CHAPTER- I

INTRODUCTION

1.1 Introduction of Capital Market

Capital market is a market for long-term securities having maturities greater than one year. They are vital to long term and prosperity of economy since they provide the channel through which needed fund can be raised. It is mechanism through which public saving is canalized to industrial and business enterprises. The key instruments used in capital market are debt, preference share, and bond & convertible issues. Demand of capital in the capital market comes from agriculture, industry, trade and government, which sources are from individuals, corporate saving, multinational investors and surplus of government. So, some of the important members of capital markets are stock exchange, specialized financial institutions, bank, and Investment Company etc.

A place where long-term lending and borrowing takes place is known as capital market. Therefore, the capital market is the market for long-term borrowing and lending. Capital market consists of securities market and non-security market. Securities market implies mobilization of funds through issuance of the securities: Shares, Bond, Bills and Debentures by corporate sector and Bonds, Bills and Debentures by government. These securities traded in the market and generally negotiable and hence can be traded in the secondary markets. Non securities market refers to the mobilization in the financial resources by the financial institutions in the form of deposits and loans.

"Capital market plays a crucial and effective role in economy development of a nation. The health of the economy is reflected in two wings of capital market i.e. primary market or new issue market and secondary market/stock market" (Agrawal; 1997:240). "The main objective of the capital market is to create opportunity for maximum numbers of people to get benefit from return obtain by directing the economy towards the productive sector by mobilizing the long term capital. The objective can be fulfilled only by the rational accountable behaviors relating to the three factors of capital market such as institution, mediator and investor" (Ninth Plan; 1997:167).

"Resource mobilization is assumed to be vital and challenging work in the present day world economy. In this era of financial economic and political liberalization the task is more complicated then before. Moreover, capital market, which is called the lifeblood of the liberalized economy, is the mechanism through which the resources (savings) are mobilized and flowed from nonproductive sector to productive sector" (Bhatta; 1995:1).

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

1.2 Background of the Study

"When a company is formed, it obviously must be finance. Often the seed money comes from founders and their families and friends. For some companies, this is sufficient to get things launched and with retained earnings, no more equity is needed. In other situations equity infusions are necessary" (VanHorne; 1998:548). Common stockholder's of a company are its ultimate owners, collectively they own, the company and assume the ultimate risk associated with ownership. The nature of equity ownership depends upon the type of the business or organization.

Every firm constantly faces the financial problems from its very inception. A growing firm, thriving day by day, always remains in the destitute of funds either for expansion or diversification of business or to sustain in the competitive area. In order to cope with various financial situations, firm usually issue common stock to general investors or right offering to existing shareholders or preference share and various types of debentures as demanded by their target capital structure. This paper mainly focuses on the right offering to the existing shareholders. Sometime companies are bound to issue new shares of additional stock to the existing shareholders imply because of 'pre-emptive right' clause in the act of incorporation.

Ordinary share, preference share and debenture are three important securities used by firm to raise fund to finance their activities. Ordinary share provide ownership right to ordinary share holders. They are the legal owners of the company. As a result, they have residual claims on income and assets of the company. They have right to elect the board of directors and maintain their proportional ownership in the company called the pre-emptive right. The pre-emptive right of equity fund through right offerings. Right issue does not affect the wealth of the share holders. "The price of the share with on gets dividend into ex-right price and the value of the right. So what the shareholder gains in terms of the value of the right he loses in term of the low ex-right price. However, he will lose if he does not exercise right" (Pandey; 1998:548).

Right share are issued to the existing shareholders as a result of increased in capital if current reserve is not sufficient to issue bonus share. Company usually issues right share to raise the capital. Therefore, issue of right share represents the distribution of share in proportional to existing shareholders. The shareholder which has an option to purchase a stated no of share at subscription price which is generally below the share current market price within specified period of time. Large number of corporate firms announces and issue right share to increase the capital base if the corporate management felt such need or to comply with the policy directives given by concern authority to increase the capital base from time to time. In our country, Nepal Rastra Bank issues the policy directives to the commercial banks to control and for the supervision of the establishment and operation of commercial banks in Nepal. Nepal Rastra Bank had already issued the policy provisions regarding the requirements of minimum paid up capital in commercial bank, which significantly affected the right share issuing practices of commercial banks in Nepal. A company issues right share under the principle of preemptive right of the shareholders. Under this right, the existing shareholders have the first priority to purchase any new equity share issued by the company.

The pre-emptive right entitles a shareholder to maintain his/her proportionate share of ownership in the company. The law grants shareholders the right to purchase new share in the same proportion as their current ownership. Thus, if shareholder owners 1 per cent of company's ordinary share, he has pre-emptive right to buy 1 per cent of new share issued. A shareholder may decline to exercise this right. The shareholders' option to purchase a stated number of new shares at a specified price during a given period is called rights. These right can be exercised at a subscription price which is generally much below the share's current market price, or they can be allowed expire, or they can be sold in the capital market.

A company may give its existing stockholder the first opportunity to purchase a security issue on a privileged subscription basis. This type of issue known as right offering because existing stockholder receive one right for each share if stock they hold. A right represents an option to buy the new security at the subscription price and it takes a specified number of rights to purchase the security. Depending on the relationship between the current market price of the stock and the subscription price, a right usually will have a market value. Security offering to the general public and offering on a privileged subscription basis must comply with federal and state regulation. “The enforcement agency for the federal government is the Securities and Exchange Commission; whole authority encompasses both sale of new securities and trading of existing securities in the secondary market” (VanHorne; 1998:582).

It is not very practical to attempt to issue this new share at a premium to the existing share price because rational new investor would prefer to buy existing share directly in the market rather then more expensive new ones from the company. Equally it is normally difficult to make a substantial new issue share at the prevailing market price.

It is often necessary to consider making new issue at a discount to the current market price but to do so would be to rob existing shareholders. This can be an avoided id the existing shareholders are given right to buy these discounted share proportion to their existing shareholders: Hence the name 'right issues'. These issues are normally described by reference to how many new shares can be brought for a member of existing shares owned, e.g. a 1 for 5 right issue means that for every 5 shares owned the shareholder gets the right to buy 1 of new shares being offered. The company not forces its existing shareholders to buy any more shares in the company and hence it is granting them an option to buy these new shares. “As the new shares are being issued at a lower price than the current market price of the existing shares, this option should have a value and can be sold if the current shareholder does not make to take it up" (Ward; 1995:121).

Right have intrinsic financial values because they are normally offered at a price somewhat lower than the current market price of stock. Consequently a market exists for the buying and selling of rights and once again we enter the world of speculator. An especially attractive speculative investment is using margin to buy rights with the hope that the value will rise.

1.3 Focus of the Study

In any firm, right share is taken as major financial decision that affects the value of firm. The main focus of this study is to examine the practice made by the sample firms in regards to the right share and its impact on stock price movement. The purpose of this study is to provide a clearer understanding of the circumstances surrounding a right offering to analyses the result of the offer and improving its effectiveness. This study also examines the practice made by the Nepalese firm in this regard, stock price movement and current legal provision regarding right share issue.

1.4 Statement of the Problems

Right offering announcement by a company serves good news to its existing shareholders. A shareholder, whose name is in the company book before record date, is entitled to have a proportionate number of new share shares at price below market. A view held by professional investor. Finance directors and some academics is that a right issue because it increases the supply of a company's shares, will have a depressing effect on the share price. It should consider some theoretical relationship in rights offering. Several issues conformity the financial manager who is deciding on the details of right offering. Here it should also consider the pure stock split effect of the issue of right. Under there assumption the question posed to financial manager is:

- How many right will be require purchasing a share of the newly issued stock?

- What is the value of each right?

- What effect will the rights offering have on the price of existing stock?

Divided the subscription price in to the total funds to be raised gives the number of shares to be issued. The next step is to divide the number of new share in to the number of previously outstanding shares to get the number of rights required to subscribe to one share of the new stock. It creates the relation of high subscription price makes more rights needed to buy a share of the stock and vice versa. Value of right can be calculated in rights on and excites price.

While viewing the share price movement after announcement of rights offering by some companies, mixed result have been found. For example, Nepal Share Market and Finance Co. Ltd in FY (2062/2063), market price of its share was Rs.145 for one months before announcement. But after the announcement the price is higher than market price of the share was Rs.190. In Kumari Bank Ltd., closing price before announcement was Rs.341 but after the announcement it gradually decreased down to Rs.337 a share. This dilution in market price might have been attributed to the increase in the number of shares of common stock. In this way, what is price impact of right offering announcement on share price of listed companies under consideration is one aspect of the statement of the problem of this research work.

When a company sells securities by privileged subscription, it should mail to its shareholders one right (i.e. legally transferable written instrument) for each share of the stock hold with the common stock offering, this legal instrument called 'right' give shareholder the option to purchase additional shares according to the terms of offering. The holder of right has three choices (a) Subscribe for new share (this is some time called taking up the right): If the shareholder has sufficient cash resources to buy new shares, and if he feels the company will use the money so raised in a profitable way. Then he feels the company will use the money so raised in a profitable way, then he should take up the right. (b) Sell right: The new shares are cheaper than the current market price and both new and old shares will rank equal footing when the formalities have been completed. Thus new not exercise rights have a value for which a third party would be willing to pay. If the shareholder is not happy about the right issue or equities some extra cash be should sell the right. Usually the rights are sold via a broker who will charge commission. (c) Do nothing at all: When investor neither subscribes nor sells. It reduces the wealth of investors. After, study of the rights share allotment reports of those three companies, no full subscription of right shares in all cases has been found out varying degrees of under subscription of shares have been found for different companies. The following table assists to clarify this statement.

Table 1.1

Rights offering and its Subscription

Number of Shares	DCBL	TRHL
Issued (in million)	80.00	446.45
Subscribed (in %)	95.87	57.54

Source: Issue Manager of respective Companies

The above table shows that there were a lot of shares that were remained unsubscribed by the existing shareholders and were purchased by the employees of the respective companies and underwriter. But the company Act is silent on this part and such situation makes the very essence of rights offering questionable, which can be sold separately, a number of share holders, who do not want to abandon completely their ownership over the company have the destitute to subscribe for new shares, will have no option to choice(c) mentioned above (i.e. do nothing and let the right expire). Consequently, their post issue wealth position will suffer because of the subsequent dilution in the share price. Only those shareholders, who be stay themselves and exercise rights to purchase the pro-rata shares of new common stock, will remain unharmed by the right issue. If there were the rights instrument available with existing shareholders, who do not exercise the rights could protect them from incurring loss by selling only the rights. In this case, their post issue wealth position will not suffer because the value of rights, which they receive in its sale, exactly offsets the dilution in the market price of the share. Hence, the absence of the right instrument and the implicit of the shareholders' wealth, which do no exercise the rights, is another aspect of the research problem. To sum up this study deals with the following issues:

1. What is the relationship between right share issue and stock price movement?

2. What is the theoretical value of right and its practical effect on stock price?

3. When right issue is made, what the trend of shareholders is in subscribe for the new share, sell the right or do nothing at all.

4. . What are the reasons behind price movement after announcement of right share?

5. Are there any malpractices in issuing right share?

1.5. Objectives of the Study

This study focuses on study of the effect right issue and its effect on stock price movement. The investigation covers two interrelated aspects: the characteristics features of rights offering by the listed company and the share price movement associated with rights offering.

The objectives are as follows:

I. To identify existing practices of right issues.

II. To find out. Impact on changes in market price of the stock, before and after the announcement of right offering.

III. To examine the theoretical values of right and its practical effect of right on stock price.

IV. To analyzes the inadequacy of existing law, on the matter of right share.

V. To point out suggestion to the related bodies.

1.6 Limitation of the Study

The study fully based on both primary and secondary data, which are collected from annual report of SEBO/N, respected company, issue manager and expert. Regarding primary data questionnaire and interview are used.

I. This study considered only those companies, who have been issued right share.

II. Result of the study would be fully dependent on the accuracy and reliability of the data provided by the respected organization and respondents.

III. The non - availability of various reference and resources act as constraints.

IV. This study cover the listed public companies only therefore it implies that the conclusion drawn from each selected companies does not represent the entire industry in which it falls but it will represent largely it's industry group.

V. There may be different from of information affecting share price, however, this study only consider right share issue.

VI. This study covers the fiscal year 2056/57 to 2066/67

1.7 Significance of the Study

This right share issue is important decision of corporate for different point of view. Although it is significant subject for all the concern people of the capital market. This can be said that this study is novel for Nepalese capital market. Now a day's people are attracted to invest in shares for the purpose of getting greater return by considering this, company try to provide higher return and try to make value maximizations of shareholders. Right share has become new concept to attract the investors as well as keep happy to maintain goodwill. Similarly company lunch a new promotion strategy, right share is one of them. Right share provide existing shareholders the right to buy new shares in specified ratio. The practice of right share is very old in worldwide but in Nepal it starts from fiscal year 2052/53. Till the date there is hardly to find any research in right issues and its impact on stock price movement. Thus researcher chooses this topic. This research will help existing shareholders, company management, broker and issue managing company etc. It also help to analyze right share to security board of Nepal, NEPSE, Research board of NRB, it is also benefited that the study will provide some valuable input for the further scholar in this area Thus this study of right share and it's impact on stock price movement may be rewarding.

1.8 Organization of the study

The whole study has been divided into five chapters:

<u>Chapter I: Introduction</u>

This chapter deals with the introductory part of the study, which includes, introduction of capital market, background of the study, focus of the study, statement of the problems, objective of the study, limitation of the study, significance of the study, statement of hypothesis and organization of the study.

<u>Chapter II: Review of Literature</u>

This chapter deals with review of the different literature in regards to the theoretical analysis and review of books, article and thesis related to the study field. Therefore it includes conceptual framework and other related studies.

<u>Chapter III: Research Methodology</u>

This chapter deals with research methodology used to carry out the research. It includes research design, population and samples, sources and techniques of data collection and data analysis tools.

<u>Chapter IV: Data Presentation & Analysis</u>

This chapter is the main part of the study, which includes analysis and interpretation of data, using financial and statistical tools. Similarly this chapter also includes the major findings of the study.

<u>Chapter V: Summary, Conclusion & Recommendations</u>

This chapter cover, summary of the study, conclusion and possible suggestion.

CHAPTER-II

REVIEW OF LITERATURE

In introduction chapter described about introduction of capital market, background of the study, focus of the study, statement of problems , objective of study, limitation of study, significance of study, statement of hypothesis and organization of the study. This chapter deals with the review relating to the Right Share and Capital Market in more detail and descriptive manner. For this purpose, various books, journal, articles from newspaper, magazines and other related studies have been reviewed. In the context of Nepal, no specific research studies have been available regarding right issue and its impact on stock price movement. However, the topic of research is absolutely new, effort has been made to cover various aspects of the study so that the adequate feedback could be obtained to broaden the base and input to the study. This study is carried out into different section such as Historical Development of Capital Market in Nepal, Initial financing, Right offering: A theoretical Framework, etc.

2.1 Historical Development of Capital Market in Nepal, A Brief Review

"Capital market is a crucial element in the National economy. Its role in reinvigorating and boosting the economic activity in the country is significant. The history of capital market was started since the period of Rana Prime Minister Judha Shamasher. He set up a holding company namely "Biratnagar Jute Mills" under joint financing agreement with Indian Marwari merchant Mr. Radha Krishana Chamaria with an Indian Jute processing industry in 1936 A.D., as the first modern industry in the country. After that, various mills of rice, cotton, sugar and other were established to mobilize the capital for the industrial development. In 1937 A. D. Nepal Bank Limited as a commercial bank was established. In the same year, the first industrial act was promulgated which was a favorable step in the ownership structure of industries was not likely by Rana families, the expansions of stock market to the desired level then been estimated. In 2007 B.S. democracy was established, the interim government was much busy in dividing measures to recognize the sick industry and gave little attention to initiate the development of stock market until 1976 A.D., when a government owned and operated Securities Exchange center (SEC) was established. It was established to perform the function of a stock exchange (under the Security Exchange Act 1983 A.D) like broker, issue manager and security market regulator under this arrangement there were no private broker, dealers, investment bank and securities firm because of all this trading remain insignificant" (Bhatta; 1997:3).

