

CHAPTER-I

INTRODUCTION

1.1 General Background of the Study

It is needless to say the present world economy is more competitive and complicated. Globalization of economies and market has been one of the major instruments of change. Due to globalization, every sort of change occurring in one sector of the world affects the other. With the result of dynamics of global changes and development, securities markets are rapidly responding. Therefore, nowadays securities market has become global phenomena and a basic concern of financial and economic condition of any nation. Security market index is perceived as an indicator of investors' confidence to invest in securities, which obviously, represents economic pulses of that nation. As capital market is a crucial element in the national economy, its role in reinvigorating and boosting the economic activities in the country holds significance. It helps to mobilize domestic resources as well as protect the interest of investors. Its role to provide the best investment opportunity by transferring the funds from surplus saving to deficit saving through transaction of long-term financial securities cannot be ignored. Hence in a nutshell, for attainment of self-reliant growth of national economy and smooth running of the economic activities of a nation, security market's role has become paramount importance.

Capital is the lifeblood of the business organizations. Every business enterprise requires short term, intermediate and long term capital for the smooth operation and expansion of the organizational activities. Among these types of fund, the long term funds plays highly significant role for future growth and prosperity of the organizations. The economy of the country largely depends upon the utilization of its resources and mobilization of capital. The mobilization of the capital is an important tool to utilize the resources and hence it affects the overall economy. The Financial institutions contribute the national economy by accumulating the capital funds to meet the financial needs of different productive sectors. They

actively participate in the money market and the capital market, are both suppliers and demanders of the funds.

Securities market is a place where people buy and sell financial instruments. Although securities markets are concentrated in a few locations, they refer more to mechanism, rather than to physical locations designed to facilitate exchange of securities like government bonds, corporate bonds or debentures, ordinary shares, preference shares etc. Therefore, securities market can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading.

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

The securities market is basically divided into two parts; namely the primary market where initial flotation of shares take place, and the secondary market where the initially floated share are traded ensuring liquidity to the investors in the primary market.

Primary Market

Primary Market is the place where corporations and government issue new securities. All securities, whether in money or capital markets, are initially issued in Primary Market. This is the only market in which the company or government is directly involved in the transactions and receives directly benefits from an issue

that is the company actually receives the proceeds from the sale of securities. Once the securities begin to trade among individuals, businessman, governments, financial institutions, savers and investors, they become a part of the secondary market. The term 'Primary Market' is used to denote the market for the original sale of securities by an issuer and to the public. The issuer receives cash which may be invested in productive assets or retirement of debt. Corporate bodies issue new securities in the primary market hence, securities available for the first time are offered through the primary security market. The issuer may be a brand new company or that has been in business for years. The securities offered might be a new type for the issuer or additional amount of security- used in the past.

Secondary Market

Secondary Market is the market in which securities are traded that has been issued in the past. Simply, secondary markets are markets in which existing outstanding securities are traded between the investors i.e. buyers and sellers. It creates the price and allow for liquidity. Thus, Secondary Market mainly deals with previously issued shares traded through stock exchange, over the counter market or directly selling.

Function of the secondary market is to provide liquidity for securities purchased in the primary market. Once investors have purchased securities in the primary markets, they need a place to sell those securities. Without the liquidity of the secondary market, firms would have difficulty raising funds for productive purpose in the primary markets. Secondary Market is another term can be called as Security Market.

1.2 Commercial Bank

As in any other economies, the commercials banks play a vital role in the economic development of the country through facilitating the intermediary process in between capital surplus and deficit units. The commercials bank plays a dual role of mobilizing as well as allocating the limited resources towards people's

needs for the development of the economic system. Financial business in any country is determined by political, social and economic factors. Moreover, level of economic development, banking awareness, growth and habits of population services provided by banks, level of urbanization and income distribution are other key factors affecting financial business. The history of modern bank begins from the establishment of Bank of Venice in 1157 A.D. Moreover, the growth of bank accelerated after the introduction of the Banking Act 1883 in the UK as it allowed opening of a joint stock company bank.

1.3 Introduction of the Rights Issue

If the new common stocks are issued giving the Rights to purchase first by the existing shareholders than it is called Rights offering. Each shareholder is issued on option to buy a certain number of new share and the terms of the option are contained on a piece of paper called Rights. Each stockholder receives one Rights for each shares of stock owned (Weston & Copeland, 1992:35).

Instead of selling a security issue to new investors, some firms offer the securities first to existing shareholders on a privileged subscription basis. Sometime the corporate charter requires that a new issue of common stock be offered first to existing shareholder because of their preemptive Rights (Van Home, 2002:74).

Rights issue practice in Nepal has no long history as compare to other developing country. While looking the issue approval from the SEBON of Nepal researcher can easily notice an increasing trend of issuing Rights share. During the 14 years period, SEBON has granted Rights issue approval amounting Rupees 11755.75million. Among this 6081.1 million issue only two years so we can easily find out the increasing trend of Rights share. This amount comes to be the largest amount among various issue approved by SEBO. Rights issue occupied 50.58% of total issue approval out of total listed companies given the issue approval only 43 companies issued Rights share to raise fund. In Nepal, company act 1997 has provisioned about the preemptive Rights of shareholder in the section 42 (4). It stated that if the Rights is contained in a firms charter then the firm must offer

common stock to existing shareholders. If not the company has choice of Rights offering or public offering. But the law in India required that new common stock must be first issued to the existing shareholders on a pro-rata basis. In India Rights is a negotiable but in Nepal there has not been any provision here to make the Rights negotiable.

1.4 Focus of the Study

Investment is a process to earn income through wise allocation of funds in selecting portfolio of investment area by minimizing risk with three things in mind i.e. planning horizon of investment, risk assessment in investment map & intelligent speculation to take advantage of market opportunity. Investment is also known as post pond consumption for future. So while making investment several factors affect the investment decision.

Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved, time and risk. The sacrifice take place in the present is certain. The reward comes later, if at all and the magnitude is generally uncertain. In some cases the element of time predominates (for example, government bonds). In other cases risk is the dominant attribute (for example, call options on common stock). In yet others both time and risk are important for example, shares of common stock (Sharpe and Bailey, 2001).

Investment that is either financial or real, the investor has to suffer from different deviations, which are resulted in the market or according to the nature of the investment. Investment activities are influenced by different factors like investment objectives, age, family background, educational background, income, instrument available, tax position, existing wealth and investment, attitude to risk personal preference and others. At present due to massive competition in each and every field, investment is being more unsecured as well as less income generating (Bhattarai, 2005:1).

Therefore this study focuses on the movements of the share prices along with its influencing factors in Nepalese security market. There are various approaches to

predict the successive price movements of stocks. Fundamental and technical Analysis is the best approaches. Likewise efficient market theory is also one of the best and effective approaches. However, in Nepalese context extensive study on efficient market theory and fundamental analysis has been done but technical analysis has been always ignored. So, here researchers tried to apply technical analysis tools to forecast the share price movement of sample companies using historical financial data. Thus, this study focused to analyze the trends of sample companies during the study periods and to predict future market trends on the basis of identified market trends.

1.5 Statement of the Problem

Ordinary shares comprise the largest category of securities in the corporate business in Nepal listed with the Nepal Stock Exchange. Price of the common stock in the primary market is at par value, however, the price of the common stock in the secondary market is either under priced, over priced or at par and the stock price changes continuously in the secondary market due to internal (organizational) and external (political, economic, financial) factors. Moreover, the NEPSE index is sensitive to both internal and external factors.

The shares of the commercial banks play a vital role in the overall index of NEPSE and the overall index is highly influenced by the shares of the commercial banks. The sector wise contribution in total traded volume in NEPSE is mostly dominated by the financial sector. The shares of the publicly quoted commercial banks seem to be the basis of investment to all potential investors.

Only few investors of Nepalese share market are aware of the causing agent of share price. It means that most of the investors are unknown about the financial performance of the company but tends to invest on the company without proper financial analysis. It causes the unusual relation of the financial indicators – EPS, DPS, etc. with the market price of the share. The market rumors relating the financial position of the company is the major analytic tool for the most of the Nepalese investors. That has caused that the MPS of the most of the foreign joint

venture commercial bank are high in comparison with the other banks and manufacturing companies. In this context, the research problem of this study can be presented in the following points:

- What are the major determinants of the stock price of Nepalese Commercial banks listed in NEPSE?
- Is there any relation between MPS with the major financial indicators (EPS, and DPS)?
- Are the investors aware of financial indicators which influence the MPS of the company?

1.6 Objectives of the Study

The overall objectives of this study are to examine the effect of Rights issue announcement on share price movement. This research covers two interrelated aspects the features of Rights offerings by the listed companies and the share price movement associated with the Rights offering. It makes available analysis of prevailing practices among Nepalese companies regarding the issue of Rights share.

- To examine the Rights share issues of commercial banks.
- To analyze the relation between dividend per share (DPS), earning per share (EPS), and market per share (MPS).
- To analyze the effect of Rights share on share price.
- To provide suggestions to stakeholders to manage the Rights share issues.

1.7 Importance of the Study

The study focuses on the stock price movement of the commercial banks, so the study is particularly significant to the investors, managers, bankers, stock analyst, brokers, government officials, academicians, students and any other stakeholders

who are interested in understanding the share price behavior of the commercial banks.

Investors invest money with the expectation of acquiring good returns from their investment. This study analyzes financial situation of the commercial banks and performance of its traded stock. Therefore, the study is significant to investors and general public to help them undertake rationale decisions while investing in the stock of the commercial banks. Moreover, the study provides insight over the financial position and capitalization status of the commercial banks. The bank management can analyze the financial position and performance of their traded stock to undertake necessary steps for its improvement. Since, the study provides general picture of the existing share market, it is significant to the government and the policy making agencies to prepare/change policies in a timely manner for efficient functioning and growth of stock market.

In addition, the study would also be useful to stock analyst, brokers and any persons actively involved in stock market. Moreover, the study is significant to academicians and students who are willing to learn about the stock price behavior of the commercial banks and also to those who wanted to pursuer their career in banking or share business. Taking all the above issues into consideration, this study will analyze the stock price behavior of the listed commercial banks.

1.8 Limitations of the Study

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

- This study heavily focuses on the Rights offering and current legal aspects associated there in.
- This study assumes that the related published and unpublished documents, journals, articles and other previous studies are realistic.
- This study is mostly based on secondary data.

- Other variables that affect the stock price of sample companies are not considered while analyzing the share price movement.
- Out of total Rights issuing companies only one sector i.e. commercial banks is considered from which 3 banks are taken as sample for the study.
- The main causes for these limitations are due to technical and time constraint.

1.9 Chapter Plan

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systemic way. The study report has presented the systemic presentation and finding of the study. the study report is designed in five chapters which are as follows:

Chapter- I: Introduction

This chapter describes the basic concept and General background of the study. It has served orientation for readers to know about the basic information of the research area, focus of the study, problems of the study, objectives of the study and need or significance of the study and limitation of the study. It is oriented for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter-II: Review of literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It also establishes that the study as a link in a chain of research that is developing and emerging knowledge about concerned field.

Chapter-III: Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about

the various source of data related with study and various tools and techniques employed for presenting the data.

Chapter-IV: Presentation and Analysis of data

This chapter analyzes the data related with study and presents the finding of the study and also comments briefly on them.

Chapter-V: Summary, Conclusion and Recommendation

On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization for better improvement.

Bibliography, appendix and other supporting documents have also been incorporated at the end of the study

The list of bibliography and appendixes are given at the last for references.

CHAPTER-II

REVIEW OF LITERATURE

A literature review is the process of locating, obtaining reading and evaluating the research literature in the area of the researchers interest. Thus, review of literature is an essential part of all studies. It is a way to discover what others have researched in the similar topic. It is also a way to avoid investing problems that have already been definitely answered. It refers to the reviewing of the past studies in the concerned field of study. Such studies can be thesis that are written earlier, books, articles and other such publications concerning the subject matter, which were written prior by any person or organization. The purpose of literature review is, thus to find out what research studies have conducted in one's chosen field of study and what remains to be done. This chapter is included three parts i.e. Conceptual Review, Review of Legal provisions and Review of Related Studies.

