

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Right share is an issue of securities to the existing shareholders with the right resting on the investor either to accept or reject the offer. A corporation/ company usually offers a rights issue to the existing shareholders 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 shares held as on date D.

Right, also known as subscription warrants, is issued to give existing shareholders their preemptive right to subscribe to a new issue of common stock before the general public is given an opportunity where each share of stock receives one right. A stated number of rights plus cash equal to a specified subscription price are required in order to obtain one new share. The sale of the new stock is ensured by setting the subscription price below the stock's market price at the time the rights are issued. New subscribers do not get a bargain, however; they must pay old stockholders for the required number of right, which becomes valuable as a result.

After the securities are issued, either by public offering or by right offering, they are traded on the secondary market. This offers an opportunity to investors to invest in the long term ventures, while market also enables them to convert their securities into liquid cash before the maturity of the project. In addition, they can invest their current income against future income thereby achieves their time performance of consumption. The liquid market also promotes primary issuance of shares, because investors' participate in the share market for they can get back the fund easily. The primary market is

positively and highly elastic in the stock prices and the liquidity in the secondary market. According to semi-strong form of efficiency all the publicly available information have a great influence on the market prices. This paper is mainly concerned in testing the semi strong form of market efficiency with respect to the announcement of right issues. In addition, this paper attempts to test the behavior of share prices after right offering. This study also concerns about current practices of right offering, popularity and perception of Nepalese investors about right offering.

An efficient and effective capital market is importance. 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 takes place. Capital market is such a powerful marketing which gives opportunity to the investors to invest their savings in ordinary share, debenture and government securities. For fast industrial growth, capital market plays an important role. Recently in Nepal, right share is one of the key instruments to raise capital from capital market. It can be easily notice an increasing trend of issuing right share, a type of equity share issued by a company to the existing shareholders.

The present study focuses on the impact of right shares on the market price of the listed companies. Thus, this study will be most germane to the investors for attaining crucial information, which may be helpful for astute investors. Besides them, the study will be also beneficial for the market experts to remain well familiar with the market trend, and thus be important for prediction. In addition, the study will be useful to the personnel of SEBON for amending rules and regulations that will pragmatically befit the stock market of Nepal. Further, the study will be significant for the brokers and the listed companies as well to understand the craves of investors toward buying the right shares.

Besides the aforementioned personnel, the study will be useful to the later researchers as a enrich reference.

1.2 Statement of the Problem

Right offering is a way of raising fund. An existing shareholder is entitled to have a proportion number of new shares at pre-stated price, which is somewhat lower than the market price of share. However, to buy additional number of shares, the shareholder's name should be in the company book before the record date to buy additional number of shares. Shareholder purchasing shares after the record date has no right to buy the additional number of shares. So, before record date there is high demand of shares in secondary market. Demand of shares increased because people rush to the secondary market in order to enlist their name in the company's book, before the record date. No doubt the price of the new share is also lower than market price. On the other side the existing shareholder generally have no willingness to sell the shares to exercise the right. Due to this double pressure, the price of share goes upward. On the other side theoretically, after announcement of right offering, the price of the share should be change. Similarly after exercise of the right share, the price of the share should be decline by its value of right. But findings on the price effect of rights offering on market price of stock are inconsistent. For example, Dolly (1934) concluded that in two out of three cases the market value of stock ex-rights plus the market value of the right will be greater on record date than the last preceding quotation on the stock rights-on. Most stock going ex-rights, fail to decline in market value by full value of right. At last, he said that investor is about as likely to lose, as he is to gain if he sells his stock at the announcement date and buys it back just prior to the record date. But he didn't explain what should be the actual share price before and after the announcement of rights offering. Likewise, Nelson (1980) indicated that there is a significant drop in the market price associated with the announcement of rights offering. The evidence is inconclusive, however, for at least three

different reasons. To begin with, the price effect could be attributable to announcements about earnings, dividends or other events. Second, the study did not focus on the announcement date but considered the date of record and dates six months prior and subsequent. Lastly, in adjusting for the market, all securities were assumed, implicitly, to be identical to each other and hence to market. In these study did not explain, whether sample companies followed the theory of rights offering or not. So, here the main problem of the study is to identify whether the price behavior of sample companies meets the theory or not which is not proved in previous studies in context of Nepal.

While offering the rights another problem of under subscription also arises there. Due to the lack of instrument of rights transfer, there arise a problem of under subscription of right share and finally this absence deprives the existing shareholders from enjoying the choice of selling the rights. The company should decide how many total funds required to be raised. Then, if the total fund to be raised is divided by subscription price, it gives the total number of shares to be issued. Number of rights to be required to purchase one new share is got if the total number of old shares is divided by total number of new shares. It creates the relation of low subscription price makes less rights needed for purchasing of a new share and vice versa. Common stockholders have option to purchase new shares according to the terms of offering. When a company issues right offering to existing shareholders, a shareholder has three choices and they are (I) subscribe the new share or use right, (ii) sell the right and (iii) let the right expire or do nothing. The shareholder takes the decision if he/ she feel the following points: Hence, the absence of the right instrument and the implicit of the shareholders wealth, which do no exercise the rights, is another aspect of the research problem. The major issues of this study are as follows;

- a. What is trend of right offerings over the years?
- b. How investors behave in response to the right issues by companies?
- c. Is there any relationship between right issues and share prices?

- d. What are the right issue practices in Nepalese capital market?
- e. What are prospects of issuing the right shares in Nepalese capital market?

1.3 Objective of the Study

The main objective of this study is to analyze the right issue practices in Nepalese capital market and to measure their impact on the market price of the share of commercial banks. However the specific objectives of the study are as follows:

- a. To identify trend of right offering over the year.
- b. To analyze the investors response toward the right offering.
- c. To examine the relationship between right issues and shares prices.
- d. To identify the right issue practices in Nepalese capital market.
- e. To evaluate the prospects of issuing the right shares in Nepalese capital market.

1.4 Limitations of the Study

The study has the following limitations:

- a. This study attempts to concentrate on the right issue practice of commercial banks, and does not cover other financial institutions because of time and budget constants.
- b. The study covers only five year periods only .Lack of availability of time five year periods is taken .It should be better if it was done for longer time.
- c. The sample of is commercial bank is taken as they are major right issuer, which might not represent whole Nepalese capital market.
- d. This study is largely based on the secondary data designed from companies, NEPSE and SEBON data bases .So the accuracy of the data used in this study relies on those data bases.

- e. The study also attempts to observe the opinions of respondents for this some respondent chosen are staff .some are investor and other's are markets expert. They are considered as major parties affected by right issuance.

1.5 Organization of the Study

This study has been organized in to a total of five chapters. Chapter one Includes background of the study, statement of problem, objectives of the study, limitations of the study and organizations of the study. Second chapter deals with review major empirical works associated with right issue practices is global as well as Nepalese capital market context. This chapter is further sub divided into conceptual framework, review of journals and article and review of thesis. Third chapter presents the research design, population and sample, source s of data and research tools that will be adopted. Chapter Fourth deals with the data collection and analyze them to achieve the research objective .Finally the fifth chapter summarized the whole study, provides the conclusion and gives recommendation to enhance the banking system. Besides these chapters, Bibliography and Appendices have been presented at the end of the study.

CHAPTER – II

REVIEW OF LITERATURE

Review of literature is an essential part of studies. It is a way to discover what others have researched in the similar topic. It is also a way to avoid investing problems that have already been definitely answered. It refers to the reviewing of the past studies in the concerned field of study. Such studies can be thesis that are written earlier, books, articles and other such publications concerning the subject matter, which were written prior by any person or organization. The purpose of literature review is thus to find out what research studies have conducted in one's chosen field of study and what remains to be done. This chapter is divided into three parts i.e. Conceptual Review, Review of Legal provisions and Review of Related Studies.

2.1 Conceptual Review

Right issue is a growing practice for financial institution to increase their paid-up-capital. Rights issue is related to the primary issue or initial financing to raise the equity fund. Since there are various ways of financing to a firm but when a new company is formed, the ways are limited. So, the easy and fast way of generating funds for new company is to issue the ordinary shares. This financing is called initial financing.

2.1.1 Rights Issue

A rights issue is a way in which a company can sell new shares in order to raise capital. Shares are offered to existing shareholders in proportion to their current shareholding, respecting their pre-emption rights. The price at which the shares are offered is usually at a discount to the current share price, which gives investors an incentive to buy the new shares - if they do not, the value of their holding is diluted. A rights issue by a highly geared company intended to strengthen its balance sheet is often a bad sign. Profits are already low (or

negative) and future profits are diluted. Unless the underlying business is improved, changing its capital structure achieves little (Bohren, Eckbo, Michalsen, 1997)

A rights issue to fund expansion can usually be regarded somewhat more optimistically, although, as with acquisitions, shareholders should be suspicious because management may be empire-building at their expense (the usual agency problem with expansion). The rights are normally a tradable security themselves (a type of short dated warrant). This allows shareholders who do not wish to purchase new shares to sell the rights to someone who does. Whoever holds a right can choose to buy a new share (exercise the right) by a certain date at a set price (Balachandran, Faff & Theobald, 2007)

Some shareholders may choose to buy all the rights they are offered in the rights issue. This maintains their proportionate ownership in the expanded company, so that an x percentage stake before the rights issue remains an x percentage stake after it. Others may choose to sell their rights, diluting their stake and reducing the value of their holding. If rights are not taken up the company may (and in practice does) sell them on behalf of the rights holder (Hansen, 1989)

The same adjustment needs to be made to per share numbers such as EPS if they are to remain comparable, for example, when looking at growth trends. However, a large rights issue is often associated with other changes that will distort these numbers or change trends such as paying off debt, expansion; etc. This calculation makes the assumption that all rights will be exercised. This is usually an acceptable assumption as it is usual for a rights issue to be priced at a steep discount to the share price to ensure that the rights will be exercised. In the interval between the shares going ex-rights and the rights being exercised, if the share price falls low enough for the rights to have significant option

value, then an adjustment may have to be made for this. This happens very rarely (Hietala and Loyttyneimi, 1992)

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 (Wang, Wei, Pruitt, 2006).

2.1.2 Actions Prior to Conducting a Rights Offering

The issuer must determine if it has sufficient authorized and unissued shares to accommodate the number of shares that could be issued in connection with the rights offering. If not, the necessary corporate actions must be taken to authorize new shares. Whether or not the issuer has adequate capital authorization, the issuer will have to hold a board of directors meeting to take the following corporate actions: (1) authorize the rights offering; (2) set the record date to determine the shareholders of record entitled to participate in the rights offering, usually the effective date of the registration statement; (3) set an offer date; and (4) set an expiration date for the offer period. The issuer must determine if other events or activities requiring a record date will be approaching, such as a record date for an annual shareholders meeting, or dividend distribution. This is to ensure that there are not conflicting

shareholders of record for two different events or activities occurring around the same time period. Once the record date is set for the rights offering, no other record date for any other purpose should be set by the issuer for at least seven business days after the expiration of the offering period (Tsangarakis, 1996)

2.1.3 Advantages and Disadvantages of Rights Issue

Right issue is advantageous for company because all shares can be sold at certain period and it also gives the existing shareholder right to purchase additional shares at a price somewhat lower than market price. Tan (2002) has indicated certain advantages and disadvantages of right issue are as follows;

The existing shareholders control is maintained through the prorated issue of shares. In the case of profitable companies the issue is more likely to be successful since the subscription price is set much below the current market price. Raising funds through the sale of rights issue rather than public issue involves less flotation costs as the company can avoid underwriting commission. The main disadvantage is to the shareholders who fail to exercise their rights, they lose in terms of decline in their wealth. Second is for those companies whose shareholding is concentrated in the hands of financial institutions because of the conversion of loan into the rights issue. Rights issue gets positive response from the current shareholder because they can get more shares at below the market price. But existing stockholder always public offering rather than rights offering of shares.

2.1.4 Rights Offering Procedures

Pilote (1992) states that every company generally follows the same procedure for rights issue. Generally when a company sells securities by privileged subscription it mails to its stockholders one right for each share of stockholders. This 'Right' gives the stockholders the option to purchase additional shares. Before rights issue, the company publishes a prospectus

mentioning terms of offering. These terms include various things such as rights required to purchase one additional share of stock, subscription price, application procedure etc. After receiving the rights, the rights holder has three options, first exercise the right, sell right and do nothing & let them expire. Generally, the subscription period runs about Three weeks. A stockholder who wishes to buy a share of additional stock but does not have the necessary number of rights may purchase additional rights.

For example if you have 10 shares and if 3 rights are required to purchase one additional share then you are able to purchase only three shares but after purchasing 2 rights you will be able to buy 4 shares of stock. Date of record or holder of record date is very important in right issue Board of directors fixes this date and the shareholders who purchase the shares after this date will not be able to purchase the additional shares. The stock is said to sell with rights on through the date of record. After the date of record, the stock is said to sell ex right i.e. the stock is traded without the rights attached.

2.1.5 Effects of Rights Issue on Shareholders Wealth

After receiving the rights from the issuing company, shareholders have three options. One is to exercise their rights and purchase additional number of shares. Second sell the rights and finally third option is do nothing and let them expire. If shareholders have sufficient fund then they exercise the right. If they do not have sufficient fund or do not want to buy more stock, they will sell the rights. In either case provided that the theoretical value of the rights holds true, stockholders will neither benefit nor lose by the rights offering. A stockholder may suffer a loss if he forgets to exercise, or sell his rights or brokerage cost of selling the rights are excessive (Marsden, 2000)

2.1.6 Significance of Right Offering

Financial institutions grading loans may require the company to bring capital in desire proportion to the loan capital. Under the circumstances it is desirable to solicit additional capital for expansion from people who have a special interest in the welfare of the corporation, such as corporations' own stockholders and it also a least costly way of raising capital.

Kothare, (1999) states that since ordinary/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. He also emphasis on issue of right share obviously increases the number of outstanding shares which again promotes the active trading in the stock market. Small investor may be unable to trade the minimum unit if this requires a large amount of money. A reduction in share price and holding additional numbers of shares unable them to trade and to diversity in their portfolios. The announcement of right is perceived as favorable news by the investors in that with growing earnings, the company has bring prospects and the investors can reasonably took 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.

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. Board of directors does not want dilution of earnings therefore must invest on profitable opportunities. Right shares effect to increase in the number of outstanding shares and to decrease in 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. Where smaller investment also able to trade and can include in their portfolios a large number of different stocks.

There is another alternative to meet company's additional equity capital through issuing in capital market. If the existing shareholders do not have the funds to purchase a new equity, their proportion of the ownership in the firm will decline. This can be avoided by right share which in only way to increase capital. Each shareholder receives a number of additional shares proportionate to his original holding. Right offering allows stockholders to maintain their proportionate ownership in the corporation and typically allow the corporation to raise new capital less expensively. If does not want to lose his proportional ownership in the company, he many not sell his shares.

Raising fund through the stock of right issue rather than the public issue involves less flotation cost as the company can avoid underwriting commissions. In the absence clear pattern in price behaviors of the adjustment market price of the stocks may be affected. Through rights issuing the true or adjusted down ward price pressure may actually be avoided. The flotation costs to issuer associated with a right issuing will be lower than the cost of public flotation.

Again Eckbo and Masulis (1992) argued that in the case of profitable companies, the issue is more likely to be successful since the subscription price is set much below then current market price. It is not very practical to attempt to issue these new shares at a premium the existing price, because a rational new investor would prefer to buy existing shares directly in the market rather than more expensive new ones from the company. After right share issue 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. Investment financed from external sources is subject to screening by outside agencies as to its related profitability but investment financed generally from existing shareholder fund is subject to no such check. When a company wished to expand it may well request extra cash from its shareholders by way of right issue to finance that expansion.

2.1.7 Step-up Privilege

A step-up privilege may be offered to shareholders when the rights are not easily divisible by the subscription ratio. In such situation, if a shareholder fully exercises the rights, the shareholder will be permitted to subscribe for one additional full share in lieu of the fractional share that would have been granted, without furnishing any additional rights (Adaoglu, 2006).

