A STUDY ON
RIGHT ISSUE AND ITS IMPACT ON SHARE PRICE

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RECOMMENDATION

This is to certify that the thesis

Submitted by
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Entitled
"A Study on Right Issue and Its Impact on Share Price"

Has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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VIVA – VOCE SHEET

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

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Entitled

"*A Study on Right Issue and Its Impact on Share Price*"

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master's Degree in Business Studies (M.B.S.)

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DECLARATION

I, hereby, declare that the work reported in this thesis entitled "**A Study on Right Issue and Its Impact on Share Price**" submitted to the Office of the Dean, Faculty of Management, Tribhuvan University, is my original work. It is prepared as the partial fulfillment of the requirements for the Master's Degree of Business Studies under the supervision of Mr. Keshav Raj Pantha, Associate Professor, Saraswati Multiple Campus, Tribhuvan University. An omission and error in this research is entirely on my own.

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Finally, I hope this work could be useful for further research in this field. I retain all responsibility for any errors committed in this work.

Keshab Prasad Rimal

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ABBREVIATIONS

BOA	:	Bank of Asia Nepal Limited
Bef.	:	Before
C.V.	:	Coefficient of Variation
CB	:	Commercial Bank
CBRI/RI	:	Commercial Banks' Right Issue to Total Right Issue
Chg.	:	Change
Com.	:	Companies
CBL	:	Citizen Bank International Ltd.
DCBL	:	Development Credit Bank Limited
GBL	:	Global Bank Limited
KBL	:	Kumari Bank Limited
LBL	:	Laxmi Bank Limited
LUBL	:	Lumbini Bank Limited
MBL	:	Macchapuchhre Bank Limited
MPS	:	Market Price per Share
NBB	:	Nepal Bangladesh Bank
NCCB	:	Nepal Credit and Commerce Bank
NEPSE	:	Nepal Stock Exchange
NIB	:	Nepal Investment Bank
NICB	:	Nepal Industrial and Commercial Bank
NMB	:	Nepal Merchant Bank
No.	:	Number
PVTV	:	Paid Up Value to Total Value
RISI	:	Right Share to Securities Issue
S.D.	:	Standard Deviation
SBI	:	Nepal SBI Bank
SBL	:	Siddhartha Bank Limited
SEBON	:	Securities Board of Nepal
SRBL	:	Sunrise Bank Limited

CHAPTER – I

INTRODUCTION

1.2 Background of the Study

To develop the economy of a country an efficient and effective capital market is of vital importance. The growth of capital market in a country depends upon the saving available, proper organization of intermediary, to bring the investors and business ability together for mutual interest. Capital market is organized market through which buyers and sellers of long term capital are met and the function of buying and selling takes place. Capital market is such a powerful marketing which gives opportunity to the investors to invest their savings in ordinary share, debenture and government securities. For fast industrial growth, capital market plays an important role. Recently in Nepal, right share is one of the key instruments to raise capital from capital market. It can be easily notice an increasing trend of issuing right share, a type of equity share issued by a company to the existing shareholders.

Right share is an issue of securities to the existing shareholders with the right resting on the investor either to accept or reject the offer. A corporation/ company usually offers a rights issue to the existing shareholders an option to buy new shares of the company at a predetermined price usually at a discount to the existing market price in a pre fixed ratio. A rights issue will be of the form, issue of x number of shares to the existing shareholders at a price of y per share in the ratio of n shares for every shares held as on date D.

Right, also known as subscription warrants, is issued to give existing shareholders their preemptive right to subscribe to a new issue of common stock before the general public is given an opportunity where each share of stock receives one right. A stated number of rights plus cash equal to a specified subscription price are required in order to obtain one new share. The sale of the new stock is ensured by setting the subscription price below the stock's market price at the time the rights are issued. New subscribers do not get a bargain, however; they must pay old stockholders for the required number of right, which becomes valuable as a result.

After the securities are issued, either by public offering or by right offering, they are traded on the secondary market. This offers an opportunity to investors to invest in the long term ventures, while market also enables them to convert their securities into liquid cash before the maturity of the project. In addition, they can invest their current income against future income thereby achieves their time performance of consumption. The liquid market also promotes primary issuance of shares, because investors' participate in the share market for they can get back the fund easily. The primary market is positively and highly elastic in the stock prices and the liquidity in the secondary market. According to semi-strong form of efficiency all the publicly available information have a great influence on the market prices. This paper is mainly concerned in testing the semi strong form of market efficiency with respect to the announcement of right issues. In addition, this paper attempts to test the behavior of share prices after right offering. This study also concerns about current practices of right offering, popularity and perception of Nepalese investors about right offering.

1.2 Statement of the Problem

This right share issue is important decision of corporate for different point of view. When a company sells securities by privileged subscription, it should mail to its shareholders one right for each share of the stock hold with the common stock offering, this legal instrument called 'right' give shareholder the option to purchase additional shares according to the terms of offering. The holder of right has three choices (a) Subscribe for new share (this is some time called taking up the right): If the shareholder has sufficient cash resources to buy new shares, and if he feels the company will use the money so raised in a profitable way. Then he feels the company will use the money so raised in a profitable way, then he should take up the right. (b) Sell right: The new shares are cheaper than the current market price and both new and old shares will rank equal footing when the formalities have been completed. Thus new not exercise rights have a value for which a third party would be willing to pay. If the shareholder is not happy about the right issue or equities, he/she sells the right. Usually the rights are sold via a broker who will charge commission. (c) Do nothing at all: when investor neither subscribes nor sells. It reduces the wealth of investors. Only those shareholders, who be stay themselves and exercise rights to purchase the pro-rata shares of new common stock, will remain unharmed by the right issue. If there were the rights instrument available with existing shareholders, who do not exercise the rights could protect them from incurring loss by selling only the rights. Eventually, to achieve the objectives of the study, the following research problems have been raised;

a. What is the existing practice of right issue in Nepal?
b. What is the relationship between right share issue and market price of share?
c. How familiar are the Nepalese investors about right offering?
d. Do Nepalese investors use available information regarding right issue to maximize their wealth?

1.6 Objective of the Study

The main objective of the study is to measure the impact of right offering on the market price of the share of commercial banks. The other specific objectives of the study are;

a. To identify existing practices adopted by Nepalese Commercial Banks about right issue of shares.
b. To find out impact on changes in market price of the stock, before and after the announcement of right offering in commercial banks.
c. To analyze whether Nepalese investors are well known about right issue.

d. To find out whether Nepalese investors use available information regarding the right issue announcement to maximize their wealth.
e. To provide necessary suggestions and recommendations for further improvement and research.

1.7 Significance of the Study

The present study focuses on the impact of right shares on the market price of the listed companies. Thus, this study will be most germane to the investors for attaining crucial information, which may be helpful for astute investors. Besides them, the study will be also beneficial for the market experts to remain well familiar with the market trend, and thus be important for prediction. In addition, the study will be useful to the personnel of SEBON for amending rules and regulations that will pragmatically befit the stock market of Nepal. Further, the study will be significant for the brokers and the listed companies as well to understand the craves of investors toward buying the right shares. Besides the aforementioned personnel, the study will be useful to the later researchers as a enrich reference.

1.8 Limitations of the Study

The study has the following limitations;

a) The study focuses on the right issue and market price of share and does not cover the other financial aspects.
b) The study tries to concentrate on the right issue practice of commercial banks, and hence does not cover other financial institutions.
c) The study covers only five year periods, i.e. from the fiscal year 2005/06 to 2009/10.
d) The accuracy of secondary data absolutely relies on the annual report of the concerned listed companies and NEPSE & SEBON, while the reliability of the primary data depends upon the opinions of the respondents.

1.6 Organization of the Study

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

The **First Chapter** deals with the background of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study.

The **Second Chapter** deals with the review of conceptual framework, review of journals and articles, and review of thesis those are relevant to the study.

The **Third Chapter** presents the research design, population and sample, source of data, and research tools that will be adopted.

The **Fourth Chapter** presents the data collected and analyzes them to achieve the research objective. At the end of the chapter, the major findings of the study will be drawn.

Finally, the **Fifth Chapter** summarizes the whole study, provides the conclusion and gives recommendation to enhance the banking system.

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

CHAPTER – II
REVIEW OF LITERATURE

2.1 Conceptual Review

2.1.1 Rights Issue

“A rights issue is a way in which a company can sell new shares in order to raise capital. Shares are offered to existing shareholders in proportion to their current shareholding, respecting their pre-emption rights. The price at which the shares are offered is usually at a discount to the current share price, which gives investors an incentive to buy the new shares - if they do not, the value of their holding is diluted.

A rights issue by a highly geared company intended to strengthen its balance sheet is often a bad sign. Profits are already low (or negative) and future profits are diluted. Unless the underlying business is improved, changing its capital structure achieves little.” *(Bohren, Eckbo & Michalsen; 1997: 242)*

“A rights issue to fund expansion can usually be regarded somewhat more optimistically, although, as with acquisitions, shareholders should be suspicious because management may be empire-building at their expense (the usual agency problem with expansion).

The rights are normally a tradable security themselves (a type of short dated warrant). This allows shareholders who do not wish to purchase new shares to sell the rights to someone who does. Whoever holds a right can choose to buy a new share (exercise the right) by a certain date at a set price.” *(Balachandran, , Faff & Theobald; 2007: 31)*

“Some shareholders may choose to buy all the rights they are offered in the rights issue. This maintains their proportionate ownership in the expanded company, so that an x% stake before the rights issue remains an x% stake after it. Others may choose to sell their rights, diluting their stake and reducing the value of their holding. If rights are not taken up the company may (and in practice does) sell them on behalf of the rights holder." *(Hansen; 1989: 292)*

"It is possible to sell some rights and exercise the remainder. One possibility is selling enough rights to cover the cost of exercising those that are not sold. This allows a shareholder to maintain the value of a holding without further expense (apart from dealing costs). This does not mean that a shareholder can entirely neutralize the effect of a rights issue, only the element described by the formula below.

As with a scrip issue, the price before the rights are issued needs to be adjusted for the rights issue. The calculation is a little more complicated as the new shares are paid for. Before comparison with share prices after the rights issue, prices before the shares went ex-rights need to be multiplied by:

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

Where,

x is the number of new shares issued for every y existing shares

m is the closing price on the last day the shares traded cum-rights

n is the price of the new shares" *(Heinkel & Schwartz, 1986: 16)*

"The same adjustment needs to be made to per share numbers such as EPS if they are to remain comparable, for example, when looking at growth trends. However, a large rights issue is often associated with other changes that will distort these numbers or change trends such as paying off debt, expansion, etc.

This calculation makes the assumption that all rights will be exercised. This is usually an acceptable assumption as it is usual for a rights issue to be priced at a steep discount to the share price to ensure that the rights will be exercised.

In the interval between the shares going ex-rights and the rights being exercised, if the share price falls low enough for the rights to have significant option value, then an adjustment may have to be made for this. This happens very rarely." *(Hietala & Loyttyniemi; 1992: 43)*

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

- Share capital gets increased according to the rights issue ratio.
- Liquidity in the stock increases.
- Effective Earnings per share, Book Value and other per share values stand reduced.
- Markets take the action usually as a favorable act.
- Market price gets adjusted on issue of rights shares.
- Company gets better cash flow which may be used to improve the business and may help increase effective Earnings per share.
- Usually a shareholder may not back out from applying for the rights issue unless the offer is almost same as the prevailing market price. This is because if a stock is trading at 100 and a rights issue in the ratio 1:1 at a price of 40 will make the stock trade at 70 soon after the ex-rights date." *(Wang, Wei & Pruitt; 2006: 61)*

2.1.2 Actions Prior to Conducting a Rights Offering

"The issuer must determine if it has sufficient authorized and unissued shares to accommodate the number of shares that could be issued in connection with the rights offering. If not, the necessary corporate actions must be taken to authorize new shares. Whether or not the issuer has adequate capital authorization, the issuer will have to hold a board of directors meeting to take the following corporate actions: (1) authorize the rights offering; (2) set the record date to determine the shareholders of record entitled to participate in the rights offering, usually the effective date of the registration statement; (3) set an offer date; and (4) set an expiration date for the offer period. The issuer must determine if other events or activities requiring a record date will be approaching, such as a record date for an annual shareholders meeting, or dividend distribution. This is to ensure that there are not conflicting shareholders of record for two different events or activities occurring around the same time period. Once the record date is set for the rights offering, no other record date for any other purpose should be set by the issuer for at least seven business days after the expiration of the offering period." *(Tsangarakis; 1996: 23-24)*

2.1.3 Advantages and Disadvantages of Rights Issue

"Right issue is advantageous for company because all shares can be sold at certain period and it also gives the existing shareholder right to purchase additional shares at a price some what lower than market price. The advantageous and disadvantageous of right issue are as follows:" *(Tan, Chang, & Tong; 2002: 31-33)*

Advantages

a. The existing shareholders control is maintained through the prorate issue of shares.
b. 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.
c. Raising funds through the sale of rights issue rather than public issue involves less flotation costs as the company can avoid under writing commission.

Disadvantages

a. The main disadvantage is to the shareholders who fail to exercise their rights, they loose in terms of decline in their wealth.
b. 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 issue gets positive response from the current shareholder because they can get more shares at below the market price. But existing stockholder always public offering rather than rights offering of shares.

2.1.4 Rights Offering Procedures

"Every company generally follows the same procedure for rights issue. Generally when a company sells securities by privileged subscription it mails to its stockholders one right for each share of stockholders. This 'Right' gives the stockholders the option to purchase additional shares. Before rights issue, the company publishes a prospectus mentioning terms of offering. These terms include various things such as rights required to purchase one additional share of stock, subscription price, application procedure etc. After receiving the rights, the rights holder has three options, first exercise the right, sell right and do nothing & let them expire. Generally, the subscription period runs about 3 weeks. A stockholder who wishes to buy a share of additional stock but does not have the necessary number of rights may purchase additional rights." *(Pilotte; 1992: 376-377)*

"For example if you have 10 shares and if 3 rights are required to purchase one additional share then you are able to purchase only three shares but after purchasing 2 rights you will be able to buy 4 shares of stock. Date of record or holder of record date is very important in right issue Board of directors fixes this date and the shareholders who purchase the shares after this date will not be able to purchase the additional shares. The stock is said to sell with rights on through the date of record. After the date of record, the stock is said to sell ex right i.e. the stock is traded without the rights attached." *(Pilotte; 1992: 378)*

2.1.5 Effects of Rights Issue on Shareholders Wealth

"After receiving the rights from the issuing company, shareholders 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 right. If they do not have 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 rights offering. A stockholder may suffer a loss if he forgets to exercise, or sell his rights or brokerage cost of selling the rights are excessive." *(Marsden; 2000: 422)*

2.1.6 Significance of Right Offering

Financial institutions grading loans may require the company to bring capital in desire proportion to the loan capital. Under the circumstances it is desirable to solicit additional capital for expansion from people who have a special interest in the welfare of the corporation, such as corporations' own stockholders and it also a least costly way of raising capital.

