

BEHAVIOR OF CAPITAL AND PRIMARY MARKET IN NEPAL



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*In the Partial Fulfillment of the Requirement for the Degree of
Master of Business Studies (M.B.S.)*

**A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University**

**Kathmandu, Nepal
December, 2013**

RECOMMENDATION

This is to certify that the Thesis

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Entitled:

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IN NEPAL**

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DECLARATION

I, hereby, declare that the work reported in this thesis entitled “**Behavior of Capital and Primary Market in Nepal**” submitted to office of the Dean, Faculty of Management, Tribhuvan University, is my original work done for the partial fulfilment of the requirement for the Masters of Business Studies (MBS) under the supervision of **Asso. Prof. Dr. Shilu Manandar Bajracharya** of Shanker Dev Campus.

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ACKNOWLEDGEMENTS

This thesis entitled “**Behavior of Capital and Primary Market in Nepal**” has been a matter of great pleasure for me to complete this thesis under the supervision and constructive guidance of respected adviser **Asso. Prof. Dr. Shilu Manandar Bajracharya** of Shanker Dev Campus. She has been highly helpful in providing all sorts of guidelines, constructive, critical, analytical and moral support in order to complete this thesis in the form as required by the faculty of management, Shanker Dev Campus, Tribhuvan University for the partial fulfillment - Degree of Maser in Business Studies (MBS).

I would like to extend my profound gratitude to all honorable teachers of Shanker Dev Campus, staffs of library and administration and all my colleagues who helped me directly and indirectly for the completion of this thesis.

I would like to extend my appreciation to Nabil Bank, Himalayan Bank and Investment Bank of Kathmandu and staffs who provided me the necessary data and information.

I must also acknowledge to Central Department of Management- TU, Library of Shankar Dev Campus, Central Library of TU, Ministry of Finance, and Nepal Rastra Bank for providing encouragement and necessary books, journals and articles.

Finally, I would like to extend my heartily thanks to all members of my family, friends and relatives who inspired me in many ways to cope during the entire period of the study.

Baikuntha Prasad Gautam
Researcher

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ABBREVIATIONS

AGM	:	Annual General Meeting
ATM	:	Automated Teller Machine
B.S.	:	Bikram Sambat
BOD	:	Board of Directors
Co.	:	Company
COR	:	Company Register Office
CV	:	Coefficient of Variation
DPS	:	Dividend per Share
EPS	:	Earning per Share
etc.	:	Etcetera
FY	:	Fiscal Year
H0	:	Null Hypothesis
H1	:	Alternative Hypothesis
HBL	:	Himalayan Bank Limited
i.e.	:	That is
IPO	:	Initial Public Offering
Ltd.	:	Limited
NIBL	:	Nepal Investment Bank Limited
NEPSE	:	Nepal Stock Exchange
NRB	:	Nepal Rastra Bank
Pvt.	:	Private
Regd.	:	Registration
Rs	:	Rupees
SEBON	:	Security Board of Nepal
SEC	:	Security Exchange Center
SMBL	:	Security Marketing Center
TU	:	Tribhuvan University

CHAPTER-I

INTRODUCTION

1.1 General Background of the Study

The business world today is more sophisticated than of the past. The changing lifestyle and increased demand for goods and services have always been a challenge as well as opportunity to business houses. The expansion of any kind of business is impossible if there is insufficient fund. The firms need finance for various purposes. The type of finance needed by a firm largely depends upon the type of the enterprises, and varies from one firm to other, depending on the firm's peculiarities. The need for long-term assets may be higher for some enterprises than the others and they may require higher amount of working capital too.

The nature and volume of capital needed in a productive process are directly related to the nature and volume of number of components. These components include use of land, capital equipment, labor, building up of stocks and miscellaneous expenses.

There are two sources; internal and external, of fulfilling financial needs of a firm. Internal sources of financing mainly consist of retained profits of the enterprises and the provision for depreciation. This self-financing was the only method of financing an enterprise in a rudimentary stage of the economy where every economic unit is self-sufficient.

With the development of money, finance and financial institutions, it is no longer necessary for an enterprise to finance from its internal sources alone and have a balanced budget. Furthermore, the innovation of corporate form of business organization with the principle of limited liability and efficient techniques of acquiring capital through the issue of variety of ownership and debt securities have enabled investors to satisfy their diverse asset preferences. This has made it possible for a corporate enterprise to attract the external funds from the public by issuing shares. On the other hand, promoters' equity fund may not be sufficient for

its financial requirements whether it is newly establishing company or seeking to expand and modernize. They can get loan from the bank and financial institutions will lend only a certain percentage of the company's equity base or asset which may not be sufficient for the company. Also getting loan from bank and financial institutions is not easy because there may be a lengthy process and legal requirements involved. Issuing of shares to the general public is made compulsory under Securities Exchange Act, 1983 A.D. in Nepal. Promoters will not receive permission from the government authority to establish a public limited company if they do not show desire to include general public in its equity base. Hence, the firm needs to sell part of its total equity to the general public to raise the required funds through public issue of shares.

In Nepal, the first public issue of ordinary shares took place more than fifty years back with the public issue of Biratnagar Jute Mills and Nepal Bank Ltd. in 1973 A.D. But the development of capital market started in 1976 A.D, after the establishment of Securities Exchange center with the objective of facilitating and promoting the capital market in Nepal. It was the only capital market institution, which undertook the job of brokering underwriting, and managing public issue, market making for government bonds and other financial services. Securities Exchange center dealt in the securities as a broker as well as a regulatory body. This center used to take buy and sale only on orders from interested investors and confirm then if and when the price and quantity matched. There was no time limit within which a deal took place. It normally took one day to three weeks. Due to this, general public faced problems while buying and selling shares. The securities Exchange center issued shares of 62 companies from the year of its inception to 1999 A.D. Among these, 23 companies were undersubscribed including Nepal med Ltd. Nimrod Pharmaceuticals ltd. Harisiddhi Brick and Tile Ltd, Himgiri Textile Ltd, Bansbari leather age shoe factory Ltd. Nepal Aawas Bikash Bitta company Ltd., and Yeti Finance Company Ltd, etc. Although the secondary market was non-functional and public were not fully aware of on the working of the capital market. The public response to the new issue of shares of selected companies like banks and finance companies were overwhelming.

In 1993, Securities Exchange Center was converted in to full-fledged Stock Exchange and under its support; the broker system of secondary market was established. Nepal Stock exchange is a non-profit organization and operated under securities exchange Act, 1983. The basic objective of Nepal Stock Exchange is to impart free marketability and liquidity to the government bonds and corporate securities by facilitating transaction in its trading floor through market intermediaries. With the establishment of full-fledged stock exchange, the shares, which the public had held for decades, became liquid. Due to this the public response to new issue, which was lukewarm at best, except for new companies like Grindlays Banks and Himalayan Banks, turned into a buying frenzy.

1.2 Statement of the Problem

There are various types of obstacles existing both from demand and supply side. In this respect, there is the tendency, limitation of ownership and control of the enterprises within the close circle. On the other hand, there were no financial or other incentives for the firms to be public. Furthermore the existing strong barriers of socio economic infrastructure and historical reasons made the successful floatation difficult. On the demand side vast majority of the population are illiterate and ignorant on the modern business principles. It has made difficult in the floatation of the new ventures and selling their shares. Apart from this, there is the absence of secondary market to ensure liquidity to the securities on demand (Mahat, 1981:25-26).

The growth of the primary share market is encouraging in recent years. The commercial banks, finance companies, manufacturing companies, trading etc. have been able to raise capital through the floatation of different types of securities like debentures, preferred stocks, common stocks to the public with very good response. Most of the companies' issues have been oversubscribed and very a few are undersubscribed.

But there have been a lot of fluctuations in the response by public to different companies. In the insurance sector, United Insurance Company Ltd. was able to collect 528.18 million for public floatation of 24 million (22 times over subscription) but Alliance Insurance just collected 6.25 million for the required amount of 20 million.

Similarly, Taragaun Regency Hotel and Nepal Industrial and commercial bank were able to raise substantial capital with very good response from the public Taragaun Regency Hotel collected 151.57 million for 120 million and NIC collected 1220 million for floatation of 175 million in a very short period of time.

Hence, it is felt to find out the behavior of the primary market issue of the different sectors and the responses of the investors in different securities like common stocks, preferred stocks and bonds and debentures. It is also felt a comparative analysis of the public responses of different sectors like insurance, finance, banks, manufacturing etc.

Major issues of primary market behavior in Nepal are as follows:

- ❖ What is the role of primary market in the financial system?
- ❖ What patterns of public response exist to different securities and different sectors?
- ❖ What is the interrelation between primary market and capital market?
- ❖ Are there under subscription of the market in all cases under consideration?
- ❖ What are the problems to issue the Primary market in Nepal?

1.3 Objective of the Study

The main objective of the study is to analyze the Capital Market or primary market behavior in Nepal. The specific objectives are:

- To assess the current situation of primary market issues.
- To examine the sectorized growth of primary market.

- To analyze the relation between dividend per shares (DPS), earning per shares (EPS), and market per shares (MPS).
- To analyze the pattern of public response to different securities and different sectors.

1.4 Importance of the Study

The study focuses on the Capital Market or primary market behavior of the commercial banks, so the study is particularly significant to the investors, managers, bankers, stock analyst, brokers, government officials, academicians, students and any other stakeholders who are interested in understanding the Capital Market or primary market behavior of the commercial banks.

Investors invest money with the expectation of acquiring good returns from their investment. This study analyzes financial situation of the commercial banks and performance of its traded stock. Therefore, the study is significant to investors and general public to help them undertake rationale decisions while investing in the stock of the commercial banks. Moreover, the study provides insight over the financial position and capitalization status of the commercial banks. The bank management can analyze the financial position and performance of their traded stock to undertake necessary steps for its improvement. Since, the study provides general picture of the existing shares market, it is significant to the government and the policy making agencies to prepare/ change policies in a timely manner for efficient functioning and growth of stock market.

In addition, the study would also be useful to stock analyst, brokers and any persons actively involved in stock market. Moreover, the study is significant to academicians and students who are willing to learn about the stock price behavior of the commercial banks and also to those who wanted to pursuer their career in banking or shares business. Taking all the above issues into consideration, this study will analyze the stock price behavior of the listed commercial banks.

1.5 Limitations of the Study

The study has following limitations:

- This study is based only on the financial report i.e. Secondary data.
- This study has covered five-year period i.e. from 2007/08 to 2011/12.
- The study has not paid attention towards the funds flow, cash flow pattern etc.
- The data available in published annual reports have been assumed to be correct and true.
- Only limited financial tools and technique are used for analysis, so this study may not be sufficient for depth analysis.

1.6 Organization of the Study

The present study is organized in such way that the stated objectives can easily be fulfilled. The study report is designed in five chapters which are as follows:

Chapter- I: Introduction

This chapter describes the basic concept and background of the study, problems of the study, objectives of the study, limitation of the study and organization of the study. It is oriented for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter-II: Review of literature

The second chapter consists of literature review. This chapter is subdivided into various sections viz. theoretical framework, Macro concept of the stock market, historical background of the Nepalese stock market details of the stock issue and principle steps in issue of shares and review of past research work.

Chapter-III: Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various source of data related with study and various tools and techniques employed for presenting the data.

Chapter-IV: Presentation and Analysis of data

This chapter analyzes the data related with study and presents the finding of the study and also comments briefly on them.

Chapter-V: Summary, Conclusion and Recommendation

On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization for better improvement.

Bibliography, appendix and other supporting documents have also been incorporated at the end of the study.

Similarly at the beginning part of the study, recommendation sheet, Viva-voice sheet, Declaration, Acknowledgement, Table of Content, List of Table, List of Figure and Abbreviation.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Financial Markets

Financial markets provide a forum in which suppliers of loans and investment can transact business directly. The loans and investment of institution are made without the direct knowledge of the suppliers of fund (savers), suppliers in the financial markets know where their funds are being lent or invested. The two key financial markets are the money market and the capital market. Transaction in short- term debt instruments or marketable securities take place in the money market. Long-term securities (bond and stocks) are traded in the capital market (Gitman, 1988:30).

All securities, whether in the money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from the issue-that is, the company actually receives the proceeds from the sale of securities. Once the securities begin to trade among individual, business, government or financial institution savers and investors, they become part of the secondary market. The primary market is where new securities are sold. The secondary market can be viewed as a used or pre-owned securities market.

2.1.2 The Relationship between Institution and Markets

Financial institutions actively participate in the money market and the capital as both suppliers and demand of funds .The individuals, businesses, and government that supply and demand funds may be domestic or foreign. In some instance there may be legal constraints on the operation of certain institution in the financial market place.

2.1.3 The Money Market

The money market is created by a financial relationship between suppliers and demand market of short-term funds, which have maturities of one year or less. The money market is not as actual organization housed in some certain location, such as a stock market, although the majority of money market transactions are made in marketable securities, which are short-term debt instruments, such as treasury bills, commercial paper, and negotiable certificates of deposit issued by government, business, and financial institutions respectively.

The money market exists because certain individuals, businesses, government, and financial institutions have temporarily idle funds that they wish to place in some type of liquid asset or short-term, interest-earning instrument. At the same, other individuals, businesses, governments, and financial institutions find themselves in need of seasonal or temporary financing. The money market thus brings together these suppliers and demand markets of short-term liquid funds.

2.1.4 Securities Market

Securities Market is concerned; it is an important constituent of capital market. It has a wide term embracing the buyers and sellers of securities and all the agencies and institutions that assist the sales and resale of corporate securities (Rough, 1966:50).

The development of a sound securities market with its constituent financial institution is one of the mechanisms which enable the efficient transformation of savings from the hands of surplus spending units to those of deficit spending ones who can use them more productivity and/ or have loss/ risk aversion (Rough, 1966:56).

Market capitalization is the market value of listed share. In other words, it is the product of closing market price and the number of listed share of a company or companies. (NEPSE)

Relative market capitalization and the number of listed companies can measure stock market size. The market capitalization ratio is determined by dividing the value of all shares listed on a national exchange by the host country's gross domestic product (World Bank, 1995).

Market liquidity or the ability to buy and sell securities easily- also is indicated by two measures. One is the total value of shares traded on the stock exchange divided by GDP. The second measure of liquidity is the turnover ratio, the value of total shares traded divided by market capitalization. Thus, turnover, by capturing trading relative to the size of the stock market, complements the total value ratio, which compares trading to the size of the economy (World Bank, 1995).

Market concentration is determined by computing the share of market capitalization for the ten largest stocks on the exchange.

Gross Domestic product (GDP) is the value of all goods and services produced in one year.

