

CHAPTER - I

INTRODUCTION

1.1 Introduction

The effective mobilization of the capital resources to the productive sectors is the base of development. So the financial market becomes the most important sector for fostering the different productive Activities in the economy. The financial market consists of the money market and capital market. The capital market discharges the important function of transfer of savings, especially of the household sector to the companies, government and public sectors. "Capital market refers to the links between lenders and borrowers of the funds, arranging of funds transfer process to seek each others benefit" (Philips, 1979: 3-5).

Capital market refers to that market in which long-term funds are borrowed and lent. In other words it refers to the links between lenders and borrowers of funds arranging a fund transfer process to seek each other's benefit. It is just the market for capital funds. The word "capital" used in this context implies a long-term commitment on the part of the lender and a long-term need for the funds on the part of the borrower. Both lenders and borrowers coming together in capital market play effective financial intermediary role in primary and secondary market through the use of various long-term capital market instruments like common stocks, bonds, preferred stocks, convertible issues, etc. Thus strictly speaking the market encompasses any transaction involving long-term debt or equity obligation (Winfield & Curry, 1987:7).

The word 'stock' encompasses ordinary share capital; it is nowadays used as a generic term for all securities. The evidence of any property right is generally termed a security, although the word is often clearly inappropriate in its strict sense. Broadly, it is a legal representation of the right to receive prospective future benefits under stated condition, and in this sense the words 'stocks' and 'securities' will be used interchangeably throughout this book. The stock exchange provides a market in a wide range of traded securities, generally of medium-to long-term maturities, issued by companies, governments and public organization, both domestic and overseas (Winfield & Curry, 1987:7).

"Securities transaction is a major component of the capital market system. Securities market exists in order to bring together buyers and sellers of securities meaning their mechanisms are created to facilitate the exchange of financial assets" (Winfield & Curr. 1987.7). In the securities market, various security instruments such as, common stock, preference stock, debenture, bonds and treasury bonds etc. are traded. It can be further classified into primary market and secondary market.

"Securities" mean shares, stock, bond, debenture, debenture stock issued by a corporate body or a certificate relating to unit saving scheme or group saving scheme issued by and corporate body in accordance with the prevailing laws or negotiable certificate of deposit or treasury bill issued by Nepal Government and it includes the securities issued under full guarantee of Nepal Government or securities as prescribed by His Majesty's Government by a notification published in the Nepal Gazette or receipts relating to deposits of Securities as well as rights and interest relating to Securities (Securities Exchange Act, 1983, Sec-2 (a)).

The market whereby the corporation acquires the long-term capital fund by issuing the security to the general public through Initial Public Offering (IPO) and right issue is known as primary market. The secondary market is that market where the existing stocks of the corporation are traded. The advantage of secondary market is to provide liquidity and investment opportunities to investors and to make certain assets more attractive to buyers and sellers.

After coming democracy, the government has introduced the liberalization policy for the economic and financial development of the country. This policy has adopted by the government for the economic & financial development.

Under the Enhanced Structural Adjustment Facility (ESAF), with the first amendment of the 'Security Exchange Act' in 1992 A.D. the government initiated the policy to perform capital market with amendment in the Act. The Security Board of Nepal (SEBO/N) was established to regulate and develop the transaction of securities. Likewise Nepal Stock Exchange Ltd. (NEPSE), as the successor of Securities Exchange Center (SEC) was established to facilitate the transaction of the stocks in its floor through its member intermediaries such as, brokers, security dealers and market

makers. NEPSE started its organized open-out-cry system in its floor on 13th Jan 1994. However, so far the government securities are not allowed to transact on the floor of NEPSE. Till chaitra end 2065 NEPSE has total 157 Emperies listed with 574099 thousand share having paid up value of Rs. 54.68 billion. Moreover, 14 corporate bonds with the value of Rs. 5335 million and 13 government bonds having the paid up value of Rs. 15.15 billions are also listed at NEPSE.

Financial markets are a catalyst in the development of the country's economy. As such, developed economies have highly sophisticated financial institutions. Over the past decade or two, many developing economies have established capital markets as they moved towards more liberal economic policies. These emerging markets have shown extraordinary growth with very high volatility, which have attracted many investors into these markets. In 1994, the Government of Nepal established a stock market with the technical assistance of the IRIS Center at the University of Maryland under the USAID sponsored Economic Liberalization Project.

1.2 Background of the Study

Financial markets play a fundamental role in the economic development of a country. They are the intermediary link in facilitating the flow of funds from savers to investors. By providing an institutional mechanism for mobilizing domestic savings and efficiently channeling them into productive investments, they lower the cost of capital to investors and accelerate economic growth of the country. Financial intermediation between borrowers and savers is done by commercial banks. This credit market enables debt financing for investments.

An alternative method of intermediation is through equity financing. This is only possible through the development of capital markets. Capital markets, which deal with securities such as stocks and bonds, are associated with financial resource mobilization on a long term basis. By raising capital directly from the public, they lower the cost of capital. Capital markets also allow for wider ownership among the public, thereby distributing risks and wealth amongst smaller investors. For investors, they provide an effective vehicle for making investment choices which suit their own preferences of risk and returns based on available information. As such, capital markets help the economy to generate more savings and productive investments.

A basic feature of an efficient capital market is constant liquidity, i.e., an easy mechanism for entry and exit by investors. This requires sufficient volume and size of transactions in the market. Typically in developing countries, for various economic and policy reasons, financial markets are underdeveloped. In those countries where a capital market does exist, it is in a very basic state. Private wealth and investments are concentrated among several large companies and individuals. The choice of market instruments is also very limited. As a result, these capital markets are very narrow based. They are constrained by limited investment opportunities and low income and savings rates. In many cases, the economy has high inflation, leading to a savings disincentive and capital flight.

Financial sector development is a lengthy, evolutionary process. It is an indicator of the state of economic development of the country, since an efficient well developed financial market is only possible when there is substantial income generation and investment opportunities.

1.3 Securities Markets

"Security, in general, is a piece of paper representing the investor's rights to certain prospects or property and the conditions under which he/she may exercise these rights. For example share certificate, bond, commercial paper, preferred stock, Treasury bill etc. It may be transferred to another investor and, with it will go all its rights and conditions.

There are many ways in which security markets can be classified. On the basis of securities traded there are two types of markets. Primary Market and Secondary Market. Markets in which corporations raise a new capital are known as primary markets and in which existing, already outstanding securities are traded among investors, are called secondary markets.

On the basis of life-span of securities there are two types of market namely Money market and Capital Market. Money market is the type of market which is meant for a short term and for highly liquid debt securities. A money market typically involves financial assets that a life spans of one year or less. Money Market Instruments include short term marketable, liquid debt securities. A money market typically

involves financial assets that a life spans of one year or less. Money Market Instruments include short term marketable, liquid and low risk securities. Money market instruments are also called cash equivalents. Capital markets are the markets meant for long term securities issued by the government or a corporation. Capital markets typically involve financial assets that have life spans of greater than one year. For example the shares issued by the NCC Bank are traded in the capital market whereas the treasury bills issued by Nepal Rastra Bank are traded in the money market" (Bhattari, 2005: 2).

Capital structure is the proportions of long term sources of funds such as debentures, long term debt, preference share capital and equity share capital including reserves and surpluses. One can make his capital structure using the different ratio of these instruments, which maximize the wealth of the company and minimize the overall cost of capital and also considering the directive of higher authority. But every firm constantly faces the financial problems from its very beginning either for expansion or diversification of business or to sustain in the competitive arena. They can not make the capital structure as desired by them, because of the unavailability of the funds, higher cost of capital, directive of the higher authority and other rules and regulations. There are two sources of funds namely short-term and long-term. Accruals, Trade credit, Receivable, Inventory, Commercial paper are use as short-term sources whereas debt, preferred stock and common stock are considered as long-term sources. Normally the short-term sources are used to fulfill the requirements of instant whereas long-term sources are used for permanent financing.

Common stock financing is a long term source of financing of an organization. The fund raised from common stock is known s equity capital and it is the first source of fund in any type of organization like corporation partnership etc. Common stockholders are the owner.

Common stockholders are the true owner of the business firm. They are the residual owner in the sense that they received what is left after all other claims on the firm's income have been satisfied. As the owner of the company, stockholders have many rights, some of these rights are specified by the law and some are specified by the company's charter. Preemptive right is one of them.

1.3.1 Preemptive Right

Simple meaning of preemptive right is the right to do something before others. It is also a right of stockholders. In this right, the existing stockholders have right to purchase any additional shares issued by the company before they are offered to the public. If the preemptive right is contained in firm's charter, then the firm must offer any new common stock to existing shareholders. If the charter does not prescribe a preemptive right, the firm has a choice of making the sale of the existing stockholders or to an entirely new set of investors. If it sells to the existing stockholders, the stock issue is called a right offering.

The preemptive right gives holders of common stock the first option to purchase additional issues of common stock. The purpose of preemptive right is to protect the power of control of present stockholders. But it is a burden to the promoter shareholders.

1.3.2 Rights Offering

A rights issue is an offer to existing shareholders to purchase additional common shares for a specified amount that may be substantially less than the fair value of the shares, in accordance with an agreement. A rights issue with an exercise price less than the fair value of the common shares at issuance contains a bonus element that is somewhat similar to a stock dividend. Sometimes companies are bound to issue new shares of additional stock to the existing shareholders imply because of preemptive right clause in the Act of incarnation.

The preemptive right gives the holders of common stock the first option to purchase additional issues of common stocks. The purpose of the preemptive rights is two fold. First, it protects the power of control of present stockholders. If it were not for this safeguard, the management of a corporation issue large number of additional shares at a very low price and purchasing these shares itself. Management could thereby secure control of corporation as their will and benefits.

The second and by far more important the preemptive right gives the current stockholders protection from dilution of value. For example, assume that 1000 shares of common stock each with price of Rs. 100 are outstanding making the total market

value of the firm Rs. 100,000. Additional 1000 shares are sold at Rs. 50 a share a total of Rs. 50000 in so doing raising the total market value of the firm to Rs. 150000. When the total market value is divided by the total number of shares outstanding a value of Rs. 75 a share is obtained. The selling common stock at below market value will dilute the price of the stock and will be harmful to present stockholders and beneficial to those who purchase the new shares. The preemptive rights prevent such occurrences.

Company Act 2053 B.S has also provisioned about the preemptive rights of the shareholders in the section 42 (4). If the preemptive rights is contained in a firm charter, then the firm must offer any new common new stock to existing shareholders if the charter does not prescribe the preemptive rights, the firm has a choice of making the sale to its existing stockholders or to an entirely new set of investors. If it sells to the existing, stockholders the stock flotation is called the rights offering. Each stockholder is issued an option to buy a certain number of the new shares, and the terms of the option are contained on a piece of paper called a rights. Each stockholder receives one right for each share of stocks owned.

1.3.3 Procedures of Rights Offering

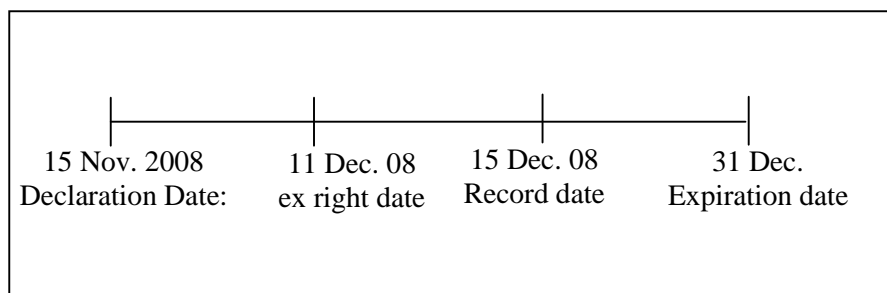
When stocks traded in the stock exchange, during announcing period then the investors (buyers and sellers of stocks) may get problem, 'who will get the right? To avoid this confusion the board of directors of the company fixed record date to give certainty about the possession of right. The following is the procedure of right offering and the right offering procedure is similar to the dividend payment procedures.

Managers are responsible to manage the company. However, the crucial decisions are made by the representatives of the shareholders and those are called board of directors (BODs), therefore, the firm is under the control of the BODs meet and with the help of management, declare right offering. For example Nepal Investment Bank need Rs. 400 million funds and the BODs decided to raise these funds through the right offerings. The BOD met on November 1 and declared right offering under the preemptive right of the existing shareholders. The meeting also declared that, to purchase the additional shares, the shareholders must record their name until

December 15. It is the date on and after which the right no longer goes to the stock. The ex-right date varies country to country and may also determine by the companies themselves. In the Nepalese capital market companies published notice of book close date and the book close date is the ex-right date. This date normally is the four days before the holder of record date. This date normally is the four days before the holder of record date. But in Nepalese companies ex-right date is seven days.

In the above example, December 11 is the ex-right date and those who purchase shares on and after this date will not receive rights and receive by the seller of the shares. It is a date until which a person, who has bought shares before ex-right date, must register his/her name in the company. Holder of record date is a final date to transfer the title, meaning that the seller's name should be replaced by the buyer's name in the company's register till this date. In the above example, December 15 is a record date. Any investor who buys shares before December 11 (ex-right date) must record his/her name in the company until 15 to receive right shares. It is the date on which company starts to sell the right shares to the shareholders those who have registered their name on and before holder of record date. In the above example the stock selling before December 11 is said to sell with rights on. Those who buy stocks rights on receive rights with stocks and can purchase right shares of the company. On and after the ex-rights, that is, the stock is traded without rights attached. Investors those who buy stocks after this date do not receive the rights to subscribe additional stocks.

Important Date of Right Offering



1.4 Statement of the Problem

Right offering is a way of rising fund. An existing share holders is entitled to have a pronouns no of new share at pre state price which is some what lower than the market price of share. But to buy additional number of shares, the shareholder should have

his/her name in company book before record date. If one shareholder purchases shares after record date he/she has no right to buy the additional number of shares. So, before record date there is high demand of shares in secondary market. Demand of shares increased because people rush to the secondary market in order to enlist their name in the company's book, before the record date. No doubt the price of the new share is also lower than market price. On the other side the existing shareholder generally have no willingness to sell the shares to exercise the right. Due to this double pressure the price of share goes upward.

On the other side theoretically, after announcement of right offering, the price of the share should be change. Similarly after exercise of the right share, the price of the share should be decline by its value of right. But findings on the price effect of rights offering on market price of stock are inconsistent. Findings are different in different research conducted by researchers. Dolley (1934), in his study concludes that in two out of three cases the market value of stock ex-rights plus the market value of the right will be greater on record date than the last preceding quotation on the stock rights on. Most stock going ex-rights, fail to decline in market value by full value of right. In last he said that investor is about as likely to lose, as he is to gain if he sells his stock at the announcement date and buys it back just prior to the record date. But he didn't explain what should be the actual share price before and after the announcement of rights offering in his study. Likewise, the result of Nelson (1980) indicates that there is a significant drop in the market price associated with the announcement of rights offering. The evidence is inconclusive, however, for at least three different reasons. To begin with, the price effect could be attributable to announcements about earning, dividends or other events. Second, the study did not focus on the announcement date but considered the date of record and dates six months prior and subsequent. Lastly, in adjusting for the market, all securities were assumed, implicitly, to be identical to each other and hence to market. In these study researchers did not explain, whether sample companies followed the theory of rights offering or not. So here the main problem of the study is to identify whether the price behavior of sample companies meets the theory or not which is not proved in previous studies in context of Nepal.

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

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

SEBON, NEPSE, brokers, issue managers, potential researcher, students and teachers will be benefited from this study. Researcher hopes that this study will help to government and other institutions to formulate their policies and programs about security market. This study is important to measure the price movement of stock due to rights offering. It is important to know about the rights share practice in Nepal. Here are some specific research problems. Which are desired to research.

-) What is the right share practice in Nepalese security Market ?
-) Is there any significant different in stock price movement of Bank & Financial institution before and after announcement of the rights share ?
-) Is there any different between theoretical stock price and market price after announcement the rights share of Bank & Financial institution ?
-) What are the major problems to issuing the rights shares in Nepal ?
-) What are the rules and regulates about tights share in Nepal ?

1.5 Focus of the Study

This study is concern with the "Rights share practice in Nepal and its Impact on stock price: The Nepalese Evidence". This study explains the theoretical as well as practical aspects of rights offering on Nepal. Basically this study focuses on the following aspects:-

-) Practice of rights share in Nepalese security market.
-) Impact of rights share announcement on stock price movement of Bank and Financial institution in the Nepalese Evidence.
-) Comparison of theoretical stock price after announcement the rights share of Bank & Financial institutions.
-) Rules and regulations of rights share issue in Nepal.
-) To test the significance different between the share price movement of bank & Financial institution before & after the announcement of right share.

1.6 Objectives of the Study

The study focuses on the impact of rights offering announcement and the share price movement of sample Organization. The main objectives of this study are:

-) To evaluate the effect in market price per share after the allotment of right share.
-) To examine the procedure and mechanism of rights issue in the context of Nepal.
-) To test the significance different between the share price moment of bank & financial institution before and after announcement of right share.
-) To compare the theoretical stock price with it's market price after announcement of rights share.

1.7 Significance of the Study

Researcher hopes that study will be important and valuable for those who are interested to the security market of Nepal. Basically investors, business organizations, security board, brokers, potential researchers, students and teachers will be benefited from this study. Researcher hopes that this study will help to government and other institution is to make their policies and programmed.

1.8 Limitation of the Study

This study is related to the study of rights share practice in Nepal and its impact on stock price movement of bank & financial institution. The scope of this study is limited with in the bank & financial institution having rights share issued and practice of rights share in Nepal. This study is required for the partial fulfillment of the MBS degree. It is only mini research and hence is subject to some limitations, which are as follows:-

-) This study is based on the last 6 years data beginning from fiscal year 058\069 to 064\065 Rights share issued companies after that period are not consider for this study.
-) This study assumes that related published and unpublished documents journals, articles and other previous studies are realistic.
-) Out of total population issue rights in the NEPSE only 6 companies have been examined for the study.
-) This study is mostly based on secondary data.
-) Due to the lack of adequate resources and time, the study only analyzes few sample from the population.
-) Other variables that affect the stock price of sample companies are totally ignored to measure the price movement.
-) Prices of different time period are taken on the basis of researcher self decision and previous studies.
-) This study heavily focused on the rights and current legal aspects associated with it.

1.9 Statement of the Hypothesis

To analyze the data related to stock price movement affected by the announcement of right share, t-statistics has used to test the significant different between the stock price before and after the right share announcement under following hypothesis:-

) Null Hypothesis (Ho) :-

) There is no significant different between the stock price (NEPSE index) movement before and after the announcement of the rights share.

) Alternative Hypothesis (H1) :-

) There is significant different between the stock price (NEPSE index) Movement before and after the announcement of the rights share.

1.10 Organization of the Study

This study has to be done within the design offered by the research department of Tribhuvan University. According the research is divided into the five chapters. Chapter 1 is the introductory part of the thesis. Chapter 2 presents a comprehensive survey of the literature on rights offering and other related matters. The research has divided into theoretical framework and review of literature of previous study. Chapter 3 focuses on the methodology of this study. This chapter develops an aggregated framework for impact evaluation and outline hypothesis of the study. The nature an sources of data used in this study are also discussed in this chapter. Chapter 4 deals with the data presentation and analysis. This chapter is the key section of all presented in different tabular and other indicator and it has been scrutinized by using a range of statistical tools. Chapter 5 concludes the thesis. The major empirical findings of the study are highlighted and their guidelines implications are analyzed in this chapter.

CHAPTER - II

REVIEW OF LITERATURE

The study about right share practice and its impact on share price movement of banks and financial institute in Nepal has already been done streamline to some extent in the first chapter regarding statement of problem, objectives and right issue practice in general. Now, in this chapter the main focus is given on review of literature. Moreover, in order to make this study more comprehensive it is important to go through the relevant literature.

This chapter has been subdivided into following sections:

2.1 Conceptual Review

2.2 Review of Related studies.

2.1 Conceptual Review

The easy way of raising capital is issue of common stock. When a company issue shares for public, the stock flotation is called initial public offering. But when a company issue shares to the existing shareholders the stock flotation is called right offering. In Nepal, right offering is new phenomenon. It is relatively new practice for Nepalese organizations.

2.1.1 Venture Capital

Equity investment in the early stages of a business is often called venture capital. In other words venture capital represents funds invested in a new enterprise. It is key to the success of any growing business firm. Institutional investor especially financial institutions, wealthy individual investors and specialist investor organized in partnership are the major sources of venture capital. The investment in venture capital is risky. Therefore, investors are rewarded with high rate of return in success ventures. The venture capital activity is quite advanced in the development countries.

2.1.2 Historical Development of capital Market in Nepal, a Brief Review

The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the company Act in 1964. The issuance of government bond in 1964 and the establishment of securities exchange center Ltd. in 1976 were other significant development relating to capital markets. The trading on securities on Nepal was recognized on too late a period of 1976 when Nepal Industrial Development Corporation (NIDC) and Nepal Rastra Bank (NRB) through their joint efforts initiated the establishment of (SMC) to mobilize the public savings for ensuring public ownership in the shares of public limited companies. In order to promote the stock exchange business. The center made a series of studies in the beginning regarding both the public limited companies and devising the ways and means of undertaking the business of buying and selling securities. In pragmatic reality, however, the center became nothing more than the satellite organization of NRB securities that to undertake the over-burdened functions of the latter in selling government securities that comprise treasury bills development bonds etc. After a long period of seven years doing nothing substantial in the frontiers of stock exchange business. The securities marketing center passed a new securities Exchange Act 1983\84 to refresh its role in the capacity of a merchant banker in view of Acting as a legally acknowledged stock exchange house.

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

not serve the purpose of conducting the stock exchange business transaction without encouraging the broker's networks that are essential in creating in linkage between buyers and sellers of securities. Despite making study regarding the stock exchange mechanism the center followed a reverse practice of doing securities business without developing the floor of securities exchange by membership through their brother's network for a long period of its establishment. As a result, the securities of existing companies that would have been brought by brokers to manage buyers and sellers of securities could not come forthwith in view of the center's strategy to monopolize the business by strict legal measures not attractive to unorganized stock brokers dealing in the securities business."

After 1980s onwards, the center tried to create some securities exchange norms. But, all it became dis-encouraging to develop the securities exchange business in view of lack of dashing leadership since the level of understanding about the pros and cons of stock exchange was relatively poor. The enactment of new securities exchange Act in 1984 became a landmark in the Nepalese history of stock exchange and this brought change in nomenclature to the extent that the title of the center changed to securities Exchange center. As a result of this the center prepared its new booklet to ensure its role in the capacity of a merchant banker, as it is the only legally acknowledged stock exchange house in national perspective. As Per its information relating to listing the securities of eight public limited companies got listed in 1984 (Shrestha, 1996: 10).

2.1.3 Security Markets

A security market can be defined as a place for bringing together buyers and sellers of financial assets in order to facilitate trading. Securities markets are primary markets and secondary markets. Security market of Nepal has no long span of life. At first Nepal Rastra Bank (NRB) & Nepal industrial development corporation made a joint effort to establish security market center (SMC) to mobilize, the public saving for ensuring public ownership in the share of public limited companies. "In the beginning of its establishment, the center made studies the public limited companies and devising the ways and means of undertaking the business of buying and selling in securities" (Gautam, 2057: 8).