2.1.1 Establishment of Nepal Stock Exchange

In Nepal, Nepal Stock Exchange limited, is the only organized stock market facilitating the trading of corporate securities, mainly common stock. It opened its floor for the trading of corporate securities on the 13th January 1994, prior to the establishment of Nepse in 1994. Secondary market was operated over the counter facility managed by Security Exchange Center (SEC). The number of listed companies which stood at 15 in 1993/94 increased to 115 by the fiscal year 2060/61. Over the past few years, both annual turnover and market capitalization of listed companies have increased substantially

The trading on securities in Nepal was established in too late a period of 1976 when Nepal Industrial Development Corporation (NIDC) and Nepal Rastra Bank (NRB) through their joint efforts for initiated the establishment of Security Market Center (SMC) to mobilize the public savings for ensuring public ownership in the shares of public limited companies. In order to promote the stock exchange business, the center made a series of studies in the beginning both public limited companies and devising the ways and means of understanding the business of buying and selling in securities. In pragmatic reality, however, the center become nothing more than the satellite organization of NRB to undertake the over burdened functions of the later in selling government securities that comprise treasury bills, development bonds, etc. After a long period of seven years doing nothing substantial in the frontiers of stock exchange business, the Security Market Center passed a new securities exchange Act 1983/84(A.D.) to revitalize it's role in the capacity of a merchant banker in view of acting as a legally acknowledged some stock exchange house.

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

After 1980s onward, the center tried to create some securities exchange norms. But all it became not encouraging to develop the securities exchange business in view of lack of dashing leadership since the level of understanding about the pros and cons of stock exchange was relatively poor. The enactment of new securities exchange act 1984 become landmark in the Nepalese history of stock exchange and this brought change in nomenclature to the extent that the title of the center changed to Securities Exchange Center. As a result of this, the center prepared it's now booklet to ensure it's role in the capacity of a merchant banker, as it is the only legally acknowledged stock exchange house in national perspective. As per its public limited companies got listed in 1984. In 1984, the Securities Exchange Center was converted into Nepal Stock Exchange Limited (Nepse) with the objective of operating and managing secondary transaction of securities. After this conversion, the 'open out cry' system of trading among stock brokers started.

2.1.2 Securities Board Nepal (SEBO/N): An Introduction

The Securities Board, Nepal acronym SEBO/N was established in 26th may 1993 under the provision of securities exchange act 1983 (first amendment 2040 B.S.). Under the present act, the SEBO/N is responsible for supervision of Nepse. The board has companies of seven board members representing several government and private bodies for the operation and management of the board. "It was established with the objective of promoting and protecting the interest of investors by regulating the securities market. It is also responsible for the development of the securities market in the country" (SEBO/N; 2001/02:3).

Since its establishment, SEBO has been continuously concentrating its effort to improve the legal and statutory framework, for the healthy development of stock market and to enhance the degree of investors' protection. After the second amendment of securities exchange act in Jan 1993. SEBO/N is acting as an apex regulatory body by bringing market intermediaries directly under it's jurisdiction and made it mandatory for the corporate bodies to report annually as well as semi annually regarding their performance. It also established direct relationship with market inventions were targeted to discipline the market the market and to consolidate it's position as central securities market regulator.

2.1.2.1 General Objective of SEBO

A general objective of SEBO are mentioned here under

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

2.1.2.2 Function of SEBO

- The main functions of SEBO are as follows
- To advice HMG on the issue related to development of capital market and the protection of shareholders' interest.
- To approve stock exchanges for the operation and oversee them for healthy trading of securities.
- To register and regulate market intermediaries involved in the primary issues as well as the secondary trading of the securities.
- To regulate the public issues of securities including the mutual and trust funds.
- To monitor and supervise the securities transaction.
- To conduct the researches and studies along the area of security market.

- To conduct conference, workshop and seminars and participate in such programs conducted in the regional and international level and join the forum and exchange with outside regulators.

As apex regulatory body for the Nepalese securities market, the SEBO has adopted following set of strategic polices to handle the strategic issues that he inhibiting the growth and development of the market. The policies consist of:

- Improvement in the statuary and regulatory of the capital market.
- Development of market standard and information system.
- Development of widely participated capital market.
- Improvement in the securities board’s institutional capacity.

2.2 Initial Financing

2.2.1 Venture Capital

Venture capital (VC) represents fund invested in an existing, relatively new enterprises. Seed money is needed to provide a concept product or service. Although the entrepreneur or angel investor, on occasion venture capitalists will provide such financing. The sources of venture funding are several. A venture capital firm will seek capital in advance from external investor. Such investors include public pension funds, endowments and foundations, bank holding companies, wealthy families and individuals, insurance companies and others.

“The idea equity investor for start up companies must appreciate the risks involved, including the potential for a total loss of their investment, and must want to receive their financial return in the forms of capital gains. These venture capitalists are normally professional investor including investment managers controlling venture capital funds. Who accept the high risks associated with any specific investment by developing a portfolio comprising similarly high risk individual investment? Thus complete failure of some investments in the portfolio is offset by outstanding success of other investment made. Indeed many such venture capital investors specialize in particular industry sector, such as IT or bio-technology, but still hold a portfolio of investment in this sector" (Ward; 1995:105).

"One reason that new companies find venture capital firms attractive in that a venture capitalist typically view their investment as long-term and are willing to wait several years before repaying their return" (Rao; 1982:542). Almost always the stock is not registered for a period of years known as letter stock, it cannot be sold until the issue is registered, and therefore, the investors have no liquidity for a period of years. The enterprise seeking the financing must convince any of the various sources that sizable returns will offset the substantial risks involved.

2.2.2 Initial Public Offering (IPOs)

Most business begin life as proprietorships or partnership and the more successful ones, as they grow, find it desirable at some point to covert into company. Initially, these new corporations stock are owned by firms officers, key employees or very few investors the company may decide at some points to go public. As a company continue to mature. It must eventually decide weather it should become a public company. It is choose to go public, the procedures and alternatives for raising equity fund will define significantly from these use by privately held company or a closely held company, which is control by small group. "Going public means selling some of a company's stock to outside investors and then letting the stock trade in public market, and desire to convert into corporations" (Brigham, Gapenski & Ehrhardt; 2001:698).

"Public offering of various securities like equity share (both ordinary as well as right share), debentures, bonds etc. to the general public by corporate as well as the Government are made through the Merchant Bankers (MBs). As such the MBs work as intermediates between the fund concerned groups (the general public and institutions) and the fund deficit group (corporate) to cater the needs of both through efficient fund mobilization. The MBs are mainly engaged in creating and expanding primary and secondary market for securities and money market providing advisory services to corporations as well as managing their investment for portfolio. Thus public offering involves rising of funds for Government or corporations from public through the issuance of various securities in the primary market and is often the only major sources of obtaining large sums of long term funds" (Vaidya & Parajuli; 2004:88).

"Going public represents a fundamental change in lifestyle in at least four respects: (1) the firms moves from informal, personal control to a system control, and the need for financial techniques such as ratio analysis and Dupont system of financial planning and control greatly increases. (2) Information must be reported on timely basis to the outside investors, even though the founders may continue to have majority control. (3) the firm must have breadth of management in all business effectively and (4) the publicly owned typically draws on a board of directors, which should include representatives of the public owners and other external interest group, to help ultimate sound plans and policies" (Weston & Copeland; 1992:901).

By issuing publicly traded equity, the firm establishes both the value for the company and a market for the common stock. This enhance liquidity for the firm's share allows the company to raise capital on more favorable terms since it no longer needs to compensate investors for liquidity associated with a privately held firms. With these benefits, however, comes cost. In particular there are ongoing costs for publicly traded firms associated with the need to supply information on a regular basis to investors and regulators. Furthermore, there are substantial one time costs associated with IPOs that can be categorized as either direct or indirect costs. Direct cost includes the legal, auditing, administrative and underwriting fees related offering, and the dilution associated with selling shares of an offering price that is, on average, below the price prevailing in the market shortly after the IPOs.

“In the company plans to sell stock to raise the new capital, the new shares may be sold in one of five ways: (1) on a pro-rata basis to existing shareholders through a right offering, (2) through investment bankers to the general public in a public offering, (3) to single buyer (or very small number of buyers) in private placement, (4) to employee through employee stock purchase plan and (5) through a dividend reinvestment plan” (Brigham, Gapenski & Ehardt; 1988:701).

2.2.2.1 New Issue Market

The new issue market is a primary market, because it is concerned with the creation of new financial claims. It provides an organization which may be used by deficit units to raise fund from surplus units. A number of securities are issued by companies in the new markets they include:-

(i) Equity Share: Equity Share represents the ownership position in a company. The holders of equity shares are owner of the company and they provide permanent capital. They have voting right and received dividends as the discretion of the board of directors.

(ii) Preference Share: The holder of preference share have a preference owner the equity in the event of liquidation of the company. The preference dividend rate is fixed and known. A company may issue preference with a maturity period (called redeemable preference share). Preference shares may also provide for a accumulation of dividend. It is called cumulative preference share.

(iii) Debenture: Debenture represent long term loan given by holders of debenture to the company. The rate of interest is specified and interest charges are treated deductible expenses in the hand of company. Debenture may issue without an interest rate. They are called zero interest debentures. Such debentures are issued at a price much below than their face value. Therefore they are called deep discount debenture/bond.

(iv) Convertible Securities: A debenture or preference share may be issued with the future of being convertible in to equity shares after a specified period of time at a given price. Thus a convertible debenture will have features of a debenture as well as equity.

(v) Warrants: A company may issue equity share or debentures attached with warrants. Warrants entitle an investor to buy equity share after a specified time period at a given price.

(vi) Cumulative Convertible Preference Share: This is an instrument giving regular return at (zero) 0 percentages during the gestation period from 3 – 5 years and equity benefit there after introduce by government in 1994. Cumulative Convertible Preference Share has however of return been consider being too low in the initial years and the provision conversion into equity was also unattractive. If the company fell to perform well.

(vii) Zero Coupon bond & convertible: These are two new instruments that have been floated by certain companies. Their overall impact and popularity will be known only during the years a head.

2.3 Right Offering: A Theoretical Framework

A publicly held corporation can raise equity capital either by selling directly to investor or by issuing subscription right to its shareholders. “Instead of selling a security issue to new investors, some firms offer the securities first to existing shareholders on a privileged subscription basis. Sometimes the corporate charter requires that a new issue of common stock or an issue of securities convertible into common be offered first to existing shareholders because of their pre-emptive right” (VanHorne; 1995:570). A company may give its existing shareholder the first opportunity to purchase a new security on a privileged subscription basis. This type of issue is known as right offering, because existing stockholder receive one right for each share of stock they hold. A right represents an option to buy new security at the subscription price, and it takes a specified number of rights to purchase security. Those companies which have already issued share to the public are allowed to issue right share provided the shares already issued are fully paid. A company issues right shares under the principle of pre-emptive right of the shareholders. Under this right, the existing shareholders have the first priority to purchase any new equity share issued by the corporation.

2.3.1 Pre-emptive Right

The common stockholders are the owner of a corporation, and as such they have certain right and privileged. “Common stock holders often have the right, called the pre-emptive right, to purchase any additional share sold by the firm. In some states the pre-emptive is automatically included in every corporate charter, in other it is necessary” (Weston & Brigham; 1990:677). Under a pre-emptive right, existing common stockholder have right to preserve their proportionate ownership in the corporation. If the corporation issues additional common stock they must be given right to subscribe to the new stock so that they maintain their pro-rata interest in the company. You won 1000 shares of a corporation that divides to make a new company stock offering for the purpose of increasing outstanding 10%. If you have a per-emptive right, you must be given the option to buy 100 additional shares so that you can preserve your proportionate ownership in the company.

“A corporate offering to existing shareholder prier to public distribution is termed as (uninsured) right offering. A pre-emptive right is the privilege of existing shareholders to participate in a right offering. Shareholders are granted pre-emptive right either by common law or explicitly by the corporate charter. A corporation may have the right to amend the article of it’s incorporation to limit or deny this pre-emptive right” (Hanley & Ritter; 1994:250). The pre-emptive right gives the holder the first option to purchase additional issues of common stock.

Common stockholder often have the “pre-emptive right” to purchase any additional share sold by the firm. If the per-emptive right is contained in a particular firm’s charter, the company must offer any newly issued common stock to existing shareholders. If the charter does not prescribe a pre-emptive right, the firm has the option of selling to its existing shareholder or to the public at large. If it sells to the existing shareholders, the issue is called a right offering. “Each shareholder is issued an option to buy a certain number of new shares, and the terms of the option are listed on a certificate called a stock purchase right, or simply a right. If a stockholder does not wish to purchase any additional shares, then he or she can sell the rights to some other person who does not want to buy the stock” (Brigham, Gapenski & Ehrhardt; 1988:607). Stock right provides holders with the privileged to purchase additional share of stock based on their number of owned shares. “Right are important tool of common stock financing without which stockholders would run the risk of losing their proportionate control of the corporation” (Gitman; 1988:607). The purpose of pre-emptive right is twofold. First, it protects the power of control of present stockholders. If it were not for this safeguard, the management of corporation under criticism from stockholders could prevent stockholders from removing it from office by issuing a large number of additional shares and purchasing these shares it. Management would thereby secure control of the corporation and frustrate the will of the current stockholders.

The second, and by for more important, reason for the pre-emptive right is that it protects stockholders against a dilution of value. For example, suppose 1000 shares of common stock each with a price of Rs.100, were outstanding making the total market value of the firm Rs.1, 00,000. If additional 1000 shares were sold at Rs.50 a share, or for Rs.50, 000 this would raise the total market value is divided by the new total shares outstanding a value of Rs.75 a share is obtained. The old stockholders thus lose Rs.25 a share, and new stockholders have an instant profit of Rs.25 per share. Thus selling common stock at a price below the market value would dilute it's price and would transfer wealth from the present stockholders to these who purchases new shares. Thus per-emptive right prevents such occurrences. Corporations can contract with an investment banker new equity. This contract may specify that the investment banker buy all the new equity from the issuing company at a fixed price and resell it to the public (from commitment underwritten offering) or, in a right offering agree to buy the unsubscribed shares (stand by right offering).

The pre-emptive right gives the shareholders of a corporation the first chance to purchase newly issued common stock and newly issued securities convertible into common stock. The amount of newly issued securities that can be purchased by a stockholder is determined by the number of shares already owned in relation to the total share outstanding. "As with many stockholders' right, it is possible for stockholders to waive the per-emptive right at the time the common stock is purchased. If the charter denies the per-emptive right, the stockholders automatically waive this at all time the stock is purchased. The exact status of the pre-emptive right varies somewhat from state to issue. Promoters may deny the per-emptive right through a provision in the charter to this effect” (Bradley; 1955:99).

2.3.2 Offering Through Right

Rights issues include the offering of additional shares to existing shareholders. There are offer in proportion to existing shareholders. When a company sells securities by privileged subscription, it mails to shareholders one right for share of the stock held. With common stock offering the rights give shareholders the option to purchase additional shares according to the terms of the offering. The term specifics the number of shares required to subscribe for an additional share of the stock, the subscription price per share, and the expiration date of the offering. The holders of rights have three choices: (1) exercise them and subscribe for additional shares, (2) sell them, because they are transferable, or (3) do nothing and let them expire. The last usually occurs only if the value of the rights is negligible or if the shareholder owns but a few shares of stock. Generally, the subscription period is about three weeks. A shareholder, who wishes to buy a share of additional rights,. To exemplify, if Mr. A now owns 85 shares of stock in the company, and the number of rights required one additional share is 10 his 85 rights would allow him, to purchase 8 full shares of stock. If he would like to buy the ninth share, he may do so by purchasing additional 5 rights.

Under the right offering, the stockholder are provided a document called ‘right’ which describes all about the conditions of right issue. Each shareholder receives right in the proportion of share current held. In many countries “right” is negotiable instrument and therefore transferable and negotiable because while somebody may have sufficient money to exercise the rights and they may actually exercise such rights some others may not have the money to exercise all the rights. Through a right legally transferable separate instrument that is mailed to the existing stockholders for each stock held, wile observing the rights offering practices of Nepalese companies there is a complete absence of such instrument. Shareholders are not mailed the rights nor can they buy of sell it separately. All the terms and conditions are mentioned in the issue prospectus and this is distributed to the existing shareholders. On the basis of these information available for additional shares if they want to do so.