2.1.8 Over-Subscription Privilege

An over-subscription privilege provides a shareholder who fully exercises the rights, including any step-up privilege, if applicable, to subscribe for an additional number of shares, usually not more than the aggregate number of shares subscribed for pursuant to the basic rights and the step-up privilege. The over-subscription privilege is subject to allotment, and shares will be distributed on a pro rata basis if allotment does not exist to fulfill all requests. (Adaoglu,2006).

2.1.8.1 Distribution of Over-Subscription Privilege

The pro rata distribution can be handled in one of the following two ways: (1) as nearly as practicable in proportion to the shares requested; or (2) as a ratio, in that the rights exercised by each shareholder exercising the “over-Subscription privilege” bears to the total number of rights exercised by all shareholders exercising the “over-subscription privilege (Adaoglu, 2006).

2.1.9 Direct Rights Offering

In a direct rights offering, there is no backstop commitment party, or standby purchaser. Instead, the issuer only sells the number of shares evidenced by the exercised rights. A direct rights offering is cheaper than “Insured” rights offer (or standby rights offering) because there are no fees associated with providing the backstop commitment. However, poorly subscribed direct rights offering may leave an issuer undercapitalized (Adaoglu, 2006).

2.1.9.1 Types of Issuers Benefiting From a Direct Rights Offering

Large, well-capitalized issuers who are looking to raise capital but do not have a specific capital raising goal or who are established enough to expect many shareholders to exercise their rights may benefit from a direct rights offering. Also, issuers that have identified interest from an existing shareholder, or shareholders, may benefit from a direct rights offering (Adaoglu, 2006).

2.1.10 Insured Rights Offering

In an insured rights offering (also referred to as a standby rights offering), a third party (usually an underwriting syndicate, an investment bank, an affiliate of the investment bank or an affiliate of the issuer) agrees, prior to the commencement of the rights offering, to purchase any shares or rights that are not exercised in the rights offering. This arrangement is commonly known as a backstop commitment or a standby commitment, and provides the issuer with a guarantee that it will raise the necessary capital. If the rights offering are structured as a standby rights offering, the issuer will enter into an agreement with the party agreeing to provide the backstop, or standby, commitment (Singh, 1997).

2.1.11 Standby Rights Offering

An issuer should consider structuring a rights offering as a standby offering if the issuer must raise a specific amount of capital. By entering into an agreement with a standby purchaser, the issuer can ensure that it raises the

necessary amount of capital even if all shareholders do not subscribe for their full allotments of shares. If an issuer does use a standby purchase agreement, the issuer should factor fees into the amount of the offering to make sure enough shares are offered to meet its capital needs. An issuer also may consider a stand by rights offering if the issuer's stock price is volatile. This is because the offering period is usually at least 16 days but can extend up to 30 or 45 days. Most shareholders will wait until the end of the subscription period to decide whether to exercise their rights. If the shares are trading in the market for the same or less than the subscription price, then shareholders will not exercise their rights. The issuer has to consider where to set its subscription price to avoid this, while not selling the shares at too steep of a discount price. Entering into a backstop commitment can mitigate this issue (Korteweg and Renneboog, 2004)

2.1.11.1 Considerations in Connection with a Standby Rights Offering

If an issuer chooses to conduct a standby rights offering, it should consider who will be the backstop commitment party, often referred to as the "standby purchaser," and the amount of the commitment, which will be based on the issuer's financing needs. In a standby rights offering, the issuer may want to put a cap on the number of shares that the backstop commitment party may acquire in order to avoid an inadvertent change of control. In a standby rights offering, especially one involving transferable rights, a market may develop for the rights that may create arbitrage opportunities (between the issuer's common stock and the rights) or price volatility in the issuer's common stock. In a standby rights offering, any unsubscribed shares that are purchased by the backstop commitment party that will be resold in the secondary market must be sold pursuant to a prospectus. the prospectus (or prospectus supplement) must contain: (1) the results of the rights offering; (2) the transactions by the backstop commitment party during the offering period; (3) the amount of unsubscribed shares being purchased by the backstop commitment party; and (4) the terms of any subsequent reoffering thereof. If the terms of the

subsequent offering differ from those on the face of the underlying prospectus, a post-effective amendment must be filed setting forth the new terms (De Angelo and Masulis, 1980).

2.1.12 Right Offering Vs Public Offering

Dierkens (1991) argued that by offering stock first to existing stockholders the company taps investors who are familiar with the operation of the company. The principal sales tools are the discount from the current market price, whereas with public issues, the major selling tool is the investment banking organization. When the issue is not underwritten with a standby arrangement, the flotation costs of a right offering are lower than the cost of an offering to the general public. Therefore, there is less drain in the system from the stand point of existing stockholders. Moreover, many stockholders feel that they should be given the first opportunity to buy new shares. Offering these advantages in the minds of some is that a right offering will have to be sold at a lower price than will an issue to the general public. "If a company goes to the equity market with reasonable frequency, this means that there will be with public issues. Even though this consideration is not relevant theoretically, many companies wish to minimize dilution. Also, a public offering tends to result in a wider distribution of shares, which may desirable to the company. Therefore, there is less drain in system from the standpoint of existing shareholders. Moreover, many shareholders feel that they should be given the first opportunity to buy new common stock. The rights offering will have to be sold at a lower price than will an issue to general public.

2.1.13 Stock Split Vs Stock Right

In the area of stock splits and stock rights misconception also exist to confuse unwary. In theory, stock splits, no problem: they are as value less to the investors as stock dividends. Simply reading two for one's split instead of 100 percentage stock dividend' the meaning remains unchanged. Similarly, an action taken by a firm to increase the number of shares outstanding, such as

doubling the number of shares outstanding by giving each stockholder two new shares are formally held. Stock split generally used after a sharp price run up to produce a large price reduction. In theory, split should reduce the price per share in proportion to the increase in share because splits merely “divide the pie into smaller slices”. However, firm generally split stock only if (i) the price is quite high and (ii) management thinks that future in right. Therefore, a stock split is often taken as positive signals and thus boosts stock prices. A share/stock split means that the nominal value of share capital on the balance sheet is unchanged. (Barclay and Litzenger, 1988). Right share and stock split are completely different. Stock right means, a method of raising further fund from existing shareholder by offering additional securities to them as pre-emptive basis. It involves the offer of additional share to existing shareholders. These are offered in proportion of existing shareholders. A more lengthy analysis, however, is required to reveal the exact nature of stock rights the offering of new securities to existing by means of rights, either as a matter of legal requirement or financial policy or both. The question of rights is intimately of connected with that of dividends. Companies frequently offer new stock (or securities convertible into stock i.e. contingent securities) to existing shareholders at prices below the current market price of outstanding stock. (Jensen and Meckling, 1976).

In doing so, management may feel that it is giving something of value to its shareholders like stock dividends, stock rights are highly prized by investor. And like stock dividends, rights may typically be sold on the market for cash if the holder decides not to exercise them. Belief in the value of right is, if anything even those rights have no inherent value to the investors no matter how large the discount at which the new shares are to be sold.

2.1.14 Right Share Vs Bonus Share

Bonus issue and right issue are very similar, although typically used for different purposes. Right are, an important tool of common stock financing without which shareholders would run the risk losing their proportionate control of the company and dilution of their ownership. Company offer rights, generally at a price, lower than the value of the shares in the market to raise an additional capital. As a result the common stock paid in capital stock and total net worth amount of the company will change. “Since bonus share is a form of dividend that a company provide to its stockholders. Bonus share is also understood synonyms to the stock dividend. Stock dividend paid in additional share of stock rather than in cash. It simply involves a transfer to retained earnings to the capital amount. In a bonus issue, the nominal value per share stays the same and the new shares are issued by capitalization existing reserve. Thus share capital shown on the balance sheet does not increases but other reserves are be decreased by the same amount. A right issue is involves selling of ordinary shares to the existing shareholders of the company. It is available for a specified period of time in order for shareholder to decide what to do, to send in their cheque or selling their rights in the market. Right share increases capital, as equal to how much, amount of right share issued. A bonus is different from right issue.

A bonus does not raise any new capital. It merely increases the nominal amount of the issued share capital by the company utilizing its undistributed profits in paying up for the new shares. Company declares for bonus issue because it may hesitate to declare dividends at such rates, which are likely to be criticized by the trade unions and the consumer. With a bonus issue, the number of shares increased through proportional reduction in the book value of stock. As a result, the worth of the company remains unchanged. Stock dividend is a dividend paid in additional shares/ stock rather than cash (Loderer & Zimmermann, 1988)

2.1.15 Stock Repurchase Vs Stock Right

In recent past, firms have increased their repurchasing of share outstanding (common stock in the market). Under a stock repurchase plan, a firm buys back some of its outstanding stock thereby decreasing the number of shares, which should increase both EPS and stock price. Repurchase are careful for making major changes in capital structures as well as for distributing temporary excess cash. A stock repurchase is made a number of reasons: to obtain share to be used in acquisition to have shares available for stock option plans, to achieve again a book value of equity when shares as selling their, book value or merely retire outstanding shares .Corporation is need of additional equity capital, sometimes offer new issues of common stock to their present stockholders called voluntarily because they can market the issue most economically in this way, when this is done an individual is given to the present stockholder purchase the stock offering it to them at a price below the current market price for the corporation's outstanding shares. For this reason such offerings are known as privileged subscription. Each shareholder is given one right for each share of stock owned. The right represents an option to purchase a new shares of stock at the fixed by corporation (Loughran and Ritter, 1995).

2.1.16 Success of Right Offering

A firm's management must make two basic decisions when preparing for a right offering. One of the most important aspects of successful right offering is the subscription price. This is the price at which the corporation firm has agreed to the securities to existing stockholders. If the market price of the stock should fall below the subscription price, stockholders obviously will not subscribe to the stock, for they can buy it in the market at a lower price. Consequently, a company will set the subscription price at value lower than the current market price, to reduce the risk of the market price's falling below it. It is necessary to submit a certain number of rights along with the cash order for the shares to be purchased from the firm at the special

subscription price. Apart from the number of rights required to purchase one share the risk that the market price of stock will below the subscription price is a function of the volatility of the company's stock, the tone of the market, expectations of earnings and other factors. To avoid all risk, a company could set the subscription price so far below the market price that there is virtually no possibility that the market price will fall below it.

The size of the capital outlay in relation to a stockholder existing ownership of the stock is an influence on the success of a rights offering. The balance between institutional and individual investor may also bear on the success of the right offering. The current trend and the tone of the stock market are Influential. If the trend is upward and the market is relatively stable in this upward movement, the probability of a successful sale is high. The more uncertain the stock market greater the under pricing that be necessary to sell the issue. There are times when the market is so unstable that an offering will have to be postponed. An underwriting contract is a guarantee to take up, at the issue price, any of the new shares which are not bought by either existing shareholders or buyers of their rights in the market (Mikkelson and Partch, 1986).

2.1.17 Procedures for the issue of Rights in Nepal

Every company which wishes to issue right share should follow some procedure. Company act 2053 is silent about the rights issue but mentioned that rights share shall be issued following the same procedure as ordinary regulation to issue the rights. Following procedure is generally adopted by Nepalese company to issue rights share:

- a. The BOD should consider about that the determination of the quantum of further capital requirement and the proportions is which the rights issue might be offered to existing shareholder.

- b. Company should notify NRB, NEPSE office of the company register and SEBON sufficiently with prospectus in advance of the date of board meeting at which the rights issue is likely to be considered and should get permission from them.
- c. AGM should pass the proposal of BOD by its majority.
- d. Make announcement with prospectus which gives a general indication of the reasons which have made the issue desirable, the purpose for which the new money is to be used.
- e. Letter of provisional allotment of rights offering to the shareholders about the terms of the rights offered, the number of new shares allocated to each given number of old shares, the price at which the issue is to be made and the conditions letter will be sent after the date announcement.
- f. After the receipt of the letter of provisional allotment, the allotment must be made for those shares which are renouncing.
- g. 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 certificate in favor of a third party. Because of nontransferable instrument, such practices are not seen in Nepalese context.
- h. Listing of the shares in the NEPSE again with increased number which must be approved by the stock exchange after which an application for listed new share could be made.

2.2 Review of Rules and Regulations

2.2.1 Review of NRB Directives

As per the Unified Directive 2066, the NRB has made following direction to the bank and financial institution regarding right share;

Right Share Selling

- a. If the right share is not subscribed or not permitted for transfer by the concerned shareholder, then the licensed bank has the right to cancel such share, except in the case of section (c), as per the Banking and Financial Institutions Act 2063.
- b. If the bank has to cancel the right offering of any shareholder, then the amount of right share could be adjusted to the maximum by the bank in next fiscal year.
- c. If after the cancellation of the right offering, the share ownership structure is going to be adversely influenced, then the bank should sell the share by Public Auction Basis and the value of share should be specified Rs. 100. However, the bank should maintain separate Share Premium, if the share has been sold in premium.
- d. The right share of promoter that could not be subscribed should be sold among the existing promoters. If the bank is going to new person to sell the promoter's right share, then the bank should inform NRB. Further, the person/firm buying such share should have met the qualifications as directed.

Pre Investment in Right Share

To meet the capital requirement, if the licensed institution requires to invest in right share in advance, it should meet the following directives;

- a. The proposal for augmenting the capital should have been approved from the general meeting of the board of directors.

- b. The amount collected in advance from shareholders, to meet the capital directed by NRB, should be provisioned in Calls in Advance, and such collected amount should be mandatorily adjusted by the right share then issued.
- c. There should be no interest payment in such Calls in Advance amount, and the amount collected from such advance share investment should not divest or deduct at any cost. Further there should be no dividend payment in such amount until it has been accounted to paid up capital.
- d. The pre investment in Right share should tie up with the Right share issuance thereafter.

2.2.2 Review of SEBON Regulations

The Securities Board of Nepal has made following provisions regarding the issuance of securities and right share;

Public Issuance of Securities

- a. If a Corporate Body intends to sale and distribute its securities to more than fifty persons at a time, it shall be required to make public issuance of securities. While selling securities through public offering the Corporate Body shall be required to set aside at least thirty percent of its issued for public subscription.
- b. The corporate body making public issue pursuant to Sub-regulation (1) shall be required to have completed a minimum of one year of business operation under its objectives and also require to have already published the audited financial reports for the period.
- c. The application for publicly issued shares pursuant to Sub-regulation (1) shall have citizenship certificate verified by the applicant attached there to and also shall have to mention the name, address of the bank.
- d. Financial institution where the applicant has maintained account and account number and the Issue Manager require to have arranged the refund of application money to be deposited in the bank account.

Provided, however, that applicants subscribing for more than Rs. 50,000 require depositing the application money compulsorily through account payee check.

- e. In case the application money so received has been deposited with the Banker to the Issue for interest, eighty percent of the interest so received shall be required to be given to the applicant in a proportion al basis for the days from the application date to the day before the allotment date and the Board shall be informed of such arrangement.
- f. The body corporate while making public issue of securities pursuant to these regulations may reserve up to five percent of the share to the working staffs and up to five percent for the local residents depending on the nature of business like hydropower, production or processing, out of the shares set aside for public issue. However, the shares reserves as such shall not be eligible to be sold or transferred within a minimum period of three years from the date of allotment.
- g. Other provision related to the public issuance shall be prescribed by the Board under its directives.
- h. In case a body corporate has issued securities without making public issue as prescribed by these regulations such securities shall not be eligible for trading through the stock exchange or an alternative trading system.
- i. The Issue Manager shall be required to cancel any authorized application that it detects to have stated false information thereon. In case the Board finds that such application is not cancelled and the securities are distributed, the Board may impose fine equivalent to the same amount on the Issue and Sales Manager. The Board is required to use the proceeds only for the development of capital market.

Rights Issue of Securities

- a. The body corporate may increase capital through the issuance of shares to the existing shareholders through rights issue.

