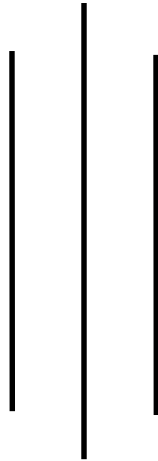


COMMON STOCK FINANCING: RIGHT OFFERING PRACTICE
IN
NEPAL



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RECOMMENDATION

This is to certify that the thesis:

Submitted by

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entitled

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has been prepared as approved by this department in the prescribed format of
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VIVA VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

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and found the thesis to be the original work of the student written accordance with the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for

Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

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DECLARATION

I hereby declare that the work reported in this thesis entitled “Common Stock Financing: Right Offering Practice in Nepal” submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master of Business Studies under the supervision of Lecturer Joginder Goet, Shanker Dev Campus.

.....

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CHAPTER-I

Introduction

1.1. Background of the Study

The efficient functioning of financial markets requires a number of financial institutions. One of these institutions, the investment banking firm, acts as middlemen in the distribution of new securities to the public. Its principal function is to buy the securities from the company and then sell them to investors. For this service, investment bankers receive the difference, or spread, between the price they pay for the security and the price at which the securities are resold to the public. Because most companies make only occasional trips to the capital market, they are not specialists in the distribution of securities. On the other hand, investment banking firms have the expertise, the contacts, and the sales organization necessary to do an efficient job of marketing securities to investors.

Due to geographical difficulties & lack of infrastructure development of financial sector, the growths of financial sector are badly affected. Domestic crisis create huge problem in development of financial sector in Nepal. The world converted into narrow boundary. The concept of borderless country took rapid motion in those days. Liberalization, globalization as well as privatization are most common and essential part of investment and other activities in financial sector of Nepal. The open market concept creates several opportunities & threats. Rapid development in information-technology sector is also milestone for increasing investment activities. Thus, competitive environment is formed in national market as well as international market. The

liberalization policy attracts foreign investor as well as national investor to invest financial sector & commercial sector, which help to raise the life standard of people.

Despite of the above natural resources and attributes, Nepal is still a developing country characterized by high population growth rate, low per capita income and low rate of capital formation. Nepal remained in self-imposed isolation for more than a century until it saw the dawn of democracy in 1951. It is an underdeveloped country with per capita income of US\$ 310, almost half of the population lives below the poverty line. Many reasons are there for the slow pace of development such as landlocked position, misuse of resources, absence of economic infrastructure, political instability, poor economic policy and institutional weaknesses. For this to overcome, the process of capital accumulation among other perquisites should be enhanced.

The capital accumulation in the banking sector has become legal compulsion as per the Nepal Rasrta Bank directive. The increase in the amount of the authorized capital of the commercial banks bounded them to issue the right share to change in the capital structure. In the recent time the volume of the right shares issue increased due to the legal criteria to be fulfilled by maintaining their share capital.

The attraction towards the right shares towards the right share is not as high as it is seen in the present context. The right shares were normally under-subscribed in the past & the trend changed to the over-subscribed situation. But at recent time, the sluggish stock market & the unstable financial market as well as reduce the attraction towards the stock market and has also hamper in the subscription of the right offering in the Nepalese market.

1.2. Focus of the Study

Common stocks financing has been very popular in the security market. In context to the Nepalese capital market also, the equity financing has covered the larger portion than the debt financing. Most of the companies of the country have preferred the equity financing than the debt financing.

To collect the required capital from the general public by the establishing companies in Nepal, majority of them issue common stock in the general public. So, the Nepalese investors are also highly attracted to the IPO done by the companies' especially financial institutions.

But the study has mainly focused on the right shares or right offering done by the listed companies. The study focused on the right shares offering only among the various aspects in the common stock financing. It has also focused on the impact of the right offering in the market price of the shares of the respective companies.

1.3. Statement of the Problem

Common stocks financing in Nepal is very common. The large portion of the capital market of the country is covered by the issue of the common stocks. But in recent few fiscal years, there has seen the negative uses & practices of issuing the right shares by the listed companies just to increase the paid-up capital values. They have not been able to inject

the required capital in their organization but are increasing the legal requirement through the stock dividend & right offering of shares to their own shareholders. Some of the issues arising from the right offering are:

- Is the right offering of capital financing a sustainable method of increasing capital?
- Only the right offering to the existing shareholders by the company's will fulfill their liability towards them?
- What will be the consequences in the stock market capitalization in due process of offering the right shares constantly?

1.4. Objective of the Study

The main objectives of the study are:

- To analyze the practice of the right offering under common stock financing by the financial institutions of Nepal.
- To explore the right shares subscription position for respective offering companies.
- To examine the impact in the MPS before & after the right issues.

1.5. Limitations of the Study

Though the study tries to cover major portion of the subject matter but there are the main limitations of the study, which are:

- i. The study mainly focused on the right offering practices under the common stock financing.
- ii. The study is completely based on the secondary data only.
- iii. The study is based on the historical data covering from F/Y2004/05 to F/Y 2009/10.

- iv. Due to the irregularity in the right offering by the listed companies, all the right offering companies listed at NEPSE has been taken.

1.6. Organization of the Study

Chapter I: Introduction

First chapter will describe about the research itself by defining various aspects of common stock financing & right offering practices in Nepal. This will help to develop the conceptual framework about the research problem and subject matter.

Chapter II: Review of Literature

Review of literature will advance the knowledge about the subject matter as well as general method of doing research in directives on some requirements, which are also defined by the finance expertise.

Chapter III: Research Methodology

Research methodology is policy and framework not within, which we will find the best alternative for making the research effective to analyze on the topic.

Chapter IV: Data Presentation and Analysis

Data presentation and analysis will evaluate & examine the common stock financing using right shares in Nepal.

Chapter V: Summary, Conclusion and Recommendations

Moreover, the last chapter will be the summary and conclusion of this research and remedial measures to be applied for further advancement and effectiveness of the use of right shares as the tool of common stock financing & its impact on share price of Nepal.

CHAPTER-II

Review of Literature

This chapter covers mainly the theoretical background of the research. The chapter covers all the aspects of the right offering practices in the common stock financing of the company. The existing theoretical basis, legal provision regarding the right offering in Nepal has been discussed in this chapter. The review of the books has been done initially to put the base of the research. Then the reviews of the past research & the articles have been done in this chapter.

2.1. Conceptual Framework

2.1.1 Common Stocks

Common stocks, also known as equity securities or equities, represent ownership shares in a corporation. Each share of common stock entitles its owner to one vote on any matters of corporate governance that are put to a vote at the corporation's annual meeting and to a share in the financial benefits of ownership.

The corporation is controlled by a board of directors elected by the shareholders. The board, which meets only a few times each year, selects managers who actually run the corporation on a day-to-day basis. Managers have the authority to make most business decisions without the board's specific approval. The board's mandate is to oversee the management to ensure that it acts in the best interests of shareholders.

The members of the board are elected at the annual meeting. Shareholders who do not attend the annual meeting can vote by proxy, empowering another party to vote in their name. Management usually solicits the proxies of shareholders and normally gets a vast majority of those proxy votes. Thus, management usually has considerable discretion to run the firm as it sees fit-without daily oversight from the equity holders who actually own the firm (*Sharpe, et. al.,2005:46*).

Common Stocks, also known as the ordinary shares are the types of shares which dividends are paid according to profits after payments on preference shares.

Common Stock represents equity, or an ownership position in a corporation. It is a residual claim, in the sense that creditors & preferred stockholders must be paid as scheduled before common stockholders can receive any payments. In bankruptcy, common stockholders are in principle entitled to any value remaining after all other claimants have been satisfied.

The great advantage of the corporate form of organization is the limited liability of its owners. Common stocks are generally fully paid & non-assessable, meaning that common stockholders may lose their initial investment but not more.

Because a common shareholder is one of the owners of a corporation, he or she is entitled to vote on matters brought up at the corporation's annual meeting & to vote for the corporation directors.

Interestingly, the primary market itself can be subdivided into seasoned & unseasoned new issues of the common stocks. A seasoned new issue refers to the offering of an additional amount of an already existing security, whereas an unseasoned new issue involves the initial offering of a security to the public. Unseasoned new equity issues are often referred to as initial public offerings.

The true owners of business firms are the common stockholders. Common stockholders are sometimes referred to as residual owners because they receive what is left-the residual-after all other claims on the firm's income and assets have been satisfied. They are assured of only one thing; that they cannot lose any more than they have invested in the firm. As a result of this generally uncertain position, common stockholders expect to be compensated with adequate dividends and, ultimately, capital gains (*Gitman, 2006: 280*).

2.1.2 Rights and Responsibilities of Common Stocks

Common stockholders are the owners of the company. Because of that ownership, right of common stocks are as follows:

2.1.2.1. Rights of the Common Stockholders

Common stockholders' get rights only by virtue of making investment in the share of the company. Their rights depend on their expectations to get dividend, share in the earnings of the company and other participatory approach of exercising voting rights, discussing in

agenda brought in annual general meeting and other inter-reactions. The rights of the common stockholders are as follows:

- a. Right to get dividend:** Common stockholders invest in the shares of the company to exercise the rights to get dividend. If not, they raise questions in the annual general meeting to the board of directors regarding their accountability and duty in shareholders' interest.
- b. Right to earnings:** The common stockholders can make a claim on the earning of the company although legally they cannot enforce the management to pay earnings as dividend. They can simply influence and convince the justifications to pay earnings as returns on their investment.
- c. Right to claim on assets:** The common stockholders have right to get the distribution of assets in the event of liquidations. This is possible only after meeting all the obligations of the creditors and employees claims on the company.
- d. Right to inspect books of account:** The company act has provided the right to the shareholders to see the books of account in case of their doubt on the maintenance of accounts. In practice, this is very rare exercise.
- e. Right to attain general meeting:** Shareholders have the right to participate in annual general meeting and raise the queries about the financial statement for discussions.

f. Right to vote: Shareholders are different from others because they have the voting rights to elect the members to serve in the capacity of directors in the board of the company. However, shareholders are not conscious to exercise their voting rights as they provide proxies instead of actively participating in enforcing their voting rights (*Shrestha & Bhandari, 2007:148-149*).

2.1.2.2. Responsibilities of the Common Stockholders

An only exercising right is not sufficient because rights become meaningful only when shareholders feel responsibilities to have good moral conduct to follow the discipline in the growth of the company. As such, shareholders cannot separate the responsibilities, which they have for the companies. The responsibilities are to cooperate with the company, provide fruitful suggestions and maintain discipline. The responsibilities of the common stockholders are as follows:

- a. Duty to cooperate:** Shareholders have an important duty to cooperate with the management of the company in helping how to improve the performance of the company. Simply criticizing the company and management is not a healthy practice rather shareholders have to think positively to encourage management to enhance efficiency of the company.

- b. Duty to suggest:** Shareholders have to be constructive in providing valuable suggestion useful to the company so that management will consider such suggestion useful as feedback to improve the performance than before.

- c. Duty to maintain discipline:** Shareholders should be obedient to maintain discipline to have good moral behavior and code of

conduct. They have to follow the norms laid down without violating the laws, rules and regulations of the company.

- d. Duty to be vigilant:** The shareholder should be self conscious to know and get information to be professionally oriented and independent in thinking and judgment (*Shrestha & Bhandari; 2007:149*).

2.1.3. Meaning Stock Certificates

After purchasing the common stock of any firm, the person becomes one of the owners of the firm. A single certificate has typically represented the ownership of a firm's stock, with the number of shares held by the particular investor noted on it. Such a stock certificate is usually registered, with the name, address, & holdings of the investor included on the corporation's books.

2.1.4. Issue Approval from SEBON

Prior to the enactment of Securities Ordinance, 2005, companies were required to get approval of their prospectuses from Company Registrar's Office & then to receive issue approval from the SEBON in accordance with Securities Exchange Act, 1983 & the Companies Act, 1996.

The Securities Ordinance, 2005, which came into effect since September 23, 2005, has incorporated a provision that requires the public companies to register with SEBON all securities before their issuance. The Ordinance also made it mandatory for issuing companies

to prepare prospectus, & publish it for the public after getting SEBON's approval.

2.1.5. Use of Rights in Financing (Right Offering)

When a company needs additional fund for a long-term purpose, it can raise the fund either issuing new common stock, preferred stock or debt instruments. If the new common stocks are issued giving the right to purchase first by the existing shareholders then it is called right offering. Each shareholder is issued an option to buy a certain number of new shares & the terms of the option are contained on a piece of paper called a right. Each stockholder receives one right for each share of stock owned.

“Right issue is a privilege given to the existing shareholders that helps them to keep their control position proportionately equal & the issuing price will be lesser than the market price. This lower price would help to maximize the capital gain of the shareholders” (*Bhattari, 2007:152*).

