

RIGHT OFFERING OF COMMERCIAL BANK IN NEPAL

SUBMITTED BY:

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RECOMMENDATION

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VIVA - VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**RIGHT OFFERING OF COMMERCIAL BANK IN NEPAL**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Masters Degree in Business Study (M.B.S.) under the supervision of Mr. Shankar Thapa of St. Xavier's Campus.

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ABBREVIATIONS

AGM	Annual General Meeting
BOA	Bank of Asia Nepal Ltd
BOD	Board of Directors
CIT	Citizen Investment Trust
DPS	Dividend Per Share
ER	Entertainment Right
EPS	Earning Per Share
FY	Fiscal Year
GBL	Global Bank Ltd
LBL	Laxmi Bank Ltd
NSBI	Nepal SBI Bank Ltd
NEPSE	Nepal Stock Exchange
NRB	Nepal Rastra Bank
P.E.	Probable Error
SBL	Sunrise Bank Ltd
SEBON	Security Board of Nepal
TU	Tribhuvan University

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CHAPTER – I

INTRODUCTION

1.1 Background of the Study

A capital market is a market for securities, where business enterprises and governments can raise long-term funds. It is defined as a market in which money is provided for periods longer than a year, as the raising of short-term funds takes place on other markets. The capital market includes the stock market and the bond market. “When a company is formed, it obviously must be financed. Often the seed money comes from founders and their families and friends. For some companies, this is sufficient to get things launched and with retained earnings, no more equity is needed. In other situations equity infusions are necessary.”(Van Horne; 1998:548) It is clear that when a large scale firm is to be established it fulfills the financial requirement by the issue of equity share. There are some other sources available to raise the funds. These sources are called financial instruments such as preferred stock, bond, debenture, right share etc.

The ultimate owners of a company are its common stockholder's, collectively they own, the company and assume the ultimate risk associated with ownership. On the basis of the type of business the nature of equity ownership depends. From its very inception the financial problems are faced by the companies constantly. A growing firm, thriving day by day, always remains in the destitute of funds either for expansion or diversification of business or to sustain in the competitive area. In order to cope with various financial situations, firm usually issue common stock to general investors or right offering to existing shareholders or preference share and various types of debentures as demanded by their target capital structure. This paper mainly focuses on the right offering to the existing shareholders. Sometime companies are bound to issue new shares of additional stock to the existing shareholders imply because of 'pre-emptive right' clause in the act of incorporation.

Ordinary share, preference share and debenture are three important securities used by firm to raise fund to finance their activities. Ordinary share provide ownership right to ordinary share holders. They are the legal owners of the company. As a result, they have residual claims on income and assets of the company. They have right to elect the board of directors and maintain their proportional ownership in the company called the pre-emptive right. The pre-emptive right of equity fund through right offerings. Right issue does not affect the wealth of the share holders. "The price of the share with on gets dividend into ex-right price and the value of the right. So what the shareholder gains in terms of the value of the right he loses in term of the low ex-right price. However, he will lose if he does not exercise right" (Pandey; 1998:548). Right share are issued to the existing shareholders as a result of increase in capital if current reserve is not sufficient to issue bonus share. Company usually issues right share to raise the capital. Therefore, issue of right share represents the distribution of share proportionally to existing shareholders. The shareholder which has an option to purchase a stated no of share at subscription price which is generally below the share current market price within specified period of time. Large numbers of corporate firms announce and issue right share to increase the capital base if the management felt such need or to comply with the policy directives given by concern authority to increase the capital base from time to time. In our country, Nepal Rastra Bank issues the policy directives to the commercial banks to control and for the supervision of the establishment and operation of commercial banks in Nepal. Nepal Rastra Bank had already issued the policy provisions regarding the requirements of minimum paid up capital in commercial bank, which significantly affected the right share issuing practices of commercial banks in Nepal. A company issues right share under the principle of preemptive right of the shareholders. Under this right, the existing shareholders have the first priority to purchase any new equity share issued by the company.

The pre-emptive right entitles a shareholder to maintain his/her proportionate share of ownership in the company. The law grants shareholders the right to purchase new share in the same proportion as their current ownership. Thus, if shareholder owns 1 percent of company's ordinary share, he has pre-emptive right to buy 1 per cent of new share

issued. A shareholder may decline to exercise this right. The shareholders' option to purchase a stated number of new shares at a specified price during a given period is called rights. These right can be exercised at a subscription price which is generally much below the share's current market price, or they can be allowed expire, or they can be sold in the capital market similarly they even can transfer their right. A company may give its existing stockholder the first opportunity to purchase a security issue on a privileged subscription basis. This type of issue is known as right offering because existing stockholder receives one right for each share of stock they hold. A right represents an option to buy the new security at the subscription price and it takes a specified number of rights to purchase the security. Depending on the relationship between the current market price of the stock and the subscription price, a right usually will have a market value. Security offering to the general public and offering on a privileged subscription basis must comply with federal and state regulation. "The enforcement agency for the federal government is the Securities and Exchange Commission; whole authority encompasses both sale of new securities and trading of existing securities in the secondary market" (Van Horne; 1998:582). It is not very practical to attempt to issue this new share at a premium to the existing share price because rational new investor would prefer to buy existing share directly in the market rather than more expensive new ones from the company. Equally it is normally difficult to make a substantial new issue share at the prevailing market price.

It is often necessary to consider making new issue at a discount to the current market price but to do so would be to rob existing shareholders. This can be avoided if the existing shareholders are given right to buy these discounted share in proportion to their existing shares. These issues are normally described by reference to how many new shares can be brought for a member of existing shares owned, e.g. a 1 for 5 right issue means that for every 5 shares owned the shareholder gets the right to buy 1 of new shares being offered. "As the new shares are being issued at a lower price than the current market price of the existing shares, this option should have a value and can be sold if the current shareholder does not make to take it up." (Ward, 1995:121)

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

1.2 Introduction of the Right Issue

Weston & Copeland (1992) states that, if the new common stocks are issued giving the right to purchase first by the existing shareholders than it is called right offering. Each shareholder is issued an option to buy a certain number of new share and the terms of the option are contained on a piece of paper called right. Each stockholder receives one right for each shares of stock owned.

Van Horne (2002) states that, instead of selling a security issue to new investors; some firms offer the securities first to existing shareholders on a privileged subscription basis. Some time the corporate charter requires that a new issue of common stock be offered first to existing shareholder because of their preemptive right.

Right issue practice in Nepal has no long history as compare to other developing country. While looking the issue approval from the SEBO of Nepal researcher can easily notice an increasing trend of issuing right share. During the 15 years period, SEBON has granted right issue approval amounting Rupees 12086.03 million. This amount comes to be second largest amount among various issue approved by SEBO. Right issue occupied 47.84% of total issue approval out of total listed companies. In India right is a negotiable but in Nepal there has not been any provision here to make the right negotiable.

1.3 Introduction of Capital Market

Capital market is a market for long-term securities having maturities greater than one year. They are vital to long term and prosperity of economy since they provide the

channel through which needed fund can be raised. It is mechanism through which public saving is canalized to industrial and business enterprises. The key instruments used in capital market are debt, preferred stock, and bond & convertible issues. Demand of capital in the capital market comes from agriculture, industry, trade and government, which sources are from individuals, corporate saving, multinational investors and surplus of government. So, some of the important members of capital markets are stock exchange, specialized financial institutions, bank, and Investment Company etc. A place where long-term lending and borrowing takes place is known as capital market.

Capital market consists of securities market and non-security market. Securities market implies mobilization of funds through issuance of the securities: Shares, Bond, Bills and Debentures by corporate sector and Bonds, Bills and Debentures by government. These securities are traded in the market and are generally negotiable and hence can be traded in the secondary markets. Non securities market refers to the mobilization in the financial resources by the financial institutions in the form of deposits and loans.

“Capital market plays a crucial and effective role in economy development of a nation. The health of the economy is reflected in two wings of capital market i.e. primary market or new issue market and secondary market/stock market.”(Agrawal, 1997:240)

“The main objective of the capital market is to create opportunity for maximum numbers of people to get benefit from return obtain by directing the economy towards the productive sector by mobilizing the long term capital. The objective can be fulfilled only by the rational accountable behaviors relating to the three factors of capital market such as institution, mediator and investor.” (Ninth Plan, 1997:167)

“Resource mobilization is assumed to be vital and challenging work in the present day world economy. In this era of financial economic and political liberalization the task is more complicated than before. Moreover, capital market, which is called the lifeblood of the liberalized economy, is the mechanism through which the resources (savings) are mobilized and flowed from nonproductive sector to productive sector” (Bhatta, 1995:1). To develop the economy of a country an efficient and effective capital market is of vital importance. The growth of capital market in a country depends upon the saving

available, proper organization of intermediary, to bring the investors and business ability together for mutual interest. Capital market is organized market through which buyers and sellers of long term capital are met and the function of buying and selling takes place. Capital market is such a powerful marketing which gives opportunity to the investors to invest their savings in ordinary share, debenture and government securities. In the present context of time, for fast industrial growth capital market plays an important role. Recently in Nepal, right share is one of the key instruments to raise capital from capital market. It can be easily notice an increasing trend of issuing right share, a type of equity share issued by a company to the existing shareholders.

1.4 Historical Development of Securities Market in Nepal

Capital market is a crucial element in the National economy. Its role in reinvigorating and boosting the economic activity in the country is significant. The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Center Ltd. in 1976 were other significant development relating to capital markets.

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

1.4.1 Introduction of Nepal Stock Exchange

Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating

transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of NEPSE.

Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 23 member brokers and 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, rules and bye-laws. Besides this, NEPSE has also granted membership to issue and sales manager securities trader (Dealer). Issue and sales manager works as manager to the issue and underwriter for public issue of securities whereas securities trader (Dealer) works as individual portfolio manager. At present there are 11 sales and issue manager and 2 dealers (Secondary market). The tenure of the membership is one year. The license should be renewed within 3 months after the closure of the fiscal year. If not, it can be done within another three months by paying 25% penalty. NEPSE the only Stock Exchange in Nepal introduced fully automated screen based trading since 24th August, 2007. The NEPSE trading system is called 'NEPSE Automated Trading System '(NATS) is a fully automated screen based trading system, which adopts the principle of an order driven market. Trading on equities takes place on all days of week (except Saturdays and holidays declared by exchange in advance). On Friday only odd lot trading is done. The exchange may however close the market on days other than schedule holidays or may open the market on days originally declared as holidays. The exchange may also extend, advance or reduce trading hours when it deems fit necessary.

1.4.2 Securities Available for Trading

NEPSE facilitates trading in the following instruments

- Shares: Equity, Preference
- Debentures
- Government Bonds
- Mutual Funds

NEPSE has implemented index-based circuit breakers with effect from 2064/6/4 (21 September 2007). In addition to the circuit breakers, price range is also applicable on individual securities. The index-based circuit breaker system applies at 3 stages of the NEPSE index movement, in way viz. 15 points, 20 points and 25 points or 3%, 4% and 5%, whichever is breached earlier. These circuit breakers when triggered bring about a trading halt in all equity. In case of 3% movement either way, there would be a market halt for 15 minutes if the movement takes place during first hour of trading i.e. 13:00 hours. In case this movement takes after 13:00 hours there will be no trading halt at this level and market shall continue trading.

- In case of 4% movement either way, there would be a market halt for half an hour if the movement takes place before 14:00 hours. In case this movement takes after 14:00 hours there will be no trading halt at this level and market shall continue trading.
- In case of 5% movement in either way, trading shall be halted for the remainder of the day
- Price Range is applicable on individual securities. The trading of the individual securities are not halted but allowed to trade within the price range.
- The price band is 10% of previous close on either way.
- During the ATO session the range is 5% on either way of Previous Close Price. After the band is 2% on either way of the Last traded price till it reaches to 10% of the previous close.

Brokerage

1. Brokerage for equity

S.No.	Trading Amount	Brokerage %
A	Up to 50,000	1
B	> 50,000 & < 5,00,000	0.9
C	> 5,00,000 & < 10,00,000	0.8
D	> 10,00,000	0.7

2. Brokerage for Government Bond

S.No.	Trading Amount	Brokerage %
A	Up to 5,00,000	0.20
B	> 5,00,000 & < 50,00,000	0.10
C	> 50,00,000	0.05

3. Brokerage for all other stocks which is not listed in 1 and 2.

S.No.	Trading Amount	Brokerage %
A	Up to 50,000	0.75
B	> 50,000 & < 50,00,000	0.60
C	> 50,00,000	0.40

1.4.3 Securities Board Nepal (SEBO/N): An Introduction

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets in Nepal. It has been regulating the market under the Securities Exchange Act, 2006. The functions, duties and powers of SEBON as per the Act are as follows.

- To offer advice to Government on matters connected with the development of the capital market.
- To register the securities of corporate bodies established with the authority to make a public issue of its securities.
- To regulate and systematize the issue, transfer, sale and exchange of registered securities.
- To give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Act or the rules and bye-rules framed under this Act.
- To supervise and monitor the functions and activities of stock exchange.
- To inspect whether or not any stock exchange is executing its functions and activities in accordance with this Act or the rules and bye-rules framed under this

Act, and to suspend or cancel the license of any stock exchange which is not found to be doing so.

- To issue licenses to conduct the business of dealing in securities, subject to this Act, or the rules and the bye-rules framed under this Act, to companies or institutions desirous of conducting the business of dealing in securities.
- To supervise and monitor the functions and activities of securities-dealers.
- To grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them.
- To approve the bye-rules concerning transactions in securities framed by stock exchanges and institutions engaged in the business of dealing in securities, and, for the purpose of making necessary provisions concerning the development of the capital market and protecting the interests of investors investing in securities, issue orders to have necessary alterations made in such bye-rules of stock exchange and institutions engaged in the business of dealing in securities.
- To systematize the task of clearing accounts related to transactions in securities.
- To supervise whether or not security dealers are behaving in the manner prescribed in this Act, or the rules and the bye-rules framed under this Act, while conducting business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.
- To make or ensure necessary arrangements to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.
- To make necessary arrangements to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.
- To review or make arrangement for reviewing the financial statements submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.
- To systematize and make transparent the act of acquiring the ownership of a company or gaining control over its management by purchasing its shares in a

single lot or in different lots.

- To establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.
- To discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market.

1.4.4 Initial Financing

Fund collected through various sources to establish a firm is called initial financing. It is also called venture capital.

1.4.5 Venture Capital

Venture capital includes the share capital and debt fund. For new firm, generating debt capital is not easy, so most part of the venture capital involves common stock. It represents fund invested in an existing, relatively new enterprises. The sources of venture funding are several. A venture capital firm will seek capital in advance from external investor. Such investors include public pension funds, endowments and foundations, bank holding companies, wealthy families and individuals, insurance companies and others.

Wealthy individuals and institutional investors are one of the major sources of venture capital. In case of commercial banks venture capital is mainly about issuance of shares. “The idea equity investor for start up companies must appreciate the risks involved, including the potential for a total loss of their investment, and must want to receive their financial return in the forms of capital gains. These venture capitalists are normally professional investor including investment managers controlling venture capital funds. Who accept the high risks associated with any specific investment by developing a portfolio comprising similarly high risk individual investment? Thus complete failure of some investments in the portfolio is offset by outstanding success of other investment

made. Indeed many such venture capital investors specialize in particular industry sector, such as IT or bio-technology, but still hold a portfolio of investment in this sector” (Ward, 1995:105).

“One reason that new companies find venture capital firms attractive in that a venture capitalist typically view their investment as long-term and are willing to wait several years before repaying their return” (Rao, 1982:542). Almost always the stock is not registered for a period of years known as letter stock, it cannot be sold until the issue is registered, and therefore, the investors have no liquidity for a period of years. The enterprise seeking the financing must convince any of the various sources that sizable returns will offset the substantial risks involved.

1.4.6 Initial Public Offering (IPOs)

Initial public offering refers to the first sale of stock by a private company to the public. IPOs are often issued by smaller, younger companies seeking the capital to expand, but can also be done by large privately owned companies looking to become publicly traded. In an IPO, the issuer obtains the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), the best offering price and the time to bring it to market.

While contemplating the idea of taking a company public via an IPO, the increased capitalization for the issuing business is a strong point to consider, since a public offering creates a market value on a company’s stock. Company directors and shareholder can retain their stock and use it for varied activities, such as: currency for mergers and acquisitions, as stock options to help retain key personnel, they may also sell their shares in the open market.

Additionally, the business will have greater access to the capital markets for future capital inflow. In general terms, a company’s valuation and debt-to-equity ratio will improve after going public, making it possible for the company to receive much better terms from lenders. While undertaking an IPO a company is doing two things simultaneously:

- It is offering shares for sale to the public

- It is also raising capital

There is no doubt that offering securities to the investment public will help a company's management and directors retain a large degree of control, as opposed to many other capital funding scenarios. For example, if a private company decides to use the services of venture capitalists to raise capital, instead of going public, the VC's (Venture Capitalists) might insist on a decision-making position, such as a seat on the board of directors. When a company decides to raise capital via the going public process of an IPO (Initial Public Offering), those unpleasant considerations are avoided.

No doubt the prestige related with becoming a public company has a definite appeal. The fact that it's easier to promote a public company is also a pertinent consideration because the funding resources available to public companies are much better than what's available to private concerns. Public companies have historically achieved higher recognition than private companies; hence, the public relations image and the perceived stability of being a public company is a plus. All the above considerations should come into play when you are considering the pro's and con's of going public via an IPO (Initial Public Offering).

"Going public means selling some of a company's stock to outside investors and then letting the stock trade in public market, and desire to convert into corporations" (Brigham, Gapenski & Ehrhardt; 2001:698).

"Going public represents a fundamental change in lifestyle in at least four respects:

- a. the firm moves from informal, personal control to a system control, and the need for financial techniques such as ratio analysis and Dupont system of financial planning and control greatly increases.
- b. information must be reported on timely basis to the outside investors, even though the founders may continue to have majority control.
- c. the firm must have breadth of management in all business effectively and
- d. the publicly owned typically draws on a board of directors, which should include representatives of the public owners and other external interest group, to help ultimate sound plans and policies" (Weston & Copeland, 1992:901).

1.4.7 New Issue Market

The new issue market is a primary market, because it is concerned with the creation of new financial claims. It provides an organization which may be used by deficit units to raise fund from surplus units. A number of securities are issued by companies in the new markets they include:

1. **Equity Share:** Equity Share represents the ownership position in a company. The holders of equity shares are owner of the company and they provide permanent capital. They have voting right and received dividends as the discretion of the board of directors.
2. **Preference Share:** The holder of preference share has a preference owner the equity in the event of liquidation of the company. The preference dividend rate is fixed and known. A company may issue preference with a maturity period (called redeemable preference share). Preference shares may also provide for a accumulation of dividend. It is called cumulative preference share.
3. **Debenture:** Debenture represent long term loan given by holders of debenture to the company. The rate of interest is specified and interest charges are treated deductible expenses in the hand of company. Debenture may issue without an interest rate. They are called zero interest debentures. Such debentures are issued at a price much below than their face value. Therefore they are called deep discount debenture/bond.
4. **Convertible Securities:** A debenture or preference share may be issued with the future of being convertible in to equity shares after a specified period of time at a given price. Thus a convertible debenture will have features of a debenture as well as equity.
5. **Warrants:** A company may issue equity share or debentures attached with warrants. Warrants entitle an investor to buy equity share after a specified time period at a given price.
6. **Cumulative Convertible Preference Share:** This is an instrument giving regular return at (zero) 0 percentages during the gestation period from 3 – 5 years and equity benefit there after introduce by government in 1994. Cumulative Convertible Preference Share has however of return been consider being too low

in the initial years and the provision conversion into equity was also unattractive. If the company fell to perform well.

