CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Companies often need adequate capital base to enable them operate efficiently. Each company can therefore adopt various methods of raising funds for their business; the methods chosen by the firm to raise finance depends on factors such as profitability prospects of the project to be financed, timing of finance, the existing capital structure and the costs of raising such capital. Most common types of long-term financing include long-term debt, common stock, preferred stock and retained earnings companies use either equity or debt financing but equity is preferred since it forms a permanent source of funding that cannot be redeemed easily. Listed corporations around the world typically raise external equity either from existing shareholders or from new investors. Where corporation raise capital from new investors, it is called initial public offering (IPO). Here, the public are invited to participate and the formula of allotting shares is clearly stated.

The history of Nepalese capital market began with the floatation of common equity share by Biratnagar Jute Mills Ltd. in 1937 A.D. The introduction of company Act in 1964 had opened the door for the companies to go public. The activities under financial capital market of Nepal were unsystematic until securities Board of Nepal (SEBON) was established in 1993A.D. as an apex body with the objective to regulate, promote and protect the Nepalese capital markets. The Government converted securities exchange centre Ltd. into Nepal stock exchange under the governance and regulation of SEBON in 1994AD. that has made financial trading floor more systematic and organized Nepalese capital market is dominated by the banking and financing institutions as other sectors are comparatively inactive and silent regarding the issuance of different securities like equity shares, debentures, right shares and other financial instruments.

Brealy and Myers (1996,P402) "The common stockholders as the owners of the corporation have a preemptive right to subscribe to new offering." While praise Harto (2001) says" right issue an offer of new securities to the shareholders of the company to buy new shares at a certain price at a certain time anyway. Right share issue is one of the attractive alternatives for the banking sectors for raising additional funds required to them. It is the privilege given to the existing shareholders to retain their control position proportionately equal in the management of the company. The practice of rights issuance in Nepal was initiated in 1995AD by Nepal fiancé and saving corporation. Right share is an option-based financing approach where existing shareholders are given the right but not the obligation to purchase the proportionate number of shares that is equal to the fraction of their current holding. (Holderness and Pontiff, 2016). This fractional purchase helps to maintain the original ownership (controlling power) percentage of the share holders.

We can describe the preemptive right or rights as the privilege offered to existing stockholders for buying specified number of additional shares of the company stock before the stock is offered to outsiders for sale. They have valve because they are generally offered at a subscription price somewhat lower than market price of share. Usually, rights are negotiable instruments which are transferable. It has the feature transferability and negotiability because some shareholders may not have sufficient funds to exercise the rights. Some may like to sell some part and exercise the remaining part of the right issue. Similarly, some shareholders may have an adequate fund for the purchase, but they may not consider the right issue as a profitable option comparative to other options available. In such a case they have the right to transfer their rights. While on the other instances, somebody may have funds to subscribe the offering but may not have sufficient rights to subscribe. Hence, they are given an opportunity to subscribe the right share through the provision of transferring the right.

Van Horne (2012) states that, instead of selling a security issue to new investors. Some firms offers the securities first to existing shareholders on a privileged subscription basis. Sometimes the corporate chapter requires that a new issue of common stock or issue of securities convertible into common stock be offered first to existing shareholders because of their preemptive rights. Under a preemptive right, existing common stockholders have the right to preserve their proportionate ownership in the corporation. So that they maintain their prorate interest in the company. This study examines the effects of right share issue on stock price movement in the Nepalese commercial banking sector covering the period 2010-11 to

2018-19. This study is mainly focused on the right share issue practice in Nepal and the impacts of rights offering announcement in the market price of share. This study is helpful to investors, security dealers, students and the commercial banks which are the samples of the study. It helps the parties to know about the share price movement after the issue of right share.

1.2 Problem Statement and Research Question

Rights issues give existing shareholders the option of purchasing new shares, normally issued at a discount to the prevailing market price. Most companies have issued rights but it has not been established clearly how it affects the companies, share performance in Nepal. Loughran and Ritter (1995) finds out that those American companies that offer rights issued tend to underperform in the long run as compared to their counterparts with no rights issues. Theoretically after announcement of right share offering the price of the share should be increases. Similarly, after exercise of the right share the price of the share should be declined by its value or right. However, the nature of price movement of share towards the rights issues is inconsistent. Different researcher put forward the different view to the price effect of right offering.

Batista and Theuri (2016), in their study concludes that mean share prices before and after right issues announcement was statistically insignificant as indicated by t-test (t=-0.435 and p value=0.663). But they didn’t explain what should be the scenario after the right issue. Fahmi and Saputra (2013) in their study concludes that issuance of right share provides significant impact on firms profitability ratio and financial performance, but they did not explain what should be the actual price associated with the announcement of right offering. Likewise the result of Raheja and Bhadwaj (2011) indicates that market price per share and Earning Price Per share are negatively correlated with right issue.

Pathak and Giri (2008) revealed that characteristics of right offering of listed companies and share price movement associated with right offering are not consistent with the theory of rights offering. According to Malholtra, Therimozhi and Gopalaswamy (2012) the reasons why markets respond differently to announcements of seasoned equity offering are (i) different issuing methods (ii) information effects (iii) the economic conditions under which a firm raises additional external equity (iv) institutional differences (v) industry effects. Hence, it is a matter of interest to know how stock price reacts with in response to the right issue announcement in Nepal. 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 the previous studies in the context of Nepal.

While offering the rights share, there is another problem of under subscription. Due o the lack of instrument of right transfer, there arises a problem of under subscription of right share and finally leads to the deprive the existing share holders from enjoying the option of selling rights. The financial manager should face the following issues to decide the right offering.

i) How many rights will be required to purchase a new share?
ii) What is the value of each right?
iii) What is the effect of right offering on the existing share price?

1.3 Research Questions

i) What are the impact on share price movement before and after announcement of rights issue?
ii) What are the prospects of issuing the rights share in Nepalese capital market?
iii) Is there any problem regarding rights share issue of commercial banks?

1.4 Purpose of the Study

The general purpose of the study is to examine the effects of right issue on share price movement of selected Nepalese commercial banks. To achieve this broad objective, the following are the major specific objectives relevant to this study.

i) To examine the share price movement before and after announcement of right issue.
ii) To examine the practice of right issue in the context of Nepalese commercial banks.
iii) To compare the theoretical (calculated) value and the real market value after the announcement of right issue.
iv) To evaluate the investors reaction to right offering.

1.5 Research Hypothesis

Given the literature discussed the following hypothesis as been developed in live with the stated research objective.

i) Null Hypothesis (H_0)

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

ii) Alternative hypothesis (H_1)

There is significant difference between the share price movement before and after the announcement of the right offering.

1.6 Significance of the Study

Commercial banks are critical for producing an efficient funds to move from people who lack productive investment opportunities to people who have them. The major function of commercial bank is to stabilize and enhance economic efficiency. The success and prosperity of the commercial bank depends on the strategic investment decision of collected resources to the various important sectors of the economy. Appropriate formulation and effective implementation of investment policy is the prime requisite for the better performance of commercial banks. Good investment policy has a positive impact on the economic development of country. So the investment policy of commercial banks should be in accordance with the spirit of economic objective of the nations. Therefore, the researcher has undertaken the study to analyze the current investment policy of commercial banks and point out the major defects within it and provide useful suggestion for its betterment.

1.7 Limitation of the Study

This study is required for the partial fulfillment of Master of Business, Degree. Hence, it is subject to some limitation which may influence the findings of studies, which are given below.

i) The study has analyzed last 10 years data beginning from 2008/09-2017-18.

ii) Study is heavily rely in secondary data. The reliability of finding largely depend upon the accuracy of secondary data.

iii) The study considers only one variable of share price movement.

iv) Out of the total rights issuing commercial banks only five commercial banks are considered for the study.Therefore,the findings may not be perfectly generalizable to the entire population.

1.8 Chapter Plan

Chapter 1: Introduction

Chapter one gives detail about the study area and the concept note about the research problem under study. It includes background of the study problem statement, objectives, significance of the study, limitations and the conceptual framework.

Chapter 2: Literature review

Literature review is an act of stocking available literature in the area of researcher interest. To complete this chapter conceptual review of previous works, articles, thesis will be completed and research gap will be identified based on the review of literature.

Chapter 3: Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher so as to obtain answer to the research question. To complete this chapter focus will be made on research design, population and sample, sources of data, data collection procedure, data processing procedure and data analysis tools and technique.

Chapter 4: Results

This chapter includes tabulation, coding and classification of data gathered from the various sources. Data presentation and analysis, major findings and discussion will be the major aspect of this chapter.

Chapter 5: Conclusion

This part will be the output of overall research process. On this chapter major findings are summarized based on the chapter 4 and also provide valuable implications of major findings.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Review

Rights issue is giving existing shareholders the right to preemptive shares of the issues to be sold for a nominal price given. Usually it is intended the issue to increase the company's capital constraints. Rights issue by Bealy and Myers (1996); the common stockholders as the owners of the corporations have a preemptive right to subscribe to new offering. While praise Harlo (2001) says, rights issue an offer of new securities to the shareholders of the company to buy new shares at a certain price at a certain time anyway. Thus, right share is an option based financing approach where existing shareholders are given the right but not the obligation to purchase the proportionate number of shares that is equal to the fraction of their current holding. This fractional purchase helps to maintain the original ownership percentage of the share holders.

2.1.1 General Rights and Privileges of Common Stockholders

The common stockholders are the real owners of the company. They have certain rights and privileges. The rights and privileges of stockholders are eatablished by the company charter and the laws of the state under which the company is registered (Paudel, Baral, Gautam and Rana, 2009). These rights may be grouped into collective right and specific rights. The collective rights of stockholders are,

i) The right to amend the charter.
ii) The right to adopt and amend by laws.
iii) The right to elect the board of director.
iv) The right to authorize the sale of fixed asset.
v) The right to enter into mergers.
vi) The right to change the amount of authorized common stock.
vii) The rights to issue preferred stock, debentures, bonds and other securities.

Common stock holders also have some specific rights as individual owners. Some specific rights are:

i) The rights to vote.
ii) The right to sell their stock certificates.
iii) The right to inspect the corporate books.
iv) The right to share residual income and assets.
v) Preemptive right.

2.1.2 Feature of Rights Share

A right issue is one of the ways by which a company can raise equity share capital among the various types of equity share capital sources available. Rights shares means the share where the existing shareholders have the first right to subscribe the shares. The following are the major characteristics of rights issue.

i) Rights shares are usually issued at the discount as compared to prevailing market share price.
ii) Gives preferential treatment to existing shareholders.
iii) Existing shareholders can trade the rights.
iv) Amount of rights issue is in proportion to existing holding.
v) Rights are negotiable instrument.
vi) The price per share required to subscribe additional shares is determined bu the issuing company.
vii) Right can be exercised only during a fixed period, which usually about 30 days.

2.1.3 Selling Common Stock through a Right Issue

The ordinary shareholders of a company enjoy preemptive rights. According to this right, they are offered first opportunity to buy additional shares issued by the company. They can buy newly issued shares on the proportion of their existing ownership. The option provided to the shareholders to purchase a specified number of equity shares at a stated price during a given period is called rights. The shareholders can either exercise the right i.e. buy the new shares or sell the rights in the market i.e. allow others to buy the shares or renounce their preemptive rights partially or completely. The shares available as a result of non exercise of right would be allotted on a pro-data basis to shareholders exercising the right. Any balance of share can be offered to the public for subscription.

If the preemptive right is mentioned in a firm's charter, then the firm must offer any new common stock to existing share holders. If the charter doesn't prescribe a preemptive right, the firm has a choice of making the sale to its existing shareholders or to entirely new investors. If it sells to the existing stockholders, the stock floatation is called right offering. Each stockholder is issued an option to buy a certain number of the new shares and the terms of the options are contained on a piece of paper called right. Each stock holder receives one right.

