

ISSUE & PRACTICE OF RIGHT SHARE IN NEPAL

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RECOMMENDATION

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**ISSUE & PRACTICE OF RIGHT SHARE IN NEPAL**" submitted to Research Department of Shanker Dev Campus, Putalisadak, kathmandu, Faculty of Management, Tribhuvan University is my original work done in the form of a partial fulfillment of the requirement of Masters Degree of Business Studies (MBS) under the guidance and supervision of Prof. Dr. Kamal Das Manandhar, Assisand Den, Faculty of Management, Tribhuvan University.

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TABLE OF CONTENTS

Acknowledgement

Contents

List of Tables

List of Figure

Abbreviations

PAGE NO.

CHAPTER ONE: INTRODUCTION	1-8
1.1 Background of the Study	1
1.2 Focus of the Study	5
1.3 Statement of the Problem	6
1.4 Objective of the Study	7
1.5 Limitation of the Study	9
1.6 Organization of the Study	8
CHAPTER TWO: REVIEW OF LITERATURE	9- 38
2.1 Conceptual Framework	9
2.1.1 Primary Market in Nepal	9
2.1.2 Secondary Market in Nepal	12
2.1.2.1 Nepal Stock Exchange	14
2.1.2.2 over the Counter Market	15
2.1.3 Preemptive Right	15
2.1.3.1 Stock Right	17
2.1.3.2 Characteristics of Stock Right	18
2.1.3.3 Value of Stock Right	18
2.1.3.4 Value of Right on	19
2.1.3.5 Value of Right off	19
2.1.3.6 Basic Investment Strategies	20
2.1.3.7 Effect of RI on Shareholders' wealth position	20
2.1.3.8 Condition to issue Right Share	21
2.1.3.9 Time Period of Right Share	21
2.1.3.10 Right share issue procedure in Nepal	22
2.1.3.11 New Rules & Regulations regarding RS	24

2.2.	Review of Thesis	26
2.3	Review of Books	31
2.4	Statues Regulating Security Market in Nepal	37
2.5	Research Gap	38
CHAPTER THREE: RESEARCH METHODOLOGY		39-42
3.1	Introduction	39
3.2	Research Design	40
3.3	Populations and Sample	40
3.4	Sources of Data	41
3.5	Data Collection Technique	41
3.6	Data Analysis Technique	42
CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS		43-76
4.1	Introduction	43
4.2	Presentation & Analysis of Secondary Data	43
4.2.1	Trends of Primary Market	43
4.2.2	Contribution of Right Share on Total Public Issue	22
4.2.3	Issue Approval Instrument Wise	55
4.2.4	Right Issue in Nepal	56
4.2.5	Sector Wise Right Issue	59
4.2.6	Theoretical & Market Value of Stock	60
4.2.7	Subscription of Right Share in Nepal	63
4.2.8	Regression Analysis	66
4.3	Presentation & Analysis of Primary Data	68
4.4	Problems of Right Share Practice in Nepal	74
4.6	Major Findings of the Study	76
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION		
5.1	Summary	77
5.2	Conclusion	82
5.3	Recommendation	83

Bibliography

Appendix

LIST OF FIGURES

Figure No.	Title	Page No.
1	Trends of Ordinary Shares	46
2	Trends of Right Share	47
3	Trends of Debenture	48
4	Trends of Preference Share	49
5	Trends of Primary Market	50
6	Trends of Primary Market	51
7	Contribution of Right Share on Total Public Issue	54
8	Issue Approval: Instrument wise	56
9	Right Share Issue in Nepal	58
10	Sector wise Right Issue	60

LIST OF TABLES

Table No.	Title	Page No.
1	Trend of Primary Market	11
2	Trend of Primary Market	45
3	Contribution of Right Share on Total Public	53
4	Issue Approval: Instrument wise	55
5	Right Share Issue in Nepal	57
6	Sector wise Right Issue	59
7	Theoretical & Market Value of Stock	61
8	Subscription of Right Share of Sample Companies	64
9	Market Price of Share before RO & after Book Closed	67
10	Regression Analysis	67
11	Information about the Right Share	69
12	Reason to Issue Right Share	69
13	Knowledge of Legal Provision of Right Share	70
14	Legal Provision of Right Share is Sufficient	71
15	Reason for under Subscription of Right Share	71
16	Shareholders get Sufficient & Timely Information	72
17	Announcement of Right Share effect the Price of Stock	72
18	Problem of Right Share Issue	73
19	Nepalese Shareholder Exercise their Right	74

ABBREVIATIONS

AGM	=	Annual General Meeting
B/S	=	Balance Sheet
BOD	=	Board of Director
CB	=	Commercial Bank
CTS	=	computerized Trading System
CTS	=	Computerized Trading System
EPS	=	Earning Per Share
F/Y	=	Fiscal Year
HGI	=	Himalayan General Insurance
IME	=	International Money Express
NEPSE	=	Nepal Stock Exchange
NHC	=	National Hydropower Company
NIDC	=	Nepal Industrial Development corporation
NMB	=	Nepal Merchant Bank
NRB	=	Nepal Rastra Bank
OTC	=	Over the Counter
P/L A/C	=	Profit and Loss Account
PFL	=	Pokhara Finance Limited
SDB	=	Siddhartha Development Bank
SEBON	=	Security Exchange Board of Nepal

1.1 BACKGROUND OF THE STUDY

This is the age of globalization. The globalization made the world a small village so each country has to compete with other countries. In this situation industrialization will help to compete with other countries because in this modern age economy of countries all over the world is driven by industries. Industries require capital in order to operate and register its existence. Capital is the most important part of any organization, which is required for investments. It works as blood of human being providing nutrients and energy to industries for sound operation. Capital is termed as fund raised in current time for future investment. Here investment refers to sacrifice of money now in expectation to get better return in future. Capital can be generated through sources of funds like equity share capitals, preference share capital or debts. For the growth of economic development of a country, capital market is extremely necessary and lack of proper development of capital market cannot pump necessary fund to industrialization process. Capital market plays a crucial and effective role in economy development of a nation. The growth of capital market in a country depends upon the saving available, proper organization of intermediary, to bring the investors and business ability together for mutual interest. Capital market is organized market through which buyers and sellers of long term capital are met and the function of buying and selling takes place. Capital market is such a powerful marketing which gives opportunity to the investors to invest their savings in ordinary shares, debenture and government securities. In the present time for fast industrial growth capital market plays an important role. Nepal is developing countries in which financial market plays an important role for corporate development. The capital market is the place where mechanism in which various kinds of financial instrument are issued, transferred from one person/parties to another person/parties by means of different ways of trading mechanism due to which the group of people who have excess fund, can utilize their funds in the productive sectors and the group of people who needs funds to run their

enterprises can also get funds. This process can help the economy rise to rise up. The effective utilization of the capital resources to the productive sectors is the base of development. So the financial market becomes the most important sector for fostering the different productive activities in the economy. Capital market is a market for long-term securities having maturities greater than one year. A place where long-term lending and borrowing takes place is known as capital market. Therefore the capital market is the market for long-term borrowing and lending, they are vital to long term and prosperity of economy since they provide the channel through which needed fund can be raised. It is mechanism through which public saving are can analyzed to industrial and business enterprises. The key instruments used in capital market are debt, preference stock and bond and convertible issues *Agrawal K.K.; (1997: 420)*

These sources of funds are said to be securities and they are traded in primary and secondary securities market. Here securities market is the place where buyers and sellers of securities are gathered in order to exchange their financial assets. In other words it facilitates the exchange of financial assets by bringing together buyers and sellers of securities. Securities market is divided into primary and secondary market. Primary market is the place where the issuer offers the purchase of security to general public for the first time, while secondary market is the place where security are offered for trading by the investors. The health of the economy is reflected in the two wings of capital market i.e. primary market or new issue market and secondary market. Capital Market refers to the links between lenders and borrowers of the funds, arranging of funds transfer process to seek others benefit. The Capital Market is designed to finance a long term investment i.e. it provides a wide range of investment alternatives of financial assets (i.e. stocks and bonds) .In context of securities market, the capital market consists of various securities such as equity and debt nature. As per debt nature, debt instrument are sold in the market as debt securities, which are issued, by governmental units and corporate bodies. In general, only a piece of paper represents the investor's rights to certain prospects or property and the condition under which he or she may exercise those rights. This piece of paper, serving as evidence of property rights, is called a security. According to Securities Exchange Act 1933" Security means shares, stock, bond, debenture stock issued by a corporate body or a certificate relating to unit saving scheme or group saving scheme issued by any corporate body in accordance with the prevailing laws or negotiable certificate of deposit or Securities

transaction is a major component of the capital market system. Securities market exists in order to bring together buyer and sellers of securities meaning their mechanism are created to facilitate the exchange of financial assets. In the securities market, various security instruments such as common stock, preferred stock, right share, mutual fund\units, bonds and treasury bonds etc are traded. Moreover, Nepal Government has also undertaken measures to reform capital market of the country. The tenth five year plan (2002-2007) has objectives such as developing and expanding securities market as an important source of long- term funds, increasing the depth and breadth of the market, modernization of the Stock Exchange, strengthening institutional capacity of SEBO and CRO establishing Central Depository Systems of securities etc. regarding the capital market development. However, the establishment of Nepal stock Exchange in 1993 can be considered as the most significant step towards the development of capital market in Nepal. The public offering of the shares by Biratnagar Jute Mills Ltd and Nepal Bank Ltd in 1937 can be considered as the first step initiated towards building up of capital market in Nepal. These are the first joint stock industries \enterprises in Nepal. The capital requirement was collected both from government level and private s sector. Introduction of company act in 1964 can be considered to be another step forward as this act empowered the entrepreneurs to incorporate organization by issuing shares. It was true that in the view of the unorganized stock market, Nepal Government had felt the need for stock market before implementing capital market was taken only in 1976. In accordance with a program initiated to reform capital market, Nepal Government converted the securities Exchange Centre in to Nepal.

Nepal Stock Exchange Act 1993, which also has the provision for listing companies in the securities market. The securities Board Nepal was established to regulate and develop the transaction of securities. Likewise Nepal Stock Exchange as the successor of Securities Exchange Centre was established to facilitate the transaction of the stock in its floor through its member intermediaries such as brokers, security dealers and market makers. NEPSE started its organized open-cry system in its floor on 13th January 1994 however, so far for the government securities are not allowed to transact on the floor of NEPSE. Since the restoration of democracy in 1990, Nepal has been consistently pursuing liberal economic policies for the economic development of the

economy of the country. The economic policies adopted in the country are geared towards enhancing the environment for market-oriented economy. Reform programs were initiated in the early 1990s and covered almost all sectors of the economy including trade, investment, fiscal and monetary policies, financial and capital markets. Appropriate financial reforms, initiated since mid 1980s and expedited in the 1990s, have encouraged many commercial and joint venture banks as well as finance companies to open up. The policy of economic liberalization has also been instrumental in creating a favorable environment for private sector participation in the management of economy. *Joshi Padam; (2006:35)*. The growth of Commercial Banks is very rapidly increased in Nepal. At the end of the Mid January 2008, Twenty Five Commercial Banks, Fifty Seven Development Banks and Eighty Three Finance Companies are operated in Nepal. Out of them Twenty Commercial Banks are already issued Ordinary Shares among the general public. Nepal Rastra Bank issues the policy, directives to the commercial banks and financial institutions to control, supervision in Nepal.

In the current monetary policy of Nepal Rastra Bank, Rs. 200 Millions are required to establish Commercial Bank in Nepal. Similarly, to establish Development Bank required Rs. 10 Million to Rs. 64 Million and for Finance Company required amount is Rs. 10 Million to Rs. 30 Million minimum capital required. There are many financial instruments, mainly three types of shares- Ordinary, Right, Bonus and two types of bonds- Corporate and Government are issued in the Nepali Primary Market. Ordinary Shares, Right Shares and Bonus Shares are heavily issued in Nepalese Share Market. Preference Share, Debenture and Mutual Fund not more issued in Nepalese Share Market. A large portion of the Nepalese Share Market covered by Common Stock, it is more popular instrument to raise funds from the public in Nepal. Mainly, Commercial Banks, Development Banks and Finance Companies issued large number of share in Market. Especially Commercial Banks and Development Bank's share are more popular among the Nepalese Investors because of quick incensement of market price of Bank's share rather than divided. Beside Common Stock, Right Share and Bonus Shares are also highly issued in Nepalese Share Market. Almost all Banks and Financial Institutions have been issuing Right and Bonus Shares, after they received directives from the Nepal Rastra Bank to double their paid-up capital at the end of B.

S. 2070. So the listing of the bonus and rights shares of existing companies has also risen.

Attraction to investment in securities due to the low rate of interest on deposits, lack of alternative investment opportunities in the economy and increasing investment in the share of financial institutions on the expectation of likely increase in profit and value of the share of these institutions in future accounted for the increase in NEPSE index in the review year. Similarly, the restoration of peace, improvement in the financial performance of the listed companies and most importantly, the directive that the Central Bank gave to banks and financial institutions on 26 March 2007 to double their paid-up capital also contributed to a remarkable increase in share prices and subsequently the stock market indices.

1.2 FOCUS OF THE STUDY

Securities Markets provide an effective way of procuring long term funds by issuing Shares and Debentures or Bonds for commercial banks and financial institutions. And at the same time provide investment opportunity for individuals and institutions. The activities of buying and selling securities in the securities markets are extremely important for the allocation of capital within economies. The Nepalese financial sector is composed of banking sector and non-banking sector. Banking sector comprises Nepal Rastra Bank (NRB) and Commercial Banks. The non-banking sector includes development banks, finance companies, micro-credit development banks, co-operative financial institutions, non – government organizations (NGOs) performing limited banking activities and other financial institutions such as insurance companies, employee’s provident fund, citizen investment trust etc. During the last two and half decades the number of financial institutions has grown significantly.

At the beginning of the 1980s there were only two commercial bank and two development banks in the country. After the induction of economic liberalization policy, particularly the financial sector liberalization, that impetus in the establishment of new bank and non-banks financial institutions. Consequently, by the end of mid-Jan 2008 altogether 235 banks and non-banks financial institutions licensed by NRB are in operation. Out of these, 23 are “A” class commercial banks, 58 “B” class development banks, 79 “C” class finance companies, 12 “D” class micro-credit development banks.

In Nepal, the major constituent of the securities market is the commercial banks and Financial Institutions. After the establishment of one year they can issue ordinary shares to raise required fund from the general public. According to this provision many commercial banks, development banks and financial institution issued ordinary shares in Nepalese Capital Market. The Central Bank's direction date 26 March 2007, to double paid up capital for banks and financial institutions helps to increase large volume of Right Shares to raise their paid-up capital from the market. From the FY 2004/05 the amount of Right share increased tremendously. The amounts of Right shares are more than Ordinary Shares. Mostly Commercial banks, Development banks and Financial Institution issued Right shares heavily. Right share is taken as major instrument to raise capital for the further development and expansion. The main focus of this study is to examine the issue and practice of Right Share in Nepal and new laws and provision regarding Right shares.

1.3 STATEMENT OF THE PROBLEM

Right offering announcement by a company serves good news to the existing shareholders. A shareholder whose name is in the company book before recorded date is entitled to have a proportionate number of new shares at a below market price. A right issue increased the supply of a company's share, will have a depressing effect on the share price, When a company sells securities by subscription it gives information to all its investors. To the effective date of record (when the books are closed as the ownership of the stock) an investor has three possible course of action with respect to right. (a) Exercise the right (b) Sell the rights (c) Do nothing – let the right expire

(a) Exercise the right: - Subscribe for new share if the existing shareholder has sufficient cash resources to buy new shares, and if he feels the company will use the money to rise in a profitable way then he should take the right.

(b) Sell the rights: - The new shares are cheaper than the current market price and both new and old shares will rank equal footing when the formalities have been completed. If shareholder does not want to exercise his/her right, he/she can sell his own right fully or partially to third person. But one right can sell only one person not more than one person

- (c) Do nothing- let the right expire: - When shareholder neither subscribes nor sells his rights. It reduces the wealth of shareholder.

Theoretically after announcement of the right share, stock price of the company should be increase and after exer

cising the right share, stock price of the company should be decrease by its value of the right. Stock price movement is not similar among all the Banks listed in the Nepal stock Exchange who have practices the right shares. The process of Rights Share issue is lengthy and complicated in Nepal. To issue the right share, company should take the permission from SEBON, NEPSE & NRB. Company can not issue their rights shares directly so they issue their shares through issue manager.

Here are some specific problems, which are desire to research.

- a. To analyze the growth of Right Share market in Nepal.
- b. To examine issuing procedure of Right Share in Nepalese Capital Market.
- c. To identify the major problems confronting at issuing of the Rights Share in Nepalese Capital Market.

1.4 OBJECTIVE OF THE STUDY

The main objectives of this study are as follows:

- (a) To analyze the growth of Right Share market in Nepal.
- (b) To examine issuing procedure & new laws, provision regarding Right Share in Nepalese Capital Market.
- (c) To identify the major problems of Right shares in Nepalese Capital Market.

1.5 LIMITATION OF THE STUDY

There are some limitations of the study which are described as below:

- (a) Basically the whole study based on the secondary sources of data. Validity of the study depends upon these data.
- (b) This study will cover the relevant data from Fiscal Year 1993/94 to 2007/08.
- (c) Non availability of sufficient resource is also one limitation of the study.
- (d) Time and money are another limitation of the study.

1.6 ORGANIZATION OF THE STUDY

The organization of the study can be classified into five chapters. Each chapter is describing below:

Chapter One: Introduction

Chapter Two: Review of Literature

Chapter Three: Research Methodology

Chapter Four : Presentation and Analysis of Data

Chapter Five: Summary, Conclusion and Recommendation

The First Chapter is Introduction which provides an overall description of the study to be carried out. It includes Background of the study, statement of the problem, Focus of the study, Objective of the study, Limitation of the study and Organization of the study.

Chapter Two is Review of Literature. Review of literature has mainly two parts. One is conceptual framework and other is review of related studies. This chapter includes conceptual reviews of Security Market, Primary & Secondary Market, Right Share and Procedure of Right Shares issue and Reviews of previous studies.

Chapter third represents the Research Methodology. It gives the idea of research design, information of the population and samples used for the study purpose, method of data collection procedure, Data collection tools and techniques of analysis.

Chapter Four is Analysis and Interpretation of Data. This Chapter includes Analyzes of the data, Figures of the Table & Graphs and Interpretation of the data.

Chapter Five is Findings, Conclusion & Recommendation. This chapter includes Reports finding that are related to the purpose of the study, Summarize the finding, Conclusion of the study clearly and Recommendation for future study that are realistic and applicable.

Review of literature means reviewing research studies or other propositions in the related area of the study so that all the past studies, their conclusion and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research work. (*Joshi P. R.; 2002: 89*). The review of literature has been described in four sections. Section 1 presents a discussion on the conceptual framework. Review of relevant studies has been discussed in Section 2 and presented research gap in section 3.

2.1 CONCEPTUAL FRAMEWORK

Capital Market plays a crucial and effective role in economy development of a nation. The health of the economy is reflected in the two wings of capital market i.e. primary market or new issue market and secondary market.

2.1.1 PRIMARY MARKET IN NEPAL

The term Primary Market is used to denote the market for the original sale of securities by an issuer to the public. Primary Market is a place where companies sell securities for the first time. All securities, whether in money or capital markets are initially issued in the Primary Market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefits from an issue. The issue of securities in the primary market leads to direct transfer of money from savers to the issue of the securities. Securities available, which are first time, offered through the primary securities markets. The issuance may be the brand new companies or one that has been in business for many years.

