right share in order to increase paid up capital as directed by NRB.

**Figure 4.1**  
**The Companies Who Issued Right Shares from**  
**Fiscal Year 2060/61 to 2064/65**



As stated above, the figure 4.1 gives the clear picture of the number of companies that issued right shares, are increasing every year. This figure indicates that the Nepalese Corporate Firms are being interested to issue right shares for raising capital funds. Therefore, the issuance of right shares by the Nepalese Corporate Firms is in increasing trend.

#### **4.2 Contribution of Rights Issue on the Total Public Flotation**

The given table shows the contribution of right share issue in the total public flotation in each fiscal year in which the right offering has made.

**Table 4.2**  
**Contribution of Rights Issue on Total Public Flotation**

<b>Fiscal Year</b>	<b>No. of Companies Issuing Right</b>	<b>Amount of Right Issue ( In million)</b>	<b>Amount of Total Issue (In million)</b>	<b>% of right issue</b>
2060/61	4	162.24	556.54	29.15
2061/62	3	70	1027.50	6.18
2062/63	6	949.34	1626.80	58.36
2063/64	11	1013.45	2443.28	41.47
2064/65	16	1265.30	2295.50	55.12
<b>Total</b>		<b>4945.80</b>	<b>13161.33</b>	<b>37.58</b>

*Source: SEBO/N Annual Report 2064/65*

From fiscal year 2052/53, right offering is started to raise additional capital by Nepalese corporate firms. In this year, only two cases of right offering are made which contributed 23.49% of total flotation of Rs.293.74 million. The above table shows that the contribution of rights issue in the total public flotation from fiscal year 2060/61 to fiscal year 2064/65 in which the rights offering has been made.

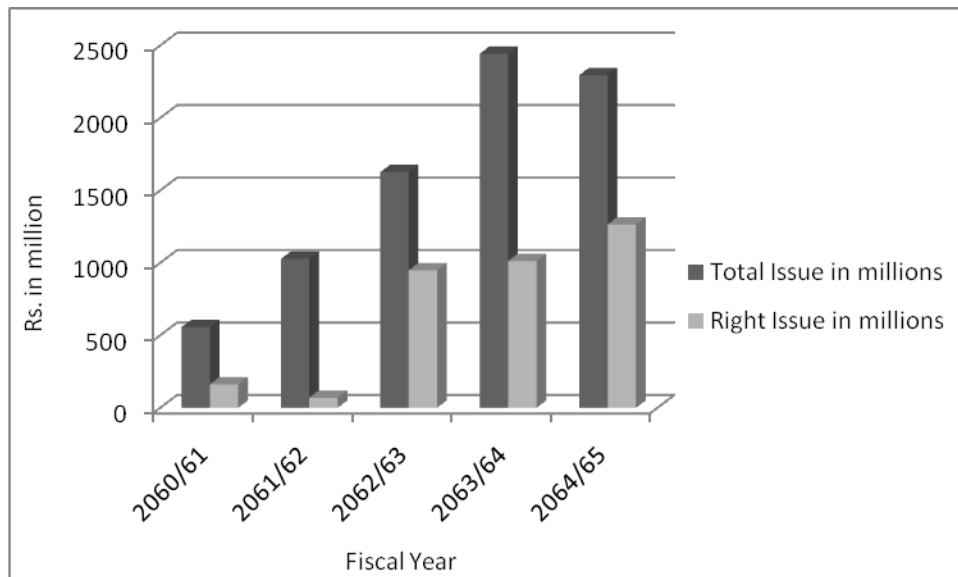
In fiscal year 2060/61, there were four cases of right offerings which collect Rs.162.24 million out of the total public flotation, Rs.556.54 millions and this is 29.15 % of total flotation. In the fiscal year 2061/62, there were three cases of right shares which cover 6.81 % of total public flotation and Rs.70 million is the amount of right shares and Rs.1027.50 million was total public flotation. The total amount raised through right offering was Rs.949.34 million covering 58.36 % of total public flotation and Rs.1626.82 million was total public flotation in the fiscal year 2062/63. In this fiscal year, there were six cases of right offerings. In the fiscal year 2063/64, there were 11 cases of right offerings covering 41.47% of total public flotation of Rs.2443.28 million. And finally, in the fiscal year 2064/65, there were 16 cases of right offerings which is the largest no. of right offerings in the history of right share announcement. The amount of right shares was

Rs.1265.30 million which cover 55.12% of total public flotation i.e. Rs. 2295.50 million.

The above table indicates that there were lowest cases of right offerings in the fiscal year 2061/62 i.e. three cases that covers 6.81 % of right offerings which is the lowest percentage of right offering in comparison to the other fiscal years. Similarly, in the fiscal year 2064/65, there were highest cases of right offerings i.e. 16 cases which is highest cases of right offering up to the fiscal year 2064/65. Through right shares, Rs.1265.30 million was raised as additional capital by the Nepalese Corporate Firms and this amount is the highest amount of right offerings.

**Figure 4.2**

**Contribution of Right Issue on Total Public Flotation**



The above figure 4.2 shows the growing trend of the issue of right shares to increase the additional funds in five fiscal years. Whatever the total amount of flotation, the amount of right share issue is increasing.

### **4.3 Comparison of Stock Price Before and After Right Share Issue**

The role of right share issue on the stock price movement is calculated here. So, the impact of right share issue on market price per share is calculated here. Theoretically, it is said that the price of the share decreases after right share issue. The given table shows that the market price per share before right share issue and after right share issue and their percentage difference. Pre right issue price is the closing market price 1 month prior to right share issue and post right issue price is the closing market price after 1 month of right share issue.

The positive change in price indicates that the post right issue price is greater than pre right issue price. Similarly, the negative change in price indicates that the post right issue price is less than the pre right issue price. The zero change in price indicates that the post right issue price and the pre right issue price are equal.

Theoretically, the negative change in price shows that the post right issue price is smaller than the pre right issue price and this is the theoretically correct phenomenon. If the positive change in price shows that the post right issue price is higher than the pre right issue price and this is the theoretically incorrect phenomenon. And also, the zero change in price between post and pre right issue price shows that this is also theoretically incorrect phenomenon.

