

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

An issue of rights to a company's existing shareholders that entitles them to buy additional shares directly from the company in proportion to their existing holdings, within a fixed time period. In a rights offering, the subscription price at which each share may be purchased is generally at a discount to the current market price. Rights are often transferable, allowing the holder to sell them on the open market. New stock (share) issue offered to existing stockholders in proportion to their current stock/shareholding, for a specified period and at a specified usually discounted price. Its objective is to afford them the opportunity to maintain their percentage of ownership of the firm. See also scrip issue also called right offering. Financial market is the most important factor that influences the financial activities of the companies whose share are traded in the financial market. So, financial markets are mechanisms for channeling saving for investment in real assets. The role of financial markets and financial institutions lie in moving funds from the saving sector to the investment sectors. Financial institutions channel the flow of funds in the economy. Commercial banks, insurance companies, finance companies, and other financial institution like Employment Provident Fund Corporation and Citizen Investment Trust work as intermediaries in the financial market.

Fund is the lifeblood of every firm. Therefore formations and operations can't be imagined without it. Every firm has to be financed from the day of beginning to the day to day operations. Every firm constantly faces the financial problems from its very inception. A growing firm, thriving day by day, always remains in the destitute of funds either for expansion or diversification of business or to sustain in the competitive area. In order to cope with various financial situations, firm usually collects funds by issuing common stock to general people/investors or right offering to existing shareholders or preference share and various types of debentures as demanded by their target capital structure. Common stock/ordinary share, preference

share and debentures are the three important securities used by the firms to raise funds to finance their activities. This paper mainly focuses on the study of rights offering to the existing shareholders, (Alexander et al 2001).

Nepalese capital market is in an early stage of development. There are various inconsistencies and hindrances exist on the way to run the market smoothly. The Nepalese capital market was established as Security Market Center (SMC) in 1976. In 1984, the SMC was renamed as Security Exchange Center (SEC). After converting SEC into Nepal Stock Exchange (NEPSE) in 1993, it brought new atmosphere in Nepalese capital market. NEPSE is non-profit making organization. It is one and only secondary market for Nepalese corporate securities, operating under Security Exchange Act 1983. NEPSE opened its trading floor on 13 January 1994 and started to calculate the NEPSE Index since 12 February 1994. NEPSE plays vital role for developing the efficient capital market. Managing public issue is one of the important role of NEPSE (Bhattarai, 2007).

When a company is formed, it obviously must be financed. Often the seed money comes from the 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 situation equity infusions are necessary (Van Horne, 2002).

From above quotation, 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 fund. These sources are called financial instruments such as preferred stock, bond, debenture, rights share, derivatives etc. Among these alternatives this study is mainly focused on the impact of right offering in share price movement and its practice in Nepal.

Although Nepalese security market is practicing the rights offering for a long time period but its every essence is not seemed to practice here. Only 102 cases of rights offered by 72 companies, out of total listed companies ([www.sebon.gov.np](http://www.sebon.gov.np)). This study has been done to fulfill some specific objectives. Main objectives of the study is to examine the announcement of rights issue and to analyze the rights issue practice in Nepal. Finding out of the study. Till the date many studies have been done related to

the impact on market mo market price by various such as EPS, DPS, and singling effects. But very few studies are directly concerned with rights issue in Nepal still it is really tried hard to make full effort to collect the related studies for review.

Nepal Stock Exchange Limited (NEPSE) is the only one organized stock market in Nepal facilitating the trading of corporate securities mainly common stock, which opened its trading floor in 1994. Prior to the establishment of NEPSE, secondary market was operated over the counter facility managed by Security Exchange Center (SEC). The Nepalese security market is growing at a slow rate as it has to overcome various obstacles that it has to face due to lack of proper development of market. In the field of securities market, Nepal Rastra Bank (NRB) and Nepal Industrial Development Corporation (NIDC) had made a joint effort to establish Security Market Center (SMC) in 1976 for the development of securities market. The main objective behind the establishment of this center was to mobilize public saving for ensuring public ownership in the shares of public limited companies and to encourage people to participate in business activities. Thus SMC was responsible for undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other securities market services.

In order to promote the stock exchange business, SMC made a series of studies in the beginning both public limited companies and devising the ways and means of understanding the business of buying and selling in securities. In pragmatic reality, however, the center become nothing more than the satellite organization of NRB to undertake the over burdened functions of the later in selling government securities that comprise treasury bills, development bonds, etc. After a long period of seven years, doing nothing substantial in the frontiers of stock exchange business, the Security Market Center (SMC) passed a new Securities Exchange Act in 1983 to revitalize its role in the capacity of a merchant banker in view of acting as a legally acknowledged some stock exchange house. After 1980s onward, the center tried to create some securities exchange norms. But all it became not encouraging to develop the securities exchange business in view of lack of dashing leadership since the level of understanding about the pros and cons of stock exchange was relatively poor. The enactment of new Securities Exchange Act in 1983 became landmark in the Nepalese

history of stock exchange and this brought change in nomenclature to the extent that the title of the center changed to Securities Exchange Center (SEC) in 13 April, 1984.

Securities Exchange Center (SEC) was established with an objective of facilitating and promoting the growth of capital markets. As it was only one institution in the field of capital market, SEC was responsible to undertake the job of brokering, underwriting, managing public issue, market marking for government bonds and other financial services. Later in 1993 in the period of Eighth plan, Securities Exchange Act was amended for the achievement of the plan objectives of developing capital market. Only then after, the development process of Nepalese capital market accelerated with the liberalization policy of the government. In 1993, the government, under a program initiated to reform capital markets, converted the Securities Exchange Center (SEC) into Nepal Stock Exchange Ltd. (NEPSE). NEPSE, 99 percent owned by the government, NRB and NIDC, is a non-profit organization, operating under Securities Exchange Act 1983. From that point, NEPSE became responsible for the operation of the market for listed securities and the performance of some self-regulatory functions under the supervision of the newly created Securities Board of Nepal (SEBON). NEPSE opened its trading floor on 13<sup>th</sup> January, 1994 adopting “Open Out-Cry” system of trading through its licensed members. Nepal government, NRB, NIDC and licensed members are the shareholders of the NEPSE. The basic objective of NEPSE is to impart free marketability and liquidity to government and corporate securities by facilitating transactions in its trading floor through members and market intermediaries such as brokers, market makers, etc.

A huge number of securities of existing financial, manufacturing, banking, service and production entities are traded in NEPSE. Only the securities of existing companies are traded there whose securities are listed in NEPSE. In comparison to other stock market of the world, we have nothing countable achievements in the case of secondary market. However, what the Nepalese stock market did in almost two decades of its establishment is considered a watershed in the history of the securities market of Nepal. Nevertheless, some historic initiatives took place in recent years. NEPSE has adopted Automation System in its trading floor replacing “Open Out-cry” system and some of the stock brokers are also given permission for online trading from their own premises. It is also in the process of increasing the number of stock

brokers and it has already increased the daily trading hours to 3 hours in a day. Over – The –Counter (OTC) market has also started its operation where the securities of de-listed companies and non-listed companies can be traded. Similarly, the practice of circuit-breaker and trading halt are introduced in stock transactions to control the unexpected fluctuations of stock prices. The number of listed companies in NEPSE reached 176 at the end of fiscal year 2010/11, ([www.nepalstock.com](http://www.nepalstock.com)).

## **1.2 Brief Introduction of Sample Banks**

- **Profile of Siddhartha Bank Limited**

Siddhartha bank Limited (SBL), established in 2002 and promoted by prominent personalities of the Nepal, today stands as one of the consistently growing banks in Nepal. While the promoters come from a wide range of sectors, they possess immense business acumen and share their valuable experiences towards the betterment of the bank. Within a short span of time, Siddhartha Bank has been able come up with a wide range of products and services that best suits. Siddhartha Bank has been posing growth in its portfolio size and profitability consistently since the beginning of its operations. The management of the bank has been thoroughly professional. The bank's products and services cover the whole range of banking requirements of our customers, from retail banking, SME banking to corporate banking. The Bank since its inception has been providing IT based solutions like internet banking, SMS banking and globally accepted electronic VISA debit cards.

In the review period, capital management of the Bank has been quite less than the given target of NRB. The core and supplementary capital of the Bank at the end of F/Y 2011/12 were Rs. 1.61 billion. Acting as a conduit to the economic activities of the country and to cater to the needs of customers, the Bank has given continuity to expanding branches across the country. In F/Y 2012/13, the Bank had 43 total number of branches. The Bank has also added more Automated Teller Machine (ATMs) in the review period. By the end of F/Y 2012/13, the Bank has a total of 50 ATMs, (Source: [sbl.com.np](http://sbl.com.np)).

- **Kumari Bank Limited**

Kumari Bank Limited is a well-established commercial bank. Its promoters represent a group of highly reputed Nepalese. Managed by experienced and dynamic professionals, Kumari Bank's competitive banking services have become a hall-mark amongst its ever increasing customer base.

In the review period, capital management of the Bank has been quite satisfactory. The core and supplementary capital of the Bank at the end of F/Y 2011/12 were Rs. 2.20 billion and Rs. 25.15 million, taking the total capital to Rs. 2.45 billion. The Bank has been able to maintain Capital Adequacy Ratio at 13.76% at the yearend against the statutory requirement of 10% by the Central Bank (Nepal Rastra Bank).

The Bank continues to provide innovative and modern banking products and services leveraged by the latest available technological know-how to enable our valued customers to have the competitive edge. The bank's products and services cover the whole range of banking requirements of our customers, from retail banking, SME banking to corporate banking. The Bank since its inception has been providing IT based solutions like internet banking, SMS banking and globally accepted electronic VISA debit cards.

Acting as a conduit to the economic activities of the country and to cater to the needs of customers, the Bank has given continuity to expanding branches across the country. In F/Y 2012/13, the Bank had 28 total numbers of branches. The Bank has also added more Automated Teller Machine (ATMs) in the review period. By the end of F/Y 2012/13, the Bank has a total of 33 ATMs, (Source: kbl.com.np).

- **Laxmi Bank Limited**

Laxmi bank was incorporated in April 2002 as 16<sup>th</sup> commercial banks in Nepal. In 2004 laxmi bank merged with HISEF finance limited, a first generation financial company which was the first merger in the Nepali corporate history. Laxmi bank is a category 'A' financial institution and re-registered in 2006 under the banks and financial institution act of Nepal. The banks share 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 to 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. The Bank has also added more Automated Teller Machine (ATMs) in the review period. By the end of F/Y 2012/13, the Bank has a total of 50 ATMs, and 39 Branch. (Source: sbl.com.np).

### **1.3 Statement of the Problem**

The investment practice of Nepalese investors has remained the same. They still believe in the mouth publicity and friends’ opinion while making an investment. They do not try to seek information about the organization on whose stock they are going to make investment. Due to the lack of information and poor knowledge, individual investors are manipulated by market intermediaries in such extent, that investing in stock market has become a tough job. Even everyone realizes that investors are the main sources of funds for the company, despite this fact, investors are being neglected. Furthermore, small investors have no value and position in Nepalese stock market.

Rights offering is a way of raising fund. An existing shareholder is entitled to have a proportion number of new shares at pre stated price, which is somewhat lower than the market price of share. 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.

In Nepal, the rights issue is increasing trend but the companies of all sector does not issue the rights. Among various sector, Finance companies are ahead in the rights issue practice. The process of issuing the rights is lengthy and complicated in Nepal. To issue the right share, the company should take permission from SEBON and also should register their shares. Here are underlined some specific research problems which are desired to research.

- What will happen to the share price after announcement of the rights share?
- What are the prospects of issuing the rights share in Nepalese capital market?
- What are the problems to issue the rights share in Nepal?

#### **1.4 Objectives of the Study**

The study focuses on the impact rights offering announcement and the share price movement of sample organization. The study covers two aspects of rights issue: i) the characteristics features of rights offering by the listed companies especially commercial banks. ii) the share price movement associated with the rights offering. The specific objective of this study will be:

- To examine the movement in stock price of rights share in commercial banks.
- To identify the procedure of rights issue in the context of Nepal.
- To analyze practice, problems and prospects of rights issue in Nepal.

#### **1.5 Limitations of the Study**

This study fulfils the partial requirement of the M.B.S. Normally in each study, there is certain limitation. The following limitation will be found in this research:

- This study has analyzed and evaluated the data for the last 10 years ( i.e. 2003/04 to 2012/13).
- This study heavily focuses on the rights offering and current legal aspects associated there in.
- This study assumes that the related published and unpublished documents, journals, articles and other previous studies are realistic.

- This study based on secondary as well as primary data.
- Out of total rights issuing companies only one sector i.e. commercial banks is considered from which Three banks are taken as sample for the study.
- The main causes for these limitations are due to technical and time constraint.

## **1.6 Focus of the Study**

This study focus the security market of Nepal basically share 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. Now a days, people are attracted to invest in security for the purpose of getting greater return, by considering this, company try to provide higher return and try to make value maximizations of shareholders. Right share has become new concept to attract the investors as well as to maintain goodwill.

## **1.7 Significant of the Study**

This research will be significant for the following way:

- In Nepal there is still lack of study about rights share issues. Therefore, this study is expected to helpful for the general investor and the organizations that directly or indirectly related in rights share issues.
- This study will be beneficial to the potential investors who want to invest in security by providing them with the needed information and it will provide equally beneficial to the existing shareholders.
- This study may assist to formulate the policy. From this research, policy makers will get the knowledge of practical existing rules and regulation.
- This research provides some information about the rights share as well as provides some guideline for the new investor.

## 1.8 Organization of the Study

This study has been organized 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 one** contains the introductory matters, which describes the general background, statement of the problem, objectives of the study, limitation of the study, and significance of the study.

**Chapter two** contains brief review of literature, which has been organized into two sections. Section one contains conceptual framework of rights offering and section two contains the review of related studies.

**Chapter three** contains research methodology employed in the study. It includes the introduction, research design, nature and sources of data, data analysis tools, sampling procedure and definition of some key terms.

**Chapter four** contains presentation and analysis of data. This is the main and key chapter of research study. In this chapter sources of data are primary and secondary, which are presented in appropriate form. Analysis and interpretation of data have been performed thereafter. From this analysis and interpretation major findings have been deduced.

**Chapter five** contains summary, conclusion and recommendation of the study have been presented in chapter five.

At the end of the study bibliography and appendices are presented.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

Review of literature means taking knowledge from different sources. In this chapter the researcher has reviewed various published and unpublished materials. The objective of this chapter is to present basic concept on right share issue practice of the commercial banks and various renowned writers through different books, journals and research papers. Various independent studies, unpublished previous thesis, article, journals are reviewed, in this chapter. Reviewing these all provides us background to research work, guidelines to deal with prospective below consecutively. Under this topic the following subject matter are reviewed.

- Conceptual Framework
- Review of Journal & Articles
- Review of Previous Thesis

#### **2.1 Conceptual Framework**

The easy way of raising capital is issue of common stock. Right is related to the primary issue or initial financing to raise the equity fund. Since there are various ways of financing to a firm but when a new company is formed, the ways are limited. So, the easy and fast way of generating funds for new company is to issue the ordinary shares. This financing is called initial financing. Capital market of Nepal has neither a long history nor is very complex. The history of Nepalese capital market dates back to the era of Rana Prime Minister Juddha Samsher. Though the history of capital market dates back to Rana dynasty, it is not still properly developed. The industrial revolution took place in Nepal after the establishment of Biratnagar Jute Mill in 1936 A.D., as the first modern industry in the country. After that, various mills of rice, cotton, sugar and other were established to mobilize the capital for the industrial development. In 1937, Nepal Bank Limited as a commercial bank was established for promoting banking and industrial sector. In the same year, the first industrial act was promulgated which was a favorable step in the history of Nepalese capital market. The history of securities market began with the flotation of shares by Biratnagar Jute

Mill, incorporate under Company Act 1936 and Nepal Bank Limited, incorporated under Nepal Bank Act 1937. Introduction of Company Act in 1964 and the first issuance of government bonds in the same year were also other significant developments relating to capital markets. Only few companies had issued their shares to the public before operation of company act.

