RIGHTS SHARE PRACTICE AND IT'S IMPACT ON STOCK PRICE: THE NEPALESE EVIDENCE

By:

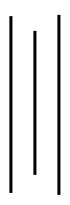
ISHWARI PRASAD GHIMIRE

Shanker Dev Campus

T.U. Regd. No: 7-1-49-1068-2000

Campus Roll No: 1705/063

A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University



In partial fulfillment of the requirement for the Degree of Master of Business Studies (M.B.S)

Kathmandu, Nepal February, 2010

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

ISHWARI PRASAD GHIMIRE

Entitled:

RIGHTS SHARE PRACTICE AND IT'S IMPACT ON STOCK PRICE: THE NEPALESE EVIDENCE

has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

Prof. Snehalata Kafle	Prof. Bisheshwor Man Shrestha	Prof. Dr. Kamal Deep Dhakal
(Thesis Supervisor)	(Head of Research Department)	(Campus Chief)
Pitri Raj Adhikari		
(Thesis Supervisor)		

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by ISHWARI PRASAD GHIMIRE

Entitled:

RIGHTS SHARE PRACTICE AND IT'S IMPACT ON STOCK PRICE: THE NEPALESE EVIDENCE

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master Degree of Business Studies (M.B.S.)

Viva-Voce Committee

Head, Research Department	
Member (Thesis Supervisor)	
Member (Thesis Supervisor)	
Member (External Expert)	

TRIBHUVAN UNIVERSITY
Faculty of Management
Shanker Dev Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled "RIGHTS SHARE

PRACTICE AND IT'S IMPACT ON STOCK PRICE: THE NEPALESE

EVIDENCE" submitted to Office of the Dean, Faculty of Management, Tribhuvan

University, is my original work done in the form of partial fulfillment of the

requirement for the Master Degree in Business Studies (M.B.S.) under the supervision

of Prof. Snehalata Kafle and Pitri Raj Adhikari of Shanker Dev Campus.

.....

Ishwari Prasad Ghimire

T.U. Regd. No.: 7-1-49-1068-2000

Campus Roll No.: 1705/063

ACKNOWLEDGEMENT

This thesis report has been prepared to fulfill the partial requirements for the Degree of master of Business Studies (M.B.S), Tribhuvan University, Nepal. In the process of preparing this thesis, I got a lot of co-operation, Suggestion form different persons.

Firstly, I owe a debt of gratitude to my thesis supervisor Prof. Snehalata Kafle and Pitri Raj Adhikari lecture of Shanker Dev Campus. Their valuable Support for the preparation of proposal to thesis is really praise worth things. I am extremely indebted by their efforts despite of their busy Schedule.

I am very much grateful to the officers of SEBON AND NEPSE Kathmandu and managers and staff of different companies and corporations for their kind co-operation for my research work. It is very great opportunity to learn things from them where i could secure valuable experience.

I am also indebted to my respected teachers of Shanker Dev Campus, who have assisted from their respected sectors. I am also thankful to the library members of SDC, NCC and central Library of T.U.

I would like to express hearty thanks towards all the members of my family who provided regular inspiration and continuous contribution for my success.

I would like to express my heartily thanks towards my college friends for their valuable co-operation during this project work preparation.

Last but not least, I would like to express my sincere thanks to all of them who had supported me to complete this thesis work.

Ishwari Prasad Ghimire

TABLE OF CONTENTS

Recommendation	
Viva-Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	
CHAPTER – I INTRODUCTION	Page No.
1.1 Introduction	1
1.2 Background of the Study	3
1.3 Securities Markets	4
1.3.1 Preemptive Right	6
1.3.2 Rights Offering	6
1.3.3 Procedures of Rights Offering	7
1.4 Statement of the Problem	8
1.5 Focus of the Study	10
1.6 Objectives of the Study	11
1.7 Significance of the Study	11
1.8 Limitation of the Study	11
1.9 Statement of the Hypothesis	12
1.10 Organization of the Study	12
CHAPTER – II REVIEW OF LITERATURE	
2.1 Conceptual Review	14
2.1.1 Venture Capital	
2.1.2 Historical Development of Capital Market in Nepal, a Brief Review	14
2.1.3 Security Markets	16

2.1.4 Securities Board, Nepal (SEBO\N)	17
2.1.4.1 General Objectives of SEBO	18
2.1.4.2 Function of SEBO/N	18
2.1.5 Process to Obtain Membership of Stock Exchange	19
2.2 Rights Issue	21
2.2.1 Features of Rights	21
2.2.2 Preemptive Rights	22
2.2.3 Procedures for the Issue of Rights in Nepal	23
2.2.4 Pros and Cons of Right Issue (Advantages and Disadvantage)	25
2.2.5 Right-on and Ex-Rights	26
2.2.6 Valuation of Right	26
2.2.7 Market Price of Share	27
2.2.8 Rights Offering and Market Value of Share	28
2.2.9 Theoretical Value vs Market Value of Rights	29
2.2.10 Nepalese securities Market and Rights Issue	29
2.2.11 Rules and Regulations regarding Rights Issue in Nepal	30
2.3 Effect on Position of Stockholders	30
2.4 Subscription Price is Not Significant	31
2.5 Review of Related Studies	31
2.5.1 Review of Articles	31
2.5.2 Review of Thesis	35
2.6 Research Gap	39
CHAPTER – III RESEARCH METHODOLOGY	
3.1 Introduction	41
3.2 Research Design	41
3.3 population and Sample	41
3.3.1 List of Sample Companies	42
3.4 Sources of Data	42
3.5 Tools for Analysis	43
3.5.1 Correlation Analysis	43