2.2 Stock Market

2.2.1 Stock Exchange

Stock Exchange also called stock Market, or Bourse (in continental Europe), is an organized market for the sale and purchase of securities such as shares, stocks, and bonds. In developed capitalist countries, the stock exchange has important functions: as a ready market for securities, it ensures their liquidity and thus encourages people to channel savings into corporate investment; and as a pricing mechanism, it allocates capital among firms by determining prices that reflect the true investment value of a company's stock (the present worth of the stream of expected income per share).

Trading is done in various ways. It may occur on a continuous auction basis, it may involve brokers buying from and selling to dealers in certain types of stock or it may be conducted through specialists in a particular stock. Membership requirements of the exchanges of different countries vary mainly with respect to

the number of members, the degree of bank participation, and the rigour of the eligibility requirements. They also differ in the degree to which government participates in their management. The London stock exchange, for example, functions as an independent institution, free from government legislation. In the United States, stock exchanges, although not subject to direct government participation in their operation, are subject to rather specific legislative regulation. In Europe, it is quite common for the members of the exchanges to be appointed by a government official and to have semi governmental status.

Stock Exchange: Market for the sale and purchase of securities of corporations and municipalities and in some cases of certificates representing commodities of trade.

Originally, stock exchanges were free to anyone who wished to buy or sell: it was probably with this function in view that some of the older exchanges notably the Paris Bourse were established in buildings erected at public expenses. It was quickly discovered however, that in order to enforce bargains some formal organization was necessary. Membership in stock exchanges therefore came to be limited on the general basis used by clubs or other association. The stock exchange plays an important role in the capitalistic economy. Investment bankers make the initial sales of corporate securities. Thereafter, stock exchange provides markets for the securities, enabling the original investor to sell their securities as the need arises and thus encouraging original investment.

The leading stock exchanges in the world are the New York stock exchange, the London stock exchange and the Tokyo stock exchange. A further important exchange of a much less regulated sort is the National Association of Securities Dealers Automated Quotation (NASDAQ) system. This is a computerized market linking dealers throughout the United States and to some extent Europe. NASDAQ is the second largest and fastest growing US stock exchange and facilitates the trading of over the counter (OTC) securities-as well as the shares of large companies. The example of NASDAQ illustrate a general trend towards increased competition and the use of computerized trading system to replace the traditional

stock exchange floor where dealers and brokers meet and trade in open outcry. The London stock exchange has been entirely computer-based since the reorganization or Big Bang in 1987, with dealers able to see all prices on screen instantaneously. In contrast, the New York stock exchange from new computerized trading floor. There has also been increased competition for the traditional nation exchange from new computerized trading systems produced by commercial companies. With the arrival of high-speed computers and advance in information technology, the cost of providing a centralized market for shares via computer screens has reduced dramatically.

By using alternative trading system it is sometimes possible to reduce transaction costs and also avoid some of the regulation that formal stock exchange inevitably impose. Similarly there is lot of competition in between the stock exchange of different countries. For example, it is possible to buy and sell French shares on the London market, using the stock exchange automated quotation international (SEAQ international) system. SEAQ international has been dramatically successful in capturing market share from the domestic stock exchange of many countries to the extent that for some countries a larger proportion of trades take place in London than on their own exchanges.

As competition between exchanges has developed, the trading system of stock exchange has divided into two broad categories. First some leading exchange for example London use the market maker system. Under this system market makers continuously quote the prices at which they are prepared to buy and sell each share. Investor are able to see these prices and the stock exchange rules specify that all trades should take place at the best prices for investor (that is, the highest price if you are selling and the lowest price if you are buying). All the prices are visible on computer screen and market makers are committed to honoring their prices for trades up to a certain size (the normal market size or NMS). For trades above the NMS market makers prices are indicative only and negotiation with the market makers will finalize the prices. The perceived advantages of the system are immediate execution of orders and price certainty at any point in time.

The second type of trading is the auction system, whereby all buy and sell orders from investor are collected together and matched against each other, with the price being set to attempt to clear the market. A leading example of auction-based system is the Paris bourse. Auction can be continuous, usually operated, by computer or batch auction, which occur once or twice a day. The advantages of such a system is cheapness (as no one have to pay for the service provided by market makers), although it may not be possible to trade immediately or at a known price.

Stock exchange around the globe are developing rapidly and facing competition both from each other and from new high-tech entrants. It seems likely that there will be a continued trend towards concentration of share trading in a few leading centers, with domestic stock exchange in some countries becoming increasingly irrelevant. Within Europe for example there have been moves to develop a pan European stock exchange, although to some extent this already exists in the form of SEAQ international. Individual countries seem loath to give up their domestic stock exchange although as financial markets are now so liberalized and as information technology develops further there is nothing to stop individual investor using whichever stock exchange system is the cheapest or most efficient.

2.2.2 Capital Market Concept

Capital market refers to the links between lenders and borrowers of funds, arranging of funds-transfer process to seek each other's benefit (Philips, 1979:220). These lenders and borrowers coming together in the capital market play effective financial intermediary role to activate capital market play effective financial intermediary role to activate both primary and secondary market through the use of various long term capital market instruments like common stock, bonds, preferred stock, convertible issues and many more like that. The participants in the capital market are small business, large business and government. Funds flowing into the capital market are available by lenders for terms longer than those flowing in the money market.

Capital market consists of the various suppliers and users of long term finance. As it is differentiated from the money market which embraces short-term finance. The capital market serves as a link between suppliers and users of finance. It is a mechanism for the mobilization of public savings and channeling them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and the sellers of securities and all those agencies and institutions which assist the sale and resale of corporate securities (Gupta, 1978:88).

Primary markets are absolutely vital to capitalistic economies if they are to function properly, since they serve to channel funds from savers to borrowers. Furthermore, they provide an important allocative function by channeling the funds to those who can make the best use of them-presumably, the most productive. In fact, the primary function of a capital market is to allocate resources optimally. A securities market with the lowest possible prices for transactions services (Jones, 1988:20).

The capital market is a financial relationship created by a number of institutions and arrangements that allows the supplies and demanders of long term funds-funds with maturities of more than one year-to make transactions. Included among long-term funds are securities issue of business and government. The backbone of the capital market is formed by the various securities exchanges that provide a forum for debt and equity transactions. The smooth functioning of the capital market, which is enhanced through the activities of investment bankers, is important to the long-run growth of business (Gitman, 1988:170).

Some organizations and individuals have more money than they currently need, and are thus, often described as lenders. Others need many more than they have and are required to borrow from others, and are thus called as borrowers. It would be reasonable to suppose that surplus units and deficit units would be aware of each other's existence and that the surplus unit would be willing to allow the deficit unit to use their surplus to their mutual advantages. To protect the interests of both, an exchange would take place with somewhat understanding. Such an

exchange may be called direct external finance and internal finance. The indirect external finance involves a third unit, usually called financial intermediary that accepts money from surplus units and release to deficit units. The other type of finance is that where the financing is carried out within the same economic unit.

Financial intermediaries are participants in the finance market, along with individual and commercial companies, individuals and of course, various agencies of government. The term finance market is used to refer to short-term, medium term and long term market for the funds. Thus bonds company debt and equity issues, short and medium term government debt etc.

Thus the capital market includes:

- Activities relating to the organization distribution and trading in of securities
- Organization which facilitates this activities
- Individuals and institutions which buy and sell securities and
- Rules, regulations, customs and practices that control the organization and conduct of business in the market.

The capital market may be studied under two headings i.e. New Issue Market and Secondary Market

The New Issue Market

The new issue market is concerned with the floatation of shares and distribution of shares to the general public. It consists of companies issuing securities to the buyer of new securities and various intermediaries that help in the disposal of new securities. Issue managers, underwriters, stock brokers, stock exchange etc. are the important constituents of the new issue market. Stock exchange provides facilities of trading in listed securities. It is the market where various securities are brought and sold for investment or speculative purchase. So that is concerns with the resale

of already issued securities. But it is one of the most integral parts of the new issue market and the change of one certainly affects the others.

The new issue market is a primary finance market, because it is concerned with the creation of new financial claims. It provides an organization, which may be used by deficit units to raise funds from surplus units. In Nepal, it is controlled by the stock exchange authorities and is closely related to the secondary market. And the secondary market is less likely to be effective if there is no primary market to feed it.

There are three ways in which a company may raise capital in the primary market.

- Public Issue-

This involves sale of securities to the public. It is by far the most important mode of issuing securities.

- Right Issue-

This is a method of raising further funds from existing shareholders by offering additional securities to them on a preemptive basis. It involves the offer of additional shares to existing shareholders. These are offered in proportion of existing shareholdings. Each existing shareholder receives one right for each share owned. The right states the terms of the option to purchase new shares, specifying the number of shares required to purchase each new share, the subscription price for new share, and the expiry date of the option.

- Private placement

It involves selling securities privately to a single investor or to a small group of investors. In the United States private offerings are made under an exemption from SEC registration. Section 4(2) of the Securities Act of 1933 allows the unregistered sale of securities by an issuer so long as it is not a public offering. In general, the provisions set forth in Section 4 (2) require that private placements be

sold to a limited number of sophisticated investors who are buying for investment purposes.

These right issue and private placement are primary issue but these are not public issue.

2.3 Role of Stock Exchange

Stock exchange is the market where second hand securities are bought and sold for investment or speculative purposes. It provides facilities of trading in listed securities. In the recent years, the authorities are increasingly recognizing the role of the stock exchange (Sur, 1980:40). Stock exchange is not and has at no time been the private concern of a few individuals. Nor have their activities been limited to the cyclical booms and slumps, which attracted so much popular attention. The stock exchanges as the market for securities gives everybody access to a number of different opportunities for capital investment. The function of the stock exchange is to provide equal opportunities for as many buyers and sellers of securities as possible. From a general economic point of view the stock exchange constitutes the core of the capital market. It has put its finger on the pulse of the economy and gives its diagnoses to the public in the form of quotation (Franfurter, 1972:60).

Investment is the lifeblood of economic development. It is evident that stock exchange will continue to fulfill their vital functions in the national economy. So long as private enterprises exist. We know that the stock exchange is the place where stocks and shares are bought and sold.

The substantial competition in innumerable buyers and sellers determines the prices with a measure of precision that cannot be obtained in other unorganized market to such as the property market where activity are of a spasmodic nature.

The stock exchange is intricately interwoven in the fabric of the nation's economic life. W.T. C. says- "Without the stock exchange, the savings of the community the sinews of economic progress and productive efficiency would be used much less

completely and much more wastefully than they are now". The task of mobilizing and distribution of savings could be attempted in the old days by a much less specialized institution than the stock exchange. But as business and industry expanded and the economy assumed a more complex nature the need for a permanent finance sector arose. Investors wanted liquidity the facility to convert their investments into cash at any given time. The answer was a market for investments and thus was how the stock exchange centre came into existence.

This institution plays a notable part in the economic life of the country acting as a free market for securities, where prices are determined by demand and supply. The function of a stock exchange is not only to provide a market for securities but also assist in the raising of funds for government and industry. Thus, free and active markets in stock and shares have become a prerequisite for the mobilization and distribution of a nation's savings as to support modern business (Stock Exchange, pp.40-48).

In this way, we can say that the stock exchange has a vital role to play in helping industries to raise necessary finance. They have a supremacy importance function to perform in developing a stock capital and to enable government to raise loans. Their servicing is indispensable in the operations by the authority for the regulation of the country's credit play. It is generally thought that a stock exchange serves only to those who have money to invest and securities to sell. This is an understatement for a stock exchange benefits the whole community in a variety of ways. By enabling procedures to raise capacity it indirectly gives employment to millions of people and helps consumers to get goods needed by them.

2.4 Historical Background of Nepalese Stock Market

The record of historical growth in Nepal provides merely primary stage of capital markets. The vanshavalies and chronicles have very little to say regarding how government of that time look on the relationship between economic development and capital market. The political negligence and fundamental economic

domination can be said to be responsible for having no historical base for the growth of capital market.

During the Rana regime, which is said to be most dark ages in the history of Nepal, the irresponsible habit of promoting self-interest in disregard to larger interest of the society as a whole created total bankruptcy in nation's financial resources? The ideas of promoting investment, technological innovation and industrial development were not given priorities. As a result of the exploitative mentality, the capital markets were not developed.

During the Rana regime no effort was made for change or development. They had a closed economy. Thus, through there was some development. They had a closed economy. Thus, through there was some development it was not due to the will of the rulers but only because of the time. But during the period of Juddha Samsher, an idea to develop capital market in the interest of Rana family was managed through a part of potential Indian investors. Company act was promulgated and numbers of public limited companies were formed under the sole monopoly of Rana family. Anyhow capital market got signals of development under the permit of Ranas share concentration investment policy. At the same time, Tejarath was found to facilitate loans to government employees. The time of booms in the growth of joint stock companies simply bought only bubble companies stimulated under abnormal situations of war and host of privileges and facilities provided by the then Rana Government. But, after a war, number of these industries collapsed one after another in such a way that there was a serious set back on the growth of capital markets. Some new hopes came under the new era of elected government but it was soon put into dustbin through political changes of inefficiency.

Afterwards, the Panchayat government came to further economic development by various slogans of people's participation, regionalism, basic needs, industrial development, trade promotion, resource mobilization etc. There were so many proposals to develop capital market. But Securities Marketing center was found only during 1970 AD to start the capital market development. Immediately after that, Securities Exchange Act was passed by Rastriya Panchayat to facilitate

securities transactions. The name of the center has been changed to Securities Exchange Center.

For the first time in 1937 A.D. Nepal Bank Ltd as a commercial bank was established by the initiative of Udyog Parishad. The main objective of this institution was to rate habit of savings and turns these into investment. It has been helping a lot in promoting of industries and commercial development of the country. Later on another commercial bank named Rastriya Banijya Bank was established in 1964 A.D. After the adoption of liberalized economy in the country these financial institutions are responsible for mobilizing the public deposits to business enterprises by offering attractive interest rates and by providing better and reliable services to the depositors.

In the context of the development of capital market, Nepal Industrial Development Corporation (NIDC) has also played a vital role. To rate an industrial environment, this corporation was established in 1961 A.D. The main objective was to develop industries in modern way to provide necessary financial and technical help, to provide loan and facilities to the industrialization in the private sector. Since its establishment, the fixed capital needs of the companies have been met by NIDC and provides up to 85 percent of the fixed capital needs of industrial organization. Besides granting direct long-term loans it also participates in the equity shares of industrial enterprises. Also it gives guarantees on industrial loan provided by commercial banks.

The immense activities done by NIDC can be great to help foster the capital market in Nepal. One thing essential for the rapid growth of capital market is to persuade business firms to convert themselves into public limited companies. Companies requiring large amount of funds should be asked to raise at least a part of their financial needs by issuing shares in the market.