**Table 4.3**  
**MPS of Sample Companies before and after Right Share Issue**

S. No.	Name of Companies	Pre. Right Issue Price (Rs.)	Post Right Issue Price (Rs.)	Change in Price (Rs.)	Change in Price (%)
1	PFL	410	400	-10	-2.44
2	PEOFL	137	130	-7	-5.11
3	AEFL	150	150	0	0.00
4	NFCL	115	120	+5	+4.35
5	AFCL	448	357	-91	-20.31
6	ANPFL	500	500	0	0.00
7	YFL	230	230	0	0.00
8	CMBFL	196	179	-17	-8.67
9	KMBFL	400	560	+160	+40.00
10	LBL	172	167	-5	-2.91
11	LAXBL	520	660	+140	+26.92
12	SBL	546	778	+232	+42.49
13	PDBL	103	105	+2	+1.94
14	BDBL	381	365	-16	-4.20
15	CDBL	100	105	+5	+5
16	NDBL	133	145	+12	+9.02

*Source: Annual Report of SEBON and Trading Report of NEPSE (2064/65)*

$$\text{Change in Price (\%)} = \frac{\text{Post Rt.Issue Price} - \text{Pre Rt.Issue Price}}{\text{Pre Rt.Issue Price}}$$

From the above table, we can say that there is majority case of changes in price which is in positive. It indicates that the market price per share of the most of the companies is not followed the theory. The theory implies that the market price of the share decreases after the right share issue. Among 16 cases of the companies, there are seven cases of the companies whose market price of the stock increases in the NEPSE's annual report. There are six cases of the companies whose market price per share after right share issue have decreased. Similarly, there are three cases of the companies that their market price per share before and after right share issue remains same.

.From the above table and study we can say that generally the market price per share should be decreased after the right share issue. But through this study, the market price per share of the majority portion of the companies is increased. This may happen because of various factors such as political environment, economic environment, investors, trading environment in the stock market etc.

#### **4.4 Comparison of Theoretical and Actual Market Price after Right Share Issue**

To find out the role of the right offering on the stock price movement, we have to compute the theoretical market price per share. That means the impact of the right share issue on the market price per share can be found with the help of the theoretical market price per share. For the measurement of the impacts of the right share issue, the theoretical market price per share will be compared with the market price per share after the ex-right date. These comparison outcomes of the share evaluate the impact of the right offering on the market price per share. Through this result the role of the right offering on the stock price movement can be found out. If the market price per share is higher than the theoretical market price per share, then it should be taken as positive change in share price. And this is the good sign for shareholders as well as the company. But if the market price per share is lower than the theoretical market price, then it is taken as negative sign and this sign discourages the shareholders as well as the company.

**Table 4.4**  
**Comparison Between Actual Market Price and Theoretical Price after**  
**Right Share Issue**

S. No.	Name of the Companies	Actual MPS after right issue	Theoretical Price after right issue	Actual MPS-Theoretical Price	% Change
1	PFL	400	306.67	93.33	+30.43
2	PEOFL	130	118.50	11.50	+9.70
3	AEFL	150	133.33	16.67	+12.50
4	NFCL	120	110	10	+9.09
5	AFCL	357	237.09	119.91	+50.58
6	ANPFL	500	300.50	199.50	+66.39
7	YFL	230	204	26	12.75
8	CMBFL	179	143.54	35.46	+24.70
9	KMBFL	560	250	310	+124
10	LBL	167	160	7	+4.38
11	LAXBL	660	450	210	+46.67
12	SBL	778	471.67	306.33	+64.95
13	PDBL	105	101.25	3.75	+3.70
14	BDBL	365	240.50	124.50	+51.77
15	CDBL	105	100	5	+5
16	NDBL	145	116.50	28.50	+24.46
					539.41

*Source: Annual Report of SEBON and Trading Report of NEPSE (2064/65)*

% change = (Actual Price – Theoretical Price) / Theoretical Price

Average Change = Sum of % change / No. of Observations = 539.41/16=33.71%

The above table 4.4 shows that the percentage change in actual market price and theoretical price of share after right share issue. Theoretically, actual market price per share should be equal to theoretical price of the share after right share issue. But above table shows that actual market price per share is not equal to theoretical price after right share issue. Actual market price after right share issue is collected from the trading reports of NEPSE and theoretical price of the share after right share is calculated in Appendix 1.

The above table indicates that the actual market price of sixteen companies is greater than the theoretical price. The actual market price of Pokhara Finance Ltd and Peoples Finance limited are Rs. 400 and Rs. 130 and their theoretical price are Rs 306.67 and Rs 118.50 respectively. The % changes between the two prices are +30.43% and +9.70% respectively. Similarly, the actual market price of Alpica Everest Finance limited and Nawa Durga Finance Company Limited are Rs.150 and Rs. 120 and their theoretical price are Rs. 133.33 and Rs 110 respectively. The % change between two prices are +12.50% and + 9.09% respectively. The actual market price of Ace Finance Company Limited, Annapurna Finance Company Limited and Yeti Finance Limited are Rs. 357, Rs. 500 and Rs. 230 and their theoretical price are their theoretical prices are Rs. 237.09, Rs. 300.50 and Rs. 204 respectively. Their percentage change between three prices is +50.58, +66.39 and +12.75 respectively. In the same way, the actual market price of Capital Merchant Banking And Finance Limited and Kist Merchant Banking And Finance Limited are Rs. 179 and Rs. 560 and their theoretical prices are Rs. 143.54 and Rs. 250 respectively. Their percentage change between two prices are +24.70% and +124% respectively. Similarly, the actual market price of , Lumbini Bank Limited, Laxmi Bank Limited and Siddhartha Bank Limited are Rs.167, Rs 660 and Rs.77and their theoretical prices are Rs. 160, Rs. 450 and Rs. 471.67 respectively. Their percentage change is +4.38, +46.67 and +64.95 respectively. Likewise, the actual market prices of Pashchimanchal Development Bank limited, Business Development Bank Limited, Chhemek Development Bank limited and Nepal Development Bank Limited are Rs. 105, Rs. 365, 105 and Rs. 145 and their theoretical prices are Rs. 101.25, Rs. 240.50, Rs. 100 and Rs.116.50 respectively. Their percentage change is +3.70, +51.77, +5 and +24.46 respectively.

From the above analysis, it is found that out of 16 sample companies, all companies' actual market prices are higher than the theoretical price showing

positive change. The average percentage change between the actual market price and theoretical price is 33.71%.

#### **4.5 Testing of Hypothesis**

The testing of Hypothesis is a process of drawing conclusion about characteristics relating to a large number of events (population characteristics) on the basis of sample observations. A hypothesis is defined by Webster as “A tentative theory or supposition provisionally adopted to explain certain facts and to guide in the investigation of others.” However in statistics, hypothesis means a statistical statement about the values of one or more parameters of the population.

In testing of Hypothesis, statistics calculated from samples drawn are taken as for examination whether the samples drawn belong to the parent population with certain characteristics. The computed values of statistics are likely to differ from the reality or population parametric value. This difference occurs simply because of the sample fluctuation or operation of chance. The testing of hypothesis releases the fact whether the difference between the calculated statistics and hypothetical parameter is significant.

##### **4.5.1 Testing of difference in Actual Market Price and Theoretical Price**

Testing of hypothesis includes the following systematic steps in order to make precise decision about the value which has to be tested.

**Step I: Null hypothesis  $H_0$  :  $\mu_x = \mu_y$** , i.e. there is no significance difference between Actual Market price after Right share issue and Theoretical Price after Right Share Issue. This means the Actual Market Price after Right Share Issue and the Theoretical Price after Right Share Issue are same.

