

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The concept of capital market in Nepal is new phenomena to the people. Capital market is a system in which the long-term finance is raised through the transaction of various types of financial assets for more than one year's maturity period. The most sensitive component for national economies of the world is "Capital Market". It plays a vital role to direct the country's economic activities. Any strategy for economic development requires a steady supply of medium and long-term funds for productive investment. Also, it helps to mobilize domestic resources and provide the best investment opportunity by transferring the funds from surplus sectors to deficit sectors through transaction of share. In this way, for the attainment of self-reliant growth of national economy and smooth running of the economic activities of a nation, the role of capital market has become major importance in financial market (Bhattarai, 2004).

Capital is needed for various purposes and varies from one to another, depending upon the types of companies and its peculiarities. Mostly companies need capital for expansion, diversification and to cope with various financial dearth situations. To fulfill the requirements of short term capital, company needs short term financing. Because such assets are relatively temporary in nature and values invested in them are normally capable of being freed within short period of time. Company also needs long term financing to finance in the fixed assets like land and investment, which remain permanently with the company. Under the situation of under-capitalization, the company may lose various opportunities because of financial crisis and under the situation of over-capitalization; most of the funds may remain idle, it can result in occasional over liquidity which will definitely affect the profitability of the company. Both of the situations are harmful for a company and may not be able to sustain for a longer period of time.

Choosing among the alternative forms of financing to raise required capital, the company should consider risk, relative costs and effects on control. Control considerations may sometimes be more important to owners than differences in relative risk of costs. Common stock financing is a less expensive way of raising

capital. Company made an issuance of equity share at the par value for it. Par value stands for the value per share of common stock obtained through dividing issued capital by number of shares outstanding. Considering the common stock as source of capital, sometimes the company offers rights, which is one of the methods of new issue to meet capital requirement.

Rights share issue practice in Nepal has no long history as compared to other developing countries. While looking the issue approval from the Securities Board of Nepal (SEBON), the researcher can easily notice an increasing trend of issuing rights share. In Nepal, Company Act 2016 has provisioned about the preemptive rights of shareholders in the section 42 (4). It stated that if the rights are contained in a firm's charter, then the firm must offer common stock to existing shareholders. If not, the company has choice of right 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.

This study deals with the question to whether the aggregate market valuation of companies' equity increases as a result of rights issue. The examination throws lights on several aspects associated with it, such as subscription price, subscription ratio and the legal provisions regarding the rights offering. The researcher concerned here is, not a mere watch on how the rights share price changes into ex-rights price but how a decision to issue rights share affects the market valuation of the aggregate equity of the concerned companies. In spite of such an opportunity of purchasing of shares below than the market price is provided to the existing shareholders by the company, all the number of rights issued by the company have not been fully subscribed, is an another aspect of the study. However, this study is mainly focused on impact of rights issue in share price movement in the context of Nepalese commercial banks and the practice of rights issue in Nepal as well.

1.2 Statement of the Problem

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

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

On the other side, theoretically after announcement of rights share offering, the price of the share should be increased. Similarly, after exercise of the rights share, the price of the share should be declined by its value of rights. But findings on the price effect of right offering on market price of stock are inconsistent. Findings are different in different research conducted by researchers. Dolley (1934) concludes that in two out of three cases the market value of stock ex-rights plus the market value of the rights share will be greater on record date than the last preceding quotation on the stock rights-on. Most stock going ex-rights, fail to decline in market value by full value of rights. In last he said that investor is about as likely to lose, as he is to gain if he sells his stock at the announcement date and buys it back just prior to the record date. But he didn't explain what should be the actual share price before and after the announcement of rights offering in his study. Likewise, the result of Nelson (1965) indicates that there is a significant drop in the market price associated with the announcement of rights offering. The evidence is inconclusive, however, for at least three different reasons. To begin with, the price effect could be attributes to announcements about earning, dividends or other event. Second, the study did not focus on the announcement date but considered the date of record and dates six months prior and subsequent. Lastly, in adjusting for the market, all securities were assumed, implicitly, to be identical to each other and hence to market. In these study researchers did not explain, whether sample companies followed the theory of rights offering or not. So here the main problem of the study is to identify whether the price behavior of sample companies meets the theory or not which is not proved in previous studies in context of Nepal.

While offering the rights share, there is another problem of under subscription. Due to the lack of instrument of rights transfer, there arises a problem of under subscription of rights share and finally this absence deprives the existing shareholders from enjoying the choice of selling the rights.

Besides this there are other problems regarding rights offering in Nepal like, no company can issue their rights share at discount and premium, thus, all companies are issuing rights share at par value. It causes vast deviation between market price per share and subscription price per share. This study deals with the following issues:

- What has happened in the share price movement after the announcement of rights share?
- What effects have the rights share offering on the price of the existing stock?
- What are the prospects of issuing the rights share in Nepalese capital market?
- Is there any problems regarding rights share issue of commercial banks?

1.3 Objectives of the Study

The main objective of this study is to examine the rights share practice and its impact on share price movement of commercial banks in Nepal. But specific objectives are as follows:

- To examine the movement in stock price before and after the announcement of rights issue,
- To evaluate the effects of rights share offering on the price of the existing stock,
- To analyze the prospects of issuing the rights share in Nepalese capital market,
- To examine the problems of rights share issue of commercial banks.

1.4 Research Hypothesis

T-test has been used to test the significance of the difference between the share prices under the following hypothesis:

Null Hypothesis (H_0)

There is no significant difference between the share price movement before and after the announcement of the rights share offerings.

Alternative Hypothesis (H_1)

There is significant difference between the share price movement before and after the announcement of the rights share offerings.

1.5 Significance of the Study

The proper mobilization and utilization of domestic resources become indispensable for any developing country aspiring for a sustainable economic development and there is no doubt that commercial banks have a vital role in the collection of dispersed small saving of the Nepalese people and transforming them into meaningful capital investment. The success and prosperity of the bank relies heavily upon the successful investment of collected resources to the important sectors of economy. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of commercial banks. Good investment policy has a positive impact on the economic development of the country and vice versa. So, the investment policy of commercial banks should be in accordance with the spirit of economic enlistment of the people.

There are many loopholes in the investment policies of commercial banks of Nepal which affects their performance to a great extent. It becomes every body's concern when their performance doesn't seem so satisfactory in terms of utilizing its resource efficiently in productive sectors. The study of commercial banks investment policy focusing on interest rate structure, portfolio management and credit management will strive to disclose the internal weakness and furnish the ideas for improvement. Therefore, the study has been undertaken to analyze the existing investment policy of commercial banks and point out the defects inherent in it and provide package of suggestions for its improvement.

The study has assumed to be helpful to the potential investors of Nepalese stock market to make better decisions. The analysis and findings will be very helpful to the University students to know about the trend of stock price before and after announcement of rights issue in Nepalese capital market. This study is expected to be helpful to the managers and CEO of the respected companies, managers of investment companies, mutual fund, issue managers and brokers in decision making process. It may also be helpful to the further researcher in the related topic.

1.6 Limitations of the Study

Some limitations are given below:

- The study has analyzed the previous six years data beginning from FY 2012/13 to 2017/18.

- Other variables that affect the stock price of sample companies are totally ignored while analyzing the share price movement.
- Out of total rights issuing companies, only one sector, i.e., commercial banks are considered from which 5 banks are taken as sample for the study.

1.7 Organization of the Study

The first chapter studies detail about the study area and the concept note about the research problem under study. It includes background of the study, statement of the problem, objectives, significance of the study, limitations. The second chapter reviews some literatures, books, articles, journals, monographs, SEBON journals. The third chapter includes research design, nature and sources of data, population, sample and sampling techniques, research tools and techniques and plan for data analysis. The chapter four analyzes tabulation, coding and classification of the data gathered in accordance with the research design to perform quantitative and qualitative analysis and describes the details about the analysis and interpretation of the findings. The chapter five discusses major findings, conclusion and finally the recommendations.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual Review

The easy way of raising capital is issue of common stock. Though there are various ways of financing a firm, the ways are limited when a new company is formed. So, the easy and fast way of generating funds for a new company is to issue the ordinary shares. When a company issues shares to the general public for the first time, the stock offering is called initial public offering. But, when a company issues shares to the existing shareholders, the stock offering is called rights share offering. It is relatively a new practice for Nepalese organizations.

2.1.1 General Rights of Shareholders

The rights of shareholders of common stock in a business corporation are established by the law of state in which the corporation is chartered by the terms of the charter granted by the state. Chartered are relatively uniform on many matters, including collective and specific rights. Certain collective rights are usually given to the holders of common stock (Weston & Copeland, 1992).

- The rights to amend the charter with the approval of the appropriate officials in the state and incorporation,
- The rights to adopt and amend by laws,
- The rights to elect the directors of the corporation,
- The rights to authorize the sale of fixed assets,
- The rights to enter into mergers,
- The rights to change the amount of authorized common stock, and
- The rights to issue referred stocks, debentures, bonds, and other securities.

Weston and Copeland (1992) suggested that common stockholders also have specific rights as individual owners.

- The rights to vote in the manner prescribed by the corporate charter,
- The rights to sell their stock certificates (their evidence of ownership) and, in this way, to transfer their ownership interest to other persons,

- The rights to share residual assets of the corporation on dissolution. (However, the holders of common stock are last among the claimants to the assets of corporation)

2.1.2 Characteristics of Rights Share

Studying about rights share offering, the following characteristics of rights can be described:

- The number of rights that a shareholder gets is equal to the number of shares held by him/her.
- The rights issuing company determines the number of rights required to subscribe to an additional share.
- The price per share for additional equity, called subscription price, is left to the discretion of the company.
- Rights are negotiable. The holder of rights can sell them.
- Rights can be exercised only during a fixed period, which is usually about thirty days.

2.1.3 Rights Share Offering

A right is an option to buy a security at a specified price during a designated period. A company gives its existing stockholders the first opportunity to purchase a new security issue on a privileged-subscription basis. Preemptive rights is a privilege offered to existing shareholders for buying a specified number of additional shares of the company's stock before the stock is offered to outsiders for sale. In other words, a provision in company's charter or by laws that gives the existing shareholders rights to purchase new share at subscribed price on pro-rata basis is preemptive rights. Horne (2002) stated that under preemptive rights, existing common stockholders have the rights to preserve their proportionate ownership in the corporation.

When a company makes a rights issue, it sends a "Letter of Offer" to existing holders of equity share indicating the amount of new full shares or coupons to which they are entitled in proportion to their old shareholding. Letter of offer must be exercised within a relatively short given period usually not more than thirty days, unless the date is extended by the company.

When a company sells securities by privileged subscription, it mails to its stockholders on rights for each share of stock held. With a common stock offering, the rights give the stockholders the option to purchase additional shares according to the terms of the offering. The terms specify the number of rights required for subscribing an additional share of stock, the subscription price per share and the expiration date of the offering. The holder of rights has three choices:

- Exercise them and subscribe the additional shares.
- Sell them because they are transferable.
- Do nothing and let them expire.

Generally, the subscription period runs about 2-3 weeks. A stockholder who wishes to buy a share of additional stock but does not have the necessary number of rights may purchase additional rights. For example, if we own 152 shares of stock in a company and the number of rights required to purchase one additional share is 5, our rights will allow us to purchase 30 full shares. If we would like to buy 31st share, we may do so by purchasing an additional 3 rights.

In a rights share offering, the board of directors establishes a date of record. Investors who buy the stock prior to that receive the rights to subscribe to the new issue. The stock is said to sell with rights-on through the date of record. After the date of record, the stock is said to sell ex-rights, i.e., the stock is traded without the rights attached. An investor who buys the stock does not receive the rights to subscribe to additional stock.

2.1.4 Problems and Prospects of Right Issue

Rights give the existing shareholders rights to purchase additional shares at a price somewhat lower than the market price. The problems and prospects of rights issue are as follows:

Prospects:

- The existing shareholders control is maintained through the pro-rata issue of shares.
- Raising funds through the sale of rights issue rather than public issue involves less flotation costs as the company can avoid underwriting commission. For

example: the flotation costs of common stock issued during the period 1970 to 1975 were 6.17 percent on public issue compared with 2.45 percent on rights offering in USA.

- In the case of profitable companies, the issue is more likely to be successful since the subscription price is set much below the current market price.

Problems:

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

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

2.1.5 Valuation of Rights

“The market value is a function of the present market price of the stock, subscription price and the number of rights required to purchase an additional share of stock.”

When companies announce rights share offering, the shareholders and the investors generally rush to buy the stocks of that company. Ultimately the rights generate certain value. When the stock is selling rights-on, the theoretical value of rights can be calculated using the following formula:

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

Variables defined:

V_r = Market value of one right when stock is selling rights-on

P_o = Market price of a share

P_s = Subscription price

N = Number of rights required to purchase one share of stock

Example:

If current market price of share is NRs. 32, the subscription price per share is NRs. 20 and the number of rights required to purchase one share is 3, then the value of one right using the above formula is:

$$V_r = \frac{32-20}{3+1} = 3$$

Thus, the theoretical value of one right is NRs. 3.

2.1.6 Market Price of Share

Market price of share means the price of share determined by the market and traded in the stock exchange. Generally, this market price of share is determined by the demand and supply of market. But, that is not the only thing which determines the share price. Other determinants of market price of share are as follows:

- **Dividend**

Shareholders who invest their money in common stock always seek return in the form of dividend. If the company pays higher rate of dividend, then ultimately the share price goes higher and vice-versa.

- **Cost of Capital**

Generally, cost of capital refers to the cost of fund raised. If the cost of capital is higher, automatically return will be lower. Finally the share price goes down.

- **Company's Earning**

Highly earning organizations pay higher dividend, then the price of the share moves upward and vice-versa.

- **Signaling Effect**

Another major price determinant is signaling effect. Signaling effect or signals means the market rumors which is related to the stock market. For example, Budget speech, Insurgency, Emergency, Dividend announcement, Rights offering, etc. due to these rumors, investors and stockholders buy and sell the stock. This finally affects the share price.

- **Economic Condition**

Economic condition of the country also determines the share price directly. If the economy is growing, obviously the price of share also increases. In the phase of recession or depression, it goes downward.

2.1.7 Rights Offering vs. Public Offering

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

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

2.1.8 Preemptive Rights

"A provision in the corporate charter or bylaws that gives common stockholders the right to purchase on a pro-rate basis new issues of common stock or convertible securities." (Weston & Brigham, 1996).

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

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

The second and more important, reason for the preemptive rights is that it protects stockholders against a dilution of value. For example; suppose 5,000 shares of common stock each with a price of NRs. 100 were outstanding, making the total market value of the firm NRs. 500,000. If an additional 2,500 shares were sold at NRs. 50 a share or for NRs. 125,000, this would raise the total market value of the firm to NRs. 625,000. When the total market value is divided by the new total shares

outstanding, a value of NRs. 83.33 per share is obtained. The old stockholders thus lose NRs. 16.67 per share and the new stockholders have an instant profit of NRs. 16.67 per share.

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

2.1.9 Market Value of Rights vs. Theoretical Value of Rights

Actual value or market value of rights may differ somewhat from its theoretical value on account of transaction costs, speculation and the irregular exercise and sale of rights over the subscription period. Market price of rights may be higher or lower than the theoretical value. If the price of a stock is significantly higher than its theoretical value, stockholders will sell their rights and purchase the stock in the market. Such action will exert downward pressure on the market price of the stock. If the price of the stock is significantly lower than its theoretical value, stockholders will exercise their rights to buy stock and then sell the stock in the market. Such action will exert upward pressure on the market price of the stock.

2.1.10 Effect of Rights Issue on Stockholders' Wealth

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

2.1.11 Nepalese Perspective of Rights Issue

Shrestha (1992) suggested that though the size of the shareholders' population in Nepal has been growing constantly, the government seems to have not taken initiative in formulating separate act which protects the shareholders' rights. Shareholders subscribe the shares floated by the public listed companies through Security Exchange Center (SEC) for the firm believes that there will be proper response of their rights which consist of both the collective and specific rights. The collective rights of shareholders include the amendment of charter with approval of appropriate officials.

In Nepal, the concerned officials seem to be not relevant as they interfere in the shareholders' rights. That is why the collective rights of the shareholders get ignored. In the annual general meeting, shareholders can amend the internal laws, elect directors, authorize the sale of assets, enter into mergers, change amount of authorized capital and so on. But in reality, many annual general meetings have undermined the collective rights of the shareholders. For instance, National Life and General Insurance Company had suppressed the collective rights of shareholders by not adhering to the consent of shareholders members in the board though the proposal was put forward by the management before shareholders. The same is true in the case of Butwal Dhago Udhyog as the management wanted to have a control over the collective rights of shareholders.