7. Zero Coupon bond & convertible: These are two new instruments that have been floated by certain companies. Their overall impact and popularity will be known only during the years ahead.

1.5 Focus of the Study

Basically the direct impact on the value of firm occurs due to the changes in its financing.

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

1.6 Statement of the Problems

Right offering is considered as one of the popular methods of rising the long term fund as the targeted capital structure of the firm. Efficient capital market is taken as the backbone of the industries development and overall development of the country. Most of the Nepalese people are not known about the phenomenon of share trading, it is therefore; only few investors are getting advantage from share transaction. Among them large number of people who are the prospective investors are found to be very interested on share trading activities under such circumstances the study is focused on the level of knowledge of general people on share trading i.e. right share issue phenomenon. An existing shareholder is entitled to have a proportion number of new shares at pre stated price, which is somewhat lower than the market price of share. But to buy additional number of shares, the shareholder should have his name in company book before record

date. If one shareholder purchases shares after record date he has no rights to buy the additional number of shares. So, before record date there is high demand of shares in secondary market. Demand of shares increased because people rush to the secondary market in order to enlist their name in the company's book, before the record date. No doubt the price of the new share is also lower than market price. On the other side the existing shareholder generally have no willingness to sell the shares to exercise the rights. Due to this double pressure the price of share goes upward.

Theoretically, the value of the share should increase after the announcement of right offering and then decrease after the subscription date. But this trend is not found to be followed in Nepalese context. This can be clearly understood with the help of data found while doing the related study. And the data have been presented in the table 1.1 as follows:

Table 1.1
Share Price Before and After Announcement Date

S.No.	Name of Bank	Days Before Announcement Date	Share Price	Days After Announcement Date	Share Price
1.	Laxmi Bank Ltd.	7	765	7	650
2.	Nepal SBI Bank Ltd.	7	806	7	873

Thus, the data in the table 1.1 shows that the share price before and after the announcement of the right offering have not followed the exact principle of the right offering effect on share price. Announcement of right offering is good news to the existing shareholders. It is because existing shareholders can purchase the share of the company at subscription price which is far below the current market price. Under this condition also all the issued shares are not found to be subscribed by the existing shareholders.

After the subscription of right share, the number of share increases. Increased number of

shares causes increase in the supply of shares. According to the law of economics, increase in supply causes decrease in price i.e. when supply increases keeping the demand constant, price decreases. The share price movement in Nepalese banks after right share issue is not uniform. Share price of some banks are found decreased very heavily and some have very slightly after the issue of right share.

A lot of shares that were remained unsubscribed by the existing shareholders and were purchased by the employees of the respective companies and underwriter, the company act is silent on this part and such situation makes the very essence of rights offering questionable, which can be sold separately, a number of share holders, who do not want to abandon completely their ownership over the company have the destitute to subscribe for new shares, will have no option to choice when investor neither subscribes nor sells. It reduces the wealth of investors (i.e. do nothing and let the right expire). Consequently, their post issue wealth position will suffer because of the subsequent dilution in the share price. Only those shareholders, who be stay themselves and exercise rights to purchase the pro-rata shares of new common stock, will remain unharmed by the right issue. If there were the rights instrument available with existing shareholders, who do not exercise the rights could protect them from incurring loss by selling only the rights. In this case, their post issue wealth position will not suffer because the value of rights, which they receive in its sale, exactly offsets the dilution in the market price of the share. Hence, the absence of the right instrument and the implicit of the shareholders' wealth, which do no exercise the rights, is another aspect of the research problem.

To sum up this study deals with the following issues:

- I. What is the relationship between right share issue and stock price movement?
- II. What is the theoretical value of right and its practical effect on stock price?
- III. What is the existing practice of right issue in Nepal?
- IV. How is the level of knowledge of Nepalese investors about right offering?
- V. Does share price fully reflect all the information's accompanying the right issue announcement?
- VI. Do Nepalese investors use available information regarding right issue to maximize their wealth?
- VII. What is the effect of Right share issue on the market price of the share?

1.7 Objective of the Study

As the study focuses on the impact on the share price due to the right offering. The specific objectives of the study are as follows:

- χ To analyze the impact of rights share issue in share price.
- χ To examine rights issue practice in Nepalese financial market.
- χ To examine the impact of rights offering in earning per share.
- χ To examine the theoretical values of right and its effect on stock price.

1.8 Significance of the Study

Right share provide existing shareholders the right to buy new shares in specified ratio. Now a day's people are attracted to invest in shares for the purpose of getting greater return by considering this, company try to provide higher return and try to make value maximization of shareholders. Right share has become new concept to attract the investors as well as keep them happy to maintain goodwill. Similarly company launch a new promotion strategy, right share is one of them.

This study will be important and valuable for those who are interested to the security market of Nepal. Basically investors, business organizations, security board, brokers, potential researchers, students and teachers will be benefit from this study. This will also enable the investors to identify the right time to invest in the share market. Researcher hopes that this study will help to government and other institutions to make their policies and programs.

1.9 Limitations of the Study

It is only mini-research and hence researcher subject to have some limitations, which are as follows;

- Data used in the study are mostly of secondary nature.
- This study covers only those commercial banks which have issued right share in

2066/67.

- This study assumes that the related published and unpublished documents, journals articles and other previous studies are realistic.
- Out of total rights issuing companies only one sector i.e. commercial banks is considered from which 6 banks are taken as sample for the study.
- A number of variables are responsible in the movement of share prices but this study focuses only on the right offering.

1.10 Organization of the study

The whole study has been divided into five chapters. Each devoted to some aspects of the study on right share practice and its impact on share price movement of commercial bank in Nepal. The chapter one to five will be consists of following:

Chapter I: Introduction

This chapter deals with the introductory part of the study, which includes, background of the study, introduction of right issue, focus of the study, statement of the problems, objective of the study, significance of the study and limitation of the study.

Chapter II: Review of Literature

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

Chapter III: Research Methodology

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

Chapter IV: Data Presentation & Analysis

This chapter is the main part of the study, which includes analysis and interpretation of

data, using financial and statistical tools. Similarly this chapter also includes the major findings of the study.

Chapter V: Summary, Conclusion & Recommendations

This chapter covers, summary of the study, conclusion and possible suggestion.

CHAPTER-II

REVIEW OF LITERATURE

Review of literature means taking knowledge from different sources of available information. This chapter deals with the review relating to the right share and capital market in more detail and descriptive manner. For this purpose, various books, journal, articles from newspaper, magazines and other related studies have been reviewed. In the context of Nepal, no specific research studies have been available regarding right issue and its impact on stock price movement. However, the topic of research is absolutely new, effort has been made to cover various aspects of the study so that the adequate feedback could be obtained to broaden the base and input to the study. This study is carried out into different section such as Historical Development of Capital Market in Nepal, Initial financing, Right offering: A theoretical Framework, etc.

2.1 Right Offering: A Theoretical Framework

Issuing rights to a company's existing shareholders to buy a proportional number of additional securities at a given price (usually at a discount) within a fixed period is simply the right offering. A publicly held corporation can raise equity capital either by selling directly to investor or by issuing subscription right to its shareholders. "Instead of selling a security issue to new investors, some firms offer the securities first to existing shareholders on a privileged subscription basis. Sometimes the corporate charter requires that a new issue of common stock or an issue of securities convertible into common be offered first to existing shareholders because of their pre-emptive right"(Van Horne, 1995:570). A company may give its existing shareholder the first opportunity to purchase a new security on a privileged subscription basis. This type of issue is known as right offering, because existing stockholder receive one right for each share of stock they hold. A right represents an option to buy new security at the subscription price, and it takes a specified number of rights to purchase security.

Those companies which have already issued share to the public are allowed to issue right share provided the shares already issued are fully paid. A company issues right shares under the principle of pre-emptive right of the shareholders. Under this right, the existing shareholders have the first priority to purchase any new equity share issued by the corporation.

Features of right offering

The number of rights equal to the number of shares held by the respective shareholders i.e. the number of rights that a shareholder gets is equal to the number of shares held by them.

- The issuing company determines the number of rights required to subscribe to an additional share
- The price per share for additional equity called the subscription price is left to the discretion of the company
- Rights are negotiable. The holder of rights can sell them. Rights are detachable i.e. only rights can be sold
- Rights can be exercised only before ex-right date

2.2 Pre-emptive Right

The right of current shareholders to maintain their fractional ownership of a company by buying a proportional number of shares of any future issue of common stock is the preemptive right. Most states consider preemptive rights valid only if made explicit in a corporation's charter. A privilege extended to select shareholders of a corporation that will give them the right to purchase additional shares in the company before the general public has the opportunity in the event there is a seasoned offering. A preemptive right is written in the contract between the purchaser and the company, but does not function like a put option.

“Common stock holders often have the right, called the pre-emptive right, to purchase any additional share sold by the firm. In some states the pre-emptive is automatically included in every corporate charter, in other it is necessary” (Weston & Brigham,

1990:677). Under a pre-emptive right, existing common stockholders have the right to preserve their proportionate ownership in the corporation. If the corporation issues additional common stock they must be given the right to subscribe to the new stock so that they maintain their pro-rata interest in the company. "Each shareholder is issued an option to buy a certain number of new shares, and the terms of the option are listed on a certificate called a stock purchase right, or simply a right. If a stockholder does not wish to purchase any additional shares, then he or she can sell the rights to some other person who does not want to buy the stock" (Brigham, Gapenski & Ehrhardt, 988:607). Stock rights provide holders with the privilege to purchase additional shares of stock based on their number of owned shares. The purpose of a pre-emptive right is twofold. First, it protects the power of control of present stockholders. If it were not for this safeguard, the management of a corporation under criticism from stockholders could prevent stockholders from removing it from office by issuing a large number of additional shares and purchasing these shares. Management would thereby secure control of the corporation and frustrate the will of the current stockholders.

The second, and by far more important, reason for the pre-emptive right is that it protects stockholders against a dilution of value. For example, suppose 1000 shares of common stock each with a price of Rs.100, were outstanding making the total market value of the firm Rs.1,00,000. If additional 1000 shares were sold at Rs.50 a share, or for Rs.50,000 this would raise the total market value. This total market value is divided by the new total shares outstanding a value of Rs.75 a share is obtained. The old stockholders thus lose Rs.25 a share, and new stockholders have an instant profit of Rs.25 per share. Thus selling common stock at a price below the market value would dilute its price and would transfer wealth from the present stockholders to those who purchase new shares. Thus a pre-emptive right prevents such occurrences. Corporations can contract with an investment banker for new equity. This contract may specify that the investment banker buy all the new equity from the issuing company at a fixed price and resell it to the public (from a commitment underwritten offering) or, in a rights offering, agree to buy the unsubscribed shares (stand-by rights offering).

The pre-emptive right gives the shareholders of a corporation the first chance to purchase newly issued common stock and newly issued securities convertible into

common stock. The amount of newly issued securities that can be purchased by a stockholder is determined by the number of shares already owned in relation to the total share outstanding.

2.3 Significance of Right Offering

The issue of further share is resorted to for a various reasons. A company may, for the purpose of expansion, need additional capital resources. These may be over in the cost of the project and, therefore, additional shares may have to be raise funds. Financial institutions grading loans may require the company to bring capital in desire proportion to the loan capital. Under the circumstances it is desirable to solicit additional capital for expansion from people who have a special interest in the welfare of the corporation, such as corporations' own stockholders and it also a least costly way of raising capital.

- **Permanent Capital:** Since ordinary/right share are not redeemable, the company has no liability for cash outflow associated with its redemption. It is a permanent capital and is available for use as long as the company goes.
- **To Indicate Higher Profit:** Normally right share is an indication of higher future profits, right share usually declare only by board of directors who expect rise in earnings of offset the additional shares. Board of directors does not want dilution of earnings therefore must invest on profitable opportunities.
- **To Bring the Market Price of Share within more Popular Range:** Right shares effect to increase in the number of outstanding shares and to decrease in share price. A share has a strong performance that leads to an increase in market value than popular range. Then the management of the firm determines that the price of the share is higher than (moving and of) the popular trading range and decides a right share would be useful to bring the high-priced share within the popular range. Where smaller investment also able to trade and can include in their portfolios a large number of different stocks.
- **To Increase the Number of Outstanding Shares:** Issue of right share obviously increases the number of outstanding shares which again promotes the active trading in the stock market. Small investor may be unable to trade the minimum

unit if this requires a large amount of money. A reduction in share price and holding additional numbers of shares unable to trade and to diversify in their portfolios.

- **To Have Positive Psychological Value:** The announcement of right is perceived as favorable news by the investors in that with growing earnings, the company has bring prospects and the investors can reasonably took for increase in future dividends. As the investors take the right share is an effort to invest cash for profitable investment opportunities, the share prices have positive psychological value. Instead of experiencing a drop in value after a right share, the price may actually rise. Pre-emptive right gives the stockholders the protection of preserving their pro-rata share in the earnings and control of the company.
- **To Retain Proportional Ownership for Shareholders:** There is another alternative to meet company's additional equity capital through issuing in capital market. If the existing shareholders do not have the funds to purchase a new equity. Their proportion of the ownership in the firm will decline as new investors share. This can be avoided by right share which in only way to increase capital. Each shareholder receives a number of additional shares proportionate to his original holding. "Right offering allows stockholders to maintain their proportionate ownership in the corporation and typically allow the corporation to raise new capital less expensively" (Gitman, 1988:613). If does not want to lose his proportional ownership in the company, he many not sell his shares.
- **To Decrease Flotation Cost:** "Raising fund through the stock of right issue rather than the public issue involves less flotation cost as the company can avoid underwriting commissions" (Pandey; 1999:1006). In the absence clear pattern in price behaviors of the adjustment market price of the stocks may be affected. Through rights issuing the true or adjusted down ward price pressure may actually be avoided. The flotation costs to issuer associated with a right issuing will be lower than the cost of public flotation.
- **To Be Successful on Subscription:** In the case of profitable companies, the issue is more likely to be successful since the subscription price is set much below then current market price. It is not very practical to attempt to issue these

new shares at a premium the existing price, because a rational new investor would prefer to buy existing shares directly in the market rather than more expensive new ones from the company.

- **To achieve a more Respectable Size in the Market:** After right share issue by a company, every shareholder receives additional share proportionate to original holding. Some of the old shareholders may sell their new shares. As a result a corporate firm may achieve a more respectable size in the capital market.
- **To Fulfill the Legal Requirement Imposed by the Authority:** In the context of Nepalese Banks, Nepal Rastra Bank impose legal requirement for increasing the equity base at certain standard level. Therefore the right share issue enthusiastically increased. To fulfill their legal requirement, Nepalese corporate firms practiced of raising the additional capital from of the existing shareholder because of the lower cost of fund, to less flotation cost and to avoid the difficulties in raising public issues.
- **To Avoid External Incontinent:** Investment financed from external sources is subject to screening by outside agencies as to its related profitability but investment financed generally from existing shareholder fund is subject to no such check.
- **To Expand Company:** When a company wished to expand it may well request extra cash from its shareholders by way of right issue to finance that expansion.

2.4 Limitations of Right Offering

We discussed in the preceding section, the main advantages of right share issue is that it has favorable psychological value on shareholders. It indicates the company's growth to shareholders. Therefore they welcome right shares. But it has also limitations, without proper profit planning an issue of right share might invite over-capitalization. Some limitations are given below:

- “The company can't force its existing shareholders to buy any more shares in the company and hence it is granting them an option to buy these new shares” (Ward, 1995:107).

- Equally there is no reason for any outsider to want to buy these rights in order to take them up. Thus the proposed right issue could fail with the result that the company does not receive its desired injection of new equity funding.
- The shareholders who fail to receive to exercise to sell their rights. They lose in terms of decline in their wealth. Most right issues are underwritten because there is no legal obligation on the part of shareholders to subscribe.
- Issue of right share lowers than market value of existing share too. That may possess negative impact of particular share on capital market.
- It deprives new investor from becoming the shareholders of the company. The control over the management of the company is not diluted and the present management may misuse its position.
- The issue of right share dilutes the existing share's earnings per share if the profit do not increase immediately in proportion to the increase in the number of ordinary shares.
- "Yet another disadvantage is for those companies whose shareholding is concentrated in the hand of financial institutions because of the conversion of loan into equity. They would prefer public of share rather than right issue" (Pandey, 1999:1006).

Shareholders right

Although ownership of 50% of shares does result in 50% ownership of a company, it does not give the shareholder the right to use a company's building, equipment, materials, or other property. This is because the company is considered a legal person, thus it owns all its assets itself. This is important in areas such as insurance, which must be in the name of the company and not the main shareholder.

Even though the board of directors runs the company, the shareholder has some impact on the company's policy, as the shareholders elect the board of directors. Each shareholder typically has a percentage of votes equal to the percentage of shares he or she owns. So as long as the shareholders agree that the management (agent) are performing poorly they can elect a new board of directors which can then hire a new management team. In practice, however, genuinely contested board elections are rare.

Board candidates are usually nominated by insiders or by the board of the directors themselves, and a considerable amount of stock are held or voted by insiders.

Owning shares does not mean responsibility for liabilities. If a company goes broke and has to default on loans, the shareholders are not liable in any way. However, all money obtained by converting assets into cash will be used to repay loans and other debts first, so that shareholders cannot receive any money unless and until creditors have been paid (often the shareholders end up with nothing).

Share price determination

At any given moment, equity's price is strictly a result of supply and demand. The supply is the number of shares offered for sale at any one moment. The demand is the number of shares investors wish to buy at exactly that same time. The price of the stock moves in order to achieve and maintain equilibrium.

When prospective buyers outnumber sellers, the price rises. Eventually, sellers attracted to the high selling price enter the market and/or buyers leave, achieving equilibrium between buyers and sellers. When sellers outnumber buyers, the price falls. Eventually buyers enter and/or sellers leave, again achieving equilibrium.

Thus, the value of a share of a company at any given moment is determined by all investors voting with their money. If more investors want a stock and are willing to pay more, the price will go up. If more investors are selling a stock and there aren't enough buyers, the price will go down.

Market value of share

Market price of the share means the price of share determined by the market and in which the shares are traded in the stock exchange. Generally the market price of share is determined by demand and supply of market. But besides this, there are other factors too which play vital role for price fixation in the market.

Theoretical value of right

It is the mathematically calculated value of a subscription right (a right to buy stock)

after the offering is announced but before the right expires. The theoretical value of a stock option is affected by the underlying stock price, strike price, volatility, interest rate, dividend and time to expiration.