**Step II: Alternative Hypothesis  $H_1 : \mu_x \neq \mu_y$**  i.e. there is significance difference between Actual Market Price after Right Share Issue and Theoretical price after Right Share Issue. This means Actual Market Price after Right Share Issue is not equal to Theoretical Market Price.

**Step III: Test Statistics**

$$t = \frac{\bar{d}}{sd / \sqrt{n}}$$

Calculation of  $\bar{d}$  and  $sd$  :

**Table 4.5**

**Testing of Difference in Actual Market Price and Theoretical Price**

S. No.	Name of the Companies	Actual Market Price per Share after Right Share Issue (x)	Theoretical Price after Right Issue (y)	d (x- y)	d <sup>2</sup>
1	PFL	400	306.67	93.33	8710.4889
2	PEOFL	130	118.50	11.50	132.25
3	AEFL	150	133.33	16.67	277.8889
4	NFCL	120	110	10	100
5	AFCL	357	237.09	119.91	14378.4081
6	ANPFL	500	300.50	199.50	39800.25
7	YFL	230	204	26	676
8	CMBFL	179	143.54	35.46	1257.4116
9	KMBFL	560	250	310	96100
10	LBL	167	160	7	49
11	LAXBL	660	450	210	44100
12	SBL	778	471.67	306.33	93838.0689
13	PDBL	105	101.25	3.75	14.0625
14	BDBL	365	240.50	124.50	15500.25
15	CDBL	105	100	5	25
16	NDBL	145	116.50	28.50	812.25
	Total			$\sum d = 1507.45$	$\sum d^2 = 315771.3289$

$$\bar{d} = \frac{\sum d}{n} = \frac{1507.45}{16} = 94.22$$

$$sd = \sqrt{\frac{1}{n-1} \left\{ \sum d^2 - \frac{(\sum d)^2}{n} \right\}} =$$

$$\sqrt{\frac{1}{16-1} \left\{ 315771.3289 - \frac{1507.45^2}{16} \right\}} = \sqrt{0.0667 \times 173745.9850} = \sqrt{11588.8572} = 107.65$$

$$t = \frac{\bar{d}}{sd / \sqrt{n}} = \frac{94.22}{107.65 / \sqrt{16}} = 3.501$$

#### **Step IV: Level of Significance, Degree of Freedom & Critical Value**

Let level of significance ( $\alpha$ ) = 5% = 0.05

Degree of freedom ( $d.f.$ ) =  $n - 1 = 16 - 1 = 15$

Since, Tabulated  $t(\alpha, d.f.) = t(0.05, 15) = 2.131$

#### **Step V: Decision**

Since, calculated “t” is greater than tabulated “t” at 5% level of significance and 15 degree of freedom, so we reject null hypothesis and accept “ $H_1$ ”. This means there is significance difference between Actual Market price after Right share issue and Theoretical Price after Right Share Issue. It means Actual Market Price after Right Share Issue is not equal to Theoretical Market Price.

#### **Conclusion**

Hence, we can conclude that there is significance difference between actual market price and theoretical price of the share after right share issue.

#### **4.5.2 Testing of Hypothesis**

**Step I: Null hypothesis  $H_0$  :**  $\mu_1 = \mu_2$  i.e. Right share is not responsible for the stock price movement.

**Step II: Alternative Hypothesis  $H_1$  :  $\mu_1 \neq \mu_2$  i.e. Right share is responsible for the stock price movement.**

**Step III. Test Statistics: Two tail test**

$$t = \frac{\bar{d}}{sd / \sqrt{n}}$$

S. N.	Name of the Companies	Pre. Right Issue Price (Rs.)	Post Right Issue Price (Rs.)	Change in Price (Rs.) "d"	$(d - \bar{d})^2$
1	PFL	410	400	-10	1269.4969
2	LBL	172	167	-5	938.1969
3	PDBL	103	105	+2	558.3769
4	PEOFL	137	130	-7	1064.7169
5	AEFL	150	150	0	656.8969
6	CDBL	100	105	+5	425.5969
7	NDBL	133	145	+12	185.7769
8	NFCL	115	120	+5	425.5969
9	AFCL	448	357	-91	13602.5569
10	AFCL	500	500	0	656.8969
11	LBL	520	660	+140	13080.4969
12	CMBFL	196	179	-17	1817.3169
13	YFL	230	230	0	656.8969
14	BDBL	381	365	-16	1733.0569
15	KMBFL	400	560	+160	18055.2969
16	SBL	546	778	+232	42588.5769
	Total			$\sum d = 410$	$\sum (d - \bar{d})^2 = 97715.7504$

Source: Annual Report of NEPSE (2064/65)

$$\bar{d} = \frac{\sum d}{n} = \frac{410}{16} = 25.63$$

$$sd = \sqrt{\frac{\sum (d - \bar{d})^2}{n - 1}} = \sqrt{\frac{97715.7504}{16 - 1}} = 80.7117$$

$$t = \frac{\bar{d}}{sd/\sqrt{n}} = \frac{25.63}{80.7117/\sqrt{16}} = \frac{25.63}{20.1780} = 1.2702$$

**Step IV: Level of Significance, Degree of Freedom & Critical Value:**

Level of Significance ( $\alpha$ ) = 5% = 0.05

Degree of Freedom ( $d.f.$ ) =  $n-1=16-1=15$

$\therefore$  Tabulated  $t_{(0.05,15)} = 2.131$

**Step V: Decision:** Since, calculated  $t$  is less than the tabulated  $t$  (i.e.  $1.2702 < 2.131$ ), We accept null hypothesis  $H_0$  at 5% level of significance. This means the right share is not responsible for the stock price movement.

**Conclusion:** Hence we can conclude that the change in price of stock is not related with the right share.

**4.6 Run Test**

Run test is used to test the random ness of sequence of sample events on the basis of the order of sample events.

