

CHAPTER I

INTRODUCTION

1.1 Background Of The Study

Development of any country is directly related with the economic development. The economic development of the country in turn depends upon the capital formation and industrialization. Industrialization can be achieved through proper use of the funds and their investment in the productive sector. Scattered funds around the country can be collected through the financial institutions. The growth of economy depends on availability of funds to finance the increased needs. Private, domestic and public investment can be the major contributor to economic growth and employment generation in the developing countries. For the economic development of any country, public participation plays a vital role. If the people are rich and aware, people will have enough and be interested to invest. This will play a vital role in the economic growth of the country.

Resource mobilization is assumed to be vital and challenging work in the present day world economy. In this era of financial economic and political liberalization the task is more complicated than before. Moreover, capital market, which is called the lifeblood of the liberalized economy, is the mechanism through which the resources (savings) are mobilized and flowed from nonproductive sector to productive sector (Bhattarai: 1995; p-1).

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 situations, equity infusions are necessary (Van Horne: 2000; p-582).

Instead of selling a security issue to new investors, some firms offer the securities first to existing shareholders on a privileged subscription basis. Some time the corporate charter requires that a new issue of common stock or an issue of securities convertible into common stock be offered first to existing shareholder because of their preemptive right (Van Home :2002:54). If the new common stocks are issued giving the right to purchase first by the existing shareholders than it is called right offering. Each shareholder is issued an option to buy a certain number of new share and the terms of the option are contained on a piece of paper called right. Each stockholder receives one right for each shares of stock owned (Weston & Copeland: 1992:60).

It is often necessary to consider making new issue at a discount to the current market price but to do so would be to rob existing shareholders. This can be avoided id the existing shareholders are given right to buy these discounted share proportion to their existing shareholders: Hence the name 'right issues'. These issues are normally described by reference to how many new shares can be brought for a member of existing shares owned. The company not forces its existing shareholders to buy any more shares in the company and hence it is granting them an option to buy these new shares. As the new shares are being issued at a lower price than the current market price of the existing shares, this option should have a value and can be sold if the current shareholder does not make to take it up (Cheney & Edward: 1995; p- 121).

When a large scale of firm is to be established, it fulfills its financial requirement by issuing equity share or using other sources like preferred stock, debenture and bond. Equity shareholders even called ordinary shareholders or common stockholders, of a company are its ultimate risk associated with ownership. Ordinary shares provide ownership rights to ordinary shareholders. They are the legal owners of the company. They have right to elect the board of directors and maintain their proportionate ownership in the company, called the preemptive

right. A right issue is directly offered to all shareholders of record or through broker dealers of record any may be exercised in full or partially. Subscription rights may either be transferable, allowing the subscription-right –holder to sell them privately, on the open market or not at all. Right share are issued to the existing shareholders as a result of increased in capital if current reserve is not sufficient to issue bonus share.(Chongbang: 2008)

Company usually issues right share to raise the capital. Therefore, issue of right share represents the distribution of share in proportional to existing shareholders. The shareholder which has an option to purchase a stated no of share at subscription price which is generally below the share current market price within specified period of time. Large 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 directives to the commercial banks to control and for the supervision of the establishment and operation of commercial banks in Nepal. Nepal Rastra Bank had already issued the policy provisions regarding the requirements of minimum paid up capital in commercial bank, which significantly affected the right share issuing practices of commercial banks in Nepal. (Chongbang : 2008).

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. If the preemptive right is contained in a firm’s charter, then the firm must offer any new common stock to the existing stockholders. If the charter doesn’t prescribe a preemptive right, the firm has a choice of making a sale to its existing stockholders, or to an entirely new set of investors if it sells to the existing shareholders, the stock flotation is called rights flooring. While raising fund, instead of issuing common stock to new

investors, a number of firms offer the securities first to the existing shareholders on a privileged basis. The corporate charter or state statute requires that a new issue of common stock or an issue of securities convertible into common stock be offered giving priority to the existing shareholders because of their preemptive right. Each shareholder is issued an option to buy a certain number of new shares. The shareholder who has an option to purchase a stated number of shares can buy prescribed number of share at subscription price which is generally below the shares current market price within a specified period of time.

1.2 Statement Of The Problem

In this study, it is analyzed that the problem faced by individual investors due to lack of knowledge and information and at the same time, discussing the weakness of concerned people in not being able to develop the stock market properly. Numbers of the public limited companies are increasing rapidly but the investment opportunities have not increased in that ratio. The rapid expansion in the amount of fund raised, numbers of investors in the capital market and increasing number of listed securities has speedily raised the market capitalization, which is the indication of bright future of capital market in Nepal.

The investment practice of Nepalese investors has remained the same. They still believe in the mouth publicity and friend's opinion while making an investment. They do not try to seek information about the organization on whose stock they are going to make investment. Due to the lack of information and poor knowledge, individual investors are manipulated by market intermediaries in such extent, that investing in stock market has become a tough job. Even everyone realizes that investors are the main sources of funds for the company, despite this fact, investors are being neglected. Furthermore, small investors have no value and position in Nepalese stock market. In any firm, right share is taken as major financial decision that affects the value of firm. Right offering announcement by a company serves good news to its existing shareholders. A shareholder, whose name is in the company book before record date, is entitled to have a proportionate

number of new shares at the price below market. A view held by professional investors, finance directors and some academics is that a right issue, because it increases the supply of a company's shares, will have a depressing effect on the share price. It should consider some theoretical relationship in right offering. The price movement of share after the announcement of right offering announcement on share price of listed companies under consideration is one aspect of the statement of the problem of this research work. Therefore this study focuses on the following statement of the problems:-

- What is the theoretical value of right and its practical effect on stock price?
- What is the impact of right share issue announcement on the movement of share price in the Nepalese capital market?
- What are the reasons behind price movement after announcement of right share?
- Is there any problem regarding the right share issue and practice in the context of Nepalese capital market?

1.3 Objectives Of The Study

This study basically deals with the rights share issue practices in Nepalese capital market and its impact on market price of share. The study also covers the characteristics of right offering and the price movement of stock associated with right offering. Some other specific objectives are as follows:-

- To identify existing practices of right issues in the context of Nepalese capital market.
- To analyze the significant change in stock price after announcement of right share.

- To explore the problems associated with rights share issue in the Nepalese capital market.

1.4 Significance Of The Study

This right share issue is important decision of corporate for different point of View, although it is significant subject for all the concern people of the capital market. This can be said that this study is novel for Nepalese capital market. Now a day's people are attracted to invest in shares for the purpose of getting greater return by considering this, company try to provide higher return and try to make value maximizations of shareholders. Right share has become new concept to attract the investors as well as keep happy to maintain goodwill. Similarly company lunch a new promotion strategy, right share is one of them. Right share provide existing shareholders the right to buy new shares in specified ratio. The practice of right share is very old in worldwide but in Nepal it starts from fiscal year 2052/53, till the date there is hardly to find any research in right issues and its impact on Stock price movement. This research is very much focused to address the issued underlying. Thus researcher chooses this topic. This research will help Existing shareholders, company management, broker and issue managing company Etc. It also helps to analyze right share to security board of Nepal, NEPSE, and Research Board of NRB, it is also benefited that the study will provide some valuable input for the further scholar in this area thus this study of right share and its impact on Stock price movement may be rewarding.

1.5 Organization Of The Study

For the convenience, the whole study will be organized in five main chapters.

The First Chapter deals with the background of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study. The Second Chapter deals with the review of conceptual framework, review of journals and articles, and review of thesis those are relevant to the study.

The Third Chapter presents the research design, population and sample, source of data and research tools that will be adopted. The Fourth Chapter presents the data collected and analyzes them to achieve the research objective. At the end of the chapter, the major findings of the study will be drawn. Finally, the Fifth Chapter summarizes the whole study, provides the conclusion and gives recommendation to enhance the banking system.

Besides these chapters, Bibliography and Appendices will be presented at the end of the study.

1.6 Limitation of the Study

The study will be carried out to fulfill the partial requirement of M.B.S. degree of T. U. though full effort will be put to present it in the form, it is not without shortcomings. Like every other research, it also has its limitations. Therefore this study has following limitations:-

- This study considered only those companies, who have been issued right Share.
- Result of the study would be fully dependent on the accuracy and reliability of the data provided by the respected organization and respondents.
- The non - availability of various reference and resources act as constraints.
- There may be different from of information affecting share price, however, this study only consider right share issue.

CHAPTER II

REVIEW OF LITRATURE

For all types of studies, review of literature is essential, which helps to find out what research studies have been conducted in one has chosen field of study and what remains to do. In fact, review of literature begins with a search for a suitable topic and continues throughout the duration of the research work. It is a path to find out what other research in this area has uncovered. It is the process of locating, obtaining, reading and evaluating the research literature in the area of the student's interest. It is also a means to avoid investing problems that are already been positively answered (Wolf and Pant: 2005; p-39).

2.1 Conceptual Framework

Most of the investors expect dividend to continue in each year as well as to receive price when they sell the stock. The expected final stock price includes the returns of the original investment plus a capital gain. If the stock is actually sold at price above its purchase price, the investor will receive a capital gain as such the shareholders expect an increase in market value of the common stock over time. At the same time, they also expect firm's earning in a form of dividend. So the shareholders may satisfy with dividend or capital gain. "Financial Manager is therefore concerned with the activities of corporation that affect the well being of stockholders. That well being can be partially measured by dividend received but a more accurate measure is the market value of stock, (Western and Brigham: 1987; p-228).

2.1.1 Security Market

Security Market can be defined as a mechanism of bringing together buyers and sellers of financial assets in order to facilitate trading. In simple sense, securities market is a place where people buy and sell financial instruments. There financial

instruments may be in form of government bonds, corporate bonds or debentures, ordinary share, preference share etc. So far securities market is concerned; it is an important constituent of capital market. It has a wide term embracing the buyers and sellers and all the agencies and institutions that assist the sale and resale of corporate securities. Although securities market is concerned in few locations, they refer more to mechanism rather than to place designed to facilitate the exchange of securities. This securities market can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. In order to allocate capital efficiently and maintain higher degree of liquidity in securities, the securities market should be efficient enough in pricing the shares solely by economic considerations based on publicly available information (Sharpe, Balliey, Alexander:2003;p-47).

Securities Market can be classified in terms of time to maturity of securities traded i.e. Money Market and Capital Market. Short-term securities are traded in money market where long-term securities are in capital market. Stocks, bond and debenture are traded in capital markets. These securities help to finance industrial project economic development of the country. Securities markets may be classified in terms of economic function i.e. Primary market and Secondary markets. A primary market is the market that brings surplus savings units together with deficit savings units in the process of financing productive activities. Securities are sold for the first time in primary markets and their further trading will be in secondary market. Both these markets make it possible for investor to diversify their assets holding beyond domestic investments (Johnson: 1993; p- 82). Financial Markets provide a forum in which suppliers of loans and investments can transact business directly. The loans and investments of intuitions are made without the direct knowledge of the suppliers of funds (savers), suppliers in the financial markets know where their funds are being lent or invested. The two key of financial markets are the money and the capital market. Transactions in short

term debt instruments, or marketable securities, take place in the money market. Long term securities (bonds and stocks) are traded in the capital market (Gitman: 1991; p-45).

2.1.2 Initial Public Offering

Public offering of various securities like equity share (both ordinary as well as right share), debentures, bonds etc. to the general public by corporate as well as the Government are made through the Merchant Bankers (MBs). As such the MBs work as intermediates between the fund concerned groups (the general public and institutions) and the fund deficit group (corporate) to cater the needs of both through efficient fund mobilization. The MBs are mainly engaged in creating and expanding primary and secondary market for securities and money market providing advisory services to corporations as well as managing their investment for portfolio. Thus public offering involves rising of funds for Government or corporations from public through the issuance of various securities in the primary market and is often the only major sources of obtaining large sums of long term funds (Vaidya: 1999;).

Most business begin life as proprietorships or partnership and the more successful ones, as they grow, find it desirable at some point to convert into company. Initially, these new corporations stock are owned by firms officers, key employees or very few investors the company may decide at some points to go public. As a company continue to mature. It must eventually decide weather it should become a public company. It is choose to go public, the procedures and alternatives for raising equity fund will define significantly from these use by privately held company or a closely held company, which is control by small group. Going public means selling some of a company's stock to outside investors and then letting the stock trade in public market, and desire to convert into corporations (Brigham, Gapenski & Ehrhardt: 1999; p-698).

Going public represents a fundamental change in lifestyle in at least four respects: (1) the firm's moves from informal, personal control to a system control and the need for financial techniques such as ratio analysis and DuPont system of financial planning and control greatly increase. (2) Information must be reported on timely bases to the outside investors, even though the founders may continue to have majority control. (3) the firm must have breadth of management in all business effectively and (4) the publicly owned typically draws on a board of directors, which should include representatives of the public owners and other external interest group, to help ultimate sound plans and policies (Weston & Copeland:1992;p-901).

In the company plans to sell stock to raise the new capital, the new shares may be sold in one of five ways: (1) on a pro-rata basis to existing shareholders through a right offering, (2) through investment bankers to the general public in a public offering, (3) to single buyer (or very small number of buyers) in private placement, (4) to employee through employee stock purchase plan and (5) through a dividend reinvestment plan (Brigham, Gapenski & Ehardt: 1999;p-701).

2.1.3 Common Stock

Common stock represents an ownership position. The holders of common stock are the owner of the firm, have the voting power that among other things elects the board of directors, and have a right to the earnings of the firm after all expenses and obligation have been paid; but they also run the risk of receiving nothing if earning are insufficient to cover the obligations. Common stockholders hope to receive a return based on two sources dividends and capital gains. Dividends are received only if the company earns sufficient money and the board of directors deems it proper to declare dividends. Capital gain arises from advancement in the market price of the common stock, which is generally associated with a growth in

per share earnings because earnings often grow smoothly over time. This fact points the need for careful analysis in the selection of securities for purchase and sale, as well as, in the timing of these investment decisions, for common stock has no maturity date at which a fixed value will be realized. When a company needs capital for expansion, it sells shares its stocks to the public. Most companies issue million numbers of shares so each share represents only a tiny piece of company. These shares are also transferable (Fisher: 2002; p-2).

2.1.4 Right Offering

A publicly held corporation can raise equity capital either by selling directly to investor or by issuing subscription right to its shareholders. Instead of selling a security issue to new investors, some firms offer the securities first to existing shareholders on a privileged subscription basis. Sometimes the corporate charter requires that a new issue of common stock or an issue of securities convertible into common be offered first to existing shareholders because of their pre-emptive right (Van Horne: 1999; p-570).

2.1.4.1 Pre-emptive Right

As with many stockholders' right, it is possible for stockholders to waive the pre-emptive right at the time the common stock is purchased. If the charter denies the pre-emptive right, the stockholders automatically waive this at all time the stock is purchased. The exact status of the 28 pre-emptive rights varies somewhat from state to state. Promoters may deny the preemptive right through a provision in the charter to this effect (Bradley: 2000; p-99).

Common stock holders often have the right, called the pre-emptive right, to purchase any additional share sold by the firm. In some states the pre-emptive is automatically included in every corporate charter, in other it is necessary (Weston & Brigham: 1996; p-677).

Each shareholder is issued an option to buy a certain number of new shares, and the terms of the option are listed on a certificate called a stock purchase right, or simply a right. If a stockholder does not wish to purchase any additional shares, then he or she can sell the rights to some other person who does not want to buy the stock (Brigham, Gapenski & Ehrhardt: 1999; p- 607).

Right are important tool of common stock financing without which stockholders would run the risk of losing their proportionate control of the corporation (Gitman: 1991; p- 607).

2.1.4.2 Offering Through Right

The price of the new share in a rights issue is normally fixed at a level somewhat below than current market price of the shares. But this lower price should not generally diminish the wealth of the existing shareholders. This is because, for shareholders, who do not choose to take up the allocation, the fall in price is comparable to the inconsequential decline which accompanies a capitalization issue or stock-split. And shareholder, who chooses not 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. Consequently, only irrational shareholders who neither exercise their rights nor sell their rights will see their wealth reduced. The company can, therefore, set a price for the rights issue sufficiently low to ensure that the rights will be exercised without fearing any adverse wealth implications for its existing shareholders. Rights issues appear to be an expensive way of raising money than underwritten public offering. Smith (1997), estimated, for example, that for a 100 million dollars issue 'reported out of pocket expenses' would be 3.8 million dollar less for a rights issue and this difference was not offset by the other categories of expenses which he defined. But if they are cheaper than underwritten public offering, there is a paradox: why in the United States do the great majority of firms choose the apparently more expensive way of raising equity finance? Hansen and Pinkerton (1982), contend that the direct comparison of costs of rights with

underwritten public offering may be misleading because other things are not equal: a third variable, ownership predominately undertakes US rights issues; and the costs of right issues decline as the ownership concentration increases (Hansen & Pinkerton: 1982;).

Right issue and public offering both of them are the issue of common stock, however there are many differences exist between them.

- 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.
- A right issue is not underwritten so flotation cost of right is lower than public offering.
- A right issue has issue price lower than public offering.
- The principal sales tools 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 (Van Horne: 1999; p-574).

In Nepalese context, company act 2053 section 42(4) clearly mentions that if a company wants to increase its capital and issues additional share, then the existing shareholders will have first rights (privilege) to buy such shares.

2.1.5 Effect of Right Offering

Right shares effect to increase in the number of outstanding shares and to decrease in share price. A share has a strong performance that leads to an increase in market value than popular range. Then the management of the firm determines that the price of the share is higher than (moving and of) the popular trading range and decides a right share would be useful to bring the high-priced share within the

popular range. Where smaller investment also able to trade and can include in their portfolio large number of different stocks (Kothari: 1994; p-140).

It is possible to sell some rights and exercise the remainder. One possibility is selling enough rights to cover the cost of exercising those that are not sold. This allows a shareholder to maintain the value of a holding without further expense (apart from dealing costs). This does not mean that a shareholder can entirely neutralize the effect of a rights issue, only the element described by the formula below. As with a scrip issue, the price before the rights are issued needs to be adjusted for the rights issue. The calculation is a little more complicated as the new shares are paid for. Before comparison with share prices after the rights issue, prices before the shares went ex-rights need to be multiplied by:

$$((m \times y) + (n \times X)) \div (m \times (X + y))$$

Where,

x is the number of new shares issued for every y existing shares m is the closing price on the last day the shares traded cum-rights n is the price of the new shares (Robert and Joseph: 1997; p-16).

The same adjustment needs to be made to per share numbers such as EPS if they are to remain comparable, for example, when looking at growth trends. However, a large rights issue is often associated with other changes that will distort these numbers or change trends such as paying off debt, expansion, etc. This calculation makes the assumption that all rights will be exercised. This is usually an acceptable assumption as it is usual for a rights issue to be priced at a steep discount to the share price to ensure that the rights will be exercised. In the interval between the shares going ex-right and the rights being exercised, if the share price falls low enough for the rights to have significant option value, then an adjustment may have to be made for this. This happens very rarely (Robert and Joseph: 1997; p-43).

A rights issue has the following effects on the price of a stock.

