CHAPTER- I

INTRODUCTION

1.1Background of the Study:

For each firm, capital is must and it is why it is called the lifeblood of a firm. A business needs funds at each step, to start a business, to operate it, expand and modernize it. It is required to bring a business into existence, to keep it alive and to see it growing. It is needed for various purposes and varies from firm to firm depending upon the nature and function of the firm. Firms need capital for managing its day to day operations as well as for the purpose of making investments in fixed assets to finance for expansions and diversifications.

Two sources internal and external are available for a firm to fulfill its capital requirements. Internal sources consists mainly of retained earnings and reserves which are the profits not distributed to the shareholders. External source consists of raising the required amount of capital through equity shares, preference shares, debentures, long term loans from financial institutions, trade credit, advances from the customers etc. These external sources can be broadly classified into two main categories, (I) Sources of long term financing and (II) Sources of short term financing. The capital structure is concerned mainly with the forms of long term financing.

Capital structure refers to the composition or make up of the long term sources of funds such as equity shares, preference shares, debentures and long term loans. All these type of securities have to be in their right proportion in order to ensure an optimum capital structure. Basically, there are two types of long term funds, (I) Owner's capital and (II) Borrowed capital. Owner's capital refers to the preference and equity shares issued to the public. Borrowed capital includes any type of long term funds obtained either through loans from Bank and Financial Institution's (BFI"s) or by issuing debentures or bonds to the public. This is referred to as debt capital also. The ratio of equity capital and debt capital is of prime importance in the capital structure. An optimal mix of these two leads to the minimum of risk and cost.

As has already been mentioned that two long term securities available for a firm for raising capital are: shares and debentures. Shares include common shares and the preference shares. Common shares provide ownership right to the investors. Debentures or bonds provide long term capital to the company and the investors get the status of the lenders. Common shares represent the ownership in the company. The holders of the common shares, called shareholders or stockholders, are the legal owners of the company. Common shares are the source of the permanent capital since they do not have any maturity date. For the capital contributed by the investors by purchasing the common shares, they are entitled for dividends. The amount or rate of dividend is not fixed; it's decided by the company's board of directors (BOD). A common share is therefore known as variable income security. Being the owners of the company, shareholders bear the risk of ownership; they are entitled for dividends only after the income claims of others have been fulfilled. Similarly, when the company is wound up, they can exercise their claims only after the claims of other suppliers of capital have been met.

When a company makes a fresh issue of securities to the public i.e. it issues securities for the first time in the primary market, it is called an Initial Public Offering (IPO). A right issue involves selling of common shares to the existing shareholders of the company. Right offering is made generally for the purpose of (I) Maintaining the shareholders' control through pro-rata issue of shares, (II) Minimizing the flotation costs involved with new issue and (III) Protecting the shareholders' from dilution of their wealth positions. Companies are bound to issue new shares of additional stock to the existing shareholders due to the "Pre- emptive rights" clause in their charter. If such clause is not mentioned in the company's charter, then company has a choice of making the sale to its existing shareholders or to an entirely new set of investors.

The pre-emptive right entitles a shareholder to maintain his proportionate share of ownership in the company. Thus, if a shareholder holds 1 percent of company's common shares, he has a pre-emptive right to buy 1 percent of new shares issued. The shareholders may decline to exercise this right. The shareholder's option to purchase a stated number of shares at a specified price during a specified period is called ***"rights"***. These rights can be exercised at a subscription price which is generally much below the shares current market price, can be allowed to expire or sold in the stock market (but currently this provision is not applicable in Nepal). When the rights are offered for raising additional funds, three issues are involved. (I) The number of right needed to buy one new share, (II) The theoretical value of a right and (III) The effect of the right offering on the value of the common shares outstanding. The company normally fixes the prices of right (subscription price) at a level below of the current market price. Depending upon the nature of the relationship between the current market price and the subscription price, a right usually will have a theoretical value.

The history of right offering is nor very long in Nepal. The first right issue in Nepal was of Nepal Finance & Savings Co. Ltd. in the FY 1995/96. Since then, no. of right offering in Nepalese capital market has been in an increasing trend. The table no. 1 below shows the number of right offering since the establishment of Nepal Stock Exchange (NEPSE) in the FY 1993/94 to the FY 2007/08.

Table 1.1

Details of Right Issue in Nepalese Capital Market

From the FY 1993/94 to FY 2007/08

Fiscal Year	**No. of Right Issues**	**BFIs'**	**Others**
1993/94	NIL	NIL	NIL
1994/95	NIL	NIL	NIL
1995/96	2	1	1
1996/97	3	1	2
1997/98	3	2	1
1998/99	1	1	NIL
1999/00	3	2	1
2000/01	2	2	NIL
2001/02	5	5	NIL
2002/03	4	4	NIL
2003/04	3	3	NIL
2004/05	6	6	NIL
2005/06	11	10	1
2006/07	17	17	NIL
2007/08	42	39	3
Total	**102**	**93**	**9**

Source: SEBON Annual Report 2005/06, 2006/07 & 2007/08

From the above table, it can be seen that the first right issue in Nepal was made in the FY 1995/96 and thereafter it's been increasing. No. of right issues have been minimum in the FY 1998/99 limiting to 1 and maximum 42 in the FY 2007/08. The number and composition of companies issuing right shares is also interesting. BFIs' (commercial banks, development banks and finance companies) have been issuing rights in all the FYs where as the companies from other sectors (insurance, hotel, trading, manufacturing & others) have issues right shares only in the five FYs'. While the no. of BFIs issuing right shares have been increasing from the very beginning i.e. FY 1995/96 from 1 to 39, companies from other sectors have not even crossed the number 3. It can be seen that out of the total right issues (102), BFIs' comprise the maximum (93) and others only few (9). The number of right issue is increasing rapidly especially from the FY 2001/02 and almost all of them belong to the BFIs'.

The increase in the number of right issues and most of them coming from BFIs' is not a matter of coincidence. Visible impact on the development of financial sector was observed only when the government changed its restrictive policy and opened up hitherto closed financial sector to private sector and foreign participation in the establishment of banks. With the adoption towards privatization and economic liberalization policy, the process got further impetus and the financial institutions in Nepal grew at faster pace especially in quantitative terms. By the end of FY 2007/08, 25 commercial banks, 59 development banks, 78 finance companies, 12 micro finance institutions and 16 cooperatives (licensed by NRB) and 46 NGOs' doing limited banking have been actively operating in this sector. Some new Banks have also started their operating in the current fiscal year 2008/09 and it is also understood that almost a dozen BFIs' are in the pipeline to get license from the NRB.

The increase in the right issues by BFIs over the recent years is due to the regulatory impact of Nepal Rastra Bank (NRB)'s policy regarding the capital of BFIs'. The increase in no. of BFIs' also increased competition among them and also attracted other investors to open BFI as the banking sector was the only sector to earn good return even during the period of the conflict in the country. NRB in its effort to control the mushrooming number of BFIs' and to curb the unhealthy competition/practices in the banking sector revised the minimum capital requirement for a BFI from time to time. As per the licensing policy for banks & financial institutions 2063 of NRB, the minimum paid up capital required for a BFI is revised as follows:

	Old Provision	New Provision
Category “A” financial institutions	1,000 million	2,000 million
Category “B” financial institutions	320 million	640 million
Category “C” financial institutions	150* million	300* million
	100 million	200 million

* For Financial Institution doing leasing business

Whilst, any new BFI must have the minimum paid up capital as per the new provisions, the existing BFIs’ are however given time till the FY 2070/71 to comply the same. The doubling in the paid up capital requirement was a matter of great concern for BFIs’ as non compliance to this would result into severe actions against them. BFIs have no option but to increase its paid up capital which was either through issuing bonus shares or through issuing right shares to its existing shareholders or doing both. Increasing paid up capital through issuing bonus shares require enough reserve and surplus which is not available with all the BFIs’. Only few old and profitable BFIs’ could increase its paid up capital through issuing bonus shares and that too not to the extent of the required level. Increasing paid up capital through right offering therefore has become popular and reliable source of increasing capital among the BFIs’.

1.2 Statement of the problem

Right offering announcement by a company serves good news to its existing shareholders. A shareholder, whose name appears in the company’s book before record date, is entitled to have a proportionate number of new shares at a price much lower than the market price. Therefore, before the record date, there will be great demand for the shares attached with rights. Demand is increased because large number of people rush to the secondary market in order to enlist their name in the company’s book before the record date so that they can enjoy the benefits of the right offering. On the other hand, for the existing shareholders, there will be a temptation to see their stock at a price much higher than currently prevailing in the market and still others do not want to sell theirs shares rights on. Obviously, there will be a decrease in the supply of shares-on. Such a phenomenon drives the price of the share to the upward direction. If the company's current market price is far more than its value and the issue prospectus has shown a forecast of profitable balance sheets for a few years to come, this rise in price after announcement should be conspicuous.

After the issuance of the rights the share price will slightly fall down then its previous market price. A view held by professionals, investors, finance directors and some academics is that a right issue, because it increases the supply of a company's shares, will have a depressing effect on the share price. The demand for a particular company's share can be regarded, for all practical purposes, as being perfectly elastic (notion of an efficient market) so that increases in the supply of its share alone will not lead to fall the share price. This high demand elasticity is alleged to stem from the existence of very close substitutes in the form of alternative risky assets. Thus unless the company's rights issue is large relative to the total supply of risky assets, its effect on the share price should be negligible.

This study deals with the question to whether the aggregate market valuation of companies' equity increases as result of right issues. The examination throws lights on the several aspects associated with it, such as subscription price, subscription ratios, the legal provisions regarding the rights offering and the issues/problems related to right offering. The researcher's concern here is not a mere watch on how the cum right share price changes into ex-rights price but how a decision to issue right shares affects the market valuation of the aggregate equity of the concerned companies.
To sum up this study deals with the following issues:

- What is the relationship between right share issue and market price of share?
- When right issue is made, what is the trend of shareholders in terms of subscribe for the new share, sell the right or do nothing at all?
- What are the reasons behind price movement after an announcement of right share

1.3 Objective of the study

The main objective of this study is to study the effect of right issue announcement on share price movement. It is not feasible to include all matters regarding right issue in a single research. To support its main objectives, the study is proposed to meet the following objective:-

- To find out the impact of right issue on prices of common stock of Banks and financial institutions.
- To study and analyze the rights issuing practices in Nepal.
- To provide a package of suggestive framework to overcome various issues related to right offering in Nepal.

1.4 Significance of the study

The study will be significant:

- To regulator (SEBO and NEPSE) and BFIs to know the issues relating to existing practice of right offering.
- To investors, to know the impact of right offering on the share prices, their wealth positions and their ownership position.
- To researchers who are interested in this topics.

1.5 Limitation of the study

The research is carried out for the partial fulfillment of the requirements for the degree of Master of Business Studies (MBS). The research report will be organized under the prescribed from of TU. The research is subject to face the following constrain:-

- The reliability of the result obtained from analysis will be dependent upon the reliability of the secondary data published by SEBON, NEPSE and the BFIs.

- The study is confined to the existing regulatory system of Nepalese securities market.
- Simple techniques have been used for analysis.
- The study of impact of right offering of the share prices is confined to the BFIs only.
- Time and cost factors are constrained.

1.6 Research Methodology

The key objective of the study is to asses the impact of right issue on the stock prices of selected BFIs'. In this research altogether 6 BFIs' right issue will be analyzed which includes 2 Commercial banks, 1Development bank and 3 Finance companies.

The study is mainly based on the secondary and supported by the primary data as well. The secondary data will be obtained from the publications and annual reports of BFI's, SEBON and NEPSE and various book lets, articles and journals from relevant sectors. Various appropriate statistical tools will be used for analysis of stock price. The primary data will be collected through personal interviews, interactions etc.

1.7 Statement of Hypothesis

The hypothesis is the statement about the relationship between two or more variables which needs to be investigated for truth. In order to fulfill the objectives of research, t-statistics and F-statistics are to be used in order to test following hypothesizes.

1. Null Hypothesis (H0): There is no significant impact on the market price of common shares of selected BFIs' before and after the issue of right shares.
2. Alternative Hypothesis (H1): There is significant impact on the market price of common shares of selected BFIs' before and after the issue of right shares.

1.8 Organization of the study

The study is organized into the following five different chapters:-

1. Introduction: The first chapter incorporates general background, statement of the problem, objective of the study, significance of the study, research methodology and organization of the study.

2. Review of Literature: This chapter includes mainly the conceptual\theoretical review and review of related studies. In this aspect, it includes review of various acts, books, journals, magazine, articles, and unpublished thesis etc.