Government was the sole issuing authority when there was absence of developed security market. However, the formal institutionalization began only after the establishment of Security Market Center (SMC) in 1976 under the company act as a joint effort of Nepal Rastra Bank (NRB) and Nepal Industrial Development Corporation (NIDC). This center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into the security exchange, it was the only capital market institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds, and other financial services. However, securities trading were insignificant because of absence of private brokers, dealers and investment banks or securities firms.

The Securities Exchange Act was promulgated in 1983 and provision of listing the securities was included in the act. With the promulgation of Securities Exchange Act, SMC was then converted into Securities Exchange Center (SEC) in 13 April, 1984. SEC was established with an objective of facilitating and promoting the growth of capital market. Later, Securities Exchange Act was amended in 1993 in the period of eighth plan for the achievement of the plan objectives of developing capital market. The development process accelerated with the liberalization policy of the government during 1990s. During this period, major initiatives were taken for the development of the securities market, the most important one being establishment of Securities Board of Nepal (SEBON) in 1993 as an apex regulator of securities market. With the establishment of SEBON, Securities Exchange Center (SEC) was converted into Nepal Stock Exchange Ltd. (NEPSE) which is a non-profit organization, operating under Securities Exchange Act, 1983. From that point, NEPSE became responsible for the operation of the market for listed securities and the performance of some self-regulatory functions.

Recently, many initiatives were taken for the development of securities market. NEPSE had adopted Automation System in trading floor replacing “Open Out-Cry” system, a system where transactions of securities were conducted on the open auction principle on the trading floor. Similarly, NEPSE granted permission to some brokers for online trading from their premises also. The process of providing license to 27 new stock brokers is also in the pipe-line. Trading hours are also increased to 3 hours from 2 hours in a day and the rate of brokerage commission was also reduced to encourage the investors to participate actively in securities market. Similarly, the practice of circuit-breaker and trading halt to control the undue ups and downs of security prices, opening of trading floor for promoters’ share, etc. are some of the major initiatives taken to develop the security market. As a result one million people are engaged actively in Nepal’s share market. Due to increase in the number of daily newspapers and their coverage of share market news, share transactions have gained public attention. Television broadcasting of share prices, talk programs, interviews and FM radio programs on stock market have immensely popularized this sector and the general people have noticed the boom effects of share market.

### **2.1.1 Introduction of the Rights Issue**

We can describe the rights i.e. preemptive right is the right to do something before others. It is also a right of stockholders. In this right the existing stockholders have right to purchase only additional shared issued by the company before they are offered to the public. If the preemptive right is contained in firms charter, then the firm must offer any new common stock to existing shareholders. If the charter does not proscribe a preemptive right the firm has a choice of making the sale of the existing stockholders the stock issue is called a right offering.

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.

If the new common stocks are issued giving the right to purchase first by the existing shareholders then it is called right offering. Each stockholder is issued an option to buy a certain number of new shares and the terms of the option are contained on a piece of paper called a right. Each stockholder receives one right for each share of stock owned. So, rights issue is a privilege given to the existing shareholders that helps them to keep their control position proportionately equal and the issuing price will also be lesser than the market price. This lower price would help to maximize the capital gain of the shareholders. Rights are negotiable instruments. They have an expiration date. One of the advantages of rights offering is the minimization of flotation cost. The procedure of rights offering is similar to the non-right issue.

Theoretically right offering affects the share price because it has some value. They have value because generally they are offered at a subscription price somewhat lower than the market price of share. In the secondary market, investors prefer to buy the shares that have attached the preemptive right. Due to speculation share price may go up and down.

Rights issue practice in Nepal has no long history as compared to other developing countries. While looking for issue approval from the SEBO of Nepal, researchers can easily notice an increasing trend of issuing rights shares. During the two decades of period, SEBON has granted right issue approval amounting Rs. 9092.90 million. This amount comes to be the second largest amount among various issues approved by SEBO ([www.sebon.gov.np](http://www.sebon.gov.np)). Right issue occupied 50.56% out of total issue approval out of total listed companies. In Nepal, Company Act 1997 has provisioned about the preemptive right of shareholder in section 42 (4). It stated that if the right is contained in a firm's charter then the firm must offer common stock to existing shareholders. If not, the company has a choice of rights offering or public offering. But the law in India required that new common stock must be issued first to the existing shareholders on a prorata basis. In India, rights are negotiable but in Nepal there has not been any provision to make the rights negotiable.

This study is mainly focused on the impact of rights issue on share price movement in the context of Nepalese commercial banks and the practice of rights issue in Nepal as well.

### **2.1.2 Initial Public Offering**

When a company wants to raise funds from the public, it issues securities. This announcement for the public to raise fund is called initial public offering. Public issue of equity means, rising of share capital directly from the public. Issue of equity obviously creates a value of a company and no doubt it is the major sources of capital. But the company has to incur the cost for the public issue which involves both direct and indirect costs. Direct cost involves legal auditing, administrative cost and underwriting commission. “Thus, public offering involves raising of funds for governments or corporations from the public through the only issuance of various securities in the primary market and is often the only major source of obtaining large sum fixed rate, long term funds” (SEBON , 2004:7).

The empirical relationship between measures of stock market development and long run growth rates. After controlling for the initial level of GDP per capital initial investment in human capital, political stability the level of banking development and measures of monetary, fiscal and exchange rate policy, the predetermined component of stock market development remains positively and significantly with long run economic growth (Levine and Zeros, 1998).

If a private firm is successful usually the owners will want to take the company with a sale of stock to outsiders. Often this is prompted by the venture capitalists, who wish to realize a cash return on their investment. In other situations the founders simply want to establish a value and liquidity for their stock. Whatever the motivation, a decision is reached to become a public corporation, while there are advantages to be a public corporation and there are disadvantages as well. The public company in our context (and else where) must conform to SEC requirements in having a board of directors, disclosing sensitive, information having to employ certain accounting conventions and incurring expenses as a public company not incurred by a private one. In addition there is an investor fixation on quarterly earnings. At times this is a hindrance to management in trying to take long term decisions” (Van Horne, 1999:501).

For the establishment of commercial banks large amount of money is required and public offering helps in raising such companies need additional funds then they go for right share issue.

### **2.1.3 Rights Issue**

A rights issue involves selling of ordinary shares to the existing shareholders of the company. When a company issues shares to the existing shareholders the stock flotation is called a rights offering. Each stockholder receives one right for each share of stock owned. If the preemptive right is contained in a firm's charter then the firms must offer any new common stock to its existing shareholders.

“The law in India requires that the new ordinary shares must be first issued to the existing shareholders on a pro rata basis. This preemptive right can be forfeited by shareholders through a special resolution obviously this will dilute their ownership” (Pandey, 1999).

Existing shareholder of company has legal right to buy the shares if new issue is made. If the charter does not contain the preemptive right, the firm has a choice of making the sale to its existing stockholders or to an entirely new set of investors. In Nepalese context, Company Act 2063 clearly mentions that if a company wants to increase its capital and issues additional shares then existing shareholders will have first rights (privilege) to buy such shares.

### **2.1.4 Limitation of Right Offering**

As discussed above, the main significance of rights issue is that it has favorable psychological value on shareholders. It indicates the company's growth to shareholders. Therefore, they welcome rights issue, but it has also some limitations. Without proper profit planning, an issue of right share might invite overcapitalization. Some of the limitations of rights issue can be stated as follows:

- The Shareholders, who fail to exercise their rights or fail to sell their rights, lose in terms of decline in their wealth.

- The company can't force its existing shareholders to exercise their rights to subscribe more shares of the company as it is only an option granted to them. Most right issues are undersubscribed because there is no legal obligation on the part of shareholders to subscribe.
- Equally there is no reason for any outsiders who 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.
- In the case of sick companies, the issue is more likely to be unsuccessful because existing shareholders hesitate to subscribe their rights.
- Issue of rights share lowers market value of existing shares too. That may possess negative impact on particular share on capital market.
- It deprives new investors 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 earning per share (EPS) if the profit does not increase immediately in proportion to the increase in the number of ordinary shares.
- Yet another limitation is for those companies whose shareholding is concentrated in the hands of financial institutions because of the conversion of loan into equity. They would prefer public issue rather than the rights issue.

### **2.1.5 Procedural Aspects of Right Offering**

A right issue involves selling of ordinary shares to the existing shareholders of the company. The law in India is that the new ordinary shares must be first issued to the existing shareholders on a pro-rata basis. This preemptive right can be forfeited by shareholders through a special resolution. A company can make rights offering to its shareholders after meeting the requirements specified by the Securities and Exchange Board of India (SEBI). Those shareholders who renounce their rights are not entitled for additional shares. Shares becoming available on account of non-exercise of rights are allotted to shareholders who have applied for additional shares on pro-rata basis.

Any balance of shares left after issuing the additional shares can be sold in the open market.

When a company makes a decision of right issue, the board of directors and the management should declare right offering. The meeting of board of directors must also set a date of record or holder of record date which is the last date on which the recipient of a right must be the legal owner indicated in the company's stock ledger. In other words, 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. Due to the time needed to make book-keeping entries when stocks are traded, stock usually begins selling ex-rights without the rights being attached to the stock four business days prior to the holder of record date, which is often called ex-rights date. Investors who purchase share before ex-rights date will get rights being attached to the stock and they must register their name in the record of the company till the holder of record date in order to receive the right shares. Investors who purchase shares on and after ex-rights date will not receive rights as the stocks begin selling without the rights attached to them. The issuing company sends rights to holders of record owner of the company's share on the date of record, who are free to exercise their rights, sell them or let them expire. Rights are transferable and many are traded actively enough to be listed in the various securities exchange. They are exercisable for specified period of time, generally not more than few months at price called the subscription price. All the investors and shareholders whose names are in company's register up to holders of record date are eligible to purchase additional shares and they can exercise their rights during the subscription period.

### **2.1.6 Underwriting**

Rights issues may be underwritten. The role of the underwriter is to guarantee that the funds sought by the company will be raised. The agreement between the underwriter and the company is set out in a formal underwriting agreement. Typical terms of an underwriting require the underwriter to subscribe for any shares offered but not taken up by shareholders. The underwriting agreement will normally enable the underwriter to terminate its obligations in defined circumstances. A sub-underwriter in turn sub-underwrites some or all of the obligations of the main underwriter; the underwriter

passes its risk to the sub-underwriter by requiring the sub-underwriter to subscribe for or purchase a portion of the shares for which the underwriter is obliged to subscribe in the event of a shortfall. Underwriters and sub-underwriters may be financial institutions, stockbrokers, major shareholders of the company or other related or unrelated parties.

### **2.1.7 Valuation of Rights**

Rights is a negotiable instrument, so, it has a certain value for sale. Theoretically, value of the rights is determined using different equations and the value depends upon the market price of share, subscription price and number of rights required to purchase a new share. This value is also known as formula value. The real value is determined in the market place through the interaction of demand and supply. The value we obtain using different equations is the minimum price to seller and maximum price to the buyer. When companies announce rights offering the shareholders and investors generally rush to buy the stocks of that company. Ultimately, the rights get certain value. When the stock is selling rights on, the theoretical value of rights can be calculated using following formula” (Pandey, 1999: 1006).

The price of the share before the ex- rights date is called as rights on or cum rights while the price after this date is referred to as the ex-rights price.

### **Market Price of Share**

Value of one rights = (Rights on price of the stock - subscription price) / (Number of rights required to purchase one share + 1).

$$V_r = \frac{P_o - P_s}{N+1}$$

Where,

P<sub>o</sub> = rights on price of the stock

P<sub>s</sub> = subscription price

N = number of rights required to purchase a new share of stock

V<sub>r</sub> = value of one right or formula value or theoretical value of one right.

### **Ex-rights value of rights**

Value of one rights = (Ex-rights price of the stock - Subscription price) / Number of rights required to purchase a new share of stock.

$$V_r = \frac{P_e - P_s}{N}$$

Where,

$P_e$  = ex-right price of the stock

$P_s$  = subscription price

$N$  = number of rights required to purchase a new share of stock

$V_r$  = value of one right or formula value or theoretical value of one right.

### **2.1.8 Right Offering and 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.

1. **Dividend:** Shareholders who invest their money in common stock always seeks return in the form of dividend. If the company pays higher rate of dividend, then ultimately the share price goes higher and vice versa. For example, Standard Chartered Bank Ltd. provides 100% dividend. Thus, price of Standard Chartered stock is higher than other.
2. **Cost of Capital:** Generally cost of capital refers to the cost of fund raised. If cost of capital is higher, automatically return will be lower and the price of share goes down. Company's earnings: Highly earning organizations pay higher dividend. Thus, the price of the share goes upward and vice versa.
3. **Signaling Effect:** Another major share price determinant is signaling effect. Signaling effect or signals means the Dividend announcements, Stock dividend, Rights offering etc. Due to these rumors investors, shareholders buy and sell the stock which ultimately affects the share price.

4. **Economic Condition:** Economic condition of the country is also indirectly responsible for the change in share price. If the economy is growing, obviously price of share also increases. In the phase of recession or depression, it goes downwards.

Above factors are the major determinants of share price. Market price of share is the function of dividend, cost of capital, company's earnings, signaling effect and economic condition of the country. Out of them, the researcher has taken right offering and its effect on share price in this study.

## **2.2. Procedure for Issue of Rights in Nepal**

The mechanism and the sequence of events in the case of rights issues somewhat complicated and it will therefore be useful to outline briefly the actual procedures by which a rights is typically made. Fooling procedure is generally adopted by Nepalese company to issue rights share.

- The BOD should consider about that the determination of the quantum of further capital requirement and the proportions is which the rights issue might be offered to existing shareholders.
- AGM should pass the proposal of BOD by its majority.
- Company should notify NRB, NEPSE, Office of the Company Register and SEBON sufficiently with prospectus in advance of the date of board meeting at which the rights issue is likely to be considered and should get permission from them.
- Make announcement with prospectus which gives a general indication of the reasons which have made the issue desirable, the purpose for which the new money is to be used.
- Letter of provisional allotment of rights offering to the shareholders about the terms of the rights offered, the number of new shares allocated to each given number of old shares, the price at which the issue is to be made and the conditions letter will be sent which the issue is to be made and the conditions letter will be sent after the date of announcement.

- After the receipt of the letter of provisional allotment, the allotment must be made for those shares which are renouncing.
- Certificates are distributed to the shareholders who participated in the rights offering announcement. Shareholders who have accepted and fully paid up their allotment can renounce the Actual certificate in favor of a third party. Because of now transferable instrument, such practices are not seen in Nepalese context.

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.

## **2.3 Rules and Regulation Regarding Rights issue in Nepal**

Company Act 2063 is the main Act that regulates the establishment and issue of securities of any company. But in case of rights share issue, company is silent and do not mention about the procedure and method. Some of the provisions made by SEBON say regarding the rights issue. The firm that has already gone to public can issue rights share to acquire additional capital. The procedure regarding rights share issue is similar to common stock issue. Besides it, the firm that wants to issue rights shares should have enlisted in stock exchange, after full payment of the face value of securities issued earlier.

## 2.4 Review of Related Studies

### 2.4.1 Review of Journal/Articles

Our small investor need to be educated on the working of the stock exchange. In this task the role of Nepal stock Exchange and the government and probably also that of the centers, which manage shares issues of companies, becomes evidence in addition stock exchange watchers feel that the government should revise its stock market rules to take account of the various aspects of stock market including loopholes in order to prevent the share market profilers from fleecing public. According to the Nepalese stock Market an introduction. These days the interest of the investors is gradually fading away. Investors have been discouraged with the shares market running at a snails pace. There is no room for satisfaction for investors. Although the country has adopted the liberal market policies to revise the economy, it has not been applied into concrete actions in Nepalese context. Brokers have been reporting since long about Nepal's stock market positions, however no action has been taken from the government. The government has not been able to regulate the companies, and the corporate culture is also not being developed among companies.

There are many loopholes in our stock exchange Act. Investors feel insecure here. A few years back there was a company called Nimrod Pharmaceutical Company that floated in shares, but where are they now? Similarly it has been more than a year that Bansbari Leather has allocated its shares, but why didn't the company list its shares in the market? It has been three years that Gorakhali Rubber Udhdyog has not called for its AGM. Government remained silent in all these cases. This is why the general public also well as the institutional buyers is not feeling secure investing in stock market.