**Null hypothesis  $H_0$  :** Price of the share is changed randomly before 1 month of right share issue.

**Alternative Hypothesis  $H_1$  :** Share price changed is not random before 1 month of right share issue.

S. No.	Name of the Companies	Pre. Right Issue Price (Rs.)	Post Right Issue Price (Rs.)	Price Change
1	PFL	410	400	-ve
2	LBL	172	167	-ve
3	PDBL	103	105	+ve
4	PEOFL	137	130	-ve
5	AEFL	150	150	0
6	CDBL	100	105	+ve
7	NDBL	133	145	+ve
8	NFCL	115	120	+ve
9	AFCL	448	357	-ve
10	AFCL	500	500	0
11	LBL	520	660	+ve
12	CMBFL	196	179	-ve
13	YFL	230	230	0
14	BDBL	381	365	-ve
15	KMBFL	400	560	+ve
16	SBL	546	778	+ve

Source: Annual Report of SEBO/N (2064/65)

Here Median (Md) = size of  $\frac{(n+1)^{th}}{2}$  item  
= 8.5

Symbol Sequence,

$\frac{-}{1} \frac{-}{2} \frac{+}{3} \frac{-}{4} \frac{+}{5} \frac{+}{6} \frac{+}{7} \frac{-+}{8} \frac{--}{9} \frac{++}{10}$

n = No. of runs = 10

$n_1 = \# (+) = 7$   $n_2 = \# (-) = 6$

The test statistic for testing  $H_0$  is given

$$z = \frac{n - \left[ \frac{2n_1n_2}{n_1 + n_2} + 1 \right]}{\sqrt{\frac{2n_1n_2(2n_1n_2 - n_1 - n_2)}{(n_1 + n_2)^2(n_1 + n_2 - 1)}}}$$

$$= \frac{10 - \left[ \frac{2 \times 7 \times 6}{7 + 6} + 1 \right]}{\sqrt{\frac{2 \times 7 \times 6(2 \times 7 \times 6 - 7 - 6)}{(7 + 6)^2(7 + 6 - 1)}}$$

$$= 1.48$$

Let, Level of significance = 5%

Critical region: The critical value of z at 5% level of significance for two tail test

$$\text{is } z_{\frac{\alpha}{2}} = Z_{0.025} = 1.96$$

Decision: Since the computed value of z = 1.48 is less than the critical value of z = 1.96, so we accept null hypothesis H<sub>0</sub>.

Conclusion: Hence we can conclude that the price of stock before one month of right share issue is randomly distributed.

#### 4.7 Mean Test

In this test, the coefficient of variation is used to find out the relationship between standard deviation and mean on the basis of the price of the stock before and after one month of the right share issue. Higher C.V. denotes higher variability i.e. lesser uniformity and consistency and vice versa.

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{4541}{16} = 283.81, \text{ where } n = \text{No. of observations}$$

$$\text{Mean } (\bar{Y}) = \frac{\sum Y}{n} = \frac{4951}{16} = 309.44$$

Similarly,

$$\text{Standard Deviation } (\sigma_x) = \sqrt{\frac{x^2}{n}} = \sqrt{\frac{417380.50}{16}} = 161.51$$

$$\text{Standard Deviation } (\sigma_y) = \sqrt{\frac{y^2}{n}} = \sqrt{\frac{702837.88}{16}} = 209.59$$

$$\text{Coefficient of Variation } (C.V.)_x = \frac{\sigma_x}{X} \times 100 = \frac{161.51}{283.81} \times 100 = 56.91\%$$

$$\text{Coefficient of Variation } (C.V.)_y = \frac{\sigma_y}{Y} \times 100 = \frac{209.59}{309.44} \times 100 = 67.73\%$$

**Decision:** Since  $(C.V.)_x$  is less than  $(C.V.)_y$ , the price of the stock before one month of right share issue is randomly distributed.

**Conclusion:** Hence we can conclude that the price of stock before one month of right share issue is randomly distributed.

#### 4.8 Analysis of Primary Data

In Nepal, now a day's people are being so much interested for investing in the shares. It may happen because of the awareness in those people about the shares, high interest (getting more benefit than other investment) or lack of better investment alternatives though the history of capital market is not so long. People are eagerly interested to invest in the capital market. So, the performance of the capital market is being strong than before. Because of this strength, the expectation of growth of the Nepalese corporate firms is increasing in positive trend. In the context of Nepalese stock market, it is also growing from the point of view of the investment in the stocks as well as turnover though it is very back as compared to the world's capital market. For this research work, the personal interview and questionnaire are taken as the primary sources. Results and views are given below:

**1. The view and result of the Nepalese Corporate Firms in the context of the right offering**

Out of 60 total responses, 60% of them agree that the Nepalese Corporate Firms agree about the practices of right share issue are in increasing trend to raise the additional capital fund, while 18.33% of them, slightly agree about the practices of right share issue are in increasing trend to raise the capital fund. However 13.33% of them disagree and 8.34% of them are neutral in the context of the practices of right share issue to raise the capital fund.

**2. The view and result of the shareholders about the Reliable and Sufficient information from the company to them in the context of right share issue**

Out of 60 total responses, 41.67% of them say “Yes” about the reliable and sufficient information available from the company to the shareholders/ investors regarding the right share issue, while 58.33% of them say “No” about the reliable and sufficient information available from the company to the shareholders/ investors regarding the right share issue.

**3. The view and result of the awareness of the shareholders about the phenomenon of right share issue and their successive involvement in it**

Out of 60 total responses, 56.67% of them say “Yes” about awareness of the shareholders that they have knowledge of right shares, cause of the issuing right shares, impact of right share issue on their wealth position etc. while 43.33% of them say “NO” about awareness of the shareholders that they have knowledge of right shares, cause of the issuing right shares, impact of right share issue on their wealth position etc.

#### **4. The view and result of the Motivation of issuing right shares by the corporate firms**

Out of 60 total responses, 65% of them give their views on (a) the issuing of right shares to increase capital fund and get more respectable size, while 10% of them give their views on (b) the issuing of right shares to increase the numbers of outstanding shares for promoting the active trading in the stock market and 25% of them give their views on (c) the issuing of right shares to bring out the market price of the stock with in most popular range.

#### **5. The view and result about the impact of right share on the stock price movement**

Out of 60 total responses, 30% of them agree that (a) the stock price should be increased while 45% of them agree that (b) the stock price should be decreased after right share issue. Similarly, 10% of them give their opinion that (c) the stock price remains same before and after right share issue and 15% of them give their opinion that (d) don't know about the effect of right share issue on the stock price movement.

#### **6. The view and result about the role of the right offering on the stock price movement**

Out of 60 total responses, 33.33% of them (i.e. 20 responses; 6 from issuing company, 7 from managers & officers of issuing manager and regulatory office and 7 from investors and experts) agree that the stock price should be increased because the right share plays an important role on the stock price movement. While 38.33% of them (i.e.23 responses; 12 from issuing company, 8 from managers & officers of issuing manager and regulatory office and 3 from investors and experts) put their view that the stock price should be decreased because the right share does not play an important role on the stock price movement. Similarly, 16.67% of them (i.e. 10 responses; 4 from issuing company, 3 from

managers & officers of issuing manager and regulatory office and 3 from investors and experts) put their view that the stock price should remain constant and right share does not affect the stock price movement and 11.67% of them (i.e. 7 responses; 3 from issuing company, 2 from respondents issue manager and regulatory office and 2 from investors and experts) don't know about the effect of stock price movement by the cause of right share issue.