3. Research Methodology: This chapter deals with research methodology used in the study. It includes research design, sources of data, data collection techniques and tools of data analysis.

4. Data Presentation and Analysis: This chapter deals with the analysis of primary and secondary data using various tools and techniques.

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5. Summary, Conclusion and Recommendation: This chapter states the summary, conclusion and recommendation of the study.

CHAPTER- II

REVIEW OF LITERATURE

2.1. Conceptual framework / Review of books

2.1.1 Development of Capital Market

The history of capital market in Nepal dates back to the era of Rana prime ministers Juddha Shamsher when Gunjaman Sing, The first secretary at Nepalese embassy in England returned back to Kathmandu and set up the 'Industrial Council'. The council drafted Company Act and Nepal Bank Act for the first time in 1936. Biratnagar Jute Mills Ltd. initiated the first public floatation of shares in the same year Nepal Bank Ltd. also issued the shares. However at that time the participation on the ownership structure of the corporate sector was restricted mostly to the Rana family. In 1951 the "Company Act 1951" was introduced and first issued of government bond in 1964 was other important developments relating to capital markets. The establishments of Securities Exchange Center (SEC) in 1976 were the first and most important attempt by the government. After the establishment of SEC under Company Act institutional development of securities market in Nepal was started. The function of SEC was very limited on trading government bonds and national savings certificate only, which has predominantly held by Nepal Rastra Bank (NRB).

Under a programmed initiated to reform capital markets, government converted SEC into Nepal Stock Exchange (NEPSE) on 16th May 1993. In order to regulate securities market, Securities Board of Nepal (SEBO\N) was established on June 7, 1993. Thus, NEPSE has the basic objective to impart free marketability and liquidity to government bonds and corporate securities by facilitating transaction in the trading floor through market intermediaries such as brokers and market makers. It started 'Open Out Cry' system of trading through brokers. Computer trading system is yet to be established.

The development of capital market is directly related to the economic condition of the country. Nepal, a capital scares country, the capital market would be great advantageous for capital formation to the economic development and industrialization. Only 5.6% GDP growth in the fiscal year 2007/08 is the sign of very poor economic condition of country. It directly affects the stock market development. However, several studies evidence that equity market development and economic developments are positively and robustly correlated. The entrance in WTO and the issue of integrating Nepalese economy into the global trading system may create new challenges for its steady growth. In our context, the huge amount of funds is poured in unproductive sectors like real state, housing construction, vehicles, jewelry etc. Only the developments of securities market can divert the unproductive funds into the productive sectors. Yet, there are some rays of hope for the substantial development of capital market by exploring more potentialities in the years to come

2.1.2. Regulations of Securities Market in Nepal

The absence of condition of perfect competition in the securities market makes the role of the regulator extremely important. The regulator ensures that the market participants behave in a desired manner so that securities market continues to be a major source of finance for corporate and government and the interest of investors are protected. The responsibility for regulating the securities market is shared by Government of Nepal, Nepal Rastra Bank and Securities Board of Nepal.

Securities Board of Nepal (SEBON) was established on June 7, 1993 and is now functioning as an apex regulator of securities markets in Nepal. As per the Securities Act, 2063, the major function of SEBON are to regulate issue and trading of securities and market intermediaries , promote market development and protect investor's right. The functions of SEBON are as follows

- To offer advice to Government on matters connected with the development of the capital market.
- To register the securities of corporate bodies established with the authority to make a public issue of its securities.
- To regulate and systematize the issue, transfer, sale and exchange of registered securities.
- To give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Act or the rules and bye-rules framed under this Act.
- To supervise and monitor the functions and activities of stock exchange.
- To inspect whether or not any stock exchange is executing its functions and activities in accordance with this Act or the rules and bye-rules framed under this Act, and to suspend or cancel the license of any stock exchange which is not found to be doing so.
- To issue licenses to conduct the business of dealing in securities, subject to this Act, or the rules and the bye-rules framed under this Act, to companies or institutions desirous of conducting the business of dealing in securities.
- To supervise and monitor the functions and activities of securities-dealers.
- To grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them.
- To approve the bye-rules concerning transactions in securities framed by stock exchanges and institutions engaged in the business of dealing in securities, and, for the purpose of making necessary provisions concerning the development of the capital market and protecting the interests of investors investing in securities, issue orders to have necessary alterations made in such bye-rules of stock exchange and institutions engaged in the business of dealing in securities.
- To systematize the task of clearing accounts related to transactions in securities.
- To supervise whether or not security dealers are behaving in the manner prescribed in this Act, or the rules and the bye-rules framed under this Act, while conducting business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.

- To make or ensure necessary arrangements to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.
- To make necessary arrangements to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.
- To review or make arrangement for reviewing the financial statements submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.
- To systematize and make transparent the act of acquiring the ownership of a company or gaining control over its management by purchasing its shares in a single lot or in different lots.
- To establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.
- To discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market.
- (Source: SEBON Annual Report 2005\06)
- The Governing Board of SEBON is composed of seven members including one full time chairman appointed by the Government for tenure of four years. Other members of the Board include joint secretary of Ministry of Finance, joint secretary of Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra Bank, representative from Institute of Chartered Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector.
- There are two departments, six divisions and ten sections in the organization of SEBON. Under the Corporate Finance and Administration Department, there are three divisions namely Corporate Finance and Reports Review Division, Accounts and Administration Division and HRD and Education Division. There are also three divisions under the Securities Market Regulation Department,

which are Legal, and Enforcement Division, Market Regulation and Compliance Division and Market Analysis and Planning Development Division.

- The major sources of financing of SEBON are the government grant, transaction commission from the stock exchange and registration of corporate securities. Other financing sources include registration and renewal of stock exchange and market intermediaries and the income from mobilization of its revolving fund.

SEBON regulates both primary and secondary market. There are various acts, rules and regulations to regulate primary and secondary market. The first Securities Exchange Acts was enacted in 1983 to regulate trading of securities in Nepal. The act restricted the exchange of unlisted securities and provided the role of stock exchange. Nepal Stock Exchange (NEPSE) is the sole organization for the operation of secondary market for listed companies. NEPSE is working under Securities Board of Nepal. Following rules and regulations are followed by the issuing companies, investors and brokers in the securities markets of Nepal.

- ❖ The Companied Act, 2063
- ❖ The Securities Act, 2063
- ❖ The Banks & Financial Institutions Act, 2063
- ❖ The Securities Issue & Registration Regulations, 2064
- ❖ The Securities Board Regulations, 2064
- ❖ The Securities Market Operations Regulations, 2064
- ❖ The Securities Businesspersons (Securities Broker, Dealer, Market Maker Regulation, 2064
- ❖ The Merchant Banker’s Regulations, 2064
- ❖ The New Issue Guidelines, 2065
- ❖ Directives on Securities Issue & Registration, 2057
- ❖ Directives on Share Allotment, 2051
- ❖ Directives on Bonus Shares, 2051

The primary objective of SEBON is to develop healthy, credible, and transparent securities market practices comparable to the regional/international standards. In this regards, SEBON has been amending the above mentioned acts and regulation from time to time with appropriate benchmarks.

2.1.3 Initial Financing

When a company is formed, it obviously must be financed. Often the seed money comes from the founder and their families and friends. For some companies, it is sufficient to get things launched but for others, additional external equity is necessary. The additional equity can be managed in two ways: venture capital and initial public offering.

2.1.4 Venture Capital

Venture capital represents the capital invested in a new enterprise. Wealthy investors and the financial institutions are the major sources of venture capital.
It is an another way of financing a business. Venture capitalists invest in new or young firms in return for equity in the firm. They are not lenders, but are equity investors at a stage at which the firm's share do not trade on public markets. Unlike most equity investors, venture capitalists typically play an active role in selecting management and overseeing strategy. They normally seek to sell their shares within a few years usually by taking the firm public and selling their shares on the public equity markets. Venture capital is a well established form of financing in many countries.

2.1.5 Initial Public Offering (IPO)

Most business begin life as proprietorship or partnership and the mot successful ones, as they grow, find it desirable at some point of time to convert into a company. Initially, these new company's stocks are owned by the company's employees and the very few investors. As a company continues to mature, it must eventually decide whether to go public or not. If it decides to go public, the procedures and the alternatives for raising equity funds will be quite different from that of a private company which is controlled by a small group. “Going public means selling some of a company’s stock to outside investors and then letting the stock trade in public market, and desire to convert into corporations”

Public offering of various securities like equity share (both ordinary and right share), debenture, bonds etc. to general public by corporate as well as the Government are made by the Merchant Bankers (MB). As such, MBs’ work as intermediaries between the general public (having surplus of funds) and the institutions (having deficit of funds) to cater the needs of the both through efficient fund mobilization. The MBs’ are mainly engaged in creating and expanding primary and secondary market for securities, providing advisory services to corporations and managing their investment portfolio as well. Thus public offering involves raising of funds for Government and the corporations from public through the issuance of various securities in the primary market and is often the only major source of obtaining large sums of long term funds.

Going public represents a fundamental change in lifestyle in at least four steps: (1) the firm moves from informal, personal controlled to a system controlled and the need for financial techniques such as ratio analysis and the Dupont system of financial planning and control greatly increase. (2) Information must be submitted on timely basis to the outside investors though the founders may still continue to have majority shares. (3) the firm must have breadth of management in all business effectively and (4) the board of directors must include representatives of the public shareholders and the other external institutions.

By going public, the firm establishes both the value for the company and a market for the common stocks. This enhances liquidity to the firm’s shares which allow the company to raise capital on more favorable terms since it no longer needs to compensate investors for liquidity associated with privately held companies. With these benefits, however, comes cost. In particular, there are ongoing costs for public companies with the need to supply informations on a regular basis to investors and the regulators. Furthermore, there is substantial one time cost associated with the IPOs'.

If the company plans to sell stock to raise the new capital, the new shares may be sold in any of the following five ways: (1) on a pro rata basis to the existing shareholders through right offering, (2) through investment bankers to the general public in a public offering, (3) to a single buyer or a very small number of buyers through private placement, (4) to employees through employees stock purchase plan and (5) through a dividend reinvestment plan.

2.1.6 New Issue Market

New issue market is a primary market as it is concerned with the creation of the new financial claims. Various types of securities are issued by a company in the new issue market for raising of funds. Some of them include:

Equity shares: Equity share represent the ownership position in a company. The holders of the equity shares are the owners of the company. They have the voting right and entitled for dividend payments.

Preference Shares: The holders of the preference shares have a preferential right over the common stockholders for return of capital in the event of liquidation of the company. Dividend rate is fixed in preference shares. These shares can be cumulative, convertible, and redeemable.

Debentures: Debenture is a type of debt instrument that is not secured by physical asset or collateral. Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond in order to secure capital. Like other types of bonds, debentures are documented in an indenture. Interest rate is fixed in debentures. These can be cumulative, convertible, and redeemable. Debenture holders are considered as lenders to the institution.

2.2. Right Issue

When a company needs additional funds for a long term purpose, it can raise the funds either through issuing new common stock, preferred stock or debt instruments. If the new common stocks are issued giving the right to purchase first by the existing shareholders, then it is called the right offering. Each stockholder is issued an option to buy a certain number of shares and terms of the option are contained in a piece of paper called a right. Each stockholder receives one right for each share of stock owned.

Right issue is a privilege given to the existing shareholders that help them to keep their control position proportionately equal and the issuing price will also be less than the Market prices. Companies make right issue to shareholders in order to raise finance with which to underpin an investment program (money for new plant etc.) or to reduce the burden of company debt. Alternatively, a company could be hard pressed for cash and have to come to its shareholders to put more cash because the necessary finance could not be raised elsewhere. This latter case could be termed as 'involuntary' right issue because the company has no alternative open to it of raising the ready cash. The former case is basically a 'voluntary' right issue because the company has the other options open to it of raising the necessary cash by selling equity to the investing public or by arranging a term loan.

2.2.1 Characteristics of Rights

The important characteristics of rights are as follows:

1. The number of rights that a shareholder gets is equal to the number of shares held by him. i.e. one share equal to one right.
2. Number of rights required to purchase an additional share is determined by the issuing company.
3. The price of additional share called the subscription price is left to the discretion of the company.

4. Rights are negotiable. The holders of the rights can sell them.
5. Rights have expiration date, i.e., rights can be exercised only during a fixed period of time.