- Share capital gets increased according to the rights issue ratio.
- Liquidity in the stock increases.
- Effective Earnings per share, Book Value and other per share values stand reduced.
- Markets take the action usually as a favorable act.
- Market price gets adjusted on issue of rights shares.
- Company gets better cash flow which may be used to improve the business and may help increase effective Earnings per share.
- Usually a shareholder may not back out from applying for the rights issue unless the offer is almost same as the prevailing market price. This is because if a stock is trading at 100 and a rights issue in the ratio 1: 1 at a price of 40 will make the stock trade at 70 soon after the ex-rights date (Wang. & Kyle: 1997; p- 61).

2.1.6 Market Price of Share

Stocks and shares mostly traded in the securities market are one of the assets in to which money can be invested. The investment further is more attractive to majority of individuals because it also liquid in character. But what is the most influencing factor in determining the price of the stocks in interaction of demand and supply in relation to the interacting forces of demand and supply. Ackerman pines that, the price of a given stock is determined exclusively by the two forces demand and supply. Converting one such stock at a given time that the prices and volumes of its past transaction are meaningful indication of profitable relationship of future supply and demand pressure. It is likely to encounter in the market that

such relationship is the most important element determining the probable direction of price movement (Sharpe, Balliey, Alexander: 2003; p-47).

The share price is determined in the floor by the interaction of market forces, i.e. demand and supply. The price is determined by the point of equilibrium between supply and demand. The shifting of this balance results in incessant adjusting of price in search of the ever changing new equilibrium. Then market prices moves upward and downward. There are many reasons that cause the stock the price fluctuation, major of them are economic, non-economic and market factors. One basis of the determination of stock prices is dividend. Dividends are strongly influenced by the earning power of the enterprises. There is a very close correlation between corporate earnings and dividend. Earning power, in turn, is strongly influenced by interest rates. In this way, the most fundamental factor in stock price fluctuations lies in changes in corporate earnings, which together with interest rates and business cycle trends, contribute to making up the economic factors influencing the stock price (Sharma: 1996; p- 63).

The next influencing factors are non-economic factors, including changes in political conditions, such as war or administrative changes, changes in the weather and other natural conditions, and changes in cultural conditions, such as technological advance and the like, market factors, or internal factors of the market, consisting of the tone of the market and supply- demand relations, may be cited as the third category that influences the stock prices. The tone of the market is a form of overestimating the intrinsic value of the stock when the stock price is high because of business prosperity while underestimating its value at the time of market decline. The relationships of supply- demand are reflected directly in the volume of transactions, but there is also considerable effect from the actions of institutional investors, margin transactions, etc. Although margin transactions increase purchases when the stock price is going up, once the price begins to fall they become a selling factor and accelerate price decline. The practice of margin in finance has not been introduced, so far, in Nepal (Sharma: 1996; p-64).

2.1.7 Public Offering VS. Right Offering

Offering these advantages in the minds of some is that a right offering will have to be sold at a lower price than will an issue to the general public. If a company goes to the equity market with reasonable frequency, this means that there will be with public issues. Even though this consideration is not relevant theoretically, many companies wish to minimize dilution. Also, a public offering tends to result in a wider distribution of shares, which may be desirable to the company (Van Horne: 1999; p-574).

2.1.8 Right Share VS. Bonus Share

Bonus issue and right issue are very similar, although typically used for different purposes. Rights are, an important tool of common stock financing without which shareholders would run the risk losing their proportionate control of the company and dilution of their ownership. Company offer rights, generally at a price which is lower than the value of the shares in the market to raise an additional capital. As a result the common stock paid in capital stock and total net worth amount of the company will change. Since bonus share is a form of dividend that a company provide to its stockholders. Bonus share is also understood synonyms to the stock dividend. Stock dividend paid in additional share of stock rather than in cash. It simply involves a transfer to retained earnings to the capital amount. In a bonus issue, the nominal value per share stays the same and the new shares are issued by capitalization existing reserve. Thus share capital shown on the balance sheet does not increase but other reserves are be decreased by the same amount. (Loderer & Zimmermann; 1988: 371)

2.1.9 Success of Right Offering

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 value lower than the current market price, to reduce the risk of the market price's falling below it (Van Home: 1999; p-572). It is necessary to submit a certain number of rights along with the cash order for the shares to be purchased from the firm at the special subscription price (Bradley: 2000; p-314).

Apart from the number of rights required to purchase one share the risk that the market price of stock will be below the subscription price is a function of the volatility of the company's stock, the tone of the market, expectations of earnings and other factors. To avoid all risk, a company could set the subscription price so far below the market price that there is virtually no possibility that the market price will fall below it (Van Home: 1999; p- 573).

2.1.10 Under And Over Subscription Of Right Offering

A company can ensure the complete success of right offering by having investment banker or group of investment bankers stand by to underwrite the unsold portion of the issue. Underwriting is the insurance function of bearing the risks of adverse price fluctuations during the period in which a new security is being distributed (Weston & Copeland: 1992; p-891).

2.1.11 Procedural Aspects of Right Offering

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

share on pro-rata basis. Any balance of share left after issuing the additional shares can be sold in the open market (Pandey: 1999; p-1002).

2.2 Review of Related Sources

2.2.1 Review of Journals and Articles

Marsh (1980) on his article *The Journal of Finance* has focused in the UK, as most other European countries, quoted companies raise virtually all their new equity capital via the rights issue method. In recent years some £1 to £1.5 billion has been raised in this way each year on London Stock Exchange, serving to indicate the importance of equity rights issues as a topic in corporate finance. This describes an empirical study of UK rights issues, involving various tests of semi strong form market efficiency with respect to the announcement of rights issues. In addition, the Price Pressure Hypothesis, which asserts that equity issues, by increasing the supply of shares, temporarily depress the share price, is tested against the competing Substitution Hypothesis. Since this involves estimating the demand curve for company's shares, our results provide evidence not only on market efficiency but also on market liquidity, and whether companies can raise new equity at existing market prices. The study is also of methodological interest in that it uses a number of alternative models for testing market efficiency, thus allowing us to test the sensitivity of our conclusion to the new London Share Price Database (LSPD), which is the first comprehensive source of UK share return to become available for research purposes.

In fact, both considerations were important in this study. First, rights issues alter companies' capital structures and may also herald changes in operating risk. Secondly, the LSPD provides data for a one third random sample of all London quoted shares together with a non-random sample of large companies. To avoid bias, restricted to the random sample, so that only one third of the population of

rights issues was examined with time-series data. However, since the cross-sectional approach requires so much less data, it was possible to collect this, and to use this method to examine the full population of rights issues over the period of interest. So rather than limiting the studies to the one-third random samples employ both methodologies.

The available of trading data in the new LSPD made it possible to develop new methodologies such as the trade- to- trade method for beta estimation and for testing market efficiency, using data for small, and infrequency traded companies. Furthermore, all of the other methodological issues which we have considered are important, and can lead to serious problem in abnormal return estimation and tests of market efficiency. In practice, however, not all of the issues, which were examined, turned out to be important in the current study. In particular, our results were remarkably robust to the precise variant of the single factor Market Model based methodologies employed, and to our estimates beta. It should be stressed, however, that this is very much an ex-post judgment based on this particular sample and time period. On the other hand, however, our results do serve to emphasize the importance of sample the entire population of rights issues using the single cross-sectional model proved important and helped us to place our results in better perspective. Finally our results proved very quite different abnormal return estimates when we used equity weighted rather than market value weighted indices. Clearly, during this period, security return in the UK market was subject to some common factor, which was strongly associated with company size.

These problems make our results harder to interpret in trying to reach conclusions on market efficiency. While it seems clear that an equally weighted portfolio of rights issue would have outperformed the broadly based market-value weight FTA index, it seems unlikely that this has anything to do with rights issues as such. Instead, it appears to reflect the 'company size' factors, which was at work during

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

Hansen and Pinkerton (1982), *Right issue is a cheaper way of raising additional capital*. Right issue appears to be less expensive way of raising money than underwritten public offerings, but if they are cheaper than underwritten public offerings. Right issue appears to be a less expensive way of raising money than underwritten public offerings. Smith (1973), estimated for example, that for a 100 million dollars issue 'reported out of pocket expenses' would be 3.8% million dollar less or right issue and this difference was not upset by the other categories of expenses which be defined. But they are cheaper than underwritten public offering; there is a paradox; why in the United States do the great majority of firms choose the apparently more expensive way of raising equity finance? Hansen and Pinkerton (1982) contend that the direct comparison of costs of rights with underwritten public offering may be misleading because other things are not equal: a third variable, ownership structure, confuse the comparison. Companies with heavily concentrated ownership predominantly undertake VS right issues; and the cost of rights issue decline as the ownership concentration increase.

Weller (1979) on his article *The Journal of Finance* has concerned with the technique of raising equity capital through the process of offering new shares of common stock to the present owners at a price below the current market price. The rights to the new shares issued on a pro-rata basis can be utilized or sold by the recipient shareholders. Funds, therefore, are supplied to the corporation by the original owners and by the purchases of rights. The decision making process for the establishing the terms of the offering is analyzed as it affects the relationship of the rights offering to other financial policies. There is a marked tendency for the market for shares during a right offering to decline as a result of the large increase in the supply of the stock during a short period of time. This price decline can be measured by determining the amount of the price decline and adjustment for changes in the general market. A statistical analysis of the major issues of 1956 and 1957 indicates that the average decline price was 5.97 per cent. The measure varied 47 from 4.07 per cent for utilities to 8.04 per cent for industries. A considerable portion of the decline took place shortly before the actual rights period.

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

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

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

Victor(1993) *Strategies in Financial Risk Management* shows in Harvard Law Review states that so called Preemptive Right of shareholders is a corporation is in substance, a right that additional shares shall not be issued without first offerings to all existing shareholders having similar rights a reasonable opportunity to take, upon terms prescribed by the directors, ratable amounts of the additional shares, and that shares thus offered to the shareholders, but not taken by them, shall not thereafter be issued to other upon terms more favorable to them than the terms previously offered to the shareholders. The preemptive right is only a negative right that the additional shares shall not be issued except upon compliance with the conditions stated. Shareholders have no right to acquire any additional shares until the directors, in the exercise of their direction, offer the shares to the several shareholders by giving to each of them an option to take a specified amount of the additional shares on prescribed terms. The optional rights thus given to the several shareholders are assignable and commonly are called subscription rights.

2.2.2 Review of Previous Thesis

Gautam (2001) had done research on *An Analysis of Share Price Movement Attributed to Right Offering Announcement*. This study has set out the following objectives:

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

Major findings of Gautam's study:

- Company Act is not clear regarding the issue of rights offering and subsequent allotment of the rights share.
- SEBO/N has failed to establish a 'one-window policy' causing various imbroglios for the companies that want to go primary issue market for raising the capital.
- Till the date there is no enactment of the 'Investors Protection Act'.
- Our capital market has made least of use the 'capital market instrument' contingent securities like warrants and convertibles, options, and other various kinds of debentures are not in practice.

Gharti (2001) had done research on *Bonus Share Announcement and Impact on Stock Price of Nepalese Corporate Firms*. This study is being undertaken to

analyze bonus share issue practices in Nepalese listed companies and its impact on share price.

The main objectives of the study are:-

- To examine the relation between share price rise and Bonus ratio
- To examine the relation between share price rise and bonus share.
- To evaluate the relation of bonus share announcement and stock price.
- To point out suggestions to the related bodies.

Major findings of Gharti's study:

- The immediate share price rise after bonus announcement is significant. Bonus share announcement of banking sector is considered positively by the investors but shown reluctant for the non-banking sector that the price decrease immediately after bonus announcement.
- The intention of issue bonus share of board of directors leaks out before official announcement. Therefore, the share price rises one month before the actual announcement due to the activities of the 'insiders'.
- The share price, in most of the cases, does not decrease after distribution of bonus according to bonus ratio as theory says. The reason behind the situation may be that the investors cannot interpret the information and data. There is a great misconception about bonus share that the general investors think that they receive extra/ additional share with same value.
- The share price of the non-banking sectors shows inconsistency as compared to the banking sector. Therefore, investing on non-banking sector is more risky than the banking sector.
- Long-term effect of bonus share issue, as well as immediate, is significantly positive. In most of the cases the aggregate market valuation of the corporate firms' equity capital increased as the result of bonus issue. 81.2 Per cent of the

bonus issue is recorded different level gain over the base date price, after adjusting of the general market movement in share pieces.

- Most of the corporate firms do not maintain their dividend quantum 62.5 percent of the companies did not maintain their dividend quantum and of course not dividend rate.

Aryal (2003) on the topic *Equity Rights Issue, its Practice and Impact in Nepal* had been conducted.

The main objectives of his study are:

- To examine the relationship between stock price reaction and announcement of rights issues.
- To analyze the relationship between rights share and equity share and rights share and NEPSE Index.
- To conduct this study lie used cross sectional analysis by estimating the regression. He analyzed only the relationship between rights share to equity share and rights share to NEPSE index.

Major findings of Aryal's study:

- Announcement of equity rights issue are associated with a positive effect on share prices.
- Theoretical value of rights differs from company to company.

At last, lie concludes that firstly company issues rights share for increasing equity capital and to invest it in company's diversification and expansion. Secondly they issue rights share to increase capital to meet the level prescribed by Nepal Rastra Bank. The rights share and equity share has low degree of positive correlation. The correlation coefficient between right share and NEPSE has also positive correlation.

Regmi (2005) conducted a master degree thesis on *Share Price Behavior in Nepal* with following objectives:

- To test the random walk or weak form efficient market hypothesis.
- To examine whether successive price changes are independent or dependent of each other.
- To conduct the opinion survey of financial executives regarding various aspects of share price behavior in Nepal.

Major findings of Regmi's study are:

- As regard the current trading price of share in the market, the majority of the respondents felt 'moderate'. In this respect when the responses of finance sector respondents are compared with the response of non finance sector respondents, the majority of the respondents from each sector opined that the current trading price of shares in the market is lack except for financial institutions.
- Nepalese investors are not really indifferent towards making or non making of information public.

From these findings he concluded that both the tests-serial correlation and runs test analysis do not support terms of both tests, a few of price series support the random walk model. One important implication of the non random behavior of share prices in that the Nepalese stock market may not be termed as weakly efficient in pricing shares where market efficiency is reflected in security prices.

Neupane (2008) concluded a research on *Rights Share Practice in Nepal and its Impact on Share Price of Listed Companies*. The objectives of this thesis were:

- To analyze the impact of rights share issue in share price.

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

Major finding of neupane's study:

There was significant difference between the share price of National finance ltd. before and after the rights issue. Its stock price followed the theory of rights offering.

- Under subscription of rights share is common phenomena in Nepal.
- There is no easy and clear provision regarding the sales of tender subscribed rights share in Nepal.
- Recent year's subscription of rights share is in increasing trend.
- There is not like uniformity in the impact of rights offering of share price.
- Another major case is dilution in shareholders wealth position is the holder's record date. In some sample companies, offering rights holders' record date is prior to the announcement date.
- Market is going to mature and company with track record is low.

Paudel(2008) had done research on *Right share practice on Nepalese Market and its impact on market price of share*. This study has set out the following objectives:

- To find out if there is significant changes in share price after the announcement of right offering.
- To find out if there is any problem in the primary issue of securities.
- To prescribe some polices that will help to ratify the current problems in the issue of securities.

Major findings of Paudel's study:

- The company act is not clear regarding the issue of right offering and subsequent allotment of the right share.
- Company act has nowhere mentioned about necessity of legally transferable rights instrument called rights, which must be mailed to the stockholders for each stock held before the right offering.
- SEBON has failed to establish a one window policy causing various imbroglios for the companies that want to go primary issue market for raising the capital.
- Our capital market has made least of use the capital market instruments contingent securities like warrants and convertibles, options, and other various kinds of debentures are not in practice.
- Company act with regards to the contents of the issue prospectus is deemed to be insufficient on the ground that, it does not mention the companies are required to specify on the issue prospectus about the risk category on which their businesses fall.

2.3 Research Gap

There are many studies conducted with the capital market and share price behavior in Nepal but this study specially focused on an issue of right share and its impact on market price of share with special reference of Nepalese capital market. Right share is one of the major instruments for raising additional equity capital, which contribute second largest position on various issues approved by SEBON. The purpose of this research is to provide clear picture on right share.

After reviewing some thesis and other related sources, it is found that various studies were done on the topic of share price and its determinants. Some of the studies were conducted based on financial performance, some were based on dividend policy and some were based on bonus share. Gautam's study was based on financial performance as well as dividend policy, on common stock pricing (stock price movement), Gharti's study based on bonus share on the stock price movement. Similarly Regmi's study was based on divined policy on stock price movement. However, we found only one study on Right Offering, which was Poudel's study, his study was based on right offering announcement on stock price movement. He considered only 3 samples, which was very low sample size. While, besides impact on stock price movement, other's objectives are completely new, previous researcher ignores it. Without it, the research on rights offering would not complete.

This study also based on both secondary as well as primary data. Moreover, the earlier studies on right offering have become old and need to be updated and validated, because of the rapid changes taking place in the capital market. Considering all these facts it is necessary to carry out a fresh study in Nepal. Finally, this study is expected useful information for all those including financial scholars, managers, investors and regulatory body (such as: NRB, SEBO/N, NEPSE).

CHAPTER III

RESEARCH METHODOLOGY

Introduction

Research methodology is a way to systematically solve the research problems. It refers to the various sequential steps to be adopted by a researcher is studying a problem with certain objects in views (Kothari: 1994; 19). Basically, historical and diagnostic types of research are employed to fulfill the objective of research work. A historical research is concerned with past phenomena. It is a process of collecting, evaluating verifying and synthesizing past evidence systematically and objectively to reach a conclusion (Wolf and Pant: 2005; p-54).

3.1 Research Design

A research design is the agreement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In order words, research design in the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances (Kerlinger: 1978; p-300).

As the principal objective of this study is to analyze the Right Share & Its Impact on Stock Price of the stock. This study follows the descriptive as well as analytical approaches are used to evaluate the rights share & its impact on stock price movement of the sample firms and logical conclusion cloud be drawn. Most importantly, the study is designed as ex-post facto research as the study is based on historical data. However, descriptive approach has also been adopted for the analysis of primary data obtained from questionnaire.

