

**A CASE STUDY ON THE RIGHTS SHARE PRACTICES IN
NEPAL AND IT'S IMPACT ON SHARE PRICE OF
LISTED COMPANIES**

A THESIS

**SUBMITTED BY:
KAMAL GHIMIRE
NEPAL COMMERCE CAMPUS
T.U. Registration No. 7-2-242-120-2002
Campus Roll No. 532/062
Exam Roll No.:2014/064**

**SUBMITTED TO:
Office of the Dean
Faculty of Management
Tribhuvan University**

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

**New Baneshwor, Kathmandu
August, 2009**

RECOMMENDATION

This is to certify that the thesis

Submitted by:

KAMAL GHIMIRE

Entitled:

**A CASE STUDY ON THE RIGHTS SHARE PRACTICES IN NEPAL AND IT'S
IMPACT ON SHARE PRICE OF LISTED COMPANIES**

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

.....
(Prof. Dr. Bihari Binod Pokharel)
Head of Research Department & Thesis Supervisor

.....
(Diwakar Pokhrel)
Campus Chief

.....
(Dipesh Bhatta)
Thesis Supervisor

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis prepared

KAMAL GHIMIRE

Entitled:

**A CASE STUDY ON THE RIGHTS SHARE PRACTICES IN NEPAL AND
IT'S IMPACT ON SHARE PRICE OF LISTED COMPANIES**

We 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 for the Degree of Masters of Business Studies (M.B.S.)

Viva – Voce Committee

Chairperson, Research Committee:

Member, (Thesis Supervisor)

Member, (Thesis Supervisor)

Member, (External Expert)

Date:

DECLARATION

I hereby declare that the work reported in the thesis entitled **A Case Study on the Rights Share Practices in Nepal and It's Impact on Share Price of Listed Companies** submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirements of the Degree of Master of Business Studies (M.B.S.) under the guidance and supervision of Mr. Diwakar Pokhrel and Mr. Dipesh Bhatta of Nepal Commerce Campus, Tribhuvan University.

August, 2009

.....
KAMAL GHIMIRE
Researcher
Nepal Commerce Campus
T.U. Regd. No: 7-2-242-120-2002
Campus Roll No.:532/062
Exam Roll No.: 2014/064

ACKNOWLEDGEMENTS

This study is mainly concerned with the Rights Share Practice in Nepal and Its Impact on Share Price of Listed Companies. The Completion of the present study is a result of help and support of several hands. Therefore, I would like to express my heartfelt gratitude to all those respondents for their help and support.

I am extremely indebted to my supervision of Mr. Dipesh Bhatta, Nepal Commerce Campus, Tribhuvan University for their generous encouragement and undertaking the supervision of my entire research work.

I am very much grateful to **Prof. Dr. Bihari Binod Pokhral** and my other respected teachers of Nepal Commerce Campus, for providing invaluable suggestion, information and comments.

I want to extend my debt ness to Securities Board of Nepal and respected companies who provided reports and study materials. Likewise, I am Thankful to librarians of Nepal Commerce Campus, Central Library of T.U., who helped me providing necessary information and suggestions.

I would like to express my sincere thanks to my parents and family members, who always encouraged and inspired me continuously in whatever way it is possible.

Similarly, I am thankful Yadav Ghimire, Durga Prasad Adhikari, Prabhas, Shreesanta, Bhuvan, Shankar Kattawal and others for their cooperation, inspiration and encouragement.

KAMAL GHIMIRE

Gatthaghar

TABLE OF CONTENTS

VIVA-VOCE SHEET
RECOMMENDATION
DECLARATION
ACKNOWLEDGEMENTS
TABLE OF CONTENTS
LIST OF TABLES
LIST OF FIGURES
ABBREVIATIONS

Page No.

CHAPTER – I

INTRODUCTION	1-6
1.1 Background of the Study	1
1.2 Introduction of the Right Issue	3
1.3 Statement of the Problem	4
1.4 Objectives of the Study	5
1.5 Importance of the Study	5
1.6 Limitation of the Study	5
1.7 Organization of the Study	6

CHAPTER- II

REVIEW OF LITERATURE	7-20
2.1 Conceptual Review	7
2.1.1 Venture Capital	7
2.1.2 Initial Public Offering	8
2.1.3 Rights Offering:	8
2.1.4 Rights Issue versus Public Offering	10
2.1.5 Stock Rights Distinguished from Privileged Subscription	11
2.1.6 Theoretical Price Effect of right Issue	11
2.2 Review of Related Issue	12
2.2.1 Review of Books	13
2.2.2 Review of Thesis	17

