

CHAPTER - I

INTRODCTION

1.1 Background of study

Nepal adopted liberal economic policy after the re-establishment of democracy in 2047 B. S. The elected democratic government started reforms in economic sector. Financial reforms programme is the most important role in the economic liberalization. Financial sector play an important role in the economic development of the nation. The development of financial sector depends on the financial policy of the government, the investment friendly environment and the development of corporate culture. The government policy should help to create business friendly environment, provide security of investment and encourage the investor to invest in the right firms. Our financial sector has not been able to realize the desire outcome due to the poor capital market conditions. The Nepalese capital market is small and it is at early stage. Investor have no easy access to the information of the firm due to which they are unable to analyze the financial and other condition of the firms and make right investment decision.

The history of secondary market began with the flotation of share by Biratnagar jute mill Ltd. and Nepal Bank Ltd. in 1937. The introduction of the company act in 1964, the first issuance of the Government Bond in 1964 and the establishment of Security Exchange Centre Ltd. in 1976 were other significant development relating to capital markets. Security Exchange Centre was established with the objective of facilitating and promoting the growth of capital markets. Before its conversion into Nepal Stock Exchange, it was only the capital market institution undertaking the job of brokering, underlying, managing public issues, market making for government bond and other financial services.

Government of Nepal, under programme initiated to perform capital market, converted Securities Exchange centre into Nepal stock exchange in 1993. Nepal stock exchange, short NEPSE, is a non profit organization, operating under Security Exchange act 1983.

The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate security by facilitating transactions in its trading floor through members, market intermediaries such as brokers, market markers etc. NEPSE opened its trading floor on 13th January 1994.

In the capital market where investor has easy access to the information about the corporate firm, a rational investor can make right investment decision and in such investment environment unexpected fluctuation may no happen frequently. Obviously the ultimate objectives of all corporate firms are earning profits, so as to investors. Investment in its broadest sense means the sacrifices of current rupee (dollar) and resources for the shake of future rupees (dollars) and resources. Here all investor invest in securities to earn profits. By supplying equity capital to the firm, all investor become owner of the firm and they will have the right to share the earning of the firm. They will be benefited from the investment directly or indirectly.

From the net profit earned by the firm, it will be distributed some or all the earning to its shareholder as dividends. Firms can distribute its earning as a dividend in the two way i.e cash or stock. If the firm pays dividend in the form of share or stock is called bonus share or stock dividend.

Bonus share, which is also known as stock dividend in the U.S.A, is a form or dividend out of two forms: Cash and stock. In the stock dividend company distributes shares as dividend to the shareholders and this dividend is distributed

either from pasty earning or from net profit earned in the respective years. According to the Rosenberg Dictionary of Business and Management dividend is a portion of a net earning of a corporation payable (in share of fractional shares of designated stock of a given corporation) to the stockholders of record of corporation. It is paid in securities rather than cash and it may be additional share of the issuing company or share of another company held by the corporation.

The Random House Dictionary of English Language defines bonus share as a form of dividend collected by a stockholder in an extra share of the corporation's stock rather than cash, and it may be additional share of the issuing company held by the corporation.

Thus bonus share are simply the distribution of additional shares of stocks to the existing shareholders. It increases the number of outstanding share of the firm's stock. It is one of the most popular methods of rewarding shareholders of corporate firms and recently came to practice in Nepalese corporate sectors.

Bonus share issue is one of the management problems as cash dividend. The management of corporate firms can decide whether to pay cash dividend or issue bonus share from the reserves and surplus for various reasons. In bonus share issues, shareholders receive the additional shares in proportion as declared by corporate management to their shareholders. It provides an opportunity of capital gain to them and increases the dividend to be received in future. Hence for the investors, issue of bonus share has favorable effect and in fact increases their wealth.

On the other hand, corporate firm issues bonus share due to certain objective they to achieve. The bonus share allows the firm to declare a dividend without using up cash that may be needed for operations or expansions. Rather than seek additional

external financing, the firm can retain its funds that would otherwise be distributed to shareholders. It also affects significantly to the value of the firm and encourages investment in its stock. Hence Bonus shares announcement decision to be made by Board of Directors.

In the legal context, Bonus share have different meaning for different group of professional, lawyers and practitioners. Company act 2063 B.S. states the terms of Bonus share as a share issued as an additional share to shareholders by capitalizing the saving earned from the profits or the reserve fund of a company, and this term includes the increases of the paid up value of a share by capitalizing the saving or reserve fund. (The companies act 2063). The Bonus share can be issued only out of profits and reserves created for profit and prohibit issuing Bonus share from increasing share capital revaluation of company's assets.

The board requires bringing a special resolution for consent and approval by majority of its shareholder present in AGM of the company. A Bonus share represents nothing more than recapitalization of the company. In accounting treatment the declaration of bonus share will increase the common stock and paid in capital and reduce the retained earning. Therefore it involves making a transfer from the retained earning amount to the other shareholder's equity accounts like common stock and additional paid in capital.

The Nepalese security market is in infancy stage and is handled by few players including promoters of the company, market makers and some so called VIP shareholders. To pay a day prevailing price for stock investment in this market is sometime suicidal. There are some companies which were earning profits and paid dividend during initial stage but after public investment they continuously been showing operational loses even though increases was notified in production and sales.

It is generally believed that declaration of Bonus share affected the market price of the stock of corporate firms. Although Nepalese capital market has crossed more than three decades, issue of Bonus share is a recent practice for Nepalese corporate firms. Nepalese firm are also found following practice of issuing Bonus share time and again. Especially after the incorporation of joint venture banks and other financial institutions in mid eighties as a result of government's economic liberalization policy and gradual development of stock market, the practices of Bonus share issue has increased. Nepalese corporate firms are issuing bonus share due to legal requirement as imposed by Nepal Rastra Bank for increasing the equity base, lower cost of internal fund and investor's attitude of not providing additional external equity.

1.2 Statement of Problem:

The problem towards which this study is directed is to identify the impact of bonus share announcement on market price of stock, number of share trading and total market value of the firm. There is still controversy among the scholars as regarding to the relationship between Bonus share issue and value of the firm. Lack of clear view towards the effect of bonus Share issue on value of share, difficulty appears in appropriate dividend policy.

Countless studies concerning dividend decision of corporations have been reported in the financial literature over years. However, dividend decision is a crucial as well as controversial area of managerial finance. Moreover the effect of dividend announced on the corporation's market value is a subject of long standing controversy (Farrely and Fdelman, 1985)

Although the capitalization policy in mid 80's there was no any such systematic mechanism to issue them (Shrestha and Manandhar: 1998). Such practices ignore the impact of Bonus share on earning per share (EPS), Dividend per share (DPS)

and Market Price per share (MPS). It may finally affect the small shareholders and the value maximization objectives never to be achieved.

Black epitomize the lack of consensus by stating "The harder we look at the dividend picture the more it seems like a puzzle with pieces that don't fit together" (Black, 1976)

Hence bonus share announcement of corporate firm are not clearly understood by large segment of financial community. There are many empirical studies on Bonus share and stock price in capital market however, on simple and conclusive relationship exist between the Bonus shares and capital price of share. There is still a considerable controversy concerning to the relation between stock dividend and price of stock.

Nepalese capital market is not efficient yet. In efficient market, stock price used to be equal to the intrinsic value since the buyer and seller are fully informed about the financial factors. In this market, the share price decreases in proportionate to the bonus share issue. Whatever the theories depict is not applicable in Nepalese context. In case of Nepalese capital market, most of the investor does not know to interpret the information and therefore they cannot come to a rational decision regarding transaction of the share. Thus non financial factors play an important role in Nepalese security markets.

Company provide bonus share by transferring the amount out of reserve and retained earning to paid up capital. It doesn't affect company's assets and the total shareholder's equity of the company remains the same. Therefore it is just reshuffle of book account. The theory says that the declaration of the bonus share decrease the price of the stock by the equal proportionate of the bonus ratio. Nepalese investor seems to be quite optimistic towards bonus share, whatever the cause

behind this. Whatever the theory says, the value of the firm doesn't stay same but increases. There may be some degree of positive signaling effect that may increase the shareholder's wealth. The declaration of the bonus share may convey information about future earning to investors. There may be asymmetric information between management and investors. The bonus share connotes more convincingly management's belief about the favorable prospect of the company. So the price of the stock doesn't decrease in equal proportion to the bonus ratio due to the positive psychology of investors towards bonus share announcement. In this sense, bonus share is an attention - getting device.

But most of the Nepalese investors think that they receive extra share of same value of existing share value, which means their wealth increase by the same ratio of bonus share. So it should be thought that where do these misunderstanding and over optimistic behavior of Nepalese investor lead to Nepalese capital market?

Since the history of Nepalese capital market is no longer and corporate culture is in early stage, not only the small shareholders even financial analyst and the profession do not have adequate information about bonus share announcement and its impact on value of the firm. Therefore there is a need of a study to be done in this area. This study seeks to analyze following questions:

-) Whether bonus share announcement positively affects the share price?
-) Whether the value of the firm or total market capitalization of the firm increases after bonus share announcement?
-) Is there any correlation between bonus ratio and share price increment?
-) Are there any malpractices in bonus share?

1.3 Objectives of the study:

The general objective of this study is to analyze the Bonus share issue practice in Nepalese listed companies and its impact on the market value of the firm. The specific objectives are as follows:

-) To analyze the impact of bonus share announcement on market price of stock.
-) To examine the relation of share price rise with bonus ratio.
-) To analyze the impact of bonus share announcement on market capitalization of the firm.
-) To identify the bonus share practice in related corporate firm.
-) To evaluate the attitude of Nepalese investor towards bonus share announcement.
-) To identify some of the widely held misconception about bonus if any.
-) To recommend some suggestion to the related bodies and stakeholders.

1.4 Significance of the study

The Bonus share issue is one of the major financial decisions in corporate firm. It is a part of dividend policy. So a financial manager should consider its impact on the shareholders' wealth. The duty of the corporate management is to maximize the wealth of its shareholders. So they should be aware of the impact of Bonus share issue to the value of the firm. This study is helpful for the policymaker of the corporate firms in making dividend decision.

Likewise, investor should be known about the impact of Bonus Share to the market price of the stock. If they have enough knowledge about it, they can easily predict the future market condition and make right investment decision. This study is helpful for the Nepalese investors to gain knowledge about Bonus Share and its impact on market price.

Although it is significant subject for all the concerned people of the capital market, there are very limited studies that have been conducted. This study will be the novel for all stakeholders of Nepalese security market. This study helps to remove the misconception of Nepalese investors about bonus share, if any. This study will be valuable inputs for the researcher and scholars for their research work.

1.5 Limitation of the study

As stated earlier that the Nepalese capital market has recent phenomenon than in developed countries. Due to lack of adequate infrastructure and limited activities of stock exchange, the development of secondary market has remained in floor. In addition to this, there are very limited companies, which have issued Bonus share. So the result of this study may not be generalized to the character of all stock market and the investors.

No research can be found as complete and perfect due to some limitations such as different political and economical situation as well as different level of education of investors. So this study has also some limitations, which are as follows:

-) This study is mainly based on secondary data.
-) The reliability of secondary data has not been examined. There may be some errors in secondary data.
-) This study covers only last five 2002 to 2006 years situation. We cannot completely generalize this result for future market situation because the level of knowledge of investors and management might be advanced in future.
-) This study is only concentrated on Bonus share issue of Nepalese listed companies.
-) This study analyses the impact of bonus share in market price and value of the firm, not entire dividend payment. It does not consider the impact of

cash dividend at the same time when particular company distributes cash dividend along with Bonus share announcement.

) This study is for partial fulfillment of Master of Business Studies. This study may not have gone deeply through the subject matter due to budgetary and other constrains.

1.6 Assumption:

In this research study the impact of bonus share on the value of the firm are studied. Some firm issue only bonus share for their shareholders and some firm issue bonus share along with cash dividend. In the later case, it is difficult to say whether the change in the price of stock was due to bonus share issue or cash dividend. So for the simplicity it is assumed that the sample firm have issued only bonus share and the change in market price was due to bonus share issue but not the cash dividend.

1.7 Organization of the study:

This research study is organized by the following simple research methodology approach. The overall study has been classified into five main chapters as follows:

Chapter I: Introduction

The first chapter is the introductory part of the study. It present the topic within the general area of interest and it provide a preliminary focus up on the topic with a wider scope. This chapter consists of general background, statement of the problem, objective of the study, significance of the study, limitation of the study, assumption, definition and organization of the study.

Chapter II: Review of Literature

The second chapter is the review of literature, which includes the review of previous writings and studies relevant to the problem being explored. Different books, journals and previous research work have been reviewed in this chapter.

Chapter III: Research Methodology

The third chapter, research methodology describes the methodology employed in the study. It deals about research design, nature and sources of data, population and sample and data processing procedures.

Chapter IV: Presentation and analysis of Data

In chapter four all the collected data are analyzed using different statistical tools and techniques and presented in the table, graph and other pictorial form.

Chapter V: Summary, Conclusion and Recommendation

The fifth chapter draws the conclusion from the study and recommends some suggestion to the concerned bodies.

CHAPTER – II

REVIEW OF LITERATURE

Bonus share announcement is one of the most important decisions of the financial management. Since this decision affects the earning per share, dividend per share and market price per share and ultimately the value of the firm. It is the very important to study its impact on market price and value of the firm. Various studies were done in this topic by different researchers. For this research, various journals, textbooks, newspaper, previous reports were studied by consulting libraries. So attempts are made to mention these studies and their major findings. This chapter is divided into two parts as following:

-) Conceptual Framework
-) Research of Major Studies

2.1 Conceptual Framework

2.1.1 Definition

The bonus share is simply the distribution of additional share to the existing shareholders. It increases the number of outstanding share of the firm's stock. It is one of the most popular methods of rewarding shareholders of corporate firms and recently came to practices in Nepalese corporate sectors.

A stock dividend is simply the payment of additional stock to stockholders. It represents nothing more than a recapitalization of the company; a stockholders proportional ownership remains unchanged. (Van Horne, 2002, p 506).

Bonus share (stock dividend) is a popular form of dividend in additional shares of stock rather than in cash (Pandey, 1995:705). Some times when there are good investment opportunities for the company and whole portion of the profit is needed

for reinvestment, the company prefers to retain the whole portion of the profit. But in order to satisfy the shareholders, the company should also pay dividend. Such case, the company decides to pay the dividend in the form of stock. Such dividend is called stock dividend. Bonus shares are shares issued to existing shareholders as a result of capitalization of reserves. (Chandra, 1984,)

A stock dividend occurs when the board of directors authorizes a distribution of common stock to existing shareholders this has effect of increasing the number of outstanding shares of firm's stock. For example, if a shareholder owns 100 shares of a company's stock at a time when the firm distributes a 5% stock dividend, the shareholders will receive 5 additional shares. (Bhalla, 1983).

Company issues shares in lieu of consideration. The consideration may be either in the form of cash or kind. Bonus shares are issued to the existing shareholders without payment of any consideration, either in cash or kind. Bonus shares are issued by conversion of the reserves and surplus of the company into shares. Obviously bonus shares can be issued only by those companies which have accumulated large free reserves i.e. reserves not set apart for any specific purpose and which can be distributed as dividend. However bonus shares can be issued out of balance in the share premium account.

A limited company may decide to finance expansion from its reserves, which has been built up undistributed profit. Then in order to bring its issued capital into line with the capital it employs, it may decide to issue bonus shares to existing shareholders to the value of this additional capital, each shareholder receiving a number of bonus shares proportional to his/her original holding.

Hence bonus shares are one type of dividend form and an important part of dividend policy. It is not a cash dividend but may be issued in addition to cash dividend.

Cash dividend involves actual paying of cash while bonus share simply involves transfer of retained into the capital stock account.

Impact of bonus share issue is a controversial topic that whether it maximize the future market value of the firm or not. There is different school of thought about the issue. One school of thought believes that bonus share issued does not affect the value of the firm. It is nothing more than an accounting transfer from retained earning to the capital stock account. But another school of thought opines that bonus share affects the future value of the firm.