2.1 Conceptual Frameworks

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

2.1.1 Historical Development of Capital Market in Nepal

The history of securities market began with the flotation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1973. Introduction of the Company Act in 1964, the first issuance of Government Bond is 1964 and establishment of Securities Exchange Center Ltd. in 1976 were other significant developments

relating to capital market. The trading on securities on Nepal was recognized on too late a period of 1976 when Nepal Industrial Development Corporation (NIDC) and Nepal Rastra Bank (NRB) through their joint efforts initiated the establishment of Security Market Center (SMC) to mobilize the public savings for ensuring public ownership in the shares of public limited companies. In order to promote the stock exchange business, the center made a series of studies in the beginning regarding both the public limited companies and devising the ways and means of undertaking the business of buying and selling securities.

In pragmatic reality, however the center became nothing more than the satellite organization of NRB to undertake the over-burden functions of latter in selling Government securities that comprise treasury bills, development bonds etc. After a long period of seven years doing nothing substantial in the frontiers of stock exchange business, the Securities Marketing Center passed a new Securities Exchange Act 1983/84 to refresh its role in the capacity of merchant banker in view of acting as a legally acknowledged stock exchange house.

In its early period of incorporation, the center focused much on the long list of objectives without really understanding the operational mechanism of securities exchange activities. As such, while referring to its introductory brochure, multifold objectives such as promoting public savings and mobilizing capital funds for investment, encouraging people's participation in ownership of business were prescribed. Mention was also made of underwriting, listing of securities, management of share prices, collection of essential information, etc. But in reality, for many years the center served in the capacity of an extra hand to support the selling function of NRB in disposing government securities comprising treasury bills, development bonds, promissory notes, etc. There is nothing substantial done about the business of buying and selling of securities despite laudable objectives enunciated without being pragmatic about possibilities of regulating and operating the stock exchange business.

After 1980s onwards, the center tried to create some securities exchange norms. But, all it became discouraging to develop the securities exchange in view of lack

of dashing leadership since the level of understanding about the pros and cons of stock exchange was relatively poor. The enactment of new securities exchange Act in 1984 became a landmark in the Nepalese history of stock exchange and this brought change in nomenclature to the extent that the title of the center to Securities Exchange Center. As a result of this center prepared its new booklet to ensure its role in the capacity of a merchant banker, as it is the only legally acknowledged stock exchange house in national perspective. As per its information, relating to listing the securities of eight public limited companies was listed in 1984 (Shrestha, 1996:10).

2.1.2 Common stock

Common stock is legal representation of equity for ownership position in a corporation. It lies under variable income security between two types of securities: fixed income and variable income and is a negotiable instrument. It can be bought and sold in the secondary market. The holders of common stock are called shareholders or stockholders. The common stock is the permanent and vital source of capital since they do not have a maturity date. As a return to the contribution of shareholders investment, they are entitled to dividends. It means, in the case of organizational profit, the shareholders are provided a certain sum of money as dividend. The amount or rate of dividend is fixed by the Board of Directors. Hence, the common stock is a kind of variable income security. Being the owner of the company, the shareholders bear the risk of ownership. They are entitled to dividends after the claim of outsiders are satisfied.

2.1.3 Features of Common Stock

➤ Claim on Income

The common stockholders bear a Rights to claim on income, which is earning available for ordinary shareholders, after paying expenses, interest charges, taxes and preferred dividend, if any. The income may be distributed among shareholders in the form of dividend or retained earnings. Dividends are immediate cash flow to shareholders, whereas retained earnings are the income reinvested in the

organization. Which ultimately increase the net worth of Shareholders Claim on Assets: The Common Stockholders have a residual claim on the company's assets in case of liquidation. Out of the realized value of assets, first the claims of debt-holders and then preference shareholders are satisfied, and the remaining balance, if any, is paid to the common stockholders.

➤ **Rights to control**

The ordinary shareholders have the legal power to elect directors to the board. If the board fails to protect their interests, they can replace the directors. They are able to participate in the management of the company through their voting Rights and Rights to maintain proportionate ownership.

➤ **Voting Rights**

For each share of common stock owned, the common stockholder has the Rights to cast one vote at the Annual General Meeting of stockholder. Common stockholders have the Rights to vote on stockholders matter, such as the selection or the board of directors, sale of fixed assets, merger of the company etc.

➤ **Pre – emptive Rights**

The law grants shareholders the Rights to purchase new share in proportion to their current ownership. Thus the pre-emptive Rights entitles a shareholder to maintain his proportionate share ownership in the company. The stockholders option to purchase, a stated number of new shares at a specified price during a given period, is called Rights which can be exercised at a subscription price which is generally much below the current market price of shares.

➤ **Limited Liability**

The common stockholders are the true owner of the company, but their liability is limited to the amount of their investment in shares. If a stockholder has already fully paid the issue price of share purchased, s/he has nothing more to contribute in the event of financial distress or liquidation. The limited liability feature of share

encourages unwilling investors to invest their funds in the company which helps company to raise funds (Pandey, 1999:905-908).

Most of the investors are wise to invest their saving funds in stocks, with the expectation of future cash inflow as dividends and maximization of value of their holdings in the market. Dividends and value of the firm are linked with the earning power of the firms, which ultimately affects the market price of shares. So, brief discussions have been presented in the following paragraphs, on earning per share, dividend per share, book value per share and market price per share.

2.1.4 Venture Capital

Equity investment in the early stages of a business is often called venture capital. It represents funds invested in a new enterprise, it is key to the success of any growing business firm. Institutional investor especially financial institution, wealthy individual investors and specialist investor organized in partnership are the major sources of venture capital. The investment in venture capital is risky. So, investors are rewarded with high rate of return in successful ventures. The venture capital activity is quite advanced in the developed countries.

2.1.5 Initial Public Offering

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

The empirical relationship between measures of stock market development and long run growth rates. After controlling for the initial level of GDP per capital, initial investment in human capital, political stability, the level of banking development and measures of monetary, fiscal and exchange rate policy, the predetermined component of stock market development remains positively and significantly correlated with long run economic growth (Levine and Zeros, 1998: 16-17).

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

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

2.1.6 Rights Issue

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

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

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

2.1.7 Features of Rights

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

- The issuing company determines the number of Rights required to subscribe to an additional share.
- The price per share for additional equity called the subscription price is left to the discretion of the company.
- Rights are negotiable. The holder of Rights can sell them. Rights are detachable i.e. only Rights can be sold.
- Rights can be exercised only before ex-Rights

2.1.8 Characteristics of Rights

Studying about Rights offering the following characteristics of Rights can be showed:

- The number of Rights that a shareholder gets is equal to the number of shares held by him.

- The price per share, called the subscription price, is determined by the issuing company.
- The number of Rights share required to subscribe additional shares is determined by the issuing company.
- Rights are negotiable. The holder of the Rights can sell them.
- Rights can be exercised only during a fixed period, which is usually about thirty days.

2.1.9 Theoretical Price Effect of Rights Issue

The forthcoming Rights issue should have no effect on the value of the stock during the interval between the announcement date and the record date that is while the old stock is selling Rights-on. The equity of each share of the old stock in the corporate assets and income remains absolutely unchanged during this period. The Rights issue merely gives each stockholder the opportunity, sometime after the record date either to liquidate a part of his equity in the corporate assets by selling his Rights, or to increase his investment in the corporation and thus to maintain his proportionate equity by exercising his Rights.

When the stock goes ex-Rights on the record date, the market price should immediately decline by the exact value of one Rights. The old stock selling Rights-on actually represents two values, one being the value of the Rights and the other the value of stock ex-Rights. On the record date, the first value is permanently detached from this joint valuation and thereafter, during the life of the Rights, is represented by the warrant certificate. The market value of the old stock, should decline immediately on the record date by the amount of this detached valuation or by the value of the Rights. The situation is precisely the same as when a stock loses a portion of its value through the payment of a cash or stock dividend.

So, the first quotation on the stock Rights after the stock has gone ex-Rights should be exactly the value of one Rights, for this is the precise theoretical

valuation which has been lopped off the old stock through issuing the warrant certificate. Similarly, all subsequent quotations on the stock Rights should equal the values obtaining at those times. In actual practice, however, these theoretical assumptions are not always borne out.

2.1.10 Earning Per Share

Earning per Share is calculated by dividing a company's net revenues by the outstanding shares. This gives a number that can be used to compare the earning of companies since it is unlikely any two companies will have the same number of shares outstanding. Accounting earnings that represent the different revenues and expenses, including the expenses associated with non-equity source of fund (such as interest to debt, dividend of preference shares) is known as total earning available for common stock. If this portion of income is divided by number of outstanding shares, we get earning per share (Sharp and Bailey, 2001:633).

2.1.11 Retained Earning

The total amount of earning of the firm that has not paid out as dividend through its history and indicated in the Balance Sheet as earning is known as Retained Earnings. These earnings are reinvested in the firm.

2.1.12 Dividend per Share

Dividend per share is calculated by dividing the total dividend amount paid for the financial period by the number of ordinary shares in issue. The directors may pay an interim dividend during the accounting period and then recommend a final rate of dividend per share for approved by shareholders at the Annual General Meeting (AGM).

Forms of Dividend

Cash dividend: Payment made in cash to shareholder are termed as cash dividends. Distribution of cash dividend causes the reduction in total assets and net worth of the company.

Stock Dividend: Distribution of bonus share as dividend to the stockholder is known as Stock Dividend. This increases the number of shares of the company.

2.1.13 Book Value per Share

The book value of the equity reflects the historical costs of – brick and meters the physical assets of the company. A well run company with strong management and an organization that functions effectively should have a market value greater than the historical book value of its physical assets (Western & Brigham, 1987: 674).

2.1.14 Market Value per Share

Market value per Share is the current price at which the stock is traded. For activity traded stocks that have thin markets, prices are difficult to obtain. Even when obtainable, the information may reflect only the sale of a few shares of stock and not typing the market value of the firm as a whole. For companies of this sort, care must be taken in interpreting market price information. The market price of share gives the value of shares, and the value of the organization. The market price is that price in which shares are traded or the stock amount which is paid by the buyer to the seller to purchase the stock of company. Since the common stock holders are owner of organization and have least priority to claim in liquidation, the price is highly volatile very sensible to environmental factors.

Due to the market imperfection and uncertainty, shareholders may give a higher value to the near dividends and capital gains. Thus, payment of dividend may significantly affect the market price of shares. Higher dividends increase the value of shares and low dividends reduce the value (Pandey, 1999: 681).

2.1.15 Security Board of Nepal (SEBON)

Security Board of Nepal was established on May 26, 1993 under the provision of the Security Exchange Act, 1983. It was established with the objectives of the promoting and protecting the interests of investors by regulating the securities

market. It also assumes the responsibility of development of securities market in the country, besides the regulatory role. Security Board has identified the policy development, legal and regulatory reform, stand arising disclosers, bringing enforcement to insure compliance and promoting broad based market as priority area to reform. The private sector has also been participating equally in establishing a sound system of security exchange. In private sector – investors, listed companies, financial and market intermediaries and in government sector – Ministry of Finance, Registrar of Companies (Ministry of Industry, Commerce and Supply), Nepal Rastra Bank, Nepal Stock Exchange, Federation of Nepalese Chamber of Commerce and Industries (FNCCI), Institute of Chartered Accountants of Nepal (ICAN) and Associations of Chartered Accountants have been playing vital role in promoting the capital market of the country

The objectives of the Board are to promote and protect the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities, to supervise, look after and monitor the activities of the stock exchange and other related firms on securities business, and to render contribution to the development of the capital market by making securities transactions fair, healthy, efficient and responsible.

2.1.16 Nepal Stock Exchange (NEPSE)

The securities exchange centre was established with an objective of facilitating and promoting the growth of capital market. Before its conversion into stock exchange, it was only a capital market institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. In 1993, the centre was converted into Nepal Stock Exchange (NEPSE) with the basis objectives of imparting free marketability and providing liquidity to the government and corporative securities by facilitating transactions in its trading floor through market intermediaries, such as brokers, market makers etc. and it is a non profit organization , operating under securities exchange Act 1983. Government of Nepal (58.67%), Nepal Rastra Bank (34.60%), Nepal Industrial Development Corporation – NIDC (6.13%) and Licensed

Members - General Public (0.60%) are the share holders of the NEPSE. It is the licensed dealer for Primary and Secondary market.

