Chapter I

Introduction

1.1 Background of Study

Nepal is a landlocked country, surrounded by China to the North and India to the east, west and south. The country has three ecological zones the mountains and Himalayas bordering China to the North, the middle hills and the Terai plains to the south, bordering India. Nepal is broadly portioned into 14 zones which are divided in 75 districts.

Nepal is one of the least developed countries in the world with very low per capital income and very low corporate growth rate. The country is in the state of developing its economy but the economy of the country is still base on primitive traditional business. The traditional concept of business and commerce is deep rooted in the consciousness of people and most people are unaware of modern form of commerce. The concept of capital market is new to people. The financial market in Nepal is in early stage. There was not satisfactory growth of business enterprises until the restoration of democracy. Nepal has already launched more than four decades long national plans for economic development. And the currently developing liberal economy in the country is trying to gear up the acceleration of development. However, any strategy for economic development requires a steady supply of medium and long-term funds for productive investment for mobilization of invest able resources.

The most sensitive component for any economies of the world is "capital market". It plays a vital role to direct the country's economic activities. So that it's smooth operation is significant in this free market world for making the economy of the country at ease. It helps to mobilize domestic resources. It's role to provide the best investment opportunity by transferring the funds from surplus sectors to deficit sectors through transaction of stocks. That's why, for the attainment of self-reliant growth of national economy and smooth running of the economic activities of a nation, capital market's role has become major importance in financial management.

Capital market is mainly affected by the political instability, riots, war and depresses economic conditions. In spite of many affecting factors, the capital market of Nepal is showing positively in recent year and Nepalese investor are optimistic towards the development of capital market which is clearly shown from their increasing investment in the share of Nepalese corporations. The NEPSE index is shooting up gradually that indicates the growing market capitalization in the only stock market of the country. It needs continuous research and study for its smooth operation. It should cover all the regions and sector of the country. The government should also gradually deregulate the market according to the global economic movement. The market should promote all types of market instruments as well as inspire all the players of the market. So that, they fell that it is the one of the major place which can drive the economic development of the country at large.

Van Horne (1998) states that "When a company 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 mare equity is needed. In other situations equity infusions are necessary."

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 shareholders. 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 preemptive right. The preemptive right of equity funds through right offering. Right issue does not affect the wealth of shareholders. "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 losses in term of the low ex-right price. However, he will loss if he does not exercise right"(Pandey, 1999:548)

Right share are issued to the existing shareholders as a result of increased in capital if current reserve is not sufficient to issue bonus shares. Company usually issued right share to raise the capital. Therefore, issue of right share represents the distribution of shares to the existing shareholders on the proportion of the number of shares they own. The shareholder has an option to purchase a specified numbers of shares at subscription price which is below current market price with in 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 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.

Right offering is made generally with the purpose of

- Maintaining the management control by existing shareholders,
- Minimizing the floatation cost for new issue and
- Protecting the existing shareholders from dilution of their wealth position.

Right issue practice in Nepal has no long history as compare to other developing country. While looking the issue approval from the SEBO of Nepal researcher can easily notice an increasing trend of issuing right share. During the 12 years period, SEBON has granted right issue approval amounting Rs.2764 million. This amount comes to be the second largest amount among various issue approved by SEBO. Right issue occupied 32.27% of total listed companies given the issue approval only 28 companied issued right share to raise fund. In Nepal, company act 1997 has provisioned about the preemptive right of shareholder in the section 42(4). It stated that if the right is contained in a firm's charter then the firm must offer common stock to existing shareholders. If the charter does not prescribe the preemptive right the firm has a choice of making the sale to its existing shareholders or to an entirely new set of investors. Rights have intrinsic financial values because they are normally afforded at a price some what lower than the current market price of stock.

1.2 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.

1.3. Statement of the Problem

Issue of right share represents the distribution of shares to the existing shareholders on the proportion of the number of shares they own. So, announcement of right offering is fine rumor to the existing shareholders. From right offering, existing shareholders can purchase the share of the company at subscription price which is for below the current market price. Right offering is defined as one of the popular methods of raising the long term fund as the targeted capital structure of the company or firm requires. Nepal Finance & Saving Company Ltd. got issue approval of right share in fiscal year 2052/53 for the first time. After 12 years right share offering is still a new and emerging concept for both investor and organizations.

Most of the Nepalese people are not known about the phenomenon of share trading, it is therefore; only few investors are getting advantages from share transaction. Among them large number of people who are the prospective investors are found to be very interested on share trading activities under such circumstance the study is focused on the level of knowledge of generate people on share trading i.e. Right share issue. A shareholder, whose name is in the company book before record date, is entitled to have a proportionate number of new 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 are to be considered by 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 rights will be required to purpose 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 the existing stock?*
- *What factors drives the price of stock after right?*

We can find the number of the share to be issued by dividing the fund to be raised by the subscription price of each share.

We can divide the no. of new share in the no of existing shares to get the no. of rights required to subscribe one share of the new stock. It means high subscription price makes more rights needed to buy a share of the stock and vice versa. Value of right can be calculated by using rights on and exercise price.

Theoretically, the value of share should increase after the announcement of right offering and then decrease (by value of each right) after the subscription date. But this trend is not found to be followed in Nepalese context.

This can be clearly understood with the help of data found while doing the related study. And the data have been presented in the table as follows:-

Table: 1.3.1
Share price before and after announcement date

S. No.	Name of the company	Before announcement date Share price	After announcement date Share price
1.	Nepal saving & Finance Co. Ltd.(In fiscal yr 2052/53	110(3mth before)	117↑(3mth after)
2.	Nepal bank Ltd.	370	350↓
3.	Necon Air Ltd.	390	360↓
4.	Kumari Bank	341	337↓
5.	Pokhara Finance Ltd	410	400↓
6.	Nepal Share Market & Finance Co. Ltd (In FY 2062/063)	145(1mth before)	190↑ (1mth after)
7.	Siddhartha Bank Ltd (In FY 2063/064)	546(1mth before)	778↑(1mth after)
8.	Laxmi Bank Ltd. (In FY 2064/065)	988(1mth before)	1409↑(1mth after)

Source: SEBON Annual Report 2007/2008

Thus, the data in the table shows that the share price before and after the announcement of the right offering have not followed the exact principle of the right – offering effect on share price. 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.

Announcement of right offering is good news to the existing shareholders. It is because existing shareholders can purchase the share of the company at subscription price which is far below the current market price. Under this condition also all the issued shares are not found to be subscribed by the existing shareholders.

The following table shows the no. of shares issued by companies and no of shares subscribed by their existing shareholders.

Table: 1.3.2
Right offering and its subscription

S.No.	Name of the company	No of share Issued (Rs in million)	No of share Subscribed (%)
1.	Nepal Investment Bank Ltd.	201.30	0.99
2.	Laxmi Bank Ltd.	183.00	0.99
3.	Gurkha Bikash Bank Ltd.	160.00	1.23
4.	Paschimanchal Finance Co. Ltd.	27.80	0.97
5.	ICFC Bittiya Sanstha Ltd.	224.80	0.85

Source: SEBON Annual Report 2007/2008

Thus, the data in the table shows that the all the number of shares issued through right offering are not subscribed by the existing shareholders.

After the subscription of right share, the number of shares increases. Increased number of shares causes increases in the supply of shares. According to the law of economics, increase in supply causes decrease in price i.e. when supply increases keeping the demand constant, price decreases. The share price movement in Nepalese companies after right share is not uniform. Share price of some companies are found to have decreased very heavily and some have very slightly after the issue of right share.

In the above mentioned condition, the problems towards which this study is directed are:-

- What is the existing practice of right issue in Nepal?
- How is the level of knowledge of Nepalese investors about right offering? In other words, how familiar are the Nepalese investors about right offering?
- Does share price fully reflect all the information's accompanying the right issue announcement?

- Do Nepalese investors use available information regarding right issue to maximize their wealth?
- What is the effect of Right Share issue on the market price of the share? In other words, will the right share issue, because it increases the supply of share, have a depressing effect on the share prices?

1.4. Objective of the study

Within the periphery of the stated problem of the study, the main objective of this study is to analyze and examine the affect of right offering and its effect on stock price movement in the context of Nepal. However, the specific objectives of the study are as follows:-

i. To find out whether Nepalese investors use available information regarding the right issue announcement to maximize their wealth.
ii. To examine and identify right issue practice in Nepalese financial market.
iii. To test whether share prices fully reflect all the information accompanying right issue announcement.
iv. To find out impact on changes in market price of the stock before and after the announcement of right offering.
v. To examine the theoretical values of right and its effect of right on stock price.
vi. To recommend some policies that will help to rectify the current problems in the right issue of securities.

1.5. Significance of the Study

Mainly this case study on right share issue and its effect on market price of stock are very helpful to those existing shareholders and also potential investors who are interested to know about right share. The practice of Right share in Nepal starts from fiscal year 2052/53 (12 years) but there is hardly to find any research which shows the relationship between information accompanying the right issue announcement on the market price of the share. So, this study emphasis and helps those who want to study in further detail and widely in this field. The significances of the study can be point out as follows:-

1. Firstly, this study is very useful to existing shareholders, financial managers, stock-broker, financial counselor and the market maker's of stock marker Nepal.
2. The study may draw the attention from every corner of investors and other academicians and also interested parties.
3. This study will extremely helpful to the existing shareholders to know about the movement of their share price with respect to the right issue announcement after and before.
4. This study is also benefited that the study will provide some valuable input for the further study in this field.
5. Students who are studying about the right share in their course they will get benefit by this study.
6. With help of this study, I get also know about right share practice in Nepal

1.6. Limitation of the Study

The study will have some limitation. Basically the study is done for the partial fulfillment of masters of business studies. It has been tried to make this study more comprehensive and clear by collecting, tabulating, compiling and presenting recent information as for as possible. Due time constraints, financial problem and lack of research experience, the study has been conducted with the following limitation.

i. This study covers only those companies who have been issued right share.
ii. The study is done for the partial fulfillment for MBS degree in management so it is not a comprehensive study.
iii. A number of variables are causes or responsible factors in the movement of share prices but this study only on the rights offering and current legal aspects associated there in.
iv. This study is based on both secondary and primary data which are collected from annual report of SEBON, respected company, issue manager and expert. Regarding primary data questionnaire and interview are used.
v. In case of the primary data, brokers give right to his/her staff to fill the questionnaire and they fill according to their view. This may not represent the companies view.

vi. The unavailability of plentiful literature on the subject and lack of various references & resources has too handicapped the study to some extent.

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

1.7. Organization of the Study

This study is organized on the following standardizes pattern in order to make the study easy to understand.

Chapter 1: Introduction

Chapter 2: Review of Literature

Chapter 3: Research Methodology

Chapter 4: Data Presentation and analysis

Chapter 5: Summary, Conclusion and Recommendation

Chapter 1: Introduction

The first chapter deals with Introduction. This includes objectives of the study, limitation of the study, statement of the problems, and significance of the study.

Chapter 2: Review of Literature

Second chapter deals with the review of available literature. It includes review of books, journals and articles & previous unpublished Master degrees thesis. This chapter also includes the brief outline of stock market in Nepal.

Chapter 3: Research Methodology

Third chapter explains the research methodology used in the study, which includes research design, sources of data population and samples, methods of data analysis etc.

Chapter 4: Data Presentation and analysis

In the fourth chapter, Presentation and analysis of secondary and primary data examined. Major finding from both type of data have been presented in the last portion of this chapter.

Chapter 5: Summary, Conclusion and Recommendation

The fifth chapter summarizes the main conclusion that flows from the study and offers suggestion for further improvement and conclusion of the study.

After the completion of these five chapters a list of literature that reviewed earlier is included alphabetically in bibliography. Likewise, data information calculation sheet etc. are incorporated in appendix

Chapter II

REVIEW OF LITERATURE

In introduction chapter described about background of the study, focus of the study, statement of problems, objective of study, limitation of study, significance of the study and organization of the study. This chapter deals with the literature of previous studies on right issue and its impact of share price in more detail and suggestive manner. Regarding the review of literature various books, journal, articles from newspaper, some research reports and magazine related with the topic is reviewed. It covers those studies that are conducted within and outside the country, but no important studied have been conducted in Nepal. This chapter provides some conceptual theory of equity rights issues.

2.1 Right Offering: A theoretical Framework

2.1.1 Preemptive Right

A publicly held corporation can raise equity capital either by selling equity directly to investors or by issuing rights to its share holders. When a corporate offers its shares to existing share holders prior to general public it is termed as right offering. Preemptive rights are the privilege of existing shareholders to participate in a right offering. Weston & Brigham (1992), states that the preemptive right gives holders of common stock. The right is made part of every corporate charter in some places and it is necessary to insert the right especially in the charter for others.

The Preemptive rights are of two types. 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 if from office by issuing a large number of additional shares at a very low price and purchasing these shares itself. It would thereby secure control of the corporation to discourage the will of the current shareholders. The Second and important is protection that the preemptive right affords stockholders concerns dilution of value.

2.1.2 Rights Offering

If the preemptive right is contained in a firm's charter, then the firm must offer any new common stock to its existing stockholders. If the charter does not prescribe a preemptive right, the firm has a choice of making the sale to its existing stockholder or to an entirely new set of investors. If it sells to the existing stockholders, the stock floatation is called a rights offering, each stockholder is issued an option to by a certain number of the new shares, and the terms of the option are contained on a piece of paper called a right. Each stockholder receives one right for each share of stock owned.

When a company makes a rights issue, it sends a "letter of offer" to its existing shareholders indicating the amount of new shares or coupons to which they are entitled in proportion to their old shareholding. This "Letter of offer is like share purchase warrant in nature generally referred to as rights. These rights must be exercised within a given period, which is relating short, usually, not more than thirty days, unless the date is extended by the company.

The privileged subscription is fairly simply in the sense that after the issue has been approved by the company and the controller of capital issues, notices are sent to shareholders indicating that all those who are shareholders within certain recording date may get additional shares in a given proportion. Right of the shareholders when a rights issue is made is as follows.

- First, Subscribed for the New Shares, if the shareholder has sufficient cash to buy the new shares, and if he/she feels that the company will use the money, so raised in a profitable way, and then he/she should take up the rights.
- Second, Sells the rights, the new shares are cheaper than the current market price. Both new and old shares will rank on equal footing when the formulations have been completed.

Thus, the new zero value paid shares have values for which a third party would be willing to pay. The shareholders who are not happy with the rights issues or equalities, they can sell the rights. The rights are sold through the broker who will charge commission.

2.1.3 Characteristic of Rights

Studying about right offering the following characteristics of rights can be showed:

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

b) The price per share, called the subscription price, is determined by the issuing company.

c) The number of rights share required to subscribe additional shares is determined by the issuing company.

d) Rights are negotiable. The holder of the rights can sell them.

e) Right can be exercised only during a fixed period, which is usually about thirty days.

2.1.4 Advantages and Disadvantage of Right Issue

According to Pandey (1999:1002) there are three main advantages of right issue. First, the existing shareholder's control is maintained through the pro-rata issues of the shares. This is significant in the case of closely held company or when a company is going into financial difficulties or is under takeover threat. Second, raising fund through the sale of rights issue rather than the public issue involves less flotation cost as the company can avoid underwriting commission. Third, in the case of profitable companies the issue is more likely to be successful since the subscription price is set much below the current market price.

The main disadvantage is to the shareholder's who fail to exercise their rights. They lose in terms of decline in their wealth. Another disadvantage is for those companies whose shareholding is concentrated in the hands of financial institutions because of the conversion of loans into equity. They would prefer pubic issue.

2.1.5 Mechanism of Right Offering

When a company makes a right offering, the board of directors 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's stock ledger. Due to the time needed to make bookkeeping entries when a stock is traded, stocks usually begin selling ex-rights without the right being attached to the stock four business days prior to the date of record.

The issuing firm sends right to holders of the record-owner of the firm's share on the date of record, which is free to exercise their rights, sell them or let them expire. Rights are transferable and may be traded actively enough to be listed on the various security exchanges. They are exercisable for a specified period of time, generally not more than few months, at a price, called the subscription price, set some how below the prevailing market price. Since fractions of shares are not always issued, it is sometime necessary to purchase additional rights or sells extra rights. The value of a right depends largely on the number of rights needed to purchase a share of stock and the amount by which right subscription price is below the current market price. If the rights have a very low value and an individual owns only a small number of shares the rights may be allowed to expire (Pandey, 1999:1002-1004).

2.1.6 Significance of Right Issue

The issue of further share is resorted 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 corporation's own stockholders and it also a least costly way of raising capital.