But in reality, the center was working as a body of NRB to reduce, its working load relating to government securities. In 1983, the security-market center passed a security exchange Act 1983 and also mentioned the provision for listing. There was not any plan and programmed of security market until seventh five-year plan. In the eighth five year plan security exchange center was established, with an objective of facilitation and promoting the growth of capital markets institution undertaking the job of brokering, underwriting, managing public issue, making for government bonds and other financial services.

The securities exchange Act 1983 (2040) was amended in the period of eighth plan for the achievement of eighth five year plan objective towards the capital market. The main objective of eighth five year plan was to establish the securities exchange board and rules and regulations followed through securities exchange board.

His majesty government initiated to reform capital market converting securities exchange (NEPSE) Ltd. in 1993. NEPSE is a non profit making organization operating under securities exchange Act 1983.

The basic objective of NEPSE is to make impact free marketability and liquidity of the government, and corporate securities by facilitation transaction, in its trading floor through intermediaries, such as broker, market etc. NEPSE opened its trading floor in 13th January 1994 with 25 licensed broker members. The history of Nepalese stock market begins with the listing of shares of 16 companies in 1986. Till the date chaitra 2065 NEPSE has Total 157 companies listed with 574099 thousand shares.

2.1.4 Securities Board, Nepal (SEBON)

Securities board, Nepal was established in may 26, 1993 A.D. under the provision of securities exchange Act 1983 A.D. (first amendment). Since its establishment, SEBON has been concentrating its efforts to improve to the legal and statutory framework. Which are the bases for the healthy development of capital market? As a part of its continuous effort to build a sound system. The securities exchange Act 1983 was amended for the second time on January 30, 1997 A.D. This amendment paved the way for establishing SEBON as an apex regulatory body as it widened the horizon of SEBO by bringing market intermediates directly under its jurisdiction and

also made it mandatory for the corporate bodies to report to SEBO annually and semi annually. Although the second amendment in the Act established direct relationship of SEBO with market intermediaries and the listed companies, supremacy in its jurisdiction is yet to be established and clearly recognized.

In order to improve such a situation, SEBO focusing on the major areas where improvement is necessary has launched a four-year strategic plan (1998-2002 A.D.) with major thrust in four major policy development areas. SEBO has also drafted a new security and Exchange Act. Which has sought to improve inconsistencies observed in the present Act and established SEBO as an apex regulator of the securities market. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholder of the NEPSE.

2.1.4.1 General Objectives of SEBO

General Objectives of SEBO are mentioned here under:

-) The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994.
-) TO promote and protect the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities.
-) To supervise, look after and monitor the activities of the stock exchange and of corporate bodies carrying on securities business.
-) To render contribution to the development of capital market by making securities transactions fair, healthy, efficient and responsible.

2.1.4.2 Function of SEBO/N

The main functions of SEBO are as follows:

-) To advise government of Nepal on the issues related to development of capital market and the protection of shareholders' interest.
-) To approve stock exchange for the operation and oversee them for healthy trading of securities.
-) To register and regulate market intermediaries involved in the primary issues as well as the secondary trading of the securities.

- J To register the public issues of securities including the mutual and trust funds.
- J To monitor and supervise the securities transaction.
- J To conduct researchers and studied along the area of security market.
- J To conduct conferences. Workshops and seminars and participate in such programs conducted in the regional and international level and join the forum and exchange with outside regulators.

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

- a. Improvement in the statutory and regulatory framework of the capital market.
- b. Development of market standard and information system.
- c. Development of widely participated capital market.
- d. Improvement in the securities board's institutional capacity.

In this section some terminology like venture capital, initial public offerings (IPO s preemptive right of shareholders, rights offering, seasoned equity issued etc are also explained separately, because one will confront with these terms quite frequently while reviewing this thesis.

2.1.5 Process to Obtain Membership of Stock Exchange

Corporate bodies wishing to be member shall have to submit application in prescribed format within specified time along with certificate of incorporation, Tax certificate, Memorandum of Association, Articles of Association and concerned Act, rules and regulations in the case of corporate body other than company after the incorporation and the projected B/S and PL A/c of investment in shares of subsidiary company or investment made in its parent company's share capital, details of share investment in any other company other than subsidiary, the name, address, number of shares subscribed and the amount invested by shareholders having more than 5% of the share capital need to be submitted.

a. Board of Directors

The Board of directors of NEPSE consists 9(Nine) directors in accordance with securities Exchange Act, 1983. Six directors are nominated by Government of Nepal and different institutional investors. Two from the licensed members and the General Manager of the NEPSE is the Ex-Officio director of the Board.

b. Tenure of Membership

The tenure of the membership is one year. The license should be renewed within 3 months after the closure of the fiscal year. If not, it can be done within another three months by paying 25% penalty.

c. Listing Fee

The listing fee and the annual fee to be paid by the listed company is based on the capital of the company.

d. Trading System

NEPSE has adopted an "Open out-cry" system. It means transactions of securities are conducted on the open auction principle on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offer will post the price and code number on the selling column on the quotation board. The market maker quotes their bid and offer price on their own board before the floor starts. Once the bid and offer price match, contracts between the buying and selling brokers or between the brokers and makers are conclude on the floor.

e. Trading Days & Hours

NEPSE has fixed the trading days and hours during which the members are allowed to enter the floor to make the transactions.

Table 2.1
Trading Days & Hours

| Types of trading | Days | Trading Time |
|------------------|--------------------|--------------------------|
| Regular trading | Sunday to Thursday | 11A.M. To P.M. |
| Odd lot Trading | Monday & Friday | 2-3 Monday, 11-12 Friday |

Source: [http:// www.nepalstock. com](http://www.nepalstock.com)

f. Board Lot

NEPSE has fixed the board lot of 10 shares if the face value is Rs.100 or 100 shares if the face value is Rs. 10. The transactions on regular trading should be done on at least one board lot. The transactions of less 10 shares are permitted only on odd lot trading hours.

g. Settlement

NEPSE has adopted a T+3 systems which mean that settlement of transactions should be done within 5 working days following the transactions day. settlement will be carried out on the basis of paper verses payment.

h. Brokerage

The rate of brokerage on equity transactions ranges from 1 percent to 1.5 percent depending on the traded amount.

2.2 Rights Issue

The easy way of raising capital is issued of common stock. when a company issue shares to the existing shareholders the stock. when a company issue share of stock owned. If the preemptive right is contained in a firm's charter then the firms must offer any new common stock to its existing shareholders.

"A rights issue involves selling of ordinary shares to the existing shareholders of the company" (Pandey,1988: 1015).

Existing shareholder of company has legal to right the shares if new issue is made . If the charter does not contain the preemptive right, the firm has choice of making the sale to its existing stockholders or to an entirely new set of investors. In Nepalese Context Company Act 2053 section 42(4) clearly mentions that if a company wants to increase its capital and issues additional shares then existing shareholders will have first rights (privilege) to buy such shares.

The law in India requires that the new ordinary shares must be first issued to the existing shareholders on a pro rata basis. This preemptive right can be forfeited by shareholders through a special resolution obviously this will dilute their ownership.

2.2.1 Features of Rights

Features of Rights are:

The number of rights equal to the number of shares held by the respective shareholders i.e. the number of rights of rights that a shareholder get is equal to the number of shares held by them.

-) The issuing company determines the number of rights required to subscribe to an additional share.
-) The price per share for additional equity called the subscription prices is left to the discretion of the company.
-) Right are negotiable. The holder of rights can sell them. right can be detachable i.e. only right can sell
-) Right can be exercised only before ex-rights date.

2.2.2 Preemptive Rights

"The preemptive right entitles a shareholder to maintain, his propitiate share of ownership in the company. The law grants shareholder the right to purchase new shares in the same proportion as their current ownership. This, if a shareholder owns 1 percent of the company's ordinary shares, he has preemptive right to buy 1 percent of new shares issued" (Gautum, 2008: 118).

Existing ordinary shareholders have legal right to purchase the new shares issued by the company is called preemptive right. company cannot sell their additional shares avoiding the existing shareholders and their right. "If the preemptive right is contained in a firm's charter then the firm must offer any new common stock to existing in a firm's charter then firm must offer any new common stock to existing shareholders, the stock flotation is called a right offering. Each stockholder is issued an option to buy a certain number of the new shares and terms of the option are contained on a piece of paper called a right. Each stock holder receivers one right for each share of stock owned" (Weston & Copeland, 1992: 906).

Another important thing is preemptive right protects shareholders against a dilution of value we can clarify it by following example:

Suppose there are 10,000 shares outstanding with Rs.100 each making the value of the firm Rs.10,00,000. If additional 5000 share were sold @ Rs. 75 a share for Rs. 3,75,00 making the total number of share, a value of Rs. 91.67 is obtained. Here the old shareholder then loose Rs.8.33 per share. It is due to selling ordinary share at below market price. But if rights share issue is made it protects the current stockholder from diluting their value.

2.2.3 Procedures for the Issue of Rights in Nepal

Every company which wishes to issue right share should following some procedure. Company Act 2053 is silent about the issue but mentioned that rights shares shall be issued following the same procedure as ordinary to issue the rights.

Following procedure is generally adopted by Nepalese company to issue rights share:

-) The BOD should consider about that the determination of the quantum of further capital requirement and the proportions is which the rights issue might be offered to existing shareholder.
-) AGM should pass the proposal of BOD by its majority.
-) Company should notify NRB, NEPSE, Office of the company Register and SEBO/N sufficiently with prospectus in advance of the date of board meeting at which the right issue is likely to be considered and should get permission from them.
-) Make announcement with prospectus which gives a general indication of the reasons which have made the issue desirable, the purpose for which the new money is to be used.
-) Letter of provisional allotment of rights offering to the shareholders about the terms of the rights offered. The number of new shares allocated to each given number of old shares, the price at which the issue is to be made and the condition letter will be sent which the issue is to be made and the conditions letter will be sent after the date of announcement.
-) After the receipt of the letter of provisional allotment, the allotment, the allotment must be made for those shares which are renouncing.
-) Certificates are distributes to the shareholders who have accepted and fully paid up their allotment can renounce the Actual certificate in favor of a third party. Because of non transferable instrument. such practices are not seen in Nepalese context.

Listing of the shares in the NEPSE again with increased number which must be approved by the stock exchange after which an application for listed new share could be made. The above procedure can also be described as follows.

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

"When stocks trade in the stock exchange, during announcing period then the investors (buyers and sellers of stocks) may get problem, who will get the right? To avoid this confusion the board of directors of the company fixed record data to give certainty about the possession of right. The following is the procedure of right offering procedure is similar to the dividend payment procedures.

a. Declaration Date

Managers are responsible to manage the company. However, the crucial decisions are made by the representatives of the shareholders and those are called board of directors (BODs), therefore, the firm is under the control of the BODs and with the help of management, declare right offering. For example Nepal Investment Bank need Rs. 400 million funds and the BODs decided to raise these funds through the right offerings. The BOD met on November 1 and declared right offering under the preemptive right of the existing shareholders. The meeting also declared that to purchase the additional shares, the shareholders must record their name until December 15.

b. Ex-Right Date

It is the date on and after which the right no longer goes to the stock. The ex-right date varies country and may also determine by the companies themselves. In the Nepalese capital market companies published notice of book closer data and the book closer date is the ex-right date normally is the four days before the holder of record date. But in Nepalese companies ex-right date is seven days. In the above example. December 11 is the ex-right date and those who purchase shares on and after this date will not receive rights and receive by the seller of the shares.

c. Holder of Record Date

It is a date until which a person, who has bought shares before ex-right date, must register his/her name in the company. Holder of record date is a final date to transfer the title, meaning that the seller's name should be replaced by the buyer's name in the company's register till this date. In the above example, December 15 is a record date. Any investor who buys shares before December 11 (ex-right date) must record his/her name in the company until 15 to receive right shares.

d. Subscription Date

It is the date on which a company starts to sell the right shares to the shareholders those who have registered their name on and before holder of record date.

2.2.4 Pros and Cons of Right Issue (Advantages and Disadvantage)

Right give the existing shareholder right to purchase additional shares at a price some how lower than market price. This system is advantageous for company also because all shares can be sold at certain period. The pros and cons of right issue are as follows:

Pros (Advantages)

-) The existing shareholders control is maintained through the prorates issue of shares.
-) Raising funds through the sale of rights issue rather than public issue involves less flotation costs as the company can avoid underwriting commission.
-) 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.
-) cons (Disadvantages)
-) The main disadvantages is to the shareholders who fail to exercise their rights, they loose in terms of decline in their wealth.
-) Second is for those companies whose shareholder is concentrated in the hands of financial institutions because of the conversion of loan into than the rights issue.

Cons (Disadvantages)

-) The main disadvantages is to the shareholders who fail to exercise their rights, they loose in term of decline in their wealth.

J Second is for those companies whose shareholding is concentrated in the hands of financial institutions because of the conversion of loan into than the right issue.

2.2.5 Right-on and Ex-Rights

In the above example the stock selling before December 11 is said to sell with rights-on. those who buy stocks rights-on receive rights with stocks and can purchase right shares of the company. On and after the ex-rights date i.e. December 11 in above example, the stock is said to sell ex-rights, that is, the stock is traded without rights attached. Investors those who buy stocks after this date do not receive the rights to subscribe additional stocks.

2.2.6 Valuation of Right

Right is a negotiable instrument, so it has a certain value for sale. Theoretically, value of the right is determined using different equation and the value depend upon the market price of share. Subscription price and number of rights required to purchase a new share. This value is also known as formula value. The real value is determined in the market place through the interaction of demand and supply. The value we obtain using different equations is the minimum price to seller and maximum price to the buyer.

When companies announce right offering the shareholder and investors generally rush to buy the stock of that company. Ultimately the right get certain value. When the stock is selling right on, the theoretical value of the right can be calculated using following

Formula

Rights-on value of a Right

Value of one right = market value of stock, rights-on subscription price/ Number of rights required to purchase one share-1

$$V_r = P_o - P_s / \# + 1$$

Where,

P_0 = rights on price of the stock

P_s = subscription price

= No of rights required to purchase a new share of stock

V_r = Value of one right or formula value or theoretical value of one right

Ex-right value of Right

$$V_r = P_e - P_s / \#$$

Where,

P_e = ex-right price of the stock

P_s = subscription price

= No of rights required to purchase a new share of stock

V_r = Value of one right or formula value or theoretical value of one right

Example: (Weston & Copeland)

If the current market price of share is 32 and subscription price is Rs. 20. No of rights required to purchase one share is Rs 3. Then the value of one right using above formula is.

$$V_r = 32 - 20 / 3 + 1$$

Theoretical value of right is Rs. 3

2.2.7 Market Price of Share

Immediately after the announcement Market price of the share means the price of share determined by the market and traded in the stock exchange. Generally this market price of share is determined by demand and supply of market. But besides this there are others factors too which play a vital role for price fixating in the market.

) Divided: Shareholder who invest their money in common stock always seeks return in the form of dividend. If the company pay higher rate of dividend then ultimately the share price goes higher and vice versa. for example, standard chartered bank Ltd. provides 100% dividend so that price of standard chartered stock is higher than other.

- J Cost of capital : Generally cost of capital refers to the cost of fund raised. If cost of capital is higher automatically return will be lower and the price of share goes down.
- J Company's earning : highly earning organization pay higher dividend then the price of the share more upward and vice versa.
- J Signaling Effect: Another major share price determinant is signaling effect. Signaling effect or signals means the market rumors which is related to the stock market. For example, Budget speech, Insurgency, Emergency, Dividend announcement, stock dividend, rights offering etc. Due to these rumors investors, shareholders buy and sell the stock. This finally affects the share price.
- J Economic condition: Another economic condition of the country, also determine the share price indirectly. If the economic is growing, obviously price of share also increase. If the of recession or depression it goes down ward.
- J Above factor are the major determinants of shares price. Market price of share is the function of dividend, cost of capital, company's earning, signaling effect and economic condition of the country. Out of them the researcher has taken right offering and its effect in this study.

2.2.8 Rights Offering and Market Value of Share

Immediately after the announcement of the right offering the market price of the stock would increase by some amount but theoretically it is said that the right offering does not affect the value o shareholders what will happen to the price of share before ex-right i.e. in rights-on and ex-rights date?

Rights-on price of stock

Rights-on price of stock is also known as cum-right price stock. This is the time that the stock is selling rights-on that is before ex-right date. During the rights-on period, the market price per share theoretically remains same and denoted as P_0 .

Rights-on Price=Cum-Right Price= P_0

Ex-Rights Price of Stock

When the stock goes ex-rights, the market price theoretically decline by the amount of value of each right. The value of stock declines because the investors (buyers of stock) on longer receive the rights to subscribe to additional shares.

Ex-Right Value of Stock = Rights to Stock-Value of Each Right

$$P_e = P_o - V_r$$

where,

P_o = rights-on price of stock

V_r = Value of each right

P_e = ex-rights price of stock

2.2.9 Theoretical Value vs Market Value of Rights

Market value of right may differ some what from its theoretical value on account of transaction costs, speculation and the irregular exercise and sale of rights over the subscription period. Market price of rights may be higher or lower than theoretical period. Market price of rights may be higher or lower than theoretical value. If the price of hare is significantly higher than its theoretical value, stockholder will sell their rights and purchase 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 stock, and then sell the stock in the market, this occurrence will exert up pressure on its theoretical value.

But this transaction and movement is not applicable, in Nepalese context because in Nepal rights can not be separated from shares, one can not sell the rights discretely.

2.2.10 Nepalese securities Market and Rights Issue

Till the date 103 companies out of 157 listed companies have the rights share.

In the fiscal year 2064/065, Total securities issue approval is Rs.10668.20 millions and out of this issue of securities through rights share is Rs 6793.4 millions. In 2.064/065 another eleven companies has got the sanction to issue rights share. Up to fiscal year 2064/065 total issue approval (instrument wise) is as follows.

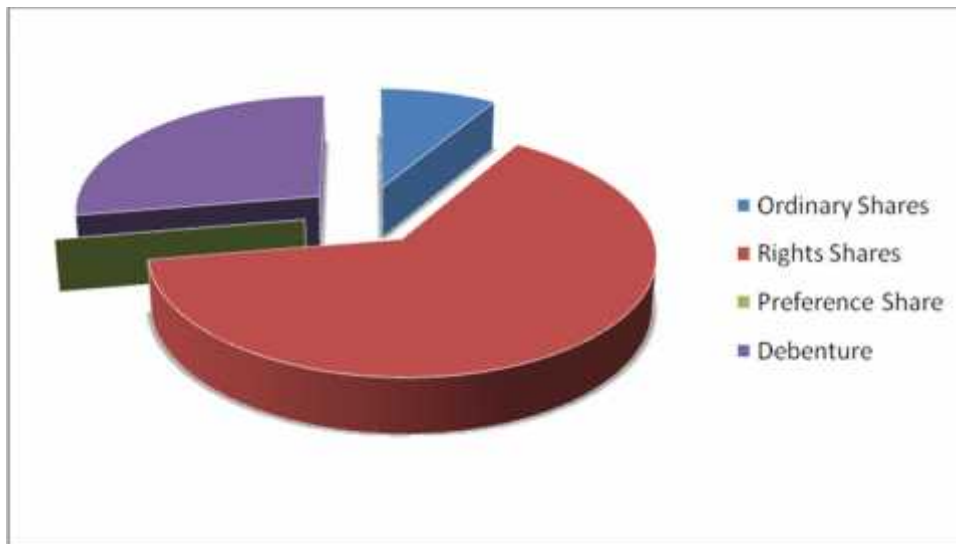
Table 2.2

Issue of Securities (Instrument Wise) in Percentage

| Tools | Percentage in Total Issuance |
|------------------|------------------------------|
| Ordinary Shares | 8.67% |
| Rights Shares | 63.67% |
| Preference Share | 0% |
| Debenture | 27.66% |
| Total | 100% |

Figure 2.1

Issue of Securities (Instrument Wise) in Percentage



2.2.11 Rules and Regulations regarding Rights Issue in Nepal

Company Act 2053 is the main Act that regulates the establishment and issue of securities of any company. But incase of rights share issue, company is silent and do not mention about the procedure and method. Some of the provisions made by SEBO/N say regarding the rights issue. The firm that has already gone to public can issue rights share to acquire additional capital. The procedure regarding right shares issue is similar to common stock issue. Besides it, the firm that wants to issue right shares should have enlisted in stock exchange, after full payment of the face value of securities issued earlier.

2.3 Effect on Position of Stockholders

Theoretically, the wealth position of existing shareholders is not affected by the rights offering. Before and after the rights offering the total wealth of the shareholders remains same if they exercise full rights or sell their rights or sell partially and exercise partially. But in case of letting them to expire or partially exercise would affect the wealth position.

2.4 Subscription Price is Not Significant

The subscription price of rights issue is irrelevant, in terms of the impact on the shareholders wealth. It can be fixed at any level below the current market price. What the shareholder gain in terms of the value of rights, he will lose in terms of declination in the share price. The primary objective, in setting the subscription price low is that after the rights offering the market price should not fall below it.

2.5 Review of Related Studies

2.5.1 Review of Articles

To make more relevant and to add input in this study some Journals and article are also reviewed below:

Dolley (1934) conducted a study on the topic "The Price Effect of Stock Rights Issues". 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.

To analyze the price effect of stock rights issue he uses the price from announcement date to record date. Since the sole object in this procedure was to develop the general price trends, the dates for which these quotations were obtained were only approximately one, two, three and four weeks prior to the record date. The entire sample of 303 stocks was not used in this test because it was thought that a smaller number would serve to reveal the general trend.

The result of this study seems that the possibilities of a stockholder realizing an immediate profit from a right issue are narrowly limited. Investor 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 preceding 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 rights valueless.

However, if the stockholder elects to sell his stock rights, his chances of securing the optimum market price would slightly better if he should sell at the beginning rather than the end of the subscription period. For the professional speculator, it would seem in general market that the best chances for profit would lie either in purchasing the stock rights on just prior to the record date and selling the shares ex-rights themselves on the record date, or in selling the rights short on the record date and covering later in the subscription period. However, the individual price reactions both of the stock and the rights vary so widely from case to case as to render speculation according to rigid rules highly unsafe.

Nelson's (1965) study, reports that an empirical test of whether the price effects of stock dividends and splits are also observed in the quasi split characteristics of rights. He tested the proposition that stock rights have splits effects similar to stock splits and stock dividends. The significant of the study is indicated by the fact that approximately two thirds of new issues of common stock are sold through privileged subscription in US stock market. He uses three price quotation for the study i.e., (i) Six months before the announcement of the offering. (ii) On the 1st day of rights trading and (iii) Six months after the close of rights offering. By analyzing data he found that the average adjusted price of all offerings declined 0.2% from six months before the announcement of right to six months after the close of the rights trading period. Market price, adjusted both for split effects and general market effects, increased following rights offerings when cash dividends were increased. But the sizes of the changes were not as large as those found in previous studies, which measured the effects of cash dividend increases on market prices six months following stock splits and stock dividends. The data also show that earnings increases

have about the same order of magnitude of influence as dividend increase on adjusted market prices six months after the rights offerings.

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

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

Further states that price pressure implies a temporary price fall around the ex-date. To test this, he applied the single stage cross sectional model to full sample of nearly a thousand issues. The results are consistent with the existence of small amount of price pressure. Share prices appear to suffer a temporary set back of 0.9% during the immediate ex-right period, although they more than recover from this over the next month with an abnormal return of 1.8% over the second period examined. While a small part of the price fall could be due to information effects delayed until after announcement date because of non-trading. There appear to be no other plausible explanation, which are consistent with market efficiency.