In a right offering, the board of director (BOD's) establishes a date of record. Investors who buy the share prior to that date receive the right to subscribe to the new issue. The stock is said to sell with rights-on through the date of record. After the date of record, the stock is to sell ex-rights, that is, the stock is traded without the rights attached. An investor who the stock after this date does not receive the right to subscribed the additional stock. For the company to raise new equity capital, a right issue is an attractive method to underwritten offering to public. "In the US right issued are relatively infrequent. In Smith's (1997) samples they accounted for less than ten percent of issues: whereas in Britain and many other countries, rights issues predominate" (G Mix; 1994:357).

The price of the new share in a rights issue is normally fixed at a level somewhat below than current market price of the shares. But this lower price should not generally diminish the wealth of the existing shareholders. This is because, for shareholders, who do not choose to take up the allocation, the fall in price is comparable to the inconsequential decline which accompanies a capitalization issue or stock-split. And shareholder, who chooses not to take up the allocation of the new shares, can sell their rights to the new shares in the period before the payment is due. Consequently, only irrational shareholders. Who neither exercise their rights nor sell their rights will see their wealth reduced. The company can, therefore, set a price for the rights issue sufficiently low to ensure that the rights will be exercised without fearing any adverse wealth implications for its existing shareholders.

Rights issues appear to be an expensive way of raising money then underwritten public offering. Smith (1997), estimated, for example, that for a 100 million dollars issue 'reported out of pocket expenses' would be 3.8 million dollar less for a rights issue and this difference was not offset by the other categories of expenses which he defined. But if they are cheaper than underwritten public offering, there is a paradox: why in the United States do the great majority of firms choose the apparently more expensive way of raising equity finance? "Hansen and Pinkerton (1982), contend that the direct comparison of costs of rights with underwritten public offering may be misleading because other things are not equal: a third variable, ownership predominately undertakes US rights issues; and the costs of right issues decline as the ownership concentration increases" (Hansen & Pinkerton; 1982:651-665).

The resolution of the paradox proposed by Heinkel and Schwart (1986) emphasizes the information asymmetry between invertors and firms seeking new equity, with the form of the new issue taking on a signaling role. For example, setting a low price in a right issue would have a detrimental signaling effect. But the higher price carries the risk that shareholders will not exercise their rights, and failure of the issue would bring the cost penalties. Then, only higher quality firms would opt for the right issue. Smith (1997), who so clearly posed the paradox in the first phase, offers a different resolution to it. He focuses on potential conflicts of interest between managers and directors, on the one hand, shareholders, on the other. Some of the benefits of underwriting may accrue to the directors and managers rather than to the shareholders. Investment bankers, whose firms act as underwriters, are often represented on BODs and are in a strong position to represent the interest of the underwriters: and underwriters are in a position (quite legally) to give a range of fervors to the management. But the question may arise, why would shareholders allow managers to impose extra cost on them for these reason? Smith invokes the agency cost framework of Jensen and Meckling (1976): only if the cost of monitoring the managers fall short of extra cost of the financing method will the shareholders curb the managers: monitoring, is of course, both expensive and best by public good problems. Perhaps, it is for these reasons that Bhagat (1983) found a significant negative price reaction when directors succeeded in removing from their charter the provision requiring that new equity be raised by rights issue. The directors' freedom to employ the more expensive underwritten offer does appear to have been achieved at the expense of the shareholders' wealth.

Shareholders options to purchase a stated numbers of rights at a specified price during a given period of time are called rights. Rights also known as subscription warrants, are issued to give existing stockholder their pre-emptive right to subscribe to a new issue of common stock before the general public is given as opportunities when the rights are issued for raising funds, there issued are involved: (i) the number of rights needed to buy one new share (ii) the theoretical value of right and (iii) the effect of right issuing on the value of ordinary shares. This right can be exercised at a subscription price, which is generally much below then current market price. It is exercised if the value of right is high and also if the stockholder is major stockiest, who wants to control on management by electing as a director, then he will exercise them and subscribe for additional shares. Right can be sold in the stock market. Generally, hampers when stockholders owns little number of shares and feels that it doesn't matter to him whether the management change or remain same, he will be satisfy. "Right can be allowed to expire; it occurs only if the value of right is negligible or stockholder own a few number of shares but as an irrational shareholder, who neither exercise nor sell his rights will see his wealth reduce" (Gupta; 1981:86). The company normally fixed the price of rights at a level of somewhat below the current market price to ensure that the rights will be exercised without fearing any adverse wealth implications for it's existing shareholders.

2.3.2.1 Significance of Right Offering

The issue of further share is resorted to for a various reasons. A company may, for the purpose of expansion, need additional capital resources. These may be over in the cost of the project and, therefore, additional shares may have to be raise funds. Financial institutions grading loans may require the company to bring capital in desire proportion to the loan capital. Under the circumstances it is desirable to solicit additional capital for expansion from people who have a special interest in the welfare of the corporation, such as corporations' own stockholders and it also a least costly way of raising capital.

• **Permanent Capital:**

Since ordinary/right share are not redeemable, the company has no liability for cash outflow associated with its redemption. It is a permanent capital and is available for use as long as the company goes.

• **To Indicate Higher Profit:**

Normally right share is an indication of higher future profits, right share usually declare only by board of directors who expect rise in earnings of offset the additional shares. Board of directors does not want dilution of earnings therefore must invest on profitable opportunities.

• **To Bring the Market Price of Share within more Popular Range:**

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

• **To Increase the Number of Outstanding Shares:**

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

• **To Have Positive Psychological Value:**

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

• **To Retain Proportional Ownership for Shareholders:**

There is another alternative to meet company's additional equity capital through issuing in capital market. If the existing shareholders do not have the funds to purchase a new equity. Their proportion of the ownership in the firm will decline as new investors share. This can be avoided by right share which in only way to increase capital. Each shareholder receives a number of additional shares proportionate to his original holding. "Right offering allows stockholders to maintain their proportionate ownership in the corporation and typically allow the corporation to raise new capital less expensively” (Gitman; 1988:613). If does not want to lose his proportional ownership in the company, he many not sell his shares.

• **To Decrease Flotation Cost**:

“Raising fund through the stock of right issue rather than the public issue involves less flotation cost as the company can avoid underwriting commissions” (Pandey; 1999:1006). In the absence clear pattern in price behaviors of the adjustment market price of the stocks may be affected. Through rights issuing the true or adjusted down ward price pressure may actually be avoided. The flotation costs to issuer associated with a right issuing will be lower than the cost of public flotation.

• **To Be Successful on Subscription:**

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

• **To Achieve a more Respectable Size in the Market:**

After right share issue by a company, every shareholder receives additional share proportionate to original holding. Some of the old shareholders may sell their new shares. As a result a corporate firm may achieve a more respectable size in the capital market.

• **To Fulfill the Legal Requirement Imposed by the Authority:**

In the context of Nepalese Banks, Nepal Rastra Bank impose legal requirement for increasing the equity base at certain standard level. Therefore the right share issue enthusiastically increased. To fulfill their legal requirement, Nepalese corporate firms practiced of raising the additional capital from of the existing shareholder because of the lower cost of fund, to less flotation cost and to avoid the difficulties in raising public issues.

• **To Avoid External Incontinent:**

Investment financed from external sources is subject to screening by outside agencies as to its related profitability but investment financed generally from existing shareholder fund is subject to no such check.

• **To Expand Company:**

When a company wished to expand it may well request extra cash from it's shareholders by way of right issue to finance that expansion.

3.3.2.2 Limitations of Right Offering

We discussed in the preceding section, the main advantages of right share issue is that it has favorable psychological value on shareholders. It indicates the company's growth to shareholders. Therefore they welcome right shares. But it has also limitations, without proper profit planning an issue of right share might invite over- capitalization. Some limitations are given below:

- "The company can't force its existing shareholders to buy any more shares in the company and hence it is granting them an option to buy these new shares" (Ward; 1995:107).

- Equally there is no reason for any outsider to want to buy these rights in order to take them up. Thus the proposed right issue could fail with the result that the company does not receive its desired injection of new equity funding.

- The shareholders who fail to receive to exercise to sell their rights. They lose in terms of decline in their wealth. Most right issues are underwritten because there is no legal obligation on the part of shareholders to subscribe.

- Issue of right share lowers than market value of existing share too. That may posses negative impact of particular share on capital market.

- It deprives new investor from becoming the shareholders of the company. The control over the management of the company is not diluted and the present management may misuse its position.

- The issue of right share dilutes the existing share’s earnings per share if the profit do not increases immediately in proportion to the increase in the number of ordinary shares.

- “Yet another disadvantage is for those companies whose shareholding is concentrated in the hand of financial instructions because of the conversion of loan into equity. They would prefer public of share rather then right issue” (Pandey; 1999:1006).

2.4 Right Offering Vs Public Offering

By offering stock first to existing stockholders the company taps investors who are familiar with the operation of the company. The principal sales tools is the discount from the current market price, where as with a public issues, the major selling tool is the investment banking organization. When the issue is not underwritten with a stand by arrangement, the flotation costs of a right offering are lower then the cost of an offering to the general public. Therefore, there is less drain in the system from the stand point of existing stockholders. Moreover, many stockholders feel that they should be given the first opportunity to buy new shares. Offering these advantages in the minds of some is that a right offering will have to be sold at a lower price than will an issue to the general public. “If a company goes to the equity market with reasonable frequency, this means that there will be with public issues. Even though this consideration is not relevant theoretically, many companies wish to minimize dilution. Also, a public offering tends to result in a wider distribution of shares, which may desirable to the company” (VanHorne:1998;574). Therefore, there is less drain in system from the standpoint of existing shareholders. Moreover, many shareholders feel that they should be given the first opportunity to buy new common stock. The rights offering will have to be sold at a lower price than will an issue to general public.

2.5 Market Vs Theoretical Value of Right

We should be aware that the actual value of a right may differ somewhat from its theoretical value on account of transaction costs, speculation, and the irregular exercise and sale of right over the subscription period. However, arbitrage limits the deviation of actual value from the theoretical value. If the price of a right is significantly higher then it’s theoretical value, stockholder will sell the right and purchase the stock in the market. Such action will avert downward pressure on the market price of the right and upload pressure on the market price of the stock. If the price, the right is significantly lower than its theoretical value, arbitragers will buy the right; exercise their option to buy stock, and downward pressure on its theoretical value. These arbitrage actions will contribute as long as they are profitable. The market price of right will generally differ from its theoretical value. The extent to which it will differ will depends on how the firm’s stock price is expected to behave during the period when the right is exercisable. By buying right instead of the stock itself, investors can achieve much higher returns on their money when stock price rise.

2.6 Stock Split Vs Stock Right

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

Right share and stock split are completely different. Stock right means, a method of raising further fund from existing shareholder, by offering additional securities to them as per-emptive basis. It involves the offer of additional share to existing shareholders. These are offered in proportion of existing shareholders. A more lengthy analysis, however, is required to reveal the exact nature of stock rights the offering of new securities to existing by means of rights, either as a matter of legal requirement or financial policy or both. The question of rights is intimately of connected with that of dividends. Companies frequently offer new stock (or securities convertible into stock i.e. contingent securities) to existing shareholders at prices will below the current price the current market price of outstanding stock. In doing so, management may feel that it is giving something of value to its shareholders like stock dividends, stock rights are highly prized by investor. And like stock dividends, rights may typically be sold on the market for cash if the holder decides not to exercise them. Belief in the value of right is, if anything even those rights have no inherent value to the investors no matter how large the discount at which the new shares are to be sold.

2.7 Right share Vs Bonus share

Bonus issue and right issue are very similar, although typically used for different purposes. Right are, an important tool of common stock financing without which shareholders would run the risk losing their proportionate control of the company and dilution of their ownership. Company offer rights, generally at a price, which is lower than the value of the shares in the market to raise an additional capital. As a result the common stock paid in capital stock and total net worth amount of the company will change. "Since bonus share is a form of dividend that a company provide to its stockholders. Bonus share is also understood synonyms to the stock dividend. Stock dividend paid in additional share of stock rather than in cash. It simply involves a transfer to retained earnings to the capital amount. In a bonus issue, the nominal value per share stays the same and the new shares are issued by capitalization existing reserve. Thus share capital shown on the balance sheet does not increases but other reserves are be decreased by the same amount" (Manandhar; 2001:4).

A right issue is involves selling of ordinary shares to the existing shareholders of the company. It is available for a specified period of time in order for shareholder to decide what to do, to send in their cheque or selling their rights in the market. Right share increases capital, as equal to how much, amount of right share issued. "A Bonus is different from right issue. A bonus does not raise any new capital. It merely increases the nominal amount of the issued share capital by the company utilizing its undistributed profits in paying up for the new shares. Company declares for bonus issue because it may hesitate to declare dividends at such rates, which are likely to be criticized by the trade unions and the consumer" (Yasaswy; 1982:137). With a bonus issue, the number of shares increased through proportional reduction in the book value of stock. As a result, the worth of the company remains unchanged. Stock dividend is a dividend paid in additional shares/ stock rather than cash.

2.8 Stock Repurchase Vs Stock Right

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

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

2.9 Procedural Aspects of Right Offering

A right issue involves selling of ordinary shares to the existing shareholders of the company. The law in India that the new ordinary shares must be first issued the existing shareholder on a pro-rata basis. This pre-emptive right can be forfeited by shareholders through a special resolution. “A company can make right to it’s shareholder’s after meeting the requirements specified by the Securities and Exchange Board of India (SEBI). Those shareholders who renounce their right are not entitled for additional shares. Shares becoming available account of non-exercise of rights are allotted to shareholders who have applied for additional share on pro-rata basis. Any balance of share left after issuing the additional shares can be sold in the open market” (Pandey; 1999:1002).

When a company makes a right offering, the board of director must set a date of record, which is the last date on which the recipient of a right must be the legal owner indicated in the company stock ledger. Due to the time needed to make bookkeeping entries when a stock is traded? Stock usually begins selling ex-right without the rights being attached to the stock four business days prior to the date of record. The issuing firm sends rights to holders of record owners of the firms share on the date of record, who are free to exercise their right, sell them or let them expire. Rights are transferable and many are traded actively enough to be listed in the various securities exchange. They are exercisable for specified period of time, generally not more than few months at price called the subscription price. Since fractions of share are not always issued. It is some time necessary to purchase additional rights or sell extra right. The value of right depends largely on the number of right needed to purchase a share of stock and the amount by which the right’s subscription price is below than current market price. If the right have a very low value and an individual owns only small number of shares, the rights may be allowed top expire. Let us assume that a company announce that a company on 2nd January 2000 that all shareholders whose names in the register of members as on 25th February, 2000. The company will mail the “letter of right” on 5th April, 2000. In the example, 2nd January,2000 is the announcement date, 25th February,2000 is the holder of the register of member date, 5th April, 2000 is the offer of right date and 10th March 2000 is the expiration of right date. It may be possible that share may be traded a few days before the holder of the register of member date (5th April 200 in the example) and it may not be transferred and registered in the new name.

When a company sells securities by privilege subscription, it mails to its stockholders one right for each share of stock held. With a common stock offering, the rights give stockholders the option to purchase additional share according to the term of the offering. The terms specify the number of rights required to subscribe for an additional share of stock, the subscription price per share and the expiration date of offering. The holder of right had three choices (1) Exercise them and subscribes for additional shares (2) Sell them because they are transferable or (3) Do nothing and let them expire. Generally, the subscription period runs about 3 weeks. A stockholder who wishes to buy a share of additional stock but does not have the necessary number of right may purchase additional shares. If you own 152 shares of stock in a company, the number of right required to purchase additional share is 5, your 152 rights will allow you to purchase 30 full share. If you would like to buy 31st share, you may do so by purchasing additional 3 rights. Investors who buy the stock prior to that date receive the right to subscribe to new issue. The stock is said to sell with right-on through the date of record. After the date of record, the stock is said to sell ex-right: that is the stock is traded without the rights attached. An investor who buys the stock after this date does not receive the right to subscribe additional stock.

2.9.1 Procedures of the Issue of Right in Nepal

Right issues are conducted in Nepal in accordance with provision mainly in company act 2053 and rules, regulation set aside by SEBO/N. The actual mechanics and the sequence of events in the case of rights issues are some what complicated and it will therefore be useful to outline briefly the actual procedure by which a rights issue practice is typically made in Nepal. Company must followed certain rules and regulation as mentioned in the company act and their respective memorandum and article of association. In Nepal the actual mechanism and sequence of events in the case of right issue are somewhat complicated. At present context, generally the following procedural are considered before right offering.