A right is similar to a warrant in that it is also like a call option issued by the firm whose stock serves as the underlying security. Rights, also known as subscription warrants, are issued to give existing stockholders their preemptive right to subscribe to a new issue of common stock before the public is given an opportunity. Each share of stock receives one right.

2.1.5.1. Preemptive Right

Under a preemptive right, existing common stockholders have the right to preserve their proportionate ownership in the corporation. If the corporation issues additional common stock, they must be given the right to subscribe to the new stock so that they maintain their pro rata interest in the company. You may own 100 shares of a corporation that decides to make a new company stock offering for the purpose of increasing outstanding shares by 10 percent. If you have a preemptive right, you must be given the option to buy 10 additional shares so that you can preserve your proportionate ownership in the company (*Van Horne, 2005:588*).

The preemptive right allows common stockholders to maintain their proportionate ownership in the corporation when new shares are issued. It allows existing shareholders to maintain voting control and protects them against the dilution of their ownership. Dilution of ownership usually results in the dilution of earnings, because each present shareholder has a claim on a smaller part of the firm's earnings than previously.

In a right offering, the firm grants rights to its shareholders. These financial instruments allow stockholders to purchase additional shares at price below the market price, in direct proportion to their number of owned shares. Rights are used primarily by smaller corporations whose shares are either closely owned or publicly owned and not actively traded. In these situations, rights are an important financial tool without which shareholders would run the risk of losing their proportional control of the corporation. From the firm's viewpoint, the use of rights offerings

to raise new equity capital may be less costly and may generate more interest than public offering of stock (*Gitman, 2006:281*).

2.1.5.2. Characteristics of Right Offering

Following are the characteristics of the right offering:

-) Number of shares equal to number of rights, i.e., one share equal to one right.
-) Rights are negotiable. The holder of rights can sell them.
-) Rights have expiration date, i.e., rights can be exercised only during a fixed period.
-) The price of additional share is called the subscription price.
-) The issuing company determines number of rights required to purchase one additional share.

2.1.5.3. Rights of Right Holder

Right is an option to a common stockholder, therefore, there is no obligation to purchase the additional shares. The right holder has the following rights: (*Bhattari.2007:155-156*).

-) Vote them & subscribe additional shares.
-) Exercise partiality to subscribe additional shares & sell the rest.
-) Sell whole rights because they are transferable.
-) Do nothing & let them expire.

2.1.5.4. Procedures of Right Offering

When stocks traded in the secondary market, during announcing period then the investors may get problem, who will get the right? To avoid this confusion the board of directors of the company fixed record date to give certainty about the possession of rights. The following is the procedure of right offering (*Bhattari; 2007:156-157*):

Declaration Date:

The board of directors meets & makes decision to raise the funds through the right offerings. The right offering is done under the primitive right of the existing shareholders.

Ex-right Date:

It is the date on & after which the right no longer goes to the stock. The ex-right date varies country to country & may determine by the companies themselves. In the Nepalese capital market, companies published notice of book closer date & the book closer date is the ex-right date. This date normally is the 4 days before the holder of record date.

Holder of Record Date:

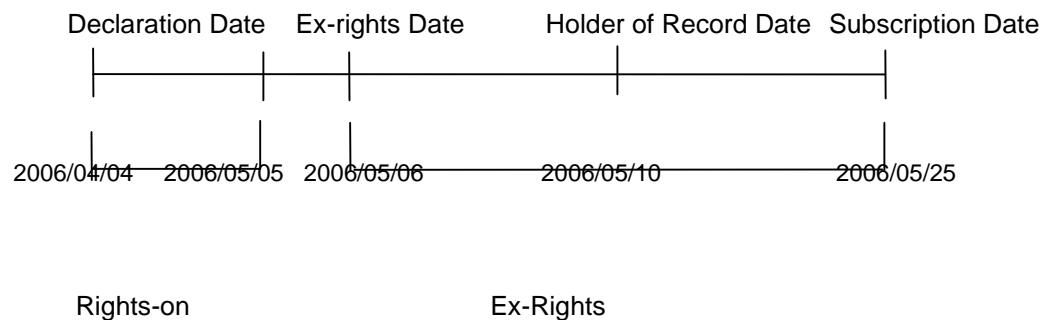
It is a date until which a person, who has bought shares before ex-right date, must register his/her name in the company. Holder of record date is a final date to transfer the title, meaning that the seller's name should be replaced by the buyer's name in the company's register until this date.

Subscription Date:

It is the date, on which company starts to sell the right shares to the shareholders those who have registered their name on & before the holder of record date.

Figure : 2.1

Procedure of Right Offering



Considering the right offering of MBL on F/Y 2005/2006 (Table No.4.4):

- Declaration Date: 2006/04/04
- Ex-right Date: 2006/05/06
- Holder of Record Date: 2006/05/10
- Subscription Date: 2006/05/25

2.1.5.5. Rights-on & Ex-rights

In the above example, the stock selling before 2006/05/06 is said to sell with rights-on. Those who buy stocks rights-on receive rights with stocks & can purchase right shares of the company. On & after the ex-rights date i.e., 2006/05/06 in above example, the shares is said to sell ex-rights, i.e., the stock is traded without rights attached. Investors those who buy shares after this date do not receive the rights to subscribe additional stocks (*Bhattari, 2007:157*).

2.5.5.6. Valuation of Right

Right is a negotiable instrument, so it has a certain value for sale. Theoretically, value of the right is determined using different equations & the value depend upon the market price of share, subscription price & number of rights required to purchase a new share. This value is also known as formula value. The real value of the right is determined by the demand & supply situation in the market. The following are the equations, which are used to determine the value of rights:

) **Rights-on value of a right**

$$\text{Value of one right } X \frac{\text{Market value of stock, rights } Z \text{ on } Z \text{ Subscription price}}{\text{Number of rights required to purchase one share } \Gamma 1}$$

Alternatively,

$$V_r X \frac{P_o Z P^s}{\# \Gamma 1}$$

Where,

V_r = Value of one right or, formula value or, theoretical value of one right

P_o = Rights on price of the stock

P^s = Subscription Price

$\#$ = Number of rights required to purchase a new share of stock

Alternatively,

$$V_r X \frac{P_o Z P^s}{N \Gamma 1}$$

Where,

V_r = Value of one right or, formula value or, theoretical value of one right

P_o = Rights on price of the stock

P^S = Subscription Price

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

) **Ex-rights value of a right**

Value of one right $\times \frac{\text{Market value of stock, ex } Z \text{ rights } Z \text{ on } Z \text{ Subscription price}}{\text{Number of rights required to purchase one share}}$

Alternatively,

$$V_r \times \frac{P_e \ Z P^S}{\#}$$

Where,

V_r = Value of one right or, formula value or, theoretical value of one right

P_e = Ex- rights on price of the stock

P^S = Subscription Price

= Number of rights required to purchase a new share of stock

Alternatively,

$$V_x \times \frac{P_x \ Z S}{N}$$

Where,

V_x = Value of one right or, formula value or, theoretical value of one right

P_x = Rights-on price of the stock

S= Subscription Price

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

2.1.5.7. Right Offering and Market Value of Share

Immediately after the announcement of the right offering the market price of the stock would increase by some amount but theoretically it is said that the right offering does not affect the value of shareholders. What will happen to the price of share before ex-rights i.e. in rights-on & after ex-rights date?

Rights-on price of stock

Rights-on price of stock is also known as cum-right price stock. This is the time that the stock is selling rights-on that is before ex-right date. During the rights-on period, the market price per share theoretically remains same & denoted as P_0 .

... Rights-on price=Cum-right price= P_0

Ex-rights price of stock

When the stock goes ex-rights, the market price theoretically decline by the amount of value of each right. The value of stock declines because the investors (buyers of stock) no longer receive the rights to subscribe to additional shares.

Ex-rights price of stock= Right on value of stock-Value of each right

$$P_e = P_0 - V_r$$

Where,

P_0 = Rights-on price of stock

V_r = Value of each right

P_e = Ex-rights price of stock

Alternatively,

$$P_x = \frac{P_0 + \frac{N}{N+1}S}{N+1}$$

Where, P_0 = Rights-on price of the stock

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

P_e = Ex-rights price of stock

S = Subscription price

P_x = Ex-rights price of stock (*Bhattacharai, 2007:159*)

2.1.6. Success of the Right Offering

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

We know that the stock should fall in price when it goes ex-rights. Its new theoretical value is determined by:

$$P_x = P_0 - \frac{P_0 - S}{N + 1}$$

Where, P_x is the market price of the stock when it goes to ex-rights and we see that it strongly depends on N, the number of rights required to purchase one share of stock. The greater the N, the less the theoretical price decline when the stock goes ex-rights. Thus, the risk that the market price will fall below the subscription price is inversely related to N. To illustrate, suppose the following were true:

Table No.2.1

Share Price Effect from Right Offering

Company	A	B
Market value per share rights-on, P_0	Rs.60.00	Rs.60.00
Subscription price, S	Rs.46.00	Rs.46.00
Number of rights needed to purchase one share, N	1	10
Theoretical value of one share ex-rights, P_x	Rs.53.00	Rs.58.73

We see that company A will have a greater decline in value per share when its stock goes ex-rights than will company B. All other things staying the same, there is a greater probability, or risk, that company's A stock will fall below the subscription price of Rs.46 than there is that company B's stock will fall below it (*Van Horne, 2005:590-591*).

2.1.7. Standby Underwriting

A company can ensure the complete success of a rights offering by having an investment banker or a group of investment bankers "stand by" to underwrite the unsold portion of the issue. In fact, most companies use a standby arrangement in a right offering. For this

standby commitment, the underwriter charges a fee that varies with the risk involved in the offering. Often the fee consists of two parts: a flat fee & an additional fee for each unsold share of stock that the underwriter has to buy. From the standpoint of the company issuing the stock, the greater the risk of an unsuccessful sale, the more desirable a standby arrangement, although it also is more costly.

In essence, the underwriter sells a put option to the firm & its shareholders. If the stock price declines below the subscription price, the stock will be put to the underwriter at the subscription price. That is bad for the underwriter, but it all is in the nature of writing options. If the stock price remains above the subscription price, rights will be exercised & the underwriter will pocket the standby fee. Because of the risk, standby fees are significant & increase with the volatility of the stock. Therefore, the company must pay for its put option.

In view of the high cost of this insurance relative to experience, it is surprising that the vast majority of companies have their rights offerings underwritten as opposed to the seemingly low-cost uninsured method. Various scholars have tried to explain this “paradox” in terms of such things as asymmetric information, financial signaling, transaction costs, flotation costs, & taxes. No explanation is entirely satisfactory, & the preponderance of underwritten rights offerings remains, to a degree, a paradox in academic finance (*Van Horne, 2005:591-592*).

2.1.8. Oversubscription

Another, less used means of increasing the probability that the entire issue will be sold is through oversubscriptions. This device gives stockholders not only the right to subscribe for their proportional share of the total offering but also the right to oversubscribe for any unsold shares. Oversubscriptions are then awarded on a pro rata basis relative to the number of unsold shares. Stockholders may subscribe to 460,000 shares of a 500,000-shares rights offering. Perhaps some of them would like to purchase more shares, & their oversubscriptions total 100,000 shares. As a result, each stockholder oversubscribing is awarded four-tenths of a share for each share oversubscribed. This results in the entire issue being sold. Although the use of the oversubscription increases the chances that the issue will be entirely sold, it does not assure this occurrence, as does the standby agreement. It is possible that the combination of subscriptions & oversubscriptions will fall short of the amount of stock the company desires to sell (*Van Horne, 2005:592*).

2.1.9. Rights Issue versus Public Offering

By offering stock first to existing stockholders, the company taps investors who are familiar with the operations of the company. The principal sales tool is the discount from the current market price, whereas with a public issue, the major selling tool is the investment banking organization. When the issue is not underwritten with a standby arrangement, the flotation costs of a rights offering are lower than the costs of an offering to the general public. Therefore, there is less drain in the system from the standpoint of existing stockholders. Moreover, many stockholders feel that they should be given the first opportunity to buy new common shares.

Offsetting these advantages in the minds of some is that a rights offering will have to be sold at a lower price than will an issue to the general public. If a company goes to the equity market with reasonable frequency, this means that there will be somewhat more dilution with rights offerings than there will be with public issues. Even though this consideration is not relevant theoretically, many companies wish to minimize dilution. Also, a public offering tends to result in a wider distribution of shares, which may be desirable to the company (*Van Horne, 2005:592*).

2.1.10. Green Shoe Provision

With a stock or convertible-security financing, underwrites often obtain an option to purchase additional securities at the offering price, Known as a green shoe provision (after an actual company), the option usually lasts several weeks after the offering. Often the option is for an additional 15% of the security offering, the maximum allowed. As with any option, the green shoe provision benefits the holder. If the security rises in price immediately after the offering, the underwriter can exercise the option & purchase additional securities, then sell them at a gain. In most situations, however, the underwriter will exercise the option in order to deliver securities against a short position. This short position is occasioned by satisfying demand for the security in the original & after-market (*Van Horne, 2005:593*).

