

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

A healthy corporate sector is vitally dependent on transfer of funds from people who are net savers to firms which needs capital. Securities market works as a medium to arrange such transfer of funds. Development and expansion as securities market is essential for the rapid economic growth of the country. Securities market helps economic development by mobilizing long term capital needed for productive sector. The securities markets are vital to the growth, development and strength of market economy. They support corporate initiatives, finance the exploitation of new ideas and facilitate the management of financial risk. They have a greater role in the development of a nation.

Nepalese capital market is in an early stage of development. There are various inconsistencies and hindrances exist on the way to run the market smoothly. The Nepalese capital market was established as Security Market Center (SMC) in 1976. In 1984, the SMC was renamed as Security Exchange Center (SEC). After converting SEC into Nepal Stock Exchange (NEPSE) in 1993, it brought new atmosphere in Nepalese capital market. NEPSE is non-profit making organization. It is one and only secondary market for Nepalese corporate securities, operating under Security Exchange Act 1983. NEPSE opened its trading floor on 13th January 1994 and started to calculate the NEPSE Index since 12th February 1994. NEPSE plays vital role for developing the efficient capital market. Managing public issue is one of the important role of NEPSE.

Van Horne (1998) states that, when a company is formed, it obviously must be financed. Often the seed money comes from the founders and their families and

friends. For some companies, this is sufficient to get things launched and with retained earnings, no more equity is needed. In other situation equity infusions are necessary.

From above quotation, it is clear that when a large-scale firm is to be established it fulfills the financial requirement by the issue of equity share. There are some other sources available to raise fund. These sources are called financial instruments such as preferred stock, bond, debenture, rights share, derivatives etc. Among these alternatives this study is mainly focused on the impact of right offering in share price movement and its practice in Nepal.

Although Nepalese security market is practicing the rights offering for a long time period but its every essence is not seemed to practice here. Only 102 cases of rights offered by 72 companies, out of total listed companies.

This study has been done to fulfill some specific objectives. Main objectives of the study is to examine the announcement of rights issue and to analyze the rights issue practice in Nepal. Finding out of the study. Till the date many studies have been done related to the impact on market mo market price by various such as EPS, DPS, and singling effects. But very few studies are directly concerned with rights issue in Nepal still it is really tried hard to make full effort to collect the related studies for review.

1.2 Introduction to the Rights Issue

We can describe the rights i.e. preemptive right is the right to do something before others. It is also a right of stockholders. In this right the existing stockholders have right to purchase only additional shared issued by the company before they are offered to the public. It the preemptive right is contained in firms charter, then the firm must offer any new common stock to existing shareholders. If the charter

does not proscribe a preemptive right the firm has a choice of making the sale of the existing stockholders the stock issue is called a right offering.

Van Horne (2002) states that, instead of selling a security issue to new investors, some firms offer the securities first to existing shareholders on a privileged subscription basis. Some time the corporate charter requires that a new issue of common stock or an issue of securities convertible into common stock be offered first to existing shareholder because of their preemptive right.

Weston & Copeland (1992) states that, if the new common stocks are issued giving the right to purchase first by the existing shareholders than it is called right offering. Each shareholder is issued an option to buy a certain number of new share and the terms of the option are contained on a piece of paper called right. Each stockholder receives one right for each shares of stock owned.

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

So, rights issue is a privileged given to the existing shareholders that helps them to keep their control position proportionately equal and the issuing price will also be lesser than the market price. This lower price would help to maximize the capital gain of the shareholders. Rights is the negotiable instruments. It has its expiration date. One of the advantages of rights offering is the minimization of flotation cost. The procedure of rights offering is similar to the non-right issue.

Theoretically right offering affects the share price because it has some value. They

have value because generally they are offered at a subscription price somewhat lower than the market price of share. In the secondary market, investors prefer to buy the shares that have attached the preemptive right. Due to speculation share price may go up and down.

Rights issue practice in Nepal has no long history as compare to other developing country. While looking the issue approval from the SEBO of Nepal researcher can easily notice an increasing trend of issuing rights share. During the 15 years period, SEBON has granted right issue approval amounting Rs. 6092.90 million. This amount comes to be the second largest amount among various issue approved by SEBO. Right issue occupied 50.56% out of total issue approval out of total listed companies. In Nepal, Company act 1997 has provisioned about the preemptive right of shareholder in the section 42 (4). It stated that if the right is contained in a firm's charter then the firm must offer common stock to existing shareholders. If not the company has choice of rights offering or public offering. But the law in India required that new common stock must be issued first to the existing shareholders on prorata basis. In India rights is negotiable but in Nepal there has not been any provision to make the rights negotiable.

This study is mainly focused on impact of rights issue in share price movement in the context of Nepalese commercial banks and the practice of rights issue in Nepal as well.

1.3 Statement of the Problem

Rights offering is a way of raising fund. An existing shareholder is entitled to have a proportion number of new shares at pre stated price, which is somewhat lower than the market price of share. But to buy additional number of shares, the shareholder should have his name in company book before record date. If one shareholder purchases shares after record date he has no rights to buy the

additional number of shares. So, before record date there is high demand of shares in secondary market. Demand of shares increased because people rush to the secondary market in order to enlist their name in the company's book, before the record date. No doubt the price of the new share is also lower than market price. On the other side the existing shareholder generally have no willingness to sell the shares to exercise the rights. Due to this double pressure the price of share goes upward.

In case of Everest Bank Ltd. the market price of share was Rs 710 before 10 days of right announcement and it went to Rs 660 after 7 days of announcement and Rs 450 after 6 months. In case of NIB, the price of share was Rs 1331 before 10 days of rights announcement and it went Rs 831 after 6 month. In another case of Kumari Bank Ltd, the market price of share was Rs 300 before 10 days of right announcement and it went up to Rs 330 after 7 days of announcement and again went up 468 after 6 month.

In Nepal, the rights issue is increasing trend but the companies of all sector does not issue the rights. Among various sector, Finance companies are ahead in the rights issue practice. The process of issuing the rights is lengthy and complicated in Nepal. To issue the right share, the company should take permission from SEBON and also should register their shares. Here are underlined some specific research problems which are desired to research.

-) What will happen to the share price after announcement of the rights share?
-) What is the rights share practice in Nepalese capital market?
-) What are the prospects of issuing the rights share in Nepalese capital market?
-) What are the problems to issue the rights share in Nepal?

1.4 Objectives of the Study

The study focuses on the impact rights offering announcement and the share price movement of sample organization. The study covers two aspects of rights issue: i) the characteristics features of rights offering by the listed companies especially commercial banks. ii) the share price movement associated with the rights offering. The specific objective of this study will be:

1. To measure the significant movement in stock price before and after the announcement of rights share in commercial banks.
2. To identify the procedure of rights issue in the context of Nepal.
3. To analyze practice, problems and prospects of rights issue in Nepal.
4. To suggest the corrective measures to all concerned sectors on the basis of the findings of this study.

1.5 Limitations of the Study

This study fulfils the partial requirement of the M.B.S. Normally in each study, there is certain limitation. The following limitation will be found in this research:

- a) This study has analyzed and evaluated the data for the last 15 years (i.e.1993/94 to 2007/2008).
- b) This study heavily focuses on the rights offering and current legal aspects associated there in.
- c) This study assumes that the related published and unpublished documents, journals, articles and other previous studies are realistic.
- d) This study is mostly based on secondary data.
- e) Other variables that affect the stock price of sample companies are not considered whole analyzing the share price movement.
- f) Out of total rights issuing companies only one sector ie commercial banks is considered from which 6 banks are taken as sample for the study.

- g) The main causes for these limitations are due to technical and time constraint.

1.6 Significance of the Study

This study will be important and valuable for those who are interested to the security market of Nepal. Basically investors, business organizations, security board, brokers, potential researchers, students and teachers will be benefit from this study. This will also enable the investors to identify the right time to invest in the share market. Researcher hopes that this study will help to government and other institutions to make their policies and programs.

1.7 Organisation of the Study

This study has been organized into five chapters. Each devoted to some aspects of the study on right share practice and its impact on share price movement of commercial bank in Nepal. The chapter one to five will be consists of following:

Chapter I: Introduction

Chapter II: Review of Literature

Chapter III: Research Methodology

Chapter IV: Data Presentation and Analysis

Chapter V: Summary, Conclusion and Recommendation

Chapter one contains the introductory matters, which describes the general background, statement of the problem, objectives of the study, limitation of the study, statement of the hypothesis and significance of the study.

Chapter two contains brief review of literature, which has been organized into two sections. Section one contains conceptual framework of rights offering and section two contains the review of related studies.

Chapter three contains research methodology employed in the study. It includes the introduction, research design, nature and sources of data, data analysis tools, sampling procedure and definition of some key terms.

Chapter four contains presentation and analysis of data. This is the main and key chapter of research study. In this chapter sources of data are primary and secondary, which are presented in appropriate form. Analysis and interpretation of data have been performed thereafter. From this analysis and interpretation major findings have been deduced.

Lastly summary, conclusion and recommendation of the study have been presented in chapter five.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Introduction

Review of literature means taking knowledge from different sources. In this chapter the researcher has reviewed various published and unpublished materials. This chapter is divided into two parts i.e. Conceptual Review and Review of related studies.

2.2 Conceptual Review

The easy way of raising capital is issue of common stock. Right is related to the primary issue or initial financing to raise the equity fund. Since there are various ways of financing to a firm but when a new company is formed, the ways are limited. So, the easy and fast way of generating funds for new company is to issue the ordinary shares. This financing is called initial financing.

2.2.1 Initial Financing

Fund collected through various sources to establish a firm is called initial financing. It is also called venture capital. Venture capital includes the share capital and debt fund. For new firm, generating debt capital is not easy, so most part of the venture capital involves common stock. Wealthy individuals and institutional investors are one of the major sources of venture capital. In case of commercial banks venture capital is mainly about issuance of shares.

2.2.2 Initial Public Offering

When a company wants to raise funds from the public, it issues securities. This announcement for the public to raise fund is called initial public offering.

Public issue of equity means, rising of share capital directly from the public. Issue of equity obviously creates a value of a company and no doubt it is the major sources of capital. But the company has to incur the cost for the public issue which involves both direct and indirect costs. Direct cost involves legal auditing, administrative cost and underwriting commission. “Thus, public offering involves raising of funds for governments or corporations from the public through the only issuance of various securities in the primary market and is often the only major source of obtaining large sum fixed rate, long term funds”[SEBON ;2004:7].

The empirical relationship between measures of stock market development and long run growth rates. After controlling for the initial level of GOP per capital initial investment in human capital, political stability the level of banking development and measures of monetary, fiscal and exchange rate policy, the predetermined component of stock market development remains positively and significantly with long run economic growth(Levine and Zeroos).

If a private firm is successful usually the owners will want to take the company with a sale of stock to outsiders. Often this is prompted by the venture capitalists, who wish to realize a cash return on their investment. In other situations the founders simply want to establish a value and liquidity for their stock. Whatever the motivation, a decision is reached to become a public corporation, while there are advantages to be a public corporation and there are disadvantages as well. The public company in our context (and else where) must confirm to SEC requirements in having a board of directors, disclosing sensitive, information having to employ certain accounting conventions and incurring expenses as a public company not incurred by a private one. In addition there is an investor fixation on quarterly earnings. At times this is a hindrance to management in trying to take long term decisions” (Van Horne;1999:501)

For the establishment of commercial banks large amount of money is required and public offering helps in raising such companies need additional funds then they go for right share issue.

2.2.3 Rights Issue

A rights issue involves selling of ordinary shares to the existing shareholders of the company. . When a company issues shares to the existing shareholders the stock flotation is called a rights offering. Each stockholder receives one right for each share of stock owned. If the preemptive right is contained in a firm's charter then the firms must offer any new common stock to its existing shareholders.

“The law in India requires that the new ordinary shares must be first issued to the existing shareholders on a pro rata basis. This preemptive right can be for fitted by shareholders through a special resolution obviously this will dilute their ownership”(Pandey; 1999:1007).

Existing shareholder of company has legal right to buy the shares if new issue is made. If the charter does not contain the preemptive right, the firm has a choice of making the sale to its existing stockholders or to an entirely new set of investors. In Nepalese context, Company Act 2053 section 42(4) clearly mentions that if a company wants to increase its capital and issues additional shares then existing shareholders will have first rights (privilege) to buy such shares.

(a) Features of Rights

Features of rights are:

The number of rights equal to the number of shares held by the respective shareholders i.e. the number of rights that a shareholder gets is equal to the number of shares held by them.

) The issuing company determines the number of rights required to subscribe

- to an additional share.
-) The price per share for additional equity called the subscription price is left to the discretion of the company.
 -) Rights are negotiable. The holder of rights can sell them. Rights are detachable i.e. only rights can be sold.
 -) Rights can be exercised only before ex-right date.

(b) Pros and Cons of Rights Issue

Rights give the existing shareholder the rights to purchase additional shares at a price some how lower than market price. This system is advantageous for company also because all shares can be sold at certain period. The pros and cons of rights issue are as follows:

Pros (Advantages)

-) The existing shareholders control is maintained through the pro-rates issue of shares.
-) Raising funds through the sale of rights issue rather than public issue involves less flotation costs as the company can avoid underwriting commission.
-) In the case of profitable companies the issue is more likely to be successful since the subscription price is set much below the current market price.

Cons (Disadvantages)

-) The main disadvantage is to the shareholders who fail to exercise their rights, they loose in terms of decline in their wealth.
-) Second is for those companies whose shareholding is concentrated in the hands of financial institutions because of the conversion of loan into than the rights issue.

C) Rights on and Ex-Rights

The price of the share before the ex- rights date is called as rights on or cum rights

while the price after this date is referred to as the ex-rights price.

D) Valuation of Rights

Rights is a negotiable instrument, so, it has a certain value for sale. Theoretically, value of the rights is determined using different equations and the value depends upon the market price of share, subscription price and number of rights required to purchase a new share. This value is also known as formula value. The real value is determined in the market place through the interaction of demand and supply. The value we obtain using different equations is the minimum price to seller and maximum price to the buyer.

When companies announce rights offering the shareholders and investors generally rush to buy the stocks of that company. Ultimately, the rights get certain value. When the stock is selling rights on, the theoretical value of rights can be calculated using following formula” (Pandey;1999: 1006)

E) Market Price of Share

Value of one rights = (Rights on price of the stock-subscription price)/(Number of rights required to purchase one share + 1)

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

Where,

P_o = rights on price of the stock

P_s = subscription price

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

V_r = value of one right or formula value or theoretical value of one right.

Ex-rights value of rights

Value of one rights = (Ex-rights price of the stock-Subscription price)/Number of rights required to purchase a new share of stock

$$V_r = \frac{P_e - P_s}{\#}$$

Where,

P_e = ex-right price of the stock

P_s = subscription price

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

V_r = value of one right or formula value or theoretical value of one right.

F) Right Offering and Market Value of Share

Market price of the share means the price of share determined by the market and in which the shares are traded in the stock exchange. Generally the market price of share is determined by demand and supply of market. But besides this, there are other factors too which play vital role for price fixation in the market.

-) Dividend: Shareholders who invest their money in common stock always seeks return in the form of dividend. If the company pays higher rate of dividend, then ultimately the share price goes higher and vice versa. For example, Standard Chartered Bank Ltd. provides 100% dividend. Thus, price of Standard Chartered stock is higher than other.
-) Cost of Capital: Generally cost of capital refers to the cost of fund raised. If cost of capital is higher, automatically return will be lower and the price of share goes down.
-) Company's earnings: Highly earning organizations pay higher dividend. Thus, the price of the share goes upward and vice versa.
-) Signaling Effect: Another major share price determinant is signaling effect. Signaling effect or signals means the Dividend announcements, Stock dividend, Rights offering etc. Due to these rumors investors, shareholders buy and sell the stock which ultimately affects the share price.
-) Economic Condition: Economic condition of the country is also indirectly responsible for the change in share price. If the economy is growing,

obviously price of share also increases. In the phase of recession or depression, it goes downwards.

Above factors are the major determinants of share price. Market price of share is the function of dividend, cost of capital, company's earnings, signaling effect and economic condition of the country. Out of them, the researcher has taken right offering and its effect on share price in this study.

G) Theoretical Value Vs Market Value of Rights

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

H) Rights Issue Vs Public Offering

Right issue and public offering both are the issue of common stocks. However, there are many differences exist between the two offerings.

-) A rights issue is likely to be more successful than public offering because the right offering is made to the investors who are familiar with the operations of the company.
-) Rights issue is not under written, so flotation cost of right issue is lower than public offering.
-) The principal sales tool in the rights offering is the discount from the current market price, where as with the public offering, the major selling tool is the investment banking organization.

2.2.4 Security Markets

A security market can be defined as a place for bringing together buyers and sellers of financial assets in order to facilitate trading. Securities markets are of

two types which are primary markets and secondary markets. Security market of Nepal has not that long history. At first Nepal Rastra Bank (NRB) and Nepal Industrial and Development Corporation made a joint effort to establish Security Market Center (SMC) to mobilize the public saving for ensuring public ownership in the share of public limited companies. “In the beginning of its establishment, the center made studies the public limited companies and devising the ways and means of undertaking the business of buying and selling in securities” (Gautam; 2057:8).

But in Reality the center was working as a body of NRB to reduce its working load relating to government securities. In 1983, the security-market center passed a security exchange Act 1983 and also mentioned the provision for listing. There was not any plan and programs of security market until seventh five-year plan. In the eighth five year plan, security exchange center was established, with an objective of facilitation and promotion of the growth of capital markets. Before conversion into stock exchange, it was only the capital market institution undertaking the job of brokering, underwriting, managing public issue, making for government bonds and other financial services.

The Securities Exchange Act 1983 (2040) was amended in the period of eighth plan for the achievement of eighth five year plan objective towards the capital market. The main objective of eighth five year plan was to establish the securities exchange board and rules and regulations followed through securities exchange board.

The government of Nepal initiated to reform capital market converting securities exchange center into Nepal Stock Exchange (NEPSE) ltd. in 1993. NEPSE is a non profit making organization operating under securities exchange Act 1983.

The basic objective of NEPSE is to make impact free marketability and liquidity of the government, and the corporate securities by facilitation transaction, in its trading floor through intermediaries, such as broker, market etc. NEPSE open its trading floor in 13th Jan 1994 with 25 licensed broker members. The history of Nepalese Sock market begins with the listing of shares of 16 companies in 1986. According to the SEBON Annual report 2007/08, there are 142 companies listed in NEPSE.

2.2.5 Preemptive Right

“A provision in the corporate charter or by laws that gives common stockholders the right to purchase on a pro-rate basis new issues of common stock (or convertible securities)”(Weston, Besley-Brigham 1996:1677).

Common stockholders often have the rights called the preemptive rights to purchase any additional shares sold by the firm. In some states the preemptive rights automatically is included in every corporate charter, in others it is necessary to insert it specially into the charter.

The purpose of the preemptive rights is twofold. First it protects the power of control of current stockholders. If it were not for this safeguard, the management of a corporation under criticism from stock holders could prevent stockholders from removing it from office by issuing a large number of additional shares and purchasing these shares itself. Management could thereby secure control of the corporation and frustrate the will of the current stockholders.

The second and more important, reason for the preemptive rights is that it protects stockholders against a dilution of value. For example suppose 5000 share of common stock each with a price of Rs100, were outstanding making the total market value of the firm 500000. if an additional 2500 shares were sold at Rs 50 a

share or for Rs 125000, this would raise the total market value of the firm to Rs 625000. when the total market value is divided by the new total shares outstanding a value of Rs 83.33 a share is obtained the old stockholders thus lose Rs 16.67 per share and the new stockholders have an instant profit of Rs 16.67 per share.

Thus selling common stock at a price below the market value would dilute its price and would transfer wealth from the present stockholders to those who were allowed to purchase the new shares. The preemptive right prevents such occurrences

2.2.6 Effect of Rights Issue on Shareholders Wealth

After receiving the rights from the issuing company, shareholder have three options. One is to exercise their rights and purchase additional number of shares. Second sell the rights and finally third option is do nothing and let them expire. If shareholders have sufficient fund then they exercise the rights. If they do not sufficient fund or do not want to buy more stock, they will sell the rights, in either case, provided that the theoretical value of the rights holds true, stockholders will neither benefit nor lose by the right offering. A stockholder may suffer a loss if he forgets to exercise, or sell his rights or brokerage cost of selling the rights are excessive.

Subscription Price is not Significant

White and Lusztig conducted a study on the topic price effects of rights offerings. The purpose of this study has been to test empirically two hypotheses with respect to the price effects of rights offerings. Its importance for the normative theory of financial management is obvious. The technique used in the study was a pooled cross-section time series model. This approach permitted the abstraction from the components of returns attributable to market wide events and other firm specific events on or near the date of interest, as well as tests of significance of events on

market prices. The result of the pooled regressions provides more definitive information on the price behavior associated with the announcement of a rights offering. Since the t-statistics on the announcement date dummy variables were statistically significant at the 1% level or better, the hypothesis that on average investors believe that there is negative information associated with a rights offering can not be rejected.

The second hypothesis, capital markets in this instance are inefficient, assumes that managements' and investors' expectations differ and that investors require time to assimilate information. Since the coefficient on the dummy variables for the five days subsequent to the announcement of the rights offering were not statistically different from zero to 5% confidence level, the null hypothesis that prices adjust quickly and unabashedly to new information cannot be rejected.

The subscription price of rights issue is irrelevant in terms of the impact on the shareholders wealth. If can be fixed at any level below the current market price what the shareholders gain in terms of the value of rights, he will lose in terms of declination in the share price. The primary objective, in setting the subscription price low is that after the rights offering the market price should not fall bellow it.

2.2.7 Nepalese Securities Market and Rights Issue

Till the date 72 companies out of 142 listed companies have issued the rights share. In the fiscal year 2007/08, total public issue approval is Rs.9967.70 millions and out of this issue of securities through rights share Rs.6092.90 millions. In 2007/08 another other 22 companies got the sanction to issue rights shares. Up to fiscal year 2007/08, total issue approval (instrument wise) is as follows:

Table No 2.1

Tools	Percentage in total issuance
Ordinary shares	23.18%
Right shares	50.56%
Preference shares	2.91%
Debenture	23.35%
Total	100%

Source: Annual Report of SEBO/N 2007/2008

2.1.8 Regulation of Securities Markets

Securities markets are the mechanism for the trading of securities and it should be strictly regulated to stop the malpractices and to develop efficiently. Securities Board (SEBON) is the supreme body to regulate the Nepalese securities markets. It was established on 26 may, 1993 under the provision of the securities exchange ordinance 2005. The objective of the board is to promote and protect the interest of investors by regulating the securities markets. Not only these to regulate monitor direct control and coordinate the entire capital market is also the objective of the SEBON. SEBON works under the Ministry of finance (MOF).