3.2 Population and Sample

The population for this study comprised all those companies which have issued rights share till the end of fiscal year 2009/10 in Nepalese capital market. By the end of the fiscal year, 112 companies issued rights share among which five companies were already de-listed from NEPSE and the total number of rights issue cases were 186. Till the date, there were 192 companies listed in NEPSE which are categories under nine different sectors as follows:

Table 3.1
Populations and sample

S. N.	Sectors	No. of Right Issuing Co.	No. of Right Issues	Sample
1	Commercial Bank	19	38	4
2.	Development Bank	22	36	3
3.	Finance Company	58	94	2
4.	Insurance Company	6	10	-
5.	Mfg. & Processing Co.	2	3	-
6.	Hotel	1	1	-
7.	Trading Company	2	2	-
8.	Hydropower Company	1	1	-
9.	Others	1	1	-
Total		112	186	10

Table 3.2
Sample Companies

S.N	Name
1.	Nepal SBI Bank Limited(NSBL).
2.	Laxmi Bank Limited(LBL).
3.	Lumbini Bank Ltd(LUBL).
4.	Bank Of Asia Nepal Ltd.(BOAN)
5.	Paschimanchal Development Bank Ltd.(PDBL).
6.	Annapurna Bikash Bank Ltd(ABBL)
7.	Malika Development Bank Ltd(MDBL).
8.	Sagarmatha Merchant Banking And Finance Ltd(SMBF)
9.	International Leasing & Finance Company Ltd(ILFCO)

3.3 Sources Of Data

The data used in this study are from two sources, primary and secondary. However the prime focus has been given to the secondary data. The secondary data collected from, annual reports from Fiscal year 2006/07 to 2009/10, magazines and bulletins of the companies under study, relevant information and data from the publication of SEBON, NEPSE, NRB, and web pages of the selected companies, various newspapers, previous studies, thesis and dissertation related to this field etc. Beside that the indirect and informal talks, interviews with some professors, Questionnaire, teachers and persons of related field etc. have also been made to collect Primary Data.

3.4 Data Analysis Tools

The collected data will have no meaning if such data will not be analyzed. To analyze the data in this research the researcher will use statistical and financial tools as required to the nature of data.

3.4.1 Statistical Tools

i) Correlation Coefficient (r)

Correlation analysis is the statistical tool that can be used to describe the degree of which one variable is linearly related to another. Correlation can either be negative or positive. If both variables are changing in the same direction, then correlation is said to be positive but variables are changing opposite direction then correlation is said to be negative. In the study correlation coefficient is calculated between share price and NEPSE index before and after the announcement of the right. The correlation coefficient always remains within the limit of +1 to -1. By Karl Pearson, the simple correlation coefficient (between two variables, say X and Y) is given by,

$$r_{xy} = \frac{\text{Cov}(X, Y)}{X Y}$$

or,

$$r_{xy} = \frac{N * XY - X * Y}{\{N (X)^2 - X^2 - N (Y)^2 - Y^2\}^{(1/2)}}$$

Where, r_{xy} is the correlation coefficient between two variables X and Y.

'r' lies always between +1 and -1

When 'r' = +1, there is perfect positive correlation.

When 'r' = -1, there is perfect negative correlation.

When 'r' = 0, there is no correlation.

When 'r' lies between 0.7 to 0.999 (or -0.7 to -0.999) there is high degree of positive or negative correlation.

When 'r' lies between 0.5 and 0.699, there is a moderate degree of correlation.

When 'r' is less than 0.5, there is low degree of correlation.

ii) Coefficient of Determination(r^2)

The coefficient of determination between the two variable series is a measure of linear relationship between them and indicates the amount of one variable which is associated with or accounted for another variable. It gives the percentage variation in the dependent variable that is accounted for by the independent variable. Moreover, it gives the ratio of the explained variance to the total variance and it is given by square of the correlation coefficient, i.e. r^2 (Gupta; 1999: 585).

Thus,

$$r^2 = \frac{\text{Explained Variance}}{\text{Total Variance}}$$

T-statistics is also used to test the significance of the difference between the share price before and after the announcement of the right share. Here the researcher has used paired t-test. Hypothesis has set as follows.

Null hypothesis: There is not any significance different between the share price before and after the announcement of the right share.

Alternative hypothesis: There is significance different between the share price of the selected company before and after the announcement of the right share of that company.

$$S_1^2 = \frac{\Sigma (X - \bar{X}) + \Sigma (Y - \bar{Y})}{n_1 + n_2 - 2}$$

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

Where,

X = index before announcement of right share.

Y = index after announcement of right share.

n = number of observation.

S² = an unbiased estimate of population variance

In this analysis, research has used 5 % level of significance to test the hypothesis.

3.4.2 Financial Tools

i) Valuation Of Rights

Rights have certain value because right shares are generally offered at lower price than market price. The value of stock right may be defined as the value at which the right should be quoted in the market. So, investors are interested towards that particular share attached with rights. After the rights offering, some of the existing shareholders want to exercise their rights and some want to sell their rights only but there is no provision of transferable rights in Nepal till the date. Even though, valuation of right is very important to analyze the share price movement. After the book-close or ex-right date of rights offering, the share price should drop to the extent of value of a right.

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

V_r = Valuation of right

P_o = Current market price of a share

P_s = Subscription price

= No. of rights required to purchase a new share of stock.

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. In this chapter the necessary financial facts, figures as well as descriptive information are also gathered through financial statement, annual report and questionnaire is used to obtain further qualitative information.

4.1 Right Share Practice In Nepal

The history of right issue is not show long in Nepalese context. Nepal finance and saving company is the first company to issue rights share in Nepal. The company issued right share in the fiscal year 1995/96 amount in Rs. 2 million at the subscription ratio of 4:1. Where 4 shares where required to purchase each additional share issued by the company. Since form that date, Nepalese corporate firms started to issue right share.

Since, from the fiscal year 1995/96, Nepalese corporate firms, started to issue rights share. Up to now (i.e. 2009/10) there are 186 cases of rights offering in Nepal. Almost all of there were finance and banking companies who issued rights share in Nepalese capital market. Large no of bank and finance companies announce and issue rights share, to increase the capital base if the corporate management felt such need to comply with the policy directives given by the concerned authority to increase the capital base from the time to time. Under rights offering, the shareholders are provided a document called 'right' which describes all about the conditions of rights issue. Each stockholder receives one right in the proportion of the share currently held.

It is clear that the practice of rights issue in Nepalese corporate firms is in increasing trend both in number and amount. Till the end of fiscal year 2009/10, 112 companies have issued rights share and there are 186 cases of rights issue in total. Out of them, four companies viz. Seti Cigarette Factory Ltd., Nepal United Co. Ltd. Nepal Bank Ltd. and Necon Air Ltd. are already de-listed from NEPSE. Among other listed companies, Nepal Share Markets & Finance Ltd. has issued rights share for 5 times till the date. But some of the listed companies with high earnings are providing bonus shares to their shareholders rather than issuing rights share to increase their capital base. Whereas some of the other companies, mostly financial institutions, are in the process to issue rights share which indicates the increasing trend of rights issue in Nepalese capital market.

4.2 Contribution Of Rights Issue In Total Public Flotation

In the fiscal year 2009/10, 33 companies comprising six commercial banks, eight development banks, seventeen financial companies and two insurance companies issued right shares amounting to Rs. 8173.04 million.

The following table and figure shows the contribution of rights issue in total public floatation in each of the fiscal year where the rights issue has taken place.

Table 4.1

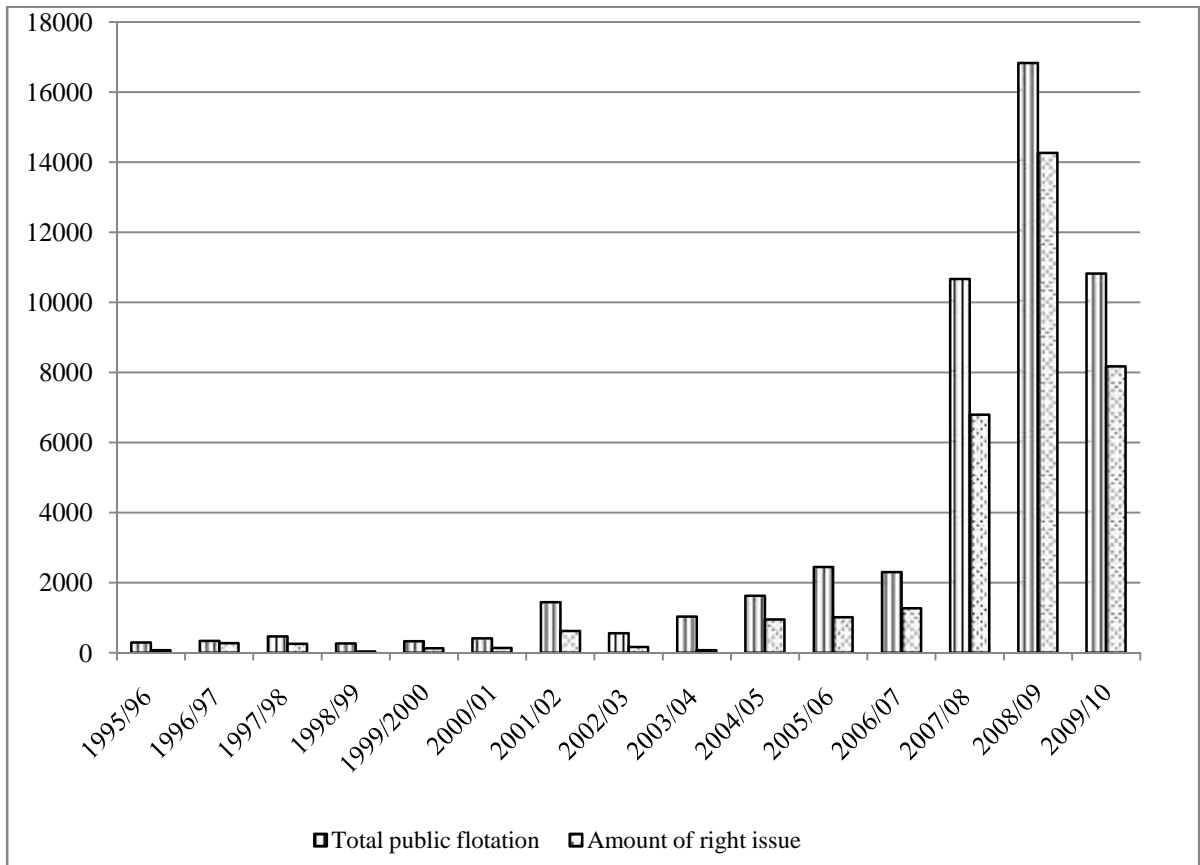
**Contribution of Rights Issue in Total Public Flotation
(Rs. in million)**

Fiscal Year	Number of Rights Issue	Total Public Flotation	Amount of Rights Issue	% of Rights Issue
1995/96	2	293.74	69.00	23.49
1996/97	3	332.20	275.20	82.84
1997/98	3	462.36	249.96	54.06
1998/99	1	258.00	30.00	11.63
1999/2000	3	326.86	124.60	38.12
2000/01	2	410.49	131.79	32.11
2001/02	5	1441.33	621.87	43.15
2002/03	4	556.54	162.24	29.15
2003/04	3	1027.50	70.00	6.81
2004/05	6	1626.82	949.34	58.35
2005/06	11	2443.28	1013.45	41.48
2006/07	17	2295.50	1265.30	55.12
2007/08	43	10668.31	6793.56	63.68
2008/09	50	16828.51	14263.01	84.76
2009/10	33	10822.41	8173.04	75.52
Total	186	49793.82	34192.2	68.67

Source: Annual report of SEBON

Figure 4.1

Contribution of rights issue in total public flotation



The above table no 4.1 and figure no 4.1 shows the contribution of rights issue in each of the fiscal year since after they were practiced in Nepalese capital market. It is seen that Nepalese corporate firms started to issue rights share to raise additional capital from fiscal year 1995/96. During that fiscal year, Nepal Finance & Savings Co. and Seti Cigarette Factory Ltd. issued rights share amounting Rs. 69 million which contribute 23.49% of total public flotation. In the fiscal year 1996/97, there were three cases of right issue amounting Rs. 275.20 million out of Rs. 332.20 million public flotation covering 82.84% of total public flotation. Similarly, three companies issued rights share in the fiscal year 1997/98 which covered 54.06% of the total public flotation of Rs.462.36 million. But only one company i.e. Nepal Share Markets & Finance Ltd. had issued rights share in the fiscal year 1998/99 amounting Rs. 30 million which contributed only 11.63% in

total public issue. In the fiscal year 1999/2000, three companies issued rights share amounting Rs. 124.60 million that covered 38.12% of total public issue. Two companies issued rights share in the fiscal year 2000/01. This covered 32.11% of total public flotation of Rs.410.49 million.

In the next fiscal year 2001/02, there were five cases of rights issue amounting Rs.62 1.87 million out of Rs. 1441.33 million in total public issue. Similarly, four companies issued right share in the fiscal year 2002/03 amounting Rs. 162.24 million which contributed 29.15% in total public flotation. In the fiscal year 2003/04, the amount raised through rights share issue is Rs. 70 million, which covered only 6.81% of total public issue from three rights issue. Then in fiscal year 2004/05, six companies issued rights share amounting Rs. 949.34 million which contributed 58.35% of total public issue. In the fiscal year 2005/06, 11 companies issued rights share which covered 41.48% of total issue and the amount of rights issue is Rs. 1013.45 million. In the next fiscal year 2006/07, 16 companies issued rights share but the cases of rights issue were 17 (i.e. Lumbini Bank Ltd. issued twice) and the amount of rights issue is Rs. 1265.30 million which covered 55.1 2% of total public issue. In the fiscal year 2007/08, 43 companies issued rights share amounting Rs. 6793.56 million that covered 63.68% of total public flotation of Rs. 10668.31 million. In the fiscal year 2008/09, 50 companies issued rights share amounting Rs.16828.51 million that covered 4.76% of total public flotation of Rs.16828.51 million which is the largest in terms of number and amount of issue till the date. Finally, in the fiscal year 2009/10, 33 companies issued rights share amounting 8173.04 million that covered 75.52% of total public flotation of Rs.10822.41 million.

By the above table it is cleared that there is the lowest percentage of rights issue i.e. 6.81% in the fiscal year 2003/04 where as the highest percentage of rights issue is 84.76% in the fiscal year 2008/09. Similarly the highest amount of right issue is 14263.01 million in the fiscal year 2008/09 and the lowest is Rs.30 million

in the fiscal year 1998/99. So, it is clear from the above table and figure that the practice of right issue in Nepalese corporate firms is in an increasing trend both in number and amount.

4.2.1 Contribution of right issue in total public flotation in 2009/10

Table no.4.2

Contribution of right issue in total public flotation in 2009/10

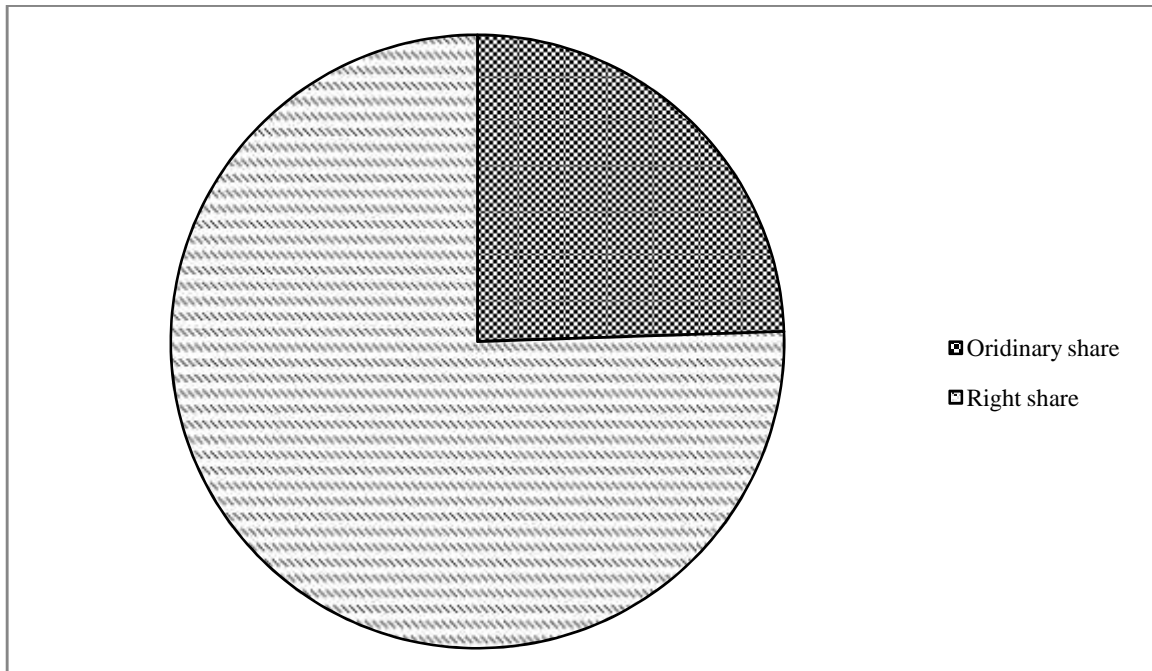
(Rs. In million)

Securities	No. of issue	Issued amount	Percentage (%)
Ordinary share	28	2649.37	24.48
Right shares	33	8173.04	75.52
Total	61	10822.41	100

Source: Annual report of SEBON

Figure No. 4.2

Contribution of right issue in total public flotation in 2009/10



From the above table and figure, securities wise contribution in total public flotation in the year 2009/10 can be clearly seen. In the fiscal year, two securities

viz. ordinary share and right share were issued by forms to public amounting Rs. 10822.41 million in total. Out of them 28 companies issued ordinary share to public amounting Rs. 2649.37 million which contribute 24.48% in total public issue. Similarly 33 companies issued right share to their existing shareholders who contribute 75.52% in total public issue and the amount of right share issue is Rs. 8173.04 million. So, it is cleared that right issue contribute the highest in total public issue in the fiscal year 2009/10.

4.2.2 Sector Wise Contribution Of Right Issue In 2009/10

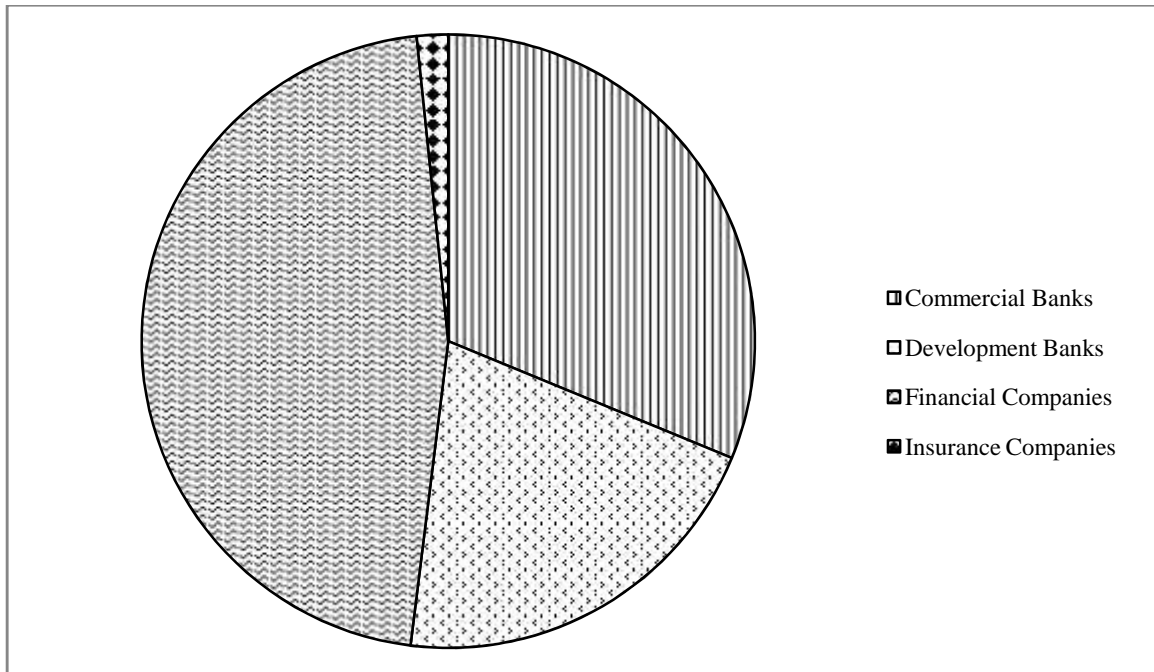
The following table and figure shows the contribution of right issue in total public flotation in the fiscal year 2009/10.