The results test on price pressure and market liquidity were for more conclusive. Although on average, there did appear to be small setback of 0.5% to 1% when the shares went ex-rights, he found no evidence whatsoever that the returns over the issue (or announcement) period were related to the size of the issue. Quoted companies

appear to be able to sell any reasonable amount of new equity at effectively the current market price and do not appear to face a downward and sloping demand curve for their shares. Hence although in recent years there has been an active public debate in UK on the adequacy of the capital market there seems little satisfaction for any real concern over the operations of this particular segment. The London Stock Exchange appears to be a highly liquid market.

Marsh (1980), in another study of valuation of underwriting agreements for UK rights issue states that UK companies raise virtually all of their new equity 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, and hence it is clear that quite substantial sums of money are involved. Since underwriting is simply a put option giving the company the right to put a failed issue on to the underwriter. In this study he describes and application of Black and Scholes model to the valuation of rights issue underwriting agreements over the period of 1962 to 1975. Model prices are compared with the fees charged in order to assess whether the latter represent competitive prices.

Furthermore he uses the same population and sample as in previous study, however he is unable to establish the date of the underwriting agreement with any degree of confidence. These issues were therefore excluded, leaving him with a sample of 539 underwritten issues for the purpose of this study. Underwriter performs an economically useful function by assuming the risks of a failed issue. Aside from the question of whether shareholders really wish to indulge in option trading with institution, the question of whether underwriting has historically proved worthwhile is an empirical one. In fact, when he used the Black and Scholes model to value UK underwriting, over period 1962 to 1975, the evidence strongly indicated that underwriting, taken alone and ignoring side payments, was considerably overpriced.

White and Lusztig (1980) conducted a study on the topic price effects of rights offerings. The purpose of this study has been to test empirically two hypotheses with respect to the price effects of rights offerings. Its importance for the normative theory of financial management is obvious. The technique used in the study was a pooled

cross section time series model. This approach permitted the abstraction from the components of returns attributable to market wide events and other firm specific events ob or bear the date of interest, as well as tests of significance of events on market prices. The result of the pooled regressions provides more definitive information on the price behaviour associated with the announcement of a rights offering. Since the t-statistics on the announcement date dummy variables were statistically significant at the 1% level or better, the hypothesis that on average investors believe that there is negative information associated with a rights offering can not be rejected.

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

2.5.2 Review of Thesis

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

Lamsal (2002) had conducted the study on “*Impact of Formation on Share Price*”. This study his objective was to determine the impact of information, such as dividend declaration, return on equity and EPS on share price. To analyze his study, he had use t-test and correlation. But he did not consider rights issue as an important factor in share price determinants. So here researcher has analyzed the rights issue as an important factor in share price movement. Lamsal in his study finds that there is significant difference in share prices of four samples companies out of five, because of information of divided declaration. It is found that share price of the sampled organization has deceased significantly after the issuance of directives made by NRB. In most cases MPS is negatively correlated with EPs, DPS& ROE.

After reviewing the about thesis, it is found that various studies have been conducted on the topic of share price and its determinant. But no one has considered the right issue as important factor that affects the market price heavily. Furthermore no one had test the correlation of share price with general market movement using data of 2053 to 2062 B.S. Beside that, researcher had tried to find out the value of rights. The researcher had also making effect to highlight the under subscription problem. So, this study is trying to find the impact of rights issue on market price of share of sample companies. This study may be an important effort to inform the shareholders and companies regarding the rights issue practice in Nepal.

In this study the main objectives were:

-) To determine the impact of information such as DPS, ROE and ROA on share price.

The major finding of this study were:

This study founds that there is significant different in share price of it's samples companies. It is found that share price of sampled companies has decreased significantly after the issuance of directives made by NRB. In most cases MPS is negatively correlated with EPS, DPS and ROE.

Aryal (2003) on the topic "*Equity Rights Issue, its Practice and Impact in Nepal*" had been conducted. But his objectives of the study are different than Gautams study. The main objective of his study is to examine the relationship between stock price reaction and announcement of rights issues and to analyze the relationship between rights share and equity share and rights share and NEPSE Index. To conduct this study he used cross sectional analysis by estimating the regression. He analyzed only the relationship between rights share to equity share and rights share to NEPSE index. In this research he founds announcement of equity rights issue are associated with a positive effect on share prices. He further states that theoretical value of right differs from company to company. At last he concludes that firstly company issues rights share for increasing equity capital and to invest it in company's diversification and expansion. Secondary 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.

The main objectives of this study were:

-) To examine the relationship between stock price reaction and announcement of rights issue.
-) To analyze the relationship between rights share and equity share and right share and NEPSE index.

The major finding of this study were:

In this research he founds announcement of Equity rights issue are associated with positive effect on share price. He further states that theoretical value of right differs from company to company. And other finding was they issue rights share to increase capital to meet the level prescribed by Nepal Rastra Bank.

Lamichhane (2004), conducted a study related to the “*Rights Offering and its impact on market price in the Nepalese Context*”. His objectives in this study is to identify the significant change in share price after announcement of rights offering and to recommend some policies that will help to rectify the current problems in the right issue of securities. To conduct the study, he had used the correlation between share price and price index, t-statistics between share prices before and after the rights issue announcement. He did not consider the value of rights, which is very important in share price determination after the issue of rights shares. His analysis only covers the data from 2056 to 2060 B.S. But here the research has analysis only covers the data from 2054 to 2062, which can show the present economic scenario. He had taken sample from different sector but here the research has use only one and most important sector i.e. commercial banks to conduct the study. In this study his major findings were different between share price before and after the rights share issue is new practice in Nepal; sample companies are unable to increase the market capitalization through rights issue, as the practice does not follow the theory of rights in common problem. Company act 2053 is not adequate for this and issues of rights shares.

In this study the main objectives were:

-) To find the effect of right offering on the share price movement.
-) To find out, If there is any problem in the primary issue of securities.

The major finding of this study were:

-) Change in share price due to Right offering can not be generalized.
-) There is lack of investors protection act.
-) Security board has failed to establish one window policy to support the primary issue of share.

Yubraj (2008) has conduct a study on the topics "*Rights Announcement and It's Impact on Shareholder Wealth Position in Nepalese Context*". The main objective of his study were to evaluate the effect in market price pre share after the allotment of right share, to examine the procedure and mechanism of right issue in the context of Nepal. To conduct his study he used correlation analysis between market price of share and NEPSE Index. T-Statistics is used to test if there was significant change in share price before and after the issue of rights. He also considers the value of right to find out different between market price before and after announcement of rights share. He analysis only covers 2065/57 to 2063 BS. The result may not represent the present economic scenario. He has taken only nine companies as sample to complete his study.

Major Objective in this study were:

-) To examine the procedure and mechanism of rights issue in the context of Nepal.
-) To evaluate the effective in market price per share after the allotment of right share.

Major Finding in this study were:

-) First all the shareholder are mostly unknown about the right share.
-) Its benefits and effect on their wealth position.
-) During the analysis it has been find that unrealistic in came statement is published.
-) It is found that all the sample company close not follows the theory of the rights share.

Poudel (2009) has conducted the study on "*Effect of Right Share and Bonus Share in MPS of Listed Companies*" with reference to Nepalese Financial institutions. In this study his objective was to examine and analysis various aspects of bonus share and right share. To evaluate the problems vegarclity to investors in associated with right share and bonus share. To suggest and recommend on the basis of major findings. To analysis this study he has used hypothesis analysis to find out difference of MPS before and after announcement of the right offering. He has also used co-efficient of correlation to describe degree to which are variable is linearly related to another. He has also used valuation of rights to find out different between MPS before and after announcement dare. He analysis only to covers the data last time years. i.e. 2057/058 to 062/63.

Major objective of this study

-) To examine and analysis various aspects of bonus show & rights issue.
-) To evaluate the effect in market price per share after the allotment of right share and bonus share
-) To evaluate the problems regarding to investors in associated with right share and bonus share

Major Findings of this study

-) All the sample company does not follow the theory of right & bonus share.
-) All of investor does not know about the wealth position after issue right & bonus share.

2.6 Research Gap

After reviewing the various thesis and related journals, the researcher has got lots of knowledge about right announcement and its different aspect. But it is noticed that the previous studies lacked the significant role of its time framework. The announcement date, the book closer date/ ex-right date and issue date are vary important. So it has to be considered seriously. In this study, the researcher has taken these dates in his study. And the researcher hopes that proper utilization of different dates certainly help to fill up the gap in this area. This study will try to show the current issue, latest information on financial indicators, data and real picture of share price of financial institutions. To show latest picture of financial indicators researcher covered the data of periods from 2001 to 2008 and collect the latest information or changes that occur in this periods. Hence, this study fulfils the prevailing research gap about the in depth analysis of the movement or fluctuation of stock price after the issue of Right and bonus share is the major concern of the stakeholders.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

The above mentioned, objectives can be fulfilled by well-settled research methodology. The proper analysis of this study can be meaningful only on the right choice of research tools that help to come meaningful conclusion. Research methodology refers to the various sequential steps to be adopted by a researcher in studying problem with certain object in view. It would be appropriate to mention that research project are not susceptible to any one complete and inflexible sequence of steps an the types of problem to be studied will determine the particular steps to be taken and their order too.

This study about selected commercial banks in Nepal has been already done streamline to some extent in earlier chapter in general. But, the proper analysis of this study can be meaningful conclusion. The main objective of this study is to analyze the rights share practice and its impact on share price movement in the context of Nepalese banks & financial institution. Therefore in this chapter the focus has been made on research design, nature and sources of data, sampling procedure, coverage of data, tools used for analysis and definition of some key terms used.

3.2 Research Design

"The research design refers to the conceptual structure within which the research is conducted. "Research design is a plan, structure and strategy of investigation conceived so as to obtain answers to the research questions and to control variances." Without research design no research can be conducted, this is also one of them. The study is based on historical data and an 'export factor' research because no variables are in the control of researcher an no variable in this research is manipulated during the study period.

3.3 population and sample

Out of 157 companies listed in the Nepal stock Exchange Ltd. (NEPSE) categorized under seven different sectors. Only 103 times of different companies have issued right share up to the end of fl4 2007/2008. All listed companies, which have issued rights share, have been taken as population. The financial institutions such as Banks, Finance companies and Insurance companies control share market of Nepal. The share price of these companies directly affects the NEPSE index. The research has taken 6 rights issuing companies as sample 3 from commercial bank, 2 Development bank and 1 from financial company.

3.3.1 List of Sample Companies

1. Nepal Investment Bank Limited (NIBL)
2. National Finance Ltd. (Bittiya sanstha)
3. Nepal SBI Bank Ltd.
4. Gorkha Development Bank Ltd. (GDBL)
5. Kumari Bank Ltd. (KBL)
6. Ace Development Bank Ltd. (ADBL)

3.4 Sources of Data

a. Secondary Sources

The data for this study were collected mostly from secondary sources, including office records, annual reports of SEBO/N, trading reports of NEPSE, research reports, bulletin and other relevant publication.

b. Primary sources

In order to make the study more realistic both primary and as well as secondary data have been applied. Following method has been used to collect primary data.

i. Questionnaire Method

to take the information about the rights and its various aspects questionnaire method has been used. The questionnaire was designed to get three kinds of responses viz.

1. Yes/No answers
2. Multiple choice answers
3. Descriptive answers.

Due to various limitations only 20 Questionnaires is distributed out of them 15 copies were collected during the study period. The questionnaires were distributed to the shareholders, investors, brokers and other concerned person of issue managing company and related person of sample companies.

ii. Interview Method

To make the study more reliable interviews of some concerned personalities was taken. The interview was related to right issue, its characteristics, its impact on share price, provision of rights issue in company Act etc. in addition some formal/informal discussions were held with concerned bodies.

3.5 Tools for Analysis

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

3.5.1 Correlation Analysis

To complete this study the researchers have taken correlation analysis as a statistical tool of the several mathematical methods of measuring correlation, the Karl Pearson's method, popularly known as Pearson's coefficient of correlation is most widely used in practice. The formula for computing Pearson's correlation coefficient (r) using direct method is as follows."

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

Where,

r = Correlation between share prices movements and general market movement

x = Share price of sample company

y = Share price of market index

3.5.2 Use of Hypothesis Test

To test our research hypothesis paired t-statistics is used here t-statistics is used to test the significance of the differences between the share price before and after announcement of the rights offering by the companies. For our analysis t-statistics is suitable because the share price of some transacted days (i.e. less than 30 transactions) are taken. Hence researcher has used paired t-test.

Let the share price between Announcement and after Announcement to be denoted by X and Y respectively.

Null Hypothesis: H_0 :

That is there is a significant difference in the share price between and after ex-rights.

Where,

Variable Defined

x=Share price before Announcement date.

y= Share price after announcement date.

d=x-y=difference between two set of observation

Degree of freedom = n-1

Test results: If calculated value is equal or less than tabulated value, the null hypothesis is accepted, if not rejected.

3.5.3 Valuation of Rights

Rights have certain market value because the rights shares are generally offered at lower price than market price. So, people are interested towards that particular share attached with rights. After right offering existing shareholders want to exercise that right to purchase share or wants to sell

only rights, Though there is no provision of transferal rights in Nepal but valuation of rights is very important to analyze share price movement. After the closing date of rights share offering share price will droop to the extent of value of right.

Rights-on value of a right

Value of One Right =Market value of stock, rights-on- subscription price/Number of rights required to purchase one share +1

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

Where,

P_o = rights on price of the stock.

P_s = Subscription price

#= number of right or formula value or theoretical value of one right.

V_r = value of one right or formula value or theoretical value of one right.

3.6 Methods of Analysis and Presentation

The information and data collected will be processed and systematically presented in table and diagram. Average share index before and after rights issue will be calculate. Share price movement of sample organization and their price relatives are calculated on the basis of base year. Similarly, various statistical tools are used to calculate the correlation coefficient between share price movement and general market movement during different points of time. To measure the immediate impact of rights offering on the share price and on general market movement's t-statistics will be used.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the presentation, analysis and interpretation of data collected through primary and secondary sources in order to fulfill the objectives of this study. The researchers have already mentioned that, this study is heavily based on secondary data, secondary sources include official quotation of share price, publication of SEBON and NEPSE, issue prospectus and annual reports of respective companies. Primary sources 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.

4.2 Characteristics of Rights Offering in Nepal

Up to now 2064/065 there are 157 companies are listed in the SEBO/N and NEPSE. Out of them 103 times of Difference companies have issued the rights, However our study has covered only six companies. Nepal Finance and Saving company has issued rights share for the first time in fiscal year 052/53 B.S. amounting Rs. 2 million. In 2053/54, 3 companies had issued rights share to their existing shareholder amounting Rs. 25.52 million out of 302.2 of total public flotation. There were 3 cases of rights issue in 2060/61. 5 cases in 2061/62 11 cases of rights issue in 2062/63. 17 cases in 2063/064 & 43 cases of rights issue in F/Y 2064/065.

All the companies had issued their rights share at par value i.e. Rs. 100 per share. Because according to company Act 2053 no company can issue their rights share at discount. Premium can be added but due to fear of under subscription on company had added any premium on share.

In our sample companies the size of rights share mount vary according to company size. Being large organization NIB has issued rights share of Rs. 295293000. Existing shareholders of NIB require one right to purchase. Once share i.e. the ratio was 1:1, where as. National finance company issued right share of Rs. 43200000. The Ratio

was 1:1, SBI. Bank had issued right share amount of Rs. 287870400 and 1.2 ratios. Other sample companies i.e. Kumari Bank has issued right shares of Rs. 180000000.5 old share to purchase one new additional share but Gorkha Development Bank require only 5 old share to purchase one new additional share of amount Rs. 16000000. Ace Development bank Ltd. has used right share amounting Rs. 96000000 where as 10 old share required to purchase 3 additional new shares.

4.3 Rights Issue Practice in Nepal

The history of rights issue is not so long in Nepalese context. Nepal Finance & Saving Company is the first company to issue rights share in Nepal. The company issued rights share in the fiscal year 2052/53 amounting Rs. 2 million at the subscription ratio of 4:1 where 4 shares were required to purchase each additional share issued by the company, Since from heat date, Nepalese corporate firms started to issue rights share.

In the current years, the practice of issuing issuing rights share in banking and financial institutions is in increasing trend due to the directive of NRB. According to the directive, all banking and financial institutions have to increase their capital base before 2070. To comply with the policy directive, large number of such institutions are issuing rights share. Even some of the Development Banks and Finance Companies are issuing rights share at high ratio to raise funds to maintain capital base required for upgrading their class category. Till the data (i.e. FY 2064/65), 72 companies have issued rights share and there are total 103 cases of rights issue of those companies.

It is clear that the practice of rights issue in Nepalese corporate firms is in increasing trend both in number and amount. Till the end of fiscal year 2063/64, 72 companies have issued rights share and there are 103 cases of rights issue in total. Out of them, four companies viz. Seti Cigarette Factory Ltd. Nepal United Co. Ltd., Nepal Bank Ltd. and Necon Air Ltd. are already de-listed form NEPSE. Among other listed companies, Nepal Share Markets & Finance Ltd. has issued rights share for 5 times till the date. But some of the listed companies with high earnings are providing bonus shares to their shareholders rather than issuing right share to increase their capital base. Whereas some of the other companies, mostly financial institutions, are in the process to issue rights share which indicates the increasing trend of rights issue in Nepalese capital market.

4.4 Contribution of Rights Issue in Total Public Flotation

The following table and figure shows the contribution of rights issue in total public flotation in each of the fiscal year where the rights issue has taken place.

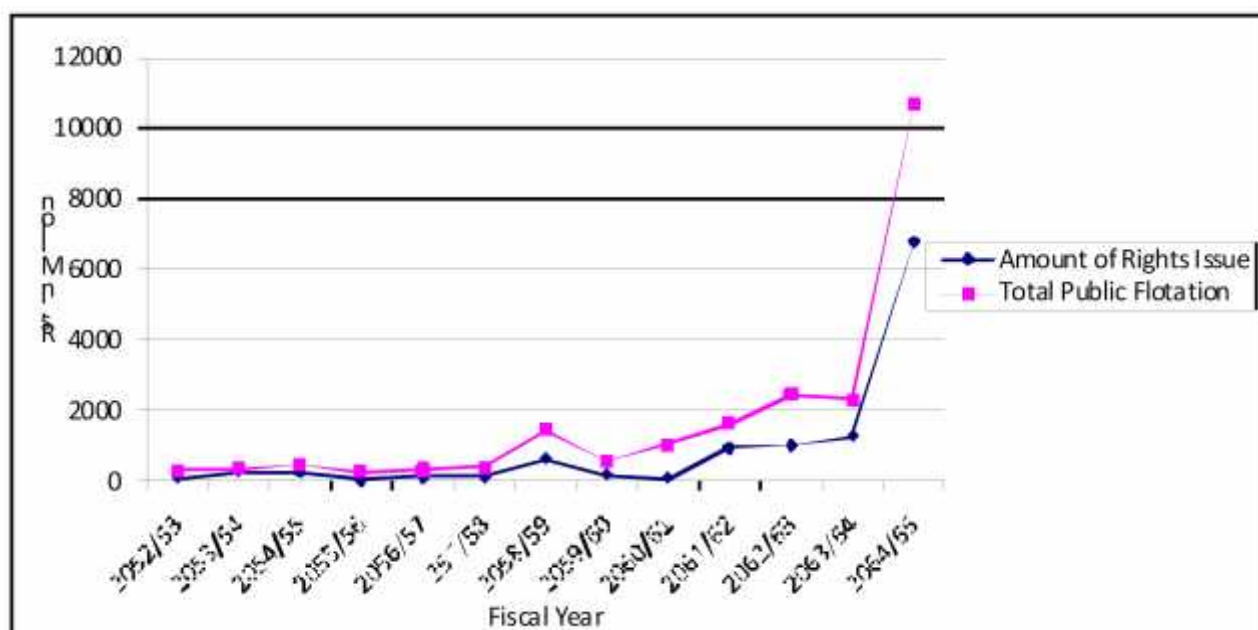
Table 4.1
Contribution of Rights Issue in Total Public Flotation

(Rs. in Million)

| Fiscal Year | Number of Rights Issue | Total Public Flotation | Amount of Rights Issue | % of Rights Issue |
|-------------|------------------------|------------------------|------------------------|-------------------|
| 2052/53 | 2 | 293.74 | 69.00 | 23.49 |
| 2053/54 | 3 | 332.20 | 275.20 | 82.84 |
| 2054/55 | 3 | 462.36 | 249.96 | 54.06 |
| 2055/56 | 1 | 258.00 | 30.00 | 11.63 |
| 2056/57 | 3 | 326.86 | 124.60 | 38.12 |
| 2057/58 | 2 | 410.49 | 131.79 | 32.11 |
| 2058/59 | 5 | 1441.33 | 621.87 | 43.15 |
| 2059/60 | 4 | 556.54 | 162.24 | 29.15 |
| 2060/61 | 3 | 1027.50 | 70.00 | 6.81 |
| 2061/62 | 6 | 1262.82 | 949.34 | 58.35 |
| 2062/63 | 11 | 2443.28 | 1013.45 | 41.48 |
| 2063/64 | 17 | 2295.50 | 1265.30 | 55.12 |
| 2064/65 | 43 | 10668.31 | 6793.56 | 63.68 |
| Total | 103 | 22142.93 | 11756.31 | 53.09 |

Source: Annual Report of SEBO/N

Figure 4.1
Contribution of Rights Issue in Total Public Flotation



The above table and figure shows the contribution of rights issue in each of the fiscal year since after they were practiced in Nepalese capital market. It is seen that Nepalese corporate firms started to issue rights share to raise additional capital from fiscal year 2052/53. During that fiscal year, Nepal Finance & Savings co. and Seti Cigarette Factory Ltd. issued rights share amounting Rs. 69 million which contribute 23.49% of total public flotation. In the fiscal year 2053/54, there were three cases of rights issue amounting Rs. 275.20 million out of Rs. 332.20 million public flotation covering 82.84% of total public flotation. Similarly, three companies issued rights share in the fiscal year 2054/55 which covered 54.06% of the total public flotation of Rs. 462.36 million. But only one company i.e. Nepal Share Markets & Finance Ltd. had issued rights share in the fiscal year 2055/56 amounting Rs. 30 million which contributed only 11.63% in total public issue. In the fiscal year 2056/57, three companies issued rights share amounting Rs. 124.60 million that covered 38.12% of total public issue. Two companies issued rights share in the fiscal year 2057/58, which covered 32.11% of total public flotation of Rs. 410.49 million. In the next fiscal year 2059/59, there were five cases of rights issue amounting Rs. 621.87 million out of Rs. 1441.33 million in total public issue. Similarly, four companies issued rights, share in the fiscal year 2059/60 amounting Rs. 162.24 million which contributed 29.15% in total public flotation. In the fiscal year 2060/61, the amount raised through rights share issue was Rs. 70 million, which covered only 6.81% of total public issue from three rights issue. The in fiscal year 2061-62, six companies issued rights share amounting Rs. 949.34 million which contributed 58.35% of total public issue. In the fiscal year 2062/63, 11 companies issued rights share which covered 41.48% of total issue and the amount of rights issue was Rs. 1013.45 million. In the next fiscal year 2063/64, 16 companies issued rights share but the cases of rights issue were 17 (i.e., Lumbini Bank Ltd. issued twice) and the amount of rights issue was Rs. 1265.30 million which covered 55.12% of total public issue. Finally, in the fiscal year 2064/65, 43 companies issued rights share amounting Rs. 6793.56 million that covered 63.68% of total public flotation of Rs. 10668.31 million which is the largest in terms of number and amount of issue till the date.