If bonus share are accompanied by increase in earning and cash dividend (quantum dividend), causes the price of the stock to increase immediately after bonus issue and also due to issue of stock dividend or stock split a reduction in the minimum trading range greatly increases a firm's base of individual investors and its stock liquidity and is associated with a significant increase in the stock price. (Amihud, Mendelson and UNO, 1999)

2.1.2 Advantage of Issuing Bonus Share

Following are the advantages of bonus share issue:

a) To conserve cash:

The stock dividend allows the firm to declare a dividend without using up cash that may be needed for operation or expansion. Rather than seek additional external financing the firm can retain its funds that would otherwise be distributed to shareholders.

b) To indicate higher future earning:

Normally a stock dividend is an indication of higher future profits. If the profits do not rise, the firm would experience a dilution of earnings as a result of the

additional shares outstanding. Since a dilution of earning is not desirable, stock dividends are usually declared only by board of directors who expect rise in earnings to offset the additional shares.

c) To raise future dividends:

If the regular cash dividend is continued after an extra stock dividend is declared, the shareholders will receive an increase in cash dividend in the future. For example, a firm may declare Rs. 1 regular dividend and a 5 percent extra stock dividend. Shareholders with 100 shares will receive Rs.1 dividend, this investor would receive Rs105, an increase of Rs. 5, in the next period.

d) To have positive psychological value:

Because of the positive aspects of stock dividends, the dividend declaration is usually received positively by the market. This trend to encourage investment in the stock thus supporting or raising its market price. Instead of experiencing a drop in value after a stock dividend, the price may actually rise.

e) To retain proportional ownership for shareholders:

The stock dividend differs from an issue of a new common stock. If the existing shareholders do not have the funds to purchase new stock, their proportional of the ownership in the firm will decline as new investors purchase shares. This is avoided by a stock dividend which is in effect, nothing more than a recapitalization of the firm.

f) Tax benefit to the shareholders:

One of the advantages to stockholders in the receipt of bonus share is the beneficial treatment of such dividend with regard to income taxes. If the cash dividend is received it is added to his or her original income and it is taxed at the ordinary income tax rate. But when stock dividend is received, it is not the subject of the

taxable income. One can sell the stock dividend if he likes or if he is in need of cash. At the time, he may earn selling the original shares which are considered as a sell of principal by some shareholders. They do not mind selling the shares received by the way of the bonus shares as they consider it a windfall gain not a part of the principal.

g) To fulfill the legal requirement imposed by the authority:

In legal context of Nepalese banks, Nepal Rastra Bank impose legal requirement for increasing the equity base at certain standard level. Therefore the bonus share issue enthusiastically increased from 1992/93 by corporate firms listed in Nepal Stock Exchange. To fulfill their requirement, Nepalese corporate firm practiced of raising the additional capital from interval source because of the lower cost of funds, to save the flotation cost and to avoid the difficulties in raising external equity. (Shrestha & Manandhar, 1999)

h) To avoid external inconvenient:

Investment financed from external sources is subject to screening by outside agencies to its related profitability but investment financed from internally generated funds is subject to know such check.

2.1.3 Limitation of Issuing Bonus Share:

Shareholders welcome bonus share because it has favorable psychological value on shareholders and it indicates the company's growth to shareholders. But there are also some limitations of bonus share which are given below:

- Substitution of stock for cash dividend involves a sizable administrative cost. Stock dividend simply is much more costly to administer than are cash dividend this out of pocket expense works to their disadvantage.
- Declaration of bonus share is a method of capitalizing the past earning of the shareholders which they already own. Thus it merely divides the

ownership of the company into a large number of share certificates. Bonus share represents simply a division of corporate pie into a large number of pieces.

- After bonus share issue, number of share of the firm increases which may causes the decrease in EPS if the earning remains constant.
- Bonus share issue reduces the accumulated profit earned in the past. The accumulated profit is recapitalized into a capital stock account.
- Some shareholders, especially small shareholders prefer cash dividend instead of bonus share. Such shareholder may be disappointed from bonus share issue.
- Issue of bonus share result in more liability on the company in respect of future dividend. Number of share increases after bonus share issue so the company needs to pay more cash dividend in future.

2.1.4 Legal and Procedural Aspects of Bonus Share Issue

Bonus shares are made out of share premium and free reserve which includes investment allowance reserves and exclude capital reserve on account of assets revaluation. In no time the amount of bonus issued should exceed the paid up capital. Bonus share can be declared once in a year. A resolution approving the proposal of bonus issue clearly indicating the rate of dividend payable on the increased capital should be passed by the company's shareholder. The amount of dividend that can be legally distributed is governed by company law, judicial pronouncements in leading cases and contractual restrictions. In Nepal bonus share issue is governed by company act 2006 and in case of commercial banks by the commercial bank act 1974 (2031 B.S.).

1. Except on the following circumstance, dividend shall be distributed to the shareholders within forty-five days of the decision made to provide dividend.
 - a. if any law prohibits the distribution of dividend;

- b. if the right to receive dividend is subject to any dispute;
 - c. if, in a circumstance beyond control of the company or for any reason dividend cannot be distributed within the said time limit.
2. A company fully or partly owned by the government of Nepal may distribute dividend only after obtaining prior approval of the government of Nepal; and the government of Nepal may give necessary directive on the matter of dividend to be distributed by such company.
 3. In the event of failure to distribute a dividend within the time limit as referred to in sub section (1), the dividend shall be distributed together with the interest thereon at such rate as may be prescribed.
 4. The person whose name is maintained in the shareholder register at the time of declaration of a dividend or his legal heir shall be entitled to such dividend.

The corporate firm should maintain the following conditions for the issue of bonus share.

5. A company shall not pay or distribute a dividend in any other manner except out of the amount of profits set aside for the distribution of dividend.
6. Before paying or declaring a dividend out of the profits for any financial year, a company shall have fully deducted the pre operation expenses. The amount required to be depreciated in accordance with the accounting standards fixed by the competent authority under the prevailing law, any amount required to be paid or set aside out of the profits under the prevailing law or the amount of accumulated loss in previous financial years.
7. Subject to the various provisions contained in this section, the board of directors of any company may, in the following circumstance, distribute interim dividend out of the profits for the previous financial year:
8. Where the articles of association contain a provision on the distribution of interim dividend;

9. Where the annual financial statement for the financial year out of the profits of which year interim dividend is to be distributed has already been certified by the auditor and approved by the board of directors.
10. No company shall pay or distribute any amount in cash or kind, chargeable on its funds, to its shareholders, except a dividend approved by the general meeting.
11. The amount of dividend not claimed/received by any shareholder even after the expiry of a period of five years after the date of resolution adopted by the company in its general meeting to distribute dividend shall be credited to the investor protection fund to be established under section 183.
12. In crediting the amount as referred to in sub section (9) to the fund as referred to in section 183, a company shall prior to the expiry of the period mentioned in that sub-section, publish a concerned to receive the dividend, with in the time limit of at least one month.
13. A company shall credit the amount of a dividend to be distributed to its shareholders pursuant to this act to a separate account within forty –five days after the date of approval by the general meeting and pay the amount of dividend out of that account and the company shall not use such amount for any other purpose.

The general legal procedures for the issue of bonus share in international security market are as follows:

-) A company is not allowed to declare bonus shares unless paid up shares have been converted into fully paid up shares (Pandey 1999, p, 705)
-) Bonus share can be issued in addition to cash dividend but not in substitution of cash dividend.
-) A company can not declare bonus share unless party paid up share have been converted in to fully paid up shares. But the company can

capitalized the company's surplus and reserve in order to increase the paid up capital as dividend capitalization.

-) A company can declare bonus share once in year. The company may make a further application for issue of bonus shares only after twelve month from the date of sanction by the government of an earlier bonus issue if any (Khan & Jain, 1992).
-) A resolution of approving the proposal of the bonus issue clearly indicating the rate of dividend payable on the increased capital should be passed by the company's shareholders on the occasion of annual general meeting.
-) In the condition of stock dividend in American cases , stock dividend cannot be issued through past accumulated reserves and surplus. Stock dividend out of current reserve and surplus. Stock dividend cannot be issued out of previous accumulated reserve and surplus because this might be pledged for the loan of the company.
-) At only one time the total permitted to be capitalized by issue of bonus share out of free reserves shall not exceed the total amount of paid up capital of the company.

Bonus share are issued from the company's earning, reserve and surplus. To issue the bonus share certain procedure should be followed as given below.

[a] Board Resolution:

Under company act 2053, formal meeting of board of directors should be held at least 6 times in the financial year. The bonus share decision is the prerogative of the BOD. Therefore the Board of director brings a special resolution for bonus issue. Application for issue of share should be made within one month of the bonus announcement by the Board of Director of the company.

[b] Shareholder's approval:

The resolution of the BOD to distribute bonus share has to be approved by the shareholders in annual general meeting. There is very low chance that the resolution of BOD is disapproved by shareholders. But in the context of Nepal a case can be found that a corporation did not distribute bonus share to the shareholders even after the declaration of bonus share.

[c] Record Date:

The bonus share is payable to shareholders whose name appear in the register of members as on the record date. If a shareholder sells share before the record date, the buyers of shares will receive bonus share. If shareholders sell share after the record date the sellers of the shares will receive bonus share because his /her name is recorded in the register of members instead of buyers.

[d] Bonus share payment:

Once a bonus share declaration has been made along with book close date for share transaction, company has to distribute bonus share within certain period to the shareholders. But the lack of information the investor are provided bonus share even one year after bonus share issue. As we know that the Nepalese capital market is still in infancy period, the lack of awareness of the investors and inadequate practice and expertise may be the consequence of the situation.

Pandey (1999) states that generally, the maximum bonus ratio is 1:1 that is one bonus share for one fully paid up share held by the exiting share holders. However two criteria are required to be satisfied within the limit of the maximum ratio. They are:

- (a) Residual reserve criterion
- (b) Profitability criterion

[a] residual reserve criterion:

Under this criteria, reserve remaining after the account capitalized for bonus issue should be as least equal to 40% of the increased paid up capital. But the amount from assets revaluation must not be included in computing the minimum residual reserve.

Pre – bonus reserve – (pre-bonus paid up capital x Bonus ratios) .4(1+ Bonus ratio) x Pre-bonus paid up capital.

[b] Profitability Criteria:

Under this criterion, 30 percent of the previous three year average pretax profit (PBT) should be at least equal to 10 percent of the increased paid up capital.

0.3 x three year average PBT | 0.1(1-Bonus ratio) x Pre-bonus paid up capital

After computation of profitability and residual reserve criterion, lesser bonus ratio will be allowed to declare bonus issue to the company.

2.1.5 Theoretical Value of Bonus Share:

Theoretically, a stock dividend is not a thing of value to the investors. They receive additional stock certificates but their proportionate ownership of the company is unchanged. The market price of the stock should decline proportionately, so that the total value of their holdings stays the same.

Suppose 'A' held 100 shares of stock worth Rs 40 per share of Rs 4000 in total. After 5 % bonus share, the number of share should be 105 and new market price should be

$$\begin{aligned} & \text{Rs } 40 \times \frac{1}{1 \Gamma 0.05} \\ & = \text{Rs } 38.10 \end{aligned}$$

The value of holding of 'A' then would be

Rs 38.10 x 105

Rs 4000

Under these conditions, the stock dividend does not represent a thing of value to 'A' the stockholder receives an additional stock certificate evidencing ownership but their proportionate ownership remains unchanged. In efficient markets we would not expect a favorable impact on share price (Van Horne, 2002, p326)

Hence after bonus share issue:

-) Shareholders ownership in the firm remains unchanged.
-) Total number of outstanding share increases.
-) Total market price decreases proportionately to the bonus ration
-) Earning per share decreases.

2.1.6 Accounting Treatment:

From the accounting [point of view, issue of bonus share is a reshuffle of the capitalization in the equity portion of the balance sheet. When stock dividend is paid, a portion of the surplus (retained earning) is transferred to the capital account and shareholders are issued additional share certificates. Bonus share is provided through retained earning. A bonus issue reduces the retained earning and correspondingly increases paid-up equity and share premium (if any).

Table 2.1 elaborates the effect of bonus share on the capitalization of the firm. The table shows the equity portion of the balance-sheet before and after the bonus issued.

Table 2.1

The Effect of Bonus Shares

(1) Equity portion before the bonus issue:

Equity share capital	
(20000 shares @ Rs 100)	Rs 2000000
Share premium @ Rs 75	1500000
Retained earning	800000
Total equity	11500000

(II) Equity portion after the bonus issued (1:5 bonus ratios):

Equity share capital	
(24,000 shares @ Rs 100)	2,400,000
Share premium @ Rs 75	1,800,000
Retained earning	7,300,000
Total equity	11,500,000

Accounting authorities should make a distinction between small-percentage stock dividends and large percentage stock dividends. The effect of stock dividend on common stock will be different magnitude on different ratio of stock dividend. The impact of small-percentage stock dividend on share price is less than the large-percentage stock dividend. (Van Horne & Wachowitz, 2000, p. 494)

Since the effect of small and large percentage stock dividend is different, financial analyst recommends different accounting treatment for them.

[A] Small-percentage stock dividend:

If a stock dividend represents an increase of less than (typically) 20 percent of the previously outstanding common sock, it is referred to as a small percentage stock dividend. Accounting for this type of stock dividend entails transferring and

amount from retained earnings to common stock and additional paid in capital (share premium)

It can be illustrated via a hypothetical example. Suppose a company had total shareholders equity (before issuing a stock dividend) as shown in the left-hand side of the table 2.2. This company pays a 5 percent stock dividend, amounting 20,000 additional shares ($400,000 \times .05$) of stock. The fair market value of the stock is Rs 40 per share. For each 20 share of the common stock owned, the shareholder receives and additional share. The total shareholder's equity account after the stock dividend is pictured on the right-hand side of Table 2.1.

With a 5 percent stock dividend, Rs 800,000 ($\text{Rs } 40 \times 20000 \text{ shares}$) in market value of the additional shares is transferred (on Paper) from retained earnings to the common stock and additional paid –in capital accounts. Because the par value per share stays the same, the increase in number of shares is reflected in a Rs 700,000 is entered into the additional paid-in capital account. The total shareholder's equity of the company remains the same, namely Rs 10 million.

Because the number of share of common stock outstanding is increased by 5 percent, earning per share of the company are reduced proportionately. Assume that net profit after taxes for the period just ended is Rs 1 million. Before the stock dividend, earnings per share were Rs 2.50 ($\text{Rs } 1,000,000 / 400,000 \text{ share}$). Shareholders have more shares of stock but lower earnings per share would be Rs 2.38 ($\text{Rs } 1000,000 / 420,000 \text{ share}$). However, each shareholder's proportionate ownership claim against total earning available to common shareholders remains unchanged.

Table – 2.2

Before Bonus Share	Amount	After Bonus	Share
common stock	Rs 2000000	common stock	Rs 2100000
(5 par x 400000)		(5 par x 400000 share)	
Additional paid in capital	Rs1000000	Additional paid in capital	Rs170000
Retain earning	Rs7000000	Retained earnings	Rs6200000
Total shareholders equity	Rs 1000000	Total shareholders equity	Rs 10000000

Note Current market price per share= Rs 40

[B] Large-Percentage Stock Dividends:

Large percentage stock dividends (typically 20 percent or higher of previously outstanding common stock) must be accounted for differently. While small percentage of stock dividends are not expected to have much effect on the market value per share of stock, large-percentage stock dividends are expected to materially reduce the market price per share of stock. In the case of large-percentage stock dividends therefore, conservatism argues for reclassifying and amount limited to the par value of additional shares rather than an amount related to the pre-stock-dividend market value of the stock.

Suppose that a company decided to issue a 100 percent stock dividend instead of the 5 percent stock dividend originally discussed. In table 2.2, we see that the total shareholder’s equity section of this company’s balance sheet looks like both before and after the 100 percent stock dividend

Table - 2.3

100% bonus share

Before Bonus Share	Amount	After Bonus	Share
common stock	Rs 2000000	common stock	Rs 4000000
(5 par x 400000)		(5 par x 400000 share)	
Additional paid in capital	Rs1000000	Additional paid in capital	Rs1000000
Retain earning	Rs7000000	Retained earnings	Rs 5000000
Total shareholders equity	Rs 1000000	Total shareholders equity	Rs 10000000

2.1.7 Type of Dividend:

Generally, cash dividend is known as the form of dividend. A corporation according to its policies, objectives and situation, distributes different kinds of dividend to its stockholders. The type of dividend that corporations follow is partly a matter of attitude of directors and partly a matter of the various circumstances and financial constraints that bound corporate plans and policies (Shrestha, 1980, p 670)

Dividend refers to the distributed earnings to the ordinary shareholders of the firm in return to their investment. Normally, an investor expects to have return on his/her investment in the forms of dividend and capital gain. After the successful completion of fiscal year having sufficient profits management decides to declare dividend to shareholders and retain the profit in the firm. Therefore, one of the major reasons for which an investor is interested to invest money on shares of different institutions is dividend.