**Rogers (2008)** entitled "*share price effect by issuing Right*" has plunged today after the company warned that its year-end profits would fall below market expectations. The children's property rights owner share price has fallen over 25 percent 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 stain 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 company's share price has dropped by over 75 percent 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 Me. Ia. 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 net debt stands at £1.77m, with interest charges on the borrowing 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".

**White and Lusztig (2009)** in the articles "*price effects of rights offerings*" the subscription price of rights issue is irrelevant in terms of the impact on the shareholders wealth. If can be fixed at any level below the current market price what the shareholders gain in terms of the value of rights, he will lose in terms of declination in the share price. The primary objective, in setting the subscription price low is that after the rights offering the market price should not fall below it.

**Silwal (2011)** had done a research on "*Rights Share Issue and Its Impact on Stock Price*" In Nepalese Context" his study cover the characteristics of right offering and the price movement of stock associated with right offering. The main objective of his study to identify, analyze the right share and explore the problems of right share in Nepalese capital market.

The major outcomes of his study, Nepalese investors mostly prefer the Banking and Finance sectors share to invest rather than other sectors because of their better

performance and returns. Nepalese capital market is narrow in terms of capital market instruments. Only common stock, rights 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. The rights issue practice is mainly dominated by the bank and finance sectors. There are hardly few cases found of other sectors concerning the right issue.

**Bhattarai (2012)** conducted a study on “*Share Price Behavior in Nepal*”. The main objectives of the study were to test the random walk or weak form of efficient market hypothesis, to examine whether successive price changes are independent or dependent of each other, and to conduct the opinion survey of financial executives regarding various aspects of share price behavior in Nepal. From the study, the researcher concluded that both tests serial correlation and run-test analysis do not support terms of both tests, a few of price series support the random walk model. One important implication of the non random behavior of share prices in that the Nepalese stock market may not be termed as “weakly efficient” in pricing shares where market efficiency is reflected in security prices.

The researcher founds that the majority of the respondents felt “moderate”. In this respect when the responses of finance sector respondents, the majority of the respondents from each sector opined that the current trading price of shares in the market is moderate. The informal interview with financial executives in this respect indicated that the current trading price of shares in the market is low except for financial institutions. The researcher also concludes that Nepalese investors are not really indifferent towards making or non-making of information public.

**Chhetri, Himalayan Times (2013)** published an article on the “*Stock Investment Behavior in Nepal*”. The article stated that the problems at the NEPSE are two fold. The first is that it is basically an extension of the casino, with people speculating rather than investing wisely. The other is that the volume of stocks is too low. Globally, the development of stock markets has only worked well when guided by institutional investors rather than individuals. In Nepal we have individual investors, led by some rogue insiders, who have turned it into a punters den. The stock exchange has been related to a racecourse, with betting dependent on the alcohol content in one’s

blood rather than rational thinking by ones brain. It also states that the NRB should regulate the market and the financial sector as an ongoing exercise, not just a reaction to the latest problem. It is vital that the financial sector is seen to be stable if the country is to build credibility as a place to invest in. The business sector also needs to pull up its socks. Corporate governance should be a way of life if Nepali companies are to compete in the global area. Relying on insider trading or dodgy legislation will not work in the long run. Looking ahead, the stock exchange must provide the necessary avenues to assist in funding Nepals economic growth, but this must be based on sound international practices. The article provides following suggestions: Make trading paperless to reduce speculation, Give the regulators stronger ongoing powers, Give favorable tax breaks to mutual funds and institutional investors so that individuals go through them instead of trading directly in the market, Acknowledge that stock investment is a long-term game and not a short-term gamble, and accept that decent returns will only occur if the market is health. This will be helpful to understand dimension gradually and this will increase the rationality in investors decision and hence the market efficiency as well.

**Bashir (2013)** *“Impact of right issue on Shareholders Wealth: Case Study of Pakistani Listed Companies”* this paper has examined the impact of right issue news on shareholders wealth. By using event study methodology, this study tests where there is excessive abnormal return exists during event window of announcement. This research finds the evidence of existence of negligible positive abnormal returns of 0.42% on event date; however this increase in wealth is statistically insignificant. One reason might be that news about the right of companies was circulating in the market well before the official declaration by the company to stock exchange. By virtue of this investors and analysts had already adjusted this information in their valuation of security prices, so news of issuing new shares did not come as surprise to investors. Hence shareholders wealth did not change a lot during event window.

#### **2.4.2 Review of Previous Research Work**

Till the date, many studies have been done, related to the impact on market price by various variables such as; EPS, DPS and signaling effects. But out of them very few thesis directly consider the rights issue to study the impact on share price.

**Ghatri (2008)** has made the study on the topics of “*Impact of Rights offering Announcement on the Share Price Movement*”.

**The main objectives of his study were as follows.**

- To find out the significant changes in share price after announcement of the rights shares.
- To study the rights share practice in Nepal.
- To study the impact of rights offering in earning per share.
- To analyze the problem regarding under subscription of rights share.

**Research Tools**

- Mean
- Coefficient of Variation
- Covariance
- Correlation Coefficient

**The major findings of his study were as follows.**

- There was significant difference between the share price before and after the announcement of the rights share, except in the case of People Finance Ltd. Among 10 sample companies of his studies.
- Rights offering are comparatively new practice in Nepal. Market is not mature and company with track record is very low.
- Most companies are issuing rights shares to fulfill the capital requirements as per the NRB directives. Shareholders of Nepalese Security Market have lack of knowledge about the rights shares.
- The major causes of under subscription of rights share are lack of effectiveness in the flow of information, lack of awareness among the investors, poor financial performance of the issuing co., financial problem of shareholders and lack of the provision for rights transfer.
- After increasing the share capital through right shares, earning per share is increased by 0.59769 when 1 unit increment in share capital amount.

**Poudel (2009)** the main objective of his study is “*to examine the right share practice and its impact on share price movement of commercial banks in Nepal*”. His study covers two 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 these two objects,

**The following specific objectives were.**

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

**Research Tools**

- Mean
- Questionnaire

**Major finding of the study**

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

**Gautam (2010)** concluded a research on “*Equity Right Issue and the Efficiency of the Nepalese Stock Market*”.

**The objectives of this thesis were as follows.**

- To identify the existing practices of right issue in Nepal.
- To analyze whether Nepalese investors are well known about right issue.
- To test whether shares 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 share price.

**Research Tools**

- Coefficient of Variation
- Covariance
- Correlation Coefficient

**Major findings of the study were as follows.**

- Most of the investors buy share from both primary and secondary market.
- Most of the Nepalese investors invest in common stock mainly for dividend and capital gain.
- Most of 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 stock.
- Majority of the Nepalese investors making trading of shares daily.

**Neupane (2011)** concluded a research on “*Rights Share Practice in Nepal and its Impact on Share Price of Listed Companies*”.

**The objectives of this thesis were as follows.**

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

#### **Research Tools**

- Coefficient of Variation
- Covariance
- Correlation Coefficient
- Ratio Analysis

#### **Major finding of the study**

- There was significant difference between the share price of National finance ltd. Before and after the rights issue. It's stock price followed the theory of rights offering.
- Under subscription of rights share is common phenomena in Nepal.
- There is no easy and clear provision regarding the sales of under subscribed rights share in Nepal.
- Recent year's subscription of rights share is in increasing trend.
- There is not like uniformity in the impact of rights offering of share price.
- Another major case is dilution in shareholders wealth position is the holder's record date. In some sample companies, offering rights holders record date is prior to the announcement date.
- Market is going to mature and company with track record is low.

**Budhathoki (2012)** carried on a research on "*The Study of Dividend Policy of the Commercial Banks in Nepal*" on May 2006.

**The Main objectives of the study are as follows.**

- To highlight the dividend practices of Commercial Banks,

- To compare the dividend policy followed by different commercial banks chosen,
- To provide the sample banks with some fruitful suggestion that can be implemented easily and possible guideline to overcome various issues and gaps based on the findings of the analysis.

### **Research Tools**

- Questionnaire

### **The Major findings of the study are as follows.**

- The average earning per share (EPS) of the banks under study shows a positive result. But the coefficient of variation indicates that there is no consistency of EPS.
- The average dividend per share (DPS) shows that there is no regularity in dividend payment.
- The analysis of DPR shows that the Dividend Payout Ratio (DPR) of the banks is not stable.
- The average market price shows that there is quite high level of fluctuation.

**Bhattarai (2013)** carried out a research on "*A Study On Dividend Policy in Commercial Banks of Nepal*" which focuses on the objectives to identify the type of dividend policy that is being adopted and to find out whether the policy.

### **The Main objectives of the study are;**

- To examine the impact of dividend on share price.
- To identify the relationship between DPS and other financial indicators.
- To know if there is any uniformity among DPS, EPS and DPR sampled commercial Banks.

### **Research Tools**

- Mean
- Correlation Coefficient

**The Major findings of the study are as follows.**

- There is the largest fluctuation in EPS and DPS,
- The relationship between DPS and EPS is positive; however it is not significant. There may be various other factors beside EPS to affects MPS and the growth rate of dividend is inconsistent.
- It concluded that no sampled commercial banks have followed distinctly defined dividend policy.

**Bhattarai, (2014)**, conducted a research on “Determinants of Stock Price Behavior in Nepal” to find out the major determinants of Stock price fluctuation in Nepal.

**The main objectives of the study were:**

- The trend of volume of stock traded was in fluctuating manner.
- Dividend & earning played the important role to fluctuate the share price.
- Signaling factors played major while determining stock price.

**Research Tools**

- Coefficient of Variation
- Covariance
- Correlation Coefficient

**Major findings were**

- Used secondary as well as primary data.
- Statistical tools such as correlation analysis, regression analysis, coefficient of determinants, test static were used.
- To examine the trend of securities market and volume of stock traded on the secondary market,
- To analyze the investors view regarding the decision on stock investment.
- To analyze the behavior of stock price of secondary market in Nepal.
- To measure composition of sector and their market capitalization of listed companies on NEPSE.

**Paudel (2014)** has conducted research on “*Determinants of share price in Nepalese Financial Market*” the basic objective of the study are to examine whether MPS of listed companies, especially for selected companies under the study and to what extent the risk is involved in the investment of common stocks of those. In pursuance of the basic objectives,

**The following specific objectives were.**

- To examine and evaluate the relationship of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
- To identify whether stocks are equilibrium priced or not.

**Research tools**

- financial as well statistical tools like Correlation analysis, growth rate, percentage changes, hypothesis testing and present the data table in the different table figure, Pie charts and graphs.

**Major findings of the study were as follows;**

- No single financial indicators has main role to determine MPS of all companies undertaken for the study. The same financial indicator that has significant role in determining MPS for one company is not significant for another company.
- The degree of interrelationship of MPS with different financial indicators varies from one company to another company. There is no uniformity in the relationship of MPS with various financial indicators of the sampled companies.
- If considered on the basis of the average data for the past 5 years, MPS of 6 financial institutions has higher positive correlation with major financial indicators such as EPS, NWPS and DPS and such relationship is significant.
- The Nepalese stock markets are not efficient enough to determine MPS in accordance with respective financial performance. The market price of share in Nepal is not indicative of a company's financial performance in stock market.

- Value of share price is to be determined by the future financial indicators, unfortunately, the stock market does not run based on proper information about the company.

## **2.5 Research Gap**

According to the theory of rights offering, 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. Various studies have been done on the topic of share price and its determinants, but no one has given focus on rights share as an important factor which affects the market price of shares in share market significantly.

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. Three 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**

The above mentioned, objectives can be fulfilled by well-settled research methodology. The proper analysis of this study can be meaningful only if the right choice of research tools is made. Such selected tools should help to get meaningful conclusion. “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).

#### **3.1 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.

#### **3.2 Population and samples**

The population refers to the industries of the same nature and its services and product in general. In this study 30 populations of the commercial banks only 3 banks taken as a sample. Under the study constitutes the sample for the study is:

- Kumari Bank Limited
- Laxmi Bank Limited
- Siddhartha Bank Limited

### **3.3 Nature and Sources of Data**

This study is mostly based on secondary as well as Primary data are taken to some extent. So, qualitative as well as quantitative data are taken for the study. Which are as follows:

#### **a) Primary Data**

Primary data are collected to identify the problems and prospects of right share practice of commercial banks in Nepal. The sources for the primary data include the responses of the questionnaires, personal interviews with concerned person such as experts, brokers, investors, issue managers, issue companies etc.

#### **b) Secondary Data**

Secondary sources of data includes annual reports of SEBON, various publication of NEPSE, statistical book of Nepal, published and unpublished documents, previous studies, dissertation, articles and foreign related journals as well. Newspaper, magazine, books and other reports such as Kantipur, The Himalayan Times, Gorkhapatra, and New Business Age etc. are taken as useful sources of secondary data in this study. Some other important information has been collected

### **3.4 Data Collection Technique**

From various sources all the data relating to the study are collected. Not all the collected data are used, only necessary data for the study are taken into consideration. Following data collection techniques are used to collect the necessary data in the form of primary and secondary data.

### **a) Questionnaire Method**

To get information about the right share and its various aspects, questionnaire method has been used. Three types of questionnaire methods are used to collect the data i.e. opened, closed and mixed questionnaire methods. Yes/No question, multiple choice question and descriptive questions are designed to get the response. Due to various limitations only 30 questionnaires are dispatched to the individual investors, brokers, issue managers, corporate firms and related experts and out of this, 10 responses were obtained.

### **b) Interview Method**

Interview of some persons relating to the field of study are taken to make the study more reliable. Structured and unstructured interview has been used for the data collection. Formal and informal discussions with students, teachers and representatives of some companies make this study more reliable.

### **c) Historical Data Record Method**

It is the main source of the data for this study. Historical data are collected from various reports, prospectus of companies and newspaper. Previous data, which was used earlier by other party, are also useful for this study.

## **3.5 Method of Analysis**

Collected data from primary and secondary sources has been edited, classified and compiled according to research. Then the data are presented in appropriate forms of table, charts and figures. To analyze the data, financial as well as statistical tools are used. This study is mostly focused on share price movement before and after the rights share announcement. The share price not only moves up or down due to the rights offering, but also various market information affect share price. So, the researcher has used some assumption to remove the effect of information

### **3.5.1 Data Analysis Tools**

Brief explanations of data analysis tools used in this study are as follows.

## Use of t-test (Hypothesis Test)

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

**Null hypothesis ( $H_0$ );**  $\mu_1 = \mu_2$  i.e. there is a not significant difference between the share price before and after the announcement of rights offerings.

**Alternative Hypothesis ( $H_1$ );**  $\mu_1 \neq \mu_2$  i.e. there is a significant difference between the share price before and after announcement of rights offerings.

**Test statistic under  $H_0$ ;**

$$t = \frac{(\bar{X}_1 - \bar{X}_2)}{\sqrt{S^2 \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$\bar{X}_1$  = Sample mean value of Price Index of total equity capital before announcement

$\bar{X}_2$  = Sample mean value of Price Index of total equity capital after announcement

$n_1$  = No of  $X_1$  series

$n_2$  = No. of  $X_2$  series

$S^2$  =  $\frac{n_1 s_1^2 + n_2 s_2^2}{n_1 + n_2 - 2}$

$s_1^2$  = Variance of  $X_1$  series ( $\sigma_1$ )<sup>2</sup>

$s_2^2$  = Variance of  $X_2$  series ( $\sigma_2$ )<sup>2</sup>

**Level of significance:** Level of significance  $\alpha = 5\%$

**Critical Value:** Tabulated or critical value of t at  $\alpha$  % level of significance for  $(n_1 + n_2 - 2)$  degree of freedom obtain from t tables.

**Decision:** If calculated 't' is less then or equal to tabulated value of 't' it falls in the accept region and the null hypothesis is accepted and if calculated 't' is greater then tabulated 't' null hypothesis is rejected.

## **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. This study that consist of analysis and presentation of empirical data focus on how far the Nepalese companies are practicing the rights share which is the most important component of this study and also it present how it affects the share movement of these companies.

The researchers have already mentioned that this study is heavily based on secondary data. Secondary source include the annual reports of respective companies. Primary source include the response of questionnaires and personal discussion. To obtain the best result, the data have been analyzed according to the research methodology as mentioned in the third chapter.

#### **4.1 Secondary Data Analysis**

##### **4.1.1 Rights Share & its Impact on Share Price Movement**

In this part of the study the main focus is to analyze the price movement of selected sample companies with NEPSE index. To obtain the best outputs five different points of time are selected for observing the price movement assuming with the announcement date as the reference point. The given point shows the following price quotation.