Stock Split

All publicly-traded companies have a set number of shares that are outstanding on the stock market. A stock split is a decision by the company's board of directors to increase the number of shares that are outstanding by issuing more shares to current shareholders. A stock split or stock divide increases the number of shares in a public company. The price is adjusted such that the before and after market capitalization of the company remains the same and dilution does not occur. Options and warrants are included. Similarly, an action taken by a firm to increase the number of shares outstanding, such as doubling the number of shares outstanding by giving each stockholder two new shares are formally held. Stock split generally used after a sharp price run up to produce a large price reduction. In theory, split should reduce the price per share in proportion to the increase in share because splits merely “divide the pie into smaller slices”. However, firm generally split stock only if (i) the price is quite high and (ii) management thinks that future in right. Therefore, a stock split is often taken as positive signals and thus boosts stock prices.

Bonus share

It simply means free shares of stock given to current shareholders, based upon the number of shares that a shareholder owns. While this stock action increases the number of shares owned, it does not increase the total value. This is due to the fact that since the total number of shares increases, the ratio of number of shares held to number of shares outstanding remains constant. Since bonus share is a form of dividend that a company provide to its stockholders. Bonus share is also understood synonyms to the stock dividend. Stock dividend paid in additional share of stock rather than in cash. It simply involves a transfer to retained earnings to the capital amount. In a bonus issue, the nominal value per share stays the same and the new shares are issued by capitalization existing reserve. Thus share capital shown on the balance sheet does not increases but

other reserves are be decreased by the same amount. A bonus is different from right issue. A bonus does not raise any new capital. It merely increases the nominal amount of the issued share capital by the company utilizing its undistributed profits in paying up for the new shares. Company declares for bonus issue because it may hesitate to declare dividends at such rates, which are likely to be criticized by the trade unions and the consumer.

Stock Repurchase Vs Stock Right

In recent past, firms have increased their repurchasing of share outstanding (common stock in the market). Under a stock repurchase plan, a firm buys back some of its outstanding stock there by decreasing the number of shares, which should increase both EPS and stock price. Repurchase are careful for making major changes in capital strictures as well as for distributing temporary excess cash. A stock repurchase is made a number of reasons: to obtain share to be used in acquisition to have shares available for stock option plans, to achieve again a book value of equity when shares as selling their, book value or merely retire outstanding shares.

Corporation is need of additional equity capital, some times offer new issues of common stock to their present stockholders called voluntarily because they can market the issue most economically in this way, when this is done an individual is given to the present stockholder purchase the stock offering it to them at a price below the current market price for the corporations outstanding shares. For this reason such offerings are known as privileged subscription. Each shareholder is given one right for each share of stock owned. The right represents an option to purchase a new shares of stock at the fixed by corporation.

2.5 Procedures of the Issue of Right in Nepal

The actual mechanics and the sequence of events in the case of rights issues are some what complicated and it will therefore be useful to outline briefly the actual procedure by which a rights issue practice is typically made in Nepal. Right issues are conducted in Nepal in accordance with provision mainly in company act 2063 and rules, regulation set

aside by SEBO/N. Company must follow certain rules and regulation as mentioned in the company act and their respective memorandum and article of association. The following procedural are considered before right offering.

- The BOD should consider about that the determination of the quantum of further capital requirement and the corporations in which the rights issue might be offered to existing shareholders.
- AGM should pass the proposal of BOD by its majority.
- Company should notify NRB, Nepal Stock Exchange, Office of the company Register and SEBO/N sufficiently with prospectus in advance of the date of board of record meeting at which the rights issue is likely to be considered, and should permission from them.
- Make announcement with prospects which gives a general indication of the reasons, which have made the issue desirable, the purpose for which the new money is to be used.
- Letter of provisional allotment or rights offering to the shareholders with prospects. This letter will advise the shareholders about the rights offered, the number of new shares allocated to each given number of old shares, the price at which shareholders will qualify for the right issue. This letter will be sent after the date of announcement.
- After the receipt of the letter of provisional allotment, the allotment must be accepted or renounced, and payment in full or partial, must be made for those shares which are renounce.
- The Certificates are distributed to the shareholders who participated in the rights offering announcement. Shareholders who have accepted and fully paid up their allotment can renounce the actual share certificate in favor of a third party. Because of nontransferable instrument such practice are not seen in Nepalese context.
- The resolution of the board of director to distribute the right share had to approve by shareholder's AGM. This is very low chance that the resolution of the board of director's resolution of the director is disapproved by shareholders.
- Listing of the shares in the NEPSE again with increased number which must be

approved by the stock exchange after which an application for listed new share could be made.

Listing of the shares in the NEPSE again with increased number which must be approved by the stock exchange after which an application for listed new share could be made. The above procedure can also be described as follows.

Rights issue gets positive response from the current shareholder because they can get more shares at below the market price. Existing stockholder always prefer rights offering rather than public offering.

“When stocks traded in the stock exchange, during announcing period then the investors (buyers and sellers of stocks) may get problem, who will get the rights? To avoid this confusion the board of directors of the company fixed record date to give certainty about the possession of rights. Following is the procedure of rights offering which is similar to the dividend payment procedures:

a. Declaration Date

Managers are responsible to manage the company. However, the crucial decisions are made by the representatives of the shareholders and those are called board of directors (BoDs), therefore, the firm is under the control of the BoDs. BoDs meet and with the help of management, declare right offering. For example, Bank of Kathmandu needs Rs.400 million funds and the BoDs decided to raise these funds through the rights offerings. The BoDs met on January 1 and declared rights offering under the preemptive rights of the existing shareholders. The meeting also declared that, to purchase the additional shares, the shareholders must record these names until February 15.

b. Ex-Rights Date

It is the date on and after which the rights no longer goes to the stock. The ex-rights date varies country to country and may also be determined by the companies themselves. In the Nepalese capital market, companies publish notice of book closer date and the book closer date is the ex-rights date. This date normally is the four days before the holder of record date. But in Nepalese companies ex-right date is seven days. In the above example, December 11 is the ex-rights date and those who purchase shares on and after

this date will not receive rights which will rather be received by the seller of the shares.

c. Holder of Record Date

It is a date until which a person, who has bought shares before ex-rights date, must register his/her name in the company. Holder of record date is a final date to transfer the title, meaning that the seller's name should be replaced by the buyer's name in the company's register till this date. In the above example, February 15 is a record date. Any investor who buys shares before February 11 (ex-right date) must record his name in the company until 15 to receive rights shares (Bhattraï, 2007: 156).

d. Subscription Date

It is the date on which company starts to sell the rights shares to the shareholders those who have registered their name on and before holder of record date.

2.6 Under and Oversubscription of Right Offerings

A company can ensure the complete success of right offering by having investment banker or group of investment bankers "stand by" to underwrite the unsold portion of the issue. "Underwriting is the insurance function of bearing the risks of adverse price fluctuations during the period in which a new security is being distributed"(Weston & Copeland, 1992:891). Most rights offerings are made through investment banker, who underwrite and issue the rights. In most underwriting agreements, the investment banker agrees to be a standby arrangement, which is a formal guarantee that any shares not subscribed or sold publicly will be purchased by the investment banker. This guarantee assures the firm that the entire issue will be sold it will not be undersubscribed. The investment banker, of course, charges a higher fee for making this guarantee. Most of right offerings include an oversubscription privilege, which gives stockholders not only the right to subscribe for their proportional shares of the total offering but also right to oversubscribe for any unsold shares. Oversubscriptions are awarded on pro-rata basis relative to the number of unsold shares. Although the use of the oversubscription increases the chances that the issue will be entirely sold, it does not assure this

occurrence, as does the standby agreement. It is possible that the combination of subscriptions and oversubscription will fall short of the amount of the stock the company desire to sell. This privilege is a method of restricting ownership to the some group, although ownership proportions may change slightly. Shares that cannot be sold through the oversubscription privilege may be offered to the public. If an investment banker is used, the disposition of unsubscribed shares may be lest up to the banker.

2.7 Review of different studies

2.7.1 Review of Journals/ Articles

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

Jessica Rogers (2008) states that Entertainment Rights share price has plunged today after the company warned that its year-end profits would fall below market expectations. The children's property rights owners share price has fallen over 25% from 11p at the start of the days trading to just over 8p. The drop has been prompted by a statement to investors from the ER board stating that group revenues for the year ended 31 December 2007 had not met their expectations and that this will have an impact on profits. The companies share price has dropped by over 75% since January last year, from 37p to the current level. ER owns the rights to properties such as Basil Brush, Postman Pat and Rupert Bear, and in January last year completed a £106.9m deal to buy US rights owner Classic Media. The company also acquired the rights to Where's Wally? for £2.5m. Both deals fall into the last financial year. ER funded its acquisition of Classic Media, and recapitalization of the group, through the placement of 249 million shares at 28.5p on the London Stock Exchange and the refinancing of its debts. In the statement, the board confirmed that the company's net debt stands at £107.7m, with interest charges on the borrowings totaling £9m.

Despite the "disappointing" trading report, the board said the group has "experienced significant growth in its TV distribution business across all of its key brands" and was "greatly encouraged by the growth in its brands across key territories". Entertainment Rights chief executive Mike Heap said: "Whilst it is disappointing to report a trading

period that is below our expectations, the board remains confident that ER's business model is robust and is convinced that the acquisition of Classic Media has already proven itself to be a significant strategic acquisition for the company."

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

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

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

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

Paul Marsh (1980) in his article "The Journal of Finance" has concerned with "UK COMPANIES RAISE VIRTUALLY all of their new equity capital via the rights issue method. Companies can guarantee the subscription of their issues by having them underwritten (the equivalent of standby arrangements in the USA), and in recent years, this procedure has been adopted for 90% of UK rights issues. Underwriting is usually carried out on a fixed fee basis representing at least 1¼ % of the money raised, and hence it is clear that quite substantial sums of money are involved. Since underwriting is simply a put option giving the company the right to put a failed issue onto the underwriter. In this paper, describe an application of the Black and Scholes model to the valuation of rights issue underwriting agreements over the period 1962-1975. Model prices are compared with the fees charged in order to assess whether the latter represent competitive prices. In fact, over this period, companies appear to have overpaid for underwriting. When a company makes a rights issue, it is a London Stock Exchange requirement that at least three weeks should elapse between the ex-right date and the date the offer expires. If the share price falls below the issue price by the last acceptance

date, shareholders will not take up their rights, since shares could be bought more cheaply in the market. Since rights issue arrangements are costly, companies will clearly wish to avoid issues failing in this way. This can be achieved by having the issue underwritten. As an alternative to underwriting, companies can reduce the risk of a failed issue equally effectively by setting the issue price sufficiently low. This does not imply that underwriting is a waste of money, since if the issue is underwritten at a high enough price, there is a distinct possibility that the underwriters will be called upon to take up their commitment and buy shares from the company at a price above the ruling market price. The question is thus entirely one of whether or not companies pay a fair price for underwriting the risks involved. The underwriting decision is quite simply a problem in option valuation. When a company makes a rights issue, the company is in effect selling (giving) a short-term call option to its shareholders (i.e. to itself). The company's real objective however, is to new shares, and the only way in which the sale of a call can be converted into the sale of the underlying shares is for the company to simultaneously buy a put option, Krueger (20). The latter is of course, precisely what occurs when the company arranges for its issues onto the underwriters. The underwritten in turn reduce their exposure by buying put options from the sub underwriters giving them the right to pass a failed issue onto the sub underwriters.

Black and Scholes model which is now widely accepted in both the academic and investment communities. B & S were the first to develop a theoretically complete, general equilibrium option valuation formula which was consistent with both rational pricing and the Capital Assets Pricing Model. This model is attractive not only because of its rigorous theoretical basis, but also because it is relatively simple, incorporating only five variables, four of which are directly observable. Given these variables, namely the stock price(x), the time to maturity (t), the exercise price(c), the risk free interest rate(r), and the variance rate of the return of the share (σ^2), B & S show the value of a call option ($w(x,t)$) can be written as:

$$W(x, t) = x \cdot N(d_1) - c \cdot e^{-r \cdot t} N(d_2)$$

From July 1962 to the end of 1975, 1,145 primary equity right issues were made by London quoted and registered companies. Of these, 148 issues involved more than one

class of equity, or combine units of equity and other securities, and were therefore excluded from our sample. Of the remaining 997 issues, 671 were known to have been underwritten for a fee by a merchant bank or broker in the standard manner. For 132 of these, however, we were unable to establish the date of the underwriting agreement with any degree of confidence. These issues were therefore excluded, leaving us with a sample of 539 underwritten issues for the purpose of this study. Underwriting performs an economically useful function by assuming the risks of a failed issue. Aside from questions of whether shareholders really wish to indulge in option trading with institutions, the question of whether underwriting has historically proved worthwhile is an empirical one. In fact, when we used the Black and Scholes Model to value UK underwriting, over the period 1962-75, the evidence strongly indicated that underwriting, taken alone, and ignoring side payments, was considerably overpriced. For issues made in the USA, the degree of overpricing was even more marked, although the sample of issues examined here was small. There was even more marked, although the sample of issues examined here was small. There was some evidence that underwriters earn higher excess returns following poor market performance, on short-lived options and low variance shares, possibly as a result of the way in which they set the underwriting price. When side payment and other factors are considered, it still appears that the underwriting market is less than perfectly competitive. Furthermore, even taking these imperfections into account, it appears that companies overpay for underwriting, since the costs imposed by the alternative to underwriting, namely deep discount issues, seem very small. The imperfection in the market appears to stem from institutional factors and the nature of the relationship between company and financial adviser rather than from any more explicit form of underwriting cartel. Sub-underwriting can therefore be regarded as a very profitable activity, unless the side payment requires maintaining on underwriters' lists more than outweigh these excess returns. Their losses on underwriting to be more than fully compensated for by gains on other transactions with the underwriting companies, with the underwriting companies, should either play a more active role in the pricing of underwriting, or they should avoid underwriting altogether, and set the terms of the issue accordingly.

Weston and Brigham (1992), state that Rights offering can be used effectively by financial managers. If the new financing, associated with the rights offering represents sound decision, improved earnings for the firm, a rise in stock values will probably be the result. The use of rights will permit shareholders to preserve their position or improve that. However, if investors feel that the new financing is not well advised, the rights offering may cause the price of the stock to decline by more than the value of the rights. Because rights offering are directed to existing shareholders, its use can reduce the cost of flotation that is associated with the new issue.

Van Horne (2002), states that one of the most important aspects of successful rights offering is the subscription price. If the market price of the stock should fall below the subscription price, stockholders obviously will not subscribe to the stock, for they can buy it in the market at a lower price. Consequently, a company will set the subscription price at a value lower than the current market prices, to reduce the risk of the market price's falling below.

Smith's (1997), samples accounted for less than ten percent of issue; whereas Britain and many other European countries, rights issues predominate. The price of the new shares in a rights issue is normally fixed at a level somewhat below the current market price of the shares. But these lower prices should not generally diminish the wealth of the existing shareholders. The shareholders who do choose to take up the allocation, the fall in price is comparable to the consequential decline which accompanies a capitalization issue or stock-split. But, shareholders who do not choose to take up the allocation of the new share can sell their rights to the new shares in the period before the payment is due. Only irrational shareholders, who neither exercise their rights nor sell their rights, will see their wealth reduced. The company can, therefore, set a price for the rights issue sufficiently low to ensure that the rights will be exercised without fearing any adverse wealth implications for its existing shareholders.

Market Capitalization crosses Rs. 100 billion (The Kathmandu Post, October 10, 2006)

Market capitalization in the Nepal Stock Exchange (NEPSE) crossed the 100-billion rupee mark for the first time led by share prices and entry of new companies. Market capitalization reached Rs. 100.67 billion on today's closure of NEPSE, which is a 15-fold rise since its inception 12 years ago. The capitalization was around Rs. 6.62 billion in January 1994 when NEPSE began operation. The commercial bank group accounts for around Rs 71 billion of the total market capitalization, shows the data of NEPSE. Apart from cash dividends, original investors of the bank have been able to see their number of shares rise by six fold during the period, thanks to its frequent rights issuance. Terming the growth a milestone in the history of the country's stock market, Ishwori Rimal, president of Securities Broker's Association said the economic liberalization has driven market capitalization upward. A total of 135 companies are listed in NEPSE by now.

Banks shares at Stock Market Overvalued (The Kathmandu Post, August 18, 2006)

A senior official at the Security Exchange Board (SEBON) said that prices of banks' shares were overvalued and the recent crash of the stock market has served to cool the overheated market. "Our stock market suffers from the problem of overvaluation, and we have no mechanism to intervene in the market to make corrections", said Dipak Raj Kafle, chairman of SEBON. Citing the example of India, he said Indian Security Board puts companies in the red when their price-earnings ratio crosses 20 percent. "But in the absence of proper mechanism, we can do nothing even when the ratio has gone up 74 times higher in case of some companies."

He also pointed out the need of immediate reform in the secondary market to protect the interest of investors. Strong regulatory framework, tools, institutions and mechanisms were necessary for carrying out capital market operations in a fair and efficient manner.

These problems make our results harder to interpret in trying to reach conclusions on market efficiency. While it seems clear that an equally weighted portfolio of rights issue would have outperformed the broadly based market-value weight FTA index, it seems unlikely that this has anything to do with rights issues as such. Instead, it appears to reflect the „company size" factors, which was at work during the period. It seems fair, therefore, to conclude that our results do not furnish any very strong evidence of

significant market inefficiencies associated with rights issues. Because of this, we cannot reject the hypothesis that the UK market is efficient with respect to rights issue announcements. The test of our test on price pressure & market liquidity where of more conclusive although on average, there did appear to be small setback of ½ % know evidence what show over that the returns over issue (announcement) period were related to size of the issue. Quoted companies appear to be able to sell reasonable amount of new equity at effectively the current market price, and do not appear to face a downward sloping demand curve for their share. Hence although in recent years there has been seems little justification for any real concern over the operations of this particular segment. The London Stock Exchange and Nepal Stock Exchange appear to be a highly liquid market.

2.7.2 Review of Master's Thesis

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

Gautam (2001) had done research on "An Analysis of Share Price Movement Attributed to Right Offering Announcement".

This study had set out the following objectives:

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

His findings were following:

- Company Act is not clear regarding the issue of rights offering and subsequent allotment of the rights share.
- Company Act has nowhere mentioned about necessity of legally transferable

rights instrument called rights, which must be mailed to the stockholders for each stock held before the rights offering.

- SEBO/N has failed to establish a 'one-window policy' causing various imbroglios for the companies that want to go primary issue market for raising the capital.
- Till the date there is no enactment of the 'Investors Protection Act'.
- Our capital market has made least of use the 'capital market instrument' contingent securities like warrants and convertibles, options, and other various kinds of debentures are not in practice.
- Companies Act with regard to the contents of the issue prospectus is deemed to be insufficient on the ground that, it does not mention the companies are required to specify on the issue prospectus about the risk category on which their businesses fall.

Aryal (2003) conducted a research on the topic "Equity Rights Issue, its practice and Impact in Nepal".