By the above table, it is clear that there was the lowers percentage of rights issue i.e. 6.81% in the fiscal year 2060/61 whereas the highest percentage of rights issue was 82.84% in the fiscal year 2053/54. Similarly, the highest amount of rights issue was

Rs. 6793.56 million in the fiscal year 2064/65 and the lowest was Rs. 30 million in the fiscal year 2055/56. So, it is clear from the above table and figure that the practice of rights issue in Nepalese corporate firms is in increasing trend both in number and amount.

4.4.1 Contribution of Rights Issue in Total Public Flotation in FY 2064/65

The following table and figure shows the contribution of rights issue in total public flotation in the fiscal year 2064/65.

Table 4.2
Contribution of Rights Issue in Fiscal Year 2064/65

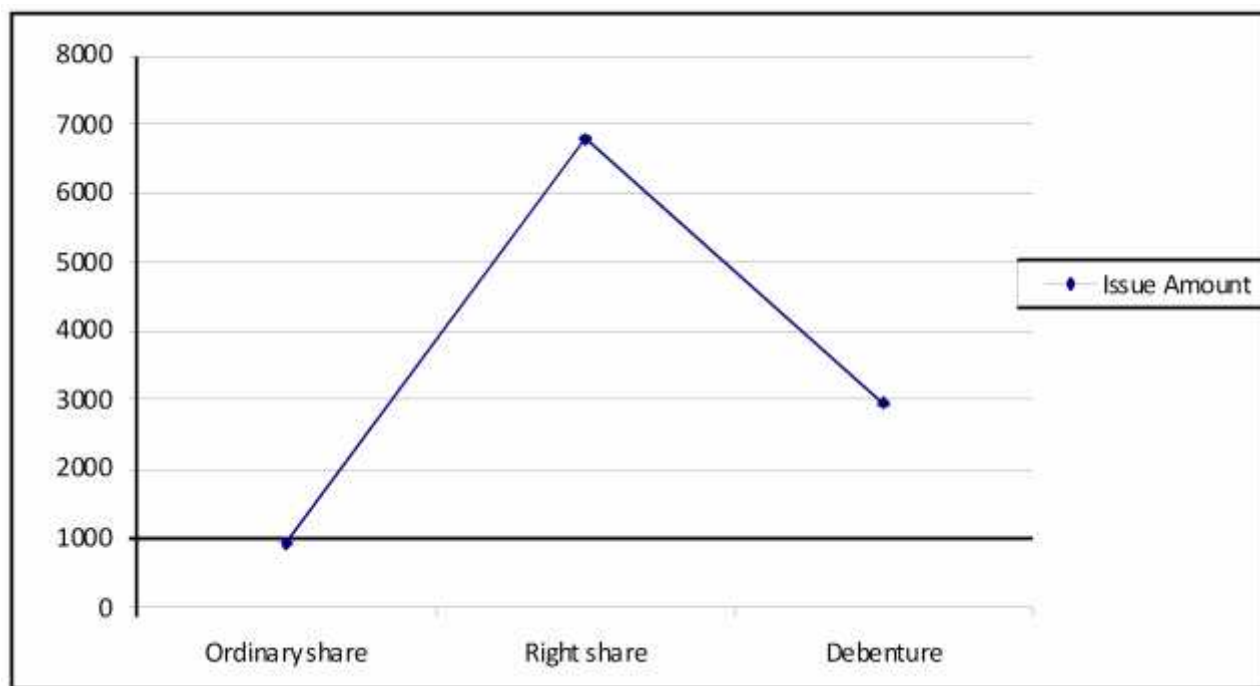
(Rs. in million)

| Securities | No. of Issues | Issued Amount | Percentage (%) |
|----------------|---------------|---------------|----------------|
| Ordinary share | 16 | 924.75 | 8.67 |
| Rights share | 43 | 6793.56 | 63.68 |
| Debenture | 5 | 2950 | 27.65 |

Source: Annual Report of SEBO/N

From the above table and figure, securities wise contribution in total public flotation in the fiscal year 2064/65 can be clearly seen. In the fiscal year, only three securities viz. ordinary share, rights share and debenture were issued by firms to public amounting Rs. 10668.31 million in total. Out of them, 16 companies issued ordinary shares to public amounting Rs. 924.75 million which contribute 8.67% in total public issue. Similarly, 43 companies issued rights share to their existing shareholders which contribute 63.68% in total public issue debenture of Rs. 2950 million which contribute 27.65% in total public issue in the fiscal year 2064/65. So it is clear that rights issue contributes the highest in total public issue in the fiscal year 2064/65.

Figure 4.2
Contribution of Rights Issue in Fiscal Year 2064/65



4.4.2 Sector Wise Contribution in Rights Issue in Fiscal Year 2064/65

The following table and figure shows the sector wise contribution in rights issue in the fiscal year 2064/65.

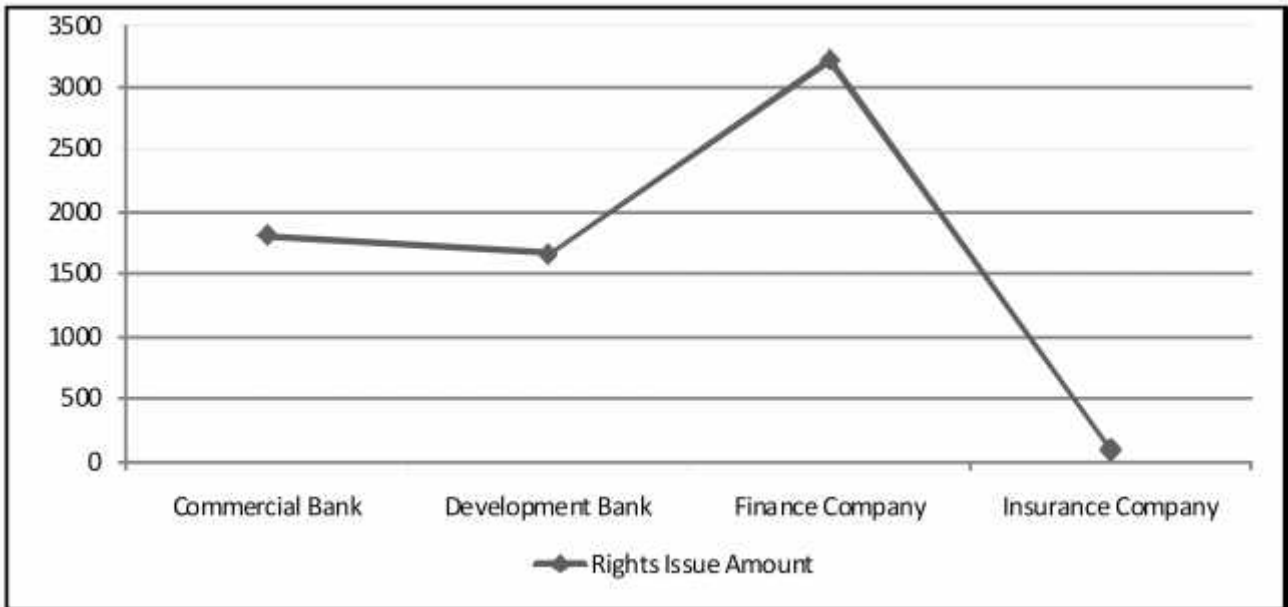
Table 4.3
Sector Wise Contribution in right issue in Fiscal Year 2064/65

(Rs. in million)

| Sector | No. of Companies | Rights Issue Amount | Percentage (%) |
|-------------------|------------------|---------------------|----------------|
| Commercial Bank | 7 | 1810.68 | 26.65 |
| Development Bank | 12 | 1663.45 | 24.49 |
| Finance Company | 21 | 3219.07 | 47.38 |
| Insurance Company | 3 | 100.36 | 1.48 |
| Total | 43 | 6793.56 | 100 |

Source: Annual Report of SEBO/N

Figure 4.3
Sector Wise Contribution in Rights Issue in FY in 2064/65



The above table and figure shows the contribution of each sector in rights issue in the fiscal year 2064/65. Only four sectors viz. commercial Bank, Development Bank, Finance and Insurance sectors issued rights share in the fiscal year. Among them, 7 commercial Banks issued rights share amounting Rs. 1810.68 million which contribute 26.65% in total amount of rights issue of Rs. 6793.56 million. The contribution of Development Banks was 24.49% in total where 12 Development Banks issued rights share of amount Rs. 1663.45 million. Similarly, 21 Finance Companies issued rights share of Rs. 3219.07 million which covered 47.38% in total rights issue amount. And finally, 3 Insurance Companies issued Rs. 100.36 million of rights shares which contribute 1.48% in total amount of rights issue. Beside these, other sectors didn't issue rights share in the fiscal year. From the above table and figure, it is clear that only banking and financial institutions issued rights share in the fiscal year 2064/65.

4.5 Subscription of Rights Issue

Generally, the issue of rights share fails to full subscription in Nepalese capital market because some of the existing shareholders fail to claim their right due to some reason. Logically, such unclaimed shares should be allotted to other existing shareholders but in most of the cases, the shareholders are asked to demand only up to what is their right whenever the application is called for right shares. Hence the usual results is the under subscription or rights issues. Since, Nepalese company act is totally silent regarding the allotment of unsubscribed shares, right issuing companies used to distribute the remaining shares to their employees. The following table shows the subscription of right shares of sample companies.

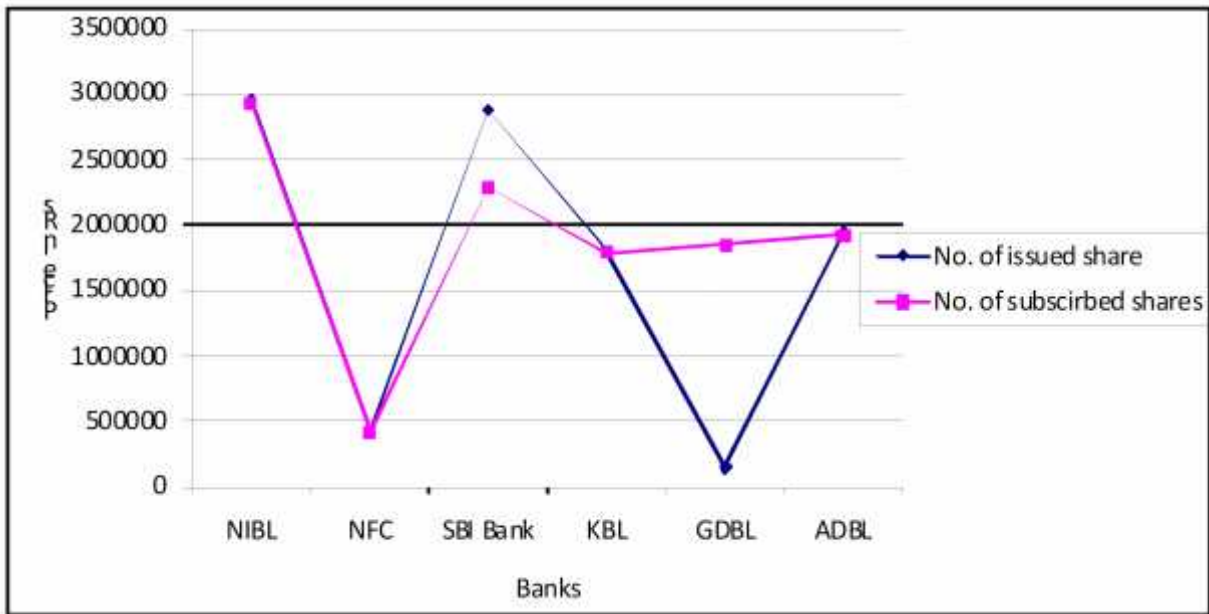
Table 4.4
Subscription of Right Issue

| S.N | Company | No. of issued share | No. of subscribed shares | % of subscription | Fly of issue sight share |
|-----|----------|---------------------|--------------------------|-------------------|--------------------------|
| 1. | NIBL | 2952930 | 2924582 | 99.04 | 061/062 |
| 2. | NFC | 432000 | 419299 | 97.06 | 061/062 |
| 3. | SBI Bank | 2878704 | 2281661 | 97.26 | 058/059 |
| 4. | KBL | 1800000 | 1785052 | 99.17 | 064/065 |
| 5. | GDBL | 1500000 | 184500 | 1.23 | 064/065 |
| 6. | ADBL | 1940000 | 1920600 | 99% | 063/064 |

Source: Annual Report of SEBO/N

The above table shows that there were a lot of hares that were remained by the existing share holders. Shareholders of NIBL 28348 act of 295293 were unsubscribed 99.04% of Total issue. Similarly 12701 shares of NFC were unsubscribed out of total 432000 i.e. 97.06%. Whereas only 14948 share of KBL were unsubscribed by the shareholders and the proportion of unsubscribed share was 0.83% only 97.26% of total shares i.e. 2878704 shares subscribed by the KBL and 597043 shares only 19400 shares were unsubscribed. After the study of subscription rights issue reports shares in all easer except GDBL. GDBL was only over subscribed cases.

Figure 4.4
Subscription of Right Issue



4.6 Analysis of Share Price Movement of Companies Before and After Right Announcement

These portions of study analyze the 'share price movement of selected sample companies. For our study three different points of time were selected for observing the price movement with the announcement date as the point of reference our selected times points are:

- a. Before rights announcement date
- b. After announcement date to rights share issue date
- c. After rights issue date

The researcher has analyzed the price movement of sample companies (i.e Nepal investment bank Ltd. (NIBL), national Finance companies (Bittiya Sanstha), Nepal SBI Bank Ltd, Kumari bank Ltd. (KBL), Gorkha Development Bank Ltd. (GDBL) and Ace Development Bank Ltd. (ADBL).

1. Nepal Investment Bank Ltd. (NIBL)

Head office = Durbarmarg Kathmandu

Corporate office = Durbarmarg Kathmandu

Right issue Announcement Date : Apr. 21 2005

Ex-right Date (Bank closed dark) : May 3 2005

Right share issue Date : May 13th, 2005

No. of share Issued : 2952930

Face Value : 100Rs.

Ratio : 1 : 1

Issue Manager : Ace Finance Company Ltd. Kantipath, Kathmandu

Table 4.5

Analysis of Share Price Movement of Nepal Investment Bank Ltd. (NIBL)

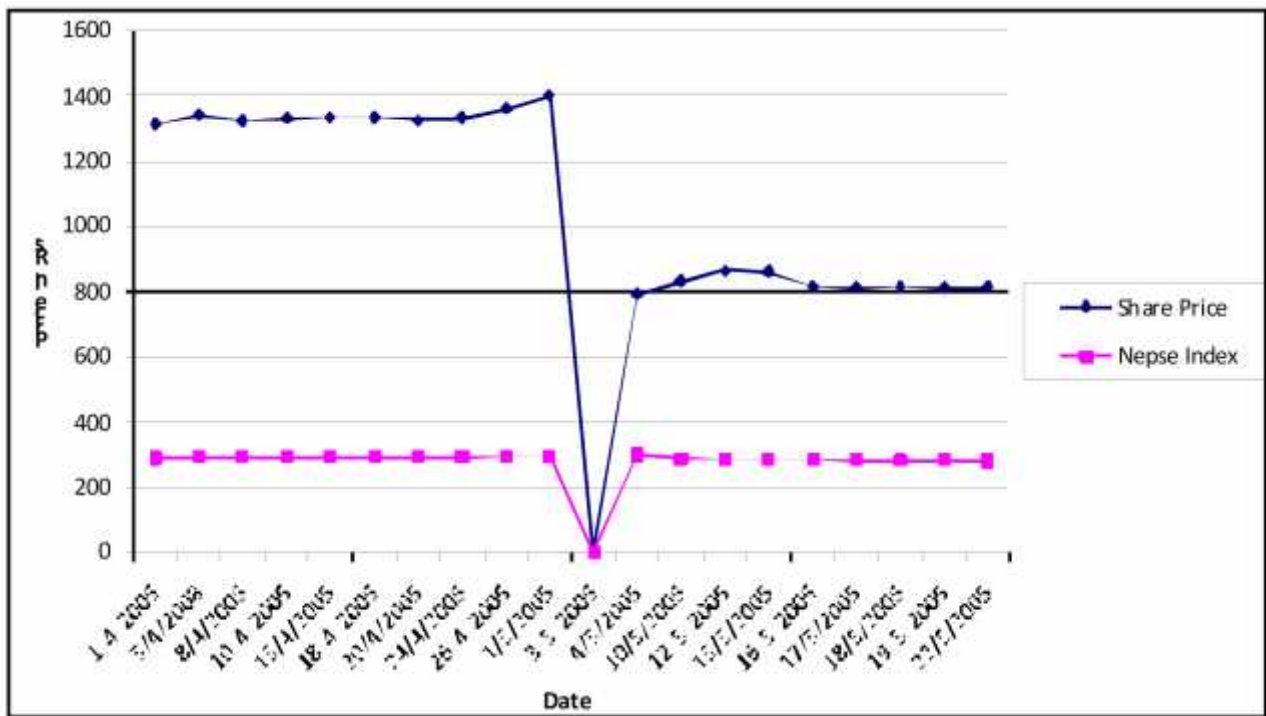
| Before Announcement Date | | Announcement Date to Issue Date | | After Issue Date | |
|--------------------------|---------------------|---------------------------------|---------------------|------------------|---------------------|
| Date | Share Price (Index) | Date | Share Price (Index) | Date | Share Price (Index) |
| 1-4-2005 | 1316 (289.50) | 24-4-2005 | 1332 (294.03) | 15-5-2005 | 860 (285.52) |
| 5-4-2005 | 1335 (290.65) | 26-04-2005 | 1360 (294.44) | 16-05-2005 | 815 (284.52) |
| 8-4-2005 | 1340 (293.65) | 01-05-2005 | 1401 (294.79) | 17-05-2005 | 811 (283.12) |
| 10-4-2005 | 1335 (293.71) | 03-05-2005 | No. transaction | 18-05-2005 | 815 (281.39) |
| 15-4-2005 | 1325 (293.71) | 04-05-2005 | 790 (298.78) | 19-05-2005 | 810 (280.39) |
| 18-4-2005 | 1326 (292.59) | 10-05-2005 | 830 (288.789) | 22-05-2005 | 813 (279.73) |
| 20-4-2005 | 1331 (293.58) | 12-05-2005 | 865 (285.42) | - | - |

Source : Kantipur, Daily News Paper

The actual prices of Nepal investment Bank before rights share announcement were Rs. 1316, 1340, 1325 and 1326. This shows that there the price of Nepal investment Bank is not showing significant differences before announcement date. But after the announcement date the prices started to increases from Rs. 1332, Rs. 1360, Rs. 1401. There is no transaction on the ex. right date. But after ex-right date on may 4, 2005 the share was traded at Rs. 790 and then again started to increases as Rs. 830 and 865. After issue date may 13, 2005. The share price was traded at price. 860, Rs. 815, Rs. 811, Rs. 815, Rs. 810 and Rs. 813.

This shows that Nepal investment Bank shares are more sensitive in the sense that they response the signal of market. They follow the rules of right. Offering and show the bell shape movement. The price movement of Nepal investment Bank Ltd. is presented below in the graph. The different dates Before announcement, announcement to issue date, after issue date are plotted on the horizontal exist and share price and price index on the vertical axis are can clearly see the price behaviour in the different dates.

Figure 4.5
Analysis of Share Price Movement of
Nepal Investment Bank Ltd. (NIBL)



2. National Finance Ltd. (Bittiya Sanstha)

Head Office : Paku New Road Kathmandu
 Right Share Announcement Date : Nov. 16, 2004
 Ex-right Date Book Close Date : Nov. 27, 2004
 Right Share Issue Date : June 15, 2005
 No. of Share Issued : 432000
 Total share in Amount : 43200000
 Face Value : 100
 Ratio : 1:1

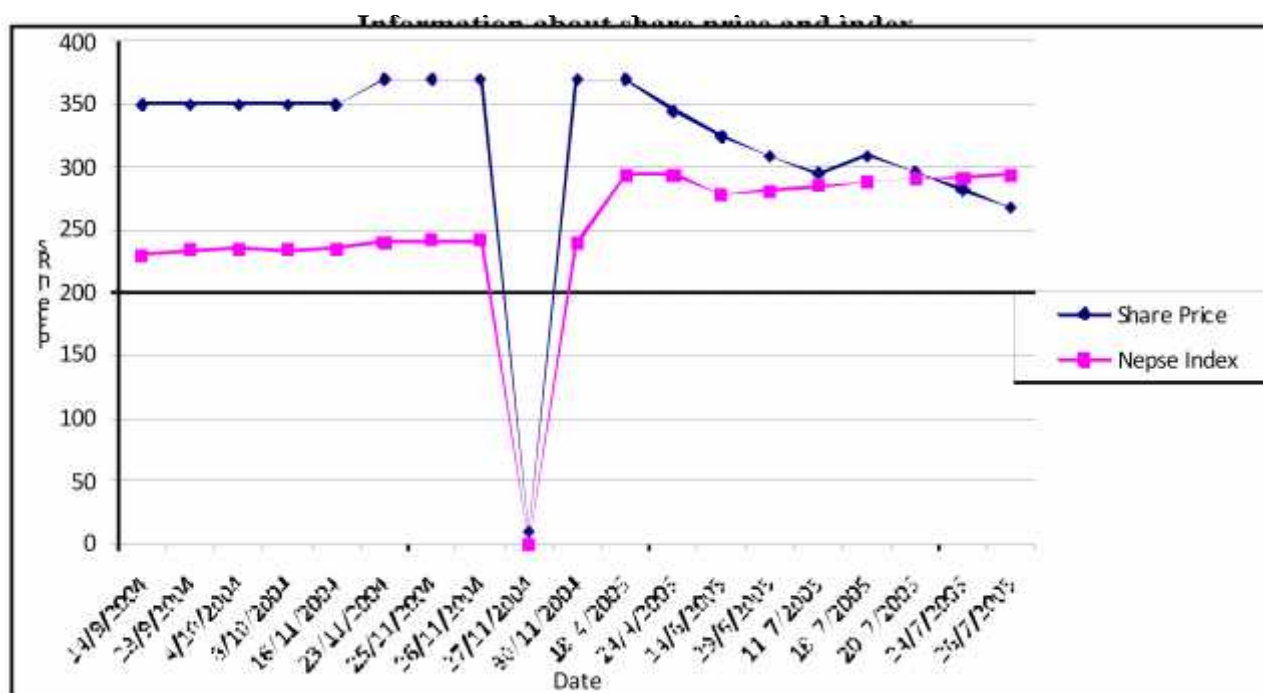
Table 4.6

Information about Share Price and Index

| Before Announcement Date | | Announcement Date to issue Date | | After Issue Date | |
|--------------------------|---------------------|---------------------------------|---------------------|------------------|---------------------|
| Date | Share Price (Index) | Date | Share Price (Index) | Date | Share price (Index) |
| 14-9-2004 | 350 (229.99) | 23-11-2004 | 367 (240.40) | 29-6-2005 | 3.9 (281.54) |
| 23-9-2004 | 350 (234.12) | 25-11-2004 | 370 (241.57) | 11-7-2005 | 295 (285.04) |
| 4-10-2004 | 350 (234.81) | 26-11-2004 | 370 (241.65) | 18-7-2005 | 309 (288.03) |
| 8-10-2004 | 350 (233.81) | 27-11-2004 | to transaction | 20-7-2005 | 296 (290.88) |
| 16-11-2004 | 350 (235.37) | 30-11-2004 | 370 (238.42) | 24-7-2005 | 282 (291.97) |
| | | 18-4-2005 | 370 (293.71) | 26-7-2005 | 268 (294.30) |
| | | 24-4-2005 | 345 (294.71) | | |
| | | 14-6-2005 | 325 (277.79) | | |

Source : Kantipur, Daily News Paper

Figure 4.6



After issue date June 29, 2005 the share price was traded at price 309, Rs. 295, Ts. 309, Rs. 296, Rs. 282, Rs. 268 in different dates.