Table no.4.3
Sector wise contribution of right issue in 2009/10

Sector	No of companies	Right issue amount	Percentage (%)
Commercial banks	6	2551.49	31.22
Development Banks	8	1695.4	20.74
Financial Companies	17	3791.2	46.39
Insurance Companies	2	134.95	1.65
Total	33	8173.04	100

Source: Annual report of SEBON

Figure 4.3
Sector wise contribution of right issue in 2009/10



The above table no 4.3 and figure no 4.3 shows the contribution of each sector in rights issue in the fiscal year 2009/10. Only four sectors viz. commercial banks, Development banks, finance companies and insurance companies sectors issued rights share in the fiscal year. Among them, 6 commercial banks issued rights share amounting Rs. 2551.49 million which contribute 31.22% in total amount of rights issue of Rs.8173.04 million. The contribution of Development Banks is 20.74% in total where 8 development banks issued rights share of amount Rs. 1695.4 million. Similarly, 17 companies issued right share of Rs. 3791.2 million which covered 46.39% in total rights issue amount. And finally, 2 Insurance companies issued Rs.134.95 million of rights share which contribute 1.65% in total amount of right issue. Beside these, other sectors didn't issue rights share in the fiscal year. From the above table and figure, it is clear that banking and financial sectors issued rights share in the fiscal year 2009/10.

4.3 Analysis of Impact of Rights Issue on Market Price of Share

This portion of study analyzes the impact of rights issue on share price movement of selected sample companies. For our study, five different points of time period and the 4 commercial banks , 3 development banks and 2 financial companies are selected for observing the impact of rights issue i.e. the price movement of shares, considering the data 90 days before the right issued date as the base date. Our selected time points are as follows:

- I. 90 days before the issued date
- II. Ten days before the issued date
- III. The day of issued date
- IV. Ten days after the issued date
- V. 90 days after the issued date

The researcher has analyzed the impact of right issue on share price movement of sample companies viz. NSBL, LBL, LUMBINI, BOAN, PDBL, ABBL, MDBL, SMBF and ILFCO.

4.3.1 Analysis Of Impact Of Rights Issue On Share Price Of Nepal SBI Bank limited. (NSBL)

From the below table it can be concluded that the share price of NSBL is in decreasing trend. Share price of NSBL before 90 days of issued date is Rs.1720 and is decreased to Rs.641 after 90 days of issued date. Similarly it is Rs 1627 which is more than by Rs 732 than the date of issue. Similarly it had decreased to Rs.880 after ten days of issued date which is less than by Rs. 15 than the issued date and it is Rs. 641 after 90 days of the issued date.

Table no 4.4

Impact of Right Issue on share price of NSBL

Time points	Date of time points	Share price (Rs.)	Price relative	%change in new base	Price index	Price index converted to new base	% change in new base
I	24-09-2009	1720	100	–	630.55	100	–
II	17-12-2009	1627	94.59	(5.49)	539.44	85.55	(14.45)
III	28-12-2009	895	52.03	(44.99)	545.69	86.54	(1.16)
IV	09-01-2010	880	51.16	(1.67)	535.41	84.91	(1.88)
V	29-03-2010	641	37.27	(27.15)	454.54	72.09	(15.10)

Source: Quarterly report of NEPSE

Theoretically market price of the share should have gone up for few days just after the rights issue, which didn't happen in case of NSBL due to holders of record date. It means obviously, that the investors who purchased the share of NSBL on the day of book close or onwards were not entitled to buy rights share. It is quite contrary to the theory of right issue. That is why market price of share went down instead of increasing. Investors after the issue may have thought that, number of share decrease or ex-right price is going to decrease. It is believed that the original share price will be restored and the market shows normal price behavior after 90 days of issued date, but in case of NSBL, the share price is still in decreasing trend and leveled up to at Rs.641, which seemed moving according to the principle of rights.

From the above analysis it shows that it didn't match the theory in case of NSBL because of the following results:-

Market price of share = Rs. 895

Value of one right = Rs. 265

Ex-right price of share = Rs.365

The value of the share after the allotment should be around Rs. 365, but the share price of NSBL is Rs. 641 after 90 days of issued date. Thus the share price of NSBL is overpriced.

4.3.2 Analysis Of Impact Of Right Issue On Share Price Of Laxmi Bank Ltd(LBL)

Table 4.5
Impact of rights issue on share price of LBL

Time points	Date of time points	Share price (Rs)	Price relatives	%change in new base	Price index	Price index converted to new base	%change in new base
I	19-08-2009	925	100	-	714.4	100	-
II	09-11-2009	643	69.51	(30.49)	583.1	81.62	(18.38)
III	17-11-2009	600	64.86	(6.67)	562.22	78.70	(3.58)
IV	30-11-2009	676	73.08	12.67	528.83	74.02	(5.95)
V	18-02-2010	750	81.08	10.95	485.14	67.91	(6.11)

Source: Quarterly report of NEPSE

The above table no 4.5 shows the movement of share price of LBL and the trend of general market movement during the period of right issue. Share price of LBL is Rs. 925 before 90 days of issue and the general market index is 714.4 at that time. Since general market started to decrease before issued date, it might have affected the market price of LBL stock such that share price had decreased slightly in comparison to high decrease in market index ten days before issued date share price decreased 30.49% in price relatives whereas price index decreased to 583.1, decreased by 18.38% in new base of price index. Similarly the downward movement of share price along with the general market is found before the

issued date. on that date, share price falls to Rs 600 and price index fall to 562.22 point. Considering the percent change in new bases, new base of share price decreased by 6.67% and that of price index decreased by 3.58%. After ten days of issued date, share price increased to 676. Price index decreased to 528.83 points decreasing by 5.95% in new base whereas price relative increased by 12.67%. There is high appreciation in share price after 90 days of issued date, share price reached to Rs. 750 increasing 10.95% in price relative and price index reached to 485.14 decreasing 6.11% in new base of price index.

Normally ,share price used to decrease after book close date of right issue because shares begin to trade ex-rights which means no rights attached to them.

Market price of share	= Rs. 600
Value of right	=Rs.142.86
Ex-right price of share	=Rs. 242.86

Theoretically, share price should decrease to extent of value of right after book close date. Considering the value of right of LBL stock i.e. Rs. 142.86. But there is only slightly difference in price of stock of LBL in market after issued date. The actual market price is found to be Rs.242.86 which cannot be considered as equivalent to the theoretical value. So, the price movement of LBL stock isn't found to be as per the theory of right issue.

4.3.3 Analysis Of Impact Of Rights Issue On Share Price Of Lumbini Bank Ltd(LUBL)

Table 4.6

Impact of rights issue on share price of Lumbini Bank Ltd.

Time points	Date of time points	Share price(Rs)	Price relatives	%change in new base	Price index	Price index converted to new base	%change in new base
I	15-05-2009	421	100	-	659.94	100	--
II	04-08-2009	380	90.26	(9.74)	699.55	106	6
III	12-08-2009	430	102.14	13.16	717.2	108.68	2.53
IV	25-11-2009	327	77.67	(23.96)	678.32	102.78	(5.43)
V	16-11-2009	316	75.06	(3.36)	566.94	85.91	(16.41)

Source: Quarterly report of NEPSE

The above table no 4.6 shows the price movement of Lumbini Bank Ltd stock before and after right issue along with the index of general market share price of Lumbini Bank Ltd is Rs.421 before 90 days of issued date and the market index is 659.94 points at that time. Before 10 days of issued date, share price decreased to Rs. 380 decreasing 9.74% in price relatives where market index increased to 699.55 points increasing 6%, share price reached to Rs. 430 on the day of right issue and the market index also increased to 717.2 point. The increment in share price is not only due to increasing trend of general market as the percent change in price relative is higher than that of adjusted index. After 10 days of issued date, share price dropped down at Rs. 327 whereas market index also dropped down to 678.32 point. While considering percent change in new bases price relatives decreased by 23.96% whereas adjusted index decreased by 5.43%. Share price reached to Rs. 316 after 90 days of issued date decreasing

3.36% in price relatives whereas market index decreased to 566.94 point decreasing 16.41%.

According to the theory, share price should decrease to the extent of amount of right on and after issued date.

Market price of share = Rs 430

Value of right =Rs. 76.21

Ex-right price of share = Rs. 353.79

Since the market price of Lumbini Bank Limited stock after issued date is nearly equal to Rs. 327 the share price after 90 days of the issued date. Therefore it follows the theory of right offering.

4.3.4 Analysis Of Impact Of Rights Issue On Share Price Of Bank Of Asia Nepal Ltd. (BOAN)

Table 4.7

Impact of rights issue on share price of Bank of Asia Nepal Bank Ltd.

Time points	Date of time points	Share price(Rs)	Price relatives	%change in new base	Price index	Price index converted to new base	%change in new base
I	16-02-2010	390	100	-	486.82	100	-
II	06-05-2010	317	81.28	(18.72)	419.03	86.07	(13.93)
III	13-05-2010	235	60.26	(25.86)	456.04	93.68	8.84
IV	26-05-2010	295	75.64	25.53	478.97	98.39	5.03
V	26-08-2010	257	65.89	(12.89)	432.82	88.89	(9.66)

Source: Quarterly report of NEPSE

The above table no 4.7 shows the price movement of BOAN stock along with the market index before and after the period of right issue. Share price of BOAN is Rs. 390 before 90 days of issued date and the general market index is 486.82 point at that time. BOAN issued rights shares at 2:1 ratio i.e. 1 shares could be

subscribed for each stock held. Before 10 days of issued date, share price of BOAN decreased to Rs 317 decreasing 18.72% in price relatives where market index also decreased to Rs. 419.03 points. Share price decreased to Rs. 235 on the day of issued date and the market index increased to 456.04 points. After 10 days of issued date, share price increased to Rs. 295 where market index also increased to 478.97 points. Adjusted price relative has increased by 25.52% whereas adjusted price index has increased by 5.03%. Share price dropped to Rs. 257 and market, index also dropped to 432.74 point after 90 days of issued date.

Normally, share price used to decrease after book close date of rights issue because shares begin to trade ex-rights which means no rights attached to them.

Market price of share	= Rs. 235
Value of right	=Rs. 45
Ex-right price of share	= Rs. 145

Share price of BOAN should decrease by the amount of value of right i.e. Rs. 45 on after Book Close Date and the market price should be around Rs. 145. But share price didn't decrease even after issued date instead, it moved upward. So the price movement of BOAN stock didn't follow the theory of rights issue.

4.3.5 Analysis of Impact of Rights Issue On Share Price of Paschimanchal Development Bank Ltd. (PDBL)

Table 4.8

Impact of rights issue on share price of Paschimanchal Development Bank Ltd.

Time points	Date of time points	Share price(Rs)	Price relatives	%change in new base	Price index	Price index converted to new base	%change in new base
I	12-11-2009	780	100	-	565.86	100	-
II	04-02-2010	274	35.13	(64.87)	501.18	88.57	(11.43)
III	11-02-2010	284	36.41	3.64	497.24	87.87	(0.79)
IV	24-02-2010	289	37.05	1.76	497.96	88	(0.15)
V	14-05-2010	302	38.72	4.51	440.49	77.84	(11.54)

Source: Quarterly report of NEPSE

The above table no 4.8 shows the movement of share price of PDBL and the trend of general market movement during the period of rights issue. Share price of PDBL is Rs. 780 before 90 days of issued date and the general market index is 565.86 point at that time. Since general market index started to decrease before Book close date, it might have affected the market price of PDBL stock. Such that market index had decreased slightly in comparison to high decrease in share price. Share price decreased to Rs.274 decreasing by 64.87% in price relative whereas price index decreased to 501.18 decreasing only 11.43% in new base of price index. Share price increase to Rs. 284 at the issued date whereas market index reached 497.24 point at that day. Instead of decreasing in share price after issued date, share price increased to Rs. 289 and increased in market index to 497.96 after 10 days of issued date. Share price increased to Rs. 302 increased to Rs. 302

increasing 4.51% in price relative after 90 days of issued date whereas market index dropped to 440.49 decreasing 11.54% in adjusted index.

Theoretically, share price should decrease to the extent of value of right after book close date as they begin to trade without attached rights to them.

Market price of share = Rs. 284

Value of right = Rs. 124.32

Ex-right price of share =Rs. 224.32

Theoretically, share price of PDBL should decrease to the amount of value of right i.e. Rs.124.32 and the market price after right issued date should be around Rs. 224.32. In contrast to it, share price didn't decreased instead; it increased by the amount early equal to the value of right. So, share price movement of PDBL is found to be in increasing trend during the period and the movement is not according to the theory.

4.3.6 Analysis Of Impact Of Rights Issue On Share Price Of Annapurna Bikash Bank Ltd. (ABBL)

Table 4.9

Impact of rights issue on share price of Annapurna Bikash Bank Ltd.

Time points	Date of time points	Share price(Rs)	Price relatives	%change in new base	Price index	Price index converted to new base	%change in new base
I	10-12-2009	387	100	-	545.79	100	-
II	01-03-2010	157	40.57	(59.43)	546.88	100.20	0.20
III	10-03-2010	153	39.53	(2.56)	489.42	89.67	(10.51)
IV	22-03-2010	141	36.43	(7.84)	472.82	86.63	(3.39)
V	11-06-2010	140	36.18	(0.69)	482.12	88.33	1.96

Source: Quarterly report of NEPSE

The above table no 4.9 shows the movement of share price of ABBL and the trend of general market movement during the period of right issue. Share price of ABBL is Rs. 387 before 90 days of issued date and the general market index is 545.79 at

the time. Since general market started to decrease before issued date, it might have affected the market price of ABBL stock such that share price is decrease slightly in comparison to high decrease in market index 10 days before issued date. Share price decrease 157 decreasing 59.43% in relative whereas price index increased to 546.88 increasing 0.20% in new base of price index. Similarly the down ware movement of share price along with the general market is found before the issued date. On that day, share price fall to Rs. 153 and price index fall to 489.42 point. Considering the percentage change in new bases, new base of share price decreased by 2.56% and that of price index decreased by 10.51%. after 10 days of issued date, share price decrease to Rs. 141, price index decreased to 472.82 point decreasing 3.39% in new based where as price relative decreased by 7.84% share price reached to Rs.140 decreasing 0.69% in price relative and price index reached 482.12 increasing 1.96% in new base of price index.

Normally, share price used to decrease after issued date of right issue because shares begin to trade ex-rights which mean no rights attached to them.

Market Price of share = Rs.153

Value of Right =Rs. 36.55

Ex-right price of share =Rs.136.55

Theoretically, share price should decrease to extent of value of right after book closed date. Considering the value of right of ABBL stock that is Rs. 36.55, the ex-right price should be around Rs.136.55. but there is only slightly difference in price of stock of ABBL in market after issued date. The actual market price is found to be Rs. 153 which can be considered as equivalent to the theoretical value. So, the price movement of ABBL stock is found to be as per the theory of right issue.

4.3.7 Analysis Of Impact Of Right Issue On Stock Price Of Malika Development Bank Ltd.(MDBL).

Table no 4.10

Impact of right issue on stock price of Malika Development Bank Ltd.

Time points	Date of time points	Share price (Rs)	Price relatives	%change in new base	Price index	Price index converted to new base	%change in new base
I	14-05-2009	1116	100	-	659.94	100	-
II	04-08-2009	456	40.86	(59.14)	699.55	106	6
III	13-08-2009	424	37.99	(7.02)	717.20	108.68	2.53
IV	24-08-2009	404	36.20	(4.71)	692.55	104.94	(3.44)
V	14-11-2009	412	36.92	1.99	566.94	85.91	(18.13)

Source: Quarterly report of NEPSE

The above table no. 4.10 shows the movement of share price of MDBL and the trend of general market movement during the period of rights issue. Share price of MDBL is Rs. 1116 before 90 days of issue date and the general market index is 659.94 at that time, since general market started to increase before issue date. Share price decreased to Rs. 456 decreasing 59.14% in price relative whereas price index increased to 699.55 points increasing 6% in new base of price index. Similarly, the downward movement of share price along with the general market is found before the issue day. On that day, share price fall to Rs. 424 and price index increase to 717.20 point. Considering the percent change in new bases, new base of share price decreased by 7.02% and that of price index increased by 2.53%. After 10 days of issued date, share price decreased to Rs. 404 per share and price index decreased to 692.55 decreasing 3.44% in new base whereas price relative decreased by 4.71%. After 90 days of issued date share price reached Rs. 412 increasing 1.99% in price relative and price index reached 566.94 increasing 18.13% in new base of price index.

Normally, share price used to decrease after book-close date of rights issue because shares begin to trade ex-rights which mean no rights attached to them.

Market price of share= Rs. 424

Value of right =Rs. 243.61

Ex-right price of share=Rs. 343.61

Theoretically, share price should decrease to extent of value of right after issued date. Considering the value of right of MDBL stock i.e. Rs. 243.61, the ex-right price should be around Rs. 343.61. But there is difference in price of stock of MDBL in market after issued date. The actual market price is found to be Rs. 424 So, the price movement of MDBL stock isn't found to be as per the theory of rights issue.

4.3.8 Analysis Of Impact Of Rights Issue On Share Price Of Sagarmatha Merchant Banking And Finance Company Limited. (SMBF)

Table 4.11

Impact of rights issue on share price of SMBF

Time points	Date of time points	Share price (Rs)	Price relatives	%change in new base	Price index	Price index converted to new base	%change in new base
I	14-05-2009	670	100	-	659.94	100	-
II	04-08-2009	775	115.67	15.67	699.55	106	6
III	13-08-2009	754	112.53	(2.71)	717.2	108.68	2.53
IV	24-08-2009	651	97.16	(13.66)	692.55	104.94	(3.44)
V	14-11-2009	380	56.72	(41.62)	566.94	85.91	(18.13)

Source: Quarterly report of NEPSE

The above table 4.11 shows the price movement of SMBF stock before and after rights issue along with the index of general market. Share price of SMBF is Rs. 670 before 90 days of issued date and the market index is 659.94 at that time. Share price and market index were in increasing trend before issued date. So, share price increased to Rs.775 before 10 days of issue date and market index also increased to 699.55 point. But the incensement in market index is relatively lower

then that of share price as adjusted index increased by 6% while price relative increased by 15.67%. The day of issued date, share price decreased to Rs.754 decreased by 2.71% in price relative where as market index increased to 717.2 points increasing 2.53% in adjusted index. After 10 days of issued date, share price drop down at Rs.651 where as market index also decreased at 692.55 points. While considering percent change in new base price relative decreased by 13.66% where as adjusted index also decreased by 3.44%. Although market is in decreasing trend. Due to the downward movement of general market, it might have affected the share price to decline. As a result, share price decreased to Rs.380 decreasing 41.62% in price relative after 90 days of issued date where as market index also dropped down to 566.94 points decreasing 18.13% in adjusted market index.