The main objectives of his study were:

- To examine the relationship between the stock price reaction and announcement of rights issue.
- To analyze the relationship between rights share and equity share, and rights share and NEPSE Index

The major findings of his study were:

- Theoretical Value of right differs from company to company.
- Announcement of equity rights issue are associated with a positive effect on share prices.
- Firstly Company issues rights share for increasing equity capital and to invest it in company's diversification and expansion. Secondly they issue rights share to increase capital to meet the level prescribed by Nepal Rastra Bank.
- The rights share and equity share has low degree of positive correlation. The correlation coefficient between right share and NEPSE has also positive correlation.

Poudel (2006) the main objective of his study one to examine the right share practice and its impact on share price movement of commercial banks in Nepal. His study covers to aspects or right issue (a) the characteristics of rights offering by the commercial banks (b) the share price movement associated with the rights offering to achieve this bask objects, the following specific objectives have also been considered in this study.

1. To examine movement in stock price before and after the announcement of rights issue.
2. To analyze the procedure of right issue in the context of Nepal.
3. To analyze practice, problems prospects of rights issue in Nepal.
4. To provide the corrective measures to all concerned sectors on the basis of the findings of this study.

Major finding of the study

1. There is no uniformity in the impact of rights offering of share price.
2. Nepalese investors mostly prefer the banking and finance sectors share to invest rather than other sector.
3. Majority of the investors are will aware about the rights share in Nepal.
4. Most of the rights issues were under subscribed in Nepalese companies so it is common phenomenon in Nepal.
5. Subscription of rights share in recent years is in increasing trend.
6. Subscription price of rights share is too low as compare to market price of share.
7. Lack of separate rules regarding rights share is another problem.
8. Large on of shareholders holding small no of share and they generally ignored rights issue.

Lamichhane (2007) had made study on the topic "Right share and its impact on Market Price of the stock".

The objectives of this study were:

- To identify existing practices of right issues.
- To find out. Impact on changes in market price of the stock, before and after the announcement of right offering.
- To examine the theoretical values of right and its practical effect of right on stock

price.

- To analyze the inadequacy of existing law, on the matter of right share.
- To point out suggestion to the related bodies.

The main findings of the study were:

- Nepalese Capital Market is narrow in term of capital market instruments, only common stock, right share and to a very little extent, preference shares, debenture and few mutual funds are brought into practice. Contingent securities like warrants and convertibles, option and other securities are not brought into practice
- Nepalese equity market (primary as well as secondary) is dominated by financial sectors companies; the participation of the real sector (manufacturing, hotels etc.) is quite low or negligible
- Rights share contribute, the second largest among various issues to raise the capital of the corporation approved by SEBO/N
- The result of run test is positive, i.e. market price per share before 1 month of right share issue and after right share issue is found to follow randomness in price fluctuation
- In majority of the cases, MPS after right share decrease. But some companies are not found to be following the rule. MPS of DCBL, FFCL and TRHL remain the same after the right share issue showing no effects of right share issue. MPS of KBL increase after right share issue.
- The theoretical and actual market price should be equal or actual market price should be slightly higher than theoretical price due to signaling effect but DCBL, KBL, JFCL, TRHL and MBL are not found to be following the rule. The actual market price of these companies after right share issue is lower than their theoretical value.
- Declaration of inappropriate holders of record date has caused dilution of wealth position of existing shareholders which is just opposite of the there of rights offering (i.e. protecting dilution of wealth position of existing shareholders)
- Company Act has is silent regarding the issue of rights offering and subsequent allotment of the rights issue, most of the investors/shareholders also unaware

about it.

- Because of under subscription employee of rights issuing companies and issue manager are gaining on the expenses of the existing shareholders.
- Promotional role played by the issuing company and issue manager regarding to the rights offering is not sufficient.

Gautam (2007) had made study on the topic "Equity Right Issue and the Efficiency of the Nepalese Stock Market".

The objectives of this study were:

- To identify the existing practices of right issue in Nepal.
- To analyze whether Nepal investors are well known about right issue.
- To test whether share prices fully reflect all the information accompanying right issue announcement
- To find out whether Nepalese investors use available information regarding the right issue announcement to maximize their wealth
- To test whether Right Share issue, because it increases the supply of share, will have a depressing effect on the price

The findings of the study were as follows:

- The practice of Right Share issue is in increasing trend per year, So far right Shares have been issued 45 times during the study period.
- The result of run test is positive i.e. Market prices per share before one month of Right Share issue, after Right share issue and index no. of market price taking base year as one month before Right Share issue) are found to follow randomness in price fluctuation.
- In majority of the cases, MPS after right share issue decreased. But, some companies are not found to be following the rule; MPS of Nepal Share Market Ltd. remained the same after Right Share Issue showing no effect of Right Share issue.
- Most of the Nepalese investors invest in common stock mainly for dividend and capital gain.
- Majority of the Nepalese investors has known about right shares and likes to

purchase right share if their companies offer.

- Most of the Nepalese investors collect information regarding the right share issue through the magazines and newspaper.
- Most of the Nepalese investors perform company analysis to make investment in common stocks.

Neupane (2008) had made study on the topic "Rights Share Practice in Nepal & its Impact on Share Price of Listed Companies".

The objectives of this study were:

- To analyze the impact of rights share issue in share price.
- To examine, rights issue practice in Nepalese financial market.
- To identify the problems regarding under subscription.
- To examine the impact of rights offering earning per share.

The findings of the study were as follows:

- Most of companies follow the theory of right offering i.e. after the right announcement its share price increase significantly and after the allotment of right share and its share price was traded in ex-right price.
- Under subscription of rights share is common phenomena in Nepal.
- The major cause behind the under subscription of rights share is the lack of awareness among the investors, untraceable shareholders, poor financial performance of the issuing company, financial problem of shareholders and lack of the provision for rights transfer.
- Recent year's subscription of rights share is in increasing trend.

2.8 Research Gap

In general the price of shares increases after the announcement date and the price again decrease after the allotment of shares to the extent of value of rights. So, if the same things happen in the share market scenario, then the research like this seems to be unnecessary one. But in real practical life the theory is not being followed.

Right share, is one of the major instrument for raising additional equity capital, which contribute second largest position on various issues approved by SEBO/N. However, there is still not done yet, specific research on right share. The purpose of this research is to provide clear picture on right share. Though few studies have considered rights shares and its impact on share price movement in Nepalese share market, they fail to focus on rights share as the second highest instrument of share fund required for a company. Furthermore previous studies had not tested the correlation of share price with general market movement.

Thus, with this several of research gap and weaknesses found in previous studies, this research has been conducted to find out value of rights issuing companies. Though, there are eight different sectors, only one i.e. the commercial bank is selected for the research. Five commercial banks are taken as sample in the research but it has been tried at most to find the impact of rights issue on market price of the sample commercial banks.

CHAPTER- III

RESEARCH METHODOLOGY

In order to achieve the objectives of the study mentioned in chapter one. An appropriate methodology becomes more relevant, which has been given due importance throughout this study. Different section included in this chapter is research design, population and sample, sources and technique of data collection, coverage, and method of analysis.

3.1 Introduction

Research methodology is a systematic way to solve the research problems. It describes the methods and process applied in the entire aspects of study. “Research methodology refers to the various sequential steps to be adopted by a researcher in studying problem with certain object in view. It would be appropriate to mention that research project are not susceptible to any one complete and inflexible sequence of steps and the types of problem to be studied will determine the particular steps to be taken and their order too” (Kothari, 1994: 19).

3.2 Research Design

In simple language, planning for research is research design. It is a purpose full scheme of action proposed to be carried out in a sequence during the process of research. Research design is a conceptual framework within which a research is conducted. It helps the researcher to enable him to keep track of action and to know whether he is moving the right direction to achieve his goal.

This analysis is based on certain research design keeping on objective of study in mind. This research design is guideline studying profound ways of research ability. This study focuses on the rights share issue and its impact on stock price. In this research, analytical as well as descriptive methods designing are collected. This is an empirical research

work; this research work helps to understand some of the features of rights share issue and its impact on stock price.

3.3 Population and Sample

The data collection activities consist of taking order information from reality and transferring it into same recording system. So that it can later be examined and analyzed from pattern. Population or universe refers to the entire group of people events, or things of interest that the researcher wishes to investigate. In most of cases, we can not collect data of whole population. Therefore, sample is the best technique of the research study.

A sample is the collection of items from population or universe and comprises some observations selected from the population. Sampling method is the scientific procedure of selection those representative units which would provide the required elements with associated margin of uncertainty arising from examining only a part and not to the whole.

3.4 Sources for Data

Data are considered as an integral part of research. Required data for this study is mainly based on secondary sources of information as well as primary sources of information.

3.4.1 Primary Data

The concern banks were also directly approached to obtain information on many points. Questionnaire technique also used in order to get some valuable information and resolutions to various problems with which the researcher confronted in the due course of completing study.

3.4.2 Secondary Data

In this study secondary data are collected from different sources i.e. SEBO/N, annual report of respective Banks, NEPSE, some related information is taken from economic

survey. Besides, that the data have been collected from various sources like newspapers, magazines, published and unpublished reports related document and journal and internet sources as well. The share prices are collected from trading report, which was published by NEPSE, and national daily news paper.

3.5 Data Collection Technique

In order to elicit the answer the research questions managers and officers (concerned with the issue of rights share) of the issuing banks, issue managing companies, regulatory bodies, investors and experts are for the primary source of data. Questionnaires are dispatched to a sample of 20 people and 20 responses are obtained. The table below shows the sample and response of the primary source of data. Questionnaire is presented in the annex 5.

3.6 Method of Analysis

The data is analyzed by using various financial and statistical tools to achieve the research objectives. This study is based on share price before and after the rights share announcement. The share price moves up or down due to various market information. So, the researcher has used some assumption to remove the effect information.

3.6.1 Allowance for Leakage of Information

The director's intention to issue right share for information may be find out in many cases before the director's meeting. If that happens the price should rise as a result of the impending decision that may take place before the director's actual decision. There many be the cases of insiders taking advantage by making purchase in advance of the official announcement so that the market price begin to rise over before the actual announcement. Considering all the factors we decided to go back 90 days before from the date of right share announcement. Thus for the study, the base date of measuring relative changes in share price as a result of right issue is the date of 90 days prior to

announcement date.

3.6.2 Removing the effect of Market Movement

Measurement of the price effects of the rights issues involves a comparison of share price of different point of time. In reality, general price movement also affects a particular share price. If a particular share price is found to be raised by 10% since rights announcement, this cannot be attributed to the rights offering over same period, share price, in general level also moved up by 10% more. On the other hand, if a particular share price just remains unchanged in the face of declining market trend, the strength may be due to rights issue. Hence, the isolation of the effect of the rights issue necessarily requires the eliminating of the general market movement.

- I. For the purpose of analysis seven different times were selected for observing the price movement, with the announcement date as the point of reference. The selected point is as follows:
 - a. Three months before announcement date: It is taken as a base date simply because for that period the existing shareholders are not supposed to have information about the BOD'S intention to issue rights share. Hence there will not be any kind of signaling effect on the share price.
 - b. Seven days before announcement date: Few days before the announcement day a very limited shareholders do know it and does not bring any immaterial influence on the share price behavior of the stock.
 - c. The day of announcement: Exactly the announcement date, it is supposed to that all shareholders do know it and bring material influence on the share price behavior of the stock.
 - d. Seven days after announcement: When the company explicitly announces the issue of rights share, comparatively there will be a high demand of the rights attached share and this phenomenon causes the share price to rise. This period is supposed to depict the true picture of the share price of the post announcement.
 - e. Three months after announcement: After the actual issue of the rights

share, the post issue share price dilutes simply because the number of outstanding shares increases and new shares are sold at a price below the current market price. When the digestion process is complete after a reasonable period of time, say three months, the original share price will be restored and again the market show a normal price behavior.

- II. Price quotations for each share were collected for all the seven periods of time or reasonably close to them. These price quotations were then converted into price relative to the base date price, i.e. the price three months before the announcement date.
- III. The Banking sub index was noted against each price relative. The price index was also converted to a new set of index numbers again with point (1) as the base.
- IV. Finally, the price relative against each of the seven points of time, as obtained in step (b) above, was expressed as a percentage of the corresponding index numbers as adjusted in the step (c) above.

In general terms, our procedure for eliminating the effect of the general market movement boils down to adjust the actual share price on any date downwards in proportion to a downward general movement. Thus, we get a series of five percentages for each of the shares in our sample representing of time, after the effect of general market movement have been eliminated.

3.7 Data Processing Technique

The purpose of analyzing the data is to hang it from an unprocessed form to understandable presentations. The collected data need to be aggregated into a form that presents the summary of answers from respondents. The raw data convey little information as such there must be, therefore be compiled analyzed and interpreted using different data analysis tools (Wolf and Pant, 1999:220).

3.7.1 Theoretical market price

In this study, theoretical market price will be used to measure impact of right share issue on market price of share. Theoretical market price of share after right share issue is given by

$$\textit{Theoretical value of stock after right issue} = \frac{P_0 \times \# + P_s}{\# + 1}$$

Where,

Pre right issue stock price = P_0

Subscription price = P_s

No. of rights required to purchase one new share = $\#$

3.7.2 Percentage change in MPS

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

$$\textit{Change in price (\%)} = \frac{\textit{Post right issue price} - \textit{Pre right issue price}}{\textit{Pre right issue price}}$$

3.7.3 Percentage Change in Actual Market Price and Theoretical Price

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

theoretical price and actual price are same after right share issue. This has been given by the formula below

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

3.7.4 Co-efficient of Correlation (r)

Correlation analysis is the statistical tool that can be used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the direction of relationship between two sets of figures. It is the square root of coefficient of determination. Correlation can either be positive or it can be negative. If both variables are changing in the same direction, then correlation is said to be positive but when the variations in the both variables result opposite direction the correlation is termed as negative. In the study coefficient of correlation is calculated between share price and banking sub index. This has been given by the formula below

$$\text{Coefficeint of correlation } (r) = \frac{\sum XY}{\sqrt{\sum X^2} \times \sqrt{\sum Y^2}}$$

Where,

X = Share price

Y = Banking sub index

3.7.5 Co-efficient of Determination (r²)

The coefficient of determination is a measure of the degree (extent or strength) of Linear association or correlation between two variables one independent and other are dependent variable(s). In other words, r² measures the percentage of total variation in dependent variable explained by independent variables. The coefficient of determination has value range from 0 to 1. For example, if r² equal to 0.85 that indicates the independent variables used in regression model explain 85% of the total variation in the

dependent variable. A value of one occur only if the unexplained variation is Zero which simply means that all the points in the scatter diagram fall exactly on the regression line.

$$\text{Coefficeint of determination} = r^2$$

3.7.6 Probable Error

Probable Error (P.E) is used to measure the reliability and test of significance of correlation coefficient. The formula of P.E. is as follows:

$$\text{Probable Error (P.E.)} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Where,

r = the value of correlation coefficient

n = number of pairs of observation

P.E. is used in interpretation whether the calculated value of ' r ' is significant or not.

If $r < \text{P.E.}$, it is insignificant, i.e. there is no evidence of correlation.

If $r > \text{P.E.}$, it is significant, i.e. there exists correlation.

3.7.7 Use of T-test

T-test is used to test significance of the difference between the share prices before and after announcement of the rights offering by the companies. Since the share prices of few transacted (i.e. less than 30 transactions) are taken. In this study, T-test is a suitable tool for analyzing the significance of difference between the share price before and after the announcement of the rights offering. The researcher has used paired t-test.

$$t_{cal} = \frac{(\bar{X} - \bar{Y})}{\sqrt{s^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$s^2 = \frac{1}{n_1 + n_2 - 2} \left\{ \sum (X - \bar{X})^2 + \sum (Y - \bar{Y})^2 \right\}$$

Where,

X = price index before announcement

Y = price index after announcement

n = number of observation

In this analysis the researchers have used 5% level of significance to test the hypothesis.

3.7.8 Valuation of Rights

Rights must have a certain value because the rights shares are generally offered at lower than market price. The value of a stock right may be defined as the value at which the right should be quoted in the market so that people are interested towards that particular share attached with rights. After rights offering existing shareholders want to exercise that right to purchase, and some want to sell rights. Though there is no provision to make right transferable in Nepal, but valuation of rights is very important to analyze the share price movement. After the closing date of rights share offering, the share price will drop to the extent of value of right.

$$\text{Valuation of right} = \frac{P_0 - S}{\# + 1}$$

Where,

P₀ = Current market price of share right-on

S = Subscription price

3.7.9 Hypothesis Test

Hypothesis can be defined as “a logically conjectured relationship between two or more variables expressed in the form of testable statements” (Sekaran, 1992:79). “Hypothesis is a statement about the relationship between two or more variables which need to be investigated for its truth” (Wolf and Pant, 2003:62). Following hypothesis is set in this research paper.

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

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

3.7.10 Others

Others tools such as statistical diagram, statistical tables, Percentage & average have been used as per requirement of the study which are very useful in this study to analyze, & present the data in appropriate form.

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

This chapter takes measures to determine with the presentation, analysis and interpretation of data collected through primary and secondary sources, in order to fulfill the objective of the study. It makes systematic presentation and analysis of data. Primary source includes mainly the responses to questionnaires with investors, experts, officials and other resourceful persons. Similarly the secondary sources include available annual reports of respective companies, publication of SEBO/N, NEPSE, etc. Appropriate statistical as well financial tools as described in the research methodology chapter have been used in order to derive actual results from the analysis of data. This is key chapter, as it helps achieve the objective of the study of the study as mentioned in the first chapter.

4.1 Practice of Rights Issue in Nepal

An establishment of Biratnagar Jute Mills in 1993 B.S., was first to initiate the issue of equity to the general public. The corporate stock sell took place only after this. Due to the absence of organized and legally established capital market, practices of issuing of equity and related function couldn't be exercised. It was only after 1976 A.D., Security Exchange Center was established which initiated various practice of equity financing. Security Exchange Center, after its establishment has undergone various changes and till date Security Board of Nepal (SEBO/N) and Nepal Stock Exchange provides floor and it creates the secondary market.

SEBO/N, which is a governing body, has formulated various acts, regulate and guide. Even though guideline especially for rights issue has not been formulated but it has been mentioned about the issue of rights related acts. After the restoration of democracy the corporate sector has gone through a noticeable change. The period of three decade couldn't bring perfect change in this practice. The reason behind is the various factors

that as political en-establishment, law economic growth, unsustainable government policy, lack of industrialization and various prevailing factors.

After the political change in 1990 A.D., Nepal adopted liberalization policy. Therefore, some joint venture company participated in the Nepalese Corporate Sector. This has brought a significant change and has brought practices concerned with corporate sector. The history of rights offering is not so long in Nepalese context. Nepal Finance & Saving Co was the first company, who issued rights shares in Nepalese market in fiscal year 2052/53. The company announces on 2052/04/24, the ratio was 4:1, each existing shareholders who had 4 shares they owned were, allowed, to purchase each additional share issued by the company. Since, from the fiscal year 2052/53, Nepalese corporate firm, started to issue rights share. Up to now (i.e. 2065/03/18) there are 110 cases of rights offering in Nepal.