a) Permanent Capital

"Since ordinary/right share are not redeemable, the company has no liability for cash outflow associated with its redemption. It is a permanent capital and is available for use as long as the company goes." *(Kothare; 1999: 138)*

b) To Increase the Number of Outstanding Shares

"Issue of right share obviously increases the number of outstanding shares which again promotes the active trading in the stock market. Small investor may be unable to trade the minimum unit if this requires a large amount of money. A reduction in share price and holding additional numbers of shares unable tem to trade and to diversity in their portfolios." *(Kothare; 1999: 138)*

c) To Have Positive Psychological Value

"The announcement of right is perceived as favorable news by the investors in that with growing earnings, the company has bring prospects and the investors can reasonably took for increase in future dividends. As the investors take the right share is an effort to invest cash for profitable investment opportunities, the share prices have positive psychological value. Instead of experiencing a drop in value after a right share, the price may actually rise. Pre-emptive right gives the stockholders the protection of preserving their pro-rata share in the earnings and control of the company.” *(Kothare; 1999: 139)*

d) To Indicate Higher Profit

“Normally right share is an indication of higher future profits, right share usually declare only by board of directors who expect rise in earnings of offset the additional shares. Board of directors does not want dilution of earnings therefore must invest on profitable opportunities.” *(Kothare; 1999: 139)*

e) To Bring the Market Price of Share within more Popular Range

“Right shares effect to increase in the number of outstanding shares and to decrease in share price. A share has a strong performance that leads to an increase in market value than popular range. Then the management of the firm determines that the price of the share is higher than (moving and of) the popular trading range and decides a right share would be useful to bring the high-priced share within the popular range. Where smaller investment also able to trade and can include in their portfolios a large number of different stocks.” *(Kothare; 1999: 140)*

f) To Retain Proportional Ownership for Shareholders

“There is another alternative to meet company’s additional equity capital through issuing in capital market. If the existing shareholders do not have the funds to purchase a new equity. Their proportion of the ownership in the firm will decline as new investors share. This can be avoided by right share which in only way to increase capital. Each shareholder receives a number of additional shares proportionate to his original holding. Right offering allows stockholders to maintain their proportionate ownership in the corporation and typically allow the corporation to raise new capital less expensively. If does not want to lose his proportional ownership in the company, he many not sell his shares." *(Kothare; 1999: 140)*

g) To Decrease Flotation Cost

"Raising fund through the stock of right issue rather than the public issue involves less flotation cost as the company can avoid underwriting commissions. In the absence clear pattern in price behaviors of the adjustment market price of the stocks may be affected. Through rights issuing the true or adjusted down ward price pressure may actually be avoided. The flotation costs to issuer associated with a right issuing will be lower than the cost of public flotation." *(Kothare; 1999: 141)*

h) To Be Successful on Subscription

"In the case of profitable companies, the issue is more likely to be successful since the subscription price is set much below then current market price. It is not very practical to attempt to issue these new shares at a premium the existing price, because a rational new investor would prefer to buy existing shares directly in the market rather than more expensive new ones from the company." *(Eckbo & Masulis; 1992: 299)*

i) To Achieve a more Respectable Size in the Market

"After right share issue by a company, every shareholder receives additional share proportionate to original holding. Some of the old shareholders may sell their new shares. As a result a corporate firm may achieve a more respectable size in the capital market." *(Eckbo & Masulis; 1992: 300)*

j) To Avoid External Incontinent

"Investment financed from external sources is subject to screening by outside agencies as to its related profitability but investment financed generally from existing shareholder fund is subject to no such check." *(Eckbo & Masulis; 1992: 301)*

k) To Expand Company

"When a company wished to expand it may well request extra cash from it's shareholders by way of right issue to finance that expansion." *(Eckbo & Masulis; 1992: 302)*

2.1.7 Step-up Privilege

"A step-up privilege may be offered to shareholders when the rights are not easily divisible by the subscription ratio. In such situation, if a shareholder fully exercises the rights, the shareholder will be permitted to subscribe for one additional full share in lieu of the fractional share that would have been granted, without furnishing any additional rights." *(Adaoglu; 2006: 251)*

2.1.8 Over-Subscription Privilege

"An over-subscription privilege provides a shareholder who fully exercises the rights, including any step-up privilege, if applicable, to subscribe for an additional number of shares, usually not more than the aggregate number of shares subscribed for pursuant to the basic rights and the step-up privilege. The over-subscription privilege is subject to allotment, and shares will be distributed on a *pro rata* basis if allotment does not exist to fulfill all requests." *(Adaoglu; 2006: 253)*

2.1.8.1 Distribution of Over-Subscription Privilege

"The *pro rata* distribution can be handled in one of the following two ways: (1) as nearly as practicable in proportion to the shares requested; or (2) as a ratio, in that the rights exercised by each shareholder exercising the "over- Subscription privilege" bears to the total number of rights exercised by all shareholders exercising the "over-subscription privilege." *(Adaoglu; 2006: 255)*

2.1.9 Direct Rights Offering

"In a direct rights offering, there is no backstop commitment party, or standby purchaser. Instead, the issuer only sells the number of shares evidenced by the exercised rights. A direct rights offering is cheaper than an "insured" rights offering (or standby rights offering) because there are no fees associated with providing the backstop commitment. However, a poorly subscribed direct rights offering may leave an issuer undercapitalized." *(Adaoglu; 2006: 261)*

2.1.9.1 Types of Issuers Benefiting From a Direct Rights Offering

"Large, well-capitalized issuers who are looking to raise capital but do not have a specific capital raising goal or who are established enough to expect many shareholders to exercise their rights may benefit from a direct rights offering. Also, issuers that have identified interest from an existing shareholder, or shareholders, may benefit from a direct rights offering." *(Adaoglu; 2006: 263)*

2.1.10 Insured Rights Offering

"In an insured rights offering (also referred to as a standby rights offering), a third party (usually an underwriting syndicate, an investment bank, an affiliate of the investment bank or an affiliate of the issuer) agrees, prior to the commencement of the rights offering, to purchase any shares or rights that are not exercised in the rights offering. This arrangement is commonly known as a backstop commitment or a standby commitment, and provides the issuer with a guarantee that it will raise the necessary capital. If the rights offering is structured as a standby rights offering, the issuer will enter into an agreement with the party agreeing to provide the backstop, or standby, commitment." *(Singh; 1997: 111)*

2.1.11 Standby Rights Offering

"An issuer should consider structuring a rights offering as a standby offering if the issuer must raise a specific amount of capital. By entering into an agreement with a standby purchaser, the issuer can ensure that it raises the necessary amount of capital even if all shareholders do not subscribe for their full allotments of shares. If an issuer does use a standby purchase agreement, the issuer should factor fees into the amount of the offering to make sure enough shares are offered to meet its capital needs. An issuer also may consider a stand by rights offering if the issuer's stock price is volatile. This is because the offering period is usually at least 16 days but can extend up to 30 or 45 days. Most shareholders will wait until the end of the subscription period to decide whether to exercise their rights. If the shares are trading in the market for the same or less than the subscription price, then shareholders will not exercise their rights. The issuer has to consider where to set its subscription price to avoid this, while not selling the shares at too steep of a discount price. Entering into a backstop commitment can mitigate this issue." *(Korteweg & Renneboog; 2004: 231-233)*

2.1.11.1 Considerations in Connection with a Standby Rights Offering

"If an issuer chooses to conduct a standby rights offering, it should consider who will be the backstop commitment party, often referred to as the "standby purchaser," and the amount of the commitment, which will be based on the issuer's financing needs. In a standby rights offering, the issuer may want to put a cap on the number of shares that the backstop commitment party may acquire in order to avoid an inadvertent change of control. In a standby rights offering, especially one involving transferable rights, a market may develop for the rights that may create arbitrage opportunities (between the issuer's common stock and the rights) or price volatility in the issuer's common stock." *(DeAngelo & Masulis; 1980: 27)*

"In a standby rights offering, any unsubscribed shares that are purchased by the backstop commitment party that will be resold in the secondary market must be sold pursuant to a prospectus. the prospectus (or prospectus supplement) must contain: (1) the results of the rights offering; (2) the transactions by the backstop commitment party during the offering period; (3) the amount of unsubscribed shares being purchased by the backstop commitment party; and (4) the terms of any subsequent reoffering thereof. If the terms of the subsequent offering differ from those on the face of the underlying prospectus, a post-effective amendment must be filed setting forth the new terms.” *(DeAngelo & Masulis; 1980: 27-28)*

2.1.12 Right Offering Vs Public Offering

“By offering stock first to existing stockholders the company taps investors who are familiar with the operation of the company. The principal sales tools is the discount from the current market price, where as with a public issues, the major selling tool is the investment banking organization. When the issue is not underwritten with a stand by arrangement, the flotation costs of a right offering are lower then the cost of an offering to the general public. Therefore, there is less drain in the system from the stand point of existing stockholders. Moreover, many stockholders feel that they should be given the first opportunity to buy new shares.” *(Dierkens; 1991: 183)*

“Offering these advantages in the minds of some is that a right offering will have to be sold at a lower price than will an issue to the general public. “If a company goes to the equity market with reasonable frequency, this means that there will be with public issues. Even though this consideration is not relevant theoretically, many companies wish to minimize dilution. Also, a public offering tends to result in a wider distribution of shares, which may desirable to the company. Therefore, there is less drain in system from the standpoint of existing shareholders. Moreover, many shareholders feel that they should be given the first opportunity to buy new common stock. The rights offering will have to be sold at a lower price than will an issue to general public.” *(Dierkens; 1991: 184)*

2.1.13 Stock Split Vs Stock Right

“In the area of stock splits and stock rights misconception also exist to confuse unwary. In theory, stock splits, no problem: they are as value less to the investors as stock dividends. Simply reading two for one’s split instead of 100% stock dividend’ the meaning remains unchanged. Similarly, an action taken by a firm to increase the number of shares outstanding, such as doubling the number of shares outstanding by giving each stockholder two new shares are formally held. Stock split generally used after a sharp price run up to produce a large price reduction. In theory, split should reduce the price per share in proportion to the increase in share because splits merely “divide the pie into smaller slices”. However, firm generally split stock only if (i) the price is quite high and (ii) management thinks that future in right. Therefore, a stock split is often taken as positive signals and thus boosts stock prices. A share/stock split means that the nominal value of share capital on the balance sheet is unchanged.” *(Barclay & Litzenberger; 1988: 73)*

“Right share and stock split are completely different. Stock right means, a method of raising further fund from existing shareholder, by offering additional securities to them as pre-emptive basis. It involves the offer of additional share to existing shareholders. These are offered in proportion of existing shareholders. A more lengthy analysis, however, is required to reveal the exact nature of stock rights the offering of new securities to existing by means of rights, either as a matter of legal requirement or financial policy or both. The question of rights is intimately of connected with that of dividends. Companies frequently offer new stock (or securities convertible into stock i.e. contingent securities) to existing shareholders at prices will below the current price the current market price of outstanding stock.” *(Jensen & Meckling; 1976: 310)*

In doing so, management may feel that it is giving something of value to its shareholders like stock dividends, stock rights are highly prized by investor. And like stock dividends, rights may typically be sold on the market for cash if the holder decides not to exercise them. Belief in the value of right is, if anything even those rights have no inherent value to the investors no matter how large the discount at which the new shares are to be sold.

2.1.14 Right share Vs Bonus share

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

A right issue is involves selling of ordinary shares to the existing shareholders of the company. It is available for a specified period of time in order for shareholder to decide what to do, to send in their cheque or selling their rights in the market. Right share increases capital, as equal to how much, amount of right share issued.

"A bonus is different from right issue. A bonus does not raise any new capital. It merely increases the nominal amount of the issued share capital by the company utilizing its undistributed profits in paying up for the new shares. Company declares for bonus issue because it may hesitate to declare dividends at such rates, which are likely to be criticized by the trade unions and the consumer. With a bonus issue, the number of shares increased through proportional reduction in the book value of stock. As a result, the worth of the company remains unchanged. Stock dividend is a dividend paid in additional shares/ stock rather than cash." *(Loderer & Zimmermann; 1988: 375)*

2.1.15 Stock Repurchase Vs Stock Right

"In recent past, firms have increased their repurchasing of share outstanding (common stock in the market). Under a stock repurchase plan, a firm buys back some of its outstanding stock there by decreasing the number of shares, which should increase both EPS and stock price. Repurchase are careful for making major changes in capital strictures as well as for distributing temporary excess cash. A stock repurchase is made a number of reasons: to obtain share to be used in acquisition to have shares available for stock option plans, to achieve again a book value of equity when shares as selling their, book value or merely retire outstanding shares.

Corporation is need of additional equity capital, some times offer new issues of common stock to their present stockholders called voluntarily because they can market the issue most economically in this way, when this is done an individual is given to the present stockholder purchase the stock offering it to them at a price below the current market price for the corporations outstanding shares. For this reason such offerings are known as privileged subscription. Each shareholder is given one right for each share of stock owned. The right represents an option to purchase a new shares of stock at the fixed by corporation." *(Loughran & Ritter; 1995: 26-28)*

2.1.16 Success of Right Offering

"A firm's management must make two basic decisions when preparing for a right offering. One of the most important aspects of successful right offering is the subscription price. This is the price at which the corporation/ firm has agreed to the securities to existing stockholders. If the market price of the stock should fall below the subscription price, stockholders obviously will not subscribe to the stock, for they can buy it in the market at a lower price. Consequently, a company will set the subscription price at value lower than the current market price, to reduce the risk of the market price’s falling below it.

It is necessary to submit a certain number of rights along with the cash order for the shares to be purchased from the firm at the special subscription price. Apart from the number of rights required to purchase one share the risk that the market price of stock will below the subscription price is a function of the volatility of the company’s stock, the tone of the market, expectations of earrings and other factors. To avoid all risk, a company could set the subscription price so far below the market price that there is virtually no possibility that the market price will fall below it.

The size of the capital outlay in relation to a stockholder existing ownership of the stock is an influence on the success of a rights offering. The balance between institutional and individual investor may also bear on the success of the right offering. The current trend and the tone of the stock market are influential. If the trend is upward and the market is relatively stable in this upward movement, the probability of a successful sale is high. The more uncertain the stock market greater the under pricing that be necessary to sell the issue. There are times when the market is so unstable that an offering will have to be postponed. An underwriting contract is a guarantee to take up, at the issue price, any of the new shares which are not bought by either existing shareholders or buyers of their rights in the market.” *(Mikkelson & Partch; 1986: 35-38)*

2.1.17 Procedures for the issue of Rights in Nepal

Every company which wishes to issue right share should follow some procedure. Company act, 2063 is silent about the rights issue but mentioned that rights share shall be issued following the same procedure as ordinary regulation to issue the rights. Following procedure is generally adopted by Nepalese company to issue rights share:

a. The BOD should consider about that the determination of the quantum of further capital requirement and the proportions in which the rights issue might be offered to existing shareholder.
b. Company should notify NRB, NEPSE office of the company register and SEBON 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.
c. AGM should pass the proposal of BOD by its majority.
d. 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.
e. Letter 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 after the date announcement.
f. After the receipt of the letter of provisional allotment, the allotment must be made for those shares which are renouncing.
g. 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 nontransferable instrument, such practices are not seen in Nepalese context.
h. 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.

2.1.18 Rights Issues in Foreign Countries

"As the global economy appears to be taking the first tentative steps out of recession, companies are now thinking again about expansion and funding to support their plans. Indeed, corporate activity in the capital markets globally is looking up. Rusal of Moscow, world's largest aluminum producer, recently completed a US$ 2.2 billion initial public offering (IPO); Petrobras of Brazil closed a $4 billion bond in October; and Prudential intends to part finance its acquisition of American International Assurance with a $20 billion rights issue – the biggest in the world so far this year.

In the Middle East, companies are also reviewing their options after the financial crisis. Given the limited liquidity in regional debt capital markets, the significant reduction in bank lending over the past 12 months and a generalized deleveraging objective, companies are looking increasingly to the equity markets and their existing shareholders to raise capital. Since the start of last year, equity transactions have been the primary method for companies to raise fresh capital.

Companies around the world raised almost $900 billion of equity in the capital markets last year, a 41 per cent increase on 2008/09. Similarly, some Gulf corporates have considered, and many more should be considering, equity as an alternative source of funding. Even though rights issues were less common in the region last year compared with the rest of the world, the regional stock exchanges saw 10 transactions raising a total of $2.7 billion. The two largest transactions were for Gulf Bank ($1.4bn) and Gulf Finance House ($300 million). Gulf corporates should also consider other equity sources such as mandatory convertibles, but rights issues are rightly considered as the most shareholder-friendly mechanism to raise real equity. In last year's successful rights issues in Europe, existing shareholders provided the companies with the entire sum of capital required in every case.

This success was due to a number of factors including shareholders and investors being presented with a fully financed, three to five-year business plan; the new shares being made available at a considerable discount, which mostly did not affect equity value; and shareholders being able to sell their rights to new investors where they were unable to exercise them.

European rights issuance last year was broadly split into two categories. The first tranche included deals such as those for the UK retail banks, the mining group Xstrata, the building materials company Wolseley and the electrical retailer DSGI, all of which were must have deleveraging transactions. But the second group of deals for growth or opportunistic transactions might be more relevant in a Middle East context.

Examples of growth investments that shareholders were prepared to back through rights included those of British Land and Shaftesbury, taking advantage of depressed property prices; Greene King and Marstons to build new restaurants; CRH to fund building materials-related acquisitions; and Intermediate Capital Group acquiring discounted debt.