The securities offered might be the new type for the issuer and additional amount of securities used frequently in the post. The key is that these securities absorb new funds for the cover of the issuer. Primary market are distinguished by the flow of funds between investors as in the secondary markets, participants in the primary market buy

their assets directly from the source of the assets. Once the assets or securities are sold in the primary market, they begin trading in the secondary market. Thus, the Primary Market transfers the funds from savers to investors to make the capital available for investment in productive assets or retirement of debt. Following are the procedure of issue securities in Primary Market.

(a) Private Placement

If issued securities are not selling to the general public but fully or partially unit sell to the limited persons or Organizations is called Private Placement. In Public Offering Organizations must fulfill various legal formalities to go with public. They publish vital information about the organizations such as organization's future plan, policies, strategy, its opportunities and challenges etc at the national newspaper. So the organization who does not want to publish such type of vital information to the public and formalities, they choose or give priority to Private Placement.

(b) Public Offering

In Public Offering any persons or Institutions can buy securities. At Public Offering, the organizations must fulfill some legal formalities to go with public. They must publish their vital information like their goals, futures plan and policies, opportunities and challenges etc. at the national newspapers. They openly announce to the general public to buy securities. After Public Offering securities are listed on Secondary Market. Investors subscribe to new issues only if they are hopeful being able to sell at a profit at some time in the future so it is better than Private Placement.

(c) Right Offering

Right Offering gives the current shareholders the first option to purchase any new shares issued in proportions to their current holding shares. Right Offering enables current owners to maintain their proportionate shares of ownership and control of the business.

The Primary Market is a financial market where shares and bonds are issued. Though there are many financial instruments, mainly three types of shares- Ordinary, Right, Bonus and two types of bonds- Corporate and Government are issued in the Nepali Primary Market. There are three parties involved in primary market of securities in Nepal. They are (i) Securities Issuing Companies/Government (ii) Securities Buyer (investor) (iii) Issue Managers performing the function of merchant bank. The Government and Public Limited Companies issue securities. General public, for profit and non profit organization are the buyers/investors of securities and finance companies licensed to carry out merchant banking activities (work as manger of issue) in Nepal. Before the establishment of the securities Exchange Center in 1976, there was no institutional arrangement to undertake and to manage the new issue of securities. A public limited company could make public offering according to the provision of the Companies Acts. The establishment of securities Exchange Center in 1976 (later converted into Nepal Stock Exchange Limited) the enactment of Securities Exchange Act in 1983, the constitution of Securities Exchange Board of Nepal are important milestones in the development of primary market in Nepal. (*Joshi Padam ; 2006:45*). The glimpse of the trend of primary market during 2002/03 to 2007/08 is presented below.

Table No.1
Trend of the Primary Market
During FY2002/03 to 2007/08

(Rs. in Million)

Fiscal year	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Issue Approval	853.83	1547.79	1270.31	2547.87	2757.50	4736.40
a) Ordinary Share	551.5	755	300.89	456.42	290.254	632.65
b) Right Share	162.24	429.92	669.42	1241.45	1817.25	6281.03
c) Preference Share	-	-	-	-	400	-
d) Debentures	-	300	300	850	250	2650
f) Mutual Fund	140	62.89	-	-	-	-

Sources: www.sebonp.com.np: Annual Report 2002/03- 2007/08

2.1.2 SECONDARY MARKET IN NEPAL

Secondary Market is the place where already issued shares are traded among investors, is called secondary market. Nepal Stock Exchange (NEPSE) is the only one organized exchange to carry out secondary market operation of corporate securities in Nepal and NEPSE also started the Over the Counter (OTC) Market from 4th June 2008. After the investment banker's distribution is completed, the securities are traded in secondary markets. Secondary Market provides liquidity to the securities and ensures continuous price formation. The secondary financial market is the markets where many already outstanding financial assets are traded from old to new owners. The secondary market provides liquidity for financial assets making them more attractive. So secondary market is a place where the securities once sold are purchased and repurchased is operated by security exchange center. Security Exchange Center in order to promote the market, used to support the market even involving itself in buying and selling activities of necessary (*Pradhan S.; 2002:22*).

If investor's couldn't resell securities readily they would be hesitant to acquire them and such reluctance would reduce the total quality of funds available to finance industry and government. Those who own securities must be assured of a fast, fair, orderly and open system of purchase and sell at know prices. Stock Exchange refers to the association, organization or body of individuals whether incorporate or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities. On the market, the main operators are the market makers who trade in a group of share, and the stock brokers who act as agents for their clients, who are the investors who are actually buying and selling shares. In order to benefit from the securities markets, the corporate bodies should have listed the securities in the stock exchange. The companies, which have listed in their securities on the stock exchange, are known as listed companies. This means only the securities of listed companies are traded on the trading floor of the stock exchange. Section 8 of securities exchange Act 1983 has laid down the provision of compulsory listed of securities before trading on the stock exchange. It means no securities can be traded with out listing.

The securities market involved in both primary and secondary market of securities till 1983, later converted into stock exchange (NEPSE) according to securities exchange Act 1983, is providing a wide spectrum of secondary market services to the verities of organization so as to pare the way for the economic development in the country. Besides this, to safeguard the interest of the shareholders the stock exchange board as designed by the act is performing the roles. The history of securities market began with the flotation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Center (SEC) Ltd. in 1976 was other significance development relating to capital market. SEC facilitates and promotes the growth of capital markets. SEC was converted into Nepal Stock Exchange (NEPSE) in 1983. It is non-profit organization, operates under Securities Exchanges Act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities. NEPSE opened its trading floor on 13 January 1994. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation (NIDC) and members are the shareholders of the NEPSE. It has adopted an “Open Out- Cry” system. (*Bhattarai Rabindra; 2006:40*). It means transactions of securities are conducted on the open auction principle on the trading floor. At present, 135 companies have been listed their securities to make them eligible for trading during the fiscal year 2062/63. Besides these 24 brokers, 9 issue managers, 2 securities dealers and 1 stock exchange are playing role in the Nepalese Securities Market. Classification of securities markets in Nepal is based on issuance and maturity of the securities traded. Based on issuance of securities, there are primary market and secondary market. The stock exchange is one of the forms of secondary market where the shares of listed companies are transferred one hand to other mobilizing the funds to finance the productive sectors. It creates and enhances liquidity in the securities. The Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets.

2.1.2.1 NEPAL STOCK EXCHANGE

The history of Nepal Stock Exchange abbreviated as NEPSE extends back to 1976 when the government established Securities Marketing Center in 1976. It was later converted into Securities Exchange Center. In earlier years of its establishment the Center confined its activities in trading government securities. It started listing and trading corporate securities in November 1984. Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before its conversion into Nepal Stock Exchange, it was the only capital market institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. The Center was converted into Nepal Stock Exchange in 1994 with the

basic objectives of imparting free marketability and providing liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as brokers, market makers etc and it is a non profit organization, operating under Securities Exchange Act 1983. NEPSE opened its trading floor on 13th January 1994 through licensed members. It is owned by Nepal Government, Nepal Rastra Bank, Nepal Industrial Development Corporation and the member of the Exchange. The authorized and issued capital of the Exchange is Rs.50 Million, out of which Rs.34.91 Million is subscribed Nepal Government, NRB, NIDC and member of the Exchange have subscribed 58.67 percent, 34.60 percent, 6.13 percent and 0.60 percent of the subscribed capital respectively. The members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 27 member brokers operating on the trading floor as per the Securities Exchange Act 1983, rules and by-laws of the exchange. Besides this the NEPSE has also licensed dealer for primary and secondary market. The primary market dealer operates as a manager to the issue and underwriter whereas the secondary market dealer operates as a portfolio manager. Presently, the NEPSE has licensed 11 dealers for primary market and 2 dealers for secondary market. (*Bhattarai Rabindra; 2006:40*).

2.1.2.2 OVER THE COUNTER MARKET (OTC)

A network of brokers and dealers who deals or negotiates for their own accounts with each other without any central location is called OTC Market. All securities transactions not taking place on the organized exchange are considered Over the Counter transactions. NEPSE stated the over the Counter (OTC) Market from 4th June 2008 to give shareholders a chance to sell the shares of companies that are de-listed and that are not listed on NEPSE for failing to meet the listing criteria. The shares of 38 companies can now be traded in the OTC Market. In the OTC Market one does not have to go to brokers to trade shares. One can come to NEPSE and trade, paying commission of 2% for transaction of up to Rs.25000, 1.5% for transaction of above Rs.25000 but under Rs.500000 and 1% for transaction of over Rs.500000. (www.nepalstockexchange.com: NEPSE News letter)

2.1.3 PREEMPTIVE RIGHT

Preemptive Right is a special benefit receives only ordinary shareholders. If organization/company issues new shares after its operations and gives the first opportunities to the existing shareholders to purchase shares then it called the preemptive Right. On this provision the existing shareholders receive the opportunities to purchase new shares in old ratios. The Preemptive Right gives the current shareholders the right to purchase any new shares issued in proportion to their current holdings. When the preemptive right granted, the preemptive right enables current owners to maintain their proportionate share of ownership and control of the business. (*Thapa K. & Gautam R.R.;2061:4.3*). The purpose of this provision is to protect shareholders against a loss of voting control and a dilution in the value of their share. It also prevents the sales of shares at low price to new stockholders which would dilute the value of the previously issued shares.

If new shares are distributed or sale to the new shareholders, the number of new shareholders are increased so the existing shareholders are in minority position in

voting. Similarly, after the sales of new shares, the market price of share, total income and dividend does not increase. Only the number of shares is increased so the existing shareholder's Earning per share (EPS), income and dividend are decreased. For this reason the provision of preemptive right are maintain to protect the existing shareholders from the reduction of EPS, dividend and control of the business. Right offering is the main means to distribute new shares to the existing shareholders in preemptive right.

Under right existing shareholders receive opportunities to purchase additional shares at predetermine time and predetermine subscription price. Under this provision each shareholders receives a right certificate and with the help of this certificate existing shareholders can purchase new shares at subscribed price and proportion. Each stockholder is issued an option to buy a certain number of the new shares; the term of such the option contained on a piece of papers is called right. Each stockholder receives one right for each share of stock owned.

Right allow existing common stock shareholders to acquire a proportionate share of a new issue of common stock. If stockholders are protected with a preemptive right, a right offering satisfied this requirement. The use of rights may also benefit the corporation because of the ease of distributing the new stock issue and lower flotation cost. Rights are usually transferable or marketable the stockholder who receives the rights can either exercise them or sell them. A Preemptive right gives existing stockholders the first option to purchase a proportionate interest in a new issue of a corporation's stock. The purpose of this provision is to protect stockholders against a loss of voting control and a dilution in the value of their share. The preemptive right is usually satisfied by the use of a right offering.

A Right Issue has the following effects on the price of a stock:

- Share capital gets increased according to the right issue ratios.
- 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 right shares.
- Company gets better cash flow which may be used to improve the business and may help increase effective earning per share.

A right issue is offered to all existing shareholders individually and may be rejected, accepted in full or accepted in part. Right are often transferable, allowing the holder to sell them on the open market. A right to a share is generally issued on a ratio basis (e.g. one-for-three right issue). Because the company receives shareholder's money in exchange for shares, a right issue is a source of capital. To issue Right the financial manager has to consider:

- Subscription price per new share
- Number of new shares to be sold
- The value of Right
- The effect of right on the value of the current share
- The effect of right to existing and new shareholders

Right Issue versus Public Offerings

- A right issue, in comparison with a public offering, is likely to be more successful because it is made to investors who are familiar with the operations of the company.
- Since the right issue is not underwritten, the floatation costs of right issue are significantly lower than those of a public offering.
- Under right offering issue price (subscription price) is set lower than the issue price of public offering. As a result number of total shares outstanding increases under right issue which may causes dilution in EPS. (*Thapa K. & Gautam R.R.;2061:4.9*).

2.1.3.1 STOCK RIGHT

Right allow existing common stock shareholders to acquire a proportionate share of a new issue of common stock. If stockholders are protected with a preemptive right, a rights offering satisfied this requirement. The use of rights may also benefit the corporation because of the ease of distributing the new stock issue and lower flotation

from the day that the Board of directors announces the right offering until approximately four days prior to the date of record, the rights are traded with the shares of stock or right-on.

2.1.3.4 VALUE OF RIGHT ON;

During the rights –on period rights are included when the stock is traded, so their value is reflected in the market price of the stock. The value of right can be calculated as

$$V_{on} = \frac{M1 - S}{N + 1}$$

Where, V_{on} = Value of right, right- on

$M1$ = Market price of the stock with rights

S = Subscription price per share for new share of stock

N = No. of right needed to purchase one new share of stock

2.1.3.5 VALUE OF RIGHTS OFF:

When the stock begins trading rights- off, the owner has a two part investment (1) one share of stock (2) the right. The right is then traded in the same market as the common stock. Unless other factors change the market price of the stock, the two should theoretically add to the value of the stock rights on. The new price of the stock can be calculated as:

$$M_{off} = \frac{M1N + S}{N + 1}$$

$$M_{off} = M1 - V_{on}$$

The theoretical value of the right in the rights-off period can be calculated as

$$V_{of} = \frac{M_{off} - S}{N}$$

When the right is separated from the stock, the value of the stock should always decrease by the value of the right.

2.1.3.6 BASIC INVESTMENT STRATEGIES

Subsequently to the effective date of record (when the books are closed as to ownership of the stock) an investor has three possible courses of action with respect to right,

(a) Exercise the Right: - Subscribe for new share if the existing shareholder has sufficient cash resources to buy new shares, and if he feels the company will use the money to rise in a profitable way then he should take the right.

(b) Sell the Rights: - The new shares are cheaper than the current market price and both new and old shares will rank equal footing when the formalities have been completed. If shareholder does not want to exercise his/her right, he/she can sell his own right fully or partially to third person. But one right can sell only one person not more than one person

(c) Do nothing – let the Rights Expire: - When shareholder neither subscribes nor sells his rights. It reduces the wealth of shareholder

2.1.3.7 EFFECT OF RIGHT ISSUE ON SHAREHOLDERS' WEALTH POSITION

Stockholders have the choice of exercising their rights or selling them. If they have sufficient funds and want to buy more shares of the company's stock, they will exercise the rights. If they do not have sufficient money or do not want to buy more stock, they will sell the rights. In either case, provided that the formula value of the rights hold true, stockholder will neither benefit nor lose by the rights offering. A

stockholder may suffer a loss if he forgets to exercise or sell his rights or brokerage cost of selling the rights are exercised. Wealth position of the shareholders can be calculated as follows. (*Thapa K. & Gautam R.R.;206:4.6*).

(a) When all Rights are exercised.

Wealth Position = P_e (No. of old shares + No. of new share) – (Subscription Price × No. of new shares) + Cash Balance (if any).

(b) When all Rights are sold.

Wealth Position = P_e (No. of old shares) + (V_r × No. of rights sold) + Cash.

(c) When some Rights are sold and some are exercised.

Wealth Position = P_e (No. of old share + No. of new share) + V_r × No. of right Sold – P_s × No. of new share purchased + Cash.

(d) When all Right Discards.

Wealth Position = P_e (No. of old shares) + Cash.

2.1.3.8 CONDITION TO ISSUE RIGHT SHARE

The following condition must be fulfilled by the company to issue Right shares who has already issued ordinary shares.

- The par value of already issued shares must be paid before issue right shares.
- Only one Right share issue can be done by organized institutions within one FY and the firms will not be able to issue another right share before one hundred eighty days of the prior issuance of Right shares.
- Before issue Right share to the existing shareholders, the owners of organized institutions first must deposited amount of Right shares they have to receive. But if the owner does not want to purchase Right shares, including this information they can open to the shareholders.

2.1.3.9 TIME PERIOD OF RIGHT SHARE

The time period of Right shares issue is minimum Thirty Five days. It means within Thirty Five days application form of Right shares are accepted. If all Right shares are not sales within Thirty Five days giving this information to Security Board, the time period may be extend for maximum Sixty days. (*Securities Issue Guidelines 2065*)

2.1.3.10 RIGHT SHARE ISSUE PROCEDURE IN NEPAL

- Before issue right shares, the company must approved by its shareholders to issue right shares from its AGM.
- After approved by its AGM, the company must take permission from SEBON and NRB (only for banks and financial institutions) to issue right shares. For this, company requires various documents which are approved by AGM.
- After receiving the permission from SEBON and NRB to issue right shares, the company appointed a issue manger who work on behalf of the company regarding right shares.
- After appointed issue manger, they published a notice about book closure date on the national newspaper openly. Only those new shareholders receive right share that purchase shares before book closure date. Generally, the time period of book closure date is seven days.
- The next step is to publish another notice at newspaper details about right shares. According to Securities Registration & Issue Regulation 2065, it is compulsory to issue this information openly to the general public. Following information are provided on the notice. Company's name, registration office, place where transaction to be held, short introduction of the company and its objectives, capital structure of the company, capital structure before and after right share issue, founder's name, address and no. of shares obtain by founder, no. of right shares to be issue & its ratio, general assembly decision related with right share issue and date. Similarly,

introduction of BOD, structure of BOD, minimum no. of shares to be purchase and advance amount paid with application form. Provision relating with remaining shares which are not sell during right share issue, provision regarding right shares purchase more or less than ratios, company's past and future 3 years financial prospectus with net worth.

Share allotment related provision, place and time where company's prospectus, regulation, last year audited B/S, P/L A/c and auditor's statement to see, provision regarding share listing, any statement if there is any dispute which affect the performance of the company, guidelines which follow by shareholders to purchase right shares, provision about right transfer, experts and issue manager's name, address who prepare Right Share related provision and prospectus. Similarly, objective to issue right share, time period to sales right share, places where right share issue related provision and prospectus can see and the places where application form and money deposited. Company announcement to follow direction according to acts and regulations, last 3 years maximum, minimum and final market price and no. of transaction and finally issue manger's announcement

- In next Step Company openly publish a notice about right shares sales. In this notice right shares issue open date, its closing date, no. of right shares issue, new share's ratios, form collection center and issue manger's name, address and A/c number are define.
- The time period of right share issue is minimum 35 days and maximum 60 days. After this period company publish another notice to the newspaper for closing right share issue.
- The next step is certification distribution. According to Securities Registration and Issue Regulation 2065, after the closing date of right share within 30days certificate to be distributed. So the company publishes next notice to the shareholders to collect certificate and also provide certificate distribution date. And they also request to the shareholders to bring half

slip of application form along with any authorized identity card compulsory.

After distributed certificate to the shareholders who applied for it, the next steps are to listing the right shares at the NEPSE. After completion of all necessary formalities, the NEPSE and the company has agreement for listing. The company publishes notice to the newspaper about new right shares listing agreement to NEPSE. And one week after the agreement date, the right shares are traded in secondary market.

2.1.3.11 NEW RULES AND REGULATIONS REGARDING RIGHT SHARES

According to Securities Issue Guideline 2065

- If the organized institution want to issue right shares, the par value of already issued shares (ordinary shares) must be paid before issue right shares.
- Only one right share can be issue within one FY and the firms will not be able to issue other right shares before 180days of prior issuance of right shares.
- If organized institutes issue right shares due to its provision, then the firm have to given reason and must approved by its general assembly.
- Company owners will now have to buy the right shares before they are issued and if someone is not interested to buy then he/she should notify the same in writing and open for other shareholders.
- If the company owner does not want to use their right then he/she can transfer their right to other persons within seven days of opening application.

