

CHAPTER –ONE

INTRODUCTION

1.1 General Background of the Study

Capital market plays a vital role for long term and prosperity of economy since they provide the channel through which needed fund can be raised. An efficient and effective capital market is crucial for developing the economy of a country. The growth of capital market in a country depends upon the saving available, proper organization of intermediary to bring the investors and business ability together for mutual interest. Capital market is organized market through which buyers and sellers of long term capital are met and the function of buying and selling take place. Capital market is such a powerful mechanism which gives opportunity to the investors to invest their savings in ordinary share, debenture and government securities.

Every firm constantly faces the financial problems from its very inception. A growing firm, thriving day by day, always remains in the destitute of funds either for expansion or diversification of business or to sustain in the competitive business environment. In order to cope with various financial situations, firm usually issue common stock to general investors or right offering to existing shareholders or preference share and various types of debentures as demanded by their target capital structure. This study mainly focuses on the practices of right share and its impact on share price. Right share are issued to the existing shareholders to increase capital if current reserve is not sufficient to issue bonus share. Company usually issues right share to raise the capital. Therefore, issue of right share represents the distribution of share in proportional to existing shareholders.

Large number of corporate firms announces and issue right share to increase the capital base if the corporate management felt such need or to comply with the policy directives given by concern authority to increase the capital base from time to time. In Nepalese business environment, Nepal Rastra Bank issues the policy directives to all the banks to control and for the supervision of the establishment and operation of all banks in Nepal. Nepal Rastra Bank had already issued the policy provisions regarding the requirements of minimum paid up capital in the Commercial Banks, which significantly affected the right

share issuing practices of Commercial Banks in Nepal. A company issues right share under the principle of preemptive right of the shareholders. Under this right, the existing shareholders have the first priority to purchase any new equity share issued by the company.

A company usually offers a rights issue to the existing shareholders and provide an option to buy new shares of the company at a predetermined price usually at a discount to the existing market price in a pre fixed ratio. A rights issue will be of the form, issue of X number of shares to the existing shareholders at a price of Y per share in the ratio of N shares for every Y shares held as on date D.

A rights issue has the following effects on the price of a stock;

-) Share capital gets increased according to the rights issue ratio.
-) Liquidity in the stock increases.
-) Effective earnings per share, book value and other per share values stand reduced.
-) Markets take the action usually as a favorable act.
-) Market price gets adjusted on issue of rights shares.
-) Company gets better cash flow which may be used to improve the business and may help increase effective earnings per share.
-) Usually a shareholder may not back out from applying for the rights issue unless the offer is almost same as the prevailing market price. This is because if a stock is trading at 100 and a rights issue in the ratio 1:1 at a price of 40 will make the stock trade at 70 soon after the ex-rights date (www.stockmarketguide.org/rights_issue.aspx).

A right share issue is a way for a quoted company to raise its capital fund. Rather than take on debt, a quoted company can instead ask its shareholders to provide extra capital. Van Horne (2002:64) stated that instead of selling a security issue to new investors, some firms offer the securities first to existing shareholders on a privileged subscription basis because of preemptive right. Weston & Copeland (1998:97) stated that if the new common stocks are issued giving the right to purchase first by the existing shareholders then it is called right offering. Each shareholder is issued an option to buy a certain number of new share

and the terms of the option are contained on a piece of paper called right. Each stockholders receives one right for each shares of stock owned.

Right shares are issued to the existing shareholders as a result of increase in capital if current reserve is not sufficient to issue bonus share. Company usually issues right share to raise the capital. Therefore, issue of right share represents the distribution of share in proportional to existing shareholders. The shareholder which has an option to purchase a stated number of share at subscription price which is generally below the share current market price within specified period of time.

The pre-emptive right entitles a shareholder to maintain his/her proportionate share of ownership in the company. The law grants shareholders the right to purchase new share in the same proportion as their current ownership. Thus, if shareholder owns 1% of company's ordinary share, he/she has pre-emptive right to buy 1% of new share issued. The shareholders' option to purchase a stated number of new shares at a specified price during a given period is called rights. These right can be exercised at a subscription price which is generally much below the share's current market price or they can be allowed expire or they can be sold in the capital market.

Rights have intrinsic values because they are normally offered at a price somewhat lower than the current market price of stock. Consequently a market exists for the buying and selling of rights and once again we enter the world of speculator. An especially attractive speculative investment is using margin to buy rights with the hope that the value will rise.

The transaction involves the company giving existing shareholders the right to subscribe to newly issued shares in proportion to their existing holdings. The terminology used here is similar to the share splits, where a 1:5 (one for five) rights issue means an existing investor can buy one extra share for every five currently held.

The price of the newly issued shares is fixed, and is always set below the prevailing market price. As the name implies, the issue gives shareholders the right to buy the additional shares, but not the obligation. The rights can be sold on to others who wish to take advantage of the offer, and hence each right has a value. A shareholder can take up all, some or none of the rights on offer.

Shareholders own the firm; they are the real and residual owners of the firm assuming the ultimate risk associated with the ownership collectively with other shareholders. They have residual claim on the assets of the company at the time of liquidation. They can claim on the residual assets only after the fulfillment of the claims of other investors such as debenture holders, creditors, preferred stock holders, suppliers etc. So they are residual owners. Management of the firm should be able to make the shareholders happy by conducting the Annual General Meeting in proper time, improving the quality and standard of reporting, developing minimum rate of return on investment and encourage to work together with shareholders by developing participatory approach in problem solving ability of management. Suggestion of the shareholders in Annual General Meeting should be followed by company management to satisfy the shareholders in order to have better linkage. Shareholders trust the company if the management maximizes their wealth. Shareholders aim to have better rate of return and maximize net worth, which should be achieved by company management.

The shares which are issued for the existing shareholders of the business firm are known as right share. In the present time, for fast industrial growth capital market plays an important role. This time in Nepal, right share become one of the key instruments to raise capital fund of any organization. The Nepalese capital market is in very early stage of development. The Nepalese capital market was established as Security Market Center in 1976. In 1984, the Security Market Center was renamed as Security Exchange Center. After converting Security Exchange Center in to Nepal Stock Exchange (NEPSE) in 1993, it brought new environment in Nepalese capital market. NEPSE is nonprofit making organization and one and only secondary market for Nepalese corporate securities, operating under Securities Exchange Act 1983. NEPSE plays a vital role for the developing the efficient capital market.

There are various alternatives to raise the fund like common stock, preferred stock, bond, debenture, right derivatives and so on which are commonly known as financial instruments. Ordinary share provide ownership right to ordinary shareholders. Right shares are issued to the existing shareholders as a result of increased in capital if current reserve is not sufficient to issue bonus share. Company usually issues right share to raise the capital. Therefore, issue of right share represents the distribution of share in proportional to existing shareholders. A right issue is offered to all existing shareholders individually and

may be rejected, accepted in full or (in a typical rights issue) accepted in part by each shareholder.

Right have intrinsic values because they are normally offered at a price somewhat lower than the current market price of stock. Consequently a market exists for the buying and selling of rights and once again we enter the world of speculator. As especially attractive speculative investment is using margin to buy rights with the hope that the value will raise. In Nepal, first right share issuing company is Nepal Finance and Saving Co. Ltd. It issued Rs. 2 million right shares in the fiscal year 2052/53 B.S.

1.2 Statement of the Problems

Right offering announcement by a company serves good news to its existing shareholders. A shareholder, whose name is in the company book before record date, is entitled to have a proportionate number of new shares at price below the market. A view held by professional investor, finance directors and some academics is that, right is issued because it increases the supply of a company's shares, will have a depressing effect on the share price. It should consider some theoretical relationship in rights offering.

Right is a negotiable instrument, so it has certain value for sale. Theoretically, value of the right is determined using different equations and the value depend upon the market price of share, subscription price and number of rights required to purchase a new share. 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 shareholders. When the stock goes ex-right, the market price theoretically decline by the amount of value of each right. Hence, the positive or negative effect of the announcement to the right share in different points of the time i.e. before and after the book close date is another statement of the problem. Theoretically, the market price and the theoretical price after book close date of rights are to be equal. But in practice, it may differ. Hence, the market price and the theoretical price after the book close date are equal or not, is one important aspect of the statement of the problem of this research work.

When a company sells securities by privileged subscription, it should mail to its shareholders one right (i.e. legally transferable written instrument) for each share of the

stock hold with the common stock offering, this legal instrument called 'right' give shareholder the option to purchase additional shares according to the terms of offering. The holder of right has four options. They are subscription for new share (exercise the rights), sell the rights, partially exercise the rights and do nothing at all.

Keeping these views into the considerations, here are some specific research problems which are raised during research period;

-) Is there any difference between stock price movement of banks before and after announcement of the right shares?
-) Is there any difference between theoretical value and market value of the share after the book close date?
-) Whether there is any malpractices while issuing right share or not?
-) When right issue is made, what is the subscription rate of the right issue?
-) What is the practice of right share in Nepalese security market?
-) What are the rules and regulations about right share in Nepal?
-) What are the major problems in issuing the right share in Nepal?

1.3 Objectives of the Study

This study focuses on right issue and its effect on stock price movement of the sample commercial banks. The study has two main objectives; one is to study the characteristics features of rights offering by the listed commercial banks and next is to examine share price movement associated with the right offering.

The specific objectives are as follows;

-) To examine existing practices of right share issue and evaluate the adequacy of existing law on the matter of right share.
-) To analyze the impact of right offering on market price of the stock before and after the book close date.
-) To examine the theoretical value and market price of the stock after the book close date of right.
-) To identify the problem of the right share practices in Nepal.

1.4 Focus of the Study

In any firm, right share is taken as major financial decision that affects the value of firm. The main focus of this study is to examine the practice made by the sample commercial banks in regards to the right share and its impact on stock price movement. The purpose of this study is to provide a clear understanding of the circumstances surrounding a right offering to analyze the result of the offer and improving its effectiveness. This study also examines the practice made by the Nepalese commercial banks in this regard, stock price movement and current legal provision regarding right share issue.

1.5 Significance of the Study

This right share issue is important decision of corporate for different point of view. It is incredibly significant subject for all the concern people of the capital market. This can be said that this study is the novel for Nepalese capital market. Now a day's people are attracted to invest in shares for the purpose of getting greater return by considering the companies try to provide higher return and try to make value maximizations of the shareholders. Right share has become new concept to attract the investors as well as maintaining goodwill. Similarly, company launch a new promotion strategy, right share is the major one of them. Right share provide existing shareholders the right to buy new shares in specified ratio. The practice of right share is very old in worldwide but in Nepal it is started from the fiscal year 2052/53 B.S. Only few researches regarding right issues have been prepared. So, this topic has been selected for the further study. The study will concentrate mainly in the study of rights shares practices and its impact on share price movement. This research will be important and valuable for those who are interested to the security market of Nepal and certainly it help all the related bodies. It will also be beneficial to the scholars who really want to know about right share practice in Nepal and its impact on share price.

1.6 Limitations of the Study

This study will have the following limitations;

-) Only five sample banks are taken so it doesn't reflect the review of whole banking sector.
-) Effect on share price movement through right share announcement is only considered.

-) This study will be based on secondary as well as primary data via SEBON, NEPSE questionnaire and interview respectively.
-) The research deals only with the date from the fiscal year 2059/60 to 2068/69
-) Result of the study would be fully dependent on the accuracy and reliability of the data provided by the respected organization and respondents.

1.7 Organization of the Study

The whole study has been divided into five chapters;

Chapter - I: Introduction

This chapter deals with the introductory part of the study which includes introduction of capital market, background of the study, statement of the problems, objectives of the study, focus of the study, significance of the study, limitations of the study and organization of the study.

Chapter - II: Review of Literature

This chapter deals with review of the different literature in regards to the theoretical analysis and review of books, article and thesis related to the study field. Therefore, it includes conceptual framework and other related studies.

Chapter - III: Research Methodology

This chapter deals with research methodology used to carry out the research. It includes research design, population and samples, sources and techniques of data collection and data analysis tools.

Chapter - IV: Presentation and Analysis of Data

This chapter is the main part of the study which includes analysis and interpretation of data using financial and statistical tools. Similarly this chapter also includes the major findings of the study.

Chapter - V: Summary, Conclusion and Recommendations

This chapter covers summary of the study, conclusion and possible recommendations. In addition to these, there will be bibliography and some Appendices for supporting the calculations.

CHAPTER – TWO

REVIEW OF LITERATURE

This chapter draws a clear picture regarding the literatures of previous studies on ‘Right Share Practice and Its Impact on Share Price’. It includes the conceptual review and review of related studies. Regarding the review of literatures, various books, journals, articles, thesis related with this topic will be reviewed. It covers both within and outside the country. Very few important researches regarding right share have been conducted in Nepal and some of them are presented here.

The chapter has been divided into two parts.

- 2.1 Conceptual Review
- 2.2 Review of Related Studies

2.1 Conceptual Review

2.1.1 Concept of Right Shares

Right shares are the shares which are offered by the company to the existing shareholders to raise equity capital. Existing shareholders have a right to subscribe for the shares which are offered by the company after initial allotment until some special right is reserved for any other person by special resolution in this respect. Section 81 i.e.; further issue of capital of companies act 1956 deals with right shares and it states that where at any time after the expiry of two years from the formation of a company or at any time after the expiry of one year from the allotment of shares in that company made for the first time after its formation, whichever is earlier, it is proposed to increase the subscribed capital of the company by allotment of further shares.

“A security giving stockholders entitlement to purchase new shares issued by the corporation at a predetermined price (normally less than the current market price) in proportion to the

number of shares already owned. Rights are issued only for a short period of time, after which they expire.” (Source: *www.investopedia.com*).

Right shares are the method of raising new capital by giving existing stockholders the right to subscribe to new shares or debentures in proportion to their current holdings. These shares of stock are usually issued at a discount to market price. A stockholder not wishing to take up a rights issue may sell the rights. New stock (share) issue offered to existing stockholders (shareholders) in proportion to their current stock/shareholding, for a specified period and at a specified (usually discounted) price. Its objective is to afford them the opportunity to maintain their percentage of ownership of the firm.

2.1.2 Characteristics of Right Shares

Some of the characteristics of right share are as follows;

-) Rights are negotiable financial instrument which can be sold.
-) The number of rights is generally equal to number of shares held.
-) Rights have certain maturity periods. Beyond the period, the right holder cannot exercise the right.
-) The right issuing company determines the number of rights required to subscribe to an additional share.
-) The price per right share to be paid to the company is called subscription price and is generally less than market price of existing shares.

2.1.3 Preemptive Rights

Preemptive rights allow common stockholders to maintain their proportionate ownership and control in the company. The common stockholders are the owner of a company and as such they have certain rights and privileges.

Weston & Brigham (2006:677) stated that common stock holders often have the right, called the pre-emptive right, to purchase the additional share sold by the firm. In some states the pre-emptive is automatically included in every corporate charter, in other it is necessary. Under a pre-emptive right, existing common stockholders have rights to preserve their proportionate ownership in the corporation. If the corporation issues additional common stock they must be given right to subscribe to the new stock so that they maintain their pro-rata interest in the company.