In each of these cases, the requirement for a well-received rights issue was a positive and believable equity story driven by a top-ranked management team within the sector; a track record of returns on investment for shareholders; a sensible target size; and proactive dialogue with shareholders before final approvals were sought.

Deals in the Middle East are slightly different. For example, the pricing of rights issues is often driven more by legal restrictions than value; business plans may not be quite so easy to articulate to the same degree of detail; and nil-paid rights tend not to be tradable.

This means that banks are often more reluctant to underwrite, new shareholders have less visibility on returns and existing shareholders are less able to monetize their rights to subscribe. As a result, there is often a sense that “we don’t do rights issues” in the Middle East.

The Financial Services Authority and capital markets professionals radically revised the UK rights issue process early last year, streamlining it and making way for the considerable wave of rights issuances that took place later in the year. A similar review may have merit in a Middle East context and could improve capital markets efficiency.

While legal reform alone will not magically usher in deep, liquid and efficient domestic capital markets, gradual introduction of culturally and jurisdictionally appropriate regulation in relation, for example, to pricing limits, classes of share and rights trading could stimulate more appetite for rights issues in the Middle East and, therefore, draw further capital and expertise to the region.

In the meantime, strategic opportunities abound and need to be captured. With constrained credit markets and financial risk aversion, equity markets are an attractive source of finance. Non-pre-emptive equity rising with convertibles, mandatory or otherwise, has its place in the market, whether for distressed situations or smaller or less transformational transactions.

Rights issues, however, promote transparency and provide an opportunity for shareholders to express their views – with words or cash — on their managements’ ambitions. The popularity of equity financing will intensify as the world returns to growth, risk appetite increases and valuations are restored. To harness opportunities and fulfill their growth strategies, companies in the Middle East should be prepared to give rights issues – and their shareholders – a chance.” *(Reynolds; 2010: 3-7)*

2.2 Review of Rules and Regulations

2.2.1 Review of NRB Directives

As per the Unified Directive 2067, the NRB has made following direction to the bank and financial institution regarding right share;

Right Share Selling

a. If the right share is not subscribed or not permitted for transfer by the concerned shareholder, then the licensed bank has the right to cancel such share, except in the case of section (c), as per the Banking and Financial Institutions Act 2063.

b. If the bank has to cancel the right offering of any shareholder, then the amount of right share could be adjusted to the maximum by the bank in next fiscal year.

c. If after the cancellation of the right offering, the share ownership structure is going to be adversely influenced, then the bank should sell the share by Public Auction Basis and the value of share should be specified Rs. 100. However, the bank should maintain separate Share Premium, if the share has been sold in premium.

d. The right share of promoter that could not be subscribed should be sold among the existing promoters. If the bank is going to new person to sell the promoter's right share, then the bank should inform NRB. Further, the person/firm buying such share should have met the qualifications as directed.

Pre Investment in Right Share

To meet the capital requirement, if the licensed institution requires to invest in right share in advance, it should meet the following directives;

a. The proposal for augmenting the capital should have been approved from the general meeting of the board of directors.

b. The amount collected in advance from shareholders, to meet the capital directed by NRB, should be provisioned in Calls in Advance, and such collected amount should be mandatorily adjusted by the right share then issued.

c. There should be no interest payment in such Calls in Advance amount, and the amount collected from such advance share investment should not divest or deduct at any cost. Further there should be no dividend payment in such amount until it has been accounted to paid up capital.
d. The pre investment in Right share should tie up with the Right share issuance thereafter.

2.2.2 Review of SEBON Regulations

The Securities Board of Nepal has made following provisions regarding the issuance of securities and right share;

Public Issuance of Securities

a. If a Corporate Body intends to sale and distribute its securities to more than fifty persons at a time, it shall be required to make public issuance of securities. While selling securities through public offering the Corporate Body shall be required to set aside at least thirty percent of its issued for public subscription.
b. The corporate body making public issue pursuant to Sub-regulation (1) shall be required to have completed a minimum of one year of business operation under it objectives and also require to have already published the audited financial reports for the period.
c. The application for publicly issued shares pursuant to Sub-regulation (1) shall have citizenship certificate verified by the applicant attached thereto and also shall have to mention the name, address of the bank or financial institution where the applicant has maintained account and account number and the Issue Manager require to have arranged the refund of application money to be deposited in the bank account. Provided, however, that applicants subscribing for more than Rs. 50,000 require depositing the application money compulsorily through account payee check.

d. In case the application money so received has been deposited with the Banker to the Issue for interest, eighty percent of the interest so received shall be required to be given to the applicant in a proportion al basis for the days from the application date to the day before the allotment date and the Board shall be informed of such arrangement.
e. The body corporate while making public issue of securities pursuant to these regulations may reserve up to five percent of the share to the working staffs and up to five percent for the local residents depending on the nature of business like hydropower, production or processing, out of the shares set aside for public issue. However, the shares reserves as such shall not be eligible to be sold or transferred within a minimum period of three years form the date of allotment.
f. Other provision related to the public issuance shall be prescribed by the Board under its directives.
g. In case a body corporate has issued securities without making public issue as prescribed by these regulations such securities shall not be eligible for trading through the stock exchange or an alternative trading system.
h. The Issue Manager shall be required to cancel any authorized application that it detects to have stated false information thereon. In case the Board finds that such application is not cancelled and the securities are distributed, the Board may impose fine equivalent to the same amount on the Issue and Sales Manager. The Board is required to use the proceeds only for the development of capital market.

Rights Issue of Securities

a. The body corporate may increase capital through the issuance of shares to the existing shareholders through rights issue.
b. While making rights issue pursuant to Sub-regulation (1), the "Provisions and Disclosures Related to the Issue of Rights Shares' drafted in the prescribed format, shall require to be signed by all of the members of board of directors

and be submitted to the Board through the Issue Manager which, after getting registered with and approved by the Board, shall be published.

c. While issuing rights shares pursuant to Sub-regulation (1) if the rights to be exercised by the existing shareholder is to be transferred wholly or partially to other nominee, the existing shareholder shall be required to apply to the issuer body corporate in the prescribed format having fulfilled the following conditions;

1. The memorandum or articles shall require to contain provision of transferring the rights of existing shareholder to other person.
2. The rights obtained by the shareholder shall have to be nominated wholly or partially to only one person or institution.
3. Provision of applying as nominee shall have to correspond to the trading lot fixed by the stock exchange.
4. Provision that a shareholder who has nominated others to exercise his/her rights shall not be a nominee to exercise the rights of others. However, those who have exercised their own rights fully may exercise the rights as nominee of others.
5. The nomination of the rights shall require being in compliance to the limit of shareholding prescribed by the memorandum or articles of the company or that prescribed, if any, by the related regulator and that the nominee shall not apply for the shares including the existing shareholding that result in exceeding the said limit.
6. Provision of nomination shall be made to confirm to the same grouping of ownership and representation to the board of directors, if any, and if the exercise of rights after nomination bring changes in the structure of ownership and board of directors of the body corporate, shall be required to make the changes necessary to accommodate for the ownership limits within the groups and that there should be clear provision regarding the exercise of voting rights.
7. The person or the institution so nominated shall not be in the black list and shall not be having any disqualification under the prevailing laws.

8. Require having provision that the nominee shall exercise the rights within the period opened for rights subscription.

2.3 Review of Journals and Articles

Pathak and Giri (2008), in their article, *"Right Share Issue Practice in Nepal"* have stated that every firm needs adequate capital to perform efficiently. Generally, firms fulfill their financial requirement by issuing equity share, preference share, debentures and long term bonds. Rights issue is one of the instruments to raise additional capital. We can describe the preemptive right or rights as the privilege offered to existing stockholders for buying specified number of additional shares of the company's stock before the stock is offered to outsiders for sale. 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 are willing to buy the share that has been attached to the preemptive right. But to buy additional number of shares, the shareholder should have his/her name in company's book before the record date. Hence before the record date, there will be a great demand of share attached with rights. Demand is increased because large numbers of people rush to secondary market in order to enlist their name in the company's book before record date so that they can enjoy the benefits of right offering. On the other hand, existing shareholders generally have no willingness to sell the shares to exercise the rights. Due to this double pressure, the price of share goes upwards.

Zurich (2009), in his study, *"Right Issues- Are They Right For You?"* has stated that in fact, rights issues don't do any favours for personal investors. Institutional shareowners have the money to take up their rights; personal investors frequently cannot afford to take up their rights, so their 'nil-paid' rights are sold or 'lapse', leaving institutional investors to take them up and further increase their holdings. So every time a company has a rights issue, the proportion of shares held by personal investors falls. If the company's share price is high (for example, when it is raising finance for an acquisition from a position of strength), that may not be so much of a concern: at least personal investors are getting a decent price for their shares. But if the share price is seriously depressed, as with the current round of banking rights issues, this dilution is a serious financial blow to personal investors and is a result of the lack of foresight by some companies' boards.

After a rights issue, distributable profits have to be shared over a greater number of shares than previously, resulting in lower earnings per share and a reduced dividend. Shareholders are therefore offered the subscription at a discount as an incentive to take up their rights and maintain their proportionate stake in the company. If they do not take up their rights their stake will be diluted and the value of their holding will be reduced.

Marisetty, Marsden and Veeraraghavan (2010), in their article, "*Price Reaction to Rights Issues in the Indian Capital Market*" have examined security price reaction to the announcement of rights issues by Indian firms. India is a large economy and a major emerging capital market. The study adds the effects on shareholder wealth of new equity announcements in an emerging market with unique institutional and regulatory features compared to more developed markets.

The price reaction to the announcement of the issue was more negative for firms affiliated to a family group. A rights issue increases the cash resources or level of a firm's financial slack. The study surmises that this provides greater opportunities for the controlling family shareholder to expropriate wealth from the firm to entities where the family group shareholder has greater comparative cash flow rights. Investors therefore react negatively to the announcement of the issue.

Higher levels of individual shareholding are associated with a more positive price reaction to the rights issue announcement. High levels of individual shareholding may expose the firm to a greater likelihood of takeover or impose greater market discipline on managers through the market for corporate control. High levels of individual shareholding may also be associated with greater public scrutiny or monitoring of the use of the proceeds of the rights issue. This ensures less investment in projects that do not enhance the wealth of all shareholders and the price reaction to the announcement of the issue is more positive.

Owen and Suchard (2010), in their article, *"The Pricing and Impact of Rights Issues of Equity in Australia"*, have investigated abnormal returns resulting from the announcement of a rights issue of equity in Australia and also examined the pricing of rights issues and the determinants of that pricing. The announcements of rights issues of equity are met with a significant abnormal return of -1.83% and this negative abnormal return continues after the announcement, although there is a positive pre-announcement effect. In terms of pricing, 84.54% of Australian rights issue of equity are priced at an average discount of 18.89% and 3.38% are priced at the previous day's closing price. Issues made at a premium have significantly higher announcement returns than issues made at a discount (4.17% versus -2.64%).

For issues made at a discount, non-renounceable offers have a significantly higher discount than renounceable issues, which is consistent with expectations that firms offer a discount to induce shareholders to take up non renounceable rights. However, there is no significant difference between the pricing of underwritten and non-underwritten rights issues, which suggests that Australian issuers do not use large discounts as an alternative to having the issue underwritten. There is a significant negative relationship between expected shareholder concentration and the discount which supports the conjecture that firms with higher shareholder concentration do not have to offer large discounts in order to have a successful rights issue.

2.4 Review of Thesis

Rana (2007), in his thesis, *"Equity Rights Issue, its Practice and Impact in Nepal"*, has the following main objectives;

a. To examine the relationship between the stock price reaction and announcement of rights issue.
b. To analyze the relationship between rights share and equity share, and rights share and NEPSE Index.

The major findings of the study are;

a. Theoretical value of right differs from company to company.
b. Announcement of equity rights issue are associated with a positive effect on share prices.
c. Firstly company issues rights share for increasing equity capital and to invest it in company's diversification and expansion. Secondly they issue rights share to increase capital to meet the level prescribed by Nepal Rastra Bank.
d. The rights share and equity share has low degree of positive correlation. The correlation coefficient between right share and NEPSE has also positive correlation.

Giri (2008), in his thesis, *"An Analysis of Share Price Movement Attributed to Right Offering Announcement"*, has the main objective to find out the relationship between right offering and the share price fluctuation. The other specific objectives of the study are;

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

The major findings of the study are;

a. SEBON has failed to establish a 'one-window policy' causing various imbroglios for the companies that want to go primary issue market for raising the capital.
b. Till the date there is no enactment of the 'Investors Protection Act'.
c. Companies Act with regard to the contents of the issue prospectus is deemed to be insufficient on the ground that, it does not mention the companies are required to specify on the issue prospectus about the risk category on which their businesses fall.
d. Our capital market has made least of use the 'capital market instrument' contingent securities like warrants and convertibles, options, and other various kinds of debentures are not in practice.

Khatiwada (2009), in his thesis, *"Right Issue Practices in Nepal and its Impact on Market Price of Share"* has the following major objectives;

a. To identify if there is significant changes in the share price after the announcement of right offering.
b. To analyze the procedure and mechanism of right issue in the context of Nepal
c. To find out the problems with right issue in Nepal.
d. To recommend some policies that will help to rectify the current problems in the right issue of securities.

The major findings of the study are;

a. Share price of five companies have decreased after the announcement of right issue where as share price of two companies have increased after the right issue.

b. Theoretically share price should increase after the right announcement and decrease after the allotment of share. But, the share prices of major companies don't follow the theory.
c. From the analysis of primary data, most of Nepalese investors are not aware about the phenomenon of right issue.
d. Company Act is not adequate to regulate the right transferable and shareholders have to face difficulties due to non transferable of shares.
e. Company Act should be amended to make the rights transferable and to make smooth transaction of right shares.

Acharya (2010), in his thesis, *"Issue of Rights Share and Its Effect on General Market Price in Nepalese Context"*, has the main objective to find out the effect of right offering on market price. The other specific objectives are;

a. To examine the procedure and mechanism of rights issue in the context of Nepal.
b. To analyze the problems associated with rights issue in Nepal.
c. To recommend appropriate implications on the basis of findings.

The major findings of the study are;

a. The rights issue practice is mainly dominated by the banking and finance sectors. There are hardly few causes found of other sectors practicing the right issue.
b. There is significant difference in the share price before and after the ex-rights dates in most of the sample company but they don't follow the theory of right offering exactly.
c. The issuing of rights share has a long process. There is no time framework. The right announcement date, book closer date/ex-right date, right issue and closing dates are differing from one company to another. The announcement date and right issue date varies company to company. This makes the illusion to the investor and affects the market price of the related stock and it's hard to study the price behavior of market price.

d. Shareholders of Nepalese companies lack the knowledge about the right share and its impact on their wealth position. Due to this free movement of share movement of share price during rights on and ex-right is not confirmed.
e. Under subscription of rights share is common phenomena. And most of the finance company doesn’t show significant change in the price before and after ex-right date.

2.5 Research Gap

All of the previous theses related to the right issuance have presented the overall right issuance in Nepal. However, this study specially focuses on the right issuance of commercial banks, and the impact of right issuance on the market price of the concerned banks. Hence, this study tries to deduct the congestion and focuses on presenting the true picture of impact of right issuance on market price. Further, this study encompasses primary data analysis as well to understand the opinion of the concerned person and trace out the techniques that will really enhance the right offering practices in commercial banks.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data.

Being an academic research, the purpose of this research is to answer the queries raised and control the variances. Analytical and descriptive research design, a fact finding approach, is followed for analyzing the right share practices and its impact on market price

3.2 Population and Sample

There exist 31 commercial banks operating in Nepal, which are assumed to be the population of the study. But, all of them have not issued right share within the last five years. So, 17 commercial banks issued right 26 times, as sample the study has been conducted.

3.3 Nature and Sources of Data

To fulfill the predetermined objectives that are set up for the study, both primary and secondary sources are included. The secondary data have been obtained from mainly the annual report of NEPSE, SEBON and sample banks. Further, brochures, Souvenir, and the official website have also been extensively used to collect the secondary data. However, the primary data have been collected through making questionnaire containing 13 questions, and distributing it to the respondents. Apart from above mentioned sources, relevant data are collected from;

a. Banking and Financial Statistics published by Nepal Rastra Bank.

b. Periodicals, bulletins, magazines and other published and unpublished reports of concerned authorities and research works.