- To avoid external incontinent
- To expand company
- To achieve a more respectable size in the market
- To fulfill the legal requirement imposed by the authority
- To be successful on subscription
- To retain proportional ownership for shareholders
- To decrease flotation cost
- To increase the number of outstanding shares

2.1.7 Limitation of Right Issue

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.

2.1.8 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 offering 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. 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.

2.2 A Brief Introduction of Nepalese Securities Market

2.2.1 Securities Board of Nepal (SEBON)

Securities Board of Nepal was established by the Nepal Government on June 7, 1993 and is now functioning as an apex regulator of Securities Markets in Nepal. As per the Securities Ordinance, 2005, the major objectives of SEBON are to regulate issue and trading of securities and market intermediaries, promote market development and protect investor's right. The functions of SEBON are as follows.

i. Register securities and approve prospectus of public companies.
ii. Provide license to operate stock exchanges.
iii. Provide license to operate securities businesses.
iv. Give permission to operate collective investment schemes and investment funds.
v. Draft regulations, issue directives and guidelines, and approve bylaws of stock exchanges.
vi. Supervise and monitor stock exchanges and securities business activities.
vii. Take enforcement measures to ensure market integrity.
viii. Review reporting of issuer and listed companies and securities business persons.
ix. Conduct research, study and awareness programmes regarding securities market.
x. Coordinate and cooperate with other domestic as well as international regulators.
xi. Frame policies and programmes relating to securities markets and advise Nepal Government in this aspect.

As per the Securities Ordinance, 2005, the governing Board of SEBON is composed of seven members including a full time Chairman appointed by the Nepal Government for the tenure of four years. Other members of the Board are joint secretary from Ministry of Finance, joint secretary from Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra Bank (the central bank), representative from Institute of Chartered Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Nepal Government on the recommendation of SEBON from amongst the market experts.

As per the Section 3 of Securities Exchange Act, 2040, the governing Board of SEBON was composed of one full time Chairman appointed by HMG/N, representatives one each from Ministry of Industries, Commerce and Supplies, Nepal Rastra Bank, Federation of Nepalese Chambers of Commerce and Industries and Association of Chartered Accountants of Nepal.

SEBON, in its organizational structure has two departments, six divisions and ten sections. Under the Corporate Finance and Administration Department, there are three divisions namely Corporate Finance and Reports Review Division, Accounts and Administration Division and HRD and Education Division. There are also three divisions under the Securities Market Regulation Department namely Legal and Enforcement Division, Market Regulation and Compliance Division and Market Analysis and Planning Development Division.

2.2.2 Procedure for Right Issue in Nepal

Every company which wishes to issue right shares should follow some procedure. Company Ordinance 2062 is silent about the right issue but mentioned that Public Companies can issue shares according to the provision mentioned in this ordinance and other rules and regulations related to securities but, if the companies are issuing right shares or bonus shares they need not to follow all these rules. Following procedures are generally adopted by Nepalese companies to issue right shares:-

i. The BOD should consider about the determination of the quantum of further capital requirement and the proportion in which the right issue might be offered to existing share holders.

ii. AGM should pass the proposal of BOD by its majority.

iii. Company should notify NRB, NEPSE office of the company register and SEBON sufficiently with prospectus in advance of the date of board meeting at which the rights issue is likely to be considered and should get permission from them.

iv. Make announcement with prospectus which gives a general, indication of the reasons which has made the issue desirable, the purpose for which the new money is to be issued.

v. Letter of provisional allotment of rights offering to the shareholders about the terms of the rights offered, the number of new shares allotted to each given number of old shares, the price at which the issue is to be made and the conditions letter will be sent after the date of announcement.

vi. After the receipt of the letter of provisional allotment, the allotment must be made for those shares which are renouncing.

vii. Certificates are distributed to the shareholders who participated in the rights offering announcement. Shareholders who have accepted and fully paid up their allotment can renounce the actual certificate in favor of third party. Because of non transferable instrument, such practices are not seen in Nepalese context.

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

2.2.3 Nepalese Laws relevant to Pubic Issue

The entire corporation, who wish to issue its share to the public, 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 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)

2.3 Right Offering Vs Pubic 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 minimum dilution. Also, a public offering tends to result in a wider distribution of shares, which may desirable to the company"(Van Horne: 198; 574).

2.4 Market Vs Theoretical value of Rights

Actual value of market value of right may differ somewhat from its theoretical value on account of transaction costs, speculation and the irregular exercise and sale of rights over the subscription period. Market price of the right may be higher or lower than its theoretical value, stockholder will sell their rights purchase the stock in the market. Such action will exert downward pressure of the market price of the stock. If the price of the right is significantly lower than its theoretical value arbitragers will buy the rights, exercise their option to buy the stocks, and then sell the stock in the market. This occurrence will excerpt upward pressure on its theoretical value" (Van Horne, 1999:495).

But this transaction and movement is not applicable in Nepalese context because in Nepal rights are not traded.

2.5 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 share 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

a. The price is quite high and
b. Management thinks that future in right

Therefore, stock splits are often taken as positive signals and thus boost 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.

2.6 Bonus Share Vs right Share

Bonus issue and right issue are very similar, although typically used for different purpose. 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.

2.7 Review of different articles and thesis

2.7.1 Review of Articles

Smith's (1997), sample accounted for less than ten percent of issue; whereas Britain and many other European countries, rights issues predominate.

The price of the new shares in a rights issue is normally fixed at a level somewhat below the current market price of the shares. But this lower price should not generally diminish the wealth of the existing shareholders. The shareholders who do choose to take up the allocation, the fall in price is comparable to the in consequential decline which accompanies a capitalization issue or stock-split. But, shareholders who do not choose to take up the allocation of the new shares can sell their rights to the new shares in the period before the payment is due. Only irrational shareholders, who neither exercise 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 rights will be exercised without fearing any adverse wealth implications for its existing shareholders.

Eckbo and Masulis (1991) find evidence consistent with this market reaction is most negative for underwritten offerings and least negative for uninsured rights, and in between for standby rights where the ex ante subscription rate is not as high as for uninsured rights offering. Many firms cannot expect to have their rights offering fully subscribed. As they noted rights subscription rates will depend on personal wealth constraints of shareholders, portfolio diversification considerations, transaction costs and tax liabilities of selling rights and benefits from maintaining proportional voting power.

Marsh (1980) conducted a study of a valuation of underwriting agreements for UK rights issue states that UK companies raise virtually all of their new equity capital via the rights issue. Companies can guarantee the subscription of their issue having them underwritten and in recent years this procedure has been adapted for 90% of UK rights issues. Underwriting is usually carried out on a fixed fee basis representing at least 1.25% of the total money raised, it shows substantial money are involved. Underwriting is simply a put option giving the company the right to put a failed issue on to the underwriter. He explains an application of Black and Scholes model to the valuation of rights issue underwriting agreements over the period of 1962 to 1975. Prices are compared with the fess charged in order to asses whether the letter represent competitive prices.

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

Weston and Brigham (1992), state that Rights offering can be used effectively by financial managers. If the new financing, associated with the rights offering represents sound decision, improved earnings for the firm, a rise in stock values will probably be the result. The use of rights will permit shareholders to preserve their position or improve that. However, if investors feel that the new financing is not well advised, the rights offering may cause the price of the stock to decline by more than the value of the rights. Because rights offering are directed to existing shareholders, its use can reduce the cost of flotation that is associated with the new issue.

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

The result of his study seems that the possibilities of a stockholder realizing an immediate profit from a right issue are barely limited. Investors is about as likely to lose , as he is to gain if he sells his stock at the announcement date and buys back just prior to the record date. If he sells his stock ex-rights together with his rights on the record date, in two cases of out of three he will realize a slight appreciation over the value of his stock on the proceeding business day. If the stockholders decides to exercise his rights he would do well to exercise them toward the end of the subscription period, thus allowing for a possible decline in the market price of the stock ex-rights below the subscription price, which would render the stock ex-rights valueless.

Review of Master Degree Thesis

Gautam, B. (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.
- SEBON has failed to establish a 'one-window policy' causing various imbroglios for the companies that want to go primary issue market for raising the capital.
- 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, option, 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 prospectus about the risk category on which their businesses fall.

To conduct his study, he had used correlation analysis between share prices movement and NEPSE index i.e. general market movement and t-statistics between share price before and after right issue announcement. T-statistics was used to test if there was significant change in share price before and after the issue of right. But he did not consider the value of right, which is very important in share price determination after the issue of rights share. Finally, his analysis only covers data from 2052 to 2056 B.S. The result may not represent the present economic scenario. He had taken only three companies as sample to complete his study but here the researcher has taken eight companies as sample to complete the study.

Aryal B. N. (2003) had made study on the topic "***Equity Rights Issue, its Practice and Impact in Nepal".***The main objectives of his study were:

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

The major findings of his study were:

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

Gharti, P. (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 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 investors but shown unimpressed for the non-banking sector that the price 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 ' insider'.
- The share price, in most of the case, does not decrease after distribution of bonus according to bonus ration 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 than 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 firm's equity capital increased as the result of bonus issue.81.2 percent of the bonus issue is recorded different level gain over the base date price, after adjusting of the general market movement is share pieces.
- Most of the corporate firms do not maintain their dividend quantum 62.5 percent 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 above 30% to 50% (consisting only 1:2 bonus ratio) increased by 58 percent one year after bonus share announcement with the least standard deviation of 6.6. Therefore, the bonus ratio 1:2 has good response even one year after bonus announcement, which is firm's real equity capital increment.

Lamichhane, S. (2004) conducted a research on "***Right Issue Practices in Nepal and its Impact on Market Price of Share***". The objectives of this study were:

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

The main findings of the study were:

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

Pathak, D. (2006) had done her research on "***Stock Price Movement of Listed Companies on Securities Market of Nepal**.*" This study has defined the following objectives:

- To analyze the trend of the Nepalese stock market.
- To examine the stock market situation in Nepal.
- To analyze the related variable of the stock price movement.
- To examine and study the impact of the signaling factors on the stock price with the help of NEPSE index.

Her major findings are given below:

- According to the major portion of respondents of Nepalese stock market, it was found that Nepal Government's policy is not clear, perfect and transparence about the stock market of Nepal.
- According to the field survey in Nepalese stock market; it is found that investors are not aware about the investment.
- It is found that investors of Nepalese stock market take decisions on the basis of their own analysis. Stock price is positively moved by the signaling factors and dividend of company as well as profit of company and vise versa.
- According to the majority proportion of the respondents; environment directly influences the price of the stock market.
- Analyzing to the respondents, bullish trend of the stock price movement is suitable Nepalese securities market.
- Most of the investors are asked for their preferences of investment sectors and major portion of them said that they were attached with banking sectors for investment.

Regmi, N. (2006) had done a research work on ***"Role of Financial Indicators in determining Share Price in Nepalese Financial Market."*** This study set out the following objectives:

- To examine and evaluate the relationship of MPS with various financial indicators like NWPS, EPS, DPS, ROE etc.
- To analyze the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE etc.

- To find out whether stocks of the sampled companies are equilibrium-priced or not.
- To identify qualitative factors affecting the stock price.

His findings were as follows:

- • 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 corporation approved by SEBON.
- 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.
- 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 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 I not sufficient.

Khand, S. (2007) had done a research work on ***"Stock Price Movement on NEPSE."*** This study has set out the following objectives:

- To study about the occurring trend of stock price movement and volume of stock traded in NEPSE?
- To find the movement of stock price in Nepal stock market with the effect of different financial dependent and independent variables like DPD, EPS etc.

- To explain the relationship how the price of share fluctuate with the effect of different financial dependent and independent variables like DPS, EPS etc.
- To provide recommendation based on findings.

Major Findings

After analyzing both the secondary and primary data during the study, different findings were made. The major findings of the study derived from both the secondary data and primary data analysis are presented below:

Findings from Secondary Data Analysis:

From the empirical analysis of simple and pool cross-sectional of secondary data, the following findings are pointed out:

- The correlation of determination ® between MPS and EPS is 64 %, it means that the MPS of each company can move up and down with the increase/decrease with EPS, but it is not the single whole factor for the share price movement trading in NEPSE.
- Such like then DPS per share does not show any impact in the share price of trading companies in NEPSE because the F-test show insignificant result whereas in the case of banking sector, it plays a vital role in market price per share.
- From empirical analysis between the P/E ratios, Market to Book Value ratio when treat as the independent variable the analysis shows the insignificants i.e. it does not play a vital role for the movement of share.
- The market price per share (MPS) and T/O ratio and leverage of the company shows a significant result it means that the rise or fall in the above financial variable can fall and rise in the market price per share in vice-versa.

Finding from Primary Data Analysis:

From the primary analysis of data collected from the questionnaire asked to the various financial sectors and experts and non-financial sectors like public, investors the following findings are noted below:

- There is also a need of monitoring role by the government for the price formations.
- Whim and rumour plays a significant role in the share price movement.

- Investment opportunities in the company can also affect the market price of share.
- From the primary data analysis in context of the banking sector has distributed the dividend to attract the investor but in other trading, manufacturing are not distributing dividend.
- Stock dividend can change the priority of investors which has a negative impact towards the share price.
- The company's announcement of earnings will help to increase the market price of share.

2.8 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 SEBON. The purpose of this research is to provide clear picture on right share. The main objectives are mentioned in Chapter I.

Comparatively very few research efforts have been taken in Nepalese context. A small effort has been taken to make a research work on Right Share issue practice. No research works is done on the specific subject i.e. impact of information of Right Share issue only. Again the research work on Right Share issue has made some years earlier when there were very few companies issuing Right Share. To update the result this study is necessary. This researcher believes that this research is superior to the existing research work on related topics in sample selection, statistical tools used and data collection. The existing researches were poor in sample selection; very few companies were selected as samples companies. So, it is hard to generalize the result of the study. But this research work has selected more than 50% of the population as samples on random sampling technique. It is therefore the results obtained are more accurate and easily can be generalized on the entire population. Very relevant statistical tools are used for better result. The research work is based on both primary and secondary data; results are more accurate and reliable.

Chapter III

Research Methodology

3.1 Introduction

Research methodology indicates the methods and processes employed in the entire aspects of the study. It refers to the various subsequent steps to be adopter by a researcher in studying a problem with certain objectives in a view. So, it is the method, steps, and guidelines, which are to be followed in analysis and it is a way of presenting the colleted data with meaningful analysis.

This section highlights the methodology adopted in the process of present study. It also focuses about sources and limitations of the data, which are used in the present study. Research methodology is a way for systematically solving the research problem (Kothari, 1990).

Research Methodology refers to the various steps that are generally adopted by a researcher in studying his research problem along with logic behind it. Thus, research methodology is a systematic and organizes effort to investigate a specific problem that needs a solution (Wolf and Plant: 1999).The main objective of the study is based on primary and secondary data. The basic objective of primary data analysis is to survey the opinions of rights shareholder and rights share issuing company management body. Secondary data were used on analyze the relationship between stock price reaction and announcement of rights issues, correlation coefficient between rights share and equity shares, correlation coefficient between rights shares and NEPSE Index, number of issue approval of rights share etc. The methodology consists of Research Design, The Selection of Sample, Source of Data, and Coverage of the Data, Data Analysis Tolls, Others Statistical Tools and Valuation of Rights.

3.2 Research Design

In simple language, planning for research is research design. It is a purpose full scheme of action proposed to be carried out in a sequence during the process of research. Research Design is a conceptual framework within which a research is conducted. It helps the researcher to enable him to keep tack of action and to know whether he is moving the right direction to achieve his goal.

Kothari (2000), states that research design is a plan, structure and strategy of investigation concerned so as to obtain answer to researcher question and to control variance. This research is based on the analytical and descriptive design as well.

"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 other words, research design is the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances" (Kerlinger; 1978:300).

This analysis is based on certain research design keeping on objective of study in mind. This research design is guideline studying profound ways of research ability. This study is focus on the Right Share Issue and its impact on stock price. In this research, research design is used for analytical as well as descriptive method of data collected. This is the empirical research work, this research work help to understand some of the features of Right Share Issue and its impact on stock price.