- b. While making rights issue pursuant to Sub-regulation (1), the “Provisions and Disclosures Related to the Issue of Rights Shares’ drafted in the prescribed format, shall require to be signed by all of the members of board of directors and be submitted to the Board through the Issue Manager which, after getting registered with and approved by the Board, shall be published.
- c. While issuing rights shares pursuant to Sub-regulation (1) if the rights to be exercised by the existing shareholder is to be transferred wholly or partially to other nominee, the existing shareholder shall be required to
- d. apply to the issuer body corporate in the prescribed format having fulfilled the following conditions;
- e. The memorandum or articles shall require to contain provision of transferring the rights of existing shareholder to other person.
- f. The rights obtained by the shareholder shall have to be nominated wholly or partially to only one person or institution.
- g. Provision of applying as nominee shall have to correspond to the trading lot fixed by the stock exchange.
- h. Provision that a shareholder who has nominated others to exercise his/her rights shall not be a nominee to exercise the rights of others. However, those who have exercised their own rights fully may exercise the rights as nominee of others.
- i. The nomination of the rights shall require being in compliance to the limit of shareholding prescribed by the memorandum or articles of the company or that prescribed, if any, by the related regulator and that the nominee shall not apply for the shares including the existing shareholding that result in exceeding the said limit.
- j. Provision of nomination shall be made to confirm to the same grouping of ownership and representation to the board of directors, if any, and if the exercise of rights after nomination bring changes in the structure of ownership and board of directors of the body corporate, shall be required to make the changes necessary to accommodate for the

ownership limits within the groups and that there should be clear provision regarding the exercise of voting rights.

- k. The person or the institution so nominated shall not be in the black list and shall not be having any disqualification under the prevailing laws.
- l. Require having provision that the nominee shall exercise the rights within the period opened for rights subscription.

2.3 Review of Related Studies

Dolley (1934) used 303 stock rights issued out of 422 privileged subscription recorded in NYSE. The author classified these stock rights by various methods such as industry wise according to the years in which they were issued. In this study the author defines a lot of key terms clearly with example. To analyze the price effect of stock rights issue he uses the price from announcement date to record date. Since the sole object in this procedure was to develop the general price trends, the dates for which these quotations were obtained were only approximately one, two, and three and four weeks prior to the record date. The entire sample of 303 stocks was not used in this test because it was thought that a smaller number would serve to reveal the general trend.

The result of this study seems that the possibilities of a stockholder realizing an immediate profit from a right issue are narrowly limited. Investor is about as likely to lose, as he is to gain if he sells his stock at the announcement date and buys back just prior to the record date. If he sells his stock ex-rights together with his rights on the record date, in two cases of out of three he will realize a slight appreciation over the value of his stock on the preceding business day. If the stockholder decides to exercise his rights, he would do well to exercise them toward the end of the subscription period, thus allowing for a possible decline in the market price of the stock ex-rights below the subscription price, which would render the stock ex-rights valueless. However, if the stockholder elects to sell his stock rights, his chances of securing the optimum market price would

slightly better if he should sell at the beginning rather than the end of the subscription period. For the professional speculator, it would seem in general market that the best chances for profit would lie either in purchasing the stock rights-on just prior to the record date and selling the shares ex-rights themselves on the record date, or in selling the rights short on the record date and covering later in the subscription period. However, the individual price reactions both of the stock and the rights vary so widely from case to case as to render speculation according to rigid rules highly unsafe.

Nelson (1965) examined the price effects of stock dividends and splits observed in the quasi split characteristics of rights. He tested the proposition that stock rights have splits effects similar to stock splits and stock dividends. The significant of the study is indicated by the fact that approximately two thirds of new issues of common stock are sold through privileged subscription in US stock market .The author uses three-price quotation for the study i.e., (i) Six months before the announcement of the offering. (ii) On the 1st day of rights trading and (iii) Six months after the close of rights offering. By analyzing data it found that the average adjusted price of all offerings declined 0.2percentage from six months before the announcement of right to six months after the close of the rights trading period. Market prices, adjusted both for split effects and general market effects, increased following rights offerings when cash dividends were increased. But the sizes of the changes were not as large as those found in previous studies, which measured the effects of cash dividend increases on market prices six months following stock splits and stock dividends. The data also show that earnings increases have about the same order of magnitude of influence as dividend increase on adjusted market prices six months after the rights offerings.

White and Lusztig (1980) conducted a study on price effects of rights offerings. The purpose of this study has been to test empirically two hypotheses with respect to the price effects of rights offerings. Its importance for the

normative theory of financial management is obvious. The technique used in the study was a pooled cross-section time series model. This approach permitted the abstraction from the components of returns attributable to market wide events and other firm specific events on or near the date of interest, as well as tests of significance of events on market prices. The result of the pooled regressions provides more definitive information on the price behavior associated with the announcement of a rights offering. Since the t-statistics on the announcement date dummy variables were statistically significant at the 1percentage level or better, the hypothesis that on average investors believe that there is negative information associated with a rights offering cannot be rejected. The second hypothesis, capital markets in this instance are inefficient, assumes that managements' and investors' expectations differ and that investors require time to assimilate information. Since the coefficient on the dummy variables for the five days subsequent to the announcement of the rights offering were not statistically different from zero to 5percentage confidence level, the null hypothesis that prices adjust quickly and unabashedly to new information cannot be rejected.

Aryal (2005) studied with the relationship between stock price reaction and announcement of rights issues, the relationship between rights share and equity share and rights share and NEPSE Index. The author found that announcement of equity rights issue are associated with a positive effect on share prices, Theoretical value of right differs from company to company.

At last, the author concludes that firstly company issues rights share for increasing equity capital and to invest it in company's diversification and expansion. Secondly they issue rights share to increase capital to meet the level prescribed by Nepal Rastra Bank. The rights share and equity share has low degree of positive correlation. The correlation coefficient between right share and NEPSE has also positive correlation.

Lamichhane (2007) has tried to study with objectives to identify the significant change in share price after announcement of rights offering and some policies that will help to rectify the current problems in the right issue of securities. To conduct the study, the author had used the correlation between share price and price index, t-statistics between share prices before and after the rights issue announcement. The author did not consider the value of rights, which is very important in share price determination after the issue of rights shares. His analysis only covers the data from 2056 to 2060 B.S. But here the study has analyzed the data from 2054 to 2064, which can show the present economic scenario. The author had taken sample from different sector but here the study has use only one and most important sector i.e. commercial banks to conduct the study.

Giri (2008) argued the study with objectives to find out if there is significant changes in share price after the announcement of right offering, problem in the primary issue of securities and further found out that, 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', 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 and 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.

Adhikaki (2008) determined the impact of information, such as; dividend declaration, return on equity and EPS, on share price. To analyze his study, the author had use t-test and correlation. But, the author did not consider rights issue as an important factor in share price determinants. So, here the study has analyzed the rights issue as an important factor in share price movement. Again

the author finds that, there is significant difference in share prices of four samples companies out of five, because of information of divided declaration and also found that share price of the sampled organization has decreased significantly after the issuance of directives made by NRB. In most cases MPS is negatively correlated with EPS, DPS & ROE.

Bhandari (2008) studied the general awareness of Nepalese investors with respect to rights issue. The author tried to give the answer to the questions like; why a company offers right share? Does the right share really have positive impact on the share price? What are the parameters to consider before investing in case of right share? A number of existing banks and financial institutions are issuing right share to upgrade themselves from 'C' and 'B' grade financial institutions to 'A' grade commercial banks. Usually companies offer right share when they are growing very fast. This is one of the cheapest means of getting fund from the market to fulfill their need for investment for expansion. As compared to public issue of the common stock of the company, rights offering are much less expensive because the transaction costs, administrative costs and underwriting commissions are much lower than in the public issue. Another reason for the rights offering in Nepal is the Nepal Rastra Bank regulation. Some experts view that the accounting treatment for right shares should be the same as stock dividend or stock split. According to them, the market price will go down proportionately with the rights offering. However, many other studies have shown mixed results. In deeper analysis, it can be found that in case of stock dividend and stock split, the total shareholders' fund doesn't change and total book value of the total no. of shares remain the same. But in the case of rights offering, the total shareholders' fund and book value of the total no. of shares change because the company gets additional capital from the stockholders. The companies that have high earnings and low liquidity are commanding high market price while companies that have low earnings and paying low dividend have low market price. That means the price is high not because of the right share, but due to other business environment factors. Right

share doesn't give high return. It is just like stock dividend and stock split and means more liquidity in the market. Before going for the investment, the investors should evaluate the management, products, services and innovation of the companies. These factors determine whether the company can generate more revenue and ultimately profits.

Pathak and Giri (2008) showed that every firm needs adequate capital to perform efficiently. Generally, firms fulfill their financial requirement by issuing equity share, preference share, debentures and long term bonds. Rights issue is one of the instruments to raise additional capital. We can describe the preemptive right or rights as the privilege offered to existing stockholders for buying specified number of additional shares of the company's stock before the stock is offered to outsiders for sale. They have value because generally they are offered at a subscription price somewhat lower than the market price of share. In the secondary market, investors are willing to buy the share that has been attached to the preemptive right. But to buy additional number of shares, the shareholder should have his/her name in company's book before the record date. Hence before the record date, there will be a great demand of share attached with rights. Demand is increased because large numbers of people rush to secondary market in order to enlist their name in the company's book before record date so that they can enjoy the benefits of right offering. On the other hand, existing shareholders generally have no willingness to sell the shares to exercise the rights. Due to this double pressure, the price of share goes upwards.

Khatiwada (2009) observed that the share price of five companies have decreased after the announcement of right issue where as share price of two companies have increased after the right issue, theoretically share price should increase after the right announcement and decrease after the allotment of share. But, the share prices of major companies don't follow the theory, From the analysis of primary data, most of Nepalese investors are not aware about the

phenomenon of right issue, Company Act is not adequate to regulate the right transferable and shareholders have to face difficulties due to non transferable of shares and Company Act should be amended to make the rights transferable and to make smooth transaction of right shares.

Zurich (2009) stated that rights issues don't do any favors for personal investors. Institutional shareowners have the money to take up their rights; personal investors frequently cannot afford to take up their rights, so their 'nil-paid' rights are sold or 'lapse', leaving institutional investors to take them up and further increase their holdings. So every time a company has a rights issue, the proportion of shares held by personal investors falls. If the company's share price is high (for example, when it is raising finance for an acquisition from a position of strength), that may not be so much of a concern: at least personal investors are getting a decent price for their shares. But if the share price is seriously depressed, as with the current round of banking rights issues, this dilution is a serious financial blow to personal investors and is a result of the lack of foresight by some companies' boards. After a rights issue, distributable profits have to be shared over a greater number of shares than previously, resulting in lower earnings per share and a reduced dividend. Shareholders are therefore offered the subscription at a discount as an incentive to take up their rights and maintain their proportionate stake in the company. If they do not take up their rights their stake will be diluted and the value of their holding will be reduced.

Marisetty, Marsden and Veeraraghavan (2010) examined security price reaction to the announcement of rights issues by Indian firms. India is a large economy and a major emerging capital market. The study adds the effects on shareholder wealth of new equity announcements in an emerging market with unique institutional and regulatory features compared to more developed markets. The price reaction to the announcement of the issue was more negative for firms affiliated to a family group. A rights issue increases the cash

resources or level of a firm's financial slack. The study summarizes that this provides greater opportunities for the controlling family shareholder to expropriate wealth from the firm to entities where the family group shareholder has greater comparative cash flow rights. Investors therefore react negatively to the announcement of the issue. Higher levels of individual shareholding are associated with a more positive price reaction to the rights issue announcement. High levels of individual shareholding may expose the firm to a greater likelihood of takeover or impose greater market discipline on managers through the market for corporate control. High levels of individual shareholding may also be associated with greater public securities or monitoring of the use of the proceeds of the rights issue. This ensures less investment in projects that do not enhance the wealth of all shareholders and the price reaction to the announcement of the issue is more positive.

Owen and Suchard (2010) investigated abnormal returns resulting from the announcement of a rights issue of equity in Australia and also examined the pricing of rights issues and the determinants of that pricing. The announcements of rights issues of equity are met with a significant abnormal return of -1.83percentage and this negative abnormal return continues after the announcement, although there is a positive pre-announcement effect. In terms of pricing, 84.54percentage of Australian rights issue of equity are priced at an average discount of 18.89percentage and 3.38percentage are priced at the previous day's closing price. Issues made at a premium have significantly higher announcement returns than issues made at a discount (4.17percentage versus -2.64percentage). For issues made at a discount, non-renounceable offers have a significantly higher discount than renounceable issues, which is consistent with expectations that firms offer a discount to induce shareholders to take up non renounceable rights. However, there is no significant difference between the pricing of underwritten and non-underwritten rights issues, which suggests that Australian issuers do not use large discounts as an alternative to having the issue underwritten. There is a significant negative relationship

between expected shareholder concentration and the discount which supports the conjecture that firms with higher shareholder concentration do not have to offer large discounts in order to have a successful rights issue.

Acharya (2010) has indicated that the rights issue practice is mainly dominated by the banking and finance sectors. There are hardly few causes found of other sectors practicing the right issue, there is significant difference in the share price before and after the ex-rights dates in most of the sample company but they don't follow the theory of right offering exactly, the issuing of rights share has a long process. There is no time framework. The right announcement date, book closer date/ex-right date, right issue and closing dates are differing from one company to another. The announcement date and right issue date varies company to company. This makes the illusion to the investor and affects the market price of the related stock and it's hard to study the price behavior of market price, shareholders of Nepalese companies lack the knowledge about the right share and its impact on their wealth position. Due to this free movement of share movement of share price during rights on and ex-right is not confirmed, under subscription of rights share is common phenomena. And most of the finance company doesn't show significant change in the price before and after ex-right date.

2.4 Research Gap

Majority of the previous studies related to the right issuance have emphasized on explaining right share issuance practices in general market. However, this study specially focuses on the right issuance of commercial banks as they are major issuer of right share in Nepalese capital market and analyzed the market price of commercial bank. Hence, this study attempts to deduct the congestion and focuses on presenting the true picture of impact of right issuance on market price. Further, this study encompasses primary data analysis as well to understand the opinion of the concerned person and trace out the techniques that will really enhance the right offering practices in commercial banks.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter deals with the methodologic issues consumed with this study. This chapter has been divided into four subheading .these are discussed below;

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data. Being an academic research, the purpose of this research is to answer the queries raised and control the variances. Analytical and descriptive research design, a fact finding approach, is followed for analyzing the right share practices and its impact on market price

3.2 Population and Sample

There exist 27 commercial banks operating in Nepal upto2005/06 to 2009/10, which are assumed to be the population of the study. But, all of them have not issued right share within the last five years. So, taking only the commercial banks, i.e. 13, that have practiced the right issue, as sample, the study has been conducted.

3.3 Nature and Sources of Data

To fulfill the predetermined objectives that are set up for the study, both primary and secondary sources are included. The secondary data have been obtained from mainly the annual report of sample banks and NEPSE and SEBON data base. Further, brochures, Souvenir, and the official website have also been extensively used to collect the secondary data. However, the primary

data have been collected through making questionnaire containing 13 questions, and distributing it to the respondents. Apart from above mentioned sources, relevant data are collected from;

- a. Banking and Financial Statistics published by Nepal Rastra Bank.
- b. Periodicals, bulletins, magazines and other published and unpublished reports of concerned authorities and research works.

3.4 Method of Data Analysis

For the processing of data collected, both the financial and statistical tools have been extremely used.

3.4.1 Financial Tools

Under this mainly the ratio analysis that is relevant to the loan management of the bank has been done.

a) Total Right Issue to Securities Issuance

To make the capital of the companies robust, the listed companies augment the capital by issuing the securities, which includes new share issue, debenture issue and right issue. To examine the practices of right share in augmenting the capital the ratio of right issue to securities issuance is crucial.

Total Right Issue to Securities Issuance is defined as Right issue divided by securities issuance of listed companies .

b) Commercial Bank's Right Offering to Total Right Issuance

As the study mainly focuses on the commercial bank's right issuing, the weight of the right issuance of commercial banks on total right issuance is significant. It is defined as the CB's Right offering divided by Right offering of listed companies.

c) No. of Commercial Banks to Total No. of Companies Issuing Right

To examine to what extent the commercial banks have considered the right offering as the major source for capital augmentation, the number of the banks issuing right is significant. So, No. of CB's to No. of Listed Companies offering Right is defined as No. of CB's offering right divided by no of companies offering right.

d) Subscription of Right Issuance

The subscription of right issuance may be under or oversubscribed. The under subscription may occur due to the uninteresting behavior of investors to purchase or transfer the right share, while the over subscription occurs due to the high crave of investors in claiming for the more right share. So it is measured of total paid up value dividing by total right offering.

e) Impact on MPS after Right Issuance

Generally, the MPS changes with the announcement of right issuance, but to what direction, i.e. increase or decrease, is significant. To examine whether MPS increases or decreases by the right offering, the MPS of the commercial banks issuing right share for the past five years has been analyzed. So, it is calculated that difference between MPS after and before Right offering is divided by MPS before Right offering.