2.1.11. Legal Provision for Right Issues in Nepal

The following provisions have been made for the right shares issue in Nepal under Share Issue Directives, 2065:

-) Before issuing the right shares by a company, the paid-up value of the initial offering should be fully paid.
-) A company can issue a right shares once in a fiscal year but if the company is issuing right shares for second time, it should issue after 180 days of the listing at the secondary market.
-) If a company wants to issue the right shares, it should be passed from the annual general meeting.
-) While offering the right shares by a company, initially the promoters should first deposit the equivalent amount for the right shares of their portion and then should be called for the other shareholders.
-) If the promoters do not want to take the right shares, they should publish the notice and offer to the general shareholders.
-) If the promoters want to transfer the right of the right shares to others, then the amount should be deposited within 7 days from the issue date.
-) If a company wants to collect the rights shares other than the purposes of operating the business then it should call for the right shares with purpose in public.
-) The right offering will be opened for minimum 35 days to maximum 60 days.
-) If after the right practices by the existing shareholders also remains, then the remaining right shares should be float in the open market for bidding.
-) The allotment of the right shares should be done maximum within 30 days from the closing date.

J If any shareholders don not wants to practice the right offering, it can be transferred to other shareholders. But this provision should be kept in the article of association (*Bhattari, 2066:9-10*).

2.2. Review of the Related Study

2.2.1. Review of the Previous Research Work

Gautam (2001), in his study “*An Analysis of Share Price Movement Attributed to Right Offering Announcement*” has the objectives of the right offering and subsequent allotment in Nepalese company act is not clear. He also found that the company act of Nepal has nowhere mentioned about necessity of legally transferable rights instrument called rights, which must be mailed to the stockholders for each stock held before the right offering. He also found that SEBON has to fail to establish a ‘one-window policy’ causing various imbroglios for the companies that want to go primary issue market for raising the capital.

Chongbury (2007),in her study “*A Study on Issue of Right Share and Its Impact on The Movement of Share Price with Special Reference of Nepalese Capital Market*” has found that the right share issue is the new practice in Nepalese security market even though its practice is increasing trend. From her study she found only few commercial banks & finance companies were following the theory of right offering. Most of the company’s share price has decreasing significantly after the announcement of right share instead of increasing & it is traded even below the ex-right price. She also found there is no any separate legal provision regarding right offering till the study by period. From the study she also found that share prices of CBs were significant different before & after the right share but in case of finance companies most of the companies’ share prices were insignificant.

Ranjit Sing (2008) in his study "*Role of Right Offering on the Stock Price Movement*" has found that the contribution of right share is being the second largest among various issues to raise the capital of the corporation approved by SEBON. He found the maximum contribution of right offering in total public flotation 58.36% and minimum of 6.81% within the F/Y 2059/60 to F/Y 2063/64. He took the 16 companies as a sample & found that the right share is not responsible for the stock price movement. He also found to follow randomness in price fluctuation.

Rijal (2008) in his discretion "*Impact of Share Price before and after Right Offering*" has stated that the right offering are comparatively new practice in Nepal, The companies have been able to raise the desired capital through the right offering and the practice does follows the theory. He found that the offering rights holder's record date is prior to the announcement date. He also found that there is not like uniformity in the impact of right offering of share price.

Pradhan (2008) in his discretion "*A Case Study on Right Offering & Its Impact on Stock Price in Nepalese market*" has found that the major cause behind the under subscription of rights share is the lack of awareness among the investors, untraceable shareholders, poor financial performance of the issuing company, financial problem of shareholders and lack of the provision for right transfer. Similarly, he found that there is no easy and clear provision regarding the sales of under subscribed rights in Nepal. He also found the increasing trend of the right offering. He also found no uniformity in the impact of right offering of share price.

Vaidya (2009) in his study “*Stock Market in Nepal: Movements and Behaviors*” has found that profitability, dividend, bonus & right share declaration by listed companies in Nepal as have high importance in the overall Nepse Index movement. Investors are showing dividend behind the Nepse movement, but the amount of dividend is too small vis-à-vis the market price of shares from the primary data analysis. The national political situation has been the major factor in the market movement in Nepal. He found the mid-July effect under the month-of-the-year effect in Nepalese stock market. Similarly, he also found the Tuesday has been the bearish day for the Nepalese stock market every time under the day-of-the week effect. Finally, he concluded that the behavior of Nepalese investors towards the stock market can be termed as an irrational exuberance.

Siwakoti (2011) in her discretion “*Effect on Share Price before and After Right Offering*” that the shareholders of Nepalese financial companies, there lacks the proper knowledge about the right shares and its impact of in wealth position. Due to this, free movement of share price during rights on and ex-rights are not confirmed. He also found, theoretically, after the issue of rights the earning per share of companies decreases. But if the company utilizes the rights offering, so it raised fund in effective way the earning per share can be increased. He found the similar results in his study.

2.2.2. Review of the Articles

Nepal (2007/08) in his article “*Nepal Stock Exchange Ra Margin Lending*” has analyzed the speedy growth of Nepse during the F/Y2063/64 is due to political stability in country, the supply & demand of shares & the criteria to increase the paid-up capital up to F/Y2069/70

by distributing bonus shares & right shares by banks & financial institutions. He found that the commercial banks which have the deficit capital adequacy & banks which were categorized as in risk by central bank also were doing well at the stock market. He elaborated the practice of margin lending by the financial institutions in Nepal was seen increasing. The directives on margin lending by NRB brought fluctuation in the stock market. He found unfair practice of lending of fund by pledging share certificate at financial institutions heavily affected on stock market of Nepal.

Pathak & Giri (2008) in their paper "*Rights Share Issue Practice in Nepal*" has focused on practice of rights offering in Nepal and its impact on share price movement. This study covers two interrelated aspects: (a) Characteristics of right offering of listed companies and (b) Share price movement associated with rights offering. Nepal Finance and Saving Company Ltd. started the practices of right share in Nepal by issuing right share for the first time in 1st December 1995. In this study, the rights share issue practice and impact of rights offering on market price of share have been analyzed by taking five rights issuing companies as sample. The findings of the study are not consistent with the theory of right offering.

SEBON (2010) in its report on "*Directions for Returning the amount of Rights Shares of Nepal Development Bank*" has stated that as per the provision of the Securities Act, 2007, securities Registration and Issue Regulation, 2008 and Securities Issue Guidelines, 2009, the application amount shall remain in the custody of Issue manger till the period of allotment of shares applied by the applicant and the amount is transferred to the company only after the completion of the allotment of

shares issued. As the amount collected for issue of rights of Nepal Development bank were not transferred to the Bank, it was considered reasonable to return such amount back to the applicants and therefore, with the decision of the Board, the Issue Manager was instructed to return the amount submitted by the applicants to the respective applicants.

Manshu (2011) in her article *“What is a share rights issue and why all the fuss about it?”* has mentioned that a right issue is when a company issues new shares, but offers it to their existing shareholders first. The existing shareholders then have an option to either buy the new shares or pass the offer. So, recently when the SBI rights issue was in the news, it was often said that the government is willing to subscribe to the rights issue, and that’s because they own 59.4% of SBI, and if any shares are issued without the government participating in the offer then their shareholding in the company will come down. He summarize, right issue is when a company issues fresh shares, but offers them to their existing shareholders in a pre determined ratio first. The existing shareholders can subscribe to these shares, and that helps them own the company in the same percentage that they did prior to the fresh issue.

Research Gap

In the past, large numbers of researchers have done the study on the stock market but few numbers had done the researcher only on the right offering practices in Nepal. The study was mainly done on the right shares offering effect on the overall stock market of the country, the legal provisions and a gap in the MPS on ex-right price and a theoretical price. Thus, this research is different than the past research on following basis:

-) The study has covered all the right offering by the listed companies in the past six F/Y.
-) The study tries to find out the impact of the right offering in the MPS which is a direct concerned to the shareholders and the investors.

CHAPTER-III

Research Methodology

The basis of starting the actual research starts from the appropriate choice of the research methodology. It is the steps that are taken while conducting the research work. It is completely a statistical and scientific –based step that is taken in the process of research work.

3.1. Research Design

Research design is necessary to fulfill the objectives of well-set research. Research design may be defined as framework, plan and structure for collecting, analyzing and evaluating data. It is a procedure and techniques, which provide ways for research validity.

The study is completely descriptive & analytical, based on the offering of common stock through the secondary market at the NEPSE floor in the last 5 F/Y.

3.2. Population

The population used in this study is purposive in nature. There are 159 companies listed at NEPSE currently. The fiscal years taken for the population of study are from F/Y2004/05 to F/Y 2009/10. The data of the right offering by the listed companies are taken in the study purpose.

3.3. Sources of Data

The data are mainly of secondary in nature. All the required data, collected from the official website of SEBON: www.sebonp.com.np. &

the Annual Report published by SEBON. Similarly, the reports & official website of NEPSE: www.nepalstock.com.np is visited to collect data.

3.4. Data Processing Techniques

All the secondary data collected are tabulated & mathematical as well as statistical tools are used for calculation where needed.

3.5. Tools Used

For the research purposes following financial and statistical tools have been used in the study:

3.5.1. Financial Tool

The below mentioned financial tool has been used in the research to find out the effect in the MPS on and after right offering:

Price Level Change:

One of the most important aspects of a successful rights offering is the subscription price. If the market price of the stock should fall below the subscription price, stockholders obviously will not subscribe to the stock, for they can buy it in the market at a lower price.

The real effect of the right offering is seen in the MPS of the respective shares of the company in the secondary market. The MPS might remain stable, increase or decreases after the date of the subscription of the right shares.

∴ Changes in Price Level on Declaration Date

= MPS Before - MPS on Declaration Date

∴ Changes in Price Level after Declaration Date

= MPS After - MPS on Declaration Date

3.5.2. Statistical Tool

The below mentioned statistical tool have been used to test the variables in the research:

t-statistic:

To test the validity of our assumption, if the sample size is less than 30, t-test is used. For applying t-test in context of small sample the t-value is calculated first & compared with the t-value on table at certain level of significance for given degree of freedom. If calculated value of "t" exceeds the table value (say 0.05) we can say that the difference is significant at 5% level, but if calculated value is less than the concerning values the difference is not treated as significant. The value is calculated by using following formula:

$$\dots t \times \frac{\bar{X} - Z}{\frac{S}{\sqrt{n}}} \quad \& \quad \dots t_{cal} \times \frac{\bar{d}}{\frac{S_d}{\sqrt{n}}}$$

Where, \bar{X} = Sample Mean

Z = Population Mean

S = Standard Deviation

CHAPTER-IV

Data Presentation and Analysis

In this chapter the data presentation and analysis have been done. The main research work is concentrated in this chapter. The data have been presented and interpreted as per the objective of the study in this chapter. The major findings of the research are also concentrated in this chapter.

4.1. Right Issues in Nepal

Table : 4.1

Right Issues in Nepal

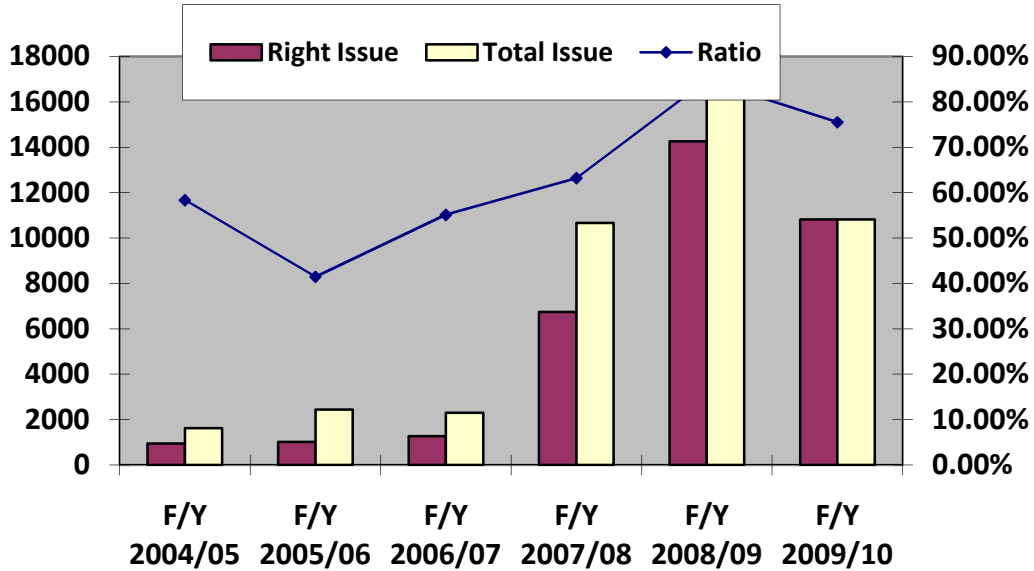
Rs. In million

F/Y	Right Issue	Total Issue	Ratio
2004/05	949.34	1626.82	58.36%
2005/06	1013.45	2443.28	41.48%
2006/07	1265.30	2295.50	55.12%
2007/08	6743.40	10668.20	63.21%
2008/09	14262.19	16828.51	84.75%
2009/10	8173.04	10822.41	75.52%
		Average	62.24%

Source: SEBON Annual Report

Figure : 4.1

Right Issues in Nepal



The above table and figure shows that the right issues in the Nepalese stock market are seen increasing in the past few years. The trend is seen heavily increased in the recent F/Y. The ratio of the right issue in the total issue in the market is at 41.48% in the F/Y 2005/06 & increased to 84.75% in the F/Y 2008/09.