SEBON regulates both primary and secondary markets. To regulate primary markets different Acts, and laws have been passed. The public issue activities through the primary market are regulated by the securities exchange ordinary 2005, the regulation and guidelines are made under the act as well as the company ordinance 2005. The related regulations and guidelines are securities exchange regulation 1993. Securities Registration and Issue Approval Guidelines, 2002 and Securities Allotment Guild lines, 1997. Similarly to regulate the public issue it has made it mandatory to take services of an issue manager by the issuing companies (Bhattarai; 2007:37).

To regulate secondary markets as well as the members different Acts like Member of stock exchange and transaction by laws 1998 and securities listing by laws 1996 have been passed. SEBON also monitors whether the securities carried out by the NEPSE are in accordance with the above laws or not.

Similarly SEBON regulates all the members of the secondary as well as primary markets like issue managers, stock brokers, dealers, market and corporations.

2.2.9 Securities Boards Nepal (SEBON)

SEBON was established as an apex regulator of the securities market by government on May, 26 1993 under the first amendment made in Securities Exchange Act 1983. As a part of its continuous effort to build a sound system the Severities Exchange Act 1983 was amended for the second time on January 30 1997AD.

The major objectives of SEBON is to regulate and systematic the securities transition for the development of securities market by protecting the interest of investors mainly the functions of SEBON is to formulate policies and regulations. In order to improve such a situation, SEBON focusing on the major areas where improvement is necessary has launched a four year strategic plan (1998-2002 AD) with major trust in four major trust in four manor policy development area. SEBON has also drafted a new security and exchange Act which has sought to improve inconsistencies observed in the present Act and establishes SEBO as an apex regulator of the securities market. Government of Nepal, Nepal Rastra Bank , Nepal Industrial development corporation and members are the shareholders of the NEPSE. Now it has been regulating the securities market under the securities ordinance 2006 (first issued on September 23, 2005). Securities exchange Regulation 1993 and other subordinate legislations.

As per the provision mentioned in securities ordinance 2006 a Board has been established with name of Nepal securities Board in order to manage and regulate the activities of person involved in securities market and securities business by regulating issuance subscriptions purchase and sale of exchange of securities for protection of interest of investors who invest in securities by developing capital market.

D) Objectives of SEBON

Objects of SEBON are mentioned here under.

-) To promote and protect the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities.
-) To supervise, look after and monitor the activities of the stock exchange and corporate bodies carrying on securities business.
-) To render contribution to the development of capital market by making securities transaction fair, healthy efficient and responsible

2) Functions of SEBON

The main functions of SEBON are as follows.

-) Register securities and approve prospectus of public companies.
-) Provide license to operate stock exchanges
-) Provide license to operate securities business
-) Draft regulations issue directives and guidelines and approve bylaw of stock exchanges.
-) Permit the operation of collective investment schemes and investment fund programmer.
-) Supervise administrative stock exchanges and securities business activities.

2.3.1 Historical Development of Capital Market in Nepal

The securities market development is in early stage of growth. The first legislative frame work was companies act 1936 which had introduced the concept of securities regulation under the provision of publication of prospectus, issue and transfer of shares etc, Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. Issued ordinary shares to the general public in 1937. Introduction of the company Act 1964 and the first issuance of government bond in 1964 were the other efforts regarding securities market regulation in Nepal and establishment of securities exchange center ltd. In 1976 were other significant developments relating to capital market. The trading on securities on Nepal was recognized on too late a period of 1976 when Nepal Industrial Development Corporation (NIDC) and Nepal Rastra Bank (NRB) through their joint efforts initiated the establishment of (SMC) to mobilize the public savings for ensuring public ownership in the shares of public limited companies. In order to promote the stock exchange business, the center made a series of studies in the beginning regarding both the public limited companies and devising the ways and means of undertaking the business of buying and selling securities. In pragmatic reality, however, the Center became nothing more than the satellite organization of NRB to undertake the over-burdened functions of the latter in selling Government securities that comprise treasury bills, development bonds etc. After a long period of seven years doing nothing substantial in the frontiers of stock exchange business, the Securities Marketing Center passed a new Securities Exchange Act 1983/84 to refresh its role in the capacity of a merchant banker in view of Acting as a legally acknowledged stock exchange house(Poudel:2006).

After 1980s onwards, the center tried to create some securities exchange norms. But, all it became discouraging to develop the securities exchange business in view of lack of dashing leadership since the level of understanding about the pros and cons of stock exchange was relatively poor. The enactment of new Securities

Exchange Act in 1984 became a landmark in the Nepalese history of stock exchange and this brought change in nomenclature to the extent that the title of the center changed to Securities Exchange Center. As a result of this the center prepared its new booklet to ensure its role in the capacity of a merchant banker, as it is the only legally acknowledged stock exchange house in national perspective. As per its information relating to listing the securities of eight public limited companies got listed in 1984 (Shrestha; 1996: 10)

2.3.2 Review of Legal Provisions

Procedure for Issue of Rights in Nepal

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

Following procedure is generally adopted by Nepalese company to issue rights share.

- J The BOD should consider about that the determination of the quantum of further capital requirement and the proportions is which the rights issue might be offered to existing shareholders.
- J AGM should pass the proposal of BOD by its majority.
- J Company should notify NRB, NEPSE, Office of the Company Register and SEBO/N sufficiently with prospectus in advance of the date of board meeting at which the rights issue is likely to be considered and should get permission from them.
- J Make announcement with prospectus which gives a general indication of the reasons which have made the issue desirable, the purpose for which the new money is to be used.
- J Latter of provisional allotment of rights offering to the shareholders about the terms of the rights offered, the number of new shares allocated to each given number of old shares, the price at which the issue is to be

made and the conditions letter will be sent which the issue is to be made and the conditions letter will be sent after the date of announcement.

- J After the receipt of the letter of provisional allotment, the allotment must be made for those shares which are renouncing.
- J Certificates are distributed to the shareholders who participated in the rights offering announcement. Shareholders who have accepted and fully paid up their allotment can renounce the Actual certificate in favor of a third party. Because of now transferable instrument, such practices are not seen in Nepalese context.

Listing of the shares in the NEPSE again with increased number which must be approved by the stock exchange after which an application for listed new share could be made. The above procedure can also be described as follows.

Rights issue gets positive response from the current shareholder because they can get more shares at below the market price. Existing stockholder always prefer rights offering rather than public offering.

“When stocks traded in the stock exchange, during announcing period then the investors (buyers and sellers of stocks) may get problem, who will get the rights? To avoid this confusion the board of directors of the company fixed record date to give certainty about the possession of rights. Following is the procedure of rights offering which is similar to the dividend payment procedures:

a. Declaration Date

Managers are responsible to manage the company. However, the crucial decisions are made by the representatives of the shareholders and those are called board of directors (BoDs), therefore, the firm is under the control of the BoDs. BoDs meet and with the help of management, declare right offering. For example, Bank of

Kathmandu needs Rs.400 million funds and the BoDs decided to raise these funds through the rights offerings. The BoDs met on January 1 and declared rights offering under the preemptive rights of the existing shareholders. The meeting also declared that, to purchase the additional shares, the shareholders must record these names until February 15.

b. Ex-Rights Date

It is the date on and after which the rights no longer goes to the stock. The ex-rights date varies country to country and may also be determined by the companies themselves. In the Nepalese capital market, companies publish notice of book closer date and the book closer date is the ex-rights date. This date normally is the four days before the holder of record date. But in Nepalese companies ex-right date is seven days. In the above example, December 11 is the ex-rights date and those who purchase shares on and after this date will not receive rights which will rather be received by the seller of the shares.

c. Holder of Record Date

It is a date until which a person, who has bought shares before ex-rights 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 till this date. In the above example, February 15 is a record date. Any investor who buys shares before February 11 (ex-right date) must record his name in the company until 15 to receive rights shares (Bhattra; 2007: 156).

d. Subscription Date

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

2.3.3 Rules and Regulation Regarding Rights issue in Nepal

Company Act 2063 is the main Act that regulates the establishment and issue of securities of any company. But in case of rights share issue, company is silent and do not mention about the procedure and method. Some of the provisions made by SEBO/N say regarding the rights issue. The firm that has already gone to public can issue rights share to acquire additional capital. The procedure regarding rights share issue is similar to common stock issue. Besides it, the firm that wants to issue rights shares should have enlisted in stock exchange, after full payment of the face value of securities issued earlier.

2.3.4 Nepal Stock Exchange Ltd. (NEPSE)

It has also played an important role to regulate and systematize the securities market in Nepal. The history of securities market began with the flotation of shares by Biratnagar Jute Mills Ltd. And Nepal Bank Ltd in 1937. Introduction the company Act in 1964, the first issue of Government Bond in 1964 and the establishment Nepal Securities Trading Center (NSTC) were other significant development rating to capital markets. After the enactment of first securities exchange Act 1983, the Nits was converted into securities exchanges center which was effective from 1984.

Securities exchange center was establishment was established with an objective of facilitating and promoting into stock exchange it was the sole institution regarding to operating and regulating primary and secondary markets of government and public securities.

Government of Nepal under a programme initiated to reform capital market, converted securities exchange center into Nepal Stock Exchange in 1993 by amending the existing Securities Exchange Act 1983. Nepal Stock Exchange (NEPSE) is an non profit organization. Operating under securities ordinance 2006

(previously) Securities Exchange Act 1983). The basic objectives of NEPSE is to impact free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as Broker, market maker etc. In 1994 SEBON granted permission to the NEPSE to operate securities market and NEPSE opened its trading transaction system was started by securities Brokers, Government of Nepal Rastra Bank, NIDC and licensed members are the shareholders of the NEPSE.

2.4 Review of Related Studies

“Our small investor need to be educated on the working of the stock exchange. In this task the role of Nepal stock Exchange and the government and probably also that of the centers, which manage shares issues of companies, becomes evidence in addition stock exchange watchers feel that the government should revise its stock market rules to take account of the various aspects of stock market including loopholes in order to prevent share market profilers from fleecing public (The Rising Nepal, January 20th 1995).

According to the Nepalese stock Market an introduction. “These days the interest of the investors is gradually fading away. Investors have been discouraged with the shares market running at a snails pace. There is no room for satisfaction for investors. Although the country has adopted the liberal market policies to revise the economy, it has not been applied into concrete actions in Nepalese context. Brokers have been reporting since long about Nepal’s stock market positions, however no action has been taken from the government. The government has not been able to regulate the companies, and the corporate culture is also not being developed among companies.

There are many loopholes in our stock exchange Act. Investors feel insecure here. A few years back there was a company called Nimrod Pharmaceutical Company

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

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

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

2.4.1 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 very few thesis directly consider the rights issue to study the impact on share price.

Gautam (2001) has conducted a study on the topic, 'Analysis of Share Price Movement Attributed to Rights Offering Announcement' in 2001. The main objectives of his study were:

-) To find the effect of rights offering on the share price movement.
-) To find out, if there is any problem in the primary issue of securities.
-) To analyze the adequacy of the contents of the company act 2053 B.S. in regard to section 21 that emphasized about the matter to be disclosed in the issue prospectus.

To conduct his study, he had used correlation analysis between share price movement and NEPSE index i.e. general market movement and t-statistics between share price before and after right issue announcement. T-statistics is used to test if there was significant change in share price before and after the issue of right. 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 data from 2052 to 2056 B.S. That 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 six rights issuing commercial banks as sample to conduct the study. The major findings of his study are that:

-) The change in share price due to rights offering cannot be generalized.
-) There is lack of legal provision in company act regarding the issue of rights share and also the lack of investors' protection act.

He concludes that Nepalese security market has failed to use various capital

market instruments such as warrants, convertible option etc.

Ojha (2002) conducted a research on 'Financial Performance and Common Stock Pricing' in 2002. The main objectives of the study were:

-) To study and examine the difference of financial performances and stock prices.
-) To examine the relationship of dividends and stock price.
-) To explore the signaling effects on stock price.

The main findings of his study were:

-) Due to lack of proper investment opportunity most of the investors have directed their savings towards the secondary stock market.
-) People have misconception that the issuance of bonus share and rights shares, which actually decreases the net worth per share and resultantly, ought to decrease the market price of share.
-) Other firms have been issuing bonus shares more times than a new on

Aryal (2003) on the topic "Equity Rights Issue, its Practice and Impact in Nepal" had been conducted. But his objectives of the study are different than Gautam's study. The main objectives of his study are:

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

To conduct this study he used cross sectional analysis by estimating the regression. He analyzed only the relationship between rights share to equity share and rights share to NEPSE index. In this research, he finds:

-) Announcement of equity rights issue are associated with a positive effect

on share prices.

-) Theoretical value of rights differs from company to company.

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

Ghatri (2005) In the year 2005 Mr. Ghatri has made the study on the topics of 'Impact of Rights offering Announcement on the Share Price Movement'.

The main objectives of his study were:

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

The major findings of his study were:

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

-) After increasing the share capital through right shares, earning per share is increased by 0.59769 when 1 unit increment in share capital amount.

To conclude the study, he had used the correlation coefficient, coefficient of determinants, regression analysis, t-test and financial formula.

Poudel (2006) The main objective of his study one to examine the right share practice and its impact on share price movement of commercial banks in Nepal. His study covers to aspects or right issue (a) the characteristics of rights offering by the commercial banks (b) the share price movement associated with the rights offering to achieve this bank objects, the following specific objectives have also been considered in this study.

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

Major finding of the study

-) There is no uniformity in the impact of rights offering of share price.
-) Nepalese investors mostly prefer the banking and finance sectors share to invest rather than other sector.
-) Majority of the investors are will aware about the rights share in Nepal.
-) Most of the rights issues were under subscribed in Nepalese companies so it is common phenomenon in Nepal.
-) Subscription of rights share in recent years is in increasing trend.

-) Subscription price of rights share is too low as compare to market price of share.
-) Lack of separate rules regarding rights share is another problem.
-) Large on of shareholders holding small no of share and they generally ignored rights issue.

Lamichane (2007) Her study focuses of the effect right issue and its effect on stock price movement. The investigation covers two interrelated aspects. the characteristics features of rights offering bye the listed company and the share price movement associated with rights offering.

The objectives as follows

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

The major findings of her study were:

-) Nepalese equity market (primary as well as secondary) is dominated by financial sectors companies, the participation of the real sector (manufacturing, hotels etc.) is quite low or negligible.
-) Rights share contribute, the second largest among various issues to raise the capital of the corporation approved by SEBON.
-) The practice of right share issue is in increasing trend per year.

- J The maximum contribution of right offering in total public flotation is 82.84% and minimum is 6.8%.
- J The result of run test is positive, i.e. market price per share before month of right share issue and after right share issue are found to follow randomness' in price fluctuation.
- J Right appear as an obligation imposed on shareholders, otherwise he would suffer a loss in the form of decline in price of his holding.

Gautam (2007) concluded a research on “Equity Right Issue and the Efficiency of the Nepalese Stock Market”. The objectives of this thesis were:-

- J To identify the existing practices of right issue in Nepal.
- J To analyze whether Nepalese investors are well known about right issue.
- J To test whether shares prices fully reflect all the information accompanying right issue announcement.
- J To find out whether Nepalese investors use available information regarding the right issue announcement to maximize their wealth.
- J To test whether right share issue, because it increases the supply of share, will have a depressing effect on the share price.

Major findings of the study were:-

- Most of the investors buy share from both primary and secondary market.
- Most of the Nepalese investors invest in common stock mainly for dividend and capital gain.
- Most of Nepalese investors collect information regarding the right share issue through the magazines and newspaper.

-) Most of the Nepalese investors perform company analysis to make investment in common stock.
-) Majority of the Nepalese investors making trading of shares daily.

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

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

Major finding of the study

-) There was significant difference between the share price of National finance ltd. Before and after the rights issue. It’s stock price followed the theory of rights offering.
-) Under subscription of rights share is common phenomena in Nepal.
-) There is no easy and clear provision regarding the sales of under subscribed rights share in Nepal.
-) Recent year’s subscription of rights share is in increasing trend.
-) There is not like uniformity in the impact of rights offering of share price.
-) Another major case is dilution in shareholders wealth position is the holder’s record date. In some sample companies, offering rights holders record date is prior to the announcement date.
-) Market is going to mature and company with track record is low.

After reviewing the above thesis, it is found that various studies have been done on the topic of share price and its determinant. Researcher have highlighted the rights share practice in Nepal from various aspects and also have made effort to highlight the under subscription problem. So, this study is trying to find the impact

of rights issue on market price of share of sample companies. This study may be an important effort to inform the shareholders and companies regarding the rights issue practice in Nepal.

2.5 Research Gap

According to the theory of rights offering, the price of shares increases after the announcement date and the price again decrease after the allotment of shares to the extent of value of rights. So, if the same things happen in the share market scenario, then the research like this seems to be unnecessary one. But in real practical life the theory is not being followed.

Various studies have been done on the topic of share price and its determinants, but no one has given focus on rights share as an important factor which affects the market price of shares in share market significantly.

Though few studies have considered rights shares and its impact on share price movement in Nepalese share market, they fail to focus on rights share as the second highest instrument of share fund required for a company. Furthermore previous studies had not tested the correlation of share price with general market movement.

Thus, with this several of research gap and weaknesses found in previous studies, this research has been conducted to find out value of rights issuing companies. Though, there are eight different sectors, only one i.e. the commercial bank is selected for the research. Six commercial banks are taken as sample in the research but it has been tried at most to find the impact of rights issue on market price of the sample commercial banks.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

The above mentioned, objectives can be fulfilled by well-settled research methodology. The proper analysis of this study can be meaningful only if the right choice of research tools is made. Such selected tools should help to get meaningful conclusion. “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 mention that research project are not susceptible to any one complete and inflexible sequence of steps and the types of problem to be studied will determine the particular steps to be taken and their order too” (Kothari; 1994: 19).

Thus, 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.

This study on selected commercial banks in Nepal has been already done streamline to some extent in earlier chapter in general. But, the proper analysis of this study can give meaningful conclusion. The main objective of this study is to analyze the rights share practice and its impact on share price movement in the context of Nepalese commercial banks. Therefore, in this chapter the focus has been made on research design, nature and sources of data, sampling procedure, coverage of data, tools used for analysis and definition of some key terms used.

3.2 Research Design

In simple language, planning for research is research design. It is a purpose full scheme of action proposed to be carried out in a sequence during the process of research. Research design is a conceptual framework within which a research is conducted. It helps the researcher to enable him to keep track of action and to know whether he is moving the right direction to achieve his goal.

This analysis is based on certain research design keeping on objective of study in mind. This research design is guideline studying profound ways of research ability. This study focuses on the rights share issue and its impact on stock price. In this research, analytical as well as descriptive methods designing are collected. This is an empirical research work, this research work helps to understand some of the features of rights share issue and its impact on stock price.

3.3 Nature and Sources of Data

This study is mostly based on secondary data. Primary data are also taken to some extent. So, qualitative as well as quantitative data are taken for the study. Which are as follows:

a) Primary Data

Primary data are collected to identify the problems and prospects of right share practice of commercial banks in Nepal. The sources for the primary data include the responses of the questionnaires, personal interviews with concerned person such as experts, brokers, investors, issue managers, issue companies etc.

b) Secondary Data

Secondary sources of data includes annual reports of SEBO/N, various publication of NEPSE, statistical book of Nepal, published and unpublished documents, previous studies, dissertation, articles and foreign related journals as well. Newspaper, magazine, books and other reports such as Kantipur, The Himalayan Times, Gorkhapatra, and New Business Age etc. are taken as useful sources of

secondary data in this study. Some other important information has been collected

3.4 Data Collection Technique

From various sources all the data relating to the study are collected. Not all the collected data are used, only necessary data for the study are taken into consideration. Following data collection techniques are used to collect the necessary data in the form of primary and secondary data.

a) Questionnaire Method

To get information about the right share and its various aspects, questionnaire method has been used. Three types of questionnaire methods are used to collect the data i.e. opened, closed and mixed questionnaire methods. Yes/No question, multiple choice question and descriptive questions are designed to get the response. Due to various limitations only 30 questionnaires are dispatched to the individual investors, brokers, issue managers, corporate firms and related experts and out of this, 25 responses were obtained.

b) Interview Method

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

c) Historical Data Record Method

It is the main source of the data for this study. Historical data are collected from various reports, prospectus of companies and newspaper. Previous data, which was used earlier by other party, are also useful for this study.

3.5 Populations and Sample

In attempting this study, only stock rights issues are considered, all other cases being excluded. Accordingly, nothing but privileged subscriptions issued to common stockholders permitting them to subscribe for additional common stock

of identical corporation were included in the sample. Till the FY 2063/064, there are only 102 cases of rights offered by 72 companies out of total 142 listed companies. Similarly, out of 17 listed commercial banks, only 14 banks issued rights to subscribe for additional common stock for their existing shareholders. Commercial bank controls the share market of Nepal. Many fluctuations in stock price of commercial bank directly affect the NEPSE Index. Due to various limitation researcher cannot take all the companies as the sample. So, for this study out of 8 sector of NEPSE, only one and important sector i.e. commercial bank has been taken for the study. Here, 6 commercial banks, issuing rights share has been considered for the study. Some commercial banks had issued rights share more than one time, but researcher takes the latest issue for the study. To measure the price movement of stock before and after the announcement of right share, some market prices are required. For this purpose researcher has taken price of the different time of period as the sample, which is based on purposive and judgmental sampling method.

3.6 Coverage of Data

This study covers the rights issue made by those companies, whose name is listed in the NEPSE. Out of total listed companies, only 102 companies issued the rights for their existing shareholder during the period of FY 1993/94 to FY 2007/08. So, the analysis covers the period of 15 years. The right issue made by the companies after FY 2007/08 are ignored in this study. Also the study throws the light on several aspects of the corporate financial policies and practices regarding rights offering, such as subscription price, subscription ratio, total issue versus total subscription of the rights shares, the frequencies of the rights offering by an individual company and the legal provisions regarding the rights offering.

3.7 Method of Analysis

Collected data from primary and secondary sources has been edited, classified and

compiled according to research. Then the data are presented in appropriate forms of table, charts and figures. To analyze the data, financial as well as statistical tools are used. This study is mostly focused on share price movement before and after the rights share announcement. The share price not only moves up or down due to the rights offering, but also various market information affect share price. So, the researcher has used some assumption to remove the effect of information

3.7.1 Allowance for Leakage of Information

Information about the director's intention to issue rights share can be leaked out in many cases before the date of director's meeting. If that happens, the price should rise as a result of the impending decision that may take place much before the director's actual decision. There may be the cases of insiders taking advantage by making purchase in advance of the official announcement so that the market price begin to rise over before the actual announcement. For these reasons, only going back at least some days before the formal announcement of the board's decision, use the true price effect of rights issue decision case. Considering all the factors, we decided to go back 90 days before from the date of rights share announcement. Thus, for the study, the base date for measuring relative changes in share price as a result of rights issue is the date 90 days prior to announcement date.

3.7.2 Removing the Effect of Market Movement

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

of the general market movement.