3.4.2 Statistical Tools

The analysis could not have been done without using the statistical tools. The following statistical tools have been effectively utilized for data analysis.

a) Mean

Arithmetic mean or simply a mean of a set observation is the sum of all the observations divided by the number of observations Arithmetic mean is also known as the arithmetic average.

Here the A.M have been used to analysis the Ratio of Right issue and securities issue, CB's Rights issue and Total Right issue, Subscription of Paid Value and Right Value .Which is defined by

$$\bar{x} = \frac{x_1 + x_2 + x_3 + \dots + x_n}{n}$$

Where, n is the number of observations and No. of observation is 5.

b) Standard Deviation

The standard deviation is the absolute measure of dispersion in which the drawbacks present in other measures of dispersion are removed. It is said to be the best measure of dispersion as it satisfies most of the requisites of a good measure of dispersion. It has been to analysis the deviated values from A.M.

Which is defined by s.d. = $\sqrt{\frac{\sum(x-\bar{x})^2}{N}}$

c) Coefficient of Variation

The coefficient of dispersion based on standard deviation multiplied by 100 is known as the coefficient of variation (C.V.). Less the C.V., more will be the uniformity and more the C.V., less will be uniformity. If x be the arithmetic mean and s.d the standard deviation of the distribution, then the C.V. is defined

by, C.V. percentage = $\frac{\text{S.D.}}{\text{Mean}} \times 100$

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Secondary Data Analysis

Under this section, the right shares practices in Nepal, especially by the listed commercial banks, have been analyzed. This section mainly incorporates the total rights issues, commercial banks right issue, and the changes in MPS before and after the right issuance.

4.1.1 Total Right Issue to Securities Issuance

To make the capital of the companies robust, the listed companies augment the capital by issuing the securities, which includes new share issue, debenture issue and right issue. To examine the practices of right share in augmenting the capital the ratio of right issue to securities issuance is crucial.

Table: 4.1
Total Right Issue to Securities Issuance

(Rs. In Millions)

Fiscal Year	Right Issue	Securities Issue	Ratio %
2005/06	1013.45	2443.28	41.48
2006/07	1265.30	2295.50	55.12
2007/08	6793.40	10668.20	63.68
2008/09	14262.19	16828.51	84.75
2009/10	8173.04	10822.41	75.52
Mean			64.11
S.D.			18.13
C.V.percentage			28.29

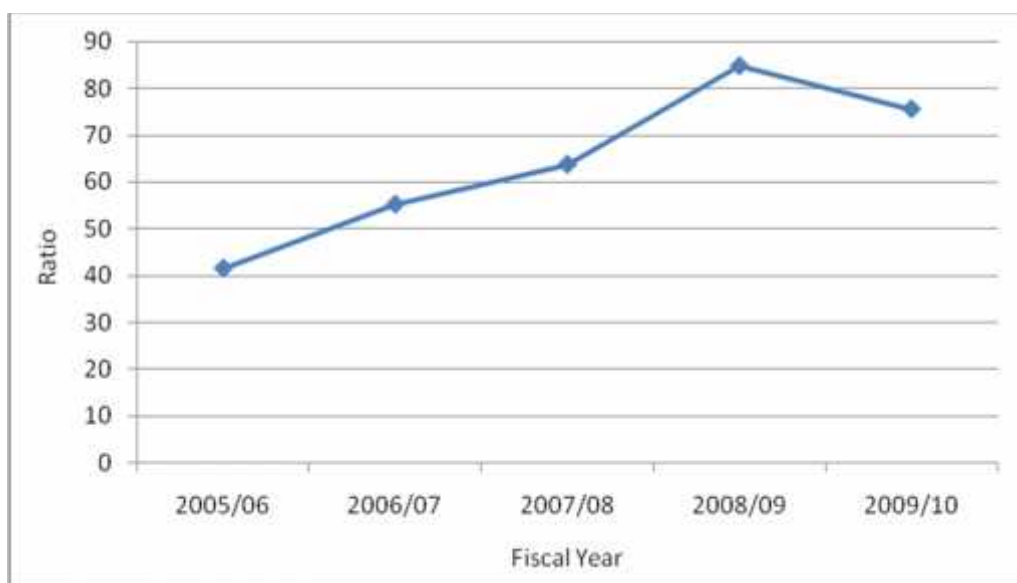
Source: Annual Reports of SEBON (2005/06 to 2009/10) & Appendix 1

The above table presents the representation of capital accumulation through right offerings on the total securities issuance, which includes right share, ordinary share and debenture. The table shows that the right issuance of the

listed companies of NEPSE is in increasing trend except in 2009/10, and thus has increased from Rs. 1013.45 millions in the fiscal year 2005/06 to Rs.14262.19 millions in the fiscal year 2008/09 and decreased to 8173.04 in fiscal year 2009/10. Similarly, the total securities issuance, either in the form of right share or other, of the listed companies has fluctuated over the study period from Rs. 2443.28 millions in the fiscal year 2005/06 to Rs. 10822.41 millions by the end of the fiscal year 2009/10. Moreover, the prevalence of the right issuance on total securities issuance has also increased within the five year periods, except in the fiscal year 2009/10. The right issue to total securities issuance is 41.48 percentage in the fiscal year 2005/06, which has increased to 55.12 percentage in the fiscal year 2006/07, and then has increased to 63.68 percentage in the fiscal year 2007/08, 84.75 percentage in the fiscal year 2008/09 and in 2009/10 it was decreased to 75.52 percentage. It seems that the listed companies have chosen right share as the major source for capital augmentation, as a result the weight of the right issue on total securities issuance has increased continuously. In average, the right share covered 64.11 percentage of the total securities issuance within the five year periods and the variance on such representation is 28.29 percentage.

Figure: 4.1

Total Right Issue to Securities Issuance



4.1.2 Commercial Bank's Right Offering to Total Right Issuance

As the study mainly focuses on the commercial bank's right issuing, the weight of the right issuance of commercial banks on total right issuance is significant. The table 4.2 presents the commercial banks right issuance in five consecutive years, and its representation on total right issuance, which will ultimately aids to deduct the right issuance of other listed companies.

Table: 4.2
Commercial Bank's Right Offering to Total Right Issuance

(Rs. In Millions)

Fiscal Year	CB's Right Issue	Total Right Issue	Ratio %
2005/06	370.00	1013.45	36.51
2006/07	472.00	1265.30	37.30
2007/08	1810.70	6793.40	26.65
2008/09	4496.65	14262.19	31.53
2009/10	2551.49	8173.04	31.22
Mean			32.64
S.D.			4.94
C.V.percentage			15.14

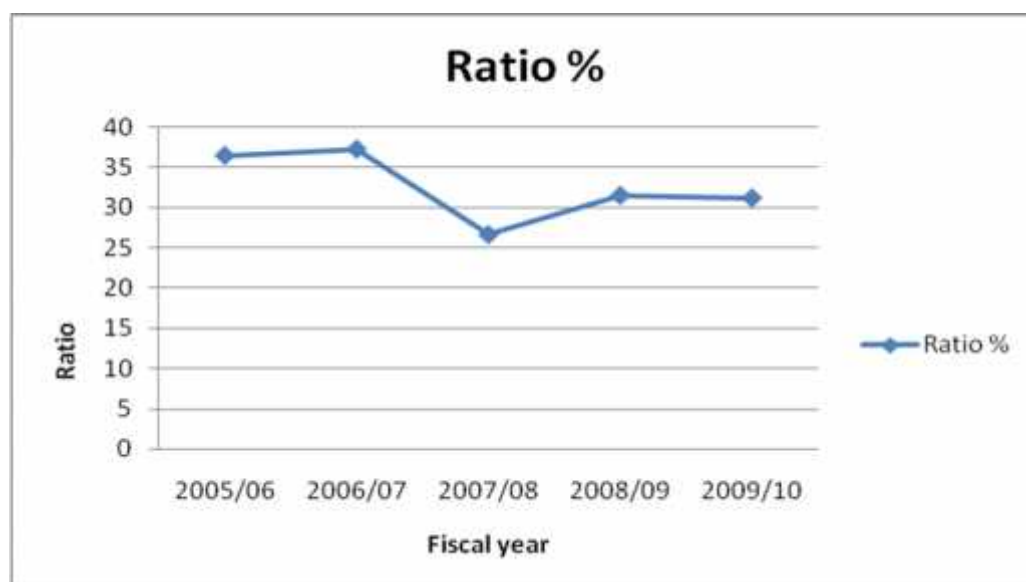
Source: Annual Reports of SEBON (2005/06 to 2009/10) & Appendix 1

The table shows that the right offering made by the commercial banks has varied greatly. Initially, the commercial banks have made the right offering of Rs. 370.00 millions in the fiscal year 2005/06, which has increased by more than 12 times and has reached to Rs. 4496.65 millions in 2008/09. This implies that the number of commercial banks adopting right offering to increase the capital is increasing with the lapse of time. However, the right offering of the commercial bank has represented 36.51percentage of the total right offerings in the fiscal year 2005/06. This representation has been increased to 37.30percentage in the fiscal year 2006/07, then decreased to 26.65percentage

in the fiscal year 2007/08 and then increased to 31.53percentage in the fiscal year 2008/09 and 31.22percentage in the fiscal year 2009/10. The decrease in Coverage of commercial bank’s right offering on total right offering of the listed companies indicates that the other financial institutions like development banks, finance companies and other have become more active within these periods. In average, the right offering of the commercial banks has covered 32.64percentage of the total right issuance, and the variation on such representation is only 15.14percentage, indicating high consistency.

Figure: 4.2

Commercial Bank’s Right Offering to Total Right Issuance



4.1.3 No. of Commercial Banks to Total No. of Companies Issuing Right

To examine to what extent the commercial banks have considered the right offering as the major source for capital augmentation, the number of the banks issuing right is significant. Further, the representation of commercial banks on total number of listed companies issuing right is crucial.

Table: 4.3**No. of Commercial Banks to Total No. of Companies Issuing Right**

Fiscal Year	No. of CBs	No. of Listed Com.	Ratio
2005/06	3	12	25.00
2006/07	3	16	18.75
2007/08	7	43	16.28
2008/09	6	50	12.00
2009/10	6	33	18.18
Mean			18.04
S.D.			5.43
C.V.percentage			30.11

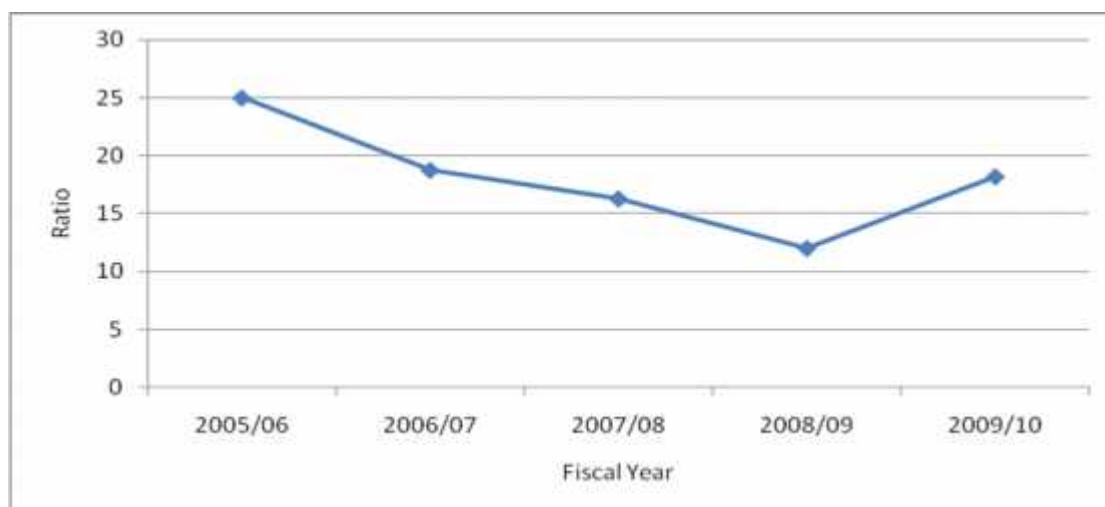
Source: Annual Reports of SEBON (2005/06 to 2009/10) & Appendix 1

The above table shows that the number of commercial banks issuing right share has remained stable for the 2005/06 and 2006/07, and then has increased to 7 in the fiscal year 2007/08 and finally is 6 in the fiscal year 2008/09 and 2009/10.

The ratio is 25percentage in the fiscal year 2005/06, 18.75percentage in the fiscal year 2006/07, 16.28percentage in the fiscal year 2007/08, 12percentage in the fiscal year 2008/09 and 18.15percentage in 2009/10. In average, the ratio is 18.04percentage in the five year periods and the variance is 30.11percentage, indicating high volatility. This clearly indicates that the financial institutions, other than commercial banks, like development banks, finance companies and other are more interested in accumulating the capital by means of issuing right share.

Figure: 4.3

No. of Commercial Banks to Total No. of Companies Issuing Right



4.1.4 Subscription of Right Issuance

Categorically, the subscription of right issuance may be under or oversubscribed. The under subscription may occur due to the uninteresting behavior of investors to purchase or transfer the right share, while the over subscription occurs due to the high crave of investors in claiming for the more right share.

Table: 4.4

Subscription of Right Issuance

(Rs. In Millions)

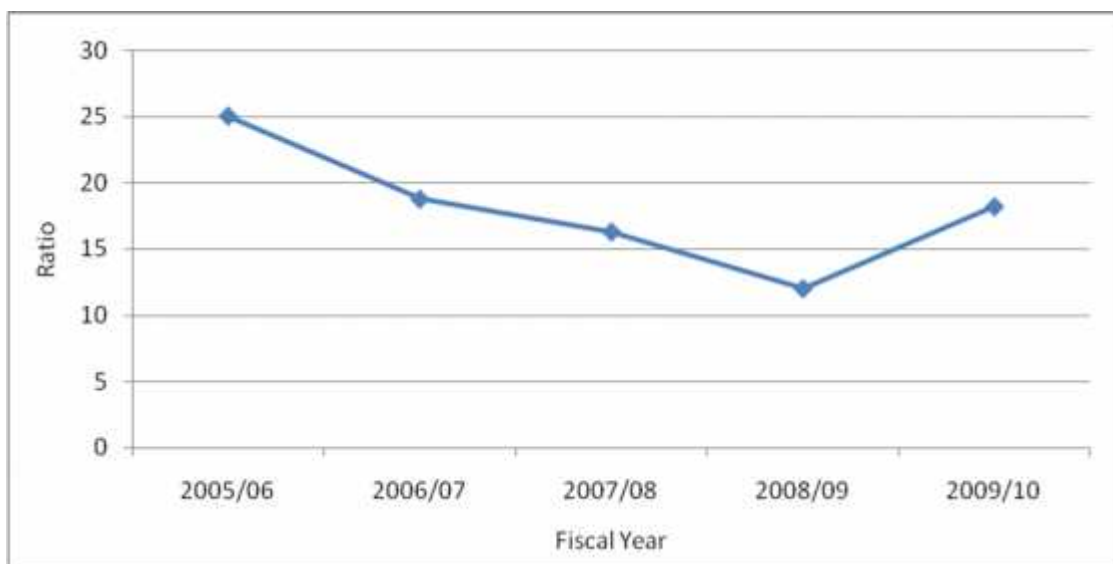
Fiscal Year	Paid Value	Right Value	Subscription %
2005/06	412.29	370.00	111.43
2006/07	464.06	472.00	98.32
2007/08	1724.84	1810.70	95.26
2008/09	4406.72	4496.65	98.00
2009/10	2444.90	2551.49	95.82
Mean			99.77
S.D.			7.25
C.V.percentage			7.27

Source: Annual Reports of SEBON (2005/06 to 2009/10) & Appendix 1

The table shows the subscription of right issuance of the commercial banks within the five year periods. The table depicts that, except in the fiscal year 2005/06, there is under subscription of the right issuance in the periods. However, the over subscription of the right issuance of commercial banks in the fiscal year 2005/06 is caused by the over subscription of right offering in Kumari Bank Limited, which is just 153.46percentage. This indicates that investors have more affectionate on the share of Kumari Bank Limited.