2.1.4 Advantages and Disadvantages of Right Issue

Companies often issue the right shares to raise funds for expansion, launching new products, improving debt to equity ratio, paying off debt or for taking over another company. It is perhaps one of the best ways to raise capital without incurring additional dent because instead of borrowing money from the banks and pay high interest rates, it is quite feasible option to raise funds from the existing shareholders.

Advantages of Right Issue

i) The shares are offered to the shareholders at the discounted price to encourage them to purchase the right issue.
ii) The company saves a significant amount of money such as underwriting fees, advertisement cost and so on.
iii) The control of the company remains in the hands of existing shareholders. This is because the shares are only issued to those shareholders who on the date of right issue are the holders of the shares.
iv) There is an equitable distribution of the shares and the same proportion of the voting rights.

Disadvantage of Right Issue

i) The main disadvantage is to the shareholders who fail to exercise their rights, they lose in terms of decline in their wealth.
ii) The value of each share may get diluted if there are an increased number of shares issued.
iii) The company may not able to raise more funds and fail to achieve their target due to the under subscription of right offering.

2.1.5 Procedures of Right Offering

There is a proper procedure that is followed by the company for the right issue of shares and the right offering procedure is similar to the dividend payment procedures.

i) Declaration Date

The firm is under the control of the board of director (BOD). BOD meet and with the help do the management, declare right offering. For example, Nepal SBI Bank need Rs. 400 million funds and the BODs decided to raise these funds through the right offering. The BOD met on June 25 and declared right offering under the preemptive right of the existing shareholders. The meeting also declared that, to purchase the additional shares the shareholders most record their name until July 30.

ii) Ex-right Date

It is the date on and after which the right no longer goes to the stock. The ex-right date varies country to country and may also determine by the companies themselves. In the Nepalese capital market companies published notice of book closer date and book closer date is the ex-right date. This date normally is the four days before the holder of record date. In our example, June 21 is the ex-right date and those who purchase shares on and after this date will not receive rights and receive by the sellers of the shares.

iii) Holder of Record date

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

iv) Subscription Date

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

2.1.6 Valuation of Rights

Value of right is a function of current market price of the stock, subscription price and the number of rights required to purchase an additional shares of stock. When the stock is selling rights on the theoretical value of rights can be evaluated by using the following formula.

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

Where, P_o = current market price per share when stock is selling right on period

P_s = subscription price per share

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

V_r = value of right

Example

If current market price of share is Rs. 40, the subscription price is Rs. 30 and the number of rights required to purchase one share is 4, then theoretical value of one right using the above equation is,

$$V_r = \frac{Rs\,40 - Rs\,30}{4} = Rs\,2.5$$

If the stock is selling ex-rights, the theoretical value of each right can be computed by using the following equation.

$$V_{er} = \frac{P_e - P_s}{\#} \; and, \; P_e = P_o - V_r$$

Alternatively,

$$P_e = \frac{\left(P_o \times N_o + P_s \times N_n\right)}{\left(N_o + N_n\right)}$$

Where,

P_e = market price per share when stock is selling on ex-right period

V_r = value of right when stock is when stock is selling on ex-right period

N_o = number of share before right offering

N_n = number of new shares due to right offering

2.1.7 Effects of Rights offering on Shareholders Wealth

Stockholders have the choice of exercising their rights or selling them. If they have sufficient funds and want to buy more shares of the company's stock, they will exercise the rights. If they do not have money or do not want to buy stock, they will sell the rights. The effect on shareholders wealth in different conditions of exercising, selling or neither exercise nor selling the right just after right offering can be calculated by applying following methods.

a) When all rights are exercised by the shareholders

Wealth position = P_e × (number of old shares + number of new shares) – P_s × number of new shares purchased + cash (if any)

b) When al rights are sold by the shareholders

Wealth position = P_e × (number of old shares) + V_r ×(number of rights sold) + cash (if any)

c) When some rights are sold and some are exercised by the shareholders

Wealth position = P_e × (number of old shares+ number of new shares) + V_r ×(number of rights sold – P_s × number of new shares purchased) + cash (if any)

d) When al rights are discarded by the share holders

Wealth position = P_e × number of old shares + cash (if any)

2.1.8 Right offering vs Public offering

Right offering and public offering both are the issue of common stocks. But right offering is issued for the existing shareholders and public offering is issued for new investors. However, there are some differences exist between these offering which are described below.

i) Right issue is not underwritten, so flotation cost of right issue is lower than the public offering.
ii) A right issue has issue price lower than public offering.
iii) A right issue is likely to be more successful than public offering because the right offering is made to the investors who are familiar with the operation of the company.

2.1.9 Over and Under Subscription of Right Offerings

"Underwriting is the insurance, function of bearing the risks of adverse price fluctuations during the period in which a new security is being distributed." (Weston and Copeland, 1992:891). Most of the right offerings are done by investment bankers who underwrite and issue the right shares. So the company is sure about the success of right offering through investment bankers who underwrite the unsold portion of the issue. The investment banker agrees to be a standby agreement. This agreement is a formal guarantee if any shares will not be subscribed, investment bankers will purchased the unsold portion of shares. Due to which investment bankers require high underwriting commission or fees to compensate the risk of under subscription.

Oversubscription is a privilege given by the company to the shareholders that they can subscribe for their proportionate shares as well as they can also over subscribe for any unsold shares because of having right. The numbers of unsold shares are oversubscribed on pro-data basis by the some existing shareholders. If the shares cannot be sold through the oversubscription privilege, later, it may offer to the public. If an investment banker is used, the character of unsubscribed shares may be in case upto the banker.

2.1.10 Procedures of the Issue of Right Shares in Nepal

The company act, 2063 of Nepal conducts about the right issue which is regulated by security board of Nepal (SEBON). Certain rules and regulations must be followed by the companies which are described in company act 2063 and their respective memorandum and article of association. Generally, following steps are considered before right offering in the context of Nepal.

i) The determination of additional capital requirement, in which the right issue might be offered to existing shareholders should be considered by Board of directors (BOD).
ii) Annual General Meeting (AGM) should pass the proposal of Board of director by its majority. The company should notify to Nepal Rastra Bank, Nepal Stock Exchange Security Board of Nepal and Company. Register office sufficiently with prospectus in advance of the date of board of record meeting at which the right issue is likely to be considered and should get permission from them.
iii) Make announcement with prospects which gives a general indication of the reasons which have made the issue desirable the purpose for which the new fund is to be used.
iv) Letter of provisional allotment or rights offering to the shareholders with prospects gives advising to the existing shareholders about the right offering the number of shares allocated to each given, number of old shares, the subscription price of the right issue. After the announcement date, this letter will be sent.
v) After the receipt of the letter of provisional allotment, the allotment must be accepted or renounced and payment in full or partial must be made for those shares which are renounce.
vi) The shareholders who participated in the rights offering announcement will get the certificates. Shareholders who have accepted and fully paid up their allotment can renounce the actual share certificate in favour of a third party.
vii) The resolution of the board of director to distribute the right share had to approve by shareholder's Annual General Meeting.

viii) Listing of the shares in the Nepse again with increased number which must be approved by the stock exchange after which an application for listed new shares could be made.

2.2 Review of Previous Works

2.2.1 Review of Research Articles

Summary of Related Articles and Thesis

Author	Title	Year	Methodology	Findings
Paul Marsh	Equity Rights Issue and the Efficiency of the UK Stock Market	1980	Single stage cross sectional model and black and schools model	Underwriting taken alone and ignoring side payments was considerably overpriced for their shares.
Karanja	An Evaluation of Post Rights Issue Effect on Firm's Share Price and Traded Volumes	2006	Event study and the market model	Most firms that announce right issues usually experience a decrease in the share price after the right issue.
Kakiya	The Effects of Rights Announcements on Stock Returns	2007	Moving average trend analysis t-test	The stock returns were dependent on right announcement.
Pathak and Giri	Rights Share Issue Practice in Nepal and Its Impacts on Share Price Movement	2008	Coorelation analysis and T-test	Results were not consistent with theory of right offering.
Olesaaya	The Effects of Right Issue on Stock Returns (Nairobi Stock Exchange)	2010	Market model (Abnormal returns)	Negative abnormal returns prior to announcement, positive return

				during the announcement and negative results thereafter.
Raheja and Bhadwaj	Impact of Right Issue on MPS and EPS	2011	Correlation analysis	Correlation between EPS and right issue was 0.11 and between MPS and right issues was -0.80. Thus MPS is much negatively correlation than EPS with right issue.
Miglani	An Empirical Analysis of Impact of Right Issues on Shareholder Returns of Indian Listed Companies	2011	Event study	Significant abnormal returns on the announcement date and surrounding dates.
Malhotra Thenmozli Gopala Swaamy	Liquidity Changes around Bonus and Right Issues Announcement	2012	Event study, T-test, Wilcoxon Signed rank test	Change in liquidity in statistically significant after bonus and right announcement.
Fahmi and Saputra	Analysis of Profitability Ratio in Publishing Right Issue; Decision at Indonesia Stock Exchange	2013	Wilcoxon signed rank test	Financial condition of company after right issues better than before the right issues. The result showed that the profitability ratios are significantly difference before and

				after issuance of right.
Raja	Right Issues and Price Behaviour, Indian Evidence	2012	Market beta mode and CAPM model paired T-test	Right issues were not able to generate statistically significantly excess returns.
Ahkam and Mustafa	Analysis of Market Reaction to Right Shares Offers in Bangladesh	2013	Average correlation analysis T-test	The share price movement of stock after and before the right announcement was not accordance with the theory of right issues.
Otieno and Ochieng	The Effects of Right Issues Announcements on Stock Returns for Firms Listed at the Nairobi Stock Exchange	2015	Event study	The announcement of right issue results into negative stock returns for listed companies in the NSE.
Theuri and Batista	Effects of New Information from Right Issues Announcement on Share Price	2016	Descriptive regression model	Mean share price before and after the right issues announcement was statistically insignificant.
Pathak and Gupta	Right Offering and Its Effect on Share Price Movement' Study of Commercial Banks	2018	Correlation coefficient and coefficient of determination	The result highlighted the information assymetery behaviour which a negative change in

				stock price after right issue.
Cotterell	The Impact of Right Issue Announcement on Share Price Performance in South Africa	2011	Event study	Share price decline on the announcement of aright issue but that this reaction is significantly worse for companies in a poor financial position.
Wachira	Corporate Financing through Right Issue	2014	Descriptive method	Preserve ownership and control were not rated as very significant in the decision to use right issues.
KITCHINJI	The Effects of Right Issue in Firms Share Performance	2014	Market abnormal return and t-test	There was no significant effect on investor's reaction and the change in stock price surrounding the announcement of right issue.

To make more relevant and to add input in this study some journals and articles are also reviewed below. Empirical evidence has shown mixed results regarding the impact of right share issue on the share price movement.

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

Marsh (1980) on his article, "The Journal of Finance" has concerned with "UK companies raise virtually all of their new equity capital via the rights issue." Companies can guarantee the subscription of their issues having them underwritten and in recent years, this procedure has been adopted or 90% of UK right issues. Underwriting is usually carried out on a fixed fee basis representing at least 1.25% of the funds raised. He took while population of right issuing company i.e. 1147 companies between 1964 and 1978 although 148 issues were excluded because of potential ambiguities in the calculation of right issue adjustment factors. In his study, he used single stage cross sectional and Black and Scholes Model and found that population abnormal return estimate for the two years post announcement period was only 4.5 percent or almost exactly half of the figure obtained from the random sampling. He further stated that price pressure implies a temporary price fall around the ex-date. To test this he used the single stage cross sectional model to entire sample of nearly thousand issues.