- If the total shares are not completely sold during its time period, the remaining shares are sold by auction by BOD in very transparent method. During that period, all shareholders give equal opportunities who want to purchase right shares.

According to Securities Registration & Issue Regulation 2065

- All owners must sign at “Right Share Issue Related Provision and Prospectus” and through issue manager, it should be approved by Board and publish.
- During right share if the existing shareholders want to transfer their right fully or partially to other persons, then he/she can give the application to the firm. But the firm must complete following provision before accepted their application.
 - There is a provision of transfer of right mention in company’s prospectus & regulations.
 - Right can be fully or partially transfer to only one person or institutions.
 - Legally nominees persons or institution should not be in black list
 - Provision of right transfer to other within the time period.

New provision of Right share related with Capital Gain Tax

- According to new provision to calculate capital gain tax of right share, taken book closure last date share price and it adjusted with right share new ratios to determine capital gain tax. This provision only for those companies which are listed on NEPSE.
- For those companies which are not listed at NEPSE following methods are used. After the assessment of sales price of shares from OTC market or company Register Office, capital gain tax is determined.

2.2 REVIEW OF THESIS

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

Soma Rai's Study

In the Year 60/61 Miss Rai has made study on the topic of "A Study on Issue And Practice of Right Share & It's Impact on Market Price of Share"

The main objective of her study were

- a) To analyze the practical aspect of right share in Nepal.
- b) To examine the significant different of stock price movement before and after the announcement of the right share.
- c) To compare the theoretical value and the real market value after the announcement of the right share.

After completing the studied researcher find out the following findings.

- There is only 10 years history of right share in Nepal. Till fiscal year 2061/62 only 33 cases of right share announcement can we find by 28 companies.
- Contribution of the rights share on total public issue till the fiscal year 2061-62 is 32.27 percent.
- Largest amount collected by commercial bank through the issue of right share. 65 percent of total amount collected by right share is by commercial bank.
- Large number of right share issued is under subscribed. Poor performance of the related company, lack of effective information and lack of transferable right are the major cause of under subscription of right share in Nepal.
- There is no significant difference between share price movement before and after announcing the right share of Nepal SBI Bank limited. Immediately after announcing the right share, share price of this bank has increased than after it has decreased. There is positive but low relation between share price of this bank and NEPSE index. Right share does not affect the share price movement

of Nepal SBI Bank Limited. Theoretical value of stock of Nepal SBI Bank Limited is lower than its market value after book closed date of the right share.

- There is significant different between the share price of average of sample companies before and after the announcement of right share. But there is not significant different in market index before and after the announcement of the right share. The correlation coefficient between NEPSE index and share price of average of sample Companies is high. They are highly co-related 58.03 percent change is affected by the change in the market index and remaining portion by the right share. But NEPSE index is not affected by the announcement of the right share.
- Interest of the investor to purchase the right share depends upon the past performance of the organization.
- Due to low flotation cost, easy process to collection fund and legal provision are the cause of right share prefer by Nepalese corporate firms.
- There are difficulties to investors due to not transferable rights in Nepal.
- Legal provisions about right share in Nepal are insufficient.
- Almost, all the companies' ex - right price of the stock is higher than theoretical ex-right price. Thus it can be said that the market ex-right price is higher than the theoretical ex-right price.

Banshidhar Gautam's Study

In the year 2058 Mr. Gautam has made study on the topic of "Analysis of Share Price Movement Attributed to Rights Offering Announcement".

The main objectives of his study were

- a) To find the effect or rights offering on the share price movement.
- b) To find out, if there is any problem in the primary issue of securities

The major findings of his study were:

- a) Change in share price due to rights offering cannot be generalized.
- b) There is lack of legal provision in company act regarding the issue of right share.

- c) There is lack of investors protection act.
- d) Nepalese security market has failed to use various capital market instruments such as warrants, convertible, option etc.
- e) Security board has failed to establish one window policy to support the primary issue of shares.

To conduct the study, he had used correlation analysis between share price movement and NEPSE index, i.e. general market movement and t-statistics between share prices before and after rights issue announcement. T-statistics was used to test if there was significant change in share price before and after the issue of rights. But he did not consider the value of rights, which is very important in share price determination after the issue of rights share. Further, his analysis only covers the data from FY 2052 to FY 2056. The result may not represent the present economic scenario. He had taken only three companies as sample to complete his study but here the researcher has taken three commercial banks issuing rights share and two finance co. till FY 2061/62 as sample to accomplish the study.

Nirmal B. Aryal's Study

Mr. Aryal has made study on the topic of "Equity Right Issue, its Practice and Impact in Nepal" in 2060.

The main objectives of his study were:

- a) To examine the relationship between stock price reaction and announcement of rights issues.
- b) To analyze the relationship between rights share and equity share and rights share and NEPSE index.

The major findings of his study were:

- a) Announcement of equity rights issue are associated with a positive effect on share prices.
- b) Theoretical value of rights differs from company to company.
- c) 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 (Central Bank of Nepal).

- d) The rights share and equity share has low degree of positive correlation. The correlation coefficient between rights share and NEPSE index has also positive correlations.

To conduct his study he had used cross-sectional analysis by estimating the regressions. he analyzed only the relationship between rights share to equity share and rights share and rights share to NEPSE index.

Subash Lamichhane's Study

In the year 2061 Mr. Lamichhane has made the study on the topic of "Rights Share Issue Practice in Nepal and its Impact on Market price of Share"

The main objectives of his study were:

- a) To identify the significant change in share price after announcement of rights offering.
- b) To find out problems associated with rights issue in Nepal.
- c) To analyze the procedure and mechanism of rights issue in the context of Nepal.

The major findings of his study were:

- a) There is significant different between share price before and after the rights issue of the sample companies.
- b) Rights share issue is new practice in Nepal; sample companies are unable to increase the market capitalization through rights issue, as the practice does not follow the theory.
- c) Under subscription of rights share is common problem. Company act 2053 is not adequate for this and issues procedure of rights shares.
- d) Shareholders of Nepalese Company has lack of the knowledge about the rights share.

To conduct the study, he had used the correlation between share price and price index, t-statistics between share price before and after the rights issue announcement.

He did not consider the value of rights, which is very important in share price determining after the issue of rights shares.

Chitra B. Ghatri's Study

In the year 2062 Mr. Ghatri has made the study on the topics of "Rights Share Practice in Nepal and its Impact on the Share price of listed companies".

The main objectives of his study were:

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

The major findings of his study were:

- a) There was significant different in share price after announcement of the rights share except people finance Ltd. among 10 sample companies of his study.
- b) Rights offering are comparatively new practice in Nepal. Market is not mature and company with track record is very low.
- c) Most companies are issuing rights shares to fulfill the capital requirement as per the NRB directives. Shareholder of Nepalese security market has lack of knowledge about rights share.
- d) The major cause of under subscription of rights share are lack of effectiveness in the flow of information, lack of awareness among the investors, poor financial performance of the issuing Co., financial problem of shareholders and lack of the provision for rights transfer.
- e) After increase the share capital through rights share, earning per share is increase by 0.29769 when 1 unit increase in share capital amount.

To conduct the study, he had used the correlation coefficient, coefficient of determinants, regression analysis, t-test and financial formula. After reviewing the above thesis, it is found that various studies have been done on the topic of share price

and its determinant. Researchers have highlighted the rights share practice in Nepal from various aspects and also making effort to highlight the under subscription problem. So, this study is trying to find the impact of rights issue on market price of share of sample companies. This study may be an important effort to inform the shareholders and companies regarding the rights issue practice in Nepal.

2.3 REVIEW OF BOOKS

Prof. Dr. M.K. Shrestha (1992) states that though the size of the shareholders population in Nepal has been growing constantly the government seems to have not taken an initiative in formulating the separate act which protects the shareholders rights. Shareholders subscribe the shares floated by the public limited companies through the Security Exchange Centre (SEC) for the firm belief that there will be proper response of their rights which consists of both of the collective and specific rights. The collective rights of shareholders include the amendment of charter with approval of appropriate officials.

In Nepal, the concerned officials seem to be not relevant as they interfere in the shareholder's rights. That is why the collective rights of the shareholders get ignored. In the annual general meeting shareholders can amend the internal by laws, elect directors, authorize the sale of assets, enter into mergers, change amount of the authorized capital and so on. But in reality, many annual general meeting have undermined the collective rights of the shareholders. For instance, National life and General Insurance Company had suppressed the collective rights of shareholders by not adhering to the consent of shareholders members in the board through the proposal was put forward by the management before the shareholders. The same is true in the case of Butwal Dhago Udhyog as the management wanted to have a control over the collective rights of shareholders. Shareholders have right to vote as prescribed by the charter, they have right to sell the transfer share certificate and also rights to inspect accounts as well right to claim as assets and income. Regarding their voting rights, the contest through collecting proxies can perform a very useful representation in the board of directors. By gaining board representation through proxies, the winning candidate may stimulate the shareholders expectations. But in practice the trend of collective proxies has found to be mixed. Because in most of the cases the candidate

who gave represented the board through proxies seem to have considered only few vested interest shareholders' interest at the cost of many others. These can be taken as the tangible evidence. One of the basic rights of shareholders is the power to use their votes while they elect their representatives for the board of directors. by exercising this power, shareholders choose a representative who can guide the board to formulate strategic plans and polices beneficial to the shareholders at large. Hence, the voting rights of shareholders are very crucial while its misuse may cause a great loss to the shareholders themselves.

Jeff Madura (1998) states that corporations sometimes focus their sales of stock toward a particular group of people, such as their existing shareholders giving them preemptive rights' (first priority) to purchase the new stock. By placing newly issued stock with existing shareholders, the firm avoids diluting ownership. Pre-emptive rights and exercised by purchasing new shares during the subscription period (which normally lasts a month or less) at the price specified by the rights. Alternatively the rights can be sold to someone else.

Moyer, Macguigan and Kretlow (1997) state that when selling stock through a right offering firms usually enlist the service of investment bankers, who urge right holders to purchase the stock. In an arrangement called standby underwritings, the investment banker agrees to purchase at subscription price any shares that are not sold to right holders. The investment banker can resell the shares. In a standby underwriting, the investment banker bears risk and is compensated by an underwriting fee.

Van Horne (1979) states that one of the most important aspects of a successful right offering is the subscription price. If the market price of the stock should fall below the subscription price, stockholders obviously will not subscribe to the stock for they can buy it in the market at a lower price. Consequently, a company will set the subscription price at a value lower than current market price to reduce the risk of the market price's falling below it. A part from the number of rights required purchasing one share, the risk that a market price of a stock will fall 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 for below the market price that there is virtually no possibility

that the market price will fall below it. The greater the discount from the current market price, the greater the value of the right, and the greater the probability of a successful sale of stock, all other things the same. As long as the stockholders doesn't allow his rights to expire, theoretically he neither gains nor losses by the offering. Therefore, it might seem feasible to set the subscription price at a substantial discount in order to assure a successful sale.

However, the greater the discount, the more shares that will have to be issued to raise a given amount of money, and the greater dilution in earning per share. The dilution may be a relevant consideration, for the investment community analyzes closely the growth trend in earning per share. Significant under pricing of the new issue may excessively damped the growth trend in earnings per share and result in a lower price/earnings ratio in the market. Although theoretically the stock holder should be equally well off regardless of the subscription price set, in practice the market value of his stock holdings may suffer if there is excessive dilution in reported earnings per share. Obviously, this would be an imperfection in the market, but imperfections on occasion can be important. Moreover, if the firm wishes to maintain the same dividend per share, under-pricing which results in more shares being issued, will increase the total amount of dividends the company will need to pay and lower its coverage ratio. The disadvantage of under-pricing must be balanced against the risk of the market price's falling below the subscription price is to reduce the probability of this occurrence to a tolerable level. If, then, the subscription price results in excessive dilution, the company should consider a public issue, where the amount of under pricing usually is less.

Van Horne also states about 'privilege subscriptions vs. public issue' that by offering stock first to existing stockholders, the company taps investors who are familiar with the operations of the company. As a result, a successful sale is probable. The principal sale tool is the discount from the current market price, whereas with a public issue, the major selling tool is the investment banking organization. Because the issue is not underwritten, the flotation costs of rights offering are lower than the cost of an offering to general public. Moreover, many stockholders feel that they should be given the first opportunity to buy new common shares offsets these advantages is the fact that a rights offering generally will have to be sold at a lower price than will an issue to the general

public. Also, a public offering will result in a wider distribution of shares. Management can request stockholders with preemptive right to waive them so that the company can sell stock to the general public. If the arguments are persuasive enough or if management controls enough stock, the pre-emptive right may be waived.

Harry G. Gauthamann and Herbert E. Dougall (1962) state that there are other factors that influences the success of rights offering. The size of the capital outlay in relation to stockholder existing ownership of the stock importance. The breakdown between institutional and individual investors may also bear upon the success of the rights offering. The current trend and tone of the stock market and extremely important. If the trend is upward and the market is relatively stable in this upward movement, the probability of a successful sale is quite high. The more uncertain the stock market, the greater the under-pricing that will be necessary in order to sell the issue. In fact, there is time when the market is so unstable that an offering will have to be postponed.

Michael Firth and Simon M. Keane (1986) state that in a new issue the company is selling shares to outsiders and it is therefore important to existing shareholders that the best price be obtained. In rights, issue, however it is the existing shareholders themselves who subscribe the new funds, and consequently, the issue price doesn't have the same significance. Their position is analogous to that of the trader who takes goods from his business for personal use and charges himself a lower than normal price, what he loses a seller he gains as a buyer. In the same way, when a company makes a rights issue at less than current market value of the company's shareholders lose as existing owners of the firm but gain an equivalent amount as new investors. In practice, companies generally make right issue at a discount of about 20 percent on market value to allow for any drop in market prices during the period of the issue, since not even existing shareholders will buy shares in their own company at above market value. A discount of some sort is therefore necessary, but from the shareholders' point of view the size of the discount is irrelevant.

M. First and S.M. Keans also state in the size of the discus should be matter of indifference to investor; it is clear from some of the present reports on rights issues that the significance of the issue terms is not always properly understood. A low issue price inevitably means a great number of new shares with consequent dilution of the

ex-price; such dilution is often portrayed as being harmful to shareholders and therefore something to be minimized. This interpretation misses the point that, while a low issue price does indeed result in lower share price as well as lower earnings and dividend per share, it also results in the investor having a correspondingly higher number of shares which exactly counterbalance the effects and the dilution. His/her overall position is the same, no matter what issue price is used. Because the issue price in a rights offering can be pitched with below market value without loss to existing shareholders, the possibility of a drop in market price during the period of the issue should theoretically present less of a problem than in the case of a new issue. In both instances the issue price has to be set at a figure which will ensure that the issue is not left stranded by any downturn in the market but, whereas in a new issue any safety margin built into the issue price constitutes a potential loss to shareholder, in a rights issue the price can be set low enough to protect the issue against any penalty on exiting investors. Given that in a rights issue a low price imposes a penalty on shareholders, the take up of the issue can be ensured by simply issuing the new shares at a sufficiently deep discount; yet this is a strategy which is only rarely adopted.

There are several possible explanations for the reluctance of companies and their advisers to adopt the deep discounting strategy. There is reason to suspect that those responsible for setting the issue terms sometimes fail to appreciate that the issue price is unimportant and regard a discount as a loss to the company which should be kept to a minimum. Alternatively, even if financial managers themselves accept the logic of the low price strategy, they may be afraid that the market might misinterpret the dilution caused by low issue price as being detrimental to shareholders.

Keasey, Hudson and Little (1998) state that with this size of rights issue, there is going to be a significant dilution of the value of each individual share. In fact, if the money raised adds no value to the profitability of the business, the value of your new shareholding, assuming no stock market sentiment or reaction, should only change by the amount of money paid over for the new shares. Of course, the stock market does react and the value of the new shareholding may well be different from money paid for the new shares. It will depend on how the market thinks the extra money raised by the company will be put to use. In contrast to rights issues, there is a fair amount of empirical evidence regarding the reaction of the market to stock splits. They seem to

occur after there has been an increase in share price and there is a further price rise after the announcement of the split. This positive price effect may well reflect the fact that stock splits are associated with an increase in dividends. In other words, stock splits are good news (at least in the short term) for the investors. Sadly, there is an absence of evidence concerning whether they can be predicted.

Cowdell, Bilings and Cowdell (2001) state that an alternative method of raising finance for this purpose is vendor placing. Vendor placing cannot be made without the approval of the shareholders. A variation on a vendor placing is a vendor rights issue. This is where the share issued is purchased by a single buyer (usually an issuing house). The shares are then offered to the shareholder of the issuing company as in a rights issue this avoids the dilution that takes place with a vendor placing.

Colin Chapman (1999) states that raising money through the share markets from rights issues also strengthens balance sheets and prevents the kind of over borrowing that has forced many large companies into difficulty. Sometimes companies will want to use both methods. So instance, a British company may use a rights issue to fund a UK acquisition, but, if seeking to takeover a European company, could use a foreign currency bond to match the currency of the target company's country. If a rights issue is under subscribed there is a danger that the share price will fall, even if underwriters have been appointed, and this would defeat part of the objective of the exercise which is to raise more capital. The most important question for a company making a rights issue is to decide on the terms at which it will offer new shares. Normally, this is done by offering the shareholders the right to buy a number of shares at a special price for each share they own. In 1990, the British Brewing Group Bass sought to raise 558 m by giving its equity holders the right to buy one new share for every five they already owned. This is known as one-for five issues. As soon as a rights issue has been completed, the price of the existing shares usually falls to reflect their dilution as a result of new stock on the register.

A rights issue is not cheap, which is one of the main arguments against this form of raising additional capital. There are underwriting fees, fees to lawyers, accountants and public relations consultancies plus the actual cost of printing and distributing the substantial amount of documentation necessary.

2.4 STAUTES REGULATING SECURITY MARKET IN NEPAL

Regulation relating to securities markets is meant to develop and conduct orderly securities markets. The regulation also intends to encourage investment in securities markets, protect investor's interest maintain institutional identities, maintain the effectiveness of monetary policy and discourage abuses of public confidence. Besides, these regulations aim to insure public confidence on financial system and promote the efficiency of the system itself so that the flow of capital into investment is enhanced. The regulations impinge on financial institutions by regulating their assets structure, investment portfolio, capital structure, securities issues, operation etc. by attaining above objectives, financial regulations ultimately help to realize public policy objectives like financial system stability, higher economy growth rate, stable price, full employment levels of output and balance of international trade.

Regulation not only provides benefits but also imposes cost on securities market. In Nepal, security market is governed by following Acts are important:

1. Securities Exchange Act 2063
2. Securities Exchange Regulation Act 2050
3. Security Business Person Regulation Act 2064

Moreover various Bylaws and Guidelines have been developed to regulate securities market and transactions thereon. They are as follows:

1. Membership of Stock Exchange & Transactions Bylaws 2055
2. Securities Listing Bylaws 2053
3. Securities Allotment Guidelines 2051

4. Securities Registration and Issues Approval Guidelines 2057
5. Guidelines on Business Code of Ethics for Securities Persons 2055
6. Bonus Shares Issue Guideline 2055

Beside these Acts, there is also other Act relating to capital market which is as follows.