Presently, there are 27 valid members brokers (currently working 23 members) and 165 listed companies (20th Feb., 2010) in NEPSE. It has been adopting Fully Automatic system on trading shares. Hence, transactions are conducted on the open trading floor where price is determined when bid and offer match i.e. as per the demand and supply of the shares.

The stock exchange provides floor for trading the shares of listed companies creating the liquidity in shares markets. The liberal financial policy adopted by Nepalese government after the restoration of democracy tried to reform the financial market of Nepal. That result open practice of buying and selling of securities in the open floor of NEPSE maintaining the suitable market price of the shares. In general, the prices are determined according to the demand and supply of the shares. This study attempts to examine the different determiners of the share price relating the MPS with major financial indicators.

2.2 Review of Related Work

There are some related issue regarding Rights issue of share and its practice. Through review of Journals/Articles, Review of Books, Review of Thesis.

Gurung, (2004) conducted a research on “*Growth and Performance of Securities Market in Nepal*”. His paper attempted to study the growth trend and analyze the performance of Nepalese securities market. Likewise, the variables such as number of listed and traded companies and their securities, number of transactions, trading turnovers, paid up value, market capitalization and NEPSE index were analyzed for the secondary market. His study on the securities market performance revealed that there was no synchronization among different securities market performance indicators, but it was true that they almost have depicted an erratic trend during the observed period. This indicated the unstable and poor performance of securities market. Relative to the overall economy, the size of securities market was very small and the liquidity of securities was also poor. The study suggested that the

Nepalese capital market was passing through a bearish situation. The growth and performance of Nepalese securities market was not satisfactory though it was improving gradually.

Paudel, (2006) in his article concluded that current Nepal's stock market is inefficient and there is critical boom. He mentioned that "the recent boom is difficult to rationalize in the absence of improved status of informed decisions of investors since there is no sign of improvements in disseminating true financial status, among others, of listed companies. NEPSE should enquire immediately with concerned companies for possible reasons for extreme ups and downs in prices and make them public. Commercial banks are advancing loan against shares, which may help professional speculators to gain at the cost of small investors' ignorance. Thus, major stakeholders of capital market like NRB, SEBON and NEPSE should diagnose speculators' behavior and artificial crash. Otherwise, there is no reason to appreciate sudden bubble and boom in an unsustainable manner without any supporting opportunity of informed decisions" (The Himalyan Times, December 4).

Baral and Shrestha, (2006) conducted a research on "*Daily Stock Price Behavior of Commercial Banks in Nepal*". This study examines the stock price behavior of listed commercial banks by using the daily price movements of commercial banks sampled randomly in the fiscal year 2005/06. Observations of daily stock prices of sampled banks indicate that there is a large variation in their stock prices in the fiscal year 2005/06. They are not doing well in Nepalese stock market. Most of the serial coefficients are significantly deviated from zero and statistically insignificant. It signifies that the successive price changes are dependent. Therefore, the Nepalese stock market is inefficient in pricing the shares. Runs test results also show that the percentage of deviation between the observed and actual number of runs in the series of price changes is significant. It is obvious that the successive price changes are not random. Thus, RWH does not hold true in the context of Nepalese stock market.

Rights Issue Review group in UK, (2008) in the Report “*A Report to the Chancellor of the Exchequer*” has concerned many ideas of Rights issue and its phenomenon. The summarized view of the report is as follows:

Rights issues are a common capital raising technique for companies in the United Kingdom. The structure is welcomed by investors because it offers them the maximum protection-delivering both the Rights of pre-emption and compensation for non-subscribing shareholders. Pre-emption is an important part of the accountability process because it enables shareholders to exercise their governance responsibilities through the process of authorization and dialogue.

Rights issues saw a period of challenge in 2008. Companies successfully raised £23 billion from Rights issues in the UK-of which some £16.9 billion was for companies in the financial sector. This was a successful execution and even more so given the market context. However, it was not entirely orderly and highlighted that the process merited review. Efficient capital raising techniques are essential to enable companies to raise capital at least cost.

Orderly capital raising not only helps reduce the cost of raising capital but also preserves the integrity of the market and the issuer's reputation. Improvements will therefore benefit the market, companies and shareholders. The authorities and industry have collaborated to identify a number of ways in which the capital raising process could be made both more efficient and more orderly.

Rights issues in the UK currently can take at least 39 days from the date of being formally launched. Under the proposals in this report that would fall almost immediately to 32 days and for many issues to 16 days. This is a significant improvement and would reduce the period when a company (and its reputation) is at risk and its share price open to potential abuse.

Further proposals for more far reaching change could deliver alternative Rights issues processes with accelerated timetables, some of which would require work at the EU level. Going forward, we envisage the market being able to decide to choose from among several possible approaches to compensatory, pre-emptive,

equity capital raisings. The ambition should be to reduce the Rights issue period to materially below 16 days. One aspect of the Australian RAPIDS capital raising approach is to capture institutional decisions to invest very quickly—within a matter of a few days. This is the kind of timescale and model that would provide a step change in the UK approach.

The size of the Rights issues undertaken this year coupled with the market conditions and sentiment towards the prospects of the issuers have highlighted changes in underwriting practices and in the market for sub-underwriting. Greater use of risk management (particularly short selling) strategies by underwriters and sub-underwriters have challenged some conventional understanding. There appears to be a need for increased clarity about roles and the risk management techniques which the various players will employ. Beyond this the underwriter will continue to be obliged to manage appropriately client conflicts of interest and to avoid trading strategies which might amount to market abuse. The FSA (Financial Services Authority) will be consulting separately on the continuation of the emergency measures on short selling which it introduced in the course of 2008.

In Nepal, size of the shareholders population has been growing constantly the government also seems does not take any initiative in formulating the separate act which protects the shareholders Rights. In Nepal, the concerned officials seem to be not relevant as they interfere in the shareholders get ignored. In the annual general meeting, shareholders can amend the internal by laws, elect directors, authorize the sale of assets enter into mergers, change amount of the authorized capital and so on. But in Practice, many annual general meeting have undermined the collective Rights of the shareholders. National Life and General Insurance Company had suppressed the collective Rights of shareholders by not adhering to the consent of shareholders members in the board though the proposal was put forward by the management. Same case is happened of Butwal Dhago Udhayog as the management wanted to have a control over the collective Rights of shareholders (Shrestha, 1992:97).

One of the most important aspects of successful Rights offering is the subscription price. If the market price of the stock should fall below the subscription price, stockholders obviously will not subscribe to the stock, for they can buy it in the market at a lower price. Consequently, a company will set the subscription price at a value lower than the current market price, to reduce the risk of the market price's falling below it (Van Home, 2002:79).

If you study on the topic "The price effect of stock Rights issue". In this study he uses 303 stock Rights issued out of 422 privileged subscription recorded in NYSE . He classified these stock Rights by various methods such as industry wise according to the years in which they were issued. In this study he defines a lot of key terms clearly with example (Dolly, 1934:44).

2.3 Review of Thesis

Gautam, (2005) conducted a research on “*A Study on the Behavior of Stock Market Price in Nepalese Security Market*”. The main objectives of the research was to examine and study the price trend with the help of NEPSE index, volume of stock traded, impact of signaling factors on NEPSE, to find the correlation coefficient and regression analysis between the sampled companies and to analyze the closing market price of the sampled companies.

The major findings of the study were as follows: The price trend of the sampled companies was not in a predictable trend and the volume of the stock traded was in a fluctuating trend during the study period. The relationship between EPS and DPS and EPS and NWPS was positive. The regression analysis between the EPS and market price showed that all sample companies had positive regression coefficient which indicated that the price would increase at an average rate. The major signaling factors such as closure of major industries, closure of multinational companies and political demonstrations of four political parties played a major role in determining the NEPSE index. Gautam recommended formulating “Investors Protection Act” to remove difficulties such as transaction facilities in the stock

market. She also stressed on the need of adopting one window policy to provide all services while granting approval.

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

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

Major findings of the study were:

- Most of the investors buy share from both primary and secondary market.
- Most of the Nepalese investors invest in common stock mainly for dividend and capital gain.
- Most of Nepalese investors collect information regarding the Rights share issue through the magazines and newspaper.
- Most of the Nepalese investors perform company analysis to make investment in common stock.
- Majority of the Nepalese investors making trading of shares daily.

Baniya, (2008) conducted a research on “*Share Price Behavior of Commercial Banks and Effect of Macroeconomic Variables in Nepalese Stock Market*”. The specific objectives of the study were to, study and analyses stock price trend and behavior of the selected commercial banks; draw the main influencing factors of share price and to examine the impacts of GDP, rate of interest and rate of inflation on NEPSE Index. This study covered the period from FY 2001/02 to FY 2005/06. The researcher used monthly closing price of five commercial banks for analysis. Similarly, to establish the relationship between the NEPSE index and the macroeconomic variables GDP, rate of interest and rate of inflation during the study period were taken. The research used regression analysis to see the effect of macro-economic variables on the NEPSE.

The major findings of this study were as follows: The graphical analysis and volatility test showed that stock price behavior of sample commercial banks was not even, some showed fluctuating trend whereas other showed moderate trend. The results of run test showed market price of selected commercial banks were not random which indicated that market overreacted to the available information. There was no significant relationship between GDP and NEPSE

Which indicated that higher annual NEPSE index did not have positive relationship with GDP. Similarly there was no supporting evidence to prove that the change in the market interest rate on deposit could have affected the NEPSE Index. The degree of impact in stock price due to the change in interest rate was conditional on corporate environment. If the corporate environment was bRights enough the fall in the market interest on deposit increased the security price in the stock market and vice-versa. The trend of NEPSE index and the rate of inflation was not supporting with each other which proved that there was no significant relationship between NEPSE index and the rate of inflation. Finally, the study concluded that NEPSE was not influenced by macro economic variables.

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

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

Major findings of the study

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

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

important effort to inform the shareholders and companies regarding the Rights issue practice in Nepal.

Miss Bohara, (2066) has research on “*Rights share issue practice by commercial Bank in Nepal and its impact on share Price*”. The main objective of the study is:

- To enlighten existing practices of Rights issues.
- To explore the impact of Rights offering on market price of the stock before and after the book close date.
- To examine the theoretical value and market price of the stock after the book close date of Rights.
- To evaluate the adequacy of existing law on the matter of Rights share.

After reviewing the above thesis, it is found that various studies have been done on the topic of share price and its determinant. But no one has considered the Rights issue as important information that affects the market price heavily. Further, more no one had test the correlation of share price with general market movement using data of 2053 to 2065 B.S. Besides that researchers had tried to find out the value of Rights. The researcher had also making effort to highlight the under subscription problem. So, this study is trying to find the impact of Rights issue on market price of share of sample companies. This study may be an important effort to inform the share holders and companies regarding the Rights issue practice in Nepal.

2.4 Research Gap

Research gap focuses that the researcher how much trying to give new things from his/her study with compare to previous studies held by different researcher. Due to changing the time and circulation of environment the previous and present may be different in many ways. This is a research gap between the present research and previous research. Though many affiliated researchers have been done in this area but these have been very few exclusive researchers on this subject.

Though, few studies have considered Rights shares of commercial banks and its impact on capital market in Nepal, they fail to focus on Rights share as the highest instrument of share fund required for a banks. Furthermore, previous studies had not tested the correlation and t-test of share price with general market movement.

Thus, with this several of research gap and weakness found in previous studies, this research has been conducted to find out value of Rights issuing companies. Though, there are many different sectors, only one i.e. the commercial bank is selected for the research.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology refers to the various sequential steps that are to be adopted by researchers during the course of studying a problem with certain objectives. It tends to solve the search problem in a systematic way. Hence, overall research method adopted by the researcher is mentioned. It covers quantitative methodologies in a greater extent and also uses the descriptive part based on both designed quantitative and qualitative research in a very clear and direct way using both financial and statistical tools.