“Pre-emptive right is the privilege of existing shareholders to participate in a right offering. Shareholders are granted pre-emptive right either by common law or explicit by the corporate charter. A corporation may have the right to amend the article of its incorporation to limit or deny this pre-emptive right. Common stockholder often have the “pre-emptive right” to purchase any additional share sold by the firm. If the pre-emptive right is contained in a particular firm’s charter, the company must offer any newly issued common stock to existing shareholders. If the charter does not prescribe a pre-emptive right, the firm has the option of selling to its existing shareholder or to the public at large. If it sells to the existing shareholders, the issue is called a right offering.” (*Hanley & Ritter; 2002:250*).

Brigham & Ehrhardt (2004:607) focused that each shareholder has an option to buy a certain number of new shares and the terms of the option that are listed on a certificate called a stock purchase 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. Stock right provides holders with the privileged to purchase additional share of stock based on their number of owned shares.

2.1.4 Rights Offering

Right offering include the offering of new common stock to existing shareholders at subscription price on pro-rata basis. With common stock offering, shareholders get the right to purchase additional shares according to the terms of the offering. The term specifies the number of shares required to subscribe for an additional share of the stock, the subscription price per share and the expiration date of the offering.

The holders of rights have following choices;

-) Exercise them and subscribe for additional shares,
-) Sell them because they are transferable,
-) Partially exercise the rights and
-) Do nothing and let them expire.

The last option usually occurs only if the value of the rights is negligible or if the shareholder owns but a few shares of stock. Generally, the subscription period is about three weeks. Under the right offering, the stockholder are provided a document called

'right' which describes all conditions about the right issue. Each shareholder receives right in the proportion of share currently held. Generally, right is a negotiable instrument. Negotiable because while somebody may have sufficient money to exercise the rights and they may actually exercise such rights but some others may not have the money to exercise all the rights, they can sell the rights or partially exercise the right. While observing the rights offering practices of Nepalese companies there is a complete absence of such negotiable rights.

2.1.5 Procedures of Rights Offering

Procedures of right offering consist of Declaration Date, Ex-right Date, Date of Record and Expiration Date. They are briefly described below;

Declaration Date

Declaration date is also known as announcement date. When a company decides to raise fund through rights offering, company's board of directors meet and declare crucial elements such as subscription price, amount to be raised etc and key dates ex-right date, record date and expiration date.

Ex-Right Date

The date when preemptive right leaves the stock is called the ex-right date. The major stock exchange require two business days prior to the record date for recording ownership changes. The day that begins this two days period is called ex-right date. A stock that has gone ex-right is generally, market with an 'X' or 'XR' in stock exchange trading sheet and newspapers price listings.

Date of Record

At the close of business on the record, the company closes its stock transfer books and produces a list of shareholders as of that date. If the company is notified of the sale and transfer of some stock during the office working time, the new owner receives the right to purchase new shares using preemptive right. However, if notification is received after record date, the previous owner of the stock gets the right to purchase new shares at subscribed price because his or her name appears on the company's ownership records.

Expiration Date

Stockholders are given certain time to exercise the right and purchase new shares at subscribed price. The last date of this period is called expiration date after which rights are expired. Generally, 30 to 60 days period is given to use the right and purchase new shares.

2.1.6 Significance of Rights Offering

There are many significances of the right offering. Some of them are;

Permanent capital

Since right share are not redeemable, the company has no liability for cash outflow associated with its redemption. It is a permanent capital and is available for use as long as the company goes.

To indicate higher profit

Normally right share is an indication of higher future profits. Right share usually declare only by board of directors who expect rise in earnings of offset the additional shares.

To bring the market price of share within more popular range

Due to the effect of right share issue the numbers of outstanding shares make increases and decreases in the share price. A share has a strong performance that leads to an increase in market value than popular range. Then the management of the firm determines that the price of the share is higher than (moving and of) the popular trading range and decides a right share would be useful to bring the high-priced share within the popular range.

To increase the number of outstanding shares

Issue of right share obviously increases the number of outstanding shares which again promotes the active trading in the stock market.

To have positive psychological value

The announcement of right is perceived as favorable news to the investors which will help to increase earnings. After the announcement of right, investors can reasonably think for increase in future dividends. As the investors take the right share is an effort to invest cash for profitable investment opportunities, the share prices have positive psychological value.

Instead of experiencing a drop in value after a right share, the price may actually rise. Pre-emptive right gives the stockholders the protection of preserving their pro-rata share in the earnings and control of the company.

To decrease flotation cost

Pandey (1999:1006) focused that raising fund through the stock of right issue rather than the public issue involves less flotation cost as the company can avoid underwriting commissions. The flotation costs to issuer associated with a right issuing will be lower than the cost of public flotation.

To be successful on subscription

In the case of profitable companies, the issue is more likely to be successful since the subscription price is set much below than current market price.

To achieve a more respectable size in the market

After issuing right share by a company, every shareholder receives additional share proportionate to original holding. Some of the old shareholders may sell their new shares. As a result a corporate firm may achieve a more respectable size in the capital market.

To fulfill the legal requirement imposed by the authority

In the context of Nepalese banks, Nepal Rastra Bank impose legal requirement for increasing the equity base at certain standard level. To fulfill their legal requirement, Nepalese corporate firms practiced of raising the additional capital from existing shareholder because of the lower cost of fund, less flotation cost and to avoid the difficulties in raising public issues.

To expand company

When a company wishes to expand, it may well request extra cash from its shareholders through the way of right issue to finance that expansion.

2.1.7 Limitations of Rights Offering

Besides the significances, there are some limitations of the right share issue which are as follows;

-) The company can't force its existing shareholders to buy any more shares in the company and hence it is granting them an option to buy these new shares.
-) The shareholders, who fail to receive or to exercise or to sell their rights, lose in terms of decline in their wealth. Most right issues are undersubscribed because there is no legal obligation on the part of shareholders to subscribe.
-) It deprives new investor from becoming the shareholders of the company. The control over the management of the company is not diluted and the present management may misuse its position.
-) The issue of right share dilutes the existing share's EPS if the profit do not increases immediately in proportion to the increase in the number of ordinary shares.

2.1.8 Rights Offering and Market Value of Shares

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 right offering does not affect the value of shareholders. When the stock goes ex-right, the market price theoretically declines because the investors no longer receive the rights to subscribe additional shares. Theoretical value of one share of stock when it goes ex-right is;

$$P_e = P_o - V_r$$

Where,

P_e = Ex-right price

P_o = Right on price

V_r = Value of each right

Theoretically, the market price is reduced by the value of each right. But the actual market price is determined in the market place or stock exchange through to the interactions of demand and supply of the shares. In Nepal, there is only one Stock exchange i.e. Nepal Stock Exchange (NEPSE). All the listed securities are traded in NEPSE. The market price after the ex-right date can be clearly noticed and analyzed through the NEPSE.

2.1.9 Market versus Theoretical Value of Rights

Right is a negotiable instrument so it has certain value for sale. Theoretically value of right depends upon the market price of share, subscription price and number of rights required to purchase a new share. This value is also known as formula value. The market value of right

is determined in the market place through the interaction of demand and supply. While the stock is still selling right-on (price of common stock including rights), the formula value of right can be determined using the following equation;

$$\text{Value of each right (Vr)} = \frac{P_0 - P^S}{\# + 1}$$

Where,

P_0 = Right on market price of the stock

P^S = Subscription Price

= Number of rights required to purchase one new share

This theoretical value is the minimum value to the seller and maximum value to the buyer. We should be aware that the actual market price of a right may differ somewhat from its theoretical value on account of transaction costs, speculation, irregular exercise and sale of right over the subscription period. However, arbitrage limits the deviation of actual value from the theoretical value. If the price of a right is significantly higher than its theoretical value, stockholder will sell the right and purchase the stock 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. If the price of the right is significantly lower than its theoretical value, arbitrageurs will buy the right and exercise their option to buy stock, this causes downward pressure on the theoretical value of stock. These arbitrage actions will continue as long as they are profitable. The market price of right will generally differ from its theoretical value. The extent to which it will differ depends on how the firm's stock price is expected to behave during the period when the right is exercisable. By buying right instead of the stock itself, investors can achieve much higher returns on their money when stock price rises.

2.1.10 Venture Capital

The term 'venture capital' refers to capital investment made to initiate a business or industrial enterprise. Venture capital is the long-term funds in equity or semi-equity form to finance hi-tech projects involving high risk and yet having strong potential of high profitability. Equity investment in the early stages of a business is often called venture capital. In other words, venture capital represents funds invested in a new enterprise. It is the key to the success of any growing business firm. Institutional investor especially financial institutions, wealthy individual investors and specialist investor organized in

partnership are the major sources of venture capital. The investment in venture capital is very risky. Therefore, investors are rewarded with high rate of return in successful ventures. Unlike most equity investors, venture capitalists typically play an active role in selecting management and overseeing strategy.

K. K. Morris, editor of the well known publication, *Venture Economics*, has defined venture capital as “providing seed, start-up and first stage financing” and also funding “the expansion of companies that have already demonstrated their business potential but do not yet have access to the public securities market or to credit oriented institutional funding sources venture capital also provides management in leveraged buy out financing.”

The European Venture Capital Association has defined venture capital as “Risk finance for entrepreneurial growth oriented companies. It is an investment for the medium or long-term seeking to maximize medium or long-term return for both parties. It is a partnership with the entrepreneur in which the investor can add value to the company because of his knowledge experience and contract base”.

The 1995 Finance Bill defined venture capital as long-term equity investment in novel technology based projects with display potential for significant growth and financial returns.

2.1.11 Initial Public Offerings

By issuing publicly traded equity, the firm establishes both the value for the company and a market for the common stock. This enhance liquidity for the firm’s share allows the company to raise capital on more favorable terms since it no longer needs to compensate investors for liquidity associated with a privately held firms. With these benefits, however, comes cost. In particular there are ongoing costs for publicly traded firms associated with the need to supply information on a regular basis to investors and regulators. Furthermore, there are substantial onetime costs associated with initial public offering that can be categorized as either direct or indirect costs. Direct cost includes the legal, auditing, administrative and underwriting fees related offering, and the dilution associated with selling shares of an offering price that is, on average, below the price prevailing in the market shortly after the initial public offering.

Vaidya & Parajuli (2004:88) stated that public offering of various securities like equity share (both ordinary as well as right share), debentures, bonds etc. to the general public by corporate as well as the government are made through the Merchant Bankers. The Merchant Bankers are mainly engaged in creating and expanding primary and secondary market for securities and money market providing advisory services to corporations as well as managing their investment for portfolio. Thus public offering involves rising of funds for government or corporations from public through the issuance of various securities in the primary market and is often the only major sources of obtaining large sums of long term funds.

Brigham & Ehardt (2003:701) focused that if the company plans to sell stock to raise the new capital, the new shares may be sold in one of five ways;

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

2.1.12 Nepal Stock Exchange

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 13th January 1994. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of NEPSE. Significant developments have been made in the secondary market i.e. in NEPSE in recent years, especially after the Nepal Government decided to reform the capital market. NEPSE has implemented the wide area network to enable brokers to trade from their own offices. Trading through wide area network has formally started from 13th Oct. 2007. NEPSE has started posting trading activities on its website in order to provide investors and the general public with real-time information. Furthermore, the Nepal Government has made commitments to improve and develop the secondary market to enable it to encompass more corporate organization, investors and financial instruments.

2.1.13 Procedures of the Issue of Right Shares in Nepal

Right issues are conducted in Nepal in accordance with provision mainly in Securities Issue Guidelines - 2065 and Securities Registration and Issue Regulation - 2065. The actual mechanics and the sequence of events in the case of rights issues are somewhat complicated and it will therefore be useful to outline briefly the actual procedure by which a right issue practice is typically made in Nepal. Company must follow certain rules and regulations as mentioned in the company act and their respective memorandum and article of association. At present context, generally the following procedures are considered before right offering.

-) The Board of Director should consider about the determination of the quantum of further capital requirement and the corporations in which the rights issue might be offered to existing shareholders.
-) Company should notify Nepal Rastra Bank, Nepal Stock Exchange, Office of the Company Register and SEBON 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 take permission from them.
-) Make announcement with prospects 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 prospects. This letter will advise the shareholders about the rights offered, the number of new shares allocated to each given number of old shares, the price at which shareholders will qualify for the right issue. This letter will be sent after the date of announcement.
-) 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 certificates are distributed to the shareholders who participated in the rights offering announcement. Shareholders who have accepted and fully paid up their allotment can renounce the actual share certificate in favor of a third party.
-) 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.

The summarized description regarding issuance of right share in Nepal in “Securities Issue Guidelines – 2065” and “Securities Registration and Issue Regulation - 2065” is presented below;

Corporate bodies can only issue rights share if the previously issued shares have been fully paid up. Besides, they can issue rights share only once in a fiscal year and while issuing rights share, it should have completed 180 days from the date of listing of the previously issued shares in Nepal Stock Exchange. The issuance of right shares to public should be opened only after the directors of the corporate body which has applied for the issuance of the right shares have paid full amount equivalent to the right shares to be subscribed by them. However, if the director of the corporate body does not subscribe the right shares required to be subscribed by them, the application for right shares may be made open to other shareholders disclosing the information regarding the same. If the director wished to transfer the right to any other person, the arrangement should be made for renouncement of this right and making payment against the right shares within seven days of opening of the applications. If right shares are to be issued for the reason other than the regulatory provision related to its own business, the resolution for issuing right shares should be approved from the general assembly mentioning the details including the objective of increasing the paid up capital with reason of amount to be increased, proportion of right shares to be allotted and details regarding uses of capital. If all of the shares could not be sold on the duration of opening of right shares and are left out, such shares should be cancelled.

2.1.14 Growth of Right Shares in Nepal

An establishment of Biratnagar Jute Mills in 1993 B.S. was first to initiate the issue of equity to the general public. Due to the absence of organized and legally established capital market, practices of issuing of equity and related function couldn't be exercised. It was only after 1976 A.D., Security Exchange Center was established which initiated various practice of equity financing. Security Exchange Center, after its establishment, has undergone various changes. These days, Security Board of Nepal and Nepal Stock Exchange in-corporate, enhances controls and manages all the activities regarding capital market.

The history of rights offering is not so long in Nepalese context. Nepal Finance and Saving Co. was the first company, who issued right shares in Nepalese market in the fiscal year 2052/53 B.S. The company issued the right share of Rs. 2 million on 2052/53 B.S., the ratio was 4:1, each existing shareholders who had 4 shares owned were allowed to purchase each additional share issued by the company. Since then, Nepalese corporate firms started to issue rights share. Up to now (i.e. 2058/59) there are altogether 219 companies issuing rights in Nepal. Almost all of them were finance and banking companies who issued rights share in Nepalese Capital Market. Large number of banks and finance companies announced and issued right shares to increase the capital. The lists of commercial banks issuing the right shares enlisted in the Securities Board of Nepal are presented in the Appendix – II.

According to the table, 219 right issues had been made by 2068/69. All the companies except Bottlers Nepal Ltd. issued right share in Rs.100 per share but Bottles Nepal Ltd. issued right share in Rs. 260 per share, this includes Rs. 160 premium per share and rest of the companies could not add premium due to the fear of under subscription. No company had issued their right issue at discount because company ordinance does not allow them to sell the right share at discount. Subscription rate is seemed to be high in case of right share. Most of the financial institutions issue right share in order to increase paid up capital as directed by NRB. Generally, commercial banks had issued large amount of right shares. The largest amount of right share is Rs. 11809.83 million among all the right issues which is issued by NCML Bank and the issue manager was NMB Bank. The second largest amount of right share was issued by NMB bank amounting Rs. 7625.59 million and the issue manager was NFC. Nepal Share Markets Ltd. issued 5 times right shares during the year totaling Rs. 107.58 Million. But, in beginning period, only 69 million Rs. of right share had been issued without the issue manager. So, it is clear that the practice of the right share is being popular day by day.