2.2.2 Pre-emptive Right

A pre-emptive right simply means the inherent right of the shareholder, to maintain his proportionate share of the assets, earnings and control of the corporation. It is a common-law right. In other words, the corporation offers new shares to its existing shareholders before offering to the public. This is to prevent the company from offering shares to public at a price substantially below its worth, thus lessening the interest of the old shareholders in the corporate pie. When a company offers new shares to its old shareholders, its price to them is usually set below the current market price. A shareholder has a right to subscribe for new shares, proportionately for each share held. A latter of offer is sent to the shareholder stating the number of new share to which the shareholder is entitled to subscribe and the per share price of such subscription. This privilege to subscribe is of short term nature, usually expiring within few weeks.

Common shareholders have the pre-emptive right to purchase any additional shares sold by the company. If the pre-emptive right is contained in the charter of the company, then the company must offer any new common stock to the existing shareholders. If the charter does not prescribe a pre-emptive right, the company has a choice of making the sale to the existing shareholders of an entirely new set of investors.

Shareholders are granted the pre-emptive rights for the following reasons:

1. The first reason is to prevent the shareholders from getting their wealth position impaired. For example, Mr. A who holds 1,000 shares of a company having a par value of Rs. 100 currently trading at Rs. 600 in the market has a total market value of Rs. 600,000. Now, if the company sells new shares (suppose equal no of shares it had issued earlier) at Rs. 100 per share, the market value of share after this would come down to Rs. 350 (total market value divided by the new shares

outstanding). The old shareholder loses Rs. 250 per share and the new shareholder has an instant profit of Rs. 250 per share. Thus, selling additional common stock below market price would dilute the wealth position of the existing shareholders. The pre-emptive right prevents the existing shareholders from dilution of their wealth position.

2. If the capital of the company has accumulated a surplus, the necessity for the pre-emptive right is clearly evident because capital stock represents the owner's equity after all debts have been paid. An additional issue of stock would dilute this equity by increasing the number of shareholders to whom the surplus of the company would be payable. The existing shareholders are therefore entitled to keep their equity intact in the surplus.

3. Another reason for the pre-emptive right is to protect the power of control of the present shareholders by preserving their right to maintain proportionate control through voting power. If it were not for this safeguard, the management of the company could prevent shareholders from having their representation in the board by issuing a large number of additional shares at a very low price and purchasing the shares itself. Management would thereby secure control of the company.

2.2.3 Offering through Rights

Shareholders' options to purchase a stated number of new shares at a specified price during a given period of time are called '***rights'*** also known as the subscription warrants are issued to give existing shareholders their pre-emptive rights to subscribe to a new issue of common stock before the general public is given opportunities. When the rights are offered for raising additional funds, three issues are involved. (I) The number of right needed to buy one new share, (II) The theoretical value of a right and (III) The effect of the right offering on the value of the common shares outstanding. The company normally fixes the prices of right (subscription price) at a level below of the current market price. Depending upon the nature of the relationship between the current market price and the subscription price, a right usually will have a theoretical value. It is exercised if the value of right is high and also if the stockholder is a major stockiest who wants to keep control on management by electing a director, and then he will exercise them and subscribe for additional shares. Rights can be sold in the stock market which generally happens when the shareholder owns little number of shares and feels that it doesn't matter to him whether the management change or remain the same. Rights can be allowed to expire which occurs only if the value of right is negligible or the shareholder owns a few numbers of shares but as an irrational investor neither exercise his rights nor sell them will see his wealth reduce.

In many countries right is a negotiable instrument and therefore transferable and negotiable. While someone having sufficient money will exercise the right and someone not having sufficient money to exercise the right would sell it and prevent him from loss of reduction in his wealth position. Rights are legally transferable separate instrument that is mailed to the existing shareholders' for each stock held. In our neighboring country India, Securities and Exchange Board of India (SEBI) regulates it. In India, those shareholders who renounce their rights are not entitled for additional shares and on account on non exercise of rights, available shares are allotted to the shareholders who have applied for additional shares on prorate basis. Any balance of share left after issuing the additional shares can be sold in the open market. But in the Nepalese context, rights are not transferable. Neither the rights are mailed to them nor can they sell it in the stock market. All the terms and conditions of the right offering are mentioned in the right issue prospectus which is available for them and based on this, the shareholders calculate their proportionate holding and subscribe for additional shares if they wish to do so.

In order to avoid the confusion regarding who will get the rights after the announcement of right issue and while the share is trading on the stock, the Board of Directors (BOD) decide and fix a record date to give certainty about the possession of right. Investors who buy shares prior to the date are entitled for new shares. For example suppose the BOD of a company declares that all the shareholders whose name appear in the register of the members as on 15th December will be issued right shares in the ratio of 2:1. Therefore this date 15th December is the **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 be replaced by the buyer's name in the company's register till date. **Ex- right date** is the date on or which the right no longer goes to the stock. The ex-right date varies from country to country and may also be determined by the company itself. In the Nepalese context, companies publish **book closure date** and this book closure date is ex -right date. This date normally is four days before the holder of recode date. In the above example, 11th December is the ex-right date and any investor who buys shares before 11th December must recode his/her name in the company by December 15th to receive right shares. **Subscription date** is the date on which the company starts to sell the right shares to the shareholders whose name appears in the company's records on 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 share of the company. On and after the ex-right date i.e. December 11 in the example, the stock is said to sell ex- rights, i.e. the stock is traded without the rights attached. Investors who buy shares after this date do not receive the rights to subscribe additional shares.

2.2.4 Significance of Right Offering

A company may for the reason of expansion need additional funding requirements and therefore additional shares may have to be floated. Financial institutions granting loans may also require the company to bring capital desired proportion to the loan amount. Under these circumstances, it is desirable to solicit additional capital for expansion from people who have a special interest in the welfare of the company such as company's own shareholders.

1. **Permanent Capital**

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

2. **Indication of Higher Profit**

   Normally, right issue is an indication of higher future profits. Right shares are usually declared by BOD who expect rise in the earnings as a result of additional equity injected through right issue. Further, the amount raised through right issue is also invested in the profit generating ventures.

3. **Brings the Market Price of Shares within a More Popular Range**

   Right shares tend to increase the number of shares outstanding and to decrease the share prices. Good performing company's shares tend to increase in the market than the popular range. Right issue offered at that time would bring the share price within a more popular range and small investors would also be able to trade on such shares.

4. **Increases the Number of Shares Outstanding**

   Right share issue obviously increases the number of shares outstanding in the market leading to increase in the supply of shares in the market. Small investors who could not purchase shares on account of low supply would find it easy to get shares easily after the right issue.

5. **Have a Positive Psychological Value**

   The announcement of right is perceived as favorable news by the investors. The company brings the prospectus and projects the higher earnings as a result of the additional fund used in the more profitable opportunities. Therefore, after the right announcement, the prices of the shares actually increase as the demand for the shares increase significantly.

6. **Preserves Proportional Ownership of Shareholders**

   The pre-emptive right helps the shareholder to maintain his proportionate share of assets earnings and control over the company. The right gives holders of common stock the first option to purchase additional issues of shares of the company.

7. **Less Expensive**

   Raising the funds through right offering rather than the public issue involves less flotation cost as the company can avoid underwriting commissions. Further, the issue is likely to be successful as the subscription price is se much below the current market price.

8. **Helps in complying with the Statutory Requirements**

   In the Nepalese financial sectors, NRB determines the minimum capital requirement for opening and running a BFI. BFIs' are therefore required to meet the capital requirement set by the NRB to avoid the penalties and other actions against them accruing on account of non compliance. Increasing the capital through the right issue therefore is very popular and prevalent in the Nepalese context helping the BFIs' not only to raise additional capital but also to comply with the statutory requirements.

2.2.5 Limitations of Right Offering

Some of the limitations associated with the right offering are listed below.

1. In a country like ours where the rights are still not transferable, shareholders holding a substantial number of shares and the promoters actually feel burden when rights announced.
2. The company is giving an option to its existing shareholders to buy additional shares but it can not force them to buy. A not so well performing company would find it difficult if getting the right issue fully subscribed.
3. The shareholders who fail to exercise their right would see their wealth reduced.
4. Issue of right shares lower the current market price of the shares which may pass on negative massage about the particular share in the market.
5. It deprives the new investors from becoming the shareholder of the company.
6. The right issue may dilute the earnings of the existing shareholders if the profit does not increase in proportion to the number of shares increased.

2.2.6 Procedure of Right Issue in Nepal

Right issues are conducted in Nepal as per the provisions of the Company Act 2063 and the rules and regulations set by the SEBONP. The actual mechanism and the sequences of events regarding the right issue is somewhat complicated and therefore it will be useful to briefly outline the actual procedures by which a right issue is typically made. Currently, the following procedure is followed for a right issue.

- The BOD determines the quantum of further capital required the proportionate in which the right issue is to be offered to existing shareholders and puts a proposal accordingly in the AGM.
- AGM passes the proposal by its majority.
- Company should notify the NRB, Nepal Stock Exchange (NEPSE), Company Registrar's Office (CRO) and get the permission before the date of board meeting at which the right issue is be considered.
- Make announcement with the prospectus which gives a general indication of the reasons which have made right issue desirable and the purpose for which the money is to be used.
- Letters of provisional allotment of right offering to the shareholders are distributed with prospectus. The letter will advise the shareholder about the terms of the rights offered, the number of shares required to purchase a new share, the price per share for the right issue.
- After the receipt of the letter of the provisional allotment, the shareholder has to decide whether to accept the allotment, renounce the allotment or do nothing.
- Certificates are distributed to the shareholders who participated in the right issue.
- Listing of the right shares with NEPSE.

2.2.7 Market Vs Theoretical Value

When the rights are offered for raising additional funds, three issues are involved. (I) The number of right needed to buy one new share, (II) The theoretical value of a right and (III) The effect of the right offering on the value of the common shares outstanding. The company normally fixes the prices of right (subscription price) at a level below of the current market price. Depending upon the nature of the relationship between the current market price and the subscription price, a right usually will have a theoretical value.

However, the actual value of right may differ somewhat from its theoretical value on account of transaction cost, speculation, irregularities in the market and the sale of right during the subscription period. However, arbitrage limits the deviation of actual value from the theoretical value. If the price of a right is significantly higher than its theoretical value, shareholders will sell the right and purchase the shares in the market. Such actions will avert downward pressure on the market price of the right and upward pressure on the market price of shares. Similarly, if the price of a right is significantly lower than its theoretical value, shareholders will buy the right and sell the shares in the market. Such actions will avert upward pressure on the market price of the right and downward pressure on the market price of shares. These arbitrage actions will continue as long as they are profitable. The market price of right will generally differ from its theoretical value. The extent of such differences depends on how the firm's stock is expected to behave when it is cum right. By buying rights instead of the shares, investors can achieve higher returns on their money when stock prices rise.

2.2.8 Right Issue Vs Public Offering

Right issue and public offering both are the issues of common stocks. However, there are many differences that exist between them.

- A right issue is more likely to be successful than public offering because the right offering is made to the investors who are already familiar with the company operations.
- Right issue is not underwritten. So, flotation cost of right issue is lower than public offering.
- The principal selling tool in the right offering is the discount from the current market price, whereas with the public offering, the major issue tool is investment banking organization.

2.2.9 Right Issue Vs Bonus Issue

Bonus issue and right issue are very similar although typically used for different purposes. Rights are an important tool of common stock financing without which shareholders would run the risk of losing their proportionate control of the company and dilution of their wealth position. Company offers right generally at a price much lower than the current market price of shares, to raise an additional amount of capital. As a result of right offering, total paid in capital, total net worth of the company and number of total shares outstanding all will change.

A bonus share is different from the right issue in a sense that a bonus issue doesn't raise any new capital for the company. It merely increases the nominal amount of the issued capital of the company utilizing its undistributed profits for paying in for the new shares. Company declares bonus shares because it may hesitate to declare dividends at such rates, which are likely to be criticized by the trade union and the investors. It is not a thing of value to the shareholders unless cash dividends per share remain unchanged or are increased. With a bonus issue, the total net worth of the company doesn't change.