- a) To analyze the share price movement, five different times are selected. The announcement date is taken as a base date to take above five points. The selected points are as follows:
 - (i) *90 days before announcement date*: In order to isolate the effects of rights offerings, it is necessary to make comparison with dated unaffected by the offering. New financing frequently becomes known in the financial community prior to its official announcement. A 90 days lead-time appears adequate.
 - (ii) *10 days before announcement date*: Few days before the announcement date, it is supposed to that all shareholders do know it and does not bring any material influence on the share price behavior of the stock.
 - (iii) *The announcement date*: exactly the announcement date, it is supposed to that all shareholders do know it and bring material influence on the share price behavior of the stock.
 - (iv) *7 days after the announcement date*: When the company explicitly announces the issue of rights share, comparatively there will be high demand of the rights attached shares and this phenomenon causes the share price to rise. This period is supposed to depict the true picture of the share price of post announcement stock.
 - (v) *180 days after the announcement date*: In order to assess the post offering effects of rights offering, it is necessary to have a price quotation some time after the offering, yet not so much later that factors obscure the results. 180 days appears reasonable for this purpose.
- b) Price quotations for each share were collected for all five periods of time or reasonably close to them. These price quotations were then converted into price relative with the point (i) as the base date. This all price changes have been expressed relative to the base date price i.e. the price 90 days before the announcement date.

- c) The equity price index was noted against each price relative. The price index was also converted to a new set of index numbers again with point (i) as the base.
- d) Finally the price relative against each of five points of time, as obtained in step (b) above was expressed as a percentage of corresponding index numbers as adjusted in step (c) above.

Stated in simple terms, our procedure for eliminating the effect of the general market movement boils down to adjust the actual share price on any date downwards in proportion to an upward general market movement since the base date and adjusting it upwards in the proportion to a downward general movement. Thus, we get a series of five percentages for each of the shares in our sample representing of time, after the effect of general market movement have been eliminated.

3.7.3 Data Analysis Tools

Brief explanations of data analysis tools used in this study are as follows:-

a) Co-efficient of Correlation (r)

Correlation analysis is the statistical tool that can be used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the direction of relationship between two sets of figures. It is the square root of the coefficient of determination. Correlation can either be negative or positive. If both variables are changing in the same direction, then correlation is said to be positive but when the variations in the two variables take place in opposite direction the correlation is termed as negative. In the study, coefficient of correlation is calculated between rights share and NEPSE Index.

b) Coefficient of Determination (r^2)

The coefficient of determination is a measure of the degree of linear association or correlation between two variables. One of which happens to be independent and

other being dependent variables. In other word, r^2 measures the percentage of total variation in dependent variable explained by independent variables. The coefficient of determination has value range from 0 to 1. For example, if r^2 is equal to 0.85 that indicates the independent variables used in regression model explain 85% of the total variation in the dependent variable. A value of one occur only if the unexplained variation is zero which simply means that all the points in the scatter diagram fall exactly on the regression line.

c) Probable Error

Probable Error (P.E.) is used to measure the reliability and test of significance of correlation coefficient. It is calculated by following formula:

$$P.E. = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Where, r = Value of correlation coefficient

n = No. of pairs of observation.

P.E. is used in interpretation whether the calculated value of ' r ' is significant or not.

If $r < P.E.$, it is insignificant, i.e. there is no evidence of correlation.

If $r > 6P.E.$ it is significant, i.e. there exists correlation.

d) Use of t-test

T-statistics is also used to test the significance of the difference between the share price before and after the announcement of the right offering by the companies. Since the share prices of few transacted (i.e. less than 30 transactions) are taken, t-test is suitable tool for analyzing the significance of difference between the share price movement before and after the announcement of the right offering. Here, the researcher has used paired t-test.

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

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

Here,

X = Price Index of total equity capital before announcement.

Y = Price Index of total equity capital after announcement

n = Number of observation

In this analysis the researchers have used 5% level of significance to test the Hypothesis.

e) *Valuation of Rights*

Rights have certain market value because the rights share is generally offered at lower than market price. The value of a stock right may be defined as the value at which the right should be quoted in the market so that people are interested towards that particular share attached with rights. After rights offering, existing shareholders want to exercise those rights to purchase new common stock and some want to sell rights. Though there is no provision to make right transferable in Nepal, but valuation of rights is very important to analyze the share price movement. After the closing date of rights share offering, the share price will drop to the extent of value of rights.

$$\text{Value of Rights (V}_r) = \frac{P_0 - P_s}{\# + 1}$$

$$\text{Theoretical price of share} = P_0 - V_r$$

Where, P_0 = Current market price of share, rights-on

S = Subscription price.

= Number of right required to purchase one new share.

f) **Others**

Other tools such as percentage, statistical diagram, statistical tables, and averages have been used as per demand of the study which are very useful in this study to analyze and present the data in appropriate form.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter takes measures to determine with the presentation, analysis and interpretation of data collected through primary and secondary sources, in order to fulfill the objective of the study. This study that consist of analysis and presentation of empirical data focus on how far the Nepalese companies are practicing the rights share which is the most important component of this study and also it present how it affects the share movement of these companies.

The researchers have already mentioned that this study is heavily based on secondary data. Secondary source include and annual reports of respective companies. Primary source include the response of questionnaires and personal discussion. To obtain the best result, the data have been analyzed according to the research methodology as mentioned in the third chapter.

4.1 Characteristic of Rights Offering in Nepal

Up to now there are 142 listed companies in the SEBON and NEPSE, out of them 72 companies have issued the rights (SEBON report 2007/08). The history of rights offering is not so long in Nepalese contest. Nepal finance and saving co. ltd was the first company, who rights shares in Nepalese market in fiscal year 1995/96. The company announces on 01/12/1995, the ratio was 4:1, each existing shareholders who had 4 shares they owned were, allowed to purchase each additional share issued by the company.

Since, from the fiscal year 1995/96, Nepalese corporate firm, started to issue rights share. Till now (i.e. 2007/08) there are 102 cases of rights offering in Nepal. Almost all of them were finance, banking and insurance companies who issued

rights share in Nepalese capital market. All companies who had issued their rights share at par value i.e. Rs 100 per share because according to Company Act, company can not issue their rights share on discount, but premium can be added, due to fear of under subscription no company had issue their rights share on premium. As a result there is wide difference between subscription price and market price per share, as well as having high share price companies can not take advantage by premium, which is cost less fund of company.

A large number of bank and finance companies announce and issue rights share, to increase the capital base if the corporate management felt such need to comply with the policy directives given by the concerned authority to increase the capital base from the time to time. Under rights offering, the shareholders are provided a document called “rights” which describes all about the conditions of rights issue. Each stockholder receives one right in the proportion of the share currently held.

Table 4.1
The Details of all Rights Issuing Companies

F/Y	S.No.	Name of Issuing Companies	Amount raised through rights offering (Rs in million)	Subscription (%)	Issue manager	Subscription ratio
1995/96	1	Nepal Finance and Saving Co.Ltd	2.00	0	-	4:3
	2	Seti Cigarette Factory Ltd.	67.00	77.9	-	N/A
1996/97	3	Himalayan General Insurance Co. Ltd.	30.00	0	AFC	N/A
	4	Bottlers Nepal Ltd.	225.20	0	CIT	4:5
	5	Nepal Share Market Ltd.	20.00	100.00	AFC	1:2
1997/98	6	Nepal United Co. Ltd	3.01	44.41	NFCL	1:1
	7	Nepal Bank Ltd.	241.95	0	CIT	1:1.5
	8	Annapuran Finance Ltd.	5.00	81.72	NFCL	N/A

1998/99	9	Nepal Share Market Ltd.	30.00	0	AFC	1:1
1999/2001	10	Necon Air Ltd	89.60	95.31	CIT	1:1
	11	Paschimanchal Finance Co. Ltd	20.00	129.65	NSML	1:1
	12	Ace Finance Co. Ltd	15.00	100.00	NSML	2:1
2000/01	13	Narayani Finance Co. Ltd.	12.58	122.02	CIT	1:1
	14	Everest Bank Ltd.	119.21	27.17	NCML	1:1
2001/02	15	Bank of Kathmandu Ltd.	234.00	98.38	NCML	
	16	Nepal Housing and Merchant Finance Ltd.	15.00	100.00	NCML	
	17	Ace Finance Co. Ltd	45.00	100.00	NSML	
	18	Nepal SBI Bank Ltd.	287.87	97.26	NMB	
	19	NIDC Capital Market Ltd.	40.00	95.00	CIT	
	20	Nepal Investment Ltd.	57.25	97.42	NCML	
	21	Nepal Share Market and Finance Ltd	60.00	85.37	CIT	
	22	Mahalaxmi Finance Ltd	25.00	0	NFIC	
	23	Peoples Finance Ltd	20.00	56.69	NCML	
2003/04	24	Alpic Everest Finance Ltd	20.00	100.51	NEFINS CO	
	25	Siddhartha Finance Ltd	20.00	88.84	NEFINS C	
	26	NB Finance Leasing Co Ltd	30.00	66.84	NSMB	
2004/05	27	Nepal Bangladesh Bank ltd	159.92	95.26	NSMB	
	28	Annapurna Finance Ltd	20.00	97.33	NCML	
	29	Nirdhan Uthan Bank ltd	15.00	65.92	NMB	
	30	Nepal SBI Bank Ltd	215.93	95.50	NMB	
	31	Nepal Investment Bank Ltd	295.29	99.04	AFC	
	32	National Finance Ltd	43.20	97.06	NCML	

2005/06	33	Development Credit Bank Ltd	80.00	95.87	NMB	2:1
	34	Kumari Bank Ltd	125.00	153.46	NCML	4:1
	35	Fewa Finance Co Ltd.	30.00	97.40	NMB	1:1.5
	36	Om Finance Ltd	30.00	99.96	NMB	1:1
	37	Goodwill Finance Ltd	25.00	94.96	NCML	1:1
	38	Janaki Finance Ltd	10.00	98.33	NSFINSCO	2:1
	39	Central Finance Ltd.	12.00	98.32	NCML	2:1
	40	Taragaun Regency Hotel Ltd	446.45	57.45	NCML	5:3
	41	Machhapuchere Bank Ltd	165.00	87.13	NMB	10:3
	42	Kist Merchant Banking and Finance ltd	50.00	78.01	NMB	1:1
	43	Nepal Share Market an Finance Co. Ltd	40.00	90.94	CIT	3:1
2006/07	44	Pokhara Finance Ltd	20.00	99.00	NMB	2:1
	45	Lumbini Bank ltd	100.00	100.00	NMB	5:1
	46	Pachimanchal Bank Ltd	28.00	76.00	NCML	1:1.4
	47	Alpic Everest Finance Ltd.	20.00	96.00	NMB	2:1
	48	People Finance Ltd	40.00	56.00	NCML	1:1
	49	Chhimek Bikash Bank Ltd	20.00	81.00	NMB	1:2
	50	Nepal Development Bank Ltd	160.00	54.00	NCML	1:1
	51	Ace Finance Ltd	194.00	99.00	NCML	1:1.53
	52	Navadurga Finance Ltd	11.00	99.00	NEFINSCO	2:1
	53	Annapurna Finance Ltd	80.00	99.00	NCML	1:1
	54	Laxmi Bank Ltd	122.00	98.00	NMB	5:1
	55	Capital Marchant Banking and Finance Ltd.	84.00	80.00	CIT	1:1.2
	56	Yeti Finance Ltd	6.30	83.00	NCML	4:1
	57	Business	30.00	100.00	AFC	1:1

		Development Bank Ltd.				
	58	Kist Merchant Banking and Finance Ltd	100.00	99.00	NCML	1:1
	59	Siddhartha Bank Ltd	100.00	99.00	AFC	5:1
	60	Lumbini Bank Ltd	150.00	--	AFC	4:1
2007/08	61	Nepal Investment Bank Ltd	201.3	99.00	ADC	5:1
	62	Siddhartha Bank Ltd	138	99.00	NMB	5:1
	63	NIC Bank Ltd	158.40	96.00	NCML	5:1
	64	Lumbini Bank Ltd	250.00	85.00	ADC	3:1
	65	Kumari Bank Ltd	180.00	99.00	NCML	5:1
	66	Laxmi Bank Ltd	183.00	99.00	NMB	5:1
	67	Development Credit Bank Ltd	806.40	99.00	NMB	4:1
	68	NMB Bank Ltd	800.00	95.00	NFCL	4:1
	69	Nirdhan Utthan Bank Ltd	39.50		NCML	1:1.20
	70	Pachhamachal Bank Ltd	47.50	89.00	ADC	1:09
	71	Birkuti Bikash Bank Ltd.	30.00	97.00	NCML	1:1.25
	72	Siddhartha Development Bank Ltd	50		ADC	1:1
	73	Sanima Bikash Bank Ltd	64.00	99.00	NCML	5:1
	74	Ace development Bank Ltd	96.00		NCML	10:3
	75	Gorkha Bikash Bank Ltd	160.00	123.00	CIT	2:1
	76	Business Development Bank Ltd	150.00	67.00	ADC	1:2.5
	77	Himchuli Bikash bank Ltd	60.00	99.00	NCML	1:2
	78	Annapuran Bikash Bank Ltd	150.00		NFCL	1:2.5
	79	Sahayogi Bikash Bank Ltd	10.00	99.00	NCML	2:1
	80	Capital Merchant	161.00	77.00		1:1

		Bank and Finance Co Ltd			ADC	
	81	Premier Finance Ltd	14.40	98.00	NCML	2:1
	82	Central Finance Ltd	24.00		NCML	2:1
	83	Nepal Share Market an Fin Ltd	240.00	99.00	CIT	1:1.5
	84	IME Financial Institutional Ltd	50.00	99.00	NMB	1:1
	85	Prudential Bitty Santha Ltd	50.00	86.00	ADC	1:1
	86	Paunimanchal Finance Ltd	27.80	97.00	NFCL	2:1
	87	Krist Merchant Banking and Finance Ltd	600.00	85.00	ADC	1:3
	88	Goodwill Finance Ltd	50.00	99.00	ADC	1:1
	89	United Finance Ltd	75.00	98.00	NCML	1:1
	90	Nepal Express Finance Ltd	30.00	99.00	NCML	5:3
	91	Royal Merchant Banking and Finance Ltd	60.10	99.00	ADC	1:1
	92	ICFC Bitty Santha Ltd,	224.80	85.00	NMB	1:3
	93	International Leasing Finance Ltd	504.00	92.00	NCML	1:3.5
	94	Nepal Housing and Merchant Finance Ltd	16.80	99.00	ADC	4:1
	95	Shree Investment and Finance Ltd	16.80	99.00	NMB	4:1
	96	Standard finance ltd	72.60	101.00	NCML	1:1
	97	Gorkha Finance Ltd	30.00	106.00	CIT	1:1
	98	Guheishwari Merchant Banking and Fin Ltd	37.00	-	NCML	5:3
	99	Nepal Awash Bikash Bitt Co. Ltd	70.50	96.00	NFCL	1:1
	100	Sagarmatha Insurance Co. Ltd	23.60	96.00	ADC	10:3
	101	Premier Insurance co	39.00	86.00	ADC	1:1.3

		Ltd				
	102	Himalayan Insurance Co Ltd	37.80		ADC	5:3

Source annual report of SEBON 2007/08

All the companies except Bottlers Nepal Ltd. Issued right shares at par value i.e. Rs 100 per share. Bottlers Nepal Ltd issued rights share is Rs 260 per share this includes Rs 160 premium per shares. No company has issued their rights share at discount because company ordinance does not allow them to sell the rights share at discount. The premium can be added but the fear of under subscription, forced company not to add any premium on issue. As a result there is wide different between subscription price and market price per share.

In our sample companies the size of rights share issue amount vary according to company size being a large organization NIB has issued rights share of Rs 201.38 million. Existing shareholders of NIB required 5 rights to purchase one share i.e. the ratio was 5:1 where as NIDC had issued rights share amounting Rs 40 million ratio is 1:2 other sample organization i.e. IME Financial Intuitional Ltd. Has issued Rs 50.00 million and issue ratio is 1:1 and Merchant Finance Ltd. Gorkha Finance Ltd. did so. These companies generally issued rights share because of NRB requirement i.e. to increase the paid up capital as directed by NRB.

Looking at the fifteen years old history of the issue approval for the Security Board of Nepal (SEBON) on can easily notice an increasing trend of issuing rights share, a type of equity share issued by a corporation to raise additional fund giving first priority to the existing share holders to take the shares those companies which have already issued share to the public one allowed to issue rights shares.

4.2 Contribution of Rights Share Issues in Total Public Flotation in Nepal

Rights share is an important part of total public issue in Nepal. There are many

other alternatives of the public issue. Following table figure shows the contribution of rights issue in the total public flotation in each of the fiscal years in which the rights offering has been taken place.

Table 4.2

Contribution of Rights Share Issues in the Total Public Flotation.

Fiscal year	Total issued Approved		Right Share Approved		Percentage	
	No of companies	Amount Rs	No of companies	Amount Rs	No of Companies	Amount Rs
1993/94	16	244.4	0	0	0	0
1994/95	10	173.96	0	0	0	0
1995/96	12	293.74	2	69.00	16.67	23.49
1996/97	5	332.20	3	275.20	60.00	82.84
1997/98	12	462.36	3	249.96	25.00	54.06
1998/99	5	258.00	1	30.00	20.00	11.63
1999/2000	6	326.86	3	124.60	50.00	38.12
200/001	9	410.49	2	131.79	22.22	32.10
2001/002	12	1444.33	5	621.87	41.67	55.16
2002/03	18	5564.54	4	162.24	22.22	29.15
2003/04	14	1027.50	3	70.00	21.43	6.18
2004/05	14	1626.80	6	949.34	42.86	58.36
2005/06	29	2443.28	11	1013.45	37.93	41.47
2006/07	34	2295.50	17	1265.30	50.00	55.13
2007/08	63	9967.70	42	6092.90	66.67	91.22

Source : Annual Report of SEBON, FY 2007/08

Analyzing the table, there are no any rights issue had been made in starting two years. In the FY 1995/96 two cases of rights issued had been made of 12 issues, which occupied 23.49% of the total public flotation. The highest cased of rights offering i.e. 42 cases were made in FY2007/08, where as the lowest no. of rights offering i.e. 1 case was made in FY 1998/99.

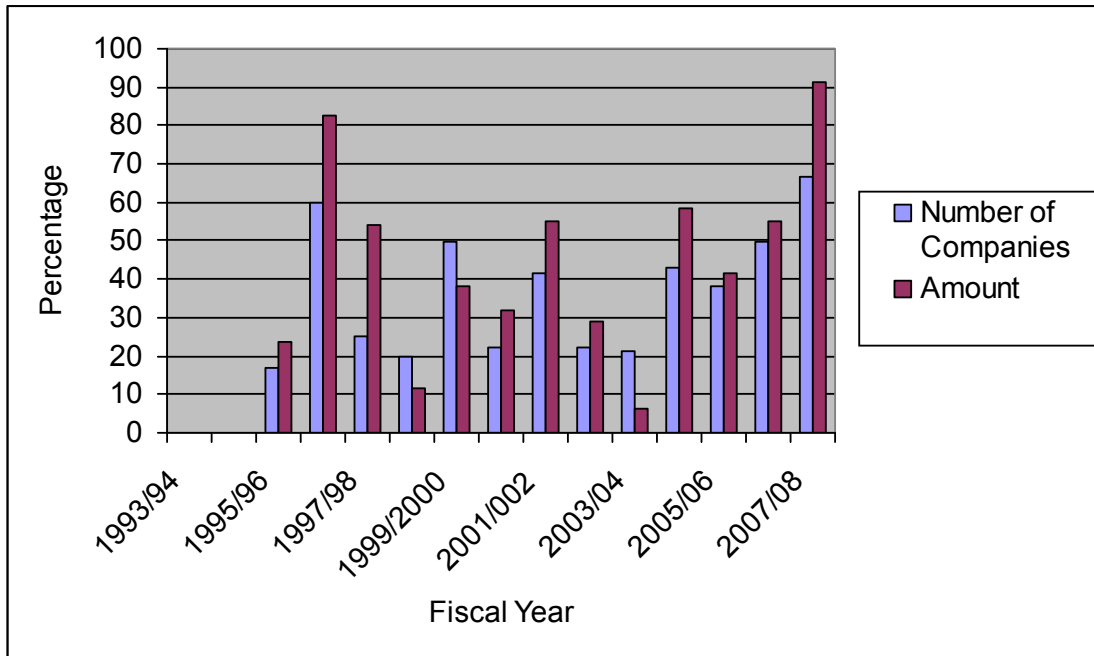
In the FY 1996/97 contribution on rights share on total public issue through three companies out of five total issue approved companies is 82.84%. In the FY 1997/98 and 1998/99 the contribution of rights share on total public issue through

three and one company out of 12 and 5 total issue approved companies was 54.06% and 11.63% respectively. The contribution of rights share in the FY 1998/99 is the lowest one during 15 years period. At that fiscal year only Nepal Share Market Ltd. Had issued the rights share amounting to Rs 30.00 million. Similarly in FY 1999/2000, FY 2000/01 and 2001/02, contribution of rights share on respectively through 3, 2 and 5 rights issuing companies out of 6, 9 and 12 total issue approved respectively.

Also, contribution of rights share on total public issue in FY 2002/03, FY2003/04, FY2003/04, FY2004/05, FY 2005/06 and 2006/07 is 29.15%, 6.81%, 58.36%, 41.48% and 55.13% respectively. Through 4, 3, 6, 11 and 16 rights issuing companies out of 18, 14, 14, 29 and 34 total issue approved companies.

In the FY 2007/08, contribution on rights share on total public issue through 42 companies out of 63 total issue approved companies' id 91.22%. It is highest contribution till the FY 2007/08 because 63 issues approved companies issued volume of total public issue amounting 9967.70 million the highest cases of rights offering i.e. 42 cases and 91.22% were made in FY 2007/08.