According to changing needs or corporation dividend is being distributed in several forms. They are as follows:

[a] Interim dividend:

Generally dividend is declared in the last of the financial year. This is called regular dividend. Many times directors can declare the dividend before the end of the financial year. This is called interim dividend.

[b] Bond dividend:

Companies can give dividend in the form of bonds. These bonds can be long term bonds. These are given when the company unable to take the burden of interest of loan. Sometime certificates of dividends are given on which interest is being paid. They are also called as script dividend .Script dividends are of short term nature which are payable in six month.

[c] Property dividend:

Property dividend involves a payment of assets/property in any form other than cash. Whenever, the assets which are not used in the operation of the business or in extra ordinary circumstances distribute to the shareholders who are the actual owners of the company. For example a company can distribute its own products or the securities of subsidiaries.

[d] Composite dividend:

If the dividend is paid partly in the form of cash and partly in the form of property, then the dividend said to be composite dividend.

[e] Optional dividend:

Instead of giving composite dividend company can give option to shareholders to take the dividend in cash or in property.

[f] Special dividend:

When directors of the company do not want to change the dividend separately when the companies have good cash and reserves. This dividend is given with the regular dividend but separately.

[g] Cash dividend:

Cash dividend is the dividend which is distributed to the shareholders in cash out of the earning of the company, while cash dividend is distributed both total assets and net worth of the company decreases as cash and earning decreased, the market price of the share drops in most case by the amount of cash dividend distributed.

[h] Stock dividend:

A stock dividend occurs when the board of directors authorizes a distribution of common stock to existing shareholders. Stock dividend increases the number of outstanding share of the firm's stock. Although stock dividends do not have a real value, firms pay stock dividend as a replacement for a supplement to cash dividend. Under stock dividend, stockholders receive additional share of the company in lieu of cash dividends. Stock dividends require an accounting entry transfer from the retained earnings account to the common stock and paid in capital accounts.

Rupees transferred from retained earning =

Number of share outstanding X market price of the stock.

There is no cash involved in a stock dividend, net worth remains unchanged and the number of share is increased.

2.1.8 Bonus Share Vs Cash Dividend:

Most companies pay dividends in cash. Sometimes cash dividend may be supplemented by a bonus issue. A company should have enough cash in its bank account when cash dividends are declared. If it does not have enough bank balance, arrangement should be made to borrow funds.

The cash account and the reserves account of a company will be reduced when the cash dividend is paid. Thus both the total assets and the net worth of the company are reduced when the cash dividends is distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed (Pandey, 1999, p.782)

2.1.9 Bonus share Vs Stock split

In economic sense, stock dividends and stock splits are very similar, although typically used for different purposes. Only from the accounting stand point is there a significant difference. (Van Horne, 2002, p 324)

An issue of bonus share represents a distribution of shares in addition to the cash dividend to the existing shareholders. This has the effect of increasing the number of outstanding share of the company. The shareholder retains his proportionate ownership of the company. The declaration of bonus share will increased the paid up share capital and reduce the reserve and surplus of the company. The total net worth is not affected by the bonus issue. IN fact bonus issue represents a recapitalization of the owner's equity portion it is merely the accounting transfer from reserve and surplus to paid up capital (Pandey, 1999 p782)

After both the cases the market price of a company decreases. After bonus issue number of outstanding share increases and earning per share decreases. Whereas after cash dividend number of share and EPS remains unchanged.

If the company has weak liquidity position, it should not distribute cash dividend. To conserve the cash, it can issue bonus shares to shareholders. Through bonus share issue a company can improve its liquidity crisis and also satisfy its shareholders. If the company has profitable investment opportunity it can raise internal fund by issuing bonus shares. Bonus share should be the important method of increasing its paid up capital to meet legal requirements.

One of the advantages to shareholders in the receipt of bonus share is the beneficial treatment of such dividends with regard to income taxes. When a shareholder receives cash dividend from company, this is included in his ordinary income and taxed at ordinary income tax rate, but the receipt of bonus share by the shareholder is not taxable as income. Further, the holder can sell the new shares received by way of bonus issue to satisfy his desire for income and pay capital gain tax which are usually less than income taxes on the cash dividends.

A stock dividend is simple the payment of additional stock to stockholders. It represents nothing more than recapitalization of the company a stock holder's proportional ownership remains unchanged where as with a stock split, the number of shares is increased through a proportional reduction in the par value of the stock. With a stock dividend, the par value is not reduced, where as with a split, it is . As a result the common stock paid in capital and retained earning accounts remain unchanged. Shareholder's equity, of course also stays the same the only change is in the par value of the stock except in accounting treatment, the stock dividend and stock split are very similar. A stock split, however, is usually reserved for occasion's when a company wishes to achieve a substantial reduction in the market price per share. (Van Horne 2002 p 325).

In case of bonus shares, the balance of the reserves and surpluses account decreases due to transfer to the equity capital and the share premium accounts. The par value

per share remains unchanged. With a share split, the balance of the equity accounts does not change but the par value per share change.

The earning per share will be dilute and the market price per share will fall proportionally with a share split. But the total value of the holdings of a shareholder remains unaffected with a share split. (Pandey, 1999 p 789).

A firm's ordinary shares are splitted to make trading in shares attractive, signal the possibility of higher profits in the future and give higher dividends to shareholders.

2.1.10 Bonus Share Vs New Share Issue:

A Firm can raise the fund needed for its future investment opportunity from either bonus share or new share issue. To issue new shares in market, a company must bear flotation cost. Hence to maintain the control of the investors and save high flotation cost, a company can raises additional capital from internal sources like bonus share. Hence both bonus share and new share issue increase the number of share of a company, decreases the earning per share and market price per share, however, it make some senses to the invertors. In bonus share issue stockholders receive extra share without paying from his/her pocket. The reserve and surplus account decreases due to the transfer to the equity capital and share premium account. The existing shareholder does not lose their control. But in new share issue investor have to pay extra shares and there may be the chances of lot of control over the except the right offering.

2.1.11 Bonus Share Vs Share Repurchase:

Firms often decide to repurchase some of its outstanding stock for the shake of maximizing the value and providing benefits to existing shareholders. The repurchased stocks are treasury stocks. Stocks are repurchased especially when the firm has abnormally high profits and is not in a position to effectively utilize

surpluses. By repurchasing stocks, the remaining stockholders receive future benefits instead of current high dividend. The point to be noted is whether the benefit of repurchase outweighs the portion of profits the remaining stockholder are to give up for repurchase of stock. (Pradhan, 2004 p 514)

If a firm has excess cash and insufficient profitable investment opportunities to justify the use of these funds it is in the shareholders interest to distribute the funds. The distribution can be accomplished either by the repurchase of stock or by paying the funds out in increased dividends. In the absence of personal income taxes and transaction costs. The two alternatives, theoretically, should make no difference to stockholders. With share repurchase, fewer shares remain outstanding and earnings per share and ultimately dividend per share rise. As a result the market price per share should rise as well. In theory, the capital gain arising from repurchase should equal the dividend that otherwise would have been paid. (Van Horne, 2002 p 332)

Hence the effect of the bonus share and stock repurchases is opposite. After bonus share issue number of outstanding shares increases whereas after repurchase number of outstanding shares decreases. After repurchases number of shares decreases and earnings per share and ultimately, dividend per share rise. As a result market price per share rises. Whereas after bonus share number of shares increases and earnings per share and ultimately, dividend per share decrease. As a result market price per share decreases.

2.2 REVIEW OF VARIOUS STUDIES:

Gupta's Study:

Gupta (1973) conducted an empirical study on bonus issue, which has become a milestone for students of corporate finance, professional among the corporate management, the stock exchange community, the stock exchange academicians and

the institutional and non-institutional investors. This study attempts to test some popularly held beliefs about the effect of bonus share issue on dividends and share prices. It examines the practices among Indian companies regarding the making of bonus issue and explores the interest controversy whether, and to what extent, such bonus issues represent real gains to their recipients. In the light of the empirical result obtained the study goes on to examine the taxation, regulatory and managerial aspects of the problem. The study shows overall picture of prevailing practices among India companies with regard to bonus share issues and the dividend –effect and the price effect of bonus issue. The period of study extends over twenty-four years from 1948 to 1971. The coverage is restricted only to Indian companies quoted on any stock exchanges. They covers a total of 919 (-225) bonus issues. The coverage of analysis can be taken as representing an almost complete census of bonus issue made by companies with a stock exchange quotation at the time of bonus issues, excepting some of the specific exclusions

The basic objectives of the study of the researcher were to study the effect of bonus share issues on dividends and share price changes associated with bonus issue. Some of the important specific question to which these studies concentrate to analyze and to investigate the characteristic features of bonus issues by the Indian companies. The study makes a available for the first time a factual analysis of the prevailing practices amid Indian companies regarding the issue of bonus shares. The examination throws light on several aspects of corporate financial policies and practice regarding bonus issues, such as bonus ratios, the frequency and regularity of such issues by individual companies. Whether the aggregate market valuation of a company's equity capital increases as a result of bonus issue? For this question the study examine the immediate, as also the ling term effect of bonus issue of the market valuation of a company's quite after adjusting specifically for the general market movement in share price

It specifically examines how far bonus shares represent a real addition to shareholder's wealth and income and the relation of bonus issue to the size and age of companies and examine the managerial decision making relating to bonus issues. Does the widely held belief that management try to maintain the existing dividend rate even after bonus issue and validity as well as The implications of the findings for the government's taxation and regulatory policies and managerial decision relating to bonus issue have been also examined.

Gupta used simple statistical tools such as percentage, frequency distribution average and standard deviation to study and analyzed the data. The original report was subsequently revised and simplified to make it of wider interest, without alerting the basic framework and the major conclusions. His study was wide coverage and immense on bonus share. Following were observed in the connection with bonus share.

-) The sudden burst of enthusiasm for bonus issues (which accounted for a little over a half of the total amount and slightly under 40% of total number of bonus issue for the entire period) in 1966 – 67 was caused by the abolition of the special tax levied on bonus issue since 1959.
-) The bonus issues are made by Indian company at irregular interval without any consistent policy. Therefore he suggest a policy of an annual stock dividend paid concurrently with the retention of profits has distinct advantages over the present practice in India of capitalizing past accumulation at infrequent and irregular intervals according to the whims of the management.
-) There are no systematic relation exists between the bonus ratios on the one hand and the percentage of dividend increases on the other. Only one out of three either maintained or increased the dividend rate on the capital enlarged by bonus issue.

-) The analysis concluded that the higher bonus ratio were found more often among companies paying high dividend rates, and lower ratios more often among companies paying low dividend rates. The analysis discloses that relatively sharp jumps in dividend are far more common than gradual increases among Indian companies
-) The analysis shows that the market had anticipated the board's decision to issue bonus share by several weeks before the actual decision, which is reflected in the fact that a part of the price rise resulting from bonus decision had taken place a month before the board's decision. This rise may be accounted for by the activities of insiders.
-) Shareholders will gain from a bonus issue only to the extent the bonus issue is associated with an increase in the quantum of future dividends. The immediate impact of bonus announcements on the share price is almost invariably favorable, the reason being that a bonus announcement is usually interpreted as indicating the management's intention to increase the dividend distribution in the immediate future. The actual magnitude of the price rise will depend on the expected dividend increase together with the degree of confidence with such expectations are held in each case.
-) The speculative price rise which occurred immediately after bonus announcement was frequently based not so much on realistic appraisal of the fundamental factors governing profit and dividend as on rumors and psychology.
-) The analysis finds that the positive correlation between the magnitudes of price rise and the bonus ratio, even in broad terms, disappears by the end of one year after bonus announcement. The extent of price after one year shows no regular tendency.

Shrestha and Manandhar's Study:

Shrestha and Manadhar (1999) conducted empirical study on bonus share issue practices in Nepalese corporate firms. The study is concentrated on factual analysis of the prevailing practices among Nepalese corporate firm regarding the issue of bonus shares. Besides issue of bonus share is characterized by aphorism and imperfect and under-developed capital market, the study fulfills the research gap and add inputs to financial literatures relating to this topics.

The period of study extends over ten years from 1988/1989 to 1997/98. The study covers the bonus share issue by the sample of corporate firms which had issued the bonus share at least once during the study period. There are a total of 36 bonus issues amounting to Rs 951.8 million for the period under study.

They used simple statistical tools to analyze and interpret the data. Used statistical tools are percentage frequency distribution and average.

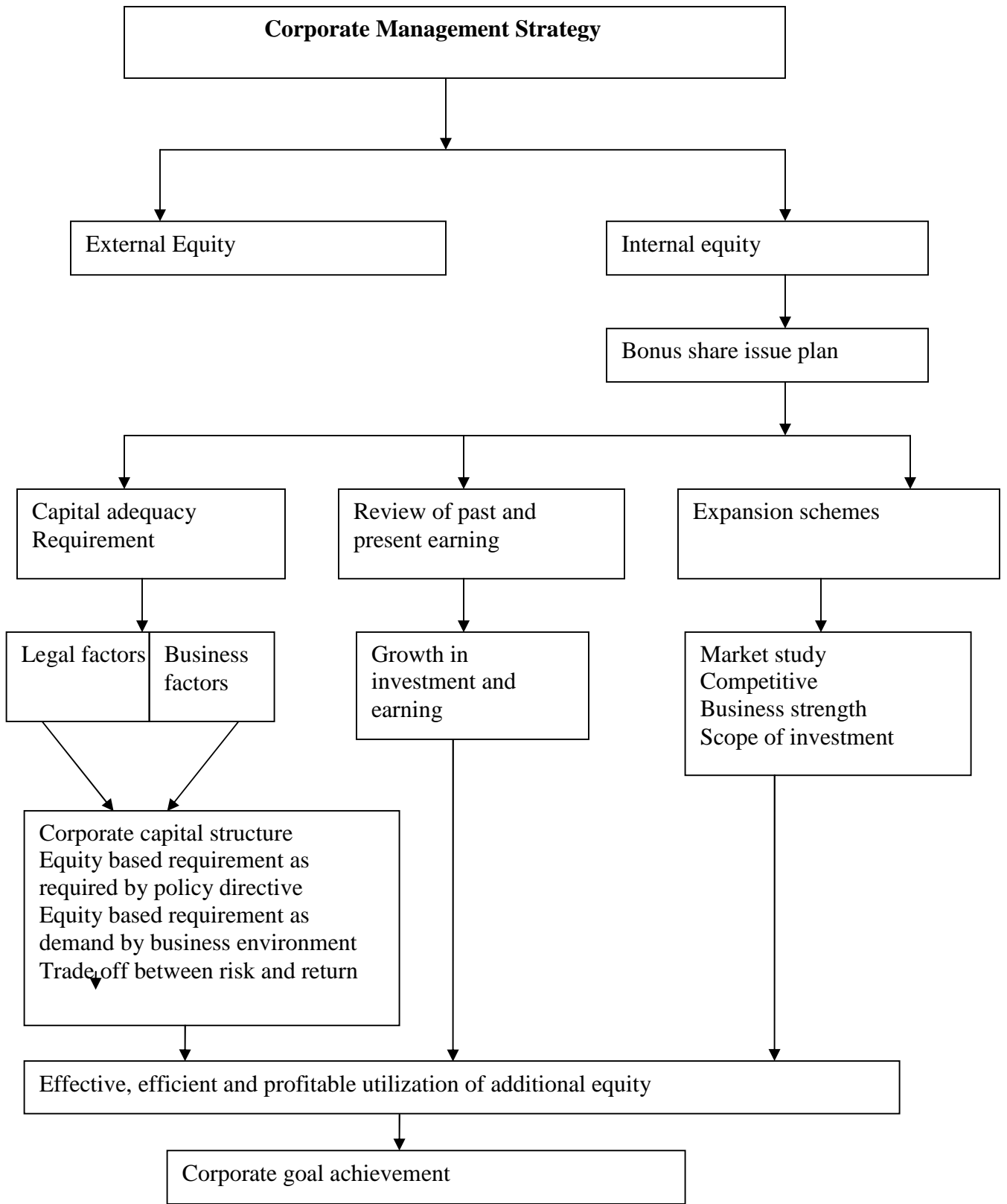
The main objectives of the study are to study and analyze the frequency of bonus share issue and study and analyze the regularity of bonus share issue. Similarly, To identify the most popular bonus share issue ratio. As well as study and analyze the relation of bonus share issue to the size and age of the corporate firms.