2.3 Review of Related Studies

2.3.1 Review of Mini Research

Mr. Khagendra Prasad Ojha (2000) had done mini dissertation on Financial Performance and Common Stock Pricing and submitted to Tribhuvan University, Kathmandu. His study set out the following Objectives:

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

His findings were as following:

- Nepalese stock market is in infancy stage. In general it is very new and just started to develop.
- Dominance of banking sector is prevalent in the market due to other industries including finance companies, insurance and manufacturing is not encouraging.
- Due to the lack of the proper investment opportunity most of the investors have directed their savings towards the secondary stock market.
- Corporate firm with long history have a relatively stable profitability parameters than the firm established after the economize liberalization of 1990.
- Older firms have been issuing bonus share times than the new ones.
- Dividend per share is relatively more stable than dividend payout ratio. That's why pay-out ratio and dividend yield had highly fluctuating

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

2.3.2 Review of Journals/ Articles

This section dealt with the review of journal and article of different expert relating to right share, which were published in various journals. Some are as follows:

Market Capitalization crosses Rs. 100 billion (The Kathmandu Post, October 10, 2006)

Market capitalization in the Nepal Stock Exchange (NEPSE) crossed the 100-billion rupee mark for the first time led by share prices and entry of new companies. Market capitalization reached Rs. 100.67 billion on today's closure of NEPSE, which is a 15-fold rise since its inception 12 years ago. The capitalization was around Rs. 6.62 billion in January 1994 when NEPSE began operation. The commercial bank group accounts for around Rs 71 billion of the total market capitalization, shows the data of NEPSE. Apart from cash dividends, original investors of the bank have been able to see their number of shares rise by six fold during the period, thanks to its frequent rights issuance.

Terming the growth a milestone in the history of the country's stock market, Ishwori Rimal, president of Securities Broker's Association said the economic liberalization has driven market capitalization upward. A total of 135 companies are listed in NEPSE by now.

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

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

The corporation can reduce the costs and increase the effectiveness of the rights offerings. Different concepts of the nature of costs complicate this matter, but there are many possibilities for reducing cash costs by adjusting the underwriting fees and eliminating certain of the underwriter’s services. Non-cash costs associated with dilution can be controlled through various measures, which seek to minimize the pressure on the prices of the stock during the issue.

Paul Marsh (1980), on his article “The Journal of Finance” has concerned with “UK COMPANIES RAISE VIRTUALLY” all of their new equity capital via the rights issue method. Companies can guarantee the subscription of their issues having them underwritten (the equivalent of standby arrangements in the USA), and in recent years, this procedure has been adopted for 90% of UK rights issues. Underwriting is usually carried out on a fixed fee basis representing at least 1¼ % of the money raised, and hence it is clear that quite substantial sums of money are involved. Since underwriting is simply a put option giving the company the right to put a failed issue onto the underwriter. In this paper, describe an application of the Black and Scholes model to the valuation of rights issue underwriting agreements over the period 1962-1975. Model prices are compared with the fees charged in order to assess whether the letter represent competitive prices. In fact, over this period, companies appear to have overpaid for underwriting.

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

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

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

$$W (x, t) = x.N (d1) – c.e^{–r.t} N (d2)$$

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

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

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

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

Banks shares at Stock Market Overvalued (The Kathmandu Post, August 18, 2006)

A senior official at the Security Exchange Board (SEBON) said that prices of banks' shares were overvalued and the recent crash of the stock market has served to cool the overheated market. "Our stock market suffers from the problem of overvaluation, and we have no mechanism to intervene in the market to make corrections", said Dipak Raj Kafle, chairman of SEBON. Citing the example of India, he said Indian Security Board puts companies in the red when their price-earnings ratio crosses 20 percent. "But in the absence of proper mechanism, we can do nothing even when the ratio has gone up 74 times higher in case of some companies." He also pointed out the need of immediate reform in the secondary market to protect the interest of investors. Strong regulatory framework, tools, institutions and mechanisms were necessary for carrying out capital market operations in a far and efficient manner. These problems make our results harder to interpret in trying to reach conclusions on market efficiency. While it seems clear that an equally weighted portfolio of rights issue would have outperformed the broadly based market-value weight FTA index, it seems unlikely that this has anything to do with rights issues as such. Instead, it appears to reflect the company size factors, which was at work during the period. If seems fair, therefore, to conclude that our result do not furnish any very strong evidence of significant market inefficiencies associated with rights issues. Because of this, we cannot reject the hypothesis that the UK market is efficient with respect to rights issue announcements. The test of our test on price pressure & market liquidity where of more conclusive although on average, there did appear to be small setback of ½ % know evidence what show over that the returns over issue (announcement) period were related to size of the issue. Quoted companies appear to be able to sell reasonable amount of new equity at effectively the current market price, and do not appear to face a downward sloping demand curve for their share. Hence although in recent years there has been seems little justification for any real concern over the operations of this particular segment. The London Stock Exchange and Nepal Stock Exchange appear to be a highly liquid market.

2.3.3 Review of Unpublished Thesis

There are many unpublished thesis submitted by various researchers in the past years. Among them, some thesis were reviewed for the analysis of literature.

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

- To examine the relation between share price rise and Bonus ratio.
- To examine the relation between share price rise and bonus share.
- To evaluate the relation of bonus share announcement and stock price.
- To remove some of widely held misconception about bonus share
- To point out suggestions to the related bodies.

On the basis of analysis in his thesis following major findings are observed

- The immediate share price rise after bonus announcement is significant. Bonus share announcement of banking sector is considering positively by the invertors but shown reluctant for the non-banking sector that the price decrease immediately after bonus announcement.
- The intention of issue bonus share of broad of directors leaks out before officially announcement. Therefore, the share price rises one month before the actual announcement due to the activities of the insiders.
- The share price, in most of the case, does not decrease after distribution of bonus The share price, in most of the case, does not decrease after distribution of bonus according to bonus ratio as theory says. The reason behind the situation may be that the investors cannot interpret the information and data. There is a great misconception about bonus share that the general investors think that they receive extra/ additional share with same value.
- The share price of the non-banking sectors shows inconsistency as compare to the banking sector. Therefore, investing on non-banking sector is more risky the banking sector.
- Long-term effect of bonus share issue, as well as immediate, is significantly positive. In most of the cases the aggregate market valuation of the corporate firms‟ equity capital increased as the result of bonus issue. 81.2 Percent of the bonus issue is recorded different level gain over the base date price, after adjusting of the general market movement in share prices.
- Most of the corporate firms do not maintain their dividend quantum 62.5 per cent of the companies did not maintain their dividend quantum and of course not dividend rate.
- Nepalese capital market is speculative-oriented; therefore it takes more consciously bonus share announcement than the cash dividend announcement. Whatever the dividend policy of the company the immediate impact and a year are significantly positive.
- The companies announce bonus share without frequently cash dividend distribution, ultimately faces drastic fall in their share price.

- The Nepalese capital market did not show any response that whether the company is intended to increase future dividend (return) of not. The immediate response of the market is not sufficiently rational.
- The public, in most of the cases, was provided with very little information about real motives behind an issue of bonus share.
- The adjusted share price of the bonus ratio above 30% to 50% (consisting only 1:2 bonus ratio) increased by 58 percent one year after bonus share announcement with the least standard deviation of 6.6. Therefore, the bonus ratio 1:2 has good response even one year after bonus announcement, which is firm's real equity capital increment.

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

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

His findings are as follows:

- From the descriptive analysis we found that there is no consistency in dividend policy amongst the sample firm's dividend policy adopted by a firm also varies from year to year.
- We defined strategy dividend strategy consistent with the objective of firms is still a need in Nepalese Corporate Firms.
- Analysis of the cost of capital and interest rate of return is not practiced while calculating dividend policy. Higher payout is made despite of high internal rate of return. But in some cases retained earnings is quite lower than the cost of capital. This represents that share holder are not always treated fairly.

- Nepali Investor is actively participating in the capital market. Therefore, majority of them lack of financial knowledge are sill to analyze, the performance and future prospects of the firms. This has affected the market price of all firms.
- Efficient communication network and promotion of security market are major problems hindering the Nepalese capital market.

Mr. Pankaj Khadka (Jan 2007) had done research on “Issue of Rights Share and its effect on general market price in Nepalese context” and submitted to Tribhuvan University, Kathmandu.

His study based on Rights Share and effect on market price. The main objectives of his study are as follows:

- To evaluate the significant changes in share price after the announcement of right offering.
- To examine the procedure and mechanism of rights issue in the context of Nepal.
- To analyze the problems associated with rights issue in Nepal.
- To recommend appropriate implications on the basis of findings.

His findings are as follows:

- Rights share issue is comparatively new practice in Nepal. Therefore only those sample companies whose market prospects are good are able to increase the market capitalization through right issue but small and now reputed companies faces lots of problems in this regard.
- The rights issue practice is mainly dominated by the banking and finance sectors. There are hardly few causes found of other sectors practicing the right issue.
- The issuing of rights share has a long process. There is no time framework. The right announcement date, book closer date/ex-right date, right issue and closing dates are differing 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.

- There is significant difference in the share price before and after the ex-rights dates in most of the sample company but they don’t follow the theory of right offering exactly.
- According to the theory, the share price after ex-right date will decrease by the value of a right but most of the sample company market share price didn’t decrease accordingly.
- Shareholders of Nepalese companies lack the knowledge about the right share and its impact on their wealth position. Due to this free movement of share movement of share price during rights on and ex-right is not confirmed.
- Under subscription of rights share is common phenomena as rights is not transferable in Nepal.
- Most of the finance company doesn’t show significant change in the price before and after ex-right date.
- Market imperfection is found throughout the study period.
- Company Act is not adequate regarding the issue procedure of right share and allotment.

Mr. Man Bahadur Poudel (2008) had done research on “Right Share Practice in Nepalese Market & Its Impact on Market Price of Share” and submitted to Tribhuvan University, Kathmandu. This study has set out the following objectives:

- To find out if there is significant changes in share price after the announcement of right offering.
- To find out if there is any problem in the primary issue of securities.
- To prescribe some policies that will help to ratify the current problems in the issue in the issue of securities.

His findings were following:

- Company Act is not clear regarding the issue of rights offering and subsequent allotment of the rights share.
- Company Act has nowhere mentioned about necessity of legally transferable rights instrument called rights, which must be mailed to the stockholders for each stock held before the rights offering.

- SEBON has failed to establish a one-window policy causing various imbroglios for the companies that want to go primary issue market for raising the capital.
- Our capital market has made least of use the „capital market instrument‟ contingent securities like warrants and convertibles, options, and other various kinds of debentures are not in practice.
- Companies Act with regard to the contents of the issue prospectus is deemed to be insufficient on the ground that, it does not mention the companies are required to specify on the issue prospectus about the risk category on which their businesses fall.

2.4 Research Gap

Right share, is one of the major instrument for raising additional equity capital, which contribute second largest position on various issues approved by SEBON. However, there is still no specific research done yet on right share. The purpose of this research is to provide clear picture on right share.

Many, researchers done causes' impact on stock price movement, such as Financial Performance, Bonus share, Dividend Policy and Right Offering Announcement. Ojha's study was based on financial performance as well as dividend policy, on common stock pricing (stock price movement), Gharti's study was based on bonus share on the stock price movement. Similarly Niroula's study was based on dividend policy on stock price movement. However, it was found only two studies on Right Offering, which were conducted by Gautam's and Khadka's. Their studies were based on right offering announcement on stock price movement. They considered only 3 samples, which was very low sample size. Similarly, statistical tools which were applied by them were not sufficient. Besides impact on stock price movement, other's objectives are completely new and the previous researchers ignore it. Without it, the research on rights offering would not complete (justified).

The earlier studies on right offering have become old and need to be updated and validated, because of the rapid changes that have taken place in the Nepalese Capital

Market. Considering all these facts it was felt necessary to carry out a fresh study on the matter in Nepal. This study is tried to find the impact of rights issue on market price of share of sampled organizations.

Finally, this study would prove an important effort to inform the shareholders to protect their money and wealth.

CHAPTER- III

RESEARCH METHODOLOGY

The basic objective of this chapter is to provide details of the various methodologies followed during study. The methods that have been used for performing the study are described as follows:

3.1 Introduction

Zikmund (1997) stated that research methodology is defined as part of body of the report that explains the research design, sampling procedures, and other technical procedures used for collecting data. The research methodology is aimed to explain the process of conducting the research which includes research method used, targeted population, sampling procedure, data collection and the statistical tools used for analytical purpose.

This chapter deals mainly with the research methodology which is used in the period of research. Research means to research the problems again and again to find out something more about the problems.

Similarly methodology refers the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. Thus, research methodology is a way to systematically research the problem.

In this is regard, this chapter explains not only about the research methods but also considers the logic behinds the methods which are use in the context of our research study. So research designs, Sources of data, use of statistical tools are basically explained in this chapter.

With the stated objectives in mind, both the descriptive and analytical type of research is employed. A descriptive analysis is used because the secondary sources of empirical data have been employed to analyze the impact of right offering on the market price of shares of selected companies using variables, which is related to condition and prospects of right offering. According to the topic “Right Issuing Practices and its Impact on the Share Prices of Selected Banks & Financial Institutions of Nepal” Secondary sources of data are used to show the impact of right announcement/offering on the share prices of the selected company.