The trend of issuing the right shares heavily in the Nepalese market is due to the capital increment by the commercial banks through the right offering to the existing shareholders.

4.2. Sector-wise Right Issues on Respective Fiscal Year

Table : 4.2

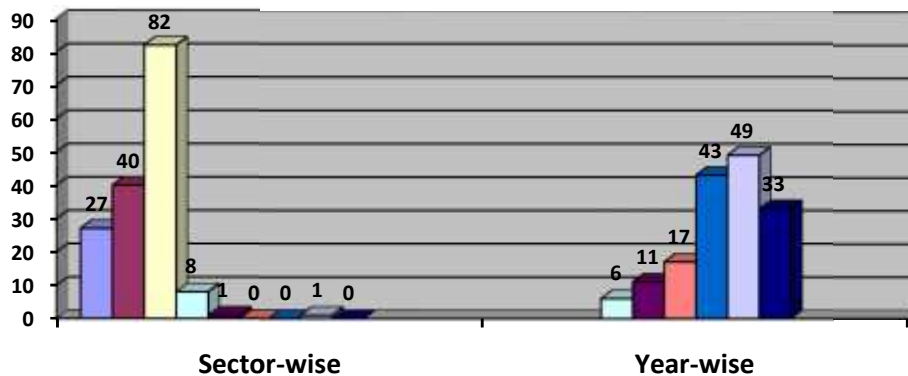
Sector-wise Right Issues on Respective Fiscal Year

F/Y	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Sector							
Commercial Bank	3	2	3(+1)	7	6	6	27(+1)
Development Bank	1	1	4	13	13	8	40
Finance Co.	2	7	9	20	27	17	82
Insurance Co.	-	-	-	3	3	2	8
Hotel	-	1	-	-	-	-	1
Mfg. & P. Co.	-	-	-	-	-	-	-
Trading	-	-	-	-	-	-	-
Hydropower	-	-	-	-	1	-	1
Other Co.	-	-	-	-	-	-	-
Total	6	11	17	43	49	33	159

Source: SEBON Annual Reports

Figure: 4.2

Sector-wise Right Issues on Respective Fiscal Year



The above table and figure shows that the number of right offering in context to sector-wise is highest for finance companies. In the past six fiscal years, 82 times the finance companies have issued the right shares to their shareholders. Then the development banks and commercial banks issued 40 and 27 times respectively. In the F/Y 2006/07, Lumbini Bank Limited issued twice right shares to its shareholders.

Equal number of right offering is made i.e. 13 times by the development banks in F/Y 2007/08 & F/Y 2008/09 respectively. The largest number of right offering is made in the F/Y 2008/09 with the total of 49 times.

The largest number of right share issued by a single sector in a year is by finance companies in F/Y 2008/09, in a number of 27 issues. Under the hotel sector, Taragaun Regency Hotels Ltd. and under the hydropower sector, National Hydropower Co. Ltd. issued only once in F/Y 2005/06 & F/Y 2008/09 respectively.

There are no single right offering from the manufacturing & processing companies, trading and other sectors of Nepse in the last six fiscal years.

4.3. Right Issues on Respective Fiscal Year

4.3.1. Right Issues in F/Y 2004/2005

Table : 4.3

Right Issues in F/Y 2004/2005

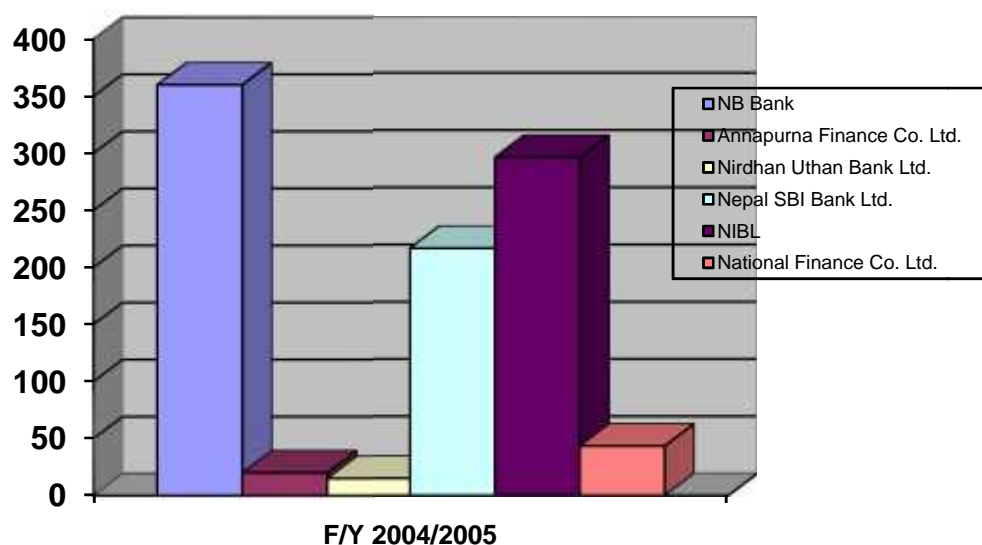
Rs. In million

Name of the Company	Issue Amount	Issue Date	Subscription (%)	Issue Manager
NB Bank	359.92	16/07/2004	95.26	NMB
Annapurna Finance Co. Ltd.	20.00	05/11/2004	97.33	NCML
Nirdhan Uthan Bank Ltd.	15.00	25/04/2005	65.92	NMB
Nepal SBI Bank Ltd.	215.93	03/05/2005	96.50	NMB
NIBL	295.29	13/05/2005	99.04	AFC
National Finance Co. Ltd.	43.20	15/06/2005	97.06	NCML

Source: SEBON Annual Reports

Figure : 4.3

Right Issues in F/Y 2004/05



The above table and figure shows that the three commercial banks, two finance companies & one development bank have made the right offering in the F/Y 2004/2005. NB Bank made the highest amount of the right offering amounting Rs.359.92 million & Nirdhan Uthan Bank Ltd. with the least amount of Rs.15.00 million. Similarly, the right shares of the Nirdhan Uthan Bank Ltd. is also least subscribed.

4.3.2. Right Issues in F/Y 2005/2006

Table : 4.4.
Right Issues in F/Y 2005/2006

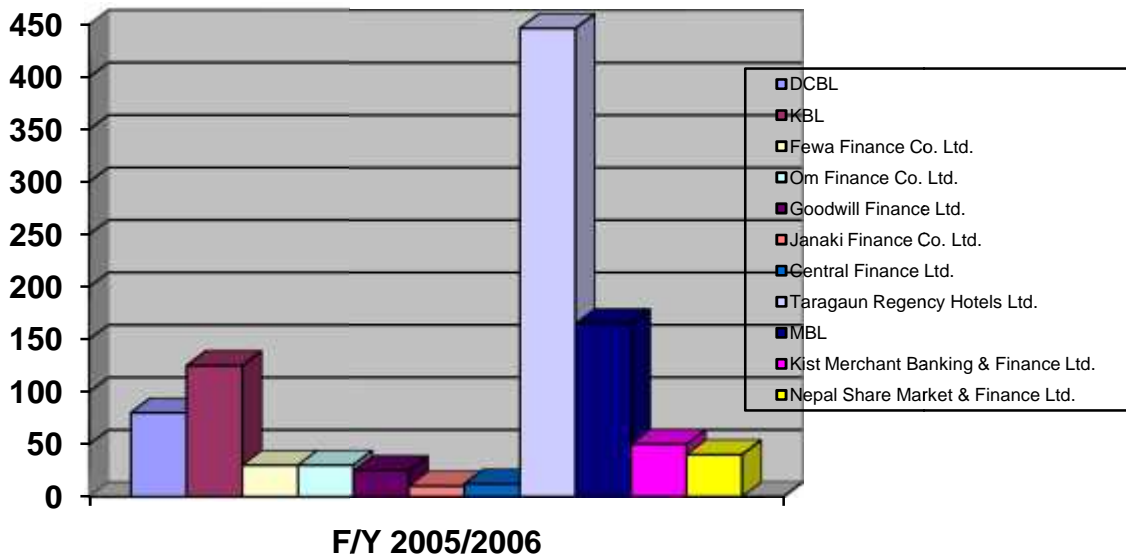
Rs. In million

Name of the Company	Issue Amount	Issue Date	Subscription (%)	Issue Manager
DCBL	80.00	24/08/2005	95.87	NMB
KBL	125.00	21/12/2005	153.46	NCML
Fewa Finance Co. Ltd.	30.00	18/01/2006	97.40	NMB
Om Finance Co. Ltd.	30.00	18/01/2006	99.66	NMB
Goodwill Finance Ltd.	25.00	03/03/2006	94.96	NCML
Janaki Finance Co. Ltd.	10.00	15/03/2006	98.33	NEFINSCO
Central Finance Ltd.	12.00	26/03/2006	98.32	NCML
Taragaun Regency Hotels Ltd.	446.45	26/03/2006	57.45	NCML
MBL	165.00	25/05/2006	87.13	NMB
Kist Merchant Banking & Finance Ltd.	50.00	30/05/2006	78.01	NMB
NSM & Finance Ltd.	40.00	04/06/2006	90.94	CIT

Source: SEBON Annual Reports

Figure: 4.4

Right Issues in F/Y 2005/06



The above table and figure shows that the large no. of financial institutions made the right offering in the F/Y 2005/2006. The largest amount of the right offered financial institution is the Taragaun Regency Hotels Ltd. with the total amount of the right offer of Rs.446.45 million. In addition, the least amount is of the Janaki Finance Co. Ltd. amounting Rs.10 million. KBL & MBL are the only two commercial banks made the right offer in the F/Y 2005/2006. The right shares of the KBL are oversubscribed.

4.3.3. Right Issues in F/Y 2006/2007

Table: 4.5

Right Issues in F/Y 2006/2007

Rs. In million

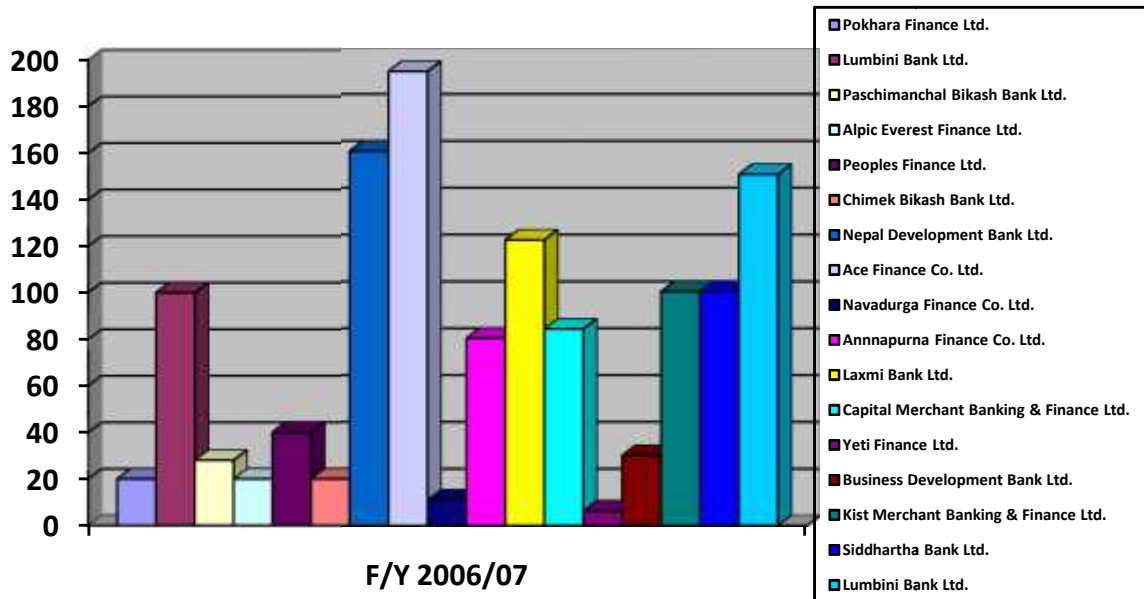
Name of the Company	Issue Amount	Issue Date	Subscription (%)	Issue Manager