- The BOD should consider about that the determination of the quantum of further capital requirement and the corporations in which the rights issue might be offered to existing shareholders.

- AGM should pass the proposal of BOD by it’s majority.

- Company should notify NRB, Nepal Stock Exchange, Office of the company Register and SEBO/N sufficiently with prospectus in advance of the date of board of record meeting at which the rights issue is likely to be considered, and should permission from them.

- Make announcement with prospects which gives a general indication of the reasons, which have made the issue desirable, the purpose for which the new money is to be used.

- Letter of provisional allotment or rights offering to the shareholders with prospects. This letter will advise the shareholders about the rights offered, the number of new shares allocated to each given number of old shares, the price at which shareholders will qualify for the right issue. This letter will be sent after the date of announcement.

- 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.
- The Certificates are distributed to the shareholders who participated in the rights offering announcement. Shareholders who have accepted and fully paid up their allotment can renounce the actual share certificate in favor of a third party. Because of nontransferable instrument such practice are not seen in Nepalese context.
- The resolution of the board of director to distribute the right share had to approve by shareholder's AGM. This is very low chance that the resolution of the board of director's resolution of the director is disapproved by shareholders.
- Listing of the shares in the NEPSE again with increased number which must be approved by the stock exchange after which an application for listed new share could be made.

2.10 Success of Right Offering

A firm's management must make two basic decisions when preparing for a right offering. One of the most important aspects of successful right offering is the subscription price. This is the price at which the corporation/ firm has agreed to the securities to existing stockholders. "If the market price of the stock should fall below the subscription price, stockholders obviously will not subscribe to the stock, for they can buy it in the market at a lower price. Consequently, a company will set the subscription price at value lower than the current market price, to reduce the risk of the market price's falling below it" (VanHorne; 1998:572).

"It is necessary to submit a certain number of rights along with the cash order for the shares to be purchased from the firm at the special subscription price"(Bradeley; 1955:314). "Apart from the number of rights required to purchase one share the risk that the market price of stock will below the subscription price is a function of the volatility of the company's stock, the tone of the market, expectations of earrings and other factors. To avoid all risk, a company could set the subscription price so far below the market price that there is virtually no possibility that the market price will fall below it" (VanHorne; 1998:573).

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

2.11 Under and Oversubscription of Right Offerings

A company can ensure the complete success of right offering by having investment banker or group of investment bankers "stand by" to underwrite the unsold portion of the issue. "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 & Copeland; 1992:891). Most rights offerings are made through investment banker, who underwrite and issue the rights. In most underwriting agreements, the investment banker agrees to be a standby arrangement, which is a formal guarantee that any shares not subscribed or sold publicly will be purchased by the investment banker. This guarantee assures the firm that the entire issue will be sold it will not be undersubscribed. The investment banker, of course, charges a higher fee for making this guarantee.

Most of right offerings include an oversubscription privilege, which gives stockholders not only the right to subscribe for their proportional shares of the total offering but also right to oversubscribe for any unsold shares. Oversubscription are awarded on pro-rata basis relative to the number of unsold shares. Although the use of the oversubscription increases the chances that the issue will be entirely sold, it does not assure this occurrence, as does the standby agreement. It is possible that the combination of subscriptions and oversubscription will fall short of the amount of the stock the company desire to sell. This privilege is a method of restricting ownership to the some group, although ownership proportions may change slightly. Shares that cannot be sold through the oversubscription privilege may be offered to the public. If an investment banker is used, the disposition of unsubscribed shares may be lest up to the banker.

2.12 Nepalese Laws relevant to Public Issue

The entire corporation, who wish to issue its share to the pubic, should follow following laws. The right issue guideline, still not implemented yet. It is under the process, we hope it will come soon. But issuing right share is one of the offering to the public. The corporation, who want to go public to raise it's capital, should follow certain laws. Right is one of the instruments, to raise capital from the existing shareholder. Thus, the corporation, who is going to issue, right share as well as other stock, should follow following law.

i. Company Act 2053 (1997)

ii. Securities Exchange Act 2040 (1983)

iii. Securities Exchange Regulation 2050 (1993)

iv. New Issue Management Guideline 2054 (1997)

v. Securities Registration and Issue Approval Guideline 2057 (2000)

vi. Securities Allotment Guidelines 2051(1994)

vii. Bank and Financial Intuitions Ordinance 2060 (2003)

2.13 Review of different Studies

2.13.1 Review of Mini Research

Mr. Khagendra Prasad Ojha (2000) had done mini dissertation on Financial Performance and Common Stock Pricing. His study set out following Objectives**:**

- To study and examine the difference of financial performance and stock price.
- To examine the relationship of dividend and stock price.
- To explore the signaling effect on stock price.

His findings were following:

- Nepalese stock market is in infancy stage. In general it is very new and just started to develop.
- Dominance of banking sector is prevalent in the market due to other industries including finance companies, insurance and manufacturing is not encouraging.
- Due to the lack of the proper investment opportunity most of the investors have directed their savings towards the secondary stock market.

- Corporate firm with long history have a relatively stable profitability parameters than the firm established after the economize liberalization of 1990.
- Older firms have been issuing bonus share times than the new ones.
- Dividend per share is relatively more stable than dividend pay out ratio. That's why pay out ratio and dividend yield had highly fluctuating.

There is significant positive correlation between the dividend paid and stock prices of banking and manufacturing industries. All other industries have not the perfect correlation between the dividend paid and stock price

2.13.2 Review of Journals/ Articles

This section deals with the review of journal and article by different expert relating to right share, which was published in various journals. Some are as follows;

Kenneth J. Weller (1979) on his article "The Journal of Finance" has concerned with the technique of raising equity capital through the process of offering new shares of common stock to the present owners at a price below the current market price. The rights to the new shares issued on a pro-rata basis can be utilized or sold by the recipient shareholders. Funds, therefore, are supplied to the corporation by the original owners and by the purchases of rights. The decision making process for the establishing the terms of the offering is analyzed as it affects the relationship of the rights offering to other financial policies. There is a marked tendency for the market for shares during a right offering to decline as a result of the large increase in the supply of the stock during a short period of time. This price decline can be measured by determining the amount of the price decline and adjustment for charges in the general market. A statistical analysis of the major issues of 1956 and 1957 indicates that the average decline price was 5.97 per cent. The measure varied from 4.07 per cent for utilities to 8.04 per cent for industries. A considerable portion of the decline took place shortly before the actual rights period.

This price decline result from insufficient demand for the new shares by two groups the original holders of the stock and the non-holders who seek to obtain shares by purchasing the rights. The demand by holders as evidenced in subscriptions is not a published fact for most issues. A mail survey reveals that a number of firms have this type of information but that is very difficult to draw any conclusion from the reported data because of the wide variation in the methods of collection and reporting. These are sufficient information, however, to suggest that in many issues a large portion of the funds comes from outside the ranks of the original shareholders. Several factors influence the demand for shares by the existing holders. The fact that subscription is available at prices below the market is important to some. Others are influences by special purchasing privileges, the relative size of the required additional investment, and general attitudes towards the future to the company. Special underwriting techniques can be used to simulate subscriptions. Some of the factors influence the non-holders who purchase rights, but special attention should be given to the lay-off procedure. The lay- off is a financial operation in which investment bankers’ purchase rights on the market and concurrently sell the corresponding shares through their selling organization. The development of this technique, it’s regulation by the Securities and Exchange Commission, it’s possibilities, and it’s limitations are considered at length. It appears that it cans an effective force in the prevention of excessive price declines during the issue.

The corporation can reduce the costs and increase the effectiveness of the rights offerings. Different concepts of the nature of costs complicate this matter, but there are many possibilities for reducing cash costs by adjusting the underwriting fees and eliminating certain of the underwriter's services. Non- cash costs associated with dilution can be controlled through various measures which seek to minimize the pressure on the prices of the stock during the issue. Paul 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 method. Companies can guarantee the subscription of their issues the having them underwritten (the equivalent of standby arrangements in the USA), and in recent years, this procedure has been adopted for 90% of UK rights issues. Underwriting is usually carried out on a fixed fee basis representing at least 1¼ % of the money raised, and hence it is clear that quite substantial sums of money are involved. Since underwriting is simply a put option giving the company the right to put a failed issue onto the underwriter. In this paper, describe an application of the Black and Scholes model to the valuation of rights issue underwriting agreements over the period 1962-1975. Model prices are compared with the fees charged in order to assess whether the letter represent competitive prices. In face, over this period, companies appear to have overpaid for underwriting.

When a company makes a rights issue, it is a London Stock Exchange requirement that at least three weeks should elapse between the ex-right date and the date the offer expires. If the share price falls below the issue price by the last acceptance date, shareholders will not take up their rights, since shares could be bought more cheaply in the market. Since rights issue arrangements are costly, companies will clearly wish to avoid issues failing in this way. This can be achieved by having the issue underwritten. As an alternative to underwriting, companies can reduce the risk of a failed issue equally effectively by setting the issue price sufficiently low. This does not imply that underwriting is a waste of money, since if the issue is underwritten at a high enough price, there is a distinct possibility that the underwriters will be called upon to take up their commitment and buy shares from the company at a price above the ruling market price. The question is thus entirely one of whether or not companies pay a fair for underwriting the risks involved.

The underwriting decision is quite simply a problem in option valuation. When a company makes a rights issue, the company is in effect selling (giving) a short-term call option to its shareholders (i.e. to itself). The company's real objective however, is to new shares, and the only way in which the sale of a call can be converted into the sale of the underlying shares is for the company to simultaneously buy a put option, Kruizenga (20). The latter is of course, precisely what occurs when the company arranges for its issues onto the underwriters. The underwritten in turn reduce their exposure by buying put options from the sub underwriters giving them the right to pass a failed issue onto the sub underwriters.

Black and Scholes model which is now widely accepted in both the academic and investment communities. B & S were the first to develop a theoretically complete, general equilibrium option valuation formula which was consistent with both rational pricing and the Capital Assets Pricing Model. This model is attractive not only because of its rigorous theoretical basis, but also because it is relatively simple, incorporating only five variables, four of which are directly observable. Given these variables, namely the stock price(x), the time to maturity (t), the exercise price(c), the risk free interest rate(r), and the variance rate of the return of the share (v2), B & S show the value of a call option w(x,t)) can be written as:

$$W(x, t) = x.N(d_1) – c.e –r.t N(d_2)$$

From July 1962 to the end of 1975, 1,145 primary equity right issues were made by London quoted and registered companies. Of these, 148 issues involved more than one class of equity, or combine units of equity and other securities, and were therefore excluded from our sample. Of the remaining 997 issues, 671 were known to have been underwritten foe a fee by a merchant bank of broker in the standard manner. For 132 of these, however, we were unable to establish the date of the underwriting agreement with any degree of confidence. These issues were therefore excluded, leaving us with a sample of 539 underwritten issues for the purpose of this study.

Underwriter performs an economically useful function by assuming the risks of a failed issue. Aside from questions of whether shareholders really wish to indulge in option trading with institution, the question of whether underwriting has historically proved worthwhile is an empirical one. In fact, when we used the Black and Scholes Model to value UK underwriting, over the period 1962-75, the evidence strongly indicated that underwriting, taken alone, and ignoring side payments, was considerably overpriced. For issues made in the USA, the degree of overpricing was even more marked, although the sample of issues examined here was small. There was even more marked, although the sample of issues examined here was small. There was some evidence that underwriters earn higher excess returns following poor market performance, on short-lived options and low variance shares, possibly as a result of the way in which they set the underwriting price. When side payment and other factors are considered, it still appears that the underwriting market is less than perfectly competitive. Furthermore, even taking these imperfections into account, it appears that companies overpay for underwriting, since the costs imposed by the alternative to underwriting, namely deep discount issues, seem vary small. The imperfection is the market appears to stem from institutional factors and the nature of the relationship between company and financial adviser rather than from any more explicit from of underwriting cartel. Sub-underwriting can therefore be regarded as a very profitable activity, unless the side payment requires maintaining on underwriters' lists more than outweigh these excess return. Their losses on underwriting to be more than fully compensated for by gains on other transaction with the underwriting companies, with the underwriting companies, should either play a more active role in the pricing of underwriting, or they should avoid underwriting altogether, and set the terms of the issue accordingly.

Paul Marsh (1978) on his article “The Journal of Finance” has focused in the UK, as most other European countries, quoted companies raise virtually all their new equity capital via the rights issue method. In recent years some £1 to £1.5 billion has been raised in this way each year on London Stock Exchange, serving to indicate the importance of equity rights issues as a topic in corporate finance. This describes an empirical study of UK rights issues, involving various tests of semi-strong from market efficiency with respect to the announcement of rights issues. In addition, the Price Pressure Hypothesis, which asserts that equity issues, by increasing the supply of shares, temporarily depress the share price, is tested against the competing Substitution Hypothesis. Since this involves estimating the demand curve for company’s shares, our results provide evidence not only on market efficiency but also on market liquidity, and whether companies can raise new equity at existing market prices. The study is also of methodological interest in that it uses a number of alternative models for testing market efficiency, thus allowing us to test the sensitivity of our conclusion to the new London Share Price Database (LSPD), which is the first comprehensive source of UK share return to become available for research purposes.

In fact, both considerations were important in this study. First, right issues alter companies’ capital structures and may also herald changes in operating risk. Secondly, the LSPD provides data for a one third random sample of all London quoted shares together with a non-random sample of large companies. To avoid bias, restricted to the random sample, so that only one third of the population of rights issues was examined with time-series data. However, since the cross-sectional approach requires so much less data, it was possible to collect this, and to use this method to examine the full population of rights issues over the period of interest. So rather than limiting the studies to the one third random samples employ both methodologies. The available of trading data in the new LSPD made it possible to develop new methodologies such as the trade- to- trade method for beta estimation and for testing market efficiency, using date for small, infrequency-traded companies. Furthermore, all of the other methodological issues which we have considered are important, and can lead to serious problem in abnormal return estimation and tests of market efficiency. In practice, however, not all of the issues which were examined turned out to be important in the current study. In particular, our results were remarkably robust to the precise variant of the single factor Market Model based methodologies employed, and to our estimates beta. It should be stressed, however, that this is very much an ex-post judgment based on this particular sample and time period. On the other hand, however, our results do serve to emphasize the importance of sample the entire population of rights issues using the single cross-sectional model proved important and helped us to place out results in better perspective. Finally our results proved very quite different abnormal return estimates when we used equity weighted rather than market value weighted indices. Clearly, during this period, security return in the UK market was subject to some common factor which was strongly associated with company size.

These problems make our results harder to interpret in trying to reach conclusions on market efficiency. While it seems clear that an equally weighted portfolio of rights issue would have outperformed the broadly based market-value weight FTA index, it seems unlikely that this has anything to do with rights issues as such. Instead, it appears to reflect the 'company size' factors which was at work during the period. If seems fair, therefore, to conclude that our result do not furnish any very strong evidence of significant market inefficiencies associated with rights issues. Because of this, we cannot reject the hypothesis that the UK market is efficient with respect to rights issue announcements. The test of our test on price pressure & market liquidity where of more conclusive although on average, there did appear to be small setback of ½ % know evidence what show over that the returns over issue (announcement) period were related to size of the issue. Quoted companies appear to be able t sell reasonable amount of new equity at effectively the current market price, and do not appear to face a downward sloping demand curve for their share. Hence although in recent years there has been seems little justification for any real concern over the operations of this particular segment. The London Stock Exchange appears to be a highly liquid market.

2.13.3 Review of Master's Thesis

There is many masters' thesis prepared by various researchers in the past years. Among them, some thesis is reviewed for the analysis of literature.

Mr. Padam Gharti (2001) had done research on "Bonus Share Announcement and Impact on Stock Price of Nepalese Corporate Firms"**.** This study is being undertaken to analyze bonus share issue practices in Nepalese listed companies and its impact on share price. The main objectives of the study are:-

- To examine the relation between share price rise and Bonus ratio
- To examine the relation between share price rise and bonus share.
- To evaluate the relation of bonus share announcement and stock price.
- To remove some of widely held misconception about bonus share.
- To point out suggestions to the related bodies.
- On the basis of analysis in his thesis following major findings are observed

- The immediate share price rise after bonus announcement is significant. Bonus share announcement of banking sector is considering positively by the invertors but shown reluctant for the non-banking sector that the price decrease immediately after bonus announcement.