3.2 Research Design

“A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure”

It includes nature of data, specification of the method of the proposed study and detail plan for carrying out the study with various empirical data for the analysis of problems etc. Thus, the design is basically based on presentation, analysis and interpretation of result. First the data are presented in table (or diagram), second presented data are analyzed by using various financial and statistical tools and at last analyzed data are compared and interpreted for the conclusion.

According to the need and objective of the study, the study is designed as ex post facto research based on historical data. In order to carry out the research, the secondary data has been collected from the trading reports of NEPSE, annual report of the selected companies and the reports published by the NEPSE and Securities board (SEBON). However, the study is also supported by the primary data collected through interview and questionnaires.

The data has been presented in table and then analyzed using various financial and statistical tools.

3.3 Source of Data

The study is mainly based on the secondary and supported by the primary data as well. The secondary data will be obtained from the publications and annual reports of BFI’s, SEBON and NEPSE and various book lets, articles and journals from relevant sectors. Various appropriate statistical tools will be used for analysis of stock price. The primary data will be collected through personal interviews, interactions etc. Similarly individual's investors and legal experts are also considered as the source of data and information.

3.4 Population & Sample

In any statistical investigation, the interest usually lies in studying the various characteristics relating to items of individuals belonging to a particular group. This group of individual under study is known as population. Thus, in statistics, population is the aggregate of objects, animates or inanimate under any statistical investigation. A finite subset of population selected from it with the objectives of investigating its properties is called a sample number of units of sample is known as the sample size. In sampling theory, the population means the large group from which the samples are drawn. Sampling is a tool which enables us to draw a conclusion about the characteristics of the population after studying only those objects or items that are included in the sample. The study of small portion and making a conclusion about the whole group based on the observation is the simple meaning of sample.

The number of listed companies with Nepal Stock Exchange at the close of FY 2064/65 was 142 out of which 42 companies (8 Commercial Banks, 11 Development Banks, 20 Finance Companies and 3 Insurance Companies) have issued right shares during the said fiscal year.

Our sample is restricted to those companies who have issued right shares during the FY 2064/65 only and belonging to BFI sector comprising Commercial Banks, Development Banks and Finance Companies only. The reason for selecting companies belonging BFI sector only is mainly due to the following reasons.

- Ease of getting data of these companies
- Shares of these companies being actively traded on NEPSE
- Almost 80% of total listed companies belonging to this sector

Table 3.1

Population and Sample of Right Issuing Companies

S.No.	Sector	No. of Listed Companies	Population	Sample	Sample as % of Population
1	Commercial Banks	17	8	2	25%
2	Development Banks	22	11	1	9.09%
3	Finance Companies	57	20	3	15%
4	Insurance	17	3	-	
5	Hotel	3	-		
6	Manufacturing & Processing	18	-		
7	Trading	4	-		
8	Others	4	-		
	Total	**142**	**42**	**6**	**14.29%**

Souece: SEBON Annual Report 2064/65

3.5 Sources and Techniques of Data Collection

Data are considered as an integral part of research. The data required for this study is mainly the secondary data which are collected from the prospectus issued by the companies at the time of issuing right shares, annual reports of SEBON, annual trading report of NEPSE etc. Besides these, various other reports/publications of NEPSE/SEBON, magazines, journals have also been reviewed during the study period. Various websites especially the website of NEPSE has been the key instrument for getting the shares prices of sample companies for various dates. Annual trading report of NEPSE was the main source of getting the sector wise index of various dates for various indices required to conduct the study.

3.6 Method of Analysis

Specific financial and statistical tools have been used in this research. The analysis of data is done according to the nature of data available. The relationship between different variables related to the study would be drawn by using various financial and statistical tools.

3.6.1 Financial Tools

Financial tools help to calculate different things; some of them which are applied in this study are as follows:

i. **No. of new shares to be issued to raise additional fund:**

The number of new shares can be calculated by using the following formula:

Number of new shares to be issued = Additional Fund to be raised /Subscription Price

Where,

Subscription price is the price at which the company has decided to sell the additional shares to the existing shareholders

ii. **No. of rights required to buy one new share:**

This is calculated by using the following formula.

No. of rights required to buy one new share = No. of old shares/no. of new shares

iii. **Value of right:**

The value of right or the theoretical value of right is the function of the present market price of the share, the subscription price and the number of rights required to buy one new share. The value of right, when the stock is selling "right on" is calculated by using the following formula:

Value of right (Vr) = Po-Ps/#+1

Where, Po = current market price of the share

Ps = Subscription price per share

= no. of rights required to buy one new share

iv. Ex right price:

When the stock goes ex-right, the market price of the share declines as theoretically the right issue doesn't bring any impact on the shareholders total wealth position should he exercises his right fully. Therefore the ex right value will be the price of share adjusted with the theatrical value of the right. This can be calculated very imply by using the following mathematical relationship.

Ex right Price (Px) = Po- Vr

Where,

Po = current market price of the share rights – on

Vr = Value of a right

3.6.2 Statistical Tools:

3.6.2.1 T-test:

A ***t*-test** is any statistical hypothesis test in which the test statistic follows a Student's *t* distribution if the null hypothesis is true.

Where,

Statistical hypothesis test is a method of making statistical decisions using experimental data. In statistics, a result is called statistically significant if it is unlikely to have occurred by chance.

Test statistic is a numerical summary of a set of data that reduces the data to one or a small number of values that can be used to perform a hypothesis test.

In probability and statistics, **Student's *t*-distribution** (or simply the ***t*-distribution**) is a continuous probability distribution that arises in the problem of estimating the mean of a normally distributed population when the sample size is small. It is the basis of the popular Student's *t*-tests for the statistical significance of the difference between two sample means, and for confidence intervals for the difference between two population means.

A **null hypothesis** is a hypothesis (within the frequentist context of statistical hypothesis testing) that might be falsified using a test of observed data.[1] Such a test works by formulating a null hypothesis, collecting data, and calculating a measure of how probable those data were, assuming the null hypothesis were true. If the data appear very improbable (usually defined as a type of data that should be observed less than 5% of the time), then the experimenter concludes that the null hypothesis is false. If the data look reasonable under the null hypothesis, then no conclusion is made. In this case, the null hypothesis could be true, or it could still be false; the data give insufficent evidence to make any conclusion. The null hypothesis typically proposes a general or default position, such as that there is no relationship between two quantities,[2]or that there is no difference between a treatment and the control.

The formula for t is:

$$t = \frac{\overline{X}_1 - \overline{X}_2}{S}\sqrt{\frac{n_1 n_2}{n_1 + n_2}}$$

i.e. the test statistics t follows t-distribution with n_1+ n_2-1 degrees of freedom.

Where,

$\overline{X}_1$ = mean of first sample

$\overline{X}_2$ = mean of second sample

n_1 = first sample size

n_2 = second sample size

S_p^2 = an unbiased estimate of the common population variances σ^2 and its value is computed by the following method:

$$S_p^2 = \frac{(n_1 - 1)S_1^2 + (n_2 - 1)S_2^2}{n_1 + n_2 - 2}$$

Test: if the calculated t is greater than the tabulated value of t then H_0 is rejected.

3.6.2.2 F-test:

An F-test is any statistical test in which the test statistic has an F-distribution under the null hypothesis.

The formula for t is:

$$F = \frac{S_1^2}{S_2^2} \text{ if } (S_1^2 > S_2^2)$$

And

$$F = \frac{S_2^2}{S_1^2} \text{ if } (S_2^2 > S_1^2)$$

i.e. the test statistics F follows F-distribution with (n_{1}-1, n_2-1) degrees of freedom.

Where,

S_1^2 & S_2^2 = an unbiased estimate of the common population variances σ^2 and its value is computed by the following method:

$$S_1^2 = \frac{1}{n_1 - 1}\sum (X_1 - \overline{X}_1)^2$$

$$S_2^2 = \frac{1}{n_2 - 1}\sum (X_2 - \overline{X}_2)^2$$

and,

$\overline{X}_1$ = mean of first sample

$\overline{X}_2$ = mean of second sample

n_1 = first sample size

n_2 = second sample size

Test: if the calculated F is greater than the tabulated value of F then H_0 is rejected.

3.7 Right offering and valuation of its equity

This section deals with the question as to whether the aggregate market valuation of a company's equity increases as a result of a right issue. It traces the immediate market reaction to a right issue. It is to be noted that the problem with which the researcher is concerned is not how the cum -right prices change into ex -right prices. The real problem is how a decision to issue right shares affects the market valuation of aggregate equity of a company.

Information about the director's intension to issue right shares may leak out in many cases even some weeks before the director's meeting such as when the agenda are prepared and circulated. If this happens, the price and the transaction volume of share of that company rises. This may also be because of the insiders taking advantage of the information and trying to make money by purchasing shares before the formal announcement of the right issue so that the prices begin to rise even before the formal announcement of the board's decision to recommend right issue. Thus, for the present study, the base date for measuring relative change in share price as a result of right issue is the date one month prior to the announcement date i.e. date of the Annual General Meeting (AGM).

3.8 Removing the effect of the general market movement

Measuring the share price effect of the right issue involves a comparison of share price at different points of time. In day to day practice, general price movement also affects share price of a particular company. If share prices of a particular company (which has announced right) has found risen by 10%, it can not be attributed to the right offering only if the share prices in general has also risen by 10% or more. On the other hand, if the share prices of the same company remain unchanged at the face of a bearish market trend, the same can be attributed to the right offering. Therefore, the true study of the impact of right issue necessarily requires the elimination of the general market movement.

For the purpose of analysis, eight different points of times were selected for observing the price movement. The selected points are:

1. **Three months prior to announcement date i.e. AGM date:** It is taken as a base simply because at this point of time, the existing shareholders are supposed not to have any information about the BOD’s intension to issue right shares. Hence, there will not be any kind of signaling effect on share prices.

2. **One month prior to announcement date i.e. AGM date:** At this point of time too, the existing shareholders are supposed not to have any information about the BOD’s intension to issue right shares.

3. **Seven working days prior to announcement date i.e. AGM date:** At this point of time, there can be some rumors about the BOD’s intension to issue right shares and therefore some shareholders may have the information.

4. **Announcement date i.e. the date of AGM:** On this point of time, the right issue if any will be formally announced by the AGM. Therefore, this point is very important as it will have impact on the share prices of the respective company.

5. **Seven working days prior to book closure’s date:** This is the day when the notice about the book closure for the purpose of right issue is published in the newspaper. This point too is very significant as investors would rush to buy additional shares to get their names in the shareholders’ record to be eligible for buying additional shares through right issue.

6. **Latest trading day prior to book closure:** This is normally one day prior to book closure day as the trading of the company doesn't take place on the book closure day. And this point of time will be the right time to see the impact of right issue on the share price movement.

7. **First trading day after the book closure:** this is the time when the first trading of the shares takes place after the book closure. The share is traded at a price which could be some what around the Ex-right price of the company. The point is selected to see how the price of the company has been adjusted in relation its value of right and whether the price traded is rightly adjusted or not.

8. **One month after the book closure:** This point of time is taken to see how the market reacts to the prices of the company when it is ex-right.

CHAPTER -IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the systematic presentation and analysis of data. Various financial and statistical tools have been used for analysis of data. Secondary data, which has been the main basis of this study have been collected from various publications and annual reports of BFI's, prospectus for right issue, SEBON and NEPSE and various booklets, articles and journals from relevant sectors and the same have been analyzed to find out if there is any significant impact of right offering on the share prices of selected companies.