The Actual prices of national Finance before rights share announcement were remain same for a long time. This shows that the price of National Finance is not showing

any movement before announcement date. But after the announcement date the market price of National Finance is started to increase. The market went up to Rs. 370 before ex-right date. But there is no transaction on the ex-right date. But after ex-right date on November 30, 2004 the shares was traded as same as before ex-right date and then fall to Rs. 355 after is months.

This shows that National Finance share are less sensitive in the sense that there is little difference between prices before and after announcement. The right announcement does not affect the price of National Finance because there is on different between the prices before and after right issue. The price movement of National Finance is presented below in the graph. The different dates (before announcement date, Announcement date to issue date after issue date) are plotted on the horizontal axis and share price index on the vertical axis. One can clearly see the price behavior in the different date.

3. Nepal SBI Bank Ltd.

Announcement Date : 2058-12-01

Issue Date : 2058-12-12

Ex-Right Date : 2058-12-6

Closed Date : 2059-1-16

Subscription Price : Rs. 100

Subscription Vertis : 1:2

No. of Share Issued : Rs. 287870400

Issue Manager : (NMB)

Table 4.7

Information about Share Price and Index

| Share Price Before Announcement | | Share Price from Announcement to Issue Date | | Share price after issue date | |
|---------------------------------|---------------------|---|---------------------|------------------------------|---------------------|
| Date | Share Price (Index) | Date | Share Price (Index) | Date | Share Price (Index) |
| 2058-9-6 | 1225 (283.93) | 058-12-1 | 332 (187.88) | 058-12-13 | 430 (213.71) |
| 2058-11-15 | 940 (222.45) | 058-12-7 | 376 (204.28) | 059-2-12 | 360 (222.98) |
| 2058-11-16 | 925 (220.28) | 058-12-9 | 415 (209.07) | 059-2-17 | 350 (222.87) |
| 2058-11-17 | 915 (218.59) | 058-12-12 | 420 (213.74) | 059-2-22 | 350 (222.12) |
| 2058-11-25 | 858 (215.89) | | | 059-2-25 | 350 (218.97) |
| | | | | 059-2-27 | 350 (222.87) |

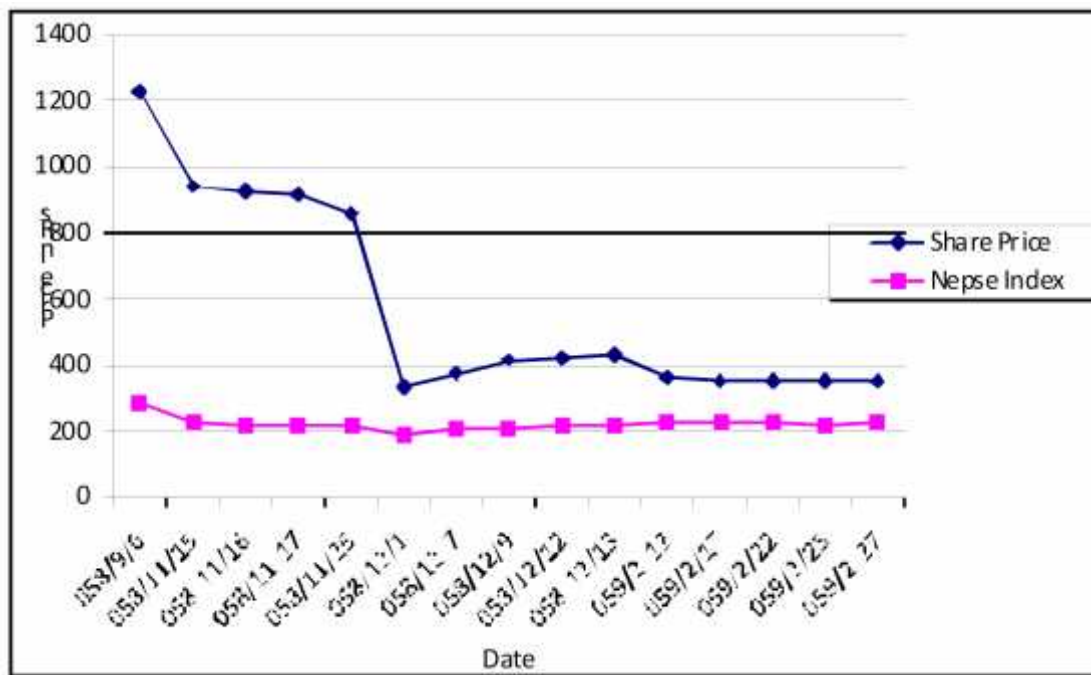
Source : Kantipur, Daily News Paper

In case of Nepal SBI Bank Ltd. The price was Rs. 1225. Three month before the announcement date. Which drastically decreased to Rs. 940. 15 days before the announcement and Rs. 858 8 days before announcement on after announcement date the market price of Nepal SBI Bank is totally decreased o the 2058-12-1 price was Rs. 332. But there is no transaction on the ex-right date i.e. 1058-12-6 after ex-right date. The share price was slightly increase i.e. Rs. 376 Rs. 415, Rs. 420, Rs. 430 o different dates after ex-right.

After issue date the share price of Nepal SBI Bank also decreases trend i.e. Rs. 360, Rs. 350.

The price movement of Nepal investment Bank is presented in the graph the difference date.

Figure 4.7
Information about Share Price and Index



4. Gorkha Development Bank Ltd.

Announcement Date : 2064-21-13

Ex-right Date : 2065-2-5

Issue Date : 2065-12-13

Closed Date : 2065-3-15

Subscription Price : Rs. 100

Subscription Ratio : 2:1

Table 4.8
Information about Share Price and Index

| Share price before announcement date | | Share price from announcement issue date | | Share price after issue date | |
|--------------------------------------|---------------------|--|---------------------|------------------------------|---------------------|
| Date | Share Price (Index) | Date | Share Price (Index) | Date | Share Price (Index) |
| 2064-12-5 | 882 (720.42) | 2065-1-9 | 883 (744.04) | 065-3-18 | 931 (931.3) |
| 2064-12-12 | 820 (704.54) | 2065-1-16 | 800 (729.01) | 065-3-27 | 825 (949.55) |
| 2064-12-18 | 848 (702.97) | 2065-1-24 | 790 (748.92) | 065-3-31 | 877 (959.29) |
| 2064-12-22 | 909 (730.14) | 2065-1-30 | 845 (773.54) | 065-4-6 | 860 (985.24) |
| 2064-12-25 | 931 (746.56) | 2065-2-2 | 890 (825.61) | 065-4-9 | 920 (972.47) |
| 2065-1-4 | 900 (720.24) | 2065-3-5 | 945 (959.84) | 065-4-17 | 970 (1020.06) |
| 2065-1-6 | 850 (734.83) | 2065-3-12 | 950 (948.56) | 065-4-20 | 979 (1047.67) |

Source : Kantipur, Daily News Paper

The Actual price of (GDBL) before right share announcement were Rs. 882, Rs. 820, Rs. 848, Rs. 909, Rs. 931, Rs. 900 & Rs. 850. This shows that there the price of (GDBL) is not showing significant different before announcement date. At the day of announcement the price of GDBL is Rs. 883. But after the announcement date. The price of GDBL is Rs. 800, Rs. 790, Rs. 845, Rs. 890, Rs. 945 & 950.

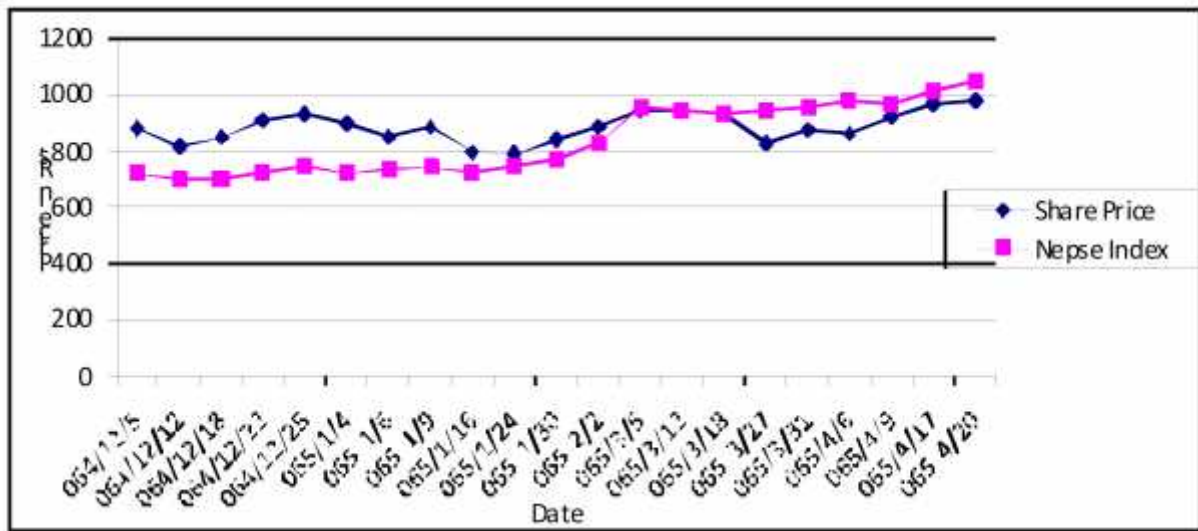
It shows that there is no significance difference from announcement date to issue date. The Actual price of GDBL. After issue date is Rs. 931, Rs. 825, Rs. 877, Rs. 860, Rs. 920, Rs. 970 & Rs. 979.

This shows that (GDBL) shares also do not follow the theory of right share announcement.

The price movement of GDBL is presented below in graph.

Figure 4.8

Information about Share Price and Index



Head Office : Putalisadak Ktm.

Announcement date : 1-04-2008

Ex-right date : 7-4-2008

Issue date : 24-4-2008

Total share issued : 1800000

Total Amount : 180000000

Subscription price : Rs. 100

Subscription Ratio : 5:1

Table 4.9

Information about Share Price and Index

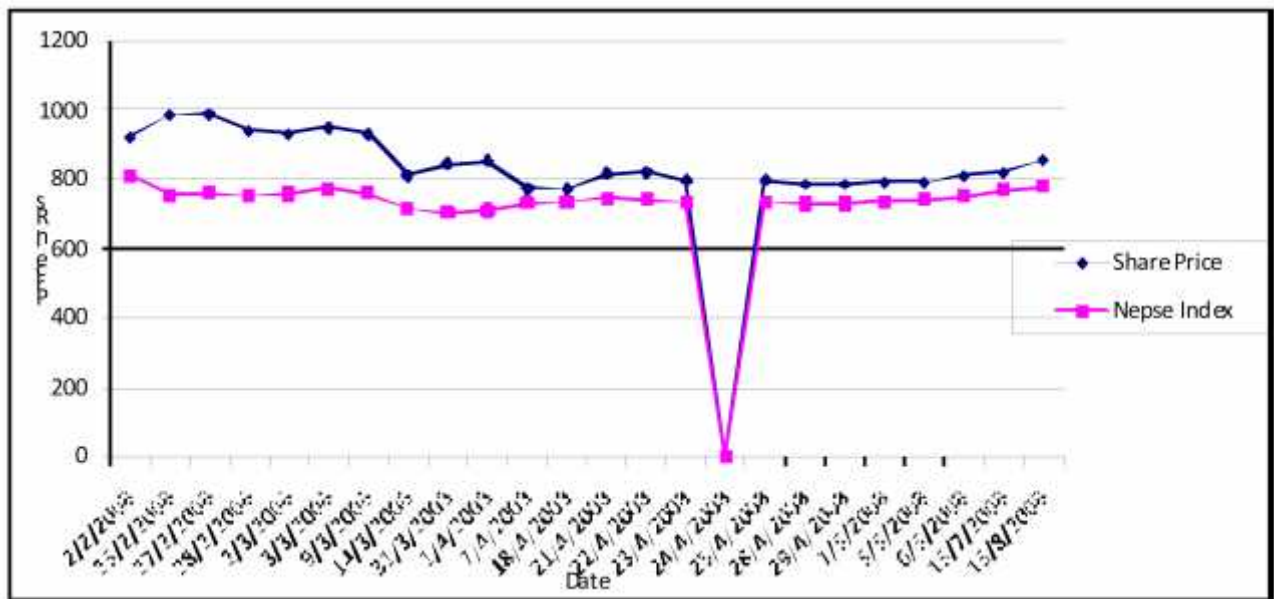
| Share Price before Announcement Date | | Share Price from Announcement Issue Date | | Share Price after Issue Date | |
|--------------------------------------|----------------------|--|----------------------|------------------------------|----------------------|
| Date | Price of share index | Date | Price of share index | Date | Price of share index |
| 2-2-2008 | 920 (809.91) | 1-4-2008 | 851 (709.4) | 25-4-2008 | 796 (734.85) |
| 25-2-2008 | 983 (755.89) | 7-4-2008 | 774 (730.14) | 28-4-2008 | 785 (729.01) |
| 27-2-2008 | 988 (759.5) | 18-4-2008 | 771 (734.83) | 29-4-2008 | 785 (728.72) |
| 2-28-2008 | 940 (757.81) | 21-4-2008 | 814 (744.04) | 1-5-2008 | 792 (736.46) |
| 2-3-2008 | 930 (756.76) | 22-4-2008 | 821 (739.63) | 5-5-2008 | 790 (740.18) |
| 3-3-2008 | 948 (772.88) | 23-4-2008 | 796 (734.65) | 6-5-2008 | 810 (748.92) |
| 9-3-2008 | 930 (758.63) | 24-4-2008 | no transaction | 15-7-2008 | 820 (767.93) |
| 14-3-2008 | 811 (714.76) | | | 15-8-2008 | 854 (776.92) |
| 31-3-2008 | 842 (702.97) | | | | |

Source : Kantipur, Daily News Paper

The Actual price of Kumari Bank before announcement were Rs. 720, Rs. 983, Rs. 988, Rs. 940, Rs. 930, Rs. 948, Rs. 930, Rs. 811, Rs. 842. This shows that there the price of (KBL) Decreasing trend. The price of the share of KBL is Rs. 851 on the announcement day. After the announcement date. The price of Kumari bank is Rs. 774, Rs. 771, Rs. 814, Rs. 821 & Rs. 796.

This shows that Kumari Bank shares do not follow the theory of right offering. After the announcement the price is increase slightly but after right issue the price of KBL is Rs. 796, Rs. 792, Rs. 810, Rs. 854. It shows the price of KBL after right issue is increasing trend. The price movement of KBL is presented below in the graph.

Figure 4.9
Information about Share Price and Index



6. Ace Development Bank Ltd.

Head Office : Narayanchor, Naxal, Ktm.

Announcement Date : 2065/1/25

Ex-right Date : 2065/1/29

Issue Date : 2065/2/14

Total Share Issued : 960000

Total Amount : 96000000

Subscription Price : Rs. 100

Subscription Ratio : 10:3

Table 4.10
Information about Share Price and Index

| Before announcement Date | | From Announcement date to issue date | | After issue date | |
|--------------------------|----------------|--------------------------------------|----------------|------------------|----------------|
| Date | price of index | Date | price of index | Date | price of index |
| 2064-12-79 | 1032(709.4) | 2065-1-25 | 925 (776.92) | 065-2-14 | 760 (823.98) |
| 2064-12-20 | 992(712.52) | 2065-1-30 | 931 (773.54) | 065-2-21 | 790 (873.71) |
| 2065-1-6 | 805(734.83) | 2065-2-2 | 920 (528.61) | 065-2-22 | 810 (858.66) |
| 2065-1-9 | 825(744.04) | 2065-2-6 | 714 (798.56) | 065-3-4 | 889 (930.65) |
| 2065-1-13 | 785(734.85) | | | 065-3-13 | 865 (951.62) |
| 2065-1-16 | 770(729.01) | | | 065-3-20 | 825 (928.39) |
| 2065-1-23 | 771(740.18) | | | 065-4-3 | 900 (991.94) |
| 2065-1-24 | 791(748.92) | | | 065-4-17 | 1060 (1020.06) |

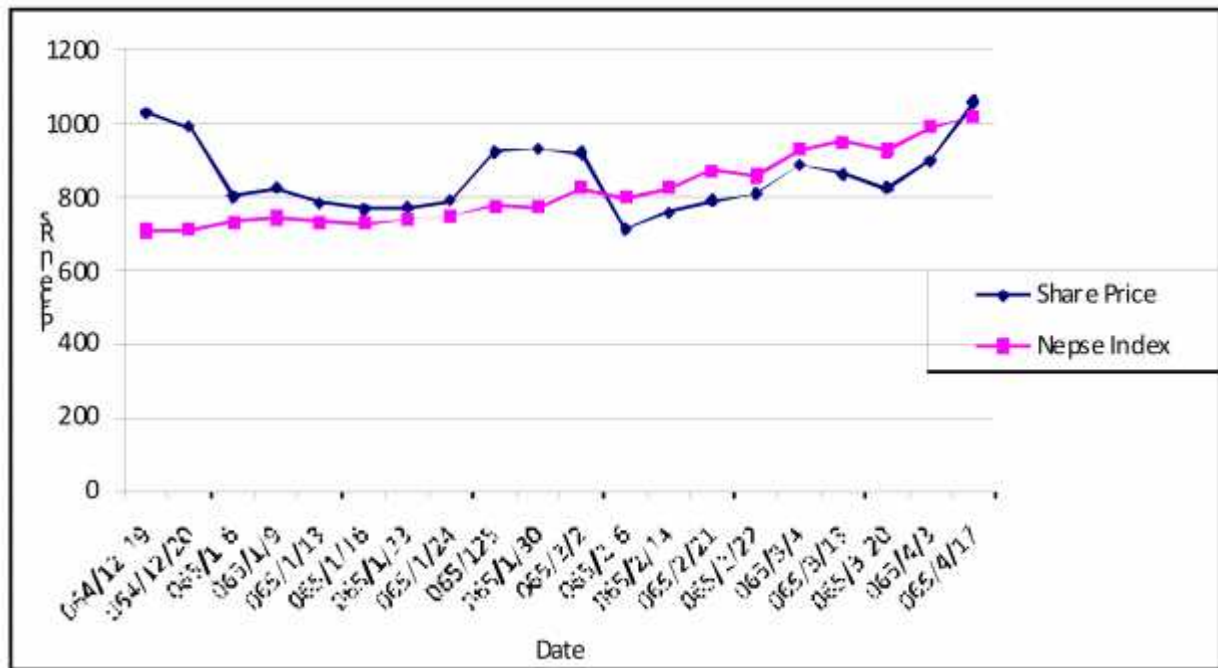
Source : Kantipur, Daily News Paper

The Actual price of (CDBL) before right share announcement were Rs. (1032, 992, 805, 825, 785, 770, 771, 791). This shows that there the price of CDBL is in decreasing trend. At the day of announcement the price was Rs. 925. But after the Announcement date the price went to Rs. 931 on Baishak 2065. But the price went Rs. 920 on Jesth 2 on Jestha 6, 2065 the price was Rs. 714. This shows that there the price of CDBL is in decreasing trend. After the issue of right share. The price of CDBL use Rs. (760, 790, 810, 889, 865, 825, 900, 1060).

This shows that CDBL shares do not follows the. Theory of right announcement. After the announcement the price is slightly decrease. But after ex-right date of issue date there is no significance different in share price. The price movement of (SDBL) is presented below in graph.

Figure 4.10

Information about Share Price and Index



After Analyzing the result obtained from the sample organization, there is no consistence amount the result. Some sample organization gives positive relation which means some percentage of share price is attested by the general market movement and remaining is due to right offering. Perversely some sample organization give negative relationship. Which means the price index does not affects the share price. But use an conclude from above study that the some percentage of share price movement is definitely affected by market index.

4.7 Correlation Coefficient between share price Movement and General Market Movement

According to the theory of rights issue, share price increases after the announcement of rights share till the period of book-close date and declines after that date. Share price declines after book-close date because shares begin to trade without rights attached with them and declines to the extent of value of right. In Practice, not only rights offering but the movement of general market also affects the share price. So it is important to study the correlation coefficient between share price movement and general market movement. Therefore, correlation coefficient between share price of

sample companies and market index i.e. NEPSE index were calculated to find out if there exists any relation between share price and market index.

After calculating the correlation between share price movement of sample companies and general market movement, following results have been obtained.

Table 4.11
Correlation Coefficient between Share Price Movement and
General Market Movement

| Sample Organization | Correlation Coefficient | Coefficient of Determinations |
|---------------------------------------|--------------------------------|--------------------------------------|
| Nepal investment Bank Ltd. | -0.3987 | 0.1590 |
| National Finance Ltd (Bittiya Sastha) | -0.6642 | 0.4411 |
| Nepal SBI Bank Ltd. | 0.8434 | 0.7108 |
| Gorkha Development Bank Ltd. | 0.965 | 0.9319 |
| Kumari Bank Ltd. | 0.68 | 0.46 |
| Ace Development Bank Ltd. | 0.387 | 0.1499 |

Source : Refer Annex-II

When we observe the above table we can see that there is no consistent result of all sample organization. In case of Nepal Investment bank. The relation between share price and general market price movement is -0.3987 which means negative correlation between both movements. Coefficient of determination is 15.90% indicate that caused by general market movement and remain other factor. In case of National Finance Ltd. . The relation between two variables and also negative correlated by 0.6642 and coefficient of Determination is 44.11%. It means that the finance Ltd's share price is effectively by 44.11% and rest is other factor.

Contrarily in case of Nepal SBI Bank there is high degree of positive correlation between share price and general market movement. i.e,0.8434. The coefficient of Determinations is 71.08%. It means 71.08% effect is general market price movement and rest is other factor. In case of Gorkha Development Bank Ltd. There is very high degree of positive correlation between it's market price movement. I.e, 0.985. The coefficient of determinations is 93.19 % . It means the GDBL share price is (93.19%) depends on General market movement. In case of Kumari Bank Ltd.

The correlation coefficient between two variables is 0.68 and Its coefficient of determinants is 46%. IT means that the KBL Share price is Depends on General market movement only 46%.

In Case of Ace Development Bank Ltd. The correlation coefficient between share price and general market price movement is +^{ve} correlated I,e 0.387 and it's coefficient of determinants is 14.99%. It indicate that the share price of (ADBL) is Lesley effected by General market movement.

After analyzing the result obtained from. The sample company, there is no consistence among the result, some sample organization gives positive price is effected by the general market movement and remaining is due to right offering other factor. Perversely some sample organization gives negatives relationship, which means the price index does not affects the share price. But we can conclude from above study that the some percentage of share price movement is definitely attested by market index.

4.8 Use of T-statistics to Measure the Impact of Right Offering Before and After Announcement Date

Theoretically on and ex right date the value of share price is decreased by the value of right. To Analyze whether the share price before Announcement date and after announcement date. Following table shows the calculated and tabulated values of T-statistics of respective sample companies.