1. Company Act 2063
2. Banking and Financial Institutions Act 2063
3. Insurance Act 2049
4. Privatization Act 2050

2.5 RESEARCH GAP

The primary market is a financial market where shares and bonds are issued. Though there are many financial instrument mainly three types of shares- ordinary, right, bonus and two types of bond- corporate and government are issued in the Nepali Primary Market. Restoration of peace, improvement in listed companies' financial performance and most importantly the central bank's directive date 26 March 2007 to double paid up capital for banks and financial institution contributed to remarkable increment in share price s and subsequently the stock market indices. Most of the companies opted to issue bonus and right share to increase their capital base. From the FY 2004/05 the amount of Right Shares increased tremendously.

The central bank's direction to double paid up capital for banks and financial institutions contributed to remarkable increasement in Right shares. Mostly Commercial banks, Development banks and financial institutions issued Right Shares to increase their capital in Nepalese Capital Market. The SEBON, NRB and NEPSE made new laws, Acts and provision in Right share issue and Practice. Similarly, NEPSE started computerized Trading System (CTS). There is very few research has done previously at Right share market and according to new context, these previous research works lacks new Acts and provision regarding Right shares. And previous research did not include detail study of Right share. So there is Research gap on this

topic. So the researcher has chosen Right share to study which included all current aspect of Right share Market in Nepal. Right share issue is one of the most important decisions taken by the company to increase the paid up capital. NRB gave the direction to all banks n financial institutions to increase their paid up capital at the end of B. S. 2070. For this reasons most commercial banks n financial institutions issued Right shares at large volume. From the last few years the number of Right share and amount of Right shares are increased tremendously.

3.1 INTRODUCTION

Research methodology refers to the various sequential steps to be adopted by a researcher in studying problem with certain object in view. It would be appropriate to maintain that research project are not susceptible to any one complete and inflexible sequence of steps and the type of problems to be studied will determine the particular steps to be taken and their order too. (*Joshi P. R.; 2002: 32*)

Research means to get new things and techniques and to verify existing tools and techniques by hypothesis and other relevant information. Methodology is the research method used to complete the study systematically and test the hypothesis. This chapter aims to familiar the relevant techniques of data collection, analysis of data using statistical tools, techniques required for preparation of research report and includes research design, population and sample of the study, methods of data collection, tools and techniques of analysis. A Research methodology helps us to find out accuracy, validity and stability. The justification on the present study cannot be obtained without help of the proper research methodology. Research methodology is a technique of analyzing the obtained data to solve the research problem. It consists of descriptive approach and statistical tools. Descriptive approach is used to analyze the research problem, setting hypothesis and other theoretical problem. Statistical tools are used to analyze the numerical data. Researcher has used the following methodology to complete the research. Under research methodology, a well thought out activities of analyzing and interpreting the collected data with a purpose of obtaining answers regarding Issue and Practice of Right Share in Nepal has been carried out.

3.2 RESEARCH DESIGN

"A Research Design is the arrangement of conditions for collecting and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure". (*Kothari, C. R.; 1984:74*), The Research Design is the conceptual structure within which research is conducted; it constitutes the blue print for the collection, measurement and analysis of data. To conduct the research of this study, descriptive and analytical research design has been adopted. The study is based on historical data as well as on primary data. Descriptive research design is used for conceptualization, problem identification, conclusion and suggestion Analytical research design is used for analyzing the data to find out the result. The objective of the primary data on this study is to survey the opinion of the concern person about right share. Secondary dates are used to analyze the relationship between the price of stock and the announcement of the right share.

3.3 POPULATION AND SAMPLE

In research population refers to a total category of persons or objects that meets the criteria for study establish by the researcher, any set of persons, objects or measurements having an observables characteristics in common. In the FY 2007/08, One hundred forty two companies listed at NEPSE. In this Research these one hundred forty two companies are taken as a population. Similarly, when some of the elements are selected with the intention of finding out something about the population from which they are taken that group of elements is referred as a sample. Or in another words a representative part of population selected from it with the object of investigating its properties is called sample. (*Azaya, B. Sthapit; 2005: 175*) Out of One hundred forty two companies as a population, the researcher has taken six different companies as a sample (Pokhara Finance, Nepal Investment Bank, IME Financial Institution, Siddhartha Development Bank, National Hydropower and Himalayan General Insurance) for the research purposes

3.4 SOURCES OF DATA

Primary Data

Primary data are used for the analysis and evaluation purpose of the study. Primary data are generally used in those cases where the secondary data do not provide an adequate basis for analysis. Primary data are collected from the Staffs of broker's office, Researcher Circle Friend and few issue managers. The main objective of to collect primary data is to identify the problem, opinions, and practice of Right share in Nepal. For this purpose questionnaire method and telephone interview, formal and informal conversation method are utilize for the purpose of soliciting information.

Secondary Data

Secondary data are collected from published and unpublished reports. Annual reports & prospectus and bulletin of NEPSE, SEBON, Economic Survey Reports, Financial Report of listed Companies, website of NEPSE; SEBON and NRB are highly referred for the purpose of Secondary Data collection. Similarly, National Newspapers, Magazine, books, and other reports are useful sources of Secondary data.

3.5 DATA COLLECTION TECHNIQUES

Since both the Primary and Secondary sources of data are utilized, various techniques of data collection are undertaken. For the purpose of primary data collection, telephone inquiry, informal conversation and questionnaire method are used in order to discover new facts and details. Secondary data are collected through referring to the various website related to NEPSE, SEBON and NRB. Similarly, unpublished reports, thesis, journals, articles and newspapers are used.

3.6 DATA ANALYSIS TECHNIQUE

Tabular Presentation

Tabular presentation is used to summarize the raw data in a compact form so as to facilitate behavior overall situation of the capital market. The tabular presentation has provided a basis for further analysis and interpretation of the collected data from primary and secondary sources.

Diagrammatic Representation

The diagrammatic presentation is used in certain portion of the study where the other forms of statistical analysis are unable to present better interpretation. The simple bar diagrams are used for the purpose of diagrammatic representation in the study in order to project the relationship between the variables under study.

Graphical Presentation

As it is said that the wandering of a line is more powerful in its effect on the mind than a tabulated statement, graphical presentation tool is also utilized for representing statistical facts and information. It is also utilized where the nature of data is such that it represents the trend of occurrence over the period of time. It is also applied to the situation where large mass of data is to be dealt with proper degree of accuracy.

Regression Analysis

Regression Analysis is a mathematical measure of the average relationship between two or more variables in terms of original units of data. Thus, regression analysis studies the statistical relationship between the variables.

4.1 INTRODUCTION

This chapter deals with the presentation and interpretation of relevant data obtained from the various sources to identify the growth of Right share market and problem comforting to issue and practice of Right share in Nepalese Capital Market. Data presentation and interpretation is the important part of a research work which analyze the data and information using tools and techniques and verify with the stated statistical tools to get the best results. Data analysis is the relating or differences supporting or conflicting with original or new hypothesis or differences supporting of conflicting with original or new hypothesis should be subjected to statistical test of significance to determine with what validity data can be served to indicate and conclusion (*Kothari, C.R.; 1994:26*).

4.2 PRESENTATION & ANALYSIS OF SECONDARY DATA

Secondary data are collected from published and unpublished reports. Annual reports & prospectus and bulletin of NEPSE, SEBON, Economic Survey Reports, and Financial Report of listed Companies, website of NEPSE; SEBON and NRB are highly referred for the purpose of Secondary Data collection. Similarly, National Newspapers, Magazine, books, and other reports are useful sources of Secondary data.

4.2.1 TRENDS OF PRIMARY MARKET IN NEPAL

The term Primary Market is used to denote the market for the original sale of securities by an issuer to the public. Primary Market is a place where companies sell securities for the first time. All securities, whether in money or capital markets are initially issued in the Primary Market? This is the only market in which the company or government is directly involved in the transaction and receives direct benefits from an issue. The issue of securities in the primary market leads to direct transfer of money from savers to the issue of the securities. Thus, the Primary Market transfers the funds from savers to investors to make the capital available for investment in productive

assets or retirement of debt. Following are the procedure of issue securities in Primary Market in Nepal.

(c) Private Placement

In private placement issued securities are sale to the limited persons or institutions either fully or partially, not to the general public. In IPO companies who want to issue securities must fulfill some legal formalities and also publish their very vital information such as organization's objectives, profit, future strategy, policy, opportunities and challenges etc. openly at newspaper for general public. So the company, who does not like to publish such types of vita information, can use Private Placement.

(d) Public Offering

In Public Offering any persons or Institutions can buy securities. At Public Offering, the organizations must fulfill some legal formalities to go with public. They must publish their vital information like their goals, futures plan and policies, opportunities and challenges etc. at the national newspapers. They openly announce to the general public to buy securities. After Public Offering securities are listed on Secondary Market. Investors subscribe to new issues only if they are hopeful being able to sell at a profit at some time in the future so it is better than Private Placement.

(c) Right Offering

Right Offering gives the current shareholders the first option to purchase any new shares issued in proportions to their current holding shares. Right Offering enables current owners to maintain their proportionate shares of ownership and control of the business.

The Primary Market is a financial market where shares and bonds are issued. Though there are many financial instruments, mainly three types of shares- Ordinary, Right, Bonus and two types of bonds- Corporate and Government are issued in the Nepali Primary Market. There are three parties involved in primary market of securities in Nepal. They are (i) Securities Issuing Companies/Government (ii) Securities Buyer (investor) (iii) Issue Managers performing the function of merchant bank. The Government and Public Limited Companies issue securities. General public, for profit

and non profit organization are the buyers/investors of securities and finance companies licensed to carry out merchant banking activities (work as manger of issue) in Nepal.

Before the establishment of the securities Exchange Center in 1976, there was no institutional arrangement to undertake and to manage the new issue of securities. A public limited company could make public offering according to the provision of the Companies Acts. The establishment of securities Exchange Center in 1976 (later converted into Nepal Stock Exchange Limited) the enactment of Securities Exchange Act in 1983, the constitution of Securities Exchange Board of Nepal are important milestones in the development of primary market in Nepal. SEBON and NRB are the main regulator body of primary market in Nepal. The glimpse of the trend of primary market during 1993/94 to 2007/08 is presented below.

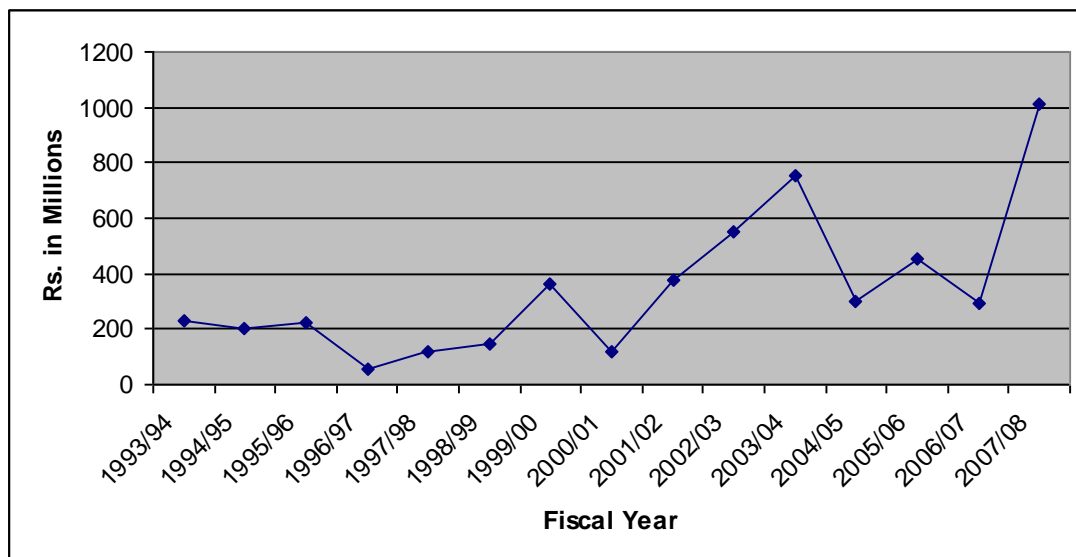
Table No. 2
Trend of Primary Market
During FY 1993/94 to 2007/08

(Rs. in Million)

FY	Ordinary Shares	Right Shares	Preference Share	Debenture	Mutual Fund	Total Issue Approval
1993/94	227.9	-	16.50	-	100	344.40
1994/95	204.21	-	-	-	50	254.21
1995/96	224.74	69.00	-	-	-	293.74
1996/97	57.00	275.20	-	-	-	332.20
1997/98	119.40	249.96	-	93	-	462.36
1998/99	148.00	30.00	80	-	-	258.00
1999/00	362.46	124.60	-	-	93.25	630.31
2000/01	118.50	365.79	-	-	82.91	717.20
2001/02	378.76	387.87	140	360	138.48	1555.11
2002/03	551.50	162.24	-	-	140.09	853.83
2003/04	755	429.92	-	300	62.89	1547.79
2004/05	300.89	669.42	-	300	-	1270.31
2005/06	456.42	1241.45	-	850	-	2547.87
2006/07	290.254	1817.25	400	250	-	2757.504
2007/08	1012.65	7605.21	-	2950	-	11567.86
Total	5207.684	13427.91	636.5	5103	667.62	25392.694

Source: www.sebonp.com (Public Issue Approval 1993/94 – 2007/08)

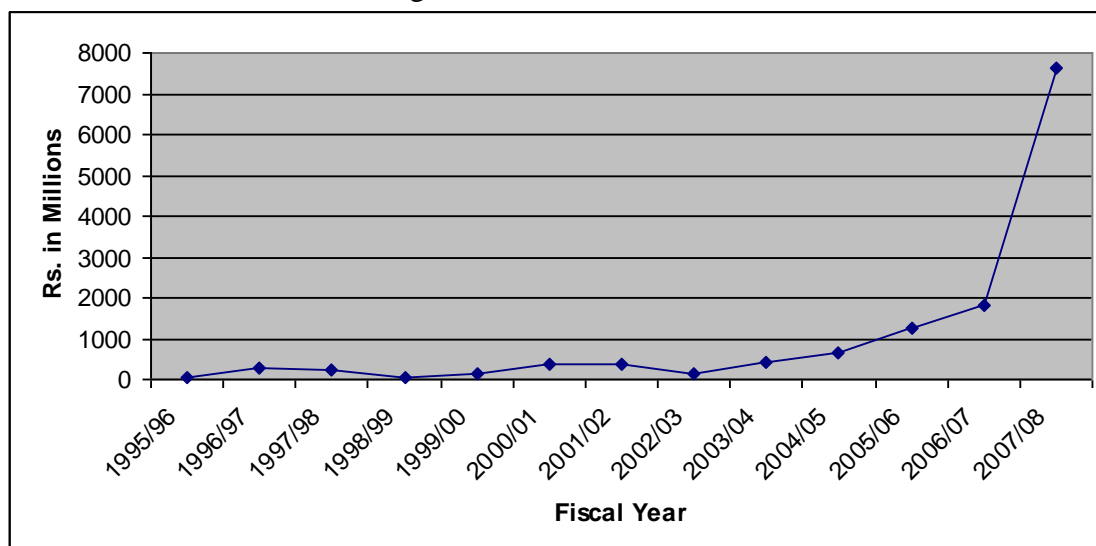
Figure No. 1
Trends of Ordinary Shares
During the FY 1993/94 to 2007/08



In the figure no.1 represents the trends of Ordinary shares during the FY 1993/94 to 2007/08. During these periods trends of Ordinary Shares are much fluctuated. In the FY 1993/94 and 1994/95, the total issue approval is Rs.227.9 millions and Rs.204.21 millions respectively. Similarly, in the FY 1995/96 & 1996/97, Security Board approved amounting Rs.224.74 millions and Rs.57 millions respectively. Security Board approved Rs.119.40 millions & Rs.148 millions to issued Ordinary Shares during the FY 1997/98 & 1998/99 respectively. And similarly, in the FY 1999/00 and 2000/01, issue approved amount is Rs.362.46 millions and Rs.378.76 millions. In the FY 2001/02 and 2002/03, total issue approval amount of Ordinary Share is Rs.378.76 millions & Rs.551.50 millions respectively.

Total issue approval of Ordinary Shares during the FY 2003/04 & 2004/05, was Rs.755 millions & Rs.300.89 millions respectively. Similarly, in the FY 2005/06 & 2006/07, total amount of issue approval was Rs.456.42 millions & Rs.290.254 millions respectively. Finally, in the FY 2007/08, the total issue approval of Ordinary Share is Rs.7605.21 millions. During these period in the FY 1996/97, total amount of issue approval of Ordinary Share was Rs.57 millions which was the lowest issue approval amount and in the FY 2007/08, the total amount of issue approval of Ordinary Shares was Rs.7605.21 millions which was the most highest issue approval amount.

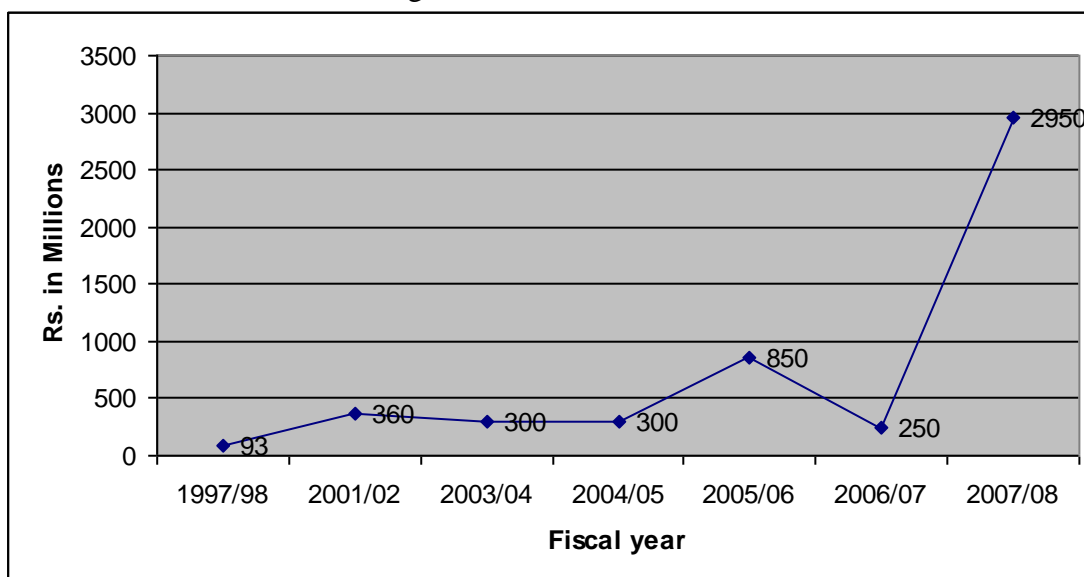
Figure No.2
Trends of Right Shares
During the FY 1995/96 to 2007/08



The above figure no.2 shows the Right Share issue in Nepal during the FY 1993/94 to 2007/08. During these periods total one hundred eleven time Right share issue and total amount is Rs.13427.91 millions. In the FY 1993/94 and 1994/95 not any Right Share was approved by Security Board. Right Share was started to issue in the FY 1995/96. During this time only two number of issue approved amounting Rs.69 millions by Board. Similarly, in the FY 1996/97 & 1997/98 Right shares issued approved amounting Rs.275.20 millions and Rs.249.96 millions respectively. In the FY 1998/99 issue approved by Board amounting Rs.30 millions which was the lowest issue amount during the FY 1995/96 to 2007/08.