3.3 Populations and Sample

The data collection activities consist of taking order information from reality and transferring into same recording system. So, that it can 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 cannot collect data of whole population. Therefore, sample in 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.2.00 million. In 2053/54, 3 companies had issued right shares amounting to Rs.275.20 million. In 2054/55, 3 companies had issued right shares amounting to Rs.249.96million. In 2055/56, 1companies had issued right shares amounting to Rs.30 million. In 2056/57, 3 companies had issued right shares amounting to Rs.124.6 million. In 2057/58, 2 companies had issued right shares amounting to Rs.131.79 million. In 2058/59, 5 companies had issued right shares amounting to Rs.621087 million. In 2059/60, 4 companies had issued right shares amounting to Rs162.24 million. In 2060/61, 3 companies had issued right shares amounting to Rs.70 million. In 2061/62, 6 companies had issued right shares amounting to Rs.949.34 million. In 2062/63, 11companies had issued right shares amounting to Rs.1013.45 million. In 2063/64, 16 companies had issued right shares amounting to Rs.1265.30 million. Lately, In 2064/65, 43 companies had issued right shares amounting to Rs.6,073.40 million. (Annex: -5, Table No. 1)

3.4 Sources of Data

The data and information in this study are collected from both primary and secondary source to achieve real and factual result. For this research, all the possible and useful data as far as possible have been collected. The major sources of data for this study are as follows:-

a) Primary Data

Questionnaires are used as the major source of primary data collected for this research. A set of structural questionnaire was made and distributed to the selected respondents in order to get the accurate and actual information with the concerned person. The questionnaires are asked to tick the best answer among the different alternatives. Data collected through questionnaire are tabulated and presented in required form to make interpretation easier.

b) Secondary Data

This research work is heavily bases on data collected through secondary source. Due to imperfect and undeveloped financial market we may not collected all the data from only NEPSE. We may not find all the related information even in published journals and reports. Therefore, searching the relevant data is an ironical challenge work. Mainly secondary data are collected from the following sources.

- Annual Reports of concerned enterprises
- Related news paper and magazines
- Annual Reports and trading Reports published by NEPSE
- Annual Report of SEBON

3.5 Data Collection Technique

In this study necessary data are collected from various sources, out of them only related data are considered for the study. Primary and Secondary data are collected through following method:

a) Questionnaire Method

Questionnaire method has been used to get information about the right share its various aspects. Opened, Closed and mixed questionnaire methods are used to collect the data. Yes/No question, multiple choice question and descriptive questions are designed to get the response.

b) Interview Method

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

c) Historical Data Record Method

The main sources of the data are Historical Record Method. They are collected from various reports, prospectus of companies and newspaper. Previous data, which was used by other party, are also useful for this study. The announcement day is the day of first pubic announcement. This was the first day that the information was become public; the announcement date was confirmed or collected by reviewing each firm's official records in the SEBON. The shares prices collected from the official quotation, lists of NEPSE published in the National Daily Newspaper as well as trading report of SEBON.

d) Populations and Sample

All other cases being excluded, this study is focused in stock rights issue. Privileged subscriptions issued to common stockholders permitting them to subscribe for additional common stock of identical corporation were included in the sample.

3.6 Method of Analysis

The data is analyzed by using various financial and statistical tools to achieve the research objectives. This study is based on share price before and after the rights share announcement. The share price moves up or down due to various market information. So, the researcher has used some assumption to remove the effect of information.

3.6.1 Data Analysis Tools

a) Percentage changes 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 change comes positive, it indicates that the MPS has increased after Right Share issue and if the percentage change comes zero, it indicated no change in MPS before and after right share issue. The percentage that has been changed in MPS after Right Share issue is calculated by using the following formula.

$$\text{Change in Price}(\%) = \frac{\text{Post Rt. Issued Price - Pre Rt. Issue Price}}{\text{Pre Rt. Issue price}} \times 100$$

b) 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 that 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:-

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

c) Coefficient of Correlation

The correlation is a statistical tool, which studies the relationship between two variables, and correlation analysis involves various techniques used for studying and measuring of the extent of relationship between the two variables. Correlation is an analysis of the covariance between two or more variables. The effect of correlation is to reduce the range of uncertainty o our prediction. Two variables are said to be correlated if the change in one variable results in the corresponding change in the other variable. Correlation coefficient can be either positive or negative. If the values of two variables deviate in the same direction i.e. if the increase in the value of one variable results, on an average, in a corresponding increase in the values of other variables or if a decrease in the values of results, on an average, corresponding decrease on the values of other variables, the correlation is said to be positive and direct. On the other hand, correlation is said to be negative or inverse if the variable deviate in the opposite direction i.e. if the increase/decrease in the values of one variable result, on an average in a corresponding decrease/increase in the values of other variable. It is also likely that there may be no relationship between the variables of the two series in which case there is said to be no correlation between them.

The coefficient of correlation always varies between the two limits of +1 and -1, when there is perfect positive correlation, its value is +1 and when there is perfect negative correlation its value is -1. Its mid point is 0 which indicates the absence of correlation. The value of the coefficient of correlation is always is always between +1 and -1. It cannot exceed unity.

d) Coefficient of Determination

The coefficient of determination is a measure of the degree of linear association between two variables, one of which happens to be independent and other being dependent. The coefficient of determination can have value ranging from zero to one. The coefficient of correlation has been grossly overrated and is entirely too much. Its square, the coefficient of determination is a much more useful measure of the linear covariance of two variables. The reader should develop the habit of squaring the extent of the linear relationship between the two correlated variables. For example, if the value of $r = 0.8$, we can conclude that 80% of variation in the relative series (dependent variable) is due to the variation in the subject series (independent variables). But the coefficient of determination in this case is $r^2=0.64$ which implies that only 64 percent of the variation in the relative series has been explained by the subject series and the remaining 36 percent of the variation is due the other factors.

Symbolically,

R^2 = Coefficient of Determination

r = Coefficient of Correlation

e) 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 needs to be investigated for its truth" (Wolf and Pant, 2003:62). Following hypothesis is set in this research paper.

Null hypothesis H_0: $\mu_x = \mu_y$, 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 H_0: $\mu_x \neq \mu_y$ 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)

μ_x = Closing Market Price after Right Share issue

μ_y = Theoretical Market Price after Right Share issue

Test Static:

$$t_{cal} = \frac{\overline{X} - \overline{Y}}{\sqrt{S^2\left(\frac{1}{N_1} + \frac{1}{N_2}\right)}}$$

3.6.2 Allowance for leakage of Information

The director's intention to issue right share for information may be find out in many cases before the director's meeting. If that happens the price should rise as a result of the approaching decision that may take places before the director's actual decision. There may be the cases of insiders taking advantage by making purchase in advance of the official announcement so that the market price begin to rise over before the actual announcement. Only going back at least some days before the formal announcement of the boards 'decision use the true price effect of right decision case. Considering all the factors we decided to go back 90 days before from the date of right share announcement. Thus for the study, the base date of measuring relative changes in share price as a result of right issue is the date of 90 days prior to announcement date.

3.6.3 Removing the effect of Market Movement

Measurement of the price effects of the rights issues involves a comparison of share prices of different point of time. In reality, general price movement also affects a particular share price. If a particular share price is found to be raised by 10% since rights announcement, this cannot be attributed to the rights offering over same period, share price, in general level also moved up by 10% more. On the other hand, if a particular share price just remains unchanged in the face of declining market trend, the strength may be due to rights issue. Hence, the isolation of the effect of the rights issue necessarily requires the eliminating of the general market movement.

a) For the purpose of analysis five different times were selected for observing the price movement, with the announcement date as the point of reference. The selected point are as follows:

   i. Three months before announcement date: - It is taken as a base date simply because for that period the existing shareholders are not supposed to have information about the BOD's intention to issue rights share. Hence there will not be any kind of signaling effect on the share price.

   ii. Ten days before announcement date:- Few days before the announcement day a very limited shareholders do know it and does not bring any immaterial influence on the share price behavior of the stock.

   iii. Seven days after announcement: - When the company explicitly announces the issue of rights share, comparatively there will be a high demand of the rights attached shares and this phenomenon causes the share price to rise. This period is supposed to depict the true picture of the share price of the post announcement stock.

   iv. Six months after announcement: - After the actual issue of the rights shares, the post issue share price dilutes simply because the number of outstanding shares increases and the new shares are sold at a price below the current market price. When the digestion process is complete after a reasonable period of time, say six months, the original share price will be restored and again the market show a normal price behavior.

b) Price quotations for each share were collected for all the five periods of time or reasonably close to them. These price quotations were then converted into price relative with point (i) as the base date. This all price changes have been expressed relative to the base date price, i.e. the price three months before the announcement date.

c) The equity price index was noted against each price relative. The price index was also converted to a new set of index numbers again with point (i) as the base.

d) Finally, the price relative against each of the points of time, as obtained in stop (b) above, was expressed as a percentage of the corresponding index numbers as adjusted in the step (c) above.

In general terms, our procedure for eliminating the effect of the general market movement boil down to adjust the actual share price on any date downwards in proportion to a downward general movement.

Thus, we get a series of five percentages for each of the shares in our sample representing of time, after the effect of general market movement have been eliminated.

Chapter – IV

DATA PRESENTATION AND ANALYSIS

This chapter takes measures to determine with the presentation, analysis and interpretation of data collected through primary and secondary sources, in order to fulfill the objective of the study. This study that consist of analysis and presentation of empirical data focus on how far the Nepalese companies are practicing the rights share which is the most important component of this study and also it present how it affects the share movement of these companies.

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

4.1. Characteristic of Right Offering in Nepal

Up to now, there are 135 listed companies in the SEBON and NEPSE, out of them 60 companies have issued the rights (SEBON report 2006/07). The history of rights offering is not so long in Nepalese context. Nepal Finance and 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. (Annex:5, Table 3)

Since, from the fiscal year 2052/53, Nepalese corporate firm, started to issue rights share. Till now (i.e. 2064/65) there are 120 cases of rights offering in Nepal. Almost al of them was finance and banking companies who issued rights share in Nepalese capital market. All companies who had issued their rights share at par value i.e. Rs.100 per share because according to company act, company can not issue their right share on discount, but premium can be added, due to fear of under subscription no company had issue their right share on premium. As a result, there is wide difference between subscription price and market price per share, as well as having high share price companies can not take advantage by premium, which is cost less fund of company.

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.

4.2. Contribution of Rights share issues in the total Public Flotation in Nepal

There are many other alternatives of the public issue. One of the important alternatives of total public issue in Nepal is Right share. Following table and figure show the contribution of rights issue in the total public flotation in each of the fiscal years in which the rights offering has been taken place.

Table 4.2
Contribution of Rights share issues in the total Public Flotation

Fiscal year	Total Issue Approved		Rights Issue Approved		Percentage	
	No. of company	Amount Rs.	No. of company	Amount Rs.	No. of company	Amount Rs.
2050/51	16	244.4	0	0	-	0
2051/52	10	173.96	0	0	-	0
2052/53	12	293.74	2	69	16.67	23.49
2053/54	5	332.2	3	275.2	60.00	82.84
2054/55	12	462.36	3	249.96	25.00	54.06
2055/56	5	258	1	30	20.00	11.63
2056/57	6	326.86	3	124.6	50.00	38.12
2057/58	9	410.49	2	131.79	22.22	32.11
2058/59	12	1444.33	5	621.87	41.67	43.06
2059/60	18	5564.54	4	162.24	22.22	2.92
2060/61	14	1027.5	3	70	21.43	6.81
2061/62	14	1626.8	6	949.34	42.86	58.36
2062/63	29	2443.28	11	1013.45	37.93	41.48
2063/64	34	2295.5	17	1265.3	50.00	55.12
2064/65	64	10668.2	43	6073.4	67.19	56.93

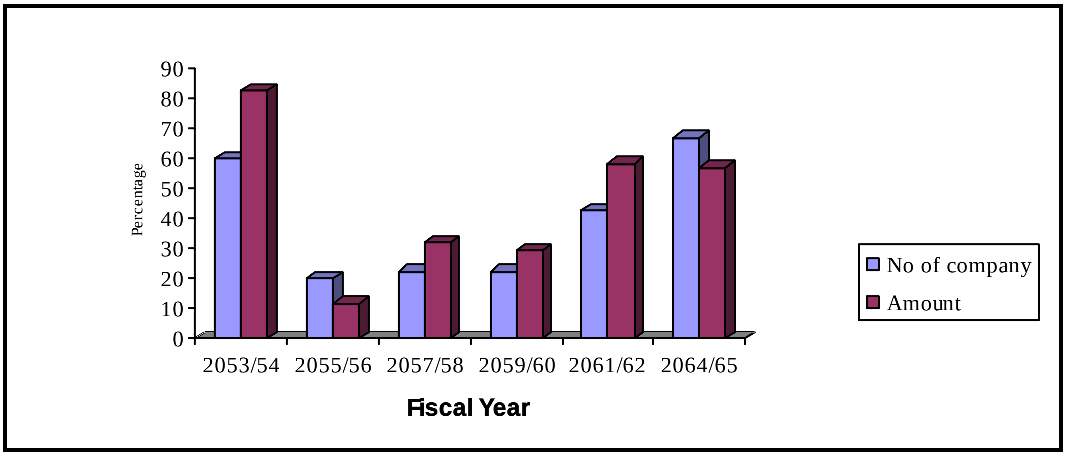
Source: Annual Report of SEBON, FY 2007/2008

Analyzing the table, there are no any right issue had been made in starting two years. In the FY 2052/53, two cases of rights issued had been made of twelve issues, which occupied 23.49% of the total public flotation. The highest cases of rights offering i.e. 43 cases were made in FY 202064/65, whereas the lowest no. of rights offering i.e. one case was made in FY 2055/56.

In the FY 2053/54, contribution on rights share on total public issue through there companies out of five total issue approved companies is 82.84%. It is highest contribution till the FY 2053/54; because only five issues approved companies issued the small volume of total public issue amounting Rs.332.20 million. Out of them Bottlers Nepal Ltd. issued the large volume of rights share amounting Rs.225.20 million. In the FY 2054/55 and 2055/56, the contribution of rights share on total public issue through three and one company out of twelve and five total issue approved companies was 54.06% and 11.63% respectively. The contribution of rights share in the FY 2055/56 is the lowest one during 13 years period. At that fiscal year only Nepal Share Markets Co. Ltd. had issued the rights share amounting to Rs.30.00 million. Similarly in FY 2056/57, FY 2057/58, and FY 2058/59, contribution of rights share on total public issue was 38.12%, 32.11% and 43.15% respectively through 3, 2 and 5 rights issuing companies out of 6, 9 and 12 total issue approved respectively.

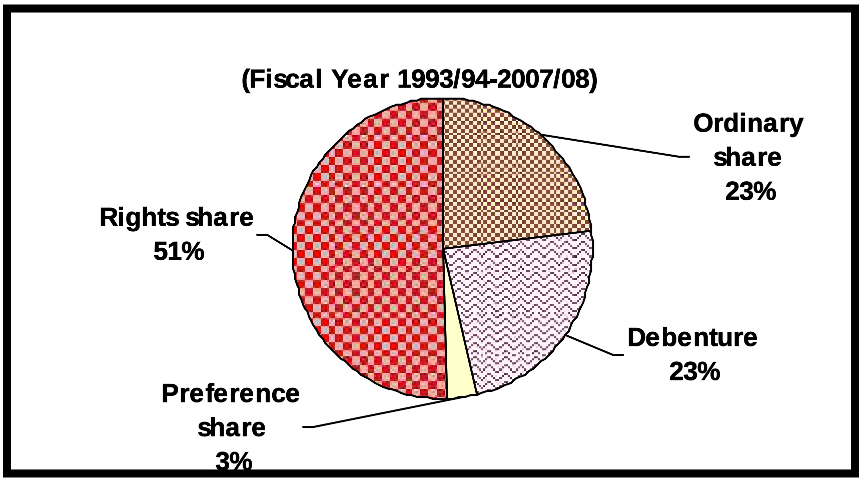
Also, contribution of rights share on total Public issue in FY 2059/60, FY 2060/61, FY 2061/62, FY 2062/63 and FY 2063/64 are 29.15%, 6.81%, 58.36%, 41.48% and 55.13 respectively through 4, 3, 6 ,11 and 16 rights issuing companies out of 18, 14, 14, 29 and 34 total issue approved companies. The highest cases of rights offering i.e. 43 cases were made in FY 202064/65.

Figure 4.2
Contribution of Rights share issues in the total Public Flotation



Source: Annual Report of SEBON, FY 2007/2008

Instrument Wise Public issue in Nepal



Source: Annual Report of SEBON, FY 2007/2008

During this 15 years period, 260 companies were given the issue approval. Out of these, 102 companies issued right share to raise additional fund. Under the right offering, the stockholder are provided a document called 'right' which describes all about the conditions of right issue. Each stock holder receives one right in the proportion of the shares currently held.