Moreover, the subscription of right issuance in the fiscal year 2005/06 is 111.43percentage, in the fiscal year 2006/07 is 98.32percentage, in the fiscal year 2007/08 is 95.26percentage, in the fiscal year 2008/09 is 98.00percentage and in the fiscal year 2009/10 it was 95.77percentage. In average, 99.77percentage of the total right issuance has been subscribed. It would be worthwhile if the commercial banks try to quest the reason of under subscription of the right issuance in the past before issuing the right share.

Figure: 4.4
Subscription of Right Issuance



4.1.5 Impact on MPS after Right Issuance

Generally, the MPS changes with the announcement of right issuance, but to what direction, i.e. increase or decrease, is significant. To examine whether MPS increases or decreases by the right offering, the MPS of the commercial banks issuing right share for the past five years has been analyzed.

Table 4.5

Impact on MPS after Right Issuance

Bank	2005/06			2006/07			2007/08			2008/09			2009/10		
	Bef.	Aft.	%Chg.	Bef.	Aft.	%Chg.	Bef.	Aft.	%Chg.	Bef.	Aft.	%Chg.	Bef.	Aft.	%Chg.
NBB	---	---	---	---	---	---	---	---	---	565	327	-42.12	---	---	---
NIB	---	---	---	---	---	---	1729	2450	41.70	2450	1388	-43.35	---	---	---
KBL	369	443	20.05	---	---	---	830	1005	21.08	---	---	---	---	---	---
MBL	256	320	25.00	---	---	---	---	---	---	1265	817	-35.42	---	---	---
DCBL	305	390	27.87	---	---	---	---	---	---	855	460	-46.20	---	---	---
LUBL	---	---	---	172	505	193.60	505	631	24.95	---	---	---	789	461	-41.47
LBL	---	---	---	368	690	87.50	690	1113	61.30	---	---	---	416	256	-38.46
SBL	---	---	---	360	778	116.11	778	1190	52.96	---	---	---	---	---	---
NICB	---	---	---	---	---	---	950	1284	35.16	---	---	---	---	---	---
NCCB	---	---	---	---	---	---	316	457	44.62	---	---	---	---	---	---
KIST	---	---	---	---	---	---	---	---	---	998	378	-62.12	---	---	---
NMB	---	---	---	---	---	---	---	---	---	930	499	-46.34	---	---	---
SRBL	---	---	---	---	---	---	---	---	---	---	---	---	499	256	-48.70
NSBI	---	---	---	---	---	---	---	---	---	---	---	---	1905	1415	-25.72
GBL	---	---	---	---	---	---	---	---	---	---	---	---	445	232	-47.87
BOA	---	---	---	---	---	---	---	---	---	---	---	---	480	270	-43.75

(Source: Annual Reports of Banks 2005/06 – 2009/10)

The table shows the changes in MPS after the issuance of right share. The table depicts that the MPS of KBL, the MPS of MBL and DCBL has increased after right issuance in the fiscal year 2005/06. Likewise, the MPS has increased by 193.60percentage in LUBL, 87.50percentage in LBL, and 116.11percentage in

SBL in the fiscal year 2006/07. In the fiscal year 2007/08, the MPS has increased by 41.70percentage in NIB, 21.08percentage in KBL, 24.95percentage in LUBL, 61.30percentage in LBL, 52.96percentage in SBL, 35.16percentage in NICB and 44.62percentage in NCCB. So on, the MPS has decreased by 42.12percentage in NBB, 43.35percentage in MBL, 46.20percentage in DCBL, 62.12percentage in KIST and 46.34percentage in NMB. Finally the MPS has decreased by 41.47percentage in LUBL, 38.46percentage in LBL, 48.70 in SRBL, 25.72percentage in NSBI, 47.87percentage in GBL and 43.75percentage in BOAL. This seems that, except in some cases, the MPS has been found to follow same increase/decrease trend in each bank in a fiscal year. Since, MPS has increased in some fiscal year and has decreased in some fiscal years, it is clear to assume that besides right share offerings there are other variables as well, which influence the MPS.

4.1.6 General Trend of Right Issue

To estimate the value of right offering made by the commercial banks and the total right offering of the listed companies for the fiscal year 2009/10 and 2010/11, the trend value analysis has been done. For this, the right issue has been considered as the dependent variable (Y) on the time (X). The calculated trend value and the regression line of right issue on time period is presented in the table below.

Table: 4.6
General Trend of Right Issue

(Rs. In Millions)

Fiscal Year	CB's Right Issue		Total Right Issue	
	Actual	Trend	Actual	Trend
2005/06	370.00	262.65	1013.45	838.25
2006/07	472.00	1101.41	1265.30	3569.86
2007/08	1810.70	1940.17	6793.40	6301.47
2008/09	4496.65	2778.93	14262.19	9033.08
2009/10	2551.49	3617.69	8173.04	11764.69
2010/11		4456.45		14496.3
2011/12		5295.21		17227.91
2012/13		6133.97		19959.52

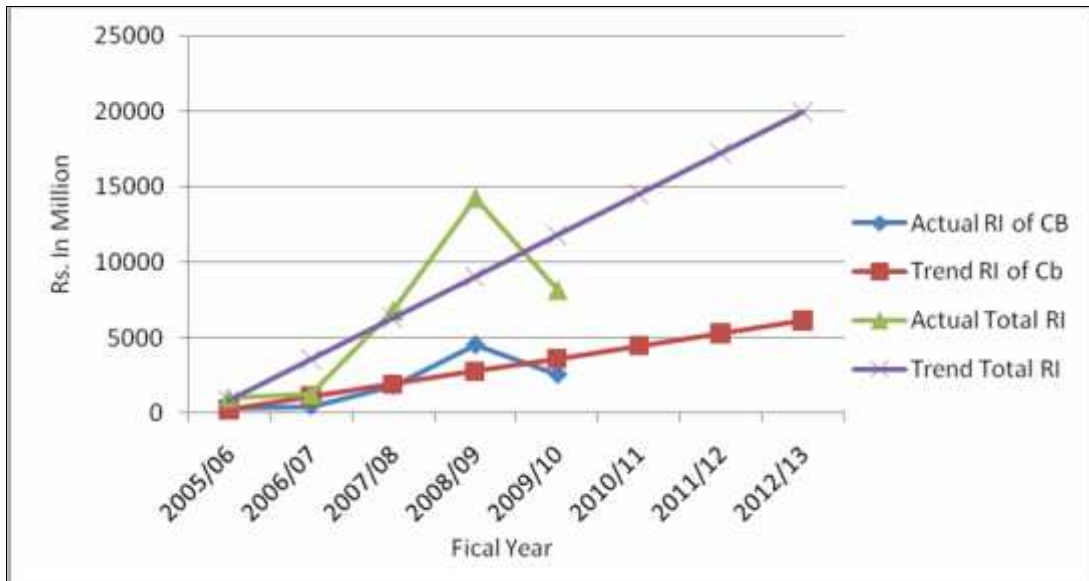
(Source: Annual Reports of SEBON (2005/06 to 2009/10) Appendix – II)

The table shows that the right offering has positive relationship with the time period. This indicates that in each year the listed companies will make effort to maximize the capital to confront the risk by issuing right share. The right offering of the commercial banks increases by Rs. 838.763 million per year, whereas that of the total listed companies' increases by Rs. 2731.61 million per year. This tacitly indicates that the right offering of the other listed companies will be greater than that of commercial banks.

As a result the estimated value of right offering of the commercial banks will be Rs. 4456.45 millions in the fiscal year 2010/11, Rs. 5295.21 millions in the fiscal year 2011/12 and 6133.97 millions in the fiscal year 2012/13. Similarly, the estimated value of right offerings of the total listed companies will be Rs. 14496.3 millions in the fiscal year 2010/11, Rs. 17227.91 millions in the fiscal year 2011/12 and Rs. 19959.52 millions in the fiscal year 2012/13. Thus, the right offering of the commercial banks covers less than 30percentage of the right offering of the total listed companies.

Figure: 4.5

Trend Analysis Right Issue



4.2 Primary Data Analysis

To understand the opinion of the people regarding the right share offerings in Nepal and its impact on market per share, the primary data analysis is equally significant. For the primary data analysis, a questionnaire containing 13 questions has been prepared and distributed to 10 personnel of commercial banks, 10 investors and 10 market experts. The responses obtained from them have been analyzed in tabular form.

4.2.1 Practices of Right Share

To augment the capital, the issuance of right share is crucial. Besides this, the corporate firm issues right share for various other reasons as well. To examine whether the corporate firms are increasingly practicing the issuance of right share, the respondents are asked on this issue.

Table: 4.7**Practices of Right Share**

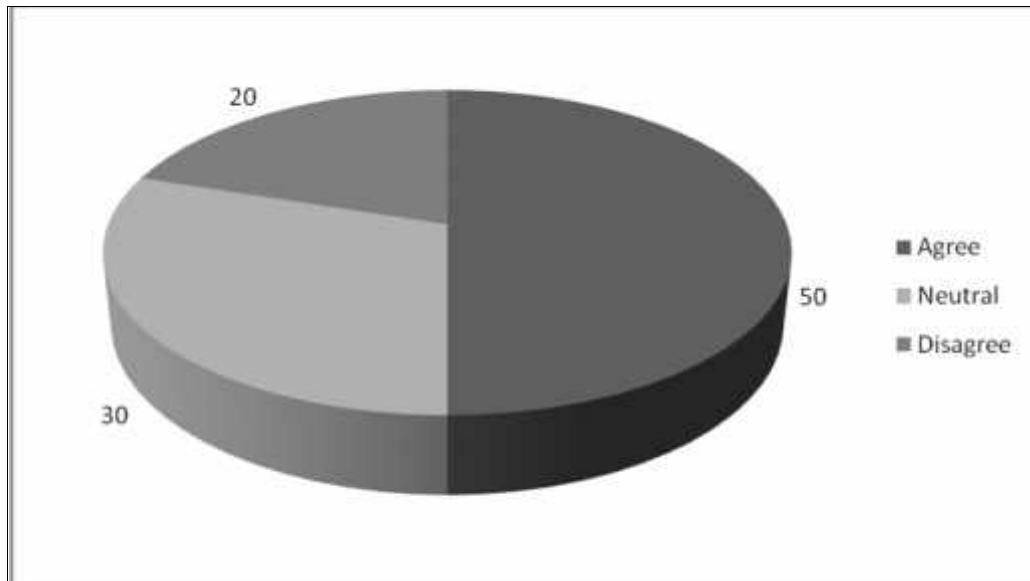
Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Agree	7	70	3	30	5	50	15	50
Neutral	2	20	4	40	3	30	9	30
Disagree	1	10	3	30	2	20	6	20
Total	10	100	10	100	10	100	30	100

(Source: Opinion Survey, 2011)

The table reveals that the majority of the respondents, i.e. 50percentage, have stated that the Nepalese corporate firms are increasingly practicing the right share issuance to augment the capital. In contrast, 30percentage of the respondents could not decide whether firms are increasingly practicing the right issuance. And 20percentage of the respondents have totally disagreed on the firms are increasingly practicing the right offerings.

Analyzing the responses of each category, it has been ascertained that 70percentage of the employees, 30percentage of the investors and 50percentage of the market experts have agreed that the corporate firms are increasingly practicing the right offerings. Whereas 10percentage of the employees, 30percentage of the investors and 20percentage of the experts have denied on this fact. Similarly, 20percentage of the employees, 40percentage of the investors and 30percentage of the experts have remained neutral on this question. Thus, considering the overall majority and the majority of each group, it can be assumed that right share is a crucial tool for the company to augment the capital, and thus firms are increasingly practicing the right issuance.

Figure: 4.6
Practices of Right Share



4.2.2 Suitability to Augment the Capital

The augmentation of capital depends upon the policy of the firms, whether to raise fund from external financing or internal financing. Among them, right offering, debenture issue and new share issue are the major sources. To investigate the suitability of each of the aforementioned source to increase capital, the respondents are asked to express their views.

Table: 4.8
Suitability to Augment the Capital

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Right Offering	3	30	7	70	4	40	14	47
Debenture Issue	1	10	0	0	2	20	3	10
New Share Issue	6	60	3	30	4	40	13	43
Total	10	100	10	100	10	100	30	100

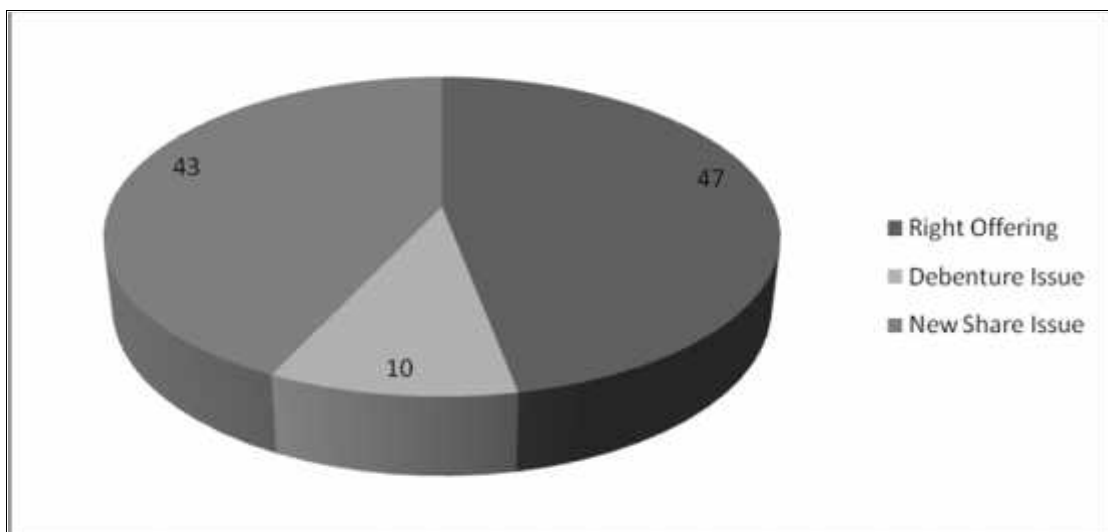
(Source: opinion survey, 2011)

The table shows that the majority of the employee of the banks, 60percentage, has opined that the company should increase its share capital by issuing new share, whereas the majority of the investors, 70percentage, have stated that the bank should augment its capital by offering right share, and 40percentage of the market expert has asserted that the bank should augment its capital by offering right share and another 40percentage of the market expert has pointed out issuing of new share, and only 20percentage of the expert has stated that the bank should increase its capital by issuing debenture capital. Similarly, 10percentage of the employees have stated that the bank should increase its capital by issuing debenture, and 30percentage of them have opined issuing of right share to increase capital. Likewise, the remaining 30percentage of the investors stated that the bank should augment its capital by issuing new share.

It seems that each category has chosen the option that asylum one’s interest. Whatever, the overall majority, 47percentage, clarifies that the bank should mainly focus in issuing right share to augment capital, and 43percentage have stated that the bank should augment the capital by issuing new share and only 10percentage have stated that the bank should increase its capital by issuing debenture. Considering the overall majority, it can be concluded that issuing right share would be the best option for the bank to augment its capital.

Figure: 4.7

Suitability to Augment the Capital



4.2.3 Degree of Effect in MPS by Issuance of Right Offering

Pragmatically, the MPS of the company has ascertained to be affected by the issuance of right offering, but to what extent is the major question. To solve this bewilder, the opinions of the respondents have been analyzed.