3.1 Research Design

Historical research design have been used as past data about NEPSE index, market capitalization and dividends of listed commercial banks have been taken into accounts to shows relevance of past elements to the present. Moreover, since characteristics of the given variable have been studied to describe the situation and events occurring at presents, the research also used as comparison between several banks, correlation and t-test have been made. In sum it can be said that the mix of descriptive and analytical research designs have been used in the research.

3.2 Population and Sample

The overall stocks market of Nepal will be considered as population and some of the major participants of the stock market will be considered.

3.3 Nature and Sources of Data

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

➤ **Primary Data**

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

➤ **Secondary Data**

Secondary sources of data includes annual reports of SEBON, various publication of NEPSE, statistical book of Nepal, published and unpublished documents, previous studies, dissertation, articles and foreign related journals as well. Newspaper, magazine, books and other reports such as Kantipur, Annapurna Post, and Gorkhapatra & New Business Age etc. are taken as useful sources of secondary data in this study. Some other important information has been collected from internet.

3.4 Data Collection Technique

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

➤ **Interview Method**

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

➤ **Historical Data Record Method**

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

3.5 Coverage of Data

This study covers the Rights issue made by those companies, whose name is listed in the NEPSE. The analysis covers the period of Five years.

3.6 Data Analysis Tools

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

➤ **Statistical Tools**

Statistical methods are the mathematical techniques used to facilitate the analysis and interpretation of numerical data secured from groups of individuals or groups of observation from a single individual. The figures provide details description and tabulates as well as analyze data without subjectivity, but only objectivity. The result can be presented in brief and complicated problems can be studied in very simple way. It becomes possible to convert abstract problems into figures and complex data in the forms of table.

Some important statistical tools have been used to achieve the objective of this study. In this study statistical tool such as Arithmetic mean, standard deviation, coefficient of variation, coefficient of correlation and t-test have been used.

i) Arithmetic Mean: In mathematics and statistics, the arithmetic mean, often referred to as simply the mean or average when the context is clear, is a method to derive the central tendency of a sample space. The term “Arithmetic Mean” is preferred in mathematics and statistics because it

helps distinguish it from other averages such as the geometric and harmonic mean

In addition to mathematics and statistics, the arithmetic mean is frequently in fields such as economics, sociology, and history, though it is used in almost every academic field to some extent. For example, per capita GDP gives an approximation of the arithmetic average income of a nation's population. The most popular and widely used measures of representation from the entire data by one value are what most laymen call an 'average' and what the statistician call the arithmetic mean. Its value is obtained by adding together all the times and by dividing this total by the number of items.

The formula to calculated mean is given by,

$$\text{Mean, } \bar{X} = \frac{\sum X}{N}$$

Where, \bar{X} = Mean of the values

$\sum X$ = Summation of the values

N = No of observation

ii) Standard Deviation (S.D.): Standard deviation is a widely used measurement of variability or diversity used in statistics and probability theory. It shows how much variation or 'Dispersion' there is from the 'Average'. A low standard deviation indicates that the data points tend to be very close to the mean, where as high standard deviation indicates that the data are spread out over a large range of values.

Technically, the standard deviation of a statistical population, data set, or probability distribution is the square root of its variance. A useful property of standard deviation is that unlike variance, it is expressed in the same units as the data.

The standard deviation is absolute measures of dispersion. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of series and vice-versa.

$$\text{Standard deviation}(\sigma) = \sqrt{\frac{\sum(X-\bar{x})^2}{N}}$$

Where,

σ	=	Standard deviation
$\sum(X - \bar{x})^2$	=	Sum of squares of the deviations measured from arithmetic average.
N	=	Number of items

iii) Coefficient of Variation: The calculated standard deviation gives an absolute measure of dispersion. Hence where the mean value of the variable is not equal, it is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation (C.V.) is given by the following formula in the percentage basis:

$$\text{Coefficient of Variation } C.V. = \frac{\sigma}{\bar{X}} \times 100$$

iv) Measures of Correlation: We examine the relation between the various variables. The correlation between the different variables of a bank is compared to measure the performance of these banks. Correlation refers to the degree of relationship between variables. If between two variables, increase or decrease in one causes increase or decrease in another, then such variables are correlated variables. The reliability of the value of coefficient of correlation is measured by probable error. The correlation coefficient describes the degree of relationship between two variables. It interprets whether variables are correlated positively by which it is helpful to make appropriate investment policy for profit maximization. The Karl Pearson coefficient of correlation (r) is given by following formula

$$r = \frac{\sum(X-\bar{x})(Y-\bar{Y})}{\sqrt{\sum(X-\bar{x})^2 \sum(Y-\bar{Y})^2}}$$

Where,

r = Correlation coefficient

The Karl Pearson coefficient of correlation always falls between - 1 to +1. The value of correlation in minus signifies the negative correlation and in plus signifies the positive correlation. As the value of correlation reaches to the value of Zero, it is said that there is no significant relationship between the variables.

v) Test of Hypothesis:- Hypothesis means the pre assumptions or quantitative statement of the population parameter which may be true or false. In order to make proper decision about the quantitative statement of the population, testing of hypothesis technique is used. There are two criteria for good hypothesis. One hypothetical statement is about the relations between variables. Second, hypothesis carries a clear implication for testing the stated relation.

For this study, test of significance of difference between two mean is used to analysis. In case of testing the significance of difference between two means of small sample, t-values are used to the t-distribution. The t-test for difference between two means is used to test whether two independent samples have been drawn from two normal population having the same mean and equal population variances or there is significance difference between population mean from which the sample are drawn as follows.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This Chapter deals with the presentation, analysis and interpretation of data collected mainly through secondary sources, in order to fulfill the objective of the study. Now the most important part of this study that consist of analysis and presentation of empirical data focus on how far the Nepalese companies are practicing the Rights share and how it affects the share price movement of these companies.

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

4.1 Rights Share Practice in Nepal

Rights share practice in Nepal includes Growth of Rights share in Nepal, Contribution of Rights share on total flotation in Nepal, issue manager wise Rights share issue and subscription rate of Rights share in Nepal.

4.1.1 Characteristics of Rights offering in Nepal

By analyzing the various data, researcher finds that among total listed companies, 260 public issues have been approved from SEBON. Nepal Finance and Saving Co. Ltd. is the first company to issue the Rights share in Nepal. In FY 2052/53 it issued Rights share amounting to Rs.2.09 million. Most of the company had issued their Rights share at par value i.e. Rs.100 per share. No company has issued their Rights share at discount because company ordinance does not allow them to sell the Rights share at discount.

The premium can be added but the fear of under subscription, forced company, not to add any premium on issue. As a result there is wide different between subscription price and market price per share.

The range amount of Rights share issued is Rs.2 million to 806.40 million. Development Credit Bank Ltd. had issued highest amount of Rights share which is Rs. 806.40 million. Generally commercial bank had issued large amount of Rights share. For example, Development Credit Bank Ltd., Nepal Investment Bank Ltd., Nepal Bangladesh Bank Ltd., Nepal SBI Bank Ltd., Bank of Kathmandu Ltd. and Nepal Bank Ltd. had issued Rs.806.40, Rs.295.29 million, Rs.359.92 million, Rs.287.87 million, Rs.119.21 million, and Rs.234 million Rights share respectively. Similarly, Nepal Merchant Banking & Finance Ltd., International Leasing & Finance Ltd., NIDC Capital Markets Ltd., Alpic Everest Finance Ltd. National Finance Co. Ltd., and Peoples Finance Ltd have also issued the Rights share amounting to Rs.800 million, Rs.600 million, Rs.504 million, Rs.40 million, Rs.43.20 million and Rs.50 million. Again Bottlers Nepal Ltd., Necon Air Ltd. And Development Credit Bank Ltd., Nepal Share Markets have also issued the large amount of Rights Share amounting to Rs.225.20 million, Rs.89.60 million, Rs.80 million and Rs.40 million respectively. In this way, researcher concluded that the practice of Rights share through various corporate firms is not similar in Nepal.

Most of the company had issued Rights share at par value and 1:1 ratio. Size of the amount raised by Rights share and different between the issued and closed date of various corporate firm is different. All the companies had issued their Rights share at par value i.e. Rs. 100 per share. Because according to company act 2053, company cannot issue their Rights share on discount. The premium can be added but due to fear of under subscription no company had added any premium on issue. As a result, there is wide difference between subscription price and market price per share.

4.1.2 Procedure for Issue of Rights in Nepal

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

- The board of director should decide and determine the quantum of further capital requirement and the proportions in which the Rights issues might be offered to its existing shareholders.
- AGM should pass the proposal of BOD by its majority.
- Company should notify the NRB, NEPSE, office of the company registrar and SEBON with prospectus in advance of the date of board meeting on which Rights issues is likely to be considered and should get permission from there.
- Make an announcement with prospectus, which gives a general indication if the reasons, purpose of the issue, which will make the issue desirable.
- Letter of provisional allotment or Rights offering to the shareholders with the prospectus. This will define the term of the Rights offering, the number of new shares allocated to each given no of old shares, the price at which the issue is to be made i.e. subscriptions price and the condition of which shareholders will qualify for the Rights issue. The letter will be sent after the date of an announcement.
- After the record of the provisional allotment, the allotment must be accepted or re-announced and payment in full or partial must be made for those shares, which are re-announced.
- Certificates are distributed to the shareholders who have participated in the Rights offering announcement. Shareholders who had accepted and fully paid up their allotment can re-announce the actual shares certificate in favor of third party.
- List the shares in the stock exchange again with the increased number, which must be approved by the stock exchange after which an application for listed new shares could be made.

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

Rights share is an important part of total public issue in Nepal. There are many other alternatives of the public issue. Following table and figure shows the contribution of Rights issue in the total public flotation in each of the fiscal years in which the Rights offering has been taken place.

Table: 4.1

Contribution of Rights Issue in Total Public Flotation

(Rs. in million)

Fiscal Year	Total Issue Approved		Rights Issue Approved		Percentage of Rights Issue Approve	
	No. of Companies	Amount in Rs	No. of Companies	Amount in Rs	Companies (%)	Issue Amount (%)
2006/07	14	1626.82	6	949	42.86	58.36
2007/08	29	2443.28	11	1013.45	37.93	41.48
2008/09	34	2295.50	17	1265.30	50	55.12
2009/10	64	10668.20	43	6793.40	67.18	63.67
2010/11	64	16828.51	50	14262.81	78.13	84.75
Total	205	33862.31	127	24283.96		

Sources : Annual Report of SEBON, FY 2010/11

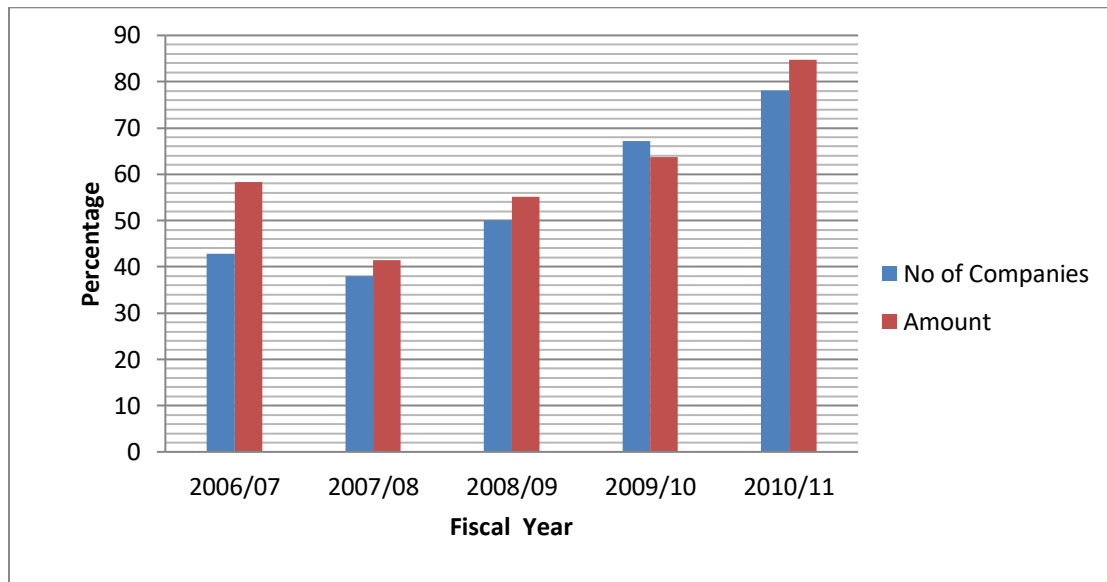
Analyzing the table, there in the FY 2006/07 contribution on Rights share on total public issue through six companies out of fourteen total issue approved companies which is the lowest of the study period is 58.36%. In the FY 2007/08 and 2008/09 the contribution of Rights share on total public issue through eleven and seventeen company out of 29 and 34 total issue approved companies is 41,48% and 55.12%. respectively.