#### **7. The view and result of “Right” that it should be legally transferable**

Out of 60 total responses, 56.67% of them (i.e.34 responses; 15 from issuing company, 14 from issue manager and regulatory office and 5 from investors and exports) agree that the “right” should be transferable. While 8.33% of them (i.e. 5 responses; 2 from issuing company, 2 from issue manager and regulatory office and 1from investors and exports) give their opinion that right should not be transferable. Similarly, 18.33% of them (i.e.11 responses; 5 from issuing company, 1 from issue manager and regulatory office and 5from investors and exports) give their opinion that they don't want to say about the current laws while 16.67% of them (i.e. 10 responses; 3 from issuing company, 3 from issue manager and regulatory office and 4from investors and exports) give their opinion that they don't know about it.

#### **8. The view and result that why right shares of the companies are not fully subscribed**

Out of 60 total respondents, 66.67% of them (i.e. 40 respondents) give their view that rights are not fully subscribed because of lack of the knowledge of right shares in investors while 25% of them give their view that rights are not fully subscribed because of the insufficient legal provision. Similarly 8.33% of them say that the investors/ shareholders may have insufficient money.

**9. The view and result that what is the thing which affects the issuance of the right shares**

Out of 60 total respondents, 56.67% of them give their view that political environment affects the issuance of the right shares. While 26.67% of them give their opinion that the economic environment affects the issuance of the right shares. Likewise, 16.67% of them give their opinion that legal provision plays affects the issuance of the right shares.

**10. The view and result that what is the action that should be taken for maximum subscription of right share**

Out of 60 total respondents, 45% of them agree that the legal provision should be modified for maximum number of subscription of rights whereas 25% of them agree that agree that the company should be promoted in such a way that the investors/shareholders will be ready to subscribe the rights. While 30% of them give their opinion that the investors should be aware about the right shares.

**11. The view and result that which one they prefer**

Out of 60 total respondents, most of them choose the option (a) Subscribed the rights to purchase the new shares and very few of them choose the option (b) sell the right to others. Some of them in less number choose the option (c) partially sell and partially exercise and at last there is nobody who choose the last option (d) do no thing at all, let the right expire.

**12. The view and result that the investing in the right shares is profitable**

Out of 60 respondents, most of them put their opinion that the investing in right shares is profitable. Very few of them say that it is non-profitable.

### 13. The view and result that they have any experiences about the right share issue

Out of total 60 respondents, 60% of them have experience about the right shares, it means, they had invest in the right shares whereas 40% of them have no experience about the right shares at all.

#### 4.9 Test of Hypothesis

Hypothesis: - 1

In 60 indiscriminate samples of respondents, it consists of the given distribution in which the data was taken on the basis of related field. In Nepal, right shares are being popular and this test is to conclude whether the right shares are increasingly used or not by the corporate firms. Non parametric test is one which is used when there is no parametric value but we have to test the significance of data. So in this case, chi-square test is used.

**Table 4.6**  
**Hypothesis Test Regarding Practices of Right Share by Nepalese Corporate Firms**

<b>Comment</b>	<b>Issuing Company</b>	<b>Issue Manager &amp; Regulatory Office</b>	<b>Investors &amp; Experts</b>	<b>Total</b>
A. Slightly Agree	6	6	4	16
B. Agree	15	11	8	34
C. Neutral	3	1	2	6
D. Disagree	1	2	1	4
Total	25	20	15	60

*Source: Field Survey*

From above table, test at 5% level where the right shares are increasingly used or not by the corporate firms.

#### **Step I: Null Hypothesis ( $H_0$ ):**

( $H_0$ ): There is no significance difference between observed and expected view about the practices of right shares by the Nepalese Corporate Firms.

#### **Step II: Alternative Hypothesis ( $H_1$ ):**

( $H_1$ ): There is significance difference between observed and expected view about the practices of right shares by the Nepalese Corporate Firms.

### Step III: Test Statistics:

Calculation of expected frequencies:

$$\text{Expected Frequencies} = \frac{\text{Row Total (R T)} \times \text{Column Total (C T)}}{\text{Grand Total(N)}}$$

Now, Row =R, Column= C, Row 1= R<sub>1</sub>, Column1= C<sub>1</sub>, Row 2= R<sub>2</sub>,

Column 2= C<sub>2</sub>, Row 3= R<sub>3</sub>, Column 3= C<sub>3</sub> and so on.

$$R_1C_1 = (16*25)/60 = 6.67, R_1C_2 = (16*20)/60 = 5.33,$$

$$R_1C_3 = (16*15)/60 = 4, R_2C_1 = (34*25)/60 = 14.17,$$

$$R_2C_2 = (34*20)/60 = 11.33, R_2C_3 = (34*15)/60 = 8.5$$

$$R_3C_1 = (6*25)/60 = 2.5, R_3C_2 = (6*20)/60 = 2,$$

$$R_3C_3 = (6*15)/60 = 1.5 \quad R_4C_1 = (4*25)/60 = 1.67,$$

$$R_4C_2 = (4*20)/60 = 1.33, R_4C_3 = (4*15)/60 = 1$$

### Test of Chi-Square:

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

Observed Frequency (O)	Expected Frequency (E)	(O-E)	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
6	6.67	-0.67	0.4489	0.0673
6	5.33	0.67	0.4489	0.0842
4	4	0	0	0
15	14.17	0.83	0.6889	0.0486
11	11.33	-0.33	0.1089	0.0096
8	8.5	-0.5	0.25	0.0294
3	2.5	0.5	0.25	0.1000
1	2	-1	1	0.5000
2	1.5	0.5	0.25	0.1667
1	1.67	-0.67	0.4489	0.2688
2	1.33	0.67	0.4489	0.3375
1	1	0	0	0
Total				$\sum \frac{(O-E)^2}{E} = 1.6121$

$$\therefore \text{Chi-Square calculated} = \frac{\sum (O-E)^2}{E} = 1.6121$$

#### Step IV: Level of Significance, Degree of Freedom & Critical Value

Let, the level of significance = 5%

Degree of freedom (d.f.) = (R-1) (C-1) = (4-1) (3-1) = 6

Tabulated Chi-square  $\chi^2_{(0.05,6)} = \sum \frac{(O-E)^2}{E} = 12.59$

#### Step V: Decision:

Since the calculated Chi-Square is less than tabulated value of Chi-Square at 5% level of significance for 6 degree of freedom (i.e. 1.6121 < 12.59), the null hypothesis is accepted that, there is no significance difference between observed and expected frequencies about the issue of rights share by the Nepalese Corporate Firms.

**Hypothesis: - 2**

In 60 random samples of respondents it, consists of the following distribution on the basis of related field. The test is to draw a conclusion on impact and role of rights share on stock price movement.