Shareholders have rights to vote as prescribed by the charter, they have rights to sell the transfer share certificate, inspect accounts as well as claim assets and income. Regarding their voting rights, the contest through collecting proxies can perform a very useful representation in the board of directors. By gaining board representation through proxies, the winning candidate may stimulate the shareholders' expectations. But in practice, the trend of collective proxies has found to be mixed. Because, in most of the cases, the candidate who represented the board through proxies seems to have considered only few vested interest at cost of many others.

One of the basic rights of shareholders is the power to use their votes while they elect their representatives for the board of directors. By exercising this power, shareholders choose a representative who can guide the board to formulate strategic plans and policies beneficial to the shareholders at large. Hence, the voting rights of shareholders are very crucial while its misuse may cause a great loss to the shareholders themselves.

2.1.12 Procedures for the Sale of Securities

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

2.2 Review of Related Literatures

2.2.1 Review of Articles and Theses

Author	Title	Year	Methodology	Findings
Marsh	Equity Rights Issue and the Efficiency of the UK Stock Market	1979	Single stage cross-sectional model	Quoted companies don't face a downward sloping demand curve selling any amount of equity at the market price.
Marsh	Study of Valuation of Underwriting Agreements for UK Rights Issue	1980	Black and Scholes model to value UK underwriting	Underwriting, taken alone and ignoring side payments, was considerably overpriced for their shares.
White and Lusztig	The Price Effect of Rights Offerings	1980	Pooled cross-section time series model	Average investors believe there is negative information associated with rights offering.
Aryal	Equity Rights Issue, its Practice and Impact in Nepal	2003	Cross sectional analysis and correlation analysis	Theoretical value of rights differ, rights issue increases equity capital for company diversification.
Karanja	Evaluation of Post Rights Issue Effect on Firms' Share Price and Traded Volumes	2006	Event study and market model	Most firms that announce rights issue usually experience a decrease in the share price after the issue at least in the very short run.
Shrestha	Stock Prices Behaviors in Nepal	2008	Serial Correlation test and Run Test as Test Methodology	Successive price changes are not independent random variables for the 30- samples stock listed in NEPSE.
Paudel	Stock Price Behavior of Commercial Banks in NEPSE	2008	Correlation, run test and auto correlation	Fair plays of bulls and bears make market equilibrium resulting in price stabilization.
Olesaaya	Effects of Rights Issue on Stock Returns	2010	Event study methodology and market model	There are negative abnormal returns prior to announcement of rights issue, positive abnormal returns during the announcement and negative results thereafter.
Bashir	Market Reaction to Rights Issue Announcement News	2013	Event study methodology, market model and t-tests	The reaction of Karachi Stock Market is an indication of no rights issue announcement affects i.e. no wealth maximization for investors.
Parajuli	Right Issues and its impact on Share Price Movement	2014	Correlation and t-statistics	The change in share price due to rights offering cannot be generalized.

Source: Retrieved from <<https://www.google.com>>

2.2.2 Theoretical Review

This section discusses the broad spectrum of theoretical orientations of stock price theories that exist in literature. It addresses such theories as arbitrage pricing theory, capital asset pricing model, efficient market hypothesis, Modigliani-miller theory, random walk hypothesis and signaling theory, as discussed below:

a) Random Walk Hypothesis

The random walk hypothesis is a financial theory stating that share market prices progress according to a random walk and thus cannot be predicted. It is consistent with the efficient market hypothesis. The concept can be traced to French broker Regnault (1863) and then to French mathematician Bachelier (1900) in which they asserted that successive price changes between two periods independent with zero mean and its variances is proportional to the interval between the two periods. The variance of weekly changes should be five times the variance of the daily changes.

Kendall (1953) evaluated that stock prices move randomly. Information about the companies is received at random intervals by the investors and sales and purchases of their share randomly. It is difficult to predict the intrinsic value of share and the price will keep on revolving or around a given intrinsic value which cannot be exactly achieved. The random walk hypothesis theory shows that stock price changes have the same distribution and independent of each other, so the past movement or trend of stock price or market cannot be used to predict its future movement in market.

b) Modern Portfolio Theory

Modern Portfolio Theory (MPT) or portfolio theory was introduced by Harry Markowitz in 1952. MPT has become a broad theory for portfolio selection. Prior to Markowitz's work, investors focused on assessing the risks and rewards of individual securities in constructing their portfolios. Standard investment advice was to identify those securities that offered the best opportunities to gain with the least risk and then construct a portfolio from them. Markowitz formalized this intuition. Detailing mathematics of diversification, he proposed that investors focus on selecting portfolios based on their overall risk-reward characteristics instead of merely compiling portfolios from securities that each individual has attractive risk reward characteristics. In short, investors should select portfolios rather than individual securities.

c) Modigliani Miller Theorem

Modigliani Miller theorem was proposed by F. Modigliani and Miller in 1958. The MM theorem is a modern thinking on capital structure. In MM theorem the relevance and irrelevance of the mix of capital is studied under the theory of the capital structure and also the mix of debt and equity affect the value and cost of a capital of a firm or not is the matter of concern in this theory. There are some assumptions which make the theory more relevant and easy to understand, these are no corporate or personal taxes and no bankruptcy costs, the ratio of debt to equity for a firm is changed by issuing debt to repurchase stock, the operating earnings of the firm are not expected to be grown.

d) Capital Asset Pricing Model

Capital asset pricing model was developed by William F. Sharpa in 1964. In finance, the CAPM is a model used to determine a theoretically appropriate required rate of return of an asset to make decision about adding assets to a well-diversify portfolio. The basic postulate underlying this finance theory is that assets with the same systematic risk should have the same expected return; the prices of assets in the capital markets should adjust until equivalent risk assets have identical expected returns.

2.3 Empirical Review

2.3.1 International Context

Horne (2002) examined that 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 or an issue of securities convertible into common stock be offered first to existing shareholders because of their preemptive rights.

Weston and Copeland (1992) suggested that if the new common stocks are issued giving the rights to purchase first by the existing shareholders, then it is called right share offering. Each shareholder has an 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 right for each share of stock owned. So, right share is privilege given to the existing shareholders that helps them to keep their control position proportionately equal and the issuing price will also be lesser than the market

price. This lower price would help to maximize the capital gain of the shareholders. Rights are the negotiable instruments. It has its expiration date. One of the advantages of right offering is the minimization of floatation cost. The procedure of right offering is similar to the non-rights issue.

Horne (1998) examined that when a company is formed, it obviously must be financed. Often the seed money comes from the founders and their families and friends. For some companies, this is sufficient to get things launched and with retained earnings, no more equity is needed. In other situation, equity infusions are necessary. From above quotation, it is clear that when a large scale firm is to be established, it fulfills the financial requirement by the issue of equity share. There are some other sources available to raise fund. These sources are called financial instruments such as preferred stock, bond, debenture, rights share, derivatives, etc.

Marsh (1979) suggested that London share price database to study equity rights issue and the efficiency of the UK stock market. He took whole population of right issuing company i.e. 1145 companies on the London quoted and registered companies between 1962 and 1975 although 148 issues were excluded because of potential ambiguities in the calculation of rights issue adjustment factors. He found the population abnormal return estimate for the two years' post announcement period was only 4.5 percent or almost exactly half of the figure obtained for the random sampling. Similarly, over the one-month period following the announcement, the abnormal return estimated were 2.8 percent and 1.6 percent respectively. The mean ex-post market return was only 0.8 percent higher than the mean risk fee rate over the two-year post announcement period, so the author expects his results to be largely independent of his beta estimates.

Since this study was concerned with market efficiency, he confined his attention to the post announcement period and striking feature was the apparent existing of abnormal returns after the news has been made public. Furthermore, his results were unaffected by the choice of model although the results were somewhat lower with market model.

The author further explored that price pressure implies a temporary price fall around the ex-date. To test this, he applied the single stage cross sectional model to full sample of nearly a thousand issues. The result was consistent with the existence of

small amount of price pressure. Share prices appear to suffer a temporary setback of 0.9 percent during the immediate ex-rights period, although they may recover from this over the next month with an abnormal return of 1.8 percent over the second period examined. While a small part of the price fall could be due to information effects delayed until after announcement date because of non-trading, there appears to be no other plausible explanation, which are consistent with market efficiency.

The results of this test on price pressure and market liquidity were far more conclusive. Although an average, there did appear to be small setback of 0.5 percent to 1 percent when the shares went ex-rights, he found no evidence whatsoever the returns over the issue (or announcement) period were related to the size of the issue. Quoted companies appear to be able to sell any reasonable amount of new equity at effectively the current market price and do not appear to face a downward sloping demand curve for their shares. Although in recent years there has been an active public debate in UK on the adequacy of the capital market there seems little satisfaction for any real concern over the operations of this particular segment, the London Stock Exchange appears to be a highly liquid market.

Marsh (1980) examined that UK companies raise virtually all of their new equity capital via the rights issue. Companies can guarantee the subscription of their issue having them underwritten and in recent years, this procedure has been adapted for 90 percent of UK rights issues. Underwriting is usually carried out on a fixed fee basis representing at least 1.25% of the total money raised, and hence it is clear that quite substantial sums of money are involved. Since underwriting is simply a put option giving the company the rights to put a failed issue on to the underwriter. In this study he describes an application of Black and Scholes model to the valuation of rights issue underwriting agreements over the period of 1962 to 1975. Model prices are compared with the fees charged in order to assess whether the latter represents competitive prices.

Furthermore, the author used the same population and sample as in previous study; however, he is unable to establish the date of the underwriting agreement with any degree of confidence. These issues were therefore excluded leaving him with a sample of 539 underwritten issues for the purpose of this study. Underwriter performs an economically useful function by assuming the risks of a failed issue. Aside from the question of whether shareholders really wish to indulge in option trading with

institution, the question of whether underwriting has historically proved worthwhile is an empirical one. In fact when he used the Black and Scholes model to value UK underwriting, over the period 1962 to 1975, the evidence strongly indicated that underwriting, taken alone and ignoring side payments, was considerably overpriced.

White and Lusztig (1980) studied that the purpose of this study was to test empirically two hypotheses with respect to the price effects of rights offerings. Its importance for the normative theory of financial management is obvious. The technique used in the study was a pooled cross-section time series model. This approach permitted the abstraction from the components of returns attributable to market wide events and other firm specific events on or near the date of interest, as well as tests of significance of events market prices. The result of the pooled regression provides more definitive information on the price behavior associated with the announcement of rights offering. Since the t-statistics on the announcement date dummy variables were statistically significant at the 1 percent level or better. The first hypothesis that average investors believe that there is negative information associated with a right offering and cannot be rejected.

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

Eckbo and Masulis (1992) highlighted daily data to examine 192 rights issues in the US for the period 1963-1981. Their findings indicated a decrease of shareholders' wealth of around 1 percent. Tsangarakis (1996) explored 59 rights offering in Greece and reported a significant excess return of as much as 4%. However, he was not clear of the cause of these abnormal returns.

Kothari (1997) studied on the effects of rights announcements on stock returns. The researcher computed a 5 day moving average to observe the trend of stock returns following earnings announcement. Daily market adjusted abnormal and cumulative abnormal returns were computed and a further t-test done to determine the effect of earnings announcement on stock returns and results interpreted. The findings from the study were that trends in stock returns are dependent on event announcement. Traded

volumes are not significantly affected by announcement. Earnings announcement had a significant effect on stock returns when CAR was evaluated indicating market inefficiency but AR was not significant for individual companies. From the findings of the study, it was concluded that the Nairobi Stock exchange is not semi strong form efficient. The researcher analyzed all companies and was testing the efficiency but this research has narrowed down on the effect of rights issue on company's share performance and only companies that have done rights and those that form part of the NSE 20 share indexes formed the target population.

Kabir and Roosenboom (2003) observed statistically significant negative abnormal returns associated with announcement effect of rights issues in Netherlands. Mishra (2005) examined the stock price reaction to information content of rights issue. The results indicated significant positive abnormal returns for a five-day period prior to rights announcement.

Karanja (2006) evaluated that share Price and Traded Volumes. The objective of the research was to evaluate the effects of post rights issue on the firm's share price and traded volumes. Karanja used event study methodology in his study. On the population, he evaluated 9 firms out of the 14 firms that had announced rights issue. He did an analysis 90 days after the rights issue and noted that most firms that announce rights issue usually experience a decrease in the share price after the issue at least in the very short run. He recommended that firms that announce rights issue must consider information asymmetry as this highly determines the firm's share prices after successful rights issue.

The author further used the work of Christie William et.al who also examined whether post offer price share performance is related to the decision to issue rights instead of a firm's commitment offering, if market offering is an important factor affecting post issue stock returns. William (2002) wanted to find significant difference in stock performance after a firm's commitment offering would be consistent with the notion that firm's commitments are timed. They found out significantly more negative abnormal returns during the year following the offer for the firm's commitment than for rights offer firms. They show that differences in these abnormal returns are robust to controlling the offer size, the firm's leverage, and the market to book ratio and other firm's attributes. Hence, the evidence suggested that firms selling shares to current owners via rights offer did not appear to be timing their issue to exploit over-

valued equity while firms selling to new owners were. These findings support the notion that the pattern of underperformance is tied to market timing.

Chen and Chen (2007) examined 205 right issues in China and found market reacts negatively around such announcements, but positively during the post-announcement period (in +10 to +20 days expiration period). Owen and Suchard (2008) reported significant abnormal returns of -1.83% with announcement of right issue of equity in Australia.

Olesaaya (2010) did a research on the effects of rights issue on stock returns and investigated companies listed at the NSE. Olesaaya used event study methodology in his study. He used market model which is a statistical model that relates the returns of any given security to the return of the market portfolio to measure and analyze the abnormal returns. In this study, he assumed that the abnormal returns reflect the stock market's reaction to the announcement of rights issue. The findings by Olesaaya showed negative abnormal returns prior to announcement of rights issue, positive abnormal returns during the announcement and negative results thereafter. Miglani (2011) observed positive excess returns of 32 right issues from India. They reported a gain of 1.42% in the shareholders' wealth on the day of announcement of right issue.

Bashir (2013) investigated the market reaction to rights issue announcement news by employing an event study methodology. This study focuses on the performance of thirty one rights issues in Karachi Stock Exchange (KSE) from 2008 to 2011. They tested whether the investor can gain or lose an above normal return by relying on public information impounded in a rights issue announcement. Using event study methodology, the study tested where excessive abnormal return exists during event window. Abnormal returns were calculated by use of the market model and t-tests were conducted to test the significance. The study found evidence of existence of positive abnormal returns on event date. However this gain in shareholders' wealth was statistically insignificant. The study concluded that the reaction of Karachi Stock Market is an indication of no rights issue announcement affects i.e. no wealth maximization for investors.

Sakwa (2013) conducted a study on the effect of rights issue announcement on stock returns of companies listed at the Nairobi securities exchange. The study covered a period of ten years from 2003 to 2012. A traditional event study approach was

adopted for this study. The mean adjusted returns model as specified in Brown and Warner (1985) was used in this study. This model uses the mean return over the estimation period as the normal return for the security had the event not taken place. A study of 13 out of the 61 companies listed on the NSE that had rights issued during this period was done. A two tailed t-statistic at 95% confidence level was done to test for statistical significance of the mean abnormal returns. The results of the study show that stock returns react positively to rights issue announcements. A positive mean abnormal return was recorded over the event period with the highest abnormal returns being on day t+2. There was a statistical difference between mean abnormal returns observed during the event period and estimation period for eighteen events and no statistical significance for one event. It was recommended that the Capital market intensifies supervision of market participants to enforce compliance with market regulations and also implement education programs to raise awareness among market participants and reduce information asymmetry.

Right offerings are less expensive than other offerings because the stocks are offered to their existing stockholders and merchant banks are only used to determine the offering price and as a standby underwriter to assist when not all rights are sold to existing stockholders (Eckbo & Masulis, 1995).

In an efficient market, the stocks reflect all information that is publically available so that prices immediately adjust to positive or negative information. The stock prices change directly when for example a company announce; an increase/decrease in dividends adjusted profit expectations seasoned equity offerings or when general economic indicators like interest rates, consumer behavior or growth of the economy change (Sprenger & Welppe, 2011).

That rights offering can be used effectively by financial managers. If the new financing associated with the rights offering represents sound decision, improved earnings for the firm, a rise in stock values will probably be the result. The use of rights will permit shareholders to preserve their position or improve it. However, if investors feel that the new financing is not well advised, the rights offering may cause the price of the stock to decline by more than the value of the rights. Because rights offering are directed to existing shareholders, its use can reduce the cost of flotation that is associated with the new issue.