2.1.15 Review of Securities Law and Acts

The entire corporation, who wish to issue its share to the public, should follow following laws. Issuing right shares is one of the offers to the public. Right is one of the instruments,

to raise capital from the existing shareholder. Thus the corporation, who want to go to public to raise its capital through issuing right share as well as other stock, should follow following laws;

-) Company Act 2053(1997)
-) Securities Exchange Act 2040 (1983)
-) Securities Exchange Regulation 2050 (1993)
-) New Issue management Guideline 2054 (1997)
-) Securities Registration and issue Approval Guideline 2057 (2000)
-) Securities Allotment Guidelines 2051 (1994)
-) Bank and financial Institutions ordinance 2060 (2003)
-) Securities Registration and Issue Regulation 2065
-) Securities Issue Guidelines 2065

2.2 Review of Related Studies

This section deals with the review of journal and article by different expert relating to right share, which was published in various journals.

2.2.1 Review of Articles and Journals

Eckbo & Masulis (2003:87), in his article, "*Information Efficiency and Information Subsets*" focused that the cost of uninsured rights, standby rights and firm commitment underwriting offerings. Their evidence indicated that uninsured rights offering are least costly and underwritten offerings are most costly. Yet in the US, rights are seldom used. Why do US managers use the more costly method for raising equity capital? They found evidence consistent with this market reaction that is most negative for underwritten offering and least negative for uninsured rights and in between for stand by rights when the extant subscription rate is not as high as for uninsured rights offering. Rights subscription rates will depend on personal wealth constraints of shareholders, portfolio diversification considerations, transaction costs and tax liabilities of selling right, and benefits from maintaining proportional voting power. As the expected subscription rate decreases, the adverse selection risk by certifying to outside investors that the firm in issuing equity not because it considers it overpriced but for effecting real investments or capital structure changes. A question that arises is how do underwriters certify the price of the seasoned

offering. For seasoned offerings, investors have an easily available benchmark to compare the offering price to namely, the price on the exchange floor. In a semi-strong form efficient market, the exchange floor price would reflect the information of underwriters.

Heinkel & Schwart (2003:97), in his article, "*The Behavior of Stock Market Prices*" explained that the resolution of the paradox emphasizes the information asymmetry between investors and firms seeking new equity, with the form of the new issue taking on a signaling role. For example, setting a low price in a rights issue would have a detrimental signaling effect. But the higher price carries the risk that shareholders will not exercise their rights, and failure of the issue would bring the cost penalties. Then, only higher quality firms would adopt for the rights issue. They clearly posed the paradox in the first place, offers a different resolution to it. They focus on potential conflicts of interest between managers and directors, on the one hand and shareholders, on the other. Some of the benefits of underwriting might occurred to the disectors and managers rather than to the shareholders. Investment bankers, whose firm's act as underwriters, and often represented on BOD and are in a strong position to represent the interest of the underwriters, are in a position(quite legally) to give a range of favor to the management. But the question may arise why would shareholders allow managers to impose extra cost on them for these reasons?

Marsh (2004), in his article, "*UK Right Issue*" explained that companies can guarantee the subscription of their issues having them underwritten and in recent years, this procedure has been adopted for 90% of UK rights issues. Underwriting is usually carried out on a fixed fee basis representing at least 1.25% of the money raised, and hence it is clear that quite substantial sums of money are involved. Since underwriting is simply a put option giving the company the right to put a failed issue onto the underwriter. In this paper, he described an application of the Black and Scholes model to the valuation of rights issue underwriting agreements. Model prices are compared with the fees charged in order to assess whether the letter represent competitive prices. In fact, over this period, companies appear to have overpaid for underwriting.

Myers & Mijluf (2004:103), on his journal, "*On Persistence in Mutual Fund Performance*" focused that to maximize the shareholders wealth managers are better informed about a firm's value than outside investors. Such managers will not tend to offer

new equity to the public if the market price is significantly less than their assessed valuation. In general equity is issued when it is overpriced. Hence, market participants lower the stock price at the announcement of a public equity issue to correct for the overpricing. Not all the managers wish to issue equity to take advantage of their superior information. Some firms may wish to issue (correctly priced or even somewhat under priced) equity to invest in a positive net present value project or to adjust their debt structure. If market participants can be convinced that the firm is issuing equity not because it is overpriced but from effective real investments or capital structure changes, then it might not lower the stock price. Also if the firm announces the offering to raise equity capital and if the existing shareholders are expected to subscribe to all the new shares, then the firm's price will be unaffected at the announcement. The reason is that in fully subscribed rights offering managers cannot take advantage of their superior information since the existing and the new shareholders are the same. Hence, there is no adverse selection risk for fully subscribed rights offering.

Hansen & Pinkerton (2007:57), in his journal, "*Managing Asset Classes*" focused that the direct comparison of costs of rights with underwritten public offering may be misleading because other things are not equal: a third variable, ownership structure confuses the comparison. Companies with heavily concentrated ownership predominantly undertake US right issue; and the costs of rights issues declines as the ownership concentration increase.

Right Issue Review group in UK (2008) has concerned many ideas of right issue and its phenomenon in the article "*A Report to the Chancellor of the Exchequer*". The summarized views of the article are as follows;

Rights issues are a common capital raising technique for companies in the United Kingdom. The structure is welcomed by investors because it offers them the maximum protection – delivering both the right of pre-emption and compensation for non-subscribing shareholders. Pre-emption is an important part of the accountability process because it enables shareholders to exercise their governance responsibilities through the process of authorization and dialogue.

Rights issues saw a period of challenge in 2008. Companies successfully raised £23 billion from rights issues in the UK – of which some £16.9 billion was for companies in the financial sector. This was a successful execution and even more so given the market context. However, it was not entirely orderly and highlighted that the process merited review. Rights issues in the UK currently can take at least 39 days from the date of being formally launched. Under the proposals in this report that would fall almost immediately to 32 days and for many issues to 16 days. This is a significant improvement and would reduce the period when a company (and its reputation) is at risk and its share price open to potential abuse.

Shrestha (2009), on his journal, “*Shareholders Democracy and Financial General Meeting Feedback*” explained that though the size of the shareholders population in Nepal has been growing constantly the government seems to have not taken any initiative in formulating the separate act which protects the shareholders rights. In Nepal, the concerned officials seem to be not relevant as they interfere in the shareholders get ignored. In the annual general meeting, shareholders can amend the internal by laws elect directors, authorize the sale of assets enter into mergers, change amount of the authorized capital and so on but in practice, many annual general meeting have undermined the collective rights of the shareholders. National Life and General Insurance Company had suppressed the collective rights of shareholders by not adhering to the consent of shareholders members in the board though the proposal was put forward by the management. Same case is happened of Butwal Dhago Udhyog as the management wanted to have a control over the collective rights of shareholders.

When the rights are offered for raising funds, three major issues are involved. They are as follows;

-) The number of rights needed to buy a new share,
-) The theoretical value of a right and
-) The effect of rights offering on the value of the ordinary shares outstanding.

2.2.2 Review of Previous Thesis

The thesis which are reviewed for the analysis of literature are as follows;

Gautam (2006) conducted a study on “*An Analysis of Share Price Movement Attributed to Right Offering Announcement*”. In his study he 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.

The major findings of his study are as follows;

-) 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.
-) SEBON 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.

Kharel (2007) conducted a study on “*Stock Market Efficiency and the share price behavior in Nepal*”. The objectives of his study are as follows;

-) To provide the conceptual glimpse of Nepalese Capital Market and to analyze Nepalese Index Behavior.

-) To examine whether stock price changes are normally distributed under the central limit theorem.
-) To examine, test and determine serial correlation and filter rule and Bernoulli process in relation to price changes.
-) To check whether the runs of the price changes are normally distributed or not.
-) To determine the efficiency of the stock market through the theoretical model of Efficient Market Hypothesis (EMH) in Nepalese Stock Market.
-) To provide feedback policy inputs towards institutional development of Nepalese share market.

-) The major findings of his study are as follows;
-) The successive price changes are not dependent random variables.
-) Sophisticated investors can beat the average market return.
-) Nepalese stock market is not an efficient stock market.
-) There is no adequate provision regarding the sales of under subscribed rights share in Nepal.

) Niroula (2007) conducted a study on “*Impact of Right Share Practices on Market Price of the Stock*”. The main objectives of his study are as follows;

-) To find out impact of right offering on market price of the stock.
-) To find out whether there is any uniformity in DPS, EPS, MPS, and DPR in the sample firms.
-) To study right share practices in Nepalese firms with reference of sample firms.

-) The major findings of his study are as follows;
-) Nepalese equity market (primary as well as secondary) is dominated by financial sectors companies; the participation of the real sector (manufacturing, hotels etc.) is quite low or negligible.
-) 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.

-) Regarding procedural aspects of rights offering, all the other procedure is same as IPO. Besides, rights issuing company (Issue Manager) should be mailed a document called a 'right' to the existing shareholders.
-) Nepali Investor is actively participating in the capital market. Therefore, majority of them lack of financial knowledge are sill to analyze, the performance and future prospects of the firms. This has affected the market price of the entire firm.
-) Efficient communication network and promotion of security market are major problems hindering the Nepalese capital market.
-) Lamichhane (2008) conducted a study on "*Right Share & Its Impact on Market Price of the Stock*". In her study she set out the following objectives;
 -) To identify existing practices of right issues.
 -) To find out impact on changes in market price of the stock before and after the announcement of right offering.
 -) To examine the theoretical values of right and its practical effect of right on stock price.
 -) To analyzes the inadequacy of existing law, on the matter of right share.
-) The major findings of her study are as follows;
 -) Rights share contribute, the second largest among various issues to raise the capital of the corporation approved by SEBON.
 -) The practice of right share issue is in increasing trend.
 -) The maximum contribution of right offering in total public flotation is 82.84% and minimum is 6.81%.
 -) In majority of the cases, MPS after right share decrease. But some companies are not found to be following the rule. MPS of DCBL, BOA, SBL and MBL remain the same after the right share issue showing no effects of right share issue. MPS of KBL increase after right share issue.
 -) The theoretical and actual market price should be equal or actual market price should be slightly higher than theoretical price due to signaling effect but DCBL, BOA, SBL, KBL and MBL are not found to be following the rule. The actual market price of these companies after right share issue is lower than their theoretical value.

-) To examine the significant different of stock price movement before and after the announcement of the right share.
-) To compare the theoretical value and the real market value after the announcement of the right shares.
-) To analyzes the inadequacy of existing law, on the matter of right share.

-) The major findings of his study are as follows;
 -) Nepalese equity market is dominated by financial sectors companies; the participation of the real sector (manufacturing, hotels etc.) is quite low or negligible.
 -) Efficient communication network and promotion of security market are major problems hindering the Nepalese capital market.
 -) Under subscription of rights issue is common phenomena as rights is not transferable in Nepal, most of the companies unsubscribed give to the staff of the corporation, only some corporation have done underwriting.
 -) The major causes of under subscription of right share in Nepal are lack of investor's awareness and low performance of the related companies.
 -) Majority of the respondents agreed that investors get reliable and adequate information from the company and issue manager regarding the right share.
 -) Majority of the investors are well aware about the phenomena of right share and subsequent consequences.

-) Shrestha (2010) conducted a study on "*Impact of Right Share Practices on Stock Price with Reference to Financial Institutions in Nepal*". In his study he set the following objectives;
 -) To enlighten existing practices of right issues and evaluate the adequacy of existing law on the matter of right share.
 -) To explore the impact of right offering on market price of the stock before and after the book close date.
 -) To examine the theoretical value and market price of the stock after the book close date of right.
 -) To provide suggestion on the basis of above study/analysis.

-) His major findings in his study are as follows;
-) Among the Financial Institutions, Banking is the most preferred sector for the right.
-) Issuing company and the shareholders are equally benefited from the right share issue.
-) Nepalese corporate firms prefer right share instead of other instrument like bonds, preference shares because of easy process to collect the fund and low floatation cost.
-) The major causes of under subscription of right share in Nepal are lack of investor's awareness and low performance of the related companies.
-) The main factors for the share price movement are economic condition of the country and growth prospects of the company.

-) Nepal (2011) conducted a study on "*Right Share Practices and Its Impact in Market Price*". The objectives of his study are as follows;
-) To study right share practices in Nepalese firms with reference of sample firms.
-) To check whether the runs of the price changes are normally distributed or not.
-) To find out if there is significant changes in share price after the announcement of right offering.
-) To examine the impact of right offering on market price of the stock before and after the book close date.

-) His major findings in his study are as follows;
-) The practice of right share issue is increasing in few last years.
-) The main factors for the share price movement are economic condition of the country and growth prospects of the company.
-) Nepalese corporate firms prefer right share instead of other instrument like bonds, preference shares because of easy process to collect the fund and low floatation cost.
-) There is no uniformity in the impact of right offering of share price.
-) Under subscription of rights issue is common phenomena as rights is not transferable in Nepal, most of the companies unsubscribed give to the staff of the corporation, only some corporation have done underwriting.

-) Shrestha (2011) conducted a study on “*Right Share Practice and Its Impact on Share Price with Reference to Financial Institutions in Nepal*”. In his study he set out the following objectives;
-) To enlighten existing practices of right issues.
-) To explore the impact of rights offering on market price of the stock before and after the book close date.
-) To examine the theoretical value and market price of the stock after the book close date of right.
-) To evaluate the adequacy of existing law on the matter of right share.

His major findings of the study are as follows;

-) The subscription rate of right share is not satisfactory. The major causes of under subscription of right share are insufficient law advertisement made by the issue manager and lack of investor’s awareness.
-) Majority of the respondents agreed that investors get reliable and adequate information from the company and issue manager regarding the right share.
 -) Majority of the investors are well aware about the phenomena of right share and subsequent consequences involved there in.
 -) The main purpose to purchase the right share is to increase the value.
 -) Issuing company and the shareholders are equally benefited from the right share issue.
 -) The main factors for the share price movement are economic condition of the country and growth prospects of the company.
 -) The main objectives of issuing right share are to increase share capital and as per requirement of NRB directives.

Kshetry (2012) conducted a study on “*Impact of Right Share on Share Price in Nepalese Commercial Banks*”. His main objectives of the study are as follows;

-) To examine the significant different of stock price movement before and after the announcement of the right share.
-) To compare the theoretical value and the real market value after the announcement of the right shares.

-) To identify the problem of the right share practice in Nepal.
-) To point out suggestive measures to the concerned bodies.

His major findings of the study are as follows;

-) Through the issue of right share, largest amount i.e. 65% of total amount is collected by commercial banks.
-) There is only 15 years history of right share in Nepal. Till fiscal year 2066/67 only 194 cases of right share announcement can we find by 33 companies.
-) Large number of right share issued is under subscribed. Poor performance of the related company, lack of effective information and lack of transferable right are the major cause of under subscription of right hare in Nepal.
-) Right share contribute, the second largest among various issues to raise the capital of the corporation approved by SEBON.
-) Contribution of the right share on total public issue till the fiscal year 2066/67 is 68.09%. The maximum contribution of right offering in total public flotation is 84.75% and minimum is 6.81%.