**Table 4.7**  
**Hypothesis Test on Right Share Issue,**  
**Its Impact & role on Stock Price Movement**

<b>Comment on share price</b>	<b>Issuing Company</b>	<b>Issue Manager &amp; Regulatory Office</b>	<b>Investors &amp; Experts</b>	<b>Total</b>
A. Should Increase	6	7	7	20
B. Should Decrease	12	8	3	23
C. Remain Constant	4	3	3	10
D. Don't Know	3	2	2	7
<b>Total</b>	<b>25</b>	<b>20</b>	<b>15</b>	<b>60</b>

*Source: Field Survey*

Hypothesis Setting:

**Step I: Null Hypothesis (H<sub>0</sub>)**

There is no significance difference between observed and expected view about the impact and role of right share on stock price movement.

**Step II: Alternative Hypothesis (H<sub>1</sub>)**

There is significance difference between observed and expected view about the impact and role of right share on stock price movement

**Step III: Test Statistics**

Calculation of expected frequencies:

$$\begin{aligned} \text{Expected Frequencies of } R_1C_1 &= \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}} \\ &= \frac{20 \times 25}{60} = 8.33 \end{aligned}$$

$$\begin{aligned} \text{Similarly, } R_1C_2 &= 6.67 & R_2C_1 &= 9.58 & R_3C_1 &= 4.17 & R_4C_1 &= 2.92 \\ R_1C_3 &= 5 & R_2C_2 &= 7.67 & R_3C_2 &= 3.33 & R_4C_2 &= 2.33 \end{aligned}$$

$$R_2C_3 = 5.75 \quad R_3C_3 = 2.5 \quad R_4C_3 = 1.75$$

Test of Chi-Square:

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

Observed Frequency (O)	Expected Frequency (E)	(O-E)	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
6	8.33	-2.33	5.4289	0.6517
7	6.67	0.33	0.1089	0.0163
7	5	2	4.0000	0.8000
12	9.58	2.42	5.8564	0.6113
8	7.67	0.33	0.1089	0.0142
3	5.75	-2.75	7.5625	1.3152
4	4.17	-0.17	0.0289	0.0069
3	3.33	-0.33	0.1089	0.0327
3	2.5	0.5	0.2500	0.1000
3	2.92	0.08	0.0064	0.0022
2	2.33	-0.33	0.1089	0.0467
2	1.75	0.25	0.0625	0.0357
Total				$\sum \frac{(O-E)^2}{E} = 3.6329$

Test Statistics:

$$\text{Chi-Square calculated} = \sum \frac{(O-E)^2}{E} = 3.6329$$

**Step IV: Level of Significance, Degree of freedom & Critical Value:**

Let level of significance=5%

Degree of Freedom (d.f) = (R-1) (C-1) = (4-1) (3-1) = 6

$$\text{Tabulated Chi-square } \chi_{(0.05,6)}^2 = \sum \frac{(O-E)^2}{E} = 12.59$$

**Step V: Decision:** Since the calculated Chi-square is less than tabulated value of Chi-Square at 5% level of significance for 6 degree of freedom (i.e.3.6329 < 12.59), the null hypothesis is accepted, that there is no significance

difference between observed and expected frequencies about the impact of right share on stock price movement.

#### **4.10 Major Findings**

From the analysis of data and other information, the findings of the study are as pointed below:

- It is found that the policy of Nepal Government on stock market is not clear, perfect and transparency.
- It is found that the trading of common stock, right share and very little extent to debenture, preference shares and few mutual funds have taken place. There is no any practice of option, warrants and convertibles.
- The contribution of Right Share is being the second largest among various issues to raise the capital of the corporation approved by SEBO/N
- It is found that the practice of right share issue is in increasing trend per year.
- The maximum contribution of right offering in total public flotation 58.36% and minimum is 6.81% within the fiscal year 2060/61 to 2064/65.
- It is found that out of 16 sample companies, all companies' actual market prices are higher than the theoretical price showing positive change. The average percentage change between the actual market price and theoretical price is 33.71%.
- It is found that there is significance difference between actual market price and theoretical price of the share after right share issue through t-test.
- Among 16 cases, the majority of the cases i.e. 7 cases, MPS after right share increases and 6 cases are found that MPS after right share decreases. And 3 cases are found that MPS of Alpica Everest Finance Ltd, Annapurna Finance Ltd and Yeti Finance Ltd remain the same after the right share issue showing no effects of right share issue.

- According to the two tailed t-test, it is found that the right share is not responsible for the stock price movement.
- The result of run test is positive i.e. market price per share before 1 month of right share issue and after right share issue is found to follow randomness in price fluctuation.
- Company Act has not mentioned about necessity of legally transferable rights instruments called right, which must be mailed to the stockholders for each stock held before the rights offering.
- Declaration of inappropriate holders of record date has caused dilution of wealth position of existing shareholders if they do not exercise the rights with in the ex-right date. The theme of Right share issue is to protect the wealth position of the existing shareholders which is not happened because of Declaration of inappropriate holders of record date.
- Company Act is silent on the topic of the issue of right offering and its transferability.
- According to the field survey, it is found that the investors are not aware about the right share issue.
- Regarding procedural aspects of rights offering, all the other procedures are same as IPO. But rights issuing company (Issue Manager) should be mailed a document called a 'right' to the existing shareholders.
- There is common of the under subscription of rights issue as right is not transferable in Nepal. But it is found that rightn shares of t Lumbini Bank Ltd is fully subscribed because it made two rights issue according to annual report of SEBO/N. And right shares are nearly to be fully subscribed (i.e. 99%) of Pokhara Finance Ltd, Nawadurga Finance Company Ltd, Ace Finance Company Ltd, Kist Merchant Banking and Finance Ltd and Siddhartha Bank Ltd according to annual report of SEBO/N..

- Promotional role played by the issuing company and issue manager regarding to the rights offering is not sufficient.

## **CHAPTER –V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

The last chapter of this study presents the summary, conclusion and recommendation. Summary passes on the form of the whole study. Similarly, conclusion is drawn from the analysis and recommendation is drawn to suggest for the improvement to the activities of right offering which causes the stock price movement.

#### **5.1 Summary**

Capital market is the backbone of the national economy. It plays an important role for the development of the industrial sectors. Under the capital market, the stock market has played the crucial role for the proper balance of the country.

In the capital market, the right offering is being popular to raise the additional capital fund for the long-term purpose. In Nepal, the trading of securities started with the establishment of Biratnagar Jute Mill Ltd and Nepal Bank Ltd. in 1937. So the history of Nepalese stock market is not very old. The establishment of Security Exchange Centre Ltd. in 1976 can be taken as the most remarkable event in the history of securities market in Nepal. It was converted into Nepal Stock Exchange Limited (NEPSE) in 1993. The regulatory body was established known as Securities Board of Nepal (SEBO/N) in 1993, 7<sup>th</sup> of June under the provision of security exchange act 1983.

In Nepal, the issuing of rights share was started from fiscal year 2052/53 B.S. and the issuing company is Nepal Finance and Saving Company Ltd. It is just being 13

years of the issuing of rights share in Nepal. So it is still a new and emerging concept for both organizations and investors.