The study's selected samples are related to commercial banking, insurance, finance, trading and service sectors. On the basis of analysis of 12 bonuses issuing corporate firms, following findings were observed on the bonus share issue practices in Nepal.

-) The most popular bonus ratios prevalent in Nepalese corporate practices are 1:2, and 1:1 and 1:5 but 1:2 ratios overwhelmingly dominated.
-) The number of bonus issue tended to rise from 1992/93 and enthusiastic increase in number of bonus share issue in the fiscal year 1994/95.

-) There is a trend to raise the additional equity capital by capitalization the reserve and net profit by issuing bonus shares and stocks dividend.
-) In the later years the important of 1:2 bonus decreased and importance of other ratio less than 1:2 increased which are 1: 5 and 1:4 The ratio bonus share is considered high as compared to widely prevalent practice in American corporate forms .
-) The overall average of 3 bonus issue is noticed amount Nepalese corporate practice during the study period.
-) Nepalese corporate forms are found depend in internal equity rather than external equity for additional capital.
-) Though capitalizing the retained profit by issuing the bonus share is the prevalent practice. The average growth rate in increase in equity capital between the commercial banking group and non banking group differed widely.
-) The large corporate firms are found to issue bonus shares more times than small size corporate firms.

Based on the study and analysis the model suggested for bonus share is given overleaf



Source: Sebon.com

Gharti's Study:

Mr. Padam Gharti conducted a research in this area from degree seeking purposes in 2001. The title of the research is "Bonus share announcement and its impact on stock price of Nepalese corporate firms" which was done by using secondary data of 10 percent firms listed in Nepal stock exchange. The major findings of the study are as follows:

-) The immediate share price rise after bonus announcement is significant. Bonus share announcement of banking sector is considering positively by the investors but shows reluctant for the non-banking sectors the price decreases immediately after bonus announcement
-) The intention of issue bonus share of board of directors leaks out before officially announcement. Therefore, the share price rises one month before the actual announcement due to the activities of the 'insider'
-) The actual share price, in most of the case, does not decrease after distribution of bonus share outstanding to bonus ratio as theory says. The reason behind the situation may be that the investors cannot interpret the information and data. There is a great misconception about bonus share that the general investors think that they receive extra/additional share with same value.
-) The share price of the non-banking sectors shows inconsistency as companies to the banking sector. Therefore investing in non-banking sector is more risky than banking sector.
-) Long-term effect of bonus share issue as well as immediate is significantly positive. In most of the case the aggregate market value of the corporate firm's equity capital increased as the result of bonus issue 81.2% of the bonus issue case are recorder different level gain over the base data price, after adjustment of the general market movement share price

Koirala's Study

Mr. Dharma Raj Koirala has conducted a research 'Bonus share issue practice of corporate firms in Nepal' in 2006 for degree seeking purpose. He collected five years price of the listed companies (1999-2004) who has issued bonus share and analyzed the data. The conclusion of this research is as follows

-) Most of the transaction of issued bonus share done by commercial banks, financial companies and insurance companies, in this period commercial banks. Finance companies and Insurance Company are most likely to issue bonus share because Nepal Rastra Bank has given pressure to them raise their paid up capital.
-) The immediate share price after bonus share issue is significant. Bonus share issued of banking, financing and insurance companies ever considering positively by the investor reluctant for the non-banking sector. None of the case has been observed under these sectors that the price decreased immediately after bonus share
-) The intention of issue bonus share of board of directors leaks out before officially announcement. Therefore the share prices rise one month before the actual announcement due to the activities of insiders.
-) The share price on most of the cases does not decrease after bonus share issue according to bonus ratio as theory says. The reason behind the situation may be that investors can not interpret the information and data. There is a great misconception about bonus share that the general investors think that they received additional share within the same price.
-) It is found that market price of share increase in average 48.5% above the theoretical value after bonus share issue. Which means impact of bonus share issue on market price is positive.
-) Nepalese capital market is speculative oriented, therefore it takes more consciously bonus share issue that cash dividend, whatever the dividend

- policy of the company the immediate impact and a year later are significantly positive.
-) The company issue bonus share without frequently cash dividend distribution ultimately faces drastic fall in their share prices. Bonus share is one of the major reasons of investing, selling and holding stocks.
 -) The relation between bonus ratio and immediate price rise is positively correlated. High bonus ratio leads high magnitude of immediate price ratio
 -) Bonus share issue results in maximization of wealth only if there is increased dividend payment after bonus issue. It has positive effects only if increase capital raised internally through the bonus issue is desirable to that extent only that the corporate firms need additional financing for increase profitable investment.

2.3 REVIEW OF PREVIOUS THESIS

Dhakpa Gela Sherpa (2001) has conducted research on “Corporate Information Disclosure and its Effect on Share Price”. The primary objectives of this study were to obtain an insight on corporate information disclosure with special reference to Nepalese stock market and its listed companies.

The main objectives of the study were:

-) To highlight the corporate disclosure practice in Nepal.
-) To identify the extent of disclosure of each of the item of information and to develop the information disclosure index.
-) To check the quality of corporate disclosure of Nepalese listed companies measured by company characteristic namely asset size, number of shares outstanding and earning margin.

) To see the relationship between corporate information disclosure and stock prices.

His research study began with the construction of disclosure index for which he collected 59 informational items, classified according to their importance and calculated mean value after the collection of primary data. Thereafter, he selected 33 listed companies, used their annual reports and calculated disclosure scores, which was followed by use of various statistical tools like regression, correlation etc. to attain the mentioned objectives.

From the detail analysis, he found that most of companies do not disclose adequate and qualitative information on their annual reports, and most of disclosed information consisted of only relationship between disclosure scores and variables like earning margin, asset size etc. The important finding of his research is that there is positive relationship between market price of share and disclosure score. In other words, the company having greater disclosure score had the higher prices of stock.

Jyoti Joshi (2003) has conducted research on “Role of Nepal Stock Exchange in the secondary Market” she using the secondary data from 1996/97 to 2002/02.

The main objectives of this study were:

-) To assess the past and present behaviour of business operation in the Nepal Stock Exchange Market.
-) To forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume.
-) To prescribe ways and means by which secondary market would be more effective and meaningful.

The basic conclusion of her study was:

NEPSE should introduce digital technology and online marketing in its trading procedure, the rules and regulations should be up to date, Privatization process needs to be carried out effectively in order to develop Nepalese stock market.

Tax system should be reformed which should encourage and stimulate capital formation.

Risi Khanal (2003) has prepared the thesis on “Growth, Problems and Prospects of Nepalese Stock Market”. Using the secondary data from 1993/94 to 2001/2002.

The main objective of his study was:

-) Tax system should be reformed which should encourage and stimulate capital formation.
-) To examine the investors’ awareness,
-) To examine the stock broker’s and other related institution performance,
-) To analyze sector wise financial performance of NEPSE,

) To observe the coordination among SEBON, NEPSE and Rastra Bank.

In this study, Khanal concluded that the development of stock market in Nepal so far can not be considered satisfactory. This is evident from the facts and figures available in the stock market performance. But there is enough long term liquidity in the market. Again he added that the stock market and economic activity move in similar direction. They influence each other. Nepal Stock Exchange is the only one institution in the country to regulate and control the financial system of a country. The official stock market in Nepal, NEPSE is ten years old. It means it is in infant stage thus equity market and related institutions are still in their infancy stage.

Deepak Paudel (2005) entitled “Stock price behavior of commercial banks in NEPSE” with the objective to examine monthly closing price of 6 listed commercial banks during the period of three consecutive years from 2002 to 2004. He used correlation coefficient, regression analysis, and run test and auto correlation

The main objective of his study was:

-) To find out Nepalese people’s awareness of the securities investment
-) To identify the stock market participation trend in Nepal
-) To study and examine the major investment influencing factors.
-) To provide some useful suggestions regarding stock market participation.

He found in his study that successive price changes were correlated with previous price series. He also found that most of the stocks did not follow random walk hypothesis. The present stock prices were dependent to the historical prices. The EPS was the most affecting factor for the price change of the stock. Most of the investors wanted to invest in the shares of commercial banks because the fluctuation in NEPSE index was due to the transaction of commercial bank shares. There were serious limitations in the study. Data used in this study, monthly closing price of stocks not enough to predict the behavior of share prices.

Sarada Mainali (2006) has conducted research on “A Study on Share Price Behaviour of Listed Companies”. The main objectives of this study were:

-) To analyze the behavior of stock price of Listed Companies.
-) To examine the stock price trend and volume of stock traded on the secondary market.
-) To identify the factors affecting stock price.
-) To analyze the investors' view regarding the decision on stock investment.

In her study, Mainali concluded that Share trading system in share market is still uncivilized even in this IT age. Though the volume to trading has increased the number of brokers has not increased. Therefore, for the systematic operation of the share market, the number of brokers should be increased according to the volume of trading. Similarly, the automation system has to be put in to practice to make the

share market effective and competitive.

The public investors not direct invest their savings in shares haphazardly. They should at least analyze or get suggestions from experts about financial position and the level of risk prior to taking and investment decisions. Because of the persistence in the stock price movements professional traders either institutional or individual can beat the market. Thus it is suggestions that the investors should be alert to exploit the opportunities

Overall, the previous studies in stock market support the idea that Nepalese stock market is not efficient even in the weak form hypothesis. Nepalese investors are not efficient enough to recognize potential for excess return.

Rudra Hari Gyawali, (2007) has conducted research on “Rights share practice and its impact on share price movement “The researcher sketches various conclusions through the research.

The main objectives of the study were

-) To explain the price movement before the right offering.
-) To analyze the relationship between share price movement and market movement.
-) To identify the problem associated with the right practice.
-) To study investors opinion regarding various aspect of right offering.

In his study he found impact of right offerings on share price movement variations from company to company in case of listed companies such differences are not only between the companies of different sectors but also between the companies with in the scoter. Different on share price movement before and after right

offering are significant as well as in significant.

Bibek Paudel, (2008) "Dividend policy and its impact on share price in Nepalese context". The study is concentrated on factual analysis of the prevailing practices among Nepalese commercial bank regarding the issue of Dividend policy. Besides issue of bonus share is characterized by aphorism and imperfect and under-developed capital market, the study fulfills the research gap and add inputs to financial literatures relating to this topics.

-) To examine the prevailing practice and effect made in dividend policy.
-) To analyze dividend policy and its impact on share price
-) To access the relationship between the dividend with earning, market price of share and net worth.
-) To provide the suggestion to policy maker and execute to overcome the various issue and gaps.

Significant of the study

-) By means of dividend
-) Capital gain i.e. increase in the share price

The study focus to evaluate the result and its impact of dividend on MPS, the study concern joint venture bank EBL, BOK and HBL.

The feasibility of the conclusion made in this study depends upon the accuracy of secondary data. The study shows that the MPS of the share is consequent result of the various factors. Study aims to finding to impact of dividend policy on market price of share.

2.4 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and Knowledge, which are required to make this study meaningful and purposeful. There are various researcher conduct on primary Market, secondary market, Bonus and right share issue, dividend policy, credit management etc of commercial bank. In order to perform those analysis researchers have used various ratio analysis.

The past researches have focused on the limit ratios which are incapable of solving the problems. There is a gap between the previous research and this research. Previous research was conducted only on the growth and size of the stock market, they were analyzed only on the basis of secondary data analysis. they also not analyzed taking such variables like sufficiency of legal rules and regulation availability of information. In this research various ratio are systematically analyzed and generalized. Past Researchers are not properly analyzed about bonus share and its impact on the valuation.

In this study bonus share announcement and its impacts on value of firm is done through using various primary as well as secondary data. The calculation has been done through using various statistical tools as well and financial tools for survey data. So this research is helpful for every person who concern to share market.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction:

Research methodology describes the method and processes applied in the entire aspects of study. Every research should be outlined in the systematic manner and for that reason research methodology is one of the most important parts of every research.

Bonus share issue affects the earning per share and consequently market price per share. Therefore this study concentrates on bonus share issue and its impact on market price and consequently on market value of the corporate firm.

In order to achieve the objective of the study, a simple methodology approach is used. The research methodology used in this study consists of research design, population and sample, nature and source of data, data collection procedure and data collection & processing techniques.

3.2 Research Design

By research design we mean an overall framework or plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of the data (Wolf & Pant, 1975).

Kerlinger (1986) defines research design as a plan. Structure and strategy of investigation conceived so as to obtain answers to research questions and to control variables. Since selecting the most suitable research design is an important assignment for a good research study, most suitable and appropriate research design is used in this research.

This research study attempts to analyse the relationship between bonus share announcement (independent variable) and the value of firm (dependent variable). Hence a correlation research design is used in this research.

3.3 Nature and Sources of Data:

The data and information in this study were collected from both primary and secondary sources, however secondary sources is the dominant source of data. The two major sources of data are as follows:

3.3.1 Primary Data:

The primary data were mainly collected from interview and questionnaire. A set of structural questionnaire was designed and distributed to the respondents involved in stock markets such as broker, buyer and seller of securities manager of the company etc. in order to gather their responses. The pro-Forman structural questionnaire is given in appendix IV. In the course of data collection procedure, mainly concerned personalities were interviewed to collect relevant information. The officials associated with concerned companies, stock exchange, security brokers and buyers and sellers of securities have responded in this regard.

3.3.2 Secondary Data:

Secondary sources were the main sources of data in this study. The secondary data were collected from following sources:

- Annual report and trading report published by NEPSE.
- Annual report of SEBON.
- Annual report of concerned companies.
- Related journals and past dissertations.

3.4 Population & Sample

Population or universe refers to the entire group of people, events or things of interest that researchers wish to investigate. It is not always possible to study every items or elements in the population, on account of limitations of time and money. So, sampling technique was used in this study.

A sample is a collection of items or elements from a population or universe. Hence a sample is only a portion or subset of the universe or population. In most of the research study, sampling technique is used due to its various significances. But the sample should be more representative of the total population for the good research.

Bonus share issue is in practice in Nepalese Corporate firms after the establishment of joint venture banks in mid eighties as a result of government's liberal economic policy. The number of listed companies recorded to 135 in fiscal year 2006/07. it seems that Nepalese corporate firms are issuing the bonus share to reward its shareholder. There are 39 companies which issued bonus share within five years duration of 2002/03 to 2006/07. Most of them are commercial bank and finance companies. Due to the time and resource constraint sampling techniques was used for data collection and analysis.

Out of 40 NEPSE listed companies which has been issuing bonus shares since 2002/03, 11 companies were selected for study using stratified Random Sampling. The bonus share issuing companies from fiscal year 2002/03 to 2006/07 is as follows:

Commercial Banks

S.N.	Name of the Company
1	Everest Bank Ltd.
2	Himalayan Bank Ltd.
3	Nepal Bangladesh Bank Ltd.
4	Nepal Investment Bank Ltd.
5	Standard Chartered Bank Ltd.
6	Nepal Industrial & Commercial Bank Ltd.

Development Bank

S.N.	Name of the Company
7	Nirdhan Utthan Bank Ltd.
8	Paschimanchal Bikash Bank Ltd.

Finance Companies

S.N.	Name of the Company
9	Lalitpur Finance Co. Ltd.
10	Narayani Finance Co. Ltd.
11	National Finance Co. Ltd.
12	ACE Finance Co. Ltd.
13	Union Finance Co. Ltd.
14	Kathmandu Finance Ltd.
15	Alpic Everest Finance Ltd.
16	Nepal Housing & Merchant Finance Ltd.
17	Annapurna Finance Ltd.
18	Paschimanchal Finance Co. Ltd.
19	Central Finance Ltd.
20	Janaki Finance Ltd.