The commercial fact faced by the economy is the lack of public confidence in enterprises. The confidence of investors in business can be enhanced if NIDC and commercial banks & other financial institutions underwrite the shares issued by public companies.

Employee's Provident Fund, which was established in 1962 A.D., also cannot be neglected as it has contributed a lot in the growth of capital market. It has been mobilizing the employee's savings to commercial banks, from where the funds find their way to business enterprises investment in the government's development bond and at the same time providing loan to various corporations are some other activities undertaken.

Securities Exchange Center (SEC) was established in Nepal in 1976 A.D., to promote the public savings and to mobilize capital funds for industrial investments. In a real sense, the establishment of this center has made possible the development of capital market in Nepal because prior to this there was no special institution in Nepal dealing with securities. This center managed to issue public shares and debentures of 23 corporate bodies for rising about Rs. 500 million from Public.

In 1993 A.D., remarkable development took place in the capital market. Under a program initiated to reform the capital market the Securities Exchange Center was converted into the Nepal Stock Exchange in order to increase marketability to government bonds and corporate securities. Nepal stock Exchange opened its trading floor in 13th January, 1994 providing membership to 5 market makers and 25 brokers. The members are permitted to act as intermediaries in buying and selling of shares of listed companies. At present, there are 24 brokers. The number of listed companies increased from 63 in 1992/93 to 99 in 1994/95 and the market value from 4,000 millions to 12,963 millions respectively. After opening the trading floor to brokers and market makers the total annual turnover rose from 70 million in 1992/93 to 1,052 million in 1994/95 (SEBO/N).

The earliest records of securities dealing in Nepal are meager and obscure. In those days there was no remarkable movement or industrial development. Still it is on the rudimentary stage. No attempts were made to mobilize private savings and use them to productive sector. There were no media or market mechanism that facilitated the transfer of funds from surplus spending. Units (the units whose current income is less than current expenditure) became obvious. Except for a brief period starting from 1963 AD until the end of the Second World War, no attempt was made to collect funds for the industries through the floatation of securities. It is specially the stocks in the market. In the absence of the development of corporate security market, the securities floated in the market are the government securities. Through them the government assembles the funds directly from the surplus spending units via the financial intermediaries. So far the government has the virtual monopoly over the security market. The resort to security market by the government has been in the form of borrowing. It is through the insurance of mainly the development bonds to meet the budgetary expenses. The first series of development bond was floated on Feb 12, 1964. It carried 6% rate of interest and had the maturity period of 5 years. Since then the government has been floating the development bonds each year. Till now it has floated 26 issues of such bonds. The interest rate was ranging from 5% to 15.5% and with the maturity period varying the fiscal year 1965/66 amounted to Rs. 7.5 million. In 1970-71 it was equivalent to Rs. 3 million and it reached Rs. 300 million in 1976-77. From the very beginning of SMC, over the counter market for government bond was started. Despite resistance due to the level of awareness about financial assets from investors, it was able to carry transactions of government bond with turnover of Rs. 787 million in 1992-93 as against Rs. 372 million in 1980-81.

Securities Board Nepal acronym SEBO/N was established on May 26, 1993 after the first amendment in the Securities Exchange Act became effective. The same Act mandated SEBO/N to act as a securities market regulator and developer. Accordingly, Securities Exchange Centre (SEC), a government enterprise previously acting as a socio market operator and regulator, was restructured into

present form of Nepal Stock Exchange. Another major event of restructuring was the creation of the SEBO/N as a separate government regulator.

The securities market witnessed interesting ups and downs from its establishment to date. SEBO/N's regulatory interventions were targeted to discipline the market and consolidate its position and central securities market regulator. The developmental initiatives particularly undertaken through educational and research activities were targeted to nurture the existing market.

2.5 Guidelines in Issue of Shares

2.5.1 Principle Steps in Public Issue

There is not any rule of thumb regarding the steps in public issue. But the company, which desire to offer its shares to the public should receive permission from the concerned authorities.

The major steps that have been followed to issue securities in Nepal are:

- Appointment of the issue Manager

Appointment of the issue manager is the first step for the public issue. When the company needs and wants to go to the public then they should draft its prospectus as a legal requirement. In this prospectus company should mention the brokerage of shares and new issue manager.

- Drafting Prospectus

The issue managers or company itself may draft prospectus. It contains:

Full personal details of directors of the company, the sponsors auditors, bankers and brokerage of shares and also of the managing agent if any.

Date of incorporation of the company information about capital structure including authorized and issued capital, voting rights, loan, capital, mortgages in force and other borrowings.

Objective of the company, summary of principal, provisions of the company's articles of association with particular reference to the voting power of directors.

Extensive commentary on company's operations including minimum three years financial positions and list of subsidiaries and their business etc. if the company is already in operation.

Qualification share required for the board of directors and sales or remuneration applicable to them and shares or cash received as remuneration by the promoters of the company.

Total number of directors in the board and the member of directors to be elected form among the general public shareholders.

The number of shares offered to the public for subscription provision for reserving the shares for the employees or any shares and minimum number of shares which must be subscribed prior to the allotment and the advance payment to be made on each share along with the application.

The assets purchased with the proceeds of the sales of shares the name of persons selling them and particulars of arrangement where payment is in the form of shares or debenture in lieu of cash and the loans raised through the sale of debenture.

Estimation of the income and expenditure of the company at least for the three years of operation and highlights of the balance sheet and profit and loss account for the previous years.

Information about the application for shares place of application submission and the banker for money deposit.

Shares or cash received or to be received as remuneration by promoters of the company and whether any funds of a promoters or a directors are involved in the purchase or intended purchase of assets by the company and whether any promoters or directors are involved in the purchase or intended purchase of assets

by the company and whether any promoter or director is a partner in any firm or is connected with any other company, and other necessary details.

- Filling of the prospectus with the Registrar of Companies:

The prospectus contains information about the company and the proposed security issue to the investing public. The draft prospectus signed by the investing public. The draft prospectus signed by the directors and application form along with the article and memorandum of association must be forwarded to the company Registrar, along with required documents by the company act.

- Application for the public issue to the Securities Board of Nepal

Once the office of the company registrar approves the prospectus, it should be submitted to the Securities Board of Nepal along with issue fees to get approval for new issue.

- Appointment of under writer:

As underwriter agrees to subscribe to a given number of shares in the event the public do not subscribe to them. The underwriter, in essence, stand as a guarantee for public subscription in consideration for the underwriting commission. The principal underwriters are the banks finance companies insurance companies etc. The most common practice now is to go to for consortium under writing, they underwrite an arrangement whereby the public issue. Underwriting of shares is optional for the company. Normal practical of Nepal is that a few company show desire to underwrite its share because it increases issue cost.

- Appointment of the banker:

The banker to the issue collects money on behalf of the company along with the application form.

- Printing of Prospectus and application form and dispatch.

After completion of all the activities to take approvals the next step of new issue is printing of prospectus and application form. The quantity of the prospectus and application form depends upon the issue size and the nature of the company. But it should be sufficient to distribute.

- Promotion

Although, the promotional campaign typically commences with the filing of the prospectus to the concerned authorities but when the company release announcement of the issue it actually started. Public brochure investment forum broker forum can be held and advertisement may also release in newspapers and periodicals to generate interest among potential investors.

The announcement of the issue must be made at least 15 days before the opening of subscription list.

The announcement of the issue will specify when the subscription would open and when it would close and the application collection center. During the period the subscription is kept open the collection center will collect the application form from the investors. When the issue is over subscribed the issue will be closed. But subscription must be made open for minimum of seven working days and maximum of 30 days for once.

- Allotment of shares

If the issue is under-subscribed or just fully subscribed the company may allot the shares applied for by the applicants after securing the formal approvals from the concerned authorities. If the issue is over subscribed the frequency distribution of applications of different size categories is prepared and on the basis of this an alternative patterns of allotment are prepared and allotted. The guiding principal is that the allotment should be titled in favor of the smaller application.

When the allotment is completed company will distribute allotment letters and then after share certificates.

2.5.2 Investing in Public Issues

Public issue provides opportunities for picking up shares at relatively low price to the general public. Newly formed companies offer their shares for subscription at par values, whereas existing companies may price their new issue with a little premium. But the premium will certainly be less than the market price of the shares.

This is the main reason why price issue is so popular with the investors. But investing in public issue is also risky investment. If the selection for subscription is wrong, the company will be collapsed and investor will loose the investment.

Public issues are generally given widespread, nation wide publicity through advertisement in newspaper and magazines well before the date fixed for opening of the issue. These advertisements, along with the other highlights of the issue and risk factors as perceived by the management, give the name of issue manger and application collection centre.

The subscription list is required to be kept for minimum period of seven days and maximum of 30 days. Since most of the public issues are oversubscribed, the subscription list is usually closed immediately after seven days. Any individuals interested to invest should submit their application form and the stipulated application money to any one-collection center or to issue manger. Application sent by post with the bank draft should reach to the issue manager before the allotments of the share but the bank draft should be drawn within the period during which the subscription remains open.

2.5.3 Analyzing a Company before Subscribing

Rules and regulations alone would not be able to protect the interest of investors. Investors themselves should be able to analyze and evaluate on following aspects of the company.

Management

A company can be only as good or bad, as its management. It is management that provides the main driving force behind corporate performance. So investors should evaluate the company's management. Companies run by traditional management and some foreign companies with so-called professional management's have poor record of performance. But companies run by professional management are good whether this is national or foreign management. Full personnel details of the promoters and directors of the company will be on prospectus. On the basis of these investors can evaluate the management of the company.

Size of the company

Large companies generally offer better investment opportunities than the smaller one. This is so because large companies can use economies of scale, which smaller companies cannot. The former are thus able to reduce costs, and establish a clear competitive edge over smaller companies. Large companies, by virtue of their higher production, generally occupy a stronger and more dominant position in the market. Since large companies normally generate larger surplus. As a result, investment in large companies is generally safer and more stable than in smaller companies. This does not mean smaller companies would not be able to have good performance. There is not any rule-of-thumb to identify small and large companies but equity capital may be the good basis of calculating large and small companies.

Growth of the company

Growing companies provide excellent investment opportunities. As a company grows and expands its profit also grows.

Growth does not come by accident; companies have to plan for growth. They have to identify growth product and areas and prepare detailed plans for implementation of expansion cum diversification projects.

Company's Environment

Companies are inextricably linked to their industrial, commercial and economic environments. Each and every company can't keep themselves all for from these environmental influences. In an advanced environment, even the most profitable and well-managed companies' find the going rough, where as a favorable environment usually gives a boost to even the most sluggish and mismanaged companies.

Inflation being a persistent and nation wide problem affects the working and performance of all companies. However, the nature and extend of its impact on each company varies considerably. Some companies are adversely affected by it, whereas others are not able to cope with it effectively but actually thrive on it.

Retained Profit and Reserve

After deduction of all expenses including taxes, the net profits of the company are split into two parts-divided and retained profits. Dividend is that portion of the profits which is distributed to shareholders, whereas retained earning is the portion that is retained by the company and added to its reserves. The figures for retained profit and reserves of any company can be obtained by a cursory glance at its balance sheet and profit and loss account.

Retained profit is important because it not only increases the reserves of a company, but also provides the company with funds required for growth and expansion. All growth companies maintain a high level of retained profit. So if you are looking for al growth company to invest in, you should examine its retained profit figures. Companies that have no intention of expanding are not likely to retain large portion of their profits.

Reserves constitute the accumulated retained profits of a company. It is important to compare the size of a company's reserves with the size of its equity capital. This will indicate whether the company is in position to issue bonus shares. As a rule, a

company whose reserves are double the amount of its equity capital should be in a position to make a liberal bonus issue.

Retained profits also belong to the shareholders. This is why reserves are often referred to as Shareholders fund. Therefore, any additional to the reserves of a company will normally lead to a corresponding increase in the price of the share. The higher the reserves, the greater will be the value of share. Retained profits may not come to you in the form of as, but they benefit you by pushing up the price of your shares.

Book value per share

Book value per share indicates what each share of a company is worth according to the books of accounts of the company. The company's books of account maintain a record of what the company owns (assets), and what it owes to its creditors (liabilities). If the total liabilities of a company subtract from its total assets then what is left belongs to the shareholders, called the shareholders funds. If you divide shareholders funds by the total number of equity shares issued by the company the figure that you get will be the book value per share.

Book Value per Share = Shareholders Fund/Total number of equity shares issued.

The figure for shareholders funds can be obtained by adding the equity capital and reserves of the company.

Shareholders Funds = Equity Capital + Reserves.

Book value is historical records based on the original prices at which assets of the company were first purchased. It doesn't reflect the current market value of the assets of the company. Therefore, book value per share has limited usage as a guide for evaluating the market value of price of a company's shares. It can at best give you a rough idea of what your shares should be worth.

The market price of shares are generally much higher than what their ratio book value per share can prove useful to you while assessing whether a particular share is over-priced or under priced.

Earnings per share

That is well-known and widely used investment ratio. It is calculated as under:

Earnings per Share (EPS) = Profit after tax/Total number of equity shares issued.

This ratio gives the earnings of a company on a per share basis. EPS is the true indicator of the returns on the share investments. Therefore, irrespective of what price you buy a particular company's shares at. Its EPS will provide you with an invaluable tool for calculating the returns on your investment.

Price / Earning Ratio

The price/earning ratio, (P/E), expresses the relationship between the markets price of a company and its earnings per share.

Price/Earning Ratio (P/E) = Price of the share/Earnings per share

This ratio indicates the extent to which earnings of a share are covered by its price.

This ratio is a reflection of the market's opinion of the earning capacity and future business prospects of a share. Company which enjoy the confidence of investors and have a higher market standing usually command high PE ratios.

On the face of it, it would seem that companies with low P/E ratios would offer the most attractive investment opportunities. This is not always true. Companies with high current earnings but dim future prospects often have low P/E ratios. This does not make them good investments. As an investor your primary concern is in which the future prospects of a company and not its present performance. This is the main reason why companies with command high P/E ratios are preferred. The present price of a share, to a great extent, discounts its future earnings.

2.6 Review of Related Studies

There are some related issue regarding rights issue of shares and its practice. Through review of Review of Books, Journals/Articles and Review of Master Thesis.

Marsh, (1980). Valuation of underwriting agreements for UK rights issue states that UK companies raise virtually all of their new equity capital via the rights issue. Companies can guarantee the subscription of their issue having them underwritten and in recent years this procedure has been adapted for 90% of UK rights issues. Underwriting is usually carried out on a fixed fee basis representing at least 1.25% of the total money raised, it shows substantial money are involved. Underwriting is simply a put option giving the company the right to put a failed issue on to the underwriter. He explains an application of Black and Scholes model to the valuation of rights issue underwriting agreements over the period of 1962 to 1975. Prices are compared with the fess charged in order to asses whether the letter represent competitive prices.