Pokhara Finance Ltd.	20.00	20/07/2006	99.00	NMB
Lumbini Bank Ltd.	100.00	13/08/2006	100.00	NCML
Paschimanchal Bikash Bank Ltd.	28.00	20/08/2006	76.00	NCML
Alpic Everest Finance Ltd.	20.00	07/09/2006	96.00	NMB
Peoples Finance Ltd.	40.00	28/09/2006	56.00	NCML
Chimek Bikash Bank Ltd.	20.00	27/10/2006	81.00	NMB
Nepal Development Bank Ltd.	160.00	25/12/2006	54.00	NCML
Ace Finance Co. Ltd.	194.00	31/01/2007	99.00	NCML
Navadurga Finance Co. Ltd.	11.00	02/02/2007	99.00	NEFINSCO
Annapurna Finance Co. Ltd.	80.00	09/02/2007	99.00	NCML
Laxmi Bank Ltd.	122.00	25/04/2007	98.00	NMB
Capital Merchant Banking & Finance Ltd.	84.00	27/04/2007	80.00	CIT
Yeti Finance Ltd.	6.30	29/04/2007	83.00	NCML
Business Development Bank Ltd.	30.00	11/05/2007	100.00	AFC
Kist Merchant Banking & Finance Ltd.	100.00	23/05/2007	99.00	NCML
Siddhartha Bank Ltd.	100.00	04/06/2007	99.00	AFC
Lumbini Bank Ltd.	150.00	19/06/2007	-	AFC

Source: SEBON Annual Reports

Figure : 4.5

Right Issues in F/Y 2006/07



The above table and figure shows that during the F/Y 2006/07, total of 17 listed companies have made the right offering to their shareholders. Among them, the largest issue amount is of AFC with the total amount of 194 million. And the least amount of the right offering is made by Yeti Finance Ltd with the amount of 6.30 million.

LUBL has made the right offering twice in a single F/Y with the amount of Rs.100 million in 13/08/2006 & Rs.150 million in 19/09/2007.

The least percent of the subscription rate of the right offering is seen of the Nepal Development Bank Ltd with 54% in the F/Y 2006/07.

4.3.4. Right Issues in F/Y 2007/2008

Table :4.6

Right Issues in F/Y 2007/2008

Rs. In million

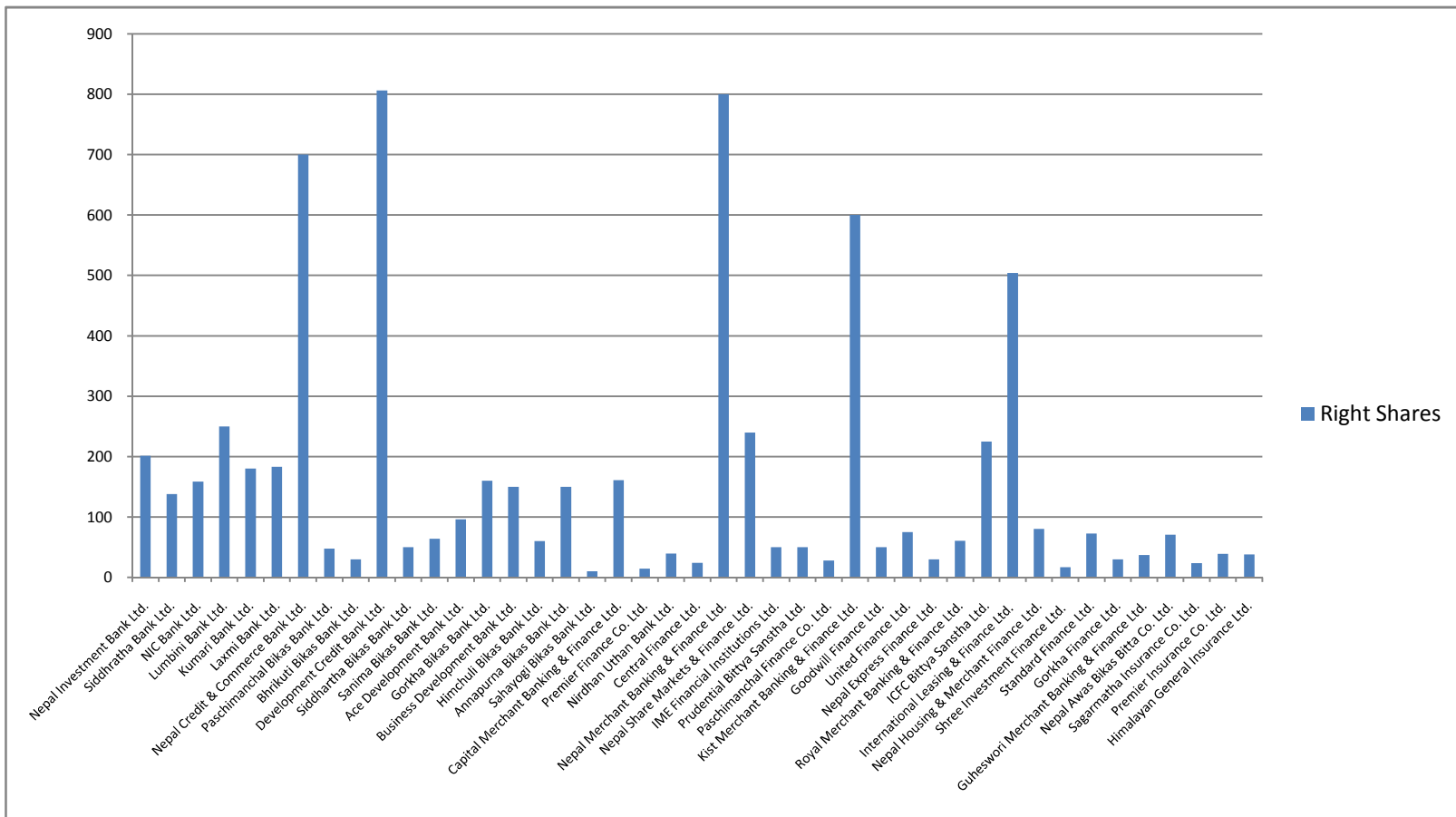
Name of the Company	Issue Amount	Issue Date	Subscription (%)	Issue Manager
Nepal Investment Bank Ltd.	201.30	29/01/2008	0.99	ACE
Siddhratha Bank Ltd.	138.00	25/02/2008	0.99	NMB
NIC Bank Ltd.	158.40	14/03/2008	0.96	NCML
Lumbini Bank Ltd.	250.00	31/03/2008	0.85	ACE
Kumari Bank Ltd.	180.00	24/04/2008	0.99	NCML
Laxmi Bank Ltd.	183.00	02/02/2008	0.99	NMB
NCC Bank Ltd.	700.00	07/08/2007	-	NCML
Paschimanchal Bikas Bank Ltd.	47.50	02/12/2007	0.89	ACE
Bhrikuti Bikas Bank Ltd.	30.00	10/12/2007	0.97	NCML
Development Credit Bank Ltd.	806.40	03/01/2008	0.99	NMB
Siddhartha Bikas Bank Ltd.	50.00	10/02/2008	-	ACE
Sanima Bikas Bank Ltd.	64.00	07/05/2008	0.99	NCML
Ace Development Bank Ltd.	96.00	25/05/2008	-	NCML
Gorkha Bikas Bank Ltd.	160.00	26/05/2008	1.23	CIT
Business Development Bank Ltd.	150.00	29/05/2008	0.67	ACE
Himchuli Bikas Bank Ltd.	60.00	30/05/2008	0.99	NCML
Annapurna Bikas Bank Ltd.	150.00	10/06/2008	-	NEFINSCO
Sahayogi Bikas Bank Ltd.	10.00	17/06/2008	0.99	NCML
Capital Merchant Banking & Finance Ltd.	161.00	09/12/2007	0.77	ACE
Premier Finance Co. Ltd.	14.40	27/01/2008	0.98	NCML

Nirdhan Uthan Bank Ltd.	39.50	16/11/2007	-	NCML
Central Finance Ltd.	24.00	11/09/2007	-	NCML
Nepal Merchant Banking & Finance Ltd.	800.00	08/01/2008	0.95	NFC
NSM & Finance Ltd.	240.00	19/11/2007	0.99	CIT
IME Financial Institutions Ltd.	50.00	26/11/2007	0.99	NMB
Prudential Bittyta Sanstha Ltd.	50.00	14/03/2008	0.86	ACE
Paschimanchal Finance Co. Ltd.	27.80	19/05/2008	0.97	NFC
Kist Merchant Banking & Finance Ltd.	600.00	16/05/2008	0.85	ACE
Goodwill Finance Ltd.	50.00	25/05/2008	0.99	ACE
United Finance Ltd.	75.00	30/05/2008	0.98	NCML
Nepal Express Finance Ltd.	30.00	02/06/2008	0.99	NCML
Royal Merchant Banking & Finance Ltd.	60.60	01/06/2008	0.99	ACE
				Contd...
Name of the Company	Issue Amount	Issue Date	Subscription (%)	Issue Manager
ICFC Bittyta Sanstha Ltd.	224.80	10/06/2008	0.85	NMB
International Leasing & Finance Ltd.	504.00	09/06/2008	0.92	NCML
Nepal Housing & Merchant Finance Ltd.	80.40	25/06/2008	0.83	ACE
Shree Investment Finance Ltd.	16.80	23/06/2008	0.99	NMB
Standard Finance Ltd.	72.60	30/06/2008	1.01	NCML
Gorkha Finance Ltd.	30.00	13/07/2008	1.06	CIT
Guheswori Merchant Banking & Finance Ltd.	37.00	15/07/2008	-	NCML
Nepal Awas Bikas Bitta Co. Ltd.	70.50	15/07/2008	0.96	NFC

Sagarmatha Insurance Co. Ltd.	23.60	20/02/2008	0.96	ACE
Premier Insurance Co. Ltd.	39.00	26/06/2008	0.86	ACE
Himalayan General Insurance Ltd.	37.80	07/07/2008	-	ACE

Source: SEBON Annual Reports

Figure : 4.6
Right Issues in F/Y 2007/08



The above table and figure shows that the practice of the right offering is seen heavily increased in the F/Y 2007/08 by the listed companies. Of the total listed companies, 43 companies have made the right offering during the F/Y. The highest number of 22 of the listed finance companies has made the right offering in this F/Y. Nepal Merchant Banking & Finance Ltd. made the largest amount of right offering with Rs. 800 million.

Then the development banks came at the second position with the total of 11 development banks making the right offering to their shareholders. DCBL made the largest right offering with Rs. 806.40 million. After the right offering, it fulfilled the capital requirement to become the “A” class commercial bank and converted to the “A” class commercial bank of the country.

Similarly, 3 insurances companies also made the right offerings to their shareholders. For all the insurance companies, the issue manager is ACE. Premier Insurance Co. Ltd. made the largest amount of right offering of Rs.39 million.