- 90 days before the announcement date (I)
- 10 days before the announcement date (II)
- The day of announcement (III)
- 7 days after the announcement (IV)
- 180 days after the announcement (V)

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 data 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 point of time after eliminating the effect of the general market movement.

### Share Price Movement of Siddhartha Bank Limited

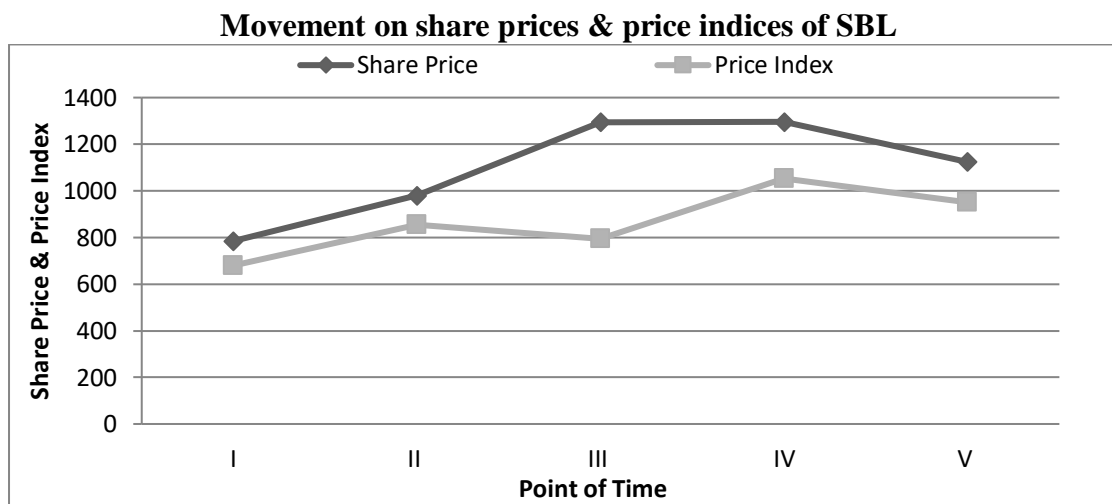
**Table: 4.1**

**Share Price Movement of Siddhartha Bank Limited (Par value Rs. 100)**

Selected Point of Time	(1) Share Price	(2) Price relatives	(3) Total Price Index of Equity Capital	(4) Price Index Converted to New Base	(5) Change From Base	(6) Adjusted Price Relatives	% (7) Changes From Base
I	785	100	679.99	100	-	100	-
II	980	124.84	855.56	125.82	25.82	99.22	-0.78
III	1295	164.97	794.41	143.30	43.30	115.12	15.12
IV	1296	165.10	1052.92	154.84	54.84	106.63	6.63
V	1125	143.31	951.62	139.95	39.95	102.40	2.40

Source: Annual Report of SEBON from 2003/04 to 2012/13, Appendix I (A)

**Figure: 4.1**



Source: Table no 4.1

In case of Siddhartha Bank Ltd. the share price is Rs. 785, three months before the announcement date. It increases up to Rs. 980 before ten days before announcement date and increase to Rs. 1295 at the day of the announcement. The share price of Siddhartha Bank Ltd. increased to Rs. 1296 after the seven days of announcement the decrease to Rs. 1125 after six months of announcement date.

By analyzing the share movement of Siddhartha Bank Ltd. and the trend of general market movement, change in the market movement, at the time market

index had increased from 679.41 & 1052.92 in among III & IV points at time and decrease to 951.62 in V points of time. Column 5 shows the percentage change in the adjusted price indices from the base index. It shows that the price index was increased by 25.82% ten days before announcement. Similarly, it increased by 43.30% from point II to III. It was increased by 54.84% & 39.95% in points of time IV & V.

Similarly, column 6 & 7 shows the adjusted share price and its percentage increase or decrease from the base date respectively. In the column 7, adjusted share is decreased by 0.78% ten days before announcement date. The adjusted share price is increased by 15.12%, 6.63% and 2.40% at the points of time III, IV and V. According the theory of rights offering the price of share will increase after the announcement and decrease after the allotment of share to the extent of value of rights.

Market Price of Share = Rs. 1295

Value of One Right = Rs. 199.17

Ex-right Price of Share = Rs. 1095.83

The value of the share the allotment should be around Rs. 1095.83 but the share of Siddhartha Bank Ltd. was Rs. 1125 after six months of right share announcement. Thus the share price of Siddhartha Bank Ltd. was overpriced.

## Share Price Movement of Laxmi Bank Limited

**Table: 4.2**

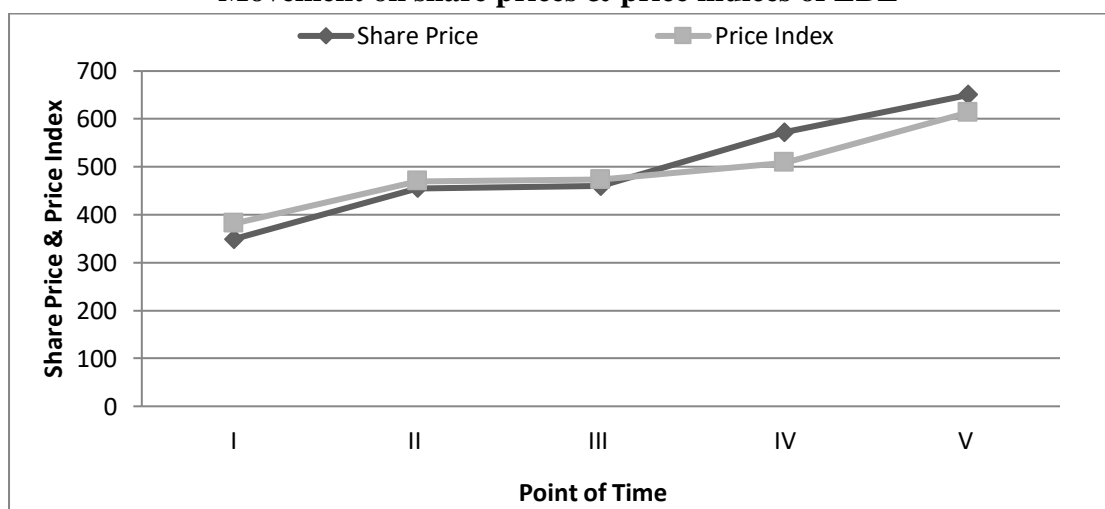
**Share Price Movement of Laxmi Bank Limited (Par value Rs. 100)**

Selected Point of Time	(1) Share Price	(2) Price relatives	(3) Total Price Index of Equity Capital	(4) Price Index Converted to New Base	(5) Change From Base	(6) Adjusted Price Relatives	% (7) Changes From Base
I	349	100	381.37	100	-	100	-
II	455	130.87	469.51	123.11	23.11	105.89	5.89
III	460	131.81	473.31	124.11	24.11	106.21	6.21
IV	572	163.89	508.58	133.35	33.35	122.90	22.90
V	650	186.24	613.47	160.92	60.92	115.73	15.73

Source: Annual Report of SEBON from 2003/04 to 2012/13, Appendix I (B)

**Figure: 4.2**

**Movement on share prices & price indices of LBL**



Source: Table no 4.2

Table 4.2 shows that the share price of Laxmi Bank Ltd increased from Rs 349 to Rs 455 from base date to the 10 days before the announcement date. There was increasing trend in the general market movement. When Laxmi Bank Ltd. announced the rights offering to its existing shareholders three months before the announcement date price of the Laxmi Bank Ltd. was Rs 349 it increase up to Rs 455, 10 days before the announcement date and increase to Rs 460 at the day of the announcement.

The share price of Laxmi Bank Ltd. Increased to Rs 572 after the seven days of announcement and increase to Rs 650 after six months of announcement date. Total price index of equity share was 381.37 three months before the announcement date. It came to 469.51 ten days before announcement date and to 473.37 three months before the announcement date. It came to 469.51 ten days before announcement date it came to 473.31 in the announcement date. The total price index of share went up to 508.58 seven days after announcement date and 613.31 in the announcement date and 613.47 six months after the announcement date. Column 4 in above table shows the price index converted to new base and column 5 shows the percentage decrease in the adjusted price indices from the base index. This column 5 shows that price index increased by 23.11 ten days before announcement date and by 24.11 in the day of announcement. After seven days of announcement date. It increase by 33.35 and by 60.92% after six months of the announcement date.

Similarly, column 6 and 7 shows the adjusted share price and its percentage increase or decrease from the base date respectively. In the column 7, adjusted share price is increased by 5.89% ten days before announcement date and by 6.21% at day of announcement date. The adjusted share price is decreased by 22.90% from base index. After seven days announcement date, increasing the adjusted share price is for more than the increase in the price index converted to new base. According To the theory of rights offering the price of share will increase after the announcements and decrease after the allotment of share to the extent of value of rights.

Market price of share = Rs460

Value of one right = Rs60

Ex-right price of share = Rs400

After the issue of right share Laxmi Bank Ltd. share price fall more than its value of one right on ex- right price is less than its theoretical price.

## Share Price Movement of Kumari Bank Limited

**Table: 4.3**

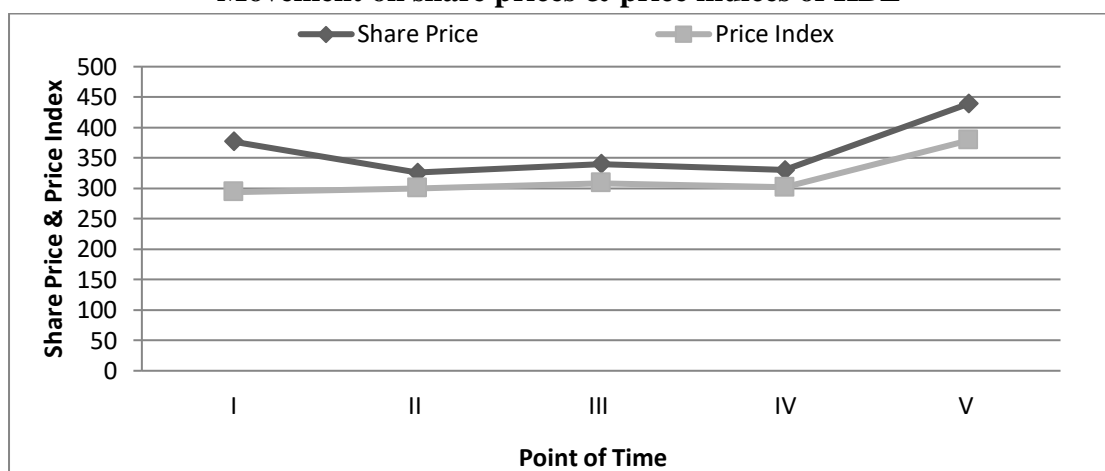
### Share Price Movement of Kumari Bank Limited (Par value Rs. 100)

Selected Point of Time	(1) Share Price	(2) Price relatives	(3) Total Price Index of Equity Capital	(4) Price Index Converted to New Base	(5) Change From Base	(6) Adjusted Price Relatives	% (7) Changes From Base
I	377	100	293.69	100	-	100	-
II	326	86.47	299.84	102.09	2.09	84.70	-15.30
III	340	90.19	308.13	104.92	1.92	85.96	-14.04
IV	330	87.53	301.60	102.69	2.69	85.28	-14.72
V	439	316.46	378.68	128.94	28.94	90.32	-9.68`

Source: Annual Report of SEBON from 2003/04 to 2012/13, Appendix I (C)

**Figure: 4.3**

### Movement on share prices & price indices of KBL



Source: Table no 4.3

In case of Kumari Bank Ltd. the share price was Rs 377, three months before the announcement date which extensively decreased to Rs 326 of ten days before the announcement. Market price of the share was Rs 340 on the day of announcement. However, market of the share was slightly increased just after the rights share announcement. Again increasing trend of market price of share seemed and it was Rs 439, after six months of rights announcement.

By analyzing the share movement of Kumari Bank Ltd. And the trend of general market movement, change in the market price from point I to II is basically due to general market movement, at that time market index had increased from 293.69 to 299.84 market index is increased to 308.13, 301.60 and 378.68 in among III, IV and V points of time. Column 5 shows the percentage change in the adjusted price indices from the base index. It shows that price index was increased by 2.09%, ten days before announcement. Similarly it increase by 4.92% from point II to III. However, 2.69% increase in the share price can be observed in point IV in comparison to point III it was increased by 28.94% in point V column 6 in the above table shows adjusted price relatives. The adjusted price relative was decreased from 15.30% to 14.04% between II and III it was comparable to point IV and V at the same period price relative also decreased from 14.72% to 9.68%. hence, only in the case of Kumari Bank Ltd. There was on obvious negative impact of rights offering. Values of more rights and ex- rights price of Kumari Bank Ltd. stock are as follows

Market price of stock =RS 340

Value of one right = Rs 48

Ex- rights price of share = Rs292

The value of the share the allotment should be around Rs 292 but the share of Kumari Bank Ltd. was Rs 439 after six months of rights share announcement. Thus the share of Kumari Bank Ltd. was overpriced.

## **4.2 Practices of Rights Offering in Nepal**

Up to now there are 216 listed companies in the SEBON and NEPSE. The history of rights offering is not so long in Nepalese contest. Nepal finance and saving co. ltd was the first company, whos rights shares in Nepalese market in fiscal year 1995/96. The company announces on 01/12/1995, 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 1995/96, Nepalese corporate firm, started to issue rights share. Till now (i.e. 2012/13) there are 260 cases of rights offering in Nepal. Almost all of them were finance, banking and insurance companies who issued rights share in Nepalese capital market. All companies who had issued their rights

share at par value i.e. Rs 100 per share because according to Company Act, company can not issue their rights share on discount, but premium can be added, due to fear of under subscription no company had issue their rights share on premium. As a result there is wide difference between subscription price and market price per share, as well as having high share price companies can not take advantage by premium, which is cost less fund of company.

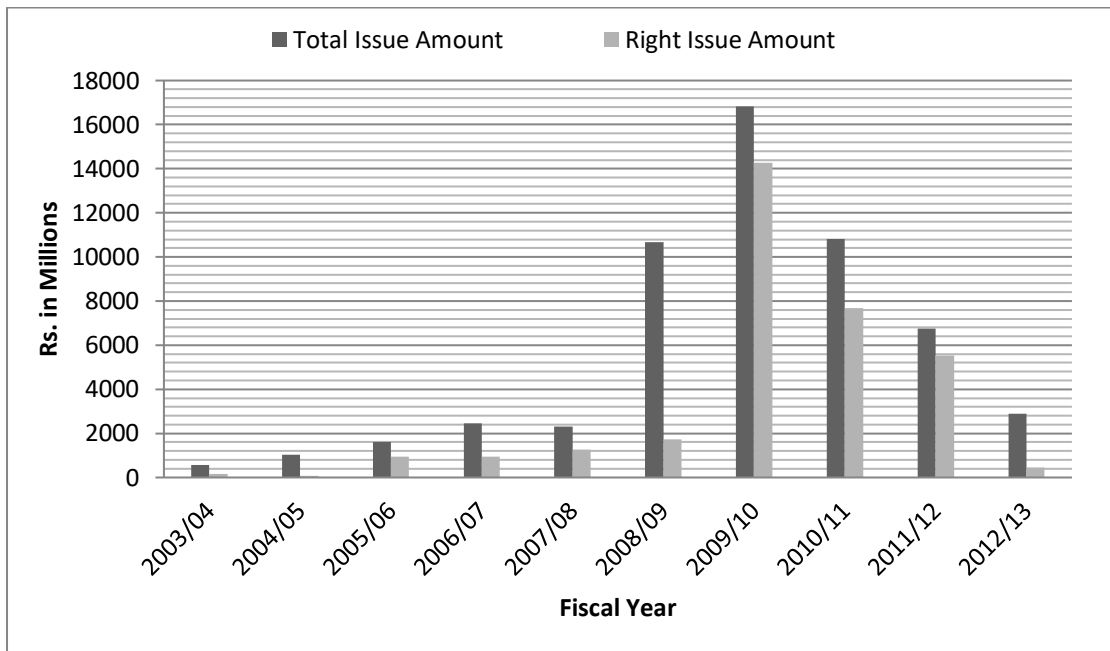
A large number of bank and finance companies announce and issue rights share, to increase the capital base if the corporate management felt such need to comply with the policy directives given by the concerned authority to increase the capital base from the time to time. Under rights offering, the shareholders are provided a document called “rights” which describes all about the conditions of rights issue. Each stockholder receives one right in the proportion of the share currently held.