In Nepal, the trend of right offering is increasing every year. Right offering have been started from fiscal year 2052/53 by Nepal Finance and Saving Company Limited. In fiscal year 2060/61, there were four cases of right offerings which collect Rs.162.24 million out of the total public flotation, Rs.556.54 millions. Similarly, in fiscal year 2061/62- three cases, 2062/63- six cases, 2063/64- 11 cases and 2064/65-16 cases of right offerings which is the largest no. of right offerings in the history of right share announcement.

The main objective of this study is to find out the role of the right offering in the stock price movement. According to the nature and objective both primary and secondary sources of data are collected from Annual Reports of NEPSE, SEBO/N related companies. Questionnaires were distributed and interviews were made to collect information which was tabulated and presented as per requirement of the study.

Finally, major findings based on primary as well as secondary data have been presented and following conclusion is drawn.

## **5.2 Conclusion**

It is found that the policy of Nepal Government on stock market is not clear, perfect and transparency. And the trading of common stock, right share and very little extent to debenture, preference shares and few mutual funds have taken place. There is no any practice of option, warrants and convertibles.

The contribution of Right Share is being the second largest among various issues to raise the capital of the corporation approved by SEBO/N. The maximum

contribution of right offering in total public flotation 58.36% and minimum is 6.81% within the fiscal year 2060/61 to 2064/65.

It is found that out of 16 sample companies, all companies' actual market prices are higher than the theoretical price showing positive change. The average percentage change between the actual market price and theoretical price is 33.71%. There is significance difference between actual market price and theoretical price of the share after right share issue through two tailed t-test. According to the two tailed t-test, it is found that the right share is not responsible for the stock price movement.

Among 16 cases, the majority of the cases i.e. 7 cases, MPS after right share increases and 6 cases are found that MPS after right share decreases. And 3 cases are found that MPS of Alpic Everest Finance Ltd, Annapurna Finance Ltd and Yeti Finance Ltd remain the same after the right share issue showing no effects of right share issue.

The result of run test is positive i.e. market price per share before 1 month of right share issue and after right share issue is found to follow randomness in price fluctuation.

Company Act is silent on the topic of the issue of right offering and its transferability. It has not mentioned about necessity of legally transferable rights instruments called right, which must be mailed to the stockholders for each stock held before the rights offering.

Declaration of inappropriate holders of record date has caused dilution of wealth position of existing shareholders if they do not exercise the rights within the ex-right date. The theme of Right share issue is to protect the wealth position of the

existing shareholders which is not happened because of Declaration of inappropriate holders of record date.

There is common of the under subscription of rights issue as right is not transferable in Nepal. But it is found that rights share of Lumbini Bank Ltd is fully subscribed because it made two rights issue according to annual report of SEBO/N. And right shares are nearly to be fully subscribed (i.e. 99%) of Pokhara Finance Ltd, Nawadurga Finance Company Ltd, Ace Finance Company Ltd, Kist Merchant Banking and Finance Ltd and Siddhartha Bank Ltd according to annual report of SEBO/N..

Promotional role played by the issuing company and issue manager regarding to the rights offering is not sufficient. And generally investors are driven to invest on securities whether that may be rights share or the other upon their own interest.

### **5.3 Recommendations**

After the above summary and conclusion, some recommendations are presented as follows:

1. Company act 2053 is not clear about the rights shares which are not subscribed by the existing shareholders. The current practice is made by distributing the unsubscribed rights shares among the employees of the respective companies and underwriting. So this act should be amended to make position about the issue of rights shares and subsequent allotment of the rights issue.
2. Those rights which were not exercised by the existing shareholders that will be exercised by the employee of the respective company. It is not good practice. If the rights can be transferred that means the unsubscribed rights can be sold by existing shareholders separately to new investors in the securities market, then this activity will help for the full subscription. So the

- issuing company should think about it and problem of under subscription of rights issue can be reduced simultaneously.
3. In order to attract the investors to invest, the issue prospects should provide some motivates reasons for rights offering.
  4. Infrastructure like good communication, banking facilities, postal services and margin trading should be developed to encourage investors for investing in the securities especially right shares.
  5. The company should be very careful for the right offering and it should play promotional role for the full subscription of rights share. Because there are so many large number of rights which are not exercised by the existing shareholders. This may happen because of insufficient information, misconception and rumors about rights share. This situation can be minimized by awareness program for general investors, using mass and through program via seminars, training, and workshops..
  6. Still a right issue guideline does not come yet. Because of lack of it, there is some problems. So, it must come soon, which is base and key to support the right share issue.
  7. The role of market players in the stock market should be made effective in promoting Nepalese capital market by giving proper training and adopting changed environment with modern tools and techniques.
  8. Regulatory offices, issues managers, issuing company and government should jointly brought awareness program for the investors to invest on stocks, especially rights share because large no of investors are ignorant about it.
  9. In order to improve the right offering's problem, regulation and their implementation should be sound and strict for capital market and its related sectors. Because of lack of implementations of good rules and regulations, there will be no improvement and work.

10. The development of all sectors like capital market, industrial market or other economic market depends upon political stability. So it should be maintained in our country. Then after only our country can be developed.

## BIBLIOGRAPHY

### Books

- Alexander, G.J., Sharpe, W.F. & Bailey, J.V. (2002). *Fundamentals of Investments*. New Delhi: Prentice-Hall of India Private Ltd.
- Alexander, G.J., Sharpe, W.F. & Bailey, J.V. (2002). *Investments*. New Delhi: Prentice-Hall of India Private Ltd.
- Bhalla, V.K. (2004). *Investment Management: Securities Analysis and Portfolio Management*. New Delhi: S. Chand & Company Ltd.
- Brealy, R.A. & Myers S.C. (2002). *Principles of Corporate Finance*. New Delhi: Tata McGraw- Hill Publishing Company Ltd.
- Brigham, E. F. & Houston, J.F. (2004). *Fundamental of Financial Management*. Singapore: Thompson Asia Pte. Ltd.
- Cheney, J.M., and Edward, A.M. (1992). *Fundamental of Investment*. New York: West Publishing Company.
- Era, Solomon. (1963). *The Theory of Financial Management*. New York: Colombia University Press.
- Francis, Jack Clark (1992). *Management of Investment. (5th ed.)*. India: Tata McGraw- Hill Ltd.
- Francis, Jack Clark (1997). *Investments: Analysis and Management*. New York: McGraw-Hill.
- Gitman, Lawrence J. (2001). *Principles of Managerial Finance*. New Delhi: Pearson Education Inc.
- Keown, M. & Petty, S. (2002). *Financial Management: Principles and Application*. New Delhi: Prentice Hall of India Pvt. Ltd
- Pandey, I.M. (2003). *Financial Management*. New Delhi: Vikas Publishing House Pvt. Ltd.
- Rose, P.S. (2000). *Money and Capital Markets: Financial Institutions and Instruments in a Global Marketplace. (7th ed.)*. India: Irwin McGraw Hill Ltd.