According to the theory of right issue, share price should decrease to extent of value of rights on and after book close date.

Market Price of share = Rs.754

Value of Right =Rs. 391.62

Ex-right price of share =Rs.491.62

Theoretically, share price should decrease to extent of value of right after book closed date. Considering the value of right of SMBF stock that is Rs. 391.62, the ex-right price should be around Rs.491.62. but there is only slightly difference in price of stock of SMBF in market after issued date. The actual market price is found to be Rs. 754. So, the price movement of SMBF stock is not found to be as per the theory of right issue.

4.3.9 Analysis Of Impact Of Right Issue On Share Price Of ILFCO

Table 4.11

Impact of rights issue on share price of ILFCO

Time points	Date of time points	Share price (Rs)	Price relatives	%change in new base	Price index	Price index converted to new base	%change in new base
I	15-09-2009	520	100	-	629.88	100	-
II	05-12-2009	200	38.46	(61.54)	517.45	82.15	(17.85)
III	14-12-2009	242	46.54	21.01	554.54	88.04	7.17
IV	25-12-2009	215	41.35	(11.15)	545.27	86.57	(1.67)
V	15-03-2010	205	39.42	(4.67)	480.49	76.28	(11.89)

Source: Quarterly report of NEPSE

The above table no 4.11 shows the price movement of ILFCO stock before and after rights issue along with the index of general market. Share price of ILFCO is Rs. 520 before 90 days of issued date and the market index is 629.88 at that time. Since general market started to decrease before issue date. Share price decreased to Rs.200 decreasing 61.54% in price relative where as price index also decreased to 517.45 points decreasing 17.85% in new base of price index. Similarly, share price increase to Rs. 242 at the issue date and price index also increased to 554.54 points at that time. Considering the percent change in new base of share price increased by 21.01% and that of price index increased by 7.17% after 10 days of issued date, share price decreased to Rs. 215 and price index also decreased to 545.27 points, decrease sing 1.67% in new base where as price relative decreased by 11.15%. After 90 days of issue date share price reached to Rs 205 decreasing 4.67% in price relative and price index reached 480.49 points decreasing 11.89% in new base of price index. Normally, share price to decrease after book close date

of right issue because shares begin to trade ex-rights which means no right attached to them.

Market Price of share = Rs.242

Value of Right =Rs. 95.95

Ex-right price of share =Rs.195.95

Theoretically, share price of ILFCO should decrease to the amount of value of rights that is Rs. 95.95 after book close date and share price should be around Rs. 195.95. But share price of ILFCO is not affected by the book close date and remain at the same price which is not in accordance of the theory. Therefore movement of share price of ILFCO stock did not follow the theory.

4.4 Correlation Coefficient between Share price Movement and General Market Movement

According to the theory of rights issue, share price increases after the announcement of rights share till the period of book-close date and declines after that date. Share price declines after book-close date because shares begin to trade without rights attached with them and declines to the extent of value of right. In practice, not only rights offering but the movement of general market also affects the share price. So it is important to study the correlation between share price movement and general market movement. Therefore correlation coefficient between share price of sample companies and market index i.e. NEPSE index were calculated to find out if there exists any relation between share price and market index. After calculating the correlation between share price movements of sample companies and general market movement, following results have been obtained.

Table 4.13

Correlation Coefficient between Share Price and NEPSE Index

S.N	Companies	Correlation Coefficient	Coefficient of Determination
1	NSBL	0.7787	0.6064
2	LBL	0.5638	0.3179
3	LUBL	0.6488	0.4209
4	BOAN	0.4281	0.1832
5	PDBL	0.7986	0.6378
6	ABBL	0.6395	0.4089
7	MDBIL	-0.044	0.0019
8	SMBF	0.9590	0.9197
9	ILFCO	0.8921	0.7958

Source: Annex 2

By observing the results from above table no 4.13, it can be concluded that there is no consistent result of all sample companies which were taken into consideration. The correlation coefficient between the movement of share price of NSBL and general market is 0.7787 which shows positive and high correlation between them. Coefficient of determination is 0.6064 which means that 60.64% of share price movement is caused by the movement of market and remaining is due to the impact of rights issue. Similarly, correlation coefficient of LBL stock with market is 0.5638 which indicates positive degree of relationship between them. Their coefficient of determination is 0.3179 which indicates that general market movement has 31.79% role in share price behavior of LBL. In case of Lumbini Bank Ltd correlation coefficient with market movement is 0.6488 and coefficient

of determinate on is 0.4209. It means the movement of Lumbini Bank Ltd stock is slightly influenced by the market movement.

In case of BOAN, there is positive correlation i.e. 0.4281 between share price and market trend. Coefficient of determination is 0.1832 which shows that 18.32% of share price movement is due to the affect of market. Correlation coefficient of PDBL stock with general market is 0.7986 and coefficient of determination is 0.6378 which indicates positive correlation between them and general market also contributed 63.78% in share price movement. In case of ABBL, correlation coefficient is 0.6395 which shows positive relationship between share price and market movement. 40.89% of price increment is contributed by market and remaining is due to the impact of right issue. Contrarily there is negative but low correlation between share price movements is not affected by the movement of market. Similarly, correlation coefficient between share price of SMBF and market movement is 0.9590 which indicates positive and high correlation among them. Coefficient of determination is 0.9197 which means market movement has contributed 91.97% in movement of share price. In case of ILFCO, correlation coefficient is 0.8921 which shows positive relation between share price movement and market movement where 79.58% movement of share price is influenced by general market. So rights issue has affected the share price less than general market movement.

From the above analysis, it can be concluded that share price movement of Nepalese companies are somehow affected by general market movement and some are affected by the announcement of rights share offering.

4.5 Use of t-Statistics to Measure the Immediate Impact of Rights Issue on Share Price

Theoretically, after the announcement of rights offering, share price used to increase till the date of book-close date and decreases after that day. To analyze whether there exists any significant change in share price movement during this period, researcher has used t-statistics. For this, researcher has taken the share prices of 10 days before and after the book-close date. Following table shows the calculated and tabulated values of t-statistics of respective companies.

Table no 4.14

Use Of t-Statistics To Measure The Immediate Impact Of Rights Issue On Share Price

S.N	Companies	Significance Level	Degree of Freedom	t-tab	t-cal	Result
1	NSBL	5%	4	2.776	2.1497	Insignificant
2	LBL	5%	4	2.776	1.1823	Insignificant
3	LUBL	5%	4	2.776	1.4768	Insignificant
4	BOAN	5%	4	2.776	0.8204	Insignificant
5	PDBL	5%	4	2.776	2.298	Insignificant
6	ABBL	5%	4	2.776	1.4406	Insignificant
7	MDBL	5%	4	2.776	0.076	Insignificant
8	SMBF	5%	4	2.776	5.861	Significant
9	ILFCO	5%	4	2.776	3.4195	Significant

Source: Annex 2

Above table no 4.14 shows the calculated value of t (t-cal) and tabulated value of (t-tab) at 5% level of significance and 4 degree of freedom, share prices are used to analyzed the significance of the changes of price movement before and after rights issue. Form the above table; it is clear that the calculated value of t at 5% level of significance and 4 degree of freedom are different for different companies.

In the case of NSBL, the calculated value of t is 2.1497, since the calculated value of t is less than the tabulated value of t ; it shows that there is no significant difference in share price before and after the right issue. In other words, the null hypothesis that share price does not decrease significantly after right issued is accepted.

In the case of LBL, the calculated value of t is 1.1823 where as the tabulated value of t at 5% level of significance for 4 degree of freedom is 2.776. Since the calculated value of t is less than the tabulated value, it shows that there is no significant difference in share price before and after right issue. Hence the null hypothesis that share price changes in significantly is accepted. Therefore it can be concluded that the change in share price does not decrease significantly after right issue. Similarly, the calculated value of t for LUBL is 1.4768 where as the tabulated value is 2.776. Therefore, there is no significant difference in share price of LUBL before and after the right issue. In another case of BOAN, the calculated value of t is 0.8204 where as the tabulated value of t is 2.776. Hence, the null hypothesis is accepted, it means that there is no significant difference in share price of BOAN before and after the right issue.

Similarly, the calculated value of t for PDBL is 2.298 where as the tabulated value of t is 2.776. Since the tabulated value is greater than the calculated value of t , the null hypothesis is accepted; it means that there is no significant difference in share price of PDBL before and after the right issue.

In the case of ABBL, the calculated value of t is 1.4406 whereas the tabulated value of t at 5% level of significance and 4 degree of freedom is 2.776. Since the tabulated value of t is greater than the calculated value, there is no significant difference between share prices before and after rights issue.

In the case of MDBL, the calculated value of t i.e. 0.076 is less than the tabulated value of t i.e. 2.776 at 5% level of significance for 4 degree of freedom. Therefore the null hypothesis that there is no significant difference in share price before and

after rights issue is accepted. In another case of SMBF, the calculated value of t is 5.861 and the tabulated value of t at 5% level of significance for 4 degree of freedom is 2.776. Since the calculated value of t is greater than tabulated value of t , the null hypothesis is rejected and the alternative hypothesis that share price decreases significantly after the rights issue is accepted. Finally, In the case of ILFCO, the calculated value of t is 3.4195 and the tabulated value of t at 5% level of significance and 4 degree of freedom is 2.776. Since the calculated value is greater than the tabulated value of the null hypothesis is rejected and hence the alternative hypothesis that there is significant difference in share price before and after the rights issue is accepted. Therefore it can be concluded that the change in share price of ILFCO is due to the rights issue.

4.6 Analysis of Primary Data

Though this study is based on secondary data, some information's are collected through the distribution of questionnaires to shareholders to make the study more effective and reliable. Nepalese capital market is in the process of modernization but it is still underdeveloped in comparison to capital markets of other developed countries. However now a days, peoples' response towards stock market seems to be high because of lack of better alternative investment and due to lower interest rate. At present, stock market has been performing more strongly than in the earlier years. It has witnessed its strength surprisingly, and this has raised hope for sustained growth of corporate undertakings. Stock market in Nepal has been growing gradually both in terms of turnover as well as the capital investment. To complete the study, questionnaires were also distributed to collect the responses of shareholders. For questionnaire, the researcher has distributed 50 questionnaires in total to shareholders which were focused on different aspects of rights issue. Out of them, the researcher got the responses of 48 respondents and their responses are tabulated and presented in below. The analyses of responses have been presented in this section as follows.

4.6.1. Holding of Shares

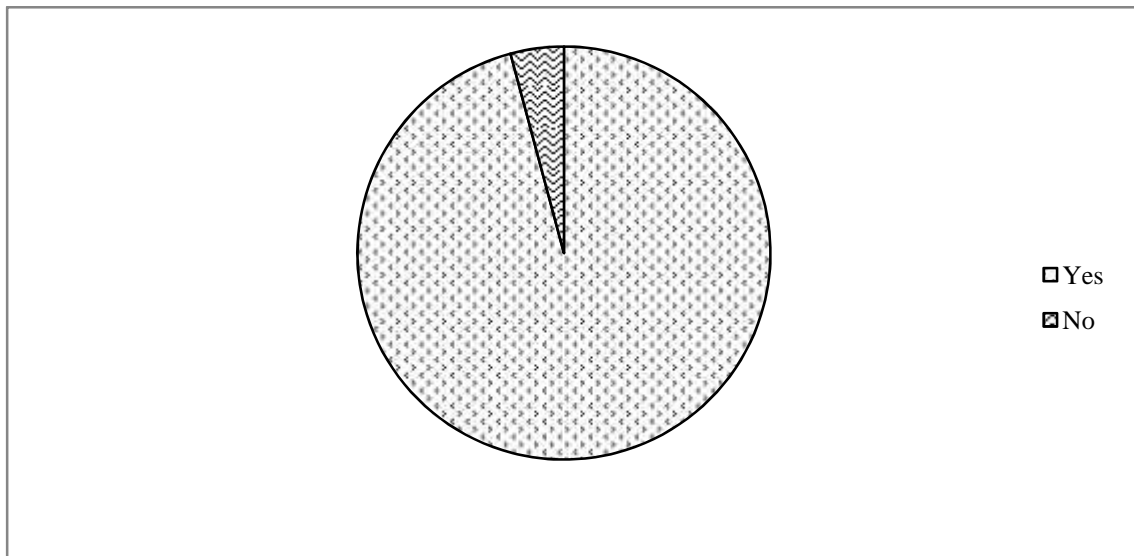
All of the respondents of questionnaire are shareholders and they hold stocks of different companies. Out of total 48 respondents, all of them hold stocks which mean that 100% respondents are shareholders.

4.6.2. Familiar with Rights Issue

Respondents were asked whether they are familiar with rights issue practice or not. Out of total respondents, 95.83% i.e. 46 respondents replied that they are familiar with rights issue practice whereas only 4.17% i.e. 2 respondents said that they don't have any knowledge about rights issue. Therefore it can be concluded from the responses that most of the shareholders are familiar with rights issue.

Figure no. 4.4

Familiar with right issue



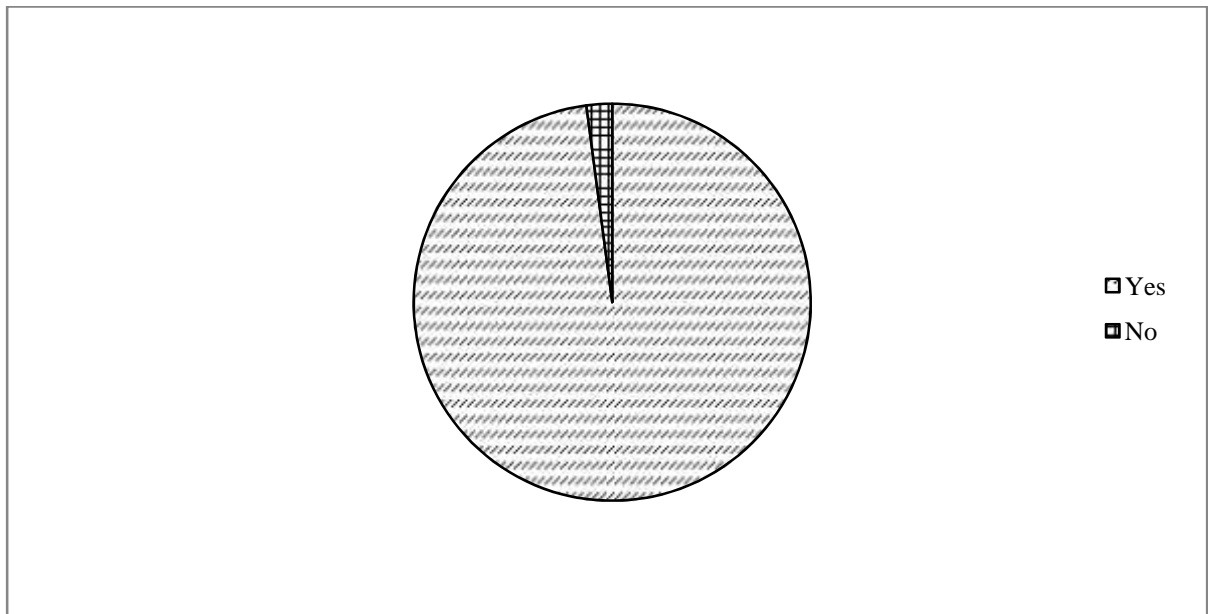
4.6.3. Desire to Buy Rights Share

Respondents were asked whether they want to buy rights share or not if their company offers rights issue. Among 48 respondents, 97.92% i.e. 47 respondents

said that they are willing to buy rights share if their company offers them whereas only 2.08% i.e. 1 respondent denied to buy rights share.

Figure no. 4.5

Desire to buy right share

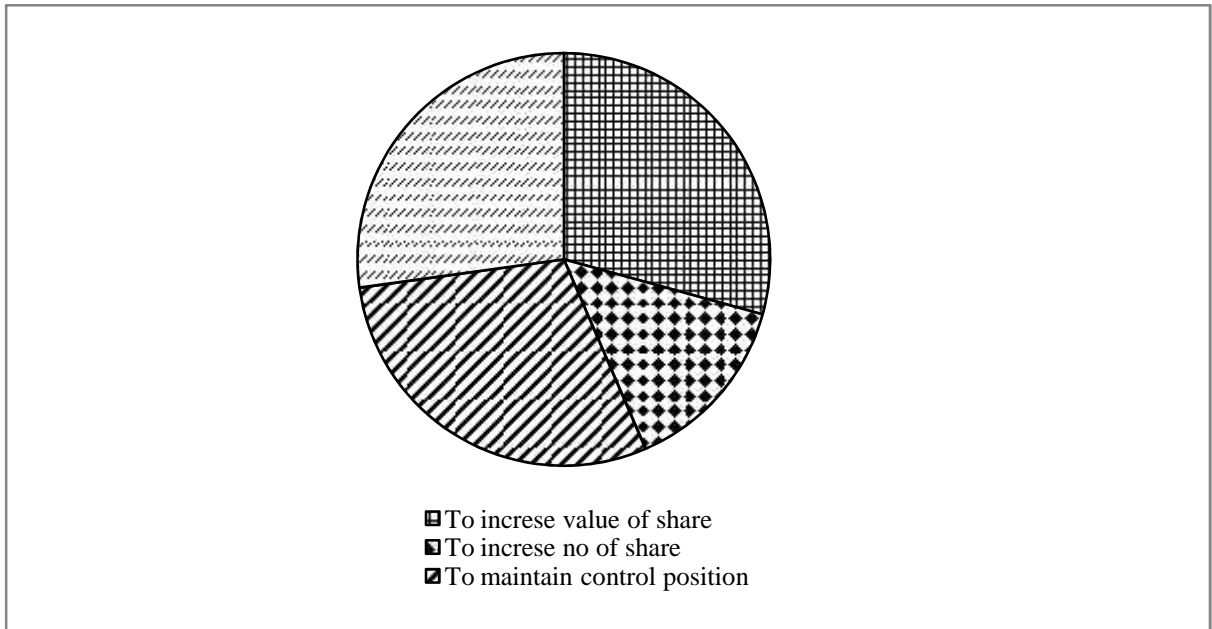


4.6.4. Purpose to Buy Rights Share

Most shareholders are willing to buy rights share but the intentions and priority to buy rights share were different. Among them, 27.08% i.e. 13 respondents said that they want to buy rights share to increase the value of shares. 29.17% i.e. 14 respondents want to buy rights share to increase the number of shares. 14.58% i.e. 7 respondents want to buy rights share to maintain control position in management and 29.17% i.e. 14 respondents want to buy rights share to increase the dividend.