Almost all of them were finance and banking companies who issued rights share in Nepalese capital market. Large no of bank and finance companies announce and issue rights share, to increase the capital base if the corporate management felt such need to comply with the policy directives given by the concerned authority to increase the capital base from the time to time. Under rights offering, the shareholders are provided a document called 'right' which describes all about the conditions of rights issue. Each stockholder receives one right in the proportion of the share currently held. Though our study has cover only eleven companies. Most of the companies issue right share in order to increase their paid up capital as directed by NRB.(Annex-7)

4.2 Rights Share Registration in the fiscal year 2066/67

SEBON, in the fiscal year 2066/67, registered the rights shares and disclosure documents of 35 companies comprising 7 commercial banks, 11 development banks, 15 finance companies, and 2 insurance companies amounting to Rs. 10962.75 million. The detail of rights share registration is presented below:

Table 4.2.1
Right Share Registration in 2066/67

S.N.	Name of Company Registrar	Date	Amount	Issue Manager
1.	Goodwill Finance Ltd	2066/04/12	173.25	ACE
2.	Birgunj Finance Ltd	2066/04/25	334.70	NMB
3.	Business Dev Bank Ltd	2066/05/10	441	ACE
4.	Butwal Finance Ltd	2066/05/22	337.26	NMB
5.	Alliance Insurance Com Ltd	2066/05/25	59.95	NIDC
6.	Laxmi Bank Ltd	2066/06/29	439.25	NMB
7.	International Leasing & Finance Com Ltd	2066/07/25	1360.80	NIDC
8.	Kuber Merchant Finance Ltd	2066/07/10	100	NMB
9.	Nepal Life Insurance Com Ltd	2066/07/18	75	NIDC
10.	Himchuli Bikash Bank Ltd	2066/07/24	317.40	NMB
11.	Nepal SBI Bank Ltd	2066/08/22	437.27	CIT
12.	Mahalaxmi Finance Ltd	2066/09/07	324	NMB
13.	Global Bank Ltd	2066/09/17	500	ELITE
14.	Paschimanchal Dev Bank Ltd	2066/09/19	210	GROWMORE
15.	Capital Merchant Bank & Finance Ltd	2066/09/22	561.04	ACE
16.	Annapurna Bikash Bank Ltd	2066/09/29	462	ELITE
17.	Triveni Bikash Bank Ltd	2066/10/12	50	ACE
18.	Yeti Finance Ltd	2066/10/19	62.20	ELITE
19.	Prudential Finance Ltd	2066/11/11	200	CIVIL
20.	CMB Finance Ltd	2066/11/13	75.05	GROWMORE
21.	Bank of Asia Nepal Ltd	2067/01/03	500	CIVIL
22.	Pashupati Dev Bank Ltd	2067/01/05	500	GROWMORE
23.	Om Finance Ltd	2067/01/13	105	NIDC

24.	United Finance Ltd	2067/01/15	165	ELITE
25.	Siddhartha Bank Ltd	2067/02/14	4.76	ACE
26.	Sahayogi Bikash Bank Ltd	2067/02/17	15	NIDC
27.	Sunrise Bank Ltd	2067/20/18	375	NIDC
28.	Gorkha Finance Ltd	2067/02/25	69.14	GROWMORE
29.	Subechhya Bikash Bank Ltd	2067/03/04	52.80	ACE
30.	Citizens Bank Ltd	2067/03/07	1000	ELITE
31.	Merchant Finance Ltd	2067/03/09	90	GROWMORE
32.	Narayani National Finance Ltd	2067/03/11	217.59	ACE
33.	Clean Energy Dev Bank Ltd	2067/03/14	768	NMB
34.	Infrastructure Dev Bank Ltd	2067/03/16	480	GROWMORE
35.	Gandaki Bikash Bank Ltd	2067/03/30	100	ELITE

Source: Annual Report of SEBON

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

The above table shows the contribution of rights issue in the total public flotation in each of fiscal year in which the rights offering has taken place. The table shows that from fiscal year 1995/1996, Nepalese corporate firms had been started, rights shares as a means to raise additional capital. During that fiscal year only two cases contributed 24% of total flotation of Rs.293.74 million. In fiscal year 1996/1997, there are three cases of rights issue (i.e. Himalayan General Insurance Co., Bottlers Nepal Ltd. and Nepal Share Market Co Ltd.) that covers 83 percentage of the total flotation (i.e. 332.20 million) during that fiscal year. This is the largest contribution of rights share in total flotation. Though, the total public flotation amount is significantly large in the fiscal year 1997/1998, three rights offering cover 54 percent of it. However, in the fiscal year 1998/1999, the right share was lower than previous year amounting to Rs.30 million covering only 12% of the total public flotation, i.e. Rs.30 million out of Rs.258 million. In the fiscal year 1999/2000, the amount of right share was Rs.119.8 million which

cover 19% of total public flotation i.e. Rs.630.31 million.

In this year, three companies issued right share. In the fiscal year 2000/2001, there are three cases of rights issues that cover 51% of total flotation. Similarly, in fiscal year 2001/2002, there are four cases of rights offering amounting to Rs.387.87 million which covers 25% of total public flotation of Rs.1555.11 million. In fiscal year 2002/2003, the total public flotation was Rs.853.83 millions out of which Rs.162.24 million was collected through right share issue, this is 19% of total flotation and cases were four. In the fiscal year 2003/2004, the amount raised through right share issue was Rs.429.92 million covering 28 % of total public flotation, i.e. Rs.1547.79 million.

The total no. of right share issue in that year is four. In the fiscal year 2004/2005, the total amount raised through right offering was Rs.669.42 million covering 53% of total public flotation, i.e. Rs.1270.31 million and the cases were six. In the fiscal year 2005/2006 the no. of right share issue was 14, the total amount raised through the right share issued was Rs.1241.45 million out of total public flotation of Rs.2547.87 million covering 49 %. In the fiscal year 2006/2007, there were 15 cases, which covers 66% of total flotation. Finally, in the fiscal year 2007/2008 up to now i.e. July 2008 the no. of right share issue were 48 which is the largest no. of right share issue in the history of right share announcement, the total amount raised through the right share issued was Rs.1013.45 million out of total public flotation of Rs.443.28 million covering 41.47 %.

By the above table, it is clear that during the period in the fiscal year 2060/61, there was lowest percentage of right offering, i.e., 6.81 % in comparison to the other fiscal year. On the other hand, the highest amount of right offering was in the year 2062/63 which was Rs.1013.45 million and lowest in the 2055/56 which was Rs.30 million.

4.3 Rights Offering and its Impact on Share Price before and after Rights Offering.

This study is focus to analyze the price movement of selected sample banks with NEPSE index. To obtain the best outputs, five different points of time were selected for observing the price movement assuming with the announcement date as the reference point. The given point shows the following price quotation.

- 60 days before the announcement date.
- 30 days before the announcement date.
- 7 days before the announcement date.
- The day of announcement.
- 7 days after the announcement.
- 30 days after the announcement date.
- 60 days after the announcement date.

The main objective of this method of analysis is to eliminate the effect of the general market movement from our analysis. Otherwise stated, the procedure for eliminating the effect of general market movement boils down to adjust the actual share price on any date downwards in proportion to an upward general movement since the base date and adjusting it upwards in proportion to a downward, general market movement.

Thus finally, we get a series of five percentages for each of the shares in our sample representing relative change in a share price at different points of time, after eliminating the effect of the general market movement. So, in this study, researcher has analyzed these five commercial banks, which are as follows:

1. Laxmi Bank Ltd.
2. Nepal SBI Bank Ltd.
3. Global Bank Ltd.
4. Bank of Asia Nepal Ltd.
5. Sunrise Bank Ltd.

Above given sample banks are analyzed for share price movement before and after the rights offering.

4.3.1 Analysis of share price movement of Laxmi Bank Ltd.

Laxmi Bank was incorporated in April 2002 as the 16th commercial bank in Nepal. In 2004 Laxmi Bank merged with HISEF Finance Limited, a first generation financial company which was the first and ever merger in the Nepali corporate history.

Laxmi Bank is a Category ‘A’ Financial Institution and re-registered in 2006 under the “Banks and Financial Institutions Act” of Nepal. The Bank’s shares are listed and actively traded in the Nepal Stock Exchange (NEPSE). We are a technologically driven progressive Bank with strong risk and corporate governance foundations. We are known for our innovation and claim too many “firsts” in the Nepalese financial market. We have the best asset quality among all financial institutions in the country and our technology has been rated “Highly Secure” by an independent internationally accredited information system auditors.

Laxmi Bank’s award winning Annual Reports has set the standards for quality, presentation and disclosure for the Nepalese corporate sector to follow since 2005. Laxmi Bank promotes a separate life insurance company – Prime Life Insurance Limited which came into operation in 2009. Laxmi Bank is a Category ‘A’ Financial Institution and re-registered in 2006 under the “Banks and Financial Institutions Act” of Nepal. The Bank’s shares are listed and actively traded in the Nepal Stock Exchange (NEPSE).

Ownership Structure

Promoter Group: Representing the country’s leading business groups, 55.42%

Citizen Investment Trust: A government of Nepal undertaking 9.02%

General Public: Comprising of more than 10000 shareholders, 35.56%

Mission Statement

We are committed to excellence in delivery of entire gamut of financial services in order to achieve sound business growth and maximize stakeholder values by embracing team spirit, progressive technology and good corporate governance.

Our Values

Our values are built around high standards of good corporate governance. Transparency, professionalism and high ethical tone at the leadership are foundations on which our actions are based. Laxmi Bank’s Code of Conduct encapsulates international best

practices applicable to Nepali context. The level of commitment of our people to take Laxmi Bank to greater heights has been a huge catalyst. The team spirit within the organization is something we are proud of.

Our Vision

- Provider of most integrated financial services
- Key player and a thought leader in the retail financial services
- A bank with the best asset book
- Best IT capability
- Preferred employer in the financial sector

Table 4.3.1
Share Price Movement of Laxmi Bank Ltd.

Selected point of time	Share price in Rs	Price Relatives	Banking Sub Index	Banking Sub Index converted into new base	% change from base	Adjusted price relatives 2 as % of 4	% change from base
I	868	100	608.30	100			
II	1000	115.21	797.29	131.07	31.07	87.89	(12.11)
III	565	65.09	550.33	90.47	(9.53)	71.95	(28.05)
IV	605	69.70	589.21	96.86	(3.14)	71.96	(28.04)
V	650	74.88	550.56	90.51	(9.49)	82.73	(17.27)
VI	730	84.10	600.05	98.65	(1.35)	85.25	(14.75)
VII	715	82.37	615.63	101.2	1.2	81.39	(18.61)

Source: Annual Report of SEBON & Trading Report of NEPSE

$$\begin{aligned} \text{Column 3: Price Relative} &= \frac{1000}{868} \times 100 \\ &= 115.21 \end{aligned}$$

$$\begin{aligned}\text{Column 5: Price index converted to new base} &= \frac{797.29}{608.30} \times 100 \\ &= 131.07\end{aligned}$$

$$\begin{aligned}\text{Column 6: \% change from base} &= 131.07 - 100 \\ &= 31.07\end{aligned}$$

Column 7:

$$\begin{aligned}\text{Adjusted price relative 2 as \% of 4} &= \frac{\text{Price relative}}{\text{Price index converted to new base}} \times 100 \\ &= \frac{115.21}{131.07} \times 100 \\ &= 87.89\end{aligned}$$

$$\begin{aligned}\text{Column 8: \% change from base} &= 87.89 - 100 \\ &= (12.11)\end{aligned}$$

The above table shows that when Laxmi Bank Limited announced rights share to existing shareholders, the price on the day of announcement was Rs.605, which is Rs.263 less than the price before 60 days of announcement date and has Rs.565 seven days before the announcement date. Share price of Laxmi Bank Ltd. was Rs.650 on the seven days after the announcement of rights offering. Then, it is found increased to Rs.730 and Rs.715 after 30 and 60 days of the announcement date. But such price movement still decreases price index. It remained fluctuating in between Rs.608.30 to Rs.615.63 during the points I and VII. Banking Sub index was Rs.608.30 in 60 days before the announcement date. It was decreased to Rs.550.33 in seven days before the announcement date and it was Rs.589.21 in the announcement date and again decreased to Rs.550.56 in seven days after the announcement date. It increased to Rs.615.63 in 60 days after the announcement date.

Values of one rights and ex-rights price of Laxmi Bank stock are as follows:

Market price Stock	= Rs. 605
Value of one Right	= Rs. 144.29
Ex-rights price of share	= Rs. 460.71

The value of the share after the allotment should be around Rs.460.71 but the share price of Laxmi Bank Ltd. was Rs.715 after three months of rights share announcement. Thus

the share of Laxmi Bank Ltd. was overpriced (Annex-1&2)

4.3.2 Analysis of Share Price Movement of Nepal SBI Bank Ltd.

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India (SBI), Employees Provident Fund (EPF) and Agricultural Development Bank Ltd. (ADBL) through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/I.Pa./7/2049/50. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 511. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license No. NRB/I.Pra.Ka.7/062/63. The Authorized, issued and Paid-Up Capitals have been increased to Rs. 200 Crores, Rs. 166.16 Crores and Rs. 165.36 Crores, respectively. In terms of the Technical Services Agreement concluded between SBI and the Bank, SBI provides management support to the bank through its 3 expatriate officers including Managing Director who is also the CEO of the Bank. A core management team viz. Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Assistant General Manager(Credit) oversees the overall banking operations in the Bank. ADBL divested its stake in the Bank by selling its entire 5% promoter shares to SBI on 14th June, 2009. Consequently, the Bank's corporate status has undergone change from its previous status as a Joint-venture Bank to a Foreign Subsidiary Bank of SBI. recently fifty five percent of the total share capital of the Bank is held by the SBI, fifteen percent is held by the EPF and thirty percent is held by the general public.

It has been successfully operating with its 45 branches & 4 extension counters till date.

Table 4.3.2
Share Price Movement of Nepal SBI Bank Ltd

Selected point of time	Share price in Rs	Price Relatives	Banking Sub Index	Banking Sub Index converted into new base	% change from base	Adjusted price relatives 2 as % of 4	% change from base
I	1670	100	921.37	100			
II	1570	94.01	956.33	103.79	3.79	90.57	(9.43)
III	806	48.26	997.22	108.23	8.23	44.59	(55.41)
IV	900	53.89	900.03	97.71	(2.29)	55.15	(44.85)
V	873	52.28	868.64	94.27	(5.73)	55.46	(44.54)
VI	799	47.84	877.31	95.22	(4.78)	50.24	(49.76)
VII	755	45.21	806.38	87.52	(12.5)	51.66	(48.34)

Source: Annual Report of SEBON & Trading Report of NEPSE

The price of Nepal SBI Bank Ltd on announcement date of right share is Rs.900 which is Rs.770 from the 60 days before announcement date. 30 days before the announcement date the share price is Rs.1570 gradually decreasing to Rs.806 on 7 days before the right issue date. Then it is found to be decreasing to Rs.873, Rs.799 and Rs.755 on various dates from the date of announcement.

Banking sub index fluctuates between Rs.921.37 to 806.38 from point number I to VII.

Values of one rights and ex-rights price of Nepal SBI Bank Ltd. stock are as follows:

Market price Stock = Rs. 900

Value of one Right = Rs. 266.67

Ex-rights price of share = Rs. 633.33

The value of the share after the allotment should be around Rs.633.33 but the share price of Nepal SBI Bank Ltd. is 755 after three months of rights share announcement. Thus the share of Nepal SBI Bank Ltd. is over priced. (Annex-1&2)

4.3.3 Analysis of Share Price Movement of Global Bank Ltd.

Global Bank Limited is a national level commercial bank promoted by highly prominent business personalities/ groups and reputed individuals of the country who have excelled in their field of business/profession with very good integrity and social standings.

Under the guidance of reputed Board of Directors and professional and dynamic management team having extensive experience with proven track-record in the banking industry, Global Bank is committed to offer a wide range of banking products and services tailored with the state-of-the-art technology to meet the unique requirements of all the customer/clients and thereby delight them by exceeding their expectations.

With a shared vision of "The Bank for All", Global Bank Team is committed to providing the quality products and services to its valued customers with utmost courtesy and care. We at Global Bank believe that delivery of quality products/services designed/ customized to best suit the customer need through continuous research/ development and innovation is the foundation to build-up the trust and enhance the level of confidence between the customer and the bank. Hence, Global Bank Team pledges its commitment to always endeavor for delivery of innovative products/ services to all the customers to best suit their requirements thereby ensuring the optimum benefit and value addition to the customer as well as to all other stake holders.

Capital Structure

Authorized Capital: Rs. 3 Billion

Paid-up Capital : Rs. 1.5 Billion

Share Premium : Rs. 15.03 Million

Vision

“The Bank For All”

Mission

To win respectable market share through customer focused quality products and

services, innovative business solutions and technology driven banking thereby enhancing the growth and profitability of the bank so as to ensure the optimum benefit to all stakeholders at all times.

Core Values

Integrity and Business Ethics: Commitment to integrity and business ethics is our fundamental principle to do the business.

Teamwork: We believe that essence of success is team work and thus achievement of VMO is possible only when every member of team contributes to their ability. Most importantly we consider all our business partners (clients) as a part of the team with whom we share our ideas/skills, learn from each other and take the business relations to the greater heights so as to be mutually beneficial which will ultimately lead to the successful relationship.

Respect and Humility: We understand that respect and humility are the key factors to motivate and drive every individual towards the organizational goals. We honor the culture, language, ethnicity, social values and entrepreneurial spirit of every individual across the boundaries and draw strength from equal opportunity and diversity thereby enabling the growth of all the stakeholders.

Professionalism: Everything we do, we do with the highest standards of professionalism. Research and Development with focus on business partners (clients/customers) is the key to pursue innovation, deployment of imagination and quality functions/characteristics and translate new ideas into reality consistently whereby we can delight the customer/clients by delivering the products/services with outstanding quality so that our relationships with our clients will remain forever.

Good Governance: We are committed to ensure the transparency and internal control systems through clear-cut policy guidelines/manuals, procedures, central bank's rules regulations for our own satisfaction and to satisfy the regulators thereby ensuring the Corporate Good Governance.

Loyalty: We maintain the highest level of loyalty towards all stakeholders, particularly the business partners (customers/clients) and promise to walk alongside the business partners at difficult times/situations. We will strive to prove that "Bankers are all

weather friends" as against the traditional concept of "Fair weather friends" by maintaining the business loyalty at all times.

Table No 4.3.3
Share Price Movement of Global Bank Ltd.

