RIGHT SHARE PRACTICE

BY

COMMERCIAL BANKS OF NEPAL

Submitted by:

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DECLARATION

I hereby declare that the work reported in The thesis titled **"RIGHT SHARE PRACTICE OF COMMERCIAL BANKS IN NEPAL"** (submitted to Khwopa College affiliated to Tribhuvan University as per the requirement in partial fulfillment of Master of Business Studies, Faculty of Management, Tribhuvan University, Kritipur is the original work of the researcher undertaken under the supervision of Shalik Ram Koirala .

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This thesis has been prepared as a partial fulfillment for the requirement on master of business studies.

Nothing is impossible in this world but everything is not as easy as we think which I experienced from the thesis preparation. The difference of learning to swim and jump to swimming pool for swimming can be easily gained if one has gone through thesis preparation which imparts theoretical knowledge of the students of degree level through practical application. From the proposal writing to completed thesis, the need of detail study on topic, review of literature, data collection and analysis, designing appropriate research design and drawing the summary & conclusion in not easy job as we think.

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Abbreviations

AGM	: Annual General Meeting
BFIs	: Banks and Financial Institutions
BOA	: Bank of Asia
BOD	: Board of Director
CBs	: Commercial Banks
EPS	: Earning Per Share
etc	: Etcetera
F.Y.	: Fiscal Year
IPO	: Initial Public Offering
KBL	: Kumari Bank Ltd.
Ltd.	: Limited
MBS	: Masters of Business Studies
MPS	: Market Price per Share
NEPSE	: Nepal Stock Exchange
NPR	: Nepalese Rupees
NRB	: Nepal Rastra Bank
PCBL	: Prime Commercial Bank Limited
SBL	: Siddhartha Bank Ltd
SEBON	: Securities Exchange Board of Nepal

CHAPTER – I
INTRODUCTION

1.1 Background of the study

Every firm needs adequate capital to perform efficiently. Generally, firms fulfill their financial requirement by issuing equity share, preference share, debentures and long term bonds. Rights issue is one of the instruments to raise additional capital.

When a company is formed, it obviously must be financed. Often the seed money comes from the founders and their families and friends. For some companies, this is sufficient to get things launched and with retained earnings, no more equity is needed. In other situation equity infusions are necessary.

If the new common stocks are issued giving the right to purchase first by the existing shareholders then it is called right offering. Each shareholder is issued an option to buy a certain number of new share and the terms of the option are contained on a price of paper called right. Each stockholder receives one right for each shares of stock owned.

Instead of selling a security issue to new investors, some firms offer the securities first to existing shareholders on a privileged subscription basis. Sometime the corporate charter requires that a new issue of common stock be offered first to existing shareholders because of their preemptive right.

An issue of common stock offered to existing stockholders is called a right offering. A rights issue is an issue of additional shares by a company to raise capital under a seasoned equity offering. The rights issue is a special form of shelf offering or shelf registration. With the issued rights, existing shareholders have the privilege to buy a specified number of new shares from the firm at a specified price within a specified time, after which time the rights are said to expire. The terms of the rights offering are evidenced by certificates know as share warrant or rights.

A rights issue is in contrast to an initial public offering, where shares are issued to the general public through market exchanges. Closed-end companies cannot retain earnings, because they distribute essentially all of their realized income, and capital gains each year. They raise additional capital by rights offerings. Companies usually opt for a rights issue either when having problems raising capital through traditional means or to avoid interest charges on loans. A rights issue is directly offered to all shareholders of record or through broker dealers of record and may be exercised in full or partially. Subscription rights may either be transferable, allowing the subscription-rights holder to sell them privately, on the open market or not at all. A right issuance to shareholders is generally issued as a tax-free dividend on a ratio basis (e.g. a dividend of one subscription right for one share of Common stock issued and outstanding). Because the company receives shareholders' money in exchange for shares, a rights issue is a source of capital.

Right share are issued to the existing shareholders as a result of increased in capital if current reserve is not sufficient to issue bonus shares. Company usually issued right share to raise the capital. Therefore, issue of right share represents the distribution of shares to the existing shareholders on the proportion of the number of shares they own. The shareholder has an option to purchase a specified numbers of shares at subscription price which is below current market price within specified time.

Large number of corporate firms announces and issue right share to increase the capital base if the corporate management felt such need or to comply with the policy directives given by concern authority to increase the capital base from time to time. In our country, Nepal Rastra Bank issues the policy provisions regarding the requirements of minimum paid up capital in commercial bank, which significantly affected the right share issuing practices of commercial banks in Nepal. A company issues right share under the principle of preemptive right of the shareholders. Under this right, the existing shareholders have the first priority to purchase any new equity share issued by the company.

Right offering is made generally with the purpose of

- Maintaining the management control by existing shareholders,
- Minimizing the floatation cost for new issue and
- Protecting the existing shareholders from dilution of their wealth position.

A healthy capital market is a crucial element in the development of national economy. Capital market helps to national economy by mobilizing long-term capital needed for the productive sector. Development and expansion of capital market is essential for rapid economic growth of the country. The significance of capital market in the economic development of a developing country like Nepal is so great. Nepalese capital market is in very early stage of development. There are various inconsistencies and hindrances exist on the way to run the market smoothly. The Nepalese capital market was established as Security Market Centre (SMC) in 1976. In 1984 the SMC was renamed as Security Exchange Centre (SEV). After converting SEC into Nepal Stock Exchange (NEPSE) in 1993, It brought new atmosphere in Nepalese capital market. NEPSE is nonprofit making organization. It is one and only secondary market for Nepalese corporate securities operating under security exchange at 1983. NEPSE opened its trading floor on 13th January 1994. NEPSE plays vital role for developing the efficient capital market. Managing public issue is one of the important roles of NEPSE.

Right issue practice in Nepal has no long history as compare to other developing country but one can easily notice an increasing trend of issuing right share. In Nepal, company act 1997 has provisioned about the preemptive right of shareholder in the section 42(4). It stated that if the right is contained in a firm's charter then the firm must offer common stock to existing shareholders. If the charter does not prescribe the preemptive right the firm has a choice of making the sale to its existing shareholders or to an entirely new set of investors.

While looking the issue approval from the SEBO of Nepal researcher can easily notice an increasing trend of issuing right shares. During the 18 years period, SEBON has granted right issue approval amounting rupees 12200.71 million. Till FY 064/065 to FY 068/069, 7237.96 million rights issue approved which covers 62.03% of total public issue. Thus, we can easily find out the increasing trend of right issue.

This study mainly focuses on rights offering in firms existing capital structure and to its existing shareholders. Some times company is bound to issue new shares of existing stock to its existing shareholders simply because of Preemptive rights clause in an act of incorporation. Company act 2053 B.S. had also made provision about the

preemptive rights of shareholders in the section 42(4). If the preemptive rights are contained in a firm's charter then the firm must offer any new common stock to the existing shareholders. If the charter doesn't prescribe the preemptive right the firm has a choice of making the sale to its existing shareholders or to an entirely new set of investors. Rights have intrinsic financial values because they are normally afforded at price somewhat lower than the current market price of stock. This study is also focused on the impact of rights offering announcement in the share price movement.

1.2 Statement of the problem

In Nepal the right issues are in increasing trend but companies of all sectors do not issue the right. Among various sectors, financial companies are ahead in case of right issue practice to maintain the capital as provision by NRB. There are many studies on right are developed. However no focusing studies related to right issue practice has been done in the context of current scenario. There still a considerable curiosity about right issue.

Similarly after exercise of right share the price of share should be declared by its par value of right but finding on the price effect of rights offering on the market price of stock are in consistence while offering the rights another problem of under subscription also arises due to lack of instrument of right transfer. Finally, the absence deprives the existing shareholders from enjoying the choice of selling rights while dilutes the shareholders wealth who do not exercise the rights. Company act 2063 B.S. is silent about this part. Here are some specific research problems which arose during research period.

The problem of the study can be mentioned as:

1. Is the general public are aware about the right share issue by firms whose common stock presently holding by the public.
2. How the right share issue affects the price of common stock of the firm?
3. Are there any problem regarding rights issue practice in Nepal?
4. What are the factors behind the under subscription of the right issues made by Nepalese firms.
5. What is the main reason behind the subscription of right issue by common stock holders than any other alternative investment opportunities.

6. Is there any inadequacy in the content of the Company Act, 2053 B.S. in regard to section 21 that explains about the matters to be disclosed in the issue prospectus?

1.3 Objectives of the study

Within the periphery of the stated problems of the study, the overall objectives of this study are to examine the effect of rights issue announcement on share price movement. This research covers two interrelated aspects, the features of rights offerings by the listed companies and the share price movement associated with the rights offering. It makes available analysis of prevailing practices among Nepalese companies regarding the issue of rights share.

The specific objectives of the study are as follows;

1. To find out the relationship between right issue and stock price movement.
2. To evaluate problems regarding under subscription of the organizations under study.
3. To examine the impact of rights offering in earning per share and provide suggestions to the concerned on the bass of study findings.
4. To test the difference between the theoretical value right and actual market price of the stock.
5. To find out the factors affecting selection of right offering and BFIs of Nepal than selection of other capital increment sources.

1.4 Importance of the study

This study is important to throw light on the role of rights offering by BFIs in Nepal. This topic is probably a new topic in the context of Nepal can be beneficial for many companies and new researchers. It also analyzes the impact of rights offering on share price that will be quite important information for the shareholders and companies practicing rights offering.

This right share issue is important decision of corporate for different point of view. Now a day people are attracted to invest in shares with the expectation of higher return as most of the BFIs Nepal were paying higher return for its common investment during these past years. On the other hand, NRB has directed BFIs of Nepal to increase their capital and meet BASEL II by the end of F.Y 2070. So, in this

regard, BFIs of Nepal are seeking source of additional capital to fulfill NRB requirement. In this context most of the BFIs of Nepal practiced right issue as the best option for accumulation of additional capital for their institutions which has been supported by public with full subscription of right issued by BFIs of Nepal. So, this study could be the pillar for the common stock investors to find out if they have invested rationally or on hunch basis. What are the factors forced people to subscribe right issue on such a way and will this increase their return in future or not.

The practice of right share is very old in worldwide but in Nepal it starts from fiscal year 2052/53. Till the date it found few researches conducted in right issue and its impact that could be counted in fingertips. So, this research could be one of the fruitful sources to everyone with keen interest on Nepalese stock market.

1.5 Limitations of the study

It has been tried to make this study more comprehensive and clear by collecting, tabulating, compiling and presenting recent information as far as possible. This study emphasis and helps those, who want to study in further detail and widely in this field. It is only mini-research and hence researcher subject to have some limitations, which are as follows:

a) Large numbers of firms of various sectors have issued the right share till the study period whereas on 5 CBs KBL, PCBL, BOA, SBL and NMB were selected as sample for the study.
b) This study covers only the right issue and stock price behavior. Other aspects besides these were not covered by this thesis.
c) The study is based on secondary data of selected sample firms quarterly & annual report along with SEBON annual reports for the F.Y 2064/65 to 2068/69 updated in their websites.
d) The very limited mathematical & statistical tools were applied for the analysis.

1.6 Organization of the work

The study is organized in five major chapters.

Introduction: The first chapter of the study serves as an introduction to the study. It includes the introduction and general background, statement of the problem,

objective of the study significance of the study, statement of hypothesis and limitation of the study.

Review of Literature: Include the review of previous research on the same field especially from some relevant books, journals.

Research Methodology: Includes the research design, data collection procedure tools for analysis and presentation.

Data Presentation and Analysis: It is the main body of research. It includes data analysis. Te collected data are analyzed and interpreted by the research design set in methodology chapter and concludes with the main findings of the study.

Summary, Conclusion and Recommendations: The last chapter concludes summary, conclusion and makes some recommendations obtained from the whole study.

CHAPTER – II

REVIEW OF LITERATURE

This chapter deals with the literature of previous studies on rights issue practice and its impact on share price. Regarding the review of literature various books, journal and articles some research reports related with the topic is reviewed. It covers those studies that are conducted within and outside the country, but no important studies have been conducted in Nepal. This chapter provides some conceptual theory of equity rights issues.

2.1 Conceptual review

The easy way of raising capital is issue of common stock. When a company issue shares for public, the stock flotation is called initial public offering. But when a company issue shares to the existing shares holders the flotation is called right offering. Right offering is new phenomenon for Nepal it is relatively new practice for Nepalese organization. In this study some relevant books are studied. As the topic concentrates on Rights Issue Practice and its impact on share price, the researcher has dealt with the topic accordingly, which is discussed as under:

2.1.1 Venture capital

Fund collected through various source to establish a form is called initial financing. It is also called venture capital. Venture capital includes the share capital and debt fund. For the new form generating debt is not easy so most part of the venture capital involves common stocks. It is a key to the success of any growing business firm. Institutional investor especially financial institution, wealthy individual investors and specialist investor organized in partnership are the major sources of venture capital. The investment in venture capital is risky. So, investors are rewarded with high rate of return in successful ventures. The venture capital activity is quite advanced in the developed countries.