Right share is issued giving proportionate right to the existing shareholder to purchase the new share. It is an option based financing approach where the existing shareholders are given an option to purchase a fraction of new shares equal to the fraction they currently own. This fraction purchase helps to maintain the original ownership percentage of stockholders.

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

– To exercise the rights and subscribe additional shares.

– To buy additional rights to meet the requirement of additional subscription.

– To sell rights partially.

– To sell all rights.

– To let the rights to expire.

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

Similarly, some people may have money, but for them the right share may not be so profitable option looking at the other options available. Then they should have the right t sell the right to sell the right. Likewise, somebody may not have the money at all to exercise the 'right' in such case too they should have right to sell the right.

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

For e.g., If Mr. Hari Bahadur owned 4 shares in ABC Company which declared 3:1 right share issue. Then Mr. Hari Bahadur can purchase one additional share of the company. But still he has one 'right' remaining unused. At the same time if Mr. Madan Bahadur would own 2 shares of the same company, and then he cannot buy the additional shares because he has only two rights in the hand. If there would be the provision of right trading, Mr. Madan Bahadur could buy one share from the market and Mr. Hari Bahadur could either buy additional two rights from the market or buy one additional shares of the company or sell the unused right in the market.

Thus the provision of right transaction not only provides an opportunity to the shareholder to sell and gain but also provides good new investment opportunity to him.

4.3. Issue Manager Wise Rights Issue in Nepal

There are nine issue managers operating in Security Market in Nepal. All of them except United Finance Ltd. have issued different kinds of instrument including rights share. Table clearly shows the contribution of issue manager in rights offering in Nepal.

Table 4.3
Issue Manager Wise Rights Issue in Nepal

S.N.	Name of Issue Manager	Issue Amt .(Rs.)	No.	Percent (%)	
				Amount	No.
1	—	69.00	2	0.64	1.94
2	Nepal Merchant Banking & Finance Ltd.(NMB)	2,549.80	19	23.53	18.45
3	National Finance Co. Ltd.(NFCL)	140.81	5	1.30	4.85
4	Ace Finance Co. Ltd.(AFC)	2,526.99	22	23.32	21.36
5	Nepal Finance & Saving Co. Ltd.(NEFINSCO)	211.00	5	1.95	4.85
6	Nepal Share Markets Co. Ltd.(NSML)	95.00	4	0.88	3.88
7	United Finance Ltd.	0	-	-	-
8	Nepal Sri Lanka Merchant Bank Ltd.(NSMB)	189.92	2	1.75	1.94
9	Citizen Investment Trust(CIT)	1,223.33	11	11.29	10.68
10	NIDC Capital Markets Ltd.(NCML)	3,830.30	33	35.35	32.04
	Total	**10,836.15**	**103**	**100.00**	**100.00**

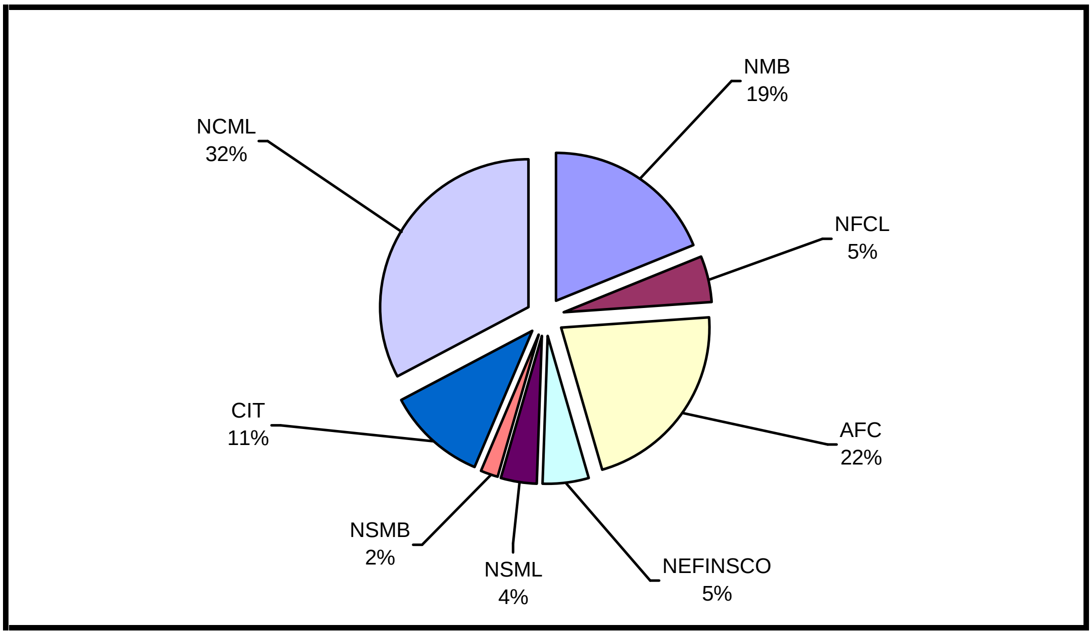
Source: Annual Report of SEBON, FY 2007/08

By analyzing table it is noticed that, on the basis of rights share issued amount, Rs.69 million (0.64%) rights share was issued without any issue manager. NIDC Capital Markets Ltd. is the largest issue manager till the FY 2064/65. It has managed Rs.3830.30 million (35.35%) rights share. Similarly, Nepal Merchant Banking & Finance Ltd., Ace Finance company Ltd, Citizen Investment Trust and Nepal Finance & Saving Co. Ltd.(NEFINSCO) are the second, third, fourth and fifth largest issue manager. They have managed the rights share amounting Rs.2,549.80 million (23.53%), Rs.2,526.99million (23.32%), Rs.1,223.33million (11.29%) and Rs.211 million (1.95%) respectively. Similarly, Nepal Share Markets Co. Ltd.(NSML) is the smallest issue manager, which had managed only Rs.95 million (0.88%) rights share. National Finance Co. Ltd.(NFCL) and Nepal Sri Lanka Merchant Bank Ltd.(NSMB) are the second and third smallest issue manager. They have managed Rs.140.81 million (1.30%) and Rs.189.92 (1.75%) respectively.

On the basis of number of rights issued cases, two cases i.e. 1.94% of rights issued were managed without any issue manager. NIDC Capital Markets Ltd. is the largest issue manager, has managed 33 cases i.e. 32.04%, out of total 103 rights share cases till the FY 2064/65. Ace Finance company Ltd. Nepal Merchant Banking & Finance Ltd., Citizen Investment Trust and Nepal Finance & Saving Co. Ltd. (NEFINSCO) are the second, third, fourth and fifth largest issue managing. They have managed 22 cases (21.36%), 19 cases (18.45%), 11 cases

(11.29%) and 5 cases (4.85%). Also National Finance Co. Ltd.(NFCL), Nepal Share Markets Ltd. And Nepal Srilanka Merchant Bank Ltd. have managed 5 cases i.e. 4.85%, 4 cases (3.88%) and 2 cases (1.94%) of rights share. Following figure shows the issue manager wise Rights Issue in Nepal.

Figure 4.3
Issue Manager Wise Rights Issue in Nepal



Source: Annual Report of SEBON, FY 2007/2008

4.4. Classifying the rights Issue according to Sector in Nepal

Those companies, who are interested for public issue, should have listed their in Nepse. Companies listed in Nepse, which are divided into 8 sectors. Following table and figure shows the sector wise rights issue in Nepal.

Table 4.4.1
Sector Wise Rights Issue in Nepal

S.N.	Sector	No. of Listed Companies	Right Issuing Companies	Percent	Issued Amount (Rs)	Percent (%)
1	Commercial Bank	17	13	76.47	4,184.11	38.61
2	Development Bank	23	15	65.22	1,996.40	18.42
3	Finance Companies	55	39	70.91	3,693.98	34.09
4	Insurance Companies	17	3	17.65	130.40	1.20
5	Hotels	4	1	25.00	446.45	4.12
6	Manufacturing & Processing Companies	18	2	11.11	292.20	2.70
7	Trading Companies	4	1	25.00	3.01	0.03
8	Other companies	4	1	25.00	89.60	0.83
	Total	**142**	**75**		**10,836.15**	**100.00**

Source: Annual Reports of SEBON (Fiscal Year 2007/2008),(Annex -5, Table 4)

By analyzing the table, only 13 Banks had issued the Rights Share to their Shareholders till the study period. Among these Banks, Nepal Investment Bank Ltd. and Lumbini Bank Ltd. had issued rights share three times. So, the total case of rights offering made by Commercial Bank is 13. In case of development Bank and Finance company, 15 development banks and 39 finance companies has issued rights share. In case of one Insurance Company and Hotel sector has issued three and 1 times rights share respectively. Similarly in manufacturing and Processing, two companies has issued the rights share. Trading and other company has issued one rights share each till the study period. At that time one manufacturing and processing company i.e. Seti Cigarette Factory Ltd. is listed in NEPSE.

On the basis of rights share amount, commercial banks occupied the largest volume of rights share i.e. Rs.4184.11 million out of total rights share issued i.e. 10,836.15 million, which became 38.61% of total rights issue, the largest one. Incase of finance companies covers the second position, issuing Rs.3,693.98 million i.e. 34.09% rights share in total. Development Bank and Hotels are the third and fourth largest sector that they have issued Rs.1996.40 million i.e. 18.42% and Rs.4446.45 million i.e. 4.12%, rights share respectively. Similarly Manufacturing & Processing Companies and, Insurance, Other sector, Insurance company and Trading companies have issued 292.20 million i.e. 2.70%, Rs.130.40 million i.e. 1.20%, Rs.89.60 million i.e. 0.83% and Rs.3.01 million i.e. 0.03%, rights share respectively.

By analyzing given data, researcher concluded that some Commercial Banks, Finance Companies, Development Bank and Hotels issued the large amount of rights share to their existing shareholders, therefore these sectors occupied large proportion of rights share, which can be depicted by following figure:

4.5 Subscription of Right share in Nepal

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

Researcher can conclude that the good performing companies are over subscribed, bad performing companies are under subscribed and Normal companies are full subscribed. When an investor thinks that the company would invest its extra fund in profitable way then they want more investment in the company. If the existing share holders are not satisfied with the decision of Board of directors then they will not motivate to invest more.

Table: 4.5
Subscription of right share in Nepal

Subscription Cases	No. of Firm	Percentage (%)
Under Subscription	75	72.82
Over Subscription	7	6.80
Full Subscription	6	5.83
Data not available	15	14.56
Total	**103**	**100.00**

Source: Annual Report of SEBON, FY 2007/2008 (Annex-4, Table No. 5)

From the above table, we can know that 75 companies out of 103 are under subscription. Six companies out of 103 companies were able to collect actual amount that they need for the further programme. Respectively, Seven companies out of 103 companies were over subscribed. Subscribed amount are not available for 15 companies

4.6 Rights share and its impact on share price movement of companies before and after rights offering.

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

i. 90 days (three months) before the announcement date
ii. 10 days before the announcement date
iii. The day of announcement
iv. 7 days after the announcement
v. 180 days (six months) after the announcement

The main objective of this method of analysis is to eliminate the effect of the general market movement from our analysis. Otherwise stated, the procedure for eliminating the effect of general market movement boils down to adjust the actual share price on any date downwards in proportion to an upward general movement since the base date and adjusting it upwards in proportion to a downward, general market movement. Thus finally, we get a series of five percentages for each of the shares in our sample representing relative change in a share price at different points of time, after eliminating the effect of the general market movement. In this study, researcher has analyzed these **five** commercial banks and **four** finance companies, **one** hotel and **one** other sector which are as follows:

Table 4.6

Sample companies

Commercial Banks	**Finance Companies**	**Hotel & Other**
1. Laxmi Bank Ltd.	1. Siddhartha Finance Co. Ltd	1. Taragaun Regency Hotel.
2. Nepal Bangladesh Bank	2. Peoples Finance Ltd.	2. Necon Air Ltd
3. Bank of Kathmandu	3. National Finance Co. Ltd.	
4. Nepal SBI Bank Ltd.	4. NIDC Capital Market	
5. Machhapuchchre Bank Ltd.		

Above given sample companies are analyzes of share price movement before and after the rights offering are as follows:

4.7 Analysis of Share price movement of Commercial Bank

1. Analysis of Share price movement of Laxmi Bank Ltd.

Table 4.7.1.1
Analysis of Share price movement of Laxmi Bank Ltd.

Selected Points of time	Share Price (app.1)	Price Relatives	Total Price index of equity capital (app.1)	Price index converted to new base	% change from base	Adjusted price relatives 2 as % of 4	% change from base
	1	2	3	4	5	6	7
Three month before announcement (I)	950	100.00	680.33	100	-	100	-
Ten days before announcement(II)	1200	126.32*	789.25	116.01**	16.01***	108.88****	8.88*****
Announcement day(III)	1185	124.74	770.58	113.27	13.27	110.13	10.13
Seven days after announcement(IV)	1080	113.68	765.45	112.51	12.51	101.04	1.04
Six month after announcement(V)	1113	117.16	658.89	96.85	(3.15)	120.97	20.97

Column 2:-Price relative= $\frac{1200}{950} \times 100$ = *126.32**

Column 4:-Price index converted to new base = $\frac{789.25}{680.33} \times 100$ = *116.01***

*Column 5:-% change from base = 116.01-100 = 23.11****

Column 6:- Adjusted price relatives 2 as % of 4

$$= \frac{\text{Price relative}}{\text{Price index converted to new base}} = \frac{126.32}{116.01} \times 100 = 108.88^{****}$$

*Column 7:-% change from base =108.88 - 100= 8.88******

Above table shows that the share price of Laxmi Bank Ltd. increased from Rs.950 to Rs.1200 from base date to the ten days before the announcement date. There was increasing trend in the general market movement; when Laxmi Bank Ltd. announced the rights offering to its existing shareholders. Three months before the announcement date, Price of the Laxmi Bank Ltd. was Rs.950. It increases up to Rs.1200 ten days before the announcement date and little bit decrease to Rs.1185 at the day of the announcement.

The share price of Laxmi Bank Ltd. decreased to Rs.1080 after the seven days of announcement and increase to Rs.1113 after six months of announcement date. Total price index of equity share was Rs.680.33 three months before the announcement date. It came to Rs.789.25 ten days before announcement date and to Rs.770.58 in the announcement date. The total price index of where went to the Rs.765.45 seven days after announcement date and Rs.658.89 six months after the announcement date.

Column 4 in above table shows the price index converted to new base and column 5 shows the percentage decrease (or increase) in the adjusted price indices from the base index. This column 5 shows that price index increased by 16.01% ten days before announcement date and by 13.27% in the day of announcement. After seven days of announcement date, it increased by 12.51% and decrease by 3.15% after six months of the announcement date.

Similarly, column 6 & 7 shows the adjusted share price and its percentage increase or decrease from the base date respectively. In the column 7, adjusted share price is increased by 8.88% ten days before announcement date and by 10.13% at the day of the announcement date. The adjusted share price is increased by 1.04% from base index. After seven days of announcement date, increase in the adjusted share price is for more than the increase in the price index concerted to new base. According to the theory of rights offering the price of share will increase after the announcement and decrease after the allotment of share to the extent of value of rights.

Market price of share	=	Rs.1185	
Value of one right	=	Rs.217	
Ex-right price of share	=	Rs.968	(Annex 4)

The value of the share should be around Rs.968 after the allotment but the share of Laxmi Bank Ltd. was Rs.1113 after six months of rights share announcement. Thus the share of Laxmi Bank Ltd. was overpriced.

2. Analysis of Share price movement of Nepal Bangladesh Bank

Table: 4.7.2.1

Analysis of Share price movement of Nepal Bangladesh Bank

Selected Points of time	Share Price (app.1)	Price Relatives	Total Price index of equity capital (app.1)	Price index converted to new base	% change from base	Adjusted price relatives 2 as % of 4	% change from base
	1	2	3	4	5	6	7
Three month before announcement (I)	432	100	200.84	100	-	100	-
Ten days before announcement(II)	350	81.02	196.34	97.76	(2.24)	82.88	(17.12)
Announcement day(III)	365	83.33	201.22	100.19	0.19	83.17	(16.83)
Seven days after announcement(IV)	393	89.73	202.45	100.80	0.80	89.02	(10.98)
Six month after announcement(V)	260	59.36	232.29	115.66	15.66	51.32	(48.68)

In case of Nepal Bangladesh Bank Ltd. situation was some what different. The share price was Rs.432 three months before the announcement date and it dropped to Rs.350, ten days before announcement and increased to Rs.365 in the day of announcement. The share price of NB Bank Ltd increased to Rs.393 after the seven days of announcement and drop to Rs.260 after six months of announcement date. When we look to the price index it was 200.84 three months before the announcement date and it dropped to 196.34 ten days before the announcement date and after then price index started to increase and it was 201.22 in the day of announcement 202.45, seven days after the announcement and it was 232.29 after the six months of announcement.