21	Shree Investment Finance Co. Ltd.
22	Pokhara Finance Co. Ltd.
23	Mahalaxmi Finance Ltd.
24	Nepal Abas Bikash Bitta Co. Ltd.
25	General Finance Ltd.
26	Premier Finance Co. Ltd.
27	Nepal Finance & Saving Co. Ltd.
28	Siddhartha Finance Ltd
29	Cosmic Merchant Banking & Finance Ltd.
30	Butwal Finance Co. Ltd.
31	Nava Durga Finance Co. Ltd.

Insurance Company

S.N.	Name of the Company
32	Nepal Insurance Ltd.
33	Everest Insurance Co. Ltd.
34	Sagarmatha Insurance Co. Ltd.
35	Mational Life & General Insurance Co. Ltd.
36	Alliance Insurance Co. Ltd.
37	Neco Insurance Co. Ltd.

Hotels

S.N.	Name of the Company
38	Soaltee Hotel Ltd.
39	Yak & Yeti Hotel Ltd.

The population was categories into different strata such as commercial bank, development bank, finance company, insurance and manufacturing company &

others. Eleven companies were selected in total using SRS and their five year's data were used for analysis. The selected sample companies are as follows:

Commercial Banks:

1. Everest Bank Ltd.
2. Himalayan Bank Ltd.
3. Standard Chartered Bank Ltd.

Development Bank:

1. Nirdhan Utthan Bank Ltd.

Finance Companies:

1. Lalitpur Finance Co. Ltd.
2. National Finance Ltd.
3. Annapurna Finance Co. Ltd.
4. Siddhartha Finance Ltd.

Insurance:

1. Everest Insurance Co. Ltd.
2. Neco Insurance Ltd.

Manufacturing & Others:

1. Yak & Yeti Hotel Ltd.

3.5 Data Processing & Analysis:

The data collected from different sources are in the raw form in the beginning. So, it is necessary to arrange the data so that it makes some sense to the researchers and it can be analyzed easily using different statistical tools and the process is called

data processing and analysis. The main purpose of data processing and analysis is to change it from an unprocessed form to an understandable presentation.

In this research the data were categorized, tabulated, processed and analyzed using different methods.

In this study, theoretical market price per share and theoretical market value of the firm after bonus share announcement were calculated and actual market price were observed in the stock market and actual market value of the firm were calculated using actual market price. The theoretical MPS after bonus share issue. Percentage change in MPS, percentage change in value of the firm was calculated and hypotheses were formulated as:

A. New Theoretical MPS=

$$\frac{\text{MPS before bonus share issue} + \text{Cash dividend per share}}{1 + \text{Bonus share ratio}}$$

B. The Percentage change in MPS = $\frac{\text{MPS new} - \text{MPS old}}{\text{MPS old}}$

Where,

MPS Old= Market Price per Share before bonus share issue

MPS new = Market Price per Share after bonus share issue

C. Percentage change in Value of the firm = $\frac{V_n - V_o}{V_o}$

Where,

$V_o = \text{MPS}_o \times N_o =$ Old value of the firm

$V_n = \text{MPS}_n \times N_n =$ New value of the firm

D. Hypothesis 1: the pair t-test for difference of two mean was used for hypothesis testing.

Null Hypothesis: $H_0: \mu_x = \mu_y$, that is there is no significance difference between value of the firm before and after bonus share issue.

Where,

μ_x = value of the firm before bonus share issue = Theoretical market value of the firm after bonus share issue.

μ_y = Actual market value of the firm after bonus share issue.

Alternative Hypothesis:

$H_1 = \mu_y > \mu_x$ (Right tailed test). That is the value of the firm increases after bonus share issue.

Test statistic: Under H_0 , the test statistic is .

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

Where,

n = number of observation

d = X - Y = different between two set of observations.

$$\bar{d} = \frac{d}{n} = \text{Mean of the difference}$$

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

E. Hypothesis 2: Correlation between percentage of bonus issue and percentage increase in actual value of the firm is calculated.

Null hypothesis H_0 : ... = 0. that is variable is uncorrelated. In other words percentage of bonus ratio and percentage increase in actual value of the firms is not correlated.

Alternative hypothesis H_1 : ... > 0 (Right tailed test). That is variables are positively correlated.

Test statistic: under H_0 , the test statistic is

$$T = \frac{r}{\sqrt{1 - r^2}}$$

Where,

r = correlation coefficient between two variables.

F. Frequency distribution:

For the analysis of data frequency distribution method was used in this research. Frequency distribution is the most widely used method of data analysis and interpretation. Almost every study or research report makes use of the frequency distribution as a method of reporting and summarizing data.

Frequency simply refers to the number of times various sub categories of a certain phenomenon occur, from which percentage and accumulative percentage of the occurrence can be easily calculated.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Background:

To achieve the main objective of the research, the data collected from the different sources are presented, analyzed and interpreted. In this chapter data collected from 11 sample companies are presented in systematic way in tabular form and pictorial diagram, analyzed and interpreted using different statistical tools and generalized the major findings to develop the principal

4.2 Bonus share issue practice in Nepal

The number of listed companies in NEPSE is recorded to 135 but there are very few companies which has been issuing bonus share. During the five year of duration (from fiscal year 2001/2002 to 2005/2006), 39 companies have issued bonus share. The detail of the issuing companies and their bonus share issue practice is a recent phenomenon in Nepal.

Although the Nepalese capital market has crossed more than the three decades. Bonus share issue is recent practice in Nepalese corporate firms. This come into practice frequently after the policy directives by Nepal Rastra Banks in the fiscal year 1996/97 to commercial bank to increase their funds and shareholder's positive attitude towards bonus share, Nepalese firms are using bonus share as a source to meet its addition equity capital.

4.3 Presentation and analysis of secondary data

The secondary data were collected from annual reports of SEBON, annual report of NEPSE, annual report of concerned companies and related journal which were analyzed using different statistical tools.

4.3.1 Bonus share announcement date and Bonus ratio of sample firms:

The bonus ratio and bonus share announcement data of sample firms for five years which are collected from different secondary sources are presented in the table below.

Table No 4.1

Bonus share announcement date and bonus ratio of sample firms

SN	Firms	Fiscal year	Bonus ratio in %	Cash dividend in%
1	Everest Bank Ltd	2001/02	20	-
2	Everest Bank Ltd	2002/03	10	-
3	Everest Bank Ltd	2005/06	20	-
4	Himalayan Bank Ltd	2001/02	30	27.5
5	Himalayan Bank Ltd	2002/03	10	25
6	Himalayan Bank Ltd	2003/04	25	1.32
7	Himalayan Bank Ltd	2004/05	20	-
8	Himalayan Bank Ltd	2005/06	20	1.15
9	Standard Chartered Bank	2003/04	10	10
10	Nirdhan Utthan Bank Ltd	2005/06	10	4
11	Lalitpur Finance Ltd	2002/03	50	2.63
12	Lalitpur Finance Ltd	2005/06	50	-
13	National Finance Co Ltd	2003/04	20	-
14	National Finance Co Ltd	2004/05	20	-
15	Annapurna Finane Co Ltd	2005/06	10	-
16	Annapurna Finane Co Ltd	2004/05	50	2.632
17	Annapurna Finane Co Ltd	2005/06	60	3.158
18	Siddhartha Finance Ltd	2005/06	30	-
19	Everest Insurance Ltd	2003/04	100	-
20	Everest Insurance Ltd	2005/06	50	-
21	Neco Insurance Ltd	2004/05	10	-
22	Yak & Yeti Hotel Ltd	2001/02	50	-

(Source: NEPSE trading report)

The above table shows that only one company (Himalayan) has been continuously issuing bonus share from fiscal year 2002/03 to 2005. Very few companies issued both bonus share and cash dividend. Likewise the range of bonus share declaration lies between 10% and 100%. Everest insurance company is the highest bonus share issuing company and most of the companies issued bonus share in moderate rate and few companies in some years issued 10% bonus share.

4.3.2 Number of shares and price of shares before and after bonus share issue:

The data about the number of shares, Mps of sample firms before 1 month. After 1 month and after 3 month from the date of bonus share issue were collected from NEPSE trading report and presented in table below.

Table 4.2**Number of shares and MPS before and after bonus share issue**

S.N	FIRMS	FISCALY EAR	No. of share before bonus share issue	MPS. Before1 month(R s)	MPS after 1 month(R s)	MPS after 3 month(Rs)
1	Everest Bank Ltd	2001/02	1440000	600	335	485
2	Everest Bank Ltd	2002/03	2632110	419	461	445
3	Everest Bank Ltd	2005/06	3150000	419	885	1080
4	Himalayan Bank Ltd	2001/02	3000000	972	970	850
5	Himalayan Bank Ltd	2002/03	3600000	1420	885	815
6	Himalayan Bank Ltd	2003/04	4290000	990	764	840
7	Himalayan Bank Ltd	2004/05	5362500	1135	920	950
8	Himalayan Bank Ltd	2005/06	6435000	1140	972	1005
9	Standard chartered	2003/04	3395988	1540	1640	1600
10	Nirdhan Utthan	2005/06	100000	107	104	100
11	Lalitpur Finance	2002/03	225000	400	300	290
12	Lalitpur Finance	2005/06	225000	250	250	250
13	National Finance	2003/04	300000	445	392	390
14	National Finance	2004/05	420000	350	325	345
15	National Finance	2005/06	864000	290	260	250
16	Annapurna Finance	2004/05	200000	346	350	355
17	Annapurna Finance	2005/06	500000	512	400	441
18	Siddhartha Finance	2005/06	200000	155	150	161
19	Everest Insurance	2003/04	300000	650	350	350
20	Everest Insurance	2005/06	600000	300	295	290
21	Neco Insurance	2004/05	500000	102	95	105
22	Yak & Yeti Hotel	2001/02	2209208	650	600	600

(Source: NEPSE trading report)

These market prices of share are used to analyze the percentage change in MPS before and after bonus share issue which is helpful to analyze how MPS will be changed after bonus share announcement. Theoretically the value of the firm before and after bonus share issue is same.

4.3.3 Market Price, Number of Shares and Value of the Sample Firms before Bonus Share Announcement:

To compare the value of the firm before and after the bonus share issue, the before value is calculated and presented in the table below.

Table 4.3**Number of shares and value of the firm before bonus share announcement**

S.N	FIRMS	FISCAL YEAR	No. of shares(N0)	MPS before 1 month of bonus announcement	Value of the firm before 1 month of bonus announcement(Rs)
1	Everest Bank ltd	2001/02	1440000	600	864000000
2	Everest Bank ltd	2002/03	2632110	419	1102854090
3	Everest Bank ltd	2005/06	3150000	419	3016800000
4	Himalayan Bank ltd	2001/02	3000000	972	4260000000
5	Himalayan Bank ltd	2002/03	3600000	1420	3240000000
6	Himalayan Bank ltd	2003/04	4290000	990	4247100000
7	Himalayan Bank ltd	2004/05	5362500	1135	6086437500
8	Himalayan Bank ltd	2005/06	6435000	1140	7335900000
9	StandardcharterdBank	2003/04	3395988	1540	5229821520
10	Nirdhan Utthan	2005/06	100000	107	10700000
11	Lalitpur Finance	2002/03	225000	400	90000000
12	Lalitpur Finance	2005/06	225000	250	56250000
13	National Finance	2003/04	300000	445	133500000
14	National Finance	2004/05	420000	350	147000000
15	National Finance	2005/06	864000	290	250560000
16	Annapurna Finance	2004/05	200000	346	69200000
17	Annapurna Finance	2005/06	500000	512	256000000
18	Siddhartha Finance	2005/06	200000	155	31000000
19	Everest Insurance	2003/04	300000	650	195000000
20	Everest Insurance	2005/06	600000	300	180000000
21	Neco Insurance	2004/05	500000	102	51000000
22	Yak&Yeti Hotel	2001/02	2209208	650	1435985200

(Source: NEPSE trading report)

4.3.4 The Price Impact Of Bonus Share Announcement:

The impacts of bonus share announcement on MPS of the firm are analyzed here. MPS before and after bonus share issue as well as theoretical and actual MPS are compared to find out actual Nepalese stock market scenario.

4.3.4.1 Comparative Study Of Stock Price Before And After The Bonus Share Issue

The changes in market price of stock before and after the bonus share issue are analyzed here. The general assumption is that the price of bonus share decreases after bonus share. The price of the stock one month before bonus share announcement, one month after announcement and their percentage change is shown in table 4.4

Table 4.4

Comparison of MPS before and 1 month after bonus share issue

S.N	FIRMS	FISCAL YEAR	MPS before 1 month of bonus announcement	MPS after 1 month of bonus share issue(Rs)	% difference
1	Everest Bank ltd	2001/02	600	335	-44.17%
2	Everest Bank ltd	2002/03	419	461	10.02
3	Everest Bank ltd	2005/06	419	885	-8.95
4	Himalayan Bank ltd	2001/02	972	970	-31.69
5	Himalayan Bank ltd	2002/03	1420	885	-1.67
6	Himalayan Bank ltd	2003/04	990	764	-22.83
7	Himalayan Bank ltd	2004/05	1135	920	-18.94
8	Himalayan Bank ltd	2005/06	1140	972	-14.74
9	Standard chartered Bank	2003/04	1540	1640	6.49
10	Nirdhan Utthan	2005/06	107	104	-2.8
11	Lalitpur Finance	2002/03	400	300	-25
12	Lalitpur Finance	2005/06	250	250	0

13	National Finance	2003/04	445	392	-11.91
14	National Finance	2004/05	350	325	-7.15
15	National Finance	2005/06	290	260	-10.34
16	Annapurna Finance	2004/05	346	350	1.16
17	Annapurna Finance	2005/06	512	400	-21.88
18	Siddhartha Finance	2005/06	155	150	-3.23
19	Everest Insurance	2003/04	650	350	-46.15
20	Everest Insurance	2005/06	300	295	-1.67
21	Neco Insurance	2004/05	102	95	-6.86
22	Yak&Yeti Hotel	2001/02	650	600	-7.69

(Source: NEPSE trading report)

$$\text{Here, difference in Percentage} = \frac{\text{After price} - \text{Before Price}}{\text{Before price}} \times 100\%$$

Similarly the price of stock one month before and 3 month after the bonus share announcement and their percentage change is shown in table 4.5

Table 4.5**Comparison of MPS before and 3 month after bonus share issue**

S.N	F/Y	Firms	MPS 1 month before bonus share issue (Rs)	MPS after 3 month of bonus share issue (RS)	% Difference
1	Everest Bank ltd	2001/02	600	485	-19.17
2	Everest Bank ltd	2002/03	419	445	6.21
3	Everest Bank ltd	2005/06	972	1080	11.11
4	Himalayan Bank ltd	2001/02	1420	850	-40.14
5	Himalayan Bank ltd	2002/03	900	815	9.44
6	Himalayan Bank ltd	2003/04	990	840	-15.15
7	Himalayan Bank ltd	2004/05	1135	950	-16.30
8	Himalayan Bank ltd	2005/06	1140	1005	-11.84
9	Standard charterd Bank	2003/04	1540	1600	3.9
10	Nirdhan Utthan	2005/06	107	100	-6.54
11	Lalitpur Finance	2002/03	400	290	-27.5
12	Lalitpur Finance	2005/06	250	250	-0
13	National Finance	2003/04	445	390	-12.36
14	National Finance	2004/05	350	345	-1.43
15	National Finance	2005/06	290	250	13.79
16	Annapurna Finance	2004/05	346	355	2.6
17	Annapurna Finance	2005/06	512	441	-13.87
18	Siddhartha Finance	2005/06	155	161	3.87
19	Everest Insurance	2003/04	650	350	-46.15
20	Everest Insurance	2005/06	300	290	-3.33
21	Neco Insurance	2004/05	102	105	2.94
22	Yak&Yeti Hotel	2001/02	650	600	-7.69

(Source: NEPSE trading report 2006)

The data in the above table shows that in most of the cases the price of the stock decreases after bonus share issue which is similar to the theoretical assumption and gradually increases after some months. The highest percentage decreases in share price after one month of bonus issue is -44.17% of Everest bank ltd in fiscal year 201/02 and lowest percentage decrease of share price is -1.67% which is of Himalayan bank ltd in fiscal year 2002/03 and Everest insurance in fiscal year 2005/06.