**Table: 4.4**  
**Practices of Right Issue in Nepal**

<b>Fiscal Year</b>	<b>Total Issue Amount</b>	<b>Right Issue Amount</b>	<b>% of Right Issues</b>	<b>% Changes</b>
2003/4	556.54	165.54	29.74	-
2004/5	1027.5	70	6.81	-57.71
2005/6	1626.82	949.34	58.36	1256.2
2006/7	2443.28	933.45	38.20	-1.67
2007/8	2295.5	1265.2	55.12	35.54
2008/9	10668.2	1729.8	16.21	36.72
2009/10	16828.5	14262.81	84.75	724.53
2010/11	10822.41	7677.71	70.94	-46.17
2011/12	6754.03	5544.33	82.09	-27.79
2012/13	2902.18	452.68	15.60	-91.83
Average			45.78	203.09

*Source: Annual Report of NEPSE & SEBON from 2003/04 to 2012/13*

**Figure: 4.4**  
**Right Issue & Total Issue**



Source: Table no 4.4

Table and Figure 4.4 shows that the total amount of issues approved and the amount of right issue, the total amount of right issue is fluctuating trend each year. The highest percentage of right issue on total issues is 84.75% in the fiscal year 2009/10 and that of lowest is 6.81% in the fiscal year 2004/05. The highest percentage change is 724.53% in the fiscal year 2009/10 than previous year. During the ten year study period, the average percentage of right issue on total issue amount is 45.78% and the average percentage change is 203.09 percent.

#### **4.2.1 Right Issues Companies**

As per requirement of NEPSE, issuing companies should list their issues in NEPSE for allowing such issues to be traded on its trading floor. Since opening of NEPSE in FY 1993/094, 147 companies have already been listed where out of these, 12 companies had de-listed from Trading Floor of NEPSE. So, at the end of FY 20012/13, there are 216 companies listed in NEPSE.

**Table: 4.5**

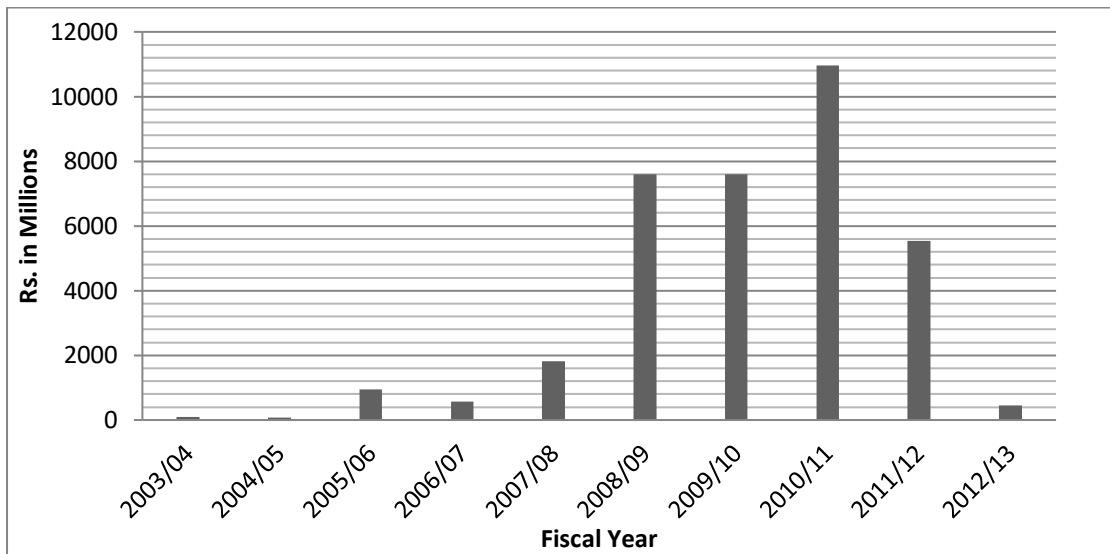
**Major Sector wise Number & Amount of Right Issues Companies**

Fiscal Year	Commercial Banks		Development Banks		Finance Companies		Insurance Companies		Hydro Power		Total	
	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount
2003/4	-	-	-	-	3	105	-	-	-	-	3	105
2004/5	-	-	-	-	3	70	-	-	-	-	3	70
2005/6	3	871.14	1	15	2	63.20	-	-	-	-	6	949.34
2006/7	2	290	1	80	7	197	-	-	-	-	10	567
2007/8	4	1072	3	210	8	535.3	-	-	-	-	15	1817.3
2008/9	7	2245.30	13	1015.40	24	3494.40	4	155.40	1	694.90	49	7605.40
2009/10	5	3103.65	13	2667.21	30	1673.74	2	160.80	-	-	50	7605.40
2010/11	7	3256.27	11	3396.60	15	4175.39	2	134.95	-	-	35	10963.21
2011/12	5	2021.55	11	1964.63	14	1508.12	1	50	-	-	31	5544.3
2012/13	-	-	3	276.35	4	175.33	-	-	-	-	7	451.68
<b>Total</b>	<b>33</b>	<b>12859.91</b>	<b>56</b>	<b>9625.19</b>	<b>110</b>	<b>11997.48</b>	<b>9</b>	<b>501.15</b>	<b>1</b>	<b>694.90</b>	<b>209</b>	<b>35678.63</b>
<b>Amount %</b>	<b>36%</b>		<b>27%</b>		<b>34%</b>		<b>1%</b>		<b>2%</b>		<b>100%</b>	

*Source: Annual Report of SEBON from 2003/04 to 2012/13*

**Figure: 4.5**

**Amount of Right Issue on Different Fiscal Year**



Source: Table no 4.5

Table & Figure 4.5 shows that the number and amount of right issue company during the study period from 2003 to 2012. The numbers of right issues are increasing trend up to the fiscal year 2009/10 after that it is decreases. The highest numbers of right issues companies are 50 in the fiscal year 2009/10 and that of lowest are 3 in the fiscal year 2003/04. Similarly, the amount of public issues is fluctuating trend in each fiscal year during the study period. During the 10 year study period the total number of right issues are 209 out of them commercial banking sector made 33 right issues, development banking sector made 56 right issues, finance company 110, insurance company 9 and hydropower made 1 right issues. The total amount of right issues is Rs. 35678.63 out of those commercial banks has Rs. 12859.91 million, development bank has Rs. 9625.19 million, finance company has Rs. 11997.48 million, insurance company has 501.15 million ad hydropower company has 694.90 million. The highest amount of right issues is Rs. 10963.21 million in the fiscal year 2010/11 and that o lowest is Rs. 70 million in the fiscal year 2004/05.

**Figure: 4.6**  
**Sector wise Right Issues**

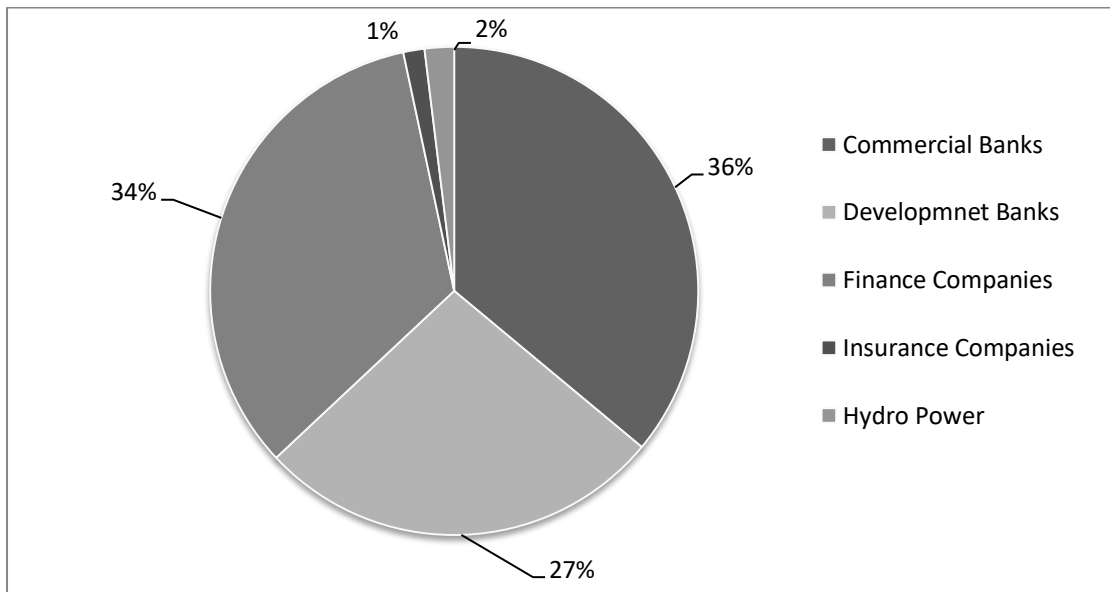


Figure 4.6 shows that the Proportion of right issues of different sectors during the study period. NEPSE is divided the total listed companies in to 9 different sectors out of them only five sectors companies issues right share they are commercial bank, development bank, finance company, insurance company and hydro power company. The total proportion of right issues is dominant by commercial a banking sector which covers 36% of the total right issues similarly, 34% covers by finance companies, 27% covers by development banks, 2% covers by hydro power and only 1% covers by insurance companies.

#### **4.2.2 Instrument-wise Issues**

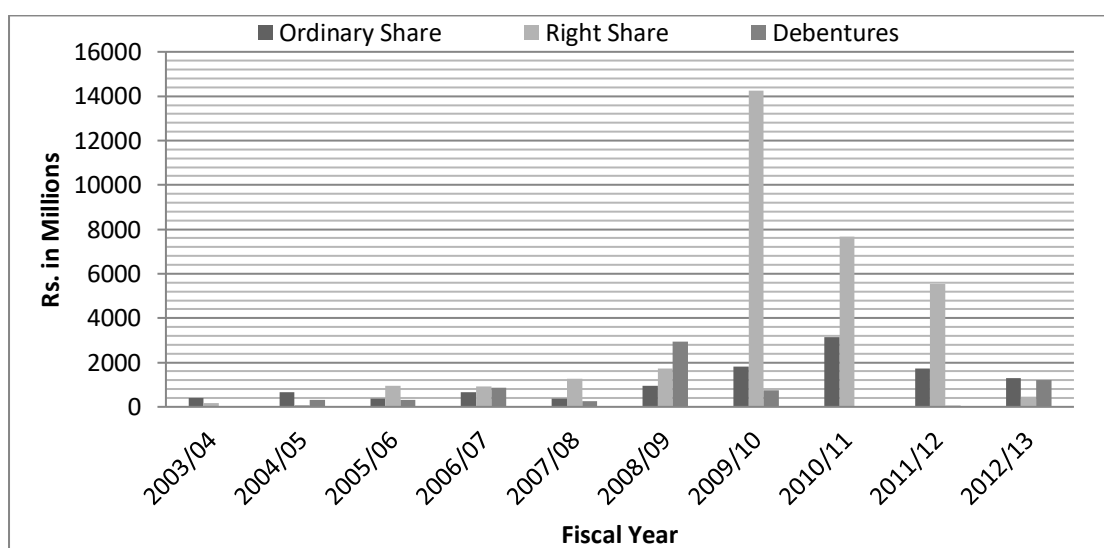
Nepalese market provides limited variety of investment instruments which mainly includes common stock, preferences shares, right shares, debenture and few issues from collective investment schemes like mutual fund but in this study, the collective investment schemes are not included. Over a period of time, Nepalese stock market has been relying on few financial instruments such as common stock and right shares, which can not be considered as a good sign regarding overall development of Nepalese stock market.

**Table: 4.6**  
**Instrument wise Issues (No of Share)**

<b>Fiscal Year</b>	<b>Ordinary Share</b>	<b>Right Share</b>	<b>Debentures</b>	<b>Total</b>
2003/04	391	165.54	-	<b>556.54</b>
2004/05	657.5	70	300	<b>1027.5</b>
2005/06	377.48	949.34	300	<b>1626.82</b>
2006/07	659.83	933.45	850	<b>2443.28</b>
2007/08	380.3	1265.2	250	<b>1895.5</b>
2008/09	944.8	1729.8	2950	<b>5624.6</b>
2009/10	1815.7	14262.81	750	<b>16828.51</b>
2010/11	3144.7	7677.71	-	<b>10822.41</b>
2011/12	1728.83	5544.33	50	<b>7323.16</b>
2012/13	1298.50	452.68	1200	<b>2951.18</b>
<b>Total</b>	<b>11398.64</b>	<b>33050.86</b>	<b>6650</b>	<b>51099.5</b>

*Source: Annual Report of SEBON from 2003/04 to 2012/13*

**Figure: 4.7**  
**Instruments wise Issue**



Source: Table no 4.6

Table 4.6 and figure 4.7 shows that the amount of instrument wise public issues during the study period. The amount of public issues of ordinary share, right share and debenture is fluctuating in each fiscal year. The highest amount of public issues of

ordinary share is Rs. 3144.7 million in the fiscal year 2010/011 and that of lowest is Rs. 391 million in the fiscal year 2003/04 similarly, the highest amount of issues of right share is Rs. 14262.81 million in the fiscal year 2009/010 and that of lowest is Rs. 70 million in the fiscal year 2004/05 and the highest amount of debenture is Rs. 2950 million in the fiscal year 2008/09 and that of lowest is Rs. 50 million in the fiscal year 2012/013. The total amount of public issues is fluctuating in each year during the study period.

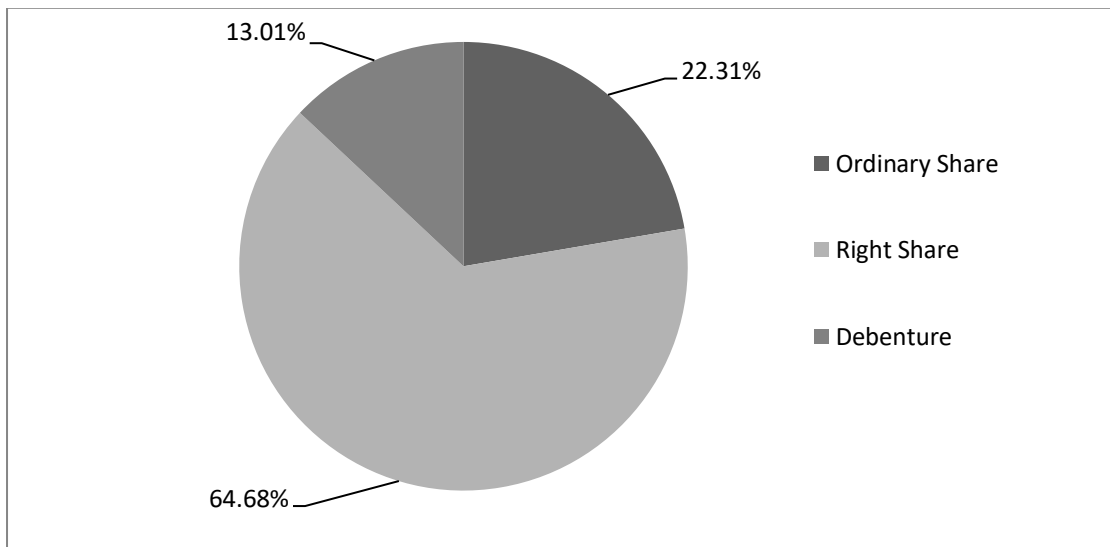
**Table: 4.7**  
**Amount & Percentage of Instrument wise Issue**

<b>Instruments</b>	<b>Total Amount</b>	<b>Percentage (%)</b>
Ordinary Share	11398.64	22.31
Right Share	33050.86	64.68
Debenture	6650	13.01
<b>Total</b>	<b>51099.5</b>	<b>100</b>

*Source: Annual Report of SEBON from 2003/04 to 2012/13*

**Figure: 4.8**

**Pie Chart Based on Total Amount of Instrument wise Issue**



Source: Table no 4.7

Table 4.7 & figure 4.8 shows that the total amount and percentage of each instruments during the study period. The total amount of ordinary share is Rs. 11398.64 million

which is 22.31% of total issues and the total amount of right share is Rs. 33050.86 million which is 64.68% of total issues and the total amount of debenture is Rs. 6650 million which is 13.01 percentages of total issues.