CHAPTER - III

RESEARCH METHODOLOGY	21-29
3.1 Introduction	21
3.2 Research Design	21
3.3 The Selection of Sample	21
3.4 Source of Data	22
3.5 Data Collection Technique	23
3.6 Coverage of the Data	24
3.7 Method of Analysis	24

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS	30-65
4.1 Rights Share Practice in Nepal	30
4.1.1 Characteristics of Rights offering in Nepal	30
4.1.2 Contribution of Rights Share Issues in the Total Public Flotation in Nepal.	31
4.1.3 Issue Manager Wise Rights Issue in Nepal	34
4.1.4 Classifying the Rights Issue according to Sector in Nepal	37
4.2 Rights Offering and Its Impact on Share Price	39
4.2.1 Rights Share and its Impact on Share Price Movement of Companies before and after Rights Offering.	39
4.2.1 Analysis of Share Price Movement of Nepal Investment Bank Ltd.	41
4.2.2 Analysis of Share Price Movement of Siddhartha Bank Ltd.	43
4.2.3 Analysis of Share Price Movement of NIC Bank Ltd.	44
4.2.4 Analysis of Share Price Movement of Kumari Bank Ltd.	46
4.2.5 Analysis of Share Price Movement of Premier Finance Co. Ltd.	48
4.2.6 Analysis of Share Price Movement of NIDC Capital Markets Ltd.	49
4.2.7 Analysis of Share Price Movement of Alpic Everest Finance Co. Ltd.	51
4.2.8 Analysis of Share Price Movement of Standard Finance Co. Ltd.	53
4.3 Correlation Coefficient between Share Price Movement and Movement in General Market	54
4.4 Use of t-statistics to measure the immediate impact of rights offering on the share price and on general market movement.	57
4.5 Subscription of Rights Share in Nepal	60

4.6	Analysis of Data Obtained from Questionnaires and Personal Interview.	60
4.7	Major Finding of the Study	63
4.7.1	Analyze the impact of right share issue on share price	64
4.7.2	Subscription of the Rights Share Issued	64
4.7.3	Rights Share Practice in Nepal	65
4.7.4	Regarding the Impact of Rights offering in Earning per Share	65

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION S		66-69
5.1	Summary	66
5.2	Conclusion	67
5.3	Recommendations	69

BIBLIOGRAPHY

ANNEXURE

LIST OF TABLES

Table No	Statement	Page No.
3.1	Population and sample of Rights share Issuing Companies	22
4.1	Contribution of Rights Issues in the total Public Flotation	32
4.2	Issue Manager Wise Rights Issue in Nepal	35
4.3	Sector wise Rights Issue in Nepal	37
4.4	Share Price Movement of Nepal Investment Bank Ltd.	41
4.5	Share Price Movement of Siddhartha Bank Ltd.	43
4.6	Share Price Movement of NIC Bank Ltd.	44
4.7	Share Price Movement of Kumari Bank Ltd.	46
4.8	Share Price Movement of Premier Finance Co. Ltd.	48
4.9	Share Price Movement of NIDC Capital Markets Ltd.	49
4.10	Share Price Movement of Alpic Everest Finance Co. Ltd.	51
4.11	Share Price Movement of Standard Finance Co. Ltd.	53
4.12	Correlation Coefficient Between Share Price and NEPSE Indices	55
4.13	Calculated Value and Tabulated Value of t-statistics	57

LIST OF FIGURES

Figure No.	Statement	Page No.
4.1	Contribution of Rights Issues in the Total Public Flotation	33
4.2	Instruments Wise Public Issue In Nepal	34
4.3	Issue Manager Wise Right Issue	36
4.4	Sector Wise Rights Issue In Nepal	38
4.5	Awareness of Rights Issue	61
4.6	Impact of Rights Issue on Market Price of Share	62

ABBREVIATIONS

AGM	Annual General Meeting
B.S.	Bikram Sambat
BOD	Board of Director
Co.	Company
DPS	Dividend Per Share
EPS	Earning Per Share
FY	Fiscal Year
H ₀	Null Hypothesis
H ₁	Alternative Hypothesis
Ltd.	Limited
NEPSE	Nepal Stock Exchange
NIBL	Nepal Investment Bank Ltd.
no.	Number
NRB	Nepal Rastra Bank
NYSE	New York Security Exchange
P.E.	Probable Error
SEBI	Security Exchange Board of India
SEBO/N	Security Board of Nepal
SEC	Security Exchange Centre
US	United States
CIT	Citizen Investment Trust
KBL	Kumari Bank Limited
Pvt.	Private
T.U.	Tribhuvan University