2.1.2 Initial public offering

The timing of the decision is to go public is also especially important, because small firms are more affected by variations in money market conditions than larger companies. During the period of tight money and high interest rates, financial

institutions, especially at legally permissible and conventionally acceptable rates, Investment bankers manage the issuance of new securities to the public. Once security exchange center has commented on the registration statement and a preliminary prospectus has been distributed to interested investors, the investment bankers organize “road shows” in which they travel around the country to publicize the imminent offering. These road shows serve to purposes. First, they attract potential investors and provide them information about the offering. Second, they collect for the issuing firm and its underwriters about the price at which they will be able to market the securities. Large investor communicate their interest in purchasing shares of the IPO to the underwriters, this indication of interest is called a book and the process of polling potential investors is called book building. The book provides valuable information to the issuing firm because large institutional investors often have useful insights about the market demand for the security and the prospects of the firm as well as its competitors. It is common for investment bankers to revise both their initial estimates of the offering price of a security and the number of shares offered based on the feedback from the investing community.

2.1.2.1 New Issue Market

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

i. Equity share:

Equity share represents the ownership position in a company. The holders of equity shares are owner of the company and they provide permanent capital. They have voting right and receive dividend as the discretion of the board of directors.

ii. Preference share:

The holders of preference share have a preference owner the equity in the event of liquidation of the company. The preference dividend rate is fixed and known. A company may issue preference with maturity period (called redeemable preference share). Preference shares may also provide for a accumulation of dividend. It is called cumulative preference share.

iii. Debenture:

Debenture represent long term loan given by holders of debenture to the company. The rate of interest is specified and interest charges are treated deductible expenses in the hand of company. Debenture may issue without an interest rate. They are called zero interest debentures. Such debentures are issued at a price much below than their face value. Therefore they are called deep discount debenture/bond.

iv. Convertible Securities:

A debenture or preference share may be issued with the future of being convertible in to equity shares after a specified period of time at a given price. Thus a convertible debenture will have features of a debenture as well as equity.

v. Warrants:

A company nay issue equity share or debentures attached with warrants. Warrants entitle an investor to by equity share after a specified time period at a given price.

vi. Cumulative Convertible Preference Share:

This is an instrument gibing regular return at (zero) 0 percentages during the gestation period from 3 – 5 years and equity benefit there after introduced by government in 1994. Cumulative Convertible Preference Share has however of return been consider being too low in the initial years and the provision conversion into equity was also unattractive, if the company fell to perform well.

vii. Zero Coupon bond & Convertible:

These are two new instruments that have been floated by certain companies. Their overall impact and popularity will be known only during the years ahead.

2.1.3 Rights Offering: A theoretical framework

2.1.3.1 Preemptive right

A publicly held corporation can raise equity capital either by selling equity directly to investors or by issuing rights to its share holders. When a corporate offers its shares to existing share holders prior to general public it is termed as right offering. Preemptive rights are the privilege or existing shareholders to participate in a right offering**.** That the preemptive right gives holders of common stock. The right is made part of every corporate charter in some places and it is necessary to insert the right specifically in the charter for others.

The preemptive rights are of two types. First, it protects the power of control of present stockholders. If it were not for this safeguard, the management of corporation under criticism from stockholders could prevent stockholders from removing if from office by issuing a large number of additional shares at a very low price and purchasing these shares itself. It would thereby secure control of the corporation to discourage the will of the current shareholders. The Second and important is protection that the preemptive right affords stockholders concerns dilution of value. (Weston & Brigham, 1992)

2.1.3.2 Rights offering

If the preemptive right is contained in a firm's charter, them the firm must offer any new common stock to its existing stockholders. If the charter does not prescribe a preemptive right, the firm has a choice of making the sale to its existing stockholder or to an entirely new set of investors. If it sells to the existing stockholders, the stock flotation is called a rights offering, each stockholder is issued an option to by a certain number of the new shares, and the terms of the option are contained on a piece of paper called a right. Each stockholder receives one right for each share of stock owned.

When a company makes a rights issue, it sends a "letter of offer" to its existing shareholders indicating the amount of new shares or coupons to which they are entitled in proportion to their old shareholding. This "Letter of offer" is like share purchase warrant in nature generally referred to as rights. These rights must be exercised within a given period, which is relating short, usually, not more than thirty days, unless the date is extended by the company.

The privileged subscription is simple in the sense that after issue has been approved by the company and the controlled of capital issues, notices are sent to shareholders indicating that all those who are shareholders within certain recording date may get additional shares in a given proportion. Right of the shareholders when a rights issue is made is as follows:

First, Subscribed for the New Shares, if the shareholder has sufficient cash to buy the new shares, and if he/she feels that the company will use the money, so raised in a profitable way, and them he/she should take up the rights.

Second, Sells the rights, the new shares are cheaper than the current market price. Bothe new and old shares will rank on equal footing when the formulations have been completed. Thus, the new zero value paid shares have values for which a third party would be willing to pay. The shareholders who are not happy with the rights issues or equalities, they can sell the rights. The rights are sold through the broker who will charge commission.

2.1.3.3 Characteristic of rights

Studying about right offering the following characteristics of rights can be showed:

1. The number of rights that a shareholder gets is equal to the number of shares held by him.
2. The price per share, called the subscription price, is determined by the issuing company.
3. The number of rights share required to subscribe additional shares is determined by the issuing company.
4. Rights are negotiable. The holder of the rights can sell them.
5. Right can be exercised only during a fixed period, which is usually about thirty days.

2.1.3.4 Pros and Cones of Right Issue

Right gives the existing shareholders right to purchase additional shares at a price somehow lower than market price. This system is advantageous for company also because all shares can be sold at certain period. The pros and cones of right issue are as follows:

Pros

a) Right issue gives the existing shareholders an opportunity to maintain their pro-rata share in the earning and surplus of the company and the the voting power as before.
b) The goodwill of the company increases in the eyes of existing shareholders.
c) The cost of issue of such shares will be lower.

d) If rights shares are offered by shareholders enthusiastically, it proves that the financial position of the company is sufficiently good and the company can obtain more loans at lower rate of interest.

Cones

Right share issue gives psychological value on shareholders. It indicates the company's growth to shareholders. Therefore they welcome right shares. But it has also limitations, without proper profit planning an issue of right share might invite over-capitalization. Some limitations are given below:

a. The company can't force its existing shareholders to buy any more shares in the company and hence it is granting them an option to buy these new shares.
b. Equally there is no reason for any outsider to want to buy these rights in order to take them up. Thus the proposed right issue could fail with the result that the company does not receive its desired injection of new equity funding.
c. The shareholders who fail to receive to exercise to sell their rights. They lose in terms of decline in their wealth. Most right issues are underwritten because there is no legal obligation on the part of shareholders to subscribe.
d. Issue of right share lowers than market value of existing share too. That may possess negative impact of particular share on capital market.
e. It deprives new investor from becoming the shareholders of the company. The control over the management of the company is not diluted and the present management may misuse its position.
f. The issue of right share dilutes the existing share's earning per share if the profit do not increases immediately in proportion to the increase in the number of ordinary share.

   "Yet another disadvantage is for those companies whose shareholding is concentrated in the hand of financial instructions because of the conversion of loan into equity. They would prefer public of share rather than right issue.

2.1.4 Rights issue Vs Public offering

1. Right issue and public offering both are the issue of common stock. There are many differences exist between the two offerings.
2. The right issue has issue price lower than public offering.

3. A right issue is likely to be more successful than public offering because the right offering is made to the investors who are familiar with the operation of the company.
4. Right issue is not underwritten, so flotation cost of right is lower than public offering.
5. The principle sales tool in the right offering is the discount from the current market price, whereas with the public offering the major selling tool is the investment banking organization.

2.1.5 Stock rights distinguished from privileged subscription

It is necessary to distinguish clearly between stock rights proper and privileged subscriptions. The term Privileged Subscription includes all offers to subscribe to new securities, whether to stocks, bonds, or notes, extended by a corporation to its security holders. Such offers are termed "Privileged" because the old security holders of the issuing corporation are given the first opportunity to purchase the new stocks or bonds, and presumably, at prices somewhat below current market values, the variety of privileged subscriptions is almost endless. Common stockholders may be given the privilege of subscription for new common stock, preferred stock, or bonds of the issuing corporation. Or they may be granted the first opportunity to purchase a stock or bond issue of same affiliated or Subsidiary Corporation. Similar privileges may be granted to the preferred stockholders or to the bondholders of the issuing company. Not infrequently, privileged subscriptions relate to units of assorted stocks and bonds.
In other words, stock rights include only those privileged subscriptions to which the stockholders are equitably and legally entitled by common statue law. Other privileged subscriptions may or may not be extended to corporate security holders, the option resting wholly with the corporation itself, but the privilege of subscribing to a new issue of securities which is subject to the preemptive right must be offered to the holders of that right.

2.1.6 Theoretical price of right issue

The forthcoming right issue should have no effect on the value of the stock during the interval between the announcement dates that is while the old stock is selling rights-on. The equity of each share of the old stock in the corporate assets and income

remains absolutely unchanged during this period. The rights issue merely gives each stockholder the opportunity. Sometimes after the record date, either to liquidate a part of his equity in the corporate assets by selling his rights, or to increase his investment in the corporation and thus to maintain his proportionate equity by exercising his rights.

When the stock goes ex-rights on the record date, the market price should immediately decline by the exact value of one right. The old stock selling rights-on actually represents two values, one being the value of the right and the other the value of stock ex-rights. On the record date, the first value is permanently detached from this joint valuation and thereafter, during the life of the right, is represented by the warrant certificate. The market value of the old stock should decline immediately on the record date by the amount of this detached valuation or by the value of the right. The situation is precisely the same as when a stock loses a portion of its value through the payment of a cash or stock dividend.

So, the first quotation on the stock rights after the stock has gone ex-rights should be exactly the value of one right, for this is the precise theoretical valuation which has been lopped off the old stock through issuing the warrant certificate. Similarly, all subsequent quotations on the stock rights should equal the values obtaining at those times. In actual practice, however, these theoretical assumptions are not always borne out.

2.2 Review of books

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. (Panday, 1999)

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

permit shareholders to preserve their position of 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 right s offering are directed to existing shareholders, its use can reduce the cost of flotation that is associated with the new issue. (Weston & Brigham, 1992)

In Nepal size of the shareholders population has been growing constantly the government seems to have not taken any initiative in formulation 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 thought 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. (Shrestha, 1992)
A company can make rights offering to its existing shareholders after meeting the requirements specified by the securities and exchange Board of India (SEBI) in India. Shareholders who renounce their rights are not entitled for additional shares. Shares becoming available on account of non-exercise of rights are allotted to shareholders who have applied for additional shares can be sold in the open market. (Marsh, 1979)

When the rights are offered for raising funds, three major issues are involved. They are as follows.

a. The number of rights needed to buy a new share,
b. The theoretical value of a right, and
c. The effect of rights offering on the value of the ordinary shares outstanding.

Pandey, further states that the existing shareholder does not benefit of lose from rights issue, whether he is selling ex-rights or cum rights.

What he receives in the form of the value of a right, he loses in the form of decline in share price. His wealth remains unaffected when he/she exercise his rights. He will lose if he does not exercise his/her rights or sells them. He/She loses under the third option. The shareholders have three options:

a. Exercise the rights,
b. Sell the rights, and
c. Do nothing.

In terms of impact on the shareholders wealth, subscription price is irrelevant. What the shareholders gain in terms of the value of rights. He will lose in terms of decline in the share price. The primary objective in fixing the subscription price below the current market price is that after the rights offering the market price should not fall below it.

Always the theoretical value of rights is not equal with market value because of three reasons. First, the high transaction cost can limit the investor arbitrage that would otherwise push the market price of the right to its theoretical value. Second, large flotation cost can affect these two values. Third, specialization over the subscription period can push the market price above or below the theoretical value.

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. (Van Horne, 2002)

If you study on the topic "The price effect of stock rights issue." In this study he uses 303 stock rights issued out of 422 privileged subscription recorded in NYSE. He classified these stock rights by various methods such as industry wise according to the years in which they were issued. In this study he defines a lot of key terms clearly with example. (Dolly, 1934)

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

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 fees charged in order to assess whether the letter represent competitive prices.

Scholes used the market model to examine a sample of 696 issues made on the NYSE between 1926 and 1966. He found abnormal gains in the period leading up to the issue; a small price fall of, on average, some 0.3% in the month of the issue; and thereafter, no abnormal gains or losses. The price behavior in the issue month was independent of the size of the issue and thus Scholes was able to reject the price presser hypothesis. (Scholes, 1991)

Echbo 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.

Sample accounted for less than ten percent of issue; whereas Britain and many other European countries, rights issues predominate. The price of the new shares in a rights issue is normally fixed at a level somewhat below the current market price of the shares. But 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 in consequential decline which accompanies a capitalization issue or stock-split. But, shareholders who do not choose to take up the allocation of the new shares can sell their rights to the new shares in the period before the payment is due. Only irrational shareholders, who neither exercise their tights 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. (Smith, 1997)

2.3 Review of journal, article & newspapers

Raheja, Bhadwaj & Priyanak (2011) This study scrutinize the impact of right issue on earning per share and market price per share during 2009-10 of 10 public limited companies listed on Bombay Stock Exchange. Right shares are those shares which are issued to existing shareholders. According to section 81 of Indian company act 1956, “Company can issue right shares only after the two years of creation of company or one year of first issue of shares whichever is earlier."
The result divulges that EPS of 2 companies out of 10 companies descent but not in that proportion in which right share has been allotted while other 8 companies demonstrate increasing trend in EPS. MPS of 7 companies out of 10 companies decayed as a result of right issue but not in that proportion in which right share has been issued. . Correlation between EPS and right issue is 0.11 and between MPS and right issue is -0.80. Thus MPS is much negatively correlated than EPS with right issue.