3.4 Tools Used

For the processing of data collected, both the financial and statistical tools have been extremely used.

3.4.1 Financial Tools

Under this mainly the ratio analysis that is relevant to the loan management of the bank has been done.

a) Total Right Issue to Securities Issuance

To make the capital of the companies robust, the listed companies augment the capital by issuing the securities, which includes new share issue, debenture issue and right issue. To examine the practices of right share in augmenting the capital the ratio of right issue to securities issuance is crucial.

$$\text{Total Right Issue To Securities Issuance} = \frac{\text{Right Issue by Listed Companies}}{\text{Securities Issuance by Listed Companies}}$$

b) Commercial Bank's Right Offering to Total Right Issuance

As the study mainly focuses on the commercial bank's right issuing, the weight of the right issuance of commercial banks on total right issuance is significant. It is calculated by;

$$\text{CB's Right Offering to Total Right Offering} = \frac{\text{CB's Right Offering}}{\text{Right Offering by Listed Companies}}$$

c) No. of Commercial Banks to Total No. of Companies Issuing Right

To examine to what extent the commercial banks have considered the right offering as the major source for capital augmentation, the number of the banks issuing right is significant.

$$\text{No. of CB's to No. of Listed Companies offering Right} = \frac{\text{No. of CB's Offering Right}}{\text{No. of Companies offering right}}$$

d) Subscription of Right Issuance

The subscription of right issuance may be under or over subscribed. The under subscription may occur due to the uninteresting behavior of investors to purchase or transfer the right share, while the over subscription occurs due to the high crave of investors in claiming for the more right share.

$$\text{Subscription of Right Offering} = \frac{\text{Total Paid Up Value}}{\text{Total Right Offered}}$$

e) Impact on MPS after Right Issuance

Generally, the MPS changes with the announcement of right issuance, but to what direction, i.e. increase or decrease, is significant. To examine whether MPS increases or decreases by the right offering, the MPS of the commercial banks issuing right share for the past five years has been analyzed.

$$\text{Impact on MPS after Right Offering} = \frac{\text{MPS after Right Offering} - \text{MPS before Right Offering}}{\text{MPS before Right Offering}}$$

3.4.2 Statistical Tools

The analysis could not have been done without using the statistical tools. The following statistical tools have been effectively utilized for data analysis.

a) Mean

Arithmetic mean or simply a mean of a set observations is the sum of all the observations divided by the number of observations arithmetic mean is also know as the arithmetic average.

Let x_1, x_2, x_3, …………………., x_n be the n values of the variable then their arithmetic mean be denoted by x is defined by,

$$x = \frac{x_1 + x_2 + x_3 + \dots\dots\dots\dots\dots\dots . + x_n}{n}$$

Where, n is the number of observations.

b) Standard Deviation

The standard deviation is the absolute measure of dispersion in which the drawbacks present in other measures of dispersion are removed. It is said to be the best measure of dispersion as it satisfies most of the requisites of a good measure of dispersion.

$$\text{s.d.} = \sqrt{\frac{\sum (x-\bar{x})^2}{N}}$$

c) Coefficient of Variation

The coefficient of dispersion based on standard deviation multiplied by 100 is known as the coefficient of variation (C.V.). Less the C.V., more will be the uniformity and more the C.V., less will be uniformity. If x be the arithmetic mean and s.d the standard deviation of the distribution, then the C.V. is defined by,

$$\text{C.V.\%} = \frac{\text{S.D.}}{\text{Mean}} \times 100$$

d) Regression Lines

The regression line is the line that gives the best estimate of one variable for any given value of the other variable. The simple regression equation of dependent variable (Y) on the independent variable (X) is given by;

$$y = a + bx$$

We shall get the normal equation for estimating "a" and "b" as.

$$\sum X = Na + b \sum Y$$

$$\sum XY = a\sum Y + b \sum Y^2$$

Where,

X = the value of independent variable

Y = the value of dependent variable

a = Y-intercept

b = slope of the trend line/coefficient of regression

N = number of pairs of observations.

$a = Y - b X$

e) Trend Analysis

A widely and most commonly used method to describe the trend is the method of least square. Let the trend line between the dependent variable y and the independent variable x (i.e. time) be represented by;

$$Y_c = a + bx \text{ ………………………… (i)}$$

Where,

a = y intercept or value of y when x = 0

b = slope of the trend line or amount of change that comes in y of a unit change in x.

To find the value of x and y, the following equations should be solved;

$$\sum y = na + b\sum x \text{ …………………….. (ii)}$$

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

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Secondary Data Analysis

Under this section, the right shares practices in Nepal, especially by the listed commercial banks, have been analyzed. This section mainly incorporates the total rights issues, commercial banks right issue, and the changes in MPS before and after the right issuance.

4.1.1 Total Right Issue to Securities Issuance

To make the capital of the companies robust, the listed companies augment the capital by issuing the securities, which includes new share issue, debenture issue and right issue. To examine the practices of right share in augmenting the capital the ratio of right issue to securities issuance is crucial.

Table: 4.1

Total Right Issue to Securities Issuance

Fiscal Year	Right Issue	Securities Issue	Ratio
2005/06	1013.45	2443.28	41.48
2006/07	1265.30	2295.50	55.12
2007/08	6793.40	10668.20	63.68
2008/09	14262.19	16828.51	84.75
2009/10	10962.75	14107.45	77.71
Mean			**64.55**
S.D.			**15.51**
C.V.%			**24.03**

(Source: Appendix – I)

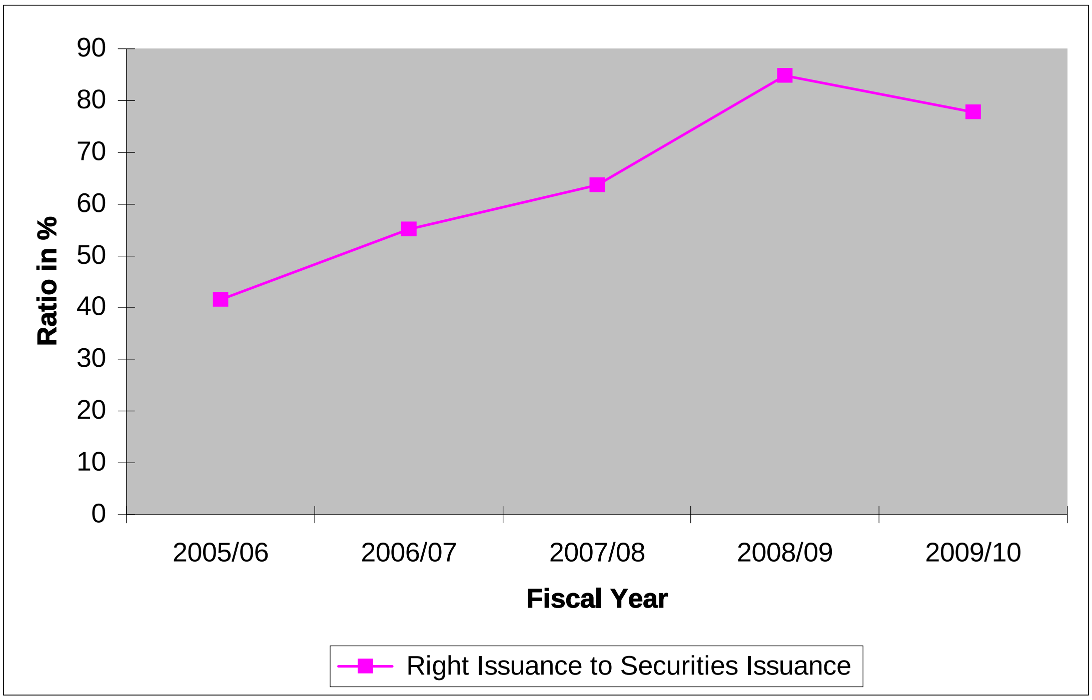
The above table presents the representation of capital accumulation through right offerings on the total securities issuance, which includes right share, ordinary share and debenture. The table shows that the right issuance of the listed companies of NEPSE is in increasing trend, and thus has increased from Rs.

1013.45 millions in the fiscal year 2005/06 to Rs. 14262.19 millions in the fiscal year 2008/09. Similarly, except in the fiscal year 2006/07 and 2009/10, the total securities issuance, either in the form of right share or other, of the listed companies has increased from Rs. 2443.28 millions in the fiscal year 2005/06 to Rs. 14107.45 millions by the end of the fiscal year 2009/10.

Moreover, the preponderance of the right issuance on total securities issuance has also increased within the five year periods, except in the fiscal year 2009/10. The right issue to total securities issuance is 41.48% in the fiscal year 2005/06, then has increased to 55.12% in the fiscal year 2006/07, 63.68% in the fiscal year 2007/08, and 84.75% in the fiscal year 2008/09 and has decreased to 77.71% in the fiscal year 2009/10. It seems that the listed companies have chosen right share as the major source for capital augmentation, as a result the weight of the right issue on total securities issuance has increased continuously. In average, the right share covered 64.55% of the total securities issuance within the five year periods and the variance on such representation is 24.03%.

Figure: 4.1

Total Right Issue to Securities Issuance



4.1.2 Commercial Bank's Right Offering to Total Right Issuance

As the study mainly focuses on the commercial bank's right issuing, the weight of the right issuance of commercial banks on total right issuance is significant. The table 4.2 presents the commercial banks right issuance in five consecutive years, and its representation on total right issuance, which will ultimately aids to deduct the right issuance of other listed companies.

Table: 4.2

Commercial Bank's Right Offering to Total Right Issuance

Fiscal Year	CB's Right Issue	Total Right Issue	Ratio
2005/06	370.00	1013.45	36.51
2006/07	472.00	1265.30	37.30
2007/08	1810.70	6793.40	26.65
2008/09	4496.65	14262.19	31.53
2009/10	3256.25	10962.75	29.70
Mean			**32.34**
S.D.			**4.05**
C.V.%			**12.52**

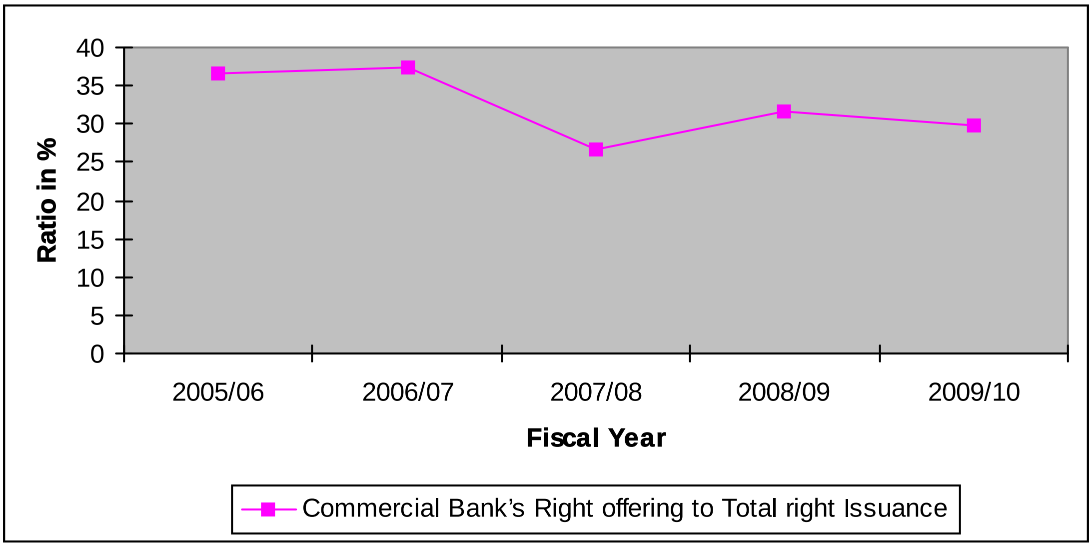
(Source: Appendix – I)

The table shows that the right offering made by the commercial banks has varied greatly. Initially, the commercial banks have made the right offering of Rs. 370.00 millions in the fiscal year 2005/06, which has increased by more than eight times and has reached to Rs. 3256.25 millions. This implies that the number of commercial banks adopting right offering to increase the capital is increasing with the lapse of time.

Whatever, the right offering of the commercial bank has represented 36.51% of the total right offerings in the fiscal year 2005/06. This representation has been increased to 37.30% in the fiscal year 2006/07, then 26.65% in the fiscal year 2007/08, 31.53% in the fiscal year 2008/09 and 29.70% in the fiscal year 2009/10. The decrease in coverage of commercial bank's right offering on total right offering of the listed companies indicates that the other financial institutions like development banks, finance companies and other have become more active within these periods. In average, the right offering of the commercial banks has covered 32.34% of the total right issuance, and the variation on such representation is 12.52%, indicating high inconsistency.

Figure: 4.2

Commercial Bank's Right Offering to Total Right Issuance



4.1.3 No. of Commercial Banks to Total No. of Companies Issuing Right

To examine to what extent the commercial banks have considered the right offering as the major source for capital augmentation, the number of the banks issuing right is significant. Further, the representation of commercial banks on total number of listed companies issuing right is crucial.

Table: 4.3

No. of Commercial Banks to Total No. of Companies Issuing Right

Fiscal Year	No. of CBs	No. of Listed Com.	Ratio
2005/06	3	12	25.00
2006/07	3	16	18.75
2007/08	7	43	16.28
2008/09	6	50	12.00
2009/10	7	35	20.00
Mean			**18.41**
S.D.			**4.28**
C.V.%			**23.25**

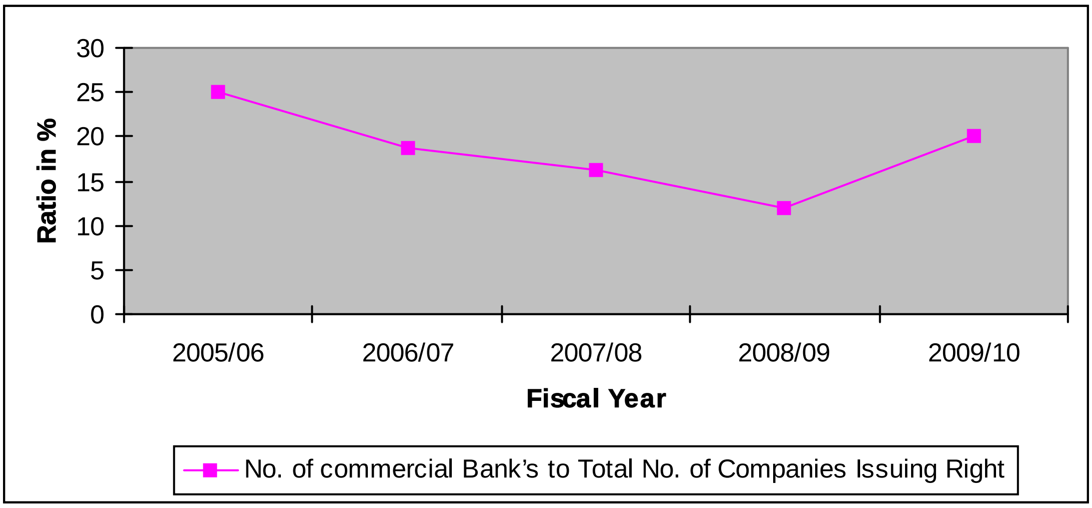
(Source: Appendix – II)

The table depicts that the number of commercial banks issuing right share has remained stable, i.e. 3, for the two fiscal years, i.e. from the fiscal year 2005/06 to 2006/07, and then has increased to 7 in the fiscal year 2007/08, 6 in the fiscal year 2008/09 and finally 7 in the fiscal year 2009/10. Meanwhile the total number of listed companies issuing right share has followed increasing trend and thus has increased from 12 in the fiscal year 2005/06 to 50 in the fiscal year 2008/09 and decreased to 35 in the fiscal year 2009/10. As a result the number of commercial banks to total number of listed companies issuing right share has continuously decreased.

The ratio is 25% in the fiscal year 2005/06, 18.75% in the fiscal year 2006/07, 16.28% in the fiscal year 2007/08, 12% in the fiscal year 2008/09 and 20% in the fiscal year 2009/10. In average, the ratio is 18.41% in the five year periods and the variance is 23.25%, indicating high volatility. This clearly indicates that the financial institutions, other than commercial banks, like development banks, finance companies and other are more interested in accumulating the capital by means of issuing right share.