4.3.5. Right Issues in F/Y 2008/2009

Table : 4.7

Right Issues in F/Y 2008/2009

Rs. In million

Name of the Company	Issue Amount	Issue Date	Subscription (%)	Issue Manager
Machhapuchhre Bank Ltd.	493.00	29/07/2008	-	NMB
Kist Bank Ltd.	1200.00	09/11/2008	-	ACE
NB Bank Ltd.	1116.89	08/12/2008	-	NMB
Nepal Investment Bank Ltd.	803.03	17/02/2009	-	NCML
NMB Bank Ltd.	330.00	17/05/2008	-	DCBL
DCBL Bank Ltd.	553.73	19/05/2009	-	NMB
Gandaki Development Bank Ltd.	50.00	29/07/2008	-	NMB
Swabalamwan Bikas Bank Ltd.	35.00	28/11/2008	-	NMB
Bageswori Bikas Bank Ltd.	15.00	10/12/2008	-	NMB
Nepal Bikas Bank Ltd.	320.00	19/02/2009	-	NMB
Infrastructure Development Bank Ltd.	240.00	09/03/2009	-	NMB
Siddhartha Development Bank Ltd.	537.86	08/04/2009	-	ACE
Sanima Bikas Bank Ltd.	384.00	18/05/2009	-	CIT
Ace Development Bank Ltd.	384.00	18/05/2009	-	ELITE
Narayani Development Bank Ltd.	10.00	28/05/2009	-	ELITE
Gorkha Development Bank Ltd.	120.00	01/06/2009	-	ACE
Nepal Development & Employment Promotion Bank Ltd.	160.00	01/06/2009	-	ACE

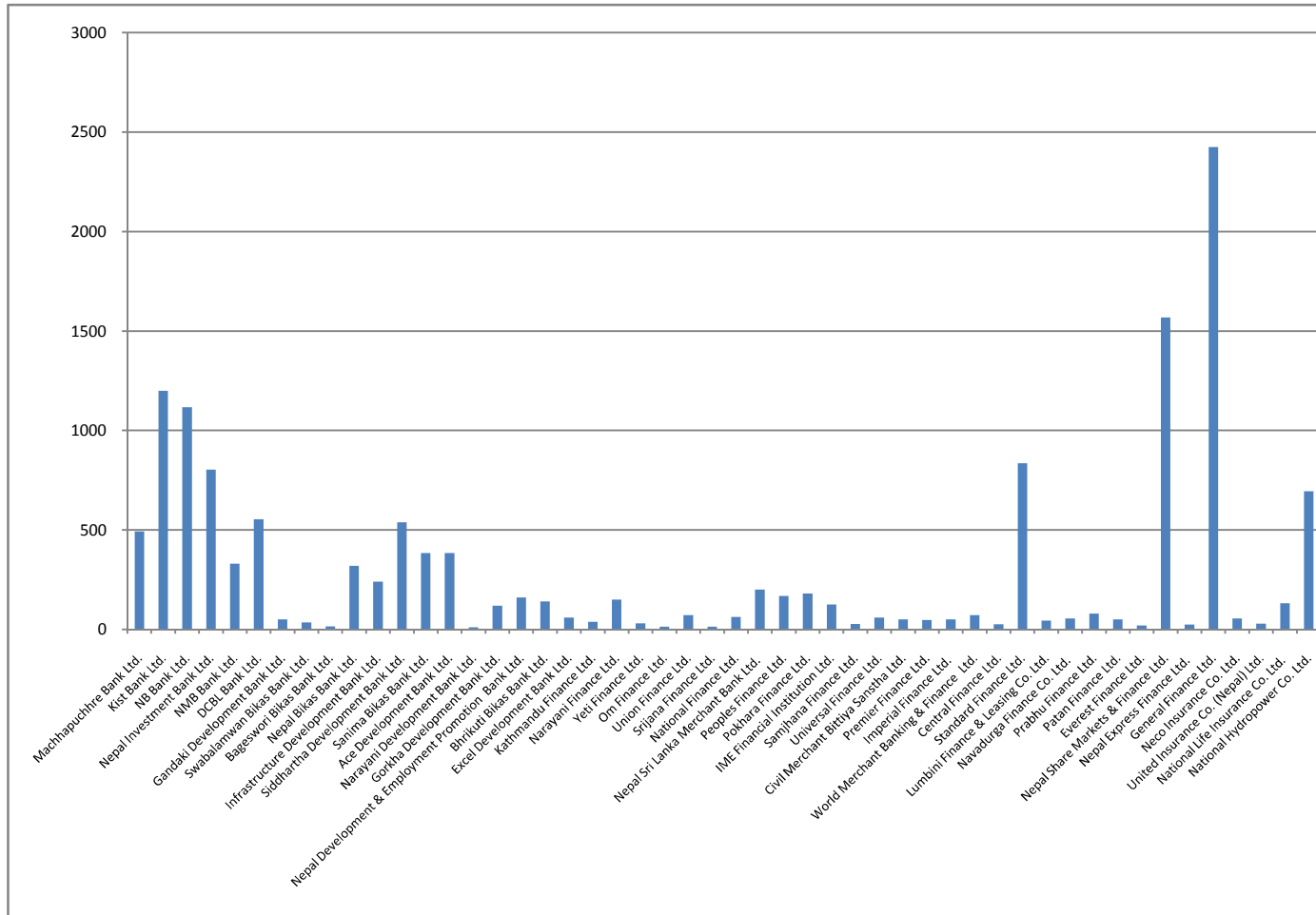
Bhrikuti Bikas Bank Ltd.	141.00	05/06/2009	-	NCML
Excel Development Bank Ltd.	60.00	14/06/2009	-	ACE
Kathmandu Finance Ltd.	37.95	29/07/2008	-	ACE
Narayani Finance Ltd.	150.07	31/07/2008	-	NMB
Yeti Finance Ltd.	31.25	03/08/2008	-	ACE
Om Finance Ltd.	14.00	09/09/2008	-	NFC
Union Finance Ltd.	72.52	21/10/2008	-	NCML
Srijana Finance Ltd.	14.00	14/11/2008	-	NCML
National Finance Ltd.	62.80	18/11/2008	-	NMB
Nepal Sri Lanka Merchant Bank Ltd.	200.00	18/11/2008	-	NCML
Peoples Finance Ltd.	168.00	01/12/2008	-	ACE
Pokhara Finance Ltd.	180.00	29/12/2008	-	NMB
IME Financial Institution Ltd.	125.00	12/01/2009	-	NMB
Samjhana Finance Ltd.	27.83	02/02/2009	-	NCML
				Contd..
Name of the Company	Issue Amount	Issue Date	Subscription (%)	Issue Manager
Universal Finance Ltd.	60.23	08/04/2009	-	NFC
Civil Merchant Bittiya Sanstha Ltd.	50.00	23/04/2009	-	NFC
Premier Finance Ltd.	47.52	27/04/2009	-	NCML
Imperial Finance Ltd.	50.00	11/05/2009	-	NCML
World Merchant Banking & Finance Ltd.	72.00	12/05/2009	-	NMB
Central Finance Ltd.	25.39	01/06/2009	-	ACE
Standard Finance Ltd.	834.90	03/06/2009	-	NCML

Lumbini Finance & Leasing Co. Ltd.	45.00	14/06/2009	-	ACE
Navadurga Finance Co. Ltd.	54.71	15/06/2009	-	NMB
Prabhu Finance Ltd.	80.00	19/06/2009	-	ELITE
Patan Finance Ltd.	50.00	19/06/2009	-	NCML
Everest Finance Ltd.	20.00	23/06/2009	-	ACE
NSM & Finance Ltd.	1567.73	28/06/2009	-	CIT
Nepal Express Finance Ltd.	24.00	01/07/2009	-	NCML
General Finance Ltd.	2424.18	07/07/2009	-	NCML
Neco Insurance Co. Ltd.	55.00	18/08/2009	-	CIT
United Insurance Co. (Nepal) Ltd.	28.80	18/05/2009	-	NCML
National Life Insurance Co. Ltd.	132.00	22/05/2009	-	CIT
National Hydropower Co. Ltd.	694.94	28/07/2008	-	NCML

Source: SEBON Annual Reports

Figure: 4.7

Right Issues in F/Y 2008/09



As usual, the above table and figure shows that the listed finance companies are in the large number to issue the right shares in the Nepalese stock market. Of the total listed companies, total of 27 finance companies made the right offering in the F/Y 2008/09. Then 13 development banks, 6 commercial banks, 3 insurance companies and as well as 1 hydro-power company, National Hydropower Co. Ltd. has also made the right offering to their shareholders during the F/Y 2008/09.

General Finance Ltd. has made the highest amount of the right offering of Rs.2424.18 million. Similarly, among the commercial banks, Kist Bank has made the highest amount of the right offering of Rs. 1200 million during the period.

4.2.6. Right Issues in F/Y 2009/10

Table: 4.8

Right Issues in F/Y 2009/10

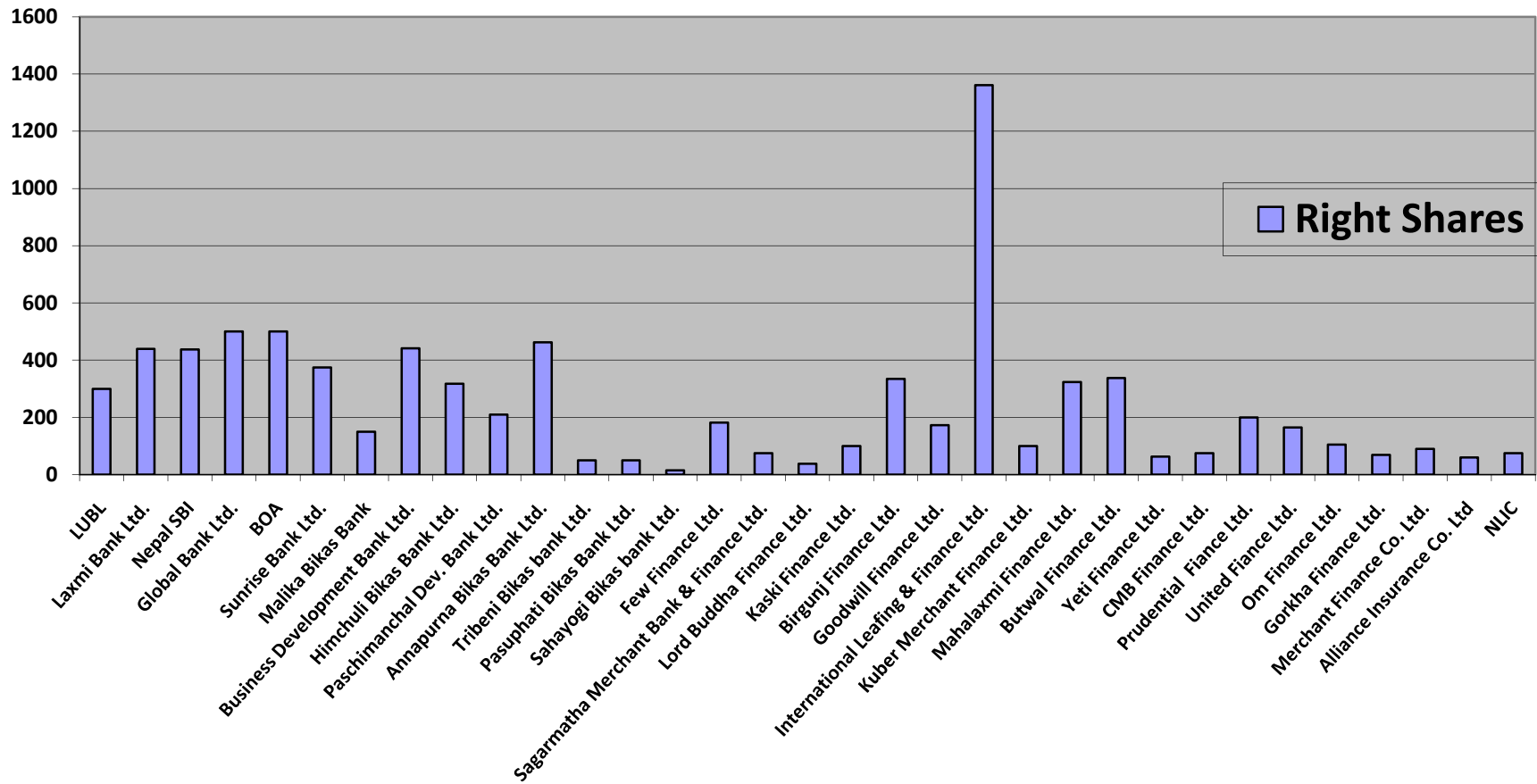
Rs. In million

Name of the Company	Issue Amount	Issue Date	Subscription (%)	Issue Manager
LUBL	300.00	15/08/2009	-	NCML
Laxmi Bank Ltd.	439.23	19/11/2009	-	NCML
Nepal SBI Bank Ltd.	437.26	29/12/2009	-	NMB
Global Bank Ltd.	500.00	02/02/200	-	Elite
BOA	500.00	02/02/2010	-	Civil Capital
Sunrise Bank Ltd.	375.00	29/06/2010	-	NCML
Malika Bikas Bank	150.00	14/08/2009	-	NMB
Business Development Bank	441.00	05/10/2009	-	ACE
Himchuli Bikas Bank Ltd.	317.40	06/01/2009	-	NMB
Paschimanchal Dev. Bank	210.00	14/02/2010	-	Growmore
Annapurna Bikas Bank Ltd.	462.00	11/03/2010	-	Elite Capital
Tribeni Bikas Bank Ltd.	50.00	26/02/2010	-	ACE
Pashupati Bikas Bank Ltd.	50.00	11/06/2010	-	Growmore

Sahayogi Bikas Bank Ltd.	15.00	22/06/2010	-	NCML
Fewa Finance Ltd.	182.00	24/07/2010	-	Elite Capital
Sagarmatha Merchant B &F	75.00	14/08/2009	-	CIT
				Contd..
Name of the Company	Issue Amount	Issue Date	Subscription (%)	Issue Manager
Lord Buddha Finance Ltd.	37.50	04/09/2009	-	ACE
Kaski Finance Ltd.	100.00	08/09/2009	-	ACE
Birgunj Finance Ltd.	334.70	18/09/2009	-	NMB
Goodwill Finance Ltd.	173.25	24/09/2009	-	ACE
International Leasing & Finance Ltd.	1360.80	15/12/2009	-	NCML
Kuber Merchant Finance Ltd.	100.00	24/12/2009	-	NMB
Mahalaxmi Finance Ltd.	324.00	31/01/2010	-	NMB
Butwal Finance Ltd.	337.26	-	-	NMB
Yeti Finance Ltd.	62.50	14/03/2010	-	Elite Capital
CMB Finance Ltd.	75.05	13/04/2010	-	Civil Capital
Prudential Finance Ltd.	200.00	15/04/2010	-	Civil Capital
United Finance Ltd.	165.00	21/05/2010	-	Elite Capital
Om Finance Ltd.	105.00	25/06/2010	-	NCML
Gorkha Finance Ltd.	69.14	30/06/2010	-	Growmore
Merchant Finance Co. Ltd.	90.00	15/07/2010	-	Growmore
Alliance Insurance Co. Ltd.	59.95	04/11/2009	-	NCML
Nepal Life Insurance Co. Ltd.	75.00	01/01/2010	-	NCML

Source: SEBON Annual Reports

Figure: 4.8
Right Issues in F/Y 2009/10



The above table and figure shows that the listed finance companies are in the large number to issue the right shares in the Nepalese stock market. Of the total listed companies, total of 17 finance companies has made the right offering in the F/Y 2009/10.