### 4.2.3 Comparison of Stock Price before and after Rights Share Issue

After the rights offering by the company what is the impact on the companies' market price per share is evaluated here. After evaluating the market price per share we can comparison between stock price before and after rights share issue.

Basically we know that the price of the share should be decreased after rights share issue. Pre rights issue and post rights share issue. The positive change in price indicates that price. The phenomenon is theoretically wrong. The negative change in price indicates that the post rights issue price is the closing market price together one month of rights share issue. The positive change in price indicates that the post rights issue price is greater than pre rights issue price. The phenomenon is theoretically wrong. The negative change in price indicates that the post rights issue price is smaller than pre rights issue price and this phenomenon is theoretically correct. The zero change indicates that the post rights issue price and pre rights issue price are equal and this is also theoretically wrong.

**Table: 4.8**

#### MVPS of Sample Companies before and after Rights Share Issue

Name of Bank	Pre Right Issue Price	Post Right Issue Price	Change in Price
Siddhartha Bank Ltd.	1202	780	-35.11
Laxmi Bank Ltd.	432	589	36.34
Kumari Bank Ltd.	341	337	-1.17

*Source: Annual Report of SEBON from 2003/04 to 2012/13*

$$\text{Change in Price} = \frac{\text{Posst right issue price} - \text{pre right issue price}}{\text{Pre right issue price}} \times 100$$

From the table above it is clear that in majority of the cases of the change in negative. This means majority of the companies follow the theory i.e. the market price per share decrease after rights share issue. Among 3 sample companies, 2 companies share

price has decreased after rights share issue and remaining 1 company market price per share increased after rights share issue. From the above analysis it can be concluded that generally the market price decrease after the rights share offering.

#### **4.2.4 Comparison of Theoretical Price and Actual Market Price after Rights Share Issue**

After the rights offering by the company what is the impact on the companies market price per share due to rights offering, we have necessary to calculate the Theoretical Market price. After evaluating the market price per share and the theoretical price, we can comparison between theoretical price and actual market price after rights share issue.

The market price after ex-right date compared with theoretical market price to measure the effects. The comparison results of the firms measures the impact of Rights share issue on market price of share, positive change in share price means share price after rights share issue are higher than theoretical market price. This is good indicator for share holders and company; it means they have good signaling effect. Negative change means share price after rights share issue are lower than theoretical price.

**Table: 9**

#### **Comparisons of Theoretical and Actual Market Price after Right Issue**

<b>Name of Bank</b>	<b>Actual MPS</b>	<b>Theoretical Value</b>	<b>Change in Price</b>
Siddhartha Bank Ltd.	780	1095.83	-28.82
Laxmi Bank Ltd.	589	400	74.25
Kumari Bank Ltd.	337	292	15.42

*Source: Annual Report of SEBON from 2003/04 to 2012/13*

$$\% \text{ Change} = \frac{\text{Actual price} - \text{Theoretical price}}{\text{Theoretical Price}} \times 100$$

The above table shows the percentage change in actual market price and theoretical price of share after rights share issue. Theoretically, actual market price and theoretical price of the share after rights share issue should be equal. Actual market

price after rights share issue is collected from the trading reports of the SEBON and theoretical price of the share after rights share is calculated in annex.

The above table shows that the actual market price of Siddhartha Bank Ltd. is Rs. 1095.83 and thus the change of - 28.82%, this negative change indicates that the rights share announcement can not spread positive message among the investors. The actual market price of Laxmi Bank Ltd. & Kumari Bank Ltd. are respectively Rs. 589 & Rs. 337, the theoretical price of whose is calculated to be respectively Rs. 400 & 292 causing a change of 74.25% & 15.42%.

From the above analysis, it is found that out of 3 sample companies, one company has theoretical market price higher than actual market price causing negative percentage change and the two companies have actual market price higher than the theoretical market price causing positive change.

#### **4.2.5 Relationship between Share Price Movement & Movement in General Market**

Share price movement, not only affected by rights offering but general market movement also largely affects it. So, the correlation between the share price before and after the announcement of rights share has been calculated to find out, if there is any relation between the share price and price indices of the company. For calculation of correlation, share price of company are considered as the dependent variable, which fluctuate according to the fluctuation on the index of the total equity capital.

The correlation is a statistical tool, which studies the relationship between two variables and correlation analysis involves various techniques used for studying and measuring at the extent of relationship between the tow variables. Correlation is an analysis of the covariance between two or more variables. The effect of correlation is to reduce the range of uncertainty our prediction. Two variables are said to be correlated if the change in one variable results in the corresponding change in the other variable. Correlation coefficient can be either positive or negative. If the values of two variables deviate in the same direction i.e. if the increase in the value of one variable results, on an average, in a corresponding increase in the values of other variables or if a decrease in the values of results, on an average, corresponding

decrease on the values of other variables, the correlation is said to be positives and direct.

Nepal Stock Exchange (NEPSE) has just started the practice of calculating and publishing the sector wise indices. For the period under study, sector wise index was not available so that throughout the study period the price index of total equity capital is used. After calculating the correlation between share price movements of sample companies with general market movement following result have been obtained.

**Table: 4.10**  
**Correlation Coefficient between Share Price & NEPSE Indices**

<b>Name of Banks</b>	<b>Correlation Coefficient</b>	<b>Coefficient of Determination</b>	<b>Probable Error</b>	<b>6 PE</b>	<b>Result</b>
SBL	0.6769	0.4582	0.1634	0.9806	Insignificant
LBL	0.9710	0.9429	0.0172	0.1033	Significant
KBL	0.8565	0.7336	0.6745	0.4822	Significant

*Source: Appendices III, IV, & V*

In case of Siddhartha Bank Ltd. (SBL) there is moderate degree of positive correlation i.e.  $r = 0.6769$  between share price movement and general price movement. This relation is further provide by the coefficient of determination which is 0.4582 i.e. 45.82% and correlation coefficient ( $r$ ) is less than 6 P.E. Thus the correlation is not significant and reliable. When NEPSE index is decreasing trend, it's share price is slightly decrease. So, it is no due to general market movement.

In case of Laxmi Bank Limited (LBL) there is high degree of positive correlation i.e.  $r = 0.9710$  between share price movement and general price movement. This relation is further provide by the coefficient of determination which is 0.9429 i.e. 94.29% means that about 94.09% of variation in the share price is explained by general market movement. The coefficient of correlation is greater than 6 P.E. (i.e. 6 P.E. = 0.1033) which proves that correlation is significant. So, the researcher can conclude that share price behavior of Laxmi Ltd. is because of general market movement.

In case of Kumari Bank Limited (KBL) there is high degree of positive correlation i.e.  $r = 0.8565$  between share price movement and general price movement. This relation

is further provide by the coefficient of determination which is 0.7336 i.e. 73.36% means that about 73.36% of variation in the share price is explained by general market movement. The coefficient of correlation is greater than 6 P.E. (i.e. 6 P.E. = 0.4822) which proves that correlation is significant. So, the researcher can conclude that share price behavior of KBL is because of general market movement.

#### 4.2.6 Hypothesis Test (t-test)

In order to test whether the average value of share price before announcement date and after announcement date are significantly different or not of sample banks, t-test has been applied. For this study set of null and alternative hypothesis have been formulated and tested.

**H<sub>0</sub>:** There is no significance difference between the average values of share price before announcement date & after announcement date.

**H<sub>1</sub>:** There is significance difference between the average values of share price before announcement date & after announcement date.

**Table: 4.11**  
**Hypothesis Test (t-test)**

<b>Banks</b>	<b>Degree Of Freedom</b>	<b>Level Of Significance</b>	<b>Calculated t -Value</b>	<b>Tabulated t -Value</b>	<b>Decisions</b>
SBL	(5-1) = 4	$\alpha = 5\%$	5.379	2.776	H <sub>1</sub> Accepted
LBL	(5-1) = 4	$\alpha = 5\%$	11.580	2.776	H <sub>1</sub> Accepted
KBL	(5-1) = 4	$\alpha = 5\%$	5.344	2.776	H <sub>1</sub> Accepted

*Source: Appendix VI, VII & VIII*

Siddhartha Bank Llimited has the calculated value of 't' for share price is 5.379, where as the tabulated value at 5% level of significance for 4 degree of freedom is 2.776. The calculated value of 't' is greater than tabulated value of 't' ( $5.379 > 2.776$ ) since, the alternative hypothesis is accepted i.e. there is significance difference between the average values of share price before announcement date & after announcement date. Hence, it can be conclude that the announcement of the rights offering, change the share price significantly.

Laxmi Bank Limited has the calculated value of 't' for share price is 11.580, where as the tabulated value at 5% level of significance for 4 degree of freedom is 2.776. The calculated value of 't' is greater than tabulated value of 't' ( $11.580 > 2.776$ ) since, the alternative hypothesis is accepted i.e. there is significance difference between the average values of share price before announcement date & after announcement date. Hence, it can be conclude that the announcement of the rights offering, change the share price significantly.

Kumari Bank Limited has the calculated value of 't' for share price is 5.344, where as the tabulated value at 5% level of significance for 4 degree of freedom is 2.776. The calculated value of 't' is greater than tabulated value of 't' ( $5.344 > 2.776$ ) since, the alternative hypothesis is accepted i.e. there is significance difference between the average values of share price before announcement date & after announcement date. Hence, it can be conclude that the announcement of the rights offering, change the share price significantly.

### **4.3 Primary Data Analysis**

As researcher has mentioned, this study is heavily based on secondary data but to make the study more effective and fruitful, here researcher has collected some data by distribution of questionnaire to the concern persons. So, here researcher analyzes the responses received from respondents.

#### **4.3.1 Sector of Right Issues**

Questionnaire: In your opinion which is the most preferred sector of right issue?.

**Table: 4.12**

**Response Regarding the Most Preferred Sector of Right Issue**

<b>Respondents Responses</b>	<b>Individual Investor No.</b>	<b>%</b>	<b>Experts No.</b>	<b>%</b>	<b>Issue Manager No.</b>	<b>%</b>	<b>Total No.</b>	<b>Total %</b>
Banking/ Finance	5	50	3	60	6	60	14	<b>56</b>
Manu./Trading	2	20	-	-	1	10	3	<b>12</b>
Hotel/Other	1	10	-	-	1	10	2	<b>8</b>
Insurance	2	20	2	40	2	20	6	<b>24</b>
<b>Total</b>	<b>10</b>	<b>100</b>	<b>5</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>25</b>	<b>100</b>

*Source: Field Survey*

The respondents were asked which sector's right share issue does investors prefer most. Table 4.12 presents that out of 10 respondents of individuals, 50 percent of them replied that the banking & finance sector. Similarly, 60 percent experts out of 5 and 60 percent issue manager out of 10 replied that the banking & finance sector's right share issue investors prefer most.

**Figure: 4.9**

**Pie Chart of Response Regarding the Most Preferred Sector of Right Issue**



Figure 4.9 shows that the out of total 10 respondents, 56% of them replied that the banking & finance sector is the most preferable sector. Similarly, 24% of them replied

that manufacturing & trading, 12% of them replied that insurance and only 8% of them replied that hotel & other sector's right issue is preferable. The majority of respondents replied that the most preferable sector's of right issue is banking & finance.

#### 4.3.2 Purpose of Right Share Purchase

Questionnaire: In your opinion what may be the purpose of right share purchase?

**Table: 4.13**

**Response Regarding the Investor Purpose of Right Share Purchases**

<b>Respondents Responses</b>	<b>Individual Investor No.</b>	<b>%</b>	<b>Experts No.</b>	<b>%</b>	<b>Issue Manager No.</b>	<b>%</b>	<b>Total No.</b>	<b>Total %</b>
Increase Value	3	30	1	20	2	20	6	<b>24</b>
Increase No. of Share	2	20	2	40	1	10	5	<b>20</b>
Increase Dividend	5	50	1	20	6	60	12	<b>48</b>
Control Mgmt.	-		1	20	1	10	2	<b>8</b>
<b>Total</b>	<b>10</b>	<b>100</b>	<b>5</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>25</b>	<b>100</b>

*Source: Field Survey*

The respondents were asked for which purpose investor purchases the right share. Table 4.13 presents that out of 10 respondents of individuals, 50 percent of them replied that to increase the dividend. Similarly, 20 percent experts out of 5 and 60 percent issue manager out of 10 replied that the purpose of right share purchase is to increase the dividend.

**Figure: 4.10**

**Pie Chart of Response Regarding the Investor Purpose of Right Share Purchase**

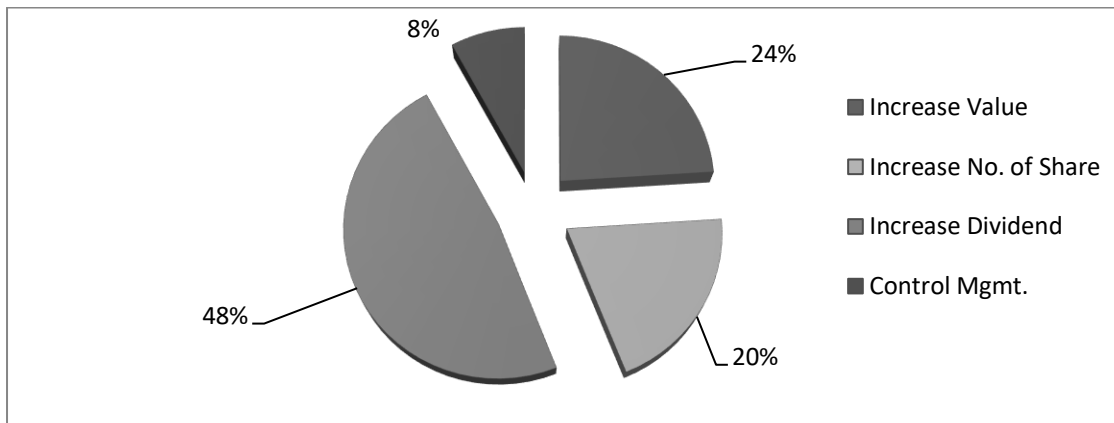


Figure 4.10 shows that the out of total 10 respondents, 48% of them replied that the purpose of right share purchase is to increase dividend. Similarly, 24% of them replied that to increase value, 20% of them replied that to increase number of share and only 8% of them replied that to increase control on management. The majority of respondents replied that the purpose of right share purchase is to increase the dividend.

### 4.3.3 Legal Provisions

Questionnaire: Are the legal provisions sufficient regarding right share issue?

**Table: 4.14**

**Response Regarding the Adequacy of Legal Provision Regarding Right Share Issue**

Respondents Responses	Individual Investor No.	%	Experts No.	%	Issue Manager No.	%	Total No.	Total %
Sufficient	3	30	1	20	3	30	7	<b>28</b>
Insufficient	5	50	4	80	7	70	16	<b>64</b>
Don't Know	2	20	-	-	-	-	2	<b>8</b>
<b>Total</b>	<b>10</b>	<b>100</b>	<b>5</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>25</b>	<b>100</b>

Source: Field Survey

As far as regarding the current legal provision especially about rights offering, out of 10 respondents of individuals, 50 percent of them replied that legal provision is insufficient. Similarly, 80 percent experts out of 5 and 70 percent issue manager out of 10 replied that the legal provision regarding right share issue is not sufficient.