Figure: 4.3

No. of Commercial Banks to Total No. of Companies Issuing Right



4.1.4 Subscription of Right Issuance

Categorically, the subscription of right issuance may be under or over subscribed. The under subscription may occur due to the uninteresting behavior of investors to purchase or transfer the right share, while the over subscription occurs due to the high crave of investors in claiming for the more right share.

Table: 4.4

Subscription of Right Issuance

Fiscal Year	Paid Value	Right Value	Subscription (%)
2005/06	412.29	370.00	111.43
2006/07	464.06	472.00	98.32
2007/08	1724.84	1810.70	95.26
2008/09	4406.72	4496.65	98.00
2009/10	3062.18	3256.25	94.04
Mean			**99.41**
S.D.			**6.22**
C.V.%			**6.26**

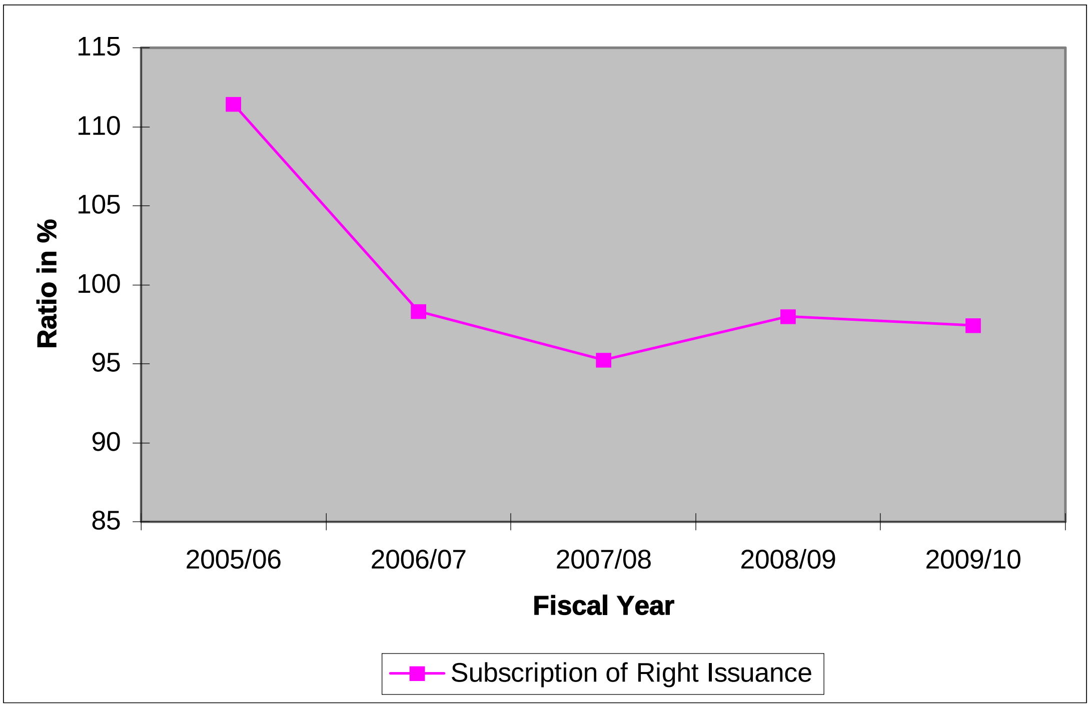
(Source: Appendix – I)

The table shows the subscription of right issuance of the commercial banks within the five year periods. The table depicts that, except in the fiscal year 2005/06, there is over subscription of the right issuance in the periods. The over subscription of the right issuance of commercial banks in the fiscal year 2005/06 is caused by the over subscription of right offering in Kumari Bank Limited, which is just 153.46%. This indicates that investors have more affectionate on the share of Kumari Bank Limited.

Moreover, the subscription of right issuance in the fiscal year 2006/07 is 98.32%, in the fiscal year 2007/08 is 95.26%, in the fiscal year 2008/09 is 98.00%, in the fiscal year 2009/10 is 94.04%. In average, 99.41% of the total right issuance has been subscribed. It would be worthwhile if the commercial banks try to quest the reason of under subscription of the right issuance in the past before issuing the right share.

Figure: 4.4

Subscription of Right Issuance



4.1.5 Impact on MPS after Right Issuance

Generally, the MPS changes with the announcement of right issuance, but to what direction, i.e. increase or decrease, is significant. To examine whether MPS increases or decreases by the right offering, the MPS of the commercial banks issuing right share for the past five years has been analyzed.

Table: 4.5

Impact on MPS after Right Issuance

Bank	2005/06			2006/07			2007/08			2008/09			2009/10		
	Bef.	Aft.	% Chg.	Bef.	Aft.	% Chg.	Bef.	Aft.	% Chg.	Bef.	Aft.	% Chg.	Bef.	Aft.	% Chg.
NBB	.....	....	....	....	....	....	....	....	....	565	327	-42.12	....	....	..
NIB	....	....	....	....	....	....	1729	2450	41.70	2450	1388	-43.35	....	....	....
KBL	369	443	20.05	....	....	....	830	1005	21.08	---	---	---	.....	....	....
MBL	256	320	25.00	....	....	....	---	---	---	1265	817	-35.42	.....	....	.....
DCBL	305	390	27.87	....	....	....	---	---	---	855	460	-46.20	....	....	....
LUBL	....	....	....	172	505	193.60	505	631	24.95	---	---	---	....	....	....
LBL	....	....	....	368	690	87.50	690	1113	61.30	---	---	---	416	332	-20.19
SBL	....	....	....	360	778	116.11	778	1190	52.96	---	---	---	700	417	-40.43
NICB	....	...	....	....	....	....	950	1284	35.16	---	---	---	....	....	....
NCCB	....	....	....	....	....	....	316	457	44.62	---	---	---	....	....	....
KIST							---	---	---	998	378	-62.12	....	....	....
NMB							---	---	---	930	499	-46.34	....	....	....
GBL													406	313	-22.91
BOA													306	231	-24.51
CBL													501	306	-38.92
SRBL													330	260	-21.21
SBI													1880	870	-48.21

(Source: Annual Reports of Banks)

The table shows the changes in MPS after the issuance of right share. The table depicts that the MPS of KBL, the MPS of MBL and DCBL have increased after right issuance in the fiscal year 2005/06. While in the fiscal year 2006/07, the MPS of has increased by 193.60% in LUBL, 87.50% in LBL, and 116.11% in SBL. In the fiscal year 2007/08, the MPS has increased by 41.70% in NIB, 21.08% in KBL, 24.95% in LUBL, 61.30% in LBL, 52.96% in SBL, 35.16% in NICB and 44.62% in NCCB. The MPS has decreased by 42.12% in NBB, 43.35% in MBL, 46.20% in DCBL, 62.12% in KIST and 46.34% in NMB. Finally, the MPS has decreased by 20.19% in LBL, 40.43% in SBL, 22.91% in GBL, 24.51% in BOA, 38.92% in CBL, 21.21% in Sunrise Bank Ltd, and 48.21% in SBI . This seems that, except in some cases, the MPS has been found to follow same increase/decrease trend in each bank in a fiscal year. Since, MPS has increased in some fiscal year and has decreased in some fiscal years, it is palpable to assume that besides right share offerings there are other variables as well, which influence the MPS.

4.1.6 Trend Analysis Right Issue

To estimate the value of right offering made by the commercial banks and the total right offering of the listed companies for the fiscal year 2009/10 and 2010/11, the trend value analysis has been done. For this, the right issue has been considered as the dependent variable (Y) on the time (X). The calculated trend value and the regression line of right issue on time period is presented in the table below.

Table: 4.6

Trend Analysis Right Issue

Fiscal Year	CB's Right Issue		Total Right Issue	
	Actual	**Trend**	**Actual**	**Trend**
2005/06	370.00	115.72	1013.45	260.51
2006/07	472.00	1098.42	1265.30	3559.96
2007/08	1810.70	2081.12	6793.40	6859.41
2008/09	4496.65	3063.82	14262.19	10158.86
2009/10	3256.25	4046.52	10962.75	13458.31
2010/11		**5029.22**		16757.76
2011/12		**6011.92**		20057.21
Regression	**Y = -866.98 + 982.70 X**		Y = -3038.94 + 3299.45 X	

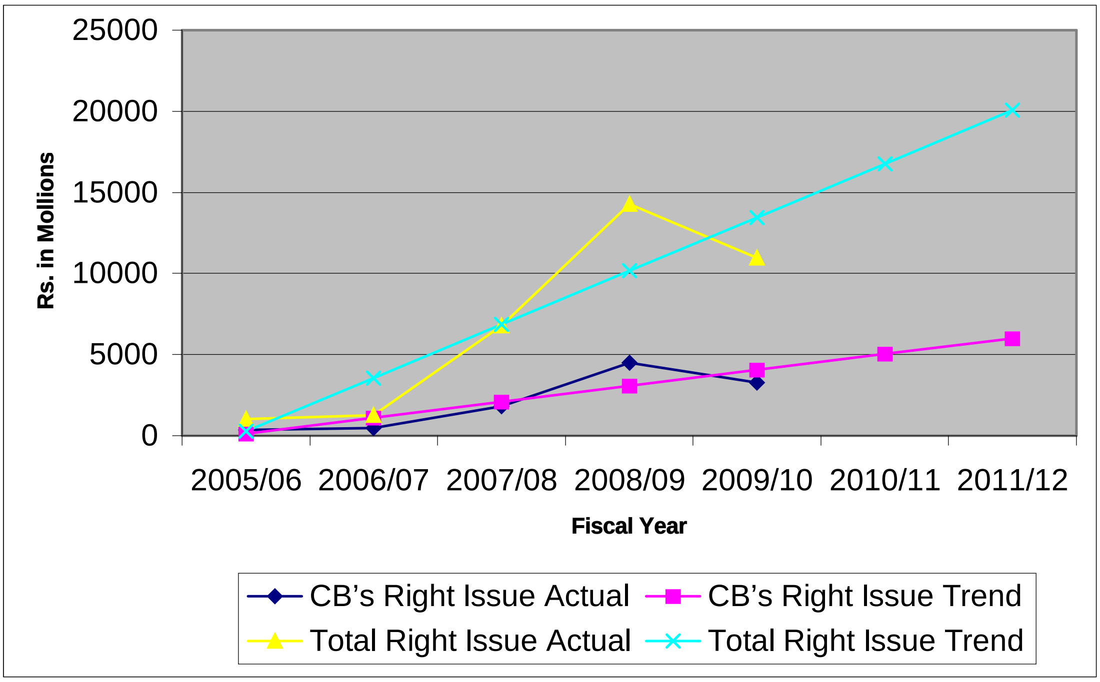
(Source: Appendix – IIIA & IIIB)

The table shows that the right offering has positive relationship with the time period. This indicates that in each year the listed companies will make effort to maximize the capital to confront the risk by issuing right share. The right offering of the commercial banks increases by Rs. 982.70 millions per year, whereas that of the total listed companies increases by Rs. 3299.45 millions per year. This tacitly indicates that the right offering of the other listed companies will be greater than that of commercial banks.

As a result the estimated value of right offering of the commercial banks will be Rs. 5029.22 millions in the fiscal year 2010/11 and Rs. 6011.92 millions in the fiscal year 2011/12. Similarly, the estimated value of right offerings of the total listed companies will be Rs. 16757.76 millions in the fiscal year 2010/11 and Rs. 20057.21 millions in the fiscal year 2011/12. Thus, the right offering of the commercial banks covers less than 30% of the right offering of the total listed companies.

Figure: 4.5

Trend Analysis Right Issue



4.2 Primary Data Analysis

To understand the opinion of the people regarding the right share offerings in Nepal and its impact on market per share, the primary data analysis is equally significant. For the primary data analysis, a questionnaire containing 13 questions has been prepared and distributed to 10 personnel of commercial banks, 10 investors and 10 market experts. The responses obtained from them have been analyzed in tabular form.

4.2.1 Practices of Right Share

To augment the capital, the issuance of right share is crucial. Besides this, the corporate firm issues right share for various other reasons as well. To examine whether the corporate firms are increasingly practicing the issuance of right share, the respondents are asked on this issue.

Table: 4.7

Practices of Right Share

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Agree	7	70	3	30	5	50	15	50
Neutral	2	20	4	40	3	30	9	30
Disagree	1	10	3	30	2	20	6	20
Total	**10**	**100**	**10**	**100**	**10**	**100**	**30**	**100**

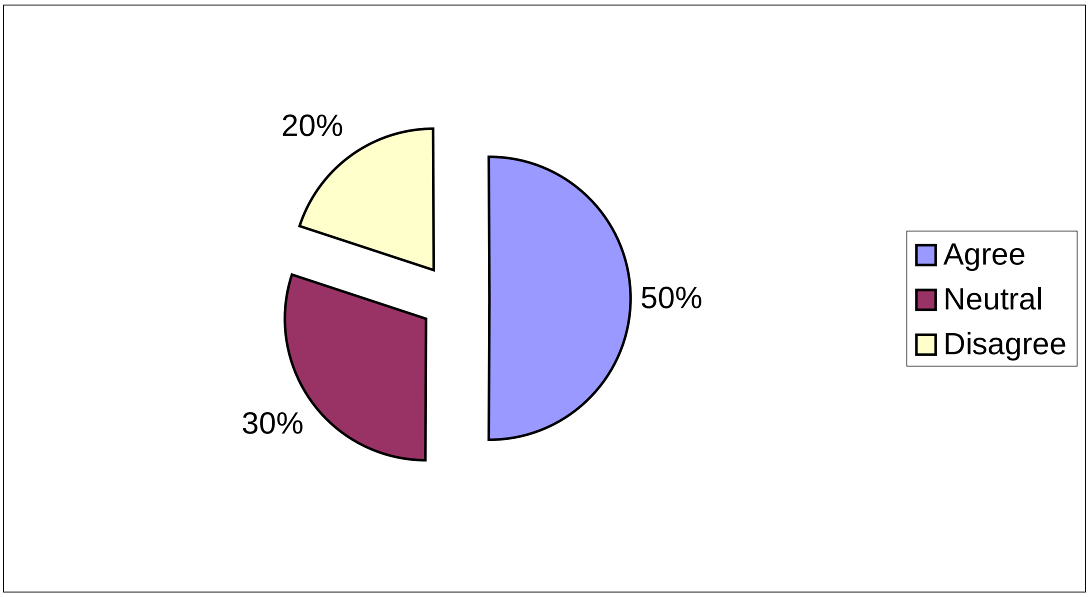
(Source: Opinion Survey, 2011)

The table reveals that the majority of the respondents, i.e. 50%, have stated that the Nepalese corporate firms are increasingly practicing the right share issuance to augment the capital. In contrast, 30% of the respondents could not decide whether firms are increasingly practicing the right issuance. And 20% of the respondents have totally disagreed on the firms are increasingly practicing the right offerings.

Analyzing the responses of each category, it has been ascertained that 70% of the employees, 30% of the investors and 50% of the market experts have agreed that the corporate firms are increasingly practicing the right offerings. Whereas 10% of the employees, 30% of the investors and 20% of the experts have denied on this fact. Similarly, 20% of the employees, 40% of the investors and 30% of the experts have remained neutral on this question. Thus, considering the overall majority and the majority of each group, it can be assumed that right share is a crucial tool for the company to augment the capital, and thus firms are increasingly practicing the right issuance.

Figure: 4.6

Practices of Right Share



4.2.2 Suitability to Augment the Capital

The augmentation of capital depends upon the policy of the firms, whether to raise fund from external financing or internal financing. Among them, right offering, debenture issue and new share issue are the major sources. To investigate the suitability of each of the aforementioned source to increase capital, the respondents are asked to express their views.