While examining the percentage change in the adjusted price indices from the base index in column 5 and percentage change in the adjusted share price fork the base index in column 7, it is clear that change in the above price is not only due to general market movement. Column 4 in above table shows the price index converted to new base ad column 6 shows the adjusted price relatives. The adjusted price was increased from 82.88% in the ten days before announcement date to 83.17% in the day of announcement while converted price index has been increased to 100.195 from 97.76% between point II and II. The adjusted share price is increased by 5.85% (89.02 – 83.17), While converted price index has been increased by just 0.615 from the day of announcement to seven days. Thus we can say this increment in share price is due to rights offering because share holders rush to share market to enlist their name within the record date, but after six month of announcement date the share price has been dropped to Rs.260. In case of Nepal Bangladesh Bank Ltd., right's affecting has positive impact & meet the theory.

Market price of share = Rs.365

Value of right = Rs.132.5

Ex-rights price = Rs.232.5 per share (Annex 4)

Share price should be around Rs.232 after the allotment of right share. While the share price of Nepal Bangladesh Bank Ltd. is Rs.260 after six month of right share announcement. One can conclude that NB Banks right offering has meet the theory & it has fairly priced.

3. Analysis of Share price movement of Bank of Kathmandu.

Table: 4.7.3.1
Analysis of Share price movement of Bank of Kathmandu.

Selected Points of time	Share Price (app.1)	Price Relatives	Total Price index of equity capital (app.1)	Price index converted to new base	% change from base	Adjusted price relatives 2 as % of 4	% change from base
	1	2	3	4	5	6	7
Three month before announcement (I)	1015	100	367.37	100	-	100	-
Ten days before announcement(II)	801	78.92	323.51	88.06	(11.94)	89.62	(10.38)
Announcement day(III)	815	80.30	334.64	91.06	(8.91)	88.15	(11.85)
Seven days after announcement(IV)	460	45.32	321.96	87.64	(12.36)	51.71	(4829)
Six month after announcement(V)	315	31.03	259.75	70.71	(29.29)	43.88	(56.12)

There was decreasing trend in the general market movement; when Bank of Kathmandu Ltd. announced the rights offering to its existing shareholders.

Three months before the announcement date, Price of the Bank of Kathmandu Ltd. was Rs.1015. It decreases up to Rs.801 ten days before the announcement date and increase to Rs.815 at the day of the announcement. Seven days after the announcement date the market price of share decreased substantially to Rs.460 despite the fact that general market movement was not going down ward so rapidly.

After the six months of right offering the share price reached to 315. Total price index of equity share was 367.37 three months before the announcement date. It came to 323.51 ten days before announcement date and to 334.64 in the announcement date. The total price index of where went down to the 321.96 seven days after announcement date and 259.75 six months after the announcement date.

Column 4 in above table shows the price index converted to new base and column 5 shows the percentage decrease (or increase) in the adjusted price indices from the base index. This column 5 shows that price index decreased by 11.94% ten days before announcement date and by 8.91% in the day of announcement. After seven days of announcement date, it decreased by 12.36% and by 29.29% after six months of the announcement date.

Similarly, column 6& 7 shows the adjusted share price and its percentage increase or decrease from the base date respectively. In the column 7, adjusted share price is decreased by 10.38% ten days before announcement date and by 11.85% at the day of the announcement date. The adjusted share price is decreased by 48.29% from base index. After seven days of announcement date, decrease in the adjusted share price is for more than the decrease in the price index concerted to new base. Which is just 12.36% such a large percentage of decrease in the adjusted share price provides sufficient evidence to argue that this price decrease must have been attributed by the announcement of right offering to the existing share holder only the 112.36% and any further decrease in the share price can be attributed to the announcement effect of right offering to the existing shareholders.

According to the theory of rights offering the price of share will increase after the announcement and decrease after the allotment of share to the extent of value of rights.

Market price of share	=	Rs.815	
Value of one right	=	Rs.357.5	
Ex-right price of share	=	Rs.457.5	(Annex 4)

After the issue of right share Bank of Kathmandu Ltd.'s share price fall more than its value of one right on ex-right price is less than its theoretical price.

4. Analysis of Share price movement of Nepal SBI Bank Ltd.

Table: 4.7.4.1
Analysis of Share price movement of Nepal SBI Bank Ltd.

Selected Points of time	Share Price (app.1)	Price Relatives	Total Price index of equity capital (app.1)	Price index converted to new base	% change from base	Adjusted price relatives 2 as % of 4	% change from base
	1	2	3	4	5	6	7
Three month before announcement(I)	1225	100	283.93	100	-	100	-
Ten days before announcement(II)	858	70.40	215.89	76.04	(23.96)	92.11	(7.89)
Announcement day(III)	332	27.10	187.88	66.17	(33.83)	40.45	(59.55)
Seven days after announcement(IV)	376	30.69	204.28	71.95	(28.05)	42.65	(57.35)
Six month after announcement(V)	350	28.57	222.87	78.49	(21.51)	36.40	(63.6)

In case of Nepal SBI Bank Ltd. the share price was Rs.1225, three months before the announcement date, which drastically decreased to Rs.858 of 10 days before the announcement. Market price of the share was Rs.332 on the day of announcement. How ever, market price of the share was slightly increased just after the right share announcement. Market price of the share was Rs.376 seven days after the right share announcement. Again decreasing trend of market price of share seemed and it was Rs.350 after six month of right announcement.

By analyzing the share price movement of Nepal SBI Bank Ltd. and the trend of general market movement, change in the market price from pointy I to II is basically due to general market movement, at the time market index has decreased by Rs.215 from Rs.283.93. Column 5 shows the percentage change in the adjusted price indices from the base index column 5 shows that priced index was decreased by 23.96 percentage ten days before announcement. Similarly it decreased by 33.83 percentages from point II to point III. Chang in share price between II and III was not solely due to general market movement.

Declaration of right share & allotment of right share caused the rapid decrease in the share price can be observed in point IV in comparison to Point III. In the table above, column 6 shows adjusted price relatives. The adjusted price relative was increased to 42.65% form 40.45% between IV & III. It clearly indicates that increase in share price was due t rights announcement. It was compatible to point IV at the same period price relative also decreased from 42.655 to 36.40%. Hence, only in the case of Nepal SBI Bank Ltd., there was a positive impact of right offering.

Value of one right and ex-right price of Nepal SBI Stock is as follows.

Market price of stock = Rs.332

Value of rights = Rs.77.33

Ex-right price = Rs.254.67 (Annex 4)

The value of the share after the allotment should be around Rs.255, but the share price of Nepal SBI Bank Ltd. was Rs.350 after six month of right share announcement. Thus the share of Nepal SBI Bank Ltd. was overpriced.

5. Analysis of Share price movement of Machhapuchere Bank Ltd.

Table: 4.7.5.1
Analysis of Share price movement of Machhapuchere Bank Ltd.

Selected Points of time	Share Price (app.1)	Price Relatives	Total Price index of equity capital (app.1)	Price index converted to new base	% change from base	Adjusted price relatives 2 as % of 4	% change from base
	1	2	3	4	5	6	7
Three month before announcement(I)	348	100.00	333.03	100.00	-	100.00	-
Ten days before announcement(II)	360	103.45	388.49	116.65	16.65	88.68	(11.32)
Announcement day(III)	328	94.25	368.89	110.77	10.77	85.09	(14.91)
Seven days after announcement(IV)	345	99.14	371.97	111.69	11.69	88.76	(11.24)
Six month after announcement(V)	452	129.89	463.74	139.25	39.25	93.28	(6.72)

From above table, Share price of Macchapuchere Bank Ltd. before 90 days of announcement date was Rs.348 and was increased to Rs.452 after 180 days of announcement date. So, it can be analyze that the share price of Machhapuchere Bank Ltd. is in increasing trend. While observing total price index of equity capital, it also increased from Rs.333.03 to Rs.368.89 on the period I to III. An increase of 35.86 was realized between periods I to III. Therefore, the increased on market price of the share of Macchapuchere Bank Ltd. from base date to day of announcement is basically attributed to announcement; market price of the share went further up by Rs.17 during periods III to IV and became Rs.345.

Theoretically market of the share should have gone up for few days just after the rights announcement, which did happen in case of Macchapuchere Bank Ltd. due to holder's record date. It means obviously, that the investors who purchased the share of Macchapuchere Bank Ltd. on the day of announcement or on wards were entitled to buy rights share. It is meeting to the theory of right issue.

Investors after the date of announcement may have thought that, number of share were going to increase. EPS were going to decrease or Ex-right price of share was going to decrease. It is believed that the original share price will be restored and the market shows normal price behavior after 180 days of announcement date, in case of Macchapuchere Bank Ltd., the share price was still in increasing trend and leveled up to at RS.452, which seemed moving according to the principle of rights.

Rights offering theory doesn’t match in case of Macchapuchere Bank Ltd.

Market price of stock	=	Rs.328	
Value of rights	=	Rs.52.65	
Ex-right price	=	Rs.275.35	(Annex 4)

The value of the share after the allotment should be around Rs.275.35, but the share price of Macchapuchere Bank Ltd. was Rs.452 after six month of right share announcement. Thus the share of Macchapuchere Bank Ltd. was overpriced.

4.8 Analysis of Share price movement of Finance Companies

1. Analysis of Share price movement of Siddhartha Finance Co. Ltd.

Table: 4.8.1.1
Analysis of Share price movement of Siddhartha Finance Co. Ltd.

Selected Points of time	Share Price (app.1)	Price Relatives	Total Price index of equity capital (app.1)	Price index converted to new base	% change from base	Adjusted price relatives 2 as % of 4	% change from base
	1	2	3	4	5	6	7
Three month before announcement(I)	165	100	210.42	100	-	100	-
Ten days before announcement(II)	147	89.09	207.23	98.48	(1.52)	90.46	(9.54)
Announcement day(III)	150	90.91	205.83	97.82	(2.18)	92.94	(7.06)
Seven days after announcement(IV)	150	90.91	205.82	97.82	(2.18)	92.94	(7.06)
Six month after announcement(V)	130	78.79	205.10	97.48	(2.52)	80.83	(19.17)

When Siddhartha Finance Co. Ltd. offered the rights, market was quite steady. In the Table No.4.8.1.1 column 1 shows the share price of Siddhartha Finance Co. Ltd. and column 3 shows the price index of equity capital. Three month before the announcement date, its share price was Rs.165 and it came to Rs.147 ten days before the announcement date and share price of Siddhartha Finance Co Ltd increased by Rs.3 and it became Rs.150 in the day of announcement. It remained Rs.150 even seven days after announcement date and decreased to Rs.130 after the six months of announcement date.

While looking to the general market movement in column 3, it shows the decreasing trend. It was 210.42 six month before the announcement date, then it came to 207.23 ten days before the announcement date and 205.83 in the date of announcement it remained 205.82 even after seven days of announcement and it was 205.10 after six month.

Analyzing the point II and IV in above table share price behavior of Siddhartha Finance Co, can not be attributed t rights share announcement. The share price has remained similar in the day of announcement ad after seven days which was because of general market movement. Column 5 & 7 further defines that in the case of Siddhartha Finance Company right share practice doesn't meets the theory. This can be because of holder of record date. It's holder of record date was 2060-6-14 while announcement date was 2060-8-9 which is not consistent with the theory of right offering. According to the theory the price of share will increase after the announcement and it decreases after the allotment of share to the extent of value of right.

Market price per share = Rs.150

Value of right = Rs.25

Ex-right price = Rs.125 (Annex 4)

The share price should be around Rs.125 after the allotment of share which was similar to the share price of Siddhartha Finance Company after six month.

2. Analysis of Share price movement of Peoples Finance Co. Ltd.

Table: 4.8.2.1
Analysis of Share price movement of Peoples Finance Co. Ltd.

Selected Points of time	Share Price (app.1)	Price Relatives	Total Price index of equity capital (app.1)	Price index converted to new base	% change from base	Adjusted price relatives 2 as % of 4	% change from base
	1	2	3	4	5	6	7
Three month before announcement(I)	105	100	207.15	100	-	100	-
Ten days before announcement(II)	95	90.48	208.48	100.64	0.64	89.90	10.1
Announcement day(III)	95	90.48	209.10	100.94	0.94	89.73	10.27
Seven days after announcement(IV)	95	90.48	208.99	100.89	0.89	89.63	10.32
Six month after announcement(V)	95	90.48	206.76	99.81	(0.19)	90.65	9.35

Above table shows that share price movements of Peoples finance Company Ltd. and general market movement we can see that before three months of announcement the share price was Rs.105 and it dropped to Rs.95 ten days before announcement date. The share price has fallen below par value because of the performance of the company then on the day of right announcement the share price was constant at Rs.95. It was Rs.95 even seven days after the rights share announcement and it was Rs.95 after six months.

While looking to the general market movement it also shows quite similar trend. It was 207.15 three month before announcement date and it came up 208.48

ten days before announcement date similar level of increment was seen in the day of announcement in price index but it dropped to 208.99 seven days after announcement and to 206.76 six month later. After six month according to our assumption the share price behavior come to its original condition.

But in the case of people finance company's it doesn't come true. Before three month, share price was Rs.105 but after six month I t was only Rs.95. This is due to dilution in capital. The company is in loss and holder's record date is also prior to announcement date.

On the day of rights share announcement, share price was Rs.95 which is below than par value. Therefore, there was no value of rights because the value of rights can not be negative.

3. Analysis of Share price movement of National Finance Co. Ltd.

Table: 4.8.3.1
Analysis of Share price movement of National Finance Co. Ltd.

Selected Points of time	Share Price (app.1)	Price Relatives	Total Price index of equity capital (app.1)	Price index converted to new base	% change from base	Adjusted price relatives 2 as % of 4	% change from base
	1	2	3	4	5	6	7
Three month before announcement(I)	421	100.00	278.50	100.00	-	100.00	-
Ten days before(II) announcement	336	79.81	281.61	101.12	1.12	78.93	(21.07)
Announcement day(III)	330	78.38	277.83	99.76	(0.24)	78.57	(21.43)
Seven days after announcement(IV)	345	81.95	281.15	100.95	0.95	81.18	(18.82)
Six month after announcement(V)	365	86.70	303.12	108.84	8.84	79.66	(20.34)

When the National Finance Co. Ltd announced the rights to its existing shareholders, there was still a decreasing trend in general market movement. Price of National Finance Co. Ltd. was Rs.421 three months before the announcement. It was decreased to Rs.365 after 180 days of announcement date, nearly 13% decline over this period. While observing total price index of equity capital, it was slightly decrease from Rs.278.50 to Rs.277.83 on the period three month before announcement to announcement day. A decline of 0.24% was realized between periods three month before announcement to announcement day. Therefore the declination on market price of the share of National Finance Co. Ltd. from base date to day of announcement is basically attributed to market trend.

Alternatively, observing after the day of announcement, market price of the share went further increased by Rs.15 during period announcement day and seven days after announcement and became Rs.345. Theoretically market price of the share should have gone up for few days after the rights announcement, which happened in case of National Finance Co. Ltd. due to holder's record date. It means obviously, that the investors who purchased the share of National Finance Co. Ltd. on the day of announcement or on wards were not entitled to buy rights share. It is quite contrary to the theory of rights issue.

That is why market price of share went down instead of increasing. Investors after the date of announcement may have thought that, number of share were going to increase, EPS were going to decrease or Ex-right price of share price of share was going to decrease. It is believed that the original share price will be restored and the market shows normal price behavior after six months of announcement date, but in case of National Finance Co. Ltd., the share price was still in decreasing trend and leveled up to at Rs.365, which seemed moving according to the principle of rights.

Market Price of Stock = Rs.330

Value of One Right = Rs.115

Ex-rights Price of share = Rs.215 (Annex 4)

The value of the share after allotment should be around Rs.215, but the share price of National Finance Co. Ltd. was overpriced.

4. Analysis of Share price movement of NIDC Capital Market Ltd.

Table: 4.8.4.1

Analysis of Share price movement of NIDC Capital Market Ltd.