Eckbo and Masulis, (1991). Eckbo and Masulis find evidence consistent with this market reaction is most negative for underwritten offerings and least negative for uninsured rights, and in between for standby rights where the ex ante subscription rate is not as high as for uninsured rights offering. Many firms cannot expect to have their rights offering fully subscribed. As they noted rights subscription rates will depend on personal wealth constraints of shareholders, portfolio diversification considerations, transaction costs and tax liabilities of selling rights, and benefits from maintaining proportional voting power.

Shrestha, (1992). In Nepal, size of the shareholders population has been growing constantly the government also seems does not take any initiative in formulating the separate act which protects the shareholders rights. In Nepal, the concerned officials seem to be not relevant as they interfere in the shareholders get ignored. In the annual general meeting, shareholders can amend the internal by laws, elect directors, authorize the sale of assets enter into mergers,

change amount of the authorized capital and so on. But in Practice, many annual general meeting have undermined the collective rights of the shareholders. National Life and General

Insurance Company had suppressed the collective rights of shareholders by not adhering to the consent of shareholders members in the board though the proposal was put forward by the management. Same case is happened of Butwal Dhago Udhyog as the management wanted to have a control over the collective rights of shareholders.

Weston & Brigham, (1992). The use of rights will permit shareholders to preserve their position or improve that. However, if investors feel that the new financing is not well advised, the rights offering may cause the price of the stock to decline by more than the value of the rights. Because rights offering are directed to existing shareholders, its use can reduce the cost of flotation that is associated with the new issue.

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

Pandey, (1999). There are many articles published on various journals about rights issues. Rights issue involves selling of ordinary shares to the existing shareholders of the company. The law in India states that the new ordinary shares must be first issued to the existing shareholders on a pro rata basis. This Pre-emptive right can be forfeited by shareholders through a special resolution. Obviously, this will dilute their ownership.

Rights offering can be used effectively by financial managers. If the new financing, associated with the rights offering represents sound decision, improved earnings for the firm, a rise in stock values will probably be the result.

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

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

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 its shares, but where are they now? Similarly, it has been more than a year that Bansbari Leather had allocated its shares, but why did not the company list its shares in the market? It has been three years that Gorakhali Rubber Udhog has not called for its AGM. The Government remained silent in all these cases. This is why, the general public also well as the institutional buyers are not feeling secure investing in stock market” (New Business Age, January 2000: 25).

The SEBON further informed that it permitted a total of 16 companies to issue shares during the period of these companies issued shares worth rs1.02 billion during the last fiscal year, states the statement. Speaking on the occasion, Deepak Raj Kafle, chairman of the SEBON stressed on the need to attract investors in the capital market.” Lack of necessary laws has been stalling the growth of the capital market, he said. He however said that enforcement of the securities Act that is awaiting royal seal will help to ameliorate the capital market along with the secondary market (The Katmandu Post, Friday November 5, 2004:2)

In this fiscal year (2004/2005) securities market indicators in general witnessed an uptrend almost the decelerating growth trends in the economy. The capital mobilized by the corporate sector through the issue of securities has increased. Likewise the value of securities traded in the stock exchange and the market capitalization of listed securities has also increased significantly. During the year, SEBON’s policy priority; was on developing legal framework for trading of government securities through the stock exchange, enhancing professionalism of market intermediaries establishing system for the identification of investors, systematizing the grievances handling procedures and building awareness in the corporate sector to encourage good corporate governance practice Annual Report of SEBON, 2004/2005.

Baral and Shrestha (2006) conducted a research on “Daily Stock Price Behavior of Commercial Banks in Nepal”. This study examined the stock price behavior of listed commercial banks by using the daily price movements of commercial banks sampled randomly in the fiscal year 2005/06. Observations of daily stock prices of sampled banks indicate that there is a large variation in their stock prices in the fiscal year 2005/06. They are not doing well in Nepalese stock market. Most of the serial coefficients are significantly deviated from zero and statistically insignificant. It signifies that the successive price changes are dependent. Therefore, the Nepalese stock market is inefficient in pricing the shares. Runs test results also show that the percentage of deviation between the observed and actual number of runs in the series of price changes is significant. It is obvious that the

successive price changes are not random. Thus, RWH does not hold true in the context of Nepalese stock market.

Ghimire (2006) in his article stated that NEPSE is operating in unhealthy way. His logic behind this is that artificial boom of share price, less numbers of brokers, lack of institutional investors, and limited supply of shares i.e. only 3% of shares are on trading (Kantipur Daily, December 13)

Shrestha (2008) In his article stated that due to lack of institutional investors and mutual funds Nepal's share market is not able gain the trust of overall investors and potential investors. He recommended in the need of institutional investors, transparency of all the listed companies, consultants and portfolio managers for the systematic development of stock market (Rajdhani Daily, April 21).

Pokhrel (2008) former president of Nepal Brokers Association, in the case of under subscription of Nepal Telecom share expressed his view in Kantipur daily that in Nepal's share market general investors' psychology is more important than fundamental financial statement. His opinion clears the importance of technical analysis in Nepalese stock market.

Bhandari (2008) wrote an article on the topic "Right share and stock Divided Mania" in the August edition of "New Business Age". In this study, he has mentioned about the lack of knowledge of general Nepal investors about the rights issue. He has tried to give the answer to the question like; why a company offers right share? Dose the right share really have positive impact on the share price. What are the parameters to consider before investing in case of right share?

A number of existing bank and financial institutions are issuing right share to upgrade themselves from 'C' and 'B' grade financial institutions to 'A' grade commercial bank. Usually companies offer right share when they are growing very fast. This is one of the cheapest means of getting fund from the market to fulfill their need for investment for expansion. As compared to public issue of the common stock of the company, right offering are much less expensive because the transaction cost, administrative cost and underwriting commissions are much

lower than in the public issue. Another reason for the right offering in Nepal is the Nepal Rastra Bank regulation.

Some experts view that the accounting treatment for right shares should be the same as stock dividend or stock split. According to them, the market price will go down proportionately with the rights offering. However, many other researchers have shown mixed results. In deeper analysis, it can be found that in case of stock split, the total shareholders' fund does not change and total book value of the total no. of shares remain the same. But in the case of rights offering, the total shareholders' fund and book value of the total no. of shares change because the company gets additional capital from the stockholders.

The companies that have high earnings and low liquidity are commanding high market price while companies that have low earnings and paying low dividend have low market price. That means that price is high not because of the right share, but due to other business environment factors. Right share does not give high return. It is just like stock dividend and stock split and means more liquidity in market. Before going for the investment, the investors should evaluate the management, products, services and innovation of the companies. These factors determine whether the company can generate more revenue and ultimately profits.

The Himalayan Times published an article on the “Stock Investment Behavior in Nepal” in January 2008. The article stated that the problems at the NEPSE are twofold. 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 relegated to a racecourse, with betting dependent on the alcohol content in one's blood rather than rational thinking by one's 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 arena. 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 Nepal's 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.

2.7 Review of Thesis

Lamichhane (2007) conducted a study on 'the rights offering and its impact on market price in the Nepalese context.' His objectives in this study were:

1. To identify the significant change in shares price after announcement of rights offering.
2. To recommend some policies that will help to rectify the current problems in the right issue of securities.

To conduct the study, he has used the correlation between shares price and price index, t-statistics between shares price before and after the rights issue announcement. He did not consider the value of rights, which is very important in shares price determination after the issue of rights shares. His analysis only covers the data from 2059 to 2063 B.S. But here the researcher has analysis the data from 2054 to 2064, which can show the present economic scenario. He had taken sample from different sector but here the researcher has only used one and most important sector i.e. commercial banks to conduct the study. In this study his major findings were:

1. Difference between shares price before and after the rights issue of sample companies is significant.
2. Rights shares issue is new practice in Nepal; sample companies are unable to increase the market capitalization through rights issue, as the practice does not follow the theory.
3. Under subscription of rights shares is common problem. Company Act 2053 is not adequate for his and issues procedure of rights shares.

Khatri (2008) had made the study on the topic of Impact of Rights offering Announcement on the Shares Price Movement.

The main objectives of his study were:

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

The major findings of his study were:

1. There was significant difference between the shares price before and after the announcement of the rights shares, except in the case of People Finance Ltd. Among 10 sample companies of his studies.
2. Rights offering are comparatively new practice in Nepal. Market is not mature and company with track record is very low.
3. Most companies are issuing rights shares to fulfill the capital requirements as per the NRB directives. Shareholders of Nepalese Securities Market have lack of knowledge about the rights shares.

4. The major causes of under subscription of rights shares 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.
5. After increasing the shares capital through right shares, earning per share is increased by 0.59769 when 1 unit increment in shares capital amount.
6. To conclude the study, he had used the correlation coefficient, coefficient of determinants, regression analysis, t-test and financial formula.

Poudel (2009) the main objective of his dissertation was to examine the right shares practice and its impact on shares price movement of commercial banks in Nepal. His study covers two aspects of right issue (a) the characteristics of rights offering by the commercial banks (b) the shares price movement associated with the rights offering to achieve these two objects, the following specific objectives have also been considered in this study.

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

Major finding of the study

1. There is no uniformity in the impact of rights offering on shares price.
2. Nepalese investors mostly prefer the banking and finance sectors shares to invest rather than other sectors.
3. Majority of the investors are well aware about the rights shares in Nepal.

4. Most of the rights issues were under subscribed in Nepalese companies so it is common phenomenon in Nepal.
5. Subscription of rights shares in recent years is in increasing trend.
6. Subscription price of rights shares is too low as compare to market price of shares.
7. Lack of separate rules regarding rights shares is another problem.
8. Large on of shareholders holding small no of shares and they generally ignored rights issue.

Khadka (2010) her study focuses of the effect right issue and its effect on stock price movement. The investigation covers two interrelated aspects. The characteristics features of rights offering bye the listed company and the shares price movement associated with rights offering.

The objectives as follows

1. To identity existing practices of right issues.
2. To find out impact on changes in market price of the stock, before and after the announcement of right offering.
3. To examine the theoretical values of right and its practical effect of right on stock price.
4. To analyzes the inadequacy of existing law, on the matter of right shares.
5. To point out suggestion to the related bodies.

The major findings of her study were:

1. Nepalese equity market (primary as well as secondary) is dominated by financial sectors companies, the participation of the real sector (manufacturing, hotels etc.) is quite low or negligible.

2. Rights shares contribute, the second largest among various issues to raise the capital of the corporation approved by SEBON.
3. The practice of right shares issue is in increasing trend per year. The maximum contribution of right offering in total public flotation is 82.84% and minimum is 6.8%.
4. The result of run test is positive, i.e. market price per shares before month of right shares issue and after right shares issue are found to follow randomness in price fluctuation.
5. Right appear as an obligation imposed on shareholders, otherwise he would suffer a loss in the form of decline in price of his holding.

Neupane (2011) concluded a research on “Rights Shares Practice in Nepal and its Impact on Shares Price of Listed Companies”. The objectives of this thesis were:

1. To analyze the impact of rights shares issue in shares price.
2. To examine, rights issue practice in to identify the problems regarding under subscription.
3. To examine the impact of rights offering in earning per shares.

Major finding of the study

1. There was significant difference between the shares price of National finance ltd. Before and after the rights issue. It's stock price followed the theory of rights offering.
2. Under subscription of rights shares is common phenomena in Nepal.
3. There is no easy and clear provision regarding the sales of under subscribed rights shares in Nepal.
4. Recent year's subscription of rights shares is in increasing trend.
5. There is not like uniformity in the impact of rights offering of shares price.

6. 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.
7. Market is going to mature and company with track record is low. After reviewing the above thesis, it is found that various studies have been done on the topic of shares price and its determinant. Researcher have highlighted the rights shares practice in Nepal from various aspects and also have made effort to highlight the under subscription problem. So, this study is trying to find the impact of rights issue on market price of shares of sample companies. This study may be an important effort to inform the shareholders and companies regarding the rights issue practice in Nepal.

Gautam, (2012) has research on “*Rights shares issue practice by commercial Bank in Nepal and its impact on shares Price*”. The main objective of the study is:

1. To enlighten existing practices of Rights issues.
2. To explore the impact of Rights offering on market price of the stock before and after the book close date.
3. To examine the theoretical value and market price of the stock after the book close date of Rights.
4. To evaluate the adequacy of existing law on the matter of Rights shares.

After reviewing the above thesis, it is found that various studies have been done on the topic of shares price and its determinant. But no one has considered the Rights issue as important information that affects the market price heavily. Besides that researchers had tried to find out the value of Rights. The researcher had also making effort to highlight the under subscription problem. So, this study is trying to find the impact of Rights issue on market price of shares of sample companies. This study may be an important effort to inform the shares holders and companies regarding the Rights issue practice in Nepal.

2.8 Research Gap

Research gap focuses that the researcher how much trying to give new things from his/her study with compare to previous studies held by different researcher. Due to changing the time and circulation of environment the previous and present may be different in many ways. This is a research gap between the present research and previous research. Though many affiliated researchers have been done in this area but these have been very few exclusive researchers on this subject.

Though, few studies have considered on Behavior of Capital & Primary Market in Nepal, they fail to focus on Behavior of Capital & Primary Market as the highest instrument for a banks.

Thus, with this several of research gap and weakness found in previous studies, this research has been conducted to find out value of capital or primary market companies. Though, there are many different sectors, only one i.e. the commercial bank is selected for the research.

CHAPTER-III

RESEARCH METHODOLOGY

This chapter describes the methodology employed in this study. Research methodology is the systematic method of finding solution to a problem i.e. systematic collection, recording, analysis, interpretation and reporting of information about various facts of a phenomenon under study. The chapter includes research design, population, sampling procedure, sources of data and analysis techniques.

3.1 Research Design

A research design is a plan, structure, and strategy to obtain the objectives of the study. The research was based on the secondary as well as primary data and information. Hence, the explanatory or descriptive as well as analytical research design has been used. The variables related with the performance of the company, market information and relevant subjects are included in the study.

3.2 Population and Sample

The population for this study comprised of all public ltd. companies of various sector via: banking sector, finance sector, development bank sector, manufacturing and processing sector, insurance sector, trading sector, hotels, and other sector. Therefore, all the companies whose securities were approved by SEBO/N for going to public are taken as sample and the required data have been collected from the various sources covering a period of five years.