For the purpose of analysis 2 commercial banks, 1 development bank and 3 finance companies have been considered. The synopsis of right share issued by those is as follows:

Table 4.1
Data of Right Issuing Companies

Name of BFIs	Date of AGM	Book closure date	Right Issue Ratio	Right Issue Amount	Issue Open Date	Issue Close Date
NIC Bank	28/08/2064	16/11/2064	5:1	Rs.158.4 M	01/12/2064	05/01/2065
Laxmi Bank	30/09/2064	06/01/2065	5:1	Rs.183M	20/01/2065	23/02/2065
Sanima Bikash Bank	27/09/2064	12/01/2065	5:1	Rs.64M	25/01/2065	28/02/2065
Kist Merchant Bank	28/08/2064	19/01/2065	1:3	Rs.600M	03/02/2065	05/03/2065
ICFC Bittiya Sansthan	22/11/2064	16/02/2065	1:3	Rs.224.81	28/02/2065	30/03/2065
International Leasing & Finance	29/09/2064	16/02/2065	1:3.5	Rs.504M	27/02/2065	23/09/2065

The price at different points of time of those BFIs been recorded as follows:

Table 4.2
Price at different points of time of Right Issuing Companies

Point of Time/BFIs	NIC Bank	Laxmi Bank	Sanima Bikash Bank	Kist Merchant Bank	ICFC Bittiya Sansthan Ltd.	International Leasing & Finance Co Ltd.
Three months prior to AGM date	Rs.982	Rs.1,007	Rs.692	Rs.858	Rs.389	Rs.508
One month prior to AGM	Rs.1,259	Rs.1,353	Rs.1,972	Rs.1,530	Rs.921	Rs.610
Seven days prior to AGM	Rs1,461	Rs.1,120	Rs.2,240	Rs.1,551	Rs.1,055	Rs.2,000
On the day of AGM	Rs.1,759	Rs.1,185	Rs.1,175	Rs.1925	Rs.1,081	Rs.1,903
Seven working days prior to book close	Rs.1,100	Rs.940	Rs.860	Rs.1,600	Rs.1,305	Rs.1,769
Latest trading day prior to book close	Rs.1,055	Rs.920	Rs.881	Rs.1,575	Rs.1,510	Rs.1,650
First trading day after the book close	Rs.1,050	Rs.800	Rs.847	Rs.485	Rs.513	Rs.588
One month after the book close	Rs.950	Rs.1,026	Rs.950	Rs.751	Rs.711	Rs620

4.1 Analysis of Impact on share Prices due to Issue of right shares

To observe the price movements, eight different points of time have been selected. The selected points of time are (i) Three months prior to announcement date i.e. AGM date, (ii) One month prior to announcement date i.e. AGM date, (iii) Seven working days prior to announcement date i.e. AGM date, (iv) Announcement date i.e. the date of AGM, (v) Seven working days prior to book closure's date, (vi) Latest trading day prior to book closure, (vii) First trading day after the book closure and (viii) One month after the book closure.

As already mentioned in chapter three, 6 different companies (2 commercial banks, 1 development bank and 3 finance companies) have been considered for the analysis.

The effect of general market movement on the share prices of any particular company has been removed by calculating the price relative of that company. Price relative is calculated by simply dividing the share price of the company at a particular point of time by the respective index of the sector where the company belongs to as of the same point of time. After this, we'd get the eight price relatives for a company under study. The eight prices are further divided into two groups representing fro price relatives for **(A) before right announcement and (B) after right announcement**. The price relatives calculated for the point of time from (i) to (iv) have been grouped under **(A) before right announcement** and the price relatives calculated for the point of time from (v) to (viii) have been grouped under **(B) after right announcement.**

Then the statistical tools have been used to analyze whether there is any significant impact in the share prices movement before and after the right announcement.

For key information about the right issue and the calculation of price relatives of all six companies under study, please refer **annexure 1**.

4.2 Hypothesis Testing on Secondary Data by using t-test

4.2.1 Analysis of share price movement of NIC Bank Limited

Hypothesis to be tested in this regard are:

Null Hypothesis (H_0):	There is no significance impact in the price movement of NIC Bank Limited before and after the right issue announcement.
Alternative Hypothesis (H_1):	There is significance impact in the price movement of NIC Bank Limited before and after the right issue announcement.

Calculated value of t = $\dfrac{\overline{X}_1 - \overline{X}_2}{S}\sqrt{\dfrac{n_1 n_2}{n_1 + n_2}}$ = (0.52)

$\therefore |t| = 0.52$

Degree of freedom = $n_1 + n_2 - 2 = 4 + 4 - 2 = 6$

Level of significance (α) = 5% = 0.05

Then, the tabulated value of t at 5% level of significance and 6 d.f. is 2.447

Since the calculated value of t (0.52) is less than the table value of t (2.447), the null hypothesis H_0 is accepted and hence alternative hypothesis H_1 is rejected. Therefore, it is concluded that there is no significance impact in the price movement of NIC Bank Limited before and after the right issue announcement. *(Refer appendix no. 2)*

4.2.2 Analysis of share price movement of Laxmi Bank Limited

Hypothesis to be tested in this regard are:

Null Hypothesis (H_0): There is no significance impact in the price movement of Laxmi Bank Limited before and after the right issue announcement.

Alternative Hypothesis (H_1): There is significance impact in the price movement of Laxmi Bank Limited before and after the right issue announcement.

Calculated value of t = $\frac{\overline{X}_1 - \overline{X}_2}{S}\sqrt{\frac{n_1 n_2}{n_1 + n_2}}$ = (0.74)

$\therefore$ | t | = 0.74

Degree of freedom = $n_1 + n_2 - 2 = 4 + 4 - 2 = 6$

Level of significance (α) = 5% = 0.05

Then, the tabulated value of t at 5% level of significance and 6 d.f. is 2.447

Since the calculated value of t (0.74) is less than the table value of t (2.447), the null hypothesis H_0 is accepted and hence alternative hypothesis H_1 is rejected. Therefore, it is concluded that there is no significance impact in the price movement of Laxmi Bank Limited before and after the right issue announcement. *(Refer appendix no. 3)*

4.2.3 Analysis of share price movement of Sanima Bikas Bank Limited

Hypothesis to be tested in this regard are:

Null Hypothesis (H_0): There is no significance impact in the price movement of Sanima Bikas Bank Limited before and after the right issue announcement.

Alternative Hypothesis (H_1): There is significance impact in the price movement of Sanima Bank Limited before and after the right issue announcement.

Calculated value of t = $\dfrac{\overline{X}_1 - \overline{X}_2}{S}\sqrt{\dfrac{n_1 n_2}{n_1 + n_2}}$ = 0.41

$\therefore |\, t \,| = 0.41$

Degree of freedom = $n_1 + n_2 - 2 = 4 + 4 - 2 = 6$

Level of significance (α) = 5% = 0.05

Then, the tabulated value of t at 5% level of significance and 6 d.f. is 2.447

Since the calculated value of t (0.41) is less than the table value of t (2.447), the null hypothesis H_0 is accepted and hence alternative hypothesis H_1 is rejected. Therefore, it is concluded that there is no significance impact in the price movement of Sanima Bikas Bank Limited before and after the right issue announcement. *(Refer appendix no. 4)*

4.2.4 Analysis of share price movement of Kist Merchant Bank & Finance Co. Limited

Hypothesis to be tested in this regard are:

Null Hypothesis (H_0): There is no significance impact in the price movement of Kist Merchant Bank & Finance Co. Limited before and after the right issue announcement.

Alternative Hypothesis (H_1): There is significance impact in the price movement of Kist Merchant Bank & Finance Co. Limited before and after the right issue announcement.

Calculated value of t = $\frac{\overline{X}_1 - \overline{X}_2}{S}\sqrt{\frac{n_1 n_2}{n_1 + n_2}}$ = 2.27

$\therefore |t| = 2.27$

Degree of freedom = $n_1 + n_2 - 2 = 4 + 4 - 2 = 6$

Level of significance (α) = 5% = 0.05

Then, the tabulated value of t at 5% level of significance and 6 d.f. is 2.447

Since the calculated value of t (2.27) is less than the table value of t (2.447), the null hypothesis H_0 is accepted and hence alternative hypothesis H_1 is rejected. Therefore, it is concluded that there is no significance impact in the price movement of Kist Merchant Bank & Finance Co. Limited before and after the right issue announcement. *(Refer appendix no. 5)*

4.2.5 Analysis of share price movement of ICFC Bittiya Sansthan Limited

Hypothesis to be tested in this regard are:

Null Hypothesis (H_0): There is no significance impact in the price movement of ICFC Bittiya Sansthan Limited before and after the right issue announcement.

Alternative Hypothesis (H_1): There is significance impact in the price movement of ICFC Bittiya Sansthan Limited before and after the right issue announcement.

Calculated value of t = $\frac{\overline{X}_1 - \overline{X}_2}{S}\sqrt{\frac{n_1 n_2}{n_1 + n_2}}$ = (0.07)

$\therefore |\, t \,| = 0.07$

Degree of freedom = $n_1 + n_2 - 2 = 4 + 4 - 2 = 6$

Level of significance (α) = 5% = 0.05

Then, the tabulated value of t at 5% level of significance and 6 d.f. is 2.447

Since the calculated value of t (0.07) is less than the table value of t (2.447), the null hypothesis H_0 is accepted and hence alternative hypothesis H_1 is rejected. Therefore, it is concluded that there is no significance impact in the price movement of ICFC Bittiya Sansthan Limited before and after the right issue announcement. *(Refer appendix no. 6)*

4.2.6 Analysis of share price movement of International Leasing & Finance Co. Limited

Hypothesis to be tested in this regard are:

Null Hypothesis (H_0): There is no significance impact in the price movement of International Leasing & Finance Co. Limited before and after the right issue announcement.

Alternative Hypothesis (H_1): There is significance impact in the price movement of International Leasing & Finance Co. Limited before and after the right issue announcement.

Calculated value of t = $\dfrac{\overline{X}_1 - \overline{X}_2}{S}\sqrt{\dfrac{n_1 n_2}{n_1 + n_2}}$ = 0.62

$\therefore$ | t | = 0.62

Degree of freedom = $n_1 + n_2 - 2$ = 4 + 4 -2 = 6

Level of significance (α) = 5% = 0.05

Then, the tabulated value of t at 5% level of significance and 6 d.f. is 2.447

Since the calculated value of t (0.07) is less than the table value of t (2.447), the null hypothesis H_0 is accepted and hence alternative hypothesis H_1 is rejected. Therefore, it is concluded that there is no significance impact in the price movement of International Leasing & Finance Co. Limited before and after the right issue announcement. *(Refer appendix no. 7)*

4.3 Hypothesis Testing on Secondary Data by using F-test

4.3.1 Analysis of share price movement of NIC Bank Limited

Hypothesis to be tested in this regard are:

Null Hypothesis (H_0): There is no significance impact in the price movement of NIC Bank Limited before and after the right issue announcement.

Alternative Hypothesis (H_1): There is significance impact in the price movement of NIC Bank Limited before and after the right issue announcement.

Calculated value of F = $\dfrac{S_1^{\ 2}}{S_2^{\ 2}}$ = 7.50

$\therefore$ F = 7.50

Degree of freedom = (n_1 -1, n_2 –1) = (4-1, 4 -1) = (3,3)

Level of significance (α) = 5% = 0.05

Then, the tabulated value of F at 5% level of significance for 3 and 3 d.f. is 9.28

Since the calculated value of F (7.5) is less than the table value of F (9.28), the null hypothesis H_0 is accepted and hence alternative hypothesis H_1 is rejected. Therefore, it is concluded that there is no significance impact in the price movement of NIC Bank Limited before and after the right issue announcement. *(Refer appendix no. 8)*

4.3.2 Analysis of share price movement of Laxmi Bank Limited

Hypothesis to be tested in this regard are:

Null Hypothesis (H_0): There is no significance impact in the price movement of Laxmi Bank Limited before and after the right issue announcement.

Alternative Hypothesis (H_1): There is significance impact in the price movement of Laxmi Bank Limited before and after the right issue announcement.

Calculated value of F = $\frac{S_2^{\ 2}}{S_1^{\ 2}}$ = 1.32

$\therefore$ F = 1.32

Degree of freedom = (n_1 -1, n_2 –1) = (4-1, 4 -1) = (3,3)

Level of significance (α) = 5% = 0.05

Then, the tabulated value of F at 5% level of significance for 3 and 3 d.f. is 9.28

Since the calculated value of F (1.32) is less than the table value of F (9.28), the null hypothesis H_0 is accepted and hence alternative hypothesis H_1 is rejected. Therefore, it is concluded that there is no significance impact in the price movement of Laxmi Bank Limited before and after the right issue announcement. *(Refer appendix no. 9)*

4.3.3 Analysis of share price movement of Sanima Bikas Bank Limited

Hypothesis to be tested in this regard are:

Null Hypothesis (H_0): There is no significance impact in the price movement of Sanima Bikas Bank Limited before and after the right issue announcement.

Alternative Hypothesis (H_1): There is significance impact in the price movement of Sanima Bank Limited before and after the right issue announcement.

Calculated value of F = $\frac{S_1^{\ 2}}{S_2^{\ 2}}$ = 153.82

$\therefore$ F = 153.82

Degree of freedom = (n_1 -1, n_2 –1) = (4-1, 4 -1) = (3,3)

Level of significance (α) = 5% = 0.05

Then, the tabulated value of F at 5% level of significance for 3 and 3 d.f. is 9.28

Since the calculated value of F (153.82) is more than the table value of F (9.28), the null hypothesis H_0 is rejected and hence alternative hypothesis H_1 is accepted. Therefore, it is concluded that there is significance impact in the price movement of Sanima Bikas Bank Limited before and after the right issue announcement. *(Refer appendix no. 10)*

4.3.4 Analysis of share price movement of Kist Merchant Bank & Finance Co. Limited

Hypothesis to be tested in this regard are:

Null Hypothesis (H_0): There is no significance impact in the price movement of Kist Merchant Bank & Finance Co. Limited before and after the right issue announcement.