Then 8 development banks, 6 commercial banks & 2 insurance companies also has made the right offering to their shareholders during the F/Y 2009/10.

International Leasing & Finance Ltd. has made the highest amount of the right offering of Rs.1360.80 million. Similarly, among the commercial banks, Global Bank & BOA made the highest amount of equal right offering of Rs. 500 million during the period. The issue date of the right offering of the Butwal Finance Ltd. amounting Rs. 337.26 million is not declared. Sahayogi Bikas Bank Ltd. is the company issuing the least amount of the right shares of Rs. 15 million only in the F/Y 2009/10.

The detail information regarding the amount or volume of subscription has not stated in the data as well.

4.3. Impact on MPS on & after Right Issues

4.3.1. Impact on MPS on & after Right Issues for the F/Y 2004/2005

Table : 4.9

Impact on MPS On & After Right Issues for F/Y 2004/05

S. No.	Company Name	MPS Before	MPS on Declaration Date	MPS After	Price Change	
					On Declaration Date	After Declaration Date
1.	NBBL	290	2004/07/16	286	-	-4
			290			
2.	AFCL	300	2004/11/05	315	-	+15
			300			
3.	NUBL	90	2005/04/25	90	-	-
			90			
4.	NSBIB	346	2005/05/03	350	-	+4
			346			
5.	NIBL	865	2005/05/13	815	-5	-50
			860			
6.	NFCL	325	2005/06/15	309	-	-16
			325			

Source: Neps Daily Trading Report

Majority of the MPS is declined for the right shares offering companies on and after the declaration date. The highest decline in the MPS after the declaration of the right shares is seen of NIBL with the decline of Rs.50 per share. Similarly, there is a decline in the MPS for NIBL share on the declaration date as well.

There is no change in MPS for the shares of NUBL on and after the right shares declaration.

The MPS of AFCL & NSBIB have seen increased by Rs.15 & Rs.4 respectively after the declaration of the right shares by these companies. But, theoretically it is said that the right offering does not affect the value of shareholders.

4.3.2. Impact on MPS on & after Right Issues for the for the F/Y 2005/2006

Table : 4.10

Impact on MPS On & After Right Issues for F/Y 2005/06

S. No.	Company Name	MPS Before	MPS on Declaration Date	MPS After	Price Change	
					On Declaration Date	After Declaration Date
1.	DCBL	260	2005/08/24	260	-	-
			260			
2.	KBL	345	2005/12/21	340	-5	-
			340			
3.	FFCL	209	2006/01/18	200	-	-9
			209			
4.	Om Finance	209	2006/01/18	219	-	+10
			209			
5.	Goodwill	185	2006/03/03	185	-	-

			185			
6.	Janaki	190	2006/03/15	195	-	+5
			190			
7.	CFCL	190	2006/03/26	180	-	-10
			190			
8.	Taragaon	40	2006/03/26	43	-	+3
			40			
9.	MBL	340	2006/05/25	338	-2	-
			338			
10.	Kist	153	2006/05/30	162	-	+9
			153			
11.	NSM&FL	145	2006/06/04	145	-	-
			145			

Source: Npse Daily Trading Report

Among the 11 companies which offered the right shares during the F/Y 2005/06, only 2 companies' share prices declined on the declaration date and remaining with no effects. The MPS of KBL & MBL declined by Rs.5 & Rs.2 respectively on the declaration date. The MPS for the shares of DCBL, Goodwill Finance & NSM&FL has not shown any effect on MPS from the right offering on and after the declaration date.

The highest increase on MPS after declaration is seen for Om Finance & decline for CFCL with Rs.10 respectively.

4.3.3. Impact on MPS on & after Right Issues for the for the F/Y 2006/2007

Table: 4.11

Impact on MPS On & After Right Issues for F/Y 2006/07

S. No.	Company Name	MPS Before	MPS on Declaration Date	MPS After	Price Change	
					On Declaration Date	After Declaration Date
1.	Pokhara	400	20/07/2006	400	-	-
			400			
2.	LUBL	165	13/08/2006	165	-	-
			165			
3.	Paschimanchal Bikash Bank Ltd.	100	20/08/2006	100	-	-
			100			
4.	Alpic Everest Finance Ltd.	150	07/09/2006	150	-	-
			150			
5.	Peoples Finance Ltd.	135	28/09/2006	135	-	-
			135			
6.	Chimek Bikash Bank Ltd.	100	27/10/2006	100	-	-
			100			
7.	Nepal Development Bank Ltd.	135	25/12/2006	135	-	-
			135			
8.	ACE Finance Co.	445	31/01/2007	445	-	-
			445			
9.	Navadurga Finance Co. Ltd.	100	02/02/2007	100	-	-
			100			

10.	AFC	100	09/02/2007	100	-	-
			100			
11.	LBL	490	25/04/2007	498	-	+8
			490			
12.	Capital Merchant Banking & Finance Ltd.	179	27/04/2007	179	-	-
			179			
						Contd..
S. No.	Company Name	MPS Before	MPS on Declaration Date	MPS After	Price Change	
					On Declaration Date	After Declaration Date
13.	Yeti Finance Ltd.	230	29/04/2007	230	-	-
			230			
14.	Business Development Bank Ltd.	381	11/05/2007	381	-	-
			381			
15.	Kist Merchant Banking & Finance Ltd.	445	23/05/2007	457	-	+12
			445			
16.	Siddhartha Bank Ltd.	620	04/06/2007	630	+6	+10
			626			
17.	LUBL	365	19/06/2007	355	-5	-10
			360			

Source: *Nepse Daily Trading Report*

Most of the companies' MPS is not changed on and after the declaration of the right shares during the F/Y 2006/07.

Of the total 17 companies which made the right offering during the F/Y 2006/07, only four companies MPS are seen fluctuated by the right offering.

The MPS of the Laxmi Bank & Kist Merchant Banking & Finance Ltd. are seen increased by Rs.8 & Rs.12 per share after the declaration of the right shares.

Similarly, the MPS of Siddhartha Bank is increased by Rs.6 on the declaration date as well as increased by Rs.10 after the declaration date. But the price position is reverse for the LUBL. The MPS declined by Rs.5 on declaration date and twice more by Rs.10 after declaration date.

4.3.4. Impact on MPS on & after Right Issues for the for the F/Y 2007/2008

Table: 4.12

Impact on MPS On & After Right Issues for F/Y 2007/08

S. No.	Company Name	MPS Before	MPS on Declaration Date	MPS After	Price Change	
					On Declaration Date	After Declaration Date
1.	NIBL	1666	29/01/2008	1550	-86	-116
			1580			
2.	Siddhartha Bank Ltd.	810	25/02/2008	790	-1	-20
			809			
3.	NIC	932	14/03/2008	839	-	-93
			932			
4.	LUBL	450	31/03/2008	465	+10	+15
			460			
5.	KBL	796	24/04/2008	785	-	-11

			796			
6.	LBL	800	02/05/2008	852	-	+52
			800			
7.	NCCBL	245	07/08/2007	242	-1	-3
			244			
8.	Paschimanchal Bikash Bank Ltd.	511	02/12/2007	511	-	-
			511			
9.	Bhrikuti Bikas Bank Ltd.	100	10/12/2008	100	-	-
			100			
10.	DCBL	3055	03/01/2008	2900	-155	-155
			2900			
11.	Siddhartha Bikas Bank Ltd	630	10/02/2008	630	-	-
			630			
12.	Sanima Bikas Bank Ltd.	932	10/02/2008	969	-	+37
			932			
13.	ACE	714	25/05/2008	760	+57	+46
			771			
14.	Gorkha Bikas Bank Ltd.	992	26/05/2008	935	-57	-57
			935			
15.	Business Development	548	29/05/2008	548	-	-
			548			
16.	Himchuli Bikas Bank Ltd.	980	30/05/2008	980	-	-
			980			
17.	Annapurna Bikas Bank	497	10/06/2008	536	-	+39
			497			
18.	Sahayogi Bikas Bank	236	17/06/2008	236	-	-
			236			
						Contd..
S. No.	Company Name	MPS Before	MPS on Declaration Date	MPS After	Price Change	
					On Declaration Date	After Declaration Date

19.	Capital Merchant	233	09/12/2007	233	-	-
			233			
20.	Premier Finance	250	27/01/2008	250	-	-
			250			
21.	Nirdhan Uthan Bank Ltd.	116	16/11/2007	116	-	-
			116			
22.	Central Finance	300	11/09/2007	300	-	-
			300			
23.	NMB Finance	3799	08/01/2008	1000	-	-2799
			3799			
24.	NSM & FL	592	19/11/2007	592	-	-
			592			
25.	IME Financial Institutions	686	26/11/2007	686	-	-
			686			
26.	Prudential Bittiya Sanstha	159	14/03/2008	156	-	-3
			159			
27.	Paschimanchal Finance	100	19/05/2008	100	-	-
			100			
28.	Kist	766	16/05/2008	765	-	-1
			766			
29.	Goodwill	423	25/05/2008	431	+8	+8
			431			
30.	United Finance Ltd.	1030	30/05/2008	565	-	-465
			1030			
31.	Nepal Express Finance Ltd.	415	02/06/2008	415	-	-
			415			
32.	Royal Merchant	361	01/06/2008	389	+28	+28
			389			
33.	ICFC Bittiya Sanstha	695	10/06/2008	708	-	+13
			695			
34.	International	715	09/06/2008	730	+25	+15

	Leasing		740			
35.	Nepal Housing & Merchant	680	25/06/2008	680	-	-
			680			
36.	Shree Investment	540	23/06/2008	540	-	-
			540			
37.	Standard Finance	100	30/06/2008	100	-	-
			100			
						Contd..
S. No.	Company Name	MPS Before	MPS on Declaration Date	MPS After	Price Change	
					On Declaration Date	After Declaration Date
38.	Gorkha Finance	175	13/07/2008	175	-	-
			175			
39.	Guheswori Merchant	850	15/07/2008	850	-	-
			850			
40.	Nepal Awas Bikas Bitta	577	15/07/2008	577	-	-
			577			
41.	Sagarmatha Insurance Co.	330	20/02/2008	330	-	-
			330			
42.	Premier Insurance Co.	300	26/06/2008	300	-	-
			300			
43.	Himalayan General	345	07/07/2008	345	-	-
			345			

Source: Nepse Daily Trading Report

Large numbers of the listed companies have made the right offerings to their shareholders during the F/Y 2007/08. Among them also, majority of them are the finance companies with 22 in total. The great effect from the right shares offering

is also seen for the NMB Finance with the highest amount of decline in MPS by Rs.2799 after the declaration date.

Among the 11 development banks to offer the right shares during the period, the MPS of DCBL declined by Rs.155 on the declaration date and remained on the same price afterwards also. Similarly, the MPS of United Finance Ltd. also declined by Rs.465 after the declaration date.

Among the 7 CBs to offer right during the period, NIBL is the highest loser among the CBs on its MPS on and after the declaration date of the right shares by Rs.86 & Rs.116 respectively. There are only 3 insurance companies to offer the right shares giving no effect on their MPS.