Selected point of time	Share price in Rs	Price Relatives	Banking Sub Index	Banking Sub Index converted into new base	% change from base	Adjusted price relatives 2 as % of 4	% change from base
I	400	100	356.08	100			
II	308	77	299.16	84.01	(15.99)	91.66	(8.34)
III	298	74.5	253.38	71.16	(28.84)	104.69	4.69
IV	300	75	260.31	73.10	(26.90)	102.60	2.60
V	290	72.5	273.22	76.73	(23.27)	94.49	(5.51)
VI	300	75	284.10	79.79	(20.21)	93.99	(6.01)
VII	260	65	296.74	83.33	(16.67)	78.00	(22)

Source: Annual Report of SEBON & Trading Report of NEPSE

From the above table we can identify that the price of share on 60 days before right offering is Rs.400 which declined to Rs.308 after 1 month. On the offering day the price of share is Rs.300 which is higher than Rs.298 and Rs.290; the prices on 7 days before and after right offering respectively. Share price slightly increased by Rs.10 on 30 days after right offering and again decreased to Rs.260 on 60 days after right offering. Similarly the banking sub index fluctuates in between Rs.356.08 to Rs.296.74 from point number I to VII.

Values of one rights and ex-rights price of Global Bank Ltd. stock are as follows:

Market price Stock = Rs. 300

Value of one Right = Rs. 66.67

Ex-rights price of share = Rs. 233.33

The value of the share after the allotment should be around Rs.233.33 but the share price of Global Bank Ltd. is 300 after three months of rights share announcement. Thus the share of Global Bank Ltd. is over priced. (Annex-1&2)

4.3.4 Analysis of share price movement of Bank of Asia Nepal Limited

Bank of Asia Nepal Limited is the 22nd commercial bank of Nepal. It is incorporated under the companies Act 2063 as 'A' Class financial institution. It started its full-fledged commercial operations from 12th October 2007 from its registered office at Tripureshwor, Kathmandu.

Vision

To be one of the preferred banks by growing together with all the stakeholders

Mission

To deliver a wide range of prompt and quality services in order to consistently achieve sound performance through collaborative partnership at all levels, high standards of governance, optimization of information technology and effective network

The Capital Structure

Paid up capital of the Bank is NPR 1.5 Billion, out of which 70% is from promoters and balance 30% is from general public. Bank is increasing its paid up capital to NRP 2 Billion by mid April 2011. The shares of the Bank are listed with NEPSE.

Branch Network

As of Fiscal Year 2065/66, the Bank has all together 29 branches across the country, out of which 15 branches are inside Kathmandu Valley and 14 branches are outside Kathmandu Valley.

Table No. 4.3.4
Share Price Movement of Bank of Asia Nepal Ltd.

Selected point of time	Share price in Rs	Price Relatives	Banking Sub Index	Banking Sub Index converted into new base	% change from base	Adjusted price relatives 2 as % of 4	% change from base
I	381	100	376.08	100			
II	300	78.74	301.22	80.09	(19.91)	98.31	(1.69)
III	231	60.63	297.04	78.98	(21.02)	76.76	(23.24)
IV	235	61.68	203.77	54.18	(45.82)	113.84	13.84
V	217	56.96	199.25	52.98	(47.02)	107.51	7.51
VI	281	73.75	217.69	57.88	(42.12)	127.42	27.42
VII	273	71.65	296.74	78.90	(21.10)	90.81	(9.19)

Source: Annual Report of SEBON & Trading Report of NEPSE

The above table shows that when Bank of Asia Nepal Limited announced rights share to existing shareholders, the price on the day of announcement was Rs.235, which is Rs.146 less than the price before 60 days of announcement date and was Rs.231 seven days before the announcement date. The share price was Rs.217 on the seven days after the announcement of rights offering. Then, it is found increased to Rs.281 and Rs.273 after 30 and 60 days of the announcement date. But such price movement still decreases price index. It remained fluctuating in between Rs.376.08 to Rs.296.74 during the points I and VII.

Values of one rights and ex-rights price of Bank of Asia Nepal Ltd. stock are as follows:

Market price Stock = Rs. 235

Value of one Right = Rs. 45

Ex-rights price of share = Rs. 190

The value of the share after the allotment should be around Rs.190 but the share price of

Bank of Asia Nepal Ltd. was Rs.281 after three months of rights share announcement. Thus the share of Bank of Asia Nepal Ltd. is overpriced (Annex-1&2)

4.3.5 Analysis of Share Price movement of Sunrise Bank Limited

In an economy driven by appetite for success, Sunrise Bank Limited is "**Rising to Serve**" by defining new levels of services and products. As a bank founded by reputed entrepreneurs, we understand the needs of a growing economy and are well equipped to serve them.

Our teams of seasoned banking and management professionals have dedicated themselves to establishing an institution determined to cater to the needs of all, be it big or small. Your aspirations are our benchmarks and we will always be "**Rising to Serve**".

Vision

To become a dominant player in the Nepalese Banking Industry by the year 2012 A.D.

Mission

Continuous Offering of tailor made banking services to all levels of society, with no constraint on time, location, size of transaction and all aspirations.

Objectives

- To continuously expand Bank's operation in systematic manner
- To become a major innovative Bank and provide top of the line services
- To build an HR team that continuously supplements the growth of the organization
- To be vigilant to the evolving economy and align our operations accordingly

Capital Structure

Paid-up Capital: Rs. 875 Million

Initial Public Offering: Rs. 375 Million

The Authorized Capital of the Bank is Rs. 5,000 Million

Sunrise Bank Limited understands that banking is no longer a numbers game. "Success" for us is not just our profit margin. We understand that you are looking for a friend. A friend to understand, evaluate and invest in your dreams and aspirations. A friend, who will safeguard your savings and will give you the best value for the same. For us success is your hand in friendship. It has been successfully operating with its 47 branches till date.

Table No. 4.3.5
Share Price Movement of Sunrise Bank Ltd.

Selected point of time	Share price in Rs	Price Relatives	Banking Sub Index	Banking Sub Index converted into new base	% change from base	Adjusted price relatives 2 as % of 4	% change from base
I	281	100	295.05	100			
II	371	132.03	301.26	102.10	2.10	129.31	29.31
III	260	92.53	297.04	100.67	0.67	91.91	(8.09)
IV	260	92.53	223.77	75.84	(24.16)	122.01	22.01
V	256	91.10	200.25	67.79	(32.21)	134.39	34.39
VI	255	90.75	217.69	73.77	(26.23)	123.02	23.02
VII	227	80.78	266.74	90.41	(9.59)	89.35	(10.65)

Source: Annual Report of SEBON & Trading Report of NEPSE

The above table shows that when Sunrise Bank Limited announced rights share to existing shareholders, the price on the day of announcement was Rs.260, which is Rs.21 less than the price before 60 days of announcement date and was Rs.260 seven days before the announcement date. The share price was Rs.256 on the seven days after the announcement of rights offering. Then, it is found decreased to Rs.255 and Rs.227 after 30 and 60 days of the announcement date. But such price movement still decreases price index. It remained fluctuating in between Rs.295.05 to Rs.266.74 during the points I and VII.

Values of one rights and ex-rights price of Sunrise Bank Ltd. stock are as follows:

Market price Stock	= Rs. 260
Value of one Right	= Rs. 53.33
Ex-rights price of share	= Rs. 206.67

The value of the share after the allotment should be around Rs.206.67 but the share price of Sunrise Bank Ltd. was Rs.255 after three months of rights share announcement. Thus the share of Sunrise Bank Ltd. is overpriced (Annex-1&2)

4.4 Comparison of theoretical and actual market price after Right issue

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

Table No. 4.4

Comparison of theoretical and actual market price after Right issue

S.N.	Name of the bank	Actual MPS after right issue	Theoretical price after right issue	% change
1	LBL	730	460.71	58.45
2	NSBI	799	633.33	26.16
3	GBL	300	233.33	28.57
4	BOA	281	190	47.89
5	SBL	255	206.67	23.39

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

The above table shows the percentage change in actual market price and theoretical price of share after right share issue. Theoretically, actual market price and theoretical price of the share after right share issue should be equal. Actual market price after right share issue is collected from the trading reports of the SEBO/N and theoretical price of the share after right share is calculated in Annex 2.

The above table shows that the actual market price of Laxmi Bank Ltd. is Rs.730 and its theoretical market price is Rs.460.71. The % change between the two prices is 58.45 it shows the positive change. Similarly, the actual market price of Nepal SBI Bank Ltd. is Rs.799 and its theoretical value is Rs.633.33, this shows the positive % change between two prices of 26.16%. However Global Bank Ltd., Bank of Asia Nepal Ltd. and Sunrise Bank Ltd. have actual market price of Rs.300, Rs.281 & Rs.255 followed by theoretical market price of Rs.233.33, Rs.190 & Rs.206.67 respectively. These three banks show the positive change of 28.57%, 47.89% & 23.39% respectively. From the above analysis, it is found that out of 5 sample banks, all of the banks have theoretical market price lower than actual market price causing positive percentage change.

4.5 Comparison of stock price before and after right share issue

The impact of right share issue on market price per share is evaluated here. Theoretically, the price of the share should be decreased after right share issue. The table below shows the market price per share before right share issue and after right share issue and their percentage difference. Pre right issue price is the closing market price 7 days prior to right share issue and post right issue price is the closing market price after 7 days of right share issue.

The positive change in price indicates that the post right issue price is greater than pre right issue price. This phenomenon is theoretically wrong. The negative change in price

indicates that the post right issue price is smaller than the pre right issue price and this phenomenon is theoretically correct. The zero change indicates that the post right issue price and the pre right issue price are equal and this is also theoretically wrong.

Table 4.5
MPS of stock price before & after right offering

S.N.	Name of the bank	Pre right issue price	Post right issue price	% change
1	LBL	565	650	15.04
2	NSBI	806	873	8.31
3	GBL	298	290	(2.68)
4	BOA	231	217	(6.06)
5	SBL	260	256	(1.54)

Source: Annual Report of SEBON & Trading Report of NEPSE

$$\% \text{ change in price} = \frac{\text{Post right issue price} - \text{Pre right issue price}}{\text{Pre right issue price}}$$

From the above table, it is clear that in majority of the case there is negative change. This means the majority of company follows the theory, i.e. the market price per share decreases after right share issue. Among the 5 sample banks, LBL and NSBI do not follow the theory i.e. the price of share increases after the right share issue. Whereas GBL, BOA & SBL's share price has decreased after right share issue.

From the above analysis, it can be concluded that generally the market price decrease after right share issue.

4.6 Correlation Coefficient between Share Price Movement and Movement in Banking Sub index

Nepal Stock Exchange has just started the practice of calculating and publishing the sectorwise indices. So under the study Banking Sub indices are used.

In practice, not only the rights offering but also general market movement largely affects the share price of Banks. For this reason correlation between share price movement and Banking Sub Index is calculated by considering share price of Banks as the dependent variables and the share price fluctuate according to the fluctuation on the index of Bank. After calculating the correlation between share price movement of sample Banks and Banking Sub Index movement (refer to annex-4) following results have been obtained.

Table 4.6

Correlation coefficient between Share Price & Banking Sub Index

S.N.	Name of the bank	Correlation Coefficient	Coefficient of Determination	Probable Error (PE)	6 PE
1	LBL	0.8685	0.7543	0.0626	0.3756
2	NSBI	0.4307	0.1855	0.2076	1.2458
3	GBL	0.7521	0.5656	0.1107	0.6643
4	BOA	0.7821	0.6116	0.0989	0.5939
5	SBL	0.4886	0.2387	0.1941	1.1644

Refer to Annex: 3

Above table shows that the result generated is a bit inconsistent. LBL, GBL & BOA show similar kind of result. In case of these banks there is high degree of positive correlation i.e. $r = 0.8685, 0.7521$ & 0.7821 respectively. Similarly coefficient (r) is greater than 6PE; thus correlation is significant and reliable. So, we can conclude that the share price behavior of these banks is because of general market movement.

In case of NSBI and SBL there is low degree of positive correlation i.e. $r = 0.4307$ & 0.4886 respectively. The coefficient of determination $r^2 = 0.1855$ & 0.2387 means that about 18.55% & 23.87% of variation in the share price is explained by the banking sub index movement. The correlation coefficient is also less than 6PE; thus the correlation is not significant and not reliable.

4.7 Use of t-statistics to measure the immediate impact of rights offering on the

share price and on Banking Sub Index.

Theoretically, after the rights issue, generally share price of concern company move upwards till the date of issue closed. To analyze whether there came any significant change in share price, we have used t-statistics. For this we have taken the share price and price index before and after announcement date. Following table shows the calculated and tabulated values of t-statistics of respective companies

Table 4.7
T-test of share price of related sample companies

S.N.	Sample Companies	Test for	Significance Level	Degree of Freedom	T-tab	T-cal	Result
1	LBL	SP	5%	8	2.306	1.743	Insignificant
2	NSBI	SP	5%	8	2.306	4.054	Significant
3	GBL	SP	5%	8	2.306	3.190	Significant
4	BOA	SP	5%	8	2.306	2.176	Insignificant
5	SBL	SP	5%	8	2.306	2.555	Significant

Refer to Annex: 4

Above table clearly shows that the calculated value of t in case of Laxmi Bank Ltd. is 1.743, whereas the tabulated value at 5% level of significance is 2.306 for 8 degree of freedom. Since t-cal is less than t-tab, it can be inferred that the differences between the share prices few days before and after the announcement of rights offering is insignificant.

In case of Nepal SBI Bank Ltd. and Global Bank Ltd. the calculated value of t for share price is 4.054 and 3.190 respectively whereas, the tabulated value at 5% level of significance for 8 degree of freedom is 2.306. Since $t_{cal} > t_{tab}$, the hypothesis that the share price don't change, significantly is rejected and alternative hypothesis is that the share price has changed significantly is accepted. Hence, we conclude that in these two banks after the announcement of the rights offering, share price is increased

significantly.

The calculated value of t in case of Bank of Asia Nepal Ltd is 2.176, whereas the tabulated value at 5% level of significance is 2.306 for 8 degree of freedom. Since t -cal is less than t -tab, it can be informed that the differences between the share prices few days before and after the announcement of rights offering is insignificant. Thus, it can be inferred that the heavy decrease in share price of its stock can be attributed to rights offering. In this case, the null hypothesis that the share price does not change significantly after the announcement of the rights offering is accepted.

Finally, in case of Sunrise Bank Ltd. calculated value of t is 2.555, whereas the tabulated value at 5% level of significance is 2.306 for 8 degree of freedom. Since t -cal is greater than t -tab, it can be inferred that the differences between the share prices few days before and after the announcement of rights offering is significant.

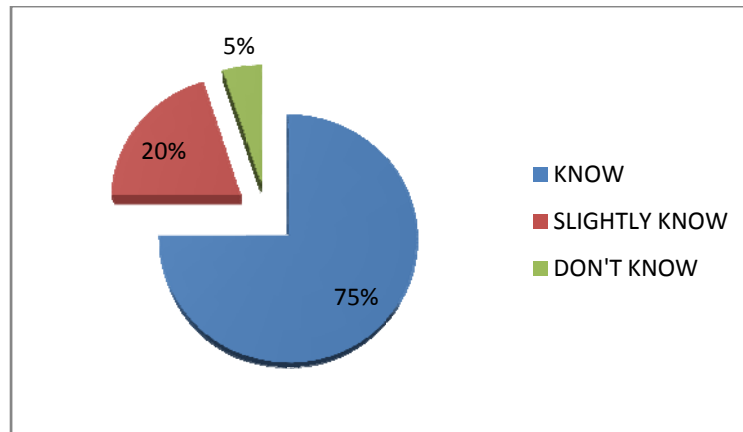
4.8 Analysis of Primary Data

This study is based on secondary data some information were collected through distribution of questionnaire to the share holders, issuing company and issue managers as well. Our capital market is in the process of modernization. If we compare the development stage of our capital market with that of highly developed or developed countries, undeniably, it is under-developed one. Even in the comparison of cross boarder country like India, our capital market is incomparably small and under-developed.

Awareness about right issue

During the period of study, regarding the questionnaire and personal interview, various informations were obtained. In 20 random samples of respondents, most of the respondent i.e. 15 said that they know about the rights issue practice. About 20% knew about the rights issue practice to some extent. Only 5% don't know anything about the right issue practice.

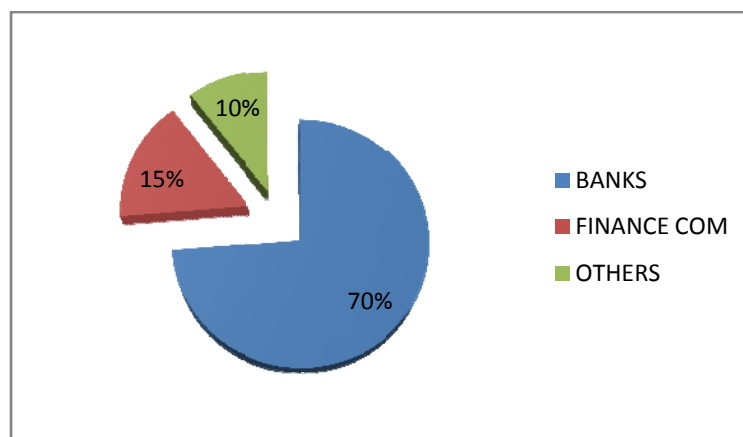
Figure 4.8.1
Aware about Right Issue



Holding share of any listed companies

In another question raised about the share holding, 70% of the respondents said that they are holding the share of banking sector while 15% are holding the share of finance company, 10% insurance company and rest are others company. It shows that all the respondents are holding share of different companies.

Figure 4.8.2
Holding share of any listed companies

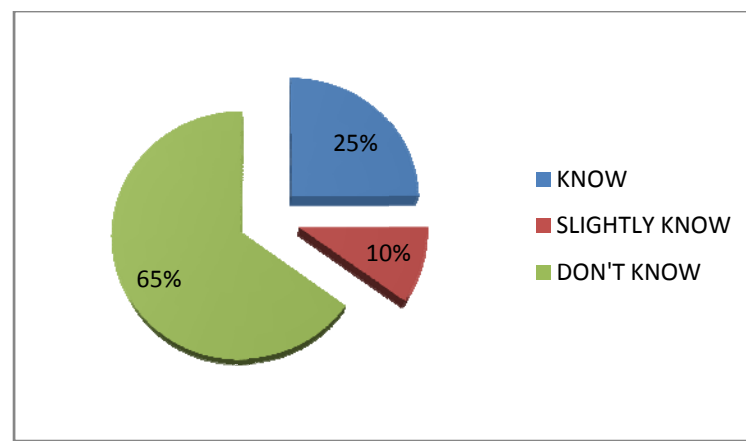


Investors get reliable and adequate information regarding right share issue

Out of 20 respondents, 5 respondents said that they are getting reliable and adequate information from related companies, friends and outsource. This represents only 25% of total respondents, whereas 13 respondents said that they are not. It means 65% respondents are not getting reliable and adequate information and rests said they tend to know little bit of informations about this.