3.3 Nature and Sources of Data

The require data for the study are collected from the primary and secondary sources. Securities Board Nepal is the main institution which provides most of the data required for the study. The web site of SEBO/N and its annual reports are the major sources of secondary data. Besides, necessary data are also collected from

the annual reports of the selected companies, concerned issue managers, and annual report of Nepal Stock Exchange.

3.4 Analysis of Data

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic (Cottle et al; 1988, 29). This study mostly based the analysis of secondary data with the help of different statistical tools. The empirical results have been extracted in this study by using annual data of listed companies from 2007/08 to 2011/12.

Statistical tools

To draw the conclusion by analyzing the collected data simple statistical tool like arithmetic mean, multiple bar diagram, pie-chart are used and tabulation are used to implicit the comparative results.

Arithmetic mean average

The central values that represent the characteristics of the whole distribution or the values around which all items of the distribution tend to concentrate are called average. Arithmetic mean or arithmetic average is one of the important statistical measures of average. The arithmetic mean of a given set of observation is their sum divided by the number of observations that is denoted by \bar{x} .

Multiple Bar- diagrams and graphs

Diagrams and graphs are visual aids which give a bird's eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than two sets of data. Diagrams are in different types. Out of these various types of diagram one of the most important form of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristics of the same set of data have to be presented and compared.

Pie- diagram

A pie- diagram is a widely used aid that is generally used for diagrammatic presentation of the values differing widely in magnitude. In this method all the given data are converted into 360 degree as the angel of a circle is 360 degree and all components of the data are presented in terms of angels that total 360 degree for one set of data.

Percentage

Percentage is one of the most useful tools for the comparison of two quantities or variables. Simply, the word percentage means per hundred. In other words, the fraction with 100 as its denominator is known as a percentage and the numerator of this fraction is known as rate of percent.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This Chapter deals with the presentation, analysis and interpretation of data collected mainly through secondary sources, in order to fulfill the objective of the study. Now the most important part of this study that consist of analysis and presentation of empirical data focus on how far the Nepalese companies are practicing the Primary market and how it affects the share price movement of these companies.

The researchers have already mentioned that this study is heavily based on secondary data. Secondary source include official quotation of share prices, publication of SEBON and NEPSE issue prospectus and annual reports of respective companies. Primary source include the response 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 Amount of Issue Approved

Primary market practice in Nepal includes Growth of Primary market in Nepal, Contribution of Primary market on total flotation in Nepal, issue manager wise Primary market issue and subscription rate of Primary market in Nepal.

4.1.1 Characteristics of Issue offering in Nepal

By analyzing the various data, researcher finds that among total listed companies, 260 public issues have been approved from SEBON. Nepal Finance and Saving Co. Ltd. is the first company to issue the Primary market in Nepal. In FY 2052/53 it issued Primary market amounting to Rs.2.09 million. Most of the company had issued their Issue share at par value i.e. Rs.100 per share. No company has issued their Primary market at discount because company ordinance does not allow them to sell the Primary market at discount.

The premium can be added but the fear of under subscription, forced company, not to add any premium on issue. As a result there is wide different between subscription price and market price per share.

The range amount of Issue share issued is Rs.2 million to 806.40 million. Development Credit Bank Ltd. had issued highest amount of Primary market which is Rs. 806.40 million. Generally commercial bank had issued large amount of Primary market. For example, Development Credit Bank Ltd., Nepal Investment Bank Ltd., Nepal Bangladesh Bank Ltd., Nepal SBI Bank Ltd., Bank of Kathmandu Ltd. and Nepal Bank Ltd. had issued Rs.806.40, Rs.295.29 million, Rs.359.92 million, Rs.287.87 million, Rs.119.21 million, and Rs.234 million Primary market respectively. Similarly, Nepal Merchant Banking & Finance Ltd., International Leasing & Finance Ltd., NIDC Capital Markets Ltd., Alpica Everest Finance Ltd. National Finance Co. Ltd., and Peoples Finance Ltd have also issued the Primary market amounting to Rs.800 million, Rs.600 million, Rs.504 million, Rs.40 million, Rs.43.20 million and Rs.50 million. Again Bottlers Nepal Ltd., Necon Air Ltd. and Nepal Share Markets have also issued the large amount of Primary market amounting to Rs.225.20 million, Rs.89.60 million, and Rs.80 million respectively. In this way, researcher concluded that the practice of Primary market through various corporate firms is not similar in Nepal.

Most of the company had issued Primary market at par value and 1:1 ratio. Size of the amount raised by Primary market and different between the issued and closed date of various corporate firm is different. All the companies had issued their Primary market at par value i.e. Rs. 100 per share. Because according to company act 2053, company cannot issue their Primary market on discount. The premium can be added but due to fear of under subscription no company had added any premium on issue. As a result, there is wide difference between subscription price and market price per share.

4.1.2 Procedure for Issue in Nepal

The mechanism and the sequence of events in the case of Issue issues are somewhat complicated and it will therefore be useful to outline briefly the actual procedures by which a Issue issue is typically made.

- The board of director should decide and determine the quantum of further capital requirement and the proportions in which the Issue issues might be offered to its existing shareholders.
- AGM should pass the proposal of BOD by its majority.
- Company should notify the NRB, NEPSE, office of the company registrar and SEBON with prospectus in advance of the date of board meeting on which Issue issues is likely to be considered and should get permission from there.
- Make an announcement with prospectus, which gives a general indication if the reasons, purpose of the issue, which will make the issue desirable.
- Letter of provisional allotment or Issue offering to the shareholders with the prospectus. This will define the term of the Issue offering, the number of new shares allocated to each given no of old shares, the price at which the issue is to be made i.e. subscriptions price and the condition of which shareholders will qualify for the Issue issue. The letter will be sent after the date of an announcement.
- After the record of the provisional allotment, the allotment must be accepted or re-announced and payment in full or partial must be made for those shares, which are re-announced.
- Certificates are distributed to the shareholders who have participated in the Issue offering announcement. Shareholders who had accepted and fully paid up their allotment can re-announce the actual shares certificate in favor of third party.
- List the shares in the stock exchange again with the increased number, which must be approved by the stock exchange after which an application for listed new shares could be made.

4.1.3 Contribution of Primary market Issues in Total Public Flotation in Nepal

Primary market is an important part of total public issue in Nepal. There are many other alternatives of the public issue. Following table and figure shows the contribution of Issue issue in the total public flotation in each of the fiscal years in which the Issue offering has been taken place.

Table: 4.1

Contribution of Primary Issue in Total Public Flotation

(Rs. in million)

Fiscal Year	Total Issue Approved		Issue Approved		Percentage of Issue Approved	
	No. of Companies	Amount in Rs	No. of Companies	Amount in Rs	Companies (%)	Issue Amount (%)
2007/08	14	1626.82	6	949	42.86	58.36
2008/09	29	2443.28	11	1013.45	37.93	41.48
2009/10	34	2295.50	17	1265.30	50	55.12
2010/11	64	10668.20	43	6793.40	67.18	63.67
2011/12	64	16828.51	50	14262.81	78.13	84.75
Total	205	33862.31	127	24283.96		

Sources : Annual Report of SEBON, FY 2011/12

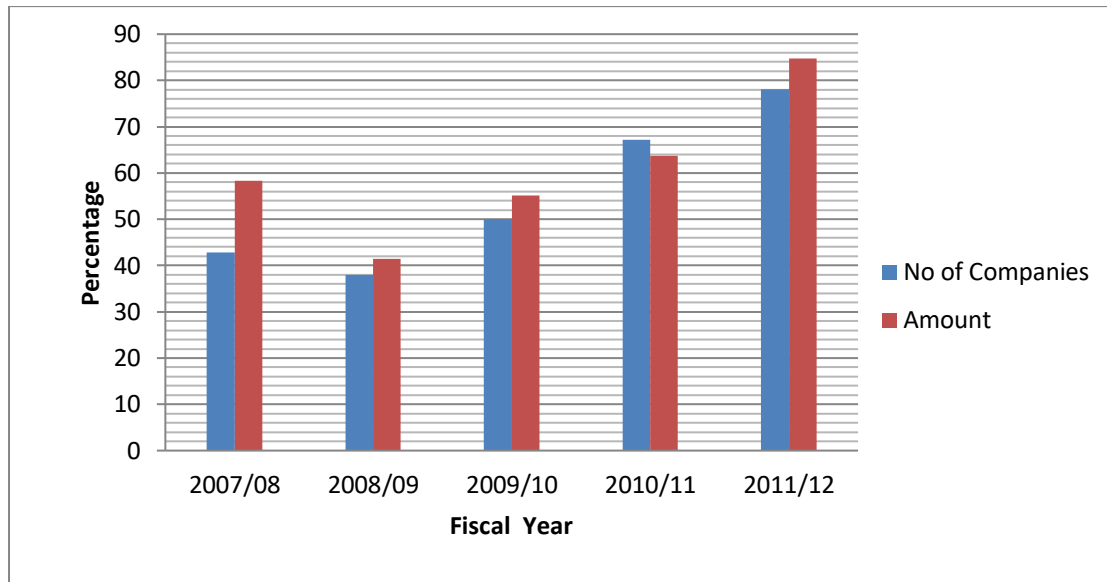
Analyzing the table, there in the FY 2007/08 contribution on Primary market on total public issue through six companies out of fourteen total issue approved companies which is the lowest of the study period is 58.36%. In the FY 2008/09 and 2009/10 the contribution of Primary market on total public issue through eleven and seventeen company out of 29 and 34 total issue approved companies is 41,48% and 55.12%. respectively.

In the FY 2010/11, contribution on Primary market on total public issue through 43 companies out of 64 total issue approved companies is 63.67%. It is highest contribution till the FY 2007/08.

The contribution of Primary market in the FY 2011/12 is the highest one during Five years period. The contribution of Primary market on total public issue through 50 companies out of 64 total issue approved companies is 84.75%.

Figure: 4.1

Primary Issue Approved (in Percentage)



Above figure 4.1 shows the Percentage of Issue Issue Approve in f/y 2007/08 to 2011/12 which is increasing every year. So it can be concluded that, contribution of Primary market on total public issue is significantly increase in Nepal. Under the Issue offering, the stockholder are provided a document called Issue which describes all about the conditions of Issue . Each stock holder receives one Issue in the proportion of shares currently held.

Primary market's issued giving proportionate Issue to the existing shareholder to purchase the new share. It is an option based financing approach where the existing shareholders are given an option to purchase a fraction of new shares equal to the fraction they currently own. This fraction purchase helps to maintain the original ownership percentage of stockholders.

But the additional point about this principle is that the existing shareholders should not have only the Issue to purchase additional shares as issued by the company but

they should also have the Issue to rename the Issue and which should not be provisional but automatic therefore shareholders always should have the following Issue.

- To exercise the Issue and subscribe additional share.
- To buy additional Issue to meet the requirement of additional subscription.
- To sell Issue partially.
- To sell all Issue.
- To let the Issue to expire.

For these reasons, in many countries 'Issue' is a negotiable instrument and therefore transferable. And it must logically be transferable and negotiable because while somebody may have sufficient money to exercise the Issue and they may actually exercise such Issue. Some other may not have the money to exercise all the Issue. These second type of people may like to exercise the Issue partially in that case they should have Issue to sell the "Issue partially".

Similarly, some people may have money, but for them the Primary market may not be so profitable option have the Issue sell the Issue to sell the Issue likewise, somebody may not have the money at all to exercise the Issue in such case too they should have Issue to sell the Issue.

In another instance, somebody may have money to subscribe to the additional share but may not have enough Issue to subscribe. They should be allowed to buy the Issue and fulfill the shortfall.

4.1.4 Instrument Wise Public Issue in Nepal

Nepalese capital market is in the infant stage of development. The four different types of instruments have been used so far till the FY 2065/066. The table below

clearly shows the various instruments issued by different firms to raise its capital in Nepalese capital market.

Table 4.2

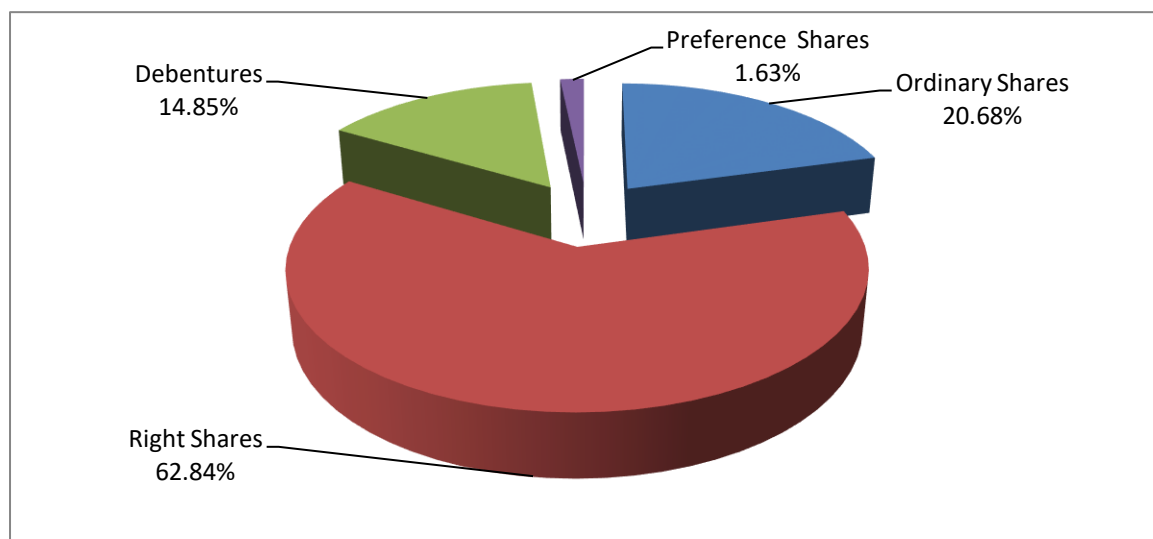
Instruments Wise Public Issue in Nepal (Rs. in Million)

Instrument	Total no. of Issues	Amount	Amount in %
Ordinary Shares	150	8146.74	20.68
Primary markets	153	24753.66	62.84
Debentures	16	5853	14.85
Preference Shares	5	636.50	1.63
Total	324	39389.90	100

Source: Annual Report of SEBON, 2011/12

Figure 4.2

Instrument wise Public Issue in Nepal



Primary market is the largest instrument on total public issue. According to the above table, it covers 62.84% in total public issue, which is about 42% higher than ordinary shares. Besides Primary market, other instrument ordinary shares, debentures and preference shares occupy 20.68%, 14.85% and 1.63% respectively.