Table 4.12
T-Calculated and Tabulated

| S.N. | Company | Test for | Significance level | Degree of freedom | tabulated | calculated | Decision |
|------|--|-------------|--------------------|-------------------|-----------|------------|---------------|
| 1. | Nepal Investment Bank Ltd. | Share price | 5% | 4 | 2.776 | -1.9859 | insignificant |
| 2. | National Finance Ltd. (Bitiya Sanstha) | Share price | 5% | 4 | 2.776 | 1.1727 | insignificant |
| 3. | Nepal SBI Bank Ltd. | Share price | 5% | 4 | 2.776 | -22.46 | insignificant |
| 4. | Gorkha Development Bank Ltd. | Share price | 5% | 4 | 2.776 | -1.47 | insignificant |
| 5. | Kumari Bank Ltd. | Share price | 5% | 4 | 2.776 | 2.3565 | insignificant |
| 6. | Ace Development Bank Ltd. | Share price | 5% | 4 | 2.776 | -0.4496 | insignificant |

Source : Refer Annex-III

In above table we can see that T-calculated and tabulated value of sample companies. For Nepal investment Bank Ltd. the calculated value of T-is less than tabulated value of t, for 4 degree of freedom i.e., $-1.9859 < 2.776$. Therefore there is no significant difference between the price before and after announcement date. In case of National finance Bittiya Sanstha T-calculated for share price is also less than T-tabulated for share price i.e, $1.1727 < 2.776$. Therefore the there is also insignificant of share price before and after announcement date. In case of Nepal SBI Bank Ltd. The calculated T of share price is -22.46 and tabulated of share price is 2.776 . Therefore there is also no significant difference between share price of before and after announcement date.

In case of Gorkha Development Bank Ltd. T-calculated for share price is -1.47 and T-tabulated is 2.667 . We can say that there is no significance difference between share price before and after right announcement in case of Kumari Bank Ltd. is also calculated value of T is less than tabulated value of T. So there is no significance difference between share price before and after share price announcement date. In case of Kumari Bank Ltd. and Ace Development Bank Ltd. There is also no significance difference between share price before and after announcement date because both bank have T-calculated is less than T-tabulated.

From these figure it can be concluded that the share price before and after ex-right date no significantly different in most of our sample company which means the change in the share price of stock is not attributed by the announcement of the right offering our (H_0) hypothesis (The share price before and after ex-right date is not different significantly) is accepted in most of the cases.

From this figures it can be concluded that the share price before and after announcement date is in significantly different in all of our sample companies. Which means the share price before announcement date is not significantly different with share price after announcement date. Mostly our sample companies (H_0) accepted i.e., there is no significant different between share price before and after right announcement date.

4.9 Use of Valuation of Rights

Calculation of Rights on value of a right and Ex-right value or right of sample companies.

Rights on value of a right

value of one right = Market value of stock (right on) price

Subscription price/no. of rights required to purchase one share +1

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

V_r = Theoretical value of one rights

P_o = rights on price of stock

P_s = subscription price

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

Theoretical market price after ex-rights (P_e)

$$P_e = P_o - V_r$$

Table 4.13
Market Price before Ex-Right, after Ex-Right, Real Market Price &
Value of Right

| S.N. | Name of the Sample Companies | Market Price before Ex-Rights (Po) | Theoretical Value of Right (Vr) | Theoretical Market Price after Ex-Rights (Pe) | Real Market Price After Ex-Rights |
|------|---|------------------------------------|---------------------------------|---|-----------------------------------|
| 1. | Nepal Investment Bank Ltd. (NIBL) | 1360 | 630 | 730 | 860 |
| 2. | National Finance Ltd. (Bittiya Sanstha) | 350 | 125 | 225 | 309 |
| 3. | Nepal SBI Bank Ltd. | 940 | 560 | 380 | 430 |
| 4. | Gorkha Development Bank Ltd. (GDBL) | 882 | 260.67 | 621.33 | 825 |
| 5. | Kumari Bank Ltd. | 842 | 123.67 | 718.33 | 820 |
| 6. | Ace Development Bank Ltd. (ADBL) | 992 | 205.85 | 786.15 | 790 |

Source: Refer Annex-IV

In the above table we can see that Market price before ex-right (Po), after ex-price (Pe), value of right (Vr) and real Market price after ex-right, Almost all of our sample company didn't follow the Theory of right offering.

For example :- In case of Nepal investment bank (Po) was Rs.1360. The value of right or was 630 Rs. and Pe (ex-right price) should be Rs.730 but real market price was traded at Rs. 860 which is greater than Theoretical value of share.

In case of National Finance Ltd Po was Rs.350. Vr was Rs. 125 and Pe was Rs 225 but real market price was traded at Rs. 309 which is greater than Theoretical value of share.

In case of Nepal SBI Bank Ltd. (Po) was Rs. 940 Vr was Rs.560 and (Pe) was Rs. 380 but the real price of stock was traded Rs. 430 which is also greater than theoretical value.

In case of Gorkha development bank Po was Rs. 882, Vr was Rs 260.67 and Pe was Rs. 621.33 but market price of share was treaded at 825 which is also greater than Theoretical value of share price.

In case of Kumari Bank Ltd. Po was Rs 842, Vr was Rs 123.67 and Pe was Rs.718.33 but market price was treaded at 820.

In case of Ace development Bank Ltd. Po was Rs. 992, Vr was Rs. 205.85 and Pe was Rs. 786.15 but real market price of stock was Treaded at Rs. 790 which is also greater than Theoretical value of stock.

Especially our study is focus on the right share announcement and It's effect in the share price. After calculating the theoretical market price after ex-right (Pe) and the value of right we see that real picture of the market price of share and the theoretical price of share almost all of our sample company didn't follow the principle of right offering. We clearly see that the real market price of all our sample companies were greater than theoretical market price of share.

4.10 Analysis of Primary Data

This study is heavily based on secondary data. But to make the study more effective and fruitful, some data has collected by distribution of questionnaire to concern person. So, here researcher analyzes the responses from respondents.

Table 4.14
Preference of Sector to Invest

| Sector | Mean Rank | Result |
|------------------------|------------------|---------------|
| Banking \Financial | 1.00 | 1 |
| Manufacturing\ Trading | 3.08 | 4 |
| Hotel\ Other | 3.76 | 3 |
| Insurance | 2.16 | 2 |

Source: Field Survey

During the study period, question regarding investor's preference of sector to invest, all respondent gives first priority to the banking and Financial sector. Its mean rank is 1 whereas for Insurance sector, mean rank is 2.16. So it is the sector preferable sector

of investor. For manufacturing/ Trading sector mean rank is 3.08, Which occupied third position to attract investor. Mean rank of Hotel and other sector is 3.76, which is last priority of investors to invest. This data clearly shows that, investors are more interested to invest in banking and financial sector.

Table 4.15
Investors Purpose of Rights Share Purchase

| Cause | Mean Rank | Result |
|--|------------------|---------------|
| To Increase the value | 1.96 | 1 |
| To Increase the no of share | 2.20 | 2 |
| To Increase the dividend | 2.56 | 3 |
| To Maintain the control position in management | 2.60 | 4 |

Source: Field Survey

Regarding the question about the purpose of investors to purchase the rights share, most of the respondents give first priority for the option that to increase the value. Its mean rank is 1.96. For the second option to increase the no of share, mean rank is 2.20, which becomes second in ranking. Likewise for third potion to increase the dividend mean rank is 2.56 and described as third rank. Mean rank for fourth option to maintain the control position in management, is 2.60, which is last in ranking. In this way it can be concluded that main purpose of investor is to increase the value.

Table 4.16
Action of Shareholders, if Rights are Transferable

| Option | Mean Rank | Result |
|--------------------------------------|------------------|---------------|
| Sell the rights | 2.20 | 1 |
| Exercise the rights | 1.84 | 4 |
| Partially exercise & sell the rights | 1.96 | 3 |
| Neither sell nor exercise | 4.00 | 2 |

Source: Field Survey

Next question regarding the action of shareholders, if rights are transferable in Nepal, first rank is obtained For the option that the shareholders will exercise the rights. The mean rank of this option is 1.84, whereas for the option that the shareholder will partially exercise and sell the rights, mean rank is 1.96. It means that this option covers second rank in total. For the option that shareholders will sell the rights, mean

rank is 2.20 and its rank is third. Fourth rank is obtained for the option that shareholder will neither sell the rights nor exercise the rights since its mean rank is 4. So it can be concluded that, shareholders are well aware about their wealth position. They never let the rights to expire and they utilize the rights either by exercising them or by selling them if rights are transferable in Nepal.

Table 4.17
Beneficiaries of the Rights Issue

| Option | Mean Rank | Result |
|-----------------|------------------|---------------|
| Issuing company | 1.60 | 2 |
| Shareholders | 1.60 | 1 |
| Issue managers | 3.00 | 3 |
| Brokers | 3.72 | 4 |

Source: Field Survey

As far regarding the question about beneficiaries of the rights issue, most of the respondents indicated the shareholders for the first rank. Its mean rank is 1.60. For issuing companies second rank is obtained. Mean rank for issuing companies is 1.68. Issue manager as a beneficiary of rights issue holds third rank with mean rank of 3 broker mean rank is 3.72 giving last rank i.e. 4. This data suggests that there is no any confusion about that the shareholders, issuing companies, issue managers and broker are the beneficiaries of the rights offering.

Table 4.18
Cause of Preference Given to Issue Right Share by Company

| Causes | Mean Rank | Result |
|---|------------------|---------------|
| Low flotation cost | 2.00 | 2 |
| Easy process | 1.76 | 1 |
| Maintain control position in management | 2.56 | 3 |
| Other | 3.76 | 4 |

Source: Field Survey

In another major question about the preference given to issue rights share by companies instead of other instrument, most of the respondents point the easy process of rights issue as the most important cause. It covers the first rank with mean rank

1.76. For another cause that the low flotation cost, mean rank is 2, which provides it in second rank. Another cause of practicing rights share by companies rather than other instruments is to maintain the control position in management, which covers third rank with 2.56 mean rank. Respondent gives fourth rank for other causes. Its mean rank is 3.76. In this way, it can be concluded that Nepalese corporate firm issues rights share instead of other instruments, due to low flotation cost, easy process to collect fund, to maintain the control position in management and due to some other causes like legal provision etc. as well.

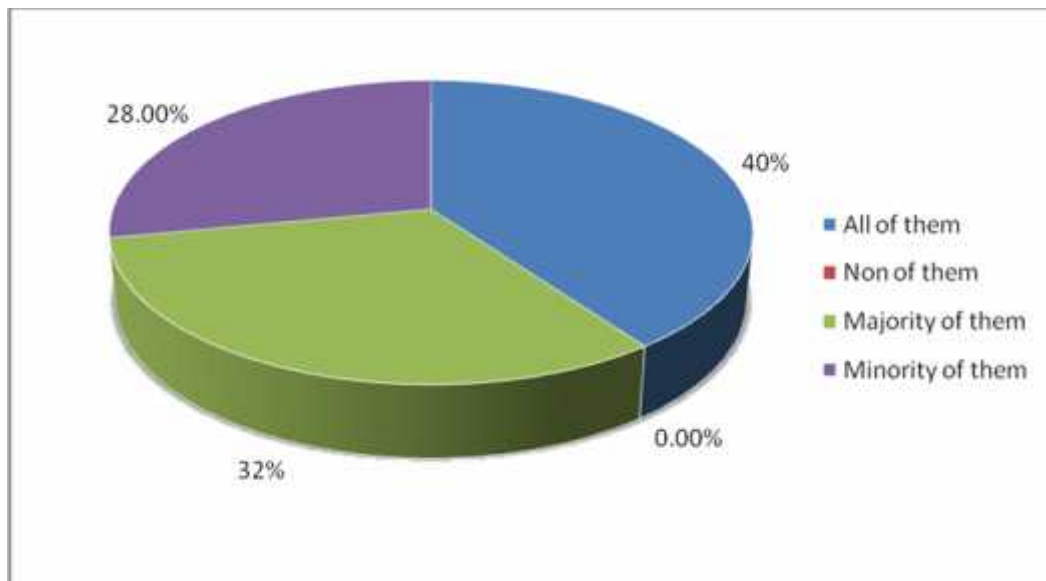
Table 4.19
Causes of Under Subscription of Rights Share

| Causes | Mean Rank | Result |
|-----------------------------|-----------|--------|
| Low performance of company | 1.52 | 1 |
| Rights is not transferable | 2.44 | 3 |
| Lack of investors awareness | 2.08 | 2 |
| Other causes | 4.00 | 4 |

Source: Field Survey

In response to the question regarding the cause of under subscription of rights share, low performance of company is point out for first rank with mean rank of 1.52. Another cause the lack of investor's awareness receives the second most important cause of under subscription of rights share with mean ran of 2.08. Rights are not transferable in Nepal, which cause the under subscription of rights share. It becomes third most influencing cause with mean rank of 2.44 where other causes with mean rank of 4 got last rank. This helps researcher to conclude that the low performance of the rights issuing companies is the main cause of under subscription of rights share, whereas other causes like lack of rights transferable provision, investors awareness regarding rights share also are the causes of under subscription of rights share in Nepal.

Figure 4.11
Investors' Awareness about Rights Offering



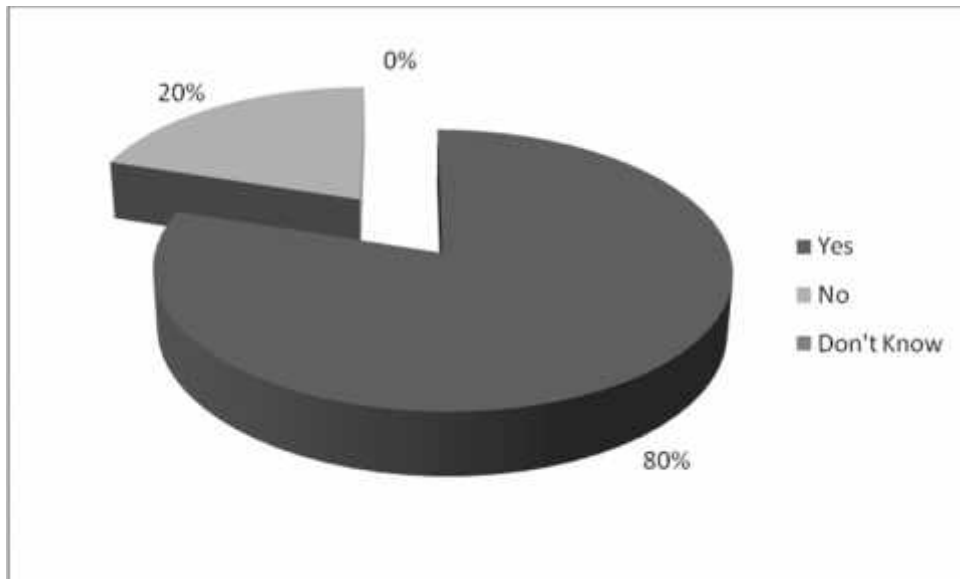
Question regarding awareness of investors about rights offering, out of total respondents 10 said that all of them are well aware to entire phenomenon of rights share in Nepal. 8 respondents said that majority of the investors are well aware and remaining 7 side minority of them are well aware to the entire phenomenon of the rights share in Nepal. So, here researcher can conclude that most of the investors are well aware to entire phenomenon of rights share in Nepal.

Difficulties Regarding Provision Not to Transfer the Rights

In response to the question about difficulties regarding the provision not to transfer the right, 20 respondents said yes that investor faces difficulties because of that provision and remaining 5 said no there is not any difficulties de to lack of provision to make rights transferable. This can be concluded that due to lack of the provision to make rights transferable, investors faces difficulties.

Figure 4.12

Difficulties Due to Non-transferable Rights share

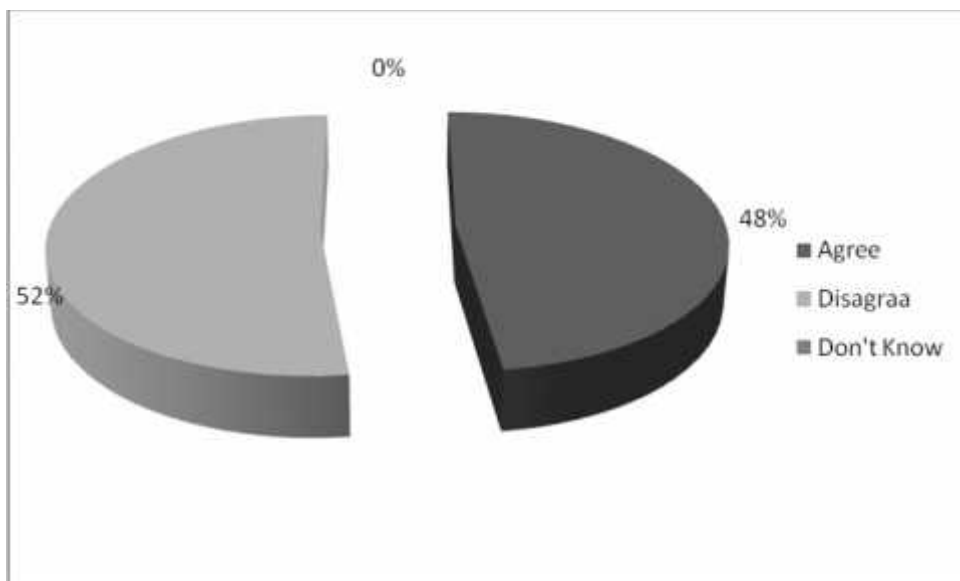


Role of Large Corporate Firm, Developing Rights Share Practice in Nepal

Next question about lack of large corporate firms is the cause of low practice of rights share in Nepal, 12 respondents out of total agree with this and remaining 13 are disagree with this question. In conclusion, there is no any lack of large corporate firm in Nepal to practice rights share properly.

Figure 4.13

Practice of Rights Share Due to Large Corporate Firm

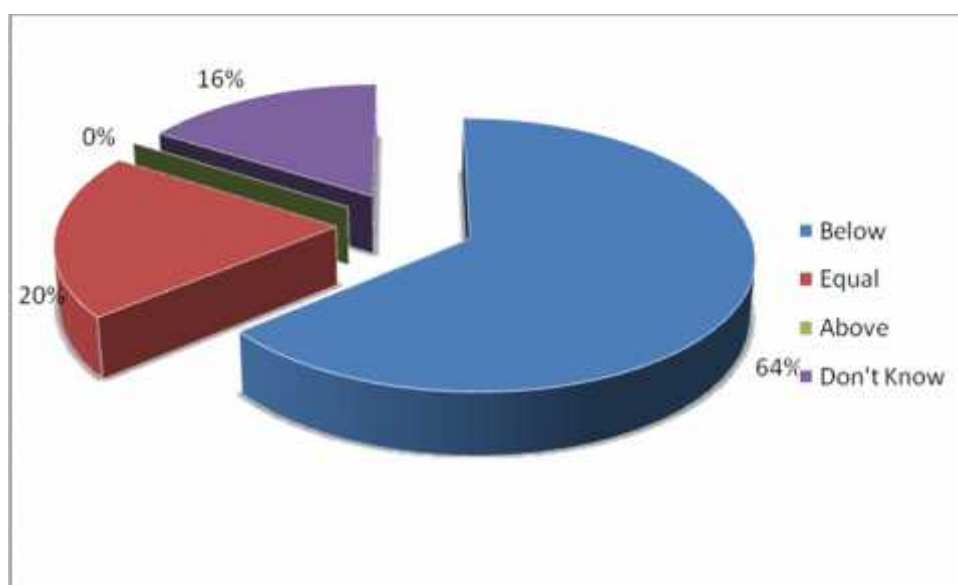


Subscription Price of Rights Share

The question regarding subscription price, 16 respondents side it should be below the market price of the share, whereas 5 said that they don't know what should be the subscription price. So, it can be concluded that subscription price of rights share should be below the market price of share.

Figure 4.14

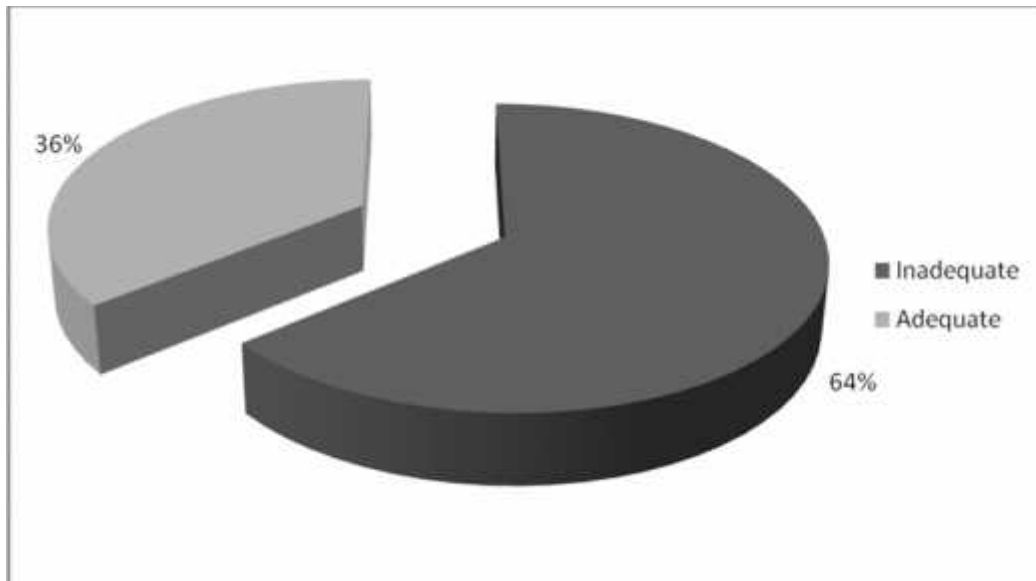
Subscription Price Compare to Market Price



Adequacy of Current Legal Provision Regarding Rights Issue

As far as regarding the current legal provision especially about rights offering 16 respondents said that, it is inadequate and remaining 9 said that it is adequate. Among the respondents, who said that current legal provision regarding rights offering is inadequate, cent percent are agreed on the clause that rights share should be transferable but in addition to this 80% said that there should be provision of premium issue of rights share and remaining 20% feels that there should be the clear procedure of rights transfer.

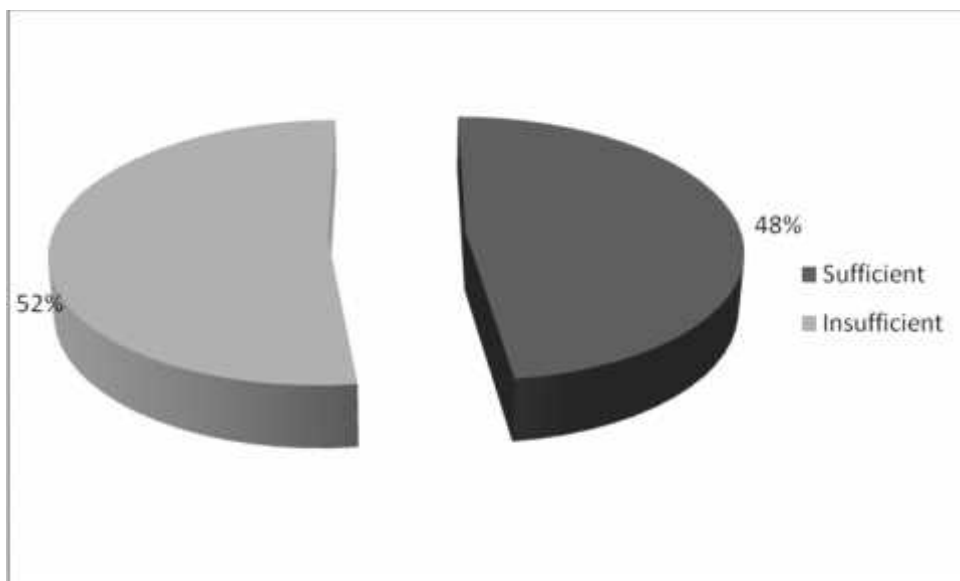
Figure 4.15
Sufficiency of Legal Provision



Sufficiency of Infrastructure of Nepalese Security Market

In response to the question regarding infrastructure of Nepalese security market, out of total respondents, 12 said that it is sufficient to rights share practice that there should be a lot of things to do make Nepalese security market effective.