Research Gap

Right share is the major instrument for raising additional equity capital which contributes the largest portion on various issues approved by SEBON. However, there is still lack of complete and satisfactory research on right share. The purpose of this research is to provide clear picture on right share practice in Nepal including its all consequences and circumstances.

Only few researches have been made on the topic “Right Share practice in Nepal”. Most of them are based only on secondary data. Nobody had gone through questionnaire and interview so far to conduct their research. This study also based on both secondary as well as primary data. Moreover, the earlier studies on right offering have become old and need to be updated and validated, because of the rapid changes taking place in the capital market. Considering all these facts it is necessary to carry out a fresh study in Nepal. Finally, this study is expected to be useful for all those including financial scholars, managers, investors and regulatory bodies such as: NRB, SEBON, NEPSE. None of the above research done

before entitled “Right Share Practice and Its Impact on Share Price.” So, this could be helpful to further researcher.

CHAPTER - THREE

RESEARCH METHODOLOGY

A systematic research study requires a proper methodology to achieve the set of objectives. Research methodology is a systematic method of finding solution of a problem i.e. systematic collection, recording, analysis, interpretation and reporting of data and information. Research methodology is a technique of analyzing the obtained data to solve the research problem. It consists of descriptive approach and statistical tools. Descriptive approach is used to analyze the research problem, setting hypothesis and other theoretical problem. Statistical tools are used to analyze the numerical data. Different section included in this chapter is research design, population and sample, sources and technique of data collection and method of analysis. Researcher has used the following methodology to complete the research.

3.1 Research Design

Sharma (2064:65) defined research design an arrangement of conditions for collecting and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Research design is necessary for each research work. It is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. So, selecting a suitable methodology is a good part of the research study. Then a suitable research design has been employed in order to analyze the right share and its impact on stock price movement in Nepal. This study follows the descriptive as well as analytical approaches which are used to evaluate the rights share and its impact on stock price movement of the sample firms. So that logical conclusion could be drawn. Most importantly, the study is designed as ex-post facto research as the study is based on historical data. However, descriptive approach has also been adopted for the analysis of primary data obtained from questionnaire.

3.2 Population and Sample

The total variables/observation is simply called population. There are altogether 219 companies listed in NEPSE at the time of FY 2068/069. As many as 33 companies received approval for issuing right shares in 2068/069. Most of them are financial institutions to

expand their capital. The people's trust in the banking sector and its transparency are the main reason behind large investment in the share market recently. Although commercial bank controls the share market of Nepal, only five commercial banks has been used as sample in this study. Fluctuation in the share price of the commercial banks makes movement in the NEPSE index. Due to the various limitations researcher cannot take all the right share issuing companies as the sample.

To test the hypothesis about the price movement of stock before and after the announcement of rights share, some market prices are required. For this purpose researcher has taken price of the different time of period as the sample, which is based on purposive and judgmental sampling method.

Table: 3.2
Sample Taking Banks

S.N.	Name of Issuing Company	Amount of Issue Approved in Million	Permission Date	Issue Manager/ Fund Manager
1	Bank of Asia Nepal Limited. (BOAL)	500	16/05/2010	Civil Capital
2	Global IME Bank Limited. (GIBL)	500	02/02/2010	Elite capital
3	Grand Bank Nepal Limited. (GBNL)	80	24/08/2005	NMB
4	Machhapuchchhre Bank Limited. (MBL)	165	25/05/2006	NMB
5	Sunrise Bank Limited. (SBL)	375	29/06/2010	NCML

Source: www.nepalstock.com/listedcompanies.php

3.3 Sources of Data

This study is more dependent on secondary data. Primary data are also used as per need. Hence, the sources of data are as follows;

3.3.1 Primary Data

Primary data are collected from the brokers, investors and issue managers to identify the problems, opinions and practice of right share in Nepal. Due to the various limitations only 80 questionnaire forms are distributed to the individual investors, brokers and issue managers. Name of respondents of the questionnaire is presented in Appendix - III.

3.3.2 Secondary Data

Secondary data are collected from different sources i.e. SEBON, annual report of respective commercial banks and NEPSE. Besides, that the data have been collected from various sources like newspapers, magazines, published and unpublished reports related document and journal as well. Similarly, some important information has been collected from internet. The share prices are collected from trading report, which was published by NEPSE and national daily newspaper.

3.4 Data Collection Techniques

Necessary data for this study are collected from various sources, out of them only related data are considered for the study. Primary data are collected through following method.

) Questionnaire Method

To get information about the right share and its different aspects, questionnaire method has been used. The questionnaire is designed in two groups. Group A contains a few multiple choice questions. Group B contains a few opened-end questions where respondents can write their personal views about the research topic. About 80 questionnaires are dispatched to the individual investors, brokers, issue managers, corporate firm and related experts and out of this only 50 responses were obtained.

) Interview Method

Interview of some experts like company secretary, business securities persons, officers of NEPSE are taken to make the study more reliable. Unstructured interview has been used for the data collection. Formal and informal discussions with students, teachers and representatives of some companies are also made as per need of the study.

3.5 Data Processing Techniques

The purpose of analyzing the data is to change it from an unprocessed form to understandable presentations. The collected data need to be aggregated in to a form that presents the summary of answers from respondents. The raw data convey little information therefore it must be analyzed and interpreted using different data analysis tools to make it more understandable.

In this study, theoretical value of right will be used to measure to the market price of share to know the impact of right share issue. Theoretical value of right after right share issue is given by the following equation;

$$V_r = \frac{P_0 - P^s}{\# + 1}$$

Where,

V_r = Value of one right

P_0 = Market price of the stock, right on

P^s = Subscription Price

$\#$ = Number of rights required to purchase one new share

3.5.1 Percentage Change in Market Price per Share

This gives the deviations of the share price due to right share issue phenomenon on the share price before right share issue. If the percentage change becomes negative, it indicates that the market price per share has decreased after right share issue. Similarly, if the percentage changes become positive, it indicates that the market price per share has increased after right share issue and if the percentage change becomes zero, it indicates that there is no change in market price per share before and after right issue. The percentage that has been changed in market price per share after right share issue is calculated by using the following formula;

$$\text{Change in Price (\%)} = \frac{\text{Post Right Issue Price (Pt)} - \text{Pre Right Issue Price (Po)}}{\text{Pre Right Issue Price (Po)}} \times 100$$

3.5.2 Percentage Change in Actual Market Price and Theoretical Price

This gives the percentage deviation of actual price and theoretical price after right share issue. If the percentage change becomes negative, it indicates that theoretical price is

greater than actual price after right share issue. Similarly, if the percentage change becomes positive, it indicates that theoretical price is less than actual market price after right share issue and if the percentage change becomes zero, it indicates that theoretical price and actual price are same after right share issue. This has been given by the formula below;

$$\text{Percentage change} = \frac{\text{Actual price} - \text{Theoretical price}}{\text{Theoretical price}}$$

3.5.3 Run Test

Run test is one of the techniques used to analyze the behavior of stock prices. Run is based on the percentage change in prices. A run occurs in a series of number wherever the change in numbers. The run may be positive, negative and zero run. Until the price change alters, the total change is called one run. The run test also finds 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.

Null Hypothesis H_0 : Price of the share is changed randomly before one month of right share issue.

Alternative Hypothesis H_1 : Price of share changed is not random before one month of right share issue.

$$Z = \frac{n - \frac{2n_1n_2}{n}}{\sqrt{\frac{2n_1n_2(2n_1n_2 - n)}{n^3}}}$$

Where,

r = No. of runs

n_1 = N (+)

n_2 = N (-1)

3.5.4 Test of Hypothesis

Sekaran (2005:79) defined hypothesis as a logically conjectured relationship between two or more variable expressed in the form of testable statements.

Wolf & Pant (2007:62) defined hypothesis as a statement about the relationship between two or more variables which need to be investigated for its truth.

Following hypothesis is set in this research paper.

Null Hypothesis H_0 : $\mu_x = \mu_y$, that is actual market price and theoretical price of share 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 H_1 : $\mu_x \neq \mu_y$, that is actual market price and theoretical price of share after right share issues are not same. 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;

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

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

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

CHAPTER - FOUR

PRESENTATION AND ANALYSIS OF DATA

This chapter incorporates the presentation and analysis of data. Both secondary and primary data are used for the study. To obtain the best result, data have been analyzed according to the research methodology.

4.1 Analysis of Secondary Data

4.1.1 Analysis of Contribution of Right Share on Total Flotation in Nepal

Total flotation of the country comprises ordinary shares, preference shares, debentures and right shares. Right share is an important part of the total flotation. Table number 4.1 and figure number 4.1 clearly shows the contribution of right share issue in the total public flotation in each of the fiscal year starting from 2059/60.

Table: 4.1
Contribution of Right Issue in Total Public Flotation

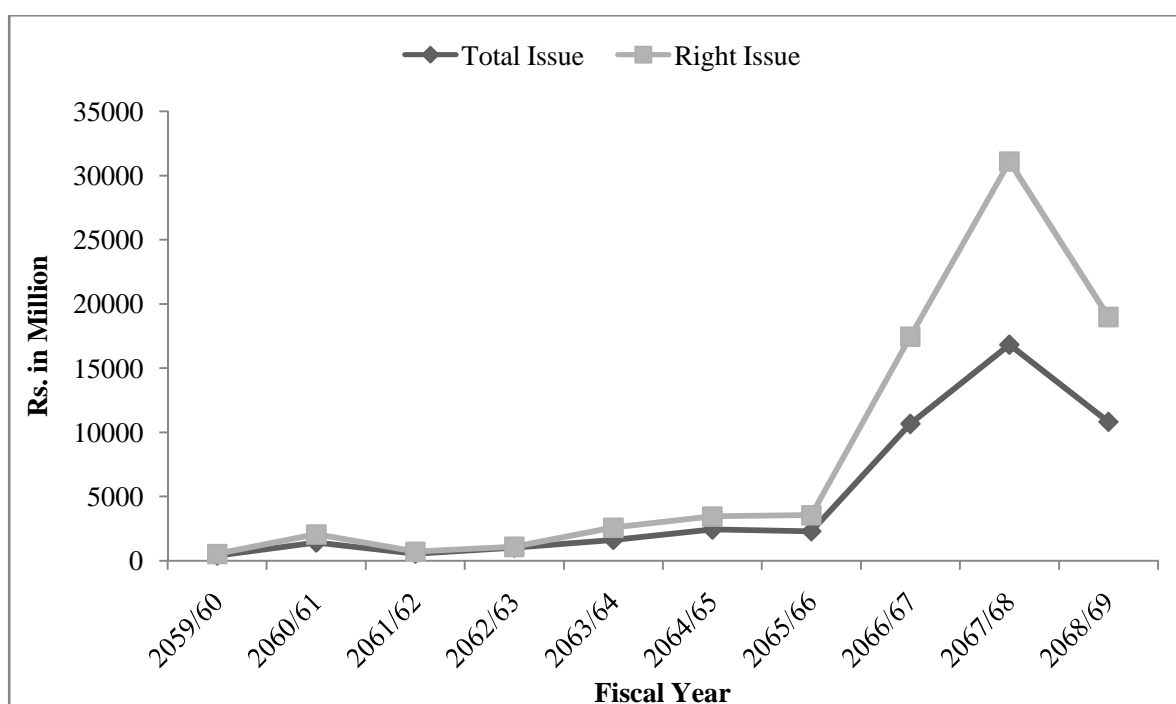
Fiscal Year	Total Issue Approved		Right Issue Approved		Contribution (%)	
	No. of Co.	Rs. in Millions	No. of Co.	Rs. in Millions	No. of Co.	Rs. in Millions
2059/60	9	410.49	2	131.79	22.22	32.11
2060/61	12	1441.33	5	621.87	41.67	43.15
2061/62	18	556.54	4	162.24	22.22	29.15
2062/63	14	1027.57	3	70	21.43	6.81
2063/64	14	1626.82	6	949.34	42.86	58.36
2064/65	29	2443.28	11	1013.45	37.93	41.48
2065/66	34	2295.5	17	1265.3	50	55.12
2066/67	64	10668.20	43	6893.4	67.19	64.62
2067/68	64	16828.51	50	14262.19	78.13	84.75
2068/69	61	10822.41	33	8173.04	54.09	75.52
Total	319	48120.65	174	33542.62		69.71%

Source: Annual Report of SEBON

Table 4.1 reveals the different levels of contribution of right share in total public flotation in different fiscal years. From the fiscal year 2059/60 the contribution of right share in total public flotation is in increasing trend till the fiscal year 2068/69. The highest contribution of right share in total public flotation was in the fiscal year 2067/68 i.e., 84.75% and the lowest contribution was in the fiscal year 2062/63 i.e., 6.81%.

The contribution of right share in total flotation is also presented in the following figure;

Figure: 4.1
Contribution of Right Issue in Total Public Flotation



Source: Annual Report of SEBON

Figure 4.1 clearly shows that the contribution of right share is increasing gradually. The main reason behind the increment of the portion of the right share in total public flotation is the directive of the NRB. According to the NRB directives, the paid up capital of all the commercial banks in Nepal must be Rs. 2 billion by 2067 B.S. This made all commercial banks to issue right shares to meet the NRB directive, as right share is the best as well as easy way to raise capital fund.

4.1.2 Analysis of Total Flotation on Security Wise

If security wise issue is analyzed, the right share is the prime source in the total public issue in Nepal. Mainly, there are 4 types of securities i.e. Debenture, Ordinary Share, Preference Share and Right Share.

Table: 4.2
Total Flotation on Security Wise

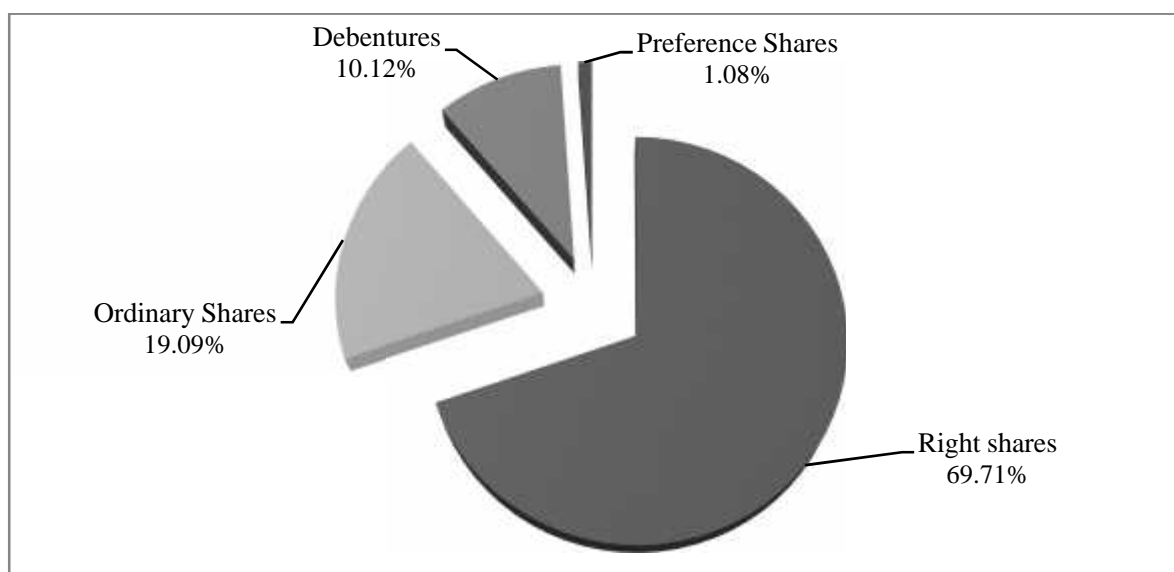
S. N.	Name of Securities	Percentage (%)
1	Right Shares	69.71
2	Ordinary Shares	19.09
3	Debentures	10.12
4	Preference Shares	1.08
Total		100

Source: Annual Report of SEBON

Table 4.2 shows that right share contribute the highest portion to total public flotation comparing the other securities i.e., 69.71% and preference shares contribute the lowest portion i.e., 1.08% to total public flotation.