In the FY 2009/10, contribution on Rights share on total public issue through 43 companies out of 64 total issue approved companies is 63.67%. It is highest contribution till the FY 2006/07.

The contribution of Rights share in the FY 2010/11 is the highest one during Five years period. The contribution of Rights share on total public issue through 50 companies out of 64 total issue approved companies is 84.75%.

Figure: 4.1

Rights Issue Approve (in Percentage)



Above figure 4.1 shows the Percentage of Rights Issue Approve in f/y 2006/07 to 2010/11 which is increasing every year. So it can be concluded that, contribution of Rights share on total public issue is significantly increase in Nepal. Under the Rights offering, the stockholder are provided a document called Rights which describes all about the conditions of Rights . Each stock holder receives one Rights in the proportion of shares currently held.

Rights share's issued giving proportionate Rights to the existing shareholder to purchase the new share. It is an option based financing approach where the existing shareholders are given an option to purchase a fraction of new shares

equal to the fraction they currently own. This fraction purchase helps to maintain the original ownership percentage of stockholders.

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

- To exercise the Rights and subscribe additional share.
- To buy additional Rights to meet the requirement of additional subscription.
- To sell Rights partially.
- To sell all Rights.
- To let the Rights to expire.

For these reasons, in many countries 'Rights' is a negotiable instrument and therefore transferable. And it must logically be transferable and negotiable because while somebody may have sufficient money to exercise the Rights and they may actually exercise such Rights. Some other may not have the money to exercise all the Rights. These second type of people may like to exercise the Rights partially in that case they should have Rights to sell the "Rights partially".

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

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

4.1.4 Instrument Wise Public Issue in Nepal

Nepalese capital market is in the infant stage of development. The four different types of instruments have been used so far till the FY 2065/066. The table below clearly shows the various instruments issued by different firms to raise its capital in Nepalese capital market.

Table 4.2

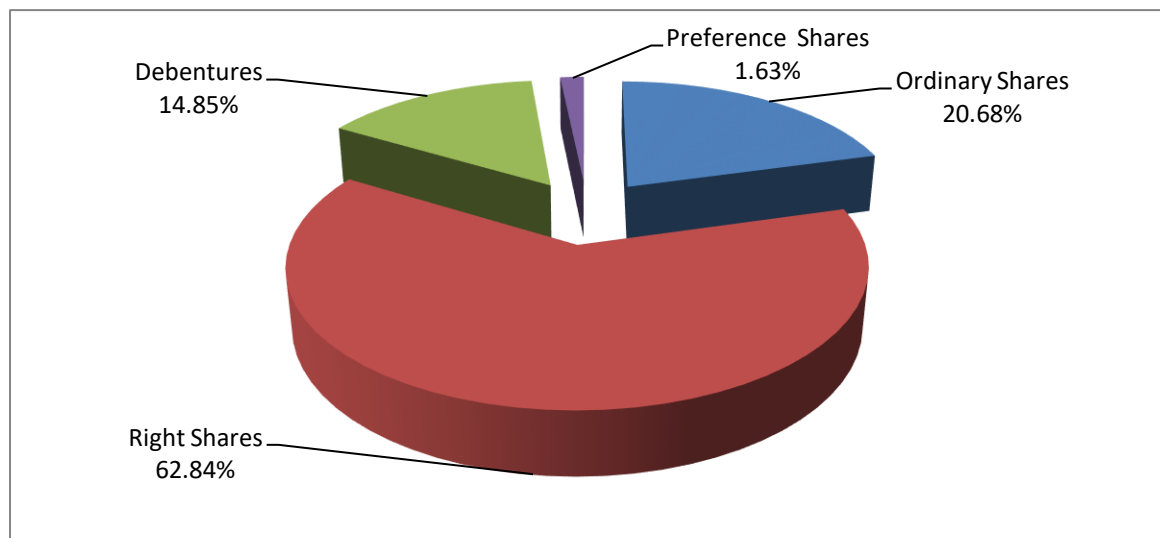
Instruments Wise Public Issue in Nepal (Rs. in Million)

Instrument	Total no. of Issues	Amount	Amount in %
Ordinary Shares	150	8146.74	20.68
Rights Shares	153	24753.66	62.84
Debentures	16	5853	14.85
Preference Shares	5	636.50	1.63
Total	324	39389.90	100

Source: Annual Report of SEBON, 2010/11

Figure 4.2

Instrument wise Public Issue in Nepal



Rights share is the largest instrument on total public issue. According to the above table, it covers 62.84% in total public issue, which is about 42% higher than ordinary shares. Besides Rights share, other instrument ordinary shares, debentures and preference shares occupy 20.68%, 14.85% and 1.63% respectively.

Till the FY 2008/09, ordinary share was the dominant instrument to cover the total public issue but in FY 2010/11, Rights share has covered the highest part of total public issue. Thus, it can be concluded that the contribution of Rights share issue on total public issue is significantly increasing in Nepal.

4.1.5 Classifying the Rights Issue According to the Sectors in Nepal

Those companies, which are interested for public issue, have to list their shares in NEPSE. Companies list in NEPSE are divided into 8 different sectors. Following table and figure shows the sector wise Rights in Nepal.

Table 4.3

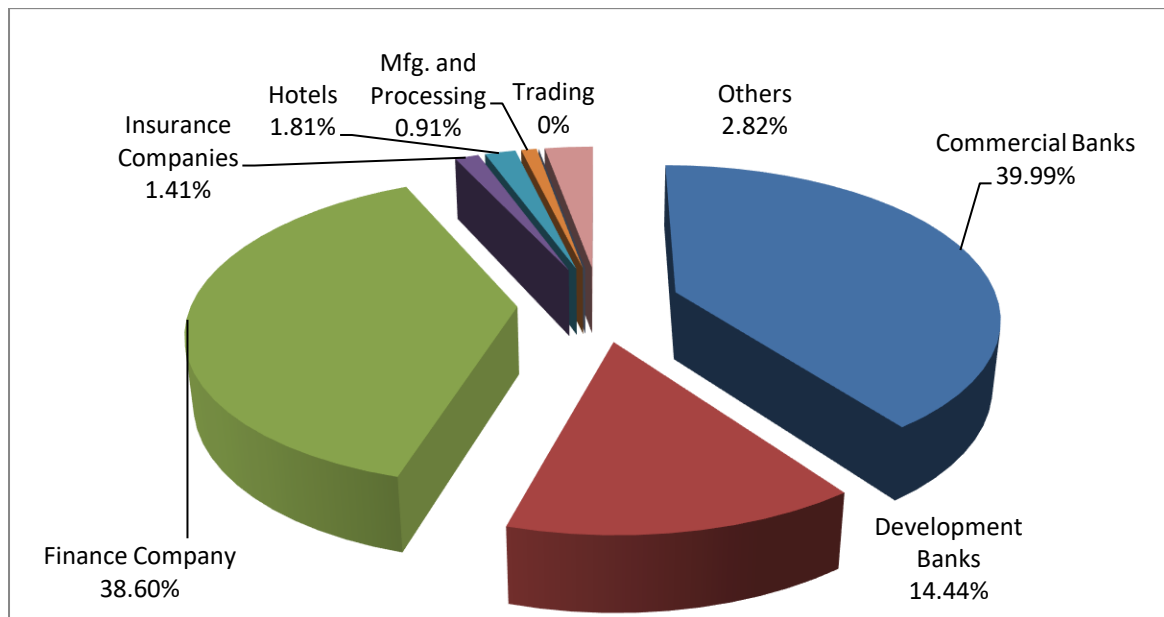
Sector Wise Rights Issue in Nepal (Rs. in million)

Sector	Listed Co	No of Rights Issues	Percentage (%)	Issues Amount (Rs)	Percent (%)
Commercial Banks	21	29	18.95	9845.21	39.99
Development Banks	29	30	19.65	3555.72	14.44
Finance Company	61	80	52.29	9502.56	38.60
Insurance Companies	17	11	7.19	346.20	1.41
Hotels	4	1	0.64	446.45	1.81
Mfg. and Processing	18	1	0.64	225.20	0.91
Trading	4	0	0	0	0
Others	5	1	0.64	694.94	2.82
Total	159	153	100	24616.28	100

Source: Annual Report of SEBON, 2010/11

Figure: 4.3

Sector wise Rights Issue in Nepal



By analyzing the above Table and figure, we can know that only 16, out of 21 listed commercial banks have issued the Rights share to their shareholders till the FY 2065/066. Since Nepal Investment Bank Ltd. has issued the Rights share four times at different period. Similarly, Lumbini Bank Ltd has issued thrice and Kumari Bank Ltd. & Machhapuchchre Bank Ltd. have issued twice. Listed 29 development banks have made 30 Rights issues.

Since, the no. of finance companies is increasing rapidly, the no. of finance companies issuing Rights share is also highest among all the sectors. There are 61 listed finance companies, which have issued Rights share 80 times till the FY 2010/11. Regarding the other sectors, only 11 insurance company out of 17, 1 hotel out of 4 i.e. Taragon Regency Hotels Ltd. One manufacturing company out of 18 i.e. Bottlers Nepal Ltd. and National Hydropower Co. Ltd. with Others sectors have issued Rights shares till the FY 2010/11. There are no listed companies that have issued Rights share from the trading sector.

On the basis of Rights shares issued amount, commercial banks have played the dominant role. Though only 29 cases of Rights shares have been made, it occupies the largest volume of Rights share i.e. Rs.9845.21 million which is 39.99%. The second largest sector of Rights issue is finance company which has issued Rights amounting Rs.9502.56 millions i.e. 38.60% of total Rights issue amount. Likewise, Development Bank sector is the third largest sector to issue Rights shares as it issued Rs.3555.72 million Rights, which is 14.44%. Besides, Others Sectors, Hotels, Insurance Companies, Manufacturing and Processing Companies have issued 2.82%, 1.81%, 1.41% and 0.91% respectively. Trading sectors has contributed nothing to the Rights issue.

So, finally after analyzing the data, it can be concluded that commercial banks sector is the largest sector to issue Rights shares with high volume of Rights issue amount.

4.1.6 Subscription of Rights Share in Nepal

We can analysis from below table that after the Rights offering to the existing shareholders from the companies. Normally there are not any cases of actual subscription. Actual subscription means that the existing shareholders apply for the entire announced share. That means companies were able to collect actual amount that they need for the further programmed. If there is application for more than the announcement is called over subscription. And if there is application for less than requirement is called under subscription that means company was not able to collect sufficient amount that it need to expand its programmer by the announcement of Rights share. In this case the decision of the board of director of detector to announce the Rights share was not good decision.

Researcher can conclude that the good performing companies are over subscribed, bad performing companies are under subscribed and normal companies are full subscribed.