3.5.2 Use of Hypothesis Test	43
3.5.3 Valuation of Rights	44
3.6 Methods of Analysis and Presentation	45
CHAPTER – IV DATA PRESENTATION AND ANALYSIS	
4.1 Introduction	46
4.2 Characteristics of Rights Offering in Nepal	46
4.3 Rights Issue Practice in Nepal	47
4.4 Contribution of Rights Issue in Total Public Flotation	48
4.4.1 Contribution of Rights Issue in Total Public Flotation in FY 2064/65	50
4.4.2 Sector Wise Contribution in Rights Issue in Fiscal Year 2064/65	51
4.5 Subscription of Rights Issue	52
4.6 Analysis of Share Price Movement of Companies Before and	
After Right Announcement	54
4.7 Correlation Coefficient between share price Movement and	
General Market Movement	64
4.8 Use of T-statistics to Measure the Impact of Right Offering	
Before and After Announcement Date	66
4.9 Use of Valuation of Rights	68
4.10 Analysis of Primary Data	70
4.11 Major Findings of the Study	78
CHAPTED V CHAMADY CONCLUCION AND DECOMMENDATIO	NIC
CHAPTER – V SUMMARY, CONCLUSION AND RECOMMENDATION	
5.1 Summary	81
5.2 Conclusion	83
5.3 Recommendations	84

Bibliography

Appendices

LIST OF TABLES

Table	e No. Title	Page No.
2.1	Trading Days & Hours	20
2.2	Issue of Securities (Instrument Wise) in Percentage	30
4.1	Contribution of Rights Issue in Total Public Flotation	48
4.2	Contribution of Rights Issue in Fiscal Year 2064/65	50
4.3	Sector Wise Contribution in right issue in Fiscal Year 2064/65	51
4.4	Subscription of Right Issue	53
4.5	Analysis of Share Price Movement of	
	Nepal Investment Bank Ltd. (NIBL)	55
4.6	Information about Share Price and Index	57
4.7	Information about Share Price and Index	58
4.8	Information about Share Price and Index	60
4.9	Information about Share Price and Index	61
4.10	Information about Share Price and Index	63
4.11	Correlation Coefficient between Share Price Movement an d	
	General Market Movement	65
4.12	T-Calculated and Tabulated	67
4.13	Market Price before Ex-Right, after Ex-Right, Real Market Price &	
	Value of Right	69
4.14	Preference of Sector to Invest	70
4.15	Investors Purpose of Rights Share Purchase	71
4.16	Action of Shareholders, if Rights are Transferable	71
4.17	Beneficiaries of the Rights Issue	72
4.18	Cause of Preference Given to Issue Right Share by Company	72
4.19	Causes of Under Subscription of Rights Share	73

LIST OF FIGURES

Figure	e No. Title	Page No.
2.1	Issue of Securities (Instrument Wise) in Percentage	30
4.1	Contribution or Rights Issue in Total Public Flotation	48
4.2	Contribution of Rights Issue in Fiscal Year 2064/65	51
4.3	Sector Wise Contribution in Rights Issue in FY in 2064/65	52
4.4	Subscription of Right Issue	54
4.5	Analysis of Share Price Movement of	
	Nepal Investment Bank Ltd. (NIBL)	56
4.6	Information about Share Price and Index	57
4.7	Information about Share Price and Index	59
4.8	Information about Share Price and Index	61
4.9	Information about Share Price and Index	62
4.10	Information about Share Price and Index	64
4.11	Investors' Awareness about Rights Offering	74
4.12	Difficulties Due to Non-transferable Rights share	75
4.13	Practice of Rights Share Due to Large Corporate Firm	75
4.14	Subscription Price Compare to Market Price	76
4.15	Sufficiency of Legal Provision	77
4.16	Sufficiency of Infrastructure	77

ABBREVIATIONS

ADBL : Ace Development Bank Limited

BOD : Board of Director

CIT : Citizen Investment Trust

CO : Company

CRO : Company Register office

FY : Fiscal Year

GDBL : Gorkha Development bank Limited

HMG/N : His majesty Government of Nepal

KBL: Kumari Bank Limited

Ltd. : Limited

NCML : NIDC Capital Markets Limited

NEPSE : Nepal Stock Exchange

NFCL : National Finance Company Limited

NIBL : Nepal Investment Bank Ltd.

NIDC : Nepal Industrial and Development Ltd.

NMB : Nepal Merchant Banking and Finance Limited

No : Number

NRB : Nepal Rastrya Bank

NSBI : Nepal SBI bank Limited

NYSE : New York Stock Exchange

Pvt. : Private

Reg. : Registration

SEBO/N : Security Board Of Nepal

SEC : Security Exchange Center

SMC : Securities Marketing Center

T.U. : Tribhuvan University