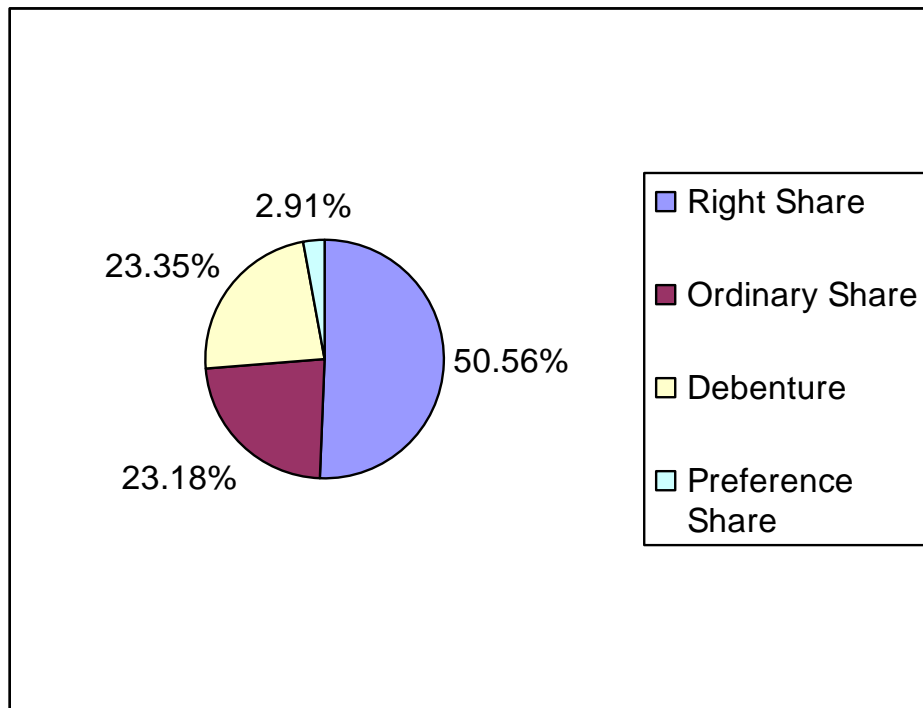
Figure 4.1



Source: Annual Report of SEBON FY 2007/08

Instrument Wise Public Issue in Nepal Fiscal Year 1993/94 - 2007/08

Figure :- 4.2



Contribution of rights share on total public issue is 50.56% which is largest instrument among of them. So it can be concluded that, contribution of rights share on total public issue is significantly increase in Nepal.

During this 15 years period. 259 companies were given the issue approval. Out of these, 72 companies issued right share to raise additional fund. Under the right offering, the stockholder are provided a document called right which describes all about the conditions of rights . Each stock holder receives one right in the proportion of shares currently held.

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

But the additional point about this principle is that the existing shareholders should not have only the right to purchase additional shares as issued by the company but they should also have the right to rename the rights and which should not be provisional but automatic therefore shareholders always should have the following right.

1. To exercise the rights and subscribe additional share.
2. to buy additional rights to meet the requirement of additional subscription.
3. To sell rights partially.
4. To sell all rights.
5. To let the rights to expire.

For these reasons, in many countries “rights” is a negotiable instrument and therefore transferable. And it must logically be transferable and negotiable

because while somebody may have sufficient money to exercise the rights and they may actually exercise such rights. Some other may not have the money to exercise all the rights. These second type of people may like to exercise the rights partially in that case they should have rights to sell the “right partially”.

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

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

4.3 Issue Manager Wise Rights Issue in Nepal

There are nine issue managers operating in security market in Nepal. All of them except united finance Ltd. have issued different kinds of instrument including rights share, table clearly shows the contribution of issue manager in right offering in Nepal.

Table No 4.3

Issue Manager Wise Rights Issue in Nepal

S.N.	Name of Issue Manager	Issue Amount (Rs)	No.	Percent (%)	
				Amount	No.
1	-	69.00	2	0.63	1.96
2	NIDC Capital Market Ltd. (NCML)	3086.09	32	28.30	32.35
3	Citizen Investment Trust (CIT)	1329.96	11	12.19	10.78
4	Nepal Merchant Banking Ltd. (NMB)	2474.80	18	22.69	17.65
5	Ace Development Bank Ltd. (ADC)	2306.49	20	21.15	19.61
6	National Finance Co. Ltd. (NFCL)	1081.31	47	9.91	6.86
7	Nepal finance & saving Co. Ltd. (NEFINSCO)	61.00	4	0.56	3.92
8	United Finance Ltd.	-	-	-	-
9	Nepal Srilanka Merchant Bank Ltd. (NSMB)	389.92	2	3.58	9.96
10	Nepal Share Markets Co. Ltd (NSML)	107.58	5	0.99	4.91
	Total	10,906.15	102	100	100

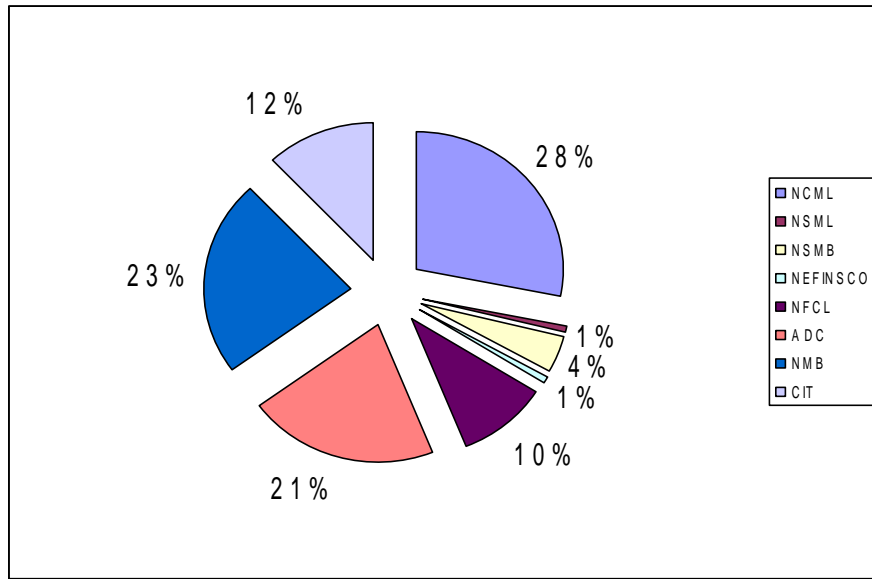
Source: Annual report of SEBON, FY 2006/07.

By analyzing table it is noticed that, on the basis of rights share issued amount, Rs. 69 million (0.63%) rights share was issued without any issue manager. NIDC Capital Markets Ltd. is the largest issue manager till the FY 2007/08. It has manager Rs. 3086.09 million (28.30) rights share. Similarly Nepal Merchant Banking Ltd, Ace Development Bank Ltd, Citizen Investment Trust and National Finance Co. Ltd. are the second, third, fourth & fifth largest issue manager. They have managed the rights share amounting Rs. 2474.80 million (22.69%), 2306.49 million (21.15%), 1329.96 million (12.19%) and 1081.31 million (9.91%) respectively. Similarly, Nepal Finance & Saving Co. Ltd is the smallest issue manager, which had managed only Rs. 61 million (0.56%) rights share. Nepal Share Markets Co. Ltd. & Nepal Srilanka Merchant Bank Ltd. are the second & third smallest issue manager. They have managed Rs. 107.58 million (0.99%) and Rs. 389.92% million (3.58%) respectively.

On the basis of number of rights issued cases, two cases i.e. 1.96% of rights issued were managed without any issue manager, NIDC Capital Markets Ltd. is the largest issue manager, has managed 33 causes i.e. 32.35%, out of total 102 rights share cases till the FY 2007/08. Ace Development Bank Ltd., Nepal Merchant Bank Ltd., Citizen Investment Trust & National Finance Co. Ltd. are the second, third, fourth and fifth largest issue manager managing. They have managed 20 cases (19.61%), 18 cases (17.65%), 11 cases (10.78%) & 7 cases (6.89%). Also, Nepal Share Markets Co. Ltd. & Nepal Finance & Saving Co. Ltd. is the sixth & seven largest issue manager. They have managed 5 cases (4.91%) and 4 cases (3.91%) of right issue. At last Nepal Srilanka Merchant Bank Ltd. is the smallest issue manager, has managed only 2 causes i.e. 1.96% of right share.

Figure 4.3

Following figure shows the issue manager wise Rights Issue in Nepal



Source: Annual Report of SEBON, FY 2007/08.

4.4 Classifying the Rights Issue According to Sector in Nepal

Those companies who are interested for public issue, should have listed their in NEPSE. Which are divided into 8 sector. Following table and figure shows the sector wise rights issue in Nepal.

Table 4.4
Sector Wise Rights Issue in Nepal

SN	Sector	No of listed companies	Right issuing companies	percent	Issue amount Rs	percent
1	Commercial bank	17	14	82.35	5232.51	49.26
2	Development bank	23	13	56.52	1080	10.17
2	Finance companies	55	37	69.09	3348.03	31.52
3	Insurance companies	17	3	17.65	130.40	1.23
4	Hotel	4	1	25	446.45	4.20
5	Manufacturing processing companies	18	2	11.11	292.20	2.75
6	Trading companies	4	1	25	3.01	0.028
7	Other companies	4	1	25	89.60	0.84
8	Total	142	72		10622.20	100

Source Annual Report of SEBON (fiscal year2007/08)

By analyzing the table, only 14 banks has issued the rights share to their shareholders till the study period. Among them, Nepal Investment Bank Ltd. and Lumbini Bank Ltd. had issued rights share three times and Nepal SBI Bank Ltd. Kumari Bank Ltd and Siddhartha Bank Ltd. had issued rights share twice. So the total case of rights offering made by commercial bank is 14 in case of development bank and finance company only 13 development banks and 37 finance companies has issued right share .in case of insurance company and Manufacturing company only 3 insurance company and 2 Manufacturing company has issued rights share. Similarly Hotels Trading companies and others has issued

one rights share each till the study date.

On the basis of rights share amount. Commercial banks occupied the largest volume of rights share i.e. Rs 5232.51 millions out of total rights share issued i.e. 10622.20 millions, which became 49.26% of total rights issue. The largest one incase of finance companies covers the second position, issuing Rs 3348.03 million and Hotel are third and fourth largest sector that they have issued Rs 1080 million i.e. 10.17% and Rs 446.45 million i.e. 4.20% rights share respectively, similarly Manufacturing companies Insurance companies, other company and Trading company have issued Rs 292.20 million i.e. 2.75% Rs 130.40 i.e. 1.23% Rs 89.60 ie 0.84% and Rs 3.01 million i.e. 0.028% rights share respectively.

By analyzing given data researcher concluded that some commercial banks finance companies Development banks had issued the large amount of rights share to their existing shareholders therefore these sectors occupied large proportion of rights share which can be directed by following table.

Table No 4.5
Sector Wise Rights Issue Amount in Nepal

SN	Commercial Banks	Issue Amount
1	Nepal Bank Ltd	241.95
2	Everest Bank Ltd	119.21
3	Bank of Kathmandu Ltd	234
4	Nepal SBI Bank Ltd	503.80
5	Nepal Bangladesh Bank Ltd	359.83
6	Kumari Bank Ltd	305
7	Machhapuchere Bank Ltd	165
8	Lumnbini Bank Ltd	500

9	Siddhartha Bank Ltd	100
10	Development Bank Ltd	886.40
11	NMB Bank Ltd	800
12	Laxmi Bank Ltd	305
13	Nepal Investment Bank Ltd	553.83
14	NIC Bank Ltd	158.40
	Total	5232.51
Development Bank Ltd.		
1	Nirdhan Bank Ltd	54.5
2	Pachimanchal Bikash Bank Ltd	75.5
3	Chhimek Bikash Bank Ltd	20
4	Nepal Development Bank Ltd	160
5	Business Development Bank Ltd	150
6	Brikuti Bikash Bank Ltd	30
7	Siddhartha Development Bank Ltd	50
8	Sanima Bank Ltd	64
9	Ace Development Bank Ltd	350
10	Gorkha Bikash Bank Ltd	160
11	Himalchuli Bikash Bank Ltd	60
12	Annurpuna Bikash Bank Ltd	150
13	Sahayogi Bikash Bank Ltd	10
	total	1334
Finance Companies		
1	Nepal Finance and Saving Company Ltd	2.00
2	Nepal Share Market and Finance Company Ltd	360.00
3	Annapurna Finance Ltd	105.00
4	Nepal Share Market Ltd	30
5	Pachimanchal Finance Co.Ltd	47.80

6	Narayani Finance Ltd	12.58
7	Nepal Housing and Merchant Finance Ltd	95.40
8	NIDC Capital Market Ltd	40
9	Mahalaxmi Finance Ltd	25
10	Peoples Finance Ltd	60
11	Alpic Everest Finance Ltd	40
12	National Finance Co. Ltd	43.20
13	Siddhartha Finance Ltd	20
14	NB Finance and Leasing co. Ltd	30
15	Fewa Finance Co. Ltd	30
16	Om Finance Co. Ltd	30
17	Goodwill Finance Ltd	75
18	Janaki Finance Ltd	10
19	Central Finance Ltd	36
20	Krist Merchant Banking and Finance Ltd	36
21	Navadurga Finance Co. Ltd	750
22	Yeti Finance Ltd	11
23	Premier Finance Co. Ltd	6.30
24	IME Finance Institution Ltd	14.40
25	Prudential Bitty Santha Ltd	50
26	United Financed Ltd	50
27	Nepal Express Finance Ltd	75
28	Royal Merchant Banking and Finance Ltd	30
29	ICFC Bitty Santha Ltd	60.10
30	International Leasing and Finance Ltd	224.80
31	Shree Investment and Finance Ltd	504.00
32	Standard Finance Ltd	16.80
33	Gorkha Finance Ltd	30

34	Guheishwari Merchant Banking and Finance Ltd	37
35	Nepal Awash Bikash Bitta Company Ltd	70.05
36	Pokhara Finance Ltd	20
37	Capital Merchant Banking and Finance Ltd	84
	Total	3094.03
Insurance Companies		
1	Sagarmatha Insurance Co Ltd	23.60
2	Premier Insurance Co Ltd	39.00
3	Himalayan General Insurance Ltd	67.80
	Total	130.40
Hotels		
1	Taragaun Regency Hotel Ltd	446.45
Manufacturing and Processing Companies		
1	Bottlers Nepal Ltd	225.20
2	Seti Cigarette Factory Ltd	67.00
	Total	292.20
Trading Companies		
1	Nepal United Co. Ltd.	3.01
Others Companies		
1	Necon Air Ltd	89.60

4.5 Subscription of Rights Share in Nepal

We can analysis from below table that after the rights offering to the existing shareholders from the companies. Normally there are not any cases of actual subscription. Actual subscription means that the existing shareholders apply for the entire announced share. That means companies were able to collect actual amount that they need for the further programmed. If there is application for more than the announcement is called over subscription. And if there is application for

less than requirement is called under subscription that means company was not able to collect sufficient amount that it need to expand its programmer by the announcement of rights share. In this case the decision of the board of director of detector to announce the rights share was not good decision.

Researcher can conclude that the good performing companies are over subscribed, bad performing companies are under subscribed and normal companies are full subscribed. When an investor thinks that the company would invest its extra fund in profitable way then they want more investment in the company if the existing shareholders are not satisfied with the decision of board of directors then they will not motive to invest more.

Subscription of Rights Share in Nepal

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

Source annual report of SEBON FY2007/08

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

4.6 Rights Share and its Impact on Share Price Movement of Companies Before and After Rights Offering

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

- 1) 90 days before the announcement date
- 2) 10 days before the announcement date
- 3) The day of announcement
- 4) 7 days after the announcement
- 5) 180 days after the announcement

The main objective of this method of analysis is to eliminate the effect of the general market movement from our analysis. Otherwise stated, the procedure for eliminating the effect of general market movement boils down to adjust the actual share price on any data downwards in proportion to an upward general movement since the base date and adjusting it upwards in proportion to a downward, general market movement. Thus finally we get a series of five percentages for each of the shares in our sample representing relative change in a share price at different point of time after eliminating the effect of the general market movement.

There are 102 cases of rights offered by 72 companies out of total listed companies in Nepal till the FY 2007/08. But here researcher has analyzed only one sector i.e. commercial banks so in this study researcher has analyzed these 6 commercial banks which are as follows.

1. Everest Bank Ltd.
2. Bank of Kathmandu Ltd.
3. Laxmi Bank Ltd.

4. Kumari Bank Ltd.
5. Nepal Investment Bank Ltd.
6. Machhapuchere Bank Ltd.

Analysis of share price movement before and after the rights offering of sample companies is as follows.

4.7 Analysis of Share Price Movement of Commercial Bank

1) Analysis of Share Price Movement of NIC Bank Ltd

Table No 4.6

Analysis of Share Price Movement of NIC Bank Ltd

Selected points of time	Share price (Rs.)	Price relatives	Total price index of equity capital	Price index converted to new base	Change from base	Adjusted price relatives 2 as % at 4	% Change from base
	1	2	3	4	5	6	7
I	906	100	689.80	100	-		-
II	1420	156.73*	897.29	130.08	30.8***	120.49*****	20.49*****
III	1600	176.60	1025.91	148.73	48.73	118.74	18.74
IV	1600	183.22	1018.16	147.60	47.70	124.13	24.13
V	1350	149.00	963.36	139.66	39.66	106.69	6.69

Column 2:- Price Relative = $\frac{1420}{906} \mid 100 \times 156.73^*$

Column 4:- Price Index Converted to New Base = $\frac{897.29}{689.80} \mid 100 \times 130.08^{**}$

Column 5:- % Change From Base = $130.08 - 100 = 30.08^{***}$

Column 6:- Adjusted Price Relatives 2 at % at

$$4 = \frac{\text{Price Relative}}{\text{Price Index Converted to New Base}} \mid 100 \times \frac{156.73}{130.08} \mid 100 \times 120.49^{*****}$$

Column 7:- Change From Base = $120.49 - 100 = 20.49^{*****}$

Above table shows that the share price of NIC Bank Ltd. increased from Rs. 906 to Rs. 1420 from base date to the ten days before the announcement date. There was increasing trend in the general market movement; when NIC Bank Bank Ltd. announced the rights offering to its existing shareholders. Three months before the announcement date, price of the NIC Bank Ltd. was Rs. 906. It increase up to Rs. 1420 ten days before announcement date and increase to Rs. 1600 at the day of announcement.

The share price of NIC Bank Ltd. to Rs. 1660 after seven days of announcement and decrease to Rs. 1350 after six months of announcement date. Total price index of equity share was 689.80 three months before announcement date. It came to Rs. 897.29 ten days before announcement date and to 1025.91 in the announcement date. The total price index at where went down to the 1018.16 seven days after announcement date and 963.36 six months after the announcement date.

Column 4 in above table shows the price index converted to new base and column 5 dhows the percentage decrease (or increase) in the adjusted price indices from the base index.

This column 5 shows that price index increased by 30.80% ten days before announcement date and by 48.73% in the day of announcement. After seven days at announcement days, it decreased by 47.60% and by 39.66% after six months of the announcement date.

Similarly, column 6 & 7 shows the adjusted share price and its percentage increase & decrease from the base date respectively. In the column 7, adjusted share price is increase by 20.49% ten days before announcement date and by 18.74% of the date of announcement date. After seven days of announcement date the price

increased by 24.13% & 6.69% after six months of announcement date. According the theory of right after the price of share will increase after the announcement and decrease after of share will increase after the announcement and decrease after the allotment of share to the extent value of rights.

Market Price of Share = Rs. 1600

Value of on Right = Rs. 250

Ex-right Price of Share = Rs. 1350

Share price should be Rs. 1350 after the allotment of right share. Also the share price of NIC Bank Ltd. is Rs. 1350 after six month of right share announcement. One can conclude that NIC Bank Ltd. right after has meet the theory it was fairly priced.

2) Analysis of Share Price Movement of Siddhartha Bank Ltd.

Table No 4.7

Analysis of Share Price Movement of Siddhartha Bank Ltd

Selected points of time	Share price (Rs.)	Price relatives	Total price index of equity capital	Price index converted to new base	Change from base	Adjusted price relatives 2 as % at 4	% Change from base
	1	2	3	4	5	6	7
I	785	100	679.99	100	-	100	-
II	980	124.84	855.56	125.82	25.82	99.22	(-0.78)
III	1295	164.97	974.41	143.30	43.30	115.12	15.12
IV	1296	165.10	1052.92	154.84	54.84	106.63	6.63
V	1125	143.31	951.62	139.95	39.95	102.40	2.40

In case of Siddhartha Bank Ltd. the share price was Rs. 785, three months before

the announcement date. It increases up to Rs. 980 before ten days before announcement date and increase to Rs. 1295 at the day of the announcement. The share price of Siddhartha Bank Ltd. increased to Rs. 1296 after the seven days of announcement the decrease to Rs. 1125 after six months of announcement date.

By analyzing the share movement of Siddhartha Bank Ltd. and the trend of general market movement, change in the market movement, at the time market index had increased from 679.41 & 1052.92 in among III & IV points at time and decrease to 951.62 in V points of time. Column 5 shows the percentage change in the adjusted price indices from the base index. It shows that the price index was increased by 25.82% ten days before announcement. Similarly, it increased by 43.30% from point II to III. It was increased by 54.84% & 39.95% in points of time IV & V.

Similarly, column 6 & 7 shows the adjusted share price and its percentage increase or decrease from the base date respectively. In the column 7, adjusted share is decreased by 0.78% ten days before announcement date. The adjusted share price is increased by 15.12%, 6.63% and 2.40% at the points of time III, IV and V. According the theory of rights offering the price of share will increase after the announcement and decrease after the allotment of share to the extent of value of rights.

Market Price of Share = Rs. 1295

Value of One Right = Rs. 199.17

Ex-right Price of Share = Rs. 1095.83

The value of the share the allotment should be around Rs. 1095.83 but the share of Siddhartha Bank Ltd. was Rs. 1125 after six months of right share announcement. Thus the share price of Siddhartha Bank ltd. was overpriced.

3) Analysis of share price movement of Nepal Investment Bank Ltd.

Table No 4.8

Analysis of share price movement of Nepal Investment Bank Ltd

Selected points of time	Share price Rs.	Price relatives	Total Price Index equity capital	Price index converted to new base	% change from base	Adjusted price relatives as % of 4	% change from base
	1	2	3	4	5	6	7
I	1200	100	230.27	100	-	100	-
II	790	65.83	226.25	98.25	(1.75)	67.00	(1.17)
III	865	72.08	222.87	96.79	(3.21)	74.47	(2.39)
IV	813	67.75	218.06	94.70	(5.30)	71.54)	(3.79)
V	825	68.75	215.10	93.41	(6.59)	73.60	4.85)

Above table shows that the share price of Nepal Investment Bank Ltd. decrease front Rs. 1200 to Rs. 790 from base date to the ten days before the announcement date. This price is Rs. 865 at the day of announcement and it drop to Rs. 813 after seven days of announcement and to Rs. 825 after six months of announcement. Her the Nepal Investment Bank Ltd. share price has been increased before announcement but decreased at the announcement date and after it was gone down rapidly. total price index of equity capital is seemed to be decreased from 230.27 to 215.10. While adjusted share price in column 6 has mixed result i.e. increase before announcement date and decrease after 6 months announcement. Theoretically the share price should increase after announcement right issue but the price behavior of Nepal Investment Bank Ltd. share does not follow the theory.

Market Price of Share = Rs. 865

Value of One Right = Rs. 382.50

Ex-right Price of Share = 482.50

The value of the share after the allotment should be around Rs. 482.50 but the share price of Nepal Investment Bank Ltd. was Rs. 825 after six month of right share announcement. Thus the share of Nepal Investment Bank Ltd. was overpriced.