- The intention of issue bonus share of broad of directors leaks out before officially announcement. Therefore, the share price rises one month before the actual announcement due to the activities of the 'insiders'.

- The share price, in most of the case, does not decrease after distribution of bonus according to bonus ratio as theory says. The reason behind the situation may be that the investors cannot interpret the information and data. There is a great misconception about bonus share that the general investors think that they receive extra/ additional share with same value.

- The share price of the non-banking sectors shows inconsistency as compare to the banking sector. Therefore, investing on non-banking sector is more risky the banking sector.

- Long-term effect of bonus share issue, as well as immediate, is significantly positive. In most of the cases the aggregate market valuation of the corporate firms' equity capital increased as the result of bonus issue. 81.2 Per cent of the bonus issue is recorded different level gain over the base date price, after adjusting of the general market movement in share pieces.

- Most of the corporate firms do not maintain their dividend quantum 62.5 per cent of the companies did not maintain their dividend quantum and of course not dividend rate.

- Nepalese capital market is speculative-oriented; therefore it takes more consciously bonus share announcement than the cash dividend announcement. Whatever the dividend policy of the company the immediate impact and a year are significantly positive.

- The companies announce bonus share without frequently cash dividend distribution, ultimately faces drastic fall in their share price.

- The Nepalese capital market did not show any response that whether the company is intended to increase future dividend (return) of not. The immediate response of the market is not sufficiently rational.

- The public, in most of the cases, was provided with provided with very little information about real motives behind an issue of bonus share.

- The adjusted share price of the bonus ratio above 30% to 50% (consisting only 1:2 bonus ratio) increased by 58 per cent one year after bonus share announcement with the least standard deviation of 6.6. Therefore, the bonus ration 1:2 has good response even one year after bonus announcement, which is firm's real equity capital increment.

Mr. Bamshidhar Gautam (2001) had done research on "An Analysis of Share Price Movement Attributed to Right Offering Announcement"**.** This study has set out the following objectives:

- To analyze the inadequacy of the contents of the company act 2053 B.S. in regard to section 21 that explains about the matters to be disclosed in the issue prospectus.

- To find out if there is significant changes in share price after the announcement of right offering.

- To find out if there is any problem in the primary issue of securities.

- To prescribe some policies that will help to ratify the current problems in the issue in the issue of securities.

His findings were following:

- Company Act is not clear regarding the issue of rights offering and subsequent allotment of the rights share.

- Company Act has nowhere mentioned about necessity of legally transferable rights instrument called rights, which must be mailed to the stockholders for each stock held before the rights offering.
- SEBO/N has failed to establish a 'one-window policy' causing various imbroglios for the companies that want to go primary issue market for raising the capital.
- Till the date there is no enactment of the 'Investors Protection Act'.
- Our capital market has made least of use the 'capital market instrument' contingent securities like warrants and convertibles, options, and other various kinds of debentures are not in practice.
- Companies Act with regard to the contents of the issue prospectus is deemed to be insufficient on the ground that, it does not mention the companies are required to specify on the issue prospectus about the risk category on which their businesses fall.

Mr. Dilip Niroula (2003) had done research on "Impact on Dividend Policy on Market Price of the Stock". His study is based on dividend policy, impact on stock price movement. The main objectives of his study are as follows:

- To Find out of dividend policy on market price of the stock.
- To find out is nay uniformity in DPS, EPS, MPS, and DPR in the sample firm
- To study the prevailing and effort made dividend policy in Nepalese firms with reference of sample firm.

His findings are as follows:

- From the descriptive analysis we found that there is no consistency in dividend policy amongst the sample firm's dividend policy adopted by a firm also varies from year to year.
- We defined strategy dividend strategy consistent with the objective of firms is still a need in Nepalese Corporate Firms.

- Analysis of the cost of capital and interest rate of return is not practiced while calculating dividend policy. Higher payout is made despite of high internal rate of return. But in some cases retained earnings is quite lower than the cost of capital. This represents that share holder are not always treated fairly.
- Nepali Investor is actively participating in the capital market. Therefore, majority of them lack of financial knowledge are sill to analyze, the performance and future prospects of the firms. This has affect the market price of all the firm.
- Efficient communication network and promotion of security market are major problems hindering the Nepalese capital market.

2.14 Research Gap

Right share, is one of the major instrument for raising additional equity capital, which contribute second largest position on various issues approved by SEBO/N. However, there is still not done yet, specific research on right share. The purpose of this research is to provide clear picture on right share. The main objective are mentioned in Chapter-I

Many, research has done, causes of impact on stock price movement, such as Financial Performance, Bonus share, Dividend Policy and Right Offering Announcement. Ojha's study was based on financial performance as well as dividend policy, on common stock pricing (stock price movement), Gharti's study based on bonus share on the stock price movement. Similarly Niroula's study was based on divined policy on stock price movement. However, we found only one study on Right Offering, which was Gautam's study, his study was based on right offering announcement on stock price movement. He considered only 3 samples, which was very low sample size. Similarly, statistical tools which was applied by

him not right and sufficient. While, besides impact on stock price movement, other's objectives are completely new, previous researcher ignores it. Without it, the research on rights offering would not complete (justified).

This study also based on both secondary as well as primary data. Moreover, the earlier studies on right offering have become old and need to be updated and validated, because of the rapid changes taking place in the capital market. Considering all these facts it is necessary to carry out a fresh study in Nepal. Finally, this study is expected useful information for all those including financial scholars, managers, investors and regulatory body (such as: NRB, SEBO/N, NEPSE).

CHAPTER- III

RESEARCH METHODOLOGY

In order to achieve the objectives of the study mentioned in chapter one. An appropriate methodology becomes more relevant, which has been given due importance throughout this study. Different section included in this chapter is research design, population and sample, sources and technique of data collection, coverage, and method of analysis.

3.1 Introduction

Research methodology is a systematic way to solve the research problems. It describes the methods and process applied in the entire aspects of study. "Every research should be outlined in the systematic manner and for that reason research methodology is one of the most important parts of every research. In fact, research methodology is a way to systematically solve the research problems. "It refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view" (Kothari; 1978:85).

3.2 Research Design

Research design is necessary for each research work. It is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. So, selecting a suitable methodology is a good part of the research study. Then a suitable research design has been employed in order to analyze the Right Share and It's Impact on Stock Price Movement in Nepal.

"A research design is the agreement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure" (Bhurtel; 2002:43). "In order words, research design in the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances" (Kerlinger; 1978:300). As the principal objective of this study is to analyze the Right Share & Its Impact on Stock Price of the stock. This study follows the descriptive as well as analytical approaches are used to evaluate the rights share & its impact on stock price movement of the sample firms and logical conclusion cloud be drawn. Most importantly, the study is designed as ex-post facto research as the study is based on historical data. However, descriptive approach has also been adopted for the analysis of primary data obtained from questionnaire.

3.3 Population and Sample

The data collection activities consist of taking order information from reality and transferring it into same recording system. So that it can later be examined and analyzed from pattern. Population or universe refers to the entire group of people events, or things of interest that the researcher wishes to investigate. In most of cases, we can not collect data of whole population. Therefore, sample is the best technique of the research study.

A sample is the collection of items from population or universe and comprises some observations selected from the population. Sampling method is the scientific procedure of selection those representative units which would provide the required elements with associated margin of uncertainty arising from examining only a part and no to the whole.

In Nepal, Nepal Finance and Saving Company has issued right share first in fiscal year 2052/53 amounting to Rs.2.09 million. In 2053/54, 3 companies had issued right shares amounting to Rs.275.20 million. There were 3 cases or right share issue in 2054/55, 1 case in 2055/56, 3 cases in 2056/57 and 2057/58 each, 4 cases in 2058/59, 2059/60 and 2060/61 each 6 cases in 2061/62 and lately 11 cases in 2066/67. Following are the corporate firms issuing right shares.

Table 3.1 Corporate Firm Right Share in Nepal

Fiscal Year S.	S. No.	Name of the Companies	Issue Manager	No. of Shares Issued
2056/57	1	Nepal Finance and Saving Co.	AFCL	20000
2057/58	2	Bottlers Nepal Ltd.	CIT	252000
	3	Nepal Share Market Ltd.	AFCL	200000
2058/59	4	Nepal United Co. Ltd.	NFCL	30100
	5	Nepal Bank Ltd.	CIT	241496
	6	Annapurana Finance Co. Ltd.	NFCL	50000
2059/60	7	Nepal Share Market Co. Ltd.	AFCL	300000
2060/61	8	Necon Air Ltd.	CIT	896000
	9	Paschimanchal Finance Co. Ltd.	NSML	200000
	10	Ace Finance Co. Ltd.	NSML	150000
2061/62	11	Narayani Finance Co. Ltd.	NSML	125800
	12	Everest Bank Ltd.	CIT	1192100
	13	Bank of Kathmandu Ltd.	NCML	2340000
2062/63	14	Nepal Housing and Merchant Finance Ltd.	NSML	150000
	15	Ace Finance Co. Ltd.	NSML	450000
	16	Nepal SBI Bank Ltd.	NMB	2878704
	17	NIDC Capital Market Ltd.	CIT	400000
2063/64	18	Nepal Investment Bank Ltd.	NCML	572395
	19	Nepal Share Market and Finance Ltd.	CIT	600000
	20	Mahalaxmi Finance Ltd.	NFCL	250000
	21	Peoples Finance Ltd.	NCML	200000
2064/65	22	Alphic Everest Finance Ltd.	NEFINSCO	200000
	23	Siddhartha Finance Ltd.	NEFINSCO	200000
	24	NB Finance and Leasing Co. Ltd.	NSMBL	300000
	25	NB Bank Ltd.	NSMBL	3599260

2065/66	26	Annapurna Finance Co. Ltd.	NCML	200000
	27	Nirdhan Uthan Bank Ltd.	NMB	150000
	28	Nepal SBI Bank Ltd.	NMB	2159300
	29	Nepal Investment Bank Ltd.	AFCL	2952900
	30	National Finance Co. Ltd.	NCML	432000
2066/67	31	Development Credit Bank Ltd.	NMB	800000
	32	Kumari Bank Ltd.	NCML	250000
	33	Fewa Finance Co. Ltd.	NMB	300000
	34	Om Finance Ltd.	NMB	300000
	35	Goodwill Finance Ltd.	NCML	250000
	36	Central Finance Ltd.	NCML	120000
	37	Taragaun Regency Hotel Ltd.	NCML	4464500
	38	Janaki Finance Co. Ltd.	NEFISNCO	100000
	39	Machhapuchhe Bank Ltd.	NMB	1650000
	40	KIST Merchant Banking and Finance Co. Ltd.	NMB	500000
	41	Nepal Share Market & Finance Company Limited	CIT	

Source: Field Survey

3.4 Sources for Data

Data are considered as an integral part of research. Required data for this study is mainly based on secondary sources of information as well as primary sources of information. In this study secondary data are collected from different sources i.e. SEBO/N, annual report of respective companies, NEPSE, some related information is taken from economic survey. Besides, that the data have been collected from various sources like newspapers, magazines, published and unpublished reports related document and journal as well. The share prices are collected from trading report, which was published by NEPSE, and national daily news paper. The concern companies were also directly approached to obtain information on many points. The sources of primary data include personal interview were held with the official of SEBO/N, NEPSE, Managers and Officers of issue managing companies, issuing companies, investors and experts. Questionnaire technique also used in order to elects some valuable information and resolutions to various problems with which the researcher confronted in the due course of completing study.

In order to elicit the answer the research questions managers and officers (concerned with the issue of rights share) of the issuing companies, issue managing companies, regulatory bodies, investors and experts are for the primary source of date. Questionnaires are dispatched to a sample of 70 people and 70 responses are obtained. The table below shows the sample and response of the primary source of data.

Questionnaire is presented in the annex 2.

Table No: 3.2 Sample and Response as a Primary Source of Data

S.No	Responds	Sample	Response
1		Managers & Officers of Right Issuing Companies	
	a. Commercial Bank	10	10
	b. Finance Companies	10	10
	c. Insurance Companies	2	2
	d. Manufacturing & Processing Company	2	2
	e. Others	1	1
		25	25
2		Managers & Officers of Issuing Manager and Regulatory Office	
	a. NIDC	3	3
	b. CIT	2	2
	c. NEFINSCO	2	2
	d. NMB	2	2

	e. Ace Finance Ltd.	2	2
	f. SEBO/N	4	4
	g. NEPSE	5	5
		20	20
3		Investor & Experts	
	a. Investor	20	20
	b. Experts	5	5
		25	25
4	Total (100%)	70	70

Source: Field Survey

3.5 Data Processing Technique

The purpose of analyzing the data is to change it from an unprocessed for m to understandable presentations The collected data need to be aggregated in to a form that presents the summary of answers from respondents. The raw data convey little information as such there must be, therefore be complied analyzed and interpreted using different data analysis tools (Wolf and Pant, 1999:220).

In this study, theoretical market price will be used to measure impact of right share issue on market price of share. Theoretical market price of share after right share issue is given by

Theoretical Value of Stock after right share issue =

Pre right issue stock price =P_0

Subscription price =Ps

No. of rights required to purchase one new share = #

3.5.1 Percentage change in MPS

This gives the deviations of the share price due to right share issue phenomenon on the share price before right share issue. If the percentage of change comes negative, it indicates that the MPS has decreased after right share issue. Similarly, if the percentage changes become positive, it indicates that the MPS has increased after right share issue and if the percentage change come zero, it indicates no change in MPS before and after right issue. The percentage that has been changed in MPS after right share issue is calculated by using the following formula.

$$\text{Change in Price (\%)} = \frac{\text{Post Rt. Issue price} - \text{Pre Rt. Issue Price}}{\text{Pre Rt. Issue Price}}$$

3.5.2 Percentage Change in Actual Market Price and Theoretical Price

This gives the percentage deviation of actual price on theoretical price after right share issue. If the percentage change comes negative, it indicates the theoretical price is greater than actual price after right share issue. Similarly, if the percentage change comes positive, it indicates that theoretical price is less than actual market price after right share issue and if the percentage change comes to be zero, it indicates that the theoretical price and actual price are same after right share issue. This has been given by the formula below

$$\text{\% change} = \frac{\text{Actual Price} - \text{Theoretical Price}}{\text{Theoretical Price}}$$

3.5.3 Run Test

Run test is one of the techniques used to analyze the behavior of stock prices. Run is based on the percentage change in prices. A run occurs in a series of numbers wherever the change in numbers reverse sign. The run may be positive, negative and zero run. Until the price change alter, the total change are called one run. The run test also finds that the active traders who search for various types of non random trends from which to earn profit will not be able to beat a native by and hold strategy on average.

Null Hypothesis Ho: Price of the share is changed randomly before one month of right share issue.

Alternative Hypothesis H1: Share price change is not random before one month of right share issue.

$$z = \frac{n - \frac{2n_1 n_2}{n_1 n_2} + 1}{\sqrt{\frac{2n_2 n_2 (2n_1 n_2 - n_1 - n_2)}{(n_1 + n_2)^2 (n_1 + n_2 - 1)}}}$$

Where,

r = No. of runs

n_1 = #(+) and

n_2 = # (-)

3.5.4 Hypothesis Test

Hypothesis can be defined as " a logically conjectured relationship between two or more variables expressed in the form of testable statements" (Sekaran, 1992:79). "Hypothesis is a statement about the relationship between two or more variables which need to be investigated for its truth" (Wolf and Pant, 2003:62). Following hypothesis are set in this research paper.

Null Hypothesis H0: $\mu_x = \mu_y$, that actual market price after right share issue and theoretical price after right share issue are same. In other words, there is no significance difference between theoretical price and actual market price after right share issue.

Alternative Hypothesis H1: $\mu_x \neq \mu_y$ that is actual market price after rightly share issue is not equal to theoretical market price. In other words, there is significance difference between theoretical market price and actual market price after right share issue. (Two tail test).

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

This chapter makes systematic presentation and analysis of data. Analysis is based on the data obtained from both primary and secondary sources. Primary source includes mainly the responses to questionnaires and personal interview with investors, experts, officials and other resourceful persons. Similarly the secondary sources include available annual reports of sample companies, publication of SEBO/N, NEPSE, etc. Appropriate statistical as well financial tools as described in the research methodology chapter have been used in order to derive actual results from the analysis of data. This is key chapter, as it helps achieve the objective of the study of the study as mentioned in the first chapter.