Figure 4.16
Sufficiency of Infrastructure



Problems of Rights Share Practice in Nepal

Finally question regarding problems of rights share practice different kinds of opinion were received. Lack of infrastructure, low Subscription price of rights share, under subscription of rights share, lack of provision regarding allotment of under subscribed rights share, poor financial condition of investors, low economic growths of the country are the major problems to practice rights share in Nepal.

4.11 Major Findings of the Study

Major finding of this study are as follow:

- J Rights share issue is comparatively new practice in Nepal. Therefore only those sample companies whose market prospects is good, are able to increase the market capitalization through right issue but small and non reputed companies faces lots of problems in this regard.
- J The rights issue practice is mainly dominated by the bank and finance sectors. There are hardly few cases found of other sectors practicing the right issue.
- J The issuing of rights share has a long process. There is no time framework. The right announcement data, book closer date\ ex-right date, right issue and closing dates are differ from one company to another. The announcement date and right issue date varies company to company. This makes the illusion to the investor and affects the market price of the related stock and it's hard to study the price behavior of market price.
- J There is significant difference in the share price before and after ex-right dates in most of the sample company but they don't follow the theory of right offering exactly.
- J According to the theory, the share price after ex-right date will decrease by the value of a right but most of the sample companies market share price didn't decreases accordingly.
- J Shareholder of Nepalese companies lacks the knowledge about the right share. and its impact their wealth position. Due to this, free movement of share movement of share price during rights on ex-right is not confirmed.
- J Under subscription of rights share is common phenomena as rights is not transferable in Nepal.
- J Most of the finance companies don't show the significant change in the price before and after ex-right date. This means that the market does not show the greater interest in the small companies.
- J Market imperfection is found through out the study period.

- J Company Act is not adequate regarding the issue procedure of right share and allotment.
- J Nepalese investors mostly prefer the Banking and Finance sectors' share to invest rather than other sectors because of their better performance and returns.
- J Nepalese capital market is narrow in terms of capital market instruments. Only common stock, rights 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.
- J Right share practice in Nepal is in increasing trend in recent years. It contributes 53.09% in total public issue till the end of fiscal year 2064/65 which is in the largest position among all other instruments.
- J There are 103 cases of right share issues of 72 companies out of 142 listed companies that have issued rights share till the end of fiscal year 2064/65.
- J At present, most of the banking and financial institutions are issuing rights share to increase their capital base to comply with the policy directive given by NRB.
- J In the fiscal year 2064/65, 43 companies issued rights share amounting Rs.6793.56 million which was the highest both in number and amount in the history of Nepalese right issue.
- J In majority of cases, correlation between share prices of sample companies and market index i.e. NEPSE index were found to be positive but the magnitude of correlation were different for different companies. But the Nepal investment Bank and National Finance Ltd were the positive co-relation.
- J While examining the result of t-statistics, calculated value of t of most of the sample companies were found to be greater than the tabulated value of t at 5% level of significance and 4 degree of freedom which indicates that there is significant difference between the share prices before and after rights issue.
- J Very few Nepalese investors are all aware about the phenomenon of rights share and they are ready to buy rights share if their company offers rights share to increase the value of shares, to increase the number of shares and to increase the dividend.
- J Most of the companies are suffering from under subscription of their rights share and the causes of under subscription are poor performance of issuing company, investors' lack of knowledge, etc.
- J Some investors still don't have the knowledge about rights share and large number of shareholders holds small number of shares and they generally ignored rights share.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Right share practice and its affect on market price. The Nepalese evidence is an exciting and challenging study. A brief introduction of the study and the overall view of rights offering are presented in introductory chapter an available literature on rights issue is reviewed in chapter second. The appropriate research methodology is presented in chapter third, the data are presented and analyzed in chapter four. Now, in this chapter an attempt has been made to present summary of findings, issue and give some suggestion for future course of action.

This study is concentrated on the various aspects of rights offering with special references to the selected Nepalese Bank & financial institution. It covers the period of 7 years from FY 058/59 to 064/65. It includes the data of mostly rights issuing banks and financial institution. But to show the practice of rights offering in Nepal, researcher takes some data of all rights issuing company.

Right offering has become one of the popular methods of raising long-term fund as per the requirement of targeted capital structure of Nepalese corporate firms. Though Nepalese corporate firms started to issue rights share since the fiscal year 2052/53, the volume of rights issued to increase only after the fiscal year 2061/62. In current years, the practice of issuing rights share in banking and financial institutions is in increasing trend to meet their capital requirement as directed by NRB. As a result, some of the development banks and Finance Companies are issuing rights share at high ratio as they have operated with low capital. Even some of the financial institutions have issued rights share at high ratio to raise capital required to upgrade their class category. Such issues greatly affect the market price of stock of concerned companies. Till the end of fiscal year 2064/65, 72 companies had issued rights share and there are 103 cases of rights issue of those companies. Nepal share Markets & Finance Ltd. has issued rights share for 5 times till the date whereas four companies who had issued rights share were already de-listed from NEPSE.

Among the listed companies in NEPSE, 7 commercial Banks, 12 Development banks, 21 Finance companies and 3 Insurance companies had issued rights share of Rs. 6793.56 million in the fiscal year 2064/65 which contribute 63.68% in total public flotation. During the year, finance sector had issued the highest amount of rights share amounting Rs.3219.07 million that covered 47.38% of total amount of rights issue.

Mixed Results have been obtained from the sample companies regarding rights offering they in Nepal. Share price of Nepal investment bank Ltd. before right share announcement was Rs. 1326, it increase After announcement date was Rs. 1401 but it went down to Rs.790 after ex-right date. share price of National finance Ltd. (Bittiya Sanstha) before rights share announcement but it was also increase to Rs. 370 after ex-right date. Share price of Nepal SBI Bank Ltd. was Rs. 858, but it went down to Rs. 332 after share announcement.

Similarly the share price of Gorkha Development Bank Ltd. was Rs. 850, but it increase to Rs.883 after rights share announcement of the price of Kumari Bank Ltd was Rs 842, but it increase to Rs. 851 after rights share announcement. Similarly the price of Ace Development bank Ltd. was Rs. 791 but it increase to Rs. 925 after rights share announcement date.

Correlation between share price and general market price movement is in consistent result of all sample companies. After analyzing the result obtained from the sample company, there is no consistence among the result, some sample organization gives positive relation which means some percentage of share price is effected by the general market movement and remaining is due to right offering other factor. Perversely some sample organization gives negatives relationship, which means the price index does not affects the share price. But we can conclude from above study that the some percentage of share price movement is definitely affected by market index.

In the test of t-statistic we can say that the share price before and after announcement date is in significantly different in all of our sample companies. Which means the share price before announcement date is not significantly different with share price after announcement date. Mostly our sample companies (H_0) accepted i.e. there is no significant different between share price before and after announcement date.

This study has been done to fulfill some specific objectives. Main objectives of this study, is to examine the movement in share price before and after the announcement of rights issues and to analyze the rights issue practice in Nepal. Finding out the problem of rights issue in Nepal is another objective of this study. Till the date, many studies have been done related to the impact on market price by various variables such as EPS, DPS and signaling effects. But very few study are directly concerned with rights issue in Nepal, Because rights issue is relatively new phenomenon in Nepal. But here researcher has made full effort to collect the related studies for review in second chapter.

This study is heavily based on secondary data. So useful data are collected from SEBO/N and related organization as well. Newspaper, annual reports of sample companies, journals and bulletins are important source to get secondary data in this study. Other information are collected through internet as well. primary data to make this study more reliable has been used to some extent. To collect primary data, personal interview and distribution of questionnaire to some specific people has been done. To conduct this study statistical tools as well as financial tools have been used.

5.2 Conclusion

From the analysis of primary and secondary data, we can reach in following conclusions:

Right offering is still a new and emerging concept for both issuing companies and investors in Nepalese capital market even though its practice is in increasing trend. The company act is not adequate regarding the rights share and the existing legal provisions and policies are also not clear. So company act should be amended to mended to make the smooth transactions of rights share. Rights have not been negotiable instrument in practice till the date though company act has already mentioned about the transferable rights. Shareholders and investors are also not well aware bout rights issue and its impact on their wealth position. Nepalese stock market is dominated by Banking and Financial sector companies and investors also prefer the stocks of those companies rather than of other sectors because of bonus share and rights share.

Only share prices of two companies have decreased before book-close date of rights issue whereas share prices of remaining sample companies have increased issue whereas share prices of remaining sample companies have increased after book-close date. Theoretically share price should increase after the announcement of rights offering till the date of book-close date and decrease thereafter. But the share price movement of all sample companies didn't follow the theory. Share price of two companies didn't show any affect of book-close date and their price remain constant whereas share price of one company increased even after book-close date. Share price movement of remaining companies somehow follow the theory of rights issue. Share price should decrease to the extent of value of right on and after book-close date. But share price of only one company decreased by the amount of value of right whereas share price of three companies decreased by greater amount than the value of right and share price of six companies decreased by less amount than the value of right. General market trend also influences the movement of market price of stocks.

Most of the companies are suffering from under subscription of their rights share and the causes of under subscription are poor performance of issuing companies, investors lack of knowledge, etc.

5.3 Recommendations

After analyzing the data obtained from primary as well as secondary source we got various findings. These findings are directly and indirectly related with the right issue practice. its difficulties and if they implemented properly the wealth position of shareholder will be safe, companies performance will increase, general market will take normal trend etc. the recommendations are as follows.

1. First of all shareholders are mostly unknown about the right issue, its benefits and effect on their wealth position. So concerned authorities such as issuing companies. SEBO/N, NEPSE, etc should organize the launch various programmed to increase the awareness about the right issue and its aspects.
2. Before the right share announcement an issue prospectus is prepared and circulated to the existing shareholders. But during the analysis it has been found, that unrealistic income statement is published. So, SEBON and office of company register should make provision to publish realistic prospectus an income statement.

3. Nepalese security market is heavily regulated and controlled by company Act regarding the issue of securities. Company Act 2053 is totally silent about the procedure and mechanism of rights issue. So, it should be amended and should make a provision of transferable rights.
4. It is found that the share price behavior of all sample companies does not follow theory. In practice one major cause for this is the poor performance of company in past. So the rights issuing company should improve their image to make the shareholders more safe and confident.
5. Lack of investors protection Act is another cause of under subscription of rights share. So, there should be a separate Investor protection Act so that the investors can maintain their confidence over their investment and can feel secured.
6. The current practice is to distribute existing shareholder among the employee of the respective companies but this violates the essence of theory of rights. So, Company Act should be amended to make clear provision regarding the issue of rights share and subsequent allotment of rights share.
7. Nepalese capital market is narrow in terms of capital market instruments. Only common stock, rights 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 so company should be issue contingent securities to increase there value.
8. One critical factor that affects the share price and subscription is the holder of record date. So, the rights share issuing companies should set the proper holder of record date so that every shareholder can purchase the assertion share issued by them.
9. Shareholders and investors also used to rush behind market rumors and purchase share at high price only to get rights share without analyzing the financial condition and future prospects of the issuing companies. So investor's should be well aware themselves before investing in stocks by Analyzing the company in detail.
10. Company Act 2063 is not clear regarding the allotment of rights share which are not subscribed by the existing share holders. The current practice is to distribute them among the employees of respective companies but this violates the essence of theory of rights chare. So company out should be amended to make clear provision regarding the issue of rights share & subsequent allotment of rights share.

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ANNEX

Annex-I

Analysis of Share Price Movement of Sample Companies Before and After Rights Announcement

1. Nepal Investment Bank Ltd. (NIBL)

Head office = Durbarmarg Kathmandu

Corporate office = Durbarmarg Kathmandu

Right issue Announcement Date : Apr. 21 2005

Ex-right Date (Bank closed dark) : May 3 2005

Right share issue date : May 13th, 2005

No. of share issued : 2952930

Face value : 100Rs.

Ratio : 1 : 1

Issue manager : Ace Finance Company Ltd. Kantipath, kathmandu

Table 1

Analysis of Share Price Movement of Nepal Investment Bank Ltd. (NIBL)

| Before Announcement | | Announcement Bank to Issue | | After Issue Date | |
|---------------------|---------------------|----------------------------|---------------------|------------------|---------------------|
| Date | | Date | | | |
| Date | Share price (index) | Date | Share price (index) | Date | Share price (index) |
| 1-4-2005 | 1316 (289.50) | 24-4-2005 | 1332 (294.03) | 15-5-2005 | 860 (285.52) |
| 5-4-2005 | 1335 (290.65) | 26-04-2005 | 1360 (294.44) | 16-05-2005 | 815 (284.52) |
| 8-4-2005 | 1340 (293.65) | 01-05-2005 | 1401 (294.79) | 17-05-2005 | 811 (283.12) |
| 10-4-2005 | 1335 (293.71) | 03-05-2005 | No. transaction | 18-05-2005 | 815 (281.39) |
| 15-4-2005 | 1325 (293.71) | 04-05-2005 | 790 (298.78) | 19-05-2005 | 810 (280.39) |
| 18-4-2005 | 1326 (292.59) | 10-05-2005 | 830 (288.789) | 22-05-2005 | 813 (279.73) |
| 20-4-2005 | 1331 (293.58) | 12-05-2005 | 865 (285.42) | - | - |

2. National Finance Ltd. (Bittiya Sanstha)

Head office : Paku New Road Kathmandu

Right share announcement date : Nov. 16, 2004

Ex-right date book close date : Nov. 27, 2004

Right share issue date : June 15, 2005

No. of share issued : 432000

Total share in Amount : 43200000

face value : 100

ratio : 1:1

Table 2
Information about Share Price and Index

| Before Announcement date | | Announcement date to issue date | | After issue date | |
|--------------------------|---------------------|---------------------------------|---------------------|------------------|---------------------|
| Date | Share Price (Index) | Date | Share Price (Index) | Date | Share price (Index) |
| 14-9-2004 | 350 (229.99) | 23-11-2004 | 367 (240.40) | 29-6-2005 | 3.9 (281.54) |
| 23-9-2004 | 350 (234.12) | 25-11-2004 | 370 (241.57) | 11-7-2005 | 295 (285.04) |
| 4-10-2004 | 350 (234.81) | 26-11-2004 | 370 (241.65) | 18-7-2005 | 309 (288.03) |
| 8-10-2004 | 350 (233.81) | 27-11-2004 | to transaction | 20-7-2005 | 296 (290.88) |
| 16-11-2004 | 350 (235.37) | 30-11-2004 | 370 (238.42) | 24-7-2005 | 282 (291.97) |
| | | 18-4-2005 | 370 (293.71) | 26-7-2005 | 268 (294.30) |
| | | 24-4-2005 | 345 (294.71) | | |
| | | 14-6-2005 | 325 (277.79) | | |

3. Nepal SBI Bank Ltd.

Announcement date : 2058-12-01

Issue date : 2058-12-12

Ex-right date : 2058-12-6

Closed date : 2059-1-16

Subscription price : Rs. 100

Subscription vertic : 1:2

No. of share issued : Rs. 287870400

Issue manager : (NMB)

Table 3
Information about Share Price and Index

| Share price before announcement | | Share price from announcement to issue date | | Share price after issue date | |
|---------------------------------|---------------------|---|---------------------|------------------------------|---------------------|
| Date | Share Price (Index) | Date | Share Price (Index) | Date | Share Price (Index) |
| 2058-9-6 | 1225 (283.93) | 058-12-1 | 332 (187.88) | 058-12-13 | 430 (213.71) |
| 2058-11-15 | 940 (222.45) | 058-12-7 | 376 (204.28) | 059-2-12 | 360 (222.98) |
| 2058-11-16 | 925 (220.28) | 058-12-9 | 415 (209.07) | 059-2-17 | 350 (222.87) |
| 2058-11-17 | 915 (218.59) | 058-12-12 | 420 (213.74) | 059-2-22 | 350 (222.12) |
| 2058-11-25 | 858 (215.89) | | | 059-2-25 | 350 (218.97) |
| | | | | 059-2-27 | 350 (222.87) |

4. Gorkha Development Bank Ltd.

Announcement date : 2064-21-13

Ex-right date : 2065-2-5

Issue date : 2065-12-13

Closed date : 2065-3-15

Subscription price : Rs. 100

Subscription Ratio : 2:1

Table 4
Information about Share Price and Index

| Share price before announcement date | | Share price from announcement issue date | | Share price after issue date | |
|--------------------------------------|---------------------|--|---------------------|------------------------------|---------------------|
| Date | Share Price (Index) | Date | Share Price (Index) | Date | Share Price (Index) |
| 2064-12-5 | 882 (720.42) | 2065-1-9 | 883 (744.04) | 065-3-18 | 931 (931.3) |
| 2064-12-12 | 820 (704.54) | 2065-1-16 | 800 (729.01) | 065-3-27 | 825 (949.55) |
| 2064-12-18 | 848 (702.97) | 2065-1-24 | 790 (748.92) | 065-3-31 | 877 (959.29) |
| 2064-12-22 | 909 (730.14) | 2065-1-30 | 845 (773.54) | 065-4-6 | 860 (985.24) |
| 2064-12-25 | 931 (746.56) | 2065-2-2 | 890 (825.61) | 065-4-9 | 920 (972.47) |
| 2065-1-4 | 900 (720.24) | 2065-3-5 | 945 (959.84) | 065-4-17 | 970 (1020.06) |
| 2065-1-6 | 850 (734.83) | 2065-3-12 | 950 (948.56) | 065-4-20 | 979 (1047.67) |

5. Kumari Bank Ltd. (KBL)

Head Office : Putalisadak Ktm.

Announcement date : 1-04-2008

Ex-right date : 7-4-2008

Issue date : 24-4-2008

Total share issued : 1800000

Total Amount : 180000000

Subscription price : Rs. 100

Subscription Ratio : 5:1

Table 5

Information about Share Price and Index

| Share price before announcement date | | Share price from announcement to issue date | | Share price after issue date | |
|--------------------------------------|----------------------|---|----------------------|------------------------------|----------------------|
| Date | Price of share index | Date | Price of share index | Date | Price of share index |
| 2-2-2008 | 920 (809.91) | 1-4-2008 | 851 (709.4) | 25-4-2008 | 796 (734.85) |
| 25-2-2008 | 983 (755.89) | 7-4-2008 | 774 (730.14) | 28-4-2008 | 785 (729.01) |
| 27-2-2008 | 988 (759.5) | 18-4-2008 | 771 (734.83) | 29-4-2008 | 785 (728.72) |
| 2-28-2008 | 940 (757.81) | 21-4-2008 | 814 (744.04) | 1-5-2008 | 792 (736.46) |
| 2-3-2008 | 930 (756.76) | 22-4-2008 | 821 (739.63) | 5-5-2008 | 790 (740.18) |
| 3-3-2008 | 948 (772.88) | 23-4-2008 | 796 (734.65) | 6-5-2008 | 810 (748.92) |
| 9-3-2008 | 930 (758.63) | 24-4-2008 | no transaction | 15-7-2008 | 820 (767.93) |
| 14-3-2008 | 811 (714.76) | | | 15-8-2008 | 854 (776.92) |
| 31-3-2008 | 842 (702.97) | | | | |

6. Ace Development Bank Ltd.

Head Office : Narayanchor, Naxal, Ktm

Announcement date : 2065/1/25

Ex-right date : 2065/1/29

Issue date : 2065/2/14

Total share issued : 960000

Total Amount : 96000000

Subscription price : Rs. 100

Subscription Ratio : 10:3

Table 6
Information about Share Price and Index

| Before announcement Date | | From Announcement date to issue date | | After issue date | |
|--------------------------|----------------|---|----------------|------------------|----------------|
| Date | price of index | Date | price of index | Date | price of index |
| 2064-12-79 | 1032(709.4) | 2065-1-25 | 925 (776.92) | 065-2-14 | 760 (823.98) |
| 2064-12-20 | 992(712.52) | 2065-1-30 | 931 (773.54) | 065-2-21 | 790 (873.71) |
| 2065-1-6 | 805(734.83) | 2065-2-2 | 920 (528.61) | 065-2-22 | 810 (858.66) |
| 2065-1-9 | 825(744.04) | 2065-2-6 | 714 (798.56) | 065-3-4 | 889 (930.65) |
| 2065-1-13 | 785(734.85) | | | 065-3-13 | 865 (951.62) |
| 2065-1-16 | 770(729.01) | | | 065-3-20 | 825 (928.39) |
| 2065-1-23 | 771(740.18) | | | 065-4-3 | 900 (991.94) |
| 2065-1-24 | 791(748.92) | | | 065-4-17 | 1060 (1020.06) |

Annex-II
Correlation Coefficient

1. Nepal Investment Bank Ltd.

Correlation Coefficient between share prices and General market Price movement.

X = Share price of (NIBL)

Y = General market price movement

$$x = X - \bar{X} \quad \bar{X} = \frac{\sum X}{n} \quad \bar{Y} = \frac{\sum Y}{n}$$

$$y = Y - \bar{Y}$$

N = No. of observation n = 5

Table 1
Nepal Investment Bank Ltd.

| X | x | x ² | Y | y | y ² | xy |
|-------------------|---------|----------------------|--------------------|--------|--------------------|-------------------|
| 1170 | 167.40 | 28022.76 | 247.41 | -37.46 | 1403.25 | -6270.80 |
| 1331 | 328.40 | 107846.56 | 293.56 | 8.71 | 75.86 | 2860.36 |
| 801 | -201.60 | 40642.56 | 288.89 | 4.02 | 16.16 | -810.43 |
| 880 | -122.60 | 15030.76 | 288.34 | 3.47 | 12.04 | -425.42 |
| 831 | -171.60 | 29446.56 | 306.15 | 21.28 | 452.84 | -3651.65 |
| $\sum X=5013$ | | $\sum x^2=220989.20$ | $\sum Y=1424.37$ | | $\sum y^2=1960.16$ | $\sum xy=8297.94$ |
| $\bar{X}=1002.60$ | | | $\bar{Y} = 284.87$ | | | |

Karl Pearson's Coefficient of Correlation

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

$$= \frac{8297.94}{\sqrt{220989.20} \sqrt{1960.16}}$$

$$= -0.3987$$

$$r^2 = 0.1590$$

2. National Finance Ltd. (Bitiya Sastha)

Correlation Coefficient between share prices and General market Price movement.