Alternative Hypothesis (H_1): There is significance impact in the price movement of Kist Merchant Bank & Finance Co. Limited before and after the right issue announcement.

Calculated value of F = $\frac{S_1^{\ 2}}{S_2^{\ 2}}$ = 10.09

$\therefore$ F = 10.09

Degree of freedom = (n_1 -1, n_2 –1) = (4-1, 4 -1) = (3,3)

Level of significance (α) = 5% = 0.05

Then, the tabulated value of F at 5% level of significance for 3 and 3 d.f. is 9.28

Since the calculated value of F (10.09) is more than the table value of F (9.28), the null hypothesis H_0 is rejected and hence alternative hypothesis H_1 is accepted. Therefore, it is concluded that there is significance impact in the price movement of Kist Merchant Bank & Finance Co. Limited before and after the right issue announcement. *(Refer appendix no. 11)*

4.3.5 Analysis of share price movement of ICFC Bittiya Sansthan Limited

Hypothesis to be tested in this regard are:

Null Hypothesis (H_0): There is no significance impact in the price movement of ICFC Bittiya Sansthan Limited before and after the right issue announcement.

Alternative Hypothesis (H_1): There is significance impact in the price movement of ICFC Bittiya Sansthan Limited before and after the right issue announcement.

Calculated value of F = $\frac{S_2^{\ 2}}{S_1^{\ 2}}$ = 1.84

$\therefore$ F = 1.84

Degree of freedom = (n_1 -1, n_2 –1) = (4-1, 4 -1) = (3,3)

Level of significance (α) = 5% = 0.05

Then, the tabulated value of F at 5% level of significance for 3 and 3 d.f. is 9.28

Since the calculated value of F (1.84) is less than the table value of F (9.28), the null hypothesis H_0 is accepted and hence alternative hypothesis H_1 is rejected. Therefore, it is concluded that there is no significance impact in the price movement of ICFC Bittiya Sansthan Limited before and after the right issue announcement. *(Refer appendix no. 12)*

4.3.6 Analysis of share price movement of International Leasing & Finance Co. Limited

Hypothesis to be tested in this regard are:

Null Hypothesis (H_0): There is no significance impact in the price movement of International Leasing & Finance Co. Limited before and after the right issue announcement.

Alternative Hypothesis (H_1): There is significance impact in the price movement of International Leasing & Finance Co. Limited before and after the right issue announcement.

Calculated value of F = $\frac{S_1^{\ 2}}{S_2^{\ 2}}$ = 1.52

$\therefore$ F = 1.52

Degree of freedom = (n_1 -1, n_2 –1) = (4-1, 4 -1) = (3,3)

Level of significance (α) = 5% = 0.05

Then, the tabulated value of F at 5% level of significance for 3 and 3 d.f. is 9.28

Since the calculated value of F (1.52) is less than the table value of F (9.28), the null hypothesis H_0 is accepted and hence alternative hypothesis H_1 is rejected. Therefore, it is concluded that there is no significance impact in the price movement of International Leasing & Finance Co. Limited before and after the right issue announcement. *(Refer appendix no. 13)*

4.4 <u>Calculation of Value of Right and Ex Right prices</u>

4.4.1 NIC Bank Limited

Po = current market price of the share = Price of share 1 day prior to book closure = Rs. 1,055

Ps = Subscription price per share = Rs. 100

= no. of rights required to buy one new share = 5

Value of right (Vr) = $\frac{P_0 \quad - P_s}{\#+1}$ = $\frac{1,055 - 100}{5+1}$ = 159

Ex right Price (Px) = Po- Vr = 1,055 – 159 = 896

Actual Ex Right price = Price on 1st trading day after book closure = 1,050

Here, it is clear from the above figures that the ex right price has not adjusted even after the right issue and the market price has decreased negligibly by Rs 5 only instead of Rs. 159 (value of right).

4.4.2 Laxmi Bank Limited

Po = current market price of the share = Price of share 1 day prior to book closure = Rs. 920

Ps = Subscription price per share = Rs. 100

= no. of rights required to buy one new share = 5

Value of right (Vr) = $\frac{P_0 \quad - P_s}{\#+1}$ = $\frac{920 - 100}{5+1}$ = 137

Ex right Price (Px) = Po- Vr = 920 – 137 = 783

Actual Ex Right price = Price on 1st trading day after book closure = 800

Here, it is clear from the above figures that the ex right price has not adjusted even after the right issue and the market price has decreased by Rs 120 only instead of Rs. 137 (value of right).

4.4.3 Sanima Bikas Bank Limited

Po = current market price of the share = Price of share 1 day prior to book closure = Rs. 881

Ps = Subscription price per share = Rs. 100

= no. of rights required to buy one new share = 5

Value of right (Vr) = $\frac{P_0 \quad - P_s}{\#+1}$ = $\frac{881-100}{5+1}$ = 130

Ex right Price (Px) = Po- Vr = 881 – 130 = 751

Actual Ex Right price = Price on 1st trading day after book closure = 847

Here, it is clear from the above figures that the ex right price has not adjusted even after the right issue and the market price has decreased by Rs 34 only instead of Rs. 130 (value of right).

4.4.4 Kist Merchant Bank & Finance Company Limited

Po = current market price of the share = Price of share 1 day prior to book closure = Rs. 1,575

Ps = Subscription price per share = Rs. 100

= no. of rights required to buy one new share = 0.33

Value of right (Vr) = $\frac{P_0 \quad - P_s}{\#+1}$ = $\frac{1575-100}{0.33+1}$ = 1,106

Ex right Price (Px) = Po- Vr = 1,575 – 1,106 = 469

Actual Ex Right price = Price on 1st trading day after book closure = 485

Here, it is clear from the above figures that the ex right price has not adjusted even after the right issue and the market price has decreased by Rs 1,090 only instead of Rs. 1,106 (value of right).

4.4.5 ICFC Bittiya Sansthan Limited

Po = current market price of the share = Price of share 1 day prior to book closure = Rs. 1,510

Ps = Subscription price per share = Rs. 100

= no. of rights required to buy one new share = 0.33

Value of right (Vr) = $\frac{P_0 \quad - P_s}{\#+1}$ = $\frac{1510-100}{0.33+1}$ = 1,058

Ex right Price (Px) = Po- Vr = 1,510 – 1,058 = 453

Actual Ex Right price = Price on 1^{st} trading day after book closure = 533

Here, it is clear from the above figures that the ex right price has not adjusted even after the right issue and the market price has decreased by Rs 977 only instead of Rs. 1,058 (value of right).

4.4.6 International Leasing & Finance Company Limited

Po = current market price of the share = Price of share 1 day prior to book closure = Rs. 1,650

Ps = Subscription price per share = Rs. 100

= no. of rights required to buy one new share = 0.29

Value of right (Vr) = $\frac{P_0 \quad - P_s}{\#+1}$ = $\frac{1650-100}{0.29+1}$ = 1,206

Ex right Price (Px) = Po- Vr = 1,650 – 1,206 = 444

Actual Ex Right price = Price on 1^{st} trading day after book closure = 588

Here, it is clear from the above figures that the ex right price has not adjusted even after the right issue and the market price has decreased by Rs 1,062 only instead of Rs. 1,206 (value of right).

Chapter -V

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

This chapter presents the overall summary of the study and conclusions drawn from the analysis of the study. This also includes the recommendations to improve right issuing practice and others valuable suggestions for the development of the capital market of Nepal.

5.1 SUMMARY

This study aimed at studying the practice of the right issue in the Nepalese context, current provisions and the impact of right issue on share piece movements. This study dealt with the question to whether the aggregate market valuation of companies' equity increased as result of right issues. The examination threw lights on the several aspects associated with it, such as subscription price, subscription ratios, the legal provisions regarding the rights offering and the issues/problems related to right offering. The researcher's concern here was not a mere watch on how the cum right share price changed into ex-rights price but how a decision to issue right shares affected the market valuation of the aggregate equity of the concerned companies.

The study was based mainly on the secondary data and was supported by the primary data as well. The secondary data was obtained from the publications and annual reports of BFI's, SEBON and NEPSE and various booklets, articles and journals from relevant sectors. The primary data was collected through personal interviews, interactions with the experts, professors, market participants etc.

The sample was restricted to the companies who had issued right shares during the FY 2064/65 only and belonging to BFI sector comprising Commercial Banks, Development Banks and Finance Companies only. 6 different companies (2 commercial banks, 1 development bank and 3 finance companies) had been considered for the analysis.

Specific financial and statistical tools have been used in this research. The analysis of data was done according to the nature of data available. The relationship between different variables related to the study had been drawn by using various financial and statistical tools.

The secondary data was then analyzed by using different statistical tools viz. t-test and F-test. In addition, financial tools have been used to analyze the secondary data.

The major findings of the study are briefly summarized as follows:

- Nepalese capital market is still in its early stage of development. It has made least use of capital market instruments. Only common shares, preference shares, debentures and few mutual funds are brought into practice. Derivatives instruments like options, warrants, convertibles etc. still to be introduced. Similarly, full automation of stock exchange, Central Depository system (CDS) and online trading etc are still matters of discussion only.
- Nepalese equity market is dominated by the financial sector companies only comprising of commercial banks, developments banks and finance companies. The presence of real sector companies like manufacturing and processing companies and the service sector companies like hotels, tourism, etc. is very low and negligible.
- Just looking at the share prices of the sample companies before and after the right issue, it appears that there is huge impact of the right issue on the share prices as the movement in the share prices pre and post announcement of right issue is quite significant. But if the same is looked into after taking into account the general market movement too i.e. movement in the respective index, the picture becomes different and there appears no significant impact of the right issue on the share price movement.
- The test of hypotheses on the price data before and after the right issue also revealed that that there is no significant impact of right issue in the share price movement of the sample companies. While testing the hypothesis using t test, the

result was positive (i.e. no significant impact of right issue on the share price movement) in all the six companies under study whereas while testing the hypothesis using F test, the result was positive in the four companies only except Kist Merchant Bank Limited and Sanima Bikash Bank Limited.

- The general market movement of that period has caused the change in the share price movement of the companies rather than the right announcement only. The overall market trend at that time was bullish and accordingly the share prices of the companies too increased. The investors just assigned the reason of right issue for the increase in share prices discounting the overall market trend.
- The ex right prices of all the six companied under the study were higher than the theoretical ex right prices which also reflects the role of general price movement on the share prices. Further, it also indicates the imperfection and the immaturity prevalent in the Nepalese capital market.
- Right is still not a legally transferrable instrument in the Nepalese context and investors have been put at a condition of ***"no choice"*** as either they subscribe or let it go and reduce their own wealth position. Further, the practice of issuing right shares in the ratio 3:1, 5:1 and majority of the companies issuing at the same time has put the investors at a very unfavorable position of financial crunch. The promoters appear to be more affected by this than the general public because of their large holdings.
- Majority of the investors have lack of knowledge about the company's performance and the stock market activities. Most of them are found to have the "I too shareholder" attitude.
- Companies issue right shares at a fixed subscription price of Rs. 100 (fixed by company Act) which is against the notion that the subscription price should be a bit lower than the current market price. Nepalese capital market being an immature one where the market prices of shares of companies are as high as thousands of rupees, issuing right shares at a fixed price of Rs. 100 appear too good and leads to unnecessary manipulation in the stock market.
- Professionalism in the activities of the market participants is yet to be developed. Promotional role played by the issuing company and the issue manager is not

sufficient. The same is evidenced by the under subscription of right issue in almost all the issues.

- The services of issue managers to the investors too are found to be very unsatisfactory. The time taken for right issue too is very long and not justifiable in the present context of information & technology. Investors have to go to the issue manager several times for the matters related to right issue like application, certificate receipt, refund if any, signature verification.
- The issuing companies too do not bother to get the right shares listed on NEPSE on time. Even this takes several months and the investors have to keep waiting to sell/hypothecate their own properties.
- Listed companies are unable to provide timely disclosure of "Price Sensitive" information and conduct AGM timely. Further, the decisions made in the AGM take longer than the usual time to get implemented. There are instances where the companies have failed to issue right shares even after the lapse of a year after the decision for the same was made in the AGM.
- Lack of coordination among the various regulatory bodies viz. SEBO, NEPSE, NRB and the Ministry of Finance (MOF) have affected the smooth functioning and development of capital market. The sane too has negatively affected the general investors' interest.