4.1 Exercise of Rights Issue in Nepal

An establishment of Biratnagar Jute Mills in 1993 B.S., was first to initiate the issue of equity to the general public. The corporate stock sell took place only after this. Due to the absence of organized and legally established capital market, practices of issuing of equity and related function couldn’t be exercised. It was only after 1976 A.D., Security Exchange Center was established which initiated various practice of equity financing. Security Exchange Center, after its establishment has undergone various changes and till date Security Board of Nepal (SEBO/N) and Nepal Stock Exchange provides floor and it creates the secondary market.

SEBO/N, which is a governing body, has formulated various acts, regulate and guide. Even though guideline especially for rights issue has not been formulated but it has been mentioned about the issue of rights related acts. After the restoration of democracy the corporate sector has gone through a noticeable change. The period of three decade couldn’t bring perfect change in this practice.

The reason behind is the various factors that as political en-establishment, law economic growth, unsustainable government policy, lack of industrialization and various prevailing factors. After the political change in 1990 A.D., Nepal adopted liberalization policy. Therefore, some joint venture company participated in the Nepalese Corporate Sector. This has brought a significant change and has brought practices concerned with corporate sector. The history of rights offering is not so long in Nepalese context. Nepal Finance & Saving Co was the first company, who issued rights shares in Nepalese market in fiscal year 2052/53. The company announces on 2052/04/24, the ratio was 4:1, each existing shareholders who had 4 shares they owned were, allowed, to purchase each additional share issued by the company.

Since, from the fiscal year 2052/53, Nepalese corporate firm, started to issue rights share. Up to now (i.e. 2066/67) there are 45 cases of rights offering in Nepal. Almost all of them were finance and banking companies who issued rights share in Nepalese capital market. Large no of bank and finance companies announce and issue rights share, to increase the capital base if the corporate management felt such need to comply with the policy directives given by the concerned authority to increase the capital base from the time to time. Under rights offering, the shareholders are provided a document called 'right' which describes all about the conditions of rights issue. Each stockholder receives one right in the proportion of the share currently held. Though our study has cover only eleven companies. The details of all right issuing companies are as follows:

Table 4.1 Corporate Firm Right Share in Nepal

Table 4.1 Corporate Firm Right Share in Nepal

Fiscal Year	S.No.	Name of the Companies	Issue Manager	No. of Shares Issued
2052/53	1	Nepal Finance and Saving Co.	AFCL	20000
2053/54	2	Bottlers Nepal Ltd.	CIT	252000
	3	Nepal Share Market Ltd.	AFCL	200000
2054/55	4	Nepal United Co. Ltd.	NFCL	30100
	5	Nepal Bank Ltd.	CIT	241496
	6	Annapurana Finance Co. Ltd.	NFCL	50000
2055/56	7	Nepal Share Market Co. Ltd.	AFCL	300000
2056/57	8	Necon Air Ltd.	CIT	896000
	9	Paschimanchal Finance Co. Ltd.	NSML	200000
	10	Ace Finance Co. Ltd.	NSML	150000
2057/58	11	Narayani Finance Co. Ltd.	NSML	125800
	12	Everest Bank Ltd.	CIT	1192100
	13	Bank of Kathmandu Ltd.	NCML	2340000
2058/59	14	Nepal Housing and Merchant Finance Ltd.	NSML	150000
	15	Ace Finance Co. Ltd.	NSML	450000
	16	Nepal SBI Bank Ltd.	NMB	2878704
	17	NIDC Capital Market Ltd.	CIT	400000
2059/60	18	Nepal Investment Bank Ltd.	NCML	572395

	19	Nepal Share Market and Finance Ltd.	CIT	600000
	20	Mahalaxmi Finance Ltd.	NFCL	250000
	21	Peoples Finance Ltd.	NCML	200000
2060/61	22	Alphic Everest Finance Ltd.	NEFINSCO	200000
	23	Siddhartha Finance Ltd.	NEFINSCO	200000
	24	NB Finance and Leasing Co. Ltd.	NSMBL	300000
	25	NB Bank Ltd.	NSMBL	3599260
2061/62	26	Annapurna Finance Co. Ltd.	NCML	200000
	27	Nirdhan Uthan Bank Ltd.	NMB	150000
	28	Nepal SBI Bank Ltd.	NMB	2159300
	29	Nepal Investment Bank Ltd.	AFCL	2952900
	30	National Finance Co. Ltd.	NCML	432000
2062/63	31	Development Credit Bank Ltd.	NMB	800000
	32	Kumari Bank Ltd.	NCML	250000
	33	Fewa Finance Co. Ltd.	NMB	300000
	34	Om Finance Ltd.	NMB	300000
	35	Goodwill Finance Ltd.	NCML	250000
	36	Central Finance Ltd.	NCML	120000
	37	Taragaun Regency Hotel Ltd.	NCML	4464500
	38	Janaki Finance Co. Ltd.	NEFISNCO	100000
	39	Machhapuchhe Bank Ltd.	NMB	1650000
	40	KIST Merchant Banking and Finance Co. Ltd.	NMB	500000
	41	Nepal Share Market & Finance Company Limited	CIT	400000

Source: Annual Report of SEBO/N

All the companies except Bottlers Nepal Ltd. Issued right share in Rs.260 per share, this includes Rs.160 premium per share and the rest of the companies could not add premium due to the fear of under subscription. Most of the companies issue right share in order to increase paid up capital as directed by NRB.

4.2 Contribution of Rights Issue on the Total Public Flotation

The following table shows the contribution of right share issue in the total public flotation in each fiscal year in which the right offering has taken place.

Table No 4.2 Contribution of Rights Issue on Total Public Flotation

Fiscal Year	No. of Companies Issuing Right	Amount of Right Issue (In million)	Total Issue	% of right issue
2054/55	0	0	244.40	0
2055/56	0	0	173.96	0
2056/57	2	69	293.74	23.49
2057/58	3	275.20	332.20	82.84
2058/59	3	249.96	462.36	54.06
2059/60	1	30.00	258.00	11.63
2060/61	3	124.60	326.86	38.12
2061/62	2	131.79	410.49	32.10
2062/63	5	795.33	1444.33	55.16
2063/64	4	162.24	5564.54	29.15
2064/65	3	70	1027.50	6.18
2065/66	6	949.34.	1626.80	58.36
2066/67	11	1013.45	2443.28	41.47
Total		3680.50	10865.83	33.87

Source: SEBO/N Annual Report 2066/67

The above table shows the contribution of rights issue in the total public flotation in each of fiscal year in which the rights offering has taken place. The table shows that from fiscal year 2054/55, Nepalese corporate firms had been started, rights shares as a means to raise additional capital. During that fiscal year only two cases contributed 23.49% of total flotation of Rs.293.74 million. In fiscal year 2056/57,there are three cases of rights issue (i.e. Himalayan General Insurance Co., Bottlers Nepal Ltd. and Nepal Share Market Co Ltd.) that covers 82.84 percentage of the total flotation (i.e. 332.20 million) during that fiscal year. This is the largest contribution of rights share in total flotation. Though, the total public flotation amount is significantly large in the fiscal year 2058/59, three rights offering cover 54.06 percent of it. However, in the fiscal year 2059/60, the right share was lower than previous year amounting to Rs.30 million covering only 11.63% of the total public flotation, i.e. Rs.30 million out of Rs.258 million. In the fiscal year 2060/61, the amount of right share was Rs.124.60 million which cover 38.12 % of total public flotation i.e. Rs.326.86 million. In this year, three companies issued right share. In the fiscal year 2057/58, there are two cases of rights issues that cover 32.10% of total flotation. Similarly, in fiscal year 2062/63, there are five cases of rights offering amounting to Rs.795.33 million which covers 55.16% of total public flotation of Rs.1441.33 million. In fiscal year 2059/60, the total public flotation was Rs.556.54 millions out of which Rs.162.24 million was collected through right share issue, this is 29.15 % of total flotation and cases were four. In the fiscal year 2064/65, the amount raised through right share issue was Rs.70 million covering 6.81 % of total public flotation, i.e. Rs.1027.50 million. The total no. of right share issue in that year is four. In the fiscal year 2061/62, the total amount raised through right offering was Rs.949.34 million covering 58.36 % of total public flotation, i.e. Rs.1626.82 million and the cases were six. Finally, in the fiscal year 2066/67 the no. of right share issue were 11 which is the largest no. of right share issue in the history of right share announcement, the total amount raised through the right share issued was

Rs.1013.45 million out of total public flotation of Rs.443.28 million covering 41.47 %. By the above table, it is clear that during the period in the fiscal year 2060/61, there was lowest percentage of right offering, i.e., 6.81 % in comparison to the other fiscal year. On the other hand, the highest amount of right offering was in the year 2062/63 which was Rs.1013.45 million and lowest in the 2059/60 which was Rs.30 million.

4.3 Comparison of Stock Price Before and After Right Share Issue

The impact of right share issue on market price per share is evaluated here. Theoretically, the price of the share should be decreased after right share issue. The table below shows the market price per share before right share issue and after right share issue and their percentage difference. Pre right issue price is the closing market price 1 month prior to right share issue and post right issue price is the closing market price after 1 month of right share issue.

The positive change in price indicates that the post right issue price is greater than pre right issue price. This phenomenon is theoretically wrong. The negative change in price indicates that the post right issue price is smaller than the pre right issue price and this phenomenon is theoretically correct. The zero change indicates that the post right issue price and the pre right issue price are equal and this is also theoretically wrong.

Table 4.3 MPS of sample companies before and after Right Share Issue

S.No.	Name of Companies	Pre. Rt. Issue Price	Post Rt. Issue Price	Change in Price
1	DCBL	260	260	0.00
2	KBL	341	337	4.00

3	FFCL	190	190	0.00
4	OFL	242	219	-9.50
5	GFL	185	150	-18.92
6	JFCL	249	195	-21.69
7	CFL	190	180	-5.26
8	TRHL	43	43	0.00
9	MBL	415	320	-22.89
10	KMBFL	153	150	-1.96
11	NSMFL	145	190	31.03

Source: Annual Report of SEBON and Trading Report of NEPSE

$$\text{Change in Price (\%)} = \frac{\text{Post Rt. Issue Price} - \text{Pre Rt. Issue Price}}{\text{Pre Rt. Issue Price}}$$

From the above table, it is clear that in majority of the case the change is in negative. This means the majority of company follows the theory, i.e. the market price per share decreases after right share issue. Among the 11 sample companies, 6 companies share price has decreased after right share issue. 3 companies show no change, i.e. the market price per share of those companies remained the same after the right share issue. The market price per share of the remaining 2 companies increase after right share issue. From the above analysis, it can be concluded that generally the market price decrease after right share issue.

4.4 Comparison of Theoretical and Actual Market Price after right share issue

To find the impact of right share issue on market price per share, it is necessary to calculate the theoretical market price. The market price after ex right date compare with theoretical market price to measure the effects. The comparison results of the firm measure the impact of the right share issue on market price of the share. Positive change in share price means share price after right share issue are higher than theoretical market price. This is good indicator for shareholder and company; it means they have good signaling effect. Negative change means share price after right share issue are lower than theoretical price.

Table 4.4 Comparison of Theoretical and Actual Market Price after right share issue

S.No.	Name of the Companies	Actual MPS after right issue	Theoretical Price after right issue	% change
1	DCBL	260	310	-0.16
2	KBL	337	366	-0.18
3	FFCL	190	136	39.9
4	OFL	219	156	40.0
5	GFL	150	143	5.3
6	JFCL	195	199	-2.2
7	CFL	180	160	12.5
8	TRHL	43	64	-33.3
9	MBL	320	342	-6.5
10	KMBFL	150	127	18.6
11	NSMFL	190	134	42.10
Total				115.66

% change = Actual Price – Theoretical Price

Theoretical Price

Average Change = Sum of % change / No. of Observations = 115.66/11 = 10.51%

The above table shows the percentage change in actual market price and theoretical price of share after right share issue. Theoretically, actual market price and theoretical price of the share after right share issue should be equal. Actual market price after right share issue is collected from the trading reports of the SEBO/N and theoretical price of the share after right share is calculated in Annex 3. The above table shows that the actual market price of DCBL and Kumari Bank Limited are respectively Rs.260 and Rs.337 and their theoretical market price are Rs.310 and Rs.366 respectively. The % changes between the two prices are -0.16 and -0.08 percentage respectively. Similarly, the actual market price of Fewa Finance company Ltd. and Om Finance Ltd. are Rs.190 and Rs.219 and their theoretical values are Rs.136 and Rs156 respectively. The % change between two prices is positive i.e. 39.90% and 40 % respectively. The actual market price are Goodwill Finance Company Ltd. is Rs.150 and its theoretical price is Rs.143 which shows the positive change, i.e. 5.3%. In the case of Janaki Finance Ltd. the actual market price is Rs.195 where as its theoretical price is Rs.199. Here the actual market price is lower than that of theoretical price which shows the negative change, i.e. -2.2%. The actual market price of Central Finance Company Ltd, KIST Merchant Banking and Finance Company Ltd. and Nepal Share Market and Finance Ltd are Rs.180, Rs.150 and Rs.190 respectively. Whereas their theoretical prices are Rs.160, Rs.127 and Rs.134 respectively, therefore the change is 12.5%, 18.6% and 42.10% respectively. In the case of Taragaun Regency Hotel and Machhapuchhre Bank Ltd, the actual market price are Rs.43 and Rs.320, similarly, the theoretical price are Rs.64 and Rs.342 respectively. The change % in price of these two companies is -33.3% and -6.5% respectively.

From the above analysis, it is found that out of 11 sample companies, 5 companies have theoretical market price higher than actual market price causing negative percentage change and the remaining 6 companies have actual market price higher than theoretical market price causing positive change. The average percentage change between the actual market price and theoretical price is 10.51%.

4.5 Testing of Hypothesis

The test of Hypothesis is a process of testing of significance regarding the parameter of the population on the basis of Samples drawn from the population. In testing Hypothesis, we examine on the basis of statistics computed from sample drawn whether the Sample drawn belongs to the parent population with certain characteristics. The computed value of statistics may differ from hypothetical values of the parameter due to the Sampling fluctuation, the test of hypothesis discloses the fact whether the difference between the computed statistics and hypothetical parameter is significant.

4.5.1 Testing of Variation in actual market price and theoretical price

Null hypothesis H : μx **= μ,** that Actual Market Price after Right Share Issue and Theoretical Price after Right Share Issue are same. In other words, there is no significance difference between Theoretical Price and Actual Market price after Right share issue. 0y

Alternative Hypothesis H1 **: μ** ≠ **μ**y that is Actual Market Price after Right Share Issue is not equal to Theoretical Market Price. In other words, there is significance difference between Theoretical market Price and Actual Market Price after Right Share Issue (Two tail-test). x

Table 4.5 Testing of Variation in actual market price and theoretical price

S.No.	Name of the Companies	Actual MPS after right issue (x)	Theoretical Value of the share after right issue (y)	d (x- y)	d 2
1	DCBL	260	310	-50	2500
2	KBL	337	366	-29	841
3	FFCL	190	136	54	2916
4	OFL	219	156	63	3969
5	GFL	150	143	7	49
6	JFCL	195	199	-4	16
7	CFL	180	160	20	400
8	TRHL	43	64	-21	441
9	MBL	320	342	-22	484
10	KMBFL	150	127	23	529
11	NSMFL	190	134	56	3136
Σd = 97			Σd2 = 15281		

$$\bar{d} = \frac{\sum d}{n} = \frac{97}{11} = 8.81$$

$$s = \sqrt{\frac{1}{11-1}\left(15281 - \frac{(97)^2}{11}\right)} = 37.98$$

$$t\ X\frac{\dfrac{8.81}{37.98}}{\sqrt{11}}\ X0.7693$$

t tab at 5% of level of significance for 10 degree of freedom = 2.228.

Decision:

Since the t cal < t tab i.e. 0.76393 < 2.228, we accept null hypothesis.

Conclusion:

Hence, we can conclude that there is no significance difference between actual market price and theoretical price of the share after right share issue.

4.5.2 Run Test

Run test is used to test the random ness of sequence of sample events on the basis of the order of sample events.