X = Share price of (National Finance Ltd. (Bitiya Sastha))

Y = General market price movement

$$x = X - \bar{X} \quad \bar{X} = \frac{\phi X}{n} \quad \bar{Y} = \frac{\phi Y}{n}$$

$$y = Y - \bar{Y}$$

N = No. of observation n = 5

Table 2
National Finance Ltd. (Bitiya Sastha)

| X | x | x ² | Y | y | y ² | xy |
|-----------------|-------|-------------------|---------------------|---------|--------------------|-------------------|
| 350 | 8.4 | 70.56 | 229.99 | -28.144 | 792.084 | -236.41 |
| 350 | 8.4 | 70.56 | 235.37 | -22.764 | 518.19 | -191.22 |
| 367 | 25.4 | 645.16 | 240.40 | -17.73 | 314.49 | -450.342 |
| 345 | 3.4 | 11.56 | 294.03 | 35.89 | 1288.52 | 122.026 |
| 296 | -45.6 | 2079.36 | 290.88 | 32.75 | 1072.30 | -1493.4 |
| $\phi X=1708$ | | $\phi x^2=2877.2$ | $\phi Y=1290.67$ | | $\phi y^2=3985.58$ | $\phi xy=2249.35$ |
| $\bar{X}=341.6$ | | | $\bar{Y} = 258.134$ | | | |

Karl Pearson's Coefficient of Correlation

$$r = \frac{\phi xy}{\sqrt{\phi x^2} \sqrt{\phi y^2}}$$

$$= \frac{287.2}{\sqrt{2877.2} \sqrt{3985.58}}$$

$$= -0.6642$$

$$r^2 = 0.4412$$

3. Nepal SBI Bank Ltd.

Correlation Coefficient between share prices and General market Price movement.

X = Share price of (Nepal SBI Bank Ltd.)

Y = General market price movement

$$x = X - \bar{X} \quad \bar{X} = \frac{\sum X}{n} \quad \bar{Y} = \frac{\sum Y}{n}$$

$$y = Y - \bar{Y}$$

N = No. of observation n = 5

Table 3
Nepal SBI Bank Ltd.

| X | x | x² | Y | y | y² | xy |
|-----------------|------------|----------------------|--------------------|------------|----------------------|--------------------|
| 1225 | 589.8 | 347864.04 | 283.93 | 59.07 | 3489.26 | 34839.48 |
| 858 | 222.8 | 49639.84 | 215.89 | 8.97 | 80.64 | 1998.52 |
| 323 | - 312.2 | 97468.84 | 187.88 | 36.98 | 1367.52 | 11545.15 |
| 420 | - 215.2 | 46311.04 | 213.74 | - 11.12 | 123.65 | 2393.04 |
| 350 | - 285.2 | 81339.04 | 222.87 | -1.99 | 3.96 | 567.548 |
| $\sum X=3176$ | | $\sum x^2=622622.8$ | $\sum Y=1124.31$ | | $\sum y^2=5065.03$ | $\sum xy=47346.69$ |
| $\bar{X}=635.2$ | | | $\bar{Y} = 224.86$ | | | |

Karl Pearson's Coefficient of Correlation

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{47346.69}{\sqrt{622622.8} \sqrt{5065.03}} = 0.8431$$

$$r^2 = 0.7108$$

4. Gorkha Development Bank Ltd. (GDBL)

Correlation Coefficient between share prices and General market Price movement.

X = Share price of (GDBL)

Y = General market price movement

$$x = X - \bar{X} \quad \bar{X} = \frac{\sum X}{n} \quad \bar{Y} = \frac{\sum Y}{n}$$

$$y = Y - \bar{Y}$$

N = No. of observation n = 5

Table 4
Gorkha Development Bank Ltd. (GDBL)

| X | x | x ² | Y | y | y ² | xy |
|-----------------|-------|--------------------|---------------------|---------|----------------------|--------------------|
| 882 | -26.8 | 718.24 | 720.92 | 118.284 | 13991.1 | 3170.01 |
| 850 | -58.8 | 3457.44 | 734.83 | 104.374 | 10893.93 | 6137.19 |
| 883 | -25.8 | 665.64 | 744.04 | -95.164 | 9056.19 | 2455.23 |
| 950 | 41.2 | 1697.44 | 948.56 | 109.356 | 11958.73 | 4505.46 |
| 979 | 70.2 | 4928.04 | 1047.67 | 208.466 | 43458.1 | 14634.31 |
| $\sum X=4544$ | | $\sum x^2=11466.8$ | $\sum Y=4196.02$ | | $\sum y^2=89358.023$ | $\sum xy=30902.20$ |
| $\bar{X}=908.8$ | | | $\bar{Y} = 839.204$ | | | |

Karl Pearson's Coefficient of Correlation

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{30902.20}{\sqrt{11466.8} \sqrt{89358.023}} = 0.965$$

$$r^2 = 0.9313$$

5. Kumari Bank Ltd.

Correlation Coefficient between share prices and General market Price movement.

X = Share price of (Kumari Bank Ltd.)

Y = General market price movement

$$x = X - \bar{X} \quad \bar{X} = \frac{\sum X}{n} \quad \bar{Y} = \frac{\sum Y}{n}$$

$$y = Y - \bar{Y}$$

N = No. of observation n = 5

Table 5
Kumari Bank Ltd.

| X | x | x ² | Y | y | y ² | xy |
|-------------------|-------|---------------------|--------------------|--------|----------------------|---------------------|
| 920 | 67.4 | 4542.76 | 809.91 | 63.14 | 3986.65 | 4255.65 |
| 842 | -10.6 | 112.36 | 702.97 | -43.8 | 1918.44 | 464.28 |
| 851 | -1.6 | 2.56 | 709.4 | -37.37 | 1396.52 | 59.79 |
| 796 | -56.6 | 3203.56 | 734.65 | -12.12 | 146.89 | 685.99 |
| 854 | 1.4 | 1.96 | 776.92 | 29.23 | 854.39 | 40.92 |
| $\sum X = 4263$ | | $\sum x^2 = 7863.2$ | $\sum Y = 3733.85$ | | $\sum y^2 = 8302.89$ | $\sum xy = 5506.62$ |
| $\bar{X} = 852.6$ | | | $\bar{Y} = 746.77$ | | | |

Karl Pearson's Coefficient of Correlation

$$\begin{aligned}
 r &= \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} \\
 &= \frac{5506.62}{\sqrt{7863.2} \sqrt{8302.89}} \\
 &= 0.68 \\
 r^2 &= 0.46
 \end{aligned}$$

6. Ace Development Bank Ltd.

Correlation Coefficient between share prices and General market Price movement.

X = Share price of (Ace Development Bank Ltd.)

Y = General market price movement

$$x = X - \bar{X} \quad \bar{X} = \frac{\sum X}{n} \quad \bar{Y} = \frac{\sum Y}{n}$$

$$y = Y - \bar{Y}$$

N = No. of observation n = 5

Table 6
Ace Development Bank Ltd.

| X | x | x ² | Y | y | y ² | xy |
|-----------------|--------|--------------------|---------------------|----------|---------------------|--------------------|
| 1032 | 127.6 | 16281.76 | 709.4 | -101.372 | 10276.28 | -12935.06 |
| 791 | -113.4 | 12859.56 | 748.92 | -61.85 | 3825.67 | 7013.79 |
| 925 | 20.6 | 424.36 | 776.92 | -33.85 | 1145.95 | -697.31 |
| 714 | -190.4 | 36252.16 | 798.56 | -12.21 | 149.13 | 2324.78 |
| 1060 | 155.6 | 24211.36 | 1020.06 | 209.29 | 43801.47 | 32565.52 |
| $\sum X=4522$ | | $\sum x^2=90029.2$ | $\sum Y=4053.83$ | | $\sum y^2=59198.49$ | $\sum xy=28271.72$ |
| $\bar{X}=904.4$ | | | $\bar{Y} = 810.772$ | | | |

Karl Pearson's Coefficient of Correlation

$$\begin{aligned}
 r &= \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} \\
 &= \frac{28271.72}{\sqrt{90029.2} \sqrt{59198.49}} \\
 &= 0.387 \\
 r^2 &= 0.1499
 \end{aligned}$$

Annex-III

Calculation of T-test

1. Nepal Investment Bank limited (NIBL)

Lets,

x = share price before announcement date

y = share price after announcement date

n = no. of paired observation

d = y-x

Step 1,

H_0 : $\mu_x = \mu_y$ there is no significance different between share price before and after announcement date.

H_1 : $\mu_x \neq \mu_y$ (Two tailed test) there is significance different between share price before and after announcement date.

Step 2, Test Statistic

| x | y | d (y-x) | d ² |
|------|------|------------------|---------------------|
| 1316 | 1360 | 44 | 1936 |
| 1325 | 1401 | 76 | 5776 |
| 1335 | 709 | -626 | 391876 |
| 1335 | 865 | -470 | 220900 |
| 1326 | 860 | -466 | 217156 |
| | | $\phi d = -1442$ | $\phi d^2 = 837644$ |

$$\bar{d} = \frac{\phi d}{n} = \frac{-1442}{5} = -288.4$$

$$sd = \sqrt{\frac{1}{n-1} |\phi d^2 - \frac{(\phi d)^2}{n}} = \sqrt{\frac{1}{5-1} |837644 - \frac{(-1442)^2}{5}} = 324.72$$

$$T = \frac{\bar{d}}{sd/\sqrt{n}} = \frac{-288.4}{324.72/\sqrt{5}} = -1.9859$$

Step 3,

Degree of freedom = $n-1 = 5-1 = 4$

Step 4,

Critical value of T (0.05,4) two tailed test is 2.776.

Step 5, Decision

Since the tabulated value of T is greater than calculated value of T $2.776 > 1.989-59$. So H_0 accepted i.e there is no significance different between share price before and after right announcement date.

2. National Finance Ltd. (Bittiya Sanstha)

Lets,

x = share price before announcement date

y = share price after announcement date

n = no. of paired observation

d = y-x

Step 1,

$H_0 : \mu_x = \mu_y$ there is no significance different between share price before and after announcement date.

$H_1 : \mu_x \neq \mu_y$ (Two tailed test) there is significance different between share price before and after announcement date.

Step 2, Test Statistic

| x | y | d (y-x) | d ² |
|-----|-----|---------------|-------------------|
| 350 | 367 | 17 | 289 |
| 350 | 370 | 20 | 400 |
| 350 | 370 | 20 | 400 |
| 350 | 370 | 20 | 400 |
| 350 | 325 | -25 | 625 |
| | | $\phi d = 52$ | $\phi d^2 = 2114$ |

$$\bar{d} = \frac{\phi d}{n} = \frac{52}{5} = 10.4$$

$$sd = \sqrt{\frac{1}{n-1} |\phi d^2 - \frac{(\phi d)^2}{n}|} = \sqrt{\frac{1}{5-1} |2114 - \frac{(52)^2}{5}|} = 19.83$$

$$T = \frac{\bar{d}}{sd/\sqrt{n}} = \frac{10.4}{19.83/\sqrt{5}} = 1.1727$$

Step 3,

Degree of freedom = n-1 = 5-1 = 4

Step 4,

Critical value of T (0.05,4) two tailed test is 2.776.

Step 5, Decision

Since critical or tabulated value of T is greater than calculated value of T i.e there is no significance different between share price before and after announcement.

3. Nepal SBI Bank Ltd.

Lets,

x = share price before announcement date

y = share price after announcement date

n = no. of paired observation

d = y-x

Step 1,

$H_0 : \mu_x = \mu_y$ there is no significance different between share price before and after announcement date.

$H_1 : \mu_x \neq \mu_y$ (Two tailed test) there is significance different between share price before and after announcement date.

Step 2, Test Statistic

| x | y | d (y-x) | d ² |
|------|-----|------------------|----------------------|
| 1225 | 332 | -893 | 797449 |
| 940 | 376 | -564 | 318096 |
| 925 | 415 | -510 | 260100 |
| 915 | 420 | -495 | 245025 |
| 858 | 430 | -428 | 183184 |
| | | $\phi d = -2890$ | $\phi d^2 = 1803854$ |

$$\bar{d} = \frac{\phi d}{n} = \frac{-2890}{5} = -578$$

$$sd = \sqrt{\frac{1}{n-1} \sum d^2 - \frac{(\sum d)^2}{n}} = \sqrt{\frac{1}{5-1} |1803854 - \frac{(-2890)^2}{5}} = 128.64$$

$$T = \frac{\bar{d}}{sd/\sqrt{n}} = \frac{-578}{128.64/\sqrt{5}} = -22.46$$

Step 3,

Degree of freedom = n-1 = 5-1 = 4

Step 4,

Critical value of T (0.05,4) two tailed test is 2.776.

Step 5, Decision

Since the calculated T is less than tabulated T H_0 Accepted i.e, there is no significance different between before and after announcement share price.

4. Gorkha Development Bank Ltd. (GDBL)

Lets,

x = share price before announcement date

y = share price after announcement date

n = no. of paired observation

d = y-x

Step 1,

$H_0 : \mu_x = \mu_y$ there is no significance different between share price before and after announcement date.

$H_1 : \mu_x \neq \mu_y$ (Two tailed test) there is significance different between share price before and after announcement date.

Step 2, Test Statistic

| x | y | d (y-x) | d ² |
|-----|-----|---------|----------------|
| 882 | 800 | -82 | 6724 |
| 820 | 790 | -30 | 900 |

| | | | |
|-----|-----|-----------------|-------------------|
| 848 | 845 | -3 | 9 |
| 909 | 890 | -19 | 361 |
| 931 | 945 | 14 | 196 |
| | | $\phi d = -120$ | $\phi d^2 = 8190$ |

$$\bar{d} = \frac{\phi d}{n} = \frac{-120}{5} = -24$$

$$sd = \sqrt{\frac{1}{n-1} |\phi d^2 - \frac{(\phi d)^2}{n}|} = \sqrt{\frac{1}{5-1} |8190 - \frac{(-120)^2}{5}|} = 36.44$$

$$T = \frac{\bar{d}}{sd/\sqrt{n}} = \frac{-24}{36.44/\sqrt{5}} = -1.47$$

Step 3,

Degree of freedom = $n-1 = 5-1 = 4$

Step 4,

Critical value of T (0.05,4) two tailed test is 2.776.

Step 5, Decision

Since the calculated value of T is less than tabulated T So the H_0 accepted i.e, there is no significance different between before share price of before and after announcement date.

5. Kumari Bank Ltd.

Lets,

x = share price before announcement date

y = share price after announcement date

n = no. of paired observation

d = y-x

Step 1,

$H_0 : \mu_x = \mu_y$ there is no significance different between share price before and after announcement date.

$H_1 : \mu_x \neq \mu_y$ (Two tailed test) there is significance different between share price before and after announcement date.

Step 2, Test Statistic

| x | y | d (y-x) | d ² |
|-----|-----|----------------|--------------------|
| 920 | 851 | 69 | 4761 |
| 940 | 796 | 144 | 20736 |
| 948 | 796 | 152 | 23104 |
| 811 | 785 | 26 | 676 |
| 842 | 854 | -12 | 144 |
| | | $\phi d = 379$ | $\phi d^2 = 49421$ |

$$\bar{d} = \frac{\phi d}{n} = \frac{379}{5} = 75.8$$

$$sd = \sqrt{\frac{1}{n-1} |\phi d^2 - \frac{(\phi d)^2}{n}|} = \sqrt{\frac{1}{5-1} |49421 - \frac{(379)^2}{5}|} = 71.92$$

$$T = \frac{\bar{d}}{sd/\sqrt{n}} = \frac{75.8}{71.92/\sqrt{5}} = 2.3565$$

Step 3,

Degree of freedom = $n-1 = 5-1 = 4$

Step 4,

Critical value of T (0.05,4) two tailed test is 2.776.

Step 5, Decision

Since the calculated value of T is less than tabulated T, $2.776 > 2.356$. So the H_0 accepted i.e, there is no significance different between share price before and after announcement date.

6. Ace Development Bank Ltd. (ADBL)

Lets,

x = share price before announcement date

y = share price after announcement date

n = no. of paired observation

d = y-x

Step 1,

$H_0 : \mu_x = \mu_y$ there is no significance different between share price before and after announcement date.

$H_1 : \mu_x \neq \mu_y$ (Two tailed test) there is significance different between share price before and after announcement date.

Step 2, Test Statistic

| x | y | d (y-x) | d ² |
|------|------|-----------------|---------------------|
| 1032 | 925 | 107 | 11449 |
| 805 | 714 | 91 | 8281 |
| 785 | 760 | 25 | 625 |
| 771 | 889 | -118 | 13924 |
| 791 | 1060 | -269 | 72361 |
| | | $\phi d = -164$ | $\phi d^2 = 106640$ |

$$\bar{d} = \frac{\phi d}{n} = \frac{-164}{5} = -32.8$$

$$sd = \sqrt{\frac{1}{n-1} |\phi d^2 - \frac{(\phi d)^2}{n}|} = \sqrt{\frac{1}{5-1} |106640 - \frac{(-164)^2}{5}|} = 159.11$$

$$T = \frac{\bar{d}}{sd/\sqrt{n}} = \frac{-32.8}{159.11/\sqrt{5}} = -0.4609$$

Step 3,

Degree of freedom = n-1 = 5-1 = 4

Step 4,

Critical value of T (0.05,4) two tailed test is 2.776.

Step 5, Decision

Since the calculated value of T is less than tabulated value of T, - 0.4609 < 2.776. So the H_0 accepted i.e. there is no significance different between share price of before and after announcement date.

Annex-IV

Valuation of Rights

1. Nepal Investment Bank Ltd. (NIBL)

$$P_o = \text{Rs. } 1360$$

$$P_s = \text{Rs. } 100$$

$$\# = 1$$

$$V_r = \frac{P_o - P_s}{\# + 1} = \frac{1360 - 100}{1 + 1} = \text{Rs. } 630$$

Market price of stock after right issue

$$(P_e) = P_o - V_r$$

$$= 1360 - 630$$

$$= \text{Rs. } 730$$

2. National Finance Ltd. (Bittiya Sanstha)

$$P_o = \text{Rs. } 350$$

$$P_s = \text{Rs. } 100$$

$$\# = 1$$

$$V_r = \frac{P_o - P_s}{\# + 1} = \frac{350 - 100}{1 + 1} = \text{Rs. } 125$$

Market price of stock after right issue

$$(P_e) = P_o - V_r$$

$$= 350 - 125$$

$$= \text{Rs. } 225$$

3. Nepal SBI Bank Ltd.

$$P_o = \text{Rs. } 940$$

$$P_s = \text{Rs. } 100$$

$$\# = 0.5$$

$$V_r = \frac{P_o - P_s}{\# + 1} = \frac{940 - 100}{0.5 + 1} = \text{Rs. } 560$$

Market price of stock after right issue

$$(P_e) = P_o - V_r$$

$$= 940 - 560$$

$$= \text{Rs. } 380$$

4. Gorkha Development Bank Ltd.

$$P_o = \text{Rs. } 882$$

$$P_s = \text{Rs. } 100$$

$$\# = 2$$

$$V_r = \frac{P_o - P_s}{\# + 1} = \frac{882 - 100}{2 + 1} = \text{Rs. } 260.67$$

Market price of stock after right issue

$$(P_e) = P_o - V_r$$

$$= 882 - 260.67$$

$$= \text{Rs. } 621.33$$

5. Kumari Bank Ltd.

$$P_o = \text{Rs. } 842$$

$$P_s = \text{Rs. } 100$$

$$\# = 5$$

$$V_r = \frac{P_o - P_s}{\# + 1} = \frac{842 - 100}{5 + 1} = \text{Rs. } 123.67$$

Market price of stock after right issue

$$(P_e) = P_o - V_r$$

$$= 842 - 123.67$$

$$= \text{Rs. } 718.33$$

6. Ace Development Bank Ltd.

$$P_o = \text{Rs. } 992$$

$$P_s = \text{Rs. } 100$$

$$\# = \frac{10}{3}$$

$$V_r = \frac{P_o - P_s}{\# + 1} = \frac{992 - 100}{\frac{10}{3} + 1} = \text{Rs. } 205.85$$

Market price of stock after right issue

$$\begin{aligned} (P_e) &= P_o - V_r \\ &= 992 - 205.85 \\ &= \text{Rs. } 786.15 \end{aligned}$$

Tabulation of Market price before ex-right, Theoretical value of rights, Theoretical Market price after ex-right and Real market price after ex-right of sample companies.

Annex-V
QUESTIONNAIRE

Dear sir\ Madam

I have been writing a thesis on "Right share practice and its impact on stock price. The Nepalese Evidence in partial fulfillment of the requirement of Master of Business studies studies (M.B.S). This questionnaire has been developed and presented towards you as a part of study. I humbly request you to fill it up at the best of your knowledge. Your kind cooperation in this regard will be great value for me. I shall be highly obliged for prompt responses as for a possible.

Thank you
Ishwari Prasad
Ghimire
Shanker Dev Campus

Name of respondent

Address

Designation

Please tick to your group

- Individual Investor
- Broker
- Expert
- Issue Manager
- Corporate Firm

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

1. In Your opinion, which sector's right share issue does investors prefer most ?

| |
|--|
| |
| |
| |
| |

 - a) Banking\ Financial
 - b) Manufacturing\ Trading sector
 - c) Hotel\ Other sector
 - d) Insurance sector

2. In your opinion, why investors are interested to purchase the right share?

| |
|--|
| |
| |
| |
| |

 - a) To increase the value
 - b) To increase the number of share
 - c) To increase the dividend
 - d) To maintain the control position in management

3. What will the shareholders do, if rights are transferable in Nepal?

| |
|--|
| |
| |
| |
| |

 - a) They will sell the right
 - b) They will exercise the right
 - c) They will partially exercise or sell the right
 - d) They will neither sell nor exercise

4. Whom do you think, are the beneficiaries of the rights share offering ?

| |
|--|
| |
| |
| |
| |

 - a) Issuing company
 - b) Share holders
 - c) Issue manager
 - d) Broker

5) Why does the Nepalese corporate firms prefer right share instead of other instruments?

- a) Low flotation cost
- b) Easy process to collect the fund
- c) To maintain control position in management
- d) Other causes

| |
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| |
| |
| |
| |

6) In your opinion, what is a major cause of under subscription of rights share in Nepal?

- a) Low performance of the related company
- b) Right is not transferable
- c) Lack of investors awareness
- d) Other causes

| |
|--|
| |
| |
| |
| |

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

7) Do you think that investors are well aware to the phenomenon of right share ?

- a) All of them
- b) Non of them
- c) Majority of them
- d) Minority of them

| |
|--|
| |
| |
| |
| |

8) Right is not transferable in Nepal: in your opinion does investors face any difficulties due to this?

- a) Yes
- b) No
- c) Don't know

| |
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| |
| |
| |

9) Do you agree that, the lack of large corporate firm is the main cause of low practice of right share in Nepal?

- a) Agree
- b) Disagree
- c) Don't know

| |
|--|
| |
| |
| |

10) In your opinion, what should be the subscription price in compare to market price?

- a) Below the market price
- b) Equal to the market price
- c) Above the market price
- d) Don't know

| |
|--|
| |
| |
| |
| |

11) Do you think that legal provisions regarding the right share issue in Nepal are sufficient ? If insufficient what amendments are needed?

- a) Sufficient
- b) Insufficient

| |
|--|
| |
| |

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.....
.....

12) Do you think that infrastructure of Nepalese security market is sufficient to increase the right share practice?

- a) Sufficient
- b) Insufficient

| |
|--|
| |
| |

13) In your opinion, what are the major problems to practice the right share in Nepalese security market?

.....
.....
.....
.....

14) Any experience and recommendation, you want to share to develop right share practice in Nepal?

.....
.....
.....
.....

Thank You!