Dolly (1934) conducted a study on the topic "The price effect of stock rights issue". In this study he used 303 stock rights issued out of 422 privileged subscription recorded in NYSE. He classified those stock rights by various methods such as industry wise according to the years in which they were issued. In this study he defined a lot of key terms clearly with example. The result of this study seemed that the possibilities of a stockholder realizing an immediate profit from a right issue are barely limited. Investors are about as likely to lose as to gain if they sell their stock at the announcement date and buy back just prior to the recorded date. If they sell their stock ex-rights together with their rights on the recorded date, in two cases, they realize a slight appreciation over the value of their stock on the preceding business day. If the stockholders decide to exercise their rights, they would do well to exercise them toward the end of the subscription period. Thus, allowing for a possible decline in the market price of the stock ex-rights below the subscription price, which would render the stock ex-rights valueless.

Smith (1997) accounted for less than ten percent of issue; whereas in Britain and many other European countries, rights issues were predominated. The price of the new shares in a issue is normally fixed at a level somewhat below the current market price of the shares. But this lower price should not generally diminish the wealth of the existing shareholders. The shareholders who do choose to take up the allocation, the fall in price is comparable to the consequential decline which accompanies the capitalization issue or stock –split. But, shareholders who do not choose to take up the allocation of the new shares can sell their rights to the new shares in the period before the payment is due. Only irrational shareholders, who neither exercise nor sell their rights, will see their wealth reduced. The company, therefore, can set a price for the rights issue sufficiently low to ensure that the rights will be exercised without fearing any adverse wealth implications for its existing shareholders.

Hansen (1988) found that the underwritten right offerings are associated with a price decline of more than four percent just prior to the sale. He argued that this price dip is due to the transaction costs for placing new securities. For an underwritten right offering, transaction costs that include flotation cost and price concession are higher than public offerings. So, he suggested that it is not surprising that companies prefer public offerings than right offerings.

Suresha and Gajendra (2012) conducted a study on the market reaction to rights issue announcement news, using an event study methodology for Nifty stocks from 1995 to 2011 and also examined neglected firm hypothesis and price pressure hypothesis. They found that stock returns are significantly affected negatively or positively around rights issue announcement dates. There was no significant change in trade volume for the observations stock s during event window. The study concluded that the Indian market reacts negatively to rights issue announcement.

Miglani (2011) conducted a study on the impact of right shares issued by Indian companies that took place during 2005 and 2010. The samples of 32 rights issues were used to study the announcement effect. The study examined the stock price reaction to information content of rights issues with a view to finding out whether Indian stock market is semi-strong efficient or not. The standard event study methodology was used for the purpose of examining the rights issue announcement reaction. The study revealed statistically significant abnormal returns on the announcement and surrounding dates.

Pandey (1999) evaluated that a right issue involves selling of ordinary shares to the existing shareholders of the company. The law in India states that the new ordinary shares must be first issued to the existing shareholders through a special resolution. Obviously, this will dilute their ownership. Pandey (1999) further stated that the existing shareholders do not benefit or lose from rights issue, whether they sell ex-rights or cum-rights. What shareholders receive is in the form of the value of a right, shareholders loses in the form of decline in share price. Shareholder's wealth remains unaffected when they exercise their rights. Shareholders will lose if they do not exercise rights or sell them.

2.3.2 Nepalese Context

Pathak and Giri (2008) found that there is lower degree of positive correlation i.e. 0.2170 between the share price movement and general market movement in the case of Nepal Bank Ltd. Similarly coefficient of determination of Nepal Bank Ltd is 0.0471 which indicates that the general market movement has only 4.71 percent role in the share price behavior of NBL and rest is by other unforeseeable factors. In case of Nepal Investment Bank Ltd, correlation between share price and general market price movement is in negative figure so there is no positive correlation between the general market movement and share price of NIB. General market movement explains

only 15.90 percent variation in the share price of NIB which is represented by the coefficient of determination. Pathak and Giri concluded that the price behavior shown by the stock of sample organizations do not satisfy the theory of rights offerings.

Gautam (2002) studied on the topic 'Analysis of Share Price Movement Attributed to Rights Offering Announcement'. The main objective of the study was to find out the effect of rights offering on the share price movement. To conduct the study, Gautam has used correlation analysis between share price movement and NEPSE index i.e. general market movement and t-statistics between share price before and after right issue announcement. T-statistics was used to test whether there was a significant change in share price before and after the issue of right. The major findings of the study were there is a lack of legal provision in the company act regarding the issue of rights. Change in the share price due to rights offering cannot be generalized and there is no availability of investors protection act. Nepalese security market has failed to use various capital market instruments such as warrants and convertible and Security Board has also failed to establish one window policy to support the primary issue of shares.

Aryal (2003) examined the relationship between the stock price reaction and announcement of rights issue and analyzed the relationship between rights share and equity share and rights share and NEPSE index. To conduct the study, Aryal had used cross-sectional analysis by estimating the regressions and concluded that the theoretical value of right varies for different companies. The announcement of equity rights issue were positively associated with the stock prices. There was a positive correlation between the right share and the equity share and also between right share and NEPSE index.

The author's objectives of the study were different than Gautam's study. The main objectives of the study were to examine the relationship between stock price reaction and announcement of rights issue and to analyze the relationship between rights share and NEPSE Index. To conduct this study, he used cross sectional analysis by estimating the regression. He analyzed only the relationship between rights share to equity share and rights share to NEPSE Index. In this research, he found that announcement of rights issue are associated with a positive effect on share prices. He further stated that theoretical value of rights differs from company to company. At last, he concluded that firstly company issues rights share for increasing equity capital

and to invest it in company diversification and expansion. Secondly, they issue rights share to increase capital to meet the level prescribed by Nepal Rastra Bank. The rights share and equity share has low degree of positive correlation and also there is positive correlation between rights share and NEPSE index.

Shrestha (2008) conducted a study to examine the efficiency of the stock market in Nepal. The objectives of the study were to examine the serial correlation of successive daily price changes of the individual stocks, to determine whether the sequence of price changes is consistent with changes of the series of random numbers expected under the independent Bernoulli (Swiss Mathematician and Physician, 1738) process and to determine the efficiency of the stock market through the theoretical model of efficient market hypothesis in the Nepalese stock market. The author used the data considering the daily closing price of 30 listed companies' shares (ordinary) in the NEPSE. His study period was of almost one and half year. He used the Serial Correlation test and Run Test as Test Methodology. He applied serial correlation to test the stock price behavior of Nepal Stock Exchange by giving sight in whether the price changes of shares are independent to each other. For this purpose, he computed the serial correlation of 1-15 lag days applying the natural logarithm model for daily price changes. In order to test independence of stock prices, he also applied run test. He analyzed runs by total number of expected runs and runs size.

After applying the required models and methodologies, he found average correlation coefficient of 0.2055, 0.825 and 0.0704 for 1, 2 and 3 lag days respectively. And for lags 5 to 15 days were less than 0.07. In overall, large number of serial correlation coefficients of the log price changes of the 30 stocks for the sample periods are significantly departed from zero. In addition runs analysis also followed the serial correlation result that means there has been significant difference between actual numbers of runs for series of daily closing prices changes of the market. By the result of his applied models and methodologies, he conducted, 'The successive price changes are not independent random variables for the 30-samples stock listed in NEPSE. Therefore, the random walk theory is not suitable description for the stock market price behavior in Nepal.

Paudel (2008) conducted a study with an objective to examine monthly closing prices of 6 listed commercial banks during the period of three consecutive years from 2005 to 2007. The researcher used correlation coefficient, run test and auto correlation. The

author found in his study that successive price changes were correlated with previous price series. The present stock prices were dependent to the historical prices. Most of the investors wanted to invest in the shares of commercial banks because the fluctuation in NEPSE index was due to the transaction of commercial banks' shares. Monthly closing prices of stocks were not enough to predict the behavior of share prices. Besides, there was mismatch between the calculated and the quoted price. However, he concluded that the involvement of more and more institutions in capital market through brokers' network raised the transaction volume. Fair plays of bulls and bears make market equilibrium resulting in price stabilization. Speculation on the trading of shares is encouraged. Thus, the market starts to walk randomly reflecting true value of shares.

Lamsal (2002) studied with an objective to determine the impact of information such as dividend declaration, return on equity, etc. on stock price. To analyze the study, the researcher had used t-test and correlation but did not consider rights issue as an important factor in share price determination. In the study, the researcher found that there is significant difference in share prices of four sample companies out of five, because of information of dividend declaration. It was found that the share price of the sampled organization had decreased significantly after the issuance of directives made by NRB. In most cases, MPS is negatively correlated with EPS, DPS & ROE.

Parajuli (2014) examined with the objectives of his to find out, whether there is any problem in the primary issue of securities and to analyze the adequacy of the contents of the company act 2053 in regard to section 21, that emphasis about that matter to be disclosed in the issue prospectus. To conduct the study, the researcher had used correlation analysis between share price movement and NEPSE index i.e. general market movement and t-statistics between share price before and after rights issue announcement. T-statistics had been used to test whether there was significant change in share price before and after the issuance of rights share but did not consider the value of rights which is very important in share price determination after the issuance of rights share. Further, the analysis only covered data from 2052 to 2056. The result may not represent the present scenario. The author has taken only three companies as sample to complete his study. The major findings of the study were that the change in share price due to rights offering cannot be generalized. The author further stated there is lack of legal provision in company act regarding the issue of rights share and also the lack of investors protection act. The author concluded that Nepalese security

market has failed to use various capital market instruments such as warrants, convertible option, etc.

Lamichhane (2004) explained on the rights offering and its impact on market price in the Nepalese context. The objectives of the study were to identify the significant change in share price after announcement of rights offering and to recommend some policies that will help to rectify the current problems in the rights issue of securities. To conduct the study, the correlation between share price and price index and t-test between share prices before and after the rights issue announcement had used. The analysis only covers the data from 2056 to 2062, which can show the present economic scenario. The study had taken sample from different sector. The major findings of the study were that the difference between share price before and after the rights offering of sample companies is significant. Researcher sates that rights share issue is new practice in Nepal. Under subscription of rights share offering is common problem. Company act 2053 is not adequate for the issue procedure of right shares.

Lamichhane (2008) explored on rights share issue practice in Nepal and its impact on market price of share. The objectives of the study were to identify the significant change in share price after announcement of rights offering, to find out problems associated with rights issue in Nepal and to analyze the procedure and mechanism of rights issue in the context of Nepal. To conduct the study, the researchers had used the correlation between share price and price index, t-test tool between share price before and after the rights issue announcement. The study did not consider the value of rights, which is very important in share price determining after the issuance of rights shares. The major findings of the study were that there is significant difference between share price before and after the rights issue of the sample companies. Rights share offering is new practice in Nepal. Sample companies are unable to increase the market capitalization through rights share offering as the practice does not follow the theory. Under subscription of rights share is the common problem. Company act 2053 is not adequate for the issue procedure of rights shares. The shareholder of Nepalese company has lack of the knowledge about the rights share.

Gharti (2006) explored on rights share practice in Nepal and its impact on the share price of listed companies with the main objective to find out the significant changes in share price after announcement of the rights share, to study the rights share practice in Nepal, to study the impact of rights offering on earning per share and to analyze the problem regarding under subscription of rights share. To conduct the study, the

researcher had used the statistical tools such as correlation coefficient, coefficient of determination, regression analysis, t-test and financial formula. The major findings of the study were: There was significant different in share price after announcement of the rights share except people finance Ltd. among 10 sample companies of the study. Rights offering are comparatively new practice in Nepal. Most of the companies are offering right shares to fulfill the capital requirement as per the NRB directives. Shareholder of Nepalese security market has lack of knowledge about rights share. The major cause of under subscription of rights share are lack of effectiveness in the flow of information, lack of awareness among the investors, poor financial performance of the issuing company, financial problem of shareholders and lack of the provision for rights transfer. After the increment of share capital through rights share, earning per share of the company has been increased by 0.29769 for 1 unit increment in share capital amount.

Khadka (2007) explored on Issue of Rights Share and its effect on general market price in Nepal. The study based on rights share and effect on market price. The main objectives of the study were to evaluate the significant changes in share price after the announcement of right offering, to examine the procedure and mechanism of rights issue in the context of Nepal and to analyze the problems associated with rights issue in Nepal. The researcher has used descriptive, comparative as well as analytical type of research design in the research. This study's findings are as follows: Rights share issue is comparatively new practice in Nepal. The right issue practice is mainly dominated by the banking and finance sectors. The issuing of rights share has a long process. The right announcement date, book closer date/ex-right date, right issue and closing dates are differing from one company to another. There is significant difference in the share price before and after the ex-rights dates in most of the sample company but they don't follow the theory of right offering exactly. According to the theory, the share price after ex-right date will decrease by the value of a right but most of the sample company market share price didn't decrease accordingly. Under subscription of rights share is common problem as rights is not transferable in Nepal. Most of the finance company doesn't show significant change in the price before and after ex-right date.

Pradhan (2008) discovered on impact of right offering on stock price in Nepalese market with the objective to find out the impact on market price of the stock before and after the announcement of right share offering, to find the problems related with

right share offering and to examine right share issue practice in Nepalese capital market. For the analysis of the study researcher used both primary and secondary data by taking the 12 years period from fiscal year (2052/53-2063/64) B.S. At that period of time 60 companies were issued the right share, despite this, the study used only 7 commercial banks, 5 finance companies, 1 hotel and 1 other sector as a sample for the study. For the study researcher had used statistical methods like correlation analysis and t-test. The study found that right share offering practice is comparatively new phenomenon in Nepalese capital market. Most of the companies that issued right share had faced the problem of under subscription. Current rules and regulation about right share offering were not appropriate at this time. Rights share offering have both positive and negative impact on share price. The market price of share is influenced by the general market movement. Rights share offering are in increasing trend in Nepalese capital market in which mostly the banking and financial institution are practicing on it.

Sharma (2010) explained an empirical study on the impact of right share issuing practice on share prices of selected banks with the main objective to find out the impact of right issue on prices of common stock of Banks and financial institutions and to study and analyze the rights issuing practices in Nepal. The number of listed companies in Nepal Stock Exchange at the closing date of FY 2064/65 were 142 out of which 42 companies (8 Commercial Banks, 11 Development Banks, 20 Finance Companies and 3 Insurance Companies) had issued right shares during the said fiscal year. Both primary and secondary data of 2 commercial banks, 1 development bank and 3 financial companies had been analyzed using different financial tools and statistical tools such as t-test and f-test. This study found that the share prices of the companies too increased and right offering has treated the share price positively since the general market movement of that period has caused the change in the share price movement of the companies rather than the right announcement. The overall market trend at that time was bullish. Rights are still not transferrable and the under subscription arise due to price is fixed at NRs. 100. Rights share issuing companies are almost financial institution (i.e. bank and finance company). Their main motives of the issuance of right share is to increase the paid up capital as directed by NRB.

Pathak and Giri (2008) found mixed results regarding the impact of right offerings on share price movement of Nepalese companies. The general market prices of the majority of the companies were decreased after announcement of right share. The

results of the study contrasts with the theory, which says that the share price increases after the right announcement and decreases after the issue of right share.

2.4 Research Gap

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

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

Though few studies have considered rights share issues and its impact on share price movement in Nepalese share market, they failed to focus on rights share though being very important instrument to collect required share fund for the company. Furthermore, previous studies have not tested the correlation of share price with general market movement using the data of FY 2012/13 to FY 2017/18.

Thus, research gap and weaknesses are found in previous studies; this research has been conducted to find out the value of rights of the issuing companies. Though out of different sectors, only one i.e. the commercial banks, has been taken. With 5 samples of commercial banks, this research has been conducted but it has been tried at most to find the impact of rights issue on market price of the sample commercial banks. So, on these issues, this research study is unique and original.

issue managers. Opened, closed and mixed questionnaire methods have been used for the questionnaire.

- **Secondary Data**

Secondary sources of data includes annual reports of SEBON, various publications of NEPSE, statistical books of Nepal, published and unpublished documents, previous studies, articles and foreign related journals as well. Newspapers, magazines, books and other reports such as The Kantipur Daily, The Himalayan Times, Gorkhapatra, Karobar Daily, Arthik Abhiyan Daily and New Business Age, etc. have been taken as useful sources of secondary data in this study. Some other important information has been collected through internet such as sharesansar.com, merolagani.com etc.