Miglani (October 2011) explores the impact of right shares issued by Indian companies that took place during 2005 & 2010. The samples of 32 right issues have been used to study the announcement effect. The study examines the stock price

reaction to information content of right issues with a view of finding whether Indian stock market is semi-strong efficient or not. The standard event study methodology has been used for the purpose of examining the right issue announcement reaction. The study reveals statistically significant abnormal returns on the announcement & surrounding dates.

It has examined the impact of right issue on firm's equity value. Data analyzed in this study consist of a sample of public announcements of right issues by companies. To be included in the sample the announcement of right issue must be reported during 2005-2010 period. Using the standard event study methodology the analysis shows that actual stock performance for the companies was higher as compared to expected market adjusted returns. The results showed that the stock value of the firm increased on the day of announcement of right issue by about 1.42%. The study also reveals statistically significant abnormal returns on the announcement & surrounding dates.

Equitymaster (September 2004) states that investors should treat the rights issue as a fresh equity issue, as they would be increasing their exposure to a company. Therefore, all the necessary precautions of a fresh investment should be taken. They should look beyond the discount being offered in the rights issue and rather concentrate on the manner in which the company would utilize the money. Investors must remember that if the company fails to meet its growth targets or get substantial returns from their increased investments, the EPS could get hit much harder than otherwise owing to reduced profits and higher equity base. Thus, the general factors like the growth prospects of the company, management capability, business model, etc. should continue to remain the deciding factors while making an investment decision here.

2.4 Review of past thesis

Now a days many studies have been done, related to the impact on market price of topics such as EPS and signaling effects. Out of them very few thesis directly consider the right issue to study on share price some of them have been reviewed below:

Khanal (2007) made study in "Rights Share practice and its impact on share price movement of commercial banks in Nepal". The main objectives of the study were:

a) To measure the significant movement in stock price before and after the announcement of the right share.
b) To describe Nepalese procedure and mechanism of rights issue.
c) To identify the problems and recommend appropriate implications on the basis of findings associated with rights issue in Nepal.

The major findings of his study are:

a) There is no uniformity in the impact of rights offerings in the share price.
b) After the rights announcement the company's share price sharp decline.
c) Majority of the investors are well aware about the rights share in Nepal.
d) Nepalese investors mostly prefer the banking and finance sectors share to invest rather than other sector.
e) There is lack of investors protection act.
f) Nepalese security market has failed to use various capital market instruments such as warrants, convertible, option etc.

Karki (2010) had made study on the topics "A Case Study On Relationship Between Rights Share And Movement In Various Share Price Of Listed Companies".
The main objectives of his study were:

a) A case study on relationship between Rights share and movement in various shares and Movement in various share price of listed companies.
b) To examine rights issue practice in Nepalese financial market.
c) To evaluate problems regarding under subscription.
d) To examine the impact of rights offering in earning per share and provide suggestions to the concerned on the basis of study findings.

Major Findings of the study:

a) There is significant difference between the share price of Banks before and after the right issue.
b) Under Subscription of right share is common phenomenon Nepal and in recent year's subscription of right share is in increasing trend.

c) There is not uniformity in the impact of right offering of share price.
d) There is lack of proper knowledge about right share and its impact on wealth position in shareholders of Nepalese financial companies.
e) If the companies utilize the right offering, it can raise fund in effective way and earning per share can be increased.

Thapaliya (2010) had made study in "Right Share Isuue & Its Impact in Share Price" with the objectives as:

a) To measure the significant movement in stock price before and after the announcement of right issue.
b) To explain the procedure and mechanism of right issue in Nepal.
c) To identify the problem regarding under subscription of right issue.
d) To identify the problems and recommend appropriate implication on the basis of findings associated with rights issue in Nepal.

Major findings of the study

a) Right share contributes the second largest among various issues to raise the capital of the company of the corporation approved by SEBO/N.
b) The Practice of right share issue is in increasing trend.
c) The maximum contribution of right offering in total public flotation is 82.84% and minimum is 6.81%.
d) Market price per share before 1 month of right share issue and after right share issue is found to follow randomness in price fluctuation.
e) In majority of cases, MPS after right share decreases but some companies are not found to be following the rule.
f) Under subscription of right issue is common phenomena as right is not transferable in Nepal , most of the companies unsubscribed give to the staff of the corporation, only some corporation have done underwriting.

Paul (2011) wrote on his thesis entitled *"The impact of rights issues announcements on share price performance in South Africa"* rights issues are an area of much interest and research globally. With the last significant local study on the topic conducted in 2005, this paper updates the findings based on more recent data. This is also the first study to explore the impact that the company's financial position has on the share price reaction to the announcement. The study was conducted by analyzing rights

issue announcements occurring on the JSE between 1st January 2001 and 31st December 2010. 35 events were used in this study since they met the criteria for clean measurement. A standard event study methodology was used. Abnormal returns were measured through both the market model and control portfolio, with the Altman Z Score utilized as a measure of the issuers' financial position.

Statistical analysis was conducted throughout to confirm significance. Average Abnormal Returns of -2.33% and -3.30% were found on the day of the announcement, depending on the model used, and Cumulative Average Abnormal Returns (CAARs) for five days post the announcement were between -5% and -6%. Of most interest, share price reactions were found to differ, with statistical significance, according to the financial position of the issuer. Companies categorized as healthy recovered from the initial decline to a CAAR of less than -1% twenty days post the announcement. In contrast companies categorized as unhealthy and in the grey zone suffered CAARs after the same period of -9.17% and -8.06% respectively. The conclusion of the study is that the well-researched share price decline on the announcement of a rights issue persists, but that this reaction is significantly worse for companies in a poor financial position, as measured by their Altman Z Score.

Ali, H.A.A (2012) states that the issuance activity of IPOs and rights issues has shown substantial time-varying fluctuations. These fluctuations are conceptually related to the so-called 'timing, and 'hot issues' markets. This thesis conducts a comprehensive examination of the determinants of timing of IPOs and rights issues in the UK, seeking to inspect and compare the main factors that drive these fluctuations. Specifically, I compare the extent to which the favorable business and economic conditions, bull market timing, investor sentiment, and decreasing adverse selection costs can explain these fluctuations. For IPOs, the overall findings show strongly and robustly significant evidence in support of adverse selection costs hypothesis. Economic conditions, bull market timing and investor sentiment hypotheses are also important determinants of IPOs timing, but of less significance and robustness. For rights issues, the timing story appears different. The empirical evidence is mostly consistent with the bull market timing hypothesis. Investor sentiment proxy is supported but not robustly consistent across various tests.

By contrast, the economic conditions and information asymmetry proxies generally exhibited inconsistent findings. It has been recently posited that equity-issuing firms behaviourally time their offerings to exploit stock mis-valuations and investor over-optimism. If so, this behavioural timing is expected to be reflected in a direct relation between mis-valuation of IPOs and right issues and poor post-issue stock returns. This mis-valuation is examined (i) directly via calculating a ratio of the price to an intrinsic value of the firm (as a proxy for relative overvaluation) and (ii) indirectly via looking at the intensity of equity issuance activity since investor over-optimistism and stock over-valuations are expected to substantially differ between hot and cold issues markets.

The findings suggest that both IPOs and rights issues are significantly over-valued compared to other non-issuing firms. More importantly, the post-issue stock returns are found to be significantly and robustly different between IPOs and rights issues launched during hot issues markets compared to those launched during cold and normal issues markets, which strongly supports the behavioural timing hypothesis. However, the overall findings derived based on the post-issue stock returns conditional on relative overvaluation are less consistent with the behavioural timing hypothesis.

Marsden, A. (1997) This thesis examines security price reaction to the announcement of rights issues by New Zealand listed firms over the 1976 - 1994 period. Rights issues whereby equity is offered to existing shareholders on a pro-rata basis is the most common method used by New Zealand firms to source additional equity capital. Most rights issues in New Zealand are renounceable with the subscription price for shares offered to existing shareholders being set at a discount to the current market price. Rights entitlements or the right to purchase new shares at a discount to the market price are therefore valuable. With renounceable rights offerings, existing shareholders can take-up the new shares offered under the issue or sell all or part of their rights entitlement to other investors.

To explain security price reaction to the announcement of a rights issue, chapter four of this thesis develops a theoretical model under the framework of the Myers and Majluf (1984) analysis. The model allows for varying levels of participation in the

issue by existing shareholders. The model illustrates that the greater the anticipated level of existing shareholder participation in the rights issue the smaller any adverse selection costs and potential for wealth transfer from old to new shareholders. The price reaction to the rights issue announcement should also be less negative.

This thesis also examines the implications around rights issue announcements based on other theoretical models and offshore empirical evidence of equity issue effects. Other factors hypothesised to explain differential price reaction around the rights issue announcement date include underwriter certification, the level of information asymmetry, the relative size of the rights issue, use of proceeds of the issue, growth opportunities of the firm and the subscription price discount. To test the hypotheses put forward to explain price reaction to the announcement of rights issues, a sample of 167 renounceable rights issues of ordinary equity by New Zealand listed firms over the period 1976 to 1994 are examined. In the sample of 167 rights issues, 88 rights issues were announced with no simultaneous profit and loss or bonus issue announcement, eight rights issues were announced simultaneously with a bonus issue of ordinary shares, 40 rights issues were announced simultaneously with the firm's profit and loss announcement only and 3l rights issues were announced simultaneously with the firm's profit and loss and also simultaneously with a bonus issue of ordinary shares.

The empirical evidence supports the following general conclusions.
Rights issues announced with no simultaneous profit and loss or bonus issue announcement experienced a significant negative abnormal return around the announcement day. The observed significant negative abnormal return is consistent with US empirical evidence on equity price reaction to the firm-commitment underwritten offer.

There is some evidence that firms with high expected existing shareholder participation or take-up in the rights issue experience a less negative price reaction to the announcement. The empirical evidence provides some support to the predictions of the theoretical model to rights issue announcements (described in chapter four of this thesis).

Firms that announce underwritten offers and firms that announce large rights issues relative to their current market capitalization experience a significantly more negative price reaction to the announcement. The more negative price reaction for underwritten rights offers supports the adverse selection cost arguments of Eckbo and Masulis.

Firms announcing rights issues with a high subscription price discount experience a significantly more positive price reaction to the announcement. The empirical evidence does not support the model of Heinkel and Schwartz (1986) who predict a deep discount signals unfavourable inside information by managers. Importantly the results above all hold for the 'clean' sub-sample of 88 rights issues announced with no simultaneous profit and loss and/or bonus issue announcement.

CHAPTER – III
RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology used for this study. "Research Methodology is the research method used through the entire study", (Kothari, 1992). The main objective of the study is based on primary and secondary data. The basic objective of primary data analysis is to survey the opinions of rights shareholder and rights share issuing company management body. Secondary data were used on analyze the relationship between stock price reaction and announcement of rights issues, correlation coefficient between rights share and equity shares, correlation coefficient between rights shares and NEPSE Index, number of issue approval of rights share etc. the methodology consists of Research Design, The Selection of Sample, Source of Data, and Coverage of the Data, Data Analysis Tolls, Others Statistical Tools and Valuation of Rights.

3.2 Research design

Research design is a plan, structure and strategy of investigation concerned so as to obtain answer to researcher question and to control variance". This research is based on the analytical and descriptive design as well. For the analytical purpose, the annual report published by SEBO/N, NEPSE and other concerned companies were collected for the year 2064/65 to 2068/69

3.3 Population and selection of sample

All other cases being excluded, this study is focused in stock rights issue. Privileged subscriptions issued to common stockholders permitting them to subscribe for additional common stock of identical corporation were included in the sample. Till the FY 068/69, there are only 235 cases of rights offered by 74 companies out of total listed companies. Similarly, out of total listed commercial banks and finance groups, many fluctuations in stock price directly affect the NEPSE Index. Due to various limitation researcher cannot take all the companies as the sample.

To measure the price movement of stock before and after the announcement of right share, some market prices are required. For this purpose researcher has taken price of the different time of period as the sample, which is based on purposive and judgmental sampling method.

The population comprises the companies those have already issued rights shares. Till the date of FY 2068/69, there are only two hundred thirty five cases of rights offered. Researcher has taken as Sample for better representative of the population. The sample of 5 commercial banks of Nepal issued right in different fiscal years were taken as sample for the study to analyze the changes brought by the right issue on its EPS, MPS and other aspects of the firm. The selected sample banks were KBL, PCBL, BOA, SBL and NMB and the study period selected was from F.Y 2064/65 to 2068/69.

3.4 Source of data

This study has used both primary data & secondary data simultaneously. The secondary data were collected from annual reports of sample CBs and annual report of SEBON for the study period. And the primary data were collected by the researcher herself through the field visit to different banks & financial institutions along with prepared questionnaire for data collection related to the study.

3.4.1 Primary sources

Primary sources include the responsive of the questionnaires, personal interview with managers of issuing companies, listed stockholders and resourceful persons in the regulatory offices. In the course of primary data collected for the study, a questionnaire has been prepared and distributed among 50 people includes 25 banks staffs and 25 general public.

3.4.2 Secondary sources

Secondary sources of data includes annual report of Security Board of Nepal, Statistical year book of Nepal, various publication of Nepal Stock Exchange, Income statement, Profits & loss account, balance sheet of concerned companies, Dissertation, Previous Studies, Articles and Daily Newspapers. Some other important information has been collected from Internet of the related website.