Figure no 4.6

Purpose to Buy Rights Share



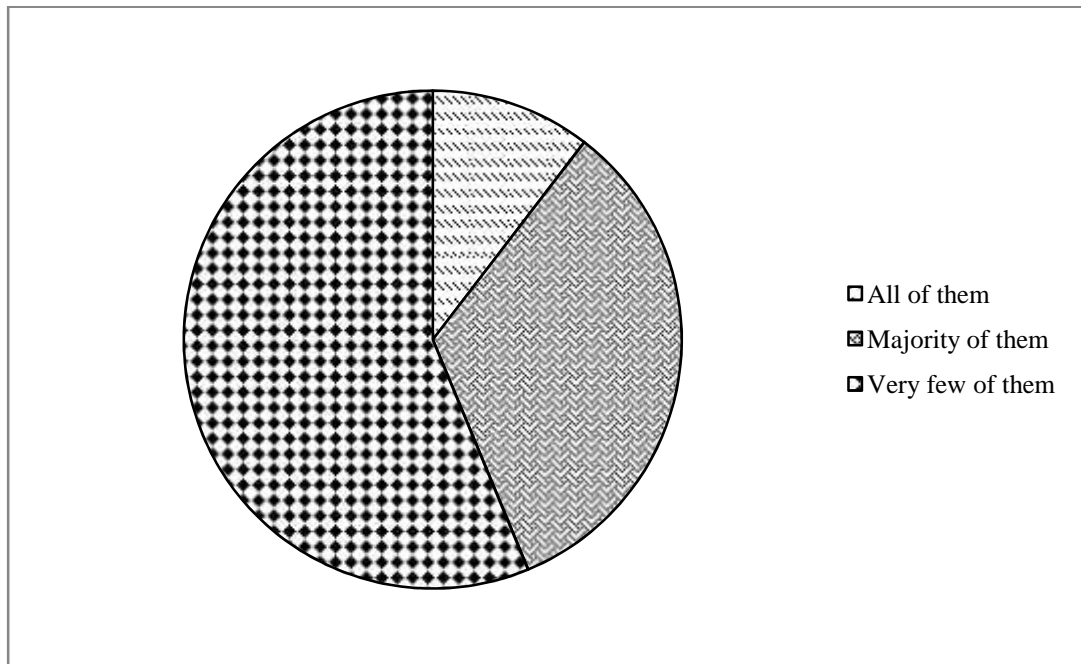
From the above analysis, it is found that most of the investors who want to buy rights share are attracted to increase the value of shares, number of shares and amount of dividend.

4.6.5. Awareness of Nepalese Investors about Rights Issue

Out of total 48 respondents, 10.42 % i.e. 5 respondents said that all the Nepalese investors/shareholders are well aware about the phenomenon of rights issue, 33.33% i.e. 16 respondents said that majority of them are aware about rights issue and 56.25 % i.e. 27 respondents argued that very few of them are well aware about the rights issue.

Figure4.7

Awareness of Nepalese Investors about Rights Issue

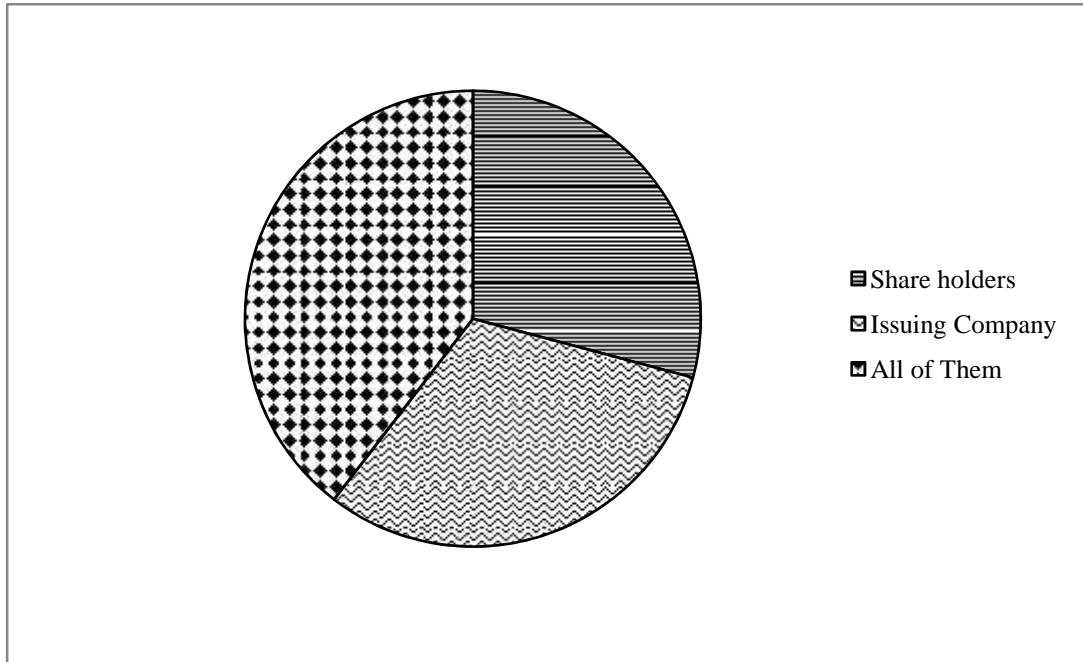


From the above analysis, it can be concluded that very few Nepalese investors are well aware about the phenomenon of rights issue.

4.6.6. Beneficiary of Rights Issue

The major stakeholders of rights issue are shareholders, issuing company and brokers. They all are somehow benefited through rights issue. Shareholders can buy stock at lower price than current market price, issuing company can raise capital at lower cost and of course, brokers earn something as commission. Respondents were asked who benefits the most from rights issue. Out of total respondents, 29.17% i.e. 14 respondents said that shareholders are the benefactors. 31.25 % i.e. 15 respondents said that issuing company benefits through rights issue and 39.58 % i.e. 19 respondents said that all shareholders, issuing company and brokers benefit from rights issue.

Figure no. 4.8
Beneficiary of Rights Issue



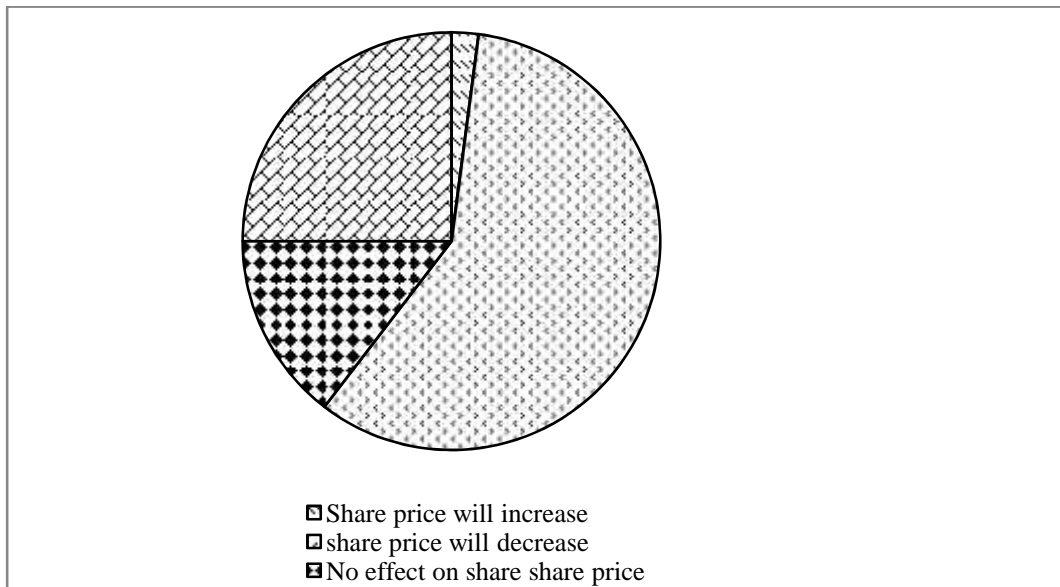
From the above analysis, it can be said that shareholders, issuing company and brokers are all benefited from rights issue.

4.6.7 Impact On Stock Price After Rights Issue

Generally share price increases after the announcement of rights offering till the book- close date. After the book-close date, share price should decrease and theoretically. it should decrease to the extent of value of right. But different opinions of respondents were found regarding the market price of share after rights issue. Among them, 2.08% i.e. 1 respondent said that share price will increase after rights issue. 58.33% i.e. 28 respondents said that share price will decrease after rights issue. 14.58 % i.e. 7 respondents said that share price shows no effect after rights issue and 25 % i.e. 12 respondents said that they don't know the impact on stock price after rights issue.

Figure no. 4.9

Beneficiary of Rights Issue



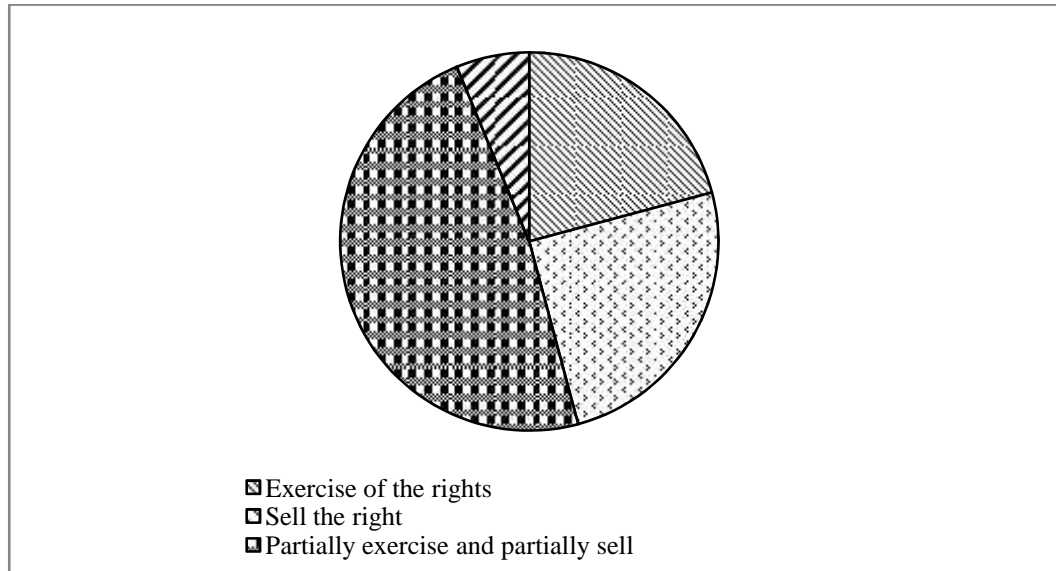
It is clear from the above analysis that share price will decrease after rights issue.

4.6.8. Mostly Preferred Option If Rights Were Transferable

Respondents were asked what the shareholders would prefer to do if rights had been transferable. A mix result has been obtained from the respondents. Among them, 20.83% i.e. 10 respondents said that shareholders would exercise the rights. 25% i.e. 12 respondents say that shareholders would sell the rights, 47.92% i.e. 23 respondents said that shareholders would partially exercise and partially sell the rights, and 6.25% i.e. 3 respondents are unknown about what the shareholders would prefer to do if rights had been transferable.

Figure No.4.10

Mostly Preferred Option if rights were transferable



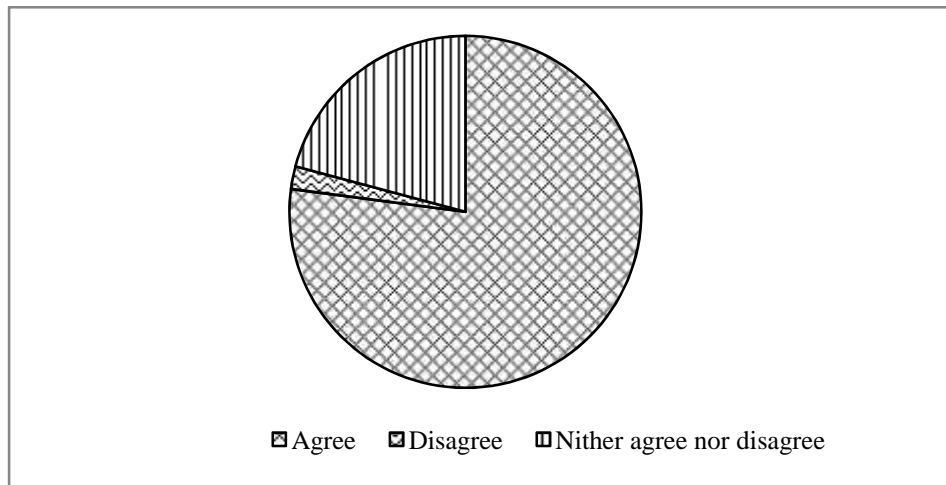
From the above analysis, it can be concluded that most of the shareholders would partially exercise and partially sell their rights if rights had been transferable.

4.6.9. Investors Are Facing Difficulties

Respondents were asked whether they agree or disagree that investors are facing difficulties due to the non-transferability of rights in Nepal. Out of total respondents, 77.08% i.e. 37 respondents agreed that investors are facing difficulties and only 2.08% i.e. 1 respondent disagree with the statement. Remaining 20.83% i.e. 10 respondents neither agreed nor disagreed that investors are facing difficulties due to non-transferability of rights in Nepal.

Figure No.4.11

Investors are facing Difficulties

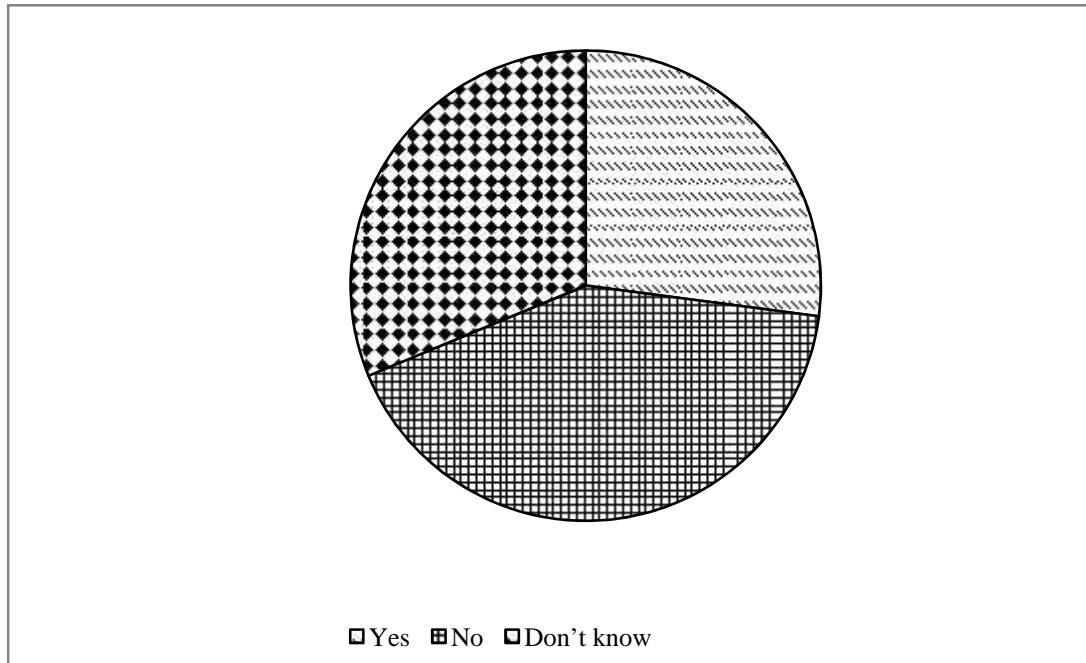


4.6.10. Adequate Information from Company

A question regarding the access of reliable and adequate information for the investors from the right issuing companies are asked to respondents. Among them, 27.08% i.e. 13 respondents say that investors get reliable and adequate information from the company regarding rights share issue whereas 41.67% i.e. 20 respondents said that investors are unable to get such information. Remaining 31.25% i.e. 15 respondents don't know whether investors get adequate information or not.

Figure No.4.12

Adequate Information from Company

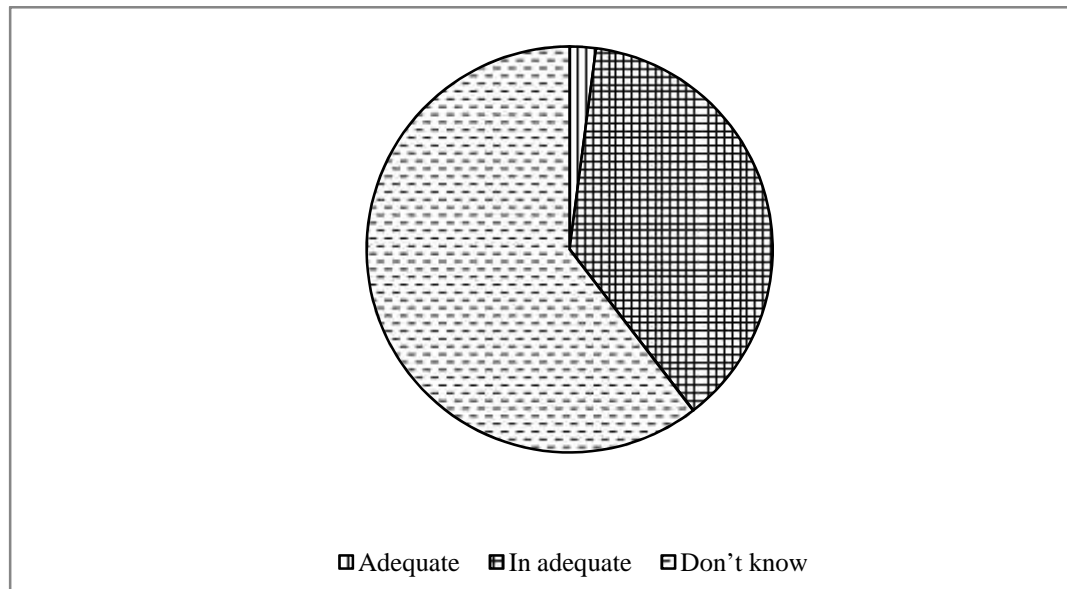


4.6.11. Current Legal Provision

Respondents were asked about the current legal provisions regarding rights issue. Among them, only 2.08% i.e. 1 respondent said that the current legal provision is adequate whereas 37.50% i.e. 18 respondents said that the current legal provision is not adequate regarding rights issue. Remaining 60.42% i.e. 29 respondents are not clear about the current legal provisions regarding rights issue.