Null hypothesis H : Price of the share is changed randomly before 1 month of right share issue. 0

Alternative Hypothesis H1 **:** Share price changed is not random before 1 month of right share issue.

Table 4.6

S.No.	Name of the Companies	Closing Price	Price Change
1	DCBL	260	0
2	KBL	341	-ve
3	FFCL	190	0
4	OFL	242	+ve

5	GFL	185	-ve
6	JFCL	249	+ve
7	CFL	190	0
8	TRHL	43	-ve
9	MBL	415	+ve
10	KMBFL	153	-ve
11	NSMFL	145	-ve

Source: Annual Report of SEBO/N

Here Median (Md) = size of $\left(\frac{n+1}{2}\right)^{th}$ item

= 6

Symbol Sequence, 1− 2+ 3− 4+ 5− 6+ 7−−

n = No. of runs = 7

n_1 = #(+) = 3 n_2 = #(-) = 5

The test statistic for testing H_0 is given

$$z = \frac{n - \left(\frac{2n_1n_2}{n_1+n_2} + 1\right)}{\sqrt{\frac{2n_1n_2(2n_1n_2 - n_1 - n_2)}{(n_1+n_2)^2(n_1+n_2-1)}}}$$

$$z = \frac{n - \left(\frac{2\times3\times5}{3+5} + 1\right)}{\sqrt{\frac{2\times3\times5(2\times3\times5 - 3 - 5)}{(3+5)^2(3+5-1)}}}$$

= 1.85

Level of significance = 5%

Critical region: The critical value of z at 5% level of significance for two tail test is

96.1025.02==*Zz*α

Decision: Since the computed value of z = 1.85 is less than the critical value of z = 1.96. We accept null hypothesis H_0.

Conclusion: Hence we can conclude that the price of stock before one month of right share issue is randomly distributed

4.6 Analysis of data Obtained from Questionnaire and Interview

In the context of Nepal, these are no long history of capital market. However, now a day's people's response towards share seems to be high, because lacks of better alternative for investment, and interest rate have gone down. At present equity market has been performing more strongly then in the earlier years. It has witnessed it strength surprisingly, and this has risen hoped for sustained growth of corporate undertakings. Stock market in Nepal has been growing gradually both in terms of turnover as well as the capital investment. To complete the study questionnaire, personal interview and other sources are taken and the following are the view/results we found.

1. <u>Nepalese Corporate Firms Regarding Issue of Right Share</u>

Out of 70 total respondents, 50% of them agree that the Nepalese Corporate Firms, increasing practices of right shares, to raise the additional capital, while 24.29% of the respondents slightly agree that, practice of right share increase by the Nepalese corporate firms. However 11.43% respondents disagree and 14.29 respondents neutral, regarding practice of right share as a means of raising capital by the Nepalese corporate firms from the market.

2. Reliable and adequate information from the company to the shareholders regarding rights issue

Out of 70 total respondents, 44.29% (A) Yes, the investors/existing shareholders able to get reliable and adequate information regarding rights issue, while 55.71% respondents, give their opinion that, (B) No, shareholders/ investors are unable to get information from the company regarding right issue.

3. Motive of issuing right shares

Out of 70 total respondents, 60.19% of them give their opinion on (a) to increase share capital and achieve more respectable size, while 15.81% believe on (b) to bring the market price to the stock with in most popular range, while 15% believe on (c) to increase the numbers of outstanding share and promote and active trading in the stock market, are the most important motive of issuing rights share, and rest of them choose (d) to raise

further dividend for shareholders (capital gain) choose only a few respondents.

4. Shareholders well aware about the phenomena of rights issue and subsequent consequent involved there in

Out of 70 total respondents, 58.57% of them give their opinion that, Yes Shareholders are well aware about all the phenomena like meaning of right shares, motive of issuing right shares, actual gain from right share, impact of right issue on share price etc. of right issue while 41.43% of responds said “NO”.

5. <u>Impact of rights share on stock price movement</u>

Out of 70 total respondents, 24.29% (i.e. 17 respondents, 5 from issuing company, 6 from respondents issue manager and regulatory office and 6 from investors and experts) agree that, stock price should be increased. However 40% respondents (i.e. 28 respondents, 9 from issuing company, 8 firm issue manager and regulatory office and 11 from investors and experts) show their opinion that stock should be decreased. While 11.43% of respondents believe that the stock price should remains constant and 24.29% respondents (i.e. 17 respondents, 6 from issuing company, 5 from respondents issue manager and regulatory office and 6 from investors and experts) don't know effect of stock price movement by the cause of right issue.

6. <u>Opinion on Legally transferable of "right"</u>

Out of 70 total respondents, 16 respondents (i.e. 5 from issuing company, 5 from respondents issue manager and regulatory office and 6 from investors and experts) agree that the current legal provision is sufficient. However, 41 respondents (i.e. 14 from issuing company, 13 from respondents issue manager and regulatory office and 14 from investors and experts) said that it should be transferable, while only one respondent opinioned that it should not be transferable. Finally, 12 respondents says don't know (i.e. 5 from issuing company 2 firm issue manager and 5 from investors).

7. <u>Rights share are not fully subscribed</u>

Out of 70 total respondents, 71% give their opinion that (a) Investor lack of knowledge about it (c) Promotional role played by the company is insufficient are the main cause for not full subscription of right share, while 14% respondents give their opinion (d) Past performance of organization and rest of respondents (i.e. 15%) give their opinion (b) inadequate legal provision are the main cause, for not full subscription of right share. However, no one respondent, mention other factors which might be responsible not subscription of full (i.e. 100%) rights share.

8. <u>There is any reason behind on under subscription of right share</u>

Out of 70 total questionnaires distributed, most of respondents left it blank. Only 40% respondents answered it, among them 60% replied no and 40% respondents give opinion Yes and the respondents mention as follows: almost all respondents, mention not well aware of investors/ shareholders and inadequate legal provision on right offering, and unsatisfactory performance of the company are reasons behind under subscription of right share and the main reason is not transferable of 'right' is the main cause.

9. <u>Mostly prefer option</u>

Out of 70 total respondents, All respondents, prefer option (a) Subscribe to the new share, while second most preferable opinion is (b) sell the right and third option (c) partially sell and partially exercise. The last option is (d) do no thing at all, when the theoretical value of rights is negative or zero, at that situation shareholders/investors will not exercise their rights, because it is not profitable or not good investment.

10. <u>Action that the can be taken for maximum subscription of right</u>

Out of 70 total questionnaires dispatched, only 30% respondents (i.e. 21 respondents, 7 from issuing company, 6 from respondents issue manager and regulatory office and 8 from investors and experts) answered it. According to them, promotional role play by the company should be effective, investor's awareness program should be implemented and current legal provision should be modified. Issue notice to the shareholders should be published in National daily as much as possible. If this is done maximum right can be subscribed.

11. <u>Criteria for issuing rights share</u>

Out of 70 total questionnaires distributed, only 18.57% respondents (i.e. 17 respondents give their opinion, among them 29.41% (i.e. 5 respondents) give their opinion (a) Yes, according to them, those corporation, which have already issued shares to the public are allowed to issue rights shares provided the shares already issued and fully paid; policy directives given by the regulatory body such as guideline of NRB also are affects on issue of rights share by the company. Finally company's information should be correct, 70.59% respondents, give their opinion (b) No.

12. <u>Practice of Issuing right share in the absence of regally transferable of right</u>

Out of 70 total respondents, only 20 give their opinion, according them, right should be transferable, and should be trading on secondary market. If this done, it will be the sound practice of rights. Without legally transferable of rights it is not sound practice of rights offering.

13. <u>Invertors problem if right is absent</u>

Out of 70 total respondents, only 35.71% (25) respondents give their opinion, 20 of them choose (a) existing shareholders cannot sell their rights if they want. Some of the respondents give their opinion (d) the investors/shareholders bound to loose their wealth position and existing shareholders loose control position of the corporation

14. <u>Experience on right offering</u>

Out of 70 total respondents, only 25 respondents give their opinion mostly from Issuing Company and issue manager. According to them even though it is profitable to the shareholders some shareholders does not exercise their rights they simply expire it. Most of the share's subscription price was its par value (i.e. Rs.100) besides Bottlers Nepal. Bottlers Nepal issued its rights share on Rs.260 (i.e. 160 as a premium). Most of the investors not well aware about right share. Right share offering is just like IPO, whole procedure is same as IPO, and only the difference is those who have share of the company, only that person can purchase of rights share of that company.

4.7 Test of Hypothesis

Hypothesis: - 1

In 70 random samples of respondents it, contains the following distribution on which was noted on the basis of related field. The test is to draw a conclusion whether Nepalese corporate firm increasingly practices the right share or not.

Table No. 4.7

Hypothesis Test Regarding Practices of Right Share by Nepalese Corporate Firms

Hypothesis Test Regarding Practices of Right Share by Nepalese Corporate Firms

Comment	Issuing Company	Issue Manager & Regulatory Office	Investors & Experts	Total
A. Slightly Agree	5	6	6	17
B. Agree	11	10	14	35
C. Neutral	5	2	3	10
D. Disagree	4	2	2	8
Total	25	20	25	70

Source: Field Survey

Hypothesis Setting:

1. Null Hypothesis (Ho):- There is no significantly difference between observed and expected opinion regarding on issue of right share by the Nepalese Corporate Firms

2. Alternative Hypothesis (H1):- There is significantly difference between observed and expected opinion regarding on issue of right share by the Nepalese Corporate Firms

Fixing the level of significance at 5%

Calculation of expected frequencies:

Calculation of expected frequencies:

Expected Frequencies of R_1C_1 = TotalGrand TotalColumn * Total Row , Similarly

R_1C_1 = 6.07 R_1C_3 = 6.07 R_2C_2 = 10 R_2C_3 = 10.5 R_3C_2 = 2.865 R_4C_1 = 2.86

R_1C_2 = 4.86 R_2C_1 = 12.5 R_2C_3 = 12.5 R_3C_1 = 3.57 R_3C_3 = 2.89 R_4C_2 = 2.89

Test of Chi-Square

Observed Frequency (O)	Expected Frequency (E)	(O-E)	(O-E)2	(O-E)2/E
5	6.07	-1.07	1.1449	0.1866
6	4.86	1.14	1.2996	0.2674
6	6.07	-0.07	0.0049	0.0008
11	12.5	-1.5	2.25	0.18
10	10	0	0	0
14	12.5	1.5	2.25	0.18
5/10	3.57/9.99	0.01	0.0001	0.0001
2	2.85			
3	3.57			
4/8	2.86/8.61	-0.61	0.3721	0.0432
2	2.89			
3	2.86			
Total				0.86001

Test Statistics

Chi-Square calculated =Σ (O-E) 2 /E = 0.86001

Chi-Square tabulated at 5% level of significance for {(R-1) (C-1) -4} d.f.

i.e. {(4-1) (3-1) -4} i.e. 2 d.f. is 5.991

Decision:

Since the tabulated value of Chi-Square at 5% level of significance for 2 d.f. is greater than calculated (i.e. 5.991 >0.86001) the null hypothesis is accepted that, there is no significantly different between observed and expected frequencies regarding, issue of rights share by the Nepalese Corporate Firms.

Hypothesis: - 2

In 70 random samples of respondents it, contains the following distribution on which was noted on the basis of related field. The test is to draw a finding on shareholders get adequate and reliable information from the company regarding rights shares.

Table No. 4.8 Hypothesis Test on Adequate information From Company about Rights Shares

Comment	Issuing Company	Issue Manager & Regulatory Office	Investors & Experts	Total
A. Yes	20	5	6	31
B. No	5	15	19	39
Total	25	20	25	70

Source: Field Survey

Hypothesis Setting:

1. Null Hypothesis (Ho):- There is no significantly difference between observed and expected opinion regarding adequate and reliable information from the company on rights offering.

2. Alternative Hypothesis (H1):- There is significantly difference between observed and expected opinion regarding adequate and reliable information from the company on rights offering. Fixing the level of significance at 5%, Calculation of expected frequencies:

Expected Frequencies of R_1C_1 = TotalGrand TotalColumn * Total Row

Similarly, R_1C_1 = 8.86 R_1C_2 = 11.07 R_2C_1 = 13.93 R_2C_2 = 11.14

Test of Chi-Square

Test of Chi-Square

Observed Frequency (O)	**Expected Frequency (E)**	**(O-E)**	**(O-E)2**	**(O-E)2/E**
20	11.07	8.93	79.7449	7.2036
5	8.86	-3.86	14.8996	1.6816
6	11.07	-5.07	25.7049	2.3220
5	13.93	-8.93	79.7449	5.7246
15	11.14	3.86	14.8996	1.3375
19	13.93	5.07	25.7049	1.8453
Total				20.11

Chi-Square calculated =Σ (O-E) 2 / E = 20.11

Chi-Square tabulated at 5% level of significance for {(R-1) (C-1)} d.f.

i.e. {(2-1) (3-1)}

i.e. 2 d.f. is 5.991

Decision:

Since the calculated value of Chi-Square at 5% level of significance for 2 d.f. is greater than tabulated (i.e. 20.11 > 5.991), the null hypothesis is rejected and alternative hypothesis is accepted, that, There is significantly difference between observed and expected opinion regarding adequate and reliable information from the company on rights offering. (i.e. shareholders don't get reliable and adequate information from the company)

Hypothesis: - 3

In 70 random samples of respondents it, contains the following distribution on which was noted on the basis of related field. The test is to draw a conclusion about shareholders well aware on phenomena of rights offering.

Table No. 4.9 Hypothesis Test Regarding Shareholders Well Aware Phenomena Consequence Involved in Rights Share Issue

Comment	**Issuing Company**	**Issue Manager & Regulatory Office**	**Investors & Experts**	**Total**
A. Yes	16	12	13	41
B. No	9	8	12	29
Total	25	20	25	70

Source: Field Survey

Hypothesis Setting:

1. Null Hypothesis (Ho):- There is no significantly difference between observed and expected frequency regarding well aware of shareholders on phenomena consequences involved in rights share issue.

2. Alternative Hypothesis (H1):- There is significantly difference between observed and expected frequency regarding well aware of shareholders on phenomena consequences involved in rights share issue.

Fixing the level of significance at 5%

Calculation of expected frequencies:

Expected Frequencies of R_1C_1=TotalGrand TotalColumn * Total Row = 14.64

Similarly, R_1C_2 = 11.71 R_2C_1 = 10.36 R_2C_3 = 10.36

R_1C_3 = 14.64 R_2C_2 = 8.29

Test of Chi-Square

Observed Frequency (O)	**Expected Frequency (E)**	**(O-E)**	**(O-E)2**	**(O-E)2/E**
16	14.64	1.36	1.8496	0.1263
12	11.71	0.29	0.0841	0.0072
13	14.64	-1.64	2.6896	0.1837
9	10.36	-1.36	1.8496	0.1785
8	8.29	-0.29	0.0841	0.0101
12	10.36	1.64	2.6896	0.02596
Total				0.5059

Test Statistics

Chi-Square calculated =Σ (O-E) 2 / E = 0.5059

Chi-Square tabulated at 5% level of significance for {(R-1) (C-1)} d.f.

i.e. {(2-1) (3-1)}

i.e. 2 d.f. is 5.991

Decision:

Since the tabulated value of Chi-Square at 5% level of significance for 2 d.f. is greater than calculated (i.e. 5.991 > 0.5059), the null hypothesis is accepted, that there is no significance difference between observed and expected frequencies regarding shareholders well aware on consequences involved in rights share issue.

Hypothesis: - 4

In 70 random samples of respondents it, contains the following distribution on which was noted on the basis of related field. The test is to draw a conclusion on impact of rights share on stock price movement.