Selected Points of time	**Share Price (app.1)**	**Price Relatives**	**Total Price index of equity capital (app.1)**	**Price index converted to new base**	**% change from base**	**Adjusted price relatives 2 as % of 4**	**% change from base**
	1	2	3	4	5	6	7
Three month before announcement (I)	400	100	265.62	100	-	100	-
Ten days before announcement(II)	410	102.5	204.28	76.91	(23.09)	133.27	33.27
Announcement day(III)	410	102.5	201.06	75.69	(24.31)	135.42	35.42
Seven days after announcement(IV)	220	55	216.39	81.47	(18.47)	67.51	(32.49)
Six month after announcement(V)	180	45	223.87	84.28	(15.72)	53.39	(46.61)

Above table shows the share price movement of NIDC Capital market. Column 1 shows that three months before the announcement of right share by NIDC Capital market Ltd. Its share price was Rs.400, It was Rs.410 before ten days of announcement date and it remains Rs.410 even in the day of announcement. While looking to general market movement in column 3, price index is 265.62.Three months before announcement date it has come to 204.28 ten days before announcement date & it was 201.06 in announcement date.

Thus, the share price behavior of NIDC Capital Market has moved quite different to the general market movement. It may be because of signally effect or may be due to performance of the company. The share price has drastically dropped to Rs.220 after seven days of announcement. But while we look to the price index it has increased from 201.06 to 216.39 which is not consistent with the theory of rights offering and its share price came to Rs.180 after six months of announcement date where as the general market shows increasing trend.

Thus, after analyzing the share price movement of NIDC Capital market and general market movement, we can summarize that the rights issue practice of NIDC capital market doesn't meet the theory of rights offering. The case of decrease in share price after the announcement of right offering was record date. Holder of record date of NIDC capital market was 2058-12-19 where as announcement date was 2058-12-19 which is not with in the theory of right offering. Investors may not rush to the share market to purchase the share of NIDC capital market because they can't be able to enjoy the right offering. On the other side, investor who want to purchase the NIDC's share may think that number of share were going to increase where as earning per share was going to decrease and ex-right price of share was going to decrease. Due to there expectation the share price falls down after the rights announcement.

According to the theory the price of share will increase after the announcement and it decrease after the allotment of share to the extent of value of right.

Market price per share = Rs.410

Value of right = Rs.206.67

Ex-right price = Rs.203.33 (Annex 4)

Share price should be Rs.203.33 approximately after the allotment of shares but after 6 months it was only Rs.180. The share price was below theoretical value. Therefore it can be said that after right issue, NIDC's stock was under priced.

4.9 Analysis of Share price movement of Hotel

Analysis of Share price movement of Taragaun Regency Hotel Ltd.

Table: 4.9

Analysis of Share price movement of Taragaun Regency Hotel Ltd.

Selected Points of time	Share Price (app.1)	Price Relatives	Total Price index of equity capital (app.1)	Price index converted to new base	% change from base	Adjusted price relatives 2 as % of 4	% change from base
	1	2	3	4	5	6	7
Three month before announcement(I)	40	100	280.2	100	-	100	-
Ten days before announcement(II)	*	-	270.6	96.57	3.43	-	-
Announcement day(III)	*	-	287.4	102.7	2.7	-	-
Seven days after announcement(IV)	*	-	295.9	105.6	5.6	-	-
Six month after announcement(V)	*	-	315.1	112.45	12.45	-	-

** No transaction held.*

By observing the above table, we find the infrequent share transactions occurred in the stock exchange. Data that is required for the analysis were not available in Taragaun Regency Hotel. So, we can't meet conclusion because there is no transaction as well as no movement of share price is found.

There may various reasons for not transaction of share of Taragaun Regency Hotel. We find growing trend of price index but there is no transaction, its main cause may worse financial position of hotel. Net worth per share is very low which is Rs.25.38 but paid up value per share is Rs.100. Continuously hotel had been facing loss, the time of right offering 26-3-2006 it bears Rs.164.36 million loss. Loss per share is Rs.22.09.

By these inferior financial positions the investors didn't want to buy its share so we can't find its transaction. Its market price per share is just Rs410, then after using right and buying new share it may cause of again reduction of share price but share holders have to par Rs.100 to use their right that's why many shareholders didn't use their right. Its subscription ratio was just 57.45%.

Thus, hotel's right offering decision was partially fails it doesn't meet theory. Right offering has negative impact.

4.10 Analysis of Share price movement of other

Analysis of Share Price Movement of Necon Air Ltd.

Table: 4.10
Analysis of Share Price Movement of Necon Air Ltd.

Selected Points of time	Share Price (app.1)	Price Relatives	Total Price index of equity capital (app.1)	Price index converted to new base	% change from base	Adjusted price relatives 2 as % of 4	% change from base
	1	2	3	4	5	6	7
Three month before announcement(I)	154	100	255.64	100	-	100	-
Ten days before announcement(II)	277	109.06	273.76	107.08	7.08	101.85	1.085
Announcement day(III)	309	121.65	282.37	110.46	10.46	110.13	10.13
Seven days after announcement(IV)	366	144.09	295.06	115.42	15.42	124.84	24.84
Six month after announcement(V)	235	92.52	298.66	116.82	16.82	78.75	(21.25)

When the Necon Air Ltd. announced the right to its existing shareholders, there was still an increasing trend in the general market movement. Share price of Necon Air Ltd. was Rs.254 three month before announcement. It increased up to Rs.277 ten days before the announcement date and Rs.309 at the day of announcement. Seven days after the announcement date, the market price of share increased substantially up to Rs.366 despite the fact that general market movement was not so rapid.

Total price index of equity shares was 255.64 three month before the announcement date. It moved up to Rs.273.76 ten days, before the announcement date and to 282.37 at the day of announcement. Seven days after the announcement of right offering, total price index of equity shares reached up to 295.06 and even after six month after announcement date, it still increased up to 298.66, which obviously depicts the increasing trend in general market movement.

Column 4 in table shows the priced index converted to new base and column 5 shows the percentage increase or decrease in adjusted price indices from the base index.

Column 5 shows that price index is increased by 7.08% seven days before announcement and by 10.465 in the day of announcement. After seven days of announcement date, increased by 15.42% and by 16.82% after six month of the announcement date.

Similarly, column 6 & 7 shows the adjusted share price and its percentage increase or decrease from the base date respectively. In the column 7, adjusted share price was increased by 1.85% ten days before announcement date and by 10.135 at the day of announcement.

But after seven days of announcement date, the adjusted share price increased by 24.84% from the base price index. After seven days of announcement date, increase in the adjusted share price is far more than the increase in the price index converted to new base, which is just 15.42% such a large percentage of increase in the adjusted share price provides sufficient evidence to argue that this price rise must have been attributed by the announcement of right offering to the existing shareholders. In this case the increase in the share price up to 15.42% can be attributed to general market movement because general market is increased by 15.42% and any further increment effect of right offering to the existing share holders. Hence in the case of Necon Air Ltd. there is completely positive impact & completely follow the theory of right offering on the share price fluctuation.

Market price per share = Rs.309

Value of right = Rs.104.5

Ex-right price = Rs.204.5 (Annex 4)

The value of the share after the allotment should be around Rs.204.5, but the share price of Necon Air Ltd. was Rs.235 after six month of right share announcement. Thus the share of Necon Air Ltd. was overpriced.

4.11 Comparison of Stock Price before and after Right share issue

After the right offering by the company, what is the impact on the company's market price per share is evaluated here. After evaluating the market price per share we can comparison between stock price before and after right share issue.

Basically, we know that the price of the share should be decreased after Right share issue. Pre right issue price is the closing market price one month prior to right share issue and post right issue price is the closing market price after one 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 Pre Right issue price and this phenomenon is theoretically correct. The zero change indicates that the Post Right issue price and Pre Right issue price are equal and this is also theoretically wrong.

Table: 4.11

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 (%)
Commercial Bank				
1	Laxmi Bank Ltd.	1190	1055	(11.34)
2	Machhapuchere Bank Ltd	415	335	(19.28)
3	Nepal SBI Bank Ltd.	459	370	(19.39)
4	Bank of Kathmandu	820	430	(47.56)
5	Nepal Bangladesh Bank	337	393	16.62
Financial Companies				
6	National Finance Co. Ltd	342	309	(9.65)
7	NIDC Capital Market	380	190	(50.00)
8	Peoples Finance Ltd	100	95	(5.00)
9	Siddhartha Finance Co. Ltd	150	150	-
Hotels and Others				
10	Necon Air Ltd	277	408	47.29
11	Taragaun Regency Hotel	40	40	-

Source: Trading Reports of NEPSE

$$\text{Change in Price}(\%) = \frac{\text{Post Rt. Issued Price - Pre Rt. Issue Price}}{\text{Pre Rt. Issue price}} \times 100$$

From the above table it is clear that in majority of the cases of the change is negative. This means majority of the companies follow the theory i.e. the Market Price Per share decreases after right share issue. Among the 11 sample companies, seven company's share price has decreased after Right Share issue two companies show no change i.e. the Market Price per share of those companies remained the same after Right share issue. The Market Price per share of the remaining two companies increased after Right share issue. From the above analysis it can be concluded that generally the market price decreases after the right share offering.

4.12 Comparison of Theoretical Price and Actual Market Price after Right share issue

After the right offering by the company what is the impact on the company's market price per share due to right offering, we have necessary to calculate the Theoretical Market Price. After evaluating the market price per share and the theoretical price, we can comparison between theoretical price and actual market price after right share issue.

The market price after ex-right date compared with Theoretical Market price to measure the effects. The comparison results of the firms measure the impact of Right share issue on market price of share, positive change in share price means share price after right share issue are higher than theoretical market price. This is good indicator for shareholders and company; it means they have good signaling effect. Negative change means share price after right share issue are lower than theoretical price.

Table: 4.12

Comparisons of Theoretical and Actual Market Price after Right Share Issue

S.No.	Name of companies	Actual MPS after Rt. issue	Theoretical value of share after Rt. Issue	% Change
Commercial Bank				
1	Laxmi Bank Ltd.	1055	968	8.99
2	Machhapuchere Bank Ltd	335	275.34	21.67
3	Nepal SBI Bank Ltd.	370	254.67	45.29
4	Bank of Kathmandu	430	457.5	(6.01)
5	Nepal Bangladesh Bank	393	232.5	69.03
Financial Companies				
6	National Finance Co. Ltd	309	215	43.72
7	NIDC Capital Market	190	203.33	(6.56)
8	Peoples Finance Ltd	95	-	-
9	Siddhartha Finance Co. Ltd	150	125	20.00
Hotels and Others				
10	Necon Air Ltd	408	204.5	99.51
11	Taragaun Regency Hotel	40	-	-

Source: Annual Reports of SEBON and Trading Reports of NEPSE.

$$\%Change = \frac{\text{Actual Price - Theoretical Price}}{\text{Theoretical Price}} \text{ x } 100$$

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 SEBON and theoretical price of the share after right share is calculated in Annex 4

The above table shows that the actual market price of Laxmi Bank Limited is Rs.1055 and it's theoretically market price is Rs.968. The % change between the two prices is 8.99 %.

The Actual Market Price of Machhapuchere Bank Ltd. and Nepal SBI Bank Ltd. are respectively Rs.335 and Rs.370, the theoretical price of whose is calculated to be respectively Rs.275.34 and Rs.254.67 causing the change of 21.67% and 45.29%.

The actual market price of Bank of Kathmandu Ltd. is Rs.430 and its theoretical price is higher than actual market price is Rs.457.5 and thus the change is -6.02%. This negative change indicates that the right share announcement cannot spread positive message among the investors.

The Actual Market Price of Nepal Bangladesh Bank Ltd. is Rs.393, the theoretical price of whose is calculated to be Rs.232.5 causing a change of 69.03%.

The actual market price of NIDC Capital Market Ltd. is Rs.309 and its theoretical price is lower than actual market price is Rs.215 and thus the change is -6.56%. This negative change indicates that the right share announcement cannot spread positive message among the investors

The Actual Market Price of National Finance Co. Ltd. and Siddhartha Finance Co. Ltd. are respectively Rs.309 and Rs.150, the theoretical price of whose is calculated to be respectively Rs.215 and Rs.125.

The actual market price of Necon Air Ltd. is Rs.408 and its theoretical price is higher than actual market price is Rs.204.5 and thus the change is -99.54%. This negative change indicates that the right share announcement cannot spread positive message among the investors.

From the above analysis, it is found that out of 11 sample companies, two companies have Theoretical Market Price higher than Actual Market Price causing negative percentage change and the seven companies have Actual Market Price higher than the Theoretical Market Price causing positive change. In case of Peoples Finance and Taragaun Regency Hotel their value of rights are zero because their market price per share at the time of right offering is less than par value. So, decision of right offering of these companies is wrong on the other hand the investor takes wrong decision again because they bought shares of these companies by Rs.100 but after book close they only get less than Rs.100 so the researcher can conclude that the share holders of the Peoples Finance & Taragaun Regency Hotel are not rational.

4.13 Correlation coefficient between share price movement and movement in general market

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

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

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

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

4.13.1 Correlation coefficient between share price movement and movement in general market of Commercial Bank

Table: 4.13.1
Correlation Coefficient between share prices and NEPSE Indices

S.N	Sample Companies	Correlation Coefficient	Coefficient of Determination	Probable error (P.E.)	6 P.E.
1	Laxmi Bank Ltd.	0.64	0.4096	0.26	1.56
2	Nepal Bangladesh Bank	0.832	0.6922	0.09284	0.557
3	Bank of Kathmandu	0.8925	0.7965	0.06138	0.0968
4	Nepal SBI Bank Ltd.	0.61	0.37	0.19	1.14
5	Machhapuchere Bank Ltd	0.90	0.81	0.06	0.36

(Annex 3)

In case of Laxmi Bank Ltd. there is high degree of positive correlation (i.e. r=0.64). The coefficient of determination i.e. r^2 =0.4096 means that about 40.96% of variation in the share price is explained by the general market movement. The coefficient of correlation is lower than 6 P.E. (i.e. 6P.E=1.56) which proves that correlation is not significant. The coefficient of determination i.e. r^2 =0.4096 means that about 40.96% of variance in share price is explained by general market movement.

In case of Nepal Bangladesh Bank Ltd., there is high degree of positive correlation i.e. r= 0.832 between share price movement and general price movement. This relation is further proved by the coefficient of determination which is 0.6922or 69.22% and correlation coefficient (r) is greater than 6P.E Thus correlation is significant and reliable. So, we can conclude that share price behavior of Nepal Bangladesh Bank Ltd. is because of general market movement.

In case of Bank of Kathmandu., there is high degree of positive correlation i.e. r= 0.8925 between share price movement and general price movement. This relation is further proved by the coefficient of determination which is 0.7965 or 79.65% and correlation coefficient (r) is greater than 6P.E Thus correlation is significant and reliable. So, we can conclude that share price behavior of Nepal Bangladesh Bank Ltd. is because of general market movement.

In another case of Nepal SBI Bank Ltd, there is high degree of positive correlation i.e. of 0.61, but it is less than 6P.E which is 1.14, that means correlation is not significant. The coefficient of determination i.e. r^2 =0.37 means that about 37% of variance in share price is explained by general market movement. Thus rights offering have some sort of impact on share price of Nepal SBI Bank Ltd.

In case of Machhapuchere Bank Ltd. there is high degree of positive correlation (i.e. r=0.90). The coefficient of determination i.e. r^2 =0.81 means that about 81% of variation in the share price is explained by the general market movement. The coefficient of correlation is greater than 6 P.E. (i.e. 6P.E=0.36) which proves that correlation is significant. So, we can conclude that share price behavior of Machhapuchere Bank Ltd. is because of general market movement.

4.13.2 Correlation coefficient between share price movement and movement in general market of Finance Companies

Table 4.13.2

Correlation Coefficient between share prices and NEPSE Indices

S.N	Sample Companies	Correlation Coefficient	Coefficient of Determination	Probable error (P.E.)	6 P.E.
1	Siddhartha Finance Ltd.	0.8338	0.6952	0.092	0.552
2	Peoples Finance Ltd.	-0.80	0.64	0.1086	0.6515
3	National Finance Co. Ltd	0.49	0.24	0.22	1.32
4	NIDC Capital Markets Ltd	0.022	0.00048	0.30	1.81

(Annex 3)

In case of Siddhartha Finance Ltd.., there is positive relationship between its share price movement and general market movement, but its correlation is not significant because its correlation coefficient (i.e. r = 0.8338) is greater than probable error (i.e. 6 P.E =0.552). The coefficient of determination i.e. r^2 =0.6952 means that about 69.52% of variance in share price is explained by general market movement.

In case of Peoples Finance Ltd., there is high degree of negative correlation i.e. r = -0.80 which is significant too because r> 6P. E (6P.E = 0.6515). It means that there is negative correlation between share price movement and general market movement. Coefficient of determination is 64% for their relationship.