4.3.5. Impact on MPS on & after Right Issues for the for the F/Y 2008/2009

Table: 4.13

Impact on MPS On & After Right Issues for F/Y 2008/09

S. No.	Company Name	MPS Before	MPS on Declaration Date	MPS After	Price Change	
					On Declaration Date	After Declaration Date
1.	MBL	890	29/07/2008	890	+5	-
			895			
2.	Kist Bank	466	09/11/2008	427	-39	-39

			427			
3.	NMB Bank	899	17/05/2008	810	-	-89
			899			
4.	DCBL Bank	725	19/05/2009	692	-	-33
			725			
5.	Gandaki Development	499	29/07/2008	499	-	-
			499			
6.	Swabalamwan Bikas Bank	1601	28/11/2008	1601	-	-
			1601			
7.	Bageswori Bikas Bank	699	10/12/2008	621	-78	-78
			621			
8.	Nepal Bkas Bank Ltd.	495	19/02/2008	471	-24	-24
			471			
9.	Infrastructure Development	530	09/03/2009	616	+31	+86
			561			
10.	Siddhartha Development	315	08/04/2009	319	-	+5
			315			
11.	ACE	540	20/05/2009	526	-20	-26
			520			
12.	Narayani Development	298	28/05/2009	298	-	-
			298			
13.	Gorkha Development	615	01/06/2009	615	+13	-
			627			
14.	Nepal Development & Employment	425	01/06/2009	425	-	-
			425			

15.	Bhrikuti Bikas Bank Ltd.	128	05/06/2009	128	-	-
			128			
16.	Excel	300	17/06/2009	300	-	-
			300			
14.	Kathmandu Finance	295	29/07/2008	295	-	-
			295			
						Contd..
S. No.	Company Name	MPS Before	MPS on Declaration Date	MPS After	Price Change	
					On Declaration Date	After Declaration Date
15.	Narayani Finance	100	31/07/2008	100	-	-
			100			
16.	Yeti Finance Ltd.	100	03/08/2008	100	-	-
			100			
17.	Om Finance Ltd.	462	09/09/2008	462	-	-
			462			
18.	Union Finance Ltd.	490	21/11/2008	490	-	-
			490			
19.	Srijana Finance Ltd.	100	14/11/2008	100	-	-
			100			
20.	National Finance Ltd.	1050	18/11/2008	1050	-	-
			1050			
21.	Nepal Sri Lanka Merchant Bank	124	18/11/2008	124	-	-
			124			

22.	Peoples Finance	378	01/12/2008	399	+14	+21
			392			
23.	Pokhara Finance Ltd.	831	29/12/2008	831	-	-
			831			
24.	IME Financial Institutions Ltd.	846	12/01/2009	846	-	-
			846			
25.	Samjhana Finance Ltd.	100	02/02/2008	100	-	-
			100			
26.	Universal Finance Ltd.	418	08/04/2009	259	-	-159
			418			
27.	Civil Merchant Bittiya Sanstha	404	23/04/2009	404	-	-
			404			
28.	Premier Finance Ltd.	608	27/04/2009	608	-	-
			608			
29.	Imperial Finance Ltd.	390	11/05/2009	390	-	-
			390			
30.	World Merchant Banking & Fin.	410	12/05/2009	410	-	-
			410			
31.	Central Finance Ltd.	430	01/06/2009	430	-	-
			430			
32.	Standard Finance Ltd.	400	03/06/2009	400	-	-
			400			
33.	Lumbini Finance & Leasing Co. Ltd	561	14/06/2009	561	-	-
			561			
						Contd...

S. No.	Company Name	MPS Before	MPS on Declaration Date	MPS After	Price Change	
					On Declaration Date	After Declaration Date
34.	Navadurga Finance	305	15/06/2009	305	-	-
			305			
35.	Prabhu Finance Ltd.	561	19/06/2009	561	-	-
			561			
36.	Patan Finance Ltd.	100	19/06/2009	100	-	-
			100			
37.	Everest Finance Ltd.	442	23/06/2009	442	-	-
			442			
38.	NSM & FL	280	28/06/2009	255	-	-25
			280			
39.	Nepal Express Finance Ltd.	280	01/07/2009	255	-	-25
			280			
40.	General Finance Ltd.	170	07/07/2009	170	-	-
			170			
41.	Neco Insurance Company Ltd.	125	18/05/2009	125	-	-
			125			
42.	United Insurance	297	18/05/2009	297	-	-
			297			
43.	National Life Insurance	636	22/05/2009	636	-	-
			636			
44.	National Hydropower	219	28/07/2008	202	-8	-17
			211			

Source: Nepse Daily Trading Report

The MPS for the shares of CBs and the development banks are seen highly fluctuating on and after the right shares declaration dates during the F/Y 2008/09. Especially, the up-graded CBs from the finance companies MPS has seen declined heavily after the declaration date.

The MPS of the Universal Finance Company is seen heavily declined by Rs.159 after the declaration date of the right shares. There are no changes in the MPS for majority shares of the finance companies during the F/Y 2008/09.

The right shares declared by the hydro-power company, National Hydro-power Company is seen declined by Rs.8 & Rs.17 on & after the right shares declaration dates respectively.

4.4. Test of Hypotheses

4.4.1. Test on MPS of Commercial Banks Indicate Differences On the Right Declaration Date:

Theoretically, the MPS of the company should remain stable on the declaration date of the right shares by the company. Hence, the following hypothesis is done to test the situation in Nepalese stock market:

Null Hypothesis (H_0): $\mu_x = \mu_y$ i.e. MPS of commercial banks do not indicates differences on the right declaration date.

Alternative Hypothesis (H_1): $\mu_x \neq \mu_y$ i.e. MPS of commercial banks indicates differences on the right declaration date.

Decision: Since, the calculated value of “t” is lesser than the tabulated value of “t”, the null hypothesis is accepted and the alternative hypothesis is rejected. Hence, MPS of commercial banks do not indicate differences on the right declaration date. *Source: Annex-I*

4.4.2. Test on MPS of Commercial Banks Indicate Differences After the Right Declaration Date:

Theoretically, the MPS of the company should decline after the declaration date of the right shares by the company. Hence, the following hypothesis is done to test the situation in Nepalese stock market:

Null Hypothesis (H_0): $\mu_x = \mu_y$ i.e. MPS of commercial banks do not indicate differences after the right declaration date.

Alternative Hypothesis (H_1): $\mu_x \neq \mu_y$ i.e. MPS of commercial banks indicates differences after the right declaration date.

Decision: Since, the calculated value of “t” is greater than the tabulated value of “t”, the null hypothesis is rejected and the alternative hypothesis is accepted. Hence, MPS of commercial banks indicates differences after the right declaration date. *Source: Annex-II*

4.5. Major Findings

The major findings of the study are:

-) The trend is seen heavily increased in the recent F/Y. The ratio of the right issue in the total issue in the market is at 41.48% in the F/Y 2005/06 & increased to 84.75% in the F/Y 2008/09.
-) The number of right offering in context to sector-wise is highest for finance companies.
-) Three commercial banks, two finance companies & one development bank have made the right offering in the F/Y 2004/2005.
-) The largest amount of the right offered financial institution is the Taragaun Regency Hotels Ltd. with the total amount of the right offer of Rs.446.45 million in the F/Y 2005/2006.
-) During the F/Y 2006/07, total of 17 listed companies have made the right offering to their shareholders. Among them, the largest issue amount is of AFC with the total amount of 194 million.
-) Of the total listed companies in the F/Y 2007/08, 43 companies have made the right offering during the F/Y. The highest number of 22 of the listed finance companies made the right offering in this F/Y.
-) Of the total listed companies, total of 27 finance companies have made the right offering in the F/Y 2008/09. Then 13 development banks, 6 commercial banks 3 insurance companies and as well as 1 hydro-power company, National Hydropower Co. Ltd. also made the right offering to their shareholders during the F/Y 2008/09.
-) Of the total listed companies, total of 17 finance companies have made the right offering in the F/Y 2009/10. Then 8 development banks, 6 commercial banks & 2 insurance companies also have made the right offering to their shareholders during the F/Y 2009/10.

-) The MPS are seen declined on declaration of NIBL in the F/Y 2004/05.
-) The MPS are seen declined on declaration of KBL & MBL in the F/Y 2005/06.
-) The MPS are seen declined on declaration of Siddhartha & LUBL in the F/Y 2006/07.
-) The MPS are seen highly fluctuated on and after declaration of right shares in the F/Y 2007/08. Huge amount is seen changed in the MPS on and after declaration for the listed shares.
-) The MPS are seen changed on declaration of nine listed companies among 44 companies which declared right shares in the F/Y 2008/09. Similarly, 9 & 13 companies MPS were seen changed on & after the declaration date respectively.
-) MPS of commercial banks do not indicate differences on the right declaration date.
-) MPS of commercial banks indicates differences after the right declaration date

CHAPTER-V

Summary, Conclusion and Recommendations

5.1. Summary

The statement of source and use of funds is of special interest to the creditors, the equity holders, financial planners and industry analysis. These parties are interested in knowing “where the funds came or will come and where they were or will be used” during any given period of time.

There are normally two way of financing fund for the company. They are debt financing and equity financing. Normally, the bank and financial institution of Nepal does an equity financing. For the purposes of the financing or funding, the company has a right to issue shares in the public which is called the initial public offering. After this if the company needs more fund, the company can issue a right offering to the existing shareholders. It is a part of the common stock financing.

In a right offering, the firm grants rights to its shareholders. These financial instruments allow stockholders to purchase additional shares at price below the market price, in direct proportion to their number of owned shares. Rights are used primarily by smaller corporations whose shares are either closely owned or publicly owned and not actively traded. In these situations, rights are an important financial tool without which

shareholders would run the risk of losing their proportional control of the corporation.

If, at any time after the expiry of two years from the date of incorporation of the company or after one year from the date of first allotment of shares, whichever is earlier, a public company limited by shares issues further shares within the limit of authorized capital, its directors must first offer such shares to the existing holders of equity shares in proportion to the capital paid-up on their shares at the time of further issue. This is commonly known as “Right Issue of Shares.”

5.2. Conclusions

The right offering to the existing shareholders of the company mainly the bank and financial institutions in Nepal has been increasing every year. As per the BAFIA, 2063 and NRB Act, 2056 also, the ‘A’ class financial institutions should increase their paid-up capital of RS. 200 million till last date of Ashad 2067 B.S. and for existing banks and financial institution the date to meet the requirement is last date of Ashad 2070 B.S.

As to fulfill the requirement as prescribed by the NRB to the bank and financial institutions, especially the ‘A’ class commercial banks increased their existing capital level by issuing the right shares to their existing shareholders.

Similarly, the other finance companies as well as the development banks practice right offering to increase their paid-up capital to up-grade into the 'A' class financial institution or commercial banks. Thus, the practices of the right offering in context to the Nepalese financial market is seen highly increased in the last few fiscal years.

The number of right offering by the banks and financial institutions in Nepal is done for increasing mainly the paid-up capital of the company. As the company is performing well similarly, financial well in the market, the shareholders are interested to purchase the right shares offered by the company at par. So, this can be seen beneficial for the shareholders to get more participation in the composition of shareholding of the firm.

Normally, the large number of the finance companies and development banks in Nepal issued the right shares to their shareholders in expectation to upgrade into the national level development bank or to the 'A' class financial institution i.e. commercial banks.

The MPS of the companies is seen highly effected after the subscription of the right shares. Normally, the MPS of the companies on the declaration date is seen no changes. So, the effect is seen after the declaration of the right shares only.

5.3. Recommendations

-) The capital structure of the company should be considered before issuing the right shares.
-) Simplicity as well as proper legal provision should be made for the right offering.
-) Timely listing of the right shares should be done as far as possible.
-) Transparency in the trading through the on-line basis at the real time information is needed.
-) Nepal Rastra Bank & SEBON should strictly follow-up in the right offering practices made by the lower class financial institutions to up-grade the higher class financial institutions.
-) Due to the mismanagement and embezzlement in the right offering by certain financial institutions in Nepal, the better way for the capital increment will be done through further public offering (FPO).
-) There is a need of the co-ordination among the governing bodies for the smooth operation of the stock market.
-) The subscription rate of the right offering in the Nepalese market should be proper managed by the issue managers.

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Annex-I

Test on MPS of Commercial Banks Indicate Differences on the Right Declaration Date

Null Hypothesis (H_0): $\mu_x = \mu_y$ i.e. MPS of commercial banks do not indicate differences on the right declaration date.

Alternative Hypothesis (H_1): $\mu_x \neq \mu_y$ i.e. MPS of commercial banks indicate differences on the right declaration date.

Decision: Since, the calculated value of “t” is lesser than the tabulated value of “t”, the null hypothesis is accepted and the alternative hypothesis is rejected. Hence, MPS of commercial banks do not indicate differences on the right declaration date.

Annex-II

Test on MPS of Commercial Banks Indicate Differences After the Right Declaration Date:

Null Hypothesis (H_0): $\mu_x = \mu_y$ i.e. MPS of commercial banks do not indicate differences after the right declaration date.

Alternative Hypothesis (H_1): $\mu_x \neq \mu_y$ i.e. MPS of commercial banks indicate differences after the right declaration date.

Decision: Since, the calculated value of "t" is greater than the tabulated value of "t", the null hypothesis is rejected and the alternative hypothesis is accepted. Hence, MPS of commercial banks indicate differences after the right declaration date.