The figure number 4.2 clearly shows the contribution of each security in total public flotation in Nepal.

Figure: 4.2
Security Wise Issue (%)



Source: Annual Report of SEBON

Figure 4.2 reveals that the major portion of total public issue in the fiscal year 2068/69 is captured by right share which is 69.71%. Similarly, ordinary share capture the 19.09% of total public flotation, debenture capture the 10.12% and the rest portion is captured by preference share i.e., 1.08%.

To meet the capital adequacy imposed by the NRB, the best as well as the easy way to raise the capital is the issue of the right share. That's why; the right share occupied the biggest share in total flotation.

4.1.3 Analysis of Issue Manager Wise Right Share Issue in Nepal

There are nine issue managers operating in security market in Nepal. All of them except United Finance Limited had issued different kind of instrument including right shares.

Table: 4.3
Issue Manager Wise Right Share Issue

Name of Issue Managers	Issued		Percentage (%)	
	Rs. in Million	No.	Rs. in Million	No.
N/A	69.00	2	0.20	1.07
DCBL	330	1	0.96	0.53
NSLMB	389.92	2	1.14	1.07
ELITE Capital	1754.36	8	5.13	4.30
Civil Capital	775.05	3	2.26	1.61
Grow more	419.14	4	1.22	2.15
NEFINSCO	211	5	0.61	2.68
NSM	107.58	5	0.31	2.68
AFC	655.29	7	1.91	3.76
NFCL	1055.54	9	3.08	4.83
ACE	5008.4	30	14.64	16.12
CIT	3980.95	17	11.64	9.13
NCML	11809.83	55	34.54	29.56
NMB	7625.59	38	22.30	20.43
Total	34191.69	186	100	100

Source: Annual Report of SEBON

Table 4.3 shows that Rs. 69 million of right shares had been issued without the issue manager. NCML is the largest right share issuer till 2068/69 which had undertaken 55 right issues of total Rs. 11809.83 millions and had contributed 34.54% in total right issue in Nepal. NMB is the second largest issue manager considering the right issues amount till 2068/69 which contributed 22.30%, i.e., Rs.7625.59 millions in total right issue. Similarly, NSM is the smallest issuer which had undertaken only 5 right issues of total Rs. 107.58 millions which occupies only 0.31% amount in aggregate.

4.1.4 Analysis of Subscription of Right Share in Nepal

The shareholders have the right to purchase the right shares but it is not the obligation. The shareholders may or may not apply for the right share. Hence, if all the right shares are not applied, there is under subscription of the right share.

Table: 4.4
Rate of Subscription of Right Share

Rate of Subscription	No. of the Companies	Percentage (%)
More than 95%	56	30.10
90% to 95%	5	2.68
85% to 90%	6	3.22
80% to 85%	7	3.76
Less than 80%	14	7.52
Not available	98	52.68
Total	186	100

Source: Annual Report of SEBON

Table 4.4 shows that 56 companies out of 186 companies have more than 95% subscription rate which occupy 30.10% of total right issue amount. 5 companies have less than 95% and more than 90% subscription rate. Similarly, 3.22% of total right issues have more than 85% and less than 90% subscription rate of right issue. Likewise, 3.76% of total right issues have the subscription rate more than 80% and less than 85%. Meanwhile, 14 companies i.e. 7.52% of right issue have less than 80% subscription rate. The data of the rest 98 companies which occupy 52.68% of right issue is not available.

Table 4.4 shows that the subscription rate of right share is not satisfactory. The major causes of under subscription of right share are low advertisement made by the issue manager, lack of the investors' awareness and the low performance of the related company or low trustworthiness upon the right share issuing company.

4.1.5 Analysis of Comparison of Stock Price before and after Right Share Issue

The impact of right share issue on market price per share is evaluated here. Theoretically, the price of the share should be decreased after right share issue. Table 4.5 shows the market price per share before and after right share issue and their percentage differences. Here, 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. The negative change in price indicates that the post right issue price is smaller than the pre right issue price and this phenomenon is theoretically correct.

Table: 4.5

MPS of Sample Banks before and after Right Share Issue(2068/69)

S.N.	Name of the Company	Pre Right Share Price (Po)	Post right Share Price (Pt)	Change in Price (%)
1	MBL	415	320	-22.9
2	Sunrise Bank Ltd.	272	265	-2.6
3	Global IME Bank Ltd	320	268	-16.3
4	Bank of Asia Nepal Ltd.	235	270	14.9
5	Grand Bank Nepal Ltd	260	260	0

Source: Trading Report of NEPSE

Table 4.5 shows the percentage change in price before and after right share issue. In most of the case, the change is negative. This means the majority of company follows the theory i.e., the market price per share decreases after right share issue. Among 5 sample banks, 3 banks' share price has decreased after right share issue, 1 bank shows no change and 1 bank share price has increased after right share issue. From the above analysis, it can be concluded that generally the market price decrease after right share issue.

4.1.6 Analysis of Comparison of Actual Market Price and Theoretical Price after Right Share Issue

To find the impact of right share issue on market price per share, it is necessary to calculate the theoretical market price. The market price after ex-right date is compared with theoretical market price to measure the effects. The comparison results of the banks measure the impact of the right share issue on market price of the share. Positive change in share price means share price after right share issue are higher than theoretical market price. This is good indicator for shareholder and company. It means they have good signaling effect. Negative change means share price after right share issue are lower than theoretical price.

Table: 4.6

Comparison of Actual Market and Theoretical Price after Right Share Issue(2068/69)

S.N.	Name of the Company	Actual MPS after Right Issue	Theoretical Price after Right Issue	% Change in Price
1	MBL	320	342	-6.50
2	Sunrise Bank Ltd.	265	168	57.74
3	Global IME Bank Ltd	268	247	8.5
4	Bank of Asia Nepal Ltd.	270	215	25.58
5	Grand Bank Nepal Ltd	260	207	25.81

Source: Annual report of SEBON

Table 4.6 shows the percentage change in actual market price and theoretical price of share after right share issue. Theoretically, actual market price and theoretical price of the share after right share issue should be equal. Actual market price after right share issue is collected from the trading reports of the SEBON and theoretical price of the share after right share is calculated in Appendix – IV.

The actual market price of Global IME and Sunrise Bank Limited are respectively Rs 268 and Rs 265 and their theoretical market price are Rs. 247 and Rs 168 respectively. The percentage changes between the two prices are 8.5% and 57.74% respectively. Similarly, the actual market price of Bank of Asia, Grand Bank and Machhapuchchhre Bank are Rs. 270, Rs. 260 and Rs. 320 and their theoretical values are Rs. 215, Rs. 207 and Rs. 342

respectively. The percentage change between two prices is positive i.e. 25.78% and 25.81% and one price is negative i.e. 6.50% respectively.

From the above analysis, it is found that out of 5 sample banks, 4 banks have actual market price higher than theoretical market price causing positive change and the remaining 1 bank have actual market price lower than theoretical market price causing negative change.

4.1.7 Testing of Variation in Actual Market Price and Theoretical Price

Null hypothesis H_0 : $\hat{\mu}_x = \hat{\mu}_y$, that is 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 H_1 : $\hat{\mu}_x \neq \hat{\mu}_y$, that is actual market price after right share issue and theoretical price after right share issue are not same. In other words, there is significance difference between theoretical market price and actual market price after right share issue (two-tailed test).

Table: 4.7

Testing of Variation in Actual Market Price and Theoretical Price

S.N.	Name of Company	Actual MPS after right issue (x)	Theoretical price after right issue (y)	d = (x-y)	d ²
1	MBL	320	342	-22	484
2	Sunrise Bank Ltd.	265	168	97	9409
3	Global IME Bank Ltd.	268	247	21	441
4	Bank of Asia Nepal Ltd.	270	215	55	3025
5	Grand Bank Nepal Ltd.	260	207	-53	2809
				dd = 98	dd² = 16168

$$\bar{d} = \frac{\sum d}{n} = \frac{98}{5} = 19.6$$

$$S = \sqrt{\frac{1}{5} \frac{16168 Z (98)^2}{2}}$$

$$t = \frac{d}{\frac{S}{\sqrt{n}}} \times \frac{19.6}{\frac{59.7}{\sqrt{5}}} = \frac{19.6}{26.65} = 0.74$$

T-tabulated at 5% level of significance for 4 degree of freedom = 2.776.

Decision: Since, the t-calculated is less than t-tabulated i.e., $0.74 < 2.776$, we accept null hypothesis.

Conclusion: Hence, we can conclude that there is no significance difference between actual market price and theoretical price of the share after right share issue.

4.1.8 Run Test

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

Null hypothesis H₀: Price of the share changed is random before 1 month of right share issue.

Alternative hypothesis H₁: Price of share changed is not random before 1 month of right share issue.

Table: 4.8
Price Change

S.N.	Name of the Company	Closing Price (P ₀)	Price change
1	MBL	415	-ve
2	Sunrise Bank Ltd.	272	-ve
3	Global IME Bank Ltd.	320	+ve
4	Bank of Asia Nepal Ltd.	235	0
5	Grand Bank Nepal Ltd.	260	+ve

Source: Annual report of SEBON

Here,

$$\text{Median (Md)} = \text{Size of } \frac{n+1}{2}^{\text{th}} \text{ item} = 3$$

Symbol sequence

$$\begin{array}{cccc} \pm & = & \pm & = \\ 1 & 2 & 3 & 4 \end{array}$$

$$n = \text{No. of runs} = 4$$

$$n_1 = N(+)=2 \quad n_2 = N(-)=2$$

The test statistics for testing H_0 is given,

$$Z = \frac{n Z \frac{2n_1 n_2}{n_1 \Gamma n_2} \Gamma 1}{\sqrt{\frac{2n_1 n_2 (2n_1 n_2 Z n_1 Z n_2)}{(n_1 \Gamma n_2)^2 (n_1 \Gamma n_2 Z 1)}}}$$

$$Z = \frac{4 Z 3}{\sqrt{32/48}}$$

$$= 1/0.82$$

$$= 1.22$$

Level of significance () = 5%

Critical region: The critical value of Z at 5% level of significance for two-tailed test is;

$$Z_{\alpha} = 1.96.$$

Decision: Since the computed value of $Z = 1.22$ is less than the critical value of $Z = 1.96$.

We accept null hypothesis.

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

4.2 Analysis of Primary Data

In this section, the collected data from primary sources has been tabulated and analyzed. In the context of Nepal, there is no long history of capital market. However, now a day's people's response towards share seems to be high due to the lack of better alternative for investment and interest rate have gone down. At present, equity market has been performing more strongly than in the earlier years. It has witnessed its strength surprisingly and this has raised hope for sustained growth of corporate undertakings. Stock market in Nepal has been growing gradually both in terms of turnover as well as the capital investment.

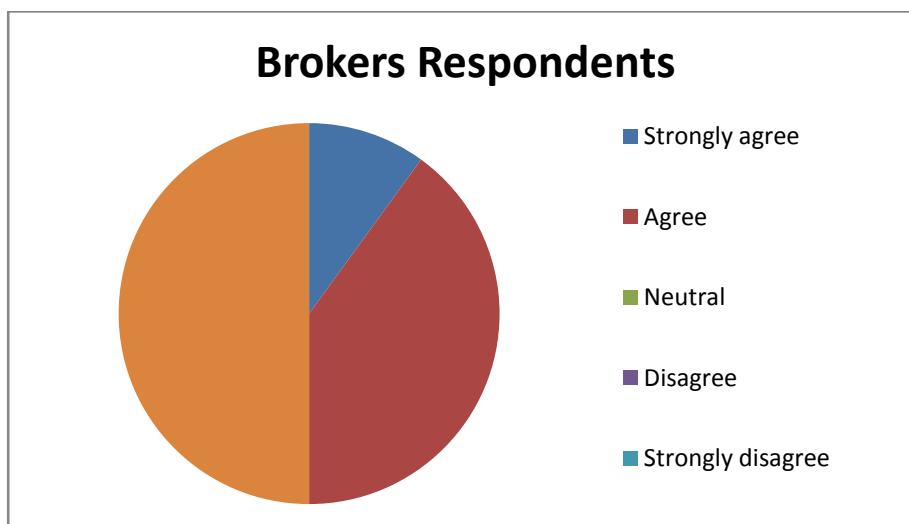
Most of the study and analysis is based on the secondary data but some information's are collected through primary data by taking personal interview and by distributing the questionnaire to concern person. For primary analysis, the respondents are divided in two category, brokers and investors. Many Securities Private Limited are listed in brokers' category like Kumari Securities Pvt. Ltd., Opal Securities Pvt. Ltd. And so on. Similarly, teachers, businessman, stock investors and so on are listed in investors' category. Out of 35 and 45 sample brokers and investors taken for questionnaire, only 20 and 30 responses are received. Questionnaires and list of the respondents' details are presented in Appendix – I and Appendix – III respectively. To complete the study questionnaire, personal interview and other sources are taken and the following are the results we found.

4.2.1 Nepalese firms are practicing Right Share in increasing ratio

Table: 4.9
Nepalese firm's practice of Right Share

Option	Brokers		Investors	
	Respondents	Percentage (%)	Respondents	Percentage (%)
Strongly agree	4	20	6	20
Agree	16	80	24	80
Neutral	0	0	0	0
Disagree	0	0	0	0
Strongly disagree	0	0	0	0
Total	20	100	30	100

Source: Opinion Survey



Out of 80 total respondents, 35 sample brokers and 45 investors are taken. Table 4.9 shows that out of 35 total sample brokers only 20 responses are received and out of them 4(20%) are strongly agree and 16(80%) are agree with the view that Nepalese firms are using right share to increase their capital. Similarly, out of 45 total investors only 30 responses are received and out of them 6(20%) are strongly agree and 24(80%) are agree with the view.

From the table 4.9, we concluded that the Nepalese firms are using right share instrument to increase their capita in increasing ratio because they do not have sufficient income to give bonus share to increase the required fund.