Table: 4.9

Degree of Effect in MPS by Issuance of Right Offering

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
High	4	40	7	70	3	30	14	47
Medium	4	40	2	20	6	60	12	40
Low	2	20	1	10	1	10	4	13
Total	10	100	10	100	10	100	30	100

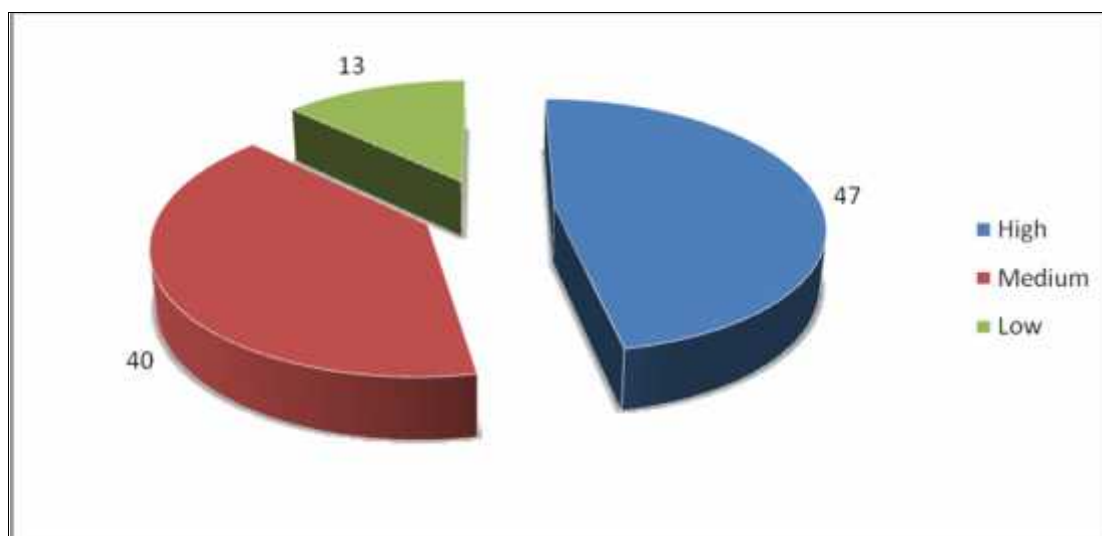
(Source: opinion survey, 2011)

The table depicts that 40percentage of the employee of the banks, 70percentage of the investors, and 30percentage of the market expert have opined that the issue of right share has high degree of effect in MPS of such company. Likewise, 40percentage of the personnel of the bank, 20percentage of the investor, and 60percentage of the market expert have asserted that the issuance of right share has medium level of effect in market price of the stock. Similarly, 20percentage of the employees, 10percentage of the investors and 10percentage of the market experts have stated that market price of share is affected in low level by the issuance of right share.

In overall, 47percentage of the respondents (14 out of 30) have pointed high level of influence on MPS, 40percentage of the respondents (12 out of 30) have stated medium level of effect, and 13percentage of the respondents (4 out of 30) have said low level of effect on MPS by the issuance of right share. Considering the overall majority, it can be stated that MPS is highly influenced by the issuance of right offering.

Figure: 4.8

Degree of Effect in MPS by Issuance of Right Offering



4.2.4 Main Influencer of MPS

Market price per share of the companies is fluctuated by various reasons. To determine which factor has most influence on MPS, the respondents are asked to express their views.

Table: 4.10

Main Influencer of MPS

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Right Offering	2	20	1	10	2	20	5	17
Dividend Distribution	3	30	4	40	3	30	10	33
Profitability	3	30	2	20	3	30	8	27
Malpractices	1	10	2	20	1	10	4	13
Political Situation	1	10	1	10	1	10	3	10
Total	10	100	10	100	10	100	30	100

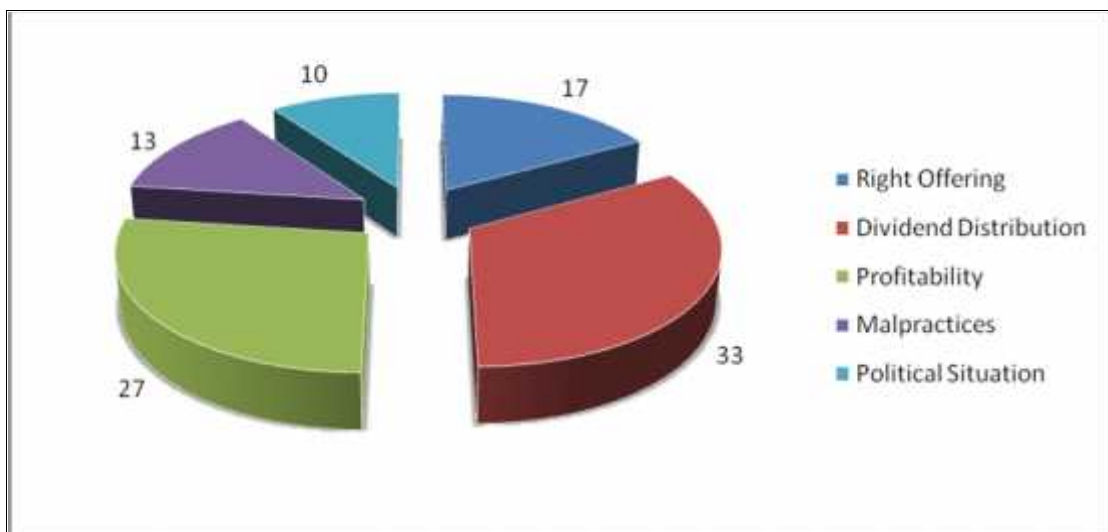
(Source: Opinion Survey, 2011)

The table depicts that 30percentage of the employees, 40percentage of the investors, and 30percentage of the market experts are in the view that the

dividend distribution policy of the bank is the major influence of market price per share. However, 30percentage of the personnel of the banks, 20percentage of the investors, and 30percentage of the experts have opined that the profitability situation of the bank is the major influence of the MPS. Similarly, 20 percentages of the employees, 10percentage of the investors, and 20 percentages of the market experts have stated that the issuance of right shares is the major determinants of the MPS. Likewise, 10percentage of the employees, 20percentage of the investors and 10percentage of the market experts have asserted that the malpractices like warehousing; insider training, pooling etc. are the major influence of fluctuation in MPS. Finally, 10percentage of the employees, 10percentage of the investors, and 10percentage of the market experts have avowed that the political situation like strike, market halt and other instability etc. is the major determinants of MPS.

In overall, 17percentage, 33percentage, 27percentage, 13percentage and 10percentage of the total respondents have stated that right offering, dividend distribution, profitability, malpractices in share trading, and political situation respectively is the major influence of MPS. Considering the overall majority, it can be concluded that the MPS is highly affected by the dividend distribution policy of the company.

Figure: 4.9
Main Influencer of MPS



4.2.5 MPS after Right Share Issue

Since in most cases, MPS of the company changes by the issuance of right share, to ascertain whether MPS increases or decreases by the right offering is the major issue. The respondents are asked to opine their experience on the change of MPS by right issuance.

Table: 4.11

MPS after Right Share Issue

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
MPS always decreases	0	0	1	10	1	10	2	7
MPS sometime decreases	2	20	1	10	4	40	7	23
MPS always increases	2	20	2	20	1	10	5	17
MPS sometime increases	6	60	5	50	4	40	15	50
No change	0	0	1	10	0	0	1	3
Total	10	100	10	100	10	100	30	100

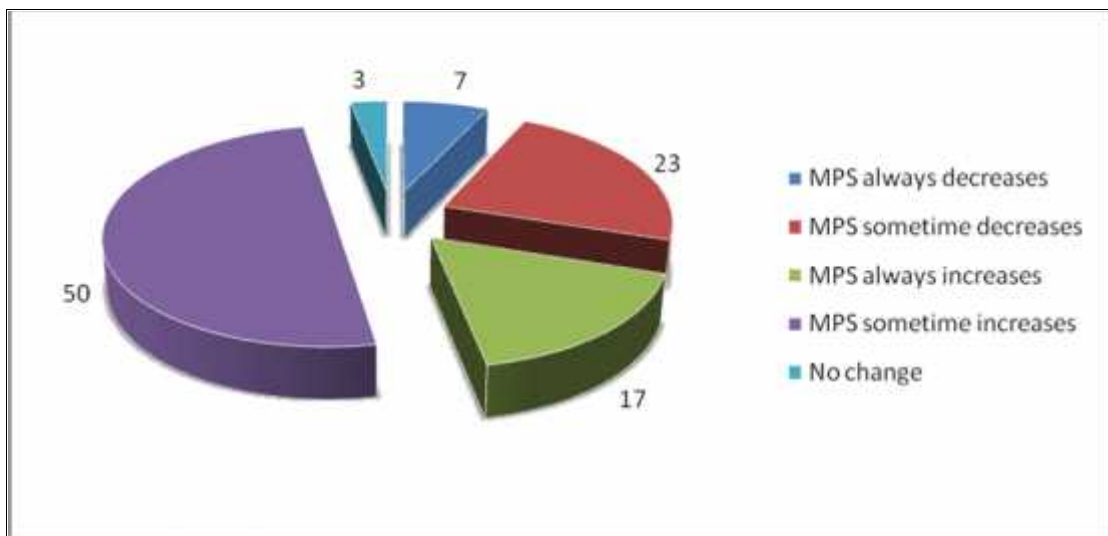
(Source: Opinion Survey, 2011)

The table depicts that the majority of each category, 60percentage of the employees, 50percentage of the investors, and 40percentage of the market experts have opined that after the issuance of right share the market price per share of the company sometimes increases. Similarly, 20percentage of the employees, 10percentage of the investors, and 40percentage of the market experts have avowed that the MPS sometimes decreases after the issuance of right share. Likewise, 20percentage of the banking personnel, 20percentage of the investors, and 10percentage of the experts have asserted that the MPS always increases after right share offering. In contrast, 0percentage of the employees, 10percentage of the investors, and 10percentage of the market

experts have opined that the MPS always decreases after right share issuance. Finally, 10percentage of investors have stated that there will be no change in MPS after the issuance of right offering as well.

In overall, 50percentage of the total respondents have said that the MPS of the company will sometime increases after right share issuance, 23percentage of the respondents have stated that MPS sometime decreases, 17percentage of the respondents have affirmed that MPS always increases, 7percentage of the respondents have asserted that MPS always increases and 3percentage have stated no change in MPS. Thus, it can be concluded that in most situation, the MPS of the company increases after the issuance of right offering.

Figure: 4.10
MPS after Right Share Issue



4.2.6 Main Expectation of Investors

Ubiquitously investors invest on the share with the motive of return. But to know in what form the return should be is the major matter for discussion. Thus, the respondents are asked to assert the main expectation that the investors quest while making investment.

Table: 4.12**Main Expectation of Investors**

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Right Offering	3	30	4	40	2	20	9	30
Bonus Share Offering	4	40	5	50	7	70	16	53
Cash Dividend Offering	3	30	1	10	1	10	5	17
Total	10	100	10	100	10	100	30	100

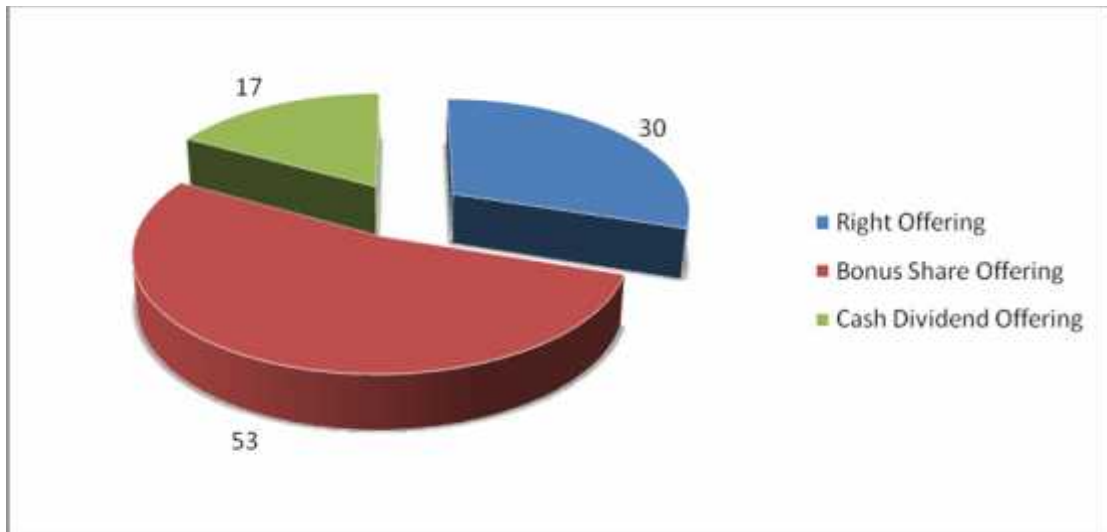
(Source: Opinion survey, 2011)

The table delineates that the majority of each category of respondents, 40percentage of the employees, 50percentage of the investors, and 70percentage of the market experts have stated that the investors expects bonus share offering most from the company. Next to it, 30percentage of the employees, 40percentage of the investors, and 20percentage of the market experts have opined that the investors quest right share offering from the company. Similarly, 30percentage of the personnel of the banks, 10percentage of the investors and 10percentage of the market experts are in the view that investors await cash dividend offering from the company.

In overall, 53percentage of the total respondents have robustly stated that the investors expects bonus share offering from the company. Similarly, 30percentage of the total respondents have stated that the investors expects right offering, and only 17percentage of the respondents have affirmed that the investors expects cash dividend offering. Thus, it can be concluded that right offering is the second motive, next to bonus share, for investors.

Figure: 4.11

Main Expectation of Investors



4.2.7 Main Reason behind Right Issuance

To examine the precise reason behind the issuance of right share by the banks, the respondents are asked to express their views. The responses obtained from them are presented in the table below.

Table: 4.13

Main Reason behind Right Issuance

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Increase Capital	6	60	8	80	5	50	19	64
Increase MPS	1	10	0	0	0	0	1	3
Increase Out. Share	1	10	2	20	1	10	4	13
Increase dividend	2	20	0	0	4	40	6	20
Total	10	100	10	100	10	100	30	100

(Source: Opinion Survey, 2011)

The above table depicts that the majority of each categories of the respondents, 60percentage of the employees, 80percentage of the investors, and

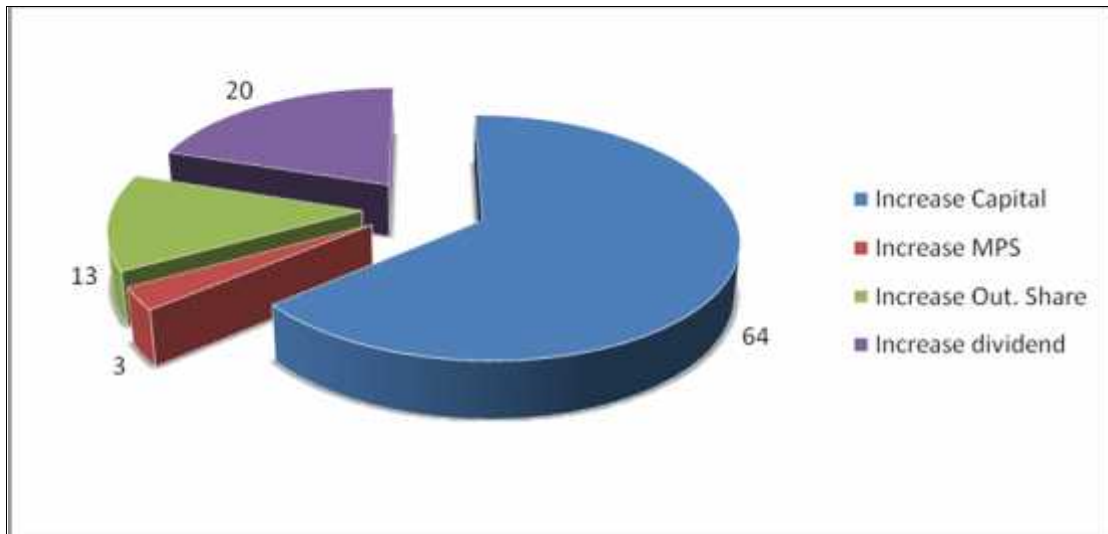
50 percentages of the market experts, have opined that the true intention of the bank behind offering right share is to augment the capital.

Whereas, 10 percentage of the personnel of the bank, 0 percentage of the investors and 0 percentage of the market experts have stated that the main reason behind offering right share is to increase the MPS of the company. Similarly, 10 percentage of the staffs, 20 percentage of the investors, and 10 percentage of the market experts have opined that the bank issues right share to increase the number of outstanding shares and to promote and to be active in trading in stock market. Finally, 20 percentage of the employees, 0 percentage of the investors and 40 percentage of the market experts have opined that to retain the investors by increasing the number of shares which ultimately increases dividend of investors is the main reason behind issuing right share.