Sharpe, W.F., Gordon, J.A. and Jeffery V.B. (2003). *Investment. (6th ed.)*. New Deldi: Prentice Hall of India.

Van Horn, J.C and Wachowicz, Jr John M. (2001). *Fundamental of Financial Management. (10 ed.)*. New Delhi: Prentice Hall of India Pvt. Ltd.

Weston, J.F. Brigham, E.F. (1996). *Essential of Managerial Finance. (11th ed.)*. Florida: The Dryden Press.

### **Reports**

Nepal Stock Exchange (2006/2007). *Trading Report*. Kathmandu Singhadurbour Plaza: Research & Planning Division.

Security Board Nepal, (2006/2007). *Annual Report*. Thapathali, Kathmandu.

Security Board, (2002-2006). *Five Years of SEBO*. Thapathali Kathmandu.

### **Thesis And Research Reports**

Gautam, Bamshidhar (2001). *An Analysis of Share Price Movement Attributed to Right Offering Announcement*. An Unpublished Master's Degree Thesis, Shankar Dev Campus, Kathmandu.

Khand Samir (2006). *Stock price Movement in NEPSE*. An Unpublished Master's Degree Thesis, Shankar Dev Campus, Kathmandu.

Lamsal, Kabi Raj (2002). *A Study on the Impact of Information on Share Price*. An Unpublished Master's Degree Thesis, Shankar Dev Campus, Kathmandu.

Pathak, Devaki (2006). *Stock Price Movement of Listed Companies on Securities Market of Nepal*. An Unpublished Master's Degree Thesis, Shankar Dev Campus, Kathmandu.

Regmi Nischal (2006). *Role of Financial Indicators in Determining Share Price in Nepalese Stock Market*. An Unpublished Master's Degree Thesis, Shankar Dev Campus, Kathmandu.

## **Journals**

Carhart, M.M. (March 1997). *On Persistence in Mutual Fund Performance*.

Kathmandu: The Journal of Finance. Vol.33, Issue 1.

Fama, E.F. (March 1965). *The Behaviour of Stock Market Prices*. Kathmandu: The

Journal of Business. Vol.37, Issue 1.

## **Web Sites**

<http://investorhome.com/ehm.htm>

[www.nepalstock.com](http://www.nepalstock.com)

## APPENDIX

### APPENDIX - 1

Calculation of Theoretical Price of the Stock after Right Share Issue

$$\text{Theoretical Value of Stock after right share issue} = \frac{P_0 \times \# + P^s}{\# + 1}$$

Pre right issue stock price =  $P_0$

Subscription price =  $P^s$

No. of general shares required to purchase one right share =  $\#$

S.NO.	Name of the Companies	$P_0$	$P^s$	Ratio	$\#$	$P^e$
1	PFL	410	100	2:1	2	306.67
2	PEOFL	137	100	1:1	1	118.50
3	AEFL	150	100	2:1	2	133.33
4	NFCL	115	100	2:1	2	110
5	AFCL	448	100	1:1.53	0.6536	237.09
6	ANPFL	500	100	1:1	1	300.50
7	YFL	230	100	4:1	4	204
8	CMBFL	196	100	1:1.2	0.8333	143.54
9	KMBFL	400	100	1:1	1	250
10	LBL	172	100	5:1	5	160
11	LAXBL	520	100	5:1	5	450
12	SBL	546	100	5:1	5	471.67
13	PDBL	103	100	1:1.4	0.7143	101.25
14	BDBL	381	100	1:1	1	240.50
15	CDBL	100	100	1:2	0.5	100
16	NDBL	133	100	1:1	1	116.50

## APPENDIX - 2

### Questionnaire

Dear respondent,

This Questioner is prepared for my research on "Role of Right Offering on Stock Price Movement." which, I am doing for the partial fulfillment for the degree of Master of Business Studies (M.B.S.).I humbly request you to fill at the best knowledge. Your cooperation in this regard will be huge value for me.

I assured that the information collected from you will be exclusively used for the research purpose and will not be published in any media.

I shall be highly obliged for your response as for as possible.

Thank You.

**Suman Mahat**

(Researcher)

Shanker Dev Campus

Putalisadak, Kathmandu.

Name: -

Date:-

Organization: -

Designation:-

Address: -

Occupation:-

**Instruction:** Please tick [  ] in an appropriate place and put your views in opened ended Question.

1. Do you think that Nepalese corporate firm increasingly practices the right share?

- a) Slightly Agree ( )                      c) Neutral ( )  
b) Agree ( )                                  d) Disagree ( )

2. Do you think that the shareholders get reliable and sufficient information from the company in the context of right share issue?

- a) Yes ( )                                      b) No ( )

3. Do you think that the shareholders are aware about the phenomenon of right share issue and their successive involvement in it?

- a) Yes ( )                                      b) No ( )

4. What is the motivation of issuing rights share by the corporate firms?

- a. To increase capital fund and get more respectable size. ( )  
b. To increase the numbers of outstanding shares for promoting the active trading in the stock market ( )  
c. To bring out the market price of the stock with in most popular range. ( )

5. What do you think about the right share issues and its impact on stock price movement?

- a) Should increase ( )                      c) Remains constant ( )  
b) Should decrease ( )                      d) Don't know ( )

6. What do you think about the role of the right offering on the stock price movement?
- a) The stock price should be increased because the right share plays an important role on the stock price movement ( )
  - b) The stock price should be decreased because the right share does not play an important role on the stock price movement. ( )
  - c) The stock price should remain constant and right share does not affect the stock price movement. ( )
  - d) Don't know about the effect of stock price movement by the cause of right share issue. ( )
7. What is your opinion about the “rights” should be legally transferable?
- a) Should be transferable ( )
  - b) Should not be transferable ( )
  - c) Don't want to say about the current laws ( )
  - d) Don't know ( )
8. Why Rights of the companies are not being fully subscribed?
- a) Lack of the knowledge of right shares in investors. ( )
  - b) Insufficient legal provision. ( )
  - c) The investors/ shareholders may have insufficient money. ( )
9. What is the thing which affects the issuance of the right shares?
- a) Political environment.
  - b) Economic environment.
  - c) Legal provision

10. What is the action that should be taken for maximum subscription of right share?

- a) Legal provision should be modified. ( )
- b) The company should be promoted to attract the investors/ shareholders to subscribe the rights. ( )
- c) Investors should be aware about the right shares. ( )

11. In your opinion which of the following options mostly prefer?

- a) Subscribe to the new share. ( )
- b) Sell the rights. ( )
- c) Partially sell and partially exercise. ( )
- d) Do nothing at all. ( )

12. In your opinion, is it profitable to invest in rights share?

.....  
.....  
.....

13. Do you have any experience about right offering, you want to share with us?

.....  
.....  
.....