3.4 Population and Sample

Simple random sampling has been used to select the samples among population. There are 25 rights issuing Commercial Banks listed in NEPSE during the research period. This means, the population size is 25 banks. Only 5 banks (20%) have been taken as sample for the study of secondary data, while 200 questionnaires were dispatched to the individual investors, brokers and issue managers for primary data. The samples of commercial banks are:

- Kumari Bank Limited
- Himalayan Bank Ltd
- NIC Asia Bank Limited
- Sunrise Bank Limited
- Machhapuchhre Bank Limited

3.5 Data Collection and Processing Procedures

The data relating to the study have been collected from various sources. Not all the collected data have been used; only the necessary data for the study have been taken into consideration. Following data collection and processing procedures have been used to collect the necessary data in the form of primary data.

- **Questionnaire Method**

To get information about the right share and its various aspects, questionnaire method has been used. Three types of questionnaire methods have been used to collect the data i.e. opened, closed and mixed questionnaire methods. Yes/No questions, ranking

and Likert scaling techniques have been designed using the SPSS worksheet to get the responses from the respondents. Due to various limitations, only 200 questionnaires were dispatched to the individual investors, brokers and issue managers (total population 1000 and 20%). The respondents were selected by random sampling method.

3.6 Data Analysis Tools and Techniques

Various statistical tools have been used to analyze the data. Brief explanations of data analysis tools used in this study are as follows:

- **Averages (\bar{X})**

Average or arithmetic mean is the quantity obtained by summing two or more numbers or variables and then dividing it by the number of variables. It converts a huge unwieldy data into single value, which represents the entire data. Its value lies between the two extreme observations i.e. largest and smallest item. For this study, weighted arithmetic mean has been used for various variables.

- **Co-efficient of Correlation (r)**

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

- **Coefficient of Determination (r^2)**

The coefficient of determination is a measure of degree of linear association or correlation between two variables. One happens to be the independent variable and the other being the dependent variable. In other words, r^2 measures the percentage of total variation of the dependent variable that can be explained by independent variables. The coefficient of determination has value range from 0 to 1. For example, if r^2 is equal to 0.85, it indicates that the independent variables explain 85% of the total variation in the dependent variable. A value of one occurs only if the

unexplained variation is zero which simply means that all the points in the scatter diagram fall exactly on the regression line.

- **Probable Error**

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

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

Where, r = Value of correlation coefficient

n = No. of pairs of observation

P.E. is used to interpret whether the calculated value of ' r ' is significant or not.

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

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

- **Statement of Hypothesis**

To analyze the data available, t-statistics has been used to test the significance of the difference between the share prices under the following hypothesis:

- i) Null Hypothesis (H_0)**

There is no significant difference between the share price movement before and after the announcement of the rights share offerings.

- ii) Alternative Hypothesis (H_1)**

There is significant difference between the share price movement before and after the announcement of the rights share offerings.

- **Use of t-test**

T-test has been used to test the significance of the difference between the share price before and after the announcement of the rights offering by the companies. Since the share prices of few transactions (i.e. less than 30 transactions) have been taken, t-test is an appropriate tool for analyzing the significance of difference between the share price movement before and after the announcement of the rights offering. In this study, t-test has been used for difference of means.

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

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

Where,

X = Share price and NEPSE index before announcement

Y = Share price and NEPSE index after announcement

n = Number of observation

In this analysis, 5 percent level of significance has been used to test the hypothesis.

• Valuation of Rights

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

$$\text{Value of right } (V_r) = \frac{P_0 - P_s}{N + 1}$$

$$\text{Theoretical price of share } (P_x) = \frac{(P_0 \times N) + P_s}{N + 1} = P_0 - V_r$$

Where,

P₀ = Current market price of share, rights-on

P_s = Subscription price per share

N = Number of rights required to purchase one new share

• Others

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

3.7 Validity and Reliability of Data

Validity and reliability are two factors which any qualitative research should consider while designing a study, analyzing results and judging the quality of the study. Whenever a test or other measuring device is used as a part of the data collection process, the reliability and validity of that test becomes important. Validity refers to how well a measurement truly represents characteristics that exist in the phenomenon being investigated, while reliability is the degree to which a test consistently measures whatever it measures.

The objective of the validity and reliability analysis is to determine whether data are trustworthy or not. The designed questionnaire has been finalized before requesting the respondents to participate in this research. The reliability and validity of the secondary data depends upon the data in the annual reports and data of the sample banks selected. The reliability of the primary data is confirmed through the calculation of the Cronbach's Alpha through the use of SPSS tool.

In order to check the reliability of data, Cronbach's Alpha has also been calculated. Following table shows the calculation of the Cronbach's Alpha through the use of SPSS tool.

Table 3.1

Measurement of Reliability

Cronbach's Alpha	No. of Items
0.634	8

Source: SPSS Output, 2018

The measurement of reliability has been depicted by the value of Cronbach's Alpha as calculated from the Likert questionnaire used during the survey. Cronbach's Alpha is considered to be a measure of scale reliability. It is not a statistical test, it is just a coefficient of reliability whose value normally ranges from 0 to 1. The closer the value of the coefficient to 1, the greater is the consistency of the variables in a scale. Its value increases as the number of items increases and vice versa. If the value of Cronbach's Alpha is greater than 0.6, then the data is supposed to be reliable. The result of the reliability test is 0.634 for 8 items. The calculation reveals that the value of Cronbach's alpha to be 63.4 percent which meets the minimum standard of the data to be reliable.

CHAPTER IV

ANALYSIS AND INTERPRETATION OF DATA

The presentation of data is the basic organization and classification of the data for the analysis. This chapter describes the main part of the whole study where the data collected from various sources are presented and analyzed in detail. It consists of the analysis and presentation of empirical data that focus on how far the Nepalese companies are practicing the rights share which is the most important component of this study and also it presents how it affects the share price movement of these companies.

This study is heavily based on secondary data. In order to analyze the study, the necessary financial facts and figures as well as descriptive information have gathered from financial statements, annual reports, and questionnaire to obtain further qualitative information. Only the important variables those are very sensitive and pertinent have been taken into account. To obtain the best results, the data have been analyzed according to the research methodology.

4.1 Procedures for the Issuance of Rights Share in Nepal

Each company which has to issue rights share should follow some procedure. Company Act 2063 is silent about the rights issue but mentioned that same procedure as ordinary regulation should be followed to issue the rights. Following procedures are generally adopted by Nepalese Company to issue rights share:

- The Board of Directors should consider about the determination of the quantum of further capital requirement and the proportion in which the rights issue must be offered to existing shareholders.
- Annual General Meeting should pass the proposal of Board of Directors by its majority.
- Company should notify NRB, NEPSE office of the company registrar and SEBON sufficiently with prospectus in advance of the date of board meeting at which the rights issue is likely to be considered and should get permission from them.
- Main announcement with prospectus which gives a general indication of the reasons which have made the issue desirable, the purpose for which the new money is to be used.

- Letter of provisional allotment of rights offering to the shareholders about the terms of the rights offered, the number of new shares allocated to each given the number of old shares, the price at which the issue is to be made and the conditions letter will be seen after the date of announcement.
- After the receipt of the letter of provisional allotment, the allotment must be made for those shares which are renouncing.
- Listing of shares in the NEPSE again with increased number which must be approved by the stock exchange after which an application for listed new shares could be made.

4.2 Analysis of Share Price Movement of Companies before and after Rights Offering

The main focus of this part of the study is to analyze the share price movement of the selected sample companies with the NEPSE index. To obtain the best results, five different points of time denoted as I to V were selected for observing the price movement assuming the announcement date as the reference point. The given points show the following price quotations:

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

The main objective of this method of analysis is to eliminate the effect of the general market movement from our analysis. To eliminate the effect of market movements, adjusted price relatives have been calculated by taking 90 days before announcement date as the base date price. To calculate the adjusted price relatives, following steps has been implemented:

- Step 1 : Calculate the price relatives of share price of related company by dividing each share price by its base date share price,
- Step 2 : Calculate the price relatives of NEPSE index by dividing each NEPSE index by its base date NEPSE index,

Step 3 : Calculate the adjusted price relatives by dividing the results of Step 1 by the results of step 2.

4.2.1 Analysis of Share Price Movement of Kumari Bank Limited

Table 4.1

Analysis of Share Price Movement of Kumari Bank Ltd

Selected Points of Time	Share Price (NRs.)	Price Relative	% Change from Base	NEPSE Index	Price Relative	% Change from Base	Adjusted Price Relative 2 as % of 5	% Change from Base
	1	2	3	4	5	6	7	8
I	579	100	-	1600.49	100	-	100	-
II	519	89.63	-10.37	1357.57	84.82	-15.18	105.67	5.67
III	516	89.12	-10.88	1329.41	83.06	-16.94	107.29	7.29
IV	324	55.96	-44.04	1347.53	84.20	-15.80	66.46	-33.54
V	300	51.81	-48.19	1580.03	98.72	-1.28	52.48	-47.52

Source: <https://www.sharesansar.com>, Price History, 2012-2018

We can see that the share price of Kumari Bank Limited is in a decreasing trend. The share price of KBL before 90 days of announcement date was NRs. 579 and decreased to NRs. 300 after 180 days of announcement date, most nearly 50 percent decline over this period. While observing the NEPSE index, it has also been declined from 1600.49 to 1329.41 over the period I to III. A decline of 271.08 was realized between the periods I to III. Therefore, the declination of market price of the shares of KBL from the base date to the announcement date is basically attributed to the market trend. On the other hand, observing after the day of announcement, the market price of the share went further down by NRs. 192 during period III to IV and became NRs. 324. Theoretically, the market price of the share should have gone up for few days just after the rights announcement, which did not happen in case of KBL due to holder's record date. It means the investors who purchased the shares of KBL on the day of announcement or onwards were not entitled to buy the rights. It is quite contrary to the theory of rights issue. So, the market price of share went down instead of increasing. Investors after the date of announcement may have thought that the

number of shares would increase, EPS would decrease or Ex-rights price of share would go further down. It is believed that the original share price will be restored and the market will show normal price behavior after 180 days of announcement date, but in case of KBL, the share price was still in a decreasing trend and leveled up to NRs. 300.

In case of KBL, rights issue has a positive impact on the share price movement and it approximately meets the theory.

Market price of share = NRs. 516

Value of one right = NRs. 138.67

Ex-rights price of share = NRs. 377.33

The share price of KBL was NRs. 300 after six months of the announcement date which is less than the ex-rights price of NRs. 377.33. Thus, one can conclude that the shares of KBL were underpriced by around NRs. 77.

4.2.2 Analysis of Share Price Movement of Himalayan Bank Ltd

Table 4.2

Analysis of Share Price Movement of Himalayan Bank Ltd

Selected Points of Time	Share Price (NRs.)	Price Relative	% Change from Base	NEPSE Index	Price Relative	% Change from Base	Adjusted Price Relative 2 as % of 5	% Change from Base
	1	2	3	4	5	6	7	8
I	1625	100	-	1798.83	100	-	100	-
II	1621	99.75	-0.25	1803.74	100.27	0.27	99.48	-0.52
III	1617	99.51	-0.49	1794.47	99.76	-0.24	99.75	-0.25
IV	1400	86.15	-13.85	1759.71	97.83	-2.18	88.06	-11.93
V	1005	61.85	-38.15	1658.34	92.19	-7.81	67.09	-32.91

Source: <https://www.sharesansar.com>, Price History, 2012-2018

In case of HBL, the share price is in decreasing trend from the base date till the 180 days of announcement, similar to that of Kumari Bank Limited. The price of HBL's share was NRs. 1625 before 90 days of announcement date. It decreases up to NRs. 1617 i.e. the day of announcement. Even after the day of announcement, the market price of share continues to decrease substantially to NRs. 1005, 180 days after the announcement date due to the fact that the general market movement was going downwards rapidly. The NEPSE index was 1,798.83 before 90 days of announcement date. It increased to 1,803.74 ten days before the announcement date and then decreased to 1,794.47 on the announcement date. The overall NEPSE index of HBL went down to 1,658.34 after 180 days of announcement date.

While analyzing the percentage change in the adjusted price index from the base index, the price index was slightly increased by 0.27 percent ten days before the announcement date. However, it decreased by 0.24 percent from period II to III. After seven days of announcement date, it decreased by 2.18 percent and then by 7.81 percent after 180 days of announcement date. The adjusted share price in column 8, however, is decreased by 0.52 percent before ten days of announcement date and by 0.25 percent on the day of announcement. Just after seven days of announcement date, the adjusted share price is decreased by 12.56 percent from the base price index, which clearly indicates that a decrease in the adjusted share price is far more than the decrease in the price index converted to new base, which is just 2.18 percent. Such a large percentage of decrease in the adjusted share price provides sufficient evidence to argue that this price decrease must have been attributed by the announcement of rights offering to the existing shareholders. Any further decrease in the share price can be attributed to the announcement effect of rights offering to the existing shareholders.

In case of HBL, the theory of rights offering does not match.

Market price of share	=	NRs. 1617
Value of one right	=	NRs. 189.63
Ex-rights price of share	=	NRs. 1427.38

The value of the share after allotment should be around NRs. 1427.38, but the share price of HBL was NRs. 1005 after 180 days of the announcement date. Thus, the shares of HBL were underpriced by around NRs. 422.

4.2.3 Analysis of Share Price Movement of NIC Asia Bank Limited

Table 4.3

Analysis of Share Price Movement of NIC Asia Bank Ltd

Selected Points of Time	Share Price (NRs.)	Price Relative	% Change from Base	NEPSE Index	Price Relative	% Change from Base	Adjusted Price Relative 2 as % of 5	% Change from Base
	1	2	3	4	5	6	7	8
I	722	100	-	1263.75	100	-	100	-
II	865	119.81	19.81	1464.91	115.92	15.92	103.36	3.36
III	950	131.58	31.58	1472.69	116.53	16.53	112.91	12.91
IV	780	108.03	8.03	1477.38	116.91	16.91	92.41	-7.59
V	596	82.55	-17.45	1724.49	136.46	36.46	60.50	-39.50

Source: <https://www.sharesansar.com>, Price History, 2012-2018

In case of NIC Asia Bank Ltd, the situation was somewhat different. Fluctuations in the share price were seen. The share price was NRs. 722 before 90 days of the announcement date. It increased to NRs. 865, ten days before the announcement date and continued to increase to NRs. 950 up to the day of announcement. Increase in price has been observed from period I to III by NRs. 228. However, after 180 days of announcement date, it went down to NRs. 596. When we look at the price index, it was just opposite to the trend of share price. It was 1263.75 before 90 days of announcement, increased to 1472.69 on the day of announcement and continued to rise up to 1477.38 at a slow pace just seven days after the announcement date. But, the price index increased with a huge margin thereafter and reached 1724.49 after 180 days of announcement.

While examining the percentage change in the adjusted price index from the base index in column 5 and the percentage change in the adjusted share price from the base index in column 8, it is clear that the change in share price is not only due to the general market movement. The adjusted price was increased from 103.36 percent in ten days before announcement date to 112.91 percent while the converted price index has been increased to 116.53 percent from 115.92 percent between periods II and III.

The adjusted share price is increased by 9.55 percent while the converted price index has been increased by just 0.61 percent. Thus we can say that, this increment in share price is due to rights offering because shareholders rush to the share market to enlist their names within the record date. But, after 180 days of announcement date, the share price dropped to NRs. 596.

Value of rights and ex-rights price of NIC Asia Bank's stock is as follows:-

Market price of share = NRs. 950

Value of one right = NRs. 170

Ex-rights price of share = NRs. 780

The value of the share after allotment should be around NRs. 780, but the share price of NIC Asia was NRs. 596 after six months of the announcement date. Thus, the shares of NIC Asia were underpriced.

4.2.4 Analysis of Share Price Movement of Sunrise Bank Limited

Table 4.4

Analysis of Share Price Movement of Sunrise Bank Limited

Selected Points of Time	Share Price (NRs.)	Price Relative	% Change from Base	NEPSE Index	Price Relative	% Change from Base	Adjusted Price Relative 2 as % of 5	% Change from Base
	1	2	3	4	5	6	7	8
I	540	100	-	1183.48	100	-	100	-
II	408	75.56	-24.44	1137.03	96.08	-3.92	78.64	-21.36
III	411	76.11	-23.89	1160.84	98.09	-1.91	77.60	-22.40
IV	360	66.67	-33.33	1167.18	98.62	-1.38	67.60	-32.40
V	715	132.41	32.41	1719.20	145.27	45.27	91.15	-8.85

Source: <https://www.sharesansar.com> ,Price History, 2012-2018

Table 4.4 shows fluctuations on share prices of Sunrise Bank Limited at different points of time. The share price of SRBL was NRs. 540 before 90 days of announcement date. It was decreased to NRs. 408 before ten days of announcement date but ended up increasing to NRs. 411 on the day of announcement. The market price of share fell to NRs. 360 after seven days of announcement. It means, the market price of share was drastically decreased just after the rights share announcement. Though a decreasing trend of share price seemed, it eventually increased to NRs. 715 after 180 days of announcement date.