3.5 Data collection technique

This study covers the rights issue made by companies, whose name was listed in the SEBON. The analysis covers the period within fifteen Years (2052-2065 B.S.). Out of total listed companies, only 74 companies issued the rights for their existing shareholder. The study throws light on the several aspects of the corporate financial policies and practices regarding rights offering, such as, subscription price, subscription ratio, total issues verses total subscription of the rights shares, the frequencies of the rights offering by an individual company and the legal provisions regarding the rights offering.

In this study necessary data are collected from various sources, out of them only related data are considered for the study. Primary and Secondary data are collected through following method:

3.5.1 Questionnaire method

Questionnaire method has been used to get information about the right share and its various aspects. Opened, Closed and mixed questionnaire methods are used to collect the data. Yes/No question, multiple choice question and descriptive questions are designed to get the response. Due to various limitations only 30 questionnaires are dispatched to the individual investors, brokers and issue managers, corporate firm and related experts and out of this, 20 responses were obtained.

3.5.2 Interview method

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

3.5.3 Historical data record method

The main sources of the data are Historical Record Method. They are collected from various reports, prospectus of companies and newspaper. Previous data, which was used by other party, are also useful for this study. The announcement day is the day of first public announcement. This was the first day that the information was became public, the announcement date was confirmed or collected by reviewing each firm's official records in the SEBO/N. The share prices collected from the official quotation,

lists of NEPSE published in the National Daily Newspaper as well as trading report of SEBO/N.

3.6 Methods of analysis

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

3.6.1 Allowance for leakage of information

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

3.6.2 Removing the effect of market movement

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

a) For the purpose of analysis five different times were selected for observing the price movement, with the announcement date as the point of reference. The selected points are as follows;

i. 90 days before announcement date
ii. 60 days before announcement date
iii. 30 days before announcement
iv. 30 days after announcement
v. 60 days after announcement
vi. 90 days after announcement

b) Price quotations for each share were collected for all the five periods of time or reasonably close to them. These price quotations were then converted into price relative with point (i) as the base date. This all price changes have been expressed relative to the base date price, i.e. the price three months before the announcement date.
c) The equity price index was noted against each price relative. The price index was also converted to a new set of index numbers again with point (i) as the base.
d) Finally, the price relative against each of the five points of time, as obtained in stop (b) above, was expressed as a percentage of the corresponding index numbers as adjusted in the step (c) above.

In general terms, our procedure for elimination the effect of the general market movement boils down to adjust the actual share price on any date downwards in proportion to a downward general movement.

Thus, we get a series of five percentages for each of the shares in our sample representing of time, after the effect of general market movement have been eliminated.

3.7 Data analysis tools

Several mathematical, statistical tools have been applied for the analysis of the data collected and find out the solution for the research problem. Some of the data analysis tools used in this study are: Ratios, Percentage, and Average etc. Besides these, several diagrams & charts have been used for the systematic and fine presentation of the collected data so that the facts & figures of right issue & its impact can be grasped by the readers in an early first view.

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

Theoretical Value of Stock after right share issue $P_e = \frac{P_0 \times \# + P_s}{1 + \#}$

Pre right issue stock price $= P_o$

Subscription price $= P_s$

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

Percentage change in MPS

This gives the deviations of the share price due to right share issue phenomenon of the share price before right share issue. Ig th percentage of change comes negative, it indicates that the MPS has decreased after right share issue. Similarly, if the percentage changes become positive, it indicates that the MPS has increased after right share issue and if the percentage change come zero, it indicates on change in MPS before and after right issue. The percentage that has been changed in MPS after right share issue is calculated by using the following formula.

$$\text{Change in Price (\%)} = \frac{\text{Post Rt.Issue Price} - \text{Pre Rt.Issue Price}}{\text{Pre Rt.Issue Price}}$$

Percentage Change in Actual Market Price and Theoretical Price

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

This has been given by the formula below

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

CHAPTER-IV
DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation, analysis and interpretation of data collected through primary and 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 rights share 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 officials quotation of share prices, publication of SEBO/N and NEPSE issue prospectus and annual reports of respective companies. Primary source include the response of questionnaires and personal discussion. To obtain the best result, the data have been analyzed according to the research methodology as mentioned in the third chapter.

4.1 Contribution of rights issues on total public flotation

There are many other alternatives of the public issue. One of the important alternatives of total public issue in Nepal is Rights share. Following tables show the contribution of rights issue in the total public floatation in each of the fiscal years in which the rights offering has been taken place.

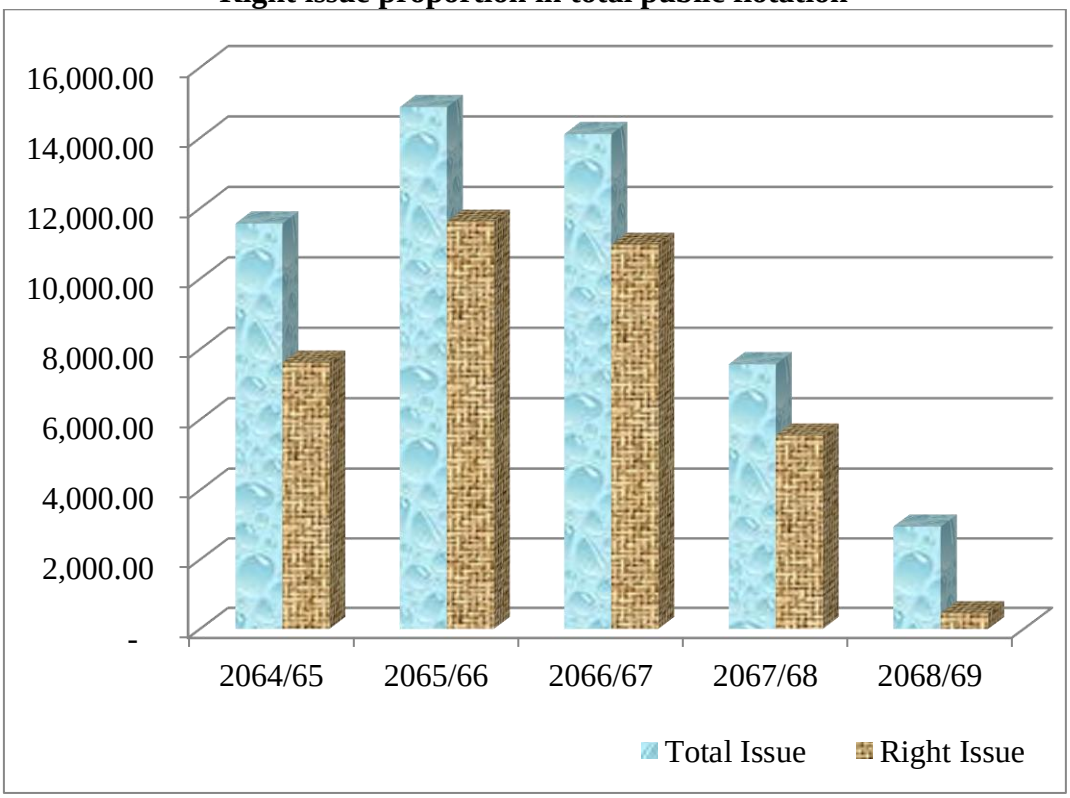
Table 4.1
Contribution of rights issue in the total public floatation

Fiscal Year	Total issue Approved		Rights Issue Approved	
	Companies	Rs. '000,000'	Rs. '000,000'	Percentage
2064/65	72	11,567.86	7,615.61	**65.83%**
2065/66	63	14,875.12	11,615.42	**78.09%**
2066/67	72	14,107.45	10,962.75	**77.71%**
2067/68	47	7,572.78	5,544.34	**73.21%**
2068/69	25	2,950.18	451.68	**15.31%**
Average	**55.80**	**10,214.68**	**7,237.96**	**62.03%**

[Source: Annual Report of SEBON]

The above table presents the data of the five years period from F.Y 2064/65 to 2068/69 regarding total issues approved by SEBON and right issues approved for the same period. Out of total securities issued in F.Y 2064/65, 65.83% were right issue which was increased to 78.09% in F.Y 2065/66 even though the issuing companies were decreased from 72 to 63. In the F.Y 2066/67, the number of securities issuing companies increased by 9 than former year but the total amount of securities issued were decreased in which the right issue was 77.71%. The securities issue was significantly reduced in F.Y 2067/68 as well as right issue. In this year, the 73.21% of issue is only right issue by different companies. The decreasing share issue was continued in F.Y 2068/69 also along with right share issue decrease. In this year the 15.31% of public issue only right share proportion. It can be presented in bar diagram as follows:

Figure 4.1
Right issue proportion in total public flotation



In the above bar diagram, x-axis represents the study period from 2064/65 to 2068/69. The y-axis shows the amount of public flotation. In the F.Y 2064/65 the public issue was NPR 11,567.86 out of which NPR 7,615.61 were right issue. In F.Y 2065/66, the public issue was increased by NPR 3,307.26 than former year whereas the right issue was increased by NPR 3,999.81. The public issue & right issue both were decreased

in F.Y 2066/67 by NPR 767.67 and 652.67 respectively than in F.Y 2065/66. The decreasing public issue continued in F.Y 2067/68 as well as 2068/69 by 6,534.67 and 5,418.41 respectively. On the other hand the right issue decreases by 5368.41 and 5092.66 in F.Y 2067/68 and 2068/69 respectively.

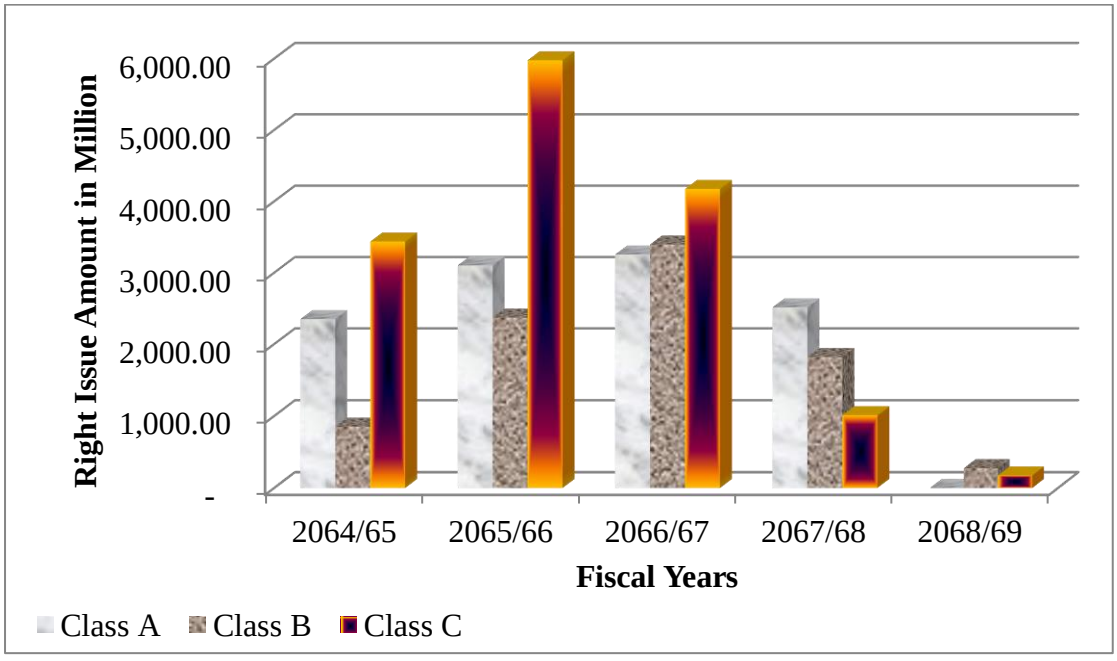
It showed that the public offerings as well as right offering were high before F.Y 2065/66. Thereafter the public issue & right issues by firms were decreased significantly. It may be because of most of the firms having already issued public share and there were no such a significant increase in public enterprises. Merely 2/3 firms were established and the public share issue were obvious to decrease. The bar of public offering and right officering were almost similar in higher which show the majority portions of the public issues were right offering. It also clears the establishments of very few new firms and issue public share. Majority of the public issues were right issues by existing firms.

4.2 BFIs issuing right share in Nepal

The BFIs of Nepal are categorizing into class A, B, C & D by NRB. Among them this thesis attempted to find out the right issue by A, B & C class BFIs of Nepal fo the study period. It is given in the bar diagram as below:

Figure 4.2

Trend of right issue by class A, B & C BFIs of Nepal



[Source: Annex 1]

The above bar diagram shows the amount of right issues by Nepalese class A, B & C category BFIs for the study period of F.Y 2064/65 to 2068/69. In F.Y 2064/65, the right issues by class c institutions i.e finance companies have dominated class A & B. The right issues by A, B & C were NPR 2351.07, 853.05 and 3,438.19 respectively in that year. In the same year class D institutions have also issue right share amounting NPR 123.00. Refer annex 1 for more details. The domination of right issue by class c firms was continued in F.Y 2065/66 and 2066/67 too. In F.Y 2065/66, the amount of right issue by class A were NPR 3,103.65, class B were 2,372.66 and class C were 5,978.31. The amounts of right issue by these classified firms in F.Y 2066/67 were NPR 3,256.50, 3,396.20 and 4,175.32 respectively for class A, B & C.

In F.Y 2067/68 the majority of the right issues were by commercial banks amounting NPR 2516.50. The 2nd highest issue of right was by development banks amounting NPR 1821.09 whereas the finance companies issued right of worth NPR 1012.69. In the same year, the micro finance companies have issued right issue amounting NPR 144.06. The right issue in the F.Y 2068/69 where dominated by development banks where they have issued total amounting NPR 276.35 right issues and finance companies amounting NPR 175.33 whereas none commercial banks have issued right share in this year.