Karanja (2006) did a study on, "An Evaluation of Post Rights Issue Effect on Firm's Share Price and Traded Volumes. The objective of the research was to evaluate the effects o post rights issues in firms share price and traded volumes. On the population, Karanja evaluated 9 firms out of the 14 firms that had announced right issue. He did an analysis 90 days after the right issue and noted that most firms that announce rights issue must consider information asymmetry as this highly determine the firms shares prices after successful right issue.

Kakiya (2007) conducted a study on "The Effects of Rights Announcements on Stock Returns." The researcher computed a 5 days moving average to observe the trend of stock returns following earning announcement. Daily market adjusted abnormal and cumulative abnormal returns were computed further t-test done to determine the effect of earning announcement on stock returns and results interpreted. The findings from the study were that trends in stock return are dependent on right announcement. Trade volumes are not significantly affected by right announcement. The researcher analyzed all companies and was testing the efficiency but this research has narrowed down on effect of rights issues on company's share performance and only companies that have done rights and those that form the part of the Nairobi stock exchange 20 share index formed the target population.

Pathak and Giri (2008) conducted a study on the topic," Rights Share Issue Practice in Nepal and its Impacts on Share Price Movement." This study covers two interrelated aspects (i) characteristics of right offering of listed companies and (ii) share price movement associated with right offering. This study used correlation analysis and t-test statistics to analyze the effect of right share issue on share price movement and found that the results are not consistent with theory or right offering.

Olesaaya (2010) did a research on, "The Effects of Rights Issue on Stock Returns and he investigated companies listed at the Nairobi Stock Exchange." The study used market model that relates the return of any given security to the return of the market portfolio to measure and analyze the abnormal returns. The study assumed that the abnormal returns reflect the stock market's reaction to the announcement of rights issue. The study found negative abnormal returns prior to announcement of right issues, positive returns during the announcement and negative results thereafter.

Raheja and Bhadwaj (2011) conducted a study on the topic "Impact of Right Issue on MPS and EPS". The main objective of this study was to find out the degree of correlation between the right issue (in-dependent variable) and MPS and EPS (dependent variable). This study scrutinized the impact of right issue on earning per share and marker per share during 2009-10 o f10 public limited companies listed on Bombay Stock exchange. The study revealed that EPS of 2 companies out if 10 companies descent but not in that proportion in which right share has been allotted while other 8 companies demonstrate increasing trend in EPS. MPs of 7 companies out of 10 companies decayed as a result of right issue but not in that proportion in which right share has been issued. Correlation between EPS and right issue was 0.11 and MPS between MPS and right issue was -0.80. Thus MPS is much negatively correlated than EPS with right issue.

Miglani (2011) conducted, "An Empirical Analysis of Impact of Right Issues on Shareholders returns of Indian listed Companies. This study explores the impact of right shares issued by Indian companies that took place during 2005 and 2010. The samples of 32 right issues have been used to study the announcement effect. The study examines the stock price reaction to information content if right issues with a view of finding whether Indian stock market is semi-strong efficient or not. The standard even study methodology has been used for the purpose of examining the right issues announcement reaction. The study revealed statistically significant abnormal returns on the announcement and surrounding dates. The result showed that the stock value of the firm increased on the day of announcement of right issues by about 1.42% .

Malholtra, Thenmozhi and Gopala Swaamy (2012), did a research, on Liquidity changes around Bonus and Right Issues Announcement. On their study they took data pertaining to companies in different industry classes that made bonus and right issues announcement during January 2000 to January 2010. Extreme cases have been removed where bonus ratio is greater than 5;1 (five for one) or the insignificant issues where `the ratio is less than 1:4. They used event study, t-test and Wilcoxon signed rank test to examine the stock price liquidity changes before and after the bonus and right issues announcement and found that decline in stock liquidity for all sectors and change in liquidity is statistically significant after bonus and right issues announcements. The liquidity effects can vary across firms with differing degree of information asymmetry between the firm and market.

Ventoruzzo (2013) conducted a study on the topics, "Issuing New Shares and Preemptive Rights: A Comparative Analysis in USA and Different European Countries." The purpose of this study was to analyze the methods regarding the modes of fund raising. In his study he found that, it is statutory and mandatory rule in any issuing of new shares for a consideration, all shareholders have a preemptive right to purchase the new shares proportionally top maintain their controlling power within the corporation. He also revealed the existence of different law in USA, that is in a closely held corporation the shareholders that exercise their preemptive right to do not only have the right to buy the new shares pro-data, but they can also exercise an additional preemptive right on the shares that other shareholders have not exercised.

Fahmi and Saputra (2013) conducted a research work on the topic "Analysis of Profitability Ratio in Publishing Right Issues: Decision at Indonesia Stock Exchange." The purpose of this study has been to test empirically two hypothesis with respect to the impact in the financial performance of companies on profitability ratios before and after issuing right issues. They took 20 listed companies in the Indonesia stock exchange as a sample for their study and found that financial condition of company after right issues better than before right issues. The result showed profitability ratios are significantly difference before and after issuance of right issues. They also concluded that right issue is a safest source of finance especially in terms of risk management perspectives.

Raja (2012), did a research on Right Issues and Price Behavior: Indian Evidence. The major objective of this study was to analyze the impact of right issues made by Indian companies on their share prices. The researcher used the phenomenon of excess return to map such impact. Excess returns are computed by taking two different models (market beta model and capital assets pricing model) for two windows of before and after the event time and the significance of difference was mapped by using paired t-test. He found that right issues were not able to generate statistically significant excess returns.

Ahkam and Mustafa (2013) conducted An Empirical Analysis of Market Reaction to Right Shares offers in Bangladesh. They have examined the right offers made between January 2010 to October 2012 by companies listed on the Dhaka Stock exchange and tested the speed of adjustment of market price of the issuers to the right issues. This analysis leads to the conclusion that the adjustment is not immediate, the market price is about 10-11% higher than the right adjusted price on the average and the difference is statistically significant. They obtained data for 48 companies listed on the Dhaka Stock exchange offering right shares during the period spanning January 2010 to October 2012 and found that the share price movement of stock after and before the right announcement was not accordance with the theory of right issues.

Otieno and Ochieng (2015) conducted a study on the topic, "The Effects of Right Issues Announcement on Stock Returns for Firms listed at the Nairobi Stock Exchange. This study investigates the effect of right issue announcement on stock returns of companies listed at an organized stock exchange. The study adopts an event study technique on a sample of twelve companies which issued rights between January 1, 2007 and August 31, 2014. The study established that stock prices and returns changes significantly in the post announcement period than in the preannouncement period. Analysis of Mean abnormal return revealed that right issues announcement results into either positive or negative stock return. Based on the cumulative average abnormal return (CAAR), the study concludes that right issues announcement results in t a negative abnormal stock return for the listed firms. The study found a negative CAAR of -0.0285. This leads to a conclusion that the announcement of right issues results into a negative stock returns for listed companies in the NSE.

Theuri and Batista (2016) did a research on Effects of New Information from Right Issues Announcement on Share Prices of Firm's listed on the Nairobi Stock Exchange. The purpose of this study was to establish the effect of new information from right issues announcement on share prices of firms listed on the Nairobi stock exchange. The study was carried out using descriptive research design. The target population consisted all companies on the NSE ad had previously done a right issues. Convenient sampling technique was used to identify firms that had right issues in the period. Under study data analysis was done using event study methodology and regression modeling. Based on the finding the study found that mean share prices before and after the right issues announcement was statistically insignificant as indicated by the t-test (t=-0.435 and p-value=0.663).

Pathak and Gupta (2018) conducted a study on the topic, "Rights Offering and its Effect on Share Price Movement: Study of Commercial Banks: published in the journal of Nepalese business studies, Vol. XI. The purpose of this study was to examine the effect of right share issue in share price movement in the banking sector covering the period 2008/09 to 2017/18. On their study five differ points of time were selected to observe the share price movement assuming the announcement data as the reference point of time. This study used correlation coefficient and coefficient of determination to examine the share price movement and the study revealed that right offering announcement has the signaling effect but it is negative. The share price of Nepalese commercial banks decreases after the announcement of right in spite of the increase in the market index in the corresponding period. The result highlighted the information symmetry behavior which induces a negative change in the share price after right issue announcement.

Furthermore, he used the same population ad sample as in previous study and conduct the empirical study on changes in stock returns around right issue announcement (published in international journal of finance volume-2, 2019). This study examined the effect of right issue announcement of stock returns in banking sector during July 2007 to July 2017. For this event study methodology has been used and the study concludes that right issue announcement yields a mix positive and negative cumulative abnormal returns around the announcements data. However, there returns were statistically non-significant.

2.2.2 Review of Previous Theses

Till the date, many studies have been done, related to the impact on market price by various variable such as EPS, DPS, and signally effects. But out of them very few thesis directly consider the right issue to study the impact on share price.

Cotterell (2011) studied on the topic 'The impact of right issue announcement on share price performance in South Africa. The main objective of this study was to extract relevant existing theory on rights issues and their impact on share price performance and to quantify the impacts of right issue announcement on share price performance of companies listed on JSE.

The study was conducted by analyzing right issue announcement occurring in the JSE between 1st January 2001 to 31st December 2010. 35events were used in this study. Since they met the criteria for clean measurement. A standard event study methodology was used. Abnormal returns were measured through both the market model and control portfolio, with the Altman-z-score used as a measure of the issuer's financial position. Average abnormal returns of -2.33% and -3.30% were found on the day of announcement and cumulative. Average abnormal returns (CAARS) for five days post the announcement were between -5% and -6%. The conclusion of the study is that the well-researched share price decline on the announcement of a right issue, but that this reaction is significantly worse for companies in a poor financial position as measured by Altman z-score.

Wachira (2014) also conducted a research study on topic "Corporate financing through right issue'. The purpose of this study was to investigate the use of right issues in raising capital. The study was guided by four research objectives namely to determine the factors that leas organization to choose right issues, to determine the factors that influence the success of right issues, to determine the challenges encountered during right issues and the measures that can be taken to enhance the use of right issues.

The study employed a descriptive approach using primary data. The population for this study consisted of all right issues made in the Kenyan capital market. From the population a sample was selected, that comprised right issues made during the period 2004 to 2012. A total of 18 right issues were made during the studied period. With the exception of two issues; all other issues were oversubscribed. The study identifies the drivers to the use of right issues as; the presence of a favourable regulatory environment, a high level of certainly and the need to take advantage of temporarily high stock prices. Low and the need preserve ownership and control were not rated as very significant in the decision to use right issues.

Kithinji (2014) conducted a study on the topic 'The effects of right issue in Firms share performance; A case of Kenya listed companies.' This study aimed to identify the effects of right issue on the share performance of listed Kenya-based companies on the Nairobi securities exchange. This study also aimed to compare the share performance of companies which have performed right issue to the performance of those which have not. The target population of this study wades up of all companies listed at the NSE as at 31st December 2012. In total there were 62 companies listed as at December 2012. Thos targeted all Kenyan based companies that are in the NSE 20 share index and those that had undertaken right issue between 2007 and 2012. A data collection sheet was used to collect secondary data on market indices, daily closing share prices and traded volumes for a period of 20 days before and 20 days after each right issue announcement. Daily market abnormal and cumulative abnormal returns were computed and a t-test at95% confidence level done to determine the effects of right issue announcement on share prices and results interpreted.

From the findings, it can therefore be concluded that right issue announcement have no significant effect on investor's reaction since 88.8% of the companies analyses indicated that there was no significant effect and found that positive stock price change during the period surrounding the announcement of right issue.