By analyzing the share price movement of SRBL and the trend of general market movement, change in the market prices from periods I to II is basically due to the general market movement. At that time, the NEPSE index had decreased to 1137.03 from 1183.48. Column 6 shows that, the price index converted to new base was decreased by 3.92 percent ten days before the announcement date. Similarly, it decreased by 1.91 percent from period I to III. Changes in the share price between II and III were not solely due to the general market movement. Other factors like dividend also caused the rapid decrease in the share price. However, a great increment can be observed in point V in comparison to point III and IV. Column 7 shows the adjusted price relatives. The adjusted price relative was decreased to 67.60 percent from 77.60 percent between periods III and IV. This clearly indicated that the decrease in the share price was due to the rights announcement. However, it was compatible to period IV at the same periods where the price relatives also increased from 67.60 percent to 91.15 percent.

Theoretically, the share price decreases after the rights offering. But the price behavior of SRBL's share did not follow the theory.

Market price of share	=	NRs. 411
Value of one right	=	NRs. 40.55
Ex-rights price of share	=	NRs. 370.45

The value of the share after allotment should be around NRs. 370.45, but the share price of Sunrise Bank Ltd. was NRs. 715 after six months of the announcement date. Thus, the shares of SRBL were overpriced to a great extent.

4.2.5 Analysis of Share Price Movement of Machhapuchhre Bank Limited

Table 4.5

Analysis of Share Price Movement of Machhapuchhre Bank Ltd

Selected Points of Time	Share Price (NRs.)	Price Relative	% Change from Base	NEPSE Index	Price Relative	% Change from Base	Adjusted Price Relative 2 as % of 5	% Change from Base
	1	2	3	4	5	6	7	8
I	816	100	-	1717.45	100	-	100	-
II	549	67.28	-32.72	1749.12	101.84	1.84	66.06	-33.94
III	542	66.42	-33.58	1698.90	98.92	-1.08	67.15	-32.85
IV	480	58.82	-41.18	1540.01	89.67	-10.33	65.60	-34.40
V	419	51.35	-48.65	1649.24	96.03	-3.97	53.47	-46.53

Source: <https://www.sharesansar.com>, Price History, 2012-2018

Table 4.5 shows that the share price of MBL is in decreasing trend. The share price of MBL before 90 days of announcement date was NRs. 816 and was decreased to NRs. 419 after 180 days of announcement date, almost 50 percent decline over this period. But the NEPSE index shows fluctuating trend. It has increased to 1,749.12 in period II from 1,717.45 three months before the announcement date. And then, for the next two periods, the price index has continuously declined to 1,698.90 and 1,540.01 for periods III and IV respectively. Finally, six months after the announcement date, the price index reaches to 1,649.24, which depicts fluctuating trend in the general market movement. Column 6 shows that the price index is increased by 1.84 percent ten days before the announcement date and then decreases by 1.08 percent on the day of announcement date. From here on, the price index continues to decrease by 10.33 percent in period IV and then by 3.97 percent after six months of announcement date. Columns 7 and 8 show the adjusted share price and its percentage increase or decrease from the base date respectively. In column 8, the adjusted share price was decreased by 33.94 percent ten days before the announcement date. It continues to decrease by 32.85 percent, 34.40 percent and 46.53 percent in periods III, IV and V respectively.

Thus this decrease in the share price was because of rights offering and general market movement. Both have an equal effect on the share price movement.

Rights offering theory does not match in case of MBL.

Market price of share = NRs. 542

Value of one right = NRs. 147.33

Ex-rights price of share = NRs. 394.67

The value of the share after allotment should be around NRs. 394.67, but the share price of MBL was NRs. 419 after 180 days of the announcement date. Thus, the shares of MBL were slightly overpriced and it can be concluded that the share price of MBL nearly meets the theory of rights offering.

Theoretically, after rights share issue, the market price per share must decline equal to its value of rights. But in practice, due to various factors such as dividend policy of the company, demand and supply of stocks, cost of capital and the information flow to the outsiders which are called signaling effect, the market price is different at different time periods.

4.3 Correlation Coefficient between Share Price Movement and General Market Movement

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

The correlation is a statistical tool which studies the relationship between two variables and the correlation analysis involves various techniques used for studying and measuring the extent of relationship between the two variables. Correlation is an analysis of the covariance between two or more variables. The effect of correlation is to reduce the range of uncertainty of our prediction. Two variables are said to be correlated if the change in one variable results in the corresponding change in the other variable. Correlation coefficient can be either positive or negative. If the values of two variables deviate in the same direction i.e. if an increase in the value of one

variable results the corresponding increase in the value of other variables or if decrease in the value of one variable results the corresponding decrease in the value of other variables, the correlation is said to be positive and direct.

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

Table 4.6

Correlation Coefficient between Share Price and NEPSE Index

S.N.	Sample companies	Correlation Coefficient (r)	Coefficient of Determination (r^2)	Probable Error (P.E.)	6 P.E.
1	Kumari Bank Limited	-0.023	0.00055	0.3014	1.809
2	Himalayan Bank Ltd	0.995	0.991	0.003	0.018
3	NIC Asia Bank Limited	-0.395	0.156	0.255	1.527
4	Sunrise Bank Limited	0.902	0.814	0.056	0.337
5	Machhapuchhre Bank Limited	0.492	0.242	0.231	1.383

Source: SPSS Output, 2018

While analyzing the correlation coefficient of Kumari Bank Ltd., there is low degree of negative correlation i.e. $r = -0.023$ between share price and general market movement. This relation is further provided by the coefficient of determination which is 0.00055 i.e. 0.055 percent and correlation coefficient (r) is less than P.E. Thus, correlation is insignificant and unreliable. So, it can be concluded that the share price behavior of Kumari Bank Ltd. is not due to the general market movement. Rights offering have some effect on the share price movement of Kumari Bank Ltd.

While observing the data of Himalayan Bank Ltd., it was found that there is high degree of positive correlation (i.e. $r = 0.995$). The coefficient of determination i.e. $r^2 = 0.991$ means that about 99.09 percent of variation in the share price is explained by general market movement. The coefficient of correlation is greater than 6 P.E. (i.e. 6

P.E. = 0.018) which proves that correlation is significant. So, it can be concluded that the share price behavior of Himalayan Bank Ltd. is due to the general market movement and rights offering have no effect on it.

In case of NIC Asia Bank Ltd., there is low degree of negative correlation (i.e. $r = -0.395$) between share price movement and general market movement. The coefficient of determination is 0.156 or 15.6 percent means that general market movement explains only 15.6 percent variation in the share price. Correlation coefficient (r) is less than P.E. implying it is insignificant. So, it can be concluded that the share price behavior of NIC Asia Bank Ltd. is not because of general market movement. Rights offering have some effect on the share price movement of NIC Asia Bank Ltd.

The data of Sunrise Bank Ltd. shows that there is high degree of positive correlation (i.e. $r = 0.902$). The coefficient of determination i.e. $r^2 = 0.814$ means that about 81.4 percent of the total variation in the share price is explained by the general market movement. The coefficient of correlation is greater than 6 P.E (i.e. 6 P.E. = 0.337) which proves that correlation is significant. So, it can be concluded that general market movement plays a greater role in share price movement than rights offering.

In case of Machhapuchhre Bank Ltd., there is medium degree of positive correlation (i.e. $r = 0.492$). But it is less than 6 P.E. which is 1.383 that means correlation is not significant. The coefficient determination i.e. $r^2 = 0.242$ means that about 24.2 percent of variation in the share price is explained by the general market movement. So, it can be concluded that rights offering have some effect on share price movement of Machhapuchhre Bank Ltd.

The relationship between share price and NEPSE index is always positive. It means, increase in share price increases NEPSE index and vice-versa. But, in the above calculation of five sample banks, different results have been obtained. Two of them are negatively correlated while others are positively correlated. This result occurs because the NEPSE index indicates the average increase or decrease in share price of all listed companies. When individual share prices are independent from each other, some may increase and some may decrease.

4.4 Use of t-test to Measure the Impact of Rights Offering on Share Price Movement and on General Market Movement

Theoretically, after the rights issue, the share price of the concerned company moves upward till the close of issue date. To analyze whether there is any significant change

in share price movement and price index (NEPSE Index) after the announcement of the rights share, t-statistics has been used. For this, the share prices and price indices of the sample companies have been taken before and after the announcement date.

Following table shows the calculated and tabulated values of t-statistics of the sample companies:

Table 4.7

T-test of Share Price and NEPSE Index of Sample Companies

Sample companies	Test for	Significance Level	df	t_{tab}	/t_{cal}/	Result
Kumari Bank Limited	Share Price	5%	8	2.306	80.644	H ₀ : Rejected
	NEPSE Index	5%	8	2.306	3.342	H ₀ : Rejected
Himalayan Bank Ltd	Share Price	5%	8	2.306	1.584	H ₀ : Accepted
	NEPSE Index	5%	8	2.306	5.067	H ₀ : Rejected
NIC Asia Bank Limited	Share Price	5%	8	2.306	0.919	H ₀ : Accepted
	NEPSE Index	5%	8	2.306	5.408	H ₀ : Rejected
Sunrise Bank Limited	Share Price	5%	8	2.306	15.769	H ₀ : Rejected
	NEPSE Index	5%	8	2.306	3.251	H ₀ : Rejected
Machhapuchhre Bank Limited	Share Price	5%	8	2.306	5.585	H ₀ : Rejected
	NEPSE Index	5%	8	2.306	5.383	H ₀ : Rejected

Source: SPSS Output, 2018

Table 4.7 shows the significance level, degree of freedom, tabulated and calculated values of t-test and the results obtained by using SPSS output. The calculated value of t-test in case of Kumari Bank Ltd. is 80.64, whereas the tabulated value at 5 percent level of significance and 8 degree of freedom is 2.306. Since t_{cal} is greater than t_{tab} , null hypothesis is rejected. It can be concluded that the differences between share prices before and after rights offering is significant. In case of the NEPSE indices also

t_{cal} (3.342) is greater than t_{tab} (2.306). Thus, in this case, null hypothesis that there is no significant difference between NEPSE Index before and after the announcement of rights offering is rejected and thereby the alternative hypothesis that there is significant difference in general market movement before and after the announcement of rights offering is accepted. Thus, it can be concluded that the share price movement of Kumari Bank Ltd. is due to the general market movement and there is no effects of rights offering.

The calculated value of t for share prices of Himalayan Bank Ltd. is 1.584 whereas the tabulated value at 5 percent level of significance and 8 degree of freedom is 2.306. Since t_{cal} is less than t_{tab} , the null hypothesis that the share prices do not change significantly before and after the announcement of rights offering is accepted and the alternative hypothesis that the share prices change significantly is rejected. But in case of the NEPSE indices, t_{cal} (5.067) is greater than t_{tab} (2.306) which shows that null hypothesis is rejected that means there is significant difference in general market movement before and after the announcement of rights offering. Thus, it can be concluded that there is some impact of rights offering on the share price movement of Himalayan Bank Ltd.

In case of NIC Asia Bank Ltd., the calculated value of t for share prices is 0.919 whereas the tabulated value at 5 percent level of significance and 8 degree of freedom is 2.306. Since t_{cal} is less than t_{tab} , the null hypothesis that the share prices do not change significantly before and after the announcement of rights offering is accepted and the alternative hypothesis that the share prices change significantly is rejected. Similarly, in case of the NEPSE indices, t_{cal} (5.408) is greater than t_{tab} (2.306). Thus, null hypothesis is rejected which shows that there is significant difference in general market movement before and after the announcement of rights offering. Thus, in this case, it can be concluded that there is some impact of rights offering on the share price movement of NIC Asia Bank Ltd.

In case of Sunrise Bank Ltd., the calculated value of t for share prices is 15.769 whereas the tabulated value at 5 percent level of significance and 8 degree of freedom is 2.306. Since t_{cal} is greater than t_{tab} , null hypothesis is rejected that means the difference between share prices before and after the announcement of rights offering is significant. Similarly, in case of the NEPSE indices also, t_{cal} (3.251) is greater than t_{tab} (2.306). Thus, null hypothesis is rejected which shows that the difference between

NEPSE indices before and after the announcement of rights offering is also significant. Thus, it can be concluded that the share price movement of Sunrise Bank Ltd. is due to the general market movement and there is no effects of rights offering.

While analyzing the t-test of Machhapuchhre Bank Ltd., its calculated value (i.e. 5.585) is greater than tabulated value (i.e. 2.306) at 5 percent level of significance and 8 degree of freedom. Thus, null hypothesis is rejected that means the difference between share prices before and after the announcement of rights offering is significant. Similarly, in case of NEPSE indices also, null hypothesis is rejected because t_{cal} (5.383) is greater than t_{tab} (2.306) and hence the difference in NEPSE indices is also significant. Thus it can be concluded that either increase or decrease in share prices of Machhapuchhre Bank Ltd is due to the general market movement and hence there is no effects of rights offering.

So far, it has been observed that in case of HBL and NICA, there is obvious impact of rights offering on the share price movement of these companies. But, this did not hold true in case of KBL, SRBL and MBL. The Change in share prices of KBL, SRBL and MBL is not due to the announcement of rights offering. It can be attributed to the general market movement.

4.5 Subscription of Rights Share in Nepal

Subscription is the major part of the public issue. When the existing shareholders apply for all the announced shares, it is called full subscription. If there is an application for more than the announcement, it is called over subscription. And, if there is an application for less than the announcement, then it is called under subscription. In Nepal, there are a lot of cases of under subscription. Due to various causes like lack of instruments of rights transfer, financial problem of investors; there arises problem of under subscription of shares and, finally, this absence deprives the existing shareholders from enjoying the choice of selling the rights. Following table shows the subscription of rights share of sample companies in Nepal:-

Table 4.8**Subscription of Rights Share in Nepal**

Fiscal Year	Issuer Company	No. of Issued Shares	No. of Subscribed Shares	Subscription in %
2017/18	Kumari Bank Limited	13, 495, 832	13, 129, 270	97.28%
2017/18	Himalayan Bank Ltd	6, 427, 350	6, 281, 770	97.73%
2016/17	NIC Asia Bank Limited	9, 237, 540	8, 803, 584	95.30%
2016/17	Sunrise Bank Limited	3, 690, 473	3, 471, 985	94.08%
2017/18	Machhapuchhre Bank Limited	19, 322, 700	18, 950, 871	98.08%

Source: <https://www.sharesansar.com>, 2012-2018

$$\% \text{ of Subscription} = \frac{\text{Subscribed Shares}}{\text{Issued Shares}} \times 100 \%$$

Table 4.8 shows that it is clearly seen that under subscription has been a major problem in rights share practice of commercial banking sector. During FY 2016/17, the subscription of both NIC Asia bank and Sunrise bank is around 95 percent which is under subscribed by 5 percent. But, in case of FY 2017/18, the subscription percentage has been increased. This was possible due to easy access to internet and easy availability of information from the related online websites. The subscription percentage of Himalayan, Machhapuchhre and Kumari banks are 97.73 percent, 98.08 percent and 97.28 percent respectively which states that they are almost fully subscribed and the subscription rate has been increased compared to the previous fiscal year.

It can easily be concluded that investors have been more attracted towards the rights issue. However, the main point to be noted here is that still the shares have been under subscribed that means the Commercial Banks have not met the capital requirement as per NRB directives.

4.6 Contribution of Rights Issue on Total Public Flotation

Rights issue is an important part of total public issue in Nepal. There are many other alternatives of the public issue like initial public offering (IPO), further public

offering (FPO), bonus share issue and mutual funds issue. The following table shows the contribution of rights issue in the total public flotation in each of the fiscal years from FY 2012/13 to FY 2017/18 in which the rights offering had taken place.