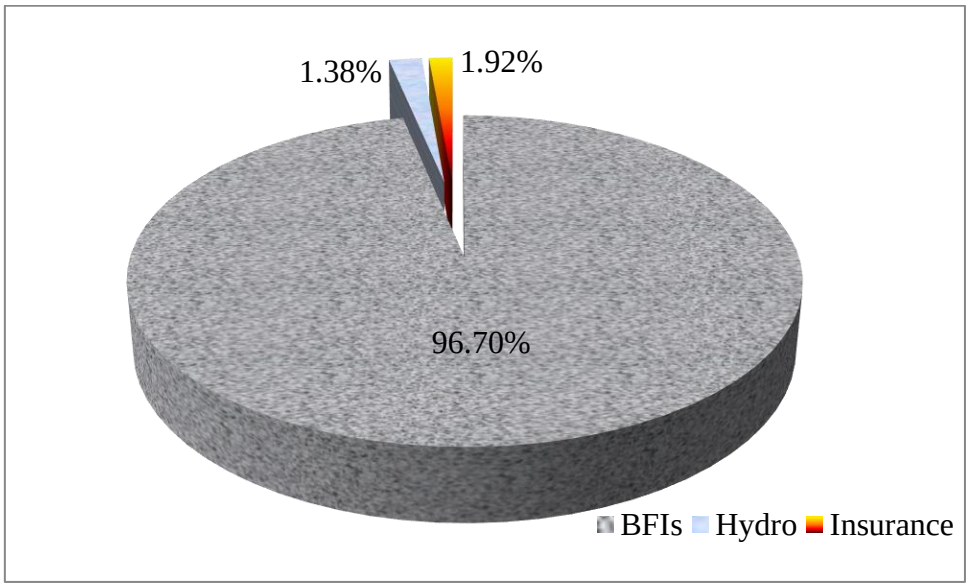
From the study of above bar diagram it is clear that most of the BFIs of Nepal have issued right share in F.Y 2064/265 & 66. Still some of the BFIs are practicing right issue in recent years also but right issues of commercial banks were almost all stopped. So, the right issue trend will go on decreasing for some more years till the newly established firms require some more capital as most of the BFIs of Nepal have already collected its required capital through different sources already and share market is in declined stage where right offering is risky as it may be undersubscribed.

4.3 Sector wise average right issue for the study period

The companies of different sectors have issued public share and recently they were also practicing the right issue of share because of successfully subscription of all the BFIs right issue in these years. So, it found that right share issue is the best option for the collection of additional capital required for the firms. This study tried to explore the sector wise average right issue for the study period.

Figure 4.3

Sector wise securities issues



[Source: Annex 1]

The pie chart gives the glimpse of average sector wise proportion of right issues for the study period of 2064/65 to 2068/69. The majority proportion of the right issues were made by BFIs of Nepal. The 96.70% of right issues for the study period were by class A, B, C & D banks & finance companies. Similarly, the Hydropower companies of Nepal have issued 1.38% of the total right issues and 1.92% by insurance companies of Nepal. It is clear that the securities market of Nepal is dominated by banking sector of Nepal. The news in the media that NEPSE is increased or decreased because of increment or decrement with the price of common shares of banking sector has been verified by this picture.

In conclusion, it could be said that Nepalese securities market is dominated by banking sector of Nepal. The right share issuances were leading by banking sector which is followed by insurance companies & hydropower companies of Nepal.

4.4 Evaluation of changes in MPS before & after right issue

The market price of the common share fluctuates with the different kinds of news and affected by multiple factors. One of the factors that affects the price of common stock is the right share issuance. The theory of stock states that the price of common share decreases with the exercise of right share because of dividing the same cake for more

people. In this regard to find out if the price of common stock changes after right practice by firms and on which direction the price change goes five CBs of Nepal which have issued right share were taken as for the sample study. The sample CBs selected for the study are: KBL, PCBL, BOA, SBL & NBL. These five CBs were found right issues in recent years and after right issue their shares has been traded in security market.

So, the MPS of the common shares of selected sample banks were collected from the trading floor of NEPSE on the 90 days, 60 days and 30 days before the right issue along with 90 days, 60 days and 30 days after the right issue. The comparative study of change in MPS on these days for the selected sample banks are given below:

4.4.1 Effect of right issue on MPS of KBL

KBL came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank has paid up capital of Rs. 1,603,800,000 of which 70% is contributed from promoters and remaining from public. The right was issued by KBL on dated 01/01/0000. The changes on the price of the common stock before and after for KBL were presented in table below:

Table 4.2

Price of KBL's equity before & after right issue

Particulars	**KBL**		
	MPS	**Difference**	**% change**
90 days before right issue	422		
60 days before right issue	381	-41	
30 days before right issue	352	-29	
30 days after right issue	287	-65	**-18.47%**
60 days after right issue	305	18	**-19.95%**
90 days after right issue	285	-20	**-32.46%**
Average 180 days price of KBL	**338.67**		

[Source: www.nepalstock.com]

The above table shows the 180 days common stock price of KBL that includes the price of before 90 days and upto after 90 days of right issue. The stock price was

changed from NPR 422 to NPR 285 with exercise of right. The 60 days before right issue was NPR 381 which reached to NPR 352 before 30 days of right issue. With the issue of right, the MPS decreased to NPR 352. The difference percentage on price before and after 30 days price for KBL was -18.47%. The difference of percentage price change is -19.95% after 60 days. Similarly the differences between price of 90 days before & after were -32.46%. It shows that the time passes with the issue of right the price of stock started decreasing.

4.4.2 Effect of right issue on MPS of PCBL

PCBL was incorporated in September 2007 as the 21st commercial bank in Nepal. It is category 'A' financial institution registered under the "Banks and Financial Institutions Act" of Nepal. It has been established by prominent business personnel and professionals from diversified areas with a prime objective of providing 'Banking Services to Everyone' in the country where still large number of population are deprived of Banking Services. The Bank has in total 389 promoters holding 70% shares of the Bank. The change in common stock price of PCBL between 90 days before and 90 days after were listed in the below table:

Table 4.3

Price of PCBL's equity before & after right issue

Particulars	**PCBL**		
	MPS	**Difference**	**% change**
90 days before right issue	223		
60 days before right issue	203	-20	
30 days before right issue	196	-7	
30 days after right issue	190	-6	**-3.06%**
60 days after right issue	270	80	**33.00%**
90 days after right issue	280	10	**25.56%**
Average 180 days price of PCBL	**227.00**		

[Source: www.nepalstock.com]

The price of common stock of PCBL was decreased with the announcement of right issue. The price of common stock before 60 days was decreased by NPR 20.00 than price before 90 days of right issue. The price of common stock just before 30 days of right issue was NPR 196 which was decreased by -7 than the price before 60 days of right issue. The common stock price of PCBL after 30 days of right issue was NPR

190 which was decreased by NPR -6 than the price of 30 days before right issue. The percentage change in MPS of PCBL common stock price before 60 days & after 60 days of right issue was 33.00%. It means the common stock price is increased which continued thereafter also reaching percentage difference of 90 days before & 90 days after right issue share price 25.26%.

From the study of price changes before & after right issue for PCBL, it could be said that even though initially the price was decreased with the announcement of right share, the price was increased gradually after right issue with past of time. It is slightly reduced the price immediately after right issue but later on went on increasing.

4.4.3 Effect of right issue on MPS of BOA

BOA is the 22nd commercial bank of Nepal. It is incorporated under the companies Act 2063 as 'A' class financial institution. It started its full-fledged commercial operations from 12th October 2007 from its registered office at Tripureshwor, Kathmandu. Paid up capital of the Bank is NPR 2 Billion, out of which 70% is from promoters and balance 30% is from general public. The shares of the Bank are listed with NEPSE. The change in price of common stock before 90 days of right issue and 90 days after right issue for BOA were presented in table below:

Table 4.4

Price of BOA's equity before & after right issue

Particulars	**BOA**		
	MPS	**Difference**	**% change**
90 days before right issue	256		
60 days before right issue	274	18	
30 days before right issue	208	-66	
30 days after right issue	158	-50	**-24.04%**
60 days after right issue	160	2	**-41.61%**
90 days after right issue	170	10	**-33.59%**
Average 180 days price of BOA	**204.33**		

[Source: www.nepalstock.com]

The average 180 days price of BOA for the study period was NPR 204.33. The common stock price of BOA changed from NPR 256 to NPR 170 within study period. It was decreased by 50.59% in this period.

The stock price before 90 days of right issue was NPR 256 for BOA which increased to NPR 274 after 30 days and significantly decreased to NPR 208 in next 30 days. The right issue was made there after and the common stock price was decreased to NPR 158 after right issue. It was decreased by 24.04% than common stock price before 30 days of right issue. The stock price was increased by NPR 2 in next 30 days which was decreased by 41.61% than the price of before 60 days of right issue. The common stock price of BOA thereafter increased by NPR 10, reaching NPR 170. This price after 90 days of right was decreased by -33.59% than the price of 90 days before right issue.

From the study of common stock behavior of BOA for the study period can be concluded that the common stock price decreases with announcement of right share and for short term after right issue. But after 30 days of right issue the common stock price starts increasing.

4.4.4 Effect of right issue on MPS of SBL

Siddhartha Bank Limited (SBL), established in 2002 and promoted by prominent personalities of Nepal, today stands as one of the consistently growing banks in Nepal. While the promoters come from a wide range of sectors, they possess immense business acumen and share their valuable experiences towards the betterment of the Bank.

Table 4.5

Price of SBL's equity before & after right issue

Particulars	**SBL**		
	MPS	**Difference**	**% change**
90 days before right issue	220		
60 days before right issue	215	-5	
30 days before right issue	198	-17	
30 days after right issue	135	-63	**-31.82%**
60 days after right issue	127	-8	**-40.93%**
90 days after right issue	162	35	**-26.36%**
Average 180 days price of SBL	**176.17**		

[Source: www.nepalstock.com]

The above table gives that the price of common stock of SBL declined till 60 days after right issue from the 90 days before right issue but after 90 days of right issue the share price started increasing. The percentage change in price of common stock of SBL from 30 days before right issue to after 30 days of right issue was -33.33%. The percentage change in price of common stock of SBL is -25.00% for the period of 60 days before right issue and 60 days after right issue. This percentage difference was -26.42% among the period of 180 days stock price. The average 180 days stock price was NPR 265.

It could be observed that initially at the period of right share issue announcement by SBL, the share price started to decrease from NPR 265 to NPR 233 before right issue. The decrease in share price continued after right issue too. It decreased by NPR 73 just after right issue. But after 30 days of right issue the common share price started increasing which reached to NPR 183 on 60 days of right issue which was increased by NPR 23 than 30 days prior price of common stock. The price of common stock thereafter went on increasing.

4.4.5 Effect of right issue on MPS of NMB

This thesis has selected NMB bank as the sample for the study. NMB bank is one of the commercial banks of Nepal. The common stock price of NMB for the period of 180 days was summarized in table below. It shows that the average 180 days price of NMB's common stock was NPR 265.

Table 4.6

Price of NMB's equity before & after right issue

Particulars	**NMB**		
	MPS	**Difference**	**% change**
90 days before right issue	265		
60 days before right issue	244	-21	
30 days before right issue	233	-11	
30 days after right issue	160	-73	**-31.33%**
60 days after right issue	183	23	**-25.00%**
90 days after right issue	195	12	**-26.42%**
Average 180 days price of NMB	265		

[Source: www.nepalstock.com]

It could be observed that the common stock price of NMB started decreasing from 90 days before right issue upto 30 days after right issue and then after it started increasing. The common stock price of NMB in aggregate decreased from NPR 265 to 195 for the study period. Within earlier 60 days before right issue the stock price decreased by NPR 22. The decreased price was NPR 233 upto before 30 days of right issue.

Then after the right issue also the price went on decreasing and reached to NPR 160 reducing by NPR 73 per share within short period of right issue. The common stock price of NMB started increasing after 30 days of right issue from NPR 160 to NPR 183 by 60 days after right issue which reached to NPR 195 after 90 days of right issue. In overall the percentage difference between 180 days common stock price was -26.42%. Similarly the percentage difference of common stock price between 120 days of right issue was -25.00% which was -31.33% for 60 days period before & after right issue.

From the study of common stock behavior for 180 days period between right issue for the selected sample firms, it can be concluded that the common stock price starts to decline with the announcement of right issue by common stock. The reduction in price of common stock continues after the right issue also for short period of time 30-60 days. There after the common stock price starts increases. But the noticeable thing is the stock price does not able to gets its value after right issue as of before right issue. Because majority of sample firms percentage change of common stock price before & after 90 days of right issue were negative. So, the right issue negatively affects the price of common stock.

4.5 Comparative study of price change just before & after right issue

To make the above findings easier it has been collected the price of common stock for the selected sample firms at the time of book closing for right issue and the common stock price of 1st trading day just after right issue by the firm. It helps to easily notice the change in price of common stock before & after right issue clearly. The collected data has been presented with help of table as below. The table shows the prices for sample banks along with percentage change in the common stock price before & after the right issue made by those firms.