4.2.2 Existing Shareholders are getting enough information about Right Share announcement

Table: 4.10
Information about announcement of Right Share

Option	Brokers		Investors	
	Respondents	Percentage (%)	Respondents	Percentage (%)
Yes	10	50	9	30
No	10	50	21	70
I don't have idea	0	0	0	0
Total	20	100	30	100

Source: Opinion Survey

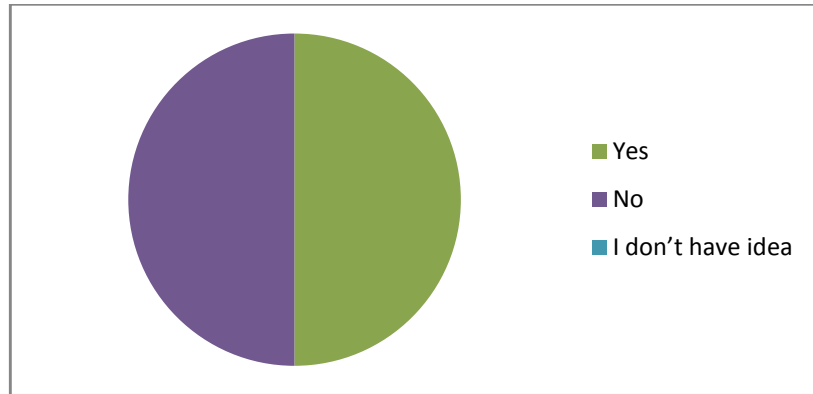


Table 4.10 reveals that out of 20 brokers, 10(50%) said that existing shareholders are not getting enough information about the announcement of right share and 10(50%) said that information are enough to existing shareholders. Likewise, out of 30 investors, 21(70%) said that they are not getting enough information but 9(30%) said that they are getting enough information.

Hence we concluded that majority of the shareholders are not getting enough information about the right share announcement. Therefore number of share subscribed is lower in most of the cases.

4.2.3 Existing shareholders calculate their wealth position after announcement of Right Share

Table: 4.11

Calculation of wealth position after Right Share announcement

Option	Brokers		Investors	
	Respondents	Percentage (%)	Respondents	Percentage (%)
All	-	-	3	10
Most of them	10	50	9	30
Few investor	10	50	18	60
None	-	-	-	-
Total	20	100	30	100

Source: Opinion Survey

From table 4.11, it is clear that out of 20 total brokers, 10(50%) brokers said that most of the existing shareholders calculate their wealth position after the announcement of the right share but 10(50%) said that only few existing shareholders calculate the wealth position. Likewise, out of 30 total investors, 18(60%) respondents said that only a few existing shareholders calculate their wealth position, 9(30%) said that most of them calculate the wealth position and 3(10%) said that all the existing shareholders calculate their wealth position after the announcement of right share.

Hence we concluded that only few existing shareholders calculate their wealth position after announcement of right share. Other doesn't calculate the wealth position and some don't know how to calculate and what is wealth position.

4.2.4 Effect of Right Share on the Market Price of Stock

Table: 4.12
Effect of Right Share on the Market Price of Stock

Option	Brokers		Investors	
	Respondents	Percentage (%)	Respondents	Percentage (%)
Would rise	12	60	12	40
Would fall	8	40	18	60
Remain constant	-	-	-	-
Don't know	-	-	-	-
Total	20	100	30	100

Source: Opinion Survey

From table 4.12, it is clear that out of 20 brokers, 12(60%) brokers said that price of the stock would rise and 8(40%) brokers said that it would fall. Likewise, out of 30 investors 12(40%) investors said that the price of stock would rise and 18(60%) investors said that it would fall.

Hence we concluded that price of the stock would rise from the date of announcement to the close date but it would fall then after.

4.2.5 Legal provisions about the Right Share in Nepal is satisfactory

Table: 4.13
Satisfaction with legal provision

Option	Brokers		Investors	
	Respondents	Percentage (%)	Respondents	Percentage (%)
Current provision is satisfactory	10	50	18	60
Should be amended	4	20	9	30
To some extent	-	-	-	-
Don't have idea	6	30	3	10
Total	31	100	19	100

Source: Opinion Survey

Table 4.13 shows that 50% brokers are satisfied with the current legal provision about right share, 20% said that it should be amended and 30% respondent out of 20 totals said that they don't have idea about the legal provision. Likewise, among 30 investors, 60% said that legal provision about right share is satisfactory, 30% said it should be amended and 10% said that they don't have idea about the legal provision.

Hence we concluded that legal provision is not the subject of concern of brokers and investors. It is satisfactory that there is no any problem to exercise right due to the legal provision in Nepal.

4.2.6 Opinion on current provision regarding legally transferable instrument called "Right"

Table: 4.14
Opinion on current provision regarding legally transferable instrument called "Right"

Option	Brokers		Investors	
	Respondents	Percentage (%)	Respondents	Percentage (%)
Current provision is satisfactory	4	20	6	20

Should be transferable	10	50	18	60
Should not be transferable	4	20	3	10
Don't know	2	10	3	10
Total	20	100	30	100

Source: Opinion Survey

From table 4.14, it is clear that out of 20 total brokers, 4(20%) brokers said that current provision is satisfactory, 10(50%) said that it should be transferable, 4(20%) said that it should not be transferable and 2(10%) said that they don't know. Likewise, among the 30 investors, 6(20%) said that current provision is satisfactory, 18(60%) said that it should be transferable, 3(10%) said that it should not be transferable and 3(10%) said that they don't know.

Hence, from the view of 20 brokers and 30 investors we conclude that the right is legally transferable instrument.

4.2.7 Rights Shares are not fully subscribed

Table: 4.15
Reasons for under subscription

Option	Brokers		Investors	
	Respondents	Percentage (%)	Respondents	Percentage (%)
Lack of knowledge about it	-	-	6	20
Inadequate legal provision	-	-	9	30
Past performance of organization	10	50	9	30
Lack of information about it to the shareholders	10	50	6	20
Total	20	100	30	100

Source: Opinion Survey

Table 4.15 reveals that 50% of the brokers said the subscription ratio depends upon the past performance of the organization and 30% of the investors are agreeing with this option. Similarly, 50% brokers and 20% investors do agree that there is lack of information about the right share to the shareholders. Likewise, 20% and 30% investors are agreed with the option lack of knowledge about it and inadequate legal provision respectively.

Hence we can say that past performance of the organization is the main reason to subscription ratio of the right share. Right share of good performing and high profit earning organization subscribes fully and other not.

4.2.8 Problems faced by Shareholders in the absent of Right Share instrument in Right Offering

Table: 4.16

Problems faced by Shareholders in the absent of Right Share instrument

Option	Brokers		Investors	
	Respondents	Percentage (%)	Respondents	Percentage (%)
Shareholder can't sell their right if they want	8	40	18	60
Bound to lose it if don't exercise their right	12	60	9	30
Wealth of shareholder remain unchanged	-	-	-	-
Any other	-	-	3	10
Total	20	100	30	100

Source: Opinion Survey

Table 4.16 reveals that out of 20 total brokers and 30 total investors, 8(40%) brokers and 18(60%) investors are agreeing with the option that existing shareholder can't sell their right if they want respectively because there is not any provision of selling their right. Shareholders must have to exercise their right; otherwise they lose their wealth position. Similarly, 12(60%) of brokers and 9(30%) of investors are bound to lose it if they do not exercise their right because the price of the stock will fall after the book closed date. Likewise, 3(10%) investors are agreed with the option 'Any other'.

Hence we concluded that problem of the existing shareholders were bound to lose and cannot sell their right if they want.

4.2.9 Negligence of small investors to attain the Annual General Meeting

Out of 20 total brokers and 30 total investors, 70% brokers and investors said that Nepalese small scale investor are neglecting to attend the annual general meeting (AGM) and 30% brokers and investors said that the investor are not neglecting to attend the AGM. From this, we concluded that small investors are neglecting to attend the AGM.

4.2.10 Individual Investor does not want to attend Annual General Meeting

50% respondent answered no because they don't get the information about the AGM and 50% respondent said that they cannot bear their expenses or there is not any provision of transportation or they are not getting any thing if they attend the AGM and expect they lose time and money.

From this analysis, we concluded that all the shareholder of any organization have right to get information about AGM and they have right to attend AGM. For the shareholder the board of director (BOD) must provide the expenses and transportation cost. They must motivate all stockholders to attend the annual general meeting.

4.2.11 Firms with high profit and good performance do not issue the Right Share

70% of the brokers and investors are agreed with the good performing organization earn high profit. They give bonus share if they need extra fund. 30% of investor and brokers agreed that good performing organization don't need extra capital.

From this analysis, we concluded that good performing organization earn their extra capital themselves. They give bonus share to their shareholders if they need extra capital to expand their program.

4.2.12 Major problems to practice the Right Share in Nepalese Securities Market

There are altogether 35 respondents to answer this question. They all have their own opinion about problems regarding to right share practice in Nepal. Some says narrow market; some says lack of proper laws and regulations. Similarly, some says insecurity and uncertain returns. Some says lack of proper knowledge, information and ideas to investors who are willing to invest in shares.

4.2.13 Actions to take by issuing company so that the subscription rate of Right Share is high

There are altogether 25 respondents who answered this question. There are different opinions about this question. Some respondents said that it is due to the lack of awareness to investors. So it is necessary to provide full information regarding the right share to the shareholders by issuing company which will make high subscription of right share in the future. Some said that low performance of the related company and transferability problem should be taken care in order to make the subscription rate of right share high. Similarly, some respondents said that it is all about issuing company how they promote their roles.

4.2.14 Any specific criteria for issuing Right Share

There are 20 respondents who give their opinion. Among them 30% give their opinion on option (a) i.e.; Yes. According to them, those corporations which have already issued shares to the public are allowed to issue right share provided the shares already issued and fully paid policy directives given by the regulatory body such as guideline of NRB also affects on issue of right share by the company. Finally company's information should correct. 70% respondents give their opinion on option (b) i. e.; No.

4.2.15 Practice of issuing Right Share in the absence of legally transferable of Right

There are altogether 20 respondents who give their opinion. According to them, right should be transferable and should be trading on secondary market. If this done, it will be the sound practice of rights, without legally transferable of rights it is not sound practice of rights offering.

4.3 Test of Hypothesis

Test of hypothesis consist the hypothesis setting and testing of the collected primary data. Following are the hypothesis testing of primary data.

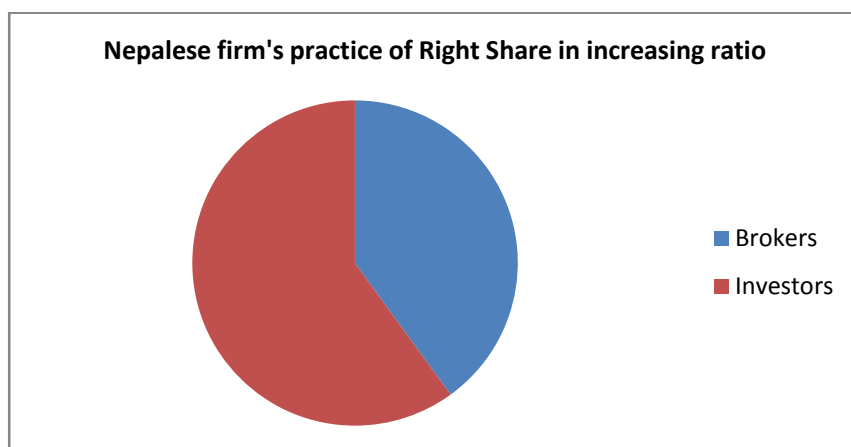
4.3.1 Hypothesis test on Nepalese firm's practice of Right Share in increasing ratio

In 50 random samples of respondents, it contains the following distribution which was noted on the basis of related field. This test is drawn to get findings whether the right share practice on Nepalese firm's are in increasing ratio or not.

Table: 4.17

Hypothesis test on Nepalese firm's practice of Right Share in increasing ratio

Options	Brokers	Investors	Total
Strongly agree	4	6	10
Agree	16	24	40
Total	20	30	50



Hypothesis setting:

Step 1: Null hypothesis (H_0): There is no significant difference between observed and expected frequency regarding practice of right share of Nepalese firms in increasing ratio.

Step 2: Alternative hypothesis (H_1): There is significant difference between observed and expected frequency regarding practice of right share of Nepalese firms in increasing ratio.

Step 3: Test of statistics

Calculation of expected frequencies

$$\text{Expected frequencies of } R_1C_1 = \frac{RT \mid CT}{N} \times \frac{\text{Row total} \mid \text{Column total}}{\text{Grand total}}$$

Similarly,

$$R_1C_1 = \frac{10 \mid 20}{50} = 4$$

$$R_1C_2 = \frac{10 \mid 30}{50} = 6$$

$$R_2C_1 = \frac{40 \mid 20}{50} = 16$$

$$R_2C_2 = \frac{40 \mid 30}{50} = 24$$

Observed frequency (O)	Expected frequency (E)	(O - E)	(O - E) ²	$\frac{OZE^2}{N}$
4	4	0	0	0
6	6	0	0	0
16	16	0	0	0
24	24	0	0	0

χ^2 calculated = 0

Where,

O = Observed frequency

$$E = \text{Expected frequency} = \frac{RT \mid CT}{N} \times \frac{\text{Row total} \mid \text{Column total}}{\text{Grand total}}$$

RT = Row total

CT = Column total

N = Total sample size = Grand total

Under H_0 , the χ^2 – statistics is

$$\begin{aligned} \chi^2 \text{ Calculated} &= \frac{(OZE)^2}{E} \\ &= 0 \end{aligned}$$

Step 4: Degree of Freedom (d.f.)

$$\begin{aligned} \text{Degree of Freedom (d.f.)} &= (r-1) (c-1) \\ &= (2-1) (2-1) \end{aligned}$$

$$= 1$$

Step 5: Level of significance (α) = 5%

Step 6: Critical value: The tabulated value of χ^2 (i.e. χ^2 tab.) at 5% level of significance for 1 d.f. is 3.841.

Step 7: Decision

Since χ^2 calculated $<$ χ^2 tabulated at 5% level of significance for 1 d.f. So, null hypothesis is accepted. Hence, we can conclude that the Nepalese firm's practice of right share in ratio.

4.3.2 Hypothesis test on Shareholders wealth position after Right Share announcement

In 50 random samples of respondents, it contains the following distribution which was noted on the basis of related field. This test is drawn to get conclusion about shareholders wealth position after right share announcement.

Table: 4.18

Hypothesis test on Shareholders wealth position after Right Share announcement

Options	Brokers	Investors	Total
All	0	3	3
Most of them	10	9	19
Few investor	10	18	28
Total	20	30	50

Hypothesis setting:

Step 1: Null hypothesis (H_0): There is no significant difference between observed and expected opinion regarding shareholders wealth position after right share announcement.

Step 2: Alternative hypothesis (H_1): There is significant difference between observed and expected opinion regarding shareholders wealth position after right share announcement.

Step 3: Test of statistics

Calculation of expected frequencies

$$\text{Expected frequencies of } R_1C_1 = \frac{RT}{N} \times \frac{CT}{\text{Grand total}}$$

Similarly,

$$R_1C_1 = 1.2, R_1C_2 = 1.8$$

$$R_2C_1 = 7.6, R_2C_2 = 11.4$$

$$R_3C_1 = 11.2, R_3C_2 = 16.8$$

Observed frequency (O)	Expected frequency (E)	(O - E)	(O - E) ²	$\frac{OZE^2}{N}$
0	1.2	-1.2	1.44	1.2
3	1.8	1.2	1.44	0.80
10	7.6	2.4	5.76	0.76
9	11.4	-2.4	5.76	0.51
10	11.2	-1.2	1.44	0.13
8	16.8	1.2	1.44	0.09
Total				3.49

Step 4: Degree of Freedom (d.f.)

$$\begin{aligned} \text{Degree of Freedom (d.f.)} &= (r-1)(c-1) \\ &= (3-1)(2-1) \\ &= 2 \end{aligned}$$

Step 5: Level of significance (α) = 5%

Step 6: Critical value: The tabulated value of χ^2 (i.e. $\chi^2_{\text{tab.}}$) at 5% level of significance for 2 d.f. is 5.991.