Similarly the largest percentage decrease of share price before one month of issue and after 3 month of issue is -46.15% of Everest insurance ltd in fiscal year 2003/2004 and lowest percentage decreases in share price is -1.43% of national finance company ltd in fiscal year 2004/2005. In some cases the share prices are slightly increases after bonus issue. The decreasing percentage of share price was not found equal to the bonus ratio which is due to the signaling effect.

4.3.4.2 Comparative Study Of Theoretical Market Price And Actual Market Price After 1 Month

To find out the impact of bonus share issue on market price of stock, the theoretical MPS and actual MPS after one month and after three month are compared. The theoretical Mps is calculated in appendix-III. The percentage difference between actual MPS and theoretical MPS are calculated. Higher the percentage change mean s higher the positive impact of bonus share issue on price of share which is good indicator for shareholders and the company which is due to good signaling effect. Negative change means share price after bonus share are lower than theoretical price

Table 4.6**% difference between actual MPS and theoretical MPS after 1 month**

S.N	F/Y	Firms	MPS 1 month before bonus share issue (Rs)	MPS after 3 month of bonus share issue (RS)	% Difference
1	Everest Bank ltd	2001/02	335	500	-33
2	Everest Bank ltd	2002/03	461	381	21
3	Everest Bank ltd	2005/06	885	810	9.26
4	Himalayan Bank ltd	2001/02	970	1071	-9.43
5	Himalayan Bank ltd	2002/03	885	975	9.23
6	Himalayan Bank ltd	2003/04	920	791	-3.41
7	Himalayan Bank ltd	2004/05	972	949	-2.75
8	Himalayan Bank ltd	2005/06	1640	1391	2.37
9	Standard chartered Bank	2003/04	104	94	17.90
10	Nirdhan Utthan	2005/06	300	265	10.64
11	Lalitpur Finance	2002/03	250	167	13.21
12	Lalitpur Finance	2005/06	392	371	49.70
13	National Finance	2003/04	325	292	5.66
14	National Finance	2004/05	260	264	11.30
15	National Finance	2005/06	350	229	9.86
16	Annapurna Finance	2004/05	400	318	52.84
17	Annapurna Finance	2005/06	150	119	25.78
18	Siddhartha Finance	2005/06	350	325	26.05
19	Everest Insurance	2003/04	295	200	7.69
20	Everest Insurance	2005/06	300	290	47.50
21	Neco Insurance	2004/05	95	93	2.15
22	Yak&Yeti Hotel	2001/02	600	433	27.83

(Source: NEPSE trading report)

$$\text{Here, \% change} = \frac{\text{After price} - \text{Theoretical price}}{\text{Theoretical price}} \times 100\%$$

Table 4.7

Comparison of theoretical MPS and actual MPS after 3 month of bonus

S.N	F/Y	Firms	Actual MPS after 3 month(Rs)	Theoretical MPS after bonus share issue (Rs)	% Difference
1	Everest Bank ltd	2001/02	485	500	-3
2	Everest Bank ltd	2002/03	445	381	16.80
3	Everest Bank ltd	2005/06	1080	810	33.33
4	Himalayan Bank ltd	2001/02	850	1071	-20.63
5	Himalayan Bank ltd	2002/03	815	975	-16.41
6	Himalayan Bank ltd	2003/04	840	791	6.19
7	Himalayan Bank ltd	2004/05	950	946	0.42
8	Himalayan Bank ltd	2005/06	1005	949	5.90
9	Standardcharterd Bank	2003/04	1600	1391	15.03
10	Nirdhan Utthan	2005/06	100	94	6.38
11	Lalitpur Finance	2002/03	290	265	9.43
12	Lalitpur Finance	2005/06	250	167	49.70
13	National Finance	2003/04	390	371	5.12
14	National Finance	2004/05	345	292	18.15
15	National Finance	2005/06	250	264	-5.30
16	Annapurna Finance	2004/05	355	229	55.02
17	Annapurna Finance	2005/06	411	318	38.68
18	Siddhartha Finance	2005/06	161	119	35.29
19	Everest Insurance	2003/04	350	325	7.69
20	Everest Insurance	2005/06	290	200	45
21	Neco Insurance	2004/05	105	93	12.90
22	Yak&Yeti Hotel	2001/02	600	433	38.57

(Source: NEPSE trading report 2006)

Here, the above data shows that the market prices of the firms after bonus issue are higher than the theoretical price. There are very few cases of actual market price which is lower than theoretical price. This higher actual price than theoretical price is due to the signaling effect of bonus share.

4.3.5. The Value Impact of Bonus Share Announcement:

The value of the firm is the market price multiplied by number of share outstanding. To find the impact of bonus share announcement on the value of the firm, the value of the firm before and after bonus share issue is analyzed share.

4.3.6. Comparative Study of Value of the Firm before and After Bonus Issue:

To find out whether the value of the firm increases or decrease after bonus share issue, the value of the firm before one month from the date of bonus share issue are calculated and the percentage difference between them are calculated here.

Table 4.8**Comparative Study of Value of the Firm before and After Bonus Issue:**

S.N	Firms	FY	Value of the firm before bonus share (Rs)	Value of the firm after Bonus share issue (Rs)	% Difference
1	Everest Bank ltd	2001/02	864000000	57880000	-93.3009259
2	Everest Bank ltd	2002/03	1102854090	1334742981	21.02625298
3	Everest Bank ltd	2005/06	3061800000	3345300000	9.259259259
4	Himalayan Bank ltd	2001/02	426000000	3783000000	788.028169
5	Himalayan Bank ltd	2002/03	3240000000	3504600000	8.166666667
6	Himalayan Bank ltd	2003/04	4247100000	4096950000	-3.53535354
7	Himalayan Bank ltd	2004/05	6086437500	5920200000	-2.73127753
8	Himalayan Bank ltd	2005/06	7335900000	7505784000	2.315789474
9	Standard chartered Bank	2003/04	5229821520	6126362680	17.14286341
10	Nirdhan Utthan	2005/06	10700000	11440000	6.91588785
11	Lalitpur Finance	2002/03	90000000	101250000	12.5
12	Lalitpur Finance	2005/06	56250000	84375000	50
13	National Finance	2003/04	133500000	141120000	5.707865169
14	National Finance	2004/05	147000000	163800000	11.42857143
15	National Finance	2005/06	250560000	247104000	-1.37931034
16	Annapurna Finance	2004/05	69200000	105000000	51.73410405
17	Annapurna Finance	2005/06	256000000	320000000	25
18	Siddhartha Finance	2005/06	31000000	3900000	-87.4193548
19	Everest Insurance	2003/04	195000000	210000000	7.692307692
20	Everest Insurance	2005/06	180000000	26550000	-85.25
21	Neco Insurance	2004/05	51000000	52250000	2.450980392
22	Yak&Yeti Hotel	2001/02	1435985200	1988287200	38.46153846

(Source: NEPSE trading report)

Similarly the percentage differences between the value of the firm before one month and after three month from the data of bonus announcement are calculated and it is compared with the bonus ratio.

Table 4.9**Comparative Study of Value of the Firm before and after three month Bonus****Issue**

S. N	Firms	FY	Value of the firm 1 month before bonus share (Rs)	Value of the firm three month after Bonus share issue (Rs)	% Difference
1	Everest Bank ltd	2001/02	864000000	57880000	-93.3009259
2	Everest Bank ltd	2002/03	1102854090	1334742981	21.02625298
3	Everest Bank ltd	2005/06	3061800000	3345300000	9.259259259
4	Himalayan Bank ltd	2001/02	426000000	3783000000	788.028169
5	Himalayan Bank ltd	2002/03	3240000000	3504600000	8.166666667
6	Himalayan Bank ltd	2003/04	4247100000	4096950000	-3.53535354
7	Himalayan Bank ltd	2004/05	6086437500	5920200000	-2.73127753
8	Himalayan Bank ltd	2005/06	7335900000	7505784000	2.315789474
9	StandardcharteredBank	2003/04	5229821520	6126362680	17.14286341
10	Nirdhan Utthan	2005/06	10700000	11440000	6.91588785
11	Lalitpur Finance	2002/03	90000000	101250000	12.5
12	Lalitpur Finance	2005/06	56250000	84375000	50
13	National Finance	2003/04	133500000	141120000	5.707865169
14	National Finance	2004/05	147000000	163800000	11.42857143
15	National Finance	2005/06	250560000	247104000	-1.37931034
16	Annapurna Finance	2004/05	69200000	105000000	51.73410405
17	Annapurna Finance	2005/06	256000000	320000000	25
18	Siddhartha Finance	2005/06	31000000	3900000	-87.4193548
19	Everest Insurance	2003/04	195000000	210000000	7.692307692
20	Everest Insurance	2005/06	180000000	26550000	-85.25
21	Neco Insurance	2004/05	51000000	52250000	2.450980392
22	Yak & Yeti Hotel	2001/02	1435985200	1988287200	38.46153846

(Source: NEPSE trading report)

From the data in the above table it is known that in most of the cases the value of the firm increases after the bonus share issue. The table-4.8 shows that the value of the firm of the firm of Everest Bank Ltd after one month of bonus issue decreases by 93.3 % in fiscal year 2001/02 which is maximum decreasing case and the value of the Annapurna finance increases by 51.73% in fiscal year 2004/05 which is maximum increasing case, similarly table 4.9 shows that the value of Himalayan Bank decrease by 2.73% after three month of bonus issue in 2004/05 similarly maximum decreased 87.42% of Siddhartha finance in fiscal year 2005/06. In this way value of firm are volatile after bonus and right share issue.

Hence it is known from the above table that the value of most of the firm increases after bonus share issue, this means the wealth of shareholders increases after bonus which shows that the shareholders have positive attitude towards bonus share issue

Frequency of Bonus Ratio and Percentage Change in Value of the firm:

The frequency distribution of bonus ratio and percentage change in value of the firm in different intervals is given in following tables

Table 4.10

Frequency distribution of bonus ratio:

S.n	Bonus ratio (%)	Number bonus issue	Percentage
1	10	6	27.27
2	20	6	27.27
3	25	1	4.55
4	30	2	9.09
5	50	5	22.73
6	60	1	4.55
7	100	1	4.55
	Total	22	100

The above frequency table shows that most popular bonus ratio in Nepalese corporate firms are 10% and 20% i.e. 1:10 and 1:5 are frequently issuing bonus ratio and 3:5 and 1:1 rarely issued

Table 4.11

Frequency distribution of increase or decreases in value of the firm after three month of bonus share issue

S.N	Percentage increase or decrease in value of the firms	Number of cases
1	-30% -0%	4
2	0-10	7
3	10-20	4
4	20 +	7

The above frequency table shows that the value of the firm increases in most of the cases. So we can conclude that actual value of the firm increases after bonus share announcement.

4.3.7 Testing Of Hypothesis:

Testing of hypothesis is one of the most important aspects of the theory of decision making. It consists of decision rules required for drawing probabilistic inferences about the population parameters. It often involves deciding any given point of time a given population parameter is the same as before, as claimed or has changed. A quantitative statement about the population parameter is called a hypothesis and it is an assumption that is made about the population parameter and then its validity is tested.

Generally two complementary hypotheses are set up at one time. If one the hypotheses is accepted. Then other hypothesis is rejected and vice versa.

Hypothesis 1:

Null Hypothesis: $H_0: \bar{x} = \bar{y}$, that the value of the firm before bonus share issue and after bonus share issue are same. In other words there is no significance difference between value of the firm before and after bonus share issue.

Table 4.12
Calculation of test statistic t

Sn	Value of firm 1 month before bonus share issue(x)	Value of firm 3 month after bonus share issue(y)	d = x-y (in 000000)	(d-d) (in 10)
1	864000000	838080000	25.92	34477.06
2	1102854090	1288417845	-185.56	591.46
3	3061800000	5082400000	-2020.60	3459302.41
4	4260000000	3315000000	945	1222528.26
5	3240000000	3227400000	12.6	30025.96
6	4247100000	4504500000	-257.4	9354.76
7	6086437500	6113250000	-26.82	17918.50
8	7335900000	7760610000	-424.71	69711.84
9	5229821520	5976939200	-747.12	343911.84
10	10700000	11000000	-0.3	25721.74
11	9000000	97875000	-7.88	23347.84
12	56250000	84375000	-28.13	17569.5
13	133500000	140400000	-6.9	23648.29
14	147000000	173880000	-26.88	17902.44
15	250560000	237600000	12.96	30150.58
16	69200000	106500000	-37.3	15222.62
17	256000000	352800000	-96.8	4080.65
18	31000000	41860000	-10.86	22446.03
19	195000000	210000000	-15	21222.66
20	180000000	261000000	-81	6348.90
21	51000000	57750000	-6.75	23694.44
22	1435985200	1988287200	-552.302	153366.22
	Total		-3535.03	5572544.30

Here $\bar{d} = \frac{d}{n} = -160.68$ (in 000000)

Now $s^2 = \frac{1}{n} \sum (d - \bar{d})^2$

$= \frac{1}{21} \times 5572544.30$

$= 265359.25 \times 10^2$

$S = \sqrt{s^2} = \sqrt{265359.25 \times 10^2}$

515130323.30

Test statistic $t = \frac{\bar{d}}{\frac{s}{\sqrt{n}}} = \frac{Z160680000}{\frac{515130323.30}{\sqrt{22}}} = -1.46$

Therefore $|t| = 1.46$

Degree of freedom = $n - 1 = 22 - 1 = 21$

Level of significant () = 5 %

Critical value : the tabulated value of 't' at 5% level of significance and 21 degree of freedom (d.f.0 for right tailed test is 1.721

Decision: since calculated value if $t = 1.46$ is less then tabulated value of t it is not significant and null hypothesis is accepted which means there is no significant difference between value of the firm before and after bonus share issue.

Hypothesis 2:

Null hypothesis: $H_0: \rho = 0$, that is percentage of bonus issue and percentage increase in actual value of the firm are uncorrelated.

Alternative Hypothesis: $H_1: \rho > 0$, (right – tailed test), that is variables are positively correlated.

Calculation of test statistic: under H_0 , test static is

$$t = \frac{r}{\sqrt{1 - r^2}} \times \sqrt{n - 2} = \frac{0.37}{\sqrt{1 - (0.37)^2}} \times \sqrt{22 - 2} = 1.97$$

degree of freedom = n-1 = 22 – 1 = 21

Level of significant () 5%

Critical value: The tabulated value of ‘t’ at 5% level of significance and 21 d.f for right tailed test is 1.721

Decision: since calculated value if /t/= 1.97 is greater than tabulated value of t, it is significant and null hypothesis is rejected and alternative hypothesis is accepted which means that the percentage of bonus issue and percentage increase in value of the firms are positively correlated in the population that means higher would be the increase in value of the firms.

Here, from the hypothesis test 1 it is found that the value of the firm before and after bonus issue are same and from hypothesis test 2 it is found that the percentage of bonus issue and percentage increase in value of the firm are positively correlated, Although hypothesis 2 indicates no difference in value of firm before and after bonus share issue, hypothesis 2 shows that the percentage increase in value of the firm are positively correlated with bonus ratio.

4.4 Presentation and Analysis of Primary Data:

Primary data were collected from shareholder’s survey by using questionnaire method; in this research 40 active shareholders of different companies were used as respondents. Their responses were presented and analyzed using different statistical tools to know about Nepalese investor’s view and actual market scenario of Nepalese capital market. The data collected from shareholders survey are analyzed and presented here.