Table 4.7
Price comparison just before & after right issue

Sample Companies	Pre. Right issue Price	Post Right issue Price	Change in Price (%)
KBL	356	346	-2.81%
PCBL	206	214	3.88%
BOA	182	180	-1.10%
SBL	137	134	-2.19%
NMB	182	185	1.65%
		Average	**-0.11%**

[Source: Trading Report of NEPSE]

The table has shown the pre. right common stock price and post right common stock price for the selected sample CBs. The KBL's common stock price before right issue was NPR 356 which reached to NPR 346 immediately after right issue. The price was decreased by 2.81%. But in case of PCBL, the common stock price was increased by 3.88% after right issue. The common stock price of PCBL before right issue was NPR 206 which reached to NPR 214 in the trading day just after right issue. BOA has not such a significant change in common stock price due to right issue. The common stocks of BOA were traded in NPR 182 before book closing for right issue which reached to NPR 180 declining by NPR 2 only. The BOA's common stock price was decreased by 1.10% because of right offering b the company.

On the same way the price of common stock of SBL was NPR 137 before right issue and declined by 2.19% along with right offering and started trading in NPR 134 after the right offering. The NMB's common stock price was found increased slightly after right issue. The book was closed for NMB's common stock at NPR 182 for the right offering. After right offering the price of common stock of NMB was increased by 1.65%. In overall, the declined in common stock price was noticed from the right issue. The calculated average price changes for NMB was -0.11% only.

So, from the study of above table it clears that majority of the common stock's price was decreased. It may be because of increased number of shares with exercise of right issue and firms unable to generate income more than early period. But still some of firms were able to maintain the increment trend of MPS for some FIs.

4.6 Theoretical value & book value of right share

The theoretical value of right is the price of the right share that the common stock holders payable upto for the exercise of right. The theoretical value of right largely depends on the prevailing market price and ratio of right distribution. If the market value is high, the theoretical value of right issues by such firms also will be higher than par value but not exceed to market price of common stock. It is obvious that right will not be purchased if it exceeds the prevailing market price of common stock. Because customers are easily getting chance of purchasing the same stock at lower price in secondary market why should they pay additional money in primary market if right was sold higher than market price. In this context, attempt has been made to calculate the theoretical value of the right for the selected sample CBs and compare it with their MPS. The summary table of the calculation is given for analysis whose details are given in annex section of this thesis.

Table 4.8

MPS, BVPS & theoretical value of right share

Sample Companies	MPS	Theoretical value	Difference	BVPS	Remark
KBL	266	244.36	**21.64**	138.00	**1.77**
PCBL	237	168.50	**68.50**	110.74	**1.52**
BOA	192	169.00	**23.00**	107.72	**1.57**
SBL	163	150.81	**12.19**	106.50	**1.42**
NMB	195	177.94	**17.06**	110.57	**1.61**
				Average	**1.58**

[Source: Annex 2]

The table has shown the MPS along with the calculated theoretical value of right for the five selected sample CBs for the study along with their BVPS for comparison. The MPS of KBL during right offering of 20:3 was NPR 266 whose calculated theoretical value for right was NPR 244.3 which is NPR 21.64 less than MPS whereas par value was NPR 100. The book value of the KBL at the same time was NPR 138. The calculated theoretical value is 1.77 times of its BVPS. So, there is less chance of risk from the exercise of right offered by KBL.

Similarly, the PCBL had MPS NPR 237 and theoretical value of right was NPR 168.50 which was NPR 68.50 less than MPS. The calculated theoretical value of right was 1.52 times of its book value. The BOA had offered 3:1 right share at the time of NPR 192 MPS and 107.72 BVPS. The calculated theoretical value of right for the period of BOA was NPR 169 which is 1.57 times of its BVPS and NPR 23.00 less than its MPS. On the other hand SBL had offered 10:2.4 right share for its existing common stock holder when its common stock was trading at NPR 163 with BVPS of NPR 106.5. The calculated theoretical value of its right share was NPR 150.81, NPR 12.19 less than MPS and 1.42 times of BVPS.

Finally, NMB has shown that its theoretical value of right was NPR 17.06 less than its prevailing MPS of NPR 195 which was 1.61 times of its BVPS and it has offered 10:2.2 right share. The average of 1.58 times of BVPs was the theoretical value of right for the sample CBs. So, it could be said that the theoretical value of right will be lower than MPS and higher than BVPS. Common stock holders should calculated the theoretical value of right if any firm or company offers right share with premium i.e higher than par value and compare with prevailing MPS. If the right share offered in premium is less than MPS, right share issued should be purchased else not.

4.7 Impact of right issue on EPS

The EPS before and after right issue for the selected sample CBs were collected for the purpose of analyzing them and find out whether the EPS changes positively or negatively after right issue by firms.

Table 4.9

Change in EPS after right practice

Name of the companies	EPS before right issue	EPS after right issue	% Change
KBL	11.19	3.14	**-71.94%**
PCBL	10.21	6.26	**-38.69%**
BOA	13.33	8.67	**-34.96%**
SBL	11.2	9.23	**-17.59%**
NMB	10.7	11.63	**8.69%**
Average			**- 30.90%**

[Source: Quarterly Reports of sample banks]

The table has presented the EPS of five selected sample CBs from its quarterly report just before & after right issue. KBL had NPR 11.19 EPS before right issue which decreased to NPR 3.14 reducing by 71.49%. Similarly, PCBL has decreased its DPS by 38.69% and EPS became NPR 6.26 only after right issue. BOA had NPR 13.33 EPS before right issue that became NPR 8.67 reducing by 34.96% after right issue. SBL's EPS was decreased by 17.59% converting earlier EPS of NPR 11.2 into NPR 9.23 by right issue. And finally the NMB had EPs of NPR 10.7 before right issue which increased after right issue and reached to NPR 11.63, increased by 8.69%

So, from the study of above EPS before & after right issue for the selected five sample CBs can be concluded that EPS reduced after the right issue by firms as it increases the number of shares but the firm could not mobilize the fund so quickly.

4.8 Primary data analysis

Primary data is original research data in its raw form, without any analysis or processing. This data provides a wealth of information for researchers. Depending on the nature of a study, the primary data may be provided along with reports and analysis so readers can look at it directly, or it may be kept confidential. Access to this data can be very valuable for people who want to learn more about study methodology, anomalies that occurred during studies, and other topics.

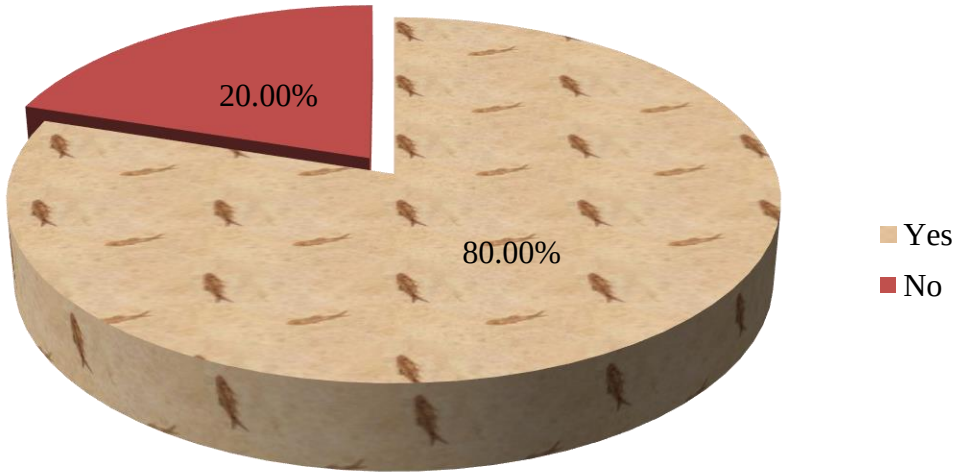
This data can contain results from empirical testing, transcripts of interviews and surveys, and recorded observations. For the thesis purpose, researcher has collected 50 sample respondents includes 25 bank staffs and 25 general public. Researcher had prepared scheduled questionnaire with set of questions related to right offering which is given in annex. The scheduled questionnaires were filled up by the respondents. The findings of the primary data study are presented below:

4.8.1 Information regarding trading of securities

Trading of securities means selling or buying of the securities in stock market. This effort has been made to find out if people are aware about the stock market and stock trading. In the context of Nepal, securities trading are centralized to urban area especially in Kathmandu. The trading of securities is decentralized to major cities of Nepal in the recent years only. The findings of the primary data are presented in following figure.

Figure 4.4

General awareness on common stock & securities



[Source: Field Survey]

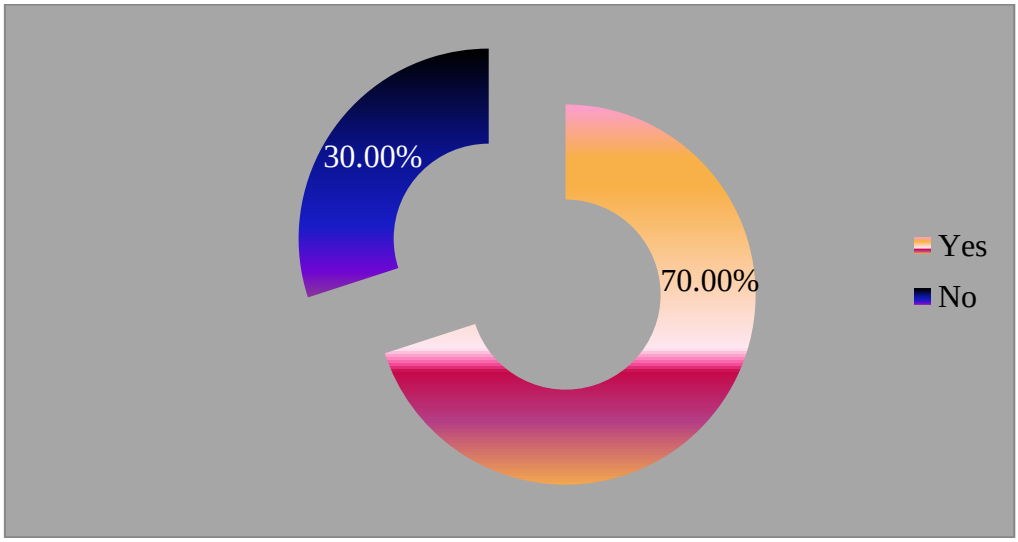
The above pie chart shows that majority of the respondents have knowledge on the trading of common stock & other securities in financial market. 80.00% of the respondents have shown their awareness on trading of stock. They opined that frequently news of IPO is published in newspapers and came to know through the friends. Only 20.00% of the respondents expressed that they do not have any knowledge on the share market. Even though majority of the respondents have knowledge on share market or security market, it came to know during the field survey that most of them have insufficient knowledge. They were found following the market rumors on their investment. Mostly during IPO time, if they find long queue and crowd to fill up the share form percepts as the good to invest.

4.8.2 Practice of common stock trading

Learning to swim and dive to swim are two different aspects that shows that information only is not sufficient but needs empirical experience. On the same way, the trading practice of securities in financial market. The practice of trading gives detail & depth knowledge of securities market & its trading procedure. In this regard, researcher has asked respondents regarding their experience on trade of securities in financial market. The result is given in the chart below:

Figure 4.5

Trading practice of common share



[Source: Field Survey]

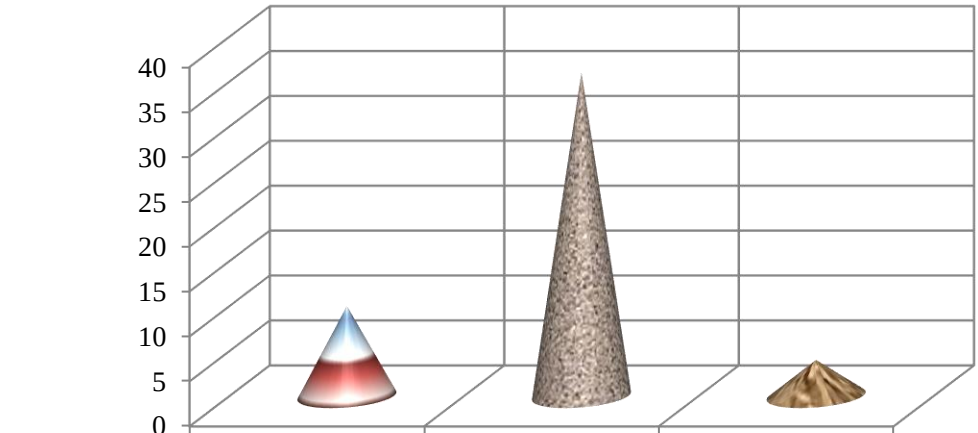
The above chart presents the percentage of respondents with experience of trading securities in stock market and without such experience. Out of total 50 respondents, 15 were found with no prior experience of trading any form of securities. On the other hand 70.00% of the respondents were found with experience of trading securities in Nepal stock market. It was found that among the majority of the respondents with prior experience were involved in buying of the common stock in primary market i.e through IPO. They have purchased the common stock during IPO of different banks & financial institutions but most of them were found holding that shares. During field survey it came to know that some of the respondents were illiterate about what sort of return could be gained from the common share purchase and how it gives return. They were found purchasing those shares following their colleagues & friends.

4.8.3 Perception to buy right issue

During the issue of any kind of securities the prime concern of the issuing bank & financial institutions will be if they subscribe fully or not. Generally, if the financial condition of the issuing BFIs is good and distributing higher/ adequate return on its securities issued the issues are subscribed fully. The BFIs with lower return and public expects no future growth of the firm are under subscribed. Researcher analyzes the perception on buying right issue; the responses are presented in below bar diagram:

Figure 4.6

Public perception to buy right issues



[Source: Field Survey]

In the above bar diagram, it has presented the perception of people on subscription of right offering for the securities they hold. 10 out of 50 respondents answered they will surely purchase the right. They made this decision as the right offering will increase their share on that firm and will get more return. It is in one aspect is correct because the trend of right issue is adopted by the firms with good return and publicly blindly subscribes the right issue without any analysis of future return after right issue.