Table: 4.8

Suitability to Augment the Capital

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Right Offering	3	30	7	70	4	40	14	47
Debenture Issue	2	20	0	0	2	20	4	13
New Share Issue	5	50	3	30	4	40	12	40
Total	**10**	**100**	**10**	**100**	**10**	**100**	**30**	**100**

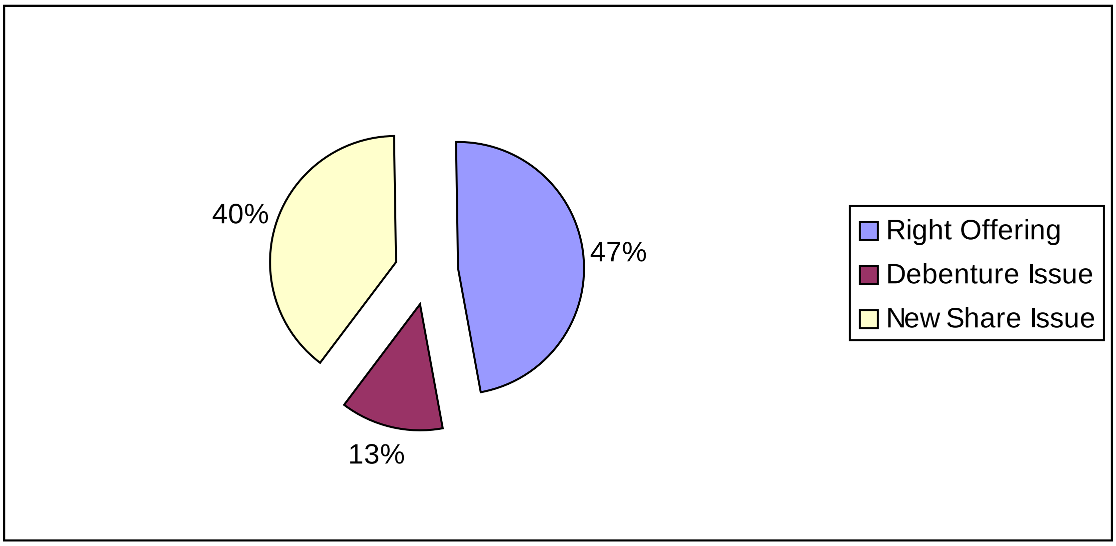
(Source: Opinion Survey, 2011)

The table shows that the majority of the employee of the banks, 50%, has opined that the company should increase its share capital by issuing new share, whereas the majority of the investors, 70%, have stated that the bank should augment its capital by offering right share, and 40% of the market expert has asserted that the bank should augment its capital by offering right share and another 40% of the market expert has pointed out issuing of new share, and only 20% of the expert has stated that the bank should increase its capital by issuing debenture capital. Similarly, 20% of the employees have stated that the bank should increase its capital by issuing debenture, and 30% of them have opined issuing of right share to increase capital. Likewise, the remaining 30% of the investors have stated that the bank should augment its capital by issuing new share.

It seems that each category has chosen the option that asylum one's interest. Whatever, the overall majority, 47%, clarifies that the bank should mainly focus in issuing right share to augment capital, and 40% have stated that the bank should augment the capital by issuing new share and only 13% have stated that the bank should increase its capital by issuing debenture. Considering the overall majority, it can be concluded that issuing right share would be the best option for the bank to augment its capital.

Figure: 4.7

Suitability to Augment the Capital



4.2.3 Degree of Effect in MPS by Issuance of Right Offering

Pragmatically, the MPS of the company has ascertained to be affected by the issuance of right offering, but to what extent is the major question. To solve this bewilder, the opinions of the respondents have been analyzed.

Table: 4.9

Degree of Effect in MPS by Issuance of Right Offering

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
High	5	50	7	70	3	30	15	50
Medium	3	30	2	20	5	50	10	33
Low	2	20	1	10	2	20	5	17
Total	**10**	**100**	**10**	**100**	**10**	**100**	**30**	**100**

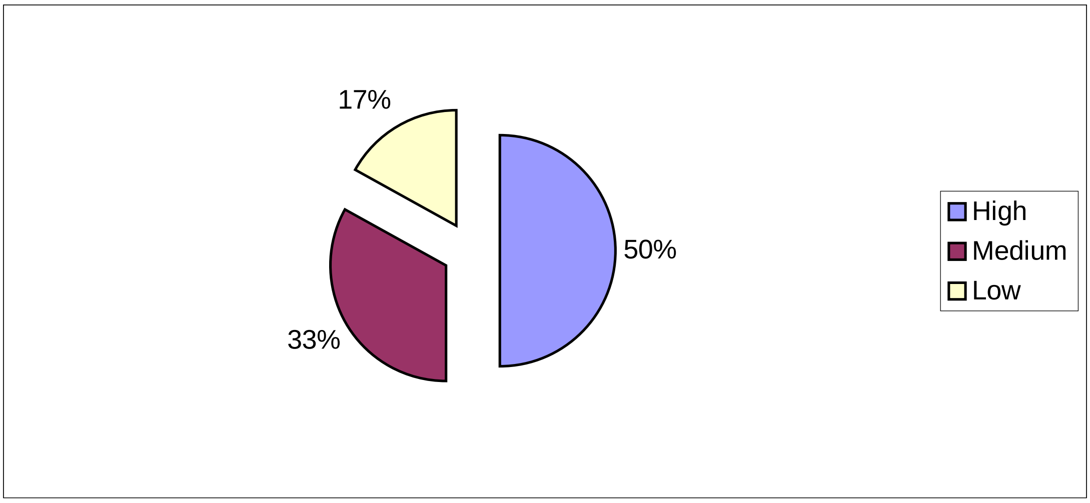
(Source: Opinion Survey, 2011)

The table depicts that 50% of the employee of the banks, 70% of the investors, and 30% of the market expert have opined that the issue of right share has high degree of effect in MPS of such company. Likewise, 30% of the personnel of the bank, 20% of the investor, and 50% of the market expert have asserted that the issuance of right share has medium level of effect in market price of the stock. Similarly, 20% of the employees, 10% of the investors and 20% of the market experts have stated that market price of share is affected in low level by the issuance of right share.

In overall, 50% of the respondents (15 out of 30) have pointed high level of influence on MPS, 33% of the respondents (10 out of 30) have stated medium level of effect, and 17% of the respondents (5 out of 30) have said low level of effect on MPS by the issuance of right share. Considering the overall majority, it can be stated that MPS is highly influenced by the issuance of right offering.

Figure: 4.8

Degree of Effect in MPS by Issuance of Right Offering



4.2.4 Main Influencer of MPS

Market price per share of the companies is fluctuated by various reasons. To determine which factor has most influence on MPS, the respondents are asked to express their views.

Table: 4.10

Main Influencer of MPS

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Right Offering	2	20	1	10	2	20	5	17
Dividend Distribution	4	40	3	30	3	30	10	33
Profitability	2	20	2	20	2	20	6	20
Malpractices	1	10	2	20	1	10	4	13
Political Situation	1	10	2	20	2	20	5	17
Total	**10**	**100**	**10**	**100**	**10**	**100**	**30**	**100**

(Source: Opinion Survey, 2011)

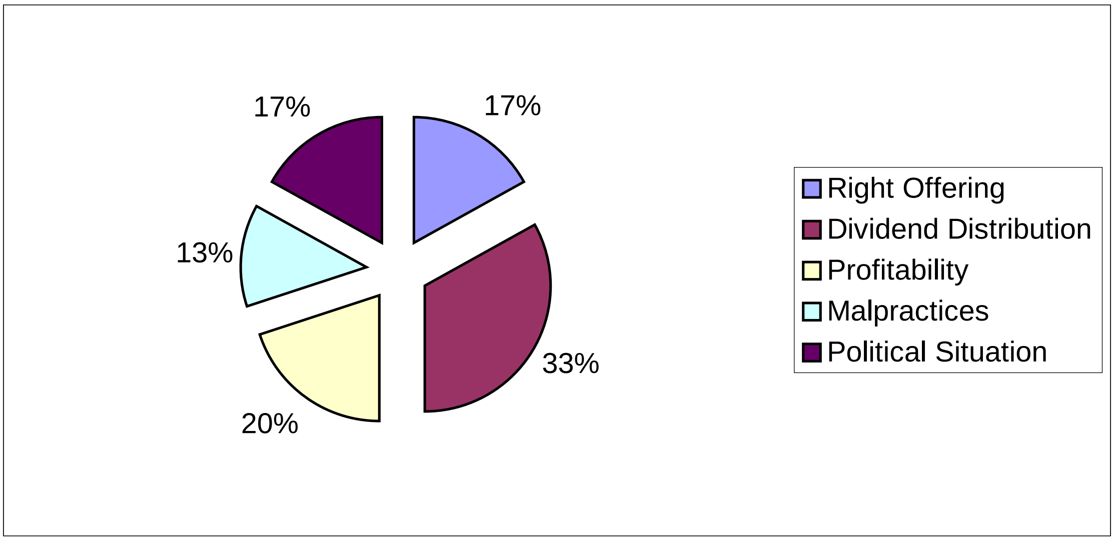
The table depicts that 40% of the employees, 30% of the investors and 30% of the market experts are in the view that the dividend distribution policy of the bank is the major influencer of market price per share. However, 20% of the personnel of the banks, 20% of the investors, and 20% of the experts have opined that the profitability situation of the bank is the major influencer of the MPS.

Similarly, 20% of the employees, 10% of the investors, and 20% of the market experts have stated that the issuance of right shares is the major determinants of the MPS. Likewise, 10% of the employees, 20% of the investors and 10% of the market experts have asserted that the malpractices like warehousing, insider training, pooling etc. are the major influencer of fluctuation in MPS. Finally, 10% of the employees, 20% of the investors, and 20% of the market experts have avowed that the political situation like strike, market halt and other instability etc. is the major determinants of MPS.

In overall, 17%, 33%, 20%, 13% and 17% of the total respondents have stated that right offering, dividend distribution, profitability, malpractices in share trading, and political situation respectively is the major influencer of MPS. Considering the overall majority, it can be concluded that the MPS is highly affected by the dividend distribution policy of the company.

Figure: 4.9

Main Influencer of MPS



4.2.5 MPS after Right Share Issue

Since in most cases, MPS of the company changes by the issuance of right share, to ascertain whether MPS increases or decreases by the right offering is the major issue. The respondents are asked to opine their experience on the change of MPS by right issuance.

Table: 4.11

MPS after Right Share Issue

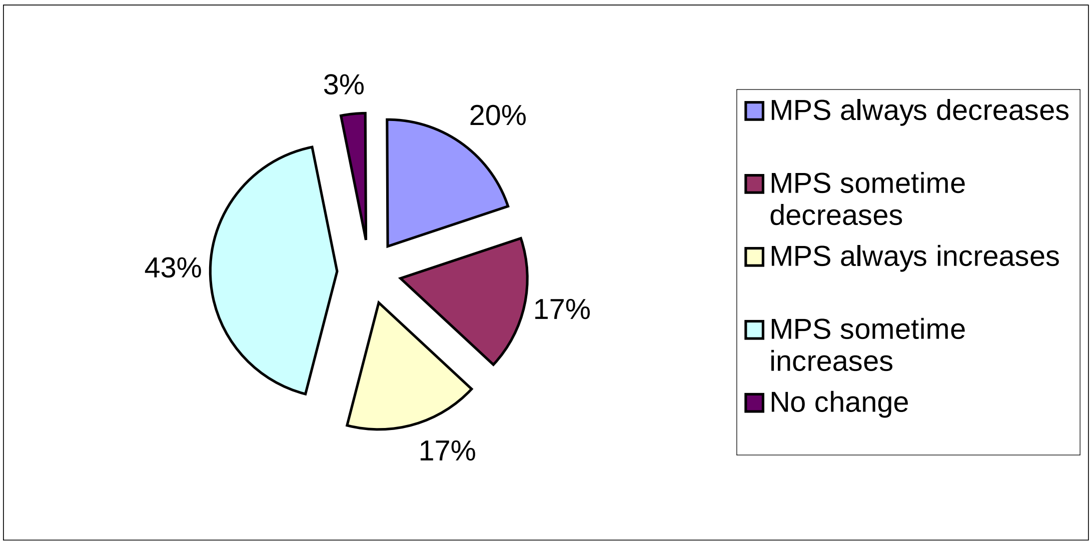
Response	**Staff**		**Investor**		**Mkt. Expert**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**
MPS always decreases	2	20	2	20	2	20	6	20
MPS sometime decreases	2	20	1	10	2	20	5	17
MPS always increases	2	20	1	10	2	20	5	17
MPS sometime increases	4	40	5	50	4	40	13	43
No change	0	0	1	10	0	0	1	3
Total	**10**	**100**	**10**	**100**	**10**	**100**	**30**	**100**

(Source: Opinion Survey, 2011)

The table depicts that the majority of each category, 40% of the employees, 50% of the investors, and 40% of the market experts have opined that after the issuance of right share the market price per share of the company sometimes increases. Similarly, 20% of the employees, 10% of the investors, and 20% of the market experts have avowed that the MPS sometimes decreases after the issuance of right share. Likewise, 20% of the banking personnel, 10% of the investors, and 20% of the experts have asserted that the MPS always increases after right share offering. In contrast, 20% of the employees, 20% of the investors, and 20% of the market experts have opined that the MPS always decreases after right share issuance. Finally, 10% of investors have stated that there will be no change in MPS after the issuance of right offering as well.

In overall, 43% of the total respondents have said that the MPS of the company will sometime increases after right share issuance, 17% of the respondents have stated that MPS sometime decreases, 17% of the respondents have affirmed that MPS always increases, 20% of the respondents have asserted that MPS always decreases and 3% have stated no change in MPS. Thus, it can be concluded that in most situation, the MPS of the company increases after the issuance of right offering.

Figure: 4.10
MPS after Right Share Issue



4.2.6 Main Expectation of Investors

Ubiquitously investors invest on the share with the motive of return. But to know in what form the return should be is the major matter for discussion. Thus, the respondents are asked to assert the main expectation that the investors quest while making investment.

Table: 4.12

Main Expectation of Investors

Response	Staff	Investor	Mkt. Expert	Total

	No.	%	No.	%	No.	%	No.	%
Right Offering	2	20	3	30	2	20	7	23
Bonus Share Offering	4	40	5	50	7	70	16	54
Cash Dividend Offering	4	40	2	20	1	10	7	23
Total	**10**	**100**	**10**	**100**	**10**	**100**	**30**	**100**

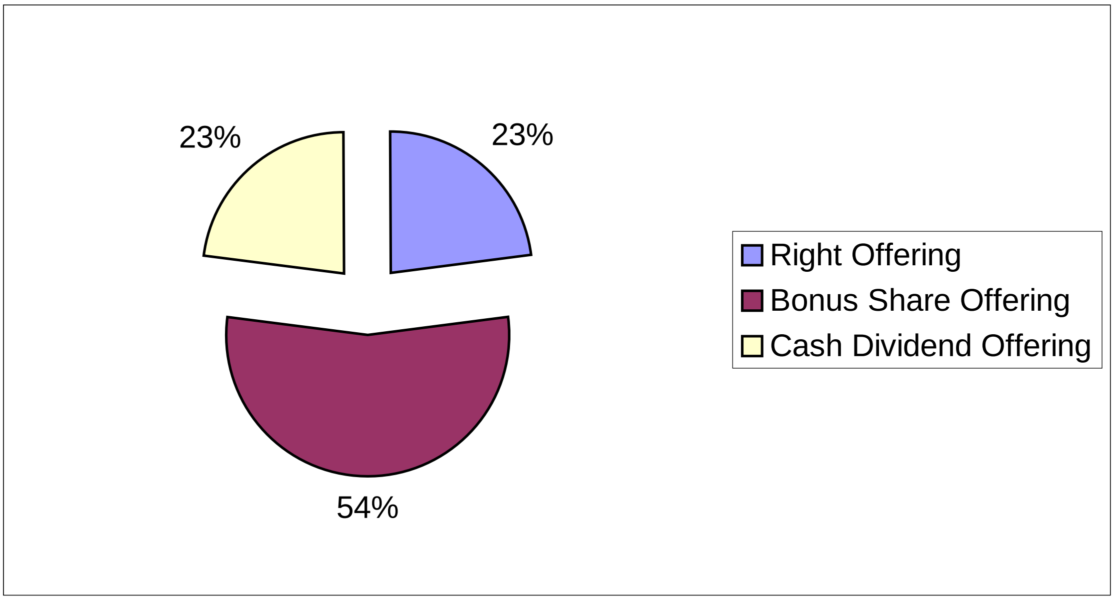
(Source: Opinion Survey, 2011)

The table delineates that the majority of each category of respondents, 40% of the employees, 50% of the investors, and 70% of the market experts have stated that the investors expects bonus share offering most from the company. Next to it, 20% of the employees, 30% of the investors, and 20% of the market experts have opined that the investors quest right share offering from the company. Similarly, 40% of the personnel of the banks, 20% of the investors and 10% of the market experts are in the view that investors await cash dividend offering from the company.