Gautam (2001) studies on the topic "An analysis of share price movement attributed to Rights offering announcement in 2001." The main objective of the study was to analyze the share price behavior with respect to right offering announcement. To conduct this study he used correlation coefficient and coefficient of determination between share price movement and NEPSE index. T-statistics is also used to identify significant difference in share price movement before and after announcement of right issue. But he did not consider the value of value of rights, which is very important in share price determination after issue of right share. The major finding of his study was that change share price due to right offering cannot be generalized.

Aryal (2003) had also studied on the topic "Equity right issues, its practices and Impact in Nepal." The main objectives of the study were to examine the relationship between stock price reaction and announcement of right issue and to analyze the relationship between rights share and equity share and right share and NEPSE index. To conduct this study he used cross sectional analysis by estimating the regression. On his study he found that announcement of right issue are associated with a positive effect on share prices and also concluded that theoretical value of rights differs from company to company.

Lamichhane (2004) had conducted a research on "the right offering and its impact on share market price. The major objective of this study is to recommend some policies that will help to rectify the current problems in the right issues of securities and to identify the significant change in share prices after announcement of right offering. To conduct his study he had used cross-sectional analysis by estimating the regressions. He analyzed only the relationship between rights share to equity share and right share to NEPSE index. In his study he found that, announcement of equity right issues are associated with a positive effect on share price and theoretical value of rights differs from company to company.

Paudel (2008) has made study on "Impact of information on share prices." The main objective of this study was to determine the impact of information such as dividend decleration, return on equity and earning per share on share price. To conduct his study, he had used correlation analysis between share price movement of stocks and market index and also used t-statistics to test if there was significant change in share price before and after the issue of right. The major findings of this study was, the share price of the sampled organization has decreased significantly after the issuance of rights and MPS is negatively correlated with EPS, DPA and RoE.

2.3 Conceptual Framework

Conceptual framework is the basic or foundation upon which entire research process based. Sekaran and Bougie (2013) "The theoretical framework is the foundation on which the entire thesis is based. It is a logically developed described and elaborated network of associations among variables that have been identified through processes such as interviews, literature survey. These variables are deemed relevant to the problem situation.

It explains the relationship among the dependent and independent variables explaining how one variable makes an impact on the other. Following is a schematic representation of the variables to be explored by this research study.

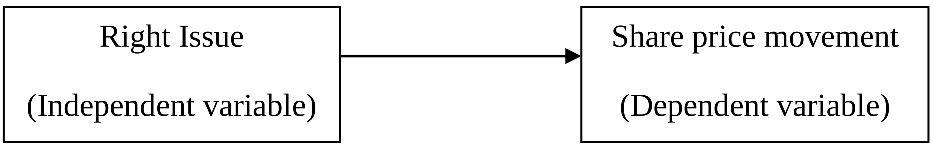

Fig: 2.1 Conceptual Framework

2.4 Research Gap

According to the theory of rights share offering, the price of shares increase after the announcement data and the price again decrease after the allotment share to the extent of value of rights. So if the same things happen in the market, the reach like this is an unnecessary and irrelevant. But in real scenario, the theory is not being followed as shown by the review of literature. In the past various thesis have been done on the topic of share price and its determinants, but no one has given importance on right share as an important factor which affects the market price of the shares significantly. Apart from this, no one try to measure the investor (respondent) attitude by using likert scaling technique.

Previous studies fail to focus on right share as an important factor on share price movement in Nepalese share market though it contributes 62.64% of total public issue during the fiscal year 2008/09 to 2017/2018 and commercial bank of Nepal issue right shares of 55 times which contribute 52% of total public issue.

Thus, research gap weakness are found in past studies, this research have been conducted to find out the value of rights issuing companies and to find out the impact of right issues on share price movement of sample commercial banks.

CHAPTER 3

RESEARCH METHODOLOGY

Research methodology refers to the various sequential steps to be adopted by a researcher in studying problem with certain object in view. It is a technique of analyzing the obtained date to solve the research problem. It consists of descriptive approach and statistical tools. Descriptive approach is used to analyze the research problem; setting hypothesis and other theoretical problem are taken as supporting tools. Statistical tools are used to analyze the numerical data. Therefore, in this chapter the focus has been made on research design, nature and sources of data, sampling procedure, coverage of data, tools used for analysis and definition of some key terms used.

3.1 Research Design

Research design is a conceptual framework within which a research is conducted. It is a guideline studying profound ways of research ability. To conduct this research, descriptive, correlational and casual-comparative research designs have been adopted. Descriptive research design is used for conceptualization, problem identification, conclusion and suggestions. The correlational research is used to ascertain the extent to which two variables i.e. rights issue and share price are related. Casual-comparative research is also used to establish casual relationships. This is an empirical research work; this research work helps to understand some of the features of rights share issue and its impact on stock price.

3.2 Sources of Data

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

1. Primary Data

Primary data is collected through dispatched of 100 questionnaire to identify the problems and prospects of right share practice of commercial banks in Nepal. The sources for the primary data include the responses of the questionnaires from concerned people such as investors, brokers and issue managers. Opened, closed and mixed questionnaire methods are used for the questionnaire. Similarly, structured and unstructured interview are used for data collection.

2. 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. Newspaper, magazine, books and other reports such as The Kantipur Daily, The Himalayan Times, Gorkhapatra and New Business Age etc. are taken as useful sources of secondary data in this study. Some other important information has been collected via the internet.

3.3 Population and Sample

Purposive sample was taken to select the samples among population. There are 27 commercial banks listed in NEPSE during the research period. Out of them 22 commercial banks already issued rights share till the date 2018 December. This means population size will be 22 banks. Only five commercial banks was taken as sample for the study of secondary data. While 100 questionnaires will be dispatched to the individual investors, brokers and issue managers for primary data. The sample of commercial banks are:

(i) Laxmi Bank Limited
(ii) Sunrise Bank Limited
(iii) Sanima Bank Limited
(iv) Nepal SBI Bank Limited
(v) Agricultural Development Bank

3.4 Data Collection and Processing Procedure

From various sources, all the data relating to the study are collected. Not all the collected data are used; only necessary data for the study are taken into consideration. Following data collection and processing procedures are 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 are used to collect the data i.e. opened, closed and mixed questionnaire methods. Yes/No questions, ranking and likert scaling techniques are designed using the SPSS worksheet to get the responses from the respondents. Due to various limitations, only 100 questionnaires were dispatched to the individual investors, brokers and issue managers.

3.5 Data Analysis Tools and Techniques

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

1. 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 to various variables.

2. 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.

3. 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 in dependent variable explained by independent variables. The coefficient of determination has value range from 0 to 1. For example, if r^2 is equal to 0.85, it indicates that the independent variables used in regression model 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.

4. Probable Error

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

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

Where, r = Value of correlation coefficient

n = No. of pairs of observation

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

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

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

5. 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:

Null Hypothesis (H_0):

There is no significant difference between the share price movement before and after the anouncement 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.

6. Use of T-test

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

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

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

Where,

X = Price Index of total equity capital before announcement

Y = Price Index of total equity capital after announcement

n = Number of observation

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

7. Valuation of Rights

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

Value of right (V_r) = $\frac{P_O - P_S}{\# + 1}$

Theoretical price of share (P_x) = $\frac{(P_0 \times \#) + P_s}{\# + 1}$ or, P_O - V_r

Where,

P_O = Current market price of share, rights-on

P_S = Subscription price

\# = Number of rights required to purchase one new share

8. Others

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

3.6 Validity and Reliability

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 purpose of the validity and reliability analysis is to determine whether data are trustworthy or not. The designed questionnaire is 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 Alpha is also 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
0.66	7

Source;spss output 2019

The measurement of reliability has been depicted by the value of Cronbach's Alpha as calculated from the likert questionnaire used during the survey. The result of the reliability test is 0.66 for 7 items. The calculation reveals the value of Cronbach's alpha 0.66 indicates inter-item consistency and reliability of a construct.

CHAPTER 4
RESULTS

The presentation of data is the basic organization and classification of the data for 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 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 movement of these companies.

As already mentioned, 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 are gathered through financial statements, annual reports, and questionnaire is also used to obtain further qualitative information. Only the important variables those are very sensitive and pertinent are taken into account. To obtain the best results, the data have been analyzed according to the research methodology as mentioned in the previous chapter.

4.1 Data Presentation and Analysis

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:

I. 90 days before the announcement date (Base Date)
II. 7 days before the announcement date
III. The day of announcement

IV. 7 days after the announcement date

V. 90 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. But to test the significance of share price movement before and after announcement of rights by using paired t-test 3 to 5days data were taken.

4.1.1 Analysis of Share Price Movement of Laxmi Bank Limited

Table 4.1.1 Analysis of Share Price Movement of Laxmi Bank Ltd

Selected Points of Time	Share Price (Rs.)	Price Relative	% Change from Base	NEPSE Index	New Index	% Change from Base
	1	2	3	4	5	6
I	529	100	-	848	100	-
II	477	90	-10%	736	87	-13%
III	461	87	-13%	714	84	-16%
IV	438	83	-17%	810	95	-6%
V	470	89	-11%	1122	132	32%

Source: http://merolagani.com/Company Detail (2018/19)

We can see that the share price of Laxmi Bank Limited is in a decreasing trend upto IV then slightly increased to 470. The share price of LBL before 90 days of announcement date was Rs. 529 and continuously decreased to Rs. 438 and lastly it became Rs.470 after 90 days of announcement date, most nearly 12% decline over this period. While observing the NEPSE index, it has also declined from 848 to 810 over the period I to IV. Then lastly it is increased to 1122. Therefore, the declination of market price of the shares of LBL 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 Rs. 23 during period III to IV and became Rs. 438. 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 LBL due to holder's record date. It means the investors who purchased the shares of LBL 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 was going to decrease. It is believed that the original share price will be restored and the market will show normal price behavior after 90 days after announcement date, but in case of LBL, the share price was in a increasing trend and leveled up to Rs. 470, which seemed to be moving opposite to the principle of rights offering.

In case of LBL, a rights issue has a positive impact on the share price movement and it does not meets the theory of right offering.

Market price of share = Rs. 461

Value of one right = Rs. 180.5

Ex-rights price of share = Rs. 280.5

The share price of LBL was Rs. 470 after 90 days of the announcement date which does not follow the theory of right offering. As per the theory the ex-right price of the stock must be around Rs 280.5 but it seems Rs. 470 so the stocks of LBL was overpriced.

4.1.2 Analysis of Share Price Movement of Sunrise Bank Limited

Table 4.1.2 Analysis of Share Price Movement of Sunrise Bank Ltd

Selected Points of Time	Share Price (Rs.)	Price Relative	% Change from Base	NEPSE Index	New Index	% Change from Base
	1	2	3	4	5	6
I	377	100	-	777	100	-
II	420	111	11%	876	113	13%
III	425	113	13%	866	112	12%
IV	406	108	8%	859	111	11%
V	362	96	-4%	809	104	4%

Source: http://merolagani.com/CompanyDetail (2018/19)

In case of Sunrise Bank Limited, the share price is in increasing trend from the base date till the announcement date. The price of Sunrise Banks share was Rs. 377 before 90 days of announcement date. It increased up to Rs. 425 i.e. the day of announcement. Even after the day of announcement, the market price of share continues to decrease substantially to Rs. 406, 362 days after the announcement date due to the fact that the general market movement was going downwards rapidly. The NEPSE index was 777 before 90 days of announcement date. It is increased to 876 seven days before the announcement date and then decreased to 866 on the announcement date. The overall NEPSE index of Sunrise Bank went down to 809 after 90 days of announcement date.