**Figure: 4.11**

**Pie Chart of Response Regarding the Adequacy of Legal Provision Regarding Right Share Issue**

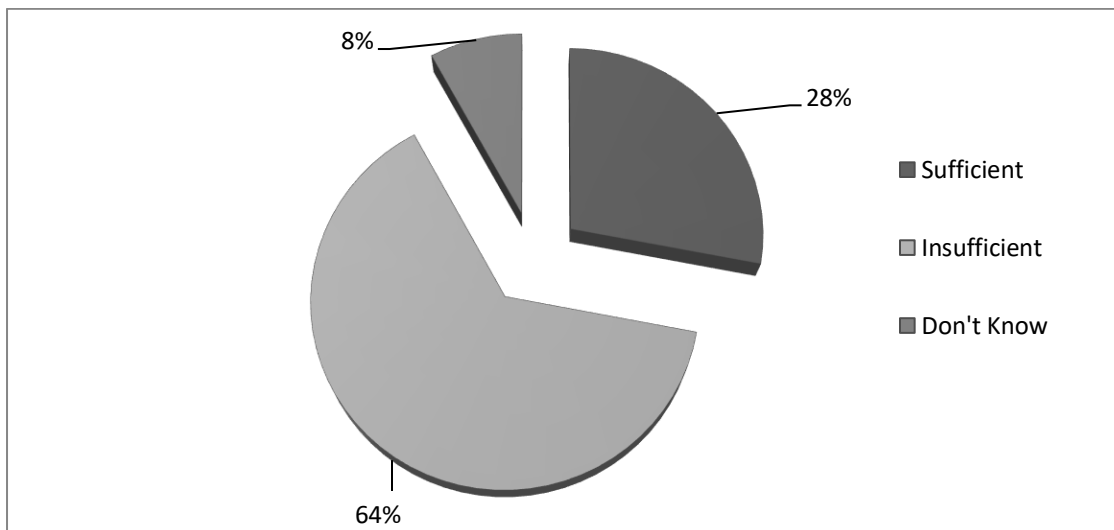


Figure 4.11 show that the out of total 10 respondents, 64% of them replied that the legal provision is insufficient. Similarly, 28% of them replied that the legal provision is insufficient, and only 8% of them replied that they don't know about the sufficiency legal provision regarding right share issue. The majority of respondents replied that the legal provision is insufficient regarding right share issue in Nepal.

#### **4.3.4 Problems of Right Share Practices**

Questionnaire: In your opinion what may be the problems of right share practice in Nepal?

**Table: 4.15**

**Response Regarding the Problems of Right Share Practice in Nepal**

<b>Respondents Responses</b>	<b>Individual Investor No.</b>	<b>%</b>	<b>Experts No.</b>	<b>%</b>	<b>Issue Manager No.</b>	<b>%</b>	<b>Total No.</b>	<b>Total %</b>
Low Performance of SEBON & NEPSE	4	40	2	40	3	30	9	<b>36</b>
Lack of Transferable Right	2	20	1	20	2	20	5	<b>20</b>
Short Sighted Investor	1	10	1	20	4	40	6	<b>24</b>
Imperfect legal Provision	3	30	1	20	1	10	5	<b>20</b>
<b>Total</b>	<b>10</b>	<b>100</b>	<b>5</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>25</b>	<b>100</b>

*Source: Field Survey*

The respondents were asked which the problem of right share practice in Nepal is. Table 4.15 presents that out of 10 respondents of individuals, 40 percent of them replied that low performance of SEBON & NEPSE is the major problem. Similarly, 40 percent experts out of 5 and 30 percent issue manager out of 10 replied that the low performance of SEBON & NEPSE is the major problem of right share practice in Nepal.

**Figure: 4.12**

**Pie Chart of Response Regarding the Problems of Right Share Practice in Nepal**

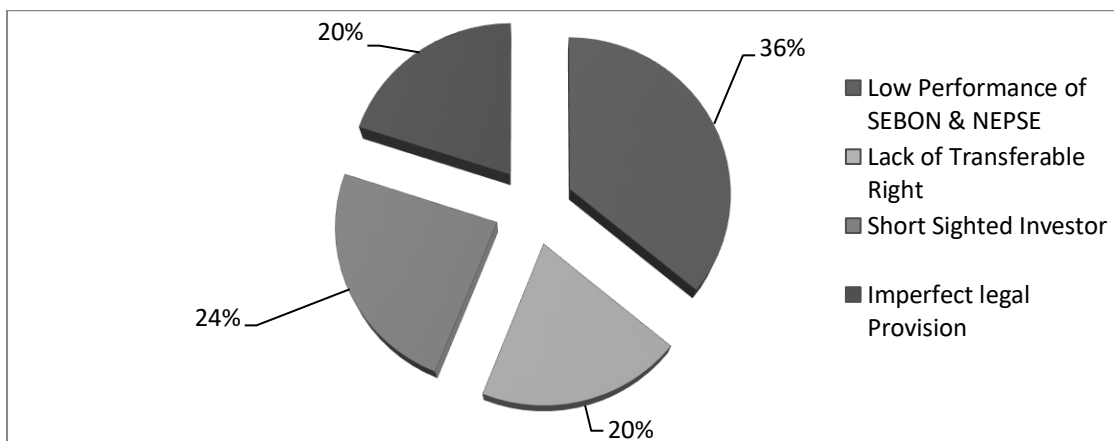


Figure 4.12 show that the out of total 10 respondents, 36% of them replied that the low performance of SEBON & NEPSE is the major problem of right share practice in Nepal. Similarly, 24% of them replied that the major problem is short sighted investor to, 20% of them replied that the major problem is lack of transferrable right and rest 20% of them replied that the major problem is imperfect legal provision. The majority of respondents replied that the low performance of SEBON & NEPSE is the major problem of right share practice in Nepal.

#### 4.3.5 Impact of Right Issue

Questionnaire: What is the impact of right issue on share price?

**Table: 4.16**  
**Response Regarding the Impact of Right issue on Share Price**

<b>Respondents Responses</b>	<b>Individual Investor No.</b>	<b>%</b>	<b>Experts No.</b>	<b>%</b>	<b>Issue Manager No.</b>	<b>%</b>	<b>Total No.</b>	<b>Total %</b>
Price Increase	7	70	4	80	8	80	19	<b>76</b>
Price Decrease	2	20	1	20	2	20	5	<b>20</b>
Don't Know	1	10	-	-	-	-	1	<b>4</b>
<b>Total</b>	<b>10</b>	<b>100</b>	<b>5</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>25</b>	<b>100</b>

*Source: Field Survey*

The respondents were asked about the impact of right issue on share price Table 4.16 presents that out of 10 respondents of individuals, 70 percent of them replied that the right issue increase the price of share. Similarly, 80 percent experts out of 5 and 80 percent issue manager out of 10 replied that the right issue increases the price of share.

**Figure: 4.13**

**Pie Chart of Response Regarding the Impact of Right issue on Share Price**

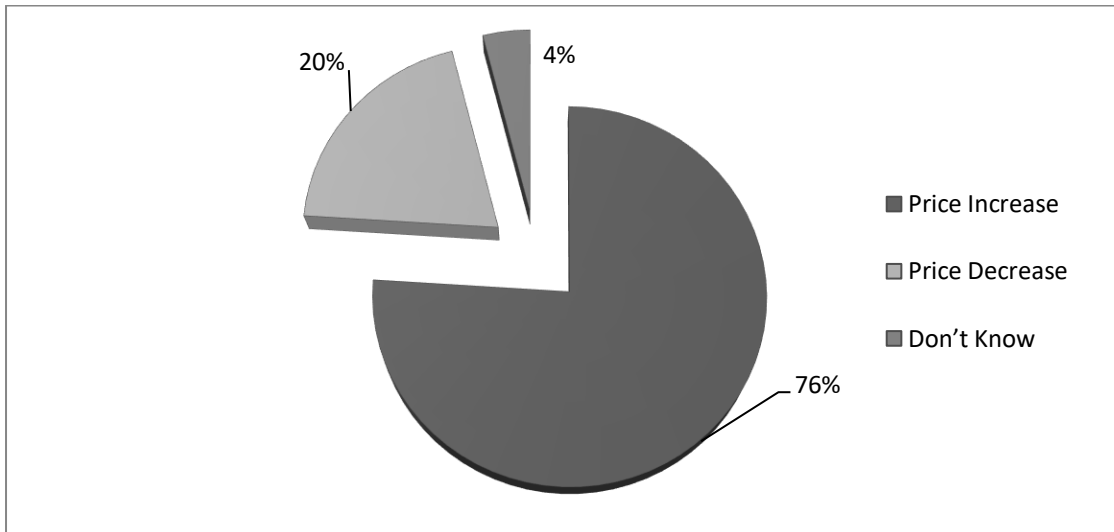


Figure 4.13 show that the out of total 10 respondents, 76% of them replied that the right issue increases the price of share. Similarly, 20% of them replied that the right issue decreases the price of share and only 4% of them replied that they do not know about the impact of right issue in share price. The majority of respondents replied that the right issue increases the price of share.

#### 4.3.6 Causes of Under Subscription

**Table: 4.17**

**Response Regarding the Causes of Under Subscription of Right Issue**

Respondents Responses	Individual Investor No.	%	Experts No.	%	Issue Manager No.	%	Total No.	Total %
Low Performance of the Company	4	40	2	40	3	30	9	<b>36</b>
Right is not Transferable	2	20	1	20	2	20	5	<b>20</b>
Lack of Investors Awareness	4	40	2	40	5	50	11	<b>44</b>
<b>Total</b>	<b>10</b>	<b>100</b>	<b>5</b>	<b>100</b>	<b>10</b>	<b>100</b>	<b>25</b>	<b>100</b>

*Source: Field Survey*

The respondents were asked about the causes of under subscription of right issue. Table 4.17 presents that out of 10 respondents of individuals, 40 percent of them replied that the causes of under subscription is low performance of the company. Similarly, 40 percent experts out of 5 and 30 percent issue manager out of 10 replied that the cause of under subscription is low performance of the company.

**Figure: 4.14**

**Pie Chart of Response Regarding the Causes of Under Subscription of Right Issue**

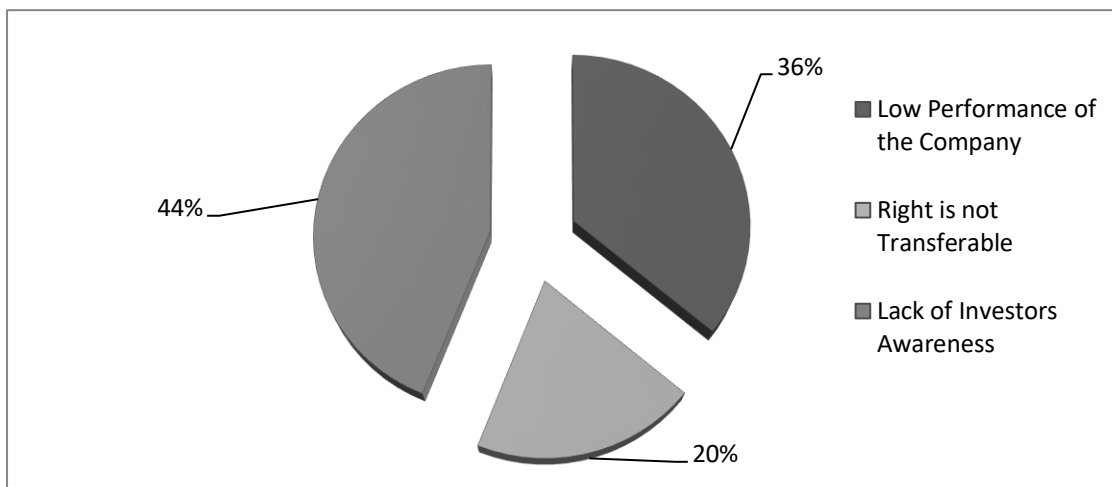


Figure 4.14 show that the out of total 10 respondents, 44% of them replied that the lack of investor awareness is the major cause of under subscription of right issue in Nepal. Similarly, 36% of them replied that the major cause is low performance of the company and only 20% of them replied that the right is not transferrable is the major cause of under subscription of right issue. The majority of respondents replied that the lack of investor awareness is the major cause of under subscription of right issue in Nepal.

## **4.4 Major Findings**

### **4.4.1 Findings from Secondary Data**

- The highest numbers of right issues companies are 50 in the fiscal year 2009/010 and that of lowest are 3 in the fiscal year 2003/04. During the 10 year study period the total number of right issues are 209.

- The total amount of right issues is Rs. 35678.63 million and the highest amount of right issues is Rs. 10963.21 million in the fiscal year 2010/011 and that o lowest is Rs. 70 million in the fiscal year 2004/05.
- The total proportion of right issues is dominant by commercial a banking sector which covers 36% of the total right issues followed by finance companies 34%, development banks 27%, hydro power 2% and only insurance companies 1%.
- During the ten year study period since 2003 to 2012, the average percentage of right issue on total issue amount is 45.78% and the average percentage change is 203.09 percent. The highest percentage of right issue on total issues is 84.75% in the fiscal year 2009/010 and that of lowest is 6.81% in the fiscal year 2004/05.
- There are three types of are commonly used in Nepalese security market they are ordinary share, right share and debenture out of these ordinary share covers the 22.31%, right share covers 64.68% and debenture covers 13.01 % of total issues.
- Stock of Siddhartha Bank Ltd. does not follow the theory of rights offering. The value of the share at the time of allotment should be around Rs. 1095.83 but the share of Siddhartha Bank Limited is Rs. 1125 after six months of right share announcemen.
- There is significant difference between the share prices before and after rights share announcement of Laxmi Bank Ltd. But stock of Laxmi Bank Ltd. does not follow the theory of rights offering. Its market price was overpriced.
- The value of the share at the time of allotment should be around Rs 292 but the share of Kumari Bank Ltd. was Rs 439 after six months of rights share announcement. Thus the share of Kumari Bank Ltd. was overpriced.
- There is no uniformity in the impact of rights offering on the share price of sample banks.
- Majority of the companies follow the theory i.e. the market price per share decrease after rights share issue. Among 3 sample companies, 2 companies share price has decreased after rights share issue and remaining 1 company market price per share increased after rights share issue.

- Correlations analysis shows that there is positive relationship between share price and NEPSE Indices of all sample banks. It shows that there is significant relationship between share price and NEPSE Indices of LBL & KBL and insignificant relationship of SBL.
- From the hypothesis test, it is found that there is significant different between the share price before right share announcement date and after announcement date of SBL, LBL & KBL.

#### **4.4.2 Findings from Primary Data**

- The majority of respondents replied that the most preferable sector's of right issue is banking & finance out of total 25 respondents, 56% of them replied that the banking & finance sector is most preferable sector.
- The purpose of right share purchase is to increase the dividend out of total 25 respondents 48% of them replied that the purpose of right share purchase is to increase dividend.
- The majority of respondents replied that the legal provision is insufficient regarding right share issue in Nepal out of total 25 respondents 64% of them replied that the legal provision is insufficient.
- The major problem of right share practice in Nepal are low performance of SEBON & NEPSE, short sighted investor and lack of transferrable right .
- The majority of respondents replied that the right issue increases the price of share out of total 25 respondents 76% of them replied that the right issue increases the price of share.
- Lack of investor awareness is the major cause of under subscription of right issue in Nepal out of total 25 respondents, 44% of them replied that the lack of investor awareness is the major cause of under subscription of right issue in Nepal.

## CHAPTER V

### SUMMARY, CONCLUSIONS & RECOMMENDATIONS

#### 5.1 Summary

With the development in technology, the world has become a global village and with the globalization of business, the competition among firms has tremendously increased to successfully complete the corporate firm should expand and modernize their business, which needs huge amount of funds, capital market which is called life blood of the liberalized economy is the mechanism through which the resources are mobilized and flowed from non-productive sector to productive sector. Capital market is organized market through which buyers and sellers of long term capital are met and there to function of buying and selling takes place.

The place of development of equity market in Nepal is extremely slow and it has not efficient to contribute to the development of corporate sector. Developing country like Nepal, There is greater importance of capital market and productivity the equity market. Since, it facilitates the development of corporate sector and overall growth of the economy.

This study is concentrated on the various aspects of rights offering with special references to the selected listed commercial banks of Nepal. It covers the period of 10 years from 2004 to 2013, It includes the data of mostly rights issuing commercial banks. But, to show the practice of rights offering in Nepal, researcher takes some data of all rights issuing companies.

This study has been done to fulfill some specific objectives. Main objectives of this study, is to examine the movement in share price before and after the announcement of rights issue and to analyze the rights issue practice in Nepal. Finding out the problem of rights issue in Nepal is another objective of this study. Till the date, many studies have been done related to the impact on market price by various variables such as EPS, DPS and signalling effects. But, very few studies are directly concerned with rights issue in Nepal, because rights issue is a growing phenomenon in 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 heavily based on secondary data. So, useful data are collected from SEBON and related organization as well. Newspaper, annual reports of sample companies, journals and bulletins are important source to get secondary data in this study, other information is collected through internet as well. Primary data, personal interview and distribution of questionnaire to some specific people has been done. To conduct this study statically tools as well as financial tools have been used.