4) Analysis of Share Price Movement of Laxmi Bank Ltd

Table No 4.9

Analysis of Share Price Movement of Laxmi Bank Ltd

Selected point of time	Share price Rs	Price relatives	Total price index of equity capital	Price index converted to New base	% change from base	Adjusted price relatives as % of 4	% change from base
	1	2	3	4	5	6	7
I	349	100	381.37	100	-	100	-
II	455	130.87	469.51	123.11	23.11	105.89	5.89
III	460	131.81	473.31	124.11	24.11	106.21	6.21
IV	572	163.89	508.58	133.35	33.35	122.90	22.90
V	65	186.24	613.47	160.92	60.92	115.73	15.73

Above table shows that the share price of Laxmi Bank Ltd increased from Rs 349 to Rs 455 from base date to the 10 days before the announcement date. There was increasing trend in the general market movement. When Laxmi Bank Ltd. announced the rights offering to its existing shareholders there months before the announcement date price of the Laxmi Bank Ltd. was Rs 349 it increase up to Rs 455 10 days before the announcement date and increase to Rs 460 at the day of the announcement.

The share price of Laxmi Bank Ltd. Increased to Rs 572 after the seven days If

announcement and increase to Rs 650 after six months of announcement date. Total price index of equity share was 381.37 three months before the announcement date. It came to 469.51 ten days before announcement date and to 473.37 three months before the announcement date. It came to 469.51 ten days before announcement date it came to 473.31 in the announcement data. The total price index of where went up to 508.58 seven days after announcement date and 613.31 in the announcement date and 613.47 six months after the announcement date.

Column 4 in above table shows the price index converted to new base and column 5 shows the percentage decrease in the adjusted price indices from the base index. This column 5 shows that price index increased by 23.11 ten days before announcement date and by 24.11 in the day of announcement. After seven days of announcement date. It increase by 33.35 and by 60.92% after six months of the announcement date.

Similarly, column 6 and 7 shows the adjusted share price and its percentage increase or decrease from the base date respectively. In the column 7, adjusted share price is increased by 5.89% ten days fore announcement date and by 6.21% at day of announcement date. The adjusted share price is decreased by 22.90% from base index. After seven days announcement date, increasing the adjusted share price is for more than the increase in the price index concerted to new base. According

To the theory of rights offering the price of share will increase after the announcements and decrease after the allotment of share to the extent of value of rights.

Market price of share = Rs460

Value of one right = Rs60

Ex-right price of share = Rs400

After the issue of right share Laxmi Bank Ltd. share price fall more than its value of one right on ex- right price is less than its theoretical price. (Annex- 4)

5) Analysis of Share price Movement of Kumari Bank Ltd.

Table No 4.10

Analysis of Share price Movement of Kumari Bank Ltd

Selected pints of time	Share price Rs	Price relatives	Total price index of equity capital	Price index converted to new base	% change from base	Adjusted price relatives 2 as% 4	% change from base
	1	2	3	4	5	6	7
I	377	100.00	293.69	100.00	-	100.00	-
II	326	86.47	299.84	102.09	2.09	84.70	(15.30)
III	340	90.19	308.13	104.92	1.92	85.96	(14.04)
IV	330	87.53	301.60	102.69	2.69	85.28	(14.72)
V	439	316.46	378.68	128.94	28.94	90.32	(9.68)

In case of Kumari Bank Ltd. the share price was Rs 377, three months before the announcement date which extensively decreased to Rs 326 of ten days before the announcement. Market price of the share was Rs 340 on the day of announcement. However, market of the share was slightly increased just after the rights share announcement. Again increasing trend of market price of share seemed and it was Rs 439, after six months of rights announcement.

By anglicizing the share movement of Kumari Bank Ltd. And the trend of general market movement, change in the market price from point I to II is basically due to

general market movement, at that time market index had increased from 293.69 to 299.84 market index is increased to 308.13, 301.60 and 378.68 in among III,IV and V points of time. Column 5 shows the percentage change in the adjusted price indices from the base index. It shows that price index was increased by 2.09%, ten days before announcement. Similarly it increase by 4.92% from point II to III.

However, 2.69% increase in the share price can be observed in point IV in comparison to point III it was increased by 28.94% in point V column 6 in the above table shows adjusted price relatives. The adjusted price relative was decreased from 15.30% to 14.04% between II and III it was comprisable to point IV and V at the same period price relative also decreased from 14.72% to 9.68%. hence, only in the case of Kumari Bank Ltd. There was on obvious negative impact of rights offering.

Values of more rights and ex- rights price of Kumari Bank Ltd. stock are as follows

Market price of stock =RS 340

Value of one right = Rs 48

Ex- rights price of share = Rs292

The value of the share the allotment should be around Rs 292 but the share of Kumari Bank Ltd. was Rs 439 after six months of rights share announcement. Thus the share of Kumari Bank Ltd. was overpriced. (Annex- 4).

6) Analysis of share price movement of Macchapuchere Bank Ltd.

Table 4.11

Analysis of Share Price Movement of Macchapuchere Bank Ltd.

Selected points of time	Share price Rs	Price relatives	Total price index of equity capital	Price index converted to new base	% change from base	Adjusted price relatives 2 as % 4	% change from base
	1	2	3	4	5	6	7
I	348	100.00	333.03	100.00	-	100.00	-
II	360	103.45	388.49	116.65	16.65	88.68	(11.32)
III	328	94.25	368.89	110.77	10.77	85.09	(14.91)
IV	345	99.14	371.97	111.77	11.69	88.76	(11.24)
V	452	129.89	463.74	139.25	39.25	93.28	(6.72)

From the above table, share price of Machhapuchere Bank Ltd. before 90 days of announcement date was Rs 348 and was increased to Rs 452 after 180 days of announcement date so it can be analyze that the share price Machhapuchaere Bank Ltd is in increasing trend. While observing total price index of equity capital, it also increased from 333.03 to 368.89 on the period I to III. An increase of 35.86 was realized between period I to III therefore the increased on market price of the share of Machhhepuchere Bank Ltd. from base date to day of announcement is basically attributed to announcement, market price of the share went further up by Rs 17 during periods III to IV and became Rs 345.

Theoretically, market of the share should have gone up for few days just after the rights announcement. Which did happen in case of Machhapuchere Bank Ltd. due to holders record date. It means obviously, that the investors who purchased the share of Macchhapuchere Bank Ltd. On the day of announcement or one ward were entitled to buy rights share it is meeting to the theory of rights.

Investors after the date of announcement may have thought that. Number of share are going to be increased. An EPS may decreased it is believed that the original

share price will be restored and the market shows normal price behavior after 180 days of announcement date. In case of Machhapuchere Bank Ltd. The share price was still in increasing trend and leveled up to at Rs 452 which seemed moving according to principle of rights.

Rights offering theory doesn't match in case of Machhapucher Bank Ltd.

Market price of stock =Rs 328

Value of rights = Rs 52.65

Ex- right price = Rs 275.35

The value of the share after the allotment should be around Rs 275.35 but the share price of Machhapuchere Bank Ltd. Was Rs 452 after six month of right share announcement thus share of Machhapruchare Bank Ltd. was overpriced.

4.8 Comparison of Stock Price before and after Rights Share Issue

After the rights offering by the company what is the impact on the companies' market price per share is evaluated her. After evaluating the market price per share we can comparison between stock price before and after rights share issue.

Basically we know that the price of the share should be decreased after rights share issue. Pre rights issue and post rights share issue. The positive change in price indicates that price. The phenomenon is theoretically wrong. The negative change in price indicates that the post rights issue price is the closing market price together one month of rights share issue. The positive change in price indicates that the post rights issue price is greater than pre rights issue price. The phenomenon is theoretically wrong. The negative change in price indicates that the post rights issue price is smaller than pre rights issue price and this phenomenon is theoretically correct. The zero change indicates that the post rights issue price and pre rights issue price are equal and this is also theoretically wrong.

Table No. 4.12

MPS of Sample Companies before and after Rights Share Issue

S.No.	Name of Companies	Pre. Right Issue Price	Post Right Issue Price	Change in Price (x)
1	NIC Bank Ltd.	1118	970	-13.23
2	Siddhartha Bank Ltd.	1202	780	-35.11
3	Nepal Investment Bank Ltd.	1340	780	-41.79
4	Laxmi Bank Ltd.	432	589	36.34
5	Kumari Bank Ltd.	341	337	-1.17
6	Machhapuchere Bank Ltd.	337	393	16.62

Source: Annual Report of SEBON and Trading Reports of NEPSE

$$\text{Change in Price (\%)} = \frac{\text{Post Right Issued Price} - \text{Pre. Right Issued Price}}{\text{Pre. Right Issued Price}} \times 100$$

From the table above it is clear that in majority of the cases of the change in negative. This means majority of the companies follow the theory i.e. the market price per share decrease after rights share issue. Amount 6 sample companies, 4 companies share price has decreased after rights share issue and remaining 2 companies market price per share increased after rights share issue. From the above analysis it can be concluded that generally the market price decrease after the rights share offering.

4.9 Comparison of Theoretical Price and Actual Market Price after Rights Share Issue.

After the rights offering by the company what is the impact on the companies market price per share due to rights offering, we have necessary to calculate the Theoretical Market price. After evaluating the market price per share and the theoretical price, we can comparison between theoretical price and actual market

price after rights share issue.

The market price after ex-right date compared with theoretical market price to measure the effects. The comparison results of the firms measures the impact of Rights share issue on market price of share, positive change in share price means share price after rights share issue are higher than theoretical market price. This is good indicator for share holders and company; it means they have good signaling effect. Negative change means share price after rights share issue are lower than theoretical price.

Table No 4.13

Comparisons of Theoretical and Actual Market Price after Rights Share Issue.

S.No.	Name of companies	Actual NPS after right issue	Theoretical value of share after right issue	% Change
1	NIC Bank Ltd.	970	1350	-28.15
2	Siddhartha Bank Ltd.	780	1095.83	-28.82
3	Nepal Investment Bank Ltd.	780	450	73.33
4	Laxmi Bnak Ltd.	589	400	74.25
5	Kumari Bank Ltd.	337	292	15.42
6	Machhapuchere Bank Ltd.	320	275.34	16.22

Source: Annual Reports of SEBON and Trading Reports of NEPSE.

$$\% \text{ Change} = \frac{\text{Actual Price} - \text{Theoretical Price}}{\text{Theoretical Price}} \times 100$$

The above table shows the percentage change in actual market price and theoretical price of share after rights share issue. Theoretically, actual market price and theoretical price of the share after rights share issue should be equal. Actual market price after rights share issue is collected from the trading reports of the SEBON and theoretical price of the share after rights share is calculated in (Annex - 4.)

The above table shows that the actual market at NIC Bank Ltd. & Siddhartha Bank Ltd. are respectively Rs. 1350 & Rs. 1095.83 and thus the change of -28.15% & -28.82%. this negative change indicates that the rights share announcement can not spread positive message among the investors.

The actual market price of Nepal Investment Bank Ltd. is Rs. 780 the theoretical price of which is calculated to be higher than this i.e. Rs. 450 causing a change of 73.33%. Similarly the actual market price of Machhapuchere Bank Ltd. is Rs. 320 the theoretical price of which is calculated to be higher the i.e. Rs. 275.34 causing a change of 16.22%.

The actual market price of Laxmi Bank Ltd. & Kumari Bank Ltd. are respectively Rs. 589 & Rs. 337, the theoretical price of whose is calculated to be respectively Rs. 400 & 292 causing a change of 47.25% & 15.42%.

From the above analysis, it is found the our of 6 sample companies, two companies have theoretical market price higher than actual market price causing negative percentage change and the four companies have actual market price higher than the theoretical market price causing positive change.

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

Share price movement, not only affected by rights offering but general market movement also largely affects it. So, the correlation between the share price before and after the announcement of rights share has been calculated to find out, if there is any relation between the share price and price indices of the company. For calculation of correlation, share price of company are considered as the dependent variable, which fluctuate according to the fluctuation on the index of the total equity capital.

The correlation is a statistical tool, which studies the relationship between two variables, and correlation analysis involves various techniques used for studying and measuring at the extent of relationship between the tow variables. Correlation is an analysis of the covariance between two or more variables. The effect of

correlation is to reduce the range of uncertainty our prediction. Two variables are said to be correlated if the change in one variable results in the corresponding change in the other variable. Correlation coefficient can be either positive or negative. If the values of two variables deviate in the same direction i.e. if the increase in the value of one variable results, on an average, in a corresponding increase in the values of other variables or if a decrease in the values of results, on an average, corresponding decrease on the values of other variables, the correlation is said to be positives and direct.

Nepal Stock Exchange (NEPSE) has just started the practice of calculating and publishing the sector wise indices. For the period under study, sector wise index was not available so that throughout the study period the price index of total equity capital is used.

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

4.10.1 Correlation Coefficient between Share Price Movement and Movement in General Market of Commercial Bank.

**Table No 4.14
Correlation Coefficient between Share Price and NEPSE Indices**

S.No.	Sample companies	Correlation coefficient	Coefficient of determination	Probable error (P.E.)	6 P.E.
1	NIC Bank Ltd.	0.96	0.9216	0.0236	0.1416
2	Siddhartha Bank Ltd.	0.96	0.9216	0.0236	0.1416
3	Nepal Investment Bank Ltd.	-0.79	0.62	0.12	0.72
4	Laxmi Bank Ltd.	0.97	0.9409	0.0178	0.1068
5	Kumari Bank Ltd.	0.86	0.74	0.0422	0.8532
6	Machhapuchere Bank Ltd.	0.90	0.81	0.06	0.36

In case of NIC Bank Ltd. & Siddhartha Bank Ltd. there is high degree of positive correlation i.e. $r = 0.096$ between share price movement and general price movement. This relation is further provide by the coefficient of determination which is 0.9216 i.e. 92.16% and coefficient (r) is greater than 6 P.E. Thus correlation is significant and reliable. So, we can conclude that share price behavior of NIC Bank Ltd. & Siddhartha Bank Ltd. is because of general market movement.

In case of Nepal Investment Bank Ltd. there is high degree of negative correlation coefficient between its share price and general market movement i.e. $r = 0.79$. This relation is further proved by the co-efficient of determination which is 0.62 i.e. 62% and the correlation coefficient (r) is less than 6 P.E. = 0.729). Thus the correlation is not significant and reliable. When NEPSE index was decreasing trend, it's share price was slightly decrease. So, it is no due to general market movement.

In case of Laxmi Bank Ltd. there is high degree of positive correlation (i.e. $r = 0.97$). The coefficient of determination i.e. $r^2 = 0.9409$ means that about 94.09% of variation in the share price is explained by general market movement. The coefficient of correlation is greater than 6 P.E. (i.e. 6 P.E. = 0.1068) which proves that correlation is significant. So, we can conclude that share price behavior of Laxmi Ltd. is because of general market movement.

In case of Kumari Bank Ltd. there is high degree of positive correlation i.e. $r = 0.86$ between share price movement and general price movement. This relation is further proved by the coefficient of determination which is 0.74 or 74% and correlation coefficient (r) is greater than 6 P.E. Thus correlation is significant and reliable. So, we can conclude that share price behavior of Kumari Bank Ltd. is because of general market movement.

In case of Machhapuchere Bank Ltd. there is high degree of positive correlation (i.e. $r = 0.99$). The coefficient determination i.e. $r^2 = 0.81$ means that about 81% of variation in the share price is explained by the general market movement. The coefficient of correlation is greater than 6 P.E (i.e. 6 P.E. = 0.36) which proves that correlation is significant. So, we can conclude that share price behavior of Machhapuchere Bank Ltd. because of general market movement.

4.11.1.1 Use of T. Statistics to Measure the Impact of Right Offering on the Share Price and on General Market.

Theoretically, after the rights issue, generally share price of concern company move up ward till the date of issue closed. to analyze whatever there came any significant change in share price, we have used +- statistics for this have for this we have taken the share price and price index before and after announcement date.

Following table shows the calculated and tabulated values of statistics of respective companies.

4.11.1.2 The Calculated and Tabulated Values of Statistics of Respective Sample Companies

Table: 4.15

T-test of Share Price of Related Sample companies

S.No.	Sample companies	Test for	Significance level	Degree of Freedom	T-Tab	T-Cal	Result
1	NIC Bank Ltd.	SP	5%	8	2.306	/1.07/	Insignificant
2	Siddhartha Bank Ltd.	SP	5%	8	2.306	/5.66/	Significant
3	Nepal Investment Bank Ltd.	SP	5%	8	2.306	32.73	Significant
4	Laxmi Bank Ltd.	SP	5%	8	2.306	/11.04/	Significant
5	Kumari Bank Ltd.	SP	5%	8	2.306	0.97	Insignificant
6	Machhapuchere Bank Ltd.	SP	5%	8	2.306	1.99	Insignificant

Refer - Annex - 2

SP = Share Price

NI = NEPSE Index

Tab = Tabulated

Cal = Calculated

Above table clearly shows that the calculated value of t in case of NIC Bank Ltd. is /1.07/, where as the calculated value of 5% level of significance at 8 degree freedom is 20306 since t_{cal} is smaller than t_{tab} . So, it can be concluded that there is not significance between share prices before and after rights offering. Thus we can say that rights offering by NIC Bank Ltd. doesn't follow the theory hence null hypothesis is accepted.

In case of Siddhartha Bank Ltd. the calculated value of t for share price is /5.66/, where as, the tabulated value at 5% level of significance for 8 degree of freedom is 2.306. Since $t_{cal} > t_{tab}$, the hypothesis that the share price don't change, significantly is rejected and alternative hypothesis is that the share price has changed significantly is accepted. Hence, we conclude that the announcement of the rights offering, share price is increased significantly.

In case of Nepal Investment Bank Ltd. there is a declining pattern the general market movement, but there is not such pattern in the share prices. The calculated value of t is 32.73 but tabulated value at 5% level of significance of 8 degree freedom is only 2.306. This suggests that there is significant difference between the share price few days before and after the announcement of the rights offering. Hence our hypothesis that share price before and after the announcement differ significantly is accepted.

In case of Laxmi Bank Ltd. is the calculated value of t for share price is /11.04/, where as the tabulated value at 5% level of significance at 8 degree of freedom is 2.306. Since, t_{cal} is greater than t_{tab} . So it can be concluded that there is significant difference between share prices before and after right offering. Thus we can say that rights offering by Laxmi Bank Ltd. doesn't follow the theory hence null hypothesis is rejected.

In case of Kumari Bank Ltd. the calculated value of t is 0.97, where as the tabulated value at 5% level of significance at 8 degree freedom is 2.306. Since, t_{cal} is smaller than t_{tab} . So, it can be concluded that there is not significant different between share prices before and after rights offering. Thus we can say that rights offering by Kumari Bank Ltd. does not follow the theory hence null hypothesis is accepted.

In case of Machhapuchere Bank Ltd. calculated value of t for the share price is 1.99 where as tabulated value of t at 5% level at significance with 8 degree of freedom is 2.306. Since t_{cal} is smaller than t_{tab} . So it can be concluded that there is not significant difference between share prices before and after rights offering. Thus we can say that rights offering by Machhapuchere Bank Ltd. does not follow the theory hence null hypothesis is accepted.

4.12 Analysis of Primary Data

As researcher has mentioned, this study is heavily based on secondary data. But to make the study more effective and fruitful, here researcher has collected some data by distribution of questionnaire to the concern persons. So, here researcher analyzes the responses received from respondents.

a) Preference of sector to invest

Sector	Mean Rank	Result
Banking/ Financial	1.00	1
Manufacturing/Trading	3.08	3
Hotel/Other	3.76	4
Insurance	2.16	2

During the study period, to the question regarding investor's preference of sector to invest, all the respondents gave first priority to the Banking and Financial sector. Its mean rank is 1 whereas for Insurance sector, mean rank is 2.16. So, it is the second preferable sector of investor. For Manufacturing/Trading sector mean rank is 3.08, which occupied third position to attract investor. Mean rank of Hotel and Other sector is 3.76, which is last priority of investors to invest. This data clearly shows that, investors are more interested to invest in banking and financial sector.

b) Investors purpose of rights share purchase

Cause	Mean Rank	Result
To Increase the total value	1.96	1
To Increase the no. of share	2.20	2
To Increase the dividend	2.56	3
To Maintain the control position in management	2.60	4

Regarding the question about the purpose of investors to purchase the rights share, most of the respondents give first priority for the option that to increase the value. Its mean rank is 1.96. For the second option to increase the no of share, mean rank is 2.20, which becomes second in ranking. Likewise for third option to increase the dividend mean rank is 2.56 and described as third rank. Mean rank for fourth option to maintain the control position in management, is 2.60, which is last in ranking. In this way it can be concluded that main purpose of investor is to increase the value.

c) Action of Shareholders, if Rights are Transferable

Option	Mean Rank	Result
Sell the rights	2.20	3
Exercise the rights	1.84	1
Partially exercise & sell the rights	1.96	2
Neither sell nor exercise	4.00	4

For the question regarding the action of shareholders if rights are transferable in Nepal, the option, 'exercise the rights' has got the mean rank of 1.84 which is least among the four options. Thus, it is ranked as first. Whereas for another option 'Partially exercise & sell the rights', mean rank is 1.96, which means this option should be ranked in second position. For the option 'sell the rights', mean rank is

2.20 and it is ranked as third. The option ‘neither sell nor exercise the rights’ has been ranked in 4th position because it has got the highest mean rank of 4.00. So, it can be concluded that shareholder are well aware about their wealth position. They never let the rights to expire and they utilize the rights either by exercising them or by selling them if rights are transferable, in case of Nepal.

d) Beneficiaries of the Rights Issue

Option	Mean Rank	Result
Issuing company	1.68	2
Shareholders	1.60	1
Issue managers	3.00	3
Brokers	3.72	4

As a response to the question about the beneficiaries of the rights issue, most of the respondents indicated to shareholders as the prime beneficiaries of rights issue. It got the mean rank of 1.60, which is the lowest of all the four options. Issuing companies as beneficiaries got the 2nd rank with mean rank of 1.68. Likewise, with the mean rank of 3.00, issue managers have been ranked in the third position. Brokers are the last to gain the benefit of rights issue among the four beneficiaries. Since, it has got the highest mean rank of 3.72, it is ranked in the 4th position.