While analyzing the percentage change in the adjusted price index from the base index, the price index was increased by 13% seven days before the announcement date. However, it decreased by 1.14% from period II to III. After seven days of announcement date, it decreased by 0.80% and then by 5.82% after 90 days of announcement date. Such a large percentage of decrease in the share price after announcement date 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 Sunrise Bank, the shareprice movement approximately followed the theory of right offering.

Market price of share	=	Rs. 425
Value of one right	=	Rs. 75
Ex-rights price of share	=	Rs. 350

The value of the share after allotment should be around Rs. 350, but the share price of sunrise bank was Rs. 362 after 90 days of the announcement date. Thus, the shares of Sunrise Bank was overpriced by Rs.12.

4.1.3 Analysis of Share Price Movement of Sanima Bank Limited

Table 4.1.3 Analysis of Share Price Movement of Sanima Bank Ltd.

Selected Points of Time	Share Price (Rs.)	Price Relative	% Change from Base	NEPSE Index	New Index	% Change from Base
	1	2	3	4	5	6
I	741	100	-	1181	100	-
II	914	123	23%	1447	123	23%
III	929	125	25%	1405	119	19%
IV	684	92	-8%	1419	120	20%
V	800	108	8%	1713	145	45%

Source: http://merolagani.com/CompanyDetail (2018/19)

In case of Sanima Bank Ltd, the situation was somewhat different. Fluctuations in the share price were seen. The share price was Rs. 741 before 90 days of the announcement date. It is increased to Rs. 914, seven days before the announcement date and continued to increase to Rs. 929 up to the day of announcement. Increase in price has been observed from period I to III by Rs. 188. However, after 7 days of announcement date, it went down to Rs. 684. When we look to the price index, it was in same trend as of the share price. It was 1181 before 90 days of announcement increased to 1447 on the day of announcement NEPSE Index was fall upto 1405 and 1419 after the announcement date. But, the price index increased with a huge margin thereafter and reached 1713 after 90 days of announcement.

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

Market price of share	=	Rs.929
Value of one right	=	Rs. 191.32
Ex-rights price of share	=	Rs. 737.68

The value of the share after allotment should be around Rs.737.68, but the share price was Rs. 800 after 90 days of the announcement date. Thus, the shares of Sanima were overpriced by Rs. 62.32.

4.1.4 Analysis of Share Price Movement of Nepal SBI Bank Limited

Table 4.1.4 Analysis of Share Price Movement of Nepal SBI Bank Limited

Selected Points of Time	Share Price (Rs.)	Price Relative	% Change from Base	NEPSE Index	New Index	% Change from Base
	1	2	3	4	5	6
I	1433	100	-	1313	100	-
II	1450	101	1%	1526	116	16%
III	1460	102	2%	1516	116	16%
IV	1062	74	-26%	1501	114	14%
V	940	66	-34%	1439	110	10%

Source: http://merolagani.com/CompanyDetail (2017/18)

Table 4.4 shows fluctuating share prices of Nepal SBI Bank Limited at different points of time. The share price of Nepal SBI Bank was Rs. 1433 before 90 days of announcement date. It was increased to Rs. 1450 before seven days of announcement date but ended up increasing to Rs. 1460 on the day of announcement. The market price of share fell to Rs. 106 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 Rs. 940 after 90 days of announcement date.

By analyzing the share price movement of Nepal SBI Bank 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 increased to 1526 from 1313. Column 6 shows that, the price index converted to the new base was increased by 16% seven days before the announcement date. 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 increase in the share price. However, a great increment can be observed in point IV in comparison to point II and III. The share price was drastically down by Rs. 398 from point III to IV and similar trend was observed from point IV to V.

Theoretically, the share price decreases after the rights offering. But the price behavior of Nepal SBI Bank approximately follows the theory of right offering.

Market price of share = Rs. 1460

Value of one right = Rs.388.57

Ex-rights price of share = Rs. 1071.43

The value of the share after allotment should be around Rs.1071.43, but the share price was Rs. 940 after 90 days of the announcement date. So the stock of Nepal SBI Bank under priced.

4.1.5 Analysis of Share Price Movement of Agricultural Bank Limited

Table 4.1.5 Analysis of Share Price Movement of Agricultural Bank Ltd

Selected Points of Time	Share Price (Rs.)	Price Relative	% Change from Base	NEPSE Index	New Index	% Change from Base
	1	2	3	4	5	6
I	761	100	-	1554	100	-
II	670	88	12%	1673	108	8%
III	683	90	-10%	1735	112	12%
IV	683	90	-10%	1720	111	11%
V	528	69	31%	1387	89	11%

Source: http://merolagani.com/CompanyDetail (2017/18)

The data in the table above shows that the share price of ADBL in a decreasing trend. The share price of ADBL before 90 days of announcement date was Rs. 761 and was decreased to Rs. 528 after 90 days of announcement date, almost 31% decline over this period. But the NEPSE index shows fluctuating trend. It has increased to 1673 in period II from 1554 seven days before the announcement date. And then, for the next two periods, the price index has increased to 1735 during periods III and decreased to 1720 for period IV. Finally 90 days after the announcement date, the price index reaches to 1387, which depicts fluctuating trend in the general market movement. Column 6 shows that the price index is increased by 8% seven days before the announcement date and then increased by 12% on the day of announcement date. From here on, the price index continues to increase to 11% in period IV and V.

Rights offering theory slightly does not match in case of ADBL.

Market price of share	=	Rs. 683
Value of one right	=	Rs. 194.33
Ex-rights price of share	=	Rs. 488.67

The value of the share after allotment should be around Rs.488.67, but the share price of ADBL was Rs. 528 after 90 days of the announcement date. Thus, the shares of ADBL were slightly overpriced.

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.

4.1.6 Correlation Coefficient between Share Price Movement and Number of Shares

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

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 at 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, on an average, in the corresponding increase in the value of other variables or if a decrease in the value of results, on an average, in the corresponding decrease in the value of other variables, the correlation is said to be positive and direct.

Nepal Stock Exchange (NEPSE) has just started the practice of calculating and publishing the sector wise indices. For the period under study, sector wise index was not available so that throughout the study period the price index of total equity capital is used. After calculating the correlation between the share price movements of sample companies with number of shares of bank, following result have been obtained.

Table 4.1.6 Correlation Coefficient between Share Price and Number of Shares

S.N.	**Sample companies**	**Correlation Coefficient (r)**	**Coefficient of determination (r^2)**	**Probable Error (P.E.)**	**6 P.E.**
1	Laxmi Bank Limited	-0.845	0.714	0.090	0.543
2	Sunrise Bank Limited	-0.862	0.743	0.081	0.488
3	Sanima Bank Limited	-0.911	0.830	0.054	0.323
4	Nepal SBI Bank Limited	-0.918	0.843	0.050	0.298
5	Agricultural Bank Limited	-0.319	0.102	0.284	1.704

Source: Spss Output 2019

While analyzing the correlation coefficient of Laxmi Bank Ltd., there is high degree of negative correlation i.e. r = -0.845 between share price and number of shares of company. This relation is further provided by the coefficient of determination which is 0.714 i.e. 71.4% and correlation coefficient (r) is greater than 6 P.E. Thus, correlation is significant and reliable.

While observing the data of Sunrise Bank Ltd., we find that there is high degree of negative correlation (i.e. r = -0.862). The coefficient of determination i.e. r^2 = 0.743 means that about 74.3% 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. = 0.488) which proves that correlation is significant. So, we can conclude that the share price behavior of Sunrise Bank Ltd. is due to change in number of shares due to right offering.

In case of Sanima Bank Ltd., there is high degree of negative correlation (i.e. r = -0.911) between share price movement and number of shares. The coefficient of determination is 0.830 means that number of shares changes due to right offering explains 83% variation in the share price. Correlation coefficient (r) is greater than 6P.E. implying it is significant. So, we can conclude that the share price behavior of Sanima Bank Ltd.was affected by the fluctation of number of shares due to right offering. Rights offering have intense effect in the share price movement of Sanima Bank Ltd.

The data of Nepal SBI Bank Ltd. also shows that there is high degree of negative correlation (i.e r=-0.918) and coefficient of determination is 0.843 that implies about 84.3% the total variation in the share price is explained by the number of shares. The coefficient of correlation is greater than 6P.E (i.e. 6P.E. = 0.298) which proves that correlation is significant. So, we can conclude that fluctation in number of shares due to right offering play a greater role in share price.

In case of Agricultural Development Bank Ltd., there is low degree of negative correlation (i.e. r = -0.319). The coefficient determination i.e. r^2 = 0.102 that means about 10.2% of variation in the share price is explained by the fluctation of number of shares due to right offering.

The relationship between share price and increased in number of shares is always negative. It means, increase in number of shares decrease the share price and vice-versa.In the above calculation of five sample banks, almost same results have been obtained for four sampled banks. One of is slightly negatively correlated while others are highly negatively correlated. This result occurs basically due to the increment in numbers of shares after annoucement of right offering

4.1.7 Use of T. Statistics to Measure the Impact of Rights Offering on Share Price Movement and on General Market Movement

Theoretically, after the rights issue, generally the share price of the concerned company moves upward till the close of issue date. To analyze whether there came any significant change in share price movement and price index (NEPSE Index) or not after the announcement of the rights share, we have used t-statistics. For this, we have taken the share price and price index of the sample companies before and after the announcement date.

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

Table 4.1.7 paired **T-test of Share Price of Sample companies before and after announcement of right issue**

Sample companies	**Test for**	**Significance level(alpha)**	**df**	**p-value**	**Result**
Laxmi Bank Limited	Share Price	0.05	4	0.012	Rejected
Sunrise Bank Limited	Share Price	0.05	4	0.000	Rejected
Sanima Bank Limited	Share Price	0.05	4	0.026	Rejected
Nepal SBI Bank Limited	Share Price	0.05	4	0.007	Rejected
Agricultural Development Bank Limited	Share Price	0.05	4	0.357	Accepted

Source: Spss Output 2019

From the above table it shows that the calculated p-value of pair of share price is 0.012 for laxmi bank which is less than level of significance 0.05 that means there is significant difference between share price before and after announcement of right issue.

The calculated p-value for share price of Sunrise bank is 0.000 which is less than 0.05 hence null hypothesis is rejected and alternative hypothesis is accepted that means there is significant difference between share price before announcement and after announcement of right issue.

The calculated p-value for share price of Sanima Bank is 0.026 which is less than 0.05 which indicates that there is significant difference between share price before and after announcement of right issue.

The calculated p-value for share price of Nepal SBI Bank is 0.007 which is less than 0.05 which indicates that there is significant difference between share price before and after announcement of right issue.

From the above table it shows that the calculated p-value of pair of share price is 0.357 for Agricultural Development Bank which is greater than level of significance 0.05 that means there is no significant difference between share price before and after announcement of right issue.

So far it has been observed that in case of LBL, Sanima Bank, SRBL and Nepal SBI Bank, there is obvious impact of rights offering on the share price movement of these banks. But, this does not hold true in case of ADBL. Change in share prices of ADBL is not due to the announcement of rights offering. It can be attributed to the general market movement.

4.1.8 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 4.1.8 Subscription of Rights Share in Nepal

Fiscal Year	Issuer Company	No. of Issued Shares	No. of Subscribed Shares	Subscription in %
2017/18	Laxmi Bank Limited	3,15,90,304	3,01,05,560	95.30%
2017/18	Sunrise Bank Limited	16359636	15391145	94.08%
2017/18	Sanima Bank Limited	15917617	15556287	97.73%
2017/18	Nepal SBI Bank Limited	19919424	19536971	98.08%
2017/18	Agricultural Development Bank Limited	19688000	19152486	97.28%

Source: www.sharesansar.com (2018/19)

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

From the above table 4.8, it is clearly seen that under subscription has been a major problem in rights share practice of commercial banking sector. During the fiscal year 2017/18, the subscription of both Laxmi bank and Sunrise bank is around 95% which is under subscribed by 5%. This was possible due to easy access to internet, easy availability of information related to share market online securities websites. The subscription percentage of Sanima, Nepal SBI and ADBL around 98.08% which states that they are almost fully subscribed and has increased compared to the previous fiscal year.