In overall, 54% of the total respondents have robustly stated that the investors expects bonus share offering from the company. Similarly, 23% of the total respondents have stated that the investors expects right offering, and 23% of the respondents have affirmed that the investors expects cash dividend offering. Thus, it can be concluded that right offering is the second motive, next to bonus share, for investors.

Figure: 4.11

Main Expectation of Investors



4.2.7 Main Reason behind Right Issuance

To examine the precise reason behind the issuance of right share by the banks, the respondents are asked to express their views. The responses obtained from them are presented in the table below.

Table: 4.13

Main Reason behind Right Issuance

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Increase Capital	5	50	7	70	5	50	17	57
Increase MPS	1	10	0	0	0	0	1	3
Increase Out. Share	2	20	2	20	1	10	5	17
Increase dividend	2	20	1	10	4	40	7	23
Total	**10**	**100**	**10**	**100**	**10**	**100**	**30**	**100**

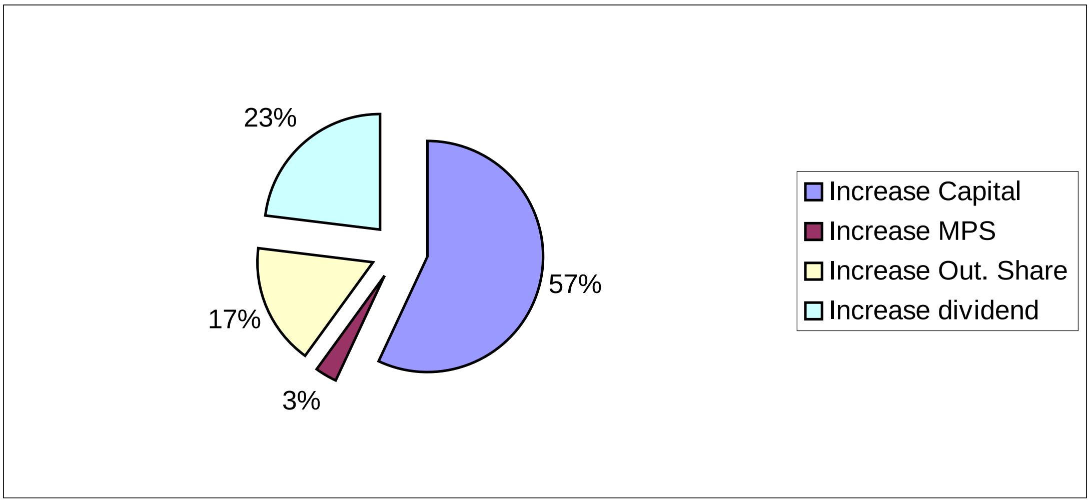
(Source: Opinion Survey, 2011)

The above table depicts that the majority of each categories of the respondents, 50% of the employees, 70% of the investors, and 50% of the market experts, have opined that the true intention of the bank behind offering right share is to augment the capital. Whereas, 10% of the personnel of the bank, 0% of the investors and 0% of the market experts have stated that the main reason behind offering right share is to increase the MPS of the company. Similarly, 20% of the staffs, 10% of the investors, and 40% of the market experts have opined that the bank issues right share to increase the number of outstanding shares and to promote and to be active in trading in stock market. Finally, 20% of the employees, 10% of the investors and 40% of the market experts have opined that to retain the investors by increasing the number of shares which ultimately increases dividend of investors is the main reason behind issuing right share.

In aggregate, 57% of the total respondents have said merely to increase the capital is the main reason behind right issuance, 23% of the respondents have said increasing dividend, capital gain, of the investors is the main reason, 17% have stated increasing outstanding shares and 3% have affirmed increasing MPS is the main reason behind issuing right share offering. Thus, on the basis of the majority of each category, and the overall majority, it can be concluded that the bank issues right share mainly to augment the capital.

Figure: 4.11

Main Reason behind Right Issuance



4.2.8 Awareness of Right Offering Phenomenon

To become the right offering effective and the full subscription of the issue, it is crucial that the investors are fully aware of right offering phenomenon. To investigate at what level the Nepalese investors are aware about the phenomenon, the respondents are asked on this matter.

Table: 4.14

Awareness of Right Offering Phenomenon

Response	**Staff**		**Investor**		**Mkt. Expert**		**Total**	
	No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**
All	0	0	0	0	0	0	0	0
None	1	10	0	0	0	0	1	3
Very Few	4	40	3	30	4	40	11	37
Majority	4	40	6	60	6	60	16	53
Don't Know	1	10	1	10	0	0	2	7
Total	**10**	**100**	**10**	**100**	**10**	**100**	**30**	**100**

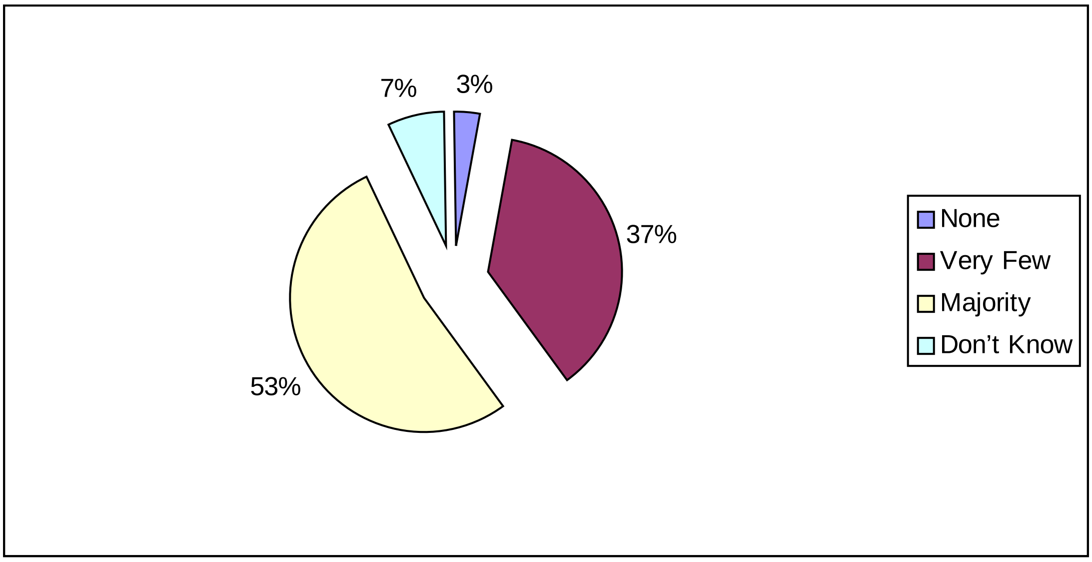
(Source: Opinion Survey, 2011)

The table delineates that 10% of the employees of the banks have stated that none of the investors is well aware on the awareness of the right offering phenomenon. Similarly, 40% of the employees, 30% of the investors and 40% of the market experts have opined that very few investors are well aware about the phenomenon of right offerings. In contrast, 40% of the employees, 60% of the investors, and 60% of the market experts have stated that the majority of the investors are fully aware on the right offering phenomenon. While 10% of the employees and 10% of the investors have said that they wittingly have no idea on the awareness of investors on right offering phenomenon.

In aggregate, 53% of the total respondents have stated that the majority of the investors are fully aware, 37% of the respondents have avowed that very few investors are well aware, 7% of the respondents have stated that they have no idea and 3% of the respondents have stated that non of the investors are well aware on the right offering phenomenon. This seems that the majority of the investors are well aware on right offering phenomenon.

Figure: 4.13

Awareness of Right Offering Phenomenon



4.2.9 Collection of Information about Right Issuance

To understand the right offering issuance, it is necessary that the investors collect information regarding the issuance. To examine whether investors collect information on right issuance, the respondents are requested to express their opinions.

Table: 4.15

Collection of Information about Right Issuance

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Yes	5	50	6	60	5	50	16	54
No	3	30	4	40	3	30	10	33
Don't Know	2	20	0	0	2	20	4	13
Total	**10**	**100**	**10**	**100**	**10**	**100**	**30**	**100**

(Source: Opinion Survey, 2011)

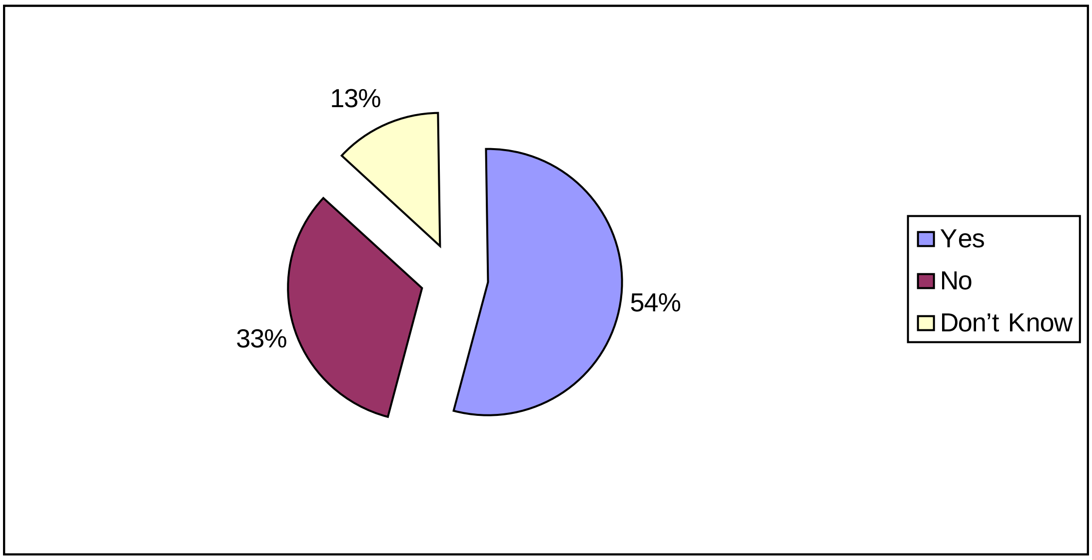
The table depicts that the majority of the respondents of each category, 50% of the employees, 60% of the investors, and 50% of the market experts have opined that the investors collect information on right issuance of the company. However, 30% of the staff, 40% of the investors and 30% of the market experts have stated that the investors are not interested in collecting information on right issuance.

While 20% of the employees and 20% of the market expert have stated that they have no idea on this matter.

In overall, 67% of the respondents have affirmed that investors do quest information on right share offering, 30% of the respondents have stated that investors do not collect information, and 3% of the respondents have stated that they have no idea on the collection of information by investors on right share issuance. Considering the overall majority and the majority of each category of respondents, it can be assumed that the majority of the investors are agog in collecting information about right share issuance.

Figure: 4.14

Collection of Information about Right Issuance



4.2.10 Main Source of Information

Out of 30 respondents, 16 respondents have opined that the investors do collect information regarding right issuance. Thus, the investors, who have stated that investors collect information, have been requested to disclose the source of information from which the investors mostly collect information.

Table: 4.16

Main Source of Information

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Magazines/Newspapers	4	80	3	50	2	40	9	56
Experts	0	0	0	0	1	20	1	6
Friends	1	20	3	50	2	40	6	38
Television/Radio	0	0	0	0	0	0	0	0
Total	**5**	**100**	**6**	**100**	**5**	**100**	**16**	**100**

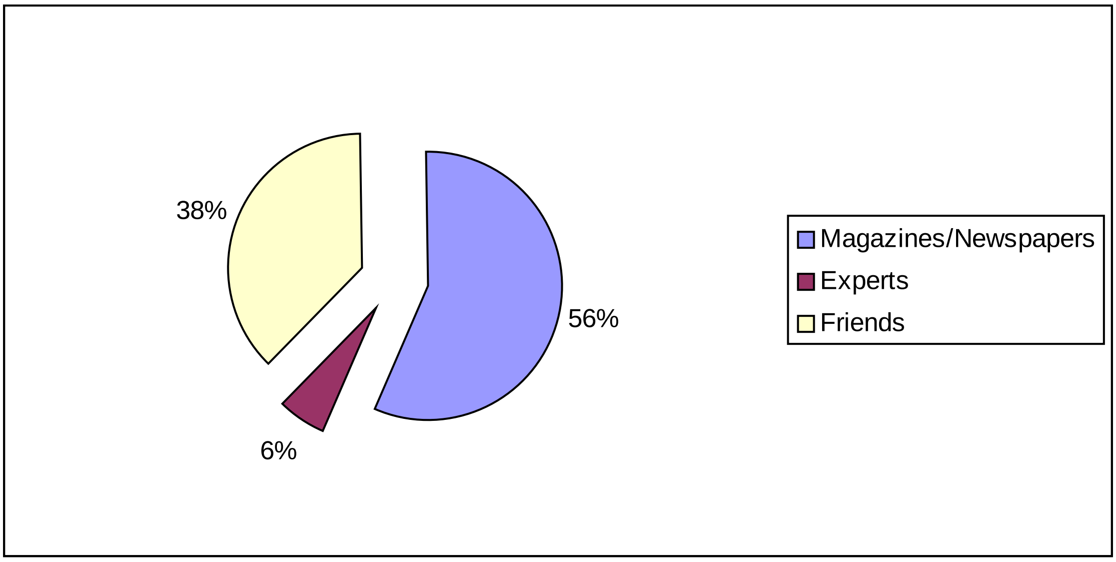
(Source: Opinion Survey, 2011)

The table presents that the majority of the employees have stated magazine/newspaper is the major source of information for the investors on the right share issuance, while the majority of the investors and market experts have stated that friend is the major source of information. About 80% of the employees, 50% of the investors and 40% of the market expert have opined that the magazine/newspaper is the main source of information. In contrast, 20% of the employees, 50% of the investors and 40% of the experts have stated that friend is the main source of information on right share issuance. Similarly, 20% of the market experts have opined that the share known expert like broker, market makers and other professional is the major source of information.

In overall, 56% of the respondents pointed out newspaper/magazine, 38% of the respondents have stated friends, 6% of the respondents have pointed out experts as the main source of information. Comparatively, it can be concluded that the newspaper/magazine is the most useful source of information for investors on right share.

Figure: 4.15

Main Source of Information



4.2.11 Reason for Under Subscription

The secondary data analysis shows that in most cases there is under subscription on the right share. To examine what factors mainly causes the under subscription of the right issuance, the respondents are asked to express their opinions.