4.4.1 Shareholders Holding the Share Listed in NEPSE:

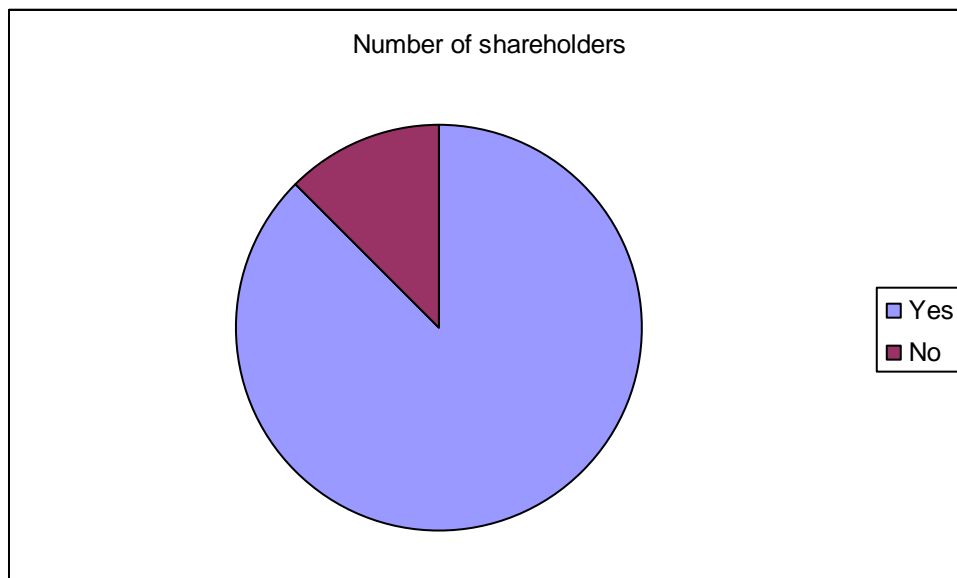
The following table shows the number of shareholders who are holding the share listed in NEPSE and not listed in NEPSE.

Table 4.13

SN	NEPSE Listed	Number of shareholders	Percentage
1	Listed in NEPSE	35	87.5%
2	Unlisted in NEPSE	5	12.5%
	Total	40	100%

The above table shows that 87.5% of shareholders are holding the shares which are listed in NEPSE and rest of 12.5% are holding the shares which are not listed in NEPSE. These data are presented in the pie chart in below

Figure - 4.1



4.4.2 Shareholders Expectation from the Company:

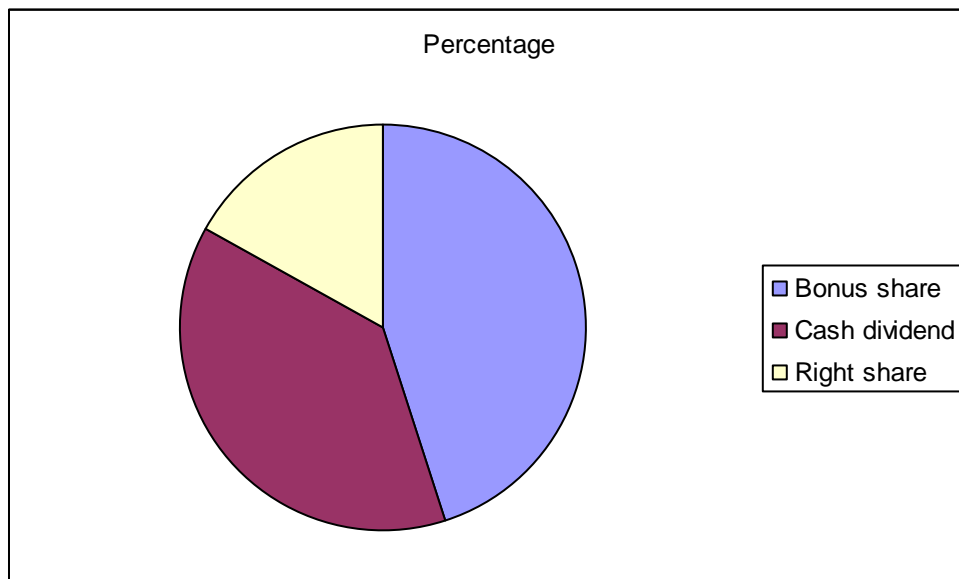
Shareholders importance among cash dividend, bonus share and right share are shown in the table below.

Table 4.14

SN	Shareholders choice	Number of shareholders	Percentage
1	Bonus share	18	45%
2	Cash dividend	15	37.7%
3	Right share	7	17%
	Total	40	100%

The above data shows that most of the Nepalese investors prefer bonus share 45% respondent prefer bonus share 37.5% respondent prefer cash dividend and only 7% respondent prefer right share, so shareholders attitude towards bonus share is found positive. The above data are presented in pie chart as follows

Figure - 4.2



4.4.3 Motives of Bonus Share Issue:

From the questionnaire survey, 40% of respondent replied that motive of bonus share issue is to fulfill shareholders expectation, 30% respondent replied it is to raise fund internally, 20% respondent replied it is to convey information to shareholders that the company is good and 10% respond replied that it is issued to draw the attention from investor and shareholders think that company issues bonus share fulfill shareholders expectation and to raise fund for company.

4.4.4 Shareholders Concern toward Bonus Share:

From the shareholders survey, out of 40 respondent 85 % of them are not agree with the statement that shareholders are indifferent whether the company pay or do not pay bonus share, 10% of them said it is indifferent and 5% of them say they don't know. Hence it shows that shareholders are concerned about bonus share issue

4.4.5 Impact of Announcement of Earning To Market Price of Stock:

In this survey, 40% respondent replied that announcement of earning will help to increase the price of share, 20% respondent relied that it does not effect in increasing price of stock and 40% respondent replied that they don't know. Hence it shows that most of the Nepalese investors are not rational. They have to be more aware about the factors affecting the price of stock.

4.4.6 Shareholders Intention of Holding Stock:

The shareholders intention of holding the share is given in following table:

Table 4.15

SN	Shareholders expectation	Number of respondent	Percentage
1	Increase in price in future	25	62.5%
2	Bonus share	10	25%
3	Cash dividend	5	12.5%
4	Right share	-	-
	Total	40	100%

The above table shows that most of the Nepalese shareholders hold share expecting that market price will increase in future. Out of 40 respondents 62.5% respondent holds share with the expectation of future price rise, 10% with the expectation of bonus share and 5% with the expectation of cash dividend.

4.4.7 Shareholders Attitude towards the Impact of Bonus Share on Mps and Value of the Firm:

Out of 40 respondents 45% replied that market price of the share increase after bonus share issue, 40% replied that market price of the share decrease after bonus issue and 15% said no change. Similarly 75% respondents replied that value of the firm increase after bonus issue, 25% respondents replied that there is no change in value of the firm after bonus issue.

Hence majority of the respondents says Market price per share increases and value of the firm also increases after bonus share issue, this indicates that majority of Nepalese investors have lack of proper knowledge of affecting factors of stock price and their effect.

4.5 Major Finding of the study

The major findings of this research are summarized below.

- The common stocks of banks and finance companies highly traded than other companies which means that Nepalese investors are interested to invest in banks and finance companies. General investors think that investing in non banking sector are more risky than banking sector
- Most of bonus share issuing companies are Banks, finance companies and insurance companies. It is because NRB has given them pressure to raise their paid up capital. This practice is going to increase in future because NRB has given directives to the Banks and finance companies to increase their paid up capital to 2 billion for Commercial Banks, 64 million for development bank and 32 million for finance companies till 2010.
- The popular bonus rate is 10 to 30 percent because most of the companies are issuing 10 to 30 percent bonus share.
- The price of the stock decreases after bonus share issue but it gradually increases after some months. In most of the cases the actual market price of the stock is higher than theoretical price of the stock which means impact of bonus share issue on market price is positive
- The effect of bonus share issue on value of the firm is also positive. In most of the case the aggregate market valuation of the operate firm's equity capital increased as the result of bonus share issue 100 percent of the bonus issue cases are recorded different level gain over the base date price, after adjusting of the general market movement in share price
- The share price in most of the cases does not decrease after bonus share issue according to bonus ratio as theory says. The reason behind the situation may be that investors can not interpret the information and data. There is the misconception about bonus share that the general investors think that they receive additional share within the same value.

- Most of the shareholders are irrational because they do not study the company's financial report and analyses the market conditions before investing in securities. Nepalese capital market is speculative oriented therefore it takes more consciously bonus share issue than cash dividend. Whatever the dividend policy of the company the immediate impact and some month later are significantly positive.
- In most of the cases companies issue bonus share without distributing cash dividends, which ultimately discourages rational investors and faces drastic fall in their share prices.
- Although, theoretically the value of the firm before and after the bonus share issue would be same, in most of the cases the value of the firm increases after bonus share issue, which means Nepalese investors are over optimistic towards bonus share issue.
- The bonus share ratio and percentage increase in value of the firms are positively correlated, which mans higher the bonus ratio higher would be the value of the firm.
- Bonus share is the major factors affect in the price of the stock in the market.
- There is a lack of systematic policy of bonus distribution in Nepalese corporate firms. It was not found that Nepalese firms were issuing bonus share after analyzing and considering its effects on future dividend policy. They are issuing bonus share with out analyzing investor attitude towards it but only for the purpose of fund raising for increased paid up capital.
- In sum, the bonus share issue has the positive impact on the value of the firm and both management of the firms and shareholders have positive attitude towards bonus share.

CHAPTER-V

SUMMARY, CONCLUSION & RECOMMENDATION

5.1 Summary:

Although Nepalese capital market crossed more than three decades, bonus share issue is a recent practice in Nepalese corporate firms. It came to practice especially only after the incorporation of joint venture banks in the mid eighty's this came into practice frequently after the policy directive by NRP in the fiscal year 199/97 to commercial banks to increase their funds. Most of the banks and other financial institutions is using bonus share a good source to raise funds to increase their capital.

Bonus share issue is related to the objective of maximizing shareholders wealth in terms of future dividend and capital gain. It can also be justified by legal requirement because NRB has directed banks and finance companies to increase their capital and bonus share is the good source of funding.

The data in this research were collected from primary and secondary sources such as questionnaire method of shareholders survey and secondary sources such as SEBON report, NEPSE trading report and concerned company's annual reports. The data were collected from five fiscal years (FY 2001/02 to FY 2005/06). The formally announcement of bonus share at AGM is taken as issue data. The one month before MPS. One month and three after issue date are collected and value of the firms before and after the bonus issue were calculated and analyzed using different statistical tools.

5.2 Conclusion

Economically, Nepal is in its initial stage of development of financial area. So the establishment of financial institution is most important. Various Banks insurance, hotel and financial companies have been established by government as well as private sectors to enhance the countries in economic sector for providing their active participation in economic development. An effective transformation of saving from the hands of the supplies spending units to direct spending units with relatively less risk aversion.

The major finding of the study helps to present the conclusion efficient and effectively. According to the study general investor more attractively to wards banks and finance company because they tends to give more bonus share then other companies. Banks and finance gives more bonus share because NRB has give them presser to raise their paid up capital. The most popular bonus ratio is between 10 to 30 percent. The price of the stock decreases after bonus share issue but it gradually increases after some months. In most of the cases the actual market price of the stock is higher than theoretical price of the stock which means impact of bonus share issue on market price is positive

Most of the shareholders are irrational because they do not study the company's financial report and analyses the market conditions before investing in securities. Nepalese capital market is speculative oriented therefore it takes more consciously bones share issue than cash dividend. Whatever the dividend policy of the company the immediate impact and some month later are significantly positive.

5.3 Recommendation:

Theoretically bonus share issue has no effect on the value of the firm. It is merely a reshuffle of accounting heads. Ti is a transfer from reserves account to share capital and share premium. But from this research we found that some practices in the

stock market regarding bonus share and investors expectation are not favorable towards the smooth development of Nepalese capital market. So some recommendations have been made below.

- There should be a systematic policy of bonus distribution. Corporate firms must formulate a policy on issue of bonus share which includes bonus announcement date, bonus ratio etc before announcement of bonus share. Firms must consider the shareholders interest as well as company's future fund requirements.
- Investors should be aware about the impact of bonus share on value of the firm. They must know the source of information and be able to interpret the data. Investing in rumor would be dangerous for them as well as for development of capital. Thus concerned authorities i.e. SEBON and NEPSE must aware the investors about the misconception about bonus share and other influencing factors of share price.
- The true objective behind the issue of bonus share must be disclosed for all stockholders. The information leakage before the actual announcement of bonus share must be prohibited and immediate action should be taken against the insiders.
- In some cases market makers and other influential persons are playing the roles to increase the market price unnecessarily and getting profits from the investment. This type of manipulation by certain vested interest group causes general investors loose their investment, so concerned authority must regulate the market and take actions against them and discourage these activities.
- Corporate management should declare cash dividend with bonus share to encourage rational investors invest in security market.
- Online trading system should be implemented in NEPSE and over the counter market should be launched.

- Number of qualified share brokers should be increased to facilitate the trading system in NEPSE. The commission of broker should be made competitive.
- A company should not declare bonus share without assessment of future consequences. If a company does not have any profitable opportunities and less return than the shareholder's expectation should not issue the bonus share. A company must be considered on effective, efficient and profitable utilization of additional equity raise via bonus share issue.
- More research should be done in this field to find out the problems of Nepalese security market and initiation should be taken for the development of Nepalese capital market.

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5.1 Summary:

Although Nepalese capital market crossed more than three decades, bonus share issue is a recent practice in Nepalese corporate firms. It came to practice especially only after the incorporation of joint venture banks in the mid eighty's this came into practice frequently after the policy directive by NRP in the fiscal year 199/97 to commercial banks to increase their funds. Most of the banks and other financial institutions is using bonus share a good source to raise funds to increase their capital.

Bonus share issue is related to the objective of maximizing shareholders wealth in terms of future dividend and capital gain. It can also be justified by legal requirement because NRB has directed banks and finance companies to increase their capital and bonus share is the good source of funding.

Bonus are payment made to stockholders from a firm's earnings in return to their investment, whether those earnings were generated in the current period or in previous periods and policy refers to the decision about how much earnings, at what form should be distributed. Thus, bonus is to determine the amount of earnings to be distributed to shareholders and the amount to be retained or reinvested in the firm.

The trend of cash and bonus share paid in last five years in moderate. Different sectors i.e. Commercial Banks, Finance Companies, Insurance Companies and Trading House were paid stock dividend regularly. Even the economic condition of the country is declining the company were able to issue stock dividend. The total

number of companies paying stock dividend is slightly declining from 1999/00, but it comes on track since last years. Most of the transaction of issued stock dividend done by commercial banks, finance companies and insurance companies. In this period commercial banks, finance companies and insurance companies are more likely to Bounus share because Nepal Rastra Bank has given pressure to them to rise there paid up capital.

After the bonus share paid the stock price should be decreased. The theory says the price per share in the first transaction after the book closure date should fall by the rate of stock dividend in the previous day's closing price. But in practical it is far away. In this study, three companies have come near with theory where one company goes down and rests are higher stock price.

The data in this research were collected from primary and secondary sources such as questionnaire method of shareholders survey and secondary sources such as SEBON report, NEPSE trading report and concerned company's annual reports. The data were collected from five fiscal years. The formally announcement of bonus share at AGM is taken as issue data. The one month before MPS. One month and three after issue date are collected and value of the firms before and after the bonus issue were calculated and analyzed using different statistical tools.

This research study on "Bonus share announcement and its impact on value of the firm" done through the following simple research methodology approach. The chapter one is the introductory part of the study. This part presents the general area of interest and provides a preliminary focus up on the topic with a wider scope. This chapter consists of general background, statement of the problem, objective of the study, significance of the study, limitation of the study, assumption, definition and organization of the study. The second chapter is the review of literature, which includes the review of previous writings and studies relevant to the topic. Different

books, journals and previous research work have been reviewed for making this research. Chapter third research methodology describes the methodology employed in the study. Here describe about which methodology is use for preparing this research. It deals about research design, nature and sources of data, population and sample and data processing procedures. Here secondary as well as primary data also used for making effective research. In part of Data Presentation and analysis all the collected data are analyzed using different statistical tools and techniques and presented in the table, graph and other pictorial form. According to analyzed and calculated data, here have been make conclusion and recommendations.

5.2 Conclusion

Economically, Nepal is in its initial stage of development of financial area. So the establishment of financial institution is most important. Various Banks insurance, hotel and financial companies have been established by government as well as private sectors to enhance the countries in economic sector for providing their active participation in economic development. An effective transformation of saving from the hands of the supplies spending units to direct spending units with relatively less risk aversion.

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APPENDIX – I

LISTING OF BONUS RIGHT SHARE AND DEBENTURE

In the fiscal year 2006/07, 57 companies listed their additional securities (rights share, bonus and share and debenture) amounting to Rs.2815.3 million in NEPSE.