This data suggests that there is no any confusion about that the shareholders, issuing companies, issue managers and brokers are the main beneficiaries of the rights offering.

e) Cause of Preference Given to Rights Issue by Company

Causes	Mean Rank	Result
Low flotation cost	2.00	2
Easy process	1.76	1
Maintain control position in management	2.56	3
Other	3.76	4

In another major question about the preference given to issue rights share by companies instead of other instrument, most of the respondents point towards the option 'easy process of rights issue' as the most important cause. It has been ranked as first with mean rank of 1.76. For another option 'low flotation cost', mean rank is 2, which is in the second rank. Another reason of practicing rights share by companies rather than other instruments is to maintain the control position in management, which is in the 3rd position with the mean rank of 2.56. Respondents gave 4th rank for the option 'other causes'. The mean rank for that option is 3.76. In this way, it can be concluded that Nepalese corporate firms issue rights share instead of other instruments due to low flotation cost, easy process to collect fund, to maintain the control position in management and due to some other causes like legal provision etc. as well.

f) Causes of under Subscription of Rights Share

Causes	Mean Rank	Result
Low performance of company	1.52	1
Rights is not transferable	2.44	3
Lack of investors awareness	2.08	2
Other causes	4.00	4

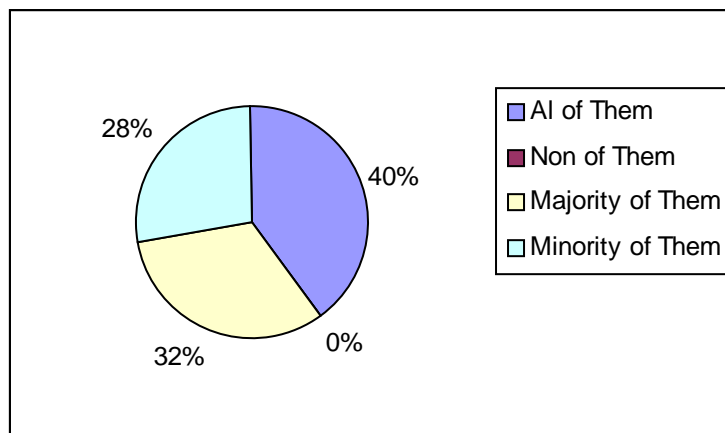
In response to the question regarding the cause of under subscription of rights share, low performance of company is pointed out for first rank with mean rank of

1.52. Another cause the lack of investor's awareness has got the second lowest mean rank of 2.08. Thus, this option is ranked in 2nd important reason of under subscription of rights issue. Rights are not transferable in Nepal, which causes the under subscription of rights share. It becomes third most influencing cause with mean rank of 2.44. Whereas, another option 'other causes' with mean rank of 4 has been ranked in the last rank. This helps researcher to conclude that the low performance of the rights issuing companies is the main cause of under subscription of rights share, whereas other causes like lack of rights transferable provision, investors awareness regarding rights share are other causes of under subscription of rights share in Nepal.

g) Investors' awareness about rights offering

Figure 4.4

Investors Awareness to the Rights Offering



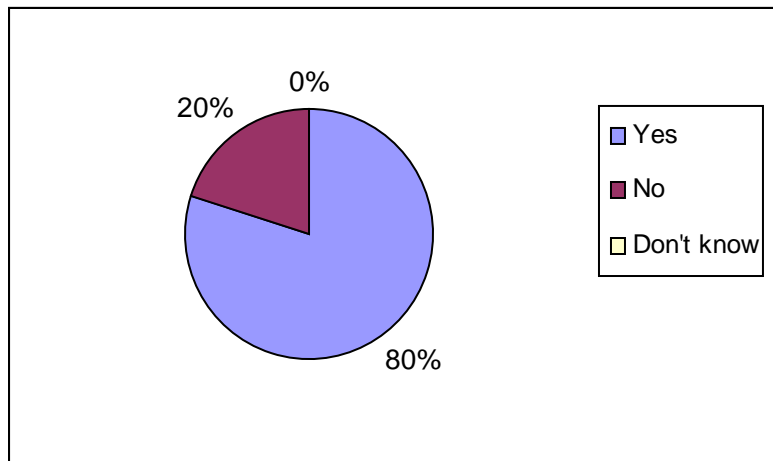
Question regarding awareness of investors about rights offering, out of total of 25 respondents, 10 said that all the investors are well aware to the entire phenomenon of rights share in Nepal. Whereas, 8 respondents said that majority of the investors are well aware and remaining 7 said minority of them are well aware to the entire phenomenon of the rights share in Nepal. So, here researcher can conclude that most of the investors are well aware to entire phenomenon of rights share in Nepal

h) Difficulties Regarding Provision ‘not to Transfer the Rights’

In response to the question about difficulties regarding the provision ‘not to transfer the rights’, 20 respondents said that yes the investors face difficulties because of that provision and remaining 5 said no there is not any difficulties due to lack of provision to make rights transferable. Thus, it can be concluded that due to lack of the provision to make rights transferable, investors face difficulties.

Figure 4.5

Difficulties due to Non-Transferable Rights Share

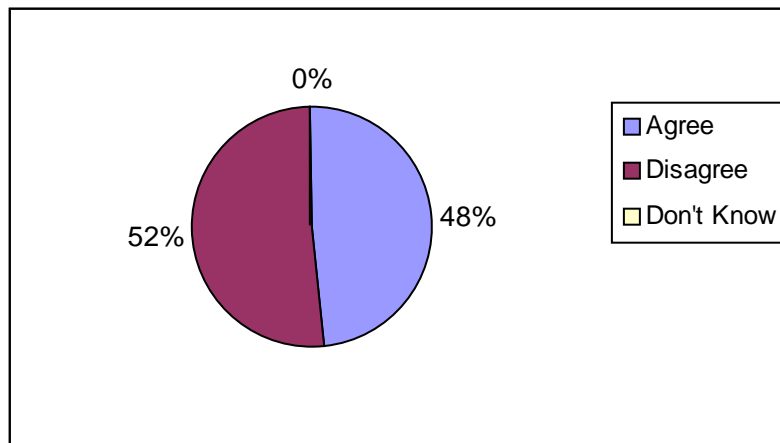


i) Role of Large Corporate firms in Developing Rights Share Practice in Nepal

Next question about lack of large corporate firms is the cause of low practice of rights share in Nepal, 12 respondents out of total said yes large corporate firms play significant role to develop the rights share practice in Nepal, whereas remaining 13 disagreed with those 12 respondents. In conclusion, there is neither too much nor too less role of large corporate firms in developing the practice of rights share in Nepal.

Figure 4.6

Practice of Rights Share Due to Large Corporate Firm

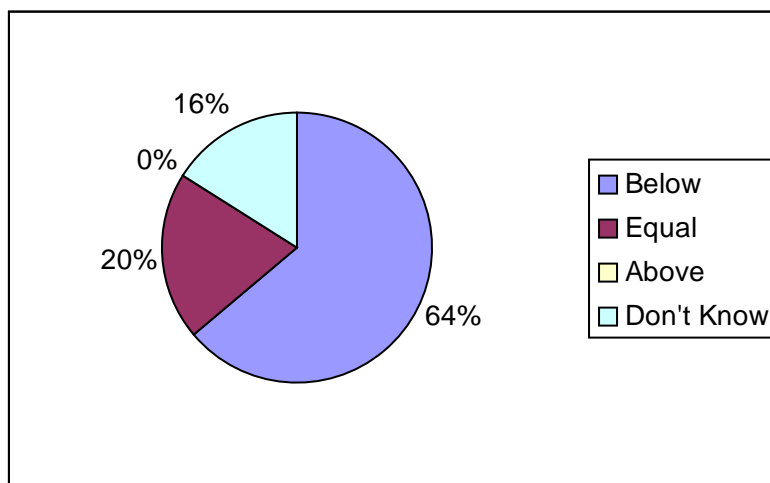


j) Subscription Price of Rights Share

The question regarding subscription price, 16 respondents said it should be below the market price of the share, whereas 5 said that it should be equal to market price, remaining 4 said that they don't know what should be the subscription price but non of them said that the subscription price should be higher than the market price. So, it can be concluded that subscription price of rights share should be below the market price of share.

Figure 4.7

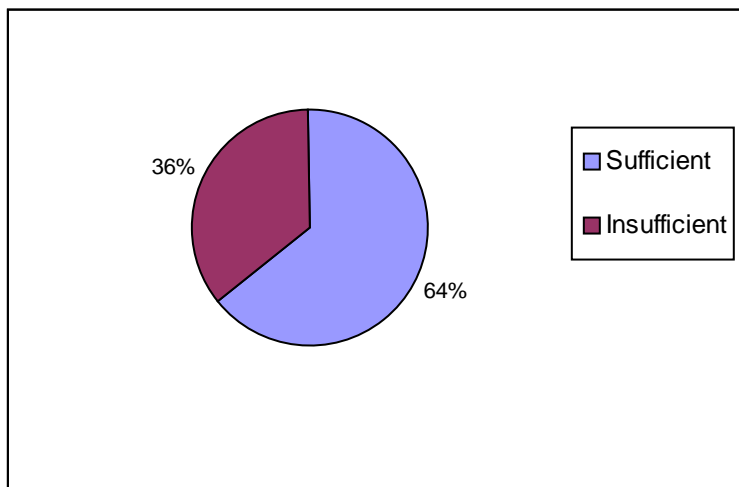
Subscription Price Compare to Market Price



k) Adequacy of current legal provision regarding rights issue

As far as regarding the current legal provision especially about rights offering 16 respondents said that, it is inadequate and remaining 9 said that it is adequate. Among the respondents, who said that current legal provision regarding rights offering is inadequate, cent percent are agreed on the clause that rights share should be transferable but in addition to this 80% said that there should be provision of premium issue of rights share and remaining 20% feels that there should be the clear procedure of rights transfer.

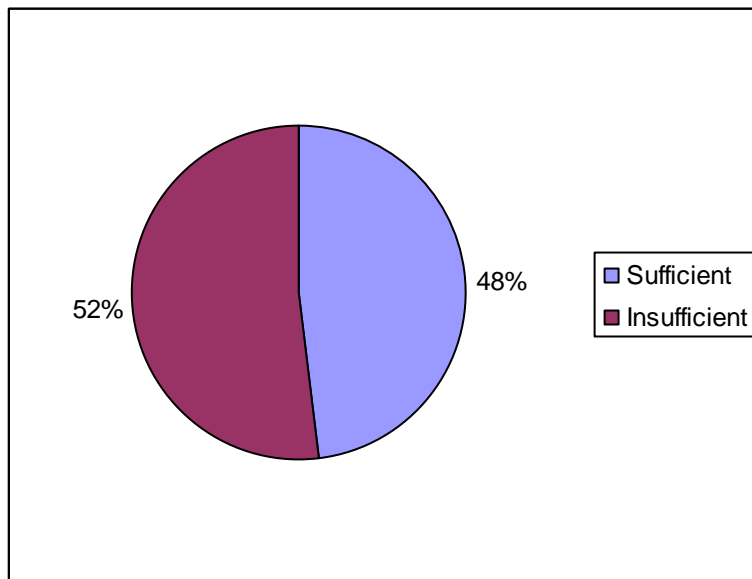
Figure 4.8
Sufficiency of Legal Provision



l) Sufficiency of infrastructure of Nepalese security market

In response to the question regarding the sufficiency of infrastructure in Nepalese security market, out of total of 25 respondents, 12 said that infrastructure are sufficient and remaining 13 said it is insufficient. Here, researcher can conclude that there should be a lot of things to do to make Nepalese security market effective.

Figure 4.9
Sufficiency of Infrastructure



4.13 Problems of Right Share Practice in Nepal.

a) Low Performance of SEBON and NEPSE

For making matured and stable capital market SEBON and NEPSE have to do more in the field of financial market. They don't doing rapidly as for as desirable due to the lack of financial problems and lack of expertise of their human resource. Neither they can persuade to many unlisted firms for listing nor can they increase more investing opportunity. That's why there aren't increasing trend of listing firm properly. No significant researches are held on the field of share market and rights offering. They do not make investor protection act as well as any investor awareness programmes have not been launched.

b) Lack of Transferable Rights

Right is a financial Assets. It was some economic value so it should be negotiable, transferable and separable. One main cause of under subscription of rights offering is lack of transferable right. This block not only provides on opportunity to share

holder to sell and gain but it stops to providing good new investment alternative.

c) Short Sighted Investors

Due to the large no of irrational investor Nepalese Capital can't take stable way. Nepalese capital market is affected only by roomer this makes to our capital is very instable. They never look companies' financial statement only some investor looks but they also do not look future prospects they have to look unto how their money is used by the company.

d) Lack of Information Flow

Right is re-announce-able instrument that is mailed to existing stock holders while observing the practices of Nepalese companies there is complete absence of mailing habit. Stock holders are not mailed all the terms and conditions mentioned in the issue prospects and this is distributed but nobody observe that how many stock holders get this prospectus. Who receive prospectus they should calculated that proportionate holding and subscribe for additional shares if they want to do themselves.

e) Imperfect Legal Provision

There are many weak points in our legal provision. That's why many practical difficulties may arise. Government also bear losses due to its weak legal provision, due to imperfect legal provisions many right offering takes so long time that relevance of rights offering are not exit.

f) Lack of Open Market and Free Pricing

In Nepal few big investors hold huge percentage share of most companies. That's why share prices raise and decrease what they want.

4.14 Major Findings of the Study

Here the effect has been made in present major findings of the study in rights share practice in Nepal and its impact on share price movement of commercial banks. The major findings of the study are presented in following headings correspondence to the study objectives.

4.14.1 Analysis the Impact of Right Share Issue on Share Price.

-) In case of NIC Bank Ltd, its share price increased significantly and after allotment of the right share its share was fairly traded in ex-rights price. So, researcher can say that stock of NIC Bank Ltd. Followed the theory of rights offering.
-) There is significant difference between the share prices before and after rights share announcement of Siddhartha Bank Ltd. But stock of Siddhartha Bank Ltd. does not follow the theory of rights offering. Its market price was overpriced.
-) There is significant difference between the share price of Nepal Investment Bank Ltd. before and after the theory of rights offering, i.e. after rights issue its share price increased significantly and after the allotment of the rights share and its share was traded in ex-rights price.
-) There is significant difference between the share prices before and after rights share announcement of Laxmi Bank Ltd. But stock of Laxmi Bank Ltd. does not follow the theory of rights offering. Its market price was overpriced.
-) In case of Kumari Bank Ltd, its share price increased significantly. There was significant difference between the share price of Kumari Bank Ltd. before and after the rights share issue.

-) Similar trend was observed in case of Machhapuchere Bank Ltd. There were significant difference between the share price of Machhapuchere Bank Ltd., before and after the rights share issue.
-) There is no uniformity in the impact of rights offering of share price.

4.14.2 Subscription of the Rights Share Issued

-) Under subscription of rights share is common phenomena in Nepal.
-) The major case 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 rights transfer.
-) There is no easy and clear provision regarding the sales of under subscribed rights share in Nepal.
-) Recent years subscription of rights share is in increasing trend.

4.14.3 Rights Share Practice in Nepal

-) Rights offering are comparatively new practice ion Nepal. There fore, the sample companies are unable to raise the desired capital throught it and the practice does not follow the theory.
-) Another major case is dilution in share holders wealth position is the holders record date. In some sample companies offering rights holders record date is price to the announcement date.
-) Market is going to mature and company with track record is low.
-) There are 102 cases of rights offering till the date. Most companies are issuing rights share in order to fulfill the capital requirement as per the NRB directives.

) Share holder of Nepalese companies lacks the knowledge about the rights share and its impact of in their wealth position. Due to this, free movement of share price during rights on and ex-rights is not confirmed.

4.14.4 Regarding the Impact of Rights Offering in EPS.

Theoretically, after the issue of rights share the earning per share of companies decreases. But if the company utilize the rights offering, so it raised fund in effective way the earning per share can be increased. Similar result has obtained in case of sample companies.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

With the development in technology, the world has become a global village and with the globalization of business, the competition among firms has tremendously increased to successfully complete the corporate firm should expand and modernize their business, which needs huge amount of funds, capital market which is called life blood of the liberalized economy is the mechanism through which the resources are mobilized and flowed from non-productive sector to productive sector. Capital market is organized market through which buyers and sellers of long term capital are met and there to function of buying and selling takes place.

The place of development of equity market in Nepal is extremely slow and it has not efficient to contribute to the development of corporate sector. Developing country like Nepal, There is greater importance of capital market and productivity the equity market. Since, it facilitates the development of corporate sector and overall growth of the economy.

Right share issue practice by commercial banks in Nepal and its impact on share price is an exciting and challenging study. A brief introduction of the study and the overall view of rights offering are presented in introductory chapter and available literature on rights issue is reviewed in the second chapter. The appropriate research methodology is presented in chapter third and the data are presented and analyzed in chapter four. Now in this final chapter an attempt has been made to present summary of findings, issue and gaps observed and give some suggestion for future course of action.

This study is concentrated on the various aspects of rights offering with special references to the selected listed commercial banks of Nepal. It covers the period of 15 years from FY 1993/94 to 2007/08, It includes the data of mostly rights issuing commercial banks. But, to show the practice of rights offering in Nepal, researcher takes some data of all rights issuing companies.

Although, Nepalese security market is practicing the rights offering since 1995, almost for 13 years. But its every essence is not seemed to practice here. Only 102 cases of rights offered by 72 companies, out of total listed companies in Nepal till the FY 2007/08, In Nepal few cases of rights offering meet the theory. Mixed results have been obtained from the sample companies regarding rights theory in Nepal. Share price of NIC Bank Ltd. before rights share announcement date is Rs. 1420 and it went up to Rs 1660 after the announcement of right share and again fell down to Rs. 1350 after allotment of rights share. Similarly, Siddhartha Bank Ltd. Share price was Rs. 980 before the announcement of rights share and again fell down to Rs. 1125 after allotment of right share, while mixed result in case of Nepal Investment Bank Ltd. and Machhapuchere Bank Ltd. But in case of Laxmi Bank Ltd. share price was Rs. 455 before the announcement date and it went to Rs. 572 after the announcement of rights share and again went up Rs 650 after allotment of rights share.

In Nepal, Nepal Finance and Saving Company Ltd. has issued rights share first in fiscal year 1995/96 amount to Rs 2 million 82 cases in this fiscal year. In 1996/97, 3 companies has issued right shares amounting to Rs. 275.2 million. There were 3 cases of rights share issue in 1997/98. 1 case in 1998/99, 3 case in 1999/00 and 2 case in 2000/01. 5 cases in 2001/02 and 4 cases in 2002/03 and 3 cases in 2003/04. In 2004/05. 6 cases are right issue. 11 cases in 2005/06, and 17 cases in 2006/07 and 42 cases in 2007/08.

This study has been done to fulfill some specific objectives. Main objectives of this study, is to examine the movement in share price before and after the announcement of rights issue and to analyze the rights issue practice in Nepal. Finding out the problem of rights issue in Nepal is another objective of this study. Till the date, many studies have been done related to the impact on market price by various variables such as EPS, DPS and signalling effects. But, very few studies are directly concerned with rights issue in Nepal, because rights issue is a growing phenomenon in Nepal. But, it is really tried hard to make full effort to collect the related studies for review in second chapter.

This study is heavily based on secondary data. So, useful data are collected from SEBON and related organization as well. Newspaper, annual reports of sample companies, journals and bulletins are important source to get secondary data in this study, other information is collected through internet as well. Primary data, personal interview and distribution of questionnaire to some specific people has been done. To; conduct this study statically tools as well as financial tools have been used.

5.2 Conclusion

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

-) Most of the companies which issued right share have faced the problem of under subscription.
-) All sector have been practiced the right share, But commercial banks have issued the large volume of right share and move finance companies have been practiced the right share.
-) Low performance of the related company is main cause of under subscription.
-) Current rule and regulations are insufficient.

-) Small investor does not was to attend the annual general meeting because they would not get any benefit from it.
-) Share holders who want to sell their right they can not sell their right. They must have to exercise their right or to lose their wealth position.
-) Conclusively, right share practice is comparatively new phenomena in Nepalese Financial market. There are no easy things to work out make the rights offering as effect instruments of raising capital.
-) Shareholders are not getting enough information about the rights share in Nepal. Here, researcher has founded from the sample companies there are more cases of rights offering which has met theory i.e. the share price has increased significantly after the announcement of rights share and then traded on ex-right price the allotment of rights share otherwise in few cases share price has decreased significantly after the right share announcement and it was traded even below subscription price after the announcement date in case of Nepal Investment Ltd. Keeping the holders record date prior to the announcement date by the company etc. Theoretically, the share price has been changed significantly after the rights offering but it was increased in more companies and decreased in others.
-) Testing the hypothesis researcher has obtained mixed result. Some company's rights share affects his share price movement and general market movement. In more case positively correlated and some cases negatively correlated. A different result has obtained for share price movement during five periods. The regulation regarding the calculation of premium is not clear and certain regulation require company to issue rights share in par value that result in wide difference between market price per share and subscription price.
-) Finally, rights offering are increasing trend in Nepalese security market. Basically, Banking and Finance sector's are more practicing. Rights

offering have both positive and negative impact to change on share price. The market price at share is also influenced by general market movement to greater extent in Nepal.

5.3 Recommendation

The recommendation are made as the analysis of primary, secondary and valid from study as well as relating information about Nepal related corporations rights issue. It is important that changes are made so as to make rights issue more easy effective and efficient. Following are some corrective action recommended.

-) In ordered to make the capital market more efficient market participants and academic institutions should jointly promote and undertake more research and market analysis activities.
-) First of all, shareholders are not clear about the rights offering its benefit and impact on their wealth position. So concerned authorities such as issuing companies. SEBON, NEPSE etc, should organize and lunch various programmes to increase the awareness regarding the rights issue and its aspects.
-) During analysis it is found that the share price behavior of all sample companies doesn't follow the theory, one major cases of this is the poor performance of the company in the past. So, rights issuing company should improve their image to make the shareholders safe and confident.
-) The mechanism of information flow is not found to be appropriate and effective that result in heavily under subscription of right share. The effective alternative of information flow should be searched.
-) Free pricing concept should be implemented in rights offering to get rid off from the problem of low subscription price of rights share.
-) There is no any provision in company Act 2053 to make rights negotiable. So it should be amended and should make a provision of transferable rights,

which helps to solve the problem of under subscription of rights share to some extent. It also protects the dilution in wealth of shareholders and also enhances the dimension of security market.

-) Provisions regarding sales of under subscribed rights share should be made. The current practice to distribute them among the employees of the respective companies violates the very essence of the rights offering. The company Act, therefore, should be quite clear in this regard.
-) One critical factor that affects the share price and subscription is the holder's record date. The investors who purchase the share after that date and unable to get share. So, right issuing companies should set the proper holder record date so the investors who want to enjoy the rights offering can purchase the share issued by them.

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ANNEX- 1

Information of Rights Offering of the Respective Companies

a) NIC Bank Ltd.

Announcement date of rights offering	- 2007/12/13
Issue date	- 2008/3/14
Closed date	- 2008/4/17
Subscription price	- Rs. 100 Per share
Subscription ratio	- 5:1
Number of share issued	- 158400
Issue manager	- NIDC Capital Markets Ltd.