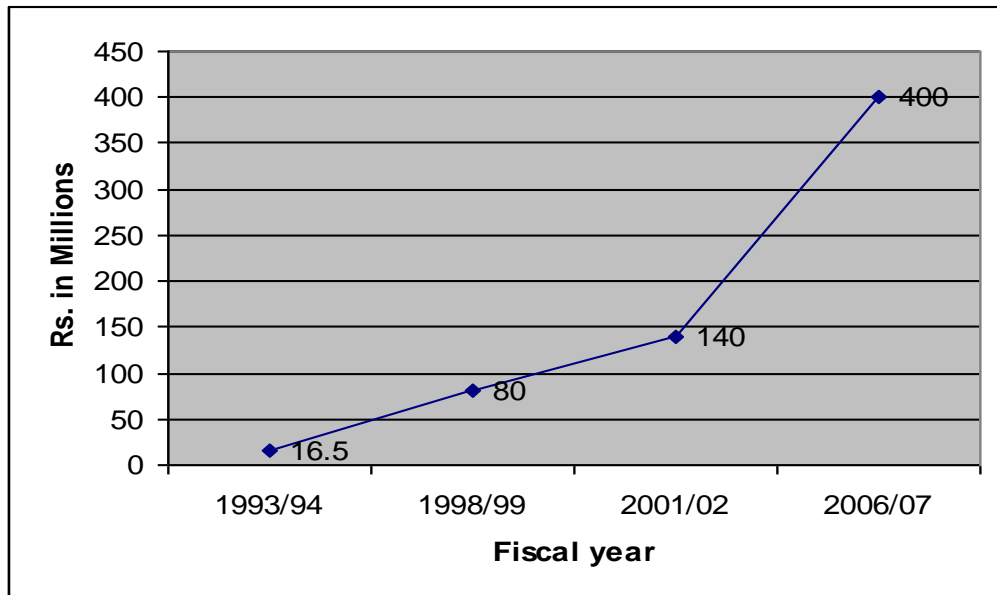
In the FY 1999/00 and 2000/01, Security Board approved to issue Right Shares amounting Rs.124.60 millions and Rs.365.79 millions respectively. Similarly, in the FY 2001/02, 2002/03 & 2003/04, Security Board approved to issue Right Shares amounting Rs.387.87 millions, Rs.162.24 millions and Rs.429.92 millions respectively. Security Board approved to issue Right Shares amounting Rs.669.42 millions and Rs.1241.45 millions respectively in the FY 2004/05 & 2005/06. Finally, in the FY 2006/07 and 2007/08, amounting Rs.1817.25 millions and Rs.7605.21 millions of Right Shares are issued. In the FY 2007/08 total number of issue approved amount of Right Share issue is Rs.7605.21 which is the highest issue approval by Security Board in Nepalese Capital Market. Due to the Central bank directive to increase capital is the main cause to increase number of Right Share and its amount. Mostly commercial banks, development banks and financial institutions issue Right share at large volume.

Figure No.3
Trends of Debenture
During the FY 1993/94 to 2007/08



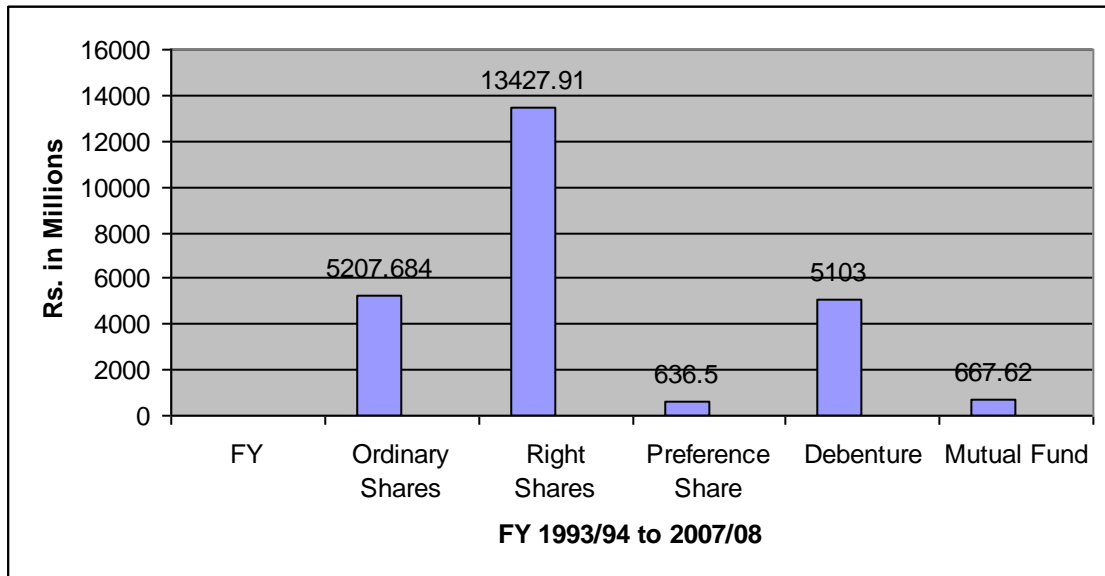
The figure no. 3 presents the trends of Debenture in Nepalese Capital Market from the FY 1993/94 to 2007/08. During this periods only the eight times debentures are issued & the total amount is Rs.5103millions. In the FY 1997/98, the total amount of issue approval of debenture is Rs.93 millions which is the first issue of debenture in Nepalese Capital market. Similarly, in the FY 2001/02 Rs.360 millions of debentures are issued. In the FY 2003/04 & 2004/05, the total issue approval of debenture is Rs.300 millions. But in the FY 2005/06 the amount of issue approval is increased & reached at Rs.850 millions. Finally in the FY 2006/07 & 2007/08, total issue approval amount is Rs.250 millions and Rs.2950 millions respectively.

Figure No.4
Trends of Preference Share
During the FY 1993/94 to 2007/0



The above figure no.4 presents the trends of Preference Share in Nepalese Capital Market. The markets of Preference Shares are not properly developed in Nepal. The above figure shows, only four times preference shares are issued in Nepal. The trend of preference share is in increased trends. In the FY 1993/94, the total amount of issue approval of Preference Shares is Rs.16.5 millions and in the FY 1998/99, the total amount is Rs.80 millions. Similarly, in the FY 2001/02, the total amount of issue approval is Rs.140 millions and Rs.400 millions was in the FY 2006/07. In the FY 1993/94, the total amount of issue approval of preference share is lowest and in the FY 2006/07, the issue approval amount is highest.

Figure No. 5
Trends of Primary Market
During FY 1993/94 to 2007/08

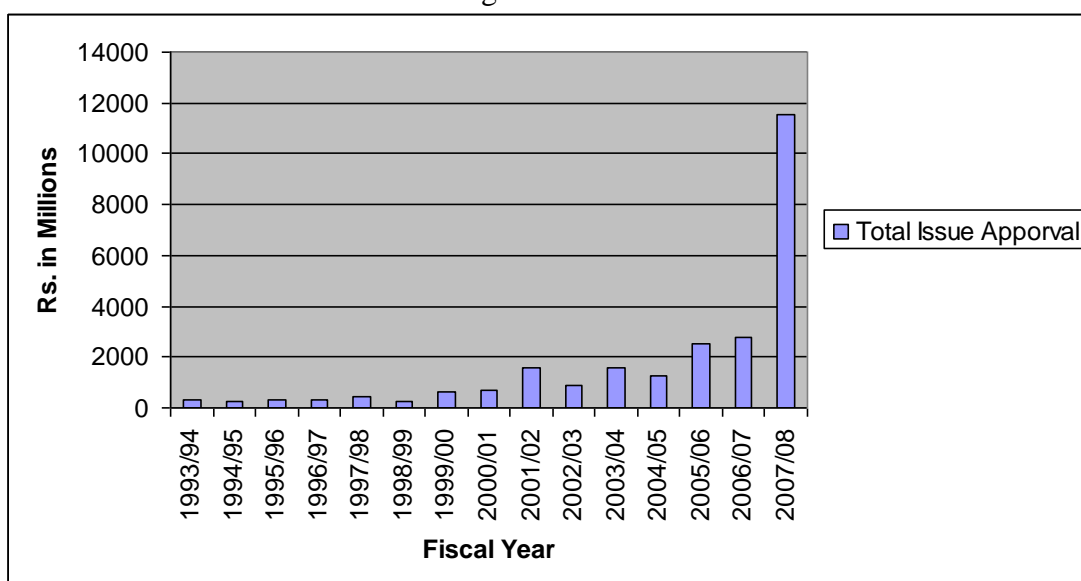


The above figure No. 5 represents the total issue approval share wise in primary market of Nepal during the FY 1993/94 to 2007/08. During this period Ordinary shares, Right shares, Preference shares, Debentures and Mutual Funds are issued in Nepalese Capital Market. Ordinary Shares are issued from the FY 1993/94 to 2007/08. The total amount of Ordinary Shares is Rs.5207.684 millions during this period. The minimum amount of issue approval of Ordinary Shares is in the FY 1996/97, during this period only Rs.57 millions ordinary shares are issued and similarly the maximum issue approval is in the FY 2007/08 amounting Rs.1012.65 millions.

In the FY 1993/94 and 1994/95 Right Shares was not issued. But after 1995/96 to 2007/08, Right Shares amounting Rs.13427.91 millions are issued in Nepalese Primary Market. In the FY 1998/99, only amounting Rs.30 millions are issued which was the minimum issue approval of Right Share during this period and similarly in the FY 2007/08, amounting Rs.7605.21 millions are issued which was the maximum Right Share issue approval. The total issue approval of Preference Shares is Rs.636.50 millions during the FY 1993/94 to 2007/08. During this period, only four times Preference Shares are issued. In the FY 1993/94, amounting Rs.16.50 millions and amounting Rs.80 millions in the FY 1998/99 are issued in Primary Market of Nepal. Similarly, amounting Rs.140 millions and Rs.400 millions are issued in the FY

2001/02 and FY 2006/7. The total issue approval of Debentures is amounting Rs.5103millions during the FY 1993/94 to 2007/08. Amounting Rs.93 and Rs.360 millions are issued respectively in the FY 1997/98 and 2001/02. Similarly, in the FY 2003/04 and 2004/05 amounting Rs.300millions Debentures are issued in Primary Market of Nepal. In the FY 2005/06 and 2006/07, the total issue approval is amounting Rs.850 and Rs.250 respectively. And in the FY2007/08, amounting Rs.2950 millions are issued. Finally, total amounting Rs.667.62 millions of Mutual Funds is issued in Nepalese Capital Market during the FY1993 to 2007/08. The maximum amounting is Rs.140.09 millions in the FY2001/02 and minimum amounting is Rs.50 millions in the FY 1994/95.

Figure No. 6
Trends of Primary Market
During FY 1993/94 to 2007/08



The above Figure No. 2 represents the Total Issue Approval of Primary Market of Nepal during the FY 1993/94 to 2007/08. The total issue approval is much fluctuated during these periods. In the FY 1994/95, only amount Rs.254.21 millions are issued which was the minimum total issue approval and amounting Rs.11567.86 millions is the highest total issue approval in the FY 2007/08. In the FY 1993/94 total issue approval amount is Rs344.40 millions out of them Rs.227.9 for Ordinary Shares, Rs.16.50 millions for Preference Shares and Rs.100 millions for Mutual Fund. Similarly, Rs.254.21 millions (Rs.204.21 millions for Ordinary Share and Rs.50 million for Mutual Fund) are issued in the FY 1994/95. In the FY 1995/96 and

1996/97, the total issue approval amount is Rs.293.74 & Rs.332.20 millions respectively. In the FY 1997/98 & 1998/99, total issue approval amount is Rs.462.36million (Rs.119.40 million for Ordinary Share, Rs.249.96 for Right Share and Rs.93 million for Debenture) & Rs.258 millions (Rs.148 million for Ordinary Share, Rs.30 million for Right Share and Rs.80 million for Preference Shares) respectively. Similarly, in the FY 1999/00 and 2000/01, total issue approval amount is Rs.630.31millions and Rs.717.20 millions respectively. Total issue approval amount is Rs.1555.11 millions and Rs.853.83 millions for the FY 2001/02 and 2002/03 respectively. In the FY 2003/04, the total issue approval amount is Rs.1547.79 millions (Rs.755 millions for Ordinary Share, Rs.429.92 for Right Share, Rs.300 millions for Debenture and Rs.62.89 for Mutual fund). Similarly (Rs.300.89 for Ordinary Share, Rs.669.42 for Right Share and Rs.300 for Debenture) total issue approval amounting Rs.1270.31 millions are issued in the FY 2004/05. In the FY 2005/06 and 2006/07, total issue approval amount is Rs.2547.87 (Rs.456.42 for Ordinary Share, Rs.1241.45 for Right Share and Rs.850 for Debenture) and Rs.2757.504 (Rs.290.254 for Ordinary Shares, Rs.1817.25 for Right Share, Rs.400 for Preference Share and Rs.250 for Debenture) respectively. Finally, in the FY 2007/08, total issue approval amount is Rs.11567.86 million (Rs.1012.65 for Ordinary Share, Rs.7605.21 and Rs.2950 millions for Debenture).

4.2.2 CONTRIBUTION OF RIGHT SHARE ON TOTAL PUBLIC ISSUE

Preemptive Right is a special benefit receives only ordinary shareholders. If organization/company issues new shares after its operations and gives the first opportunities to the existing shareholders to purchase shares then it called the preemptive Right. On this provision the existing shareholders receive the opportunities to purchase new sharers in old ratios. Right allow existing common stock shareholders to acquire a proportionate share of a new issue of common stock. The use of rights may also benefit the corporation because of the ease of distributing the new stock issue and lower flotation cost. Rights are usually transferable or marketable the stockholder who receives the rights can either exercise them or sell them. A Preemptive right gives existing stockholders the first option to purchase a proportionate interest in a new issue of a corporation's stock. The purpose of this provision is to protect stockholders against a loss of voting control and a dilution in the value of their share.

The preemptive right is usually satisfied by the use of a right offering. Contribution of Right Shares is very high in Total Public Issue because of NRB directives to the banks and financial institutions to increase their paid up capital at the end of B.S.2070. So, mostly banks, development banks and finance companies issued large scale of Right Share in Nepalese Capital Market. Right Shares has important and high contribution in total public issue. Following data table no.3 shows the contribution of Right Share on Total Public Issue during the FY 1993/94 to 2007/08.

Table No. 3
Contribution of Right Share on Total Public Issue
During FY 1993/94 to 2007/08

Fiscal Year	Total Issue approved	Right Issue Approved	Percentage (%)
1993/94	344.40	-	-
1994/95	254.21	-	-
1995/96	293.74	69	23
1996/97	332.20	275.20	83
1997/98	462.36	249.96	54
1998/99	258	30	12
1999/00	630.31	124.60	20
2000/01	717.20	365.79	51
2001/02	1555.11	387.87	25
2002/03	853.83	162.24	19
2003/04	1547.79	429.92	28
2004/05	1270.31	669.42	53
2005/06	2547.87	1241.45	49
2006/07	2757.504	1817.25	66
2007/08	11567.86	7605.21	66
Total	25392.694	13427.91	53

Source: www.sebonp.com

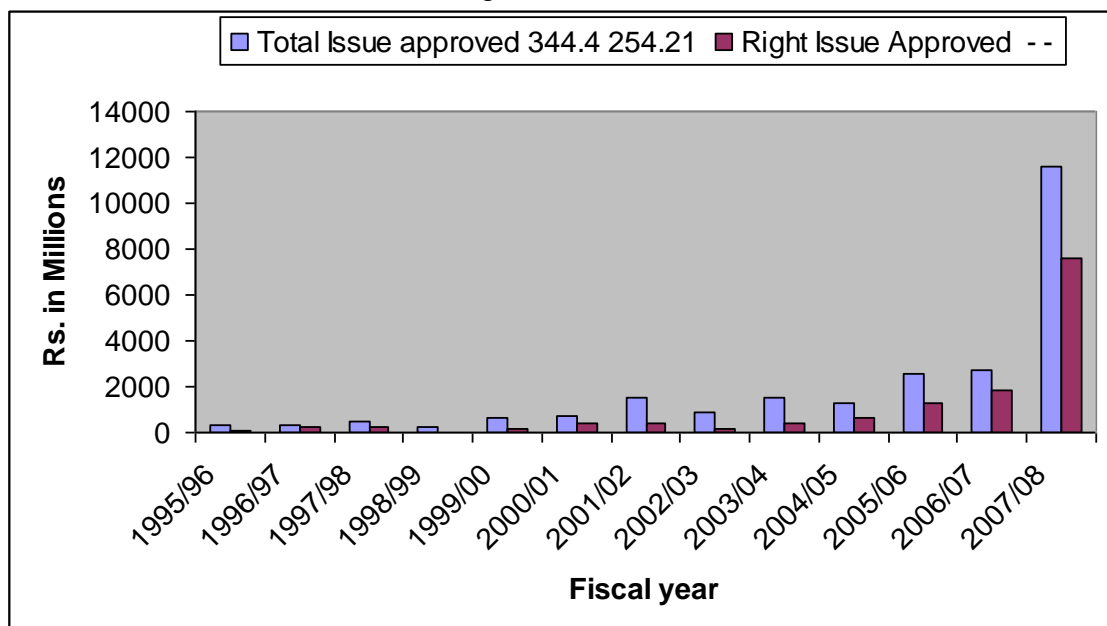
The contribution of Right Share in Total Public Issue is very high. Right Share was started to issue from the FY 1995/96. During that period amounting Rs.69 millions are issued which was 23% out of total public issue.

Similarly, in the FY 1996/97 and 1997/98, amount Rs.275.20 millions and Rs.249.96 millions are issued respectively which contributed 83% and 54% respectively. In the FY 1998/99 and 1999/00 right share contributed 12% and 20% respectively in total

public issue which has Rs30 millions and Rs.124.60 millions. Right share contributed Rs.364.79 millions and Rs.387.87 millions in the FY 2000/01 and 2001/02 respectively which contributed 51% and 25% respectively on total public issue. Similarly, in the FY 2002/03 and 2003/04 right share contributed Rs.162.24 millions and Rs.429.92 millions on total public issue which has 19% and 28 % respectively. In the FY 2004/05 and 2005/06 Right share contributed Rs.669.42millions and Rs.1241.45 millions respectively on total public issue which represent 53% and 49% on total public issue.

Finally, in the FY 2006/07 and 2007/08 Right share has 66% contribution on total public issue which has Rs.1817.25 millions and Rs.7605.21 millions respectively. During these periods in the FY 1998/99 total amount of Right share is only Rs.30 millions which was the lowest right share approved amount and in the FY 2007/08, total amount of Right Share is Rs.7605.21 millions which was the highest right share issue approved amount. Similarly, in percentage wise in the FY 1996/97 Right share contributed 83% in total public issue which was the highest Right share issue approval and in the FY 1998/99, only 12% Right share contributed on total public issue.

Figure No.7
Contribution of Right Share on Total Public Issue
During FY 1993/94 to 2007/08



4.2.3 ISSUE APPROVAL INSTRUMENT WISE

Ordinary Shares, Right Shares, Preference Share, Mutual Funds and Debentures are issued in Nepalese Capital Market. These instruments are mainly issued and practice in Nepal. Option, Future derivatives etc, still not developed in Nepal. Out of these five instruments mostly Ordinary Shares and Right Shares are issued in Nepalese Primary Market. And it is more practice in compare to other instruments. Preference shares, Mutual Funds and Debentures are still not properly developed and practice in Nepalese Capital Market. Following table no.4 represents the issue approval instrument wise in Nepal during the FY 1993/94 to 2007/08.