Figure No.4.13

Current Legal Provision

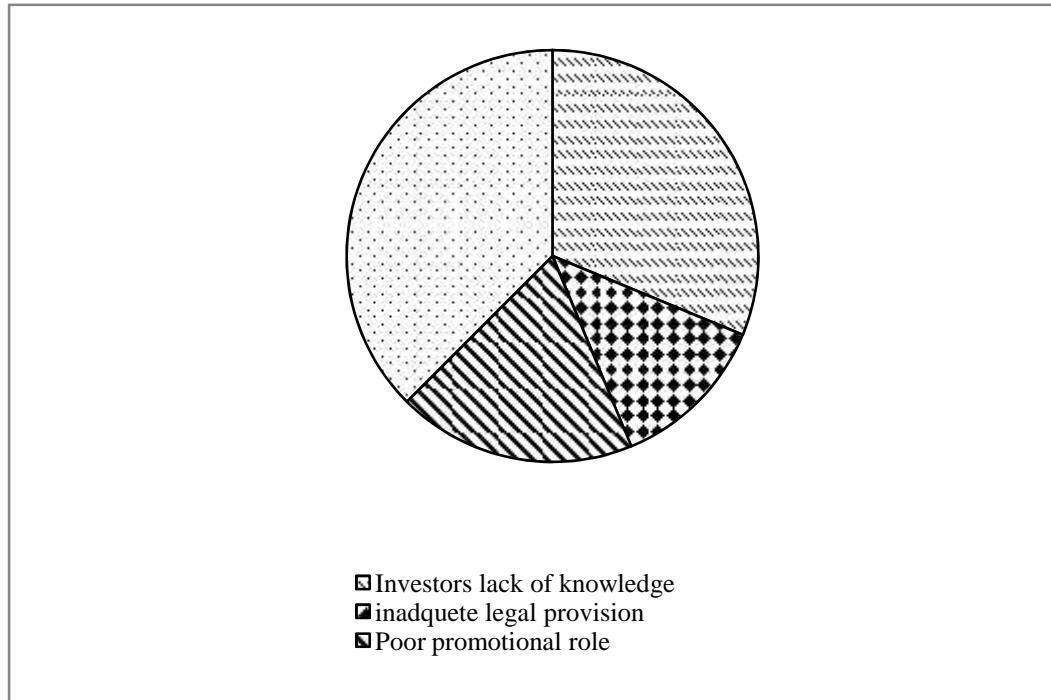


4.6.12. Cause Of Under Subscription of Rights Share

In Nepalese stock market, rights are not transferable in practice though company act has already mentioned this provision. Nepalese company act is also totally silent about the allotment of under subscribed right shares. So no full subscriptions of right shares were found during the rights issue. In response to the question about under subscription of right shares, 31.25% i.e. 15 respondents said that due to lack of knowledge of investors, 12.500/o i.e. 6 respondents said that inadequate legal provision causes under subscription. 18.75% i.e. 9 respondents said that poor promotional role of issuing company causes under subscription and 37.5% i.e. 18 respondents said that the cause of under subscription is the poor performance of the company.

Figure no. 4.14

Cause of Under Subscription of Rights Share



From the above analysis, it is clear that the major causes of under subscription are the poor performance of issuing company and investors' lack of knowledge about rights share.

4.7 Major Findings

From the analysis of both primary as well as secondary data, the researcher finds some findings from the study which are concerned with the issue of rights share and its impact on market price of stock in the Nepalese capital market. The major findings of the study are presented as follows which are correspondences to the objectives of the study:

- Nepalese stock market is dominated by financial sector companies: the participation of the real sector i.e. manufacturing, hotels. Etc. is quite low or negligible.
- Nepalese investors mostly prefer the Banking and Finance sectors' share to invest rather than other sectors because of their better performance and returns.
- Nepalese capital market is narrow in terms of capital market instruments. Only common stock, rights share and to a verity little extent: preference shares, debenture and few mutual fluids are brought into practice. Contingent securities like warrants and convertibles, option and other securities are not brought into practice.
- Rights share practice in Nepal is in increasing trend in recent years. It contributes 68.67% in total public issue till the end of fiscal year 2009/10 which is in the largest position among all other instruments.
- There are 186 cases of right share issues of 112 companies out of 192 listed companies that have issued rights share till the end of fiscal year 2009/10.
- Seti Cigarette Factory Ltd., Nepal United Co. Ltd., Nepal Bank Ltd. Nepal Bikas Bank Ltd. and Necon Air Ltd. are the five companies that have issued rights share and are currently de-listed from NEPSE.
- Most of the right issuing companies are from the banking and financial institutions though entire sector had already issued rights share and Nepal

Share Markets & Finance Ltd. is the company that has issued rights share for 5 times till the date.

- At present, most of the banking and financial institutions are issuing rights share to increase their capital base to comply with the policy directive given by NRB.
- Due to low flotation cost, easy process to collect fund and maintaining control position in management are also the causes to prefer rights share by Nepalese corporate firms.
- The contribution of rights share during the fiscal years 2009/10 is 75.52% in total public issue and Finance Company sector contributed the highest i.e. 46.39 % in total rights issue during the fiscal year.
- In the fiscal year 2009/10, 33 companies issued rights share amounting Rs. 8173.04 million. In the fiscal year 2008/09, 50 companies issued right share amounting Rs. 14263.01 million, which is the highest both in number and amount in the history of Nepalese rights issue.
- In majority of cases, market price of share of sample companies is found decreasing till the date of issued date except of Sagarmatha Merchant Banking and Finance Ltd.
- Theoretically, market price of share should decrease to the extent of value of right on and after book-close date. In majority of cases, share price also decreased after rights issue. But share price of some companies were not found to follow the theory.
- In majority of the cases, MPS after right share is decreased. But some company is not found to be following the rule. MPS of Laxmi Bank Limited, Bank of Asia Nepal Ltd. and Paschimanchal Development Bank Ltd. have increased market price after right share issue.
- In majority of cases, correlation between share prices of sample companies and market index i.e. NEPSE index were found to be positive but the magnitude of correlation were different for different companies. The stock of SMBF has the

highest positive correlation with market index and BOAN has the lowest positive correlation whereas MDBL has negative correlation with market index.

- While examining the result of t-statistics, calculated value of t of most of the sample companies were found to be less than the tabulated value of t at 5% level of significance and 4 degree of freedom which indicates that there is no significant difference between the share prices before and after rights issue. Only tabulated value of SMBF and ILFCO, stock is less than the calculated value of t which implies that there is significant difference in share prices before and after the rights issue.
- Company act has not clearly mentioned the provision of legally transferable instrument called right and the act is not adequate regarding the issue procedure and allotment of right share. There is no clear and easy provision regarding the sell of under-subscribed right shares.
- Investors are unable to get reliable and adequate information from the issuing company regarding the rights issue.
- Very few Nepalese investors are all aware about the phenomenon of rights share and they are ready to buy rights share if their company offers rights share to increase the value of shares, to increase the number of shares and to increase the dividend.
- Lack of provision to make rights transferable which creates difficulties to shareholders.
- Most of the companies are suffering from under subscription of their rights share and the causes of under subscription are poor performance of issuing company. Investors' lack of knowledge. etc.
- Some investors still don't have the knowledge about rights share and large number of shareholders holds small number of shares and they generally ignored rights share.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Right offering has become one of the popular methods of raising long-term funds as per the requirement of targeted capital structure of Nepalese corporate firms. Though Nepalese corporate firms started to issue rights share since the fiscal year 2052/53. The volume of rights issue started to increase only after the fiscal year 2061/62. In current years the practice of issuing rights share in banking and financial institutions is in increasing trend to meet their capital requirement as directed by NRB. As a result some of the Development Banks and Finance Companies are issuing rights share at high ratio as they have operated with low capital. Even some of the financial institutions have issued rights share at high ratio to raise capital required to upgrade their class category. Such issues greatly affect the market price of stock of concerned companies. Till the end of fiscal year 2064/65, 72 companies had issued rights share and there are 103 cases of rights issue of those companies. Nepal Share Markets & Finance Ltd. has issued rights share for 5 times till the date whereas four companies who had issued rights share were already de-listed from NEPSE. Among the listed companies in NEPSE, 7 Commercial Banks, 12 Development Banks, 21 Finance Companies and 3 Insurance Companies had issued rights share of Rs. 6793.56 million in the fiscal year 2064/65 which contribute 63.68% in total public flotation. During the year Finance sector had issued the highest amount of rights share amounting Rs. 3219.07 million that covered 47.38% of total amount of rights issue.

Nepalese Capital Market is narrow in term of capital market instruments, only common stock, right share and to a very little extent; preference shares, debenture

and few mutual funds are brought into practice. Contingent securities like warrants and convertibles, option and other securities are not brought into practice. Nepalese equity market (primary as well as secondary) is dominated by financial sectors companies; the participation of the real sector (manufacturing, hotels etc.) is quite low or negligible.

Rights share contribute, the second largest among various issues to raise the capital of the corporation approved by SEBO/N. The practice of right share issue is in increasing trend per year. The maximum contribution of right offering in total public flotation is 82.84% and minimum is 6.81%. The result of run test is positive, i.e. market price per share before 1 month of right share issue and after right share issue is found to follow randomness in price fluctuation.

5.2 Conclusion

From the analysis of primary and secondary data, we can reach in following conclusions:

- Right offering is still a new and emerging concept for both issuing companies and investors in Nepalese capital market even though its practice is in increasing trend.
- The company act is not adequate regarding the rights share and the existing legal provisions and policies are also not clear. So company act should be amended to make the smooth transactions of rights share.
- Rights have not been negotiable instruments in practice till the date though company act has already mentioned about the transferable rights.
- Shareholders and investors are also not well aware about rights issue and its impact on their wealth position.
- Nepalese stock market is dominated by Banking and Financial sector companies and investors also prefer the stocks of those companies rather than of other sectors because of bonus share and rights share.

- Only share prices of two companies have decreased before book-close date of rights issue whereas share prices of remaining sample companies have increased after book-close date.
- Theoretically share price should increase after the announcement of rights offering till the date of book-close date and decrease thereafter. But the share price movement of all sample companies didn't follow the theory. Share price of two companies didn't show any affect of book-close date and their price remain constant whereas share price of one company increased even after book-close date. Share price movement of remaining companies somehow follow the theory of rights issue.
- Share price should decrease to the extent of value of right on and after book-close date. But share price of only one company decreased by the amount of value of right whereas share price of three companies decreased by greater amount than the value of right and share price of six companies decreased by less amount than the value of right.
- General market trend also influences the movement of market price of stocks.
- Most of the companies are suffering from under subscription of their rights share and the causes of wider subscription are poor performance of issuing companies, investors' lack of knowledge. Etc.

5.3 Recommendations

After analyzing the data obtained from primary as well as secondary sources, the researcher has got various findings. These findings are directly and indirectly related with the rights issue practice, its difficulties and its impact on market price of stock. The researcher has provided some recommendations to concerned personals authorities and regulatory bodies. The given recommendations, if they are implemented properly, will help us to make rights issue more easy, effective and efficient. On the basis of findings, the following recommendations can be made:

- Most of the shareholders are unknown about the rights issue, its benefits and its impact on their wealth position. If they don't have sufficient fund to purchase the additional shares, they let the rights to expire. This will negatively affect their position. So, concerned authorities such as issuing companies, issue managers, SEBON, Nepal Stock Exchange (NEPSE) etc. should organize and launch various programs to increase the awareness about rights issue and its aspects.
- Right issuing companies should also play promotional role for full subscription of rights share because there exists large number of rights share not subscribed by the existing shareholders. They should bring awareness programs to general investors through interaction, advertisements, video conferences, seminars, Trainings, workshops and radio talks.
- Nepalese securities market is heavily regulated and controlled by company act regarding the issue of securities. Company Act 2063 is still not clear about the procedure and mechanism of rights issue though it has mentioned about the transferable right. So it should be amended and should make a clear provision of transferable right. If this amendment is made, the problem of tender subscription will be solved to some extent. It protects the dilution in wealth of shareholders and also enhances the dimension of security market.
- Before the announcement of rights share, an issue prospectus is prepared and circulated to the existing shareholders. But during the analysis it has been found that unrealistic income statement is published. This kind of unrealistic publication misleads the shareholders to irrational decision and they become frustrated if they know the fact. So, SEBON and Office of Company Registrar should approve only to publish realistic prospectus of income statement.
- During analysis, it is found that the share price behavior of all sample companies does 1101 follow the theory of rights issue. One major cause for this is the poor performance of issuing company. So the rights issuing

- company should improve their image to make the shareholders safe and confident.
- Company Act 2063 is not clear regarding the allotment of rights shares which are not subscribed by the existing shareholders. The current practice is to distribute them among the employees of respective companies but this violates the essence of theory of rights share. So company act should be amended to make clear provision regarding the issue of rights share and subsequent allotment of rights share.
 - From the study, it is found that one of the critical factors that affects the share price and subscription is the ex-right date i.e. book-close date. This date is very important as investors who purchase shares on and after that day are unable to purchase additional shares. So, right issuing companies should set the proper book-close date so that every shareholder can purchase the additional shares issued by them.
 - Shareholders and investors also used to rush behind market rumors and purchase shares at high price only to get rights share without analyzing the financial conditions and future prospects of the issuing companies. So investors should be well aware themselves before investing in stocks by analyzing the company in detail.
 -

BIBLIOGRAPHY

BOOKS:

Bradley, R. and Stewart, M. (2000). *Principle of Corporate Finance*. New Delhi: Tata McGraw Hill Publishing Company Ltd.

Brigham, E.F., Gapenski, L.C. and Ehrhardt, M.C. (1999). *Financial Management: Theory and Practice*. New Delhi: Harcourt Asia Pvt. Ltd.

Campsey and Brigham. (1991). *Introduction to Financial Management*. 3rd edition. Dryden Press,.

Cheney, J.M., and Edward, A.M. (1992). *Fundamental of Investment*. New York: West Publishing Company.

Fisher, D.E. & Ronald, J.J. (2002). *Security Analysis and Portfolio Management*, New Delhi: Prentice Hall India Pvt. Ltd.

Gitman, L.J. (1991). *Principle of Managerial Finance*, Singapore: Harper Collins Publications.

Gupta, S. C. (1999). *Fundamentals of Statistics*, New Delhi: Himalaya Publishing House.

Johnson, Hazel (1993). *Financial Institutions And Markets: A Global Perspective*. NY: McGraw Hill,.

Joshi, P.R. (2003). *Research Methodology*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

Kerlinger, Fred N. (1978). *Foundation of Behavioral Research*. (2nd edition). New Delhi: Surjit Publication.

Kothari, C.R. (1994). *Quantitative Techniques*. New Delhi: Vikash Publishing House Pvt. Ltd.

Pandey, I.M. (1999). *Financial Management*. New Delhi: Vikash Publishing House Pvt. Ltd.

Sharpe, W.F., Alexander, G.J. and Baley J.V. (2003). *Investment*. New Delhi: Prentice Hal of India.

Van Horne, J.C. & Wachowicz, M. Jr. (2000). *Fundamentals of Finance Management*, New Delhi: Prentice Hall of India.

Van Horne, James C. (1999). *Financial Management and Policy*. New Delhi: Prentice Hall of India Ltd.

Van Horne, James C. (2002). *Financial Management and Policy*. New Delhi: Prentice Hall of India Ltd.

Weller, Kenneth, J. (1979). Stock Market Guide. *The Journal of Finance*. Vol. IX.

Weston & Brigham (1996), *Essentials of Managerial Finance*, USA: The Dryden Press.

Weston, J. F. & Brigham, E. F. (1987), *Essentials of Managerial Finance*, Orlando: The Dryden Press.

Weston, J.F. and Copeland T.E. (2000), *Managerial Finance*, USA: The Dryden Press.

Weston, J.F. and Copland Thomas E. (1992). *Managerial Finance*. New Delhi: The Dryden Press.

Wolf, H.K. & Pant, P.R. (2005), *Social Science Research and Thesis*

THESIS:

Aryal, Nirmala B. (2003). *Equity Rights Issue; It's Practice and Impact in Nepal, Kathmaudu*. An Unpublished Master's Degree's Dissertation. Submitted to Faculty of Management. TU.

Bhattarai, Mahesh (1995). *Market Efficiency and the Investors: A Study of Nepalese Stock Market*. Unpublished Masters Degree Thesis, Tribhuvan University, Kathmandu

Changbang, Indira (2004). *A Study of Issue of Rights Share and Its Impact on the Movement of Share Price with Reference of Nepalese Capital Market*. An Unpublished Master's Degree Thesis, Shanker Dev Campus, T.U., Kathmandu.

Gautam, Bamsidhar (2001). *An Analysis of Share Price Movement Attributed to Right Offering Announcement*. An Unpublished Master's Degree Thesis, Shanker Dev Campus, T.U., Kathmandu.

Gharti, Padam (2001). *Bonus Share Announcement and Impact on Stock Price of Nepalese Corporate Firms*. An Unpublished Master's Degree Thesis, Central Department of Management, T.U., Kathmandu.

Neupane, Yagya P. (2008). *Study on the Right Share Practice in Nepal and its Impact on Share Price of Listed Companies*. Kathmandu: An Unpublished Master's Degree's Submitted to Faculty of Management. TU.

Paudel, Man Bdr. (2008). *Rights Share Issue Practice in Nepalese Market and Its Impact on Market Price of Share*. An Unpublished Master's Degree Thesis, Shanker Dev Campus, T.U., Kathmandu.

Regmi, Sukhad (2005). *Share Price Behavior in Nepal*. An Unpublished Master's Degree Thesis, Shanker Dev Campus, T.U., Kathmandu.

Vaidya, J. (1999). *Stock Price Movement in Nepalese Capital Market*. An Unpublished Master's Degree Thesis, Shanker Dev Campus, Kathmandu.

ARTICLES & JOURNALS

Hansen & pinkerton(1982). *Right share is a cheaper way of raising additional capital*. *Journal of Finance*

Kyle, Albert S., and F. Albert Wang. (1997). *Speculation Duopoly with Agreement to Disagree: Can Overconfidence Survive the Market Test?* *Journal of Finance*.

Loderer, C. & Zimmermann, H. (1988). *Stock Offerings in a Different Institutional Setting: The Swiss Case*. *Journal of Banking and Finance*. Reinach: Alban Verlag AG. Vol. 12

Marsh, Paul (1980). UK Companies Raise Virtually. *The Journal of Finance*, Vol. XX.

Robert C. and Joseph F. Sinkey, Jr. (1997). *On Competition, Risk, and the Hidden Assets in the Market for Bank Credit Cards,* *Journal of Banking and Finance.*

Sharma, N. H. (1996). *A Relation of Secondary Market and new Issue Market.* Kathmandu: Banijya Sansar, Issue 9, Vol. 14, Central Department of T.U.

Smith, Clifford W. Jr. (1993). *Risk Management in Banking, in Advanced Strategies in Financial Risk Management,* NJ: New York Institute of Finance.

Web Sites:

www.nepalsharemarket.com

www.nepalstock.com

www.sebon.com.np

ANNEXES

Annex-1

Questionnaire

Dear Respondent

This questionnaire is prepared for my research on "Right Share Issues and Its Impact on Market Price of Share : Evidence from Nepalese Market". Which I am doing for the partial fulfillment for the Degree of Master of Business Studies (MBS). I humbly request you to fill it up with the best of your knowledge. Your kind cooperation in this regard will be the fruitful for my study.

I shall be highly grateful for kind response

Thanking you

Devi Prasad Neupane

Shanker Dev Campu

Kathmandu

Name of Respondent:

Designation:

Name of the organization:

Age:

Sex:

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

1. Are you familiar with right issue practice ?

() Yes

() No

2. Do you hold shares of any company ?
 Yes No

3. If yes, do you want to buy rights share if your company offers rights issue ?
 Yes No

4. In your opinion, what is the main purpose that shareholders buy rights share ?
 To increase the value of shares.
 To increase the number of share.
 To maintain control position in management
 To increase dividend
 Other (If any)

5. Do you think that Nepalese investors are all aware of the phenomenon of rights offerings ?
 All of them Majority of them
 Very few of them None of them

6. In your opinion, who is the most beneficiary or rights issue ?
 Shareholders Issuing company
 Broker All of them

7. What do you think about the impact on market price of share after rights issue ?
 Share price will increase
 Share price will decrease
 No effect on share price
 Don't know

8. If rights had been transferable, what would the shareholders prefer to do in your opinion ?

- Exercise the rights
- Sell the rights
- Partially exercise and partially sell the rights
- Don't know

9. Investor are facing difficulties due to the non transferability of rights in Nepal ?

- Agree Disagree
- Nether agree nor disagree

10. Do you think that the investors get reliable and adequate information from the company regarding rights share issue ?