Information About Share Price and Index

Share price before announcement date		Share after announcement date		Share price after 6 months of announcement date	
Date	Share price (index)	Date	Share price (index)	Date	Share price (index)
2007/11/29	1420 (897.29)	2007/12/25	1565 (992.92)	2008/7/6	1275 (926.93)
2007/12/3	1278 (942.99)	2007/12/27	1530 (984.53)	2008/7/8	1280 (936.46)
2007/12/4	1351 (963.79)	2008/1/6	1373 (988.64)	2008/7/10	1280 (949.52)
2007/12/6	1461 (992.81)	2008/1/9	1960 (963.83)	2008/7/13	1290 (953.46)
2007/12/9	16.6 (1000.49)	2008/1/14	1345 (958.93)	2008/7/15	1284 (963.36)

Source: Official quotation of share prices published in the national daily newspaper and website www.nepalstock.com.

(Note: Figures under parentheses represent total prices index of equity shares)

Information of Rights Offering of the Respective Companies.

b) Siddhartha Bank Ltd.

Announcement date of rights offering	- 2007/2/5
Issue date	- 2008/2/25
Closed date	- 2008/3/29
Subscription price	- Rs. 100 Per share
Subscription ratio	- 5:1
Number of share issued	- 138000
Issue manager	- NMB Bank Ltd.

Information about share price and index

Share price before announcement date		Share after announcement date		Share price after 6 months of announcement date	
Date	Share price (index)	Date	Share price (index)	Date	Share price (index)
2007/11/25	1445 (861.29)	2007/2/9	1606 (1000.49)	2008/6/29	1297 (948.87)
2007/11/27	1400 (869.38)	2007/2/13	1600 (1025.91)	2008/6/30	1267 (937.46)
2007/11/29	1420 (897.29)	2007/12/8	1764 (1061.35)	2008/7/2	1195 (906.24)
2007/12/3	1278 (922.44)	2007/12/23	1706 (1045.65)	2008/7/6	1275 (926.93)
2007/12/4	1351 (963.79)	2007/12/25	1565 (992.92)	2008/7/8	1280 (936.46)

Source: Official quotation of share prices published in the national daily newspaper and website www.nepalstock.com.

(Note: Figures under parentheses represent total prices index of equity shares)

c) Nepal Investment Bank Ltd.

Announcement date of rights offering	- 2045/5/6
Issue date	- 2005/5/13
Closed date	- 2005/6/16
Subscription price	- Rs. 100 Per share
Subscription ratio	- 1:1
Number of share issued	- 2952900
Issue manager	- Ace Finance Co. Ltd.

Information About Share Price and Index

Share price before announcement date		Share after announcement date		Share price after 6 months of announcement date	
Date	Share price (index)	Date	Share price (index)	Date	Share price (index)
2005/4/24	1332 (294.03)	2005/5/21	813 (279.73)	2005/11/14	829 (305.01)
2005/4/25	1350 (294.98)	2005/5/23	800 (276.85)	2005/11/16	828 (300.58)
2005/4/26	1390 (294.44)	2005/5/24	791 (275.46)	2005/11/17	828 (300.64)
2005/4/27	1370 (294.29)	2005/5/25	785 (276.35)	2005/11/20	800 (300.75)
2005/5/2	1430 (296.11)	2005/5/28	801 (278.43)	2005/11/21	801 (302.02)

Source: Official quotation of share prices published in the national daily newspaper and website www.nepalstock.com.

(Note: Figures under parentheses represent total prices index of equity shares)

d) Laxmi Bank Ltd.

Announcement date of rights offering	- 2006/2/8
Issue date	- 2007/4/25
Closed date	- 2007/5/29
Subscription price	- Rs. 100 Per share
Subscription ratio	- 5:1
Number of share issued	- 1220000
Issue manager	- NIDC Capital Markets Ltd.

Information About Share Price and Index

Share price before announcement date		Share after announcement date		Share price after 6 months of announcement date	
Date	Share price (index)	Date	Share price (index)	Date	Share price (index)
2006/11/23	432 (446.48)	2006/12/17	572 (508.58)	2007/7/9	650 (613.47)
2006/11/26	452 (453.03)	2006/2/18	567 (514.36)	2007/7/11	669 (620.66)
2006/11/28	455 (469.51)	2006/2/20	565 (511.22)	2007/7/12	684 (633.02)
2006/11/29	485 (478.01)	2006/12/21	570 (515.39)	2007/7/15	670 (643.15)
2006/11/30	475 (495.46)	2006/12/24	570 (518.64)	2007/7/16	664 (657.47)

Source: Official quotation of share prices published in the national daily newspaper and website www.nepalstock.com.

(Note: Figures under parentheses represent total prices index of equity shares)

e) Kumari Bank Ltd.

Announcement date of rights offering	- 2005/2/31
Issue date	- 2006/1/10
Closed date	- 2006/2/18
Subscription price	- Rs. 100 Per share
Subscription ratio	- 4:1
Number of share issued	- 1250000
Issue manager	- NIDC Capital Markets Ltd.

Information About Share Price and Index

Share price before announcement date		Share after announcement date		Share price after 6 months of announcement date	
Date	Share price (index)	Date	Share price (index)	Date	Share price (index)
2005/12/1	378 (301.76)	2006/1/2	330 (330.16)	2006/6/22	439 (378.87)
2005/12/4	380 (301.65)	2006/1/3	330 (305.42)	2006/6/26	435 (377.55)
2005/12/5	378 (301.97)	2006/1/3	333 (305.85)	2006/6/27	435 (375.47)
2005/12/6	300 (300.00)	2006/1/4	335 (305.62)	2006/6/28	429 (374.74)
2006/12/8	315 (299.10)	2006/1/5	337 (305.55)	2006/6/29	424 (375.14)

Source: Official quotation of share prices published in the national daily newspaper and website www.nepalstock.com.

(Note: Figures under parentheses represent total prices index of equity shares)

f) Machhapuchere Bank Ltd.

Announcement date of rights offering	- 2006/5/17
Issue date	- 2006/5/25
Closed date	- 2006/6/28
Subscription price	- Rs. 100 Per share
Subscription ratio	- 10:3
Number of share issued	- 1650000
Issue manager	- Nepal Marchant Banking and Finance Ltd.

Information About Share Price and Index

Share price before announcement date		Share after announcement date		Share price after 6 months of announcement date	
Date	Share price (index)	Date	Share price (index)	Date	Share price (index)
2006/5/10	415 (381.70)	2006/6/1	345 (371.97)	2006/11/23	436 (453.03)
2006/5/15	360 (388.49)	2006/6/4	345 (572.06)	2006/11/26	452 (463.74)
2006/5/16	365 (387.86)	2006/6/5	340 (371.47)	2006/11/27	475 (469.51)
2006/5/17	345 (384.58)	2006/6/6	341 (370.47)	2006/11/28	485 (478.01)
2006/5/18	348 (384.11)	2006/6/7	335 (369.62)	2006/6/29	533 (492.46)

Source: Official quotation of share prices published in the national daily newspaper and website www.nepalstock.com.

(Note: Figures under parentheses represent total prices index of equity shares)

ANNEX - 2

Test of Hypothesis by using t-statistic for the test of significance of the difference between share prices before and after announcement of rights offering.

Variables Defined:-

HO: Null Hypothesis that there is a not significant difference between the share price before and after the announcement of rights offerings.

H₁: Alternative Hypothesis that there is a significant difference between the share price before and after announcement of rights offerings.

X: Share price before announcement date.

\bar{X} : Mean of share price before announcement date.

Y: Share price after announcement date.

\bar{Y} : Means of share price after announcement date.

t_{cal}: Calculate value of t.

t_{tab}: Tabulated value of t at a given significant level for a creation degree of freedom.

D.F.: Degree of freedom.

\dagger^2 : An unbiased estimate of population variance.

\dagger : S.D. of share price before and after announcement date.

a) NIC Bank Ltd.

NIC Bank Ltd.

X	(x - \bar{x})	(x - \bar{x}) ²	Y	(y - \bar{y})	(y - \bar{y}) ²
1420	-3.20	10.24	1565	10.40	108.16
1278	-	21088.04	1530	-24.60	605.16
	145.20				
1351	-72.20	5212.84	1373	181.60	32978.56
1461	37.80	1428.84	1960	405.40	164349.18
1606	182.80	33415.84	1345	209.60	43932.16
$\sum X = 7116$		$(\sum x - \bar{x})^2 = 61150.80$	$\sum Y = 7773$		$(\sum y - \bar{y})^2 = 241973.20$
		$\bar{x} = 366.60$			

We know that,

$$\bar{X} = \frac{\sum x}{n} = \frac{7116}{5} = 1423.20$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{7773}{5} = 1554.60$$

$$s_x = \frac{\sum (x - \bar{x})^2}{n} = \frac{61150.80}{5} = 12230.16$$

$$s_y = \frac{\sum (y - \bar{y})^2}{n} = \frac{241973.20}{5} = 48394.64$$

$$s^2 = \frac{\sum (x - \bar{x})^2}{n_1} + \frac{\sum (y - \bar{y})^2}{n_2} = \frac{61150.80}{5} + \frac{241973.20}{5}$$

$$= \frac{1}{5} (303124 + 483946.4) = 37890.50$$

$$t_{cal} = \frac{\bar{x} - \bar{y}}{\sqrt{s^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{1423.20 - 1554.60}{\sqrt{37890.50 \left(\frac{1}{5} + \frac{1}{5} \right)}} = \frac{-131.40}{\sqrt{15156.20}} = -41.07$$

$$t_{\text{cal}} = 1.07$$

t_{tab} = value at 5% level of significance for 8 degree of freedom = 2.306

Decision:

Since $t_{\text{cal}} < t_{\text{tab}}$, the null hypothesis is accepted hence the difference is not significant.

b) Siddhartha Bank Ltd.

Siddhartha Bank Ltd.

X	(x - \bar{x})	(x - \bar{x}) ²	Y	(y - \bar{y})	(y - \bar{y}) ²
1445	66.20	4382.44	1606	-42.20	1780.84
1400	21.20	449.44	1600	-48.20	2323.24
1420	41.20	1697.44	1764	115.80	13409.64
1278	-100.80	10160.64	1706	57.80	3340.84
1351	-27.80	772.84	1565	-83.20	6922.24
$\Sigma X = 6894$		$(\Sigma x - \bar{x})^2 = 17462.80$	$\Sigma Y = 8241$		$(\Sigma y - \bar{y})^2 = 22776.80$

We know that,

$$\bar{X} = \frac{\Sigma x}{n} = \frac{6894}{5} = 1378.80$$

$$\bar{Y} = \frac{\Sigma y}{n} = \frac{8241}{5} = 1648.20$$

$$s_x = \frac{\Sigma (x - \bar{x})^2}{n} = \frac{17462.80}{5} = 3492.56 \Rightarrow 59.08$$

$$s_y = \frac{\Sigma (y - \bar{y})^2}{n} = \frac{22776.80}{5} = 4555.36 \Rightarrow 67.53$$

$$S^2 = \frac{1}{n_1 - 1} \Sigma (x - \bar{x})^2 + \frac{1}{n_2 - 1} \Sigma (y - \bar{y})^2 = \frac{1}{5 - 1} (17462.80 + 22776.80) = 5654.95$$

$$t_{\text{cal}} = \frac{\bar{x} - \bar{y}}{\sqrt{s^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{1378.80 - 1648.20}{\sqrt{5654.95 \left(\frac{1}{5} + \frac{1}{5} \right)}} = \frac{-269.40}{\sqrt{2261.98}} = \frac{-269.40}{47.56} = -5.66$$

$$|t_{\text{cal}}| = 5.66$$

t_{tab} = value at 5% level of significance for 8 degree of freedom = 2.306

Decision:

Since $t_{\text{cal}} < t_{\text{tab}}$, the null hypothesis is accepted hence the difference is not significant.

c) Nepal Investment Bank Ltd.

Nepal Investment Bank Ltd.

X	(x - \bar{x})	(x - \bar{x}) ²	Y	(y - \bar{y})	(y - \bar{y}) ²
1332	-24.40	197.76	831	15	225
1350	-24.40	595.36	800	2	4
1390	15.60	243.36	791	-7	49
1370	-4.40	19.36	785	-13	169
1430	55.60	3091.36	801	3	9
$\Sigma X = 6872$		$(\Sigma X - \bar{x})^2 = 5747.20$	$\Sigma Y = 3990$		$(\Sigma Y - \bar{y})^2 = 456$

We know that,

$$\bar{X} = \frac{\Sigma x}{n} = \frac{6872}{5} = 1374.40$$

$$\bar{Y} = \frac{\Sigma y}{n} = \frac{3990}{5} = 798$$

$$s_x = \sqrt{\frac{\Sigma (x - \bar{x})^2}{n}} = \sqrt{\frac{5747.20}{5}} = 33.90$$

$$t_{cal} = \frac{\sum (x - \bar{x})(y - \bar{y})}{\sqrt{\frac{\sum (x - \bar{x})^2}{n_1} + \frac{\sum (y - \bar{y})^2}{n_2}}} \times \sqrt{\frac{n_1 n_2}{n_1 + n_2}}$$

$$= \frac{5747.20}{\sqrt{\frac{77540}{5} + \frac{456}{5}}} \times \sqrt{\frac{5 \times 5}{5 + 5}} = 32.73$$

$$t_{cal} = \frac{\bar{x} - \bar{y}}{\sqrt{s^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{137440 - 798}{\sqrt{77540 \left(\frac{1}{5} + \frac{1}{5} \right)}} = 32.73$$

$$t_{cal} = 32.73$$

t_{tab} = value at 5% level of significance for 8 degree of freedom = 2.306

Decision:

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

d) Laxmi Bank Ltd.

Laxmi Bank Ltd.

X	(x - \bar{x})	(x - \bar{x}) ²	Y	(y - \bar{y})	(y - \bar{y}) ²
432	-27.80	772.84	572	-0.60	0.36
452	-7.80	60.84	567	-5.60	31.36
455	-4.80	23.04	565	-7.60	57.76
485	25.20	635.04	570	-2.60	6.76
475	15.20	231.04	589	16.40	268.96
$\sum X = 2299$		$(\sum (x - \bar{x}))^2 = 1722.80$	$\sum Y = 2865$		$(\sum (y - \bar{y}))^2 = 365.20$

We know that,

$$\bar{X} = \frac{\sum x}{n} = \frac{2299}{5} = 459.80$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{2863}{5} = 572.60$$

$$t_x = \frac{\sum (x - \bar{x})^2}{n} = \frac{1722.80}{5} = 344.56$$

$$t_y = \frac{\sum (y - \bar{y})^2}{n} = \frac{365.20}{5} = 73.04$$

$$s^2 = \frac{\sum (x - \bar{x})^2 + \sum (y - \bar{y})^2}{n_1 + n_2 - 2} = \frac{1722.80 + 365.20}{5 + 5 - 2} = 261$$

$$t_{cal} = \frac{\bar{x} - \bar{y}}{\sqrt{s^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{459.80 - 572.60}{\sqrt{261 \left(\frac{1}{5} + \frac{1}{5} \right)}} = 11.04$$

$$t_{cal} = 11.04$$

$$t_{tab} = \text{value at 5\% level of significance for 8 degree of freedom} = 2.306$$

Decision:

Since $t_{cal} > t_{tab}$, the null hypothesis is rejected hence the difference is not significant.

e) Kumari Bank Ltd

Kumari Bank Ltd.

X	(x - \bar{x})	(x - \bar{x}) ²	Y	(y - \bar{y})	(y - \bar{y}) ²
378	27.80	772.84	330	-3	9
380	29.80	888.04	330	-3	9
378	27.80	772.84	333	0	0
300	-50.20	2520.04	335	2	4
315	-35.20	1239.04	337	4	16
$\sum X = 1751$		$(\sum (x - \bar{x})^2) = 6192.80$	$\sum Y = 1665$		$(\sum (y - \bar{y})^2) = 38$

We know that,

$$\bar{X} = \frac{\sum x}{n} = \frac{1751}{5} = 350.20$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{1665}{5} = 333$$

$$t_x = \frac{\sum (x - \bar{x})^2}{n} = \frac{6192.80}{5} = 1238.56$$

$$t_y = \frac{\sum (y - \bar{y})^2}{n} = \frac{38}{5} = 7.6$$

$$S^2 = \frac{t_x + t_y}{n_1 + n_2 - 2} = \frac{1238.56 + 7.6}{5 + 5 - 2} = 127.305$$

$$t_{cal} = \frac{\bar{x} - \bar{y}}{\sqrt{S^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{350.20 - 333}{\sqrt{127.305 \left(\frac{1}{5} + \frac{1}{5} \right)}} = 0.97$$

$t_{cal} = 0.97$

$t_{tab} =$ value at 5% level of significance for 8 degree of freedom = 2.306

Decision:

Since $t_{cal} < t_{tab}$, the null hypothesis is accepted hence the difference is not significant.

f) Machhapuchere Bank ltd.

Machhapuchere Bank Ltd.

X	(x - \bar{x})	(x - \bar{x}) ²	Y	(y - \bar{y})	(y - \bar{y}) ²
415	48.40	2342.56	345	3.80	14.44
360	-6.60	43.56	345	3.80	14.44
365	-1.60	2.56	340	-1.20	1.44
345	-21.60	466.56	341	-6.20	0.04
348	-18.60	345.96	335	-6.20	38.44
X X1833		(X Z \bar{X}) ² X3201.20	Y X1706		(Y Z \bar{Y}) ² X68.80

We know that,

$$\bar{X} = \frac{\sum x}{n} = \frac{1833}{5} = 366.60$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{1706}{5} = 341.20$$

$$s_x = \frac{\sum (x - \bar{x})^2}{n} = \frac{3201.20}{5} = 640.24 \Rightarrow \sqrt{640.24} = 25.30$$

$$s_y = \frac{\sum (y - \bar{y})^2}{n} = \frac{68.80}{5} = 13.76 \Rightarrow \sqrt{13.76} = 3.71$$

$$s^2 = \frac{\sum (x - \bar{x})^2}{n_1} + \frac{\sum (y - \bar{y})^2}{n_2} = \frac{3201.20}{5} + \frac{68.80}{5} = 408.75$$

$$t_{cal} = \frac{\bar{x} - \bar{y}}{\sqrt{s^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{366.60 - 341.20}{\sqrt{408.75 \left(\frac{1}{5} + \frac{1}{5} \right)}} = \frac{25.40}{\sqrt{163.50}} = 1.99$$

$t_{cal} = 1.99$

t_{tab} = value at 5% level of significance for 8 degree of freedom = 2.306

Decision:

Since $t_{cal} < t_{tab}$, the null hypothesis is accepted hence the difference is not significant.

ANNEX -3

Correlation (r) between Share Price Fluctuations with Price Index Movement

Variables	
I	Three months before announcement of the right share
II	Ten days before announcement of the right share
III	The day of announcement of the right share
IV	Seven days after announcement of the right share
V	Six months after announcement of the right share
X	Share Price
Y _n	Index no of times

Correlation (r) between share price fluctuations with price index movement of sample companies.

a) NIC Bank Ltd.

Point of Time	x	$X = (x - \bar{x})$	X^2	y	$Y = (y - \bar{y})$	Y^2	XY
I	906	-481.20	231553.44	689.80	-229.10	52,486.81	110242.9 2
II	1420	32.80	1075.84	897.29	-21.61	466.99	-708.81
III	1600	212.80	45283.84	1025.91	107.01	11451.14	22771.73
IV	1660	272.80	74419.84	1018.16	99.26	9852.55	27078.13
V	1350	-37.20	1383.84	963.36	44.46	1976.69	-1653.91
	$\sum x$ X6963 \bar{x} X1387.20		$\sum X^2$ X353716.80	$\sum y$ X4564.52 \bar{y} X918.90		$\sum Y^2$ X353716.80	$\sum XY$ X

$$\bar{x} = \frac{\sum x}{n} = \frac{6936}{5} = 1387.20 \quad \bar{y} = \frac{\sum y}{n} = \frac{4594.52}{5} = 918.90$$

Karl Pearson's co-efficient of correlation

We know,

$$\text{Correlation (r)} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{157730.06}{\sqrt{353716.80} \sqrt{76234.18}} = 0.96$$

$$\therefore \text{Coefficient of determination (r}^2\text{)} = (0.96)^2 = 0.9216 = 92.16\%$$

$$\text{PE} = 0.6745 \frac{1 - r^2}{\sqrt{n}} = 0.6745 \frac{1 - 0.9216}{\sqrt{5}} = 0.0236$$

$$\dots \text{PE} = 6 \times 0.0236 = 0.1416$$

b) Siddhartha Bank Ltd.

Point of Time	x	X =(x- \bar{x})	X ²	y	Y= =(y- \bar{y})	Y ²	XY
I	785	-311.20	96845.44	679.99	-222.91	49688.87	69369.59
II	980	-116.20	13502.44	855.56	-47.34	2241.08	5500.91
III	1295	198.80	39521.44	974.41	71.51	5113.68	14216.19
IV	1296	199.80	39920.04	1052.92	150.02	22506.00	29974
V	1125	28.80	829.44	951.62	48.72	2373.64	1403.04
	$\sum x$ X5481 \bar{x} X1096.20		$\sum X^2$ X190618.80	$\sum y$ X4514.50 \bar{y} X902.90		$\sum Y^2$ X81923.27	$\sum XY$ X120463.83

$$\bar{x} = \frac{\sum x}{n} = \frac{5481}{5} = 1096.20 \quad \bar{y} = \frac{\sum y}{n} = \frac{4514.50}{5} = 902.90$$

Karl Person's co-efficient of correlation

We know,

$$\text{Correlation (r)} = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{120463.83}{\sqrt{190618.80 \times 81923.27}} = 0.96$$

$$\therefore \text{Coefficient of determination (r}^2\text{)} = (0.96)^2 = 0.9216 = 92.16\%$$

$$\text{PE} = 0.6745 \frac{1 - r^2}{\sqrt{n}} = 0.6745 \frac{1 - 0.9216}{\sqrt{5}} = 0.0236$$

$$\dots \text{PE} = 6 \times 0.0236 = 0.1416$$

c) Nepal Investment Bank Ltd.

Nepal Investment Bank Ltd.

Point of Time	x	X = (x - \bar{x})	X ²	y	Y = (y - \bar{y})	Y ²	XY
I	1200	301.40	90841.96	264.73	-22.23	494.17	-6700.12
II	790	-108.60	11793.96	298.78	11.82	139.71	-1283.65
III	865	-33.60	1128.96	285.42	-1.54	2.37	51.74
IV	813	-85.60	7327.36	279.73	-7.23	52.27	618.89
V	825	-73.60	5416.96	306.15	19.19	368.26	-1412.38
	$\sum x = 4493$ $\bar{x} = 898.60$		$\sum X^2 = 116509.20$	$\sum y = 1434.81$ $\bar{y} = 286.96$		$\sum Y^2 = 1056.78$	$\sum XY = 8725.52$

$$\bar{x} = \frac{\sum x}{n} = \frac{4493}{5} = 898.60 \quad \bar{y} = \frac{\sum y}{n} = \frac{1434.81}{5} = 286.96$$

Karl Person's co-efficient of correlation

We know,

$$\text{Correlation (r)} = \frac{xy}{\sqrt{x^2 y^2}} \times \frac{Z8725.52}{\sqrt{116509.20 | 1056.78}} = 0.96$$

$$\therefore \text{Coefficient of determination (r}^2\text{)} = (0.79)^2 = 0.62\%$$

$$\text{PE} = 0.6745 \frac{1Zr^2}{\sqrt{n}} \times 0.6745 \frac{1Z.0.62}{\sqrt{5}} \times 0.12$$

$$\dots \text{PE} = 6 | 0.12 \times 0.72$$

d) Laxmi Bank Ltd.