Figure 4.8.3

Investors get reliable and adequate information regarding right share issue

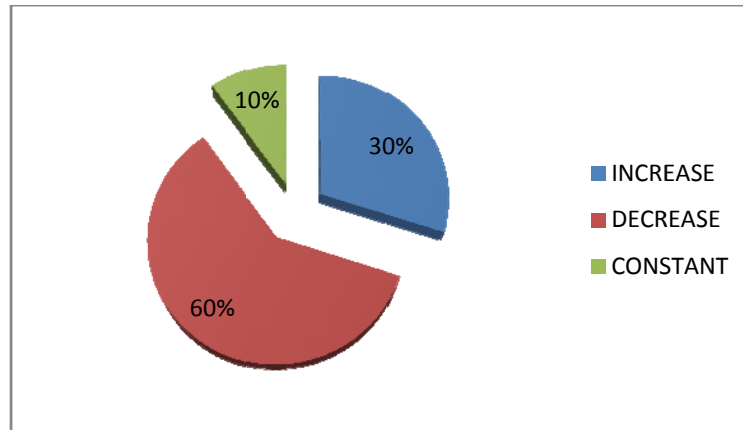


Impact of rights share on stock price movement

In another question about the impact of rights issue on market price of share, a mix result has been obtained, 30% of the respondents said that share price will increase after the announcement of rights share while 60% said that share price will decrease after rights share announcement. 10% respondent told that the share price will remain unchanged.

Figure 4.8.4

Impact of rights share on stock price movement

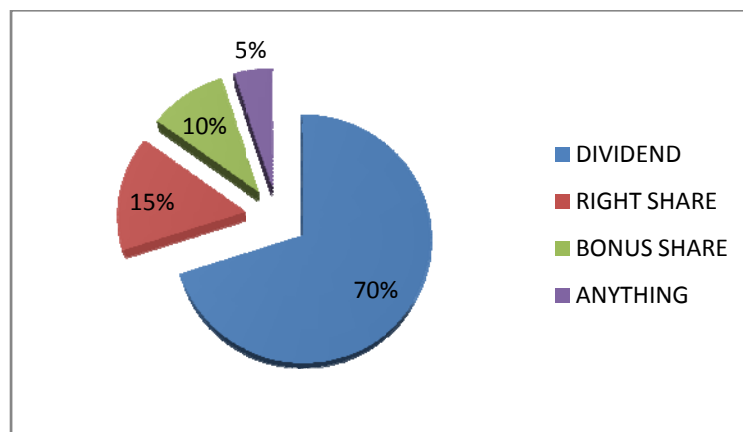


Dividend, right share or bonus share

For the question related to your preference amongst dividend, right share or bonus share 70% said they prefer cash dividend, 15% said right share announcement will be better. Similarly 10% preferred bonus share and rest were indifferent.

Figure 4.8.5

Dividend, right share or bonus share

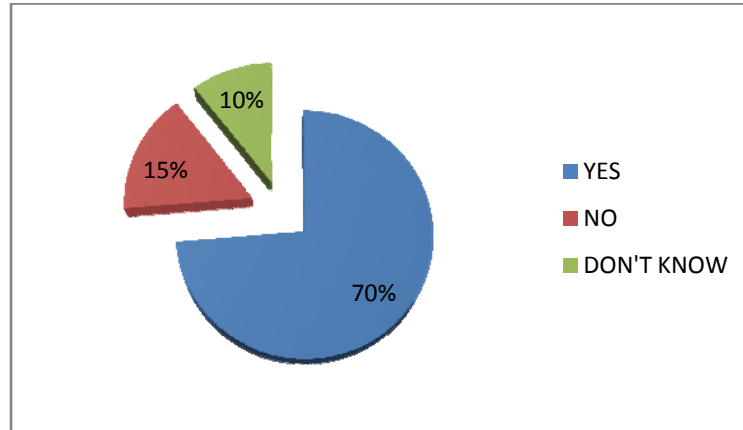


Right shares issue in premium

The respondents were also asked about the right share issue in premium. Replying the query, 35% said yes that they will still buy the share, 45% said that they will not buy and rest said they don't know what to do.

Figure 4.8.6

Right shares issue in premium

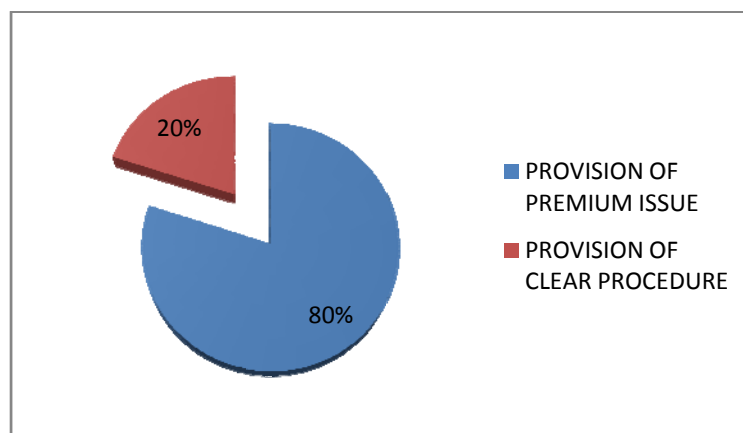


Rights are not transferable in Nepalese Financial Markets

Rights are not transferable in Nepal. Due to this shareholders have to face many difficulties. Among the respondents, who said that, current legal provision regarding rights offering is inadequate, 80% are agreed on the clause that rights share should be transferable but in addition to this 80% said that there should be the provision of premium issue of rights share and remaining 20% feels that there should be the clear procedure of rights transfer.

Figure 4.8.7

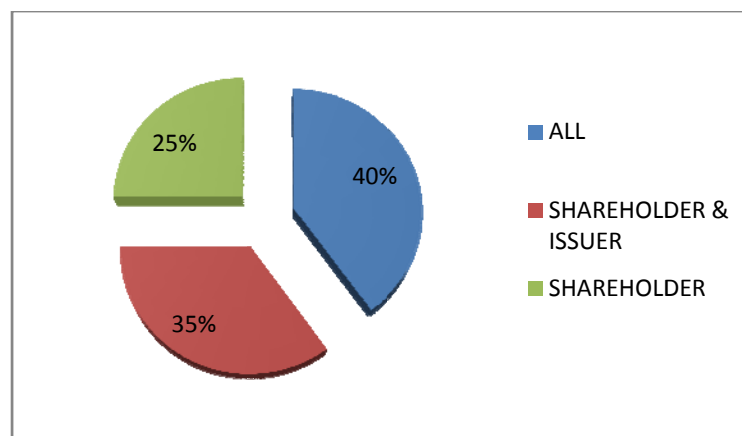
Rights are not transferable in Nepalese Financial Markets



Beneficiaries of right offering

The researcher's next and last question was regarding the beneficiaries of the rights offering. About 40% of the respondent ticked in the all of them option (i.e. issuing company, shareholder with rights and security broker), 35% of respondent said that both issuing company and shareholder with right will be beneficial and only 25% of the respondent said that shareholder with rights will be benefited.

Figure 4.8.8
Beneficiaries of right offering



4.9 Problems of right share practice in Nepal

Low performance of SEBON and NEPSE

For making matured and stable capital market SEBON and NEPSE have to do more in the field of financial market. They don't doing rapidly as for as desirable due to the lack of financial problems and lack of expertise of their human resource. Neither they can persuade too many unlisted firms for listing nor can they increase more investing opportunity. That's why there aren't increasing trend of listing firm properly. No significant researches are held on the field of share market and rights offering. They do not make investor protection act as well as any investor awareness programs have not been launched.

Lack of transferable rights

Right is a financial Assets. It was some economic value so it should be negotiable, transferable and separable. One main cause of under subscription of rights offering is lack of transferable right. This block not only provides on opportunity to share holder to sell and gain but it stops to providing good new investment alternative.

Short sighted investors

Due to the large no of irrational investor Nepalese Capital can't take stable way. Nepalese capital market is affected only by roomer this makes to our capital is very instable. They never look companies' financial statement only some investor looks but they also do not look future prospects they have to look unto how their money is used by the company.

Lack of information flow

Right is re-announce-able instrument that is mailed to existing stock holders while observing the practices of Nepalese companies there is complete absence of mailing habit. Stock holders are not mailed all the terms and conditions mentioned in the issue prospectus and this is distributed but nobody observe that how many stock holders get this prospectus. Who receive prospectus they should calculated that proportionate holding and subscribe for additional shares if they want to do themselves.

Imperfect legal provision

There are many weak points in our legal provision. That's why many practical difficulties may arise. Government also bear losses due to its weak legal provision, due to imperfect legal provisions many right offering takes so long time that relevance of rights offering are not exit.

Lack of open market and free pricing

In Nepal few big investors hold huge percentage share of most companies. That's why share prices raise and decrease what they want.

4.10 Major Finding of the Study

Here, the effort has been made in present major findings of the study in rights share practice in Nepal and its impact on share price movement of some Commercial Banks. The major findings of the study are presented in following headings correspondence to

the study objectives.

4.10.1 Analyze the impact of right share issue on share price

- There is inconsistency in the share prices of Laxmi Bank Ltd. before and after the rights issue. The LBL's stock price drastically decreased on the day of announcement and started increasing after the right share issue. So share price of LBL didn't follow the theory of rights offering i.e. after rights issue its share price increased significantly.
- In case of NSBI Bank it followed the theory of right offering the share price decreased on the day of announcement and after the day of announcement as well.
- While comparing the share price of GBL and SBL it is found that both the banks followed the theory of right offering. But the changes in share price are insignificant i.e. after the announcement also the share price increased once and the decreased significantly.
- The increasing and decreasing trend in the share price of BOA are uncertain. It increased slightly on the day of announcement again decreased a little after it. Then it increased significantly followed by a little decline. Therefore it didn't follow the theory of right offering.

4.10.2 Rights Share Practice in Nepal

- Rights offering are comparatively new practice in Nepal. Therefore, some sample companies are able to raise the desired capital thought it and the practice does follow the theory.
- Another major cause is dilution in shareholders wealth position is the holder's record date. In some sample companies, offering rights holder's record date is prior to the announcement date.
- Market is going to mature and company with track record is low.
- There are many cases of rights offering till the date. Most Companies are issuing

rights share in order to fulfill the capital requirements as per the NRB directives.

- There is not like uniformity in the impact of rights offering of share price.
- Shareholder of Nepalese Financial Companies, there is lacks the proper knowledge about the rights share and its impact of in their wealth position. Due to this, free movement of share price during tights on and ex- rights are not confirmed.

4.10.3 Regarding the Impact of Rights offering in Earning per Share

Theoretically, after the issue of rights the earning per share of companies decreases. But if the company utilizes the rights offering, so it raised fund in effective way the earning per share can be increased. Similar result has obtained in case of sample banks.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Nepalese Security market is in developing stage in comparison to other countries such as China, United States and United Kingdom. Nepalese Security markets has practiced limited investment instrument such as equity share, debenture, preference, mutual fund, rights share and initial public offering. Thus such limited number of investment instrument cannot attract the saving held by the potential investors. This is one of the causes for low market capitalization in stock of Nepal.

Right share issue practice by commercial banks in Nepal and its impact on share price is an exciting and challenging study. A brief introduction of the study and the overall view of rights offering are presented in introductory chapter and available literature on rights issue is reviewed in the second chapter. The appropriate research methodology is presented in chapter third and the data are presented and analyzed in chapter four. Now in this final chapter an attempt has been made to present summary of findings, issue and gaps observed and give some suggestion for future course of action.

This study is concentrated on the various aspects of rights offering with special references to the selected listed Banks of Nepal. Although since 13 years, Nepalese security markets is practicing the rights offering out is every essences is not seemed to be practiced here. Out of 162 listed companies in Nepal, there are certain number of rights offering cases till date but some cases of rights offering in Nepal meets the theory.

Theoretically, after the rights share announcement, the share price move upward till the closing date. After the closing date it will be traded at ex-right price. It means the share price move downward to extent of value of rights. But while observing the share price behavior of sample companies mixed results have been obtained. Share price of Laxmi

Bank Ltd., before rights share announcement was Rs.565 but it increased to Rs.650 after rights share announcement. In case of Nepal SBI Bank Ltd., share price before announcement date was Rs.806 but after rights share announcement it went up to Rs.873. In case of Global Bank Ltd., share price before announcement date was Rs.298 but it decreased to Rs.290 after rights share announcement. Similar trend was observed in case of Sunrise Bank Ltd., whose share price before announcement date was Rs.260 but after rights share announcement it decreased to Rs.256. Similarly, in case of Bank of Asia Nepal Ltd., share price before announcement was Rs.231 but decreased to Rs.217 after rights share announcement.

The major objective of this study were to analyze the impact of right share issue on share price and to examine rights issue practice in Nepalese financial market and to examine the impact of rights offering in earning share.

Rights issue is comparatively new practice in Nepalese financial markets. Therefore, research not found more studies have been undertaken in Nepal but there are several cases of studies taken outside the country. But researcher had made full effort to collect the related studies for review in second chapter. This study is basically based in secondary data but some primary data has been used as well. Secondary data was taken from SEBO/N, Newspaper and Annual Report of respective companies and primary data are collected through the personal interview and distribution of questionnaire to the concerned personal. To conduct this study, statistical tools as well as financial tools have been used.

5.2 Conclusion

Conclusively, rights share practice is comparatively new phenomena in Nepalese Financial Market. There are no easy things to work out to make the rights offering as effective instrument of raising capital.

Here, researcher has found from the sample banks there are more cases of rights offering which has met theory i.e. the share price has increased significantly after the

announcement of right share and then traded on ex- right price after the allotment of rights shares otherwise in few cases share price has decrease significantly after the rights shares announcement and it was traded even below subscription price after the announcement date in case of other financial institutions. This all may be because of poor performance of the issuing company, keeping the holders record date prior to the announcement date by the company etc. theoretically, the share price has been changed significantly after the rights offering but it was increased in more banks and decreased in others.

In most case of rights offering there exists some sort of under subscription of rights share. It may be lack of information to the shareholders even cannot get about the rights share announcement made by their companies others who are informed are not all aware of what the rights share means and what can be impact on their wealth position. There is no easy and clear provision to sales of under subscribed rights share. In practice many banks are distributing the right to their employees because of large number of shareholders are holding the few share and they ignore about the rights share and the cost of existing shareholders are getting by the bank's employees. So, under subscription of rights is also case of no provision of transferable.

Testing the hypothesis, researcher has obtained mixed result. Some banks rights share affects the share price movement and banking index movement in more case positively correlated and some cases negatively correlated. Different result has obtained for share price movement during seven periods. There is take long formalities by issue manager. The regulation regarding the calculation of premium is not clear and certain regulation require company to issue rights share in par value that result in wide difference between market price per share and subscription price.

Finally, rights offering are increasing trend in Nepalese Security Market. Basically, Banking and Finance sector's are more practicing. Rights offering have both positive and negative impact to change on share price. The market price of share is also influenced by general market movement to greater extent in Nepal.

5.3 Recommendation

The Financial Market has come a long way it is still in primary stage and is not without flaws. The fallacies are founded on the part of regulating bodies, legal framework, investors and the associated companies. On the basis of findings for the analysis and the issues and gaps mentioned above, the researcher has provided some practicable recommendations in the following points:

- Shareholders are not clear about the rights offering its benefit and impact on their wealth position. So, the concerned authorities should make aware them by good governance and provisions regarding rights share.
- To attract the investments, the issue prospectus should provide a clear picture of both the systematic and unsystematic risk of the business that will be make fair trade between risk and return.
- The critical factor affects the share price and Subscription on the holder's record date. The investors who purchase the share after that day are unable to get share. This can be better to set the proper holder record date by issuing banks.
- Nepalese investors are not all aware about rights offering. Therefore, to increase awareness for investors some technique like interaction, used of information technology through media etc should be managed by related companies and government.
- There should be need of Investment protection Act that helps to investors confidence and secured.
- Most of the Nepalese investors are holding financial institutional share. It means they are more attracted in that sector. So investors should also be diverted to other sector.
- Most of the Nepalese investors are not using any tools to see the company's future prospective. Therefore they should trained and make them aware for using analytical tools while buying shares.

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ANNEX - 1

Information of Rights Offering of the Respective Banks

1. Laxmi Bank Ltd.

Right share issue date = 2009/11/19

Subscription price = Rs.100 per share

Subscription ratio = 10:4

Amount issued = 439Million

Issue Manager = NMB

Table no. 1

Information about share price and banking sub index

Share Price Before Announcement Date		Share Price After Announcement Date	
Date	Share Price (index)	Date	Share Price (index)
2009/07/19	900 (722.28)	2009/11/26	650 (530.56)
2009/08/19	902 (760.54)	2009/12/19	730 (600.05)
2009/09/19	868 (608.30)	2010/01/19	715 (615.63)
2009/10/19	1000 (797.29)	2010/02/19	749 (698.22)
2009/11/12	565 (550.33)	2010/03/19	730 (701.83)

Source: Official quotation of share prices published in national daily newspaper and website NEPSE

2. Nepal SBI Bank Ltd

Right share issue date = 2009/12/29

Subscription price = Rs.100 per share

Subscription ratio = 2:1

Amount issued = 437Million

Issue Manager = CIT

Table no. 2
Information about share price and banking sub index

Share Price Before Announcement Date		Share Price After Announcement Date	
Date	Share Price (index)	Date	Share Price (index)
2009/08/29	1675 (1022.67)	2010/01/05	873 (868.64)
2009/09/29	1685 (1003.10)	2010/01/29	799 (877.31)
2009/10/29	1670 (921.37)	2010/02/29	755 (806.38)
2009/11/29	1570 (956.33)	2010/03/29	752 (861.02)
2009/12/22	806 (997.22)	2010/04/29	746 (869.56)

Source: Official quotation of share prices published in national daily newspaper and website NEPSE

3. Global Bank Ltd.

Right share issue date = 2010/02/02

Subscription price = Rs.100 per share

Subscription ratio = 2:1

Amount issued = 500Million

Issue Manager = ELITE

Table no. 3
Information about share price and banking sub index

Share Price Before Announcement Date		Share Price After Announcement Date	
Date	Share Price (index)	Date	Share Price (index)
2009/10/02	430 (426.31)	2010/02/09	290 (273.22)
2009/11/02	425 (417.02)	2010/03/02	300 (284.10)
2009/12/02	400 (356.08)	2010/04/02	260 (296.74)

2010/01/02	308 (299.16)	2010/05/02	260 (316.02)
2010/01/27	298 (253.38)	2010/06/02	275 (322.90)

Source: Official quotation of share prices published in national daily newspaper and website NEPSE

4. Bank of Asia Nepal Ltd.

Right share issue date = 2010/05/16

Subscription price = Rs.100 per share

Subscription ratio = 2:1

Amount issued = 500Million

Issue Manager = CIVIL

Table no. 3

Information about share price and banking sub index

Share Price Before Announcement Date		Share Price After Announcement Date	
Date	Share Price (index)	Date	Share Price (index)
2010/01/16	380 (397.68)	2010/05/23	217 (199.25)
2010/02/16	395 (355.13)	2010/06/16	281 (217.69)
2010/03/16	381 (376.08)	2010/07/16	273 (296.74)
2010/04/16	300 (301.22)	2010/08/16	270 (288.06)
2010/05/09	231 (297.04)	2010/09/16	280 (302.90)

Source: Official quotation of share prices published in national daily newspaper and website NEPSE