In aggregate, 64 percentage of the total respondents have said merely to increase the capital is the main reason behind right issuance, 20 percentage of the respondents have said increasing dividend, capital gain, of the investors is the main reason, 13 percentage have stated increasing outstanding shares and 3 percentage have affirmed increasing MPS is the main reason behind issuing right share offering. Thus, on the basis of the majority of each category, and the overall majority, it can be concluded that the bank issues right share mainly to augment the capital.

Figure: 4.13

Main Reason behind Right Issuance



4.2.8 Awareness of Right Offering Phenomenon

To become the right offering effective and the full subscription of the issue, it is crucial that the investors are fully aware of right offering phenomenon. To investigate at what level the Nepalese investors are aware about the phenomenon, the respondents are asked on this matter.

Table: 4.14

Awareness of Right Offering Phenomenon

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
All	0	0	0	0	0	0	0	0
None	1	10	0	0	0	0	1	3
Very Few	4	40	3	30	4	40	11	37
Majority	4	40	6	60	6	60	16	53
Don't Know	1	10	1	10	0	0	2	7
Total	10	100	10	100	10	100	30	100

(Source: Opinion Survey, 2011)

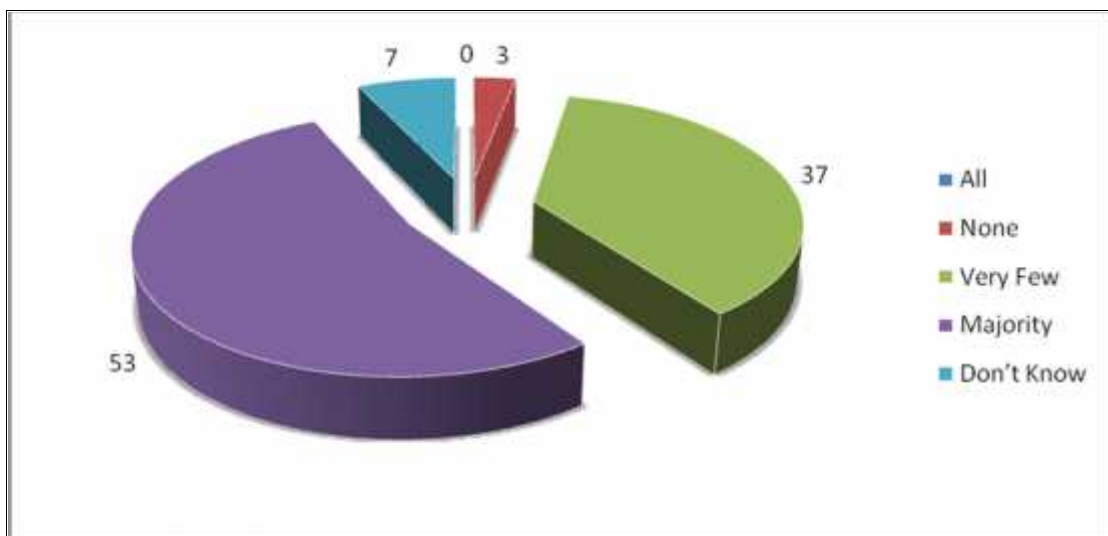
The table delineates that 10percentage of the employees of the banks have stated that none of the investors is well aware on the awareness of the right

offering phenomenon. Similarly, 40percentage of the employees, 30percentage of the investors and 40percentage of the market experts have opined that very few investors are well aware about the phenomenon of right offerings. In contrast, 40percentage of the employees, 60percentage of the investors, and 60percentage of the market experts have stated that the majority of the investors are fully aware on the right offering phenomenon. While 10percentage of the employees and 10percentage of the investors have said that they wittingly have no idea on the awareness of investors on right offering phenomenon.

In aggregate, 53percentage of the total respondents have stated that the majority of the investors are fully aware, 37percentage of the respondents have avowed that very few investors are well aware, 7percentage of the respondents have stated that they have no idea and 3percentage of the respondents have stated that none of the investors are well aware on the right offering phenomenon. This seems that the majority of the investors are well aware on right offering phenomenon.

Figure: 4.13

Awareness of Right Offering Phenomenon



4.2.9 Collection of Information about Right Issuance

To understand the right offering issuance, it is necessary that the investors collect information regarding the issuance. To examine whether investors collect information on right issuance, the respondents are requested to express their opinions.

Table: 4.15

Collection of Information about Right Issuance

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Yes	6	60	8	80	6	60	20	67
No	3	30	2	20	4	40	9	30
Don't Know	1	10	0	0	0	0	1	3
Total	10	100	10	100	10	100	30	100

(Source: Opinion Survey, 2011)

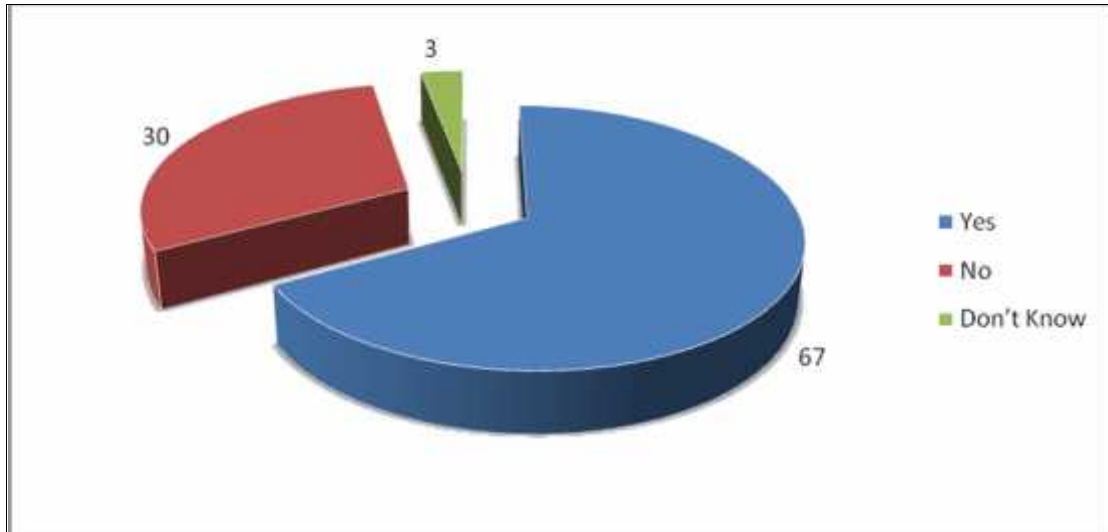
The table depicts that the majority of the respondents of each category, 60percentage of the employees, 80percentage of the investors, and 60percentage of the market experts have opined that the investors collect information on right issuance of the company. However, 30percentage of the staff, 20percentage of the investors and 40percentage of the market experts have stated that the investors are not interested in collecting information on right issuance. While 10percentage of the employees have stated that they have no idea on this matter.

In overall, 67percentage of the respondents have affirmed that investors do quest information on right share offering, 30percentage of the respondents have stated that investors do not collect information, and 3percentage of the respondents have stated that they have no idea on the collection of information by investors on right share issuance. Considering the overall majority and the

majority of each category of respondents, it can be assumed that the majority of the investors are agog in collecting information about right share issuance.

Figure: 4.14

Collection of Information about Right Issuance



4.2.10 Main Source of Information

Out of 30 respondents, 20 respondents have opined that the investors do collect information regarding right issuance. Thus, the investors, who have stated that investors collect information, have been requested to disclose the source of information from which the investors mostly collect information.

Table: 4.16

Main Source of Information

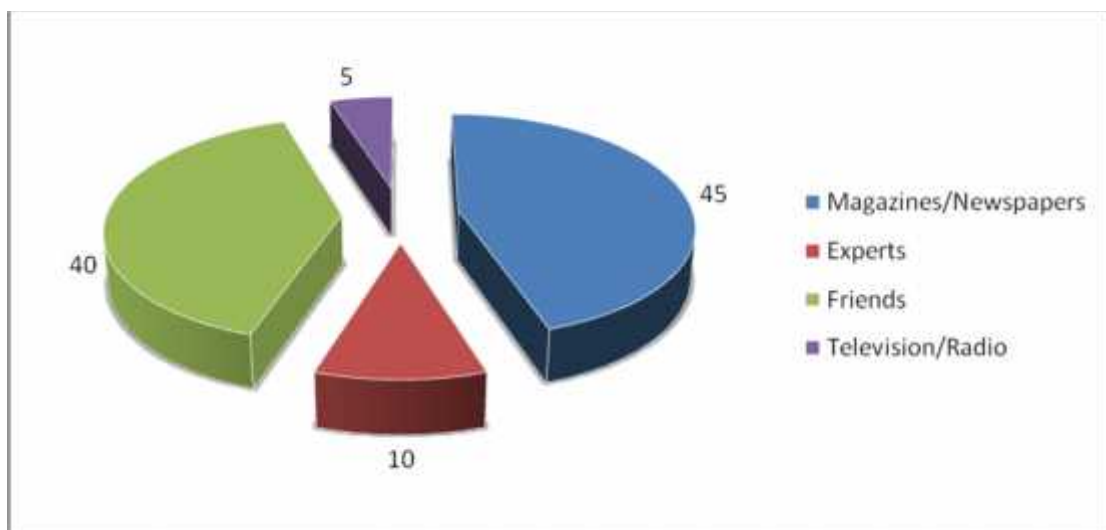
Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Magazines/Newspapers	4	66	3	38	2	33	9	45
Experts	0	0	1	12	1	17	2	10
Friends	1	17	4	50	3	50	8	40
Television/Radio	1	17	0	0	0	0	1	5
Total	6	100	8	100	6	100	20	100

(Source: Opinion Survey, 2011)

The table presents that the majority of the employees have stated magazine/newspaper is the major source of information for the investors on the right share issuance, while the majority of the investors and market experts have stated that friend is the major source of information. About 66percentage of the employees, 38percentage of the investors and 33percentage of the market expert have opined that the magazine/newspaper is the main source of information. In contrast, 17percentage of the employees, 50percentage of the investors and 50percentage of the experts have stated that friend is the main source of information on right share issuance. Similarly, 12percentage of the investors and 17percentage of the market experts have opined that the share known expert like broker, market makers and other professional is the major source of information. In addition, 17percentage of the employees have avowed that television/radio is the main source of information.

In overall, 45percentage of the respondents pointed out newspaper/magazine, 40percentage of the respondents have stated friends, 10percentage of the respondents have pointed out experts and 5percentage have opined television/radio as the main source of information. Comparatively, it can be concluded that the newspaper/magazine is the most useful source of information for investors on right share.

Figure: 4.15
Main Source of Information



4.2.11 Reason for Under Subscription

The secondary data analysis shows that in most cases there is under subscription on the right share. To examine what factors mainly causes the under subscription of the right issuance, the respondents are asked to express their opinions.

Table: 4.17

Reason for Under Subscription

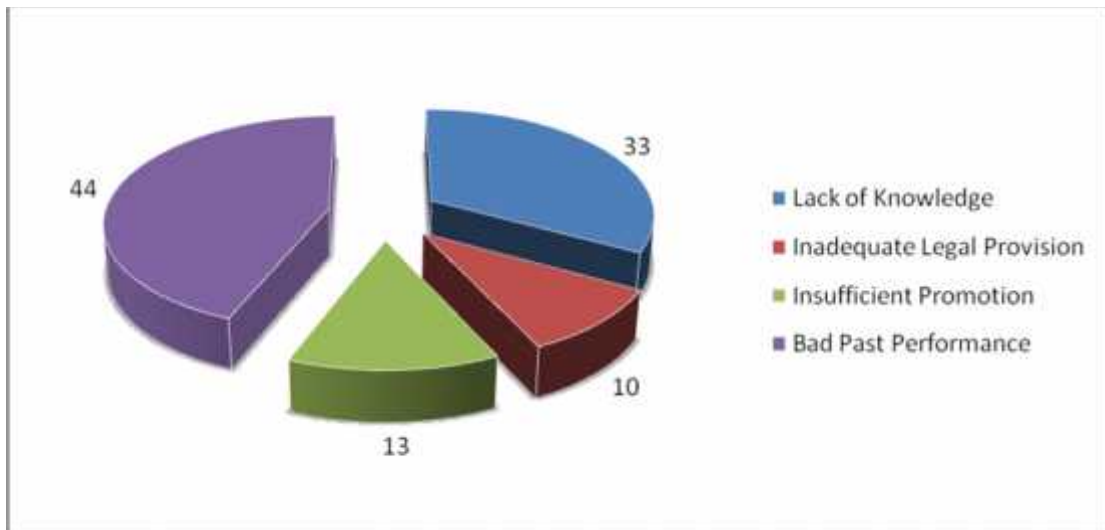
Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Lack of Knowledge	4	40	3	30	3	30	10	33
Inadequate Legal Provision	0	0	1	10	2	20	3	10
Insufficient Promotion	1	10	2	20	1	10	4	13
Bad Past Performance	5	50	4	40	4	40	13	44
Total	10	100	10	100	10	100	30	100

(Source: Opinion Survey, 2011)

The table reveals that the majority of each category, 50percentage of the employees of the bank, 40percentage of the investors, and 40percentage of the market expert have opined that the bad performance of the company in past is the major reason behind non full subscription of the right issuance. Likewise, 40percentage of the employees, 30percentage of the investors, and 30percentage of the market experts have stated that the lack of adequate knowledge on investors about the right shares issuance and phenomenon is the major reason for the under subscription. Further, 10percentage of the employees, 20percentage of the investors and 10percentage of the market experts have said that the lack of company's interest in promoting the issuance is the main reason for under subscription. Whereas, 0percentage of the employees, 10percentage of the investors and 20percentage of the market experts have avowed that the inadequate legal provision in apropos of right share issuance is the main reason for under subscription.

In overall, 44percentage of the respondents have stated bad past performance of the right offering company, 33percentage of the respondents have pointed lack of knowledge on investors about the right share, 13percentage of the respondents have said insufficient promotional activities of the companies, and 10percentage of the respondents have affirmed inadequate legal provision regarding right share, is the main reason behind partial subscription of right share. Considering the majority, it can be assumed that the performance of the company is most significant in the subscription of right share.

Figure: 4.16
Reason for under Subscription



4.2.12 Appropriate Number of Nominees for Right Transfer

As per the securities regulations, the existing shareholders are allowed to transfer the right share to only one nominee. To investigate whether such barricade is appropriate, the respondents are requested to express their opinions.

Table: 4.18

Appropriate Number of Nominees for Right Transfer

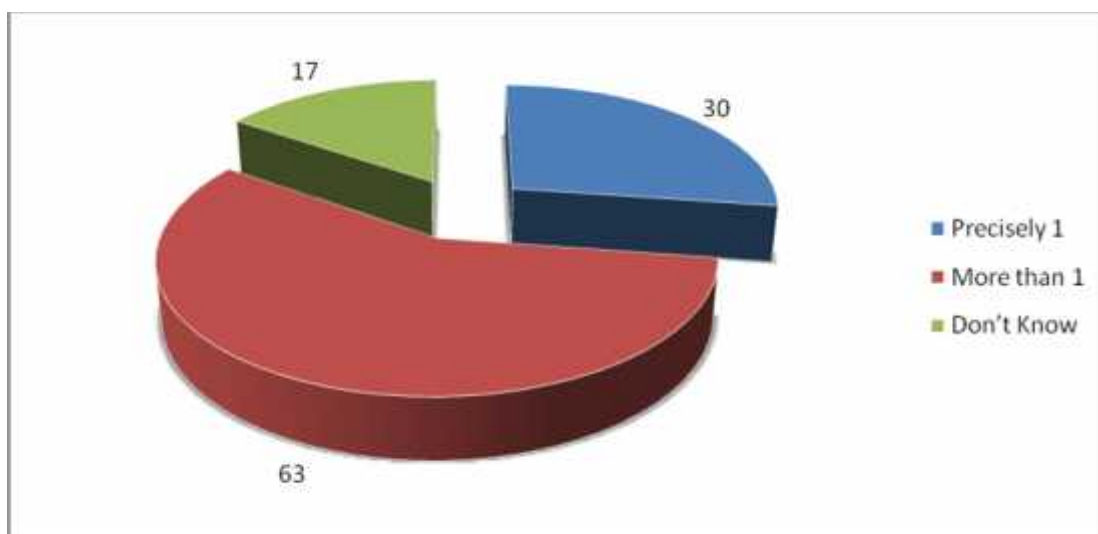
Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Precisely 1	2	20	0	0	4	40	6	30
More than 1	6	60	7	70	6	60	19	63
Don't Know	2	20	3	30	0	0	5	17
Total	10	100	10	100	10	100	30	100

(Source: Opinion Survey, 2011)

The table shows that the majority of the respondents, 63percentage, are in the opinion that there should be provision of transferring the right shares issuance to more than one nominee. In contrast, 30percentage of the respondents have argued that there should not be more than one nominee in transferring the right share. Likewise, 17percentage of the respondents have stated that they have no idea on this matter. Looking each category, it has been ascertained that the majority of the employees, i.e. 60percentage, the majority of the investors, i.e. 70percentage, and the majority of the market experts, i.e. 60percentage, have stated that the shareholders should have right to nominate more than one person for right share transfer. Whereas 20percentage of the employees, 0percentage of the investor, and 40percentage of the market experts have asserted that precisely one person is the appropriate number for right share transfer. While 20percentage of the employees, 30percentage of the investors, and 0percentage of the experts have opined that they have no idea on this issue. Considering the opinions of the respondents, it can be assumed that it would be worthwhile if the legislation indulges to nominate more than one person for right transfer.