Table No. 4
Issue Approval: Instrument wise
During FY 1993/94 to 2007/08

Types of Securities	No. of Issue	Amount of Issue Approved (Rs. in Million)	Proportion
Ordinary Shares	143	5207.684	21%
Right Shares	111	13427.91	53%
Preference Shares	5	636.50	3%
Mutual Funds	6	667.62	3%
Debentures	14	5103	20 %
Total	279	25392.694	100%

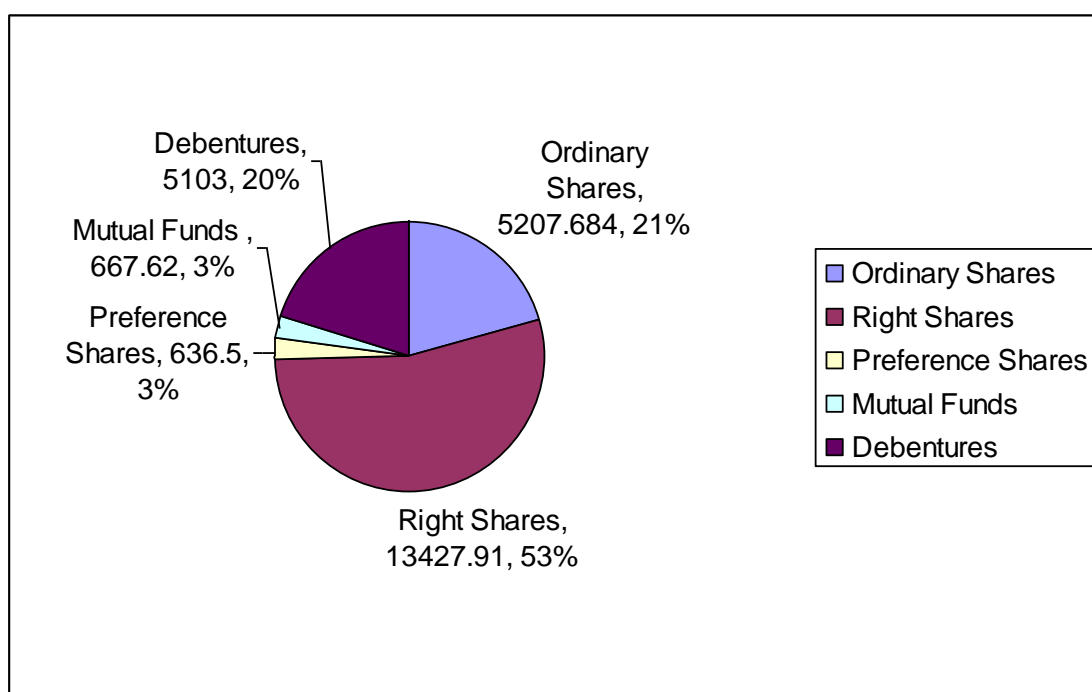
Source: www.sebonp.com

The above table No.4 represents the Issue Approval Instrument wise in primary market of Nepal during the FY 1993/94 to 2007/08. According to this table Ordinary Shares are issued in One Hundred Forty Three times during the FY 1993/94 to 2007/08. Similarly, Right shares are issued in One Hundred Eleven times, Preference Share are only Five times which was the lowest issues in compare to others securities. Mutual Fund are Six time and finally Debentures are Fourteen times issued.

In the FY 1993/94 to 2007/08 total issue approval of Ordinary Share is Rs.5207.684 millions, Right Shares is Rs.13427.91 millions, Preference Shares is Rs.636.50 millions, Mutual Fund is Rs.667.60 millions and Debenture is Rs.5103 millions. The total amount of issue approval is Rs.25392.694 millions. During these periods the total amount of Right Shares is Rs.13427.91 millions which is the highest amount of issue approval in compare to other securities. Similarly, the lowest amount of issue approval is Preference Shares which have Rs.636.50 millions only. Due to the directives of NRB to banks and financial companies to increase their paid up capital, many commercial banks, development banks and finance companies issued Right shares for increase their capital so the amount and number of Right shares is increased

tremendously. The Ordinary Shares covers 21 % of total issue approval and Right Shares covers 53% which is the highest proportion in compare to others securities. Similarly, Preference Share and Mutual Funds covers only 3% of total issue approval and Debenture covers 20%. The Ordinary Shares and Right Shares cover 74% of total market so it is more popular than other securities among the Nepalese investors.

Figure No. 8
Issue Approval: Instrument wise
During FY 1993/94 to 2007/08



4.2.4 RIGHT ISSUE IN NEPAL

The Preemptive Right gives the current shareholders the right to purchase any new shares issued in proportion to their current holdings. When the preemptive right granted, the preemptive right enables current owners to maintain their proportionate share of ownership and control of the business. The purpose of this provision is to protect shareholders against a loss of voting control and a dilution in the value of their share. It also prevents the sales of shares at low price to new stockholders which would dilute the value of the previously issued. Shares. Right allow existing common stock shareholders to acquire a proportionate share of a new issue of common stock. The use of rights may also benefit the corporation because of the ease of distributing the new stock issue and lower flotation cost. Rights are usually transferable or marketable the stockholder who receives the rights can either exercise them or sell

them. A Preemptive right gives existing stockholders the first option to purchase a proportionate interest in a new issue of a corporation's stock. The purpose of this provision is to protect stockholders against a loss of voting control and a dilution in the value of their share. The preemptive right is usually satisfied by the use of a right offering. Right offering is the one of the most powerful instrument to raise the capital. In Nepalese Capital Market, Right Shares is mostly issued by banks and financial institutions because of Central Banks directives to banks and financial institutions to increase their paid up capital at the end of B.S. 2070. So the following table no. 5 represents the Right Share issue of Nepal during the FY 1993/94 to 2007/08.

Table No. 5
Right Share Issue in Nepal
During FY 1993/94 to 2007/08

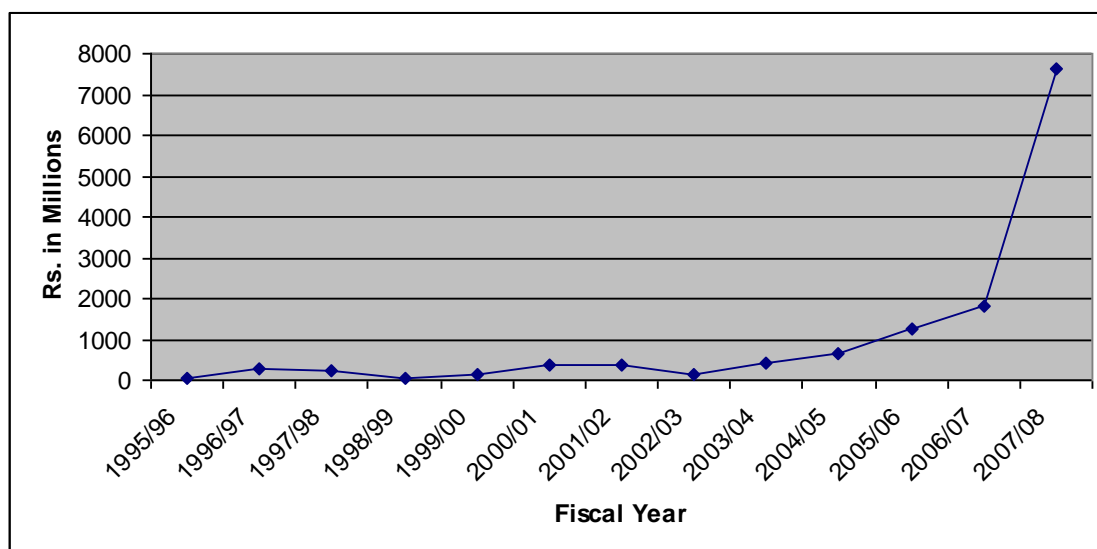
Fiscal Year	No. of Issue Approved	Issue Amount (Rs. In Million)
1993/94	-	-
1994/95	-	-
1995/96	2	69.00
1996/97	3	275.20
1997/98	3	249.96
1998/99	1	30
1999/00	3	124.60
2000/01	3	365.79
2001/02	4	387.87
2002/03	4	162.24
2003/04	4	429.92
2004/05	6	669.42
2005/06	14	1241.45
2006/07	15	1817.25
2007/08	49	7605.21
Total	111	13427.91

Source: www.sebonp.com.np

The above table no. 5 shows the Right Share issue in Nepal during the FY 1993/94 to 2007/08. During these periods total one hundred eleven time Right share issue and total amount is Rs.13427.91 millions. In the FY 1993/94 and 1994/95 not any Right Share was approved by Security Board. Right Share was started to issue in the FY 1995/96. During this time only two number of issue approved amounting Rs.69 millions by Board. Similarly, in the FY 1996/97 & 1997/98 only three times Right shares issued approved amounting Rs.275.20 millions and Rs.249.96 millions

respectively. In the FY 1998/99 only one issue approved by Board amounting Rs.30 millions which was the lowest issue amount during the FY 1995/96 to 2007/08. In the FY 1999/00 and 2000/01, Security Board approved three times to issue Right Shares amounting Rs.124.60 millions and Rs.365.79 millions respectively. Similarly, in the FY 2001/02, 2002/03 & 2003/04, Security Board approved four time to issue Right Shares amounting Rs.387.87 millions, Rs.162.24 millions and Rs.429.92 millions respectively. Security Board approved six and fourteen times to issue Right Shares amounting Rs.669.42 millions and Rs.1241.45 millions respectively in the FY 2004/05 & 2005/06. Finally, in the FY 2006/07 and 2007/08, amounting Rs.1817.25 millions and Rs.7605.21 millions of Right Shares are issued and Security Board approved for fifteen and forty nine times to issue Right Shares. In the FY 2007/08 total number of issue approved is forty-nine and total amount of Right Share issue is Rs.7605.21 which is the highest issue approval by Security Board in Nepalese Capital Market. Due to the Central bank directive to increase capital is the main cause to increase number of Right Share and its amount. Mostly commercial banks, development banks and financial institutions issue Right share at large volume.

Figure No. 9
Right Share Issue in Nepal
During FY 1993/94 to 2007/08



4.2.5 SECTOR WISE RIGHT ISSUE

Right issue is the one of the strong instrument to raise capital which required to future business expansion. In Nepalese Capital Market most of the commercial banks and financial institutions used Right Shares to increase their capital. After the directive of Central bank to increase their paid up capital till 2070, most banks and financial institution issued Right shares in large volume. Specially, commercial banks, development banks and finance companies issued right shares in large volume. The below table no.6 represents sector wise Right issue during the FY 1993/94 to 2007/08. These sectors are divided into eight sectors which include commercial banks, development banks, finance companies, insurance companies, hotel, manufacturing & processing, hydropower and other.

Table No. 6
Sector wise Right Issue
During FY 1993/94 to 2007/08

Name of the Sector	No. of Issue	Total Amount (Rs. in Million)	Proportion
Commercial Bank	24	5763.48	43%
Development Bank	17	1320.05	10%
Finance Companies	59	4632.82	35%
Insurance Companies	5	185.36	1%
Hotel	1	446.45	3%
Manufacturing & Processing	3	67	0.50%
Hydropower	2	923.15	6.87%
Others	1	89.60	0.66%
Total	111	13427.91	100%

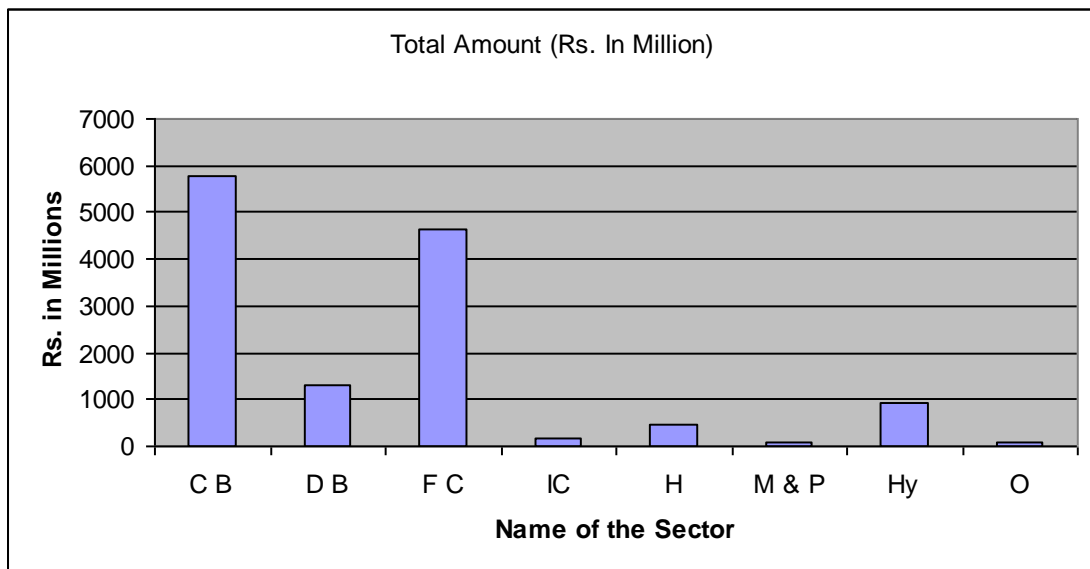
Source: www.sebonp.com

The above table no.6 represents the Sector wise Right issue during the FY 1993/94 to 2007/08 in Nepalese Capital Market. During these period total One Hundred Eleven times Right Shares are issued in Primary Market of Nepal. There are eight sectors divided by NEPSE i.e. Commercial Bank (CB), Development Bank (DB), Finance Companies (FC), Insurance Companies (IC), Hotel (H), Manufacturing & Processing (M&F), Hydropower (H) and Other (O). The total amount of Sector wise Right Issue was Rs.13427.91 millions during the FY 1993/94 to 2007/08. During these periods CB issued Twenty Four times Right shares amounting Rs.5763.48 millions which was the highest amount in compare to other sectors & the amount of CB covered 43% out of

100%. Similarly, DB issued Seventeen times and its amount was Rs.1320.05 millions which covered 10% of Right share market.

FC and IC issued Right shares fifty nine and five times and its total amount was Rs.4632.82 millions & Rs.185.36 millions respectively and both sectors covered 35 % & 1 % of Right share market in Nepal. Likewise H & MP also issued one & three times and total amount of Right shares issued was Rs.446.45 millions and Rs.67 millions respectively and both sectors covered only 3% & 0.50% of Right share market. Finally, H & O sector issued two and one times right shares and its total amount of issued was Rs.923.15 millions & Rs.89.60 millions respectively and total Right shares market was only 6.87% and 0.66%. This table showed that CB, DB and FC covered large portion of Right Share market in Nepal. The main reason is the NRB directive to increase paid up capital at the end of B. S. 2070. So the most commercial banks and finance companies issued Right shares in large volume.

Figure No.10
Sector wise Right Issue
During FY 1993/94 to 2007/08



4.2.6 THEORETICAL & MARKET VALUE OF THE STOCK

Right have intrinsic financial values because they are normally offered at a price some what lower than the current market price of stock. Theoretically after announcement of the right share, stock price of the company should be increase and after exercising the right share, stock price of the company should be decrease by its value of the right.

And the wealth position of the shareholders remain unchanged either they use right or sell the right. But if the shareholder do nothing the wealth position of shareholders decreased by the total value of the right. Stock price movement is not similar among all the companies listed in the Nepal stock exchange who have practices the right shares. Rights have certain market value because the right share is generally offered at lower than market price. So people are interested towards that particular share attached with rights. After the closing date of the right share the share price is drop to the extent of value of right. So the researcher want to know that does this theory apply in the contest of Nepal or not? For this purpose the researcher takes six different sample companies' market price after the announcement of the right share and before the announcement of the right share. Value of Right and theoretical value of stock are calculated in the appendix 1 and calculated values are put under this table.

Table No. 7
Theoretical & Market Value of the stock

Name of the companies	Right on Price	Subscription price	Required no. of right	Value of Right	Theoretical value of Right	Market value of Stock
Laxmi Bank	Rs.887	Rs.100	4	Rs.157.40	Rs.729.60	Rs.920
Siddhartha Development Bank	Rs.1201	Rs.100	5	Rs.183.50	Rs.1017.5	Rs.342
National Hydropower	Rs.300	Rs.100	1	Rs.100	Rs.200	Rs.198
Pokhara Finance	Rs.831	Rs.100	3	Rs.182.75	Rs.648.25	Rs.315
IME Financial Institution	Rs.1477	Rs.100	1	Rs.688.50	Rs.788.50	Rs.801
Himalayan General Insurance	Rs.345	Rs.100	3	Rs.61.25	Rs.283.75	Rs.280

Sources: Appendix 2 & 3

From the above table it shows that price behavior of Laxmi Bank limited does not follow the theory. According to the theory the value of one right of Laxmi bank should be Rs.157.40 and the theoretical value of the share is Rs.729.60 but the actual market price of the share is Rs.920. Therefore the value of the stock of Laxmi Bank limited is overpriced by Rs.190.40. Similarly, the price behavior of Siddhartha Development bank Also does not follow the theory. The value of one right of Siddhartha Development bank is Rs.183.50 and its Theoretical Market price is Rs.1017.5 but the actual market price of this bank was Rs.342 only. Therefore the price of the share of Siddhartha Development Bank is undervalued. In case of National Hydropower Company limited, the price behavior of this company not so much fluctuated. The theoretical value of this company is Rs.200 and the market price of this company is Rs.198 only. The price of the share of National Hydropower Company is under priced by Rs.2 only. So the shareholders of this company seem to be rational. Similarly, in case of Pokhara Finance limited, the market price of the share is lower than the theoretical value of share. Market price of Pokhara Finance is Rs.315 where as theoretical value of share is Rs.648.25. According the theory the price of the stock should be decrease by its value of right after the closed date of the right exercise. But the theory is not applying here. Therefore the price of the stock of this finance company is under value. In case of IME Financial Institution limited, theoretical value of this institution is Rs.788.50 but the market price of IME is Rs.801. so the market price of the IME Financial Institution's is overpriced by Rs.12.50. Finally, the price behavior of Himalayan General Insurance Company is also not highly fluctuated. The theoretical value of this company is Rs.283.75 and market price of this company is Rs.280. The price of this company is under priced by only Rs.3.75.

By analyzing the price behavior of these six sample companies through theoretical & market value of the stock, the researcher concludes following points. Two companies (Laxmi Bank and IME financial institution) market price is overpriced. Similarly other remaining companies (Siddhartha Development Bank, National Hydropower, Pokhara Finance and Himalayan General Insurance Company) market price is undervalued. The difference between theoretical & market value of Siddhartha Development bank is very high so the shareholders/ investors are not seems to be rational here. Similarly in case of National Hydropower Company limited & Himalayan General Insurance Company limited, the difference between theoretical & market value of the stock is not so much difference. So the investors/shareholders are seems too rational here. But the difference between theoretical & market value of Pokhara Finance limited is also

highly decreased. The shareholders who will purchase the share of Pokhara finance, he/she may be profit in future. In most of the cases the theoretical value & market value of the stock does not follow the theory. The main reason behind this, the market price of the stock determine by the demand and the supply of the stock in the market place. Similarly, financial performance of the company, national economic situations, political instability, monetary policy and unfaithful works of brokers are the main reason of not properly work this theory in Nepal.