Laxmi Bank Ltd.

Point of Time	x	X=(x- \bar{x})	X ²	y	Y= =(y- \bar{y})	Y ²	XY
I	349	- 148.20	21963.24	381.37	- 107.88	11638.09	1598.816
II	455	-42.20	1780.84	469.51	-19.74	389.67	833.028
III	460	-37.20	1383.84	473.31	-15.94	254.08	592.968
IV	572	74.80	5595.04	508.58	19.33	373.65	1445.884
V	650	152.80	23347.84	613.47	124.22	15430.51	18980.816
	$\sum x$ X24861 \bar{x} X497.20		$\sum X^2$ X54070.80	$\sum y$ X2446.24 \bar{y} X489.25		$\sum Y^2$ X28086	$\sum XY$ X 37840.512

$$\bar{x} \times \frac{x}{n} \times \frac{2486}{5} \times 497.20 \quad \bar{y} \times \frac{y}{n} \times \frac{2446.24}{5} \times 489.25$$

Karl Person's co-efficient of correlation

We know,

$$\text{Correlation (r)} = \frac{xy}{\sqrt{x^2 y^2}} \times \frac{37840.512}{\sqrt{54070.80 \mid 28086}} = 0.96$$

\therefore Coefficient of determination (r^2) = $(0.97)^2 = 0.9409 = 94.09\%$

$$\text{PE} = 0.6745 \frac{1Zr^2}{\sqrt{n}} \times 0.6745 \frac{1Z0.9409}{\sqrt{5}} \times 0.0178$$

$$\dots \text{PE} = 6 \mid 0.0178 \times 0.1068$$

e) Kumari Bank Ltd.

Table No. 5
Kumari Bank Ltd.

Point of Time	x	X = (x - \bar{x})	X ²	y	Y = (y - \bar{y})	Y ²	XY
I	377	14.60	213.16	293.69	-22.70	515.29	-331.42
II	326	-36.40	1324.96	299.84	-16.55	273.90	602.42
III	340	-22.40	501.76	308.13	-8.26	68.23	185.02
IV	330	-32.40	1049.76	301.60	-14.79	218.74	479.20
V	439	76.40	5867.56	378.68	62.29	3880.04	4775.41
	$\sum x = 1812$		$\sum X^2 = 8957.20$	$\sum y = 1581.94$		$\sum Y^2 = 4956.20$	$\sum XY = 5706.63$

$$\bar{x} = \frac{\sum x}{n} = \frac{1812}{5} = 362.40 \quad \bar{y} = \frac{\sum y}{n} = \frac{1581.94}{5} = 316.39$$

Karl Person's co-efficient of correlation

We know,

$$\text{Correlation (r)} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{5706.63}{\sqrt{8957.20} \sqrt{4956.20}} = 0.86$$

$$\therefore \text{Coefficient of determination (r}^2\text{)} = (0.86)^2 = 0.74 = 74\%$$

$$PE = 0.6745 \frac{1 - r^2}{\sqrt{n}} = 0.6745 \frac{1 - 0.86}{\sqrt{5}} = 0.0422$$

$$\dots PE = 6 \mid 0.04226 = 0.8532$$

f) Machhapuchere Bank Ltd.

Machhapuchere Bank Ltd.

Point of Time	x	X =(x- \bar{x})	X ²	y	Y= =(y- \bar{y})	Y ²	XY
I	348	- 18.60	345.96	333.03	- 52.19	2723.80	970.734
II	360	-6.60	43.56	388.49	3.27	10.69	-21.582
III	328	- 38.60	1489.96	368.89	- 16.33	266.67	630.338
IV	345	- 21.60	466.56	371.97	- 13.25	175.56	286.20
V	452	85.40	7293.16	463.74	78.52	6165.39	6705.608
	$\sum x$ X1833 \bar{x} X366.60		$\sum X^2$ X9639.20	$\sum y$ X1926.12 \bar{y} X385.22		$\sum Y^2$ X9342.11	$\sum XY$ X8571.298

$$\bar{x} = \frac{\sum x}{n} = \frac{1833}{5} = 366.60 \quad \bar{y} = \frac{\sum y}{n} = \frac{1926.12}{5} = 385.20$$

Karl Person's co-efficient of correlation

We know,

$$\text{Correlation (r)} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{8571.298}{\sqrt{9639.20} \sqrt{9342.11}} = 0.90$$

$$\therefore \text{Coefficient of determination (r}^2\text{)} = (0.90)^2 = 0.81\%$$

$$\text{PE} = 0.6745 \frac{1 - r^2}{\sqrt{n}} = 0.6745 \frac{1 - 0.81}{\sqrt{5}} = 0.06$$

$$\dots \text{PE} = 6 \times 0.06 = 0.36$$

ANNEX - 4

Value of Rights and the theoretical ex-rights price.

Variables Defined:

P_O = Current Market Price

P_S = Subscription Price

N = Number of Rights Required for an Additional Share

P_X = Ex - rights price

V_r = Value of Once Rights

$$V_r = \frac{P_O - P_S}{N \Gamma 1}$$

$$P_X = \frac{N | P_O \Gamma P_S}{N \Gamma 1} \text{ Or } P_O - V_r$$

a) NIC Bank Ltd.

$$P_O = 1600 \quad P_S = \text{Rs. } 100 \quad N = 5$$

Now,

$$V_r = \frac{P_O - P_S}{N \Gamma 1} \times \frac{1600 - 100}{5 \Gamma 1} \times \frac{1500}{6} \times 250$$

$$P_X = \frac{N | P_O \Gamma P_S}{N \Gamma 1} \times \frac{5 | 1600 \Gamma 100}{5 \Gamma 1} \times 1350$$

b) Siddhartha Bank Ltd.

$$P_O = 1295 \quad P_S = \text{Rs. } 100 \quad N = 5$$

Now,

$$V_r = \frac{P_O - P_S}{N \Gamma 1} \times \frac{1295 - 100}{5 \Gamma 1} \times \frac{1195}{6} \times \text{Rs. } 199.17$$

$$P_X = \frac{N | P_O \Gamma P_S}{N \Gamma 1} X \frac{5 | 1195 \Gamma 100}{5 \Gamma 1} X \text{Rs.}1095.83$$

c) Nepal Investment Bank Ltd.

$$P_o = \text{Rs.}800 \quad P_s = \text{Rs.} 100 \quad N = 1 \text{ Share}$$

Now,

$$V_r = \frac{P_o - P_s}{N \Gamma 1} X \frac{800 - 100}{1 \Gamma 1} X \frac{700}{2} X \text{Rs.}350$$

$$P_X = \frac{N | P_O \Gamma P_S}{N \Gamma 1} X \frac{1 | 800 \Gamma 100}{1 \Gamma 1} X \text{Rs.}450$$

d) Laxmi Bank Ltd.

$$P_o = \text{Rs.}460 \quad P_s = \text{Rs.} 100 \quad N = 5 \text{ Share}$$

Now,

$$V_r = \frac{P_o - P_s}{N \Gamma 1} X \frac{460 - 100}{5 \Gamma 1} X \frac{360}{6} X \text{Rs.}60$$

$$P_X = \frac{N | P_O \Gamma P_S}{N \Gamma 1} X \frac{5 | 460 \Gamma 100}{5 \Gamma 1} X \text{Rs.}400$$

e) Kumari Bank Ltd.

$$P_o = \text{Rs.}340 \quad P_s = \text{Rs.} 100 \quad N = 4 \text{ Share}$$

Now,

$$V_r = \frac{P_o - P_s}{N \Gamma 1} X \frac{340 - 100}{4 \Gamma 1} X \frac{240}{5} X \text{Rs.}48$$

$$P_X = \frac{N | P_O \Gamma P_S}{N \Gamma 1} X \frac{4 | 340 \Gamma 100}{4 \Gamma 1} X \text{Rs.}292$$

f) Machhapuchere Bank Ltd.

$$P_o = \text{Rs.}328 \quad P_s = \text{Rs.} 100 \quad N = 3.33 \text{ Share}$$

Now,

$$V_r = \frac{P_o - P_s}{N \Gamma 1} \times \frac{328 - 100}{3.33 \Gamma 1} \times \frac{228}{4.33} \times \text{Rs.}52.65$$

$$P_x = \frac{N | P_o \Gamma P_s}{N \Gamma 1} \times \frac{3.33 | 328 \Gamma 100}{3.33 \Gamma 1} \times \text{Rs.}275.34$$

Annex - 5

Impact of rights announcement of share price movement

Variable Defined

X = Days before and after announcement of rights share

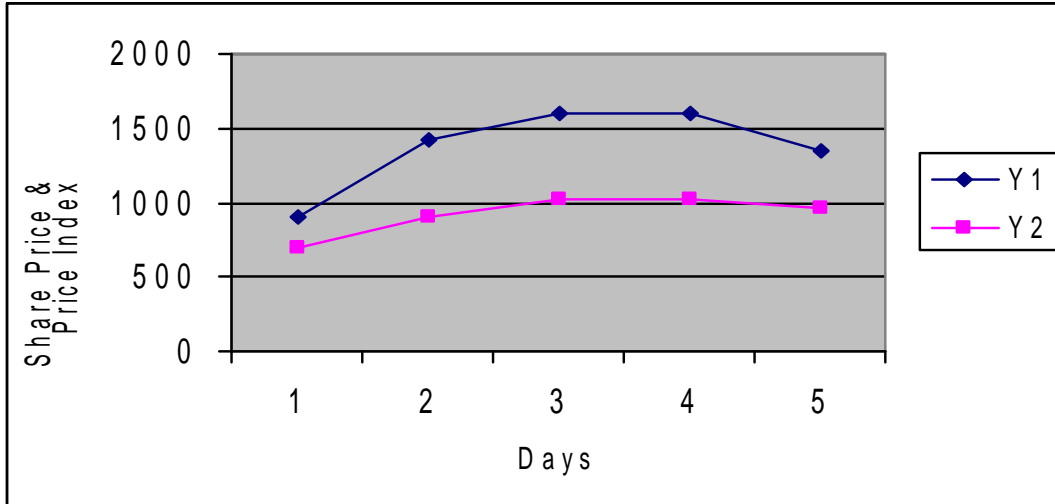
Y_1 = Share Price

Y_2 = Price Index

a) NIC Bank Ltd.

X	-90	-10	0	7	180
Y_1	906	1420	1600	1600	1350
Y_2	689.80	897.29	1025.91	1018.16	963.36

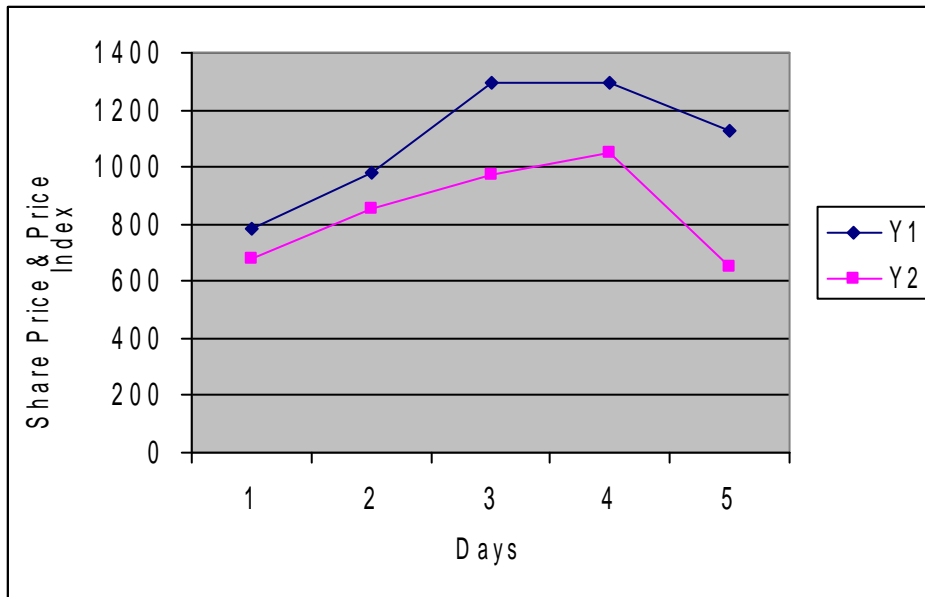
Movement on share price and price indices



b) Siddhartha Bank Ltd.

X	-90	-10	0	7	180
Y ₁	785	980	1295	1296	1125
Y ₂	679.99	855.56	974.41	1052.92	651.62

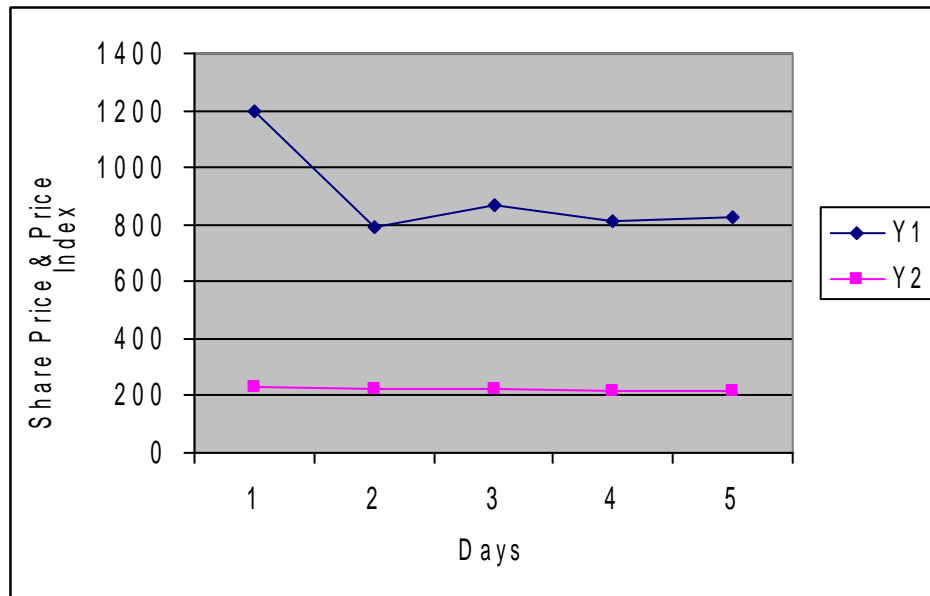
Movement on share prices price indices



c) Neal Investment Bank Ltd.

X	-90	-10	0	7	180
Y ₁	1200	790	865	813	825
Y ₂	230.27	226.25	222.87	218.06	215.10

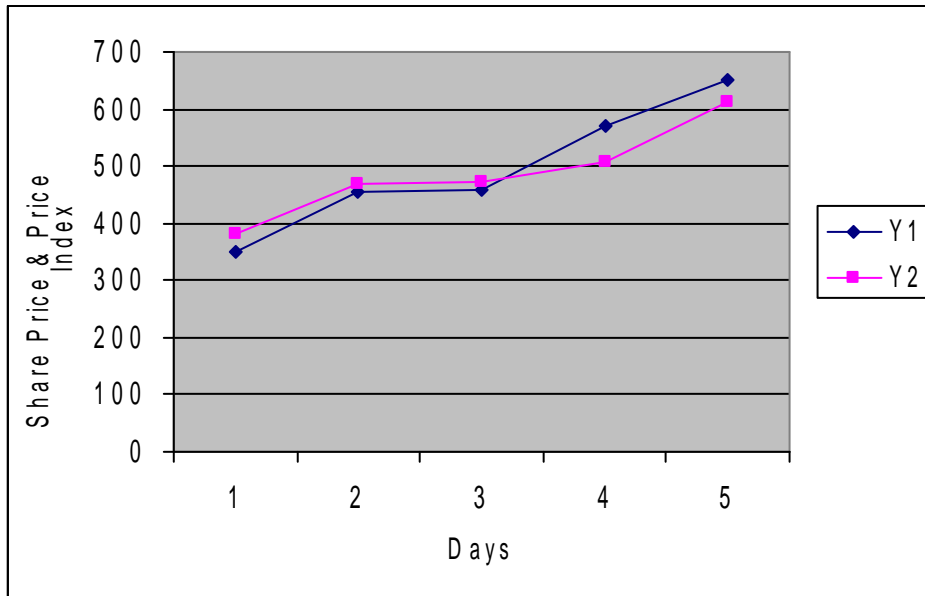
Movement of Share Price & Price Indices



d) Laxmi Bank Ltd.

X	-90	-10	0	7	180
Y ₁	349	455	460	572	650
Y ₂	381.37	469.51	473.31	508.58	613.47

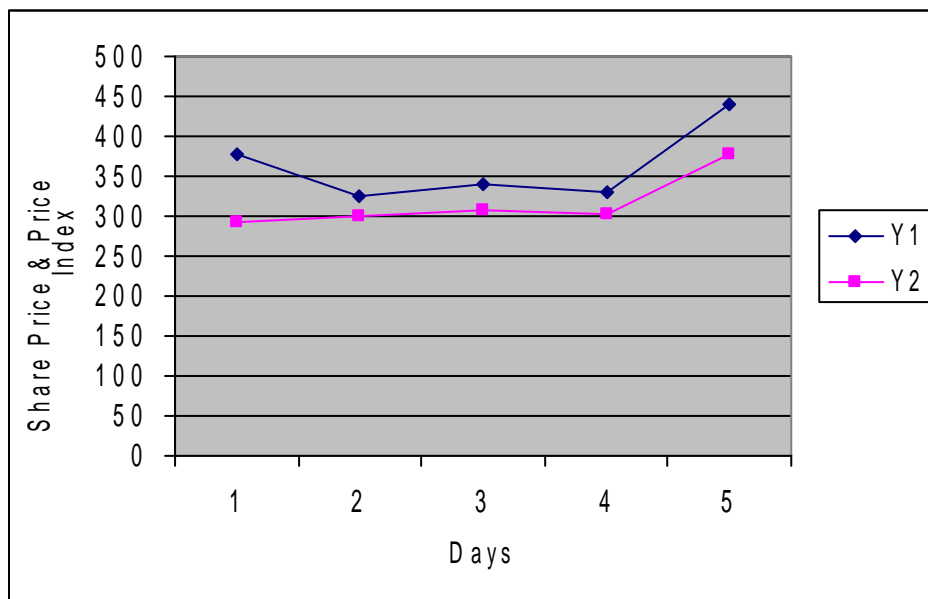
Movement of Share Price & Price Indices



e) Kumari Bank Ltd.

X	-90	-10	0	7	180
Y ₁	377	326	340	330	439
Y ₂	293.69	299.84	308.13	301.60	378.68

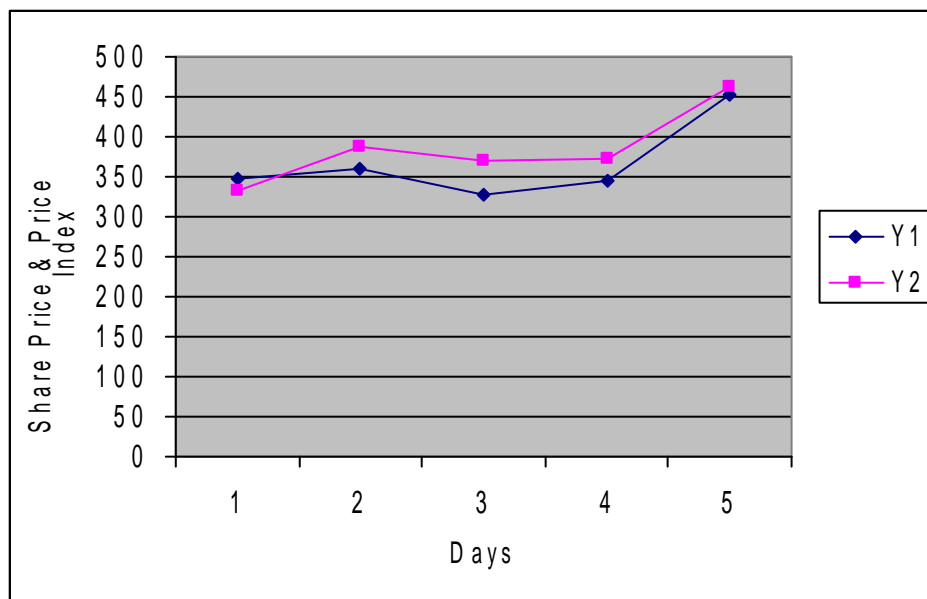
Movement of Share Price & Price Indices



f) Machhapuchere Bank Ltd.

X	-90	-10	0	7	180
Y ₁	348	360	328	345	452
Y ₂	333.03	388.49	368.89	371.97	463.74

Movement of Share Price & Price Indices



QUESTIONNAIRE

Dear Sir/Madam

I have been writing a thesis "Right Share Issue by Commercial Banks in Nepal and Its Impact on Share Price". In partial fulfillment of the requirement of Master of Business Studies(M.B.S). This questionnaire has been developed and presented towards you as a part of study.

I humbly request you to fill it up at the best of your knowledge. Your kind cooperation in this regard will be great value for me.

I shall be highly obliged for prompt responses as for as possible.

Thank you

Rajesh Singh

Researcher

Shanker Dev Campus

Name of Respondent.....

Address.....

Designation.....

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

1. In your opinion which sector's right share issue does investors prefer most?

- a) Banking/Financial
- b) Manufacturing/Trading Sector
- c) Hotel/Other Sector
- d) Insurance Sector

2) In your opinion, why investors are interested to purchase the right share?

- a) To increase the value
- b) To increase the number of share
- c) To increase the dividend
- d) To maintain the control

3) What will be shareholders do, if rights are transferable in Nepal ?

- a) They will sell the right
- b) They will exercise the right
- c) They will partially exercise or sell the right
- d) They will neither sell nor exercise

4) Whom, do you think are the beneficiaries of the rights share offerings ?

- a) Issuing company
- b) Share holders
- c) Issuing Company
- d) Broker

5) Why does the Nepalese corporate firms prefer right share instead of other instruments?

- a) Low Floation cost
- b) Easy process to collect the fund
- c) To maintain control position in management
- d) Other causes

6) In your opinion, what is a major case of under subscription of rights share in Nepal?

- a) Low performance of the related company
- b) Right is not transferable
- c) Lack of investors awareness
- d) Other cases

7) Do you think that investors are well aware to phenomenon of right share?

a) All of them

b) Non of them

c) Majority of them

d) Minority of them

8) Right is not transferable in Nepal; in your opinion does investors face any difficulties due to this?

a) yes

b) No

c) Doesn't Know

d) Know