Till the FY 2009/10, ordinary share was the dominant instrument to cover the total public issue but in FY 2011/12, Primary market has covered the highest part of

total public issue. Thus, it can be concluded that the contribution of Primary market issue on total public issue is significantly increasing in Nepal.

4.1.5 Classifying the Primary Issues According to the Sectors in Nepal

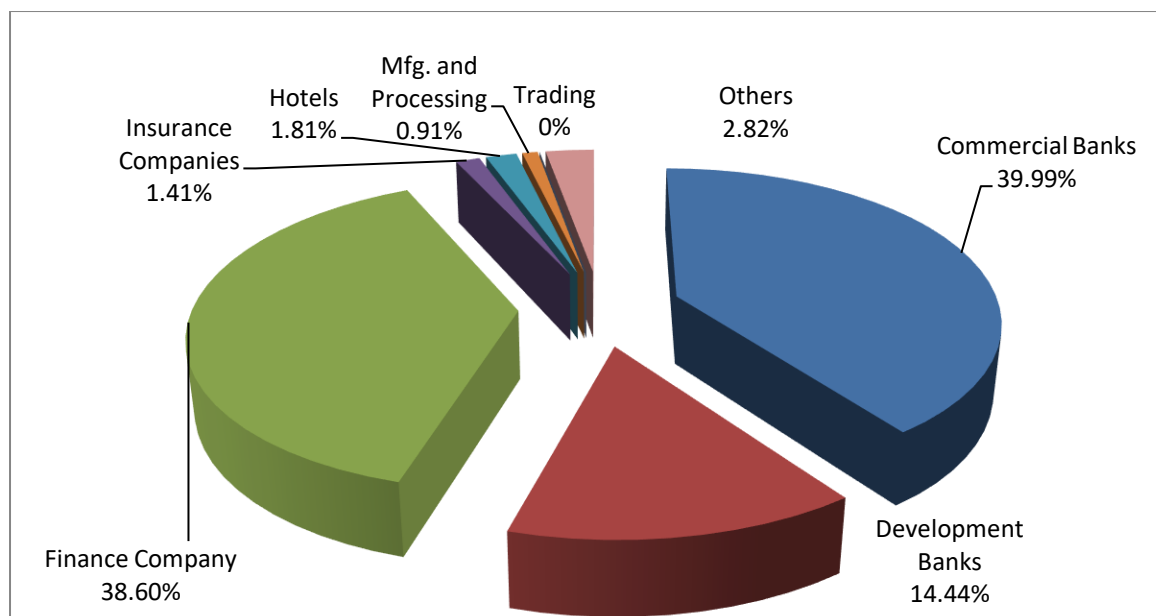
Those companies, which are interested for public issue, have to list their shares in NEPSE. Companies list in NEPSE are divided into 8 different sectors. Following table and figure shows the sector wise Issue in Nepal.

Table 4.3
Sector Wise Primary Issue in Nepal (Rs. in million)

Sector	Listed Co	No of Issue Issues	Percentage (%)	Issues Amount (Rs)	Percent (%)
Commercial Banks	31	29	23.58	9845.21	39.99
Development Banks	68	30	24.39	3555.72	14.44
Finance Company	79	50	40.66	9502.56	38.60
Insurance Companies	17	11	8.94	346.20	1.41
Hotels	4	1	0.81	446.45	1.81
Mfg. and Processing	18	1	0.81	225.20	0.91
Trading	4	0	0	0	0
Others	5	1	0.81	694.94	2.82
Total	226	123	100	24616.28	100

Source: Annual Report of SEBON, 2011/12

Figure: 4.3
Sector wise Primary Issue in Nepal



By analyzing the above Table 4.3 and figure 4.3, shows that only 29, out of 31 listed commercial banks have issued the Primary market to their shareholders till the FY 2065/066. Since Nepal Investment Bank Ltd. has issued the Primary market four times at different period. Similarly, Lumbini Bank Ltd has issued thrice and Kumari Bank Ltd. & Machhapuchhre Bank Ltd. have issued twice. Listed 68 development banks have made 50 Issue issues.

Since, the no. of finance companies is increasing rapidly, the no. of finance companies issuing Primary market is also highest among all the sectors. There are 79 listed finance companies, which have issued Primary market 50 times till the FY 2011/12. Regarding the other sectors, only 11 insurance company out of 17, 1 hotel out of 4 i.e. Taragaon Regency Hotels Ltd. One manufacturing company out of 18 i.e. Bottlers Nepal Ltd. and National Hydropower Co. Ltd. with Others sectors have issued Primary market till the FY 2011/12. There are no listed companies that have issued Primary market from the trading sector.

On the basis of Primary market issued amount, commercial banks have played the dominant role. Though only 29 cases of Primary market have been made, it occupies the largest volume of Primary market i.e. Rs.9845.21 million which is 39.99%. The second largest sector of Issue issue is finance company which has

issued Issue amounting Rs.9502.56 millions i.e. 38.60% of total Issue issue amount. Likewise, Development Bank sector is the third largest sector to issue Primary marketas it issued Rs.3555.72 million Issue, which is 14.44%. Besides, Others Sectors, Hotels, Insurance Companies, Manufacturing and Processing Companies have issued 2.82%, 1.81%, 1.41% and 0.91% respectively. Trading sectors has contributed nothing to the Issue issue.

So, finally after analyzing the data, it can be concluded that commercial banks sector is the largest sector to issue Primary marketwith high volume of Issue issue amount.

4.1.6 Subscription of Primary market in Nepal

We can analysis from below table that after the Issue offering to the existing shareholders from the companies. Normally there are not any cases of actual subscription. Actual subscription means that the existing shareholders apply for the entire announced share. That means companies were able to collect actual amount that they need for the further programmed. If there is application for more than the announcement is called over subscription. And if there is application for less than requirement is called under subscription that means company was not able to collect sufficient amount that it need to expand its programmer by the announcement of Primary market. In this case the decision of the board of director of detector to announce the Primary market was not good decision.

Researcher can conclude that the good performing companies are over subscribed, bad performing companies are under subscribed and normal companies are full subscribed.

When an investor thinks that the company would invest its extra fund in profitable way then they want more investment in the company if the existing shareholders are not satisfied with the decision of board of directors then they will not motive to invest more.

Table 4.4

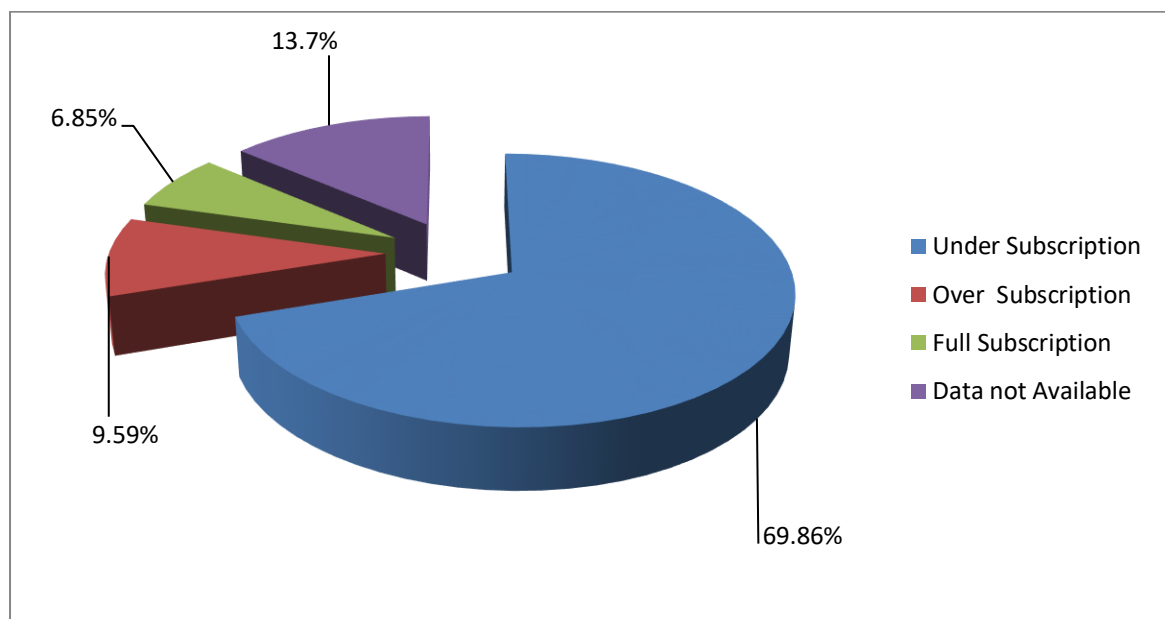
Subscription of Primary market in Nepal

Subscription Cases	No. of Firm	Percentage
Under Subscription	51	69.86
Over Subscription	6	9.59
Full Subscription	5	6.85
Data not Available	10	13.70
Total	72	100

Source: Annual Report of SEBON, 2011/12

Figure: 4.4

Subscription of Primary market in Nepal



From above table 4.4 and figure 4.4, shows that 51 companies out of 72 are under subscription. 5 companies out of 72 companies were able to collect actual amount that they need for the further programmed. Respectively 6 companies out of 72 companies were over subscribed. Subscribed amount are not available for 10 companies.

4.2 Primary Offering and Its Impact on Share Price

4.2.1 Primary market and its Impact on Share Price Movement of Companies Before and After Issue Offering

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

- 90 days before the announcement date
- 10 days before the announcement date
- The day of announcement
- 7 days after the announcement
- 180 days after the announcement

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.

There are 102 cases of Issue offered by 72 companies out of total listed companies in Nepal till the FY 2011/12. But here researcher has analyzed only one sector i.e. commercial banks so in this study researcher has analyzed these three commercial banks which are as follows.

- Himalayan Bank
- NABIL Bank.
- NIBL Bank

Above given Sample Banks are analyzes of share price movement before and after the Issue offering are as follows:

4.2.2 Analysis of Share Price Movement of Himalayan Bank Ltd.

Table 4.5

Share Price Movement of Himalayan Bank Ltd.

Selected Point of Time	Share Price (Rs)	Price Relatives	Total Price Index of Equity Capital	Price Index Converted to New Base	% Change From Base	Adjusted Price Relatives	% Change From Base
	1	2	3	4	5	6	7
I	365	100	292.08	100	-	100	-
II	385	105.48	305.01	104.43	4.43	101.01	1.01
III	372	101.92	301.20	103.12	3.12	98.84	(1.16)
IV	378	103.56	301.76	103.31	3.31	100.24	0.24
V	453	124.11	370.89	126.98	26.98	97.74	(2.26)

Source: Annual Report of SEBON, 2011/12

$$\text{Column 2 : Price Relative} = \frac{385}{365} * 100$$

$$\text{Column 4: Price Index Converted to New Base} = \frac{305.01}{292.08} * 100$$

$$\text{Column 5: Percentage Change from Base} = 104.43 - 100$$

$$\begin{aligned} \text{Column 6: Adjusted Price Relatives 2 at \% at 4} &= \frac{\text{Price relative}}{\text{Price index converted to new base}} * 100 \\ &= \frac{105.48}{104.43} * 100 \end{aligned}$$

$$\text{Column 7: Change from base} = 101.01 - 100$$

The above table shows that the price movement of Himalayan Bank shares and general market movement. Above table shows that the actual price of share increased from Rs.365 to Rs.385 from base date to 10 days before announcement date of Primary market. The share price is Rs.372 at the day of announcement Rs. 13 lower than the price before 10 days where was it is increased to 378 after 7 days

of announcement and there is further increment in share price to Rs. 453 after 6 months of Primary market announcement date. Total price index of equity share was 292.08 before 90 days of announcement date and it increased to 305.01, ten days before announcement date and it went down to 301.20 on the day of announcement date. There was small change i.e.increament of 0.56 from announcement date and after seven days of announcement. Total price index of share is raised up to 370.89 after days of announcement date.

According to the theory of Issue offering, the price of share will increase after the announcement and decrease after the allotment of share to the extent of value of Issue. But, here the price of Himalayan Bank Ltd. is different as follows:

Current Market Price of Stock = Rs.372

Value of One Issue = Rs.54.40

Ex-Issue Price of Share = Rs.317.60

The value of the share after allotment should be around Rs.317, but the share price of Himalayan was Rs.453 after 180 days of announcement date. This indicates that the share of Himalayan Bank is overpriced.

4.2.3 Analysis of Share Price Movement of NABIL Bank Ltd.

Table 4.6

Share Price Movement of NABIL Bank Ltd.

Selected Point of Time	Share Price (Rs)	Price Relatives	Total Price Index of Equity Capital	Price Index Converted to New Base	% Change From Base	Adjusted Price Relatives	% Change From Base
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	1	2	3	4	5	6	7
I	432	100	200.84	100	-	100	-
II	350	81.02	196.34	97.76	(2.24)	82.88	(7.12)
III	365	83.33	201.22	100.19	0.19	83.17	(16.83)
IV	393	89.73	202.45	100.80	0.80	89.02	(10.98)
V	260	59.36	232.29	115.66	15.66	51.32	48.68

Source: Annual Report of SEBON, 2011/12

In case of NABIL Bank Ltd., situation was somewhat different. The share price was Rs.432 before 90 days of the announcement date and it dropped to Rs.350, ten days before announcement date and increased to Rs.365 in the day of announcement. Increase of price to Rs.393 from Rs.365. has been found from the point III to IV. After 180 days of announcement date, it went down to Rs.260.

When we look to the price index it was 200.84 before 90 days of announcement date and it dropped to 196.34, ten days before the announcement date and after the price index started to increase and it was 201.22 in the day of announcement of Primary market. After seven days of announcement date, it was increased to 202.45 and after 180 days of announcement. It was raised up to 232.29.

While examining the percentage change in the adjusted price indices from the base index in column 5 and percentage change in the adjusted share price from the base index in column 7, it is clear that change in share price is not only due to general market movement. The adjusted price was increased from 82.88% in ten days before announcement date 83.17% in the day of announcement while converted price index has been increased to 100.19% from 97.76% between point II and III.

The adjusted share price is increased by 5.85% while converted price has been increased by just 061% from the point III to IV. Thus, we can say, this increment in share price is due to Issue offering because shareholder rushes to share market to enlist their name within the record date. But after 180 days of announcement date, the share price has been dropped to Rs.260.

In case of NABIL Bank Ltd. Issue have positive impact on share price movement and it approximately meets the theory,

Market Price of Share = Rs. 365

Value of One Issue = Rs.132.50

Ex-Issue Price of Stock = Rs.232.50

Since the share price of NABIL Bank Ltd. after 180 days of announcement is Rs, 260 around the ex-Issue price i.e.232.50. So one can easily conclude that NABIL Bank Ltd. approximately meet the theory of Issue offering.