5. Sunrise Bank Ltd.

Right share issue date = 2010/06/29

Subscription price = Rs.100 per share

Subscription ratio = 2:1

Amount issued = 275Million

Issue Manager = NIDC

Table no. 3
Information about share price and banking sub index

Share Price Before Announcement Date		Share Price After Announcement Date	
Date	Share Price (index)	Date	Share Price (index)
2010/02/29	295 (302.15)	2010/07/06	256 (200.25)
2010/03/29	302 (299.66)	2010/07/29	255 (217.69)
2010/04/29	281 (295.05)	2010/08/29	227 (266.74)
2010/05/29	371 (301.26)	2010/09/29	235 (252.88)
2010/06/22	260 (297.04)	2010/10/29	250 (274.19)

Source: Official quotation of share prices published in national daily newspaper and website NEPSE

ANNEX - 2

Value of Rights and the Theoretical Ex-rights price

Variable Defined:

P_0 = Current Market Prices

P_s = Subscription Price

= Number of rights required for an additional share

P_x = Ex-rights Price

V_r = Value of Rights

$$V_r = \frac{P_0 - P_s}{\# + 1}$$

$$P_x = \frac{\# \times P_0 + P_s}{\# + 1} \text{ Or } P_0 - V_r$$

1. Laxmi Bank Ltd.

$P_0 = \text{Rs.}605, P_s = \text{Rs.}100, \# = 2.5 \text{ share}$

Now,

$$\begin{aligned}V_r &= \frac{P_0 - P_s}{\# + 1} \\ &= \frac{605 - 100}{2.5 + 1} \\ &= 144.29\end{aligned}$$

$$\begin{aligned}P_x &= \frac{\# \times P_0 + P_s}{\# + 1} \\ &= \frac{605 \times 2.5 + 100}{2.5 + 1} \\ &= 460.71\end{aligned}$$

2. Nepal SBI Bank Ltd.

$P_0 = \text{Rs.}900, P_s = \text{Rs.}100, \# = 2 \text{ share}$

Now,

$$\begin{aligned}V_r &= \frac{900 - 100}{2 + 1} \\ &= 266.67\end{aligned}$$

$$\begin{aligned}P_x &= \frac{900 \times 2 + 100}{2 + 1} \\ &= 633.33\end{aligned}$$

3. Global Bank Ltd

$P_0 = \text{Rs.}300, P_s = \text{Rs.}100, \# = 2 \text{ share}$

Now,

$$V_r = \frac{300 - 100}{2 + 1}$$
$$= 66.67$$

$$P_x = \frac{300 \times 2 + 100}{2 + 1}$$
$$= 233.33$$

4. Bank of Asia Nepal Ltd.

$P_0 = \text{Rs.}235, P_s = \text{Rs.}100, \# = 2 \text{ share}$

Now,

$$V_r = \frac{235 - 100}{2 + 1}$$
$$= 45$$

$$P_x = \frac{235 \times 2 + 100}{2 + 1}$$
$$= 190$$

5. Sunrise Bank Ltd.

$P_0 = \text{Rs.}260, P_s = \text{Rs.}100, \# = 2 \text{ share}$

Now,

$$V_r = \frac{260 - 100}{2 + 1}$$
$$= 53.33$$

$$P_x = \frac{260 \times 2 + 100}{2 + 1}$$
$$= 206.67$$

ANNEX - 3

Correlation (r) between Share Price Fluctuations with Price Index Movement

Point of time	Variables
I	Two months before announcement date
II	One month before announcement date
III	Seven days before announcement date
IV	Day of announcement
V	Seven days after announcement date
VI	One month after announcement date
VII	Two months after announcement date
X	Price of share
Y	Banking sub-index

1. Laxmi Bank Ltd.

Point	X	$x(X - \bar{X})$	x^2	Y	$y(Y - \bar{Y})$	y^2	xy
I	868	134.71	18146.78	608.30	-7.61	57.91	-1025.14
II	1000	266.71	71134.22	797.29	181.38	32898.7	48375.86
III	565	-168.29	28321.52	550.33	-65.58	4300.74	11036.46
IV	605	-128.29	16458.32	589.21	-26.7	712.89	3425.34
V	650	-83.29	6937.22	550.56	-65.35	4270.62	5543
VI	730	-3.29	10.82	600.05	-15.86	251.54	52.18
VII	715	-18.29	334.52	615.63	-0.28	0.0784	5.12
$\sum X = 5133$		$\sum x^2 = 141343.4$		$\sum Y = 4311.37$	$\sum y^2 = 42492.48$		$\sum XY = 67312.82$

$$\bar{X} = \frac{\sum X}{n} = \frac{5133}{7} = 733.29$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{4311.37}{7} = 615.91$$

Karl Pearson's coefficient of correlation

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{67312.82}{\sqrt{141343.4} \sqrt{42492.48}} = 0.8685$$

Coefficient of determination (r^2) = 0.7543

$$\text{Probable Error (PE)} = 0.6745 \frac{1-r^2}{\sqrt{n}} = 0.6745 \frac{1-0.7543}{\sqrt{7}} = 0.0626$$

$$6 \text{ PE} = 0.3756$$

2. Nepal SBI Bank Ltd.

Point	X	$x(X - \bar{X})$	x^2	Y	$y(Y - \bar{Y})$	y^2	xy
I	1670	616.71	380331.22	921.37	17.48	305.55	10780.09
II	1570	516.71	266989.22	956.33	52.44	2749.95	27096.27
III	806	-247.26	61152.34	997.22	93.33	8710.49	-23079.58
IV	900	-153.29	23497.82	900.03	-3.86	14.89	5916.99
V	873	-180.29	32504.48	868.64	-35.25	1242.56	6355.22
VI	799	-254.29	64663.40	877.31	-26.58	706.49	6759.02
VII	755	-298.29	88976.92	806.38	-97.51	9508.20	29086.26
$\sum X = 7373$		$\sum x^2 = 918115.4$		$\sum Y$ = 6327.28	$\sum y^2 = 23238.13$		$\sum XY$ = 62914.27

$$\bar{X} = \frac{\sum X}{n} = \frac{7373}{7} = 1053.29$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{6327.28}{7} = 903.89$$

Karl Pearson's coefficient of correlation

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{62914.27}{\sqrt{918115.4} \sqrt{23238.13}} = 0.4307$$

Coefficient of determination (r^2) = 0.1855

$$\text{Probable Error (PE)} = 0.6745 \frac{1-r^2}{\sqrt{n}} = 0.6745 \frac{1-0.81447}{\sqrt{7}} = 0.2076$$

6 PE = 1.2458

3. Global Bank Ltd.

Point	X	$x(X - \bar{X})$	x^2	Y	$y(Y - \bar{Y})$	y^2	xy
I	400	92	8464	356.08	67.09	4501.07	6172.28
II	308	0	0	299.16	10.17	103.43	0
III	298	-10	100	253.38	-35.61	1268.07	356.1
IV	300	-8	64	260.31	-28.68	822.54	229.44
V	290	-18	324	273.22	-15.77	248.69	283.86
VI	300	-8	64	284.10	-4.89	23.91	39.12
VII	260	-48	2304	296.74	7.75	60.06	-372
$\sum X = 2156$		$\sum x^2 = 11320$		$\sum Y = 2022.99$	$\sum y^2 = 7027.77$		$\sum XY = 67088$

$$\bar{X} = \frac{\sum X}{n} = \frac{2156}{7} = 308$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{2022.99}{7} = 288.99$$

Karl Pearson's coefficient of correlation

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{6708.8}{\sqrt{11320} \sqrt{7027.77}} = 0.7521$$

Coefficient of determination (r^2) = 0.5656

$$\text{Probable Error (PE)} = 0.6745 \frac{1-r^2}{\sqrt{n}} = 0.6745 \frac{1-0.5656}{\sqrt{7}} = 0.1107$$

$$6 \text{ PE} = 0.6643$$

4. Bank of Asia Nepal Ltd.

Point	X	$x(X - \bar{X})$	x^2	Y	$y(Y - \bar{Y})$	y^2	xy
I	381	107	11449	376.08	105.82	11197.87	11322.74
II	300	26	676	301.22	30.96	958.52	804.96
III	231	-43	1849	297.04	26.78	717.17	-1151.54
IV	235	-39	1521	203.77	-66.49	4420.92	2593.11
V	217	-57	3249	199.25	-71.01	5042.42	4047.57
VI	281	7	49	217.69	-52.57	2763.60	-367.99
VII	273	-1	1	296.74	26.48	701.19	-26.48
$\sum X = 1918$		$\sum x^2 = 18794$		$\sum Y = 1891.79$	$\sum y^2 = 25801.69$		$\sum XY = 17222.37$

$$\bar{X} = \frac{\sum X}{n} = \frac{1918}{7} = 274$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{1891.79}{7} = 270.26$$

Karl Pearson's coefficient of correlation

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{17222.37}{\sqrt{18794} \sqrt{25801.69}} = 0.7821$$

$$\text{Coefficient of determination } (r^2) = 0.6116$$

$$\text{Probable Error (PE)} = 0.6745 \frac{1-r^2}{\sqrt{n}} = 0.6745 \frac{1-0.6116}{\sqrt{7}} = 0.09899$$

$$6 \text{ PE} = 0.59399$$

5. Sunrise Bank Ltd.

Point	X	$x(X - \bar{X})$	x^2	Y	$y(Y - \bar{Y})$	y^2	xy
I	281	8.14	66.26	295.05	37.64	1416.77	306.39
II	371	98.14	9631.46	301.26	43.85	1922.82	4303.44
III	260	-12.86	165.37	297.08	39.67	1573.71	-510.16
IV	260	-12.86	165.37	223.77	-33.64	1131.65	432.61
V	256	-16.86	284.26	200.25	-57.16	3267.27	963.72
VI	255	-17.86	318.98	217.69	-39.72	1577.68	709.39
VII	227	-45.86	2103.14	266.74	9.33	87.05	-427.87
$\sum X = 1910$		$\sum x^2 = 12734.84$		$\sum Y = 1801.84$	$\sum y^2 = 10976.95$		$\sum XY = 5777.51$

$$\bar{X} = \frac{\sum X}{n} = \frac{1910}{7} = 272.86$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{1801.84}{7} = 257.41$$

Karl Pearson's coefficient of correlation

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{5777.51}{\sqrt{12734.84} \sqrt{10976.95}} = 0.4886$$

Coefficient of determination (r^2) = 0.6116

$$\text{Probable Error (PE)} = 0.6745 \frac{1-r^2}{\sqrt{n}} = 0.6745 \frac{1-0.6116}{\sqrt{7}} = 0.19406$$

$$6 \text{ PE} = 1.1644$$

ANNEX-4

Test of Hypothesis by using t-statistic for the Test of Significance of the difference between share prices before and after the announcement of Rights Offering.

Variables Defined:

H_0 = Null Hypothesis that there is a not significance difference between the share price before and after the announcement of rights offering.

H_1 = Alternative Hypothesis that there is a significant different between the share price before and after the announcement of rights offering.

X= Share Price before announcement date.

Y= Share Price after announcement date.

\bar{X} = Mean of share price before announcement date

\bar{Y} = Mean of share price after announcement date

t-cal= Calculated value of t.

t-tab= Tabulated Value of t at a given significant level for a certain degree of freedom.

D.F.= Degree of Freedom

σ^2 = An unbiased estimate of population variance.

σ = Standard Deviation of Share Price before and after announcement date.

1. Laxmi Bank Ltd.

X	$(X - \bar{X})$	$(X - \bar{X})^2$	Y	$(Y - \bar{Y})$	$(Y - \bar{Y})^2$
900	53	2809	650	-64.8	4199.04
902	55	3025	730	15.2	231.04
868	21	441	715	0.2	0.04
1000	153	23409	749	34.2	1169.64
565	-282	79524	730	15.2	231.04
$\sum X=4235$	$\sum(X - \bar{X})^2=109208$		$\sum Y =3574$	$\sum(Y - \bar{Y})^2 =5830.8$	

$$\bar{X} = \frac{\sum X}{n} = \frac{4235}{5} = 847$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{3574}{5} = 714.8$$

$$s^2 = \frac{1}{n_1 + n_2 - 2} \left\{ \sum (X - \bar{X})^2 + \sum (Y - \bar{Y})^2 \right\}$$

$$= \frac{1}{5 + 5 - 2} \{109208 + 5830.8\} = 0.125 \times 115038.8 = 14379.85$$

$$t = \frac{(\bar{X} - \bar{Y})}{\sqrt{s^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} = \frac{847 - 714.8}{\sqrt{14379.85 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$= \frac{132.2}{75.8415} = 1.743$$

2. Nepal SBI Bank Ltd.

X	(X - \bar{X})	(X - \bar{X}) ²	Y	(Y - \bar{Y})	(Y - \bar{Y}) ²
1675	193.8	37558.44	873	88	7744
1685	203.8	41534.44	799	14	196
1670	188.8	35645.44	755	-30	900
1570	88.8	7885.44	752	-33	1089
806	-675.2	455895.04	746	-39	1521
$\sum X = 7406$	$\sum (X - \bar{X})^2 = 578518.8$		$\sum Y = 3925$	$\sum (Y - \bar{Y})^2 = 11450$	

$$\bar{X} = \frac{\sum X}{n} = \frac{7406}{5} = 1481.2$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{3925}{5} = 785$$

$$s^2 = \frac{1}{n_1 + n_2 - 2} \left\{ \sum (X - \bar{X})^2 + \sum (Y - \bar{Y})^2 \right\}$$

$$= \frac{1}{5 + 5 - 2} \{578518.8 + 11450\} = 0.125 \times 589968.8 = 73746.1$$

$$t = \frac{(\bar{X} - \bar{Y})}{\sqrt{s^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} = \frac{1481.2 - 785}{\sqrt{73746.1 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$= \frac{696.2}{171.7510} = 4.0535$$

3. Global Bank Ltd.

X	$(X - \bar{X})$	$(X - \bar{X})^2$	Y	$(Y - \bar{Y})$	$(Y - \bar{Y})^2$
430	57.8	3340.84	290	13	169
425	52.8	2787.84	300	23	529
400	27.8	772.84	260	-17	289
308	-64.2	4121.64	260	-17	289
298	-74.2	5505.64	275	-2	4
$\sum X=1861$	$\sum(X - \bar{X})^2=16528.8$		$\sum Y =1385$	$\sum(Y - \bar{Y})^2 =1280$	

$$\bar{X} = \frac{\sum X}{n} = \frac{1861}{5} = 372.2$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{1385}{5} = 277$$

$$s^2 = \frac{1}{n_1 + n_2 - 2} \left\{ \sum (X - \bar{X})^2 + \sum (Y - \bar{Y})^2 \right\}$$

$$= \frac{1}{5 + 5 - 2} \{16528.8 + 1280\} = 0.125 \times 17808.8 = 2226.1$$

$$t = \frac{(\bar{X} - \bar{Y})}{\sqrt{s^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} = \frac{372.2 - 277}{\sqrt{2226.1 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$= \frac{95.2}{29.84} = 3.1903$$

4. Bank of Asia Nepal Ltd.

X	$(X - \bar{X})$	$(X - \bar{X})^2$	Y	$(Y - \bar{Y})$	$(Y - \bar{Y})^2$
380	42.6	1814.76	217	-47.2	2227.84
395	57.6	3317.76	281	16.8	282.24
381	43.6	1900.96	273	8.8	77.44
300	-37.4	1398.76	270	5.8	33.64
231	-106.4	11320.96	280	15.8	249.64
$\sum X=1687$	$\sum(X - \bar{X})^2=19753.2$		$\sum Y =1321$	$\sum(Y - \bar{Y})^2 =2870.8$	

$$\bar{X} = \frac{\sum X}{n} = \frac{1687}{5} = 337.4$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{1321}{5} = 264.2$$

$$s^2 = \frac{1}{n_1 + n_2 - 2} \left\{ \sum (X - \bar{X})^2 + \sum (Y - \bar{Y})^2 \right\}$$

$$= \frac{1}{5 + 5 - 2} \{19753.2 + 2870.8\} = 0.125 \times 22624 = 2828$$

$$t = \frac{(\bar{X} - \bar{Y})}{\sqrt{s^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} = \frac{337.4 - 264.2}{\sqrt{2828 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$= \frac{73.2}{33.63} = 2.176$$

5. Sunrise Bank Ltd.

X	$(X - \bar{X})$	$(X - \bar{X})^2$	Y	$(Y - \bar{Y})$	$(Y - \bar{Y})^2$
295	-6.8	46.24	256	5.4	29.16
302	-0.2	0.04	255	4.4	19.36
281	-20.8	432.64	227	-23.6	556.96
371	69.2	4788.64	245	-5.6	31.36
260	-41.8	1747.24	270	19.4	376.36
$\sum X=1506$	$\sum(X - \bar{X})^2=7014.8$		$\sum Y =1253$	$\sum(Y - \bar{Y})^2 =1013.2$	

$$\bar{X} = \frac{\sum X}{n} = \frac{1506}{5} = 301.8$$

$$\bar{Y} = \frac{\sum Y}{n} = \frac{1253}{5} = 250.6$$

$$s^2 = \frac{1}{n_1 + n_2 - 2} \left\{ \sum (X - \bar{X})^2 + \sum (Y - \bar{Y})^2 \right\}$$
$$= \frac{1}{5 + 5 - 2} \{7014.8 + 1013.2\} = 0.125 \times 8028 = 1003.5$$

$$t = \frac{(\bar{X} - \bar{Y})}{\sqrt{s^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} = \frac{301.8 - 250.6}{\sqrt{1003.5 \left(\frac{1}{5} + \frac{1}{5} \right)}}$$

$$= \frac{51.2}{20.0349} = 2.555$$

ANNEX-5

Questionnaire

Dear Respondent,

This questionnaire is prepared for my research on “**Impact on Share Price before & after right offering**” which, I am doing for the partial fulfillment for the degree of Master of Business Studies (M.B.S). This questionnaire has been developed and presented towards you as a part of study. I humbly request you to fill at the best knowledge. Your cooperation in this regard will be an immense value for me.

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

Thanking you,
Parma Dhungel
Researcher
St. Xavier’s Campus

Name of respondent:

Occupation:

Designation:

Address:

Please answer the following questions with tick mark in appropriate space and as required by the questions.

1. Are you familiar with the rights issue practice?

Know Slightly Know

Don’t Know

2. Do you hold shares of any of the listed companies as below?

Banks Finance Companies

Others

3. Do you think investors get reliable & adequate information regarding right share issue?

- Know Slightly Know
- Don't Know

4. What do you think would be the impact of right share on stock price movement?
- Increase Decrease
 - Constant

5. What do you prefer the most from the given?
- Dividend Right share
 - Bonus share Anything

6. If the rights are issued in premium, will you still buy them?
- Yes No
 - Don't Know

7. Rights are not transferable in Nepalese financial market; in your opinion do investors have to face any difficulties because of this?
- Yes No

8. In your opinion who are the beneficiaries of right offering?
- Shareholders Shareholders & issuing companies
 - Shareholders, issuing companies & security brokers

9. Any experience about right offering you want to share with us?
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