- Yes No Don't know

11. What do you think about the current legal provision regarding rights issue ?

- Adequate Inadequate

12. What do you think the main cause behind under subscription of rights share ?

- Investor's lack of knowledge about it.
- Inadequate legal provision
- Poor promotional role played by the company
- Poor performance of the company
- Other (if any)

13. Do you want to share any expenditure about the rights issue ?

.....

Annex-2

Tabulation of Data from Questionnaire

S.N.	Question and Option	Respondents	
		Number	Percent (%)
1	Hold any shares		
	- Yes	48	
	- No	0	
2	Familiar with rights issue		
	- Yes	47	100
	- No	1	0
3	Desire to buy rights share		
	- Yes	47	97.92
	- No	1	2.08
4	Purpose to buy rights share		
	- To increase the value of shares	13	27.08
	- To increase the number of shares	14	29.17
	- To maintain control position	7	14.58
	- To increase dividend	14	29.17
	- Others	0	0

5	Awareness about rights offering		
	- All of them	5	10.42
	- Majority of them	16	33.33
	- Very few o them	27	56.25
	- None of them	0	0
6	Beneficiary of rights issue		
	- Shareholder	14	29.17
	- Issuing company	15	31.25
	- Broker	0	0
	- All of them	19	39.58
7	Market price of share after rights issue		
	- Share price will increase	1	2.08
	- Share price will decrease	28	58.33
	- No effect on share price	7	14.58
	- Don't know	12	25
8	If rights had been transferable		
	- Exercise the rights	10	20.83
	- Sell the rights	12	25

	- Partially exercise and partially sell	23	47.92
	- Neither exercise nor sell	9	0
	- Don't know	3	6.25
	Investors are facing difficulties		
	- Agree	37	77.08
	- Disagree	1	2.08
	- Neither agree nor disagree	10	20.83
	Investors got adequate information		
	- Yes	13	27.08
	- No	20	41.67
	- Don't know	15	31.25
	Current legal provision		
	- Adequate	1	2.08
	- Inadequate	18	37.50
	- Don't know	29	60.42
	Cause of under subscription		
	- Investor's lack of knowledge	15	31.25
	- Inadequate legal provision	6	12.50

	- Poor promotional role of company	9	18.75
	- Poor performance of company	18	37.50
	- Others	0	0

Annex-3

Correlation Coefficient and Coefficient of Determination between Share Price and Market Index

Variables defined:

x = share price

y = Market index (NEPSE)

r = Correlation coefficient

r^2 = Coefficient of determination

\bar{x} = Mean share price

\bar{y} = Mean index

Table 3.1

NSBL

x	$x - \bar{x}$	$(x - \bar{x})^2$	y	$y - \bar{y}$	$(y - \bar{y})^2$	$(x - \bar{x})(y - \bar{y})$
1720	567.4	321942.76	630.55	89.42	7995.93	50736.91
1627	474.4	205055.36	539.44	-1.69	2.86	-801.74
895	-257.6	66357.76	545.698	4.56	20.79	-1174.66

880	-272.6	74310.76	535.41	- 5.725	32.72	1559.27
641	-511.6	261734.56	454.54	- 86.59	7497.83	44299.44
$\Sigma x = 5463$ $\bar{x} = 1152.6$		$\Sigma (x - \bar{x})^2 = 949401.2$	$\Sigma y = 2705.63$ $\bar{y} = 541.13$		$\Sigma (y - \bar{y})^2 = 15550.13$	$\Sigma [(x - \bar{x})(y - \bar{y})] = 94619.22$

Karl Pearson's Coefficient of correlation

$$r = \frac{\Sigma (x - \bar{x})(y - \bar{y})}{\sqrt{\Sigma (x - \bar{x})^2 \Sigma (y - \bar{y})^2}}$$

$$= \frac{94619.22}{\sqrt{949401.2 \times 15550.13}}$$

$$= 0.7787$$

$$r^2 = (0.7787)^2$$

$$= 0.6064$$

$$t_{cal} = \frac{r \times \sqrt{n-2}}{\sqrt{1-r^2}}$$

$$= \frac{0.7787 \times \sqrt{5-2}}{\sqrt{1-0.6064}}$$

$$= 2.1497$$

t_{tab} at 5% level of significance for 4 degree of freedom = 2.776

Since $t_{cal} < t_{tab}$, the null hypothesis is accepted and hence difference is insignificant.

Table 3.2

Laxmi Bank Ltd. (LBL)

x	x- \bar{x}	(x- \bar{x}) ²	y	y- \bar{y}	(y- \bar{y}) ²	(x- \bar{x})(y- \bar{y})
925	206.2	42518.44	714.4	139.7	19516.09	28806.14
643	-75.8	5745.64	583.1	8.4	70.56	-636.72
600	-118.8	14113.44	562.22	-12.48	155.75	1482.62
676	42.8	1831.84	528.63	-46.07	2122.45	-1971.80
750	31.2	973.44	485.14	-89.56	8020.99	-2794.27
$\Sigma x=3594$ \bar{x} =718.8		$\Sigma(x-\bar{x})^2$ =65182.8	$\Sigma y = 2073.49$ $\bar{y} = 574.7$		$\Sigma(y-\bar{y})^2 =$ 29885.84	$\Sigma [(x-\bar{x})(y-\bar{y})]$ = 24885.97

Karl Pearson's Coefficient of correlation

$$r = \frac{\Sigma (x - \bar{x})(y - \bar{y})}{\sqrt{\Sigma (x - \bar{x})^2 \Sigma (y - \bar{y})^2}}$$

$$= \frac{24885.97}{\sqrt{65182.8 \times 29885.84}}$$

$$= 0.5638$$

$$r^2 = (0.5638)^2$$

$$= 0.3179$$

$$t_{cal} = \frac{r \times \sqrt{n-2}}{\sqrt{1-r^2}}$$

$$= \frac{0.5638 \times \sqrt{5-2}}{\sqrt{1-0.3179}}$$

$$= 1.1823$$

t_{tab} at 5% level of significance for 4 degree of freedom = 2.776

Since $t_{\text{cal}} < t_{\text{tab}}$, the null hypothesis is accepted and hence difference is insignificant.

Table 3.3

Lumbini Bank Ltd.

x	$x - \bar{x}$	$(x - \bar{x})^2$	y	$y - \bar{y}$	$(y - \bar{y})^2$	$(x - \bar{x})(y - \bar{y})$
421	46.2	2134.44	659.94	-4.45	19.80	-205.59
380	5.2	27.04	699.55	35.16	1286.22	182.83
430	55.2	3047.04	717.2	52.86	2794.18	2917.87
327	-47.8	2284.84	678.32	13.93	194.05	-665.85
316	-58.8	3457.44	566.94	-97.45	9496.50	5730.06
$\Sigma x = 1874$ $\bar{x} = 374.8$		$\Sigma (x - \bar{x})^2 =$ 10950.8	$\Sigma y = 3321.95$ $\bar{y} = 664.39$		$\Sigma (y - \bar{y})^2 =$ 13740.75	$\Sigma [(x - \bar{x})(y - \bar{y})]$ =7259.32

Karl Pearson's Coefficient of correlation

$$r = \frac{\Sigma (x - \bar{x})(y - \bar{y})}{\sqrt{\Sigma (x - \bar{x})^2 \Sigma (y - \bar{y})^2}}$$

$$= \frac{7259.32}{\sqrt{10950 \times 13740.75}}$$

$$= 0.6488$$

$$r^2 = (0.6488)^2$$

$$= 0.4209$$

$$t_{cal} = \frac{r \times \sqrt{n-2}}{\sqrt{1-r^2}}$$

$$= \frac{0.6488 \times \sqrt{5-2}}{1-0.4209}$$

$$=$$

t_{tab} at 5% level of significance for 4 degree of freedom = 2.776

Since $t_{cal} < t_{tab}$, the null hypothesis is accepted and hence difference is insignificant.

Table 3.4

Bank of Asia Nepal Ltd.

x	$x - \bar{x}$	$(x - \bar{x})^2$	y	$y - \bar{y}$	$(y - \bar{y})^2$	$(x - \bar{x})(y - \bar{y})$
3900	91.2	3317.44	486.82	32.1	1030.41	2927.52
317	18.2	331.24	419.03	- 35.69	1273.78	-649.56
235	-63.8	4070.44	456.04	1.32	1.74	-111.01
295	-3.8	14.44	478.97	24.25	588.06	-92.15
257	-41.8	1747.24	432.74	- 21.98	483.12	918.76
$\Sigma x = 1494$ $\bar{x} = 298.8$		$\Sigma(x - \bar{x})^2 =$ 14480.8	$\Sigma y = 2273.6$ $\bar{y} = 454.74$		$\Sigma(y - \bar{y})^2 =$ 3377.11	$\Sigma [(x - \bar{x})(y - \bar{y})]$ = 2993.56

Karl Pearson's Coefficient of correlation

$$r = \frac{\Sigma (x - \bar{x}) (y - \bar{y})}{\sqrt{\Sigma (x - \bar{x})^2 \Sigma (y - \bar{y})^2}}$$

$$= \frac{2993.56}{\sqrt{14480.8 \times 3377.11}}$$

$$= 0.4281$$

$$r^2 = (0.4281)^2$$

$$= 0.1832$$

$$t_{cal} = \frac{r \times \sqrt{n-2}}{\sqrt{1-r^2}}$$

$$= \frac{0.428 \times \sqrt{5-2}}{\sqrt{1-0.1832}}$$

$$= 0.8204$$

t_{tab} at 5% level of significance for 4 degree of freedom = 2.776

Since $t_{cal} < t_{tab}$, the null hypothesis is accepted and hence difference is insignificant.

Table 3.5

Paschimanchal Development Bank Ltd. (PDBL)

x	$x - \bar{x}$	$(x - \bar{x})^2$	y	$y - \bar{y}$	$(y - \bar{y})^2$	$(x - \bar{x}) (y - \bar{y})$
780	394.2	155393.64	565.86	65.31	4265.39	25745.20
274	-111.8	12499.24	501.18	0.63	0.40	-70.43
284	-101.8	10363.24	497.24	-3.31	10.96	336.96

289	-96.8	9370.24	497.96	-2.59	6.71	250.71
302	-83.8	6988.96	440.49	- 60.06	3607.20	5033.03
$\Sigma x = 1929$ $\bar{x} = 385.8$		$\Sigma (x - \bar{x})^2 =$ 194615.32	$\Sigma y = 2502.73$ $\bar{y} = 500.55$		$\Sigma (y - \bar{y})^2 =$ 7890.66	$\Sigma [(x - \bar{x}) (y - \bar{y})]$ = 31295.47

Karl Pearson's Coefficient of correlation

$$r = \frac{\Sigma (x - \bar{x}) (y - \bar{y})}{\sqrt{\Sigma (x - \bar{x})^2 \Sigma (y - \bar{y})^2}}$$

$$= \frac{31295.47}{\sqrt{194615.32 \times 7890.66}}$$

$$= 0.7986$$

$$r^2 = (0.7986)^2$$

$$= 0.6378$$

$$t_{cal} = \frac{r \times \sqrt{n-2}}{\sqrt{1-r^2}}$$

$$= \frac{0.7986 \times \sqrt{5-2}}{\sqrt{1-0.6378}}$$

$$=$$

t_{tab} at 5% level of significance for 4 degree of freedom = 2.7716

Since $t_{cal} < t_{tab}$, the null hypothesis is accepted and hence difference is insignificant.

Table 3.6

Annapurna Bikas Bank Ltd. (ABBL)

x	x- \bar{x}	(x- \bar{x}) ²	y	y- \bar{y}	(y- \bar{y}) ²	(x- \bar{x})(y- \bar{y})
387	191.4	36633.96	545.79	38.38	1473.02	7345.93
157	-38.6	1489.96	546.88	39.47	1557.88	-1523.54
153	-42.6	1814.76	489.42	-17.99	323.64	766.37
141	-54.6	2981.16	472.82	-34.59	1196.47	1888.61
140	-55.6	3091.36	482.12	-25.29	639.58	1406.12
$\Sigma x=978$ \bar{x} =195.6		$\Sigma(x-\bar{x})^2 =$ 46011.2	$\Sigma y = 2537.03$ $\bar{y} = 507.41$		$\Sigma(y-\bar{y})^2 =$ 5190.59	$\Sigma [(x-\bar{x})(y-\bar{y})]$ = 9883.49

Karl Pearson's Coefficient of correlation

$$r = \frac{\Sigma (x - \bar{x})(y - \bar{y})}{\sqrt{\Sigma (x - \bar{x})^2 \Sigma (y - \bar{y})^2}}$$

$$= \frac{9883.49}{\sqrt{46011.2 \times 5190.54}}$$

$$= 0.6395$$

$$r^2 = (0.6395)^2$$

$$= 0.4089$$

$$t_{cal} = \frac{r \times \sqrt{n-2}}{\sqrt{1-r^2}}$$

$$= \frac{0.6395 \times \sqrt{5-2}}{\sqrt{1-0.4089}}$$

$$= 1.4406$$

t_{tab} at 5% level of significance for 4 degree of freedom = 2.776

Since $t_{\text{cal}} < t_{\text{tab}}$, the null hypothesis is accepted and hence difference is insignificant.

Table 3.7

Malika Development Bank Ltd.

x	$x - \bar{x}$	$(x - \bar{x})^2$	y	$y - \bar{y}$	$(y - \bar{y})^2$	$(x - \bar{x})(y - \bar{y})$
1116	553.2	306030.24	659.94	-7.3	53.29	-4038.36
456	-106.8	11406.24	699.55	32.31	1043.94	-3450.71
424	-138.8	19265.44	717.2	50.01	2501.00	-6241.39
406	-156.8	24586.24	692.55	25.31	640.60	-3968.61
412	-150.8	22740.64	566.94	-100.3	10060.10	15125.24
$\Sigma x = 2814$ $\bar{x} = 562.8$		$\Sigma(x - \bar{x})^2 = 384028.8$	$\Sigma y = 3336.18$ $\bar{y} = 667.24$		$\Sigma(y - \bar{y})^2 = 14298.93$	$\Sigma [(x - \bar{x})(y - \bar{y})] = -3273.83$

Karl Pearson's Coefficient of correlation

$$\begin{aligned}
 r &= \frac{\Sigma (x - \bar{x})(y - \bar{y})}{\sqrt{\Sigma (x - \bar{x})^2 \Sigma (y - \bar{y})^2}} \\
 &= \frac{-3273.83}{\sqrt{384028.8 \times 14298.93}} \\
 &= -0.0442 \\
 r^2 &= (-0.0442)^2 \\
 &= 0.0019
 \end{aligned}$$

$$\begin{aligned}
 t_{\text{cal}} &= \frac{r \times \sqrt{n-2}}{\sqrt{1-r^2}} \\
 &= \frac{-0.0442 \times \sqrt{5-2}}{\sqrt{1-0.0019}} \\
 &= -0.076
 \end{aligned}$$

t_{tab} at 5% level of significance for 4 degree of freedom = 2.776

Since $t_{\text{cal}} < t_{\text{tab}}$, the null hypothesis is accepted and hence difference is insignificant.

Table 3.8

Sagarmatha Merchant Banking and Finance Ltd. (SMBF)

x	$x - \bar{x}$	$(x - \bar{x})^2$	y	$y - \bar{y}$	$(y - \bar{y})^2$	$(x - \bar{x})(y - \bar{y})$
670	24	576	659.94	-7.3	53.29	-175.2
775	19	16641	699.55	32.31	1043.94	4167.99
754	108	11664	717.2	49.96	2496.00	5395.68
651	5	25	692.55	25.31	640.59	126.55
380	-266	70756	566.94	-100.3	10060.10	26679.8
$\Sigma x = 3230$ $\bar{x} = 646$		$\Sigma (x - \bar{x})^2 = 96662$	$\Sigma y = 3336.18$ $\bar{y} = 667.24$		$\Sigma (y - \bar{y})^2 = 14293.92$	$\Sigma [(x - \bar{x})(y - \bar{y})] = 36194.82$

Karl Pearson's Coefficient of correlation

$$r = \frac{\Sigma (x - \bar{x})(y - \bar{y})}{\sqrt{\Sigma (x - \bar{x})^2 \Sigma (y - \bar{y})^2}}$$

$$= \frac{36194.8}{\sqrt{99662 \times 14293.92}}$$

$$= 0.9590$$

$$r^2 = (0.9590)^2$$

$$= 0.9197$$

$$t_{\text{cal}} = \frac{r \times \sqrt{n-2}}{\sqrt{1-r^2}}$$

$$= \frac{0.9590 \times \sqrt{5-2}}{\sqrt{1-0.9197}}$$

$$= 5.861$$

t_{tab} at 5% level of significance for 4 degree of freedom = 2.776

Since $t_{\text{cal}} > t_{\text{tab}}$. So the null hypothesis is rejected and hence difference is significant.

Table 3.9

International Leasing & Finance Co. Ltd. (ILFCO)

x	$x - \bar{x}$	$(x - \bar{x})^2$	y	$y - \bar{y}$	$(y - \bar{y})^2$	$(x - \bar{x})(y - \bar{y})$
520	243.6	59340.96	629.88	84.35	7114.92	20547.66
200	-76.4	5836.96	517.45	-28.08	788.49	2145.31
242	-34.4	1183.36	554.54	9.01	81.18	-309.94
215	-61.4	3769.96	545.27	-0.26	0.07	15.96
205	-71.4	5097.96	480.49	-65.04	4230.20	4643.86
$\Sigma x = 1382$ $\bar{x} = 276.14$		$\Sigma(x - \bar{x})^2 = 75229.2$	$\Sigma y = 2727.63$ $\bar{y} = 545.53$		$\Sigma(y - \bar{y})^2 = 12214.86$	$\Sigma [(x - \bar{x})(y - \bar{y})] = 27042.54$

Karl Pearson's Coefficient of correlation

$$r = \frac{\Sigma (x - \bar{x})(y - \bar{y})}{\sqrt{\Sigma (x - \bar{x})^2 \Sigma (y - \bar{y})^2}}$$

$$= \frac{27042.54}{\sqrt{75229.2 \times 12214.86}}$$

$$= 0.8921$$

$$r^2 = (0.8921)^2$$

$$= 0.7958$$

$$t_{cal} = \frac{r \times \sqrt{n - 2}}{\sqrt{1 - r^2}}$$

$$= \frac{0.8921 \times \sqrt{5-2}}{\sqrt{1-0.7958}}$$

$$= 3.4195$$

t_{tab} at 5% level of significance for 4 degree of freedom = 2.776

Since $t_{\text{cal}} > t_{\text{tab}}$, the null hypothesis is rejected and hence difference is significant.