Thus, we can easily conclude 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 meaning that they have not met the capital requirement as per NRB directives. This is why most of the commercial banks are again looking forward to increase their capital by issuing rights by the end of fiscal year 2017/18.

4.1.9 Analysis of Primary Data

Education Level	Frequency	Percentage (%)
Below10 +2	12	12
10+2	31	31
Bachelors	30	30
Masters	21	21
M.Phil/PHD	6	6
Total	100	100

Source: Field Survey, 2019

To make the study more effective and fruitful, here the primary data was collected by the distribution of questionnaires to various investors, brokers and some issue managers as well. So, here the responses received from the respondents are analyzed.

The distribution of respondents according to their education it is found that 12% respondent had education below 10+2, 31% respondents had bachelor level, 21% of respondents had Master level and remaining 6% had M.Phil./PHD level. This information can also be represented by figure as follows:

Figure 4.1. Trading of share in the primary market

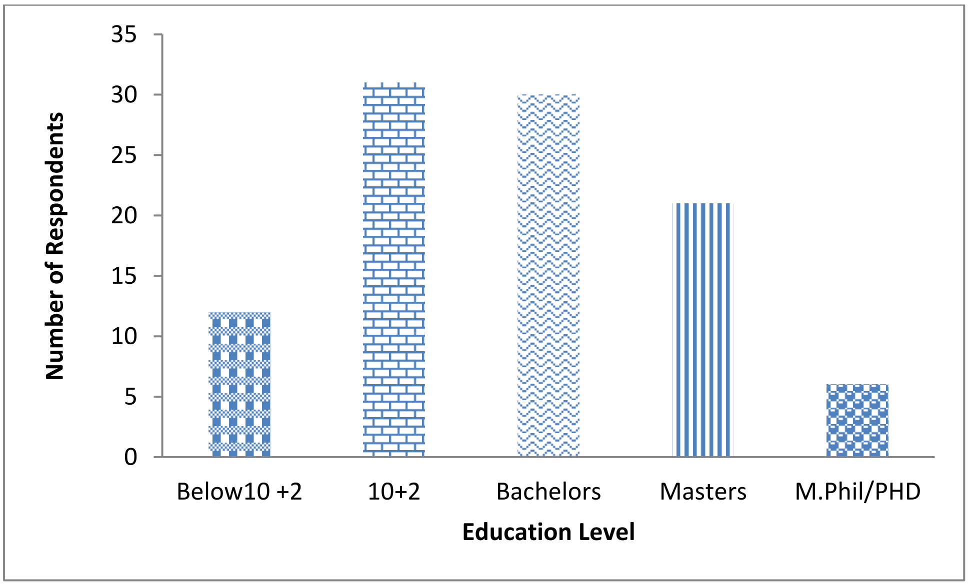

Table 4.1.10 Trading of share in the primary market

Category	Frequency	Percentage (%)
Yes	77	77
No	23	23
Total	100	100

Source: Field survey, 2019

The above table shows that out of 100 respondents 77 respondents purchasing the share in primary market and 23 respondents purchasing in secondary market. This information also be presented by pie-chart as follows:

Figure 4.1.3 Involvement in trading of shares in secondary market

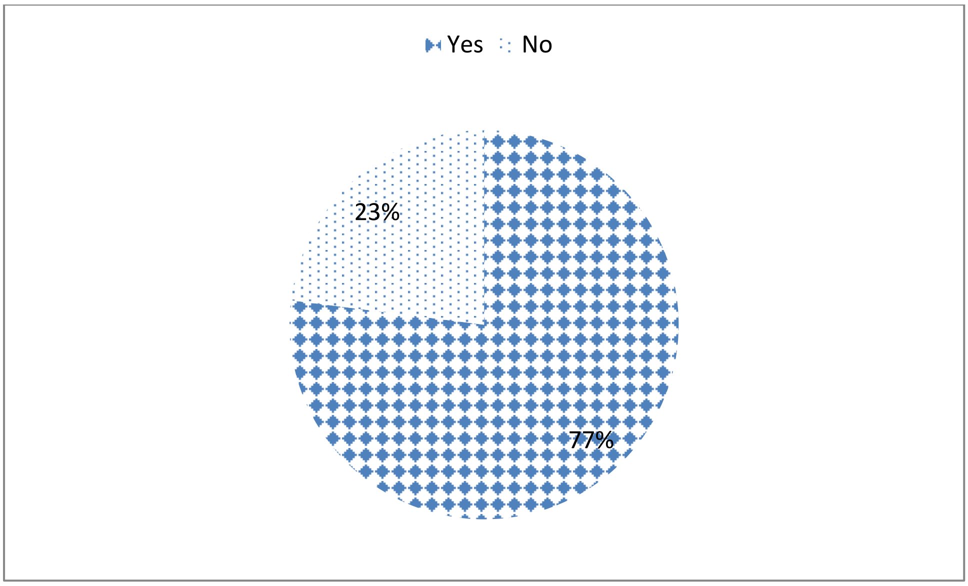

Table 4.1.11 Involvement in trading of shares in secondary market

Category	Frequency	Percentage (%)
Yes	92	92
No	8	8
Total	100	100

According to table out of 100 respondents 92 involved in trading of shares in secondary market and others 8 are not involved. This information can be expressed by figure as follows:

Figure 4.1.4 Familiar with Right issue

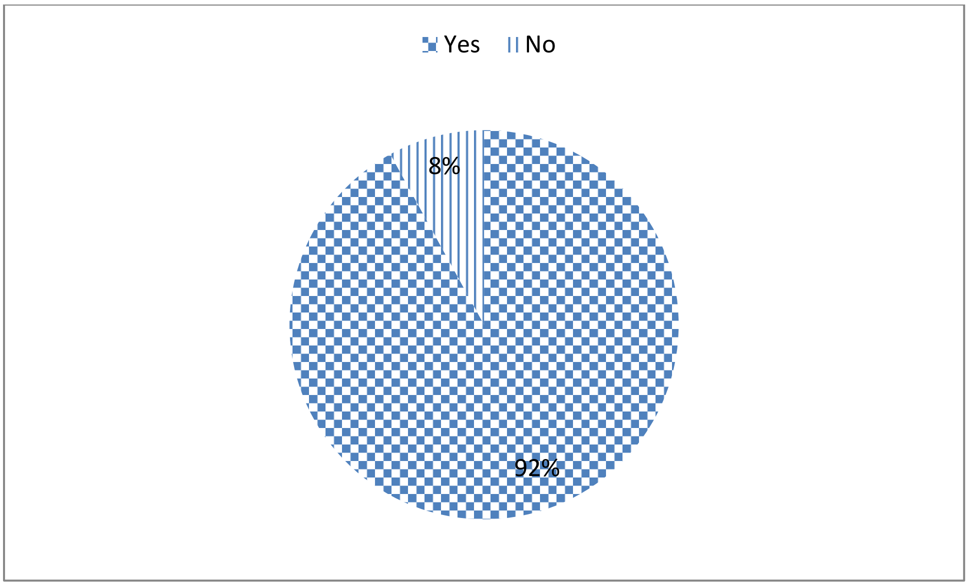

Table 4.1.12. Familiar with Right issue

Category	Frequency	Percentage (%)
Yes	100	100
No	0	0

Source: Field Survey, 2019

According to Table No. 100% of the respondents have been familiar with the rights issue. The data was obtained from the questionnaires distributed to various investors, brokers and issue managers. The reason probably is that they have not been the existing shareholders of any companies.

Figure 4.1.5 Awareness regarding Phenomenon of Rights Issue

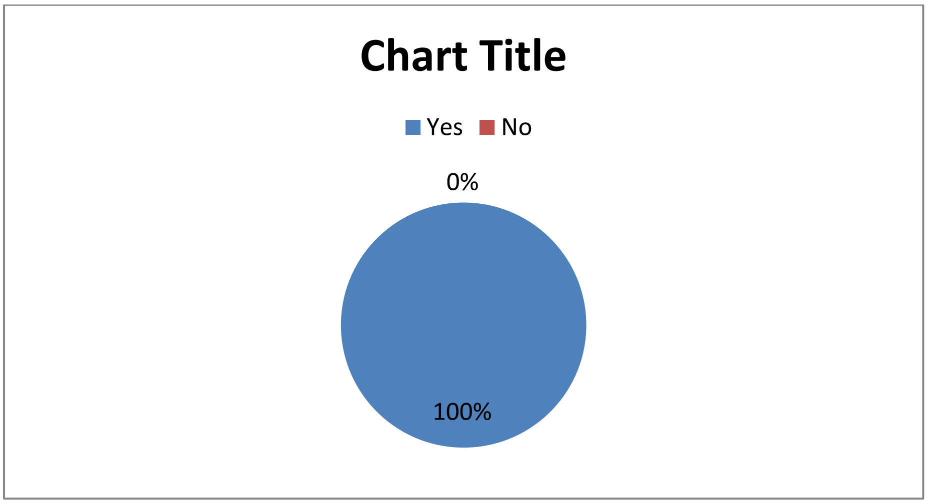

Table 4.1.13: Awareness regarding Phenomenon of Rights Issue

Category	Frequency	Percentage (%)
All of them	42	42
Majority of them	38	38
Minority of them	20	20
None of them	0	0
Total	100	100

Source: Field Survey, 2019

The above table shows that majority (84%) of the respondents think that all investors are well aware of the phenomenon of rights issue, while 38% and 20% of the respondents think that all investors and minority of them are aware of rights issue. However, Noone think none of the investors are aware of rights issue. It is expressed by graphically as follows:

Figure 4.1.6 Current Legal Provisions regarding Rights Offering

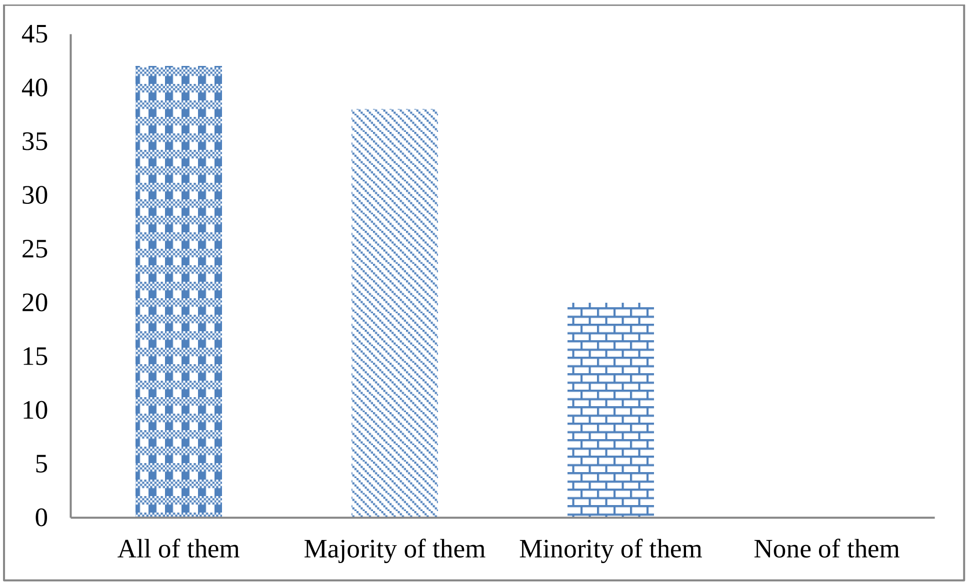

Table 4.1.14. Current Legal Provisions regarding Rights Offering

Category	Frequency	Percentage (%)
They are Sufficient	52	52
They are insufficient	48	48
Total	100	100

Source: Field Survey, 2019

The above table shows that 52% of the respondents think that current legal provisions regarding rights issue are sufficient, while 48% of them think that they aren't sufficient.