Table: 4.17

Reason for Under Subscription

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Lack of Knowledge	3	30	3	30	3	30	9	30
Inadequate Legal Provision	0	0	2	20	2	20	4	13
Insufficient Promotion	2	20	2	20	1	10	5	17
Bad Past Performance	5	50	3	30	4	40	12	40
Total	**10**	**100**	**10**	**100**	**10**	**100**	**30**	**100**

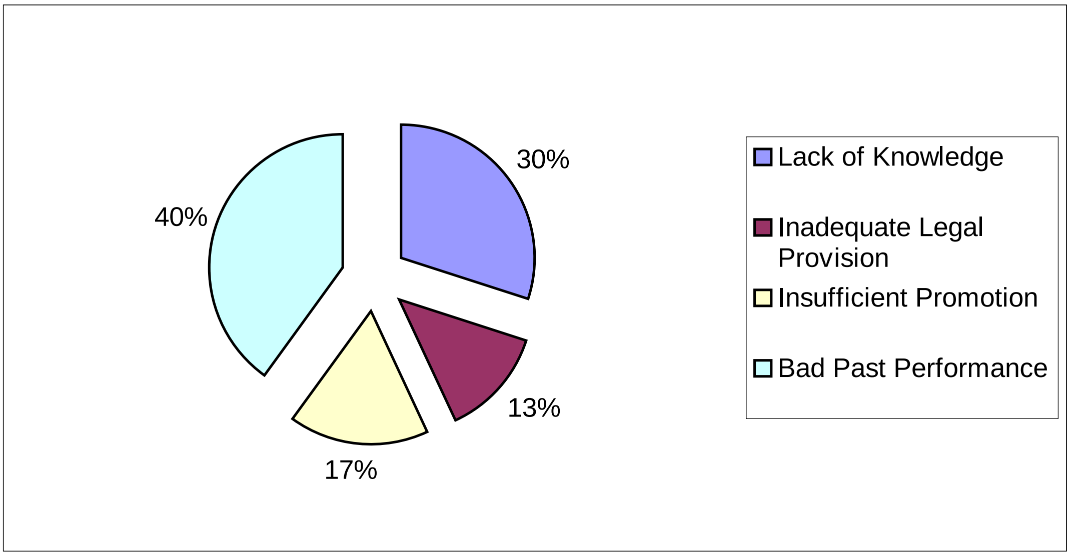
(Source: Opinion Survey, 2011)

The table reveals that the majority of each category, 50% of the employees of the bank, 30% of the investors, and 40% of the market expert have opined that the bad performance of the company in past is the major reason behind non full subscription of the right issuance. Likewise, 30% of the employees, 30% of the investors, and 30% of the market experts have stated that the lack of adequate knowledge on investors about the right shares issuance and phenomenon is the major reason for the under subscription. Further, 20% of the employees, 20% of the investors and 10% of the market experts have said that the lack of company's interest in promoting the issuance is the main reason for under subscription. Whereas, 0% of the employees, 20% of the investors and 20% of the market experts have avowed that the inadequate legal provision in apropos of right share issuance is the main reason for under subscription.

In overall, 40% of the respondents have stated bad past performance of the right offering company, 30% of the respondents have pointed lack of knowledge on investors about the right share, 17% of the respondents have said insufficient promotional activities of the companies, and 13% of the respondents have affirmed inadequate legal provision regarding right share, is the main reason behind partial subscription of right share. Considering the majority, it can be assumed that the performance of the company is most significant in the subscription of right share.

Figure: 4.16

Reason for Partial Subscription



4.2.12 Appropriate Number of Nominees for Right Transfer

As per the securities regulations, the existing shareholders are allowed to transfer the right share to only one nominee. To investigate whether such barricade is appropriate, the respondents are requested to express their opinions.

Table: 4.18

Appropriate Number of Nominees for Right Transfer

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Precisely 1	2	20	0	0	4	40	6	30
More than 1	6	60	7	70	6	60	19	63
Don't Know	2	20	3	30	0	0	5	17
Total	**10**	**100**	**10**	**100**	**10**	**100**	**30**	**100**

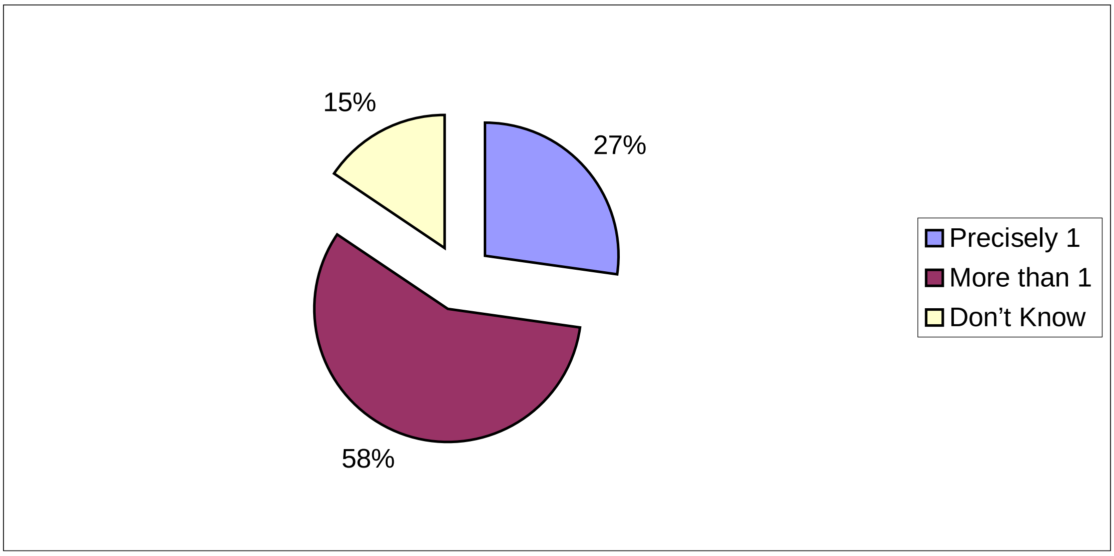
(Source: Opinion Survey, 2011)

The table shows that the majority of the respondents, 63%, are in the opinion that there should be provision of transferring the right shares issuance to more than one nominee. In contrast, 30% of the respondents have argued that there should not be more than one nominee in transferring the right share. Likewise, 17% of the respondents have stated that they have no idea on this matter.

Looking each category, it has been ascertained that the majority of the employees, i.e. 60%, the majority of the investors, i.e. 70%, and the majority of the market experts, i.e. 60%, have stated that the shareholders should have right to nominate more than one person for right share transfer. Whereas 20% of the employees, 0% of the investor, and 40% of the market experts have asserted that precisely one person is the appropriate number for right share transfer. While 20% of the employees, 30% of the investors, and 0% of the experts have opined that they have no idea on this issue. Considering the opinions of the respondents, it can be assumed that it would be worthwhile if the legislation indulges to nominate more than one person for right transfer.

Figure: 4.17

Appropriate Number of Nominees for Right Transfer



4.2.13 Appropriate Amount while submitting Prospectus for Right Issuance

As per the Securities Regulation regarding right issuance, the listed companies should deposit exactly Rs. 20000 while submitting the prospectus for right issuance. To examine the appropriate amount that will befit in the Nepalese securities markets, the respondents are asked to opine their views.

Table: 4.19

Appropriate Amount while submitting Prospectus for Right Issuance

Response	Staff		Investor		Mkt. Expert		Total	
	No.	%	No.	%	No.	%	No.	%
Below Rs. 20000	6	60	4	40	4	40	14	47
Exactly Rs. 20000	3	30	4	40	3	30	10	33
Above Rs. 20000	1	10	2	20	3	30	6	20
Total	**10**	**100**	**10**	**100**	**10**	**100**	**30**	**100**

(Source: Opinion Survey, 2011)

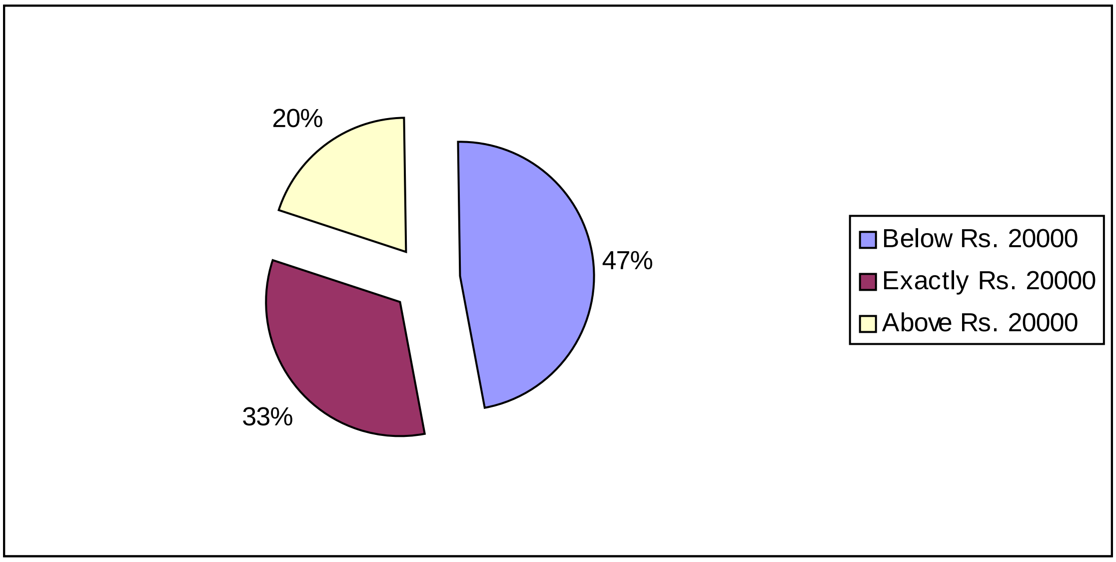
The table shows that the majority of the employees and market experts are in the opinion that the amount, which should be submitted while submitting the prospectus for right share issuance, should be deducted. About 60% of the employees and 40% of the experts have supported this view, while only 40% of the investors have said that existing Rs. 20000 provision should be deducted. Likewise, the majority of the investors have opined that such amount, i.e. Rs.

20000, should not be deducted and should be the existing provision. However, only 30% of the staffs, 40% of the investor and 30% of the market experts have opined that the deposit amount should be exactly Rs. 20000. Similarly, 10% of the employees, 20% of the investors and 30% of the market experts have said that the deposit amount should be above Rs. 20000.

In overall, 47% of the total respondents have asserted that the deposit amount should be reduced from Rs. 20000, 33% of the respondents have said that the deposit amount should be precisely Rs. 20000, and 20% of the respondents have stated that such amount should be above Rs. 20000. Considering the majority, it can be assumed that it would be worthwhile if SEBON amends the legislation and fix the deposit amount that is appropriate to all party.

Figure: 4.18

Appropriate Amount while submitting Prospectus for Right Issuance



4.3 Major Findings of the Study

On the basis of the data analysis, the following major findings have been drawn;

Findings from Secondary Data Analysis

- In average, the right share covered 74.01% of the total securities issuance within the five year periods. The listed companies have chosen right share as the major source for capital increment.
- In average, the right offering of the commercial banks has covered 30.34% of the total right issuance. This coverage has been found to be in decreasing trend, indicating that other listed companies are extensively practicing right offerings.
- The number of commercial banks offering right share is significantly less in number, whereas the total listed companies is much higher. This indicates that the financial institutions, other than commercial banks, like development banks, finance companies and other are more interested in accumulating the capital by means of issuing right share.
- In average, 99.41% of the total right issuance of commercial banks has been subscribed. However, in case of Kumar bank there is over subscription of 153.46% in the fiscal year 2005/06.
- The MPS of the commercial banks has been found to have increased in the fiscal year 2005/06, 2006/07 and 2007/08, and found to have decreased in the fiscal year 2008/09 and 2009/10. This indicates that right issuance is not the sole determinant affecting MPS.
- The estimated value of right issue of commercial banks in the fiscal year 2010/11 and 2011/12 will be Rs. 5029.22 millions and Rs. 6011.92 millions respectively, while that of total listed companies will be Rs. 16757.76 millions and Rs. 20057.21 millions respectively

Findings from Primary Data Analysis

- Half of the respondents opined that the listed companies are increasingly practicing right share for capital augmentation and for other reasons.

Likewise, 47% of the respondents have opined that the bank should augment the capital through right share.

- It has been found that right offering has high influence in MPS. About 50% of the total respondents have asserted this view. Whereas, 33% of the total respondents have opined that dividend distribution is the main influencer of MPS.
- Similarly, 43% of the respondents have avowed that MPS sometimes increases after the issuance of right share. The majority of the respondents, 54%, have opined that investors expects bonus share offering rather than right share. And 57% of the respondents have stated that capital augmentation is the major reason behind right offering.
- Moreover, 53% of the respondents have said that the majority of investors are aware on right share offering. And 54% of the respondents have stated that investors do collect information. In addition out of these respondents 56% have opined that newspaper and magazine is the main source of information.
- 40% of the respondents have pointed out that the bad past performance is the main reason behind under subscription of right issue. Likewise, 63% have opined that there should be provision of more than one nominee for right transfer, and 47% of the respondents have expressed that below Rs. 20,000 will be the appropriate amount to be deposited while submitting the prospectus for right issuance.

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

A rights offering, also known as a subscription right, a company offers existing shareholders the opportunity to buy additional shares of company stock in proportion to the number they already own before any new shares are offered to the public. Such an offering is usually mandated by the corporate charter. To act on the offering, one turns over the rights one receives, typically one for each share of stock one owns, and the money needed to make the purchase within the required period, often two to four weeks. The amount of money that's required is known as the subscription price.

Rights offerings have been around for centuries. They have been used regularly in jurisdictions where pre-emptive rights are either popular or required or both.
When it comes to raising capital, rights offerings have had a steady presence, but never enjoyed “rock-star” status. In the last year, however, that appears to have changed. For a good part of 2008 the public markets were closed to most issuers due to an unprecedented period of market volatility. Now that the economy appears to be moving from financial crisis to recovery, the markets remain volatile and issuers that need to raise capital are careful to do so through securities offerings designed to minimize the possibility for front running by investors and mitigate the possibility of resulting in aberrational trading in their stocks.

An issuer should realize that a market may develop for transferable rights and may create arbitrage opportunities between the issuer’s common stock and the rights or volatility in the issuer’s common stock. As a result, nontransferable rights are more popular. From an issuer’s perspective, a rights offering provides a capital-raising opportunity. An issuer may be able to achieve its financing objectives through an offering to its existing stockholders, without the need to commit management time and effort to marketing. Also, an issuer may undertake a rights offering with or without a financial adviser.

Thus to understand the right offering practices in Nepal and the impact of right issuance on the market price, the present study has been conducted. To achieve the objectives, both the primary and secondary data have been analyzed. The secondary data have been collected from NEPSE trading report and the annual report of the banks, whereas the primary data have been collected through questionnaire. Various financial and statistical tools have been meticulously used to conduct the study.

5.2 Conclusion

On the basis of secondary data analysis it can be concluded that the right issue is the major source for capital increment, as the preponderance of right issuance on total securities issue is high. However, the coverage of right issuance of commercial banks on total right issuance has decreased, this is due to the involvement of non commercial banks, other listed companies, in increasingly practicing the right share. In most of the year there is under subscription of right issuance, which tacitly points out the unawareness on investors on right phenomenon and hurdles kept by provisions by limiting the right transfer to only one nominee.

Further it can be assumed that right offering is not the sole determinants of market price per share, as a result MPS has been found to have increased in most of the years and also decreased in some years. From the trend analysis, it can be concluded that the pace of growth of right offering will be lower in commercial banks in comparison to the total listed companies. This indicates the extensive practice of right offerings by listed companies other than commercial banks.

On the basis of primary data analysis, it can be assumed that the corporate firms are increasingly practicing the right offering, mainly to augment the capital.

Furthermore, right offering has high influence in market price per share, and MPS sometimes increases due to right issuance. Also, it can be concluded that dividend distribution policy is the main influencer of MPS rather than right offerings, and thus investors expects bonus share dividend than right share. Categorically, it can be said that the banks offer right share mainly for capital augmentation. Moreover, it can be assumed that the majority of the investors are aware on right share phenomenon, and newspaper and magazine is most crucial for making the investors aware on right share issuance. Finally, it can be concluded that the current legislation is insufficient for making the right offering phenomenon more efficient and attractive to investors.

5.3 Recommendations

On the basis of major findings drawn in previous chapter and the conclusion derived in this chapter, the following recommendations have been made for enhancing the right share practices in Nepal;

- Regulation and their implementation should be sound and strict. So that all kinds of investors can earn equal benefit on the basis of their investment.
- Regulatory offices, issue managers, issuing companies and government should jointly organize investors awareness program on stock because still number of investors are unaware about share and share market it.
- The barricade made by legislation for transferring the right share to only one nominee has adversely affected the existing shareholders. Thus such provision which makes the shareholders uncomfortable should be abrogated and appropriate provision should be made.
- Infrastructure like good communication, banking facilities and postal services should be developed to encourage investors.
- Company should play promotional role, for the full subscription of rights share, because there exist large no rights not exercise by the existing shareholders. Thus, misconception and rumors about rights share, to lead them to irrational decision. Thus the concern authorities must consider

making aware to the investors regarding misconception about right share and other influential factors. The awareness program should be available for general investors through interaction, advertisement, videoconference, seminars, training, workshops and radio talk.

- In order to make the capital market more efficient. The SEBON should create the friendly environment and then, market participants and academic institutions should jointly promote and undertake more research and market analysis activities.
- Company act should be amended to make clear provision regarding the issue of rights share and subsequent allotment of rights issue.