In case of National Finance Co. Ltd., there is positive relationship between its share price movement and general market movement, but its correlation is not significant because its correlation coefficient (i.e. r = 0.49) is less than probable error (i.e. 6 P.E =1.32). The coefficient of determination i.e. r^2 =0.24 means that about 24% of variance in share price is explained by general market movement.

NIDC capital markets stock, there is also positive but very low degree of relationship between its share price movement and general market movement but its correlation is not significant because its correlation coefficient (i.e. r= 0.032) is less than probable error (i.e. P.E = 0.3015). Rapid decline in its share price is not because of general market movement because its coefficient of determination (r^2) is = 0.000484.

4.13.3 Correlation coefficient between share price movement and movement in general market of Hotel and Other companies

Table: 4.13.3

Correlation Coefficient between share prices and NEPSE Indices

S.N	Sample Companies	Correlation Coefficient	Coefficient of Determination	Probable error (P.E.)	6 P.E.
1	Necon Air Ltd.	0	0	0	0
2	Taragaun Regency y Hotel	0	0	-	-

Finally in the case of Necon Air Ltd & Taragaun Regency Hotel Ltd. there is no correlation between share price movement and NEPSE index. We can't find any transaction through out the period of right offering. This company suffers from its own problems so there is fewer links to outsider.

4.14 Use of T-Statistics to measure the impact of right offering on the share price and on general market

Theoretically, after the rights issue announcement generally share price of concern company move upward till the date of issue closed. To analyze whatever there came any significant change in share price, we have used t-statistics for this we have. For this we have taken the share price and price index before and after announcement date.

Following table shows the calculated and tabulated values of statistics of respective companies

4.14.1 The calculated and tabulated values of statistics of respective Commercial Banks

Table:4.14.1

T-test of share price of related Commercial Banks

S.N.	Sample Companies	Test for	Significance Level	Degree of Freedom	T-Tab	T-cal	Result
1	Laxmi Bank Ltd.	SP	5%	8	2.306	7.07	Significant
2	Nepal Bangladesh Bank Ltd.	SP	5%	8	2.306	/2.49/	Significant
3	Bank of Kathmandu Ltd.	SP	5%	8	2.306	13.77	Significant .
4	Nepal SBI Bank Ltd.	SP	5%	8	2.306	3.85	Significant .
5	Machhapuchere Bank Ltd.	SP	5%	8	2.306	1.99	Insignificant

SP = Share Price (Annex 2)
NI =NEPSE Index
Tab =Tabulated
Cal =Calculated

Above table clearly shows that the calculated value of t in case of Laxmi Bank Ltd. is 7.07, where as the tabulated value at 5% level of significance at 8 degree freedom is 2.306. Since, t cal is greater than t tab. So it can be concluded that there is significant difference between share prices before and after right offering. Thus we can say that right offering by Laxmi Bank Ltd. doesn't follow the theory hence Null hypothesis is rejected.

In case of Nepal Bangladesh Bank Ltd., the calculated value of t is /2.49/, where as the tabulated value at 5% level of significance at 8 degree freedom is 2.306. Since, t cal is greater than t tab. So it can be concluded that there is significant difference between share prices before and after right offering. In the same way t cal is less than t tab during these period. Thus we can say that right offering by Nepal Bangladesh Bank Ltd. doesn't follow the theory hence Null hypothesis is accepted.

In the case of Bank of Kathmandu Ltd., the calculated value of t for share prices is 31.4; where as, the tabulated value at 5% level of significance for 8 degree of freedom is 2.306. Since t cal > t tab, the hypothesis that the share price don't change, significantly is rejected and alternative hypothesis that the share price has changed significantly is accepted. Hence, we conclude that after the announcement of the rights offering, share price has increased significantly.

In the case of Nepal SBI Bank Ltd., the calculated value of t for share prices is 3.85; where as, the tabulated value at 5% level of significance for 8 degree of freedom is 2.306. Since t cal > t tab, the hypothesis that the share price don't change, significantly is rejected and alternative hypothesis that the share price has changed significantly is accepted. Hence, we conclude that after the announcement of the rights offering, share price has increased significantly.

In case of Machhapuchere Bank Ltd. calculated value of t for the share price is 1.99 where as tabulated value of t at 5% level of significance with 8 degree of freedom is 2.306. Since, t cal is smaller than t tab. So it can be concluded that there is not significant difference between share prices before and after right offering. Thus we can say that right offering by Machhapuchere Bank Ltd. ltd doesn't follow the theory hence Null hypothesis is accepted.

4.14.2 The calculated and tabulated values of statistics of respective Finance Companies

Table: 4.14.2

T-test of share price of related Finance Companies

S.N	Sample Companies	Test for	Significance Level	Degree of Freedom	T-Tab	T-cal	Result
1	Siddhartha Finance Co. Ltd	SP	5%	8	2.306	-	-
2	Peoples Finnace Co. Ltd	SP	5%	8	2.306	3.00	Significant
3	National Finance Co. Ltd	SP	5%	8	2.306	4.41	Significant
4	NIDC	SP	5%	8	2.306	17.80	Significant

(Annex 2)

In the case of Siddhartha Finance Ltd., there is no enough transaction of share in NEPSE which is secondary market at the time of right offering. So, it can't be applied hypothetical test.

In case of Peoples Finance Ltd., calculated value of t for the share price is 3.00, whereas the tabulated value at 5% level of significance with 8 degree of freedom is 2.306. Since t-cal is greater than t-tab, it can be inferred that the differences between the share prices few days before and after the announcement of rights offering is significant. This change is occurred due to rights offering is accepted.

In case of calculated value of t for National Finance Co. Ltd. is 4.41, where as the tabulated value at 5% level of significance is 2.306 for 8 degree of freedom. Since t-cal is higher than t-tab, it can be informed that the difference between the share prices few days before and after the announcement of rights offering is significant. But the differences in the share price indices of total equity capital are insignificant. Thus, it can be inferred that the heavy decrease in share price of its stock can be attributed to rights offering. In this case, alternative hypothesis that the share price changes significantly after the announcement of the rights share is accepted and the null hypothesis that the share price doesn't changes significantly after the announcement of the rights offering is rejected.

Finally, the calculated value or t for NIDC Capital Markets Ltd. is 17.80, whereas the tabulated value at 5% level of significance is 2.306 for 8 degree of freedom. Since t-cal is greater than t-tab, it can be inferred that the differences between the share price few days before and after the announcement of rights offering is significant. Same conclusion may derive for the total index because t-cal is greater than t-tab during the same period i.e. t-cal > t-tab. Thus the alternative hypothesis that the share price changes significantly due to rights offering is accepted.

4.14.3 The calculated and tabulated values of statistics of respective Hotel and Other companies

Table: 4.14.3
T-test of share price of related Hotel and Other companies

S.N	Sample Companies	Test for	Significance Level	Degree of Freedom	T-Tab	T-cal	Result
1	Necon Air Ltd.	SP	5%	8	2.306	/5.79/	Significant
2	Taragaun Regency Hotel	SP	5%	8	2.306	-	-

(Annex 2)

In the case of Necon Air Ltd. T-cal is greater than t tab. So, there is insignificant change in price of share and market index before ad after announcement of right share hence alternative hypothesis that share price before and after announcement of right differ significantly is not accepted, Null hypothesis is accepted.

In the case of Taragaun Regency Hotel there is no enough transaction of share in NEPSE which is secondary market at the time of right offering. So, it can't be applied hypothetical test.

4.15 Presentation and Analysis of Primary Data

This study is based on the secondary data but some information is collected through primary data by taking personal interview and distribution of questionnaire to the issuing company, broker and investors (i.e. shareholders) as well. Questionnaire is present in appendix no A questionnaire is a format list of questions designed to gather responses from respondents on a given topic. Thus, a questionnaire is an efficient data collecting mechanism when the researcher has known what is required and how to measure the variables of interest (Wolf and Pant, 1999:144).

In the context of Nepal, these are no long history of capital market. Our capital market is in the process of modernization. If we compare the development stage of our capital market with that of highly development or developed countries, undeniably, it is under-developed one. Even the comparison of cross boarder country like India, our capital market is incomparably small and underdeveloped. 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.

1. Reason for Issuing Right Share

Table: 4.15.1

Reason for Issuing Right Share

Option	Issuing company	Brokers	Investors	Total	Percentage
a. To fulfill needed extra capital	-	-	6	6	15
b. To meet directives of NRB	10	5	15	30	75
c. To give benefit to shareholders	-	-	4	4	10
d. Any other	-	-	-	-	-
Total	10	5	25	40	100

Source: Direct field survey 2010

We find Out of 40 total respondents 15% of them thinks that the companies issue right when they needs extra capital and attain more adequate size, while 75% believe on all companies have to meet the directives of NRB, while 10% give their opinion that when the company want to give benefit to shareholder by capital gain then co. issue right share

2. Beneficiaries of the right offering

The researcher's next question was regarding the beneficiaries of the rights offering. About 40% of the respondent ticked in the all of them option (i.e. issuing company, shareholder with rights and security broker), 35% of the respondent said that both issuing company and shareholders with rights will be beneficial and only 25% of the respondent said that shareholder with rights will be benefited.

3. Reliable information from the company regarding right share issue

Out of 40 total respondents, 45% (A) Yes, the investors/existing shareholders able to get reliable and adequate information regarding rights issue, while 55% respondents, give their opinion that, (B) No, shareholders/investors are unable to get information from the company regarding right issue.

Out of 10 Issuing company 4 says that existing shareholders of any company are not getting enough information about the announcement of right share and 6 says that information is enough to existing shareholders. 15 of the investor out of 25 say that they are not getting enough information but 10 say that they are getting enough information. Out of 5 broker 3 says that existing shareholders of any company are not getting enough information about the announcement of right share and 2 says that information is enough to existing shareholders

Table: 4.15.3

Reliable information from the company regarding right share issue

Comment	Issuing Company	Broker	Investors & experts	Total	Percentage (%)
A. Yes	6	2	10	18	45
B. No	4	3	15	22	55
Total	10	5	25	40	100

Source: Direct Field Survey, 2010

From this analysis researcher can conclude that majority of the shareholders are not getting enough information about the right share announcement. Therefore No. of share subscripted is lower in most of the cases.

Sources of Information of Nepalese investors

S.N	Particular	Percentage
1	Magazine/Newspaper	87
2	Expertise's	9
3	Friend	4
4	Any other	0

Source: Direct Field Survey, 2010

Among the respondents who collect information regarding right share issue announcement 87% collects information from magazines/newspaper, 9% from expertise and 4% from friends. This has been presented in above table.

4. Awareness about the right share issue

Table: 4.15.4
Awareness of Nepalese Investors on Right Share Issue

Particular	Issuing Company	Broker	Investors	Total	Percentage
a. All of them	2	-	-	2	5
b. None of them	-	-	-	0	0
c. Very few of them	-	3	25	28	70
d. Majority of them	8	2	-	12	30
Total	10	5	25	40	100

Source: Direct Field Survey, 2010

In another question about the awareness about the right share issue, most of the respondents i.e. 70% had said that very few investors are well aware about right share issue; 30% said that majority of the shareholders know about right share issue phenomenon. Only 5% respondents had said that all of the investors have known about the phenomenon of right share issue. This has been presented in above table.

5. Impact of right share on stock price movement

When the question was about the effect of the right share on the market, price of the stock than the answer was as following.

Out of 40 total respondents, 20% (i.e. 8 respondents, 2 from issuing company, 2 from respondent's broker and 4 from investors) agree that, stock price should be increased. However 55% respondents (i.e. 22 respondents, 7 from issuing company, 3 from Broker and 2 from investors) show their opinion that stock should be decreased. While 10% of respondents (i.e. 4 respondents, 1 from issuing company, and 3 from investors) believe that the stock price should remains constant and 15% respondents (i.e. 6 respondents, 6 from investors don't know effect of stock price movement by the cause of right issue.

Table: 4.15.5
Right share issues and its impact on stock price movement

Particular	Issuing Company	Broker	Investors	Total	Percentage
a. Should Raise	2	2	4	8	20
b. Should fall	7	3	12	22	55
c. Remains constant	1	-	3	4	10
d. Don't Know	-	-	6	6	15
Total	10	5	25	40	100

Source: Direct Field Survey, 2010

6. Rank the following factors from highest (1) to lowest (6) in terms of the effect on share price fluctuation

When the question was about the effect of the right share on the market, price of the stock than the answer was as following.

Table: 4.15.6
Ranking of share price fluctuation

S.N	Particular	Total	Rank
1	Dividend announcement	15	1
2	Right issue announcement	10	2
3	Political condition	7	3
4	Economic condition (inflation, deflation, Int. rates etc.	2	5
5	Directives of regulatory body	5	4
6	Natural disasters	1	6
	Total	**40**	

Source: Direct Field Survey, 2010

While rating the factors responsible for share fluctuation in Nepal, majority of the respondents had ranked dividend and bonus share announcement in the first place, right share announcement in the second place, political condition in the third place, and directives of the regulatory body in the sixth place. This has been presented in the table. According to the responses of the respondents the factors responsible for share price fluctuation can be ranked as:-

1. Dividend and Bonus share announcement
2. Right share issue announcement
3. Political Condition
4. Directives of Regulatory Body
5. Economic Condition
6. Natural Disasters

7. <u>Wealth position after Right Share Announcement</u>

While asking the question about the calculation of wealth position of shareholder after announcement of the right share result of the answer is in the given table.

Table: 4.15.7
Calculation of Wealth Position after Right Share Announcement

Comment	Issuing Company	Broker	Investors	Total	Percentage
All	-	-	15	15	40
Most of Them	3	3	12	18	45
None	-	-	-	-	-
Few investor	2	2	-	6	15
Total	10	5	25	40	100

Source: Direct Field Survey, 2010

From this table 3 out of 5 broker are saying that most of the investor calculate their wealth position after the announcement of the right share and 2 out of the total are saying that only few investor calculate the wealth position. While same question was put to the investor's 15 out of 25 respondent say that all of the investor calculate their wealth position after the announcement of the right share.

From this analysis research can concluded that most of the investor calculate their wealth position after announcement of right share.

8. Trend of right share issues in Nepal

In another question about the trend of right share issue, majority of the respondents had said that it is in the increasing trend i.e. 85% of the respondents had said that right share issue practice has been increasing year by year. Very few respondents i.e. 5% had said that it is in decreasing trend and 10% said that right share issue practice has neither increased nor decreased it as it was in the past. This has been presented in table.

Table: 4.15.8
Trend of Right Share Issue in Nepal

S.N.	Particular	Issuing Company	Broker	Investors	Total	Percentage
1	Increasing Trend	10	5	19	34	85
2	Decreasing Trend	-	-	2	2	5
3	As it was in the past	-	-	4	4	10
Total		10	5	25	40	100

Source: Direct Field Survey, 2010

9. Practices of right share on Nepalese corporate firm

Out of 40 total respondents, 50% of them agree that the Nepalese corporate. Firms, increasing practices of right shares, to raise the additional capital, while 25% of the respondents slightly agree that, practice of right share increase by the Nepalese corporate firms. However 10% respondents disagree and 15 respondents neutral, regarding practice of right share as a means of raising capital by the Nepalese corporate firms from the market.

Table: 4.15.9

Nepalese corporate firm practices the right share

Option	Issuing Company	Broker	Investors	Total	Percent (%)
a. Slightly Agree	4	2	4	10	25
b. Agree	6	3	11	20	50
c. Neutral	-	-	6	6	15
d. Disagree	-	-	4	4	10
Total	10	5	25	40	100

Source: Direct Field Survey, 2010

10. <u>Transfer of right share</u>

Out of 40 total respondents, 20%, 8 respondents (i.e.2 from issuing company, 2 from respondents' broker and 4 from investors) agree that the current legal provision is sufficient. However, 75%, 30 respondents (i.e.7 from issuing company, 3 from respondent's broker and 20 from investors) said that it should be transferable, while only twp respondent opinioned that it should not be transferable.

Table: 4.15.10

Opinion regarding legally transferable instrument called "right"

Comment	Issuing Company	Broker	Investors	Total	Percentage
A. Current provision is Satisfactory	2	2	4	8	20
B. Should be Transferable	7	3	20	30	75
C. Should not be Transferable	1	0	1	2	5
D. Don't Know	0	0	0	0	0
Total	10	5	25	40	100

Source: Direct Field Survey, 2010

12. <u>Reason for not being fully subscribed of right share</u>

Sometimes right share are not fully subscribed. There are many reasons for not subscribing the right share. Researcher asked a question to some of the Issuing Company, Broker and Investors about why the right shares are not fully subscribed. And the results of answer are presented in given table.