Figure 4.1.7 Preference Sectors to Invest

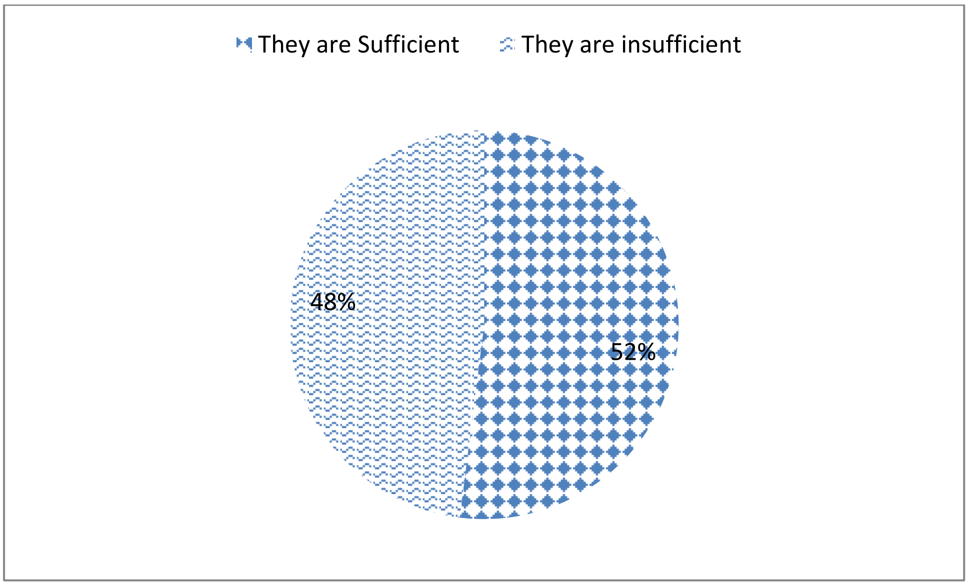

Table 4.1.15. Preference of Sectors to Invest

Sector	N	Mean Rank	Result
Banking/Financial and Production Sector	100	1.35	1
Manufacturing and Production Sector	100	3.475	4
Insurance Sector	100	2.525	2
Hydropower	100	2.65	3

Source: Field Survey, 2019

In table, the descriptive statistics of preference of sectors to invest has been shown. As shown, the mean score of Banking/Financial i.e. 1.35 shows that most of the most of the respondents prefer banking and financial sector for investment. While, the mean score of manufacturing and production sector is 3.475 which means that it is the least priority of investors to invest. The mean score of insurance and hydropower are 2.525 and 3.475 respectively giving those average positions for making investment.

Table 4.1.16. Investors Purpose of Rights Share Purchase

Causes	**N**	**Mean Rank**	**Result**
To increase the value of their shares	100	2.485	2
To increase the number of shares	100	1.45	1
To increase the dividend	100	2.50	3
To maintain the control position in management	100	3.565	4

Source: Field Survey, 2019

The data obtained clearly states that the mean score of to increase the number of shares is the highest i.e. 1.45, while the mean score of to maintain the control position in management is the lowest i.e. 3.565. So, they become first and fourth in ranking implying that most of the investors exercise rights to increase the number. To increase the dividend (2.485) and to maintain the control position in management (2.50) occupy the second and third ranks respectively.

4.1.17. Causes of Preference given to Rights Issue by Companies

Causes	**N**	**Mean Rank**	**Result**
Low flotation cost	100	2.625	3
Easy process to collect the fund	100	1.45	1
To maintain control position in the management	100	2.4	2
Other causes	100	3.525	4

Source: Field Survey, 2019

From the responses obtained, we see that most of the respondents point easy process to collect the fund as the most important cause for rights issue by the companies. It covers the first rank with mean score of 1.45. Maintaining control position in the management is another important cause ranking second with a mean score of 2.4. Low flotation cost is the third cause with a mean of 2.625. And, other causes (with a mean score of 3.525) like legal provisions stand as fourth cause for issuing rights by the companies.

Table 4.1.18. Causes of Under Subscription of Rights Share

Causes	N	Mean Rank	Result
Low performance of the related company	100	2.725	3
Lack of investors' awareness	100	1.975	1
Lack of investors' reach	100	2.1	2
Rights is not transferable	100	3.2	4

In response to the question regarding the cause of under subscription of rights share, lack of investors' awareness and lack of investors' reach are pointed first and second rank with mean score of 1.975 and 2.1 respectively. Another cause is the low performance of company which has got the third lowest mean score of 2.725. Respondents believe that rights is not transferable stand fourth with a mean score of 3.2.

Table 4.1.19. Action of Shareholders if Rights are Transferable

Options	N	Mean Rank	Result
They will sell the rights	100	2.825	3
They will exercise the rights	100	1.325	1
They will partially exercise or sell the rights	100	2.1	2
They will neither sell nor exercise the rights	100	3.75	4

According to the table, first rank is obtained for the option that the shareholders will exercise the rights. The mean score of this option is 1.325. The shareholders will partially exercise or sell the rights hold the second rank with a score of 2.1. For the option that shareholders will sell the rights, the mean score is 2.825 and its rank is third. Fourth rank is obtained for the option 'Shareholders will neither sell nor exercise the rights' with a mean score of 3.75. 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.

Table 4.1.20. Decisions regarding Rights Share Offering

Importance	**Mean**	**S.D.**
Issuing right is the best measure for commercial banks to reach the paid up capital as directed by NRB	4.49	0.61
Most investors prefer to buy shares of the company after the announcement of right share.	4.35	0.61
Issuing companies are more benefitted than shareholder from right offering.	4.25	0.63
Market price per share of the company will be affected by right issue announcement.	4.01	0.81
Market price per share of the company will be positively affected by right issue announcement.	4.09	0.75
Right issue has a negative impact on the earrings per share of the company	4.13	0.86
Purchasing of shares prior to price adjustment of right offering is a rational decision.	3.16	1.33

Here, 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. 4.49 with the lowest standard deviation of 0.61 followed by the responses that Most investors prefer to buy shares of the company after the announcement of right share (4.35).

4.2 Major Findings of the Study

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

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

From the analysis of different commercial banks, following results have been obtained:

1. There is significant difference between the share price of Laxmi Bank Limited, Sanima, and Nepal SBI before and after the announcement of rights offering. Though there is no significant difference between the share prices of Sunrise Bank Ltd. and Agricultural Development 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.
2. In case of Sunrise Bank Ltd., the share price has been overpriced by some extent compared to its ex-rights price, so it does not follow the theory of rights offering. It is found that there is no significant difference between the share prices before and after the announcement of rights offering.

4.2.2 Rights Share Practices in Nepal

Rights share has been a new practice for the Nepalese companies as the Nepalese people are more attracted towards share market nowadays. Some other recent practices are as follows:

1. The direction of NRB to meet the capital requirement has drastically increased rights offering in the recent year. It occupies 52% of the total public issue in the current FY of 2017/18.
2. All the sectors have practiced rights issue in Nepal. Banking sector occupies the largest rights offering among all the sectors. Till the study period, 22 commercial banks have issued rights share for their existing shareholders and by the end of 2017/2018
3. Nepalese investors mostly prefer banking and financial sector’s shares to invest rather than other sectors.

4. Rights offering from financial sectors are much more dominant over non-financial sectors in Nepal.
5. 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.

4.2.3 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:

1. Under subscription of rights share is a major problem in Nepal. There is no easy provision regarding the sale of undersubscribed rights share.
2. Though the under subscribed rights share are auctioned for sale, still many of those units are left unsold.
3. Due to the centralization of securities market, many of the investors lack the reach to the rights share offering.
4. 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
CONCLUSION

5.1 Summary

Rights offering in Nepal and its impact on share price is an exciting and challenging study. Nepalese share market is not developed compared to other countries such as India, China, United States and United Kingdom. So, very few investment instruments are in use viz. ordinary shares, debentures, preference shares, rights share and mutual funds whereas other instruments such as warrants, convertible options, transferable rights, etc are not in use. This is why most investors cannot invest their savings in highly productive sectors. As a result, it causes low market capitalization in stock market.

This study is concentrated on the various aspects of rights offering with special reference to the selected listed commercial banks in Nepal. It covers the period of six years from FY 2008/09 to FY 2017/18. It includes the data of mostly rights issuing companies.

Compared to the recent past, the practice of rights share issue is in an increasing trend. During the study period from FY 2009/10 to 2017/18, a total of 338 rights issues have been made by the companies. 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, all banks' share prices have decreased after the announcement date.

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 are directly concerned with rights issue in Nepal, because rights issue is a growing phenomenon in Nepal. But, it is really tried hard to make full effort to collect the related studies for review in the second chapter. This study is heavily based on secondary data. So, useful data are collected from SEBON and related organizations as well. Newspapers, annual reports of sample companies, journals and online websites such as merolagani, sharesansar, etc are important source to obtain the secondary data in this study. Other information is 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 have been used.

5.2 Conclusions

Finally, it can be concluded that rights share practice is seen in an increasing trend in Nepal. Most investors are found to be attracted towards rights issue despite the fact that rights offering are undersubscribed. Rights offering have proved to be an affective instrument of raising funds in Nepal according to the recent data. While analyzing the rights offering by Nepalese companies, most 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 our sample, the banks entire shares were either traded above ex-rights or below it. 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 most of the shares are left unsold. Due to this, large number of shareholders is 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. 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 in wide difference between the market price share and the subscription price.

Thus, finally we can say that rights offering have negative impact on the share price the general market movement to a greater extent in Nepal also influences the market price of share. Except for the banking, financial and hydro sectors, right issue have not been properly practiced by other sectors. It is believed that as the capital market gets matured and developed, rights issue practice would contribute a lot to raising funds for every company.

5.3 Implications

It is important that changes are made so as to make rights issue more easy, effective and efficient. Based on the findings of the analysis of rights issues mentioned above, some practicable implications are forwarded as follows:-

1. Nepalese investors are not so well aware about rights offering. So to increase awareness of investors some programs like interactions, advertisements, radio talks, etc should be managed by the related companies, government and SEBON as well.

2. 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.
3. There is no any 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.
4. During the study, it was found that unrealistic financial statements are published. Such publications create a negative impact on shareholders. So

SEBON and Office of the Company Registrar should make a provision to publish realistic prospectus and financial statements.

5. From the obtained responses, it is 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.
6. Claiming for rights is found to be centralized. Decentralization and introduction of ASBA for rights share can be the solution for under subscription of rights share through investors’ reach on time.