## **5.2 Conclusions**

Right share practice is comparatively new phenomena in Nepalese Financial market. There are no easy things to work out make the rights offering as effect instruments of raising capital. Theoretically, after the issue of rights share the earning per share of companies decreases. But if the company utilize 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 companies. Share holder of Nepalese companies lacks the knowledge about the rights share and its impact of in their wealth position. Due to this, free movement of share price during rights on and ex-rights is not confirmed.

The major case 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. There is no easy and clear provision regarding the sales of under subscribed rights share in Nepal. Current rule and regulations are insufficient. Recent years subscription of rights share is in increasing trend.

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 at share is also influenced by general market movement to greater extent in Nepal.

### **5.3 Recommendations**

The recommendation are made as the analysis of primary, secondary and valid from study as well as relating information about Nepal related corporations rights issue. It is important that changes are made so as to make rights issue more easy effective and efficient.

- First of all, shareholders are not clear about the rights offering its benefit and impact on their wealth position. So concerned authorities such as issuing companies, SEBON, NEPSE etc, should organize and lunch various programmes to increase the awareness regarding the rights issue and its aspects.
- During analysis it is found that the share price behavior of all sample companies doesn't follow the theory, one major cases of this is the poor performance of the company in the past. So, rights issuing company should improve their image to make the shareholders safe and confident.
- The mechanism of information flow is not found to be appropriate and effective that result in heavily under subscription of right share. The effective alternative of information flow should be searched.
- Free pricing concept should be implemented in rights offering to get rid off from the problem of low subscription price of rights share.
- In order to make the capital market more efficient market participants and academic institutions should jointly promote and undertake more research and market analysis activities.
- Nepalese capital market is largely dependent on financial sector, which is not good signal for overall development of market, as a whole in this regard the regulatory body and the government should take a step forward and encourage public issue from other sectors like manufacturing and processing by providing additional facilities such as tax-concessions.

- Investing in shares is a gamble which involves huge amount of risk. To be successful in the stock market, investors should always be clear to his strengths, weakness, requirements, wishes, risk taking capabilities and how to react on different and even changing market conditions. They should not buy the shares of a company until they know details about it.
- The stock market lacks the existence of sophisticated investors. So it is recommended to the regulatory bodies to carry out programs using various media and spot programs to inform and attract the potential investors, both individual and institutional investing into shares.
- Right share is found to be the most used financial instrument while other financial instruments like preference shares and debentures are rarely issued. The fact that such right shares carry maximum risk to investors on one hand and also cause of ownership to issuing company seemed to be forgotten.

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**Official Web Site:-**

[www.google.com/search](http://www.google.com/search)

[www.nrb.org.np](http://www.nrb.org.np).

[www.nepalstock.com.np](http://www.nepalstock.com.np)

[www.sebon.com.np](http://www.sebon.com.np)

## Appendix I

### Impact of Right Announcement on share price movement

Variable Defined,

X = Days before and after announcement of right share

Y<sub>1</sub> = Share Price

Y<sub>2</sub> = Price Index

#### (A) Siddhartha Bank Limited

X	Y <sub>1</sub>	Y <sub>2</sub>
-90	785	679.99
-10	980	855.56
0	1295	794.41
7	1296	1052.92
180	1125	951.62

#### (B) Laxmi Bank Limited

X	Y <sub>1</sub>	Y <sub>2</sub>
-90	349	381.37
-10	455	469.51
0	460	473.31
7	572	508.58
180	650	613.47

#### (C) Kumari Bank Limited

X	Y <sub>1</sub>	Y <sub>2</sub>
-90	377	293.69
-10	326	299.84
0	340	308.13
7	330	301.60
180	439	378.68

## Appendix II

### Value of Rights & the theoretical ex-right price

Variable Defined,

$P_o$  = Current Market Price

$P_s$  = Subscription Price

$P_x$  = Ex-right price

$V_r$  = Value of Right

N = Number of Right Required for an Additional Share

$$V_r = \frac{P_o - P_s}{N+1}$$
$$P_x = \frac{N \times P_o + P_s}{N+1} \text{ Or, } P_o - V_r$$

#### (A) Siddhartha Bank Limited

$$P_o = 1295$$

$$P_s = 100$$

$$N = 5$$

Now,

$$V_r = \frac{1295 - 100}{5+1} = 199.17$$

$$P_x = 1295 - 199.17 = 1095.83$$

#### (B) Laxmi Bank Limited

$$P_o = 460$$

$$P_s = 100$$

$$N = 5$$

Now,

$$V_r = \frac{460 - 100}{5+1} = 60$$

$$P_x = 460 - 60 = 400$$

#### (C) Kumari Bank Limited

$$P_o = 340$$

$$P_s = 100$$

$$N = 4$$

Now,

$$V_r = \frac{340 - 100}{4+1} = 48$$

$$P_x = 340 - 48 = 292$$

### Appendix III

#### Calculation of Mean Value & Correlation between Share Price Fluctuations & Price Index

##### Movement of Siddhartha Bank Limited

F/Y	X <sub>1</sub>	X <sub>2</sub>	x <sub>1</sub> =X <sub>1</sub> - $\bar{X}_1$	x <sub>2</sub> =X <sub>2</sub> - $\bar{X}_2$	x <sub>1</sub> · x <sub>2</sub>	x <sub>1</sub> <sup>2</sup>	x <sub>2</sub> <sup>2</sup>
I	785	679.99	-311.2	-186.91	58166.39	96845.44	34935.35
II	980	855.56	-116.2	-11.34	1317.71	13502.44	128.60
III	1295	794.41	198.8	-72.49	-14411.01	39521.44	5254.80
IV	1296	1052.92	199.8	186.02	37166.80	39920.04	34603.44
V	1125	951.62	28.8	84.72	2439.94	829.44	7177.48
<b>N<sub>1</sub> = 5</b> <b>N<sub>2</sub> = 5</b>	<b>∑ X<sub>1</sub></b> <b>=5481</b>	<b>∑ X<sub>2</sub> =</b> <b>4334.50</b>	<b>-</b>	<b>-</b>	<b>∑ x<sub>1</sub>·x<sub>2</sub> =</b> <b>84679.82</b>	<b>∑ x<sub>1</sub><sup>2</sup>=</b> <b>190618.80</b>	<b>∑ x<sub>2</sub><sup>2</sup>=</b> <b>82099.66</b>

$$\text{Mean } (\bar{X}_1) = \frac{\sum X_1}{N_1} = \frac{5481}{5} = 1096.20$$

$$\text{Mean } (\bar{X}_2) = \frac{\sum X_2}{N_2} = \frac{4334.50}{5} = 866.90$$

Karl Pearson's co-efficient of Correlation;

$$\begin{aligned} (r_{12}) &= \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}} \\ &= \frac{84679.82}{\sqrt{190618.80 \times 82099.66}} = 0.6769 \end{aligned}$$

Coefficient of determination;

$$(r^2) = 0.6769^2 = 0.4582 \text{ or, } 45.82\%$$

Probable Error;

$$\begin{aligned} \text{PE} &= \frac{1-r^2}{\sqrt{n}} \times 0.6745 \\ &= \frac{1-0.4582}{\sqrt{5}} \times 0.6745 = 0.1634 \end{aligned}$$

$$6\text{PE} = 6 \times 0.1634 = 0.9806$$

## Appendix IV

### Calculation of Mean Value & Correlation between Share Price Fluctuations & Price Index

#### Movement of Laxmi Bank Limited

F/Y	X <sub>1</sub>	X <sub>2</sub>	x <sub>1</sub> =X <sub>1</sub> - $\bar{X}_1$	x <sub>2</sub> =X <sub>2</sub> - $\bar{X}_2$	x <sub>1</sub> · x <sub>2</sub>	x <sub>1</sub> <sup>2</sup>	x <sub>2</sub> <sup>2</sup>
I	349	381.37	-148.2	-107.88	15987.82	21963.24	11638.09
II	455	469.51	-42.2	-19.74	833.03	1780.84	389.67
III	460	473.31	-37.2	-15.94	592.97	1383.84	254.08
IV	572	508.58	74.8	19.33	1445.88	5595.04	373.65
V	650	613.47	152.8	124.22	18980.82	23347.84	15430.61
<b>N<sub>1</sub> = 5</b> <b>N<sub>2</sub> = 5</b>	<b>∑ X<sub>1</sub></b> <b>=2486</b>	<b>∑ X<sub>2</sub> =</b> <b>2446.24</b>	-	-	<b>∑ x<sub>1</sub>·x<sub>2</sub> =</b> <b>37840.51</b>	<b>∑ x<sub>1</sub><sup>2</sup>=</b> <b>54070.80</b>	<b>∑ x<sub>2</sub><sup>2</sup>=</b> <b>28086.10</b>

$$\text{Mean } (\bar{X}_1) = \frac{\sum X_1}{N_1} = \frac{2486}{5} = 497.20$$

$$\text{Mean } (\bar{X}_2) = \frac{\sum X_2}{N_2} = \frac{2446.24}{5} = 489.25$$

Karl Pearson's co-efficient of Correlation;

$$(r_{12}) = \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}}$$

$$= \frac{37840.51}{\sqrt{54070.80 \times 28086.10}} = 0.9710$$

Coefficient of determination;

$$(r^2) = 0.9710^2 = 0.9429 \text{ or, } 94.29\%$$

Probable Error;

$$PE = \frac{1-r^2}{\sqrt{n}} \times 0.6745$$

$$= \frac{1-0.9429}{\sqrt{5}} \times 0.6745 = 0.0172$$

$$6PE = 6 \times 0.0172 = 0.1033$$

## Appendix V

### Calculation of Mean Value & Correlation between Share Price Fluctuations & Price Index

#### Movement of Kumari Bank Limited

F/Y	X <sub>1</sub>	X <sub>2</sub>	x <sub>1</sub> =X <sub>1</sub> - $\bar{X}_1$	x <sub>2</sub> =X <sub>2</sub> - $\bar{X}_2$	x <sub>1</sub> · x <sub>2</sub>	x <sub>1</sub> <sup>2</sup>	x <sub>2</sub> <sup>2</sup>
I	377	293.69	14.6	-22.7	-331.42	213.16	515.29
II	326	299.84	-36.4	-16.55	602.42	1324.96	273.90
III	340	308.13	-22.4	-8.26	185.02	501.76	68.23
IV	330	301.6	-32.4	-14.79	479.20	1049.76	218.74
V	439	378.68	76.6	62.29	4771.41	5867.56	3880.04
<b>N<sub>1</sub> = 5</b> <b>N<sub>2</sub> = 5</b>	<b>∑ X<sub>1</sub></b> <b>=1812</b>	<b>∑ X<sub>2</sub> =</b> <b>1581.94</b>	-	-	<b>∑ x<sub>1</sub>·x<sub>2</sub> =</b> <b>5706.63</b>	<b>∑ x<sub>1</sub><sup>2</sup>=</b> <b>8957.20</b>	<b>∑ x<sub>2</sub><sup>2</sup>=</b> <b>4956.21</b>

$$\text{Mean } (\bar{X}_1) = \frac{\sum X_1}{N_1} = \frac{1812}{5} = 362.40$$

$$\text{Mean } (\bar{X}_2) = \frac{\sum X_2}{N_2} = \frac{1581.94}{5} = 316.30$$

Karl Pearson's co-efficient of Correlation;

$$\begin{aligned} (r_{12}) &= \frac{\sum x_1 x_2}{\sqrt{\sum x_1^2 \sum x_2^2}} \\ &= \frac{5706.63}{\sqrt{8957.20 \times 4965.21}} = 0.8565 \end{aligned}$$

Coefficient of determination;

$$(r^2) = 0.8565^2 = 0.7336 \text{ or, } 73.36\%$$

Probable Error;

$$\begin{aligned} \text{PE} &= \frac{1-r^2}{\sqrt{n}} \times 0.6745 \\ &= \frac{1-0.7336}{\sqrt{5}} \times 0.6745 = 0.0804 \end{aligned}$$

$$6\text{PE} = 6 \times 0.0804 = 0.4822$$

**Calculation of t-value between share price before announcement date & share price after  
announcement date**

X<sub>1</sub> = Share price before announcement date

$X_2$  = share price after announcement date

### Appendix VI

#### Calculation of t-value of SBL

$X_1$	$X_2$	$d = X_1 - X_2$	$(d - \bar{d})$	$(d - \bar{d})^2$
1445	1606	-161	108.4	11750.56
1400	1600	-200	69.4	4816.36
1420	1764	-344	-74.6	5565.16
1278	1706	-428	-158.6	25153.96
1351	1565	-214	55.4	3069.16
N = 5		-1347	-	50355.2

$$\bar{d} = \frac{\sum d}{n} = \frac{-1347}{5} = -269.4$$

$$S = \sqrt{\frac{1}{n-1} \times \sum (d - \bar{d})^2} = \sqrt{\frac{1}{5-1} \times 50355.2} = 112.19$$

$$t = \frac{\bar{d}}{S/\sqrt{n}} = t = \frac{-269.4}{112.19/\sqrt{5}} = -5.379$$

### Appendix VII

#### Calculation of t-value of LBL

$X_1$	$X_2$	$d = X_1 - X_2$	$(d - \bar{d})$	$(d - \bar{d})^2$
432	572	-140	-31	961
452	567	-115	-6	36
455	565	-110	-1	1
485	570	-85	24	576
475	570	-95	14	196

N = 5	-545	-	1770
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$$\bar{d} = \frac{\sum d}{n} = \frac{-545}{5} = -109$$

$$S = \sqrt{\frac{1}{n-1} \times \sum (d - \bar{d})^2} = \sqrt{\frac{1}{5-1} \times 1770} = 21.04$$

$$t = \frac{\bar{d}}{S/\sqrt{n}} = t = \frac{-109}{21.04/\sqrt{5}} = 11.58$$

### Appendix VIII

#### Calculation of t-value of KBL

$X_1$	$X_2$	$d = X_1 - X_2$	$(d - \bar{d})$	$(d - \bar{d})^2$
378	439	-61	21.2	449.44
380	435	-55	27.2	739.84
378	435	-57	25.2	635.04
300	429	-129	-46.8	2190.24
315	424	-109	-26.8	718.24
N = 5		-411	-	4732.8

$$\bar{d} = \frac{\sum d}{n} = \frac{-411}{5} = -82.2$$

$$S = \sqrt{\frac{1}{n-1} \times \sum (d - \bar{d})^2} = \sqrt{\frac{1}{5-1} \times 4732.8} = 34.40$$

$$t = \frac{\bar{d}}{S/\sqrt{n}} = t = \frac{-82.2}{34.40/\sqrt{5}} = -5.344$$

## QUESTIONNAIRE

Dear Sir/Madam

I have been writing a thesis "A Study on Right Share Issue Practice on Nepalese Financial Sector" in partial fulfillment of the requirement of Master of Business Studies (MBS). This questionnaire has been developed and presented towards you as a part of study.

I humbly request you to fill it up at the best of your knowledge. Your kind cooperation in this regard will be great value for me.

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

Thank you

Radha Devi Acharya

Researcher

Shankar Dev Campus

Name of Respondent.....

Address.....

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



7. What is the main reason for slow growth of security market in Nepal?
- Due to lack of proper law
  - Due to lack of Liquid capital Market
  - Due to lack of investor awareness
  - Due to lack of financing opportunities
8. In your opinion, which type of trading is more popular in Nepal?
- Primary Market
  - Secondary Market
  - OTC market
  - Third Market
  - Fourth Market
9. Which are the followings factors are more problematic for the slow growth of capital market?
- Lack of proper financing opportunities
  - Lack of proper infrastructure of the capital market
  - Inefficient financial policies
  - Due to lack of investor awareness
10. How would you generally rate the efficiency of stock market in delivering services?
- Very efficient
  - Efficient
  - Less efficient
  - Inefficient
11. Which kind of government securities should be traded on the secondary market through NEPSE?
- Development Bonds
  - Treasury Bills
  - Government Saving Certificates
  - None

12. Why does the Nepalese corporate firms prefer right share instead of other instruments?

- a. Low Floation cost
- b. Easy process to collect the fund
- c. To maintain control position in management
- d. Other causes