4.2.7 SUBSCRIPTION OF RIGHT SHARE IN NEPAL

Right issue is one the important instrument to raise the capital for the company. After the direction of NRB to the commercial banks and financial institution to rise paid up capital by the end of B.S.2070. For this reasons many commercial banks and finance companies issued right share in the primary market. But shareholder interest on right share is not so good like IPO of commercial banks and development banks. Because when shareholder buy right share it does not increase their wealth position. Similarly, many shareholders do not know about right share like sell of right, its advantage & disadvantage etc. Investors/shareholders are more interested in IPO of commercial banks and development bank and dividend and bonus shares. After the direction of NRB to increase paid up capital till B.S. 2070 many banks and financial institution who have not meet Rs.200 million paid up capital, issued right share and bonus shares to meet this requirement. But shareholders/investors do not show their interest on right share. So the banks and financial institutions who have issued right share to increased capital now face the problem of selling the right shares within the time periods. Generally when the right share is issued in the market, there are two possibilities under or over subscription. If there is application for more than the announcement is called over subscription. And if there is application for less than requirement is called under subscription. During the FY 2007/08, one hundred eleven no. of issue approved by security board. The researcher used six different sample companies to know the subscription of right share in Nepal. The below table presented subscription of right share of six different companies during the FY 2003/04 to 2007/08.

Table No.8
Subscription of Right Share of Sample companies

Name of the banks	Fiscal Year	Ratio	Issue Approval Amount (Rs. in million)	No. of Issued Shares	Over subscription	Under subscription	Issue Manger
Laxmi Bank	2006/07	1:1	122	12,20,000		12,08,375	NMB
	2007/08	4:1	183	18,30,000	-	18,11,963	NMB
Siddhartha Development Bank	2007/08	1:1	50	5,00,000		3,56,782	ACE
National Hydropower Company	2007/08	1:1	694.94	69,49,400		24,10,389	NIDC
Pokhara Finance	2005/06	1:3	20	2,00,000		1,85,390	NMB
IME Financial Institution	2007/08	1:1	50	5,00,000		4,63,890	NMB
Himalayan General Insurance Company	2007/08	5:3	37.80	3,78,000		3,67,092	ACE

By the above table shows the subscription of right share of the sample companies. The table is divided into eight columns like this name of the sample companies, fiscal year, ration, and issue approval amount, number of issued shares, oversubscription, under subscription and issue manager of right share. Laxmi bank limited issued two times right share during the 2003/04 to 2007/08. In the FY 2006/07, Laxmi bank issued 12,20,000 Right shares amounting Rs.122 millions in 1:1 ratio. It means the shareholders who have one share can apply for one new share. Out of 12,20,000 shareholders applied for 12,08,375 only. It means undersubscribed by 11,625 shares. Similarly in the FY 2007/08, the same bank issued 18,30,000 right shares amounting Rs.183 millions in the 4:1 ratio. During this period only 18,11,963 right shares are applied by the shareholders & undersubscribed by 18,037 shares. The remaining shares of both years are purchase by the staffs of the concern bank. In past SEBON made a provision that if all right shares are not sold within time period then remaining shares will can purchase by the staffs of the concern banks. Both right shares of the Laxmi bank limited were done by NMB.

Similarly in the FY 2007/08, Siddhartha Development Bank also issued right share amounting Rs.50 million and outstanding 5,00,000 number of right shares in 1:1 ratio. ACE bank is appointed to the issue manger of this bank. During this period only 3,56,782 shares are applied by the shareholders. The remaining shares are also purchased by the staffs of concern bank. In the FY 2007/08, National Hydropower Company limited issued right share in 1:1 ratio amounting Rs.694.94 millions and outstanding 69,49,400 numbers of right shares in Nepalese capital market. But the right share of National Hydropower was highly undersubscribed. 24,10,389 no. of shares are applied by shareholders. NHCL appointed NIDC for issue manger. Similarly in the FY 2005/06 and 2007/08, Pokhara Finance Limited and IME Financial Institution issued right share amounting Rs.20 million at 1:3 ratio & Rs.50 million at 1:1 ratio respectively. During this period 1,85,390 right shares and 4,63,890 right shares are applied by shareholders at PFL & IME respectively. Both PF & IME appoint NMB as issue manger.

Finally, HGIC issued right share in the FY 2007/08 at 5:3 ration and the amount of right share is Rs.37.80 million. The HGIC issued 3,78,000 right shares to the market, out of them 3,67,092 no. of shares are applied by shareholders and remaining are purchased by staffs of the concern company. ACE bank is appointed as issue manger.

From the above analysis of six different sample companies researcher can conclude that the subscription of right share in Nepalese capital market is not so good. Shareholder/investors are not so much interest in investing at right share. The entire sample companies shows under subscription of right share. In past SEBON made a provision if all right shares are not sold within the time period, the remaining shares will can purchased by staffs of concern bank/institutions. The main reason of under subscription of right shares are lack of proper knowledge of right share to the general shareholders, insufficient information about right share, right share do not increased their wealth position etc. shareholders/investors are more interest at IPO of commercial banks and development banks because of quick incensement their value while listing at NEPSE.

4.2.8 Regression Analysis

Regression Analysis is a mathematical measure of the average relationship between two or more variables in terms of original units of data. Thus, regression analysis studies the statistical relationship between the variables. To calculate the percentage change in market price per share after the book closed date of the right offering researcher used the regression analysis. Here, market price of the share of each sample company before announcement of the right share is taken as independent variables (X) and market price of same companies after the book closed date is taken as dependent variable (Y).

Table No.9
Market Price of Share before Right Offering and after Book Closed

Name of Sample Companies	Right share announcement Date	Book Closed date	MPS before announcement	MPS After book Closed
Laxmi Bank	2064-12-24	2065-1-6	887	920
Siddhartha Development Bank	2065-12-7	2065-12-11	1201	342
National Hydropower company	2065-3-26	2065-3-30	300	198
IME Financial Institution	2065-9-3	2065-9-17	1477	801
Pokhara Finance	2065-8-22	2065-8-29	831	315
Himalayan General Insurance	2065-3-5	2065-3-14	345	280

Source: Appendix 3

Table no. 10
Regression Analysis

X	Y	XY	X ²	Y ²
1201	342	410742	1442401	116964
300	198	59400	90000	39204
1477	801	1183077	2181529	641601
831	315	261765	690561	99225
887	920	816040	786769	846400
345	280	96600	119025	78400
ΣX = 5041	ΣY=2856	ΣXY=2827624	ΣX ² =5310285	ΣY ² =1821794

Let the regression equation of Y on X be

$$Y = a + bx \text{ -----(i)}$$

To find the value of a & b we have the following two normal equation.

$$\Sigma y = na + b\Sigma x \text{ (ii)}$$

$$\Sigma xy = a\Sigma x + b\Sigma x^2 \text{(iii)}$$

Substituting the values of n, Σx, Σy, Σxy, Σx² in equation (ii) and (iii) we get

$$2856 = 6a + b5041 \text{ (iv)}$$

$$2827624 = a.5041 + b. 5310285 \dots (v)$$

Now, multiplying equation (iv) by 5041 and equation (v) by 6 then subtracting we get,

$$14397096 = 30246a + 25411681b$$

$$\underline{16965744 = 30246a + 31861710b}$$

$$- 2568648 = - 6450029b$$

$$b = 2.51$$

Now putting the value of b in equation (iv) we get the value of a

$$2856 = 6a + b5041$$

$$\text{Or, } 2856 = 6a + 2.51 \times 5041$$

$$a = 1632.82$$

Now substituting the value of a & b in equation (i) we get the regression equation of Y on X is

$$Y = 1624.41 + 2.51x$$

4.3 PRESENTATION & ANALYSIS OF PRIMARY DATA

Primary data are used for the analysis and evaluation purpose of the study. Primary data are generally used in those cases where the secondary data do not provide an adequate basis for analysis. Primary data are collected from the Staffs of broker's office, Researcher Circle Friend (small investors) and few issue managers. For this purpose questionnaire method, formal and informal conversation method are utilize for the purpose of soliciting information. Questionnaire are present in appendix no 5. While collecting the Primary data from the respondent, the researcher has concentrated on the basis of objectives. The respondents view are presented in the below table.

While questionnaires were distributed to the respondents (small investors and staffs of the broker house) related with the information about right share, respondent view was as follows:

Table No.11
Information about the Right Share

Option	Broker/Issue Manger		Investor	
	Respondent	Percentage	Respondent	Percentage
Yes	10	100	7	70
I don't know	-	-	-	-
Little knowledge	-	-	3	30
Total	10	100	10	100

Source: Direct Field Survey, 2066

All ten brokers have knowledge about the Right share. It means all 100% broker has good knowledge about it. Similarly out of ten investor's only seven respondents i.e. 70% investors have good knowledge about Right share but 30% investors have little knowledge about the Right share.

From this analysis, researcher can conclude that Nepalese brokers have good knowledge about the right share in compare to the investors. So due to the lack of proper knowledge about Right share, most right share issue is under subscription.

While questionnaires were distributed to the respondents (small investors and staffs of the broker house) related with the main reason to issue Right shares by banks and financial institution, there view was as follows:

Table No.12
Reason to issue Right Share

Option	Broker/Issue Manger		Investor	
	Respondent	Percentage	Respondent	Percentage
NRB directive	8	80	5	50
For further expansion	2	20	5	50
Because of high profit	-	-	-	-
Total	10	100	10	100

Source: Direct Field Survey, 2066

The above table shows the reason to issue right shares by banks and financial institutions. Out of ten brokers/issue manager, 80% brokers have said that NRB directive to increased capital till B.S.2070 is the main reason to issue Right share and 20% i.e. two brokers said that need capital for expansion was the reason to issue right

share. Similarly, 50% of investor said that NRB directive was the main reason to issue right share and 50% investor said that need capital for further expansion is the reasons. From these analysis, the researcher has conclude that most of the brokers believed that NRB directive is the main reason to issue Right shares to increase paid up capital. While questionnaires were distributed to the respondents (small investors and staffs of the broker house) related with the knowledge of legal provision of Right shares, following views was presented.

Table No.13
Knowledge of legal provision of Right share

Option	Broker/Issue Manger		Investor	
	Respondent	Percentage	Respondent	Percentage
Yes	7	70	3	30
No	-	-	5	50
Little knowledge	3	30	2	20
Total	10	100	10	100

Source: Direct Field Survey, 2066

The above table shows that out of 10, 70% brokers have knowledge about the legal provision of Right share & 30% brokers have little knowledge about the Right share. Similarly out of ten respondents, 30% investors have knowledge about it & 50% investors have not knowledge about the right share. 20% investors have little knowledge about the legal provision of Right share.

By analysis the above table, the researcher concludes that most brokers have knowledge about the legal provision of Right share in compare to the investors. Most investors have not good knowledge about the legal provision of Right share so they cannot use their right. And they cannot get benefit by it.

While questionnaires were distributed to the respondents (small investors and staffs of the broker house) related with the legal provision of Right shares is sufficient?

Following views was presented by respondents.

Table No.14
Legal provision of Right share is sufficient

Option	Broker/Issue Manger		Investor	
	Respondent	Percentage	Respondent	Percentage
Sufficient	7	70	3	30
Insufficient	2	20	4	40
Need improvement	1	10	3	30
Total	10	100	10	100

Source: Direct Field Survey, 2066

From the above table, out of 10 brokers & investor, seven brokers (70%) & three investors (30%), think that the present legal provision of Right share is sufficient. Similarly, 20% of brokers and 40% of investors think that the present legal provision is insufficient. 10% and 30% brokers and investors think that the present legal provision needs improvement. From the analysis of above table, the researcher concludes that most brokers are satisfied with the present legal provision of Right share. But the investors are not so satisfied with the legal provision of the Right share. While questionnaires were distributed to the respondents (small investors and staffs of the broker house) related with the reason for under subscription of Right share, following views was presented by respondents.

Table No.15
Reason for under subscription of Right Share

Option	Broker/Issue Manger		Investor	
	Respondent	Percentage	Respondent	Percentage
Lack of knowledge	7	70	6	60
Not get information on time	3	30	4	40
Not increased their wealth position		-	-	-
Total	10	100	10	100

Source: Direct Field Survey, 2066

From the above table, out of 10 brokers and investors, 70% of brokers & 60% of investor said that lack of knowledge of Right share is the main reason of under

subscription. Similarly, 30% brokers & 40% investors said that shareholders not get information on time about the right share was the main reason of under subscription of right share. After the analysis of above table, the researcher concludes that lack of proper knowledge about the Right share is the main reason of under subscription of right share. Similarly, shareholder not get information on time about the right share is another reason for under subscription.

While questionnaires were distributed to the respondents (small investors and staffs of the broker house) related with that did investors get sufficient and timely information regarding Right share? Following views was presented by respondents.

Table No.16
Shareholders get sufficient and timely information

Option	Broker/Issue Manger		Investor	
	Respondent	Percentage	Respondent	Percentage
Yes	3	30	4	40
No	7	70	6	60
Total	10	100	10	100

Source: Direct Field Survey, 2066

By above table, out of ten respondents, 30% & 40% of brokers and investor said that shareholders get sufficient and timely information about Right share. While as 70% brokers and 60% investors said that shareholders not get sufficient and timely information. From the above analysis, the researcher concludes that most of the shareholders not get sufficient and timely information about the Right share so they cannot purchase the right share and also not exercise their right. It is also the main reason of under subscription problem of right share.

While questionnaires were distributed to the respondents (small investors and staffs of the broker house) related with the announcement of Right share effect the price of stock, following views was presented by respondents.

Table No.17
Announcement of Right share effect the price of stock

Option	Broker/Issue Manger		Investor	
	Respondent	Percentage	Respondent	Percentage
Would rise	8	80	7	70
Would fall	2	20	3	30
Remain constant	-	-	-	-
Total	10	100	10	100

Source: Direct Field Survey, 2066

From the above table, out of 10 respondents, eight broker and seven investors said that announcement of right share increased the price of stock. Similarly, two brokers and three investors said that announcement of right share decreased the price of stock. All brokers and investors are agree that announcement of right share remain constant the price of stock. By analysis of above table, the researcher concludes that most brokers and investors think that after the announcement of Right share, it would increase the market price of the stock.

While questionnaires were distributed to the respondents (small investors and staffs of the broker house) related with the problem of Right share issue, following views was presented by respondents.

Table No.18
Problem of Right Share Issue

Option	Broker/Issue Manger		Investor	
	Respondent	Percentage	Respondent	Percentage
Inadequate legal provision	-	-	1	10
Under subscription	8	80	6	60
Lack of knowledge	2	20	3	30
Total	10	100	10	100

Source: Direct Field Survey, 2066

Out of 10 respondents, 80% brokers & 60% investors said that the main problem of right share issue is under subscription. While 10% investors said inadequate legal provision is the problem of right share issue. Similarly, 20% brokers and 30% investors said that the lack of knowledge is the problem of right share issue.

By the analysis of above table, the researcher concludes that under subscription and lack of knowledge of right share is the major problem of right share issue in Nepal.

While questionnaires were distributed to the respondents (small investors and staffs of the broker house) related with that do the Nepalese shareholders exercise their right? Following views was presented by respondents

Table No.19
Nepalese shareholder exercise their Right

Option	Broker/Issue Manger		Investor	
	Respondent	Percentage	Respondent	Percentage
Yes	-	-	-	-
No	7	70	6	60
They don't know about it	3	30	4	40
Total	10	100	10	100

Source: Direct Field Survey, 2066

Out of ten respondents, 7 brokers and 6 investors said that Nepalese shareholders don't exercise their right. While 30% brokers and 40% investors said that Nepalese shareholders do not about it. By the analysis of above table the researcher conclude that Nepalese investors are not so interested to exercise their right. Actually they do not know how to exercise their right. So most of the shareholders not take benefits from the right share issue. If the shareholders do nothing during right issue their wealth of position decreased.

4.4 PROBLEMS OF RIGHT SHARE PRACTICE IN NEPAL

Right share is one of the most effective instruments to raise capital of the organization in Nepal. Mostly commercial banks, development banks and finance companies issue right share in Nepalese capital market. These three financial institutions cover 92.05% out of 100% Right share market in Nepal. Hotel, insurance and manufacturing and processing sector issue very low amount of right share. Restoration of peace, improvement in listed companies' financial performance and most importantly the central bank's direction date 26 March 2007 to double paid up capital for banks and financial institution contribute to remarkable increment in right share. But there are some problem arises during the practice of right share which are describe below.

- Lack of one window system in Nepalese share market. To issue ordinary share/right share in the primary market the company organization must get permission form different Regulator agencies such as SEBON, NEPSE, NRB(for banks and financial institutional) and company Registration. Similarly, after issue these shares must be listed at NEPSE. For this purpose the issue manager and the company/organization who issue share also need

permission from SEBON & NEPSE. These agencies have different rules, policy, procedure and system to provide permission for issuing and listing shares. So it is time consuming, costly and delay for the company/organization. Lack of coordination and understanding among these Regulator agencies are other big problem faced by the Nepalese companies/organization.

- Lack of knowledge about right share among the Nepalese investors.
- Insufficient information provided by the company regarding right share and lack of proper publicity at media by the concern company.
- NEPSE has made a provision to transfer right from the FY 065/66. If the shareholder unable to purchase right share, he/she fully or partially sell his/her right to another people. But he/she cannot sell same right more than one person. But due to the lack of publicity most of the Nepalese investors do not know this provision so they do not take benefits from this provision.
- Central bank's direction dated 26 March 2007 to double paid up capital for bank and financial institutions contribute to remarkable increment in right share issue in Nepalese capital market. But beside banking and financial sectors, other sectors such as hotel, insurance, trading, manufacturing and processing sector issue very few right shares in Nepalese capital market.
- Nepalese organization also facing the problem of under subscription of Right share. Shareholders/investors are not so much interested on Right shares but in IPO of commercial banks and development banks are much popular than Right share.
- Due to political instability, Nepalese Capital market not performs smoothly and efficiently. And also limited opportunities for investment.

4.5 MAJOR FINDINGS OF THE STUDIES

- Nepalese commercial bank and financial institutions largely issues Right share in Nepal due to the Central Bank's directive dated on 26 March 2007 to double paid up capital
- Some banks and financial institutions issues Right share two to four times greater then their capital. To increase capitals so highly effect the transaction and also shareholders has wait long time for returns and dividend.
- The par value of all Right shares was Rs.100. The price of Right shares can be determined on the basis of company's fundamental analysis and market price, not on the basis of par value of the share.
- Some banks and financial institutions which have weak financial background also issued right shares in capital market. Beside this, they also issued right shares more than two or three times. So the regulator agencies must make some appropriate policy & guidelines.
- SEBON made a provision regarding transfer right. But large number of Nepalese investor does not knows about this provision so they do not take benefits from this provision.
- Information or notice regarding right share issue by the company can be publish not only newspaper but also other sources of media like TV, Radio, FM etc. so they can know about right share issue of concern company and take benefits form it.
- Issue manager plays very important role during right share issue process. They are only involved at issue process and managing funds and documents only. Lack of study, analysis and provide information, suggestion to the public.
- Delay on listing process of share at NEPSE because of different rules, policy and procedure to get permission form the different regulator agencies such as SEBON, NEPSE, NRB and office of the company Registration.
- Some investors hold the market for this reasons small investor does not get opportunities to sell their shares on time when market price is high. Only 23 brokers are operated at the market. Due to the limited broker, they don't give the priority to small investors. Due to low commission, small investor does not get the benefits from selling and purchase of shares.

5.1 SUMMERY

Capital is the most important part of any organization, which is required for investments. It works as blood of human being providing nutrients and energy to industries for sound operation. Capital is termed as fund raised in current time for future investment. Here investment refers to sacrifice of money now in expectation to get better return in future. Capital can be generated through sources of funds like equity share capitals, preference share capital or debts. For the growth of economic development of a country, capital market is extremely necessary and lack of proper development of capital market cannot pump necessary fund to industrialization process. Capital market plays a crucial and effective role in economy development of a nation. Capital market is organized market through which buyers and sellers of long term capital are met and the function of buying and selling takes place.