When an investor thinks that the company would invest its extra fund in profitable way then they want more investment in the company if the existing shareholders

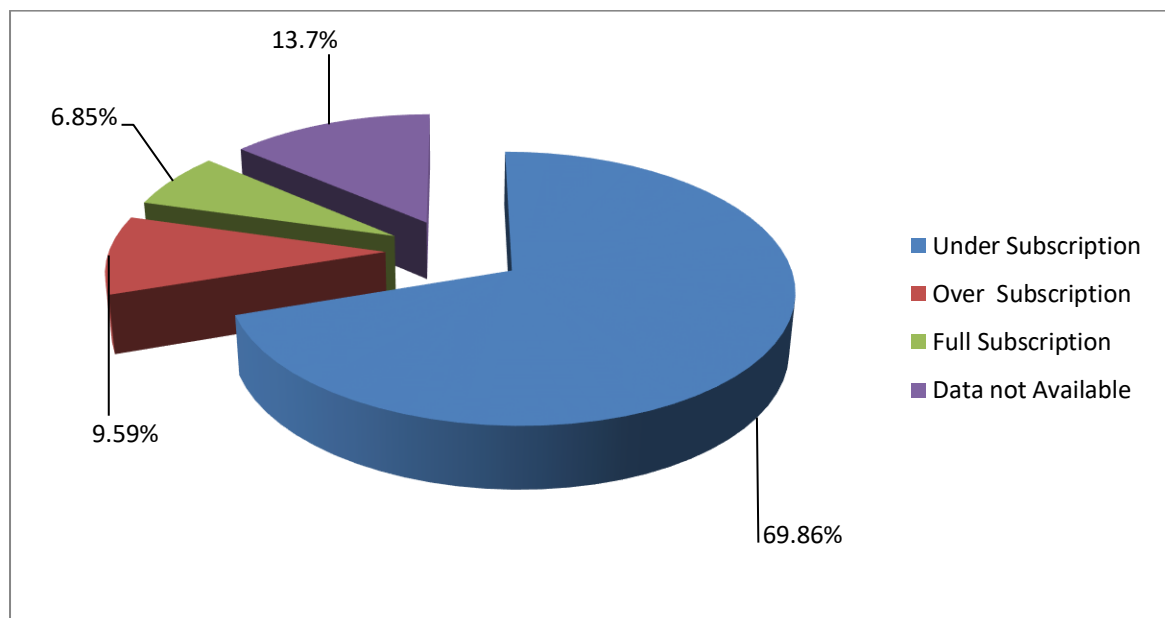
are not satisfied with the decision of board of directors then they will not motive to invest more.

Table 4.4
Subscription of Rights Share in Nepal

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

Source: Annual Report of SEBON, 2010/11

Figure: 4.4
Subscription of Rights Share in Nepal



From above table and figure, we can know that 51 companies out of 72 are under subscription. 5 companies out of 72 companies were able to collect actual amount that they need for the further programmed. Respectively 6 companies out of 72

companies were over subscribed. Subscribed amount are not available for 10 companies.

4.2 Rights Offering and Its Impact on Share Price

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

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

- 90 days before the announcement date
- 10 days before the announcement date
- The day of announcement
- 7 days after the announcement
- 180 days after the announcement

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

There are 102 cases of Rights offered by 72 companies out of total listed companies in Nepal till the FY 2010/11. But here researcher has analyzed only one sector i.e. commercial banks so in this study researcher has analyzed these three commercial banks which are as follows.

- Himalayan Bank
- NABIL Bank.
- NIBL Bank

Above given Sample Banks are analyzed of share price movement before and after the Rights offering are as follows:

4.2.2 Analysis of Share Price Movement of Himalayan Bank Ltd.

Table 4.5

Share Price Movement of Himalayan Bank Ltd.

Selected Point of Time	Share Price (Rs)	Price Relatives	Total Price Index of Equity Capital	Price Index Converted to New Base	% Change From Base	Adjusted Price Relatives	% Change From Base
	1	2	3	4	5	6	7
I	365	100	292.08	100	-	100	-
II	385	105.48	305.01	104.43	4.43	101.01	1.01
III	372	101.92	301.20	103.12	3.12	98.84	(1.16)
IV	378	103.56	301.76	103.31	3.31	100.24	0.24
V	453	124.11	370.89	126.98	26.98	97.74	(2.26)

Source: Annual Report of SEBON, 2010/11

$$\text{Column 2 : Price Relative} = \frac{385}{365} * 100$$

$$\text{Column 4: Price Index Converted to New Base} = \frac{305.01}{292.08} * 100$$

$$\text{Column 5: Percentage Change from Base} = 104.43 - 100$$

$$\begin{aligned} \text{Column 6: Adjusted Price Relatives 2 at \% at 4} &= \frac{\text{Price relative}}{\text{Price index converted to new base}} * 100 \\ &= \frac{105.48}{104.43} * 100 \end{aligned}$$

Column 7: Change from base = 101.01-100

The above table shows that the price movement of Himalayan Bank shares and general market movement. We can see that the actual price of share increased from Rs.365 to Rs.385 from base date to 10 days before announcement date of Rights share. The share price is Rs.372 at the day of announcement Rs. 13 lower than the price before 10 days where was it is increased to 378 after 7 days of announcement and there is further increment in share price to Rs. 453 after 6 months of Rights share announcement date. Total price index of equity share was 292.08 before 90 days of announcement date and it increased to 305.01, ten days before announcement date and it went down to 301.20 on the day of announcement date. There was small change i.e.increament of 0.56 from announcement date and after seven days of announcement. Total price index of share is raised up to 370.89 after days of announcement date.

According to the theory of Rights offering, the price of share will increase after the announcement and decrease after the allotment of share to the extent of value of Rights. But, here the price of Himalayan Bank Ltd. is different as follows:

Current Market Price of Stock = Rs.372

Value of One Rights = Rs.54.40

Ex-Rights Price of Share = Rs.317.60

The value of the share after allotment should be around Rs.317, but the share price of Himalayan was Rs.453 after 180 days of announcement date. This indicates that the share of Himalayan Bank is overpriced.\

4.2.3 Analysis of Share Price Movement of NABIL Bank Ltd.

Table 4.6

Share Price Movement of NABIL Bank Ltd.

Selected Point of Time	Share Price (Rs)	Price Relatives	Total Price Index of Equity Capital	Price Index Converted to New Base	% Change From Base	Adjusted Price Relatives	% Change From Base
	1	2	3	4	5	6	7
I	432	100	200.84	100	-	100	-
II	350	81.02	196.34	97.76	(2.24)	82.88	(7.12)
III	365	83.33	201.22	100.19	0.19	83.17	(16.83)
IV	393	89.73	202.45	100.80	0.80	89.02	(10.98)
V	260	59.36	232.29	115.66	15.66	51.32	48.68

Source: Annual Report of SEBON, 2010/11

In case of NABIL Bank Ltd., situation was somewhat different. The share price was Rs.432 before 90 days of the announcement date and it dropped to Rs.350, ten days before announcement date and increased to Rs.365 in the day of announcement. Increase of price to Rs.393 from Rs.365. has been found from the point III to IV. After 180 days of announcement date, it went down to Rs.260.

When we look to the price index it was 200.84 before 90 days of announcement date and it dropped to 196.34, ten days before the announcement date and after the price index started to increase and it was 201.22 in the day of announcement of Rights share. After seven days of announcement date, it was increased to 202.45 and after 180 days of announcement. It was raised up to 232.29.

While examining the percentage change in the adjusted price indices from the base index in column 5 and percentage change in the adjusted share price from the base index in column 7, it is clear that change in share price is not only due to general market movement. The adjusted price was increased from 82.88% in ten days before announcement date 83.17% in the day of announcement while converted price index has been increased to 100.19% from 97.76% between point II and III.

The adjusted share price is increased by 5.85% while converted price has been increased by just 061% from the point III to IV. Thus, we can say, this increment in share price is due to Rights offering because shareholder rushes to share market to enlist their name within the record date. But after 180 days of announcement date, the share price has been dropped to Rs.260.

In case of NABIL Bank Ltd. Rights have positive impact on share price movement and it approximately meets the theory,

Market Price of Share = Rs. 365

Value of One Rights = Rs.132.50

Ex-Rights Price of Stock = Rs.232.50

Since the share price of NABIL Bank Ltd. after 180 days of announcement is Rs, 260 around the ex-Rights price i.e.232.50. So one can easily conclude that NABIL Bank Ltd. approximately meet the theory of Rights offering.

4.2.4 Analysis of Share Price Movement of NIBL Bank Ltd.

Table 4.7

Share Price Movement of NIBL Bank Ltd.

Selected Point of Time	Share Price (Rs)	Price Relatives	Total Price Index of Equity Capital	Price Index Converted to New Base	% Change From Base	Adjusted Price Relatives	% Change From Base
	1	2	3	4	5	6	7
I	421	100	278.50	100	-	100	-
II	336	79.81	281.61	101.12	1.12	78.93	(21.07)
III	330	78.38	277.83	99.76	(0.24)	78.57	(21.43)
IV	345	81.95	281.15	100.95	0.95	81.18	(18.82)
V	365	86.70	303.12	108.84	8.84	79.66	(20.34)

Source: Annual Report of SEBON, 2010/11

When the NIBL Bank Ltd. announced the Rights to its existing shareholders, there was still a decreasing trend in general market movement. Price of NIBL was Rs. 421 three months before the announcement. It was decreased to Rs. 365 after 180 days of announcement date, nearly 13% decline over this period. While observing total price index of equity capital, it was slightly decrease from Rs. 278.50 to Rs. 277.83 on the period I to III. A decline of 0.24% was realized between periods I to III.

Therefore the declination on market price of the share of NIBL from base date to day of announcement is basically attributed to market trend. On the other hand, observing after the day of announcement, market price of the share went further

increased by Rs. 15 during period III and IV and became Rs. 345. Theoretically market price of the share should have gone up for few days after the Rights announcement, which happened in case of NIBL due to holder's record date. It means obviously, that the investors who purchased the share of NIBL on the day of announcement or on wards were not entitled to buy Rights share. It is quite contrary to the theory of Rights issue. That is why market price of share went down instead of increasing. Investors after the date of announcement may have thought that, number of share were going to increase, EPS were going to decrease or Ex-Rights price of share was going to decrease, it is believed that the original share price will be restored and the market shows normal price behavior after six months of announcement date, but in case of NIBL the share price was still in decreasing trend and leveled up to at Rs. 365, which seemed moving according to the principle of Rights. Rights offering theory does not match in case of NIBL Bank.

Market Price of Stock = Rs. 330

Value of One Rights = Rs. 115

Ex-Rights Price of Share = Rs. 215

The value of the share after allotment should be around Rs. 215, but the share price of NIBL was Rs. 365 after six months of announcement date. Thus the share of NIBL was overpriced.

4.3 Analysis of EPS, DPS and MPS of Sample Banks

4.3.1 Analysis of EPS

Earnings per share (EPS) are one of the most important financial indicators, which measure the earning capacity of a firm or profit available to the ordinary shareholders on a per share basis.

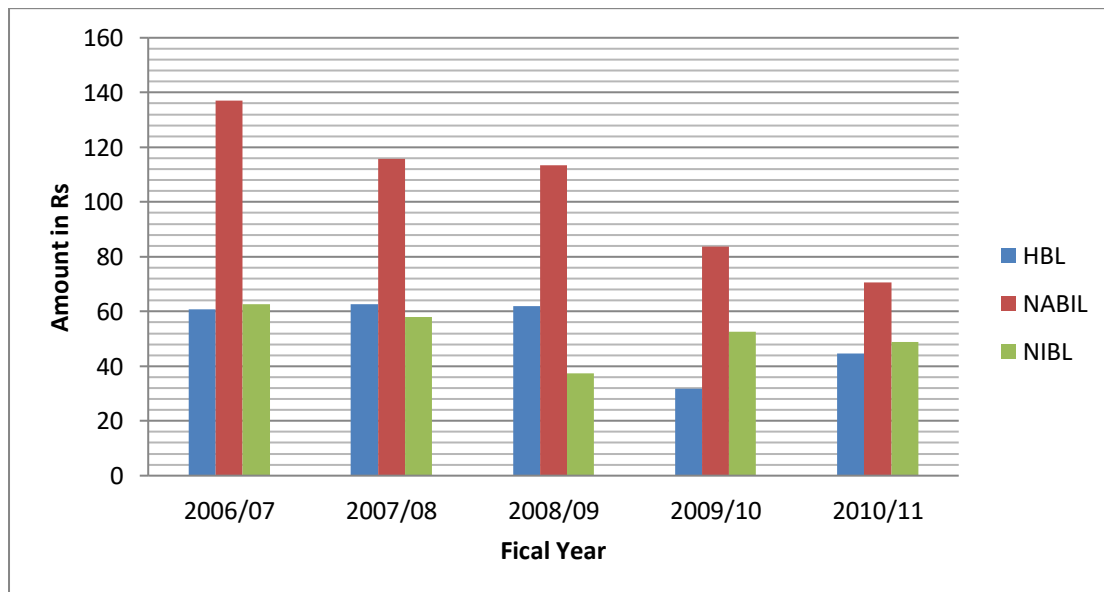
Table: 4.8
Analysis of EPS

Year	HBL	NABIL	NIBL
2006/07	60.66	137.08	62.57
2007/08	62.74	115.86	57.87
2008/09	61.90	113.44	37.42
2009/10	31.80	83.81	52.55
2010/11	44.66	70.67	48.84
Mean	52.35	104.17	51.85
S.D	13.69	26.66	9.60
CV	26.15	25.59	18.52

Source: Annual report of HBL, NABIL & NIBL

Figure: 4.5

EPS of HBL, NABIL & NIBL



The above mentioned comparative table and figure shows that EPS of HBL NABIL and NIBL of last five years which are fluctuating and in decreasing trends accept. The EPS of the company should be compared with the average and the EPS of each other bank. EPS simply shows the profitability of the firm on a per share basis.