The detail of listing is presented as follow

Name of the Company (million)	Types of Securities	Amount
1. Everest Insurance Co. Ltd.	Bonus Share	30.
2. Janaki Finance Co. Ltd.	Bonus Share	10.00
3. Navadurga Finance Co. Ltd.	Bonus Share	2.00
4. Shree Investment & Finance Co. Ltd.	Bonus Share	8.00
5. Narayani Finance Ltd.	Bonus Share	7.90
6. Nepal Investment Bank Ltd.	Bonus Share	210.
7. Yeti Finance Ltd.	Bonus Share	5.00
8. Mahalaxmi Finance Ltd.	Bonus Share	10.00
9. Ace Finance Co. Ltd.	Bonus Share	36.00
10. Nepal Industrial & commerce Bank Ltd.	Bonus Share	60.00
11. National Finance Ltd.	Bonus Share	9.50
12. Paschimanchal Bikash Bank Ltd.	Bonus Share	2.00
13. Bank of Kathmandu Ltd.	Bonus Share	139.60
14. Mahalaxmi Finance Ltd.	Bonus Share	6.00
15. Himalayan Bank Ltd.	Bonus Share	38.60
16. Machhapuchhare Bank Ltd.	Bonus Share	106.60
17. NIDC Capital Markets Ltd.	Bonus Share	15.00
18. Standard Chartered Bank Nepal Ltd.	Bonus Share	38.60
19. Standard Finance Ltd.	Bonus Share	6.00

20. Nepal Aawas Bikash Bittiya Co. Ltd.	Bonus Share	5.80
21. Development Credit Bank Ltd.	Bonus Share	28.80
22. Royal Merchant Banking & Finance Ltd.	Bonus Share	5.00
23. Birgung Finance Ltd.	Bonus Share	6.00
24. Gorkha Finance Ltd.	Bonus Share	5.00
25. Nirdhan Uthan Bank Ltd.	Bonus Share	5.50
26. Butwal Finance Ltd.	Bonus Share	5.80
27. Kumari Bank Ltd.	Bonus Share	125.00
28. Guheswori Merchant Banking & Finance Ltd.	Bonus Share	5.00
29. Central Finance Ltd.	Bonus Share	12.00
30. Annapurna Finance Ltd.	Bonus Share	8.00
31. Alpic Everest Finance Ltd.	Bonus Share	18.00
32. Premiure Finance Ltd.	Bonus Share	4.80
33. Paschimanchal Bikash Bank Ltd.	Bonus Share	2.50
34. Nepal Housing & Merchant Finance Ltd.	Bonus Share	10.90
35. Om Finance Ltd.	Bonus Share	20.00
36. Bhrikuti Bikash Bank Ltd.	Bonus Share	2.60
37. Navadurga Finance Ltd.	Bonus Share	6.60
38. Capital Merchant Banking & Finance Ltd.	Bonus Share	7.00
39. Central Finance Company Ltd.	Right Share	12.00
40. Janaki Finance Company Ltd.	Right Share	10.00
41. Machhapuchhre Bank Ltd.	Right Share	160.00
42. Goodwill Finance Ltd.	Right Share	250.00
43. Kist Merchant Banking & Finance Ltd.	Right Share	50.00
44. Nepal Share Markets & Finance Ltd.	Right Share	40.00
45. Alpic Everest Finance Ltd.	Right Share	20.00
46. People's Finance Ltd.	Right Share	22.40
47. Pokhara Finance Ltd.	Right Share	20.00
48. Chhimek Bikash Bank Ltd.	Right Share	20.00

49. Ace Finance Co. Ltd.	Right Share	194.00
50. Lumbini Bank Ltd.	Right Share	100.00
51. Annapurna Finance Ltd.	Right Share	80.00
52. Paschimanchal Bikash Bank Ltd.	Right Share	28.00
53. Navadurga Finance Ltd.	Right Share	11.00
54. Laxmi Bank Ltd.	Right Share	122.00
55. Nepal Industrial & Commerce Bank Ltd.	Debenture	200.00
56. Nepal Investment Bank Ltd.	Debenture	250.00
57. Nepal SBI Bank Ltd.	Debenture	200.00

Total

2815.30

APPENDIX - II
LISTED COMPANIES UNDER GROUP 'A'

Name of the Companies

Commercial Banks

- 1 NABIL Bank Ltd.
- 2 Nepal Investment Bank Ltd.
- 3 Standard Chartered Bank Nepal Ltd.
- 4 Himalayan Bank Ltd.
- 5 Nepal SBI Bank Ltd.
- 6 Everest Bank Ltd.
- 7 Bank of Kathmandu Ltd.
- 8 Nepal Industrial and Commercial Bank Ltd.
- 9 Machha Puchhre Bank Ltd.
- 10 Laxmi Bank Ltd.
- 11 Kumari Bank Ltd.
- 12 Siddhartha Bank Ltd.

Development Banks

- 13 Development Credit Bank Ltd.
- 14 Nirdhan Uthan Bank Ltd.
- 15 Paschimanchal Development Bank Ltd.
- 16 Siddhartha Development Bank Ltd.

Finance Companies

- 17 National Finance Co. Ltd.
- 18 Kathmandu Finance Ltd.

- 19 Peoples Finance Ltd.
- 20 Union Finance Co. Ltd.
- 21 Citizen Investment Trust
- 22 Nepal Aawas Bikas Beeta Co. Ltd.
- 23 Narayani Finance Ltd.
- 24 Gorkha Finance Ltd.
- 25 Universal Finance Ltd.
- 26 Mahalaxmi Finance Ltd.
- 27 Goodwill Finance Co. Ltd.
- 28 Paschimanchal Finance Co. Ltd.
- 29 Lumbini Finance & Leasing Co. Ltd
- 30 Siddhartha Finance Ltd.
- 31 Nepal Merchant Banking & Fin. Ltd
- 32 Alpic Everest Finance Ltd.
- 33 International Leasing and Finance Co. Ltd.
- 34 United Finance Ltd.
- 35 Shree Investment and Finance Co. Ltd.
- 36 Central Finance Co. Ltd.
- 37 Premier Finance Co. Ltd.
- 38 Navadurga Finance Co. Ltd.
- 39 Butwal Finance Ltd.
- 40 Birgunj Finance Co. Ltd.
- 41 Standard Finance Ltd.
- 42 Capitals Merchant Banking & Finance Co. Ltd.
- 43 Cosmic Merchant Banking and Finance Ltd.
- 44 Annapurna Finance Co. Ltd.
- 45 Nepal Finance & Saving Co. Ltd.
- 46 Fewa Finance Co. Ltd.
- 47 World Merchant Banking & Finance Ltd.

- 48 Lalitpur Finance Co. Ltd.
- 49 NIDC Capital Markets Ltd.
- 50 Kist Merchant Banking & Finance Ltd.
- 51 Royal Merchant Banking & Finance Ltd.
- 52 Guheswori Merchant Banking & Finance Ltd.
- 53 Nepal Share Markets & Finance Ltd.

Insurance Companies

- 54 National Life & General Insurance Co. Ltd.
- 55 Himalayan General Insurance Co. Ltd.
- 56 United Insurance Co. (Nepal) Ltd.
- 57 Everest Insurance Co. Ltd.
- 58 Premier Insurance Co. (Nepal) Ltd.
- 59 Neco Insurance Ltd.
- 60 Alliance Insurance Co. Ltd.
- 61 Sagarmatha Insurance Co. Ltd.
- 62 Nepal Life Insurance Co. Ltd.
- 63 Life Insurance Corporation (Nepal) Ltd.

S.N. Name of the Companies S.N. Name of the Companies

- 64 Prudential Insurance Co. Ltd.

Manufacturing Company

- 65 Unilever Nepal Ltd.

Other Company

- 66 Chilime Hydropower Co. Ltd.

Source: Annual Report 2006.07 of SEBON

APPENDIX - III

DIVIDEND/BONUS SHARE DECLARATION AND SHARE CAPITALIZATION

Out of the 91 companies that held AGM in the fiscal year 2006/07, 60 companies have declared cash dividend and bonus shares. Out of these companies, 21 declared cash dividend, 21 declared bonus shares, 18 declared both dividend and bonus shares. Similarly, one declared share capitalization. The range of cash dividend is from 0.53 to 250.0 percent and the bonus share declaration is 5 to 100.0 percent. The detail of dividend/bonus share declaration and share capitalization is presented

Dividend/Bonus Share Declaration and Share Capitalization

<u>Dividend/Bonus Share</u>	<u>Percent (%) on Paid-up Value</u>	
Commercial Bank		
1 Nabil Bank Ltd.	Cash Dividend	85
2 Nepal Investments Bank Ltd.	Cash Dividend	20
	Bonus Share	35.46
3 Standards Chartered Bank Ltd.	Cash Dividend	130
	Bonus Share	10
4 Himalayan Bank Ltd.	Cash Dividend	30
	Bonus Share	5
5 Nepal SBI Bank Ltd.	Cash Dividend	5
6 Everest Bank Ltd.	Cash Dividend	25
7 Bank of Kathmandu Ltd.	Cash Dividend	18
	Bonus Share	30
8 Nepal Industrial & Commercial Bank Ltd.	Bonus Share	10

9 Machhapuchhre Bank Ltd.	Bonus Share	15
11 Kumari Bank Ltd. 6th 12/03/2007	Bonus Share	20

Development Bank

1 Development Credit Bank Ltd.	Cash Dividend	12
2 Nirdhan Utthan Bank Ltd.	Cash Dividend	5
	Bonus Share	20
3 Chhimek Bikash Bank Ltd.	Cash Dividend	30
4 Pashchimanchal Bikash Bank Ltd.	Bonus Share	5
5 Business Developments Financial Institution	Cash Dividend	10

Finance Company

1 Nepal Finance & Saving Co. Ltd.	Bonus Share	50
2 NIDC Capital Markets Ltd.	Cash Dividend	10
	Bonus Share	25
3 National Finance Co. Ltd.	Cash Dividend	53
	Bonus Share	10
4 Nepal Share Markets and Finance Ltd	Cash Dividend	10.53
5 Annapurna Finance Co. Ltd.	Cash Dividend	53
	Bonus Share	10
6 Kathmandu Finance Ltd.	Cash Dividend	10
7 Peoples Finance Ltd.	Bonus Share	10
8 Citizen Investment Trust	Cash Dividend	18.42
	Bonus Share	50
9 Nepal Abas Bikash Bitta Co. Ltd.	Cash Dividend	12
	Bonus Share	10
10 Narayani Finance Ltd.	Bonus Share	20
11 Ace Finance Ltd.	Cash Dividend	2.11
	Bonus Share	40

12 Gorkha Finance Co. Ltd.	Cash Dividend	1.053
	Bonus Share	20
13 Universal Finance Ltd.	Bonus Share	35.09
14 Nepal Housing & Merchant Finance Ltd.	Bonus Share	20
15 General Finance Co. Ltd.	Bonus Share	10
16 Mahalaxmi Finance Co. Ltd.	Cash Dividend	10
	Bonus Share	10
17 Goodwill Finance Co. Ltd.	Cash Dividend	10.53
18 Paschimanchal Finance Ltd.	Bonus Share	10
19 Lumbini Finance & Leasing Company Ltd.	Cash Dividend	5.26
20 Nepal Merchant Banking & Finance Ltd.	Capitalization	23.08
21 Siddhartha Finance Ltd.	Cash Dividend	10
22 Alpic Everest Finance Ltd.	Bonus Share	33.33
23 United Finance Co. Ltd.	Cash Dividend	10
24 International Leasing & Finance Co. Ltd.	Cash Dividend	15
25 Shree Investment & Finance Co. Ltd.	Cash Dividend	11.40
	Bonus Share	16.67
26 Central Finance Co. Ltd.	Cash Dividend	6.32
	Bonus Share	33.33
27 Premier Finance Co. Ltd.	Cash Dividend	6
	Bonus Share	20
28 Navadurga Finance Co. Ltd.	Cash Dividend	1.58
	Bonus Share	30
29 Butwal Finance Ltd.	Cash Dividend	0.53
	Bonus Share	10
30 Janaki Finance Co. Ltd.	Bonus Share	25
31 Standard Finance Co. Ltd.	Bonus Share	10
32 Om Finance Co. Ltd.	Bonus Share	40
33 Fewa Finance Co. Ltd.	Cash Dividend	10.53

34 Kist Merchant Banking & Finance Ltd.	Cash Dividend	10.53
35 World Merchant Banking & Finance Ltd.	Cash Dividend	12
36 Birgunj Finance Co. Ltd.	Bonus Share	10
37 Capital Merchant Banking & Finance Ltd.	Bonus Share	10
38 Royal Merchant Banking & Finance Ltd.	Cash Dividend	5.79
	Bonus Share	10
Insurance Company		
1 Premiure Insurance Co. (Nepal) Ltd.	Bonus Share	100
2 Sagarmatha Insurance Co. Ltd.	Bonus Share	40
3 Nepal Life Insurance Co. Ltd.	Bonus Share	20
4 Prudencial Insurance Co. Ltd.	Cash Dividend	6
Manufacturing and Processing Company		
1 Unilever Nepal Ltd.	Cash Dividend	250
Trading Company		
1 Salt Trading Corporation Ltd.	Cash Dividend	20
2 Bishal Bazar Co. Ltd.	Interim Dividend	100
Other Company		
1 Butwal Power Co. Ltd.	Interim Dividend	30
2 Chilime Hydropower Co. Ltd.	Dividend	15
	Final Dividend	20

Source: Annual Report 2006.07 of SEBON

RESUME

KRISHNA KALA BIMALI

ADDRESS:

MAITE DEVI – 33, KATHMANDU
CONTACT NO: - 9841595621

PERSONAL DETAILS:-

DATE OF BIRTH: - 6 JANUARY 1967
FATHER'S NAME: - KRISHNA PD. BIMALI
GENDER - FEMALE
STATUS: - MARRIED
NATIONALITY: - NEPALI
RELIGION: - HINDU
LANGUAGE KNOWN: - NEPALI, ENGLISH, HINDI
E-MAIL: bimalikk@yahoo.com

ACADEMIC QUALIFICATION:

LEVEL	BOARD/UNIVERSITY	INSTITUTE
S.L.C	H.M.G	SHREE SANISCHARE SECONDARY SCHOOL
PCL (I COM)	T.U.	DAMAK CAMPUS, JHAPA
DIPLOMA (B.COM)	T.U.	MECHI MULTIPLE CAMPUS, BHADHRAPUR
DEGREE (M.B.S)	T.U.	LUMBINI BANIJYA CAMPUS, RUPANDEHI

COMPUTER COM PETENCY:

-) BASIC COURSE : OFFICE PACKAGE
-) ACCOUNTING PACKAGE (ACCMAN)

EXPERIENCE:

-) WORKED AS ACCOUNTANT IN OXFORD COLLEGE
-) TEACHING
-) PARTICIPATE IN VARIOUS TRAINNING, SEMIMARS AND WORKSHOPS

SPECILIZATION AREA:

-) ACCOUNT
-) FINANCE AND INVESTMENT

Research Question

Dear Sir/Madam,

I am a MBS final year student. The MBS program of faculty of management T.U. requires the student write a thesis for which I am conducting a survey of the **BONUS SHARE ANNOUNCEMENT AND IT'S IMPACT ON VALUE OF THE FIRM**. It will be very helpful for me if you fill up the following questionnaire.

Researcher

Name:

Krishna kala Bimali

Office:

Roll No. 18/059

Designation:

Lumbini Banijya Campus, Butawal

Q.1 How many shareholders holding the share listed in NEPSE (Please Rank?)

(a) Listed in NEPSE

(b) Unlisted in NEPSE

Q. 2 What shareholder expectation from the company (Please Rank)

(a) Bonus Share

(b) Cash Dividend

(c) Right Share

Q. 3 What are the motive of Bonus share issue? (Please rank)

(a) Fulfill the share holder Expectation

(b) Raise fund internally

(c) Covey information to shareholder

Q. 4. Shareholders concern towards Bonus share (Please rank).

(a) Agree

(b) Indifference

(c) Don't know

Q.5. What is the impact of announcement of earning to market price of stock?

(Tick any)

(a) Increase price of share

(b) Doesn't increase the share price

(c) Don't know

Q.6. Intention of holding stock by shareholder (Tick any)

(a) Increase in price in future

(b) Bonus share

(c) Cash dividend

(d) Right share

Q.7 What shareholders attitude towards the impact of bonus shares on NPS and value of the firm? (Tick any)

(a) Increase

(b) Decrease

(c) No change

Thank You
Responses of Respondents