4.2.4 Analysis of Share Price Movement of NIBL Bank Ltd.

Table 4.7

Share Price Movement of NIBL Bank Ltd.

Selected Point of Time	Share Price (Rs)	Price Relatives	Total Price Index of Equity Capital	Price Index Converted to New Base	% Change From Base	Adjusted Price Relatives	% Change From Base
	1	2	3	4	5	6	7
I	421	100	278.50	100	-	100	-

II	336	79.81	281.61	101.12	1.12	78.93	(21.07)
III	330	78.38	277.83	99.76	(0.24)	78.57	(21.43)
IV	345	81.95	281.15	100.95	0.95	81.18	(18.82)
V	365	86.70	303.12	108.84	8.84	79.66	(20.34)

Source: Annual Report of SEBON, 2011/12

When the NIBL Bank Ltd. announced the Issue to its existing shareholders, there was still a decreasing trend in general market movement. Price of NIBL was Rs. 421 three months before the announcement. It was decreased to Rs. 365 after 180 days of announcement date, nearly 13% decline over this period. While observing total price index of equity capital, it was slightly decrease from Rs. 278.50 to Rs. 277.83 on the period I to III. A decline of 0.24% was realized between periods I to III.

Therefore the declination on market price of the share of NIBL from base date to day of announcement is basically attributed to market trend. On the other hand, observing after the day of announcement, market price of the share went further increased by Rs. 15 during period III and IV and became Rs. 345. Theoretically market price of the share should have gone up for few days after the Issue announcement, which happened in case of NIBL due to holder's record date. It means obviously, that the investors who purchased the share of NIBL on the day of announcement or on wards were not entitled to buy Primary market. It is quite contrary to the theory of Issue issue. That is why market price of share went down instead of increasing. Investors after the date of announcement may have thought that, number of share were going to increase, EPS were going to decrease or Ex-Issue price of share was going to decrease, it is believed that the original share price will be restored and the market shows normal price behavior after six months of announcement date, but in case of NIBL the share price was still in decreasing trend and leveled up to at Rs. 365, which seemed moving according to the principle of Issue. Issue offering theory does not match in case of NIBL Bank.

Market Price of Stock = Rs. 330

Value of One Issue = Rs. 115

Ex-Issue Price of Share = Rs. 215

The value of the share after allotment should be around Rs. 215, but the share price of NIBL was Rs. 365 after six months of announcement date. Thus the share of NIBL was overpriced.

4.3 Analysis of EPS, DPS and MPS of Sample Banks

4.3.1 Analysis of EPS

Earnings per share (EPS) are one of the most important financial indicators, which measure the earning capacity of a firm or profit available to the ordinary shareholders on a per share basis.

Table: 4.8

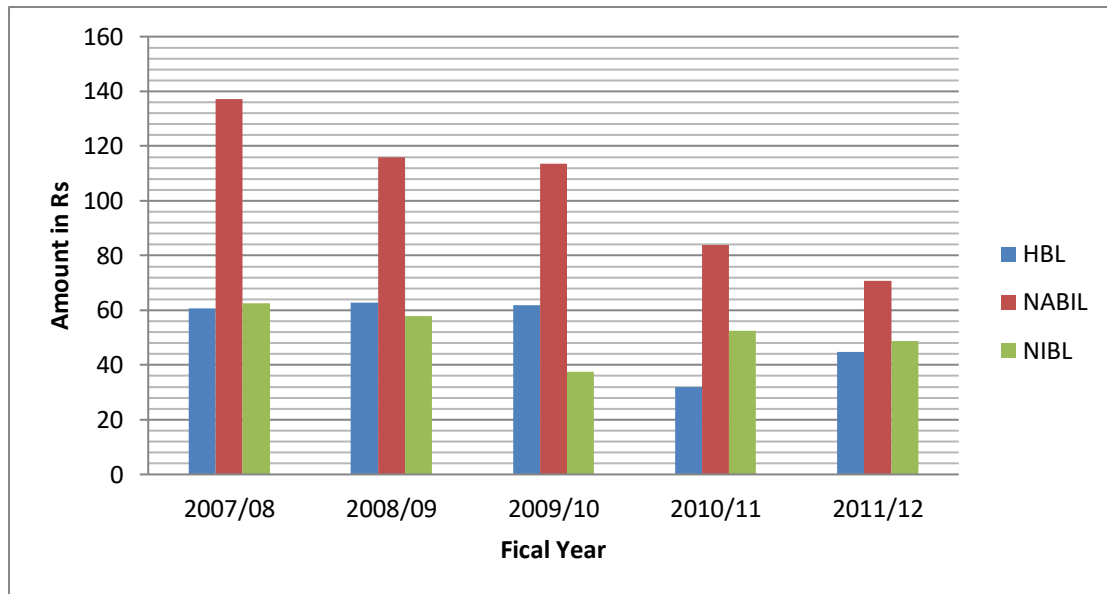
Analysis of EPS

Year	HBL	NABIL	NIBL
2007/08	60.66	137.08	62.57
2008/09	62.74	115.86	57.87
2009/10	61.90	113.44	37.42
2010/11	31.80	83.81	52.55
2011/12	44.66	70.67	48.84
Mean	52.35	104.17	51.85
S.D	13.69	26.66	9.60
CV	26.15	25.59	18.52

Source: Annual report of HBL, NABIL & NIBL

Figure: 4.5

EPS of HBL, NABIL & NIBL



The above mentioned comparative table and figure shows that EPS of HBL, NABIL and NIBL of last five years which are fluctuating and in decreasing trends except. The EPS of the company should be compared with the average and the EPS of each other bank. EPS simply shows the profitability of the firm on a per share basis.

Here, the average EPS of the HBL become Rs. 52.35, from above and below the value indicates the profitability of the common shareholders investment. Higher earning per share from average is preferable and vice versa, From 2007/08 to 2008/2009 the value was higher than the mean but in 2010/11 the value is in decline position and in 2011/12 it is little bit increasing but less than mean value. It shows that the firm's performance is not good.

Similarly, NABIL shows higher EPS in 2007/08 to 2009/10 than average whereas in other years shows lower EPS. The average deviation of NABIL is higher than HBL. It shows that there is little bit risk to invest by shareholders. According to

above table it shows that the firm's performance is not good because it is in decreasing trend.

The EPS of NIBL are lower than NABIL of the study period. It is 62.57, 57.87, 37.42, 52.55 and 48.84 in FY 2007/08 to 2011/12 respectively. 62.57 recording as the highest over the study period. The least EPS of the bank is Rs 37.42 in FY 2009/10 making the average of 51.85 over the study period.

Thus, the analysis of EPS trend shows that average EPS in NABIL is higher than HBL and NIBL i.e. $NABIL > HBL/NIBL$. It indicates that the NABIL's profitability of common shareholders investment is better than HBL and NIBL respectively.

4.3.2 Analysis of DPS

DPS is that amount, which paid to common shareholders on a per share basis. DPS shows that what exactly do the ordinary shareholders receive. It is calculated by dividing the total dividend to equity shareholders by the total numbers of equity shares. The following table shows the dividend per share (DPS) of the sample firms.

Table: 4.9

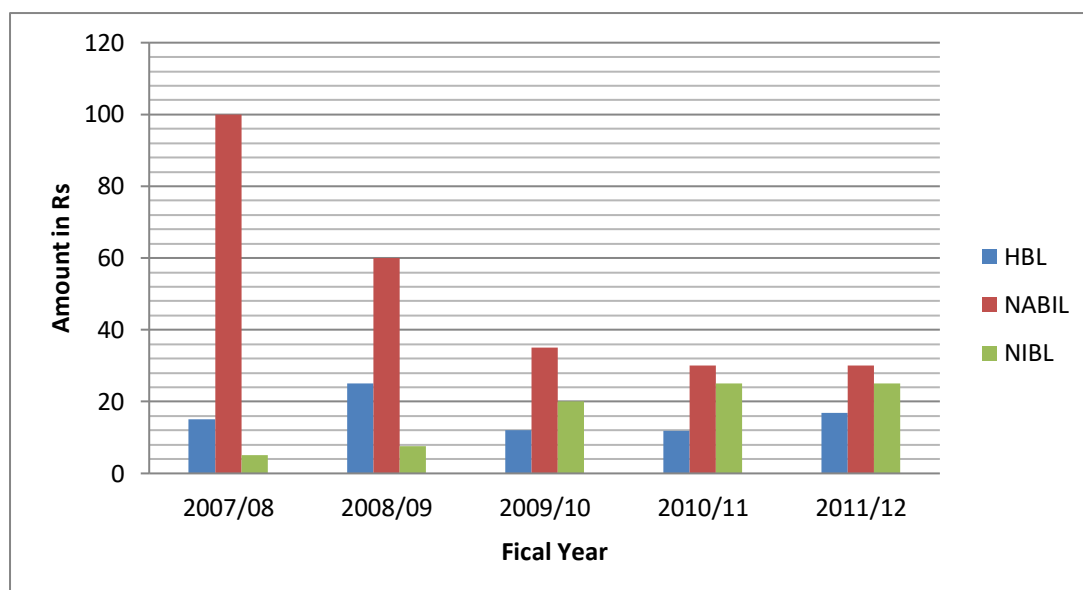
Analysis of DPS

Year	HBL	NABIL	NIBL
2007/08	15.00	100	5
2008/09	25.00	60	7.5
2009/10	12.00	35	20
2010/11	11.84	30	25
2011/12	16.84	30	25
Mean	16.14	51	16.5
S.D	5.38	30.08	9.62
CV	33.36	58.99	58.29

Source: Annual report of HBL, NABIL & NIBL

Figure: 4.6

DPS of HBL, NABIL & NIBL



The above table and figure shows that dividend per share of HBL is fluctuating, NABIL is decreasing and NIBL is increasing trends throughout the study period. The dividend paid by HBL, NABIL and NIBL is regular, so that the firm has definite dividend policy. The average dividend per share paid by HBL is Rs. 16.14. The highest dividend is Rs 25 paid in year 2008/09 and 2010/11 by HBL where as lowest DPS is Rs.11.84 in 2010/11. The firm is not able to maintain its average DPS from 2007/08, 2009/10 and 2010/11. In this firm, there is low risk than NABIL i.e. deviation is lower and c.v is 33.36.

The NABIL has paid yearly dividend in decreasing trends. The average DPS paid by NABIL is Rs. 51 which is highest among the selected firms. The highest DPS of Rs100 in year 2007/08 and lowest DPS is Rs.30 in year 2010/11 and 2011/12. The dividend paid to shareholders is regular and has the clear cut dividend policy.

Similarly, the DPS of NIBL is increasing throughout the study period but not meet to NABIL. It is 25 in FY 2011/12 recorded as the highest DPS over the study period. In average, the shareholders of the bank have received Rs 16.5 as a cash dividend every year.

The means DPS of HBL, NABIL and NIBL are Rs 16.14, 51 and 16.5 respectively. It shows that the means DPS of NABIL is greater than HBL and NIBL. Likewise the coefficient of variation (CV) of HBL and NIBL is less than NABIL.

Thus, the analysis of the DPS trend shows the average dividend per share paid by HBL, NABIL and NIBL, where higher dividend per share creates positive attitude of the shareholders toward the bank, which consequently helps to increase the market value of the shares. It is the indicator of better performance of the firm. In this regard, NABIL is better than HBL and NIBL.

4.3.3 Analysis of MPS

Market price of share is that value of stock, which can be received by firm or equity holders selling it in capital market. The capital market determines MPS. In this analysis MPS represents the closing market price of NEPSE Index of the sample firms and Annual report of HBL and NABIL. The following table shows the market price of stock (MPS) of the sample firms:

Table: 4.10

Analysis of MPS

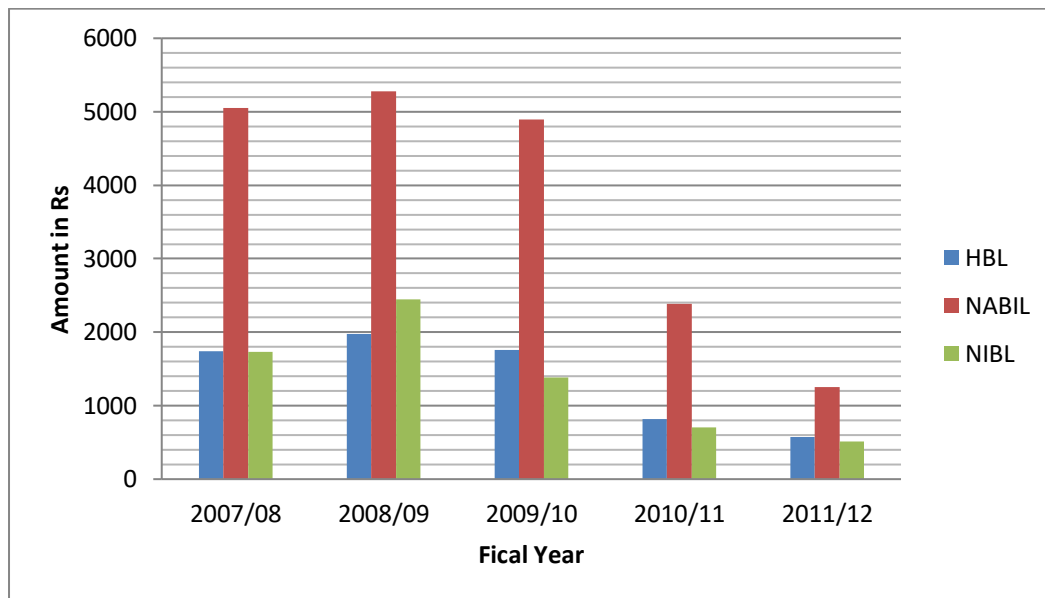
Year	HBL	NABIL	NIBL
2007/08	1740	5050	1729
2008/09	1980	5275	2450
2009/10	1760	4899	1388
2010/11	816	2384	705

2011/12	575	1252	515
Mean	1374.2	3772	1357.4
S.D	632.45	1832.99	785.50
CV	46.02	48.59	57.87

Source: Annual Report of HBL, NABIL & NIBL

Figure: 4.7

MPS of HBL, NABIL and NIBL (in Rs)



The above mentioned table and figure shows that the average yearly MPS in HBL, NABIL and NIBL are Rs.1374.2, Rs.3772 and 1357.4 respectively. Among the selected banks, the NABIL shows the highest MPS in all study periods. The

highest market price of NABIL is Rs. 5275 in the year 2008/09 and lowest is Rs. 1252 in year 2011/12. Its S.D is higher than the HBL and CV is 48.59.