Here, the average EPS of the HBL become Rs. 52.35, from above and below the value indicates the profitability of the common shareholders investment. Higher earning per share from average is preferable and vice versa, From 2006/07 to 2008/2009 the value was higher than the mean but in 2009/10 the value is in decline position and in 2010/11 it is little bit increasing but less than mean value. It shows that the firm's performance is not good.

Similarly, NABIL shows higher EPS in 2006/07 to 2008/09 than average whereas in other years shows lower EPS. The average deviation of NABIL is higher than HBL. It shows that there is little bit risk to invest by shareholders. According to above table it shows that the firm's performance is not good because it is in decreasing trend.

The EPS of NIBL are lower than NABIL of the study period. It is 62.57, 57.87, 37.42, 52.55 and 48.84 in FY 2006/07 to 2010/11 respectively. 62.57 recording as the highest over the study period. The least EPS of the bank is Rs 37.42 in FY 2008/09 making the average of 51.85 over the study period.

Thus, the analysis of EPS trend shows that average EPS in NABIL is higher than HBL and NIBL i.e. $NABIL > HBL/NIBL$. It indicates that the NABIL's profitability of common shareholders investment is better than HBL and NIBL respectively.

4.3.2 Analysis of DPS

DPS is that amount, which paid to common shareholders on a per share basis. DPS shows that what exactly do the ordinary shareholders receive. It is calculated by dividing the total dividend to equity shareholders by the total numbers of equity

shares. The following table shows the dividend per share (DPS) of the sample firms.

Table: 4.9

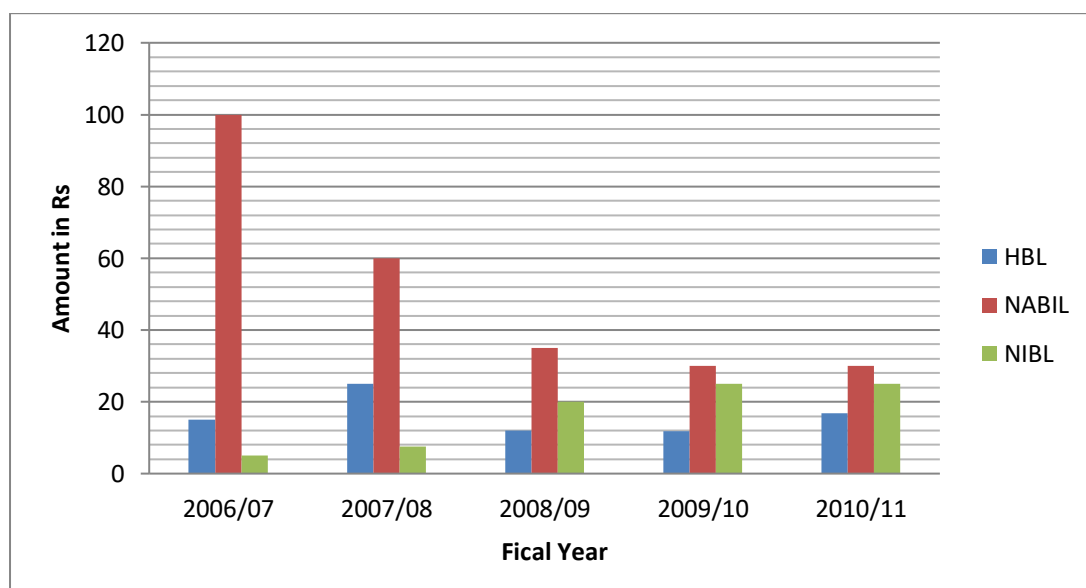
Analysis of DPS

Year	HBL	NABIL	NIBL
2006/07	15.00	100	5
2007/08	25.00	60	7.5
2008/09	12.00	35	20
2009/10	11.84	30	25
2010/11	16.84	30	25
Mean	16.14	51	16.5
S.D	5.38	30.08	9.62
CV	33.36	58.99	58.29

Source: Annual report of HBL, NABIL & NIBL

Figure: 4.6

DPS of HBL, NABIL & NIBL



The above table and figure shows that dividend per share of HBL is fluctuating, NABIL is decreasing and NIBL is increasing trends throughout the study period. The dividend paid by HBL, NABIL and NIBL is regular, so that the firm has definite dividend policy. The average dividend per share paid by HBL is Rs. 16.14. The highest dividend is Rs 25 paid in year 2007/08 and 2009/10 by HBL where as lowest DPS is Rs.11.84 in 2009/10. The firm is not able to maintain its average DPS from 2006/07, 2008/09 and 2009/10. In this firm, there is low risk than NABIL i.e. deviation is lower and c.v is 33.36.

The NABIL has paid yearly dividend in decreasing trends. The average DPS paid by NABIL is Rs. 51 which is highest among the selected firms. The highest DPS of Rs100 in year 2006/07 and lowest DPS is Rs.30 in year 2009/10 and 2010/11. The dividend paid to shareholders is regular and has the clear cut dividend policy.

Similarly, the DPS of NIBL is increasing throughout the study period but not meet to NABIL. It is 25 in FY 2010/11 recorded as the highest DPS over the study period. In average, the shareholders of the bank have received Rs 16.5 as a cash dividend every year.

The means DPS of HBL, NABIL and NIBL are Rs 16.14, 51 and 16.5 respectively. It shows that the means DPS of NABIL is greater than HBL and NIBL. Likewise the coefficient of variation (CV) of HBL and NIBL is less than NABIL.

Thus, the analysis of the DPS trend shows the average dividend per share paid by HBL, NABIL and NIBL, where higher dividend per share creates positive attitude of the shareholders toward the bank, which consequently helps to increase the market value of the shares. It is the indicator of better performance of the firm. In this regard, NABIL is better than HBL and NIBL.

4.3.3 Analysis of MPS

Market price of share is that value of stock, which can be received by firm or equity holders selling it in capital market. The capital market determines MPS. In this analysis MPS represents the closing market price of NEPSE Index of the sample firms and Annual report of HBL and NABIL. The following table shows the market price of stock (MPS) of the sample firms:

Table: 4.10

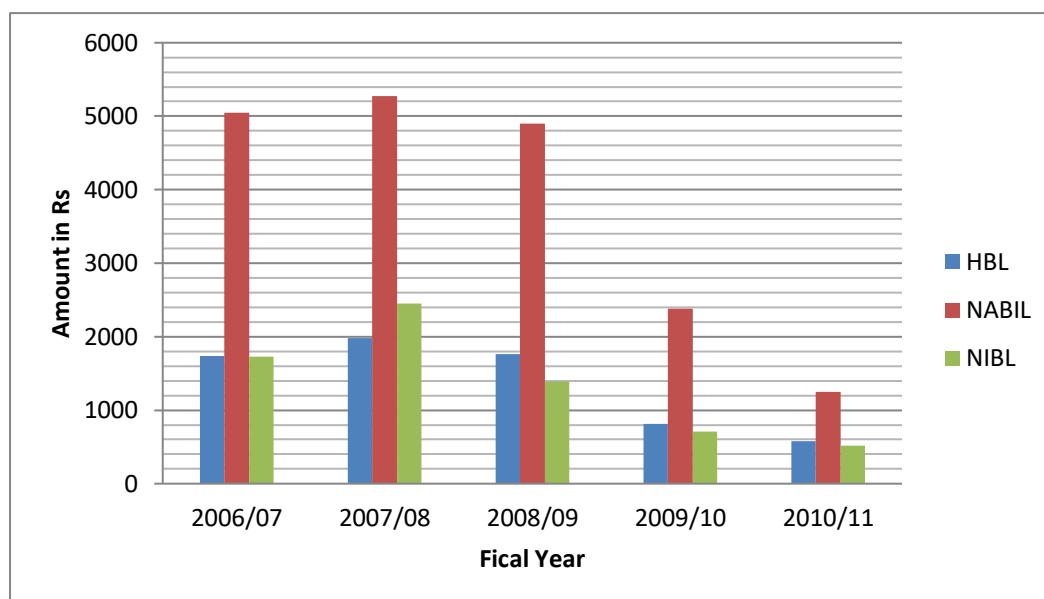
Analysis of MPS

Year	HBL	NABIL	NIBL
2006/07	1740	5050	1729
2007/08	1980	5275	2450
2008/09	1760	4899	1388
2009/10	816	2384	705
2010/11	575	1252	515
Mean	1374.2	3772	1357.4
S.D	632.45	1832.99	785.50
CV	46.02	48.59	57.87

Source: Annual Report of HBL, NABIL & NIBL

Figure: 4.7

MPS of HBL, NABIL and NIBL (in Rs)



The above mentioned table and figure shows that the average yearly MPS in HBL, NABIL and NIBL are Rs.1374.2, Rs.3772 and 1357.4 respectively. Among the selected banks, the NABIL shows the highest MPS in all study periods. The highest market price of NABIL is Rs. 5275 in the year 2007/08 and lowest is Rs. 1252 in year 2010/11. Its S.D is higher than the HBL and CV is 48.59.

Similarly, the highest and lowest MPS of HBL is Rs.1980 and Rs.575 in 2007/08 and 2010/11 respectively. Standard deviation of HBL is 632.45. The CV of HBL is less than NABIL.

Lastly, the highest and lowest MPS of NIBL is Rs 2450 and Rs 515 in 2007/08 and 2010/11 respectively. Standard deviation and CV of NIBL is 785.50 and 57.87 respectively. The highest C.V indicator the greater variability of MPS in the respective sectors. The MPS is highly affected by EPS and DPS.

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

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

In practice, not only the Rights offering but also general market movement largely affects the share price of companies. For this reason correlation between share price movement and general market movement is calculated by considering share price of companies as the dependent variables and the share price fluctuate according to the fluctuation on the index of the total equity capital.

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

Table: 4.11

Correlation Coefficient between Share Price and NEPSE Index

Sample Banks	Correlation Coefficient	Coefficient if determination
HBL	0.99	0.98
NABIL	0.077	0.0059
NIBL	0.030	0.0009

Source: Annual Report of SEBON and appendix 1, 2, and 3

By Table 4., researcher can clearly analyze that there is no consistent result of all banks taken for the study. The correlation coefficient of Himalayan Bank Ltd. Is 0.99, nearly about 1, which means that there is perfect positive correlation and coefficient of determination is 0.98 it means 98% of variance in share price is explained by general market movement.

In case of NABIL there is positive relationship between its share price movement and general market movement i.e is 0.077. The coefficient of determination i.e. $r = 0.0059$ means that about 0.59% of variance in share price is explained by general market movement. NABIL capital markets stock, there is also positive but low degree of relationship between its share price movement and general market movement.

In case of NIBL Bank Ltd, it has the very low degree of Positive correlation between share price movement and general market movement i.e. $r = 0.030$, It means there is very low degree of positive correlation between share price movement and general market movement. Coefficient of determination is 0.0009% i.e. general market movement has 0.09% influence on the price behavior of NABIL Bank Ltd.

4.5 Use of T-Statistics to Measure the Immediate Impact of Rights Offering on the Share Price and on General Market Movement

Theoretically, after the Rights issue, generally share price of concern company move upwards till the date of issue closed. To analyze whether there came any significant change in share price, we have used t-statistics. For this we have taken the share price and price index before and after announcement date. Following table shows the calculated and tabulated values of t-statistics of respective companies.