Step 7: Decision

Since $\chi^2_{\text{calculated}} < \chi^2_{\text{tabulated}}$ at 5% level of significance for 2 d.f. So, null hypothesis is accepted. Hence, we can conclude that there is no significant difference between observed and expected opinion regarding shareholders wealth position after right share announcement.

4.3.3 Hypothesis test on effect of Right Share on market price of stock

This test is drawn to get finding on right shares impact on stock price movement.

Table: 4.19

Hypothesis test on effect of Right Share on market price of stock

Options	Brokers	Investors	Total
Would rise	12	12	24
Would fall	8	18	26
Total	20	30	50

Hypothesis setting:

Step 1: Null hypothesis (H₀): There is no significant difference between observed and expected frequency regarding right share's impact on stock price movement.

Step 2: Alternative hypothesis (H₁): There is significant difference between observed and expected frequency regarding right share's impact on stock price movement.

Step 3: Test of statistics

Calculation of expected frequencies

$$\text{Expected frequencies of } R_1C_1 = \frac{RT}{N} \times \frac{CT}{\text{Grand total}}$$

Similarly,

$$R_1C_1 = 9.6$$

$$R_1C_2 = 14.4$$

$$R_2C_1 = 10.4$$

$$R_2C_2 = 15.6$$

Observed frequency (O)	Expected frequency (E)	(O - E)	(O - E)²	$\frac{OZE}{N}$
12	9.6	2.4	5.76	0.6
12	14.4	-2.4	5.76	0.4
8	10.4	-2.4	5.76	0.6
18	15.6	2.4	5.76	0.4
Total				2

Step 4: Degree of Freedom (d.f.)

$$\begin{aligned} \text{Degree of Freedom (d.f.)} &= (r-1) (c-1) \\ &= (2-1) (2-1) \\ &= 1 \end{aligned}$$

Step 5: Level of significance (α) = 5%

Step 6: Critical value: The tabulated value of χ^2 (i.e. χ^2 tab.) at 5% level of significance for 1 d.f. is 3.841.

Step 7: Decision

Since χ^2 calculated $<$ χ^2 tabulated at 5% level of significance for 1 d.f. So, null hypothesis is accepted. Hence, we can conclude that there is no significance difference between observed and expected frequency regarding right share's impact on stock price movement.

4.3.4 Hypothesis test regarding satisfaction of legal provision of Right Share in Nepal

This test display the satisfaction of legal provision about the right share in Nepal.

Table: 4.20

Hypothesis test regarding satisfaction of legal provision of Right Share in Nepal

Options	Brokers	Investors	Total
Current provision is satisfactory	10	18	28
Should be amend	4	9	13
Other	6	3	9
Total	20	30	50

Hypothesis setting:

Step 1: Null hypothesis (H_0): There is no significant difference between observed and expected frequency regarding satisfaction of legal provision about the right share in Nepal.

Step 2: Alternative hypothesis (H_1): There is significance different between observed and expected frequency regarding satisfaction of legal provision about the right share in Nepal.

Step 3: Test of statistics

Calculation of expected frequencies

$$\text{Expected frequencies of } R_1C_1 = \frac{RT}{N} \times \frac{CT}{\text{Grand total}}$$

Similarly,

$$R1C1 = 11.2, R1C2 = 16.8$$

$$R2C1 = 5.2, R2C2 = 7.8$$

$$R3C1 = 3.6, R3C2 = 5.4$$

Observed frequency (O)	Expected frequency (E)	(O - E)	(O - E) ²	$\frac{OZE^2}{N}$
10	11.2	-1.2	1.44	0.13
18	16.8	1.25	1.44	0.09
4	5.2	1.2	1.44	0.28
9	7.8	1.2	1.44	0.18
6	3.6	2.4	5.76	1.6
3	5.4	-2.4	5.76	1.07
t² calc.				3.35

Step 4: Degree of Freedom (d.f.)

$$\begin{aligned} \text{Degree of Freedom (d.f.)} &= (r-1) (c-1) \\ &= (3-1) (2-1) \\ &= 2 \end{aligned}$$

Step 5: Level of significance (α) = 5%

Step 6: Critical value: The tabulated value of χ^2 (i.e. χ^2 tab.) at 5% level of significance for 2 d.f. is 5.991.

Step 7: Decision

Since χ^2 calculated < χ^2 tabulated at 5% level of significance for 2 d.f. So, null hypothesis is accepted. Hence, we can conclude that there is no significance difference between observed and expected frequency regarding satisfaction of legal provision about the right share in Nepal.

4.3.5 Hypothesis test regarding Right Share is legally transferable instrument

This test display the right share is legally transferable instrument.

Table: 4.21

Hypothesis test regarding Right Share is legally transferable instrument

Options	Brokers	Investors	Total
Current provision is satisfactory	4	6	10
Should be transferable	10	18	28
Should not be transferable	4	3	7
Don't know	2	3	5
Total	20	30	50

Hypothesis setting:

Step 1: Null hypothesis (H_0): There is no significant difference between observed and expected frequency regarding right is legally transferable instrument.

Step 2: Alternative hypothesis (H_1): There is significance different between observed and expected frequency regarding right is legally transferable instrument.

Step 3: Test of statistics

Calculation of expected frequencies

$$\text{Expected frequencies of } R_1C_1 = \frac{RT}{N} \times \frac{CT}{Grand\ total}$$

Similarly,

$$R1C1 = 4, R1C2 = 6$$

$$R2C1 = 11.2, R2C2 = 16.8$$

$$R3C1 = 2.8, R3C2 = 4.2$$

$$R4C1 = 2, R4C2 = 3$$

Observed frequency (O)	Expected frequency (E)	(O - E)	(O - E)²	$\frac{OZE^2}{N}$
4	4	0	0	0
6	6	0	0	0
10	11.2	-1.2	1.44	0.13
18	16.8	1.2	1.44	0.09
4	2.8	1.2	1.44	0.51
3	4.2	-1.2	1.44	0.34
2	2	0	0	0
3	3	0	0	0
t² calc.				1.07

Step 4: Degree of Freedom (d.f.)

$$\begin{aligned}
 \text{Degree of Freedom (d.f.)} &= (r-1)(c-1) \\
 &= (4-1)(2-1) \\
 &= 3
 \end{aligned}$$

Step 5: Level of significance (α) = 5%

Step 6: Critical value: The tabulated value of χ^2 (i.e. χ^2 tab.) at 5% level of significance for 3 d.f. is 7.815

Step 7: Decision

Since χ^2 calculated < χ^2 tabulated at 5% level of significance for 3 d.f. So, null hypothesis is accepted. Hence, we can conclude that there is no significance difference between observed and expected frequency regarding right is legally transferable instrument.

4.3.6 Hypothesis test regarding Right Shares are under subscribed

This test is drawn to get finding on whether right shares are under subscribed or not.

Table: 4.22

Hypothesis test regarding Right Shares are under subscribed

Options	Brokers	Investors	Total
Lack of knowledge	0	6	6
Inadequate legal provision	0	9	9
Past performance	10	9	19
Lack of information	10	6	16
Total	20	30	50

Hypothesis setting:

Step 1: Null hypothesis (H_0): There is no significant difference between observed and expected frequency regarding right shares are under subscribed.

Step 2: Alternative hypothesis (H_1): There is significance different between observed and expected frequency regarding right share are not under subscribed.

Step 3: Test of statistics

Calculation of expected frequencies

$$\text{Expected frequencies of } R_1C_1 = \frac{RT}{N} \times \frac{CT}{\text{Grand total}}$$

Similarly,

$$R1C1 = 2.4, R1C2 = 3.6$$

$$R2C1 = 3.6, R2C2 = 5.4$$

$$R3C1 = 7.6, R3C2 = 11.4$$

$$R4C1 = 6.4, R4C2 = 9.6$$

Observed frequency (O)	Expected frequency (E)	(O - E)	(O - E) ²	$\frac{OZE}{N}$
0	2.4	-2.4	5.76	2.4
6	3.6	2.4	5.76	1.6
0	3.6	-3.6	12.96	3.6
9	5.4	3.6	12.96	2.4
10	7.6	2.4	5.76	0.76
9	11.4	-2.4	5.76	0.51
10	6.4	3.6	12.96	2.03
6	9.6	-3.6	12.96	1.35
t² calc.				14.65

Step 4: Degree of Freedom (d.f.)

$$\begin{aligned}
 \text{Degree of Freedom (d.f.)} &= (r-1)(c-1) \\
 &= (4-1)(2-1) \\
 &= 3
 \end{aligned}$$

Step 5: Level of significance (α) = 5%

Step 6: Critical value: The tabulated value of χ^2 (i.e. χ^2 tab.) at 5% level of significance for 3 d.f. is 7.815

Step 7: Decision

Since χ^2 calculated $>$ χ^2 tabulated at 5% level of significance for 3 d.f. So, null hypothesis is rejected. Hence, we can conclude that there is significance difference between observed and expected frequency regarding right share are under subscribed.

4.3.7 Hypothesis test regarding problems faced by Shareholders with announcement of Right Share

This test is drawn to obtain finding on problems faced by shareholders with announcement of right share in the absent of rights instrument.

Table: 4.23

Hypothesis test regarding problems faced by Shareholders with announcement of Right Share

Option	Broker	Investor	Total
Shareholder can't sell right	8	18	26
Bound to lose if don't excise their right	12	9	21
Any other	0	3	3
Total	20	30	50

Hypothesis setting:

Step 1: Null hypothesis (H₀): There is no significant difference between observed and expected frequency regarding problem of shareholders with announcement of right share.

Step 2: Alternative hypothesis (H₁): There is significance different between observed and expected frequency regarding problem of shareholders with announcement of right share.

Step 3: Test of statistics

Calculation of expected frequencies

$$\text{Expected frequencies of } R_1C_1 = \frac{RT}{N} \times \frac{CT}{\text{Grand total}}$$

Similarly,

$$R1C1 = 10.4, R1C2 = 15.6$$

$$R2C1 = 8.4, R2C2 = 12.6$$

$$R3C1 = 1.2, R3C2 = 1.8$$

Observed frequency (O)	Expected frequency (E)	(O - E)	(O - E) ²	$\frac{OZE}{N}$
8	10.4	-2.4	5.76	0.55
18	15.6	2.4	5.76	0.37
12	8.4	3.6	12.96	1.54
9	12.6	-3.6	12.96	1.03
0	1.2	-1.2	1.44	1.20
3	1.8	1.2	1.44	0.80
t² calc.				5.49

Step 4: Degree of Freedom (d.f.)

$$\begin{aligned} \text{Degree of Freedom (d.f.)} &= (r-1)(c-1) \\ &= (3-1)(2-1) \\ &= 2 \end{aligned}$$

Step 5: Level of significance (α) = 5%

Step 6: Critical value: The tabulated value of χ^2 (i.e. χ^2 tab.) at 5% level of significance for 2 d.f. is 5.991.

Step 7: Decision

Since χ^2 calculated < χ^2 tabulated at 5% level of significance for 3 d.f. So, null hypothesis is accepted. Hence, we can conclude that there is significance no difference between observed and expected frequency regarding problem of shareholders with announcement of right share.

4.4 Major Findings of the Study

This section contains major findings from the analysis of secondary data and primary data.

-) The contribution of right share is increasing gradually due to the directive of NRB i.e., the paid up capital of all commercial banks must be Rs. 2 billion.
-) Right shares hold 69.71% of total public flotation which means right share is the prime source of total public issue.
-) NCML is the largest and NSM is the smallest right share issuer.

-) The subscription rate of right share is not satisfactory. The major causes of under subscription of right share are low advertisement made by the issue manager, lack of the investors' awareness and the low performance of the related company.
-) Generally market price of right share decreases after the issue of right share.
-) In majority of the cases, MPS after right share decrease. But some of the banks are not found to be following the rule. MPS of GBNL remain the same after the right share issue showing no effects of right share issue. MPS of Bank of Asia Nepal Limited increases after right share issue.
-) The theoretical and actual market price should be equal or actual market price should be slightly higher than theoretical price due to signaling effect but Machhapuchchhre Bank is not found to be following the rule. The actual market price of MBL after right share is lower than their theoretical value. Remaining 4 bank follows the rule.
-) The result of run test is positive i.e., 1.22. It means that market price per share before 1 month of right share issue and after right share issue is found to follow randomness in price fluctuation.
-) Majority of shareholders are not getting enough information about the right share announcement.
-) Right share of good performing and high profit earning organization subscribes fully.
-) Right appear as an obligation imposed on shareholders, otherwise he would suffer a loss in the form of decline in price of his holding.
-) Majority of the respondents agreed that investors get reliable and adequate information from the company and issue manager regarding the right share.
-) Investors who don't know about the transferability feature, they don't care about it and when they are made understood about the necessity and the procedures about it, they felt that the transferability feature is essential.
-) Issuing company and the shareholders are equally benefited from the right share issue.
-) Nepalese corporate firms prefer right share instead of other instrument like bonds, preference shares because of easy process to collect the fund and low floatation cost.

-) Regarding procedural aspects of right offering, all the other procedures are seem as initial public offering. Besides, rights issuing company (issue manager) should be mailed a document called a 'right' to the existing shareholders.
-) Promotional role-played by the issuing company and issue manager regarding to the rights offering is not sufficient.
-) According to the hypothesis test, there is no significant difference between the actual market and theoretical price after the book close date of right share which indicates that they are correctly priced in the market.
-) Company act has not mentioned about necessity of legally transferable right instruments called right, which must be mailed to the stockholders for each stock held before the rights offering.
-) Company act has silent regarding the issue of rights offering and subsequent allotment of the rights issue, most of the investors/shareholders also unaware about it.

CHAPTER -FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepalese share market is in developing stage in comparison to other neighboring countries. It has practiced only few financial instruments such as equity share, right share, debenture, preference share, mutual fund etc. This study is concentrate on the various aspects of right offering with special references to the selected listed companies of Nepal. Right share are issued to the existing shareholders to increase capital in certain proportion. The history of rights offering is not so long in Nepalese context. Nepal Finance and Saving Company was the first company who issued right shares of 2 million in Nepalese market in fiscal year 1995/96. Since then, Nepalese corporate firms started to issue rights share. There are altogether 219 companies listed in NEPSE till the fiscal year 2068/69. Almost all of them were finance and banking companies who issued rights share. The right share practice is being popular day by day. The trend of right share issue is increasing. The major portion of total public issue from the fiscal year 2059/60 to the fiscal year 2068/69 is captured by right share which is 69.71% where as the contribution of Ordinary share is 19.09% and Debenture is 10.12%. The rest portion is captured by preference share that is 1.08% only. There are nine issue managers operating in security market in Nepal. All of them except United Finance Limited had issued different kind of instrument including right shares. NCML is the largest right share issuer till 2068/69 which had undertaken 55 right issues of total Rs.11809.83 millions and contributed 34.54% in total right issue in Nepal. The subscription rate of right share is not satisfactory. The major causes of under subscription of right share are low advertisement made by the issue manager and lack of investors' awareness. The main objective of the study is to analyze the right share practice and its effect on market price of share before and after the book close date. This study also focuses on the existing practices of right issue and evaluates the adequacy of existing law on the matter of right share.