Similarly, the highest and lowest MPS of HBL is Rs.1980 and Rs.575 in 2008/09 and 2011/12 respectively. Standard deviation of HBL is 632.45. The CV of HBL is less than NABIL.

Lastly, the highest and lowest MPS of NIBL is Rs 2450 and Rs 515 in 2008/09 and 2011/12 respectively. Standard deviation and CV of NIBL is 785.50 and 57.87 respectively. The highest C.V indicator the greater variability of MPS in the respective sectors. The MPS is highly affected by EPS and DPS.

4.4 Correlation Coefficient between Share Price Movement and Movement in General Market

Nepal Stock Exchange 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.

In practice, not only the Issue offering but also general market movement largely affects the share price of companies. For this reason correlation between share price movement and general market movement is calculated by considering share price of companies as the dependent variables and the share price fluctuate according to the fluctuation on the index of the total equity capital.

After calculating the correlation between share price movements of sample companies and general market movement following results have been obtained.

Table: 4.11

Correlation Coefficient between Share Price and NEPSE Index

Sample Banks	Correlation Coefficient	Coefficient if determination
HBL	0.99	0.98
NABIL	0.077	0.0059
NIBL	0.030	0.0009

Source: Annual Report of SEBON and appendix 1, 2, and 3

By Table 4., researcher can clearly analyze that there is no consistent result of all banks taken for the study. The correlation coefficient of Himalayan Bank Ltd. Is 0.99, nearly about 1, which means that there is perfect positive correlation and coefficient of determination is 0.98 it means 98% of variance in share price is explained by general market movement.

In case of NABIL there is positive relationship between its share price movement and general market movement i.e is 0.077. The coefficient of determination i.e. $r = 0.0059$ means that about 0.59% of variance in share price is explained by general market movement. NABIL capital markets stock, there is also positive but low degree of relationship between its share price movement and general market movement.

In case of NIBL Bank Ltd, it has the very low degree of Positive correlation between share price movement and general market movement i.e. $r = 0.030$, It means there is very low degree of positive correlation between share price movement and general market movement. Coefficient of determination is 0.0009% i.e. general market movement has 0.09% influence on the price behavior of NABIL Bank Ltd.

4.5 Use of T-Statistics to Measure the Immediate Impact of Issue Offering on the Share Price and on General Market Movement

Theoretically, after the Issue issue, generally share price of concern company move upwards till the date of issue closed. To analyze whether there came any significant change is share price, we have used t-statistics. For this we have taken

the share price and price index before and after announcement date. Following table shows the calculated and tabulated values of t-statistics of respective companies.

Table: 4.12

Calculated Value and Tabulated Value of t-statistics

Sample Banks	Level of Significance	Degree of Freedom	t-tab	t-cal	Remarks
HBL	5%	8	2.306	0.1150	Insignificant
NABIL	5%	8	2.306	12.86	Significant
NIBL	5%	8	2.306	8.93	Significant

Source: Annual Report of SEBON and appendix 1,2 and 3.

In Table 4.12, it can be clearly seen that the calculated value of 't' and tabulated value of 't' at 5% level of significance for 8 degree of freedom for share price indices, which are used to analyze the significance of change are presented. The calculated value of 't' incase of Himalayan Bank Ltd. is 0.1150 but tabulated value at 5% significance level for 8 degree of freedom is 2.306. Thus, tabulated is greater than calculated so, the null hypothesis is accepted. This suggests that there is no significant difference between the share prices few days before and after announcement of Issue offering and prices indices. Hence, our hypothesis that the share price movements before and after the announcement does not differ

significantly can be accepted and researcher can conclude that price does not decline significantly after announcement of the Issue offering.

In case of NABIL Bank Ltd. calculated value of 't' is 12.86, whereas value at 5% level of significance for 8 degree of is 2.306. Since t is greater than ttab, the hypothesis that the share price does not change significantly is rejected and the alternative hypothesis that the share price has change significantly is accepted. Hence, researcher may conclude that the announcement of Issue offering share price has increased significantly. Such conclusion may be derived by change in general market movement also as there is significant change in general market index during the same period.

While analyzing the 't' test of NIBL Bank ltd , it has also high-calculated value of 't' for share price than tabulated value of 't' i.e. $t(8.93) > t_{tab}(2.306)$ at 5% level of significant for 8 degree of freedom. From which, researcher can conclude that the difference between the share price few days before and after the announcement of the Issue offering is significant. Similarly, the difference in the price indices of total equality capital is also significant. Thus, it can be concluded that increase in share price can be attributed to Issue offering.

4.6 Major Findings of the Study

Here, the effort has been made in to present major findings of the study in Primary market practice in Nepal and its impact on share price movement of commercial banks. The major findings of this study are presented as follows.

- There is no significant different between share price and index price of Himalayan Bank Ltd. before and after the Issue issue.
- Incase of NIBL Bank Ltd, its share price increased significantly and after allotment of the Primary market its share treated nearly in ex-Issue price. So, researcher can say that stock of NIBL Bank Ltd followed the theory of Issue offering.

- There is significant difference between the share price of NABIL Bank, before and after the Issue issue and its index price. It's stock price followed the theory of Issue offering.
- There is no uniformity in the impact of Issue offering of share price.
- Issue offering are comparatively new practice in Nepal. Therefore, some sample companies are able to raise the desired capital thought it and the practice does follow the theory.
- Another major cause is dilution in shareholders wealth position is the holder's record date. In some sample companies, offering Issue holder's record date is prior to the announcement date.
- Market is going to mature and company with track record is low.
- Theoretically, after the issue of Primary market the earning per share of companies decreases. But if the company utilize the Issue offering, so it raised fund in effective way the earning per share can be increased. Similar result has obtained in case of sample companies.
- Most of the Issue issues were under subscribed in Nepalese companies. So, it is a common phenomenon in Nepal.
- Under subscription of Primary market caused by various factors. Lack of investor's awareness, low performance of companies, and lack of effective flow of information, lack of provision for Issue transfer, untraceable investors and financial problem of shareholders are the major causes of under subscription.
- Subscription price of Primary market is too low as compared to market price of share.
- There is a large no. of shareholders holding small no. of shares in Nepalese share market who generally ignore Issue.

CHAPTER-V

SUMMARY, CONCLUSIONS AND 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.

Primary market 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 Issue offering are presented in introductory chapter and available literature on Issue 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.

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

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 Issue issues and to analyze the Issue issue practice in Nepal. Finding out the problem of Issue issue in Nepal is another objective if 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 singling effects. But, very few studies are directly concerned with Issue issue in Nepal, because Issue issue is a growing phenomenon in Nepal. But, it is really tried hard to make full effort to collect the related studies for review in second chapter.

This study 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 to make this study more reliable has been used to some extent. To collect primary data, visit the field and personal interview some specific people has been done. To conduct this study statistical as well as financial tools have been used.

5.2 Conclusions

Conclusively, Primary market practice is comparatively new phenomena in Nepalese Financial Market. There are no easy things to work out to make the Issue offering as effective instruments of raising capital. There is no significant different between share price and index price of Himalayan Bank Ltd. before and after the Issue issue. Incase of NIBL Bank Ltd, its share price increased significantly and after allotment of the Primary market its share treated nearly in ex-Issue price. So, researcher can say that stock of NIBL Bank Ltd followed the theory of Issue offering. There is significant difference between the share price of NABIL Bank, before and after the Issue issue and its index price. It's stock price followed the theory of Issue offering.

There is no uniformity in the impact of Issue offering of share price. Issue offering are comparatively new practice in Nepal. Therefore, some sample companies are able to raise the desired capital thought it and the practice does follow the theory. Another major cause is dilution in shareholders wealth position is the holder's record date. In some sample companies, offering Issue holder's record date is prior to the announcement date. Market is going to mature and company with track record is low. Theoretically, after the issue of Primary market the earning per share of companies decreases. But if the company utilize the Issue offering, so it raised fund in effective way the earning per share can be increased. Similar result has obtained in case of sample companies. Most of the Issue issues were under subscribed in Nepalese companies. So, it is a common phenomenon in Nepal. Under subscription of Primary market caused by various factors. Lack of investor's awareness, low performance of companies, and lack of effective flow of information, lack of provision for Issue transfer, untraceable investors and

financial problem of shareholders are the major causes of under subscription. Subscription price of Primary market is too low as compared to market price of share.

5.3 Recommendations

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

- Shareholders are not clear about the Issue offering its benefit and impact on their wealth position. So, government should inspire them by good governance and provisions regarding Primary market.
- In Nepal, not all companies do Primary market practice properly. So, government should positively motivate them by good governance and provisions regarding Primary market
- To attract the investments, the issue prospectus should provide a clear picture of both the systematic and unsystematic risk of the business that will be make fear trade between risk and return.
- The critical factor affects the share price and Subscription on the holder's record date. The investors who purchase the share after that day are unable to get share. This can be better to set the proper holder record date by issuing companies.
- Nepalese investors are not all aware about Issue offering. Therefore, to increase awareness for investors some technique like interaction, used of information technology through media etc should be managed by related companies and government.
- There should be need of Investment protection Act that helps to investors confidence and secured.

- Company Act 2053 is silent about the procedure and mechanism of Issue issue. So, it should make Primary market transferable that helps to solve the problem of under subscription.
- Free pricing concept should be implemented in Issue offering to get rid off the problem of low subscription price of Primary market.
- Further studies can be conducted by increasing sample size, by using other statistical, financial and econometric methods.

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APPENDICES

Correlation Coefficient and Coefficient of Determinant and T-test between Share Price and NEPSE Index

Variable Defined

X : Share Price

Y : NEPSE Index

r : Correlation Coefficient

r^2 = Correlation of determination

Appendix-1

HBL

X	Y	(X- \bar{x})	(X- \bar{x}) ²	(Y- \bar{y})	(Y- \bar{y}) ²	(X- \bar{x}) (Y- \bar{y})
365	292.08	-2.56	6.55	-22.10	488.76	56.58
385	305.01	-5.6	31.36	-9.17	84.08	51.36
372	301.20	-18.6	345.96	-12.98	168.48	241.42
378	301.76	-12.6	158.76	-14.42	207.93	181.69
453	370.89	-62.4	3893.76	56.71	3216.03	3538.71
X= 1953 \bar{X} = 390.6	Y =1570.94 \bar{Y} = 341.11	(X- \bar{x}) ² = 4436.39		(Y- \bar{y}) ² = 4165.28		(X- \bar{x}) (Y- \bar{y}) = 4069.76

Karl Pearson's Coefficient of Correlation

$$r = \frac{\Sigma(X-\bar{x})(Y-\bar{y})}{\sqrt{\Sigma(X-\bar{x})^2 \Sigma(Y-\bar{y})^2}} = \frac{4069.76}{\sqrt{4436.39 \times 4165.28}} = 0.99$$

$$r^2 = (0.99)^2 = 0.98$$

Again we have,

$$S^2 = \frac{\Sigma(X-\bar{x})^2 + \Sigma(Y-\bar{y})^2}{n_1 + n_2 - 2} = \frac{4436.39 + 4165.28}{5 + 5 - 2} = 1075.21$$

Now, Test Statistics,

$$t\text{-cal} = \frac{(\bar{X} - \bar{Y})}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} = \frac{(390.6 - 341.11)}{\sqrt{1075.21 \left(\frac{1}{5} + \frac{1}{5} \right)}} = 0.1150$$

Appendix-2

NABIL

X	Y	(X- \bar{x})	(X- \bar{x}) ²	(Y- \bar{y})	(Y- \bar{y}) ²	(X- \bar{x}) (Y- \bar{y})
332	200.84	-28	784	-5.79	33.50	162.06
350	196.34	-10	100	-10.29	105.84	102.88
365	201.22	5	25	-5.41	29.25	-27.04
393	202.45	33	1089	-4.18	17.46	-137.87
360	232.29	0	0	25.66	658.54	0.00
X= 1800 \bar{X} = 360	Y =1033.14 \bar{Y} = 206.62	(X- \bar{x}) ² = 1998		(Y- \bar{y}) ² = 844.58		(X- \bar{x}) (Y- \bar{y}) = 100.03

Karl Pearson's Coefficient of Correlation

$$r = \frac{\sum(X-\bar{x})(Y-\bar{y})}{\sqrt{\sum(X-\bar{x})^2 \sum(Y-\bar{y})^2}} = \frac{100.03}{\sqrt{1998*844.58}} = 0.077$$

$$r^2 = (0.076)^2 = 0.0059$$

Again we have,

$$S^2 = \frac{\sum(X-\bar{x})^2 + \sum(Y-\bar{y})^2}{n_1+n_2-2} = \frac{1998+844.58}{5+5-2} = 355.33$$

Now, Test Statistics,

$$t\text{-cal} = \frac{(\bar{X}-\bar{Y})}{\sqrt{S^2(\frac{1}{n_1}+\frac{1}{n_2})}} = \frac{(360-206.62)}{\sqrt{355.33(\frac{1}{5}+\frac{1}{5})}} = 12.86$$

Appendix-3

NIBL

X	Y	(X- \bar{x})	(X- \bar{x}) ²	(Y- \bar{y})	(Y- \bar{y}) ²	(X- \bar{x}) (Y- \bar{y})
421	278.5	61.6	3794.56	-5.942	35.31	-366.03
336	281.61	-23.4	547.56	-2.832	8.02	66.27
330	277.83	-29.4	864.36	-6.612	43.72	194.39
345	281.15	-14.4	207.36	-3.292	10.84	47.40

365	303.12	5.6	31.36	18.678	348.87	104.60
X= 1797	Y =1422.21	$(X-\bar{x})^2 = 5445.2$		$(Y-\bar{Y})^2 = 446.75$		$(X-\bar{x})(Y-\bar{Y}) =$
$\bar{X}= 359.4$	$\bar{Y}= 284.442$					46.64

Karl Pearson's Coefficient of Correlation

$$r = \frac{\sum(X-\bar{x})(Y-\bar{Y})}{\sqrt{\sum(X-\bar{x})^2 \sum(Y-\bar{Y})^2}} = \frac{46.64}{\sqrt{5445.2*446.75}} = 0.030$$

$$r^2 = (0.030)^2 = 0.0009$$

Again we have,

$$S^2 = \frac{\sum(X-\bar{x})^2 + \sum(Y-\bar{Y})^2}{n_1+n_2-2} = \frac{5445.2+446.75}{5+5-2} = 736.5$$

Now, Test Statistics,

$$t\text{-cal} = \frac{(\bar{X}-\bar{Y})}{\sqrt{S^2(\frac{1}{n_1}+\frac{1}{n_2})}} = \frac{(360-206.62)}{\sqrt{736.5(\frac{1}{5}+\frac{1}{5})}} = 8.93$$