Figure: 4.17

Appropriate Number of Nominees for Right Transfer



4.2.13 Appropriate Amount while submitting Prospectus for Right Issuance

As per the Securities Regulation regarding right issuance, the listed companies should deposit exactly Rs. 20000 while submitting the prospectus for right issuance. To examine the appropriate amount that will be fit in the Nepalese securities markets, the respondents are asked to opine their views.

Table: 4.19

Appropriate Amount while submitting Prospectus for Right Issuance

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Below Rs. 20000	6	60	3	30	4	40	13	43
Exactly Rs. 20000	3	30	5	50	3	30	11	37
Above Rs. 20000	1	10	2	20	3	30	6	20
Total	10	100	10	100	10	100	30	100

(Source: Opinion Survey, 2011)

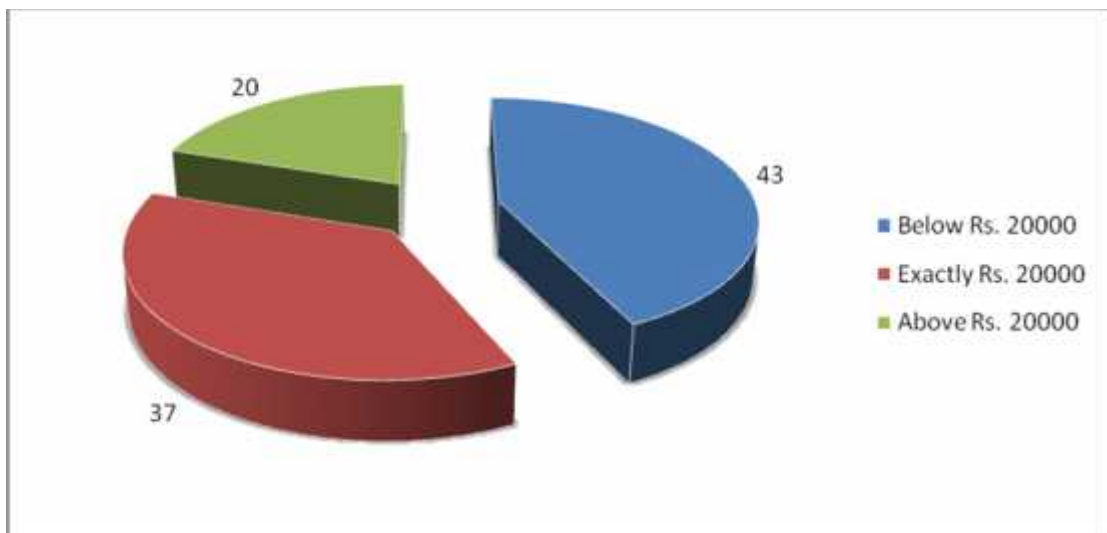
The table shows that the majority of the employees and market experts are in the opinion that the amount, which should be submitted while submitting the prospectus for right share issuance, should be deducted. About 60 percentages of the employees and 40percentage of the experts have supported this view,

while only 30percentage of the investors have said that existing Rs. 20000 provision should be deducted. Likewise, the majority of the investors have opined that such amount, i.e. Rs. 20000, should not be deducted and should be the existing provision. However, only 30percentage of the staffs and 30percentage of the market experts have opined that the deposit amount should be exactly Rs. 20000. Similarly, 10percentage of the employees, 20percentage of the investors and 30percentage of the market experts have said that the deposit amount should be above Rs. 20000.

In overall, 43percentage of the total respondents have asserted that the deposit amount should be Rs. 20000, 37percentage of the respondents have said that the deposit amount should be precisely Rs. 20000, and 20percentage of the respondents have stated that such amount should be above Rs. 20000. Considering the majority, it can be assumed that it would be worthwhile if SEBON amends the legislation and fix the deposit amount that is appropriate to all party.

Figure: 4.18

Appropriate Amount while submitting Prospectus for Right Issuance



4.3 Major Findings of the Study

On the basis of the data analysis, the following major findings have been drawn;

- a. In average, the right share covered 64.11percentage of the total securities issuance within the five year periods. The listed companies have chosen right share as the major source for capital increment.
- b. In average, the right offering of the commercial banks has covered 32.64percentage of the total right issuance. This coverage has been found to be in fluctuating trend, indicating that other listed companies are extensively practicing right offerings.
- c. The number of commercial banks offering right share is significantly less in number, whereas the total listed companies is much higher. This indicates that the financial institutions, other than commercial banks, like development banks, finance companies and other are more interested in accumulating the capital by means of issuing right share.
- d. In average, 99.77percentage of the total right issuance of commercial banks has been subscribed. However, in case of Kumari bank there is over subscription of 153.46percentage in the fiscal year 2005/06.
- e. The MPS of the commercial banks has been found to have increased in the fiscal year 2005/06, 2006/07 and 2007/08, and found to have decreased in the fiscal year 2008/09 and 2009/10. This indicates that right issuance is not the sole determinant affecting MPS.
- f. The estimated value of right issue of commercial banks in the fiscal year 2010/11, 2012/13 and 2001/12 will be Rs. 4456.45 millions Rs. 5295.21 millions and Rs. 6133.97millions respectively, while that of total listed companies will be Rs. 14496.3 millions, Rs. 17227.91 millions and Rs. 19959.52 million respectively.
- g. Half of the respondents opined that the listed companies are increasingly practicing right share for capital augmentation and for other reasons. Likewise, 47percentage of the respondents have opined that the bank should augment the capital through right share.

- h. It has been found that right offering has high influence in MPS. About 47percentage of the total respondents have accepted this view. Whereas, 33percentage of the total respondents have opined that dividend policy is the main influencer of MPS.
- i. Similarly, 50percentage of the respondents have avowed that MPS sometimes increases after the issuance of right share. The majority of the respondents, 53percentage, have opined that investors expects bonus share offering rather than right share. And 64percentage of the respondents have stated that capital augmentation is the major reason behind right offering.
- j. Moreover, 53percentage of the respondents have said that the majority of investors are aware on right share offering. And 67percentage of the respondents have stated that investors do collect information. In addition out of these respondents 45percentage have opined that newspaper and magazine is the main source of information.
- k. 44percentage of the respondents have pointed out that the bad past performance is the main reason behind under subscription of right issue. Likewise, 63percentage have opined that there should be provision of more than one nominee for right transfer, and 43percentage of the respondents have expressed that below Rs. 20000 will be the appropriate amount to be deposited while submitting the prospectus for right issuance.

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

A rights offering, also known as a subscription right, a company offers existing shareholders the opportunity to buy additional shares of company stock in proportion to the number they already own before any new shares are offered to the public. Such an offering is usually mandated by the corporate charter. To act on the offering, one turns over the rights one receives, typically one for each share of stock one owns, and the money needed to make the purchase within the required period, often two to four weeks. The amount of money that's required is known as the subscription price.

Rights offerings have been around for centuries. They have been used regularly in jurisdictions where pre-emptive rights are either popular or required or both. When it comes to raising capital, rights offerings have had a steady presence, but never enjoyed “rock-star” status. In the last year, however, that appears to have changed. For a good part of 2008 the public markets were closed to most issuers due to an unprecedented period of market volatility. Now that the economy appears to be moving from financial crisis to recovery, the markets remain volatile and issuers that need to raise capital are careful to do so through securities offerings designed to minimize the possibility for front running by investors and mitigate the possibility of resulting in aberrational trading in their stocks. An issuer should realize that a market may develop for transferable rights and may create arbitrage opportunities between the issuer’s common stock and the rights or volatility in the issuer’s common stock. As a result, nontransferable rights are more popular. From an issuer’s perspective, a rights offering provides a capital-raising opportunity. An issuer may be able to achieve its financing objectives through an offering to its existing stockholders, without the need to commit management time and effort to marketing. Also, an issuer may undertake a rights offering with or without a financial adviser. Thus

to understand the right offering practices in Nepal and the impact of right Issuance on the market price, the present study has been conducted. To achieve the objectives, both the primary and secondary data have been analyzed. The secondary data have been collected from NEPSE trading report and the annual report of the banks, whereas the primary data have been collected through questionnaire. Various financial and statistical tools have been meticulously used to conduct the study

5.2 Conclusion

The main conclusion of this study is that the right issue is the major source for capital increment, as the preponderance of right issuance on total securities issue is high. However, the coverage of right issuance of commercial banks on total right issuance has decreased, this is due to the involvement of non commercial banks, other listed companies, in increasingly practicing the right share. In most of the year there is under subscription of right issuance, which tacitly points out the unawareness on investors on right phenomenon and hurdles kept by provisions by limiting the right transfer to only one nominee.

The study further concludes that right offering is not the sole determinants of market price per share; as a result MPS has been found to have increased in most of the years and also decreased in some years. From the trend analysis, it can be concluded that the pace of growth of right offering will be lower in commercial banks in comparison to the total listed companies. This indicates the extensive practice of right offerings by listed companies other than commercial banks. The study also concludes that the corporate firms are increasingly practicing the right offering, mainly to augment the capital. Furthermore, right offering has high influence in market price per share, and MPS sometimes increases due to right issuance. Also, it can be concluded that dividend distribution policy is the main influencer of MPS rather than right offerings, and thus investors expects bonus share dividend than right share. Categorically, it can be said that the banks offer right share mainly for capital

augmentation. Moreover, it can be assumed that the majority of the investors are aware on right share phenomenon, and newspaper and magazine is most crucial for making the investors aware on right share issuance. Finally, it can be concluded that the current legislation is insufficient for making the right offering phenomenon more efficient and attractive to investors.

5.3 Recommendations

On the basis of major findings drawn in previous chapter and the conclusion derived in this chapter, the following recommendations have been made for enhancing the right share practices in Nepal;

- a. Regulation and their implementation should be sound and strict. So that all kinds of investors can earn equal benefit on the basis of their investment.
- b. Regulatory offices, issue managers, issuing companies and government should jointly organize investors awareness program on stock because still number of investors are unaware about share and share market it.
- c. The barricade made by legislation for transferring the right share to only one nominee has adversely affected the existing shareholders. Thus such provision which makes the shareholders uncomfortable should be abrogated and appropriate provision should be made.
- d. Infrastructure like good communication, banking facilities and postal services should be developed to encourage investors.
- e. Company should play promotional role, for the full subscription of rights share, because there exist large no rights not exercise by the existing shareholders. Thus, misconception and rumors about rights share, to lead them to irrational decision. Thus the concern authorities must consider making aware to the investors regarding misconception about right share and other influential factors. The awareness program should be available for general investors through interaction, advertisement, videoconference, seminars, training, workshops and

radio talk.

- f. In order to make the capital market more efficient. The SEBON should create the friendly environment and then, market participants and academic institutions should jointly promote and undertake more research and market analysis activities.
- g. Company act should be amended to make clear provision regarding the issue of rights share and subsequent allotment of rights issue.

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APPENDIX-I
QUESTIONNAIRE

Dear sir/madam,

In order to meet the partial requirement for the fulfillment of Master's Degree of Tribhuvan University, I am doing research entitled "Right Issue Practices and their Impact on Market Price:-An Evidence from Nepalese capital Market". So, in order to achieve the objective the study, I humbly request you to fill up the below questionnaire.

Respondents;

Name (Optional): B) Position.....

Please tick out the appropriate answer choice:

1. Do you think that Nepalese corporate firms increasingly practice the right shares?

- a) Agree b) Neural c) Disagree

2. To augment the capital of banks, which of the following is suitable?

- a) Right Offering issue b) Debenture Issue c) New Share

3. To what extent does the issue of right share affect the MPS of the bank?

- a) High b) Medium c) Low

4. Market price per share of the bank is mostly influenced by.....

- a) Right Share Offering
b) Dividend Distribution
c) Profitability of Firm
d) Malpractices
e) Political Situation

- 5) In your experience what happens to the MPS after right share issue?
- a) MPS always decreases b) MPS sometimes decreases c) MPS always increases
d) MPS sometimes increases e) No change
- 6) In your opinion, the investor of the firm mostly expects.....?
- a) Right Share Offering
b) Bonus Share Offering
c) Cash Dividend Offering
- 7) In your view, what is the main reason behind issuance of right share?
- a) To increase share capital
b) To increase the market price of stock
c) To increase the number of outstanding share and promote and active trading in the stock market.
d) To raise further dividend for shareholder (Capital Gain).
- 8) Do you think that investors are well aware of all the phenomenon of right offering?
- a) All of them b) None of them c) Very Few of them
d) Majority of them e) Don't Know
- 9) Do the investors collect information regarding the right issue announcement?
- a) Yes b) No c) Don't Know
- 10) If yes, what is the main source of information?
- a) Magazines/Newspapers b) Experts c) Friends
d) Television /Radio

11) Right are not fully subscribed because of.....

- a) Lacking knowledge in investors.
- b) Inadequate legal provision
- c) Insufficient promotional.
- d) Bad past performance of company.

12) As per the securities regulation, the rights obtained by the shareholder could be nominated to only 1 person. In your view, what should be such number?

- a) Precisely 1 b) More than 1 c) Don't Know

13) While submitting the prospectus for right issuance, the bank should submit a receipt of bank voucher worth of RS 20000. In your opinion what should be such rate?

- a) Below Rs.20000 b) Exactly Rs. 20000 c) Above Rs.20000

Thank you.

Appendix –II

Calculation of Trend Values of CB's Right Issue

Year(t)	ICR(Y)	X=(t-2064/65)	X ²	XY	Yc=a+bx Yc=1940.168+838.763x
2005/06	370.00	-2	4	-740	262.65
2006/07	472.00	-1	1	-472	1101.41
2007/08	1810.70	0	0	0	1940.17
2008/09	4496.65	1	1	4496.65	2778.93
2009/10	2551.49	2	4	5102.98	3617.69
	Y=9700.84	x=0	x ² =10	xy=8387.63	
2010/11					4456.45
2011/12					5295.21
2012/13					6133.97

$$a = Y/N = 1940.168$$

$$b = XY / X^2 = 838.763$$

Calculation of Trend Value Total Right Issue

Year(t)	BV(Y)	X=(t-2064/65)	X ²	XY	Yc=a+bx Yc=6301.476+2731.607x
2005/06	1013/45	-2	4	2026.9	838.25
2006/07	1265.30	-1	1	1265.3	3569.86
2007/08	6793.40	0	0	0	6301.47
2008/09	14262.19	1	1	14262.19	9033.08
2009/10	8173.04	2	4	16346.08	11764.69
	Y=31507.38	x=0	x ² =10	xy=27316.07	
2010/11					14496.3
2011/12					17227.91
2012/13					19959.52

$$a = Y/N = 6301.476$$

$$b = XY / X^2 = 2731.607$$