Table 4.9

Contribution of Rights Issue on Total Public Flotation (NRs. In Millions)

Fiscal Year (A)	Total Issues Approved (B)		Total Rights Approved (C)		C as % of B
	No. of Companies	Amount (NRs.)	No. of Companies	Amount (NRs.)	
2012/13	25	2,950.18	7	451.68	15.31%
2013/14	101	15,106.05	5	3,938.87	26.08%
2014/15	130	13,930.05	26	4,243.31	30.46%
2015/16	161	30,757.98	22	2,307.99	7.50%
2016/17	189	40,054.73	37	9,404.38	23.48%
2017/18	265	94,191.44	76	45,642.41	48.46%
Total	871	196,990.43	173	65,988.64	33.50%

Source: <https://www.sebon.gov.np/SecuritiesInformation>, 2012-2018

Analysis of data for FY 2012/13 to 2017/18 has been made. As shown by the data in table 4.9, the highest cases of rights offering i.e. 76 cases were made in FY 2017/18, whereas the lowest number of rights offering i.e. 5 cases was made in FY 2012/13. This clearly indicates that most of the companies have issued rights in the FY 2017/18 just to meet the capital requirement as directed by the NRB. All these companies have considered rights issue as the easiest way to raise capital to meet the paid up capital as per NRB directives.

The lowest contribution of rights issue on total public flotation has been 7.50 percent, 15.31 percent and 23.48 percent in the FYs 2015/016, 2012/013 and 2016/017 respectively. Except for FY 2017/18 and 2016/17, none of the companies have floated mutual funds as public issue. Only one company Global IME Capital Limited has issued mutual funds of one billion rupees in the year 2016/17, whereas there are 4 companies that have issued mutual funds of a total Rs.4, 250, 000, 000. Those four

companies are Nabil Equity Fund, NMB Hybrid Fund L-1, NIBL Pragati Fund and Laxmi Equity Fund.

During the FY 2014/015, the contribution of rights issue on total public flotation has been 30.46 percent. During the year, 26 out of 130 companies have issued rights. However, the most surprising aspect of this is there were no commercial banks to issue rights; most of them were development banks and insurance companies.

Table 4.9 shows that 76 out of 265 companies have contributed to the total public flotation through rights during FY 2017/018. Rights occupy 48.46 percent of the total issue which is nearly 50 percent of the total issue. 20 commercial banks have issued rights during the year which is a lot more than the previous fiscal years. This clearly signifies that the commercial banks have taken rights issue as the easiest way to increase their capital requirement. During the period of last six years, 33.50 percent of the total public issue has been raised through rights issue amounting to NRs. 65, 988.64 million.

4.7 Analysis of Primary Data

To make the study more effective and fruitful, here the primary data has been collected by the distribution of questionnaires to various investors, brokers and some issue managers as well. The respondents were selected by random sampling method. So, here the responses received from the respondents have been analyzed.

4.7.1 Familiarity with Rights Issue

Table 4.10

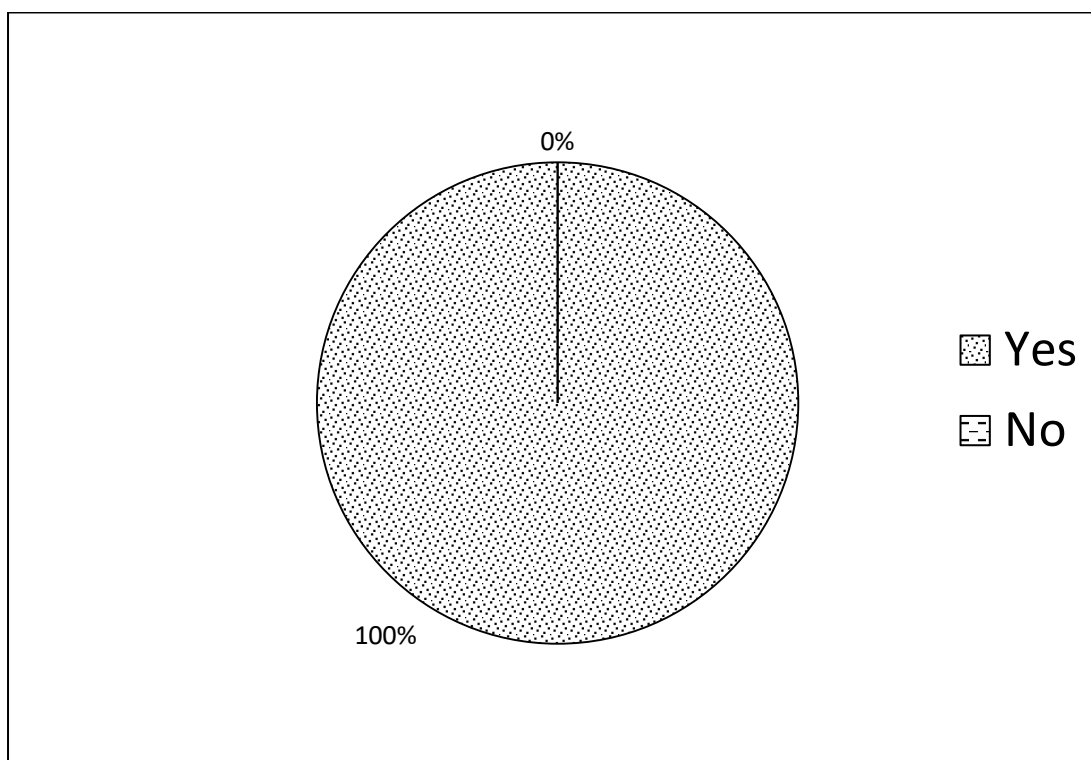
Familiarity with Rights Issue

S.N.	Research Variable	No. of Respondents	Percentage
1	Yes	200	100
2	No	0	0
Total		200	100

Source: Field Survey, 2019.

Figure 4.1

Familiarity with Rights Issue



Source: Based on Table 4.10.

Table 4.10 and figure 4.1 show that 100 percent of the respondents were familiar with the rights issue. The data was obtained from the questionnaires distributed to various investors, brokers and issue managers.

4.7.2 Trading of Shares in Secondary Market

Table 4.11

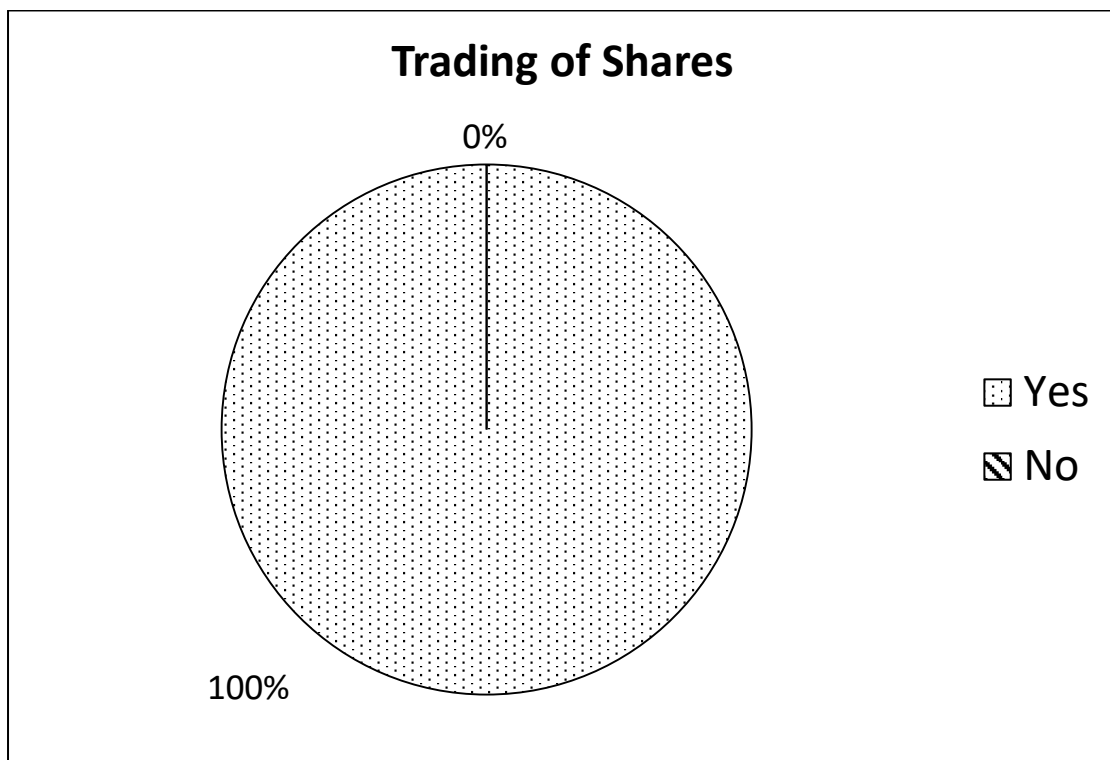
Trading of Shares in Secondary Market

S.N.	Research Variable	No. of Respondents	Percentage
1	Yes	200	100
2	No	0	0
Total		200	100

Source: Field Survey, 2019

Figure 4.2

Trading of Shares in Secondary Market



Source: Based on Table 4.11.

Table 4.11 and figure 4.2 show that 100 percent have been involved in trading of shares in the secondary market. Because only existing shareholders are liable for the rights, the respondents already had been buying and selling shares from the secondary market.

4.7.3 Awareness Regarding Phenomenon of Rights Issue

Table 4.12

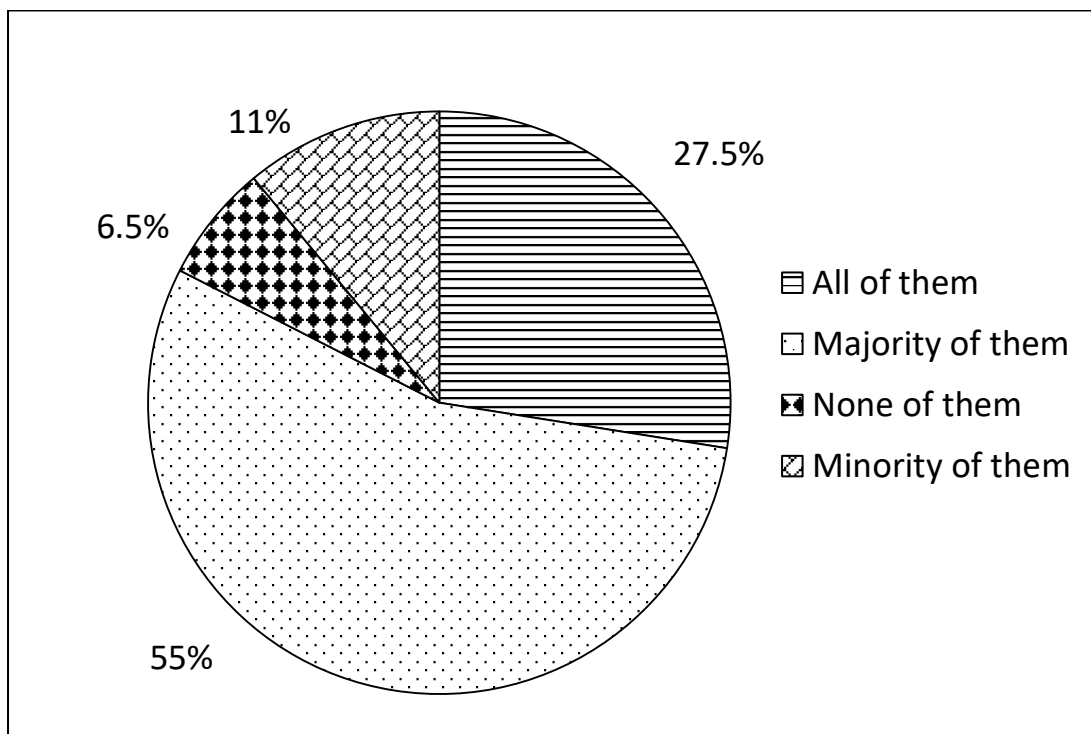
Awareness Regarding Phenomenon of Rights Issue

S.N.	Research Variable	No. of Respondents	Percentage
1	All of them	55	27.5
2	Majority of them	110	55
3	None of them	13	6.5
4	Minority of them	22	11.0
Total		200	100.0

Source: Field Survey, 2019

Figure 4.3

Awareness Regarding Phenomenon of Rights Issue



Source: Based on Table 4.12.

Table 4.12 and Figure 4.3 show that majority of respondents (i.e. 55%) think that investors are well aware of the phenomenon of rights issue, while 27.5 percent and 11 percent of the respondents think that all investors and minority of them are aware of rights issue. However, 6.5 percent of the respondents think that none of the investors were aware of rights issue.

4.7.4 Current Legal Provisions Regarding Rights Offering

Table 4.13

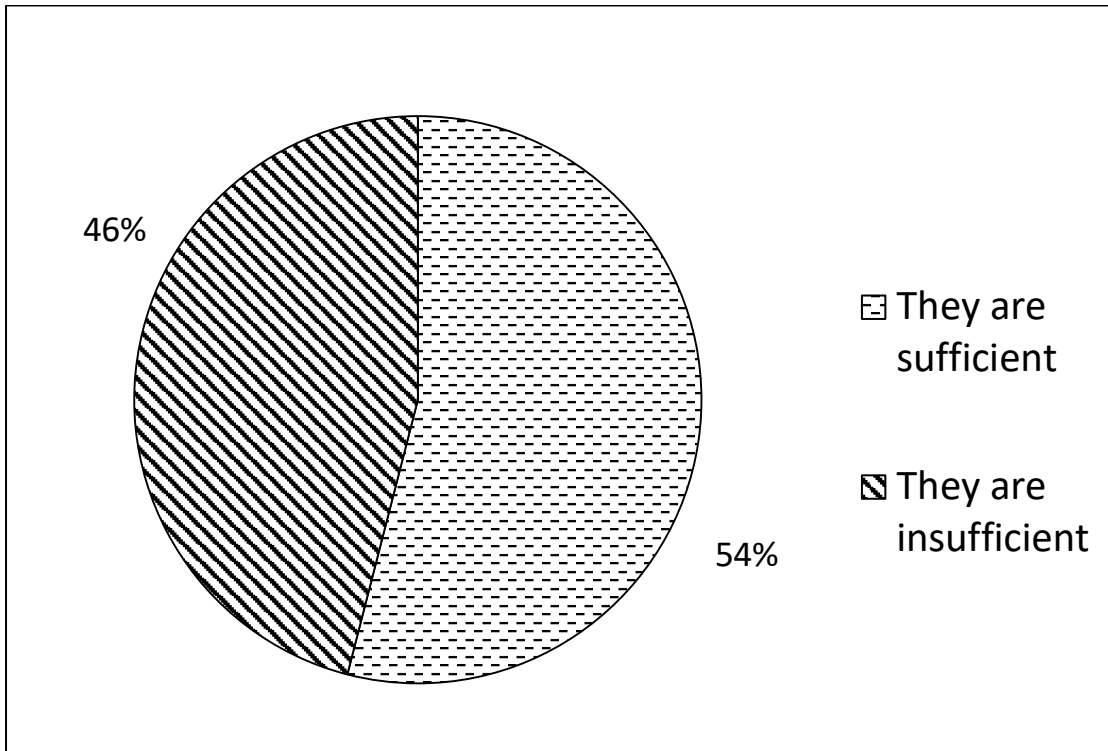
Current Legal Provisions Regarding Rights Offering

S.N.	Research Variable	No. of Respondents	Percentage
1	They are sufficient	108	54
2	They are insufficient	92	46
Total		200	100

Source: Field Survey, 2019

Figure 4.4

Current Legal Provisions Regarding Rights Offering



Source: Based on Table 4.13.

The results in the table and figure above show that 54 percent of the respondents think that current legal provisions regarding rights issue are sufficient, while 46 percent of them think that they aren't sufficient.

4.7.5 Preference of Sectors to Invest

Table 4.14

Preference of Sectors to Invest

Sectors	N	Median	Result
Banking/ Financial	200	1	1
Manufacturing & Production Sector	200	4	4
Insurance	200	2	2
Hydropower	200	3	3

Source: Field Survey, 2019

Table 4.14 shows that the descriptive statistics of preference of sectors to invest has been shown. The median score of Banking/Financial i.e. 1 shows that most of the respondents prefer banking and financial sector for investment. The median score of manufacturing and production sector is 4 which means that it is the least priority of investors to invest. The median score of insurance and hydropower are 2 and 3 respectively giving those average positions for making investment.

4.7.6 Investors Purpose of Rights Share Purchase

Table 4.15

Investors Purpose of Rights Share Purchase

Causes	N	Median	Result
To increase the value of their shares	200	2	2
To increase the number of shares	200	1	1
To increase the dividend	200	3	3
To maintain the control position in management	200	4	4

Source: Field Survey, 2019

The data obtained clearly states that the median score of the cause to increase the number of shares is 1, while the median score of the cause to maintain the control position in management is 4. So, they became first and fourth in ranking implying that most of the investors exercise rights to increase the number. To increase the value of their shares i.e. 2 and to increase the dividend i.e. 3 occupy the second and third ranks respectively.