Table: 4.15.12
Why Right are not being fully subscribed?

Comment	Issuing Company	Broker	Investors	Total	Percent
a. Investor lack of knowledge about it	4	2	10	16	40
b. Inadequate legal provision	0	1	2	3	7.5
c. Promotional role played by the company is insufficient	5	2	9	16	40
d. Past performance of organization	1	0	4	5	12.5
Total	10	5	25	40	100

Source: Direct Field Survey, 2010

Out of 40 total respondents, 40% 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 12.5% respondents give their opinion (d) Past performance of organization and rest of respondents (i.e. 7.5%) give their opinion (b) inadequate legal provision are the main cause, for not full subscription o right share. However, no one respondent, mention other factors which might be responsible not subscription of full (i.e. 100%) right share. Action that the can be taken for maximum subscription of right.

13. <u>Problem that shareholder face with the absent of the right share</u>

When the question to the investor and brokers was about the problem that shareholder face with the absent of the right share, their answer were as follows.

Table: 4.15.13
Problem of Shareholders with Announcement of Right Share

Option	Issuing company	Brokers	Investor	Total	Percentage
a. Existing Shareholder can not sell their right if they want	6	2	15	23	57.5
b. They are bound to lose if they do not exercise their right	4	3	8	15	37.5
c. Total wealth of existing shareholder remain unchanged	0	0	0	0	0
d. Any others	0	0	2	2	5
Total	10	5	25	40	100

Source: Direct Field Survey, 2010.

57.5 percent of the total respondent (i.e. 23 respondents, 6 from issuing company, 2 from respondent's broker and 15 from investors) are agree with the option that existing share holder are bound to lose if they do not exercise their right because the price of the stock will fall after the book closed date. 37.5 percent of the total respondent (i.e. 15 respondents, 4 from issuing company, 3 from respondent's broker and 8 from investors) are agreed with the option that they can not sell their right if they want because there is not any provision of selling their right. Shareholders must be exercising their right other wise they lose their wealth position. Five percent of investors are agree with the option "Any other".

From this we can learn the problem of the existing shareholders was bound to lose and can not sell their right if they want.

15. Analysis for buying or selling stocks

Table: 4.15.15
Tools used by Nepalese investors in evaluate share price

S.N	Option	Issuing company	Broker	Investor	Total	Percentage
1	Economic analysis	-	-	1	1	4
2	Industry analysis	-	-	-	0	0
3	Company analysis	6	3	17	26	64
4	Stock price valuation	4	2	7	13	32
5	None of the above	-	-	-	0	0
	Total	10	5	25	40	100

Source: Direct field survey 2010

In another question about the tools used in the analysis of share price behavior, Out of 40 total respondents, 4% (i.e. 1 investor) had said that they make Economic analysis. However 64% respondents (i.e. 26 respondents, 6 from issuing company, 3 from respondent's broker and 17 from investors; majority of the respondents) said that they used Company analysis to evaluate stock price. While 32% of respondents (i.e. 13 respondents, 4 from issuing company, 2 from respondent's broker and 7 from investors) used stock price valuation tools. This has been presented in above table.

4.16 Problems of Right share Practice in Nepal

a) Low performance of SEBON and NEPSE : -

For making matured and stable capital market SEBON and NEPSE have to do more in the field of financial market. They don't doing rapidly as far as desirable due to the lack of financial problems and lack of expertise of their human resource. Neither they can persuade too many unlisted firms for listing nor can they increase more investing opportunity. That’s why there aren’t increasing trend of listing firm properly. No significant researches are held on the field of share market and right offering. They do not make investor protection act as well as any investor awareness programmes have not been launched.

b) Lack of transferable rights: -

Right is a financial Assets. It has some economic value so it should be negotiable, transferable and separable. One main cause of under subscription of right offering is lack of transferable right. This block not only provides an opportunity to share holder to sell and gain but it stops to providing good new investment alternative.

c) Short sighted investors: -

Due to the large no. of irrational investor Nepalese capital market can't take stable way. Nepalese capital market is affected only by ruomer this makes to our capital is very instable. They never look companies' financial statement, only some investor looks but they also do not look future prospects they have to look unto how their money is used by the company.

d) Lack of information flow:-

Right is re-announce-able instrument that is mailed to existing stockholders while observing the practices of Nepalese companies there is complete absence of mailing habit. Stockholders are not mailed all the terms and conditions mentioned in the issue prospects and this is distributed but nobody observe that how many stockholders get this prospectus. Who receive prospectus, they should calculate that proportionate holding and subscribe for additional shares if they want to do so themselves.

e) Imperfect legal provision:-

There are many weak points in our legal provision. That's why many practical difficulties may arise. Government also bear losses due to it's weak legal provision, due to imperfect legal provisions many right offering takes so long time that relevance of right offering are not exist .

f) Lack of Open market and free pricing: -

In Nepal, few big investors hold huge percentage Share of most companies. That's why share prices raises and decrease what they want.

4.17 Major Findings of the Study

Here, the effort has been made in present major findings of the study in rights share practice in Nepal and its impact on share price movement of some Commercial Banks and Finance groups. The major findings of the study are presented in following headings, correspondence to the study objectives.

4.17.1 Analyze the impact of right share issue on share price

- There is significance difference between the share prices of Laxmi Bank Ltd., before and after the rights issue. The Laxmi Bank's stock had followed the theory of rights offering i.e. after rights issue its share price increased significantly and after the allotment of the rights share and its share was traded in ex-right price.
- Similar trend was observed in case of Machhapuchere Bank Ltd. and Nepal SBI Bank Ltd.'s stock price. There were significant differences between the share prices of both banks before and after the rights issue.
- There was significant difference between the share price of National Finance Ltd., before and after the rights issue. Its stock price followed the theory of rights offering.
- In case of NIDC Capital Market's stock and stock of Peoples Finance, both companies share move downward immediately after the rights issue. Stock price of People Finance does not differ significantly and there was no value of rights because its market price was below the subscription price. While the stock price of NIDC capital market was dropped significantly after the sights share announcement.

4.17.2 Subscription of the Right Share Issued

- Under subscription of rights share is common phenomena in Nepal
- The major cause behind the under subscription of rights share is the lack of awareness among the investors, untraceable shareholders,

poor financial performance of the issuing company, financial problem of shareholders and lack of the provision for rights transfer.

- There is no easy and clear provision regarding the sales of under subscribed rights share in Nepal
- Recent year's subscription of rights share is in increasing trend.

4.17.3 Rights Share Practice in Nepal

- Rights offering are comparatively new practice in Nepal. Therefore, the sample companies are unable to raise the desired capital thought it and the practice does not follow the theory.
- Another major cause is dilution in shareholders wealth position is the holder's record dare. In some sample companies, offering rights holder's record date is price to the announcement date.
- Market is going to mature and company with track record is low.
- There are 43 cases of rights offering till the date. Most companies are issuing rights share in order to fulfill the capital requirement as per the NRB directives.
- There is no uniformity in the impact of rights offering of share price.
- Share holder of Nepalese companies lacks the knowledge about the right share and its impact of in their wealth position. Due to this, free movement of share price during rights on and ex-right is not confirmed.

4.17.4 Regarding the Impact of Rights offering in EPS

Theoretically, after the issue of rights share the earning per share of companies decreases. But if the company utilize the rights offering, so it raised fund in effective way the earning per share can be increased. Similar result has obtained in case of sample companies.

Chapter-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

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

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

Nepalese security market is in developing stage in comparison to other countries such as China, India, and United Kingdom. Nepalese security markets has practiced limited investment instrument such as equity share, debenture, preference, mutual fund, rights share and initial public offering. Thus, such limited number of investment instrument cannot attract the saving held by the potential investors. This is one of the causes for low market low market capitalization in stock market of Nepal. 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 2056/57 and 2057/58 each, 4 cases in 2058/59, 2059/60 and 2060/61 each 6 cases in 2061/62 and 11 cases in 2062/63 and 17 in 2063/64.

Although, since 13 years, Nepalese security markets is practicing the rights offering but its every essences is not seemed to be practiced here. Out of 142 listed companies in Nepal, there are only 60cases of rights offering till the FY 2064/65 but some cases of rights offering in Nepal meets the theory.

Rights share, a type of equity share issued by corporation to raise additional fund giving first priority to the existing share holders to take the share. Those corporations, which have already issued shares to the public allowed to issue rights shares, provided the share already issued and fully paid. Right share is issued giving proportionate right to the existing share holders to purchase the new share. It is option based financial approach, where existing shareholders are given an original ownership percentage of the shareholders. Right offering is a method of raising father fund from the existing shareholders by offering additional securities to them on a pre-emptive basis. It involves the offer of additional share to existing shareholders. These are offered in proportion of existing shareholder. Each existing shareholders received one rights for each share they owned. They normally offered at a subscription price some what lower than the current market price of the stock, within specified period of time. The pre-emptive right is the right of existing shareholders to maintain their ownership of the company by purchasing new shares issued by the company. The pre-emptive right gives holders of common stock the first option to purchase additional issue of common stock. Some times companies are bound to issue new shares of additional stock of existing shareholders because of pre-emptive right clause in the act of incorporation. If such clause are not include in the company charter then company has a choice of marking the sale to its shareholders or to an entirely new set of investors. The stock flotation is called right offering, if it sells to the existing shareholders. A right issue involves selling to ordinary shares to existing shareholders of the company.

Demand of the common stock of the company will increase by the right offering announcement, because they were entitled to have proportionate number of new shares at below than market price. On the other hand, all those existing share holders have on opportunity to bargain for more prices than currently prevailing in the market. Such phenomenon results the price of share to the upward direction. After the issuance of the right share price appear to suffer a temporary settable during the immediate ex-rights period. While a small part of the price fall could be due to information effects delayed until after the announcement date because of non-trading there appear to be no other plausible explanation, ultimate analysis, state of capital market in which several factors operate simultaneously, it of difficult to predict actual price of stock in which stock should be traded.

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

Rights issue is comparatively new practice in Nepalese financial markets. Therefore, researcher not found more have been undertaken in Nepal but there are several cases of studies taken outside the country. But researcher has made full effort to collect the related studies for review in second chapter. This study is basically based in secondary data but some primary data has been used as well. Secondary data was taken from SEBON, Newspaper and Annual Report of respective companies and primary data are collected through the personal interview and distribution of questionnaire to the concerned personal. To conduct this study, statistical tools as well as financial tools have been used. Now, the effort has been made in this chapter to present.

Only seven commercial banks, five finance company one hotel and one airline are taken as the sample of the study out of 60 right issuing cases.

Rights share practice is comparatively new phenomena in Nepalese next. There is no doubt that there are lots of things to work out to make the rights offering as effective instrument of raising fund.

When we look at the rights offering of fourteen sample companies there are only some cases of rights offering which has partially met the theory i.e. the share price has increased significantly after the announcement of right share and then traded on ex-right price after the allotment of rights shares otherwise in other cases share price has decreased significantly after the rights share announcement and it was traded even below the subscription price after the announcement date in the case of peoples finance Ltd. This all may be because of poor performance of the issuing company, keeping the holders record date prior to the announcement date by the company etc. thus the share price has been changed significantly after the rights share announcement but it was increased in some companies and decreased in other.

Almost in all cases of rights offering there exist some sort of under subscription of rights share. Some of shareholders even cannot get information about the rights share announcement made by their companies other who are informed are not all aware of what the rights share means and what can be its impact on their wealth position.

In Nepal rights are not transferable and it is also the cause of under subscription of rights share. There is no clear and easy provisions regarding sales of unsubscribed rights share and many companies are distributing it to their employees. The employees are gaining in the cost of existing shareholders. In Nepal there exist large number of shareholders holding the few share and they generally ignore about the rights share.

The legal provision and polices regarding issue of securities is not clear and the process of approval is lengthy. There is long formalities to be completed by issue manager before getting approval which takes long times. Some time it may take fiscal year and in the next fiscal year the essence of issue may not remain. And this is the reason that in some cases of rights offering holders record date remains prior to the announcement date which is not consistent with the theory of rights offering. The regulation regarding the calculation of premium is not clear and certain regulation require company to issue rights share in par value that result in wide difference between market price per share and subscription price.

Thus, finally we can say that rights offering have some impact on share price that can be positive or negative. The market price of share is also influenced by the general market movement to greater extent in Nepal. The capital market of Nepal is not matured. The flow of information is not effective and the investors are not all aware.

To analyze and generalize the collected data, descriptive and analytical research design has been adopted various financial, statistical and mathematical tools analyze such types of data, collected data are presented in the tabular form than such data are analyzed to meet the objective of the study.

5.2 Conclusion

From the analysis of primary and secondary data researcher has to reach in the following conclusion.

- Most of the companies which issued right share have faced the problem of under subscription.
- All sector have been practiced the right share. But Commercial Banks have issued the large volume of right share and more finance companies have been practiced the right share.
- Investors were not rational in the case of NIDC capital market ltd and taragaon regency hotel ltd. because market price of the stock is lower than the subscription price but more than 50 percent share was subscribed.
- Low performance of the related company is main cause of under subscription.
- Current rule and regulations are insufficient.
- Small investor does not want to attend the annual general meeting because they would not get any benefit from it.
- Shareholders who want to sell their right they can not sell their right. They must have to exercise their right or to lose their wealth position.
- Conclusively, rights share practice is comparatively new phenomena in Nepalese Financial Market. There are no easy things to work out to make the rights offering as effect instruments of raising capital.
- Share holders are not getting enough information about the right share in Nepal. Here, researcher has founded from the sample companies there are

more cases of rights offering which has met theory i.e. the share price has increased significantly after the announcement of rights share and then traded on ex-right price the allotment rights shares otherwise in few cases share price has decreased significantly after the rights share announcement and it was traded even below subscription price after the announcement date in case of Peoples Finance Ltd.. This all may be because of poor performance of the issuing company, keeping the holders record date prior to the announcement date by the company etc. Theoretically, the share price has been changed significantly after the rights offering but it was increased in more companies and decreased in others.

- Testing the hypothesis, researcher has obtained mixed result. Some company's rights share affects his share price movement and general market movement in more case positively correlated and some cases negatively correlated. A different result has obtained for share price movement during five periods. There is take long formalities by issue manager. The regulation regarding the calculation of premium is not clear and certain regulation require company to issue rights share in par value that result in wide difference between market price per share and subscription price.
- Finally, rights offering are increasing trend in Nepalese security market. Basically, Banking and Finance Sector's are more practicing. Rights offering have both positive and negative impact to change on share price. The market price of share is also influenced by general market movement to greater extent in Nepal.

5.3 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.

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

- First of all, shareholders are not clear about the rights offering its benefit and impact on their wealth position. So concerned authorities such as issuing companies, SEBON, NEPSE etc. should organize and launch various programmes to increase the awareness regarding the rights issue and its aspects.
- During analysis it is found that the share price behaviour of all sample companies doesn't follow the theory, one major causes of this is the poor performance of the company in the past. So rights issuing company should improve their image to make the shareholders safe and confident.
- The mechanism of information flow is not found to be appropriate and effective that result in heavy under subscription of right share. The effective alternative of information flow should be searched.
- The True objective behind the issue of Right Share must be disclosed for all stockholders. The information leakage before the actual announcement of right share issue must be prohibited and immediate action should be taken against the insiders.
- The critical factor affects the share price and Subscription on the holder's record date. The investors who purchase the share after that day are unable to get share. This can be better to set the proper holder record date by issuing companies.
- There should be need of Investment protection Act that helps to investors confidence and secured.
- Nepalese companies should break the tradition of raising funds by using right offering on which rights are issued at par which negatively affects on EPS and its growth rate. They can fix low discount on right share at the market price of share, that's why they can collect huge money by issuing little number of shares, which caused less dilution on EPS and its growth rate.
- Under subscription of rights issue is a common phenomenon. Existing shareholders that are not willing to buy extra shares have no alternative then expiring their rights. This is why company act 2053 should be amended and provision if legally transferable rights should be made and

right should be listed in secondary market. It will not only prevents existing shareholders from dilution of their wealth position but will also adds dimensions in secondary market that makes secondary market more divergent and investors find another financial tool to invest money in problem of under subscription of rights issue can be reduced simultaneously.

- 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 right, if they don't exercise, it should be sell in the market.
- Regulatory offices, issues managers, issuing company and government should jointly organize awareness program about stock especially in the rights share issues because more over public are unaware about this.
- Regulation and their implementation should be sound and strict

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