Capital market is such a powerful marketing which gives opportunity to the investors to invest their savings in ordinary shares, debenture and government securities. Nepal is developing countries in which financial market plays an important role for corporate development. The capital market is the place where mechanism in which various kinds of financial instrument are issued, transferred from one person/parties to another person/parties by means of different ways of trading mechanism due to which the group of people who have excess fund, can utilize their funds in the productive sectors and the group of people who needs funds to run their enterprises can also get funds. This process can help the economy rise to rise up. The effective utilization of the capital resources to the productive sectors is the base of development. So the financial market becomes the most important sector for fostering the different productive activities in the economy. Capital market is a market for long-term securities having maturities greater than one year. A place where long-tem leading and borrowing takes place is known as capital market. Therefore the capital market is the market for long-term borrowing and landing, they are vital to long term and prosperity of economy since they provide the channel through which needed fund can be raised. The key instruments used in capital market are debt, preference stock and bond and convertible

issues. (*Krishna, kumar, Agrawal; 1997: 420*). These sources of funds are said to be securities and they are traded in primary and secondary securities market. Here securities market is the place where buyers and sellers of securities are gathered in order to exchange their financial assets. In other words it facilitates the exchange of financial assets by bringing together buyers and sellers of securities.

Securities market is divided into primary and secondary market. Primary market is the place where the issuer offers the purchase of security to general public for the first time, while secondary market is the place where security are offered for trading by the investors. The health of the economy is reflected in the two wings of capital market i.e. primary market or new issue market and secondary market. The term Primary Market is used to denote the market for the original sale of securities by an issuer to the public. Primary Market is a place where companies sell securities for the first time. All securities, whether in money or capital markets are initially issued in the Primary Market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefits from an issue. The issue of securities in the primary market leads to direct transfer of money from savers to the issue of the securities. Following are the procedure of issue securities in Primary Market.

a) Private Placement

If issued securities are not selling to the general public but fully or partially unit sell to the limited persons or Organizations is called Private Placement. In Public Offering Organizations must fulfill various legal formalities to go with public. They publish vital information about the organizations such as organization's future plan, policies, strategy, its opportunities and challenges etc at the national newspaper. So the organization who does not want to publish such type of vital information to the public and formalities, they choose or give priority to Private Placement.

b) Public Offering

In Public Offering any persons or Institutions can buy securities. At Public Offering, the organizations must fulfill some legal formalities to go with public. They must publish their vital information like their goals, futures plan and policies, opportunities and challenges etc. at the national newspapers. They openly announce to the general public to buy securities. After Public Offering securities are listed on Secondary

Market. Investors subscribe to new issues only if they are hopeful being able to sell at a profit at some time in the future so it is better than Private Placement.

(c) Right Offering

Right Offering gives the current shareholders the first option to purchase any new shares issued in proportions to their current holding shares. Right Offering enables current owners to maintain their proportionate shares of ownership and control of the business.

The Primary Market is a financial market where shares and bonds are issued. Though there are many financial instruments, mainly three types of shares- Ordinary, Right, Bonus and two types of bonds- Corporate and Government are issued in the Nepali Primary Market. There are three parties involved in primary market of securities in Nepal. They are (i) Securities Issuing Companies/Government (ii) Securities Buyer (investor) (iii) Issue Managers performing the function of merchant bank. The Government and Public Limited Companies issue securities. General public, for profit and non profit organization are the buyers/investors of securities and finance companies licensed to carry out merchant banking activities (work as manger of issue) in Nepal.

Secondary Market is the place where already issued shares are traded among investors, is called secondary market. Nepal Stock Exchange (NEPSE) is the only one organized exchange to carry out secondary market operation of corporate securities in Nepal and NEPSE also started the Over the Counter (OTC) Market from 4th June 2008. After the investment banker's distribution is completed, the securities are traded in secondary markets. Secondary Market provides liquidity to the securities and ensures continuous price formation. The secondary financial market is the markets where many already outstanding financial assets are traded from old to new owners. The secondary market provides liquidity for financial assets making them more attractive. So secondary market is a place where the securities once sold are purchased and repurchased is operated by security exchange center. Security Exchange Center in order to promote the market, used to support the market even involving itself in buying and selling activities of necessary (*Pradhan, S.; (2002:22)*). The history of Nepal Stock Exchange abbreviated as NEPSE extends back to 1976 when the government established Securities Marketing Center in 1976. It was later converted into Securities Exchange

Center. In earlier years of its establishment the Center confined its activities in trading government securities. It started listing and trading corporate securities in November 1984. Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before its conversion into Nepal Stock Exchange, it was the only capital market institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. The Center was converted into Nepal Stock Exchange in 1994 with the basic objectives of imparting free marketability and providing liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as brokers, market makers etc and it is a non profit organization, operating under Securities Exchange Act 1983. NEPSE opened its trading floor on 13th January 1994 through licensed members. It is owned by Nepal Government, Nepal Rastra Bank, Nepal Industrial Development Corporation and the member of the Exchange. The authorized and issued capital of the Exchange is Rs.50 Million, out of which Rs.34.91 Million is subscribed Nepal Government, NRB, NIDC and member of the Exchange have subscribed 58.67 percent, 34.60 percent, 6.13 percent and 0.60 percent of the subscribed capital respectively.

The members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. A network of brokers and dealers who deals or negotiates for their own accounts with each other without any central location is called OTC Market. All securities transactions not taking place on the organized exchange are considered Over the Counter transactions. NEPSE stated the over the Counter (OTC) Market form 4th June 2008 to give shareholders a chance to sell the shares of companies that are de-listed and that are not listed on NEPSE for failing to meet the listing criteria. The shares of 38 companies can now be traded in the OTC Market. In the OTC Market one does not have to go to brokers to trade shares. One can come to NEPSE and trade, paying commission of 2% for transaction of up to Rs.25000, 1.5% for transaction of above Rs.25000 but under Rs.500000 and 1% for transaction of over Rs.500000. (www.nepalstockexchange.com: NEPSE News letter). Rights share, a type of equity share issued by corporation to raise additional fund giving first priority to the existing share holders to take the share. Those corporations, which have already issued shares to the public allowed to issue rights shares, provided the share already issued and fully paid. Right share is issued giving proportionate right to the

existing share holders to purchase the new share. It is option based financial approach, where existing shareholders are given an original ownership percentage of the shareholders. Right offering is a method of raising fund from the existing shareholders by offering additional securities to them on a pre-emptive basis. It involves the offer of additional share to existing shareholders. These are offered in proportion of existing shareholder. Each existing shareholders received one rights for each share they owned. They normally offered at a subscription price some what lower than the current market price of the stock, within specified period of time.

The pre-emptive right is the right of existing shareholders to maintain their ownership of the company by purchasing new shares issued by the company. The pre-emptive right gives holders of common stock the first option to purchase additional issue of common stock. Some times companies are bound to issue new shares of additional stock of existing shareholders because of pre-emptive right clause in the act of incorporation. If such clause are not include in the company charter then company has a choice of marking the sale to its shareholders or to an entirely new set of investors. There are not many studies have been conducted about the right share practice in Nepal. Researcher has made his best effort to collect a lot of information about right share for this study from review. Researcher divided the information in the form of conceptual review, review of books, journals and previous studies and review of laws and acts. Primary data are collected by the distribution the questionnaire the stock player and the stock brokers. Secondary data are collected from published and unpublished documents of related instructions. Only six different companies are taken as the sample of the study. To analyze and generalize the collected data, descriptive and analytical research design has been adopted various financial, statistical and mathematical tools analyze such types of data, collected data are presented in the tabular form than such data are analyzed to meet the objective of the study.

5.2 CONCLUSION

From the analysis of primary and secondary data Researcher has to reach in the following conclusion.

- 1) A right share practice in Nepal is in increasing trend. From the FY1995/96 to 2002/03, during this period right share's amount was much fluctuated. But after the FY 2003/04 to 2007/08, right share market is increased tremendously.
- 2) The total amount of Right share from the FY 1993/94 to 2007/08 is higher than other securities like ordinary shares, preference share, debentures and mutual funds.
- 3) Most of the companies which issued right share have faced the problem of under subscription. The main reason behind this, inadequate knowledge of right share to the shareholders, lack of information of right share's sufficiently on time, low performance of the companies etc.
- 4) Commercial Banks, Development Banks & other financial institutions issued large volume of Right share in Nepalese capital market after the direction of NRB to increase paid up capital (200 million for commercial bank, 6.4 million for development bank & 2 million for national level finance company). For this provision large volume of right share issued in market. But lack of other sectors right issue in market.
- 5). On the basis of amount of issue approval, right share covers 53% of total issue approval which is the highest position in compare to other securities.
- 6). In the FY2007/08 forty nine no. of issue approved by board amounting Rs.7605.21 million which was the highest number of issue approval during the 13 years.
- 7) Due to the low number of brokers, small investors not get opportunities to sell when market price is high and purchase when market price of the stock is low on time. Due to low rate of commission brokers not give proper attention on them
- 8) Large no of the Nepalese share market captured by banks and financial institutions so there is lack of productive and other sectors securities in the market.

- 9) Due to the lack of proper knowledge of right share, Nepalese shareholders do not exercise their right. If they do not exercise their right it will decrease their wealth position. So, Nepalese shareholders do not benefit by right share.
- 10) Unfaithful working condition of the brokers, big investors and insider trading also impact the market price of the stock in Nepalese capital market.
- 11) After the announcement of right share, stock price of the company should be increased and after the exercise the right, stock price of the company should be decreased by its value of right. But after the analysis of six different companies theoretical value and practical value of stock after book closed date is not similar. After the announcement of right share the market price of Laxmi bank ltd, and IME financial institution is overpriced. Similarly, Siddhartha development bank, National Hydropower, Pokhara Finance and Himalayan General Insurance market price be undervalued
- 12) Small investor does not want to attend the annual general meeting because they would not get any benefit from it.

5.3 RECOMMENDATION

The recommendations are made as per the analysis of primary and secondary was well as relating information about Issue & Practice of Right Share in Nepal. It is important that changes are made is as to make rights issue more easy, effective and efficient following are some correlative actions recommended.

- 1) The past "open cry system" of stock trading has become obsolete and is being replace by "Electronic Trading System" in NEPSE. After the NEPSE started "Electric Trading System" investors are still need to get sufficient knowledge about it how it works. So NEPSE conduct such types of awareness program to enhance the knowledge about it.
- 2) Under subscription of rights issue is a common phenomenon. Shareholders are not clear about right share, its benefits and its impact on stock price and their

wealth position. Security Board of Nepal and Nepal stock exchange should organize and launch various programs to increase the investor's awareness, regarding the right share.

- 3) SEBON also encourage and promote productive sectors and other sectors to issue right shares.
- 4) Security Board makes strong acts and regulation & implementation strictly to protect the brokers' unfaithful activities and insider trading.
- 5) Security Board increased the number of brokers so that small investors can get chance to easily sell or purchase the securities in time and get benefit from it.
- 6) Strongly implementation of rules and regulation for banks and financial institutions to submitted their financial information on time and prescribe format.
- 7) Many banks and financial institution issued right share which are suffering from losses. And some banks and financial institution issue right share annually. It is not good practice. If they issued many time to increase paid up capital, it impact on business operation and shareholders have to wait long time for dividend and return. So security board makes some strong rules and regulation to protect such type of practice.
- 8) Nepalese shareholders don't know about the provision of transfer or selling of right. So they don't take the benefits from this provision. So Security board needs to launch various programs to increase the investor's awareness, regarding the right share.

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APPENDIX- 1

Calculation of Value of Right & Theoretical Value of Right

(1) Laxmi Bank

Current MPS (Po) = Rs.887

Subscription Price (Ps) = Rs.100

No. of Right required to purchase 1 new share (#) = 4

$$\text{Value of Right (Vr)} = \frac{Po - Ps}{\# + 1} = \frac{Rs.887 - Rs.100}{4 + 1} = Rs.157.40$$

$$\begin{aligned}\text{Theoretical Value of Right (TVR)} &= Po - Vr \\ &= Rs.887 - Rs.157.40 \\ &= Rs.729.60\end{aligned}$$

(2) Siddhartha Development Bank

Current MPS (Po) = Rs.1201

Subscription Price (Ps) = Rs.100

No. of Right required to purchase 1 new share (#) = 5

$$\text{Value of Right (Vr)} = \frac{Po - Ps}{\# + 1} = \frac{Rs.1201 - Rs.100}{5 + 1} = Rs.183.50$$

$$\begin{aligned}\text{Theoretical Value of Right (TVR)} &= Po - Vr \\ &= Rs.1201 - Rs.183.50 \\ &= Rs.1017.50\end{aligned}$$

(3) National Hydropower Company Limited

Current MPS (Po) = Rs.300

Subscription Price (Ps) = Rs.100

No. of Right required to purchase 1 new share (#) = 1

$$\text{Value of Right (Vr)} = \frac{Po - Ps}{\# + 1} = \frac{Rs.300 - Rs.100}{1 + 1} = Rs.100$$

$$\begin{aligned}\text{Theoretical Value of Right (TVR)} &= Po - Vr \\ &= Rs.300 - Rs.100 \\ &= Rs.200\end{aligned}$$

(4) Pokhara Finance Company

Current MPS (Po) = Rs.831

Subscription Price (Ps) = Rs.100

No. of Right required to purchase 1 new share (#) = 3

$$\text{Value of Right (Vr)} = \frac{\text{Po} - \text{Ps}}{\# + 1} = \frac{\text{Rs.831} - \text{Rs.100}}{3 + 1} = \text{Rs.182.75}$$

$$\begin{aligned}\text{Theoretical Value of Right (TVR)} &= \text{Po} - \text{Vr} \\ &= \text{Rs.831} - \text{Rs.182.75} \\ &= \text{Rs.648.25}\end{aligned}$$

(5) IME Financial Institution

Current MPS (Po) = Rs.1477

Subscription Price (Ps) = Rs.100

No. of Right required to purchase 1 new share (#) = 1

$$\text{Value of Right (Vr)} = \frac{\text{Po} - \text{Ps}}{\# + 1} = \frac{\text{Rs.1477} - \text{Rs.100}}{1 + 1} = \text{Rs.688.50}$$

$$\begin{aligned}\text{Theoretical Value of Right (TVR)} &= \text{Po} - \text{Vr} \\ &= \text{Rs.1477} - \text{Rs.688.50} \\ &= \text{Rs.788.50}\end{aligned}$$

(6) Himalayan General Insurance Company

Current MPS (Po) = Rs.345

Subscription Price (Ps) = Rs.100

No. of Right required to purchase 1 new share (#) = 3

$$\text{Value of Right (Vr)} = \frac{\text{Po} - \text{Ps}}{\# + 1} = \frac{\text{Rs.345} - \text{Rs.100}}{3 + 1} = \text{Rs.61.25}$$

$$\begin{aligned}\text{Theoretical Value of Right (TVR)} &= \text{Po} - \text{Vr} \\ &= \text{Rs.345} - \text{Rs.61.25} \\ &= \text{Rs.283.75}\end{aligned}$$

APPENDIX- 2

Name of the bank	Date	Amount	Source
Laxmi Bank	2064/12/21	Rs.887	Annapurna post, year 6, vol 336, pg no. 13
	2065/01/8	Rs.920	Kantipur, year 16, vol 64, pg no.16
Siddhartha Development bank	2065/12/06	Rs.1201	Nepal Samacharpatra, year 14, vol 69, pg no.10
	2065/12/17	Rs.342	Nepal Samacharpatra, year 14, vol 80, pg no.10
National Hydropower	2065/03/24	Rs.300	Nepal Samacharpatra, year 13, vol 181,pg no.10
	2065/03/31	Rs.198	Kantipur, year 16, vol 149, pg no. 13
IME Financial Institutions	2065/08/30	Rs.1477	Nepal Samacharpatra, year 13, vol 335, pg no.10
	2065/09/20	Rs.801	Nepal Samacharpatra, year 13, vol 353, pg no.10
Pokhara Finance	2065/08/11	Rs.831	Annapurna post, year 17, vol 206, pg no. 7
	2065/09/08	Rs.315	Nepal Samacharpatra, year 13, vol 353, pg no. 10
Himalayan General Insurance	2065/03/01	Rs.345	Nepal Samacharpatra, year 13, vol 158, pg no. 10
	2065/03/14	Rs.280	Nepal Samacharpatra, year 13, vol 171, pg no 10

APPENDIX- 3

Name of the companies	Right Share Announcement Date	Book Closed Date	Ratio	MPS before Announcement	MPS after Book Closed
Laxmi Bank	2064/12/24	2065/1/6	4:1	887 (2064/12/21)	920 (2065/1/8)
Siddhartha Development Bank	2065/12/7	2065/12/11	1:5	1201 (2065/12/6)	342 (2065/12/17)
National Hydropower	2065/3/26	2065/3/30	1:1	300 (2065/3/24)	198 (2065/3/31)
IME Financial Institutions	2065/9/3	2065/9/17	1:1	1477 (2065/8/30)	801(2065/9/20)
Pokhara Finance	2065/8/22	2065/8/29	1:3	831(2065/8/11)	315 (2065/9/20)
Himalayan General Insurance	2065/3/5	2065/3/14	5:3	345 (2065/3/1)	280 (2065/3/9)

APPENDIX – 4

QUESTIONNAIRES

A SURVEY ON ISSUE & PRACTICE OF RIGHT SHARE MARKET IN NEPAL

Dear Sir/Madam

I have been conducting a research on "Issues and Practice of Right Share in Nepal" in partial fulfillment of the requirement of master of Business Studies (MBS). Here I have attached the questionnaires for facilitating the research. I would like to request you to go through the questionnaire and put your independent view as far as possible. I would like to assure you that the data collected would be used only for the purpose of the study. Further, your views will be kept confidential and your name will not be published anywhere. Your valuable feed back would be huge contribution for the complete success of the study.

Your co-operation in this regard shall be highly appreciated.

Thank you.

Sincerely Yours,
Achyut pun
Shanker Dev Campus,
MBS Final Year.

Respondent's Name:

Office:

Position:

Address:

Please tick in the group you belong to:

Broker House

Issuer Manger:

Small Investors

Instructions: Rank the following aspects of your views in order to your

Preference by indicating tick mark.

1. Do you know about the knowledge Right Share?

a) Yes

b) I don't know

c) Little knowledge

2. What is the main reason for issuing Right share by various banks & institutions?

a) NRB directive's to increase capital

b) Need capital for further expansion

c) Because of high profit

3. Do you know the legal provision of Right Share in Nepal?

a) Yes

b) No

c) Little Knowledge

4. Do you think that the present legal provision regarding Right Share in Nepal is sufficient?

a. Sufficient

b. Insufficient

c. Need improvement

5. What is the reason for under subscription of Right share?

a) Lack of knowledge to the shareholders

b) Not get information on time

c) Not increased shareholder wealth position

6) Do Nepalese shareholders get sufficient and timely information regarding Right share?

a) Yes

b) No

7) Do you think that announcement of Right share effect on the Price of Stock?

a) Would Rise

b) Would Fall

c) Remain Constant

8) What is the problem of Right issue in Nepal?

a) Inadequate Legal Provision

b) Under subscription of Right share

c) Lack of knowledge to the shareholders

9) Do you think that the Nepalese shareholders use their right?

a) Yes

b) No

c) They don't know about it