4.7.7 Causes of Preference Given to Rights Issue by Companies

Table 4.16

Causes of Preference Given to Rights Issue by Companies

Causes	N	Median	Result
Low flotation cost	200	3	3
Easy process to collect the fund	200	1	1
To maintain control position in the management	200	2	2
Other causes	200	4	4

Source: Field Survey, 2019

From the responses obtained, it is seen that most of the respondents pointed easy process to collect the fund as the most important cause for rights issue by the companies. It covered the first rank with median score of 1. Maintaining control position in the management was another important cause ranking second with a median score of 2. Low flotation cost was in the third rank with a median score of 3. And, other causes (with a median score of 4) like legal provisions stood as fourth cause for issuing rights by the companies.

4.7.8 Causes of Under Subscription of Rights Share

Table 4.17

Causes of Under Subscription of Rights Share

Causes	N	Median	Result
Low performance of the related company	200	3	3
Lack of investors' awareness	200	1	1
Lack of investors' access	200	2	2
Rights is not transferable	200	4	4

Source: Field Survey, 2019

In response to the question regarding the causes of under subscription of rights share, lack of investors' awareness and lack of investors' access have pointed out the first and second rank with median score of 1 and 2 respectively. Another cause is the low performance of the related company which has got the third rank with median score of 3. Respondents believe that rights is not transferable stood fourth in ranking position with a median score of 4.

4.7.9 Action of Shareholders for Transferable Rights

Table 4.18

Action of Shareholders for Transferable Rights

Options	N	Median	Result
They will sell the rights	200	3	3
They will exercise the rights	200	1	1
They will partially exercise or sell the rights	200	2	2
They will neither sell nor exercise the rights	200	4	4

Source: Field Survey, 2019

Table 4.18 shows that first rank was obtained for the option that the shareholders will exercise the rights. The median score of this option is 1. The shareholders will partially exercise or sell the rights hold the second rank with a score of 2. For the option that shareholders will sell the rights, the median score is 3 and its rank is third. Fourth rank was obtained for the option ‘Shareholders will neither sell nor exercise the rights’ with a median score of 4. So, it can be concluded that shareholder are well aware about their wealth position. They never let the rights to expire and they utilize the rights either by exercising them or by selling them if rights are transferable in Nepal.

4.8 Decisions Regarding Rights Share Offering

Table 4.19

Decisions Regarding Rights Share Offering

Importance	Mean	S.D.
Issuing rights is the best measure for commercial banks to reach the paid up capital as directed by Nepal Rastra Bank.	4.2750	0.77614
Rights issue has a negative impact on the earning per share of that company.	4.2250	1.19647
Market price per share of the company will be affected by rights issue announcement.	4.2250	1.01465
There must be a provision of transferable of rights in Nepal.	4.2000	0.87397
Most of the investors prefer to buy shares of the company after the announcement of rights share.	4.1000	0.80201
Issuing companies are more benefitted than the shareholders from rights offering.	3.6750	0.85029
Purchasing of shares prior to price adjustment of rights offering is a rational decision.	3.5750	0.83538
SEBON should introduce an act of limiting the bid price for auctioned rights.	2.8500	1.75868

Source: Field Survey, 2019

The importance of decisions regarding rights share offering has been shown by using the SPSS tool. Majority of the respondents have strongly agreed that issuing rights is the best measure for commercial banks to reach the paid up capital as directed by

Nepal Rastra Bank because its mean score is the highest among all other important statements i.e. 4.2750 with the lowest standard deviation of 0.77614 followed by the responses that rights issue has a negative impact on the earning per share of that company and market price per share of the company will be affected by rights issue announcement (4.2250). However, most of the respondents strongly disagree to the fact that SEBON should introduce an act of limiting the bid price for auctioned rights. It has the lowest mean score of 2.8500 with a highest standard deviation of 1.75868.

4.9 Major Findings of the Study

The major findings of the study in rights share practice in Nepal and its impact on share price movement of commercial banks have been presented in the following headings:

4.9.1 Significance of Changes in Share Price after the Announcement of Rights Offering

- There is significant difference between the share price of Kumari Bank Limited before and after the announcement of rights offering. But the share price of KBL has been slightly underpriced after the announcement of rights offering because the market price has been slightly lowered than the ex-rights price.
- Though there is no significant difference between the share prices of Himalayan Bank Ltd. and NICA Bank Ltd. before and after the announcement of rights offering, their share prices have been underpriced because the market prices are much lower than their ex-rights prices.
- In case of Sunrise Bank Ltd., the share price has been overpriced by a greater extent as compared to its ex-rights price, so it does not follow the theory of rights offering. It was found that there is significant difference between the share prices and NEPSE indices before and after the announcement of rights offering.
- There is significant difference between the share price of Machhapuchhre Bank Limited before and after the announcement of rights offering. And accordingly, the market price of MBL has been slightly overpriced as

compared to the ex-rights price which signifies that the share price of Machhapuchhre Bank Limited nearly meets the theory of rights offering.

4.9.2 Rights Share Practices in Nepal

Rights share issuance has been a new practice for the Nepalese companies. Some findings of the rights share practice in Nepal are as follows:

- The direction of NRB to meet the capital requirement has drastically increased rights offering in the recent year.
- All the sectors have practiced rights issue in Nepal. Banking sector occupies the largest rights offering among all the sectors.
- Nepalese investors mostly prefer banking and financial sector's shares to invest rather than other sectors.
- Rights offering from financial sectors are much more dominant over non-financial sectors in Nepal.
- Investors consider that legal provisions regarding rights offering are sufficient in Nepal even though they think that provision for transferable of rights would make their investment easier.

4.9.3 Problems Regarding Rights Share in Nepal

Though there are sufficient legal provisions regarding rights offering in Nepal, some of the major problems found during the research work are as follows:

- Under subscription of rights share is a major problem in Nepal. There is no easy provision regarding the sale of undersubscribed rights share.
- Though the under subscribed rights share are auctioned for sale, still many of those units are left unsold.
- Due to the centralization of securities market, many of the investors lack the access to the rights share offering.
- Lack of investors' awareness, low performance of companies, untraceable shareholders, financial problem of small shareholders and lack of provision for rights transfer are the major causes of under subscription of rights share.

CHAPTER V

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The major summary of findings are as follows:

- The major findings of the study are not consistent with the theory of rights offering. The share price of most of the companies decreases significantly after the announcement of rights offering. Besides, under subscription of rights has been a major problem for most of the commercial banks. The conclusion of the study is that rights offering are found to be in an increasing trend and have some impact on the share price that can be either positive or negative. Lack of investor's awareness was found to be one of the major causes of under subscription. But still, it is believed that rights issue practice contributes a lot to raise funds for every company.
- Rights offering in Nepal and its impact on share price is an exciting and challenging study. Nepalese capital market is not well developed as compared to the other countries capital market such as India, People's Republic of China, the United States of America and the United Kingdom. So, very few investment instruments such as ordinary shares, debentures, preference shares, rights share and mutual funds are being issued whereas other instruments such as warrants, convertible options, transferable rights, etc. are not in practice. This is why, the investors cannot invest their savings in highly productive sectors. As a result, it causes low market capitalization in stock market.
- This study has concentrated on the various aspects of rights offering with special reference to the selected listed commercial banks in Nepal. It includes the data of mostly rights issuing companies.
- The practice of rights share issue has been in an increasing trend. Among the issues made, all of them were near to full subscription. In Nepal, most of the cases of rights offering do not meet the theory. Among the five samples banks, the share price of Sunrise Bank Limited was increased in a great extent after the announcement date. The share prices of KBL, HBL and NICA were

decreased after the announcement date and the share price of MBL nearly met the theory of rights offering.

- This study has been done to fulfill some specific objectives. Main objectives of this study are to examine the share price movement before and after the announcement of rights issue and to analyze the rights issue practice in Nepal. Finding out the problem of rights issue in Nepal is another objective of this study. Till the date, many studies have been done related to the impact on market price by various variables such as EPS, DPS and signaling effects. But, very few studies have directly concerned with rights issue in Nepal, because rights issue is a growing phenomenon in Nepal.
- This study is heavily based on secondary data. So, useful data were collected from SEBON and related organizations as well. Newspapers, annual reports of sample companies, journals and online websites such as merolagani, sharesansar are important sources to obtain the secondary data in this study. Other information was collected through the internet as well. Primary data and distribution of questionnaires to some individual investors, brokers and issue managers have also been done. To conduct this study, statistical tools as well as financial tools had been used.
- It has been suggested that rights offering have some impact on the share price that can be either positive or negative. The general market movement also influences the market price of share to a great extent. Except for the banking, financial, insurance and hydro sectors, rights issue have not been properly practiced by other sectors. It is believed that as the capital market is being matured and well developed, rights issue practice would contribute a lot to raise funds for each company.

5.2 Conclusion

Rights share practice has been seen in an increasing trend in Nepal. Most of the investors have been found to be attracted towards rights issue despite the fact that rights offering are being undersubscribed. Rights offering have been proved to be an effective instrument of raising funds in Nepal according to the recent data. While analyzing the rights offering by Nepalese companies, most of the companies do not meet the theory of rights offering i.e. the share price decreases significantly after the

announcement of rights share. It was found that shares were traded even below the ex-rights price. In this study, the shares of sample banks were traded either above or below the ex-rights price. Almost in all cases of rights offering, there exists some sort of under subscription of rights share. Some untraceable shareholders even cannot get information about the rights share announcement made by their companies, others who are informed are not fully aware of what the rights share means and what can be its impact on their wealth position. In Nepal, rights are not transferable and this has also been the major cause of under subscription of right share. Though the unclaimed rights are auctioned, even after that some of the shares have been left unsold. Due to this, large number of shareholders are holding few shares since they are found to be ignoring the rights share and they bear loss after the price adjustment of rights share. Employees and the companies themselves are gaining in the cost of existing shareholders.

While testing the hypothesis, mixed results have been obtained. In most of the companies, rights offering affect the share price movement whereas in some of them, no effect is seen. Share price movement and general market movement in some cases are positively correlated and in some cases, they are negatively correlated. While analyzing the share price movement during the five periods, different results have been obtained. The legal provisions and policies regarding securities are ambiguous and the process of approval is quite lengthy. The formalities to be completed by issue managers before getting approval is time consuming. Some time it may take a fiscal year and in the next fiscal year the essence of issue may not remain and this is the reason that in some cases of rights offering, holders' record date remains prior to the announcement date, which is not consistent with the theory of rights offering. The regulations regarding the calculation of premium is not clear and certain regulations require companies to issue rights share in par value that result wide difference between the market price of share and the subscription price.

Right issues give the existing shareholders the option of purchasing new shares, normally issued at par value in the context of Nepal in order to encourage participation in the capital market. The study focused on the practice of rights offering in Nepal and its impact on the share price movement of the sample banks from FY 2012/13 to FY 2017/18. The major aim of the study was to examine the share price movement of stocks before and after the announcement of rights offering and to make

a comparison between the theoretical price and the real market value after the announcement of rights offering.

Both primary and secondary data were used for the analysis. Secondary data were collected from the annual reports of SEBON, websites of the related companies and internet, while the primary data were collected through questionnaire. This study used descriptive, correlational and casual-comparative research design. Descriptive research design has been used for conceptualization, problem identification, conclusion and suggestions. The correlational research has been used to ascertain the extent to which two variables i.e. the rights issue and the share prices are related to each other. Casual-comparative research has been used to establish casual relationships, which has been shown by using t-test for difference of means.

5.3 Recommendations

Based on the findings of the analysis of rights issues, some practicable recommendations have been forwarded as follows:-

- Nepalese investors are not well aware about rights offering. So to increase awareness of investors, some programs like interactions, advertisements, radio talks, etc., should be organized by the related companies, government and SEBON as well.
- The mechanism of information flow is not found to be appropriate and effective that the rights offering are neither fully subscribed nor over-subscribed. The effective alternative of information flow should be searched.
- There is no provision in Company Act 2063 to make rights negotiable. So it should be amended and there should be a provision of transferable rights, which helps to solve the problem of under subscription of rights share to some extent. It also protects the dilution in wealth of shareholders and also enhances the dimensions of security market.
- During the study, it was found that unrealistic financial statements are published. Such publications create a negative impact on shareholders. So, NRB, SEBON and Office of the Company Registrar should make a provision to publish realistic prospectus and financial statements.

- From the obtained responses, it was found that investors do think that there should be limitations on the bid price of auctioned rights. Hence, SEBON should introduce an act of limiting the bid price of auctioned rights.
- The rights auction process is very traditional and centralized. So, the SEBON should make regulation to modernize the auction system so that the investors could attain on the system through ASBA from the various parts of the country.

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APPENDIX - 1

Information about Share Price and NEPSE Index before and after Announcement of Rights Offering of the Sample Companies

1. Kumari Bank Ltd.

Announcement date of rights offering	- 2017 /03/02
Book closure date	- 2017/03/03
Issued date	- 2017 /03/19
Closed date	- 2017 /04/23
Subscription price	- NRs. 100 per share
Subscription ratio	- 2:1
Number of shares issued	- 1, 34, 95, 832 units
Issue manager	- Siddhartha Capital Limited

Share Price and NEPSE Index of Kumari Bank Limited

Share Price before Announcement		Share Price after Announcement	
Date		Date	
Date	Share price (Index)	Date	Share price (Index)
2017/03/01	513 (1316.80)	2017 /03/05	329 (1354.34)
2017/02/28	515 (1299.29)	2017 /03/06	329 (1358.41)
2017/02/26	518 (1313.01)	2017 /03/07	323 (1341.56)
2017/02/23	510 (1337.46)	2017 /03/09	324 (1347.53)
2017/02/22	508 (1344.11)	2017 /03/13	322 (1355.23)

2. Himalayan Bank Limited

Announcement date of rights offering	- 2016/10/21
Book closure date	- 2016/10/26
Issued date	- 2016/11/11
Closed date	- 2016/12/15

Subscription price	- NRs. 100 per share
Subscription ratio	- 7:1
Number of shares issued	- 64, 27, 350 units
Issue manager	- Laxmi Capital Market Limited

Share Price and NEPSE Index of Himalayan Bank Limited

Share Price before Announcement		Share Price after Announcement	
Date		Date	
Date	Share price (Index)	Date	Share price (Index)
2016/10/20	1617 (1794.47)	2016/10/23	1631 (1782.39)
2016/10/19	1600 (1787.89)	2016/10/24	1608 (1768.89)
2016/10/18	1600 (1792.73)	2016/10/25	1595 (1751.00)
2016/10/17	1608 (1793.36)	2016/10/27	1390 (1759.71)
2016/10/16	1622 (1803.74)	2016/11/03	1380 (1762.21)

3. NIC Asia Bank Limited

Announcement date of rights offering	- 2016/05/08
Book closure date	- 2016/05/13
Issued date	- 2016/05/26
Closed date	- 2016/06/29
Subscription price	- NRs. 100 per share
Subscription ratio	- 4:1
Number of shares issued	- 92, 37, 540 units
Issue manager	- Civil Capital Market Limited

Share Price and NEPSE Index of NIC Asia Bank Limited

Share Price before Announcement		Share Price after Announcement	
Date		Date	
Date	Share price (Index)	Date	Share price (Index)
2016/05/05	900 (1463.13)	2016/05/09	959 (1482.90)
2016/05/04	878 (1468.11)	2016/05/10	935 (1484.04)
2016/05/03	864 (1471.95)	2016/05/11	920 (1481.18)
2016/05/02	861 (1474.47)	2016/05/12	923 (1481.94)
2016/04/28	865 (1464.91)	2016/05/15	780 (1477.38)

4. Sunrise Bank Limited

Announcement date of rights offering	- 2016/01/03
Book closure date	- 2016/01/10
Issued date	- 2016/01/25
Closed date	- 2016/02/28
Subscription price	- NRs. 100 per share
Subscription ratio	- 100:15
Number of shares issued	- 36, 90, 473 units
Issue manager	- Civil Capital Market Limited

Share Price and NEPSE Index of Sunrise Bank Limited

Share Price before Announcement		Share Price after Announcement	
Date		Date	
Date	Share price (Index)	Date	Share price (Index)
2015/12/31	404 (1151.38)	2016/01/04	959 (1154.62)
2015/12/29	408 (1142.17)	2016/01/05	935 (1146.77)
2015/12/28	395 (1131.95)	2016/01/06	920 (1149.89)
2015/12/27	403 (1135.47)	2016/01/07	923 (1164.14)
2015/12/24	408 (1137.03)	2016/01/10	780 (1167.18)