Similarly, majority of respondents i.e 72.00% have opined that in case of market price of the securities issued are greater than offered price of right the rights will be subscribed. But in case of lower market price or equivalent market price to offered price, they may not exercise their right as after right issue it obviously decreases the price further and most probably return too. 4 out of 50 respondents expressed that the subscription of right issues by firms are subject to situation of that time when the right issues will make. If all the conditions are favorable at the time of right issue, they will subscribe the right else not.

In this case, public were found rational that majority believe to subscribe the right offering of the firms in case of beneficiary to them only. It means most of the investors seek capital gain rather than dividend yield.

4.8.4 Reason for subscription of right issues

Each & every performance has its own causes. The issues of right by firms have their own reason for issuance. Similarly, the customers also will have their own reason behind their subscription of right issues of various companies. In this regard, the four options were given for respondents for the reason behind their subscription of right. The responses are presented below in table:

Table 4.10

Reason behind right subscription

Particulars	Respondents	Percentage
Higher return history of company	5	10.00
MPS is higher than value of right	38	76.00
Future growth & return by company	3	6.00
The trend of increasing share market	4	8.00
Total	**50**	**100.00**

[Source: Field Survey]

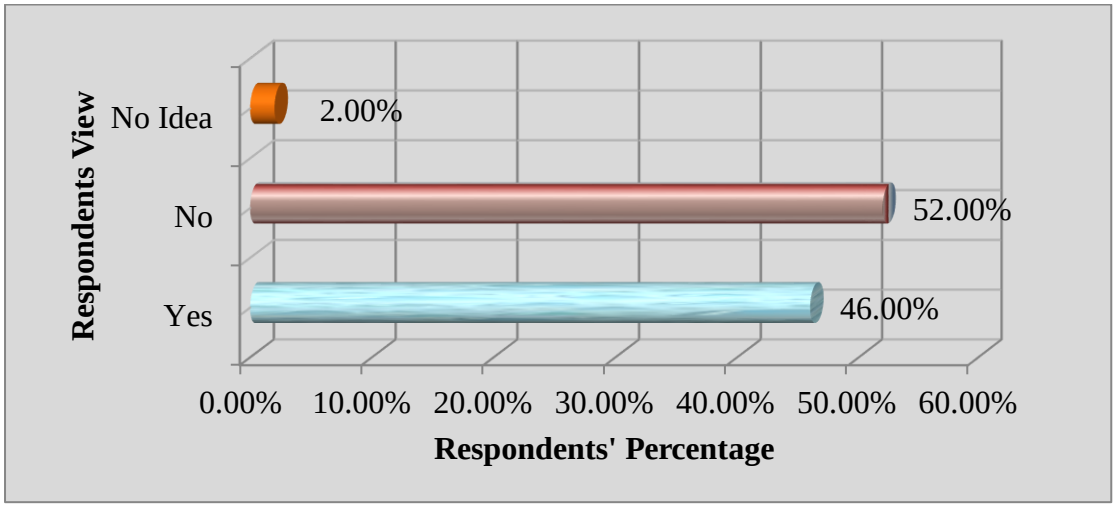
The above table presents the responses of 50 respondents regarding the reason behind the subscription of right. It shows that 76.00% respondents looks after the value of right and compares with existing market price. The higher market price of the firm than value of right is the main reason behind the right subscription by majority of the common stock holders. 10.00% respondents analyzes the past return from the common stock of the firm. If they find, the record of higher return by the common stock of the firm, they exercise right issue. 8.00% of the respondents opined that the reason behind right subscription was the trend of increasing share market. The increasing trend of NEPSE is the reason to subscribe the right issue. 6.00% respondents viewed the reason behind right subscription is future potential growth of the company & future return.

4.8.5 Right issue decreases value & return of stock

General concept of share states that the right issue decreases the value of the common stock and as the number of common stock increases, return on the common stock also decreases. It has made attempt to find out the public opinion on decrease of value & return after right issue. The Responses are presented in chart below:

Figure 4.7

Right issue decreases value & return from stock



[Source: Field Survey]

The horizontal bars in above chart shows the percentage of respondents stating the value of stock & return on stock decreases after right issue. It could be observed that majority of the public do not agree with this statement. They do not think that the right issue will decrease the value & return of common stock. 52.00% respondents told that it will not do so due to right issue. On the other hand, 46.00% respondents were found agreed with the statement. 2.00% respondents showed their lack of knowledge on this matter.

4.8.6 Benefit from right issue

Regarding the benefit of right issue, common stock holders, issuing company, issue manager and government which one will have highest to lowest benefit was given to rank for respondents. The ranks given by the public are presented in the table below:

Table 4.11

Main beneficiaries of right issue

Causes	Rank 1	Rank 2	Rank 3	Rank 4
Common stock holders	5	**44**	1	0
Issuing Company	**45**	3	2	0
Issue Manager	0	1	**47**	2
Government	0	2	0	**48**
Total	**50**	**50**	**50**	**50**
Percentage	**90.00%**	**88.00%**	**94.00%**	**96.00%**

[Source: Field Survey]

The table above shows the responses of 50 respondents who ranked the possible four beneficiaries from public issue. It was found that 90.00% of the respondents have ranked the 1st and foremost beneficiary of right issue as the issuing company. It means the company that offers right to its existing shareholders is the prime beneficiary of the right issue. It is because the issuing company will get additional capital source that they could invest in new profitable projects and improve their financial condition. Similarly, the 2nd top most beneficiary of the right issue is common stock holders. 88.00% respondents ranked this in 2nd place. It is perceived that generally, the firms with suffering from loss and poor financial condition will not issue right as they afraid of unsubscription of issued right. Generally, the value of right will be lower than prevailing market price of share and common stock holder gets capital gain.

94.00% respondents have ranked the 3rd beneficiary to issue manager. The issue manager gets commission from the managing of right issue for the firm. Finally, the 4th rank goes to government. The government gets taxes from buy & sell of common stock whether that where IPO or right share or bonus share. It is obvious to wait for tax from IPO share as it is taxed after secondary market trading only. But earlier or later government is the ultimate one of the beneficiary of right issue by firms.

4.8.7 Factors affecting under subscription of right issue

It could not be guarantee for any firm or company that their right will be subscribed fully by public. There are various factors that affect subscription of right issue by existing share holders as the right issue is subject to exercised by existing shareholders of the firm. The ordinary people are not authorized to subscribe the right issue. So, in this sense its subscribers will be lower than for IPO and further more there will be hidden factors on unsubscription of right by existing shareholders. The possible causes with public responses are given in table below;

Table 4.12
Public opinion on under subscription of right issue

Reasons for under subscription of right issue	Respondents	Percentage
Inadequate information about right offering	**42**	**84.00**
Fund unavailability for additional investment	**6**	**12.00**
Lower return on existing shares	**2**	**4.00**
Total	**50**	**100.00**

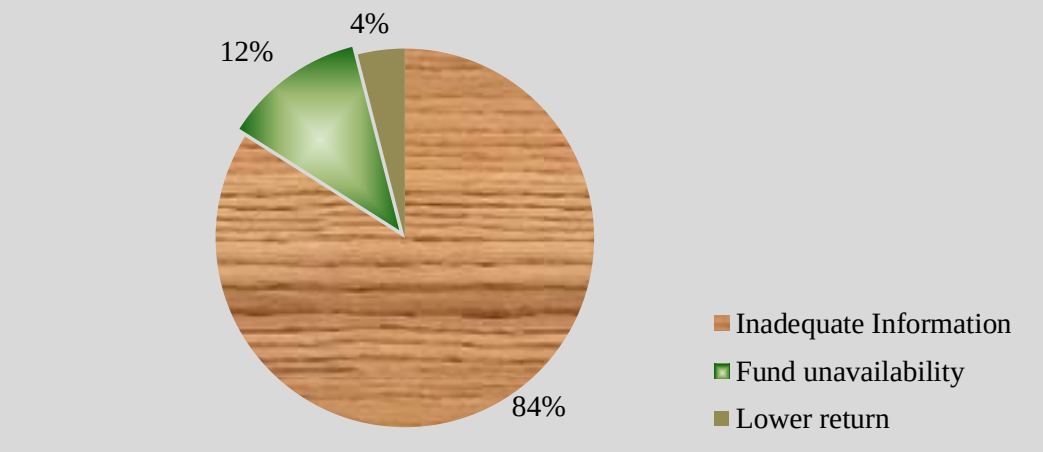
[Source: Field Survey]

The table shows that the inadequate information about right offering by the firms is the main factor that affects the unsubscription of right by existing shareholders. Generally the right offering will not be publicized the issuing firms as they do in the IPO time. It is because, the right issue is for additional capital formation without which also the firm runs smoothly as it was running. But the IPO is the main source of fund and compelled to issue and subscription and publicity is made heavily. 42 out of 50 respondents think that inadequate information causes under subscription of rights.

6 out of 50 respondents viewed that the unavailability of fund affects the subscription of right share by existing shareholders. The shareholders already have invested most of fund in the firm whereas the right issue means additional investment. So, the unavailability of fund affects the subscription of right by existing shareholders. 2 out of 50 think that lower return on existing shares affects for under subscription. This can be presented in pie chart as given below:

Figure 4.8

Public opinion on under subscription of right issue



[Source: Field Survey]

The pie chart shows that 84% respondents believe that the inadequate information regarding right issue affects seriously on under subscription of the right issued by firms. So, right issuing firm should make heavy publicity of the right issue or inform its existing shareholders through SMS, e-mail, telephone call about the upcoming right issue of the firm. 12.00% respondents believe that the fund unavailability with the existing shareholders plays a vital role in under subscription of rights. Similarly, 4.00% believe that the lower return on existing share of the firm affects highly for under subscription of the right issued by firms.

4.8.8 Trend of right issue is increasing

In the recent years, right issues by BFIs of Nepal are practiced one after another. The NRB direction for the increment of capital by the end of F.Y 2070 and follow the BASEL II capital requirement. The BFIs of Nepal have issued right share for the collection of those additional capital requirement. In this regard, it was made an effort to find out the public opinion on increasing trend of right issues in Nepal. The responses are as below;

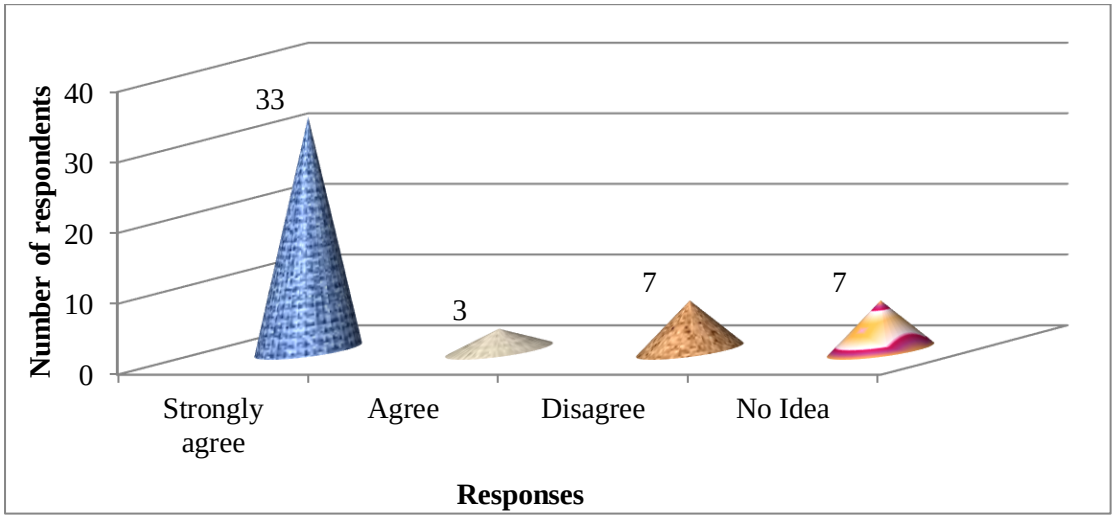
Table 4.13
Right issue trend is increasing in Nepal

Respondents	Respondents	Percentage
Strongly agree	33	**66.00**
Agree	3	**6.00**
Disagree	7	**14.00**
No Idea	7	**14.00**
Total	**50**	**100.00**

[Source: Field Survey]

The above table shows the responses of 50 respondents selected for the study to find out public opinion on if the trends of right issue by Nepalese firms are increasing. In this it found that 66.00% respondents have strongly agreed on this increasing trend of right issues by Nepalese firms. 6.00% have responded for agree whereas 14.00% expressed their disagree on increasing trend. They told that some of BFIs of Nepal has practice right issue but it do not mean the trend is increasing. It has to see for at leas 1 or 2 years right issues to predict the trend. Similarly another 14.00% respondents showed their no idea on this. This can be presented by chart as follows:

Figure 4.9
Right issue trend is increasing in Nepal

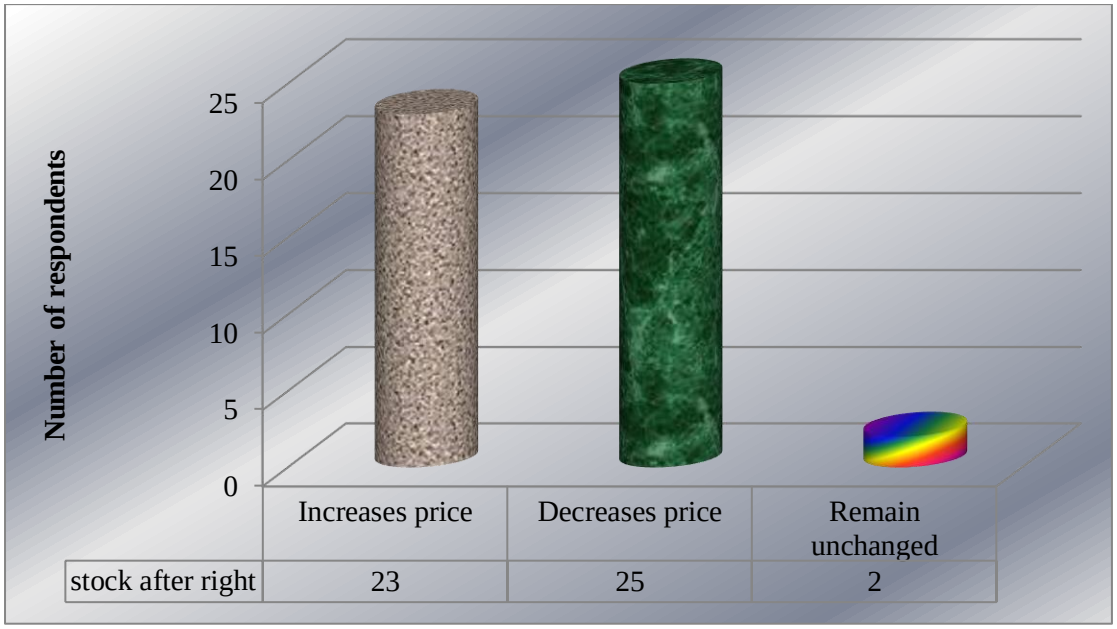


The chart above presents the number of respondent's opinions on the trend of right issues in Nepal. 33 out of 50 respondents strongly agreed where as 7 respondents disagreed on this. 3 out of 50 respondents agreed with the trend of increasing right issue by BFIs of Nepal in recent years where as 7 respondents presented that they do not have any idea on this matter.

4.8.9 Right issue changes price of stock

It is the true fact that a cause brings an effect. The right issue is the cause only. The right issue brings changes in stock price. So, public opinion regarding change in price of stock has been surveyed by researcher on which the findings are presented in bar diagram as below:

Figure 4.10
Effect of right issue on stock price



[Source: Field Survey]

In the above bar diagram, y-axis represents the number of respondents and x-axis shows the possible effect on price of stock because of right issue. The possible effects listed are increase stock price, decrease stock price or remain price unchanged. In this, 23 among 50 believe that the stock price increases after right issue whereas 25 among 50 believe it will decrease the stock price after right issue. The 2 among 50 selected respondents believe that there will not be change in stock price because of right. They opined that the stock price is determined by the demand of common stock and supply of common stock rather than right offering. So, there will not be any change in price of stock before and after right issue.

4.9 Findings of the study

The findings of the study can be divided into two sections: findings of secondary data and findings of primary data. It will be easy to list point wise the findings under these two headings as given below:

4.9.1 Findings of secondary data

a) The total number of firms issuing securities for the period of F.Y 2064/65 to 2068/69 were 279 amounting NPR 51073.39 million.
b) The right issues for the study period of 5 years from F.Y 2064/65 to 206/69 were of amount NPR 36,239.80 by 173 firms.
c) The class A, B & C category BFIs of Nepal have issued right share of amount NPR 34,726.66 million for the study period.
d) Majority of the securities issued for public were by BFIs of Nepal with 96.70% of securities issued by them in financial market of Nepal. The Insurance companies come on 2nd place on issuance of securities with 1.92% whereas Hydropower sector has 1.38% of total issue for the study period.
e) The price of common stock were found decreasing with announcement of right share whereas the price of common starts increasing thereafter 60 days of right issue but the increased price generally unable to meet the previous corresponding days back.
f) In an average of -0.11% price reduction in common stock just before & after right issue was notice during the study & analysis of data for right issued firms.
g) Generally MPS is higher than theoretical value of right. The theoretical value of right were average of 1.58 times of firms BVPS.
h) The EPS of the selected sample CBs for majority were found to be decreased by average -30.90%.

4.9.2 Findings of primary data

a) 80.00% of the respondents were aware about the common stock and 70.00% of them have traded the securities in financial market.
b) Majority of the respondents with opinion to purchase the right share if MPS > par value, else it depends on the time of right issue time.

c) MPS higher than value of right is the main reason to buy right issue whereas some of respondents were to analyze the past history of return from investment on common stock of right issuing firm.

d) 52.00% of the respondents believe that right issue do not decreases the value of common stock whereas 46.00% believe to be decrease in value of common stock with right issue.

e) 90.00% respondents think that right issuing company is the main beneficiary of right issuance whereas 88.00% believe the common stock holders are the main beneficiary after issuing company. Similarly the 3rd main beneficiary was issue manager thereafter only in 4th place is government.

f) 84.00% respondents think that lack of inadequate information among its existing common stock holders is the main reason for the under subscription of the right issued by firms.

g) 72.00% of the respondents agreed that there is increasing trend of right share issuance by companies in Nepal whereas 28.00% denied this.

h) 50.00% of the respondents told that the common stock price decreases with right issuance whereas 46.00% viewed that price of common stock increases after right issuance. And 4.00% told that the price will remain unchanged.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of the study

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 particularly the equity market. Since, it facilitates the development of corporate sector and overall growth of the economy.

Nepalese security markets has practiced limited investment instrument such as equity share, debenture, preference, mutual fund, rights share and initial public offering. Thus, such limited number of investment instrument cannot attract the saving held by the potential investors. This is one of the causes for low market low market capitalization in stock market of Nepal. Right offering is considered as one of the popular methods of raising the long- term fund as the targeted capital structure of the firm requires.

Rights share, a type of equity share issued by corporation to raise additional fund giving first priority to the existing share holders to take the share. Those corporations, which have already issued shares to the public allowed to issue rights shares, provided the share already issued and fully paid. Right share is issued giving proportionate right to the existing share holders to purchase the new share.

The specific objectives of the study are as follows;

1. To find out the relationship between right issue and stock price movement.
2. To evaluate problems regarding under subscription of the organizations under study.
3. To examine the impact of rights offering in earning per share and provide suggestions to the concerned on the bass of study findings.
4. To test the difference between the theoretical value right and actual market price of the stock.
5. To find out the factors affecting selection of right offering and BFIs of Nepal than selection of other capital increment sources.

The review of Nepalese books, articles, journals, and thesis are reviewed in the 2nd chapter of the thesis. A publicly held corporation can raise equity capital either by selling equity directly to investors or by issuing rights to its share holders. When a corporate offers its shares to existing share holders prior to general public it is termed as right offering. Preemptive rights are the privilege or existing shareholders to participate in a right offering**.**

If the preemptive right is contained in a firm's charter, them the firm must offer any new common stock to its existing stockholders. If the charter does not prescribe a preemptive right, the firm has a choice of making the sale to its existing stockholder or to an entirely new set of investors. If it sells to the existing stockholders, the stock flotation is called a right offering; each stockholder is issued an option to by a certain number of the new shares.

The 3rd chapter included the research methodology. It consists of research design applied for the thesis. It has adopted analytical plus descriptive research design. The data for the study has been obtained from primary and secondary data. The collected data are analyzed using different statistical and mathematical tools such as percentage, appropriate for the study. The population for the study has been selected the 5 CBs of Nepal i.e. KBL, PCBL, BOA, SBL and NMB.. It reached 32 C8 DBs in Nepal till date out of which the selected samples have issued right at different times. The secondary data are collected mainly from the annual reports of SEBON, www.nepalstock.com and annual reports of selected sample banks for study, journal & news published by sample banks and NRB. The primary data are collected through field survey by researcher using questionnaire technique as well as interview, discussion, telephone queries are adopted for cross reference of the primary data.

The chapter 4th consists of data presentation and analysis section where the data collected through primary and secondary sources has been presented using different appropriate table and diagrams. Moreover attempt has been made to analyze applying different statistical and mathematical tools. The necessary and related data to the study only included in the thesis. The data collected through primary source is filtrated and arranged systematically. The total public issue for the study period from F.Y 2064/65 to 2068/69 were presented along with right issue portion on them, total

right issue by four types of BFIs, sector wise public issue etc. Similarly it has presented the price of common stock of ample CBs for 90 day, 60 day and 30 day before right issue with the price for the same stock after 30 day, 60 day and 90 day of right issue and the changes on common stock price within these 180 days of right practice by the firms.

The 5th chapter of this thesis was summary, conclusion and recommendation. The present section is the 5th chapter of this thesis. It consists of summary of the entire study and conclusion of the thesis study. The findings to the research problem have been outlined as the conclusion of the study. Finally, some recommendations given by respondents and researcher has presented in the last page of 5th chapter that helps to manage right issue by firms effectively whereas the existing shareholders can benefit from it.

5.2 Conclusions of the study

From the study of the primary & secondary data analysis, researcher has found different solutions for the problems related to the study of right offering and management of right share issue practice. The solutions for statement of problems as well as the objectives are achieved or not could be justified here. The conclusions to the research problem drawn from the data presented and analysis are:

a) The price of common stock during right issue was found fluctuating in nature. It found that with the announcement of right by firms, the market price of share starts decrease which continues upto 60 days after right issue. But after 60 days of right issue the stock price starts increasing. But the price of common stock after 90 days of right issue could not get its prior price as of 90 days before right issue.
b) The problem behind the under subscription of right issues by companies is because of lack of sufficient information flow among its existing shareholders. It was found that right issuing companies do not focus on publicity of right issue as they do for IPO.
c) The EPS of the right issuing firms were found changed because of right issue. The change in EPS after right issue was negative. Most of the firms EPS were decreased after right issue.

d) The theoretical value of the right shares was generally lower than prevailing market price. But it is higher than book value of the common stock of the firm issuing right share.
e) The main factors that affect selection of right for he existing common stock holders are prevailing market price, past return from the common stock of right issuing firms, fund availability for the subscription of funds etc.

5.3 Recommendations of the study

Researcher had gathered the suggestions of respondents during primary data collection through questionnaire, interview & discussion. On the same way, researcher has found some ways to improve the present practice of right issue by Nepalese firms. So, suggestions of respondents and researcher recommendations are presented point wise as below:

a) The publicity of right offering should be done through appropriate media or medium which easily & effectively transmits the message of right offering by the firm. So, the best method in the present context is the SMS notification regarding right issue to its existing shareholders. It decreases costs of advertisement than selection of any other media as well as the right message for the right person is disseminated.
b) As the right issue increases the number of common stock it is obvious the reduction in common stock price and EPS of the firm if the right issuing firm could not expand business and earn higher profit than before right issue. So, right issuing firms should have detail plan of use of additional capital resource collected through right offering that ensures higher return to common stock holders.
c) In case of the right share is offered in premium by the firms, common stock investors should proceed for calculation for theoretical value of right and should be exercised if the theoretical value calculated for right is higher than MPS only else no need for exercise of right issued by the firm as the same common stock is selling in secondary market in cheaper price.

d) Even though customers have preferred ATM/ Debit card service of DBs of Nepal they could not feel secured about the transaction made through ATM/ Debit cards because of frequent errors and frauds on card transactions. So,

banks should adopt high security technology on its card transactions and ensure customers that the card transactions are safe and easy medium of banking transactions.

e) The DBs of Nepal have to add some more services on the existing cards with increased security features such as fund transfer, statement checking, utility bill payments etc.

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Questionnaire

Date: 2012/ /

Name: _____ **Sex:** ☐ Male ☐ Female
Respondent Type: ☐ Bank Staff ☐ Public ☐ others

Dear All,

This questionnaire has been prepared for the collection of data regarding the ATM/Debit card practice in development banks of Nepal. The collected data are used for MBS thesis purpose only. Your views & opinions are confidential and not disclosed in any form besides for the thesis work.

1) Do you know about securities trading and common share?

☐ Yes ☐ No

2) Have you ever practiced trading (buy or sell) of common share?

☐ Yes ☐ No

3) Are your interested to purchase right share, if you offered right share by the firm common share that your hold?

☐ Surely purchase

☐ If MPS is higher than par, purchase

☐ Depends on time & availability of money

4) What do you think the main reason to subscribe right issue by common stock holders?

☐ Higher return history of company

☐ MPS is higher than value of right

☐ Future growth & return by company

☐ The trend of increasing share market

5) Do you think right issue decreases value of common stock & lowers the return to common stock holders?

☐ Yes ☐ No ☐ No Idea

6) Which of the following are the beneficiaries of right issue, please rank.

Reasons	**Rank**
Common sock holders	
Issuing company	
Issue manager	
Government	

7) What do you think is the reason for under subscription of right issues of companies?

☐ Inadequate information about right offering

☐ Fund unavailability for additional investment

☐ Lower return on existing shares

8) Do you think the trend of issuing right share by Nepalese public companies are increasing its additional capital requirement than using other tools such as bonds, debentures, preference share etc

☐ Strongly agree ☐ Agree ☐ Disagree ☐ No Idea

9) How do you perceive the change in price of stock because of right issue?

☐ It increases stock price

☐ It decrease stock price

☐ The stock price remain unchanged

Thank You!