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NEPSE:<http://www.nepalstock.com>

SEBOn<http://www.seban.gov.np>

APPENDICES

APPENDIX - 1

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

1. Laxmi Bank Ltd.

Announcement date of rights offering - 2017/04/02

Issued date - 2017/04/15

Closed date - 2017/05/20

Subscription price - Rs. 100 per share

Subscription ratio - 1:1

Number of shares issued - 3,15,90,304 units

Issue manager - Siddhartha Capital Limited

Share Price and NEPSE Index of Laxmi Bank Limited

Share Price before Announcement Date		**Share Price after Announcement Date**	
Date	Share price (Rs)	Date	Share price(Rs)
2017/03/22	770	2017/04/03	485
2017/03/26	780	2017/04/06	480
2017/03/28	800	2017/04/10	480
2017/03/30	798	2017/04/12	480
2017/04/01	797	2017/04/16	465

2. Sunrise Bank Limited

Announcement date of rights offering - 2017/05/15

Issued date - 2017/06/01

Closed date - 2017/06/15

Subscription price - Rs. 100 per share

Subscription ratio - 10:3

Number of shares issued - 16359636 units

Issue manager - Prabhu Capital Market Limited

Share Price and NEPSE Index of Sunrise Bank Limited

Share Price before Announcement Date		**Share Price after Announcement Date**	
Date	Share price (Rs)	Date	Share price (Rs)
2017/05/11	529	2017/05/18	419
2017/05/09	530	2017/05/21	408
2017/05/08	535	2017/05/22	402
2017/05/07	528	2017/05/24	408
2017/05/04	541	2017/05/28	400

Source: http://merolagani.com/CompanyDetail

3. Sanima Bank Limited

Announcement date of rights offering - 2017/05/19

Issued date - 2017/05/29

Closed date - 2017/06/25

Subscription price - Rs. 100 per share

Subscription ratio - 10:3

Number of shares issued - 15917617 units

Issue manager - Civil Capital Market Limited

Share Price of Sanima Bank Limited

Share Price before Announcement Date		Share Price after Announcement Date	
Date	Share price (RS)	Date	Share price (RS)
2017/05/09	462	2017/05/21	457
2017/05/11	465	2017/05/22	452
2017/05/15	462	2017/05/24	458
2017/05/16	461	2017/05/28	451
2017/05/18	465	2017/05/30	444

Source: http://merolagani.com/CompanyDetail

4. Nepal SBI Bank Limited

Announcement date of rights offering - 2017/05/05

Issued date - 2017/05/22

Closed date - 2017/06/12

Subscription price - Rs. 100 per share

Subscription ratio - 10:4

Number of shares issued - 19919424 units

Issue manager - NMB Capital Limited

Share Price and NEPSE Index of Nepal SBI Bank Limited

Share Price before Announcement Date		**Share Price after Announcement Date**	
Date	Share price (RS)	Date	Share price (Rs)
2017/04/24	1473	2017/05/07	1400
2017/04/25	1440	2017/05/09	1059
2017/04/27	1450	2017/05/11	1062
2017/04/30	1435	2017/05/15	1065
2017/05/02	1460	2017/05/17	1050

Source: http://merolagani.com/CompanyDetail

5. Agricultural Development Bank Limited

Announcement date of rights offering - 2016/10/06

Issued date - 2016/10/18

Closed date - 2016/11/02

Subscription price - Rs. 100 per share

Subscription ratio - 2:1

Number of shares issued - 19,688,000 units

Issue manager - Ace Capital Limited

Share Price of Agricultural Development Bank Limited

Share Price before Announcement Date		Share Price after Announcement Date	
Date	Share price (Rs)	Date	Share price (Rs)
2016/09/22	1019	2016/10/16	683
2016/09/26	675	2016/10/18	670
2016/09/28	672	2016/10/19	665
2016/10/02	680	2016/10/20	669
2016/10/05	680	2016/10/23	655

Source: http://merolagani.com/CompanyDetail

APPENDIX- 2

Selected SPSS Outputs

Reliability Statistics

Cronbach's Alpha	N of Items
.660	7

Descriptive Statistics

	N	Mean	Std. Deviation
Q1	100	4.49	.611
Q2	100	4.35	.609
Q3	100	4.25	.626
Q4	100	4.01	.810
Q5	100	4.09	.753
Q6	100	4.13	.861
Q7	100	3.16	1.331
Valid N (listwise)	100		

Correlations

		Laxmi Number of Shares	Sunrise Number of Shares	Sanima Number of Shares	Nepal SBI Number of Shares	ADBL Number of Shares
Laxmi SharePrice	Pearson Correlation	-.845**				
	Sig. (2-tailed)	.002				
	N	10				
Sunrise SharePrice	Pearson Correlation	*	-.862**			
	Sig. (2-tailed)		.001			
	N		10			
Sanima SharePrice	Pearson Correlation			-.911**		
	Sig. (2-tailed)			.000		
	N			10		
Nepal SBI SharePrice	Pearson Correlation				-.918**	
	Sig. (2-tailed)				.000	
	N				10	
ADBL SharePrice	Pearson Correlation					-.319
	Sig. (2-tailed)					.369
	N					10

r	r*2	P.E.(r)	6 P.E.(r)
-0.845	0.714025	0.090433	0.542599
-0.862	0.743044	0.081257	0.48754
-0.911	0.829921	0.053784	0.322702
-0.918	0.842724	0.049735	0.29841
-0.319	0.101761	0.284048	1.704289

Correlations

		Laxmi SharePrice	Laxmi Number of Shares	Sunrise SharePrice	Sunrise Number of Shares	Sanima SharePrice	Sanima Number of Shares	Nepal SBI SharePrice	Nepal SBI Number of Shares	ADBL SharePrice	ADBL Number of Shares
Laxmi SharePrice	Pearson Correlation	1	-.845**	.997**	-.845**	.830**	-.845**	.864**	-.845**	.320	-.845**
	Sig. (2-tailed)		.002	.000	.002	.003	.002	.001	.002	.367	.002
	N	10	10	10	10	10	10	10	10	10	10
Laxmi Number of Shares	Pearson Correlation	-.845**	1	-.862**	1.000**	-.911**	1.000**	-.918**	1.000**	-.319	1.000**
	Sig. (2-tailed)	.002		.001	.000	.000	.000	.000	.000	.369	.000
	N	10	10	10	10	10	10	10	10	10	10
Sunrise SharePrice	Pearson Correlation	.997**	-.862**	1	-.862**	.840**	-.862**	.889**	-.862**	.343	-.862**

	Sig. (2-tailed)	.000	.001		.001	.002	.001	.001	.001	.332	.001
	N	10	10	10	10	10	10	10	10	10	10
Sunrise Number of Shares	Pearson Correlation	-.845**	1.000**	-.862**	1	-.911**	1.000**	-.918**	1.000**	-.319	1.000**
	Sig. (2-tailed)	.002	.000	.001		.000	.000	.000	.000	.369	.000
	N	10	10	10	10	10	10	10	10	10	10
Sanima SharePrice	Pearson Correlation	.830**	-.911**	.840**	-.911**	1	-.911**	.837**	-.912**	.255	-.911**
	Sig. (2-tailed)	.003	.000	.002	.000		.000	.003	.000	.477	.000
	N	10	10	10	10	10	10	10	10	10	10
Sanima Number of Shares	Pearson Correlation	-.845**	1.000**	-.862**	1.000**	-.911**	1	-.918**	1.000**	-.319	1.000**
	Sig. (2-tailed)	.002	.000	.001	.000	.000		.000	.000	.369	.000
	N	10	10	10	10	10	10	10	10	10	10
Nepal SBI SharePrice	Pearson Correlation	.864**	-.918**	.889**	-.918**	.837**	-.918**	1	-.918**	.368	-.918**
	Sig. (2-tailed)	.001	.000	.001	.000	.003	.000		.000	.295	.000
	N	10	10	10	10	10	10	10	10	10	10
Nepal SBI Number of Shares	Pearson Correlation	-.845**	1.000**	-.862**	1.000**	-.912**	1.000**	-.918**	1	-.319	1.000**
	Sig. (2-tailed)	.002	.000	.001	.000	.000	.000	.000		.369	.000
	N	10	10	10	10	10	10	10	10	10	10

ADBL ShareP rice	Pearson Correlation	.320	-.319	.343	-.319	.255	-.319	.368	-.319	1	-.319
	Sig. (2-tailed)	.367	.369	.332	.369	.477	.369	.295	.369		.369
	N	10	10	10	10	10	10	10	10	10	10
ADBL Number of Shares	Pearson Correlation	-.845**	1.000**	-.862**	1.000**	-.911**	1.000**	-.918**	1.000**	-.319	1
	Sig. (2-tailed)	.002	.000	.001	.000	.000	.000	.000	.000	.369	
	N	10	10	10	10	10	10	10	10	10	10

**. Correlation is significant at the 0.01 level (2-tailed).

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Laxmi X - Laxmi Y	248.600	128.588	57.506	88.937	408.263	4.323	4	.012
Pair 2	Sunrise X - Sunrise Y	125.200	12.029	5.380	110.264	140.136	23.273	4	.000
Pair 3	Sanima X - Sanima Y	10.600	6.877	3.076	2.060	19.140	3.446	4	.026
Pair 4	Nepal SBI X - Nepal SBI Y	324.400	141.295	63.189	148.959	499.841	5.134	4	.007
Pair 5	ADBL X - ADBL Y	72.400	155.510	69.546	-120.691	265.491	1.041	4	.357

X= Share Price before announcement of right issue

Y= Share Price after announcement of right issue

Appendix-3

Questionnaire

Right issue and its impact on share price: evidences from Nepalese commercial banks.

Dear Sir/Madam,

As a student of MBS of Central Department of Management (Tribhuvan University). I am undertaking a research work entitled "Rights Issue and Its Impact on Share Price; evidences from Nepalese Commercial Bank" as a part of my Graduate Research Project to fulfill the course requirement of MBS. I assure you that, all individual responses will remain completely confidential, with answers combined and presented in statistical from only. I Kindly request for your valuable participation and co-operation.

I would be grateful if you could take a few minutes to respond to this survey. I really need and value your opinions.

Cordially

Ram Prasad Kharel

(Central Department of Management)

Section I: Respondent Profile

Name -- (Not Compulsory)

Name of the organization--

Designation --

Education:

Below +2 ☐ Bachelor ☐ ☐

Masters ☐ M. Phil/PhD ☐

Section II: Other Related Information

Instruction: Please answer the following questions with a tick marks (✓) in the given space as required by the question.

1. Have you been purchase the share in the primary market?

a. Yes b. No

2. Have you been involved in trading of shares the secondary market?

a. Yes b. No

3. Are you familiar with right issue?

a. Yes b. No

4. Do you think investors are well aware the phenomenon of right share offering?

a. All of them b. Majority of them

c. Minority of them d. None of them

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

a. They are sufficient b. They are insufficient

Instruction: rank the following aspect of your review in order to your preference by indicating 1 to the most preferred aspect, 2 to the second most preferred aspect and so on.

6. In your opinion, which sector's issues does investor prefer the most.

a. Banking / financial and production sector

b. Manufacturing and Production sector

c. Insurance sector

d. Hydropower

7. What do you think why investors are interested to purchase the right 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

8. Why do Nepalese corporate firms prefer rights share instead of other instruments?

a. Low flotation cost

b. Easy way to collect the fund

c. To maintain the control position in management

d. Other causes

9. In your opinion what is the major case of under subscription of right share in Nepal?

a. Low performance of the related company

b. Lack of investor's awareness

c. Lack of investor's reach

d. Right is not transferable

10. What will the shareholder do, if right are transferable in Nepal?

a. They will sell the right

b. They will exercise the rights

c. They will partially exercise or sell the right

d. They will neither sell her exercise the rights

Instruction:- please tick the following factors in order of importance while making decisions regarding right share offering.

(strongly agree=5, agree =4, unsure=3, disagree=2,strongly disagree=1)

11. Issuing right is the best measure for commercial banks to reach the paid up capital as directed by NRB

5	4	3	2	1

12. Most investors prefer to buy shares of the company after the announcement of right share.

5	4	3	2	1

13. Issuing companies are more benefitted than shareholder from right offering.

5	4	3	2	1

14. Market price per share of the company will be affected by right issue announcement.

5	4	3	2	1

15. Market price per share of the company will be positively affected by right issue announcement.

5	4	3	2	1

16. Right issue has a negative impact on the earrings per share of the company.

5	4	3	2	1

17. Purchasing of shares prior to price adjustment of right offering is a rational decision.

5	4	3	2	1