5. Machhapuchhre Bank Limited

Announcement date of rights offering	- 2016/11/16
Book closure date	- 2016/10/28
Issued date	- 2016/12/04
Closed date	- 2018 /01/08
Subscription price	- NRs. 100 per share
Subscription ratio	- 2:1
Number of shares issued	- 1, 93, 22, 700 units
Issue manager	- Civil Capital Market Limited

Share Price and NEPSE Index of Machhapuchhre Bank Limited

Share Price before Announcement		Share Price after Announcement	
Date		Date	
Date	Share price (Index)	Date	Share price (Index)
2016/11/15	546 (1701.91)	2016/11/17	527 (1658.08)
2016/11/14	548 (1706.28)	2016/11/20	505 (1599.62)
2016/11/13	548 (1700.00)	2016/11/21	501 (1606.29)
2016/11/10	543 (1697.17)	2016/11/22	486 (1582.47)
2016/11/09	545 (1696.86)	2016/11/23	480 (1540.01)

Source: <https://www.merolagani.com/CompanyDetail>

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

APPENDIX - 2

Value of Rights and Theoretical Ex-rights Price

Variables Defined:

P_0 = Current Market Price per Share

P_s = Subscription Price per Share

N = Number of Rights Required for an Additional Share

P_x = Ex - rights price

V_r = Value of Rights

$$V_r = \frac{P_0 - P_s}{N + 1}$$

$$P_x = \frac{(P_0 \times N) + P_s}{N + 1} \text{ Or, } P_x = P_0 - V_r$$

1. Kumari Bank Limited

$$P_0 = 516 \quad P_s = \text{NRs. } 100 \quad N = 2$$

Now,

$$V_r = \frac{P_0 - P_s}{N + 1} = \frac{516 - 100}{2 + 1} = \text{NRs. } 138.67$$

$$P_x = \frac{(P_0 \times N) + P_s}{N + 1} = \frac{(516 \times 2) + 100}{2 + 1} = \text{NRs. } 377.33$$

2. Himalayan Bank Limited

$$P_0 = 1617 \quad P_s = \text{NRs. } 100 \quad N = 7$$

Now,

$$V_r = \frac{P_0 - P_s}{N + 1} = \frac{1617 - 100}{7 + 1} = \text{NRs. } 189.63$$

$$P_x = \frac{(P_0 \times N) + P_s}{N + 1} = \frac{(1617 \times 7) + 100}{7 + 1} = \text{NRs. } 1427.38$$

3. NIC Asia Bank Limited

$$P_0 = 950 \quad P_s = \text{NRs. } 100 \quad N = 4$$

Now,

$$V_r = \frac{P_0 - P_s}{N + 1} = \frac{950 - 100}{4 + 1} = \text{NRs. } 170$$

$$P_x = \frac{(P_0 \times N) + P_s}{N + 1} = \frac{(950 \times 4) + 100}{4 + 1} = \text{NRs. } 780$$

4. Sunrise Bank Limited

$$P_0 = 411 \quad P_s = \text{NRs. } 100 \quad N = 6.67$$

Now,

$$V_r = \frac{P_0 - P_s}{N + 1} = \frac{411 - 100}{6.67 + 1} = \text{NRs. } 40.55$$

$$P_x = \frac{(P_0 \times N) + P_s}{N + 1} = \frac{(411 \times 6.67) + 100}{6.67 + 1} = \text{NRs. } 370.45$$

5. Machhapuchhre Bank Limited

$$P_0 = 542 \quad P_s = \text{NRs. } 100 \quad N = 2$$

Now,

$$V_r = \frac{P_0 - P_s}{N + 1} = \frac{542 - 100}{2 + 1} = \text{NRs. } 147.33$$

$$P_x = \frac{(P_0 \times N) + P_s}{N + 1} = \frac{(542 \times 2) + 100}{2 + 1} = \text{NRs. } 394.67$$

APPENDIX - 3

Impact of Rights offering Announcement on Share Price Movement

Variables Defined:

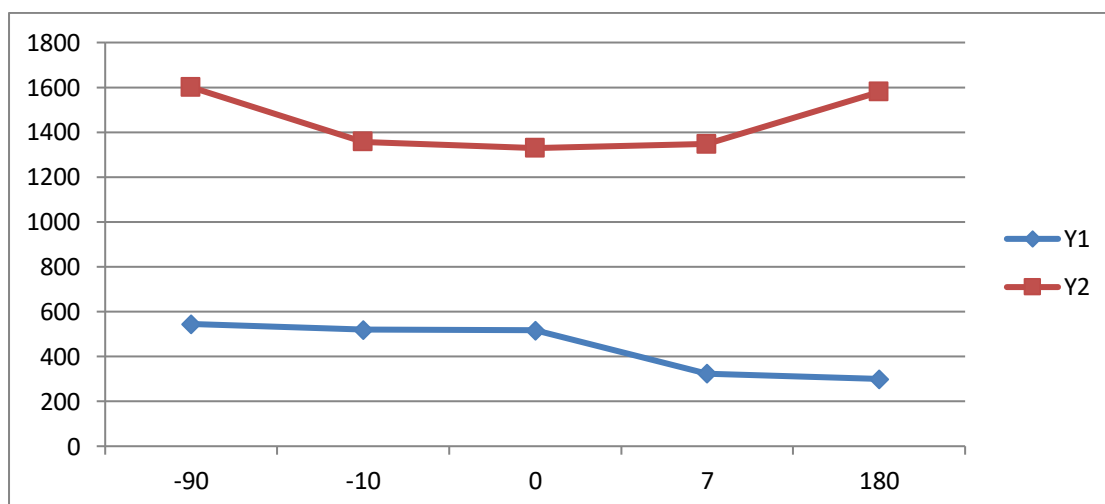
X = Days before and after Announcement of Rights Share

Y₁ = Share Price

Y₂ = NEPSE Index

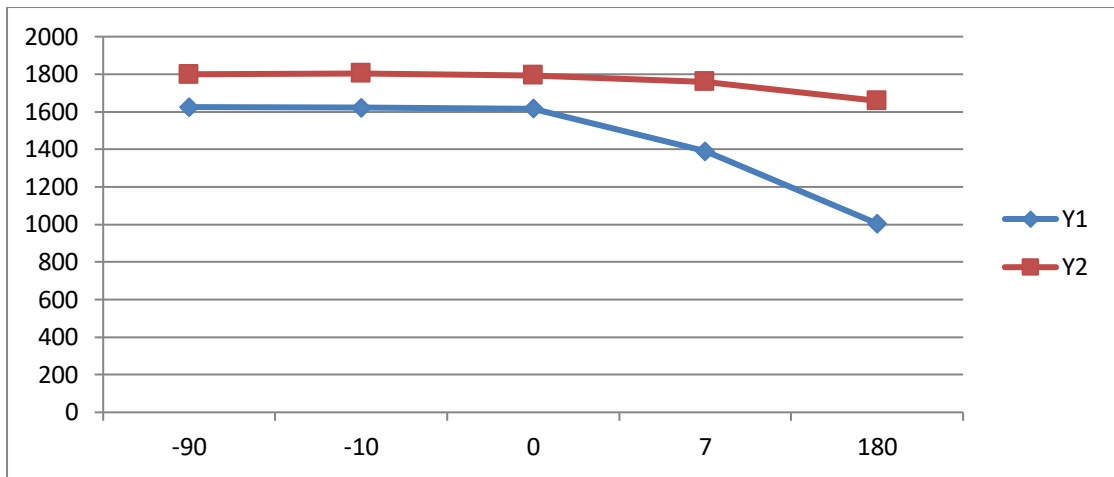
1. Kumari Bank Limited

X	-90	-10	0	7	180
Y ₁	579	519	516	324	300
Y ₂	1600.49	1357.57	1329.41	1347.53	1580.03



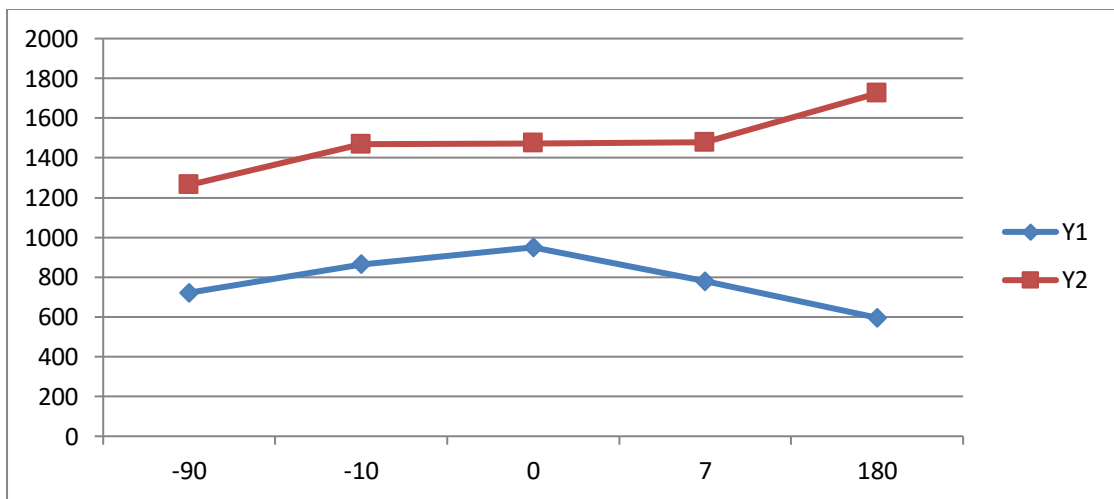
2. Himalayan Bank Limited

X	-90	-10	0	7	180
Y ₁	1625	1621	1617	1400	1005
Y ₂	1798.83	1803.74	1794.47	1759.71	1658.34



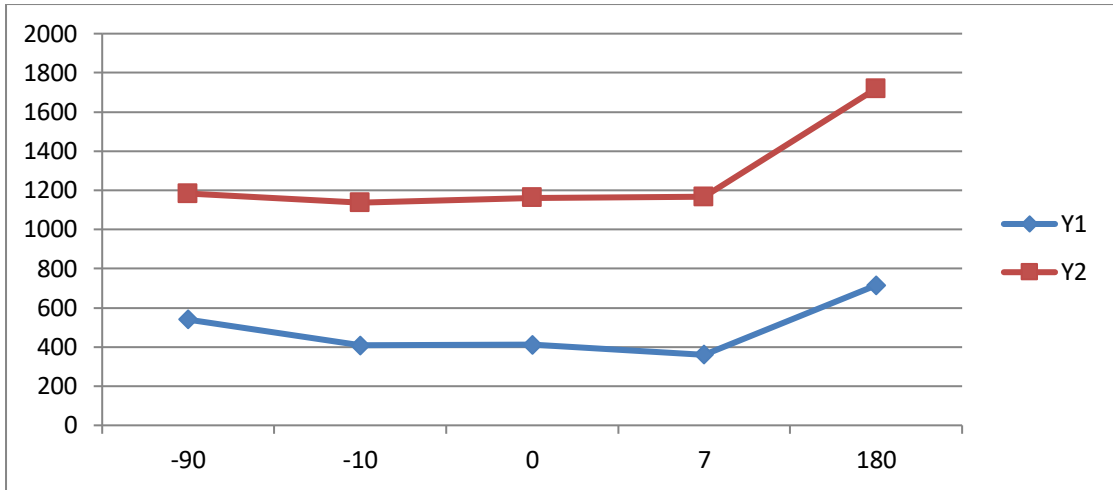
3. NIC Asia Bank Limited

X	-90	-10	0	7	180
Y ₁	722	865	950	780	596
Y ₂	1263.75	1464.91	1472.69	1477.38	1724.49



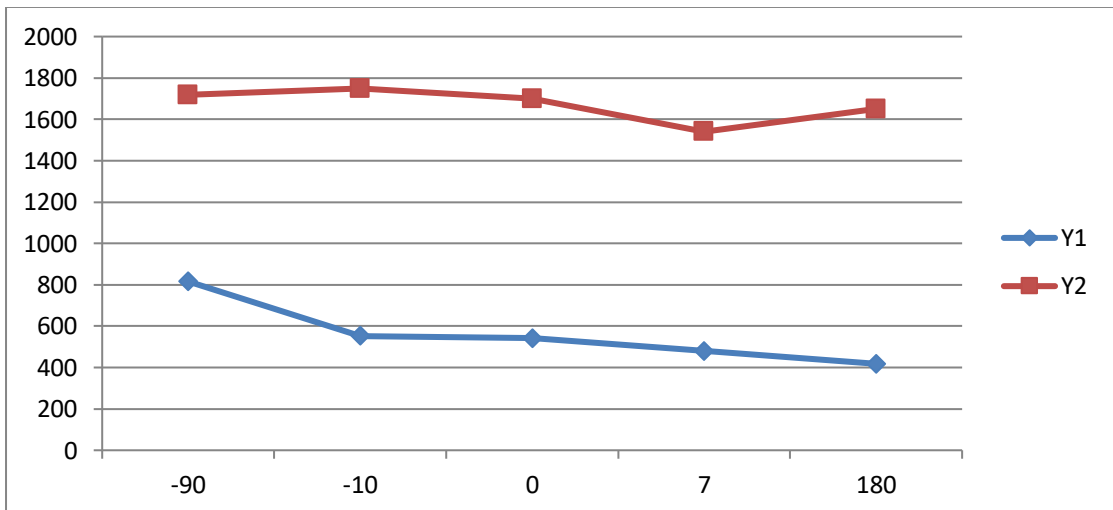
4. Sunrise Bank Limited

X	-90	-10	0	7	180
Y ₁	540	408	411	360	715
Y ₂	1183.48	1137.03	1160.84	1167.18	1719.20



5. Machhapuchhre Bank Limited

X	-90	-10	0	7	180
Y ₁	816	549	542	480	419
Y ₂	1717.45	1749.12	1698.90	1540.01	1649.24



APPENDIX- 4
QUESTIONNAIRE

Section I: Respondent Profile

Name..... **Signature**.....

Name of the Organization.....

Designation.....

Gender: - Male Female

Education: -

Below +2	+2	Bachelor	Masters	M. Phil / PhD

Section II: Other Related Information

Instruction: Please answer the following questions with a tick mark in the given space as required by the questions.

1. Are you familiar with rights issue?

a) Yes <input type="checkbox"/>	b) No	<input type="checkbox"/>
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2. Have you been involved in trading of shares in the secondary market?

a) Yes <input type="checkbox"/>	b) No	<input type="checkbox"/>
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3. Do you think investors are well aware to the phenomenon of rights share offering?

a) All of them <input type="checkbox"/>	c) None of them	<input type="checkbox"/>
b) Majority of them <input type="checkbox"/>	d) Minority of them	<input type="checkbox"/>

4. What do you think about the current legal provisions regarding the rights offering to the existing shareholders in Nepal?

a) They are sufficient <input type="checkbox"/>	b) They are insufficient	<input type="checkbox"/>
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Instruction: Rank the following aspects of your review in order to your preference by indicating 1 to the most preferred aspect, 2 to the second most preferred aspect upto 3 and 4.

5. In your opinion, which sector's rights issue does investors prefer the most?
- a) Banking/Financial
 - b) Manufacturing & Production sector
 - c) Insurance sector
 - d) Hydropower
6. What do you think why investors are interested to purchase the rights share?
- a) To increase the value of their shares
 - b) To increase the number of shares
 - c) To increase the dividend
 - d) To maintain the control position in management
7. Why do the Nepalese corporate firms prefer rights share instead of other instruments?
- a) Low flotation cost
 - b) Easy process to collect the fund
 - c) To maintain the control position in the management
 - d) Other causes
8. In your opinion, what is the major case of under subscription of rights share in Nepal?
- a) Low performance of the related company
 - b) Lack of investors' awareness
 - c) Lack of investors' reach
 - d) Rights is not transferable
9. What will the shareholders do, if rights are transferable in Nepal?
- a) They will sell the rights

b) They will exercise the rights

c) They will partially exercise or sell the rights

d) They will neither sell nor exercise the rights

Instruction: Please tick the following factors in order of importance while making decisions regarding rights share offering.

(Strongly agree = 5, Agree = 4, Unsure =3, Disagree =2, Strongly disagree = 1) 5

4 3 2 1

Issuing rights is the best measure for commercial banks to reach the paid up capital as directed by Nepal Rastra Bank.					
There must be a provision of transferable of rights in Nepal.					
Most investors prefer to buy shares of the company after the announcement of rights share.					
Issuing companies are more benefitted than the shareholders from rights offering.					
Purchasing of shares prior to price adjustment of rights offering is a rational decision.					
Rights issue has a negative impact on the earning per share of that company.					
Market price per share of the company will be affected by rights issue announcement.					
SEBON should introduce an act of limiting the bid price for auctioned rights.					