Table: 4.12

Calculated Value and Tabulated Value of t-statistics

Sample Banks	Level of Significance	Degree of Freedom	t-tab	t-cal	Remarks
HBL	5%	8	2.306	0.1150	Insignificant
NABIL	5%	8	2.306	12.86	Significant
NIBL	5%	8	2.306	8.93	Significant

Source: Annual Report of SEBON and appendix 1,2 and 3.

In Table 4.10, it can be clearly seen that the calculated value of 't' and tabulated value of 't' at 5% level of significance for 8 degree of freedom for share price indices, which are used to analyze the significance of change are presented. The calculated value of 't' incase of Himalayan Bank Ltd. is 0.1150 but tabulated value at 5% significance level for 8 degree of freedom is 2.306. Thus, tabulated is greater than calculated so, the null hypothesis is accepted. This suggests that there is no significant difference between the share prices few days before and after announcement of Rights offering and prices indices. Hence, our hypothesis that the share price movements before and after the announcement does not differ significantly can be accepted and researcher can conclude that price does not decline significantly after announcement of the Rights offering.

In case of NABIL Bank Ltd. calculated value of 't' is 12.86, whereas value at 5% level of significance for 8 degree of is 2.306. Since t is greater than ttab, the hypothesis that the share price does not change significantly is rejected and the alternative hypothesis that the share price has change significantly is accepted. Hence, researcher may conclude that the announcement of Rights offering share price has increased significantly. Such conclusion may be derived by change in general market movement also as there is significant change in general market index during the same period.

While analyzing the 't' test of NIBL Bank Ltd, it has also high-calculated value of 't' for share price than tabulated value of 't' i.e. $t(8.93) > t_{tab}(2.306)$ at 5% level of significant for 8 degree of freedom. From which, researcher can conclude that the difference between the share price few days before and after the announcement of the Rights offering is significant. Similarly, the difference in the price indices of total equality capital is also significant. Thus, it can be concluded that increase in share price can be attributed to Rights offering.

4.6 Major Findings of the Study

Here, the effort has been made in to present major findings of the study in Rights share practice in Nepal and its impact on share price movement of commercial banks. The major findings of this study are presented as follows.

- There is no significant different between share price and index price of Himalayan Bank Ltd. before and after the Rights issue.
- Incase of NIBL Bank Ltd, its share price increased significantly and after allotment of the Rights share its share treated nearly in ex-Rights price. So, researcher can say that stock of NIBL Bank Ltd followed the theory of Rights offering.
- There is significant difference between the share price of NABIL Bank, before and after the Rights issue and its index price. It's stock price followed the theory of Rights offering.
- There is no uniformity in the impact of Rights offering of share price.
- Rights offering are comparatively new practice in Nepal. Therefore, some sample companies are able to raise the desired capital thought it and the practice does follow the theory.
- Another major cause is dilution in shareholders wealth position is the holder's record date. In some sample companies, offering Rights holder's record date is prior to the announcement date.
- Market is going to mature and company with track record is low.
- Theoretically, after the issue of Rights share the earning per share of companies decreases. But if the company utilize the Rights offering, so it

raised fund in effective way the earning per share can be increased. Similar result has obtained in case of sample companies.

- Most of the Rights issues were under subscribed in Nepalese companies. So, it is a common phenomenon in Nepal.
- Under subscription of Rights share caused by various factors. Lack of investor's awareness, low performance of companies, and lack of effective flow of information, lack of provision for Rights transfer, untraceable investors and financial problem of shareholders are the major causes of under subscription.
- Subscription price of Rights share is too low as compared to market price of share.
- There is a large no. of shareholders holding small no. of shares in Nepalese share market who generally ignore Rights issue.

CHAPTER–IV

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

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

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

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

Theoretically, after the Rights share announcement, the share price move upward till the closing date. After the closing date it will be traded at ex-Rights price. It means the share price move downward to extent of value of Rights. But while observing the share price behavior of sample companies mixed results have been obtained.

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

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

5.2 Conclusion

Conclusively, Rights share practice is comparatively new phenomena in Nepalese Financial Market. There are no easy things to work out to make the Rights offering as effective instruments of raising capital. The conclusions of the study are as follows.

- There is no significant different between share price and index price of Himalayan Bank Ltd. before and after the Rights issue.
- Incase of NIBL Bank Ltd, its share price increased significantly and after allotment of the Rights share its share treated nearly in ex-Rights price. So, researcher can say that stock of NIBL Bank Ltd followed the theory of Rights offering.
- There is significant difference between the share price of NABIL Bank, before and after the Rights issue and its index price. It's stock price followed the theory of Rights offering.
- There is no uniformity in the impact of Rights offering of share price.
- Rights offering are comparatively new practice in Nepal. Therefore, some sample companies are able to raise the desired capital thought it and the practice does follow the theory.
- Another major cause is dilution in shareholders wealth position is the holder's record date. In some sample companies, offering Rights holder's record date is prior to the announcement date.
- Market is going to mature and company with track record is low.
- Theoretically, after the issue of Rights share the earning per share of companies decreases. But if the company utilize the Rights offering, so it raised fund in effective way the earning per share can be increased. Similar result has obtained in case of sample companies.
- Most of the Rights issues were under subscribed in Nepalese companies. So, it is a common phenomenon in Nepal.
- Under subscription of Rights share caused by various factors. Lack of investor's awareness, low performance of companies, and lack of effective flow of information, lack of provision for Rights transfer, untraceable investors and financial problem of shareholders are the major causes of under subscription.
- Subscription price of Rights share is too low as compared to market price of share.

- There is a large no. of shareholders holding small no. of shares in Nepalese share market who generally ignore Rights issue.

5.3 Recommendations

The Financial Markets has come a long way it is still in primary stage and is not without flaws. The fallacies are founded on the part of regulating bodies, legal framework, investors and the associated companies. On the based of finding for the analysis and the issues and gaps mentioned above, the researcher has provided some practicable recommendation in the following points.

- Shareholders are not clear about the Rights offering its benefit and impact on their wealth position. So, government should inspire them by good governance and provisions regarding Rights share.
- In Nepal, not all companies do Rights share practice properly. So, government should positively motivate them by good governance and provisions regarding Rights share
- To attract the investments, the issue prospectus should provide a clear picture of both the systematic and unsystematic risk of the business that will be make fear trade between risk and return.
- The critical factor affects the share price and Subscription on the holder's record date. The investors who purchase the share after that day are unable to get share. This can be better to set the proper holder record date by issuing companies.
- Nepalese investors are not all aware about Rights offering. Therefore, to increase awareness for investors some technique like interaction, used of information technology through media etc should be managed by related companies and government.
- There should be need of Investment protection Act that helps to investors confidence and secured.
- Company Act 2053 is silent about the procedure and mechanism of Rights issue. So, it should make Rights share transferable that helps to solve the problem of under subscription.
- Free pricing concept should be implemented in Rights offering to get rid off the problem of low subscription price of Rights share.

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APPENDICES

Correlation Coefficient and Coefficient of Determinant and T-test between Share Price and NEPSE Index

Variable Defined

X : Share Price

Y : NEPSE Index

r : Correlation Coefficient

r^2 = Correlation of determination

Appendix-1

HBL

X	Y	(X- \bar{x})	(X- \bar{x}) ²	(Y- \bar{Y})	(Y- \bar{Y}) ²	(X- \bar{x}) (Y- \bar{Y})
365	292.08	-2.56	6.55	-22.10	488.76	56.58
385	305.01	-5.6	31.36	-9.17	84.08	51.36
372	301.20	-18.6	345.96	-12.98	168.48	241.42
378	301.76	-12.6	158.76	-14.42	207.93	181.69
453	370.89	-62.4	3893.76	56.71	3216.03	3538.71
X= 1953 \bar{X} = 390.6	Y =1570.94 \bar{Y} = 341.11	(X- \bar{x}) ² = 4436.39		(Y- \bar{Y}) ² = 4165.28		(X- \bar{x}) (Y- \bar{Y}) = 4069.76

Karl Pearson's Coefficient of Correlation

$$r = \frac{\sum(X-\bar{x})(Y-\bar{Y})}{\sqrt{\sum(X-\bar{x})^2 \sum(Y-\bar{Y})^2}} = \frac{4069.76}{\sqrt{4436.39 \times 4165.28}} = 0.99$$

$$r^2 = (0.99)^2 = 0.98$$

Again we have,

$$S^2 = \frac{\sum(X-\bar{x})^2 + \sum(Y-\bar{y})^2}{n_1+n_2-2} = \frac{4436.39+4165.28}{5+5-2} = 1075.21$$

Now, Test Statistics,

$$t\text{-cal} = \frac{(\bar{X} - \bar{Y})}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2}\right)}} = \frac{(390.6 - 341.11)}{\sqrt{1075.21 \left(\frac{1}{5} + \frac{1}{5}\right)}} = 0.1150$$

Appendix-2

NABIL

X	Y	(X- \bar{x})	(X- \bar{x}) ²	(Y- \bar{y})	(Y- \bar{y}) ²	(X- \bar{x}) (Y- \bar{y})
332	200.84	-28	784	-5.79	33.50	162.06
350	196.34	-10	100	-10.29	105.84	102.88
365	201.22	5	25	-5.41	29.25	-27.04
393	202.45	33	1089	-4.18	17.46	-137.87
360	232.29	0	0	25.66	658.54	0.00
X= 1800 \bar{X} = 360	Y =1033.14 \bar{Y} = 206.62	(X- \bar{x}) ² = 1998		(Y- \bar{y}) ² = 844.58		(X- \bar{x}) (Y- \bar{y}) = 100.03

Karl Pearson's Coefficient of Correlation

$$r = \frac{\sum(X-\bar{x})(Y-\bar{y})}{\sqrt{\sum(X-\bar{x})^2 \sum(Y-\bar{y})^2}} = \frac{100.03}{\sqrt{1998*844.58}} = 0.077$$

$$r^2 = (0.076)^2 = 0.0059$$

Again we have,

$$S^2 = \frac{\sum(X-\bar{x})^2 + \sum(Y-\bar{y})^2}{n_1+n_2-2} = \frac{1998+844.58}{5+5-2} = 355.33$$

Now, Test Statistics,

$$t\text{-cal} = \frac{(\bar{X} - \bar{Y})}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2}\right)}} = \frac{(360 - 206.62)}{\sqrt{355.33 \left(\frac{1}{5} + \frac{1}{5}\right)}} = 12.86$$

Appendix-3

NIBL

X	Y	(X- \bar{x})	(X- \bar{x}) ²	(Y- \bar{y})	(Y- \bar{y}) ²	(X- \bar{x}) (Y- \bar{y})
421	278.5	61.6	3794.56	-5.942	35.31	-366.03
336	281.61	-23.4	547.56	-2.832	8.02	66.27
330	277.83	-29.4	864.36	-6.612	43.72	194.39
345	281.15	-14.4	207.36	-3.292	10.84	47.40
365	303.12	5.6	31.36	18.678	348.87	104.60
X= 1797 \bar{X} = 359.4	Y =1422.21 \bar{Y} = 284.442	(X- \bar{x}) ² = 5445.2		(Y- \bar{y}) ² = 446.75		(X- \bar{x}) (Y- \bar{y}) = 46.64

Karl Pearson's Coefficient of Correlation

$$r = \frac{\sum(X-\bar{x})(Y-\bar{y})}{\sqrt{\sum(X-\bar{x})^2 \sum(Y-\bar{y})^2}} = \frac{46.64}{\sqrt{5445.2 * 446.75}} = 0.030$$

$$r^2 = (0.030)^2 = 0.0009$$

Again we have,

$$S^2 = \frac{\sum(X-\bar{x})^2 + \sum(Y-\bar{y})^2}{n_1 + n_2 - 2} = \frac{5445.2 + 446.75}{5 + 5 - 2} = 736.5$$

Now, Test Statistics,

$$t\text{-cal} = \frac{(\bar{X} - \bar{Y})}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2}\right)}} = \frac{(360 - 206.62)}{\sqrt{736.5 \left(\frac{1}{5} + \frac{1}{5}\right)}} = 8.93$$