Research methodologies are strong in this study. Descriptive as well as analytical research design has been adopted to satisfy the objectives of the study. For simplicity and unbiased result, five sample firms are taken out of 33 rights offering firms in fiscal year 2068/69

which are judgmental. Mostly, right shares are issued by financial institutions. Primary as well as secondary data have been taken as per requirement. Primary sources included in the study are the responses of the questionnaires, personal interview with concerned person such as company secretary, experts, brokers, investors, issue managers, staffs of NEPSE etc. Secondary sources of data included in this study are the annual reports of SEBON and sample firms, various publications of NEPSE, statistical books of Nepal, published and unpublished documents, previous studies, dissertation, articles and foreign related journals as well. Newspaper, magazine, books and other reports such as Arthic Abhiyan, Economic Post, Kantipur, Gorkhapatra and New Business Age etc. are useful sources of secondary data. Some other important information has been gathered from internet. To make the study valuable, various tools have been used as per requirements.

Observing the share price movement of five sample commercial banks, it is found that the announcement of right share greatly affect the share price. After the announcement of the right issue, the share price increases till the book close date and after the book close date, the share price decreases as per right share proportion. Generally, the right share itself does not increase the value or the wealth of the shareholders. It is found that out of five sample commercial banks, MPS of GBNL remain the same after the right share issue showing no effects of right share issue. Similarly, MPS of BOAL increase after right share issue. Likewise, MBL has theoretical price higher than actual market price after book close date which is not following the rule of being theoretical and actual market price be equal or actual market price should be slightly higher than theoretical price due to signaling effect. According to the hypothesis test, there is no significant difference between the actual market and theoretical price after the book close date of right share which indicates that they are correctly priced in the market.

Many facts have been disclosed after primary data analysis and from personal interview. Majority of the investors are well aware about the phenomena of right share and subsequent consequences involved there in. Investors who don't know about the transferability feature, they don't care about it and when they are made understand about the necessity and the procedures about it, they felt that the transferability feature is the must. Nepalese corporate firms prefer right share instead of other instrument like bonds, preference shares because of easy process to collect the fund and low floatation cost. The major causes of under subscription of right share in Nepal are the low performance of the related companies and the

insufficient knowledge of the investors regarding the shares and the right shares. The main objectives of issuing right share are to increase share capital and as per requirement of NRB directives. There is no transferability feature during the fiscal year 2064/65. But now, SEBON had enacted the Securities Registration and Issue Regulation – 2065 and clearly mentioned about the transferability feature. Currently, some companies include the transferability feature while issuing the right share but some companies lack the feature. Most of the respondents said that there must be the transferability feature in right issue. Most of the investors follow the rumor and invest in the share market. As a result, they are losing the money at present. It is found from the informal interviews with many individual investors that most of them are illiterate of share market. They just make an investment of millions of rupees with hearsay and others recommendations. It is also found that the new investors who don't have much knowledge about share market also have the addiction of investing in share market.

5.2 Conclusion

There is no long history of right share offering in Nepal. There is no doubt that a lot of things are to be worked out to make the rights offering as effective instrument of raising fund in Nepal. Despite, the right share practice is being popular day by day and the trend of right share issue is increasing. In Nepal, commercial banks and finance companies have found issued rights shares in increasing trend to increase the total capital fund, as required by policy directives issued by NRB. The subscription rate of right share is not satisfactory. The major causes of under subscription of right share are low advertisement made by the issue manager and lack of investors' awareness. According to the hypothesis test, there is no significant difference between the actual and theoretical price after the book close date of right share. Capital market is a vital importance to develop in the economy the country, an efficient and effective stock market. The growth of institutional, growth of primary and secondary market and increase in listed companies, i.e. the capital market in Nepal is in developing process.

There are a lot of problems about the right share practice in Nepalese capital market. The major problem is the insufficient knowledge of the investors regarding the shares and the right shares. Many investors don't know the phenomena of right share issue and subsequent consequences. They just make an investment of millions of rupees with hearsay and others'

recommendations. Some investors only invest in those shares which are giving the right share in near future. But they don't have the idea and phenomenon of the right share. Even they don't have an idea of procedure of right share distribution i.e. the announcement of right share, pass by the AGM, permission of the Security Board, book close date, right share issue, right share allotment, share certificate issue, listing of the right share, verify of the shares and at last selling procedures of the shares in the share brokerage office. There is a long procedure of right share distribution. Again, after book close of the right share, the share price is declined by the value of right. Actually, the shareholders positions as well as the shareholders equity are not affected by the right share distribution. Insider trading is another major problem. The company having negative net worth are also issuing the right and collecting money from the shareholders. Board members and directors are announcing the portion of the right issue they are planning to issue which might affect the market price greatly. To avoid these problems, all related bodies like NEPSE, SEBON, NRB, Share Brokers, Issue managers, Share registrars, teachers and other private consultancies should mutually take actions so that the investors are aware about the share market and right share.

5.3 Recommendations

The recommendations are made as per the analysis of primary and secondary data and relating information about Nepalese corporation's rights issue. It is important that changes are made so as to make rights issue more easy, efficient and effective. Following are some corrective actions recommended.

-) Infrastructure like good communication, banking facilities and postal services should be developed to encourage investors.
-) The main issue is to make aware the investors about the share price movement and right share mechanism. NEPSE, SEBON, NRB, share brokers, issue managers, share registrar, teachers and other private consultancies should mutually take actions so that the investors are well aware about the share market and right share as well.
-) Making aware to the investors regarding misconception about right share and other influential factors. The awareness program should be held for general investors via seminars, training, and workshops.
-) In order to attract the investments the issue prospects should provide some incentives for rights offering.

-) The governing body should inspect about the insider trading during the right share announcement.
-) To make high subscription rate of right share, the right issuing companies should have good performance in the market. All the shareholders must be well informed about the right share by TV, newspaper, mailing, internet etc. They should make and apply easily transferability features in right share.
-) Company should play promotional role for the full subscription of rights share because there exist large number of rights not exercise by the existing shareholders. Thus, misconception and rumors about rights share to lead them to irrational decision should be considered by the concern authorities.
-) There should be a separate investment protection act so that the investors can maintain their confidence over their investment and can feel secured.
-) Those rights, which didn't exercise by the existing shareholders, exercised by the employee of the respective company is not good practice. Therefore, remaining shareholders give option to buy those unexercised rights, if remaining shareholders don't exercise it. Those rights should be sold in the market.
-) Existing acts, laws and regulations should be reviewed; moreover an evolution should be made regarding their effective on market promotion. Still a right issue guideline does not come yet. Thus, it must come soon which is the base and key to approve the right share issue.
-) Regulatory offices, issues managers, issuing company and government should jointly organize awareness program about stock. Especially in the rights share issues because more public are unaware about this.
-) Political stability also plays very important role in this sector. So government should make effort to maintain stability.
-) In order to make the capital market more efficient, market participants and academic institutions should jointly promote and undertake more research and market analysis activities.
-) Strict rules and regulations must be made to discourage board of directors and CEO to announce the rights share to public before the board meetings.
-) The right must be made detachable to original one and then the right holder can easily transfer or sell the rights in the market taking benefits without exercising the rights.

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www.nrb.org.np	(Logged in Date: -	December, 2012)
www.reekshares.com	(Logged in Date: -	December, 2012)
www.sharemarketnepal.com	(Logged in Date: -	December, 2012)
www.stockmarketguide.org	(Logged in Date: -	December, 2012)
www.nepalstock.com	(Logged in Date: -	November, 2012)
www.sebon.gov.np	(Logged in Date: -	November, 2012)
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www.sunrisebank.com.np	(Logged in Date: -	October, 2012)
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www.gbnl.com.np	(Logged in Date: -	September, 2012)
www.globalbanknepal.com	(Logged in Date: -	September, 2012)

Appendix – I

RESEARCH QUESTIONNAIRE

Dear Respondent,

As a part of partial fulfillment of Master of Business Studies (M.B.S.), I am in course of Research on “**RIGHT SHARE PRACTICE AND ITS IMPACT ON SHARE PRICE IN NEPALESE COMMERCIAL BANKS**”. This questionnaire has been developed and presented towards you as a part of the study. I humbly request you to fill it up at the best of your knowledge. Your kind cooperation in this regard will be great value for me.

The data and information you supplied would be used only for the academic purpose and would be maintained confidential.

I shall be highly obliged for prompt responses as far as possible.

Thank you.

Ram Prasad Sapkota

Researcher

Master of Business Studies

Shankar Dev Campus

Background of the Respondent

Name: -

Address: -

Occupation: -

Age: -.....

Gender: -

Date: -

No. of Sample Respondent: -

Group A

Instruction: Please tick [] in an appropriate alternative.

1. Do you think that Nepalese firms are practicing share in increasing ratio?
(a) Strongly agree (b) Agree (c) Neutral
(d) Disagree (e) Strongly disagree
2. Do you think existing shareholders are getting enough information about right share announcement?
(a) Yes (b) No (c) I don't have idea
3. Do you think that all the existing shareholders calculate their wealth position after announcement of right share?
(a) All (b) Most of them (c) Few Investors (d) None
4. What do you think about the effect of the right share on the market price of the stock?
(a) Would rise (b) Would fall (c) Remain constant (d) Don't know
5. Are legal provisions about the right share in Nepal is Satisfactory?
(a) Current provision is satisfactory (b) Should be amend
(c) To some extend (d) Don't have idea.
6. Your opinion on current provision regarding legally transferable instrument called "Right"?
(a) Current provision is satisfactory.
(b) Should be transferable.
(c) Should not be transferable.
(d) Don't know.
7. Right are not being fully subscribed because
(a) Investor lack of knowledge about it.
(b) Inadequate legal provision.
(c) Past performance of organization.
(d) Lack of information about it to the shareholders.
8. What sorts of the problem does the shareholders face if the right share instrument is absent in the right offering?
(a) Existing Shareholders cannot sell their right if they want.

- (b) They are bound to lose if they do not exercise their right.
 - (c) Total wealth of existing shareholder remains unchanged.
 - (d) Any other.
9. Do you agree that Nepalese small investors are neglecting to attend the annual General meeting (AGM)?
- (a) Yes (b) No
10. Why individual investor does not want to attend AGM?
- (a) They are minorities.
 - (a) They do not get information.
 - (c) They cannot bear their expenses
 - (d) Board of directors doesn't want them to participate.

Group B

Instruction: Please put your views in open – ended Questions.

1. Why do you think firms with high profit and good performance do not issue the right shares?
-
-
-
-
2. In your opinion, what are the major problems to practice the right share in Nepalese securities market?
-
-
-
-

3. In your opinion, what actions the issuing company should take so that the subscription rate of right share is high?

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

4. Are there any specific criteria for issuing "right share"?

(a) Yes (b) No

If yes, would you please mention them?

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

5. Is it a sound practice of issuing right share in the absence of legally transferable right instrument that can be sold or purchased separately?

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

6. Any experience about right offering that you want to share with us? Please

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

Appendix - II

Right share issuing Commercial Banks up to FY 2068/69

S.No.	Companies Name	Stock Symbol	Listed Shares	Paid up Value	Total Paid up Value
1	Nabil Bank Ltd.	NABIL	20,297,694	100	2,029,769,400
2	Nepal Investment Bank Ltd.	NIB	30,129,242	100	3,012,924,200
3	Standard Chartered Bank Ltd.	SCB	16,101,680	100	1,610,168,000
4	Himalayan Bank Ltd.	HBL	24,000,000	100	2,400,000,000
5	Nepal SBI Bank Limited	SBI	20,922,107	100	2,092,210,700
6	Nepal Bangladesh Bank Ltd.	NBB	18,603,890	100	1,860,389,000
7	Everest Bank Ltd	EBL	12,316,347	100	1,231,634,700
8	Bank of Kathmandu	BOK	16,041,873	100	1,604,187,300
9	Nepal Industrial And Co.Bank	NICB	13,115,520	100	1,311,552,000
10	Machhachapuchhre Bank Ltd	MBL	16,271,965	100	1,627,196,500
11	Laxmi Bank Limited	LBL	16,940,811	100	1,694,081,100
12	Kumari Bank Ltd	KBL	16,029,962	100	1,602,996,200
13	Lumbini Bank Ltd.	LUBL	14,300,000	100	1,430,000,000
14	Nepal Credit And Com. Bank	NCCB	13,978,200	100	1,397,820,000
15	Siddhartha Bank Limited	SBL	16,192,443	100	1,619,244,300
16	NMB Bank Ltd.	NMB	20,000,000	100	2,000,000,000
17	Bank of Asia Nepal Limited	BOAN	20,000,000	100	2,000,000,000
18	Citizens Bank International Limited	CZBIL	21,018,400	100	2,101,840,000
19	KIST Bank Limited	KIST	20,000,000	100	2,000,000,000
20	Grand Bank Nepal Ltd.	GRAND	20,000,000	100	2,000,000,000
21	Sanima Bank Ltd.	SANIMA	20,154,628	100	2,015,462,800
22	Global IME Bank Limited	GIBL	16,014,517	100	1,601,451,700
23	Prime Commercial Bank Limited	PCBL	22,457,460	100	2,245,746,000
24	Sunrise Bank Limited	SRBL	20,150,000	100	2,015,000,000
25	Agricultural Development Bank Ltd	ADBL	30,375,000	100	3,037,500,000
Total			475,411,739	2,500	47,541,173,900

Source: www.sebon.gov.np

Appendix - III

List of the respondents for the questionnaire

S.N.	Organization	Sample No.	Response No.
A.	Brokers		
1	Kumari Securities Pvt. Ltd.	4	2
2	Sweta Securities Pvt. Ltd.	3	2
3	Opal Securities P. Ltd.	3	1
4	Sagarmatha Securities P. Ltd.	5	3
5	Annapurna Securities service Pvt. Ltd.	3	2
6	Arun Securities Pvt. Ltd	3	2
7	Y.F. Securities Pvt. Ltd.	4	3
8	Agrawal Securities Pvt. Ltd.	4	2
9	J.F. Securities Pvt. Ltd	3	1
10	Ashutosh Brokerage and Securities Pvt. Limited	3	2
	Sub total	35	20
B.	Investors		
1	Teacher	7	4
2	Students	8	5
3	Businessman	8	5
4	Stock investor	9	7
5	Share market player	7	5
6	Service (NSM and Finance Ltd.)	6	4
	Sub total	45	30
	Total	80	50

Appendix – IV

Theoretical Value of Stock after Right Share Issue

$$\frac{P_0 + N \Gamma P_s}{1 \Gamma N}$$

Pre-right issue stock price = P₀

Subscription price = P_s

No. of rights required to purchase one new share = N

S.N.	Name of the company	P ₀	P _s	Ratio	N	P _e
1	Global Bank Ltd.	320	100	2:1	2	246.7 } 247
2	Sunrise Bank Ltd.	235	100	1:1	1	167.5 } 168
3	Bank of Asia Nepal Ltd.	272	100	2:1	2	214.7 } 215
4	DCBL	260	100	2:1	2	207
5	MBL	415	100	10:3	3.33	342