Table No. 4.10 Hypothesis Test Regarding Rights Share Issue & Its Impact on Stock Price Movement

Comment	Issuing Company	Issue Manager & Regulatory Office	Investors & Experts	Total
A. Should Raise	5	6	6	17
B. Should Fall	9	8	11	28
C.Remains Constant	5	1	2	8
D. Don’t Know	6	5	6	17
Total	25	20	25	70

Source: Field Survey

Hypothesis Setting:

1. Null Hypothesis (Ho):- There is no significantly difference between observed and expected opinion regarding impact of rights share on stock price movement

2. Alternative Hypothesis (H1):- There is significantly difference between observed and expected opinion regarding impact of rights share on stock price movement

Fixing the level of significance at 5%

Calculation of expected frequencies:

Expected Frequencies of R_1C_1 = TotalGrand TotalColumn * Total Row

= 17*25/70

= 6.07

Similarly, R_1C_2 = 4.86 R_2C_1 = 10 R_1C_1 = 2.86 R_1C_1 = 6.07

R_1C_3 = 6.07 R_2C_2 = 8 R_1C_1 = 2.29 R_1C_1 = 4.85

R_1C_1 = 10 R_1C_1 = 2.86 R_1C_1 = 6.07

Test of Chi-Square

Observed Frequency (O)	**Expected Frequency (E)**	**(O-E)**	**(O-E)2**	**(O-E)2/E**
5	6.07	-1.07	1.1449	0.1886
6	4.86	1.14	1.2996	0.2674

6	6.07	-0.07	0.0049	0.0008
9	10	-1	1	0.1
8	8	0	0	0
11	10	1	1	1
5/8	2.867/8.01	-0.01	0.0001	0.000012
1	2.29			
2	2.86			
6	6.07	-0.07	0.0049	0.0008
5	4.85	0.15	0.0225	0.0046
6	6.07	-0.07	0.0049	0.0008
Total				0.6631

Test Statistics

Chi-Square calculated =Σ (O-E) 2 / E = 0.6631

Chi-Square tabulated at 5% level of significance for {(R-1) (C-1) - 2} d.f.

i.e. {(4-1) (3-1) - 2}

i.e. 4 d.f. is 9.488

Decision: Since the tabulated value of Chi-Square at 5% level of significance for 4 d.f. is greater than calculated (i.e. 9.488 > 0.6631), the null hypothesis is accepted, that there is no significance difference between observed and expected frequencies regarding impact of rights share on stock price movement.

Hypothesis: - 5

In 70 random samples of respondents it, contains the following distribution on which was noted on the basis of related field. The test is to draw a conclusion on legally transferable of ‘rights’.

Table No. 4.11 Hypothesis Test Regarding Legally Transferable of 'Rights'

Comment	Issuing Company	Issue Manager & Regulatory Office	Investors & Experts	Total
A. Current Provision is Satisfactory	5	5	6	16
B. Should be Transferable	14	13	14	41
C. Should not be Transferable	1	0	0	1
D. Don't Know	5	2	5	12
Total	25	20	25	70

Source: Field Survey

Hypothesis Setting:

1. Null Hypothesis (Ho):- There is no significantly difference between observed and expected opinion regarding the legally transferable of 'rights'.
2. Alternative Hypothesis (H1):- There is significantly difference between observed and expected opinion regarding the legally transferable of 'rights'.

Fixing the level of significance at 5%

Calculation of expected frequencies:

Expected Frequencies of R_1C_1=TotalGrand TotalColumn * Total Row = 16*25/70 = 5.71

Similarly, R_1C_2 = 4.57 R_2C_1 = 14.64 R_1C_1 = 4.36 R_1C_1 = 4.29

R_1C_3 = 5.71 R_2C_2 = 11.71 R_1C_1 = 0.29 R_1C_1 = 3.43

R_1C_1 = 14.64 R_1C_1 = 0.36 R_1C_1 = 4.29

Test of Chi-Square

Observed Frequency (O)	**Expected Frequency (E)**	**(O-E)**	**(O-E)2**	**(O-E)2/E**
5	5.71	-0.71	0.5041	0.0883
5	4.57	0.43	0.1849	0.0405
6	5.71	0.29	0.0814	0.0147
14	14.64	-0.64	0.4096	0.0279
13	11.71	1.29	1.6641	0.1421
14/15	14.64/15.65	-0.65	0.4225	0.0269
1	0.36			
0	0.29			
0	0.36			
5/7	4.29/7.72	-0.72	0.5184	0.0672
2	3.43			
5	4.29	0.71	0.5041	0.1175
Total				0.5252

Test Statistics
Chi-Square calculated =Σ (O-E) 2 / E = 0.5252

Chi-Square tabulated at 5% level of significance for {(R-1) (C-1) - 4} d.f.

i.e. {(3-1) (4-1) - 4}

i.e. 2 d.f. is 5.991

Decision: Since the tabulated value of Chi-Square at 5% level of significance for 2 d.f. is greater than calculated (i.e. 5.991>0.5252), the null hypothesis is accepted, that there is no significance difference between observed and expected frequencies regarding legally transferable of rights.

4.8 Major Findings of the Study

From the analysis of data and other information, the findings of the study are as pointed below:

- Nepalese Capital Market is narrow in term of capital market instruments, only common stock, right share and to a very little extent, preference shares, debenture and few mutual funds are brought into practice. Contingent securities like warrants and convertibles, option and other securities are not brought into practice

- Nepalese equity market (primary as well as secondary) is dominated by financial sectors companies; the participation of the real sector (manufacturing, hotels etc.) is quite low or negligible.

- Rights share contribute, the second largest among various issues to raise the capital of the corporation approved by SEBO/N

- The practice of right share issue is in increasing trend per year.

- The maximum contribution of right offering in total public flotation is 82.84% and minimum is 6.81%

- The result of run test is positive, i.e. market price per share before 1 month of right share issue and after right share issue are found to follow randomness in price fluctuation.

- In majority of the cases, MPS after right share decrease. But some companies are not found to be following the rule. MPS of DCBL, FFCL and TRHL remain the same after the right share issue showing no effects of right share issue. MPS of KBL increase after right share issue.

- The theoretical and actual market price should be equal or actual market price should be slightly higher than theoretical price due to signaling effect but DCBL, KBL, JFCL, TRHL and MBL are not found to be following the rule. The actual market price of these companies after right share issue is lower than their theoretical value.

- Company Act has not mentioned about necessity of legally transferable rights instruments called right, which must be mailed to the stockholders for each stock held before the rights offering.
- Declaration of inappropriate holders of record date has caused dilution of wealth position of existing shareholders which is just opposite of the there of rights offering (i.e. protecting dilution of wealth position of existing shareholders)
- Company Act has is silent regarding the issue of rights offering and subsequent allotment of the rights issue, most of the investors/shareholders also unaware about it.
- Regarding procedural aspects of rights offering, all the other procedure are same as IPO. Besides, rights issuing company (Issue Manager) should be mailed a document called a ‘right’ to the existing shareholders.
- Right appear as an obligation imposed on shareholders, otherwise he would suffer a loss in the form of decline in price of his holding.
- Under subscription of rights issue is common phenomena as rights is not transferable in Nepal, most of the companies unsubscribed give to the staff of the corporation, only some corporation have done underwriting .
- Because of under subscription employee of rights issuing companies and issue manager are gaining on the expenses of the existing shareholders.
- Promotional role played by the issuing company and issue manage regarding to the rights offering is not sufficient.

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY AND CONCLUSIONS

Right offering is considered as one of the popular methods of raising the long term fund as the targeted capital structure of the firm requires. Efficient capital market is taken as the backbone of the industrial development and overall development of the country. Nepalese stock market has a brief history. The history of the security market proceeds with the flotation of shares of Biratnagar Jute Mill Ltd. and Nepal Bank Ltd. in 1937, introduction of the company act in 1951, the first issue of government bond in 1964 and the establishment of Security Exchange Centre Ltd. in 1976. The security market flourished after the conversion of Security Exchange Centre into Nepal Stock Exchange in 1993. Nepal Finance and Saving Company Ltd. got issue approval of right share in 1995/96 for the first time; it is therefore, right share offering is still a new and emerging concept for both organizations and investors.

In Nepal, Nepal Finance and Saving Company has issued right share first in fiscal year 2052/53 amounting to Rs.2.09 million. In 2053/54, 3 companies had issued right shares amounting to Rs.275.2 million. There were 3 cases or right share issue in 2054/55, 1 case in 2055/56, 3 cases in 2056/57and 2057/58 each, 4 cases in 2058/59, 2059/60 and 2060/61 each 6 cases in 2061/62 and latently 11 cases in 2066/67.

Both primary and secondary sources of data are used for research work. Structured questionnaire is used as the primary source of data and Annual Reports of concerned enterprises, related news paper and magazines, Annual Reports and trading Reports published by NEPSE and Annual Report of SEBO/N are used as the secondary source of data.

The major finding of the study is as summarized below;

- Nepalese Capital Market is narrow in term of capital market instruments, only common stock, right share and to a very little extent, preference shares, debenture and few mutual funds are brought into practice. Contingent securities like warrants and convertibles, option and other securities are not brought into practice

- Nepalese equity market (primary as well as secondary) is dominated by financial sectors companies; the participation of the real sector (manufacturing, hotels etc.) is quite low or negligible.

- Rights share contribute, the second largest among various issues to raise the capital of the corporation approved by SEBO/N

- The practice of right share issue is in increasing trend per year.

- The maximum contribution of right offering in total public flotation is 82.84% and minimum is 6.81%

- The result of run test is positive, i.e. market price per share before 1 month of right share issue and after right share issue are found to follow randomness in price fluctuation.

- In majority of the cases, MPS after right share decrease. But some companies are not found to be following the rule. MPS of DCBL, FFCL and TRHL remain the same after the right share issue showing no effects of right share issue. MPS of KBL increase after right share issue.

- Company Act has not mentioned about necessity of legally transferable rights instruments called right, which must be mailed to the stockholders for each stock held before the rights offering.

- Declaration of inappropriate holders of record date has caused dilution of wealth position of existing shareholders which is just opposite of the there of rights offering (i.e. protecting dilution of wealth position of existing shareholders)

- Company Act has is silent regarding the issue of rights offering and subsequent allotment of the rights issue, most of the investors/shareholders also unaware about it.

- Regarding procedural aspects of rights offering, all the other procedure are same as IPO. Besides, rights issuing company (Issue Manager) should be mailed a document called a 'right' to the existing shareholders.

- Right appear as an obligation imposed on shareholders, otherwise he would suffer a loss in the form of decline in price of his holding.

- Under subscription of rights issue is common phenomena as rights is not transferable in Nepal, most of the companies unsubscribed give to the staff of the corporation, only some corporation have done underwriting .

- Because of under subscription employee of rights issuing companies and issue manager are gaining on the expenses of the existing shareholders.

- Promotional role played by the issuing company and issue manage regarding to the rights offering is not sufficient.

5.2 RECOMMENDATION

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

1. In order to make the capital market more efficient, market participants and academic institutions should jointly promote and undertake more research and market analysis activities.

2. Under subscription of rights issue is a common phenomenon. Existing shareholders that are not willing to buy extra shares have no alternative than expiring their rights. This is why company act 2053 B.S. should be amended and provision if legally transferable rights should be made and rights should be listed in secondary market. It not only prevents existing shareholders from dilution of their wealth position but also adds dimensions in secondary market that makes secondary market (stock exchange) more divergent and investors find another financial tool to invest money in. Problem of under subscription of rights issue can be reduced simultaneously.

3. Company act 2053 is not clear regarding the allotment of the rights shares those are not subscribed by the existing shareholders. The current practice is to distribute them among the employees of the respective companies and underwriting. This violates the very essence of rights offering. Company act 2053 should be amended to make position regarding the issue of rights issue and subsequent allotment of the rights issue.

4. Those rights, which didn't exercise by the existing shareholders exercised by the employee of the respective company. It is not good practice.

Therefore, remaining shareholders give option to buy those unexercised rights, if remaining shareholders don’t exercise it. Those rights should be sell in the market.

5. There should be a separate Investment Protection Act so that the investors can maintain their confidence over their investment and can fell secured. By this can also protect them from the probable losses that may rise from the insiders trading and ultimately assist in the healthy growth of the capital market.

6. In order to attract the investments the issue prospects should provide some incentives for rights offering.

7. Infrastructure like good communication, banking facilities and postal services should be developed to encourage investors.

8. Existing acts laws and regulations should be reviewed; moreover an evolution should be made regarding their effective on market promotion. Still, a right issue guideline does not come yet. Thus, it must come soon, which is base and key to approve the right share issue.

9. Company should play promotional role, for the full subscription of rights share, because there exist large no rights not exercise by the existing shareholders. Thus, misconception and rumors about rights share, too lead them to irrational decision. Thus the concern authorities must consider making aware to the investors regarding misconception about right share and other influential factors. The awareness program can be available for general investors, using mass and through program via seminars, training, and workshops.

10. In the context of coming into force of the bank and financial institution ordinance, necessary revision to the stock exchange and the company acts in line with the provisions of the ordinance needs to be completed.

11. Regulation and their implementation should be sound and strict. It should be realize that good rules and regulations with poor implementations do virtually no work.

12. Regulatory offices, issues managers, issuing company and government should jointly organize investors awareness program, on stock, especially rights share because large no of investors unaware about it.

13. Finally, all should make effort to maintain political stability in the country.

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APPENDIX

APPENDIX: 1

Calculation of Theoretical Price of the Stock after Right Share Issue

Theoretical Value of Stock after right share issue =

Pre right issue stock price $=P_0$

Subscription price $=P_s$

No. of rights required to purchase one new share = #

S.NO.	Name of the Companies	P_0	P_s	Ratio	#	P_e
1	DCBL	260	100	2:1	2	310
2	KBL	341	100	4:1	4	366
3	FFCL	190	100	1:1.5	0.66	136
4	OFL	242	100	1:1.5	0.66	156
5	GFL	185	100	1:1	1	143
6	JFCL	249	100	2:1	2	199
7	CFL	190	100	2:1	2	160
8	TRHL	43	100	5:3	1.66	64
9	MBL	415	100	10:3	3.33	342
10	KMBFL	153	100	1:1	1	127
11	NSMFL	145	100	3:1	3	134

Appendix: 2

Questionnaire

Dear respondent,

This Questioner is prepared for my research on ”Right Share & It’s Impact on Market Price of the Stock" which, I am doing for the partial fulfillment for the degree of Master of Business Studies (M.B.S.).I humbly request you to fill at the best knowledge. Your cooperation in this regard will immense value for me.

I assured that the information collected from you will be exclusively used for the research purpose and will not be published in any media.

I shall be highly obliged for your response as for as possible.

Thank You.

Indira Khatri

(Researcher)

St. Xavier's College.

Kathmandu.

Name: - Date:-

Organization: - Designation:-

Address: - Occupation:-

Instruction : Please tick [√] in an appropriate place and put your views in opened ended Question.

1. Do you think that Nepalese corporate firm increasingly practices the right share?

A) Slightly Agree B) Agree C) Neutral D) Disagree

2. Do you think that investor get reliable and adequate information from the company regarding right share issue?

A) Yes B) No

3. What is the motive of issuing right share? (Tick any three most important)

A) To increase share capital and achieve more respectable size.

B) To bring the market price of the stock with in most popular range.

C) To increase the number of outstanding share and promote and active trading in the stock market.

D) To raise further dividend for shareholder. (Capital gain)

4. Do you think that shareholders are well aware about all the phenomena of right share issue and subsequent consequences involved there in?

A) Yes B) No

5. What do you think, right share issues and its impact on stock price movement?

A) Should raise B) Should be fall C) Remains constant D) Don't know

6. Your opinion regarding legally transferable instrument called "right"?

A) Current provision is satisfactory

B) Should be transferable

C) Should not be transferable

D) Don't know

7. Right are not being fully subscribed because..

A) Investor lack of knowledge about it

B) Inadequate legal provision

C) Promotional role played by the company is insufficient

D) Past performance of organization

E) Others (specify)..

8. Is there any reason behind under subscription of right share?

A) Yes B) No

If yes, would you please mention them?

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9. In your opinion which of the following options mostly prefer?

(Please scale the following option 1 for most prefer 2. for second most prefer and so on)

A) Subscribe to the new share

B) Sell the rights

C) Partially sell and partially exercise

D) Do nothing at all

10. In your opinion, what action the issuing company should take so that the maximum subscription of right can be issue?

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11. Are there any specific criteria for issuing "right share"?

A) Yes B) No

If yes, would you please mention them?

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12. Is it a sound practice of issuing right share in the absence of legally transferable right instrument that can be sold or purchased separately?

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13. What sorts of the problem do the investors face? If the right instrument is absent in the right offering?

a) Exiting shareholders cannot sell their right if they want

b) They are bound to lose if they do not exercise their right

c) Total wealth of the existing shareholder remains unaffected

d) Any others..

14. Any experience, about right offering, you want to share with us?

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