5.2 Conclusion

This study was conducted to examine the existing provisions regarding the right issuing practices and the impact of the right issue on the share price movement. Further purpose of the study was to recommend for improvement in the existing right issuing practice and for the overall development of capital market.

Nepalese capital market is still in its early stage of development. It has made least use of capital market instruments. Only common shares, preference shares, debentures and few mutual funds are brought into practice. The equity market is dominated by the financial sector companies only comprising of commercial banks, developments banks and finance companies and the presence of real sector companies is very low. The stock exchange is waiting for the full automation and the concepts of Central Depository system (CDS) and online trading etc are still to be introduced.

After going through the whole study, the following conclusions can be drawn regarding the right share issue in Nepal:

- The right issuing practice, though practiced since early is not very systematic, efficient and investor friendly.
- Rights are still not transferrable and the subscription price is fixed at Rs. 100 irrespective of the right issue ratio and the current market price.
- The market is very immature and imperfect and the investors too are irrational.
- The ex right prices is normally higher than the theoretical ex right prices and investors do assign the reason for the same to right issue.
- The change in the share prices in the pre and post right issue announcement is more due to the general market movement than the right issue.
- The existing provisions regarding right issues are inadequate and are required to be amended at the earliest to make it simple yet effective and efficient way for raising additional capital.
- Right offering have some impact on the price of share either positive or negative. Market price of share is greatly influenced by general market movement in Nepal.
- Nepalese capital market is still in its infancy stage and rights issue hasn't practiced properly by all sectors and companies.
- Rights share issuing companies are almost financial institution (i.e. bank and finance company). Their main motives of right share issuing is increased the paid up capital as directed by NRB

5.3 Recommendation

The recommendations are made on the basis of the analysis of the secondary data, findings of the study relating to the right issuing practices in the Nepalese corporate sector. It is very important that the changes are made to right issue easier, more effective and efficient. Following are some of the recommendations made for improving the current right issuing practices and the development of capital market in Nepal.

- Right should be made legally transferrable and the existing provisions relating the right issue should be amended to make it more efficient and effective. The process related with making the rights transferrable should be simple, automated and hasselfree.
- Both the issuing company and the issue manager should be made more responsible towards the investors. Quality services by issue managers in terms of timely issue, allotment, certificate distribution and listing must be ensured.
- SEBON should ensure that the rights are issued well in time by the companies as per their decision in the AGM. Financial penalties should be imposed on the non compliant companies.
- The existing companies Act to be amended and rights to be allowed to be issued at a subscription price other than Rs. 100. Similarly the practice of issuing rights in the ratio of more than 1:1 should be discouraged. While keeping subscription price other than Rs. 100 would enable the companies to keep the right issue ratio less than one and the no. of new shares to be issued relatively lower , the same will also make the EPS higher.
- In order to minimize the problem of weak enforcement and compliance of the capital market regulation, the existing Acts and Regulations should be either amended or necessary bye-laws and directives should be issued by specifying appropriate powers and methods for investigation and punishment for non-compliance. Similarly, appropriate supreme regulatory authority should be established with commitment to provide proper enforcement and compliance.
- In order to protect investor's interest, the rules and regulation should be strongly enforced and timely amended. Further, professional, experienced and academically sound persons must be appointed in the regulatory bodies like SEBO, NEPSE, NRB on the basis of free competition etc. rather than political appointment.

- Monitoring and Supervising function of the different regulating authorities to the listed companies and market intermediaries should be regularly made to avoid business malpractices and develop healthy environment.
- The figure projected on the prospectus must be carefully verified by the SEBO to protect the general investor's interest.
- To minimize the problem of timely AGM and disclosure of information, the directors of the company should be made personally liable for being unable to provide timely AGM and disclosure of information under the appropriate legislation. The directors should be imposed financially liable as penalty for non-compliance.
- Adequate provisions in the laws should be made to identify the stock trading based on inside information and such activities should be prohibited.
- Regulatory body must solve the grievances made by the listed companies, market intermediaries and investors on time. Efficient grievance handling team must be developed.
- To solve the problem of lack of professionalism in the activities of market intermediaries it is recommended to develop code of conduct and self regulating organization (SRO) under the legislation and provide training, supervision and control over them. All the securities business persons should be properly supervised and controlled by the regulator organization for which necessary provisions should be provided in the existing Securities Act and issuing subordinate legislation.
- To develop the capital market investor's confidence is essential, thus it is recommended to provide an efficient regulatory environment which enables access of timely information, liquid and fair market, strong supervision and monitoring, professional market intermediaries etc. To enhance such regulatory environment, various legislations should be amended and delegated with sufficient powers to protect the investor's interest and maintain business code of conduct.

Automation, online trading, CDS and demutualization of the NEPSE must be done with top priority.

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Annexure 1

Key information about the issue and Calculation of price Relatives

1. NIC Bank Limited

Key Information about right issue:

Date of AGM:	28/08/2064
Book closure Date:	16/11/2064
Right issue ratio:	5:1
Right issue Amount:	Rs. 158.4 Million
Issue Open date:	01/12/2064
Issue Close Date:	05/01/2065

Calculation of price Relatives

Point of Time	Date	Share Price	Commercial Bank Index	Price Relative
I	13/09/2007	982	910.40	107.86
II	14/11/2007	1259	976.60	128.92
III	06/12/2007	1461	1,056.20	138.33
IV	14/12/2007	1759	1,080.50	162.80
V	20/02/2008	1100	737.00	149.25
VI	27/02/2008	1055	730.60	144.40
VII	04/03/2008	1050	751.70	139.68
VIII	30/04/2008	950	732.10	129.76

2. Laxmi Bank Limited

Key Information about right issue:

Date of AGM: 30/09/2064

Book closure Date: 06/01/2065

Right issue ratio: 5:1

Right issue Amount: Rs. 183 Million

Issue Open date: 20/01/2065

Issue Close Date: 23/02/2065

Calculation of price Relatives

Point of Time	Date	Share Price	Commercial Bank Index	Price Relative
I	17/10/2007	1007	939.6	107.17
II	13/12/2007	1353	1056.3	128.09
III	06/01/2008	1120	961.3	116.51
IV	14/01/2008	1185	951.3	124.57
V	09/04/2008	940	704.7	133.39
VI	17/04/2008	920	728.4	126.30
VII	21/04/2008	800	734.4	108.93
VIII	18/05/2008	1026	796.6	128.80

3. Sanima Bikas Bank Limited

Key Information about right issue:

Date of AGM:	27/09/2064
Book closure Date:	12/01/2065
Right issue ratio:	5:1
Right issue Amount:	Rs. 64 Million
Issue Open date:	25/01/2065
Issue Close Date:	28/02/2065

Calculation of price Relatives

Point of Time	Date	Share Price	Commercial Bank Index	Price Relative
I	14/10/2007	692	921.3	75.11
II	13/12/2007	1972	1912.3	103.12
III	03/01/2008	2240	1720.8	130.17
IV	11/01/2008	1175	1669.8	70.37
V	15/04/2008	860	978.1	87.93
VI	22/04/2008	881	969.4	90.88
VII	27/04/2008	847	932.3	90.85
VIII	25/05/2008	950	1099.8	86.38

4. Kist Merchant Bank & Finance Limited

Key Information about right issue:

Date of AGM:	28/08/2064
Book closure Date:	19/01/2065
Right issue ratio:	1:3
Right issue Amount:	Rs. 600 Million
Issue Open date:	03/02/2065
Issue Close Date:	05/03/2065

Calculation of price Relatives

Point of Time	Date	Share Price	Commercial Bank Index	Price Relative
I	13/09/2007	858	527.5	162.65
II	14/11/2007	1530	756.3	202.30
III	06/12/2007	1551	873.9	177.48
IV	14/12/2007	1925	955.8	201.40
V	22/04/2008	1600	960.3	166.61
VI	30/04/2008	1575	954.9	164.94
VII	07/05/2008	485	925.1	52.43
VIII	01/06/2008	751	1111.7	67.55

5. ICFC Bittiys Sansthan Limited

Key Information about right issue:

Date of AGM:	22/11/2064
Book closure Date:	16/02/2065
Right issue ratio:	1:3
Right issue Amount:	Rs. 224.81 Million
Issue Open date:	28/02/2065
Issue Close Date:	30/03/2065

Calculation of price Relatives

Point of Time	Date	Share Price	Commercial Bank Index	Price Relative
I	06/12/2007	389	920.6	42.26
II	05/02/2008	921	910.5	101.15
III	26/02/2008	1055	959.7	109.93
IV	05/03/2008	1081	999.7	108.13
V	21/05/2008	1305	1070.9	121.86
VI	28/05/2008	1510	1103.4	136.85
VII	01/06/2008	513	1111.7	46.15
VIII	30/06/2008	711	1099.1	64.69

6. International Leasing & Finance Co. Limited

Key Information about right issue:

Date of AGM: 29/09/2064

Book closure Date: 16/02/2065

Right issue ratio: 1:3.5

Right issue Amount: Rs. 504 Million

Issue Open date: 27/02/2065

Issue Close Date: 29/03/2065

Calculation of price Relatives

Point of Time	Date	Share Price	Commercial Bank Index	Price Relative
I	09/10/2007	508	625.5	81.22
II	13/12/2007	610	920.6	66.26
III	04/01/2008	2000	1064.9	187.81
IV	13/01/2008	1903	918.3	207.23
V	21/05/2008	1769	1070.9	165.19
VI	28/05/2008	1650	1103.4	149.54
VII	01/06/2008	588	1031.1	57.03
VIII	30/06/2008	620	1099.1	56.41

Appendix 2

NIC Bank Limited

X_1	$(X_1 - \overline{X_1})^2$	X_2	$(X_2 - \overline{X_2})^2$
107.86	708.14	149.25	71.88
128.92	30.90	144.40	13.15
138.33	14.83	139.68	1.19
162.80	801.99	1329.76	121.26
$\sum X_1$ = 537.90	$\sum (X_1 - \overline{X_1})^2$ = 1,555.86	$\sum X_2$ = 563.10	$\sum (X_2 - \overline{X_2})^2$ = 207.48
$\overline{X}_1$ = 134.48		$\overline{X}_2$ = 140.78	

X_1 = price relative before right announcement and X_2 = price relative after right announcement

$n_1 = n_2 = 4$

$S_1^2 = \frac{1}{n_1 - 1}\sum (X_1 - \overline{X_1})^2$ = 1/3*1,556.86 = 518.62

$S_2^2 = \frac{1}{n_2 - 1}\sum (X_2 - \overline{X_2})^2$ = 1/3*207.48 = 69.16

$S_p^2 = \frac{(n_1 - 1)S_1^2 + (n_2 - 1)S_2^2}{n_1 + n_2 - 2}$ = [(3*518.62) + (3*69.16)]/4+4-2 = 293.89

$S_p = \sqrt{S_p^2} = \sqrt{293.89}$ =17.14

$t = \frac{\overline{X}_1 - \overline{X}_2}{S}\sqrt{\frac{n_1 n_2}{n_1 + n_2}}$

$= \frac{134.48 - 140.78}{17.14}\sqrt{\frac{4*4}{4+4}}$ = (0.52)

$\therefore |t|$ = 0.52

Degree of freedom = $n_1 + n_2 - 2$ = 4 + 4 -2 = 6

Level of significance (α) = 5% = 0.05

Critical Value: The tabulated value of t at 5% level of significance and 6 d.f. is 2.447

Appendix 3

Laxmi Bank Limited

X_1	$(X_1 - \overline{X}_1)^2$	X_2	$(X_2 - \overline{X}_2)^2$
107.17	141.87	133.39	81.61
128.09	81.08	126.30	3.80
116.51	6.63	108.93	237.89
124.57	30.05	128.80	19.73
$\sum X_1$ = 476.34	$\sum (X_1 - \overline{X}_1)^2$ = 259.64	$\sum X_2$ = 497.42	$\sum (X_2 - \overline{X}_2)^2$ = 343.02
$\overline{X}_1$ = 119.08		$\overline{X}_2$ = 124.36	

X_1 = price relative before right announcement and X_2 = price relative after right announcement

$n_1 = n_2 = 4$

$S_1^2 = \frac{1}{n_1 - 1} \sum (X_1 - \overline{X}_1)^2$ = 1/3*259.64 = 86.55

$S_2^2 = \frac{1}{n_2 - 1} \sum (X_2 - \overline{X}_2)^2$ = 1/3*343.02 =114.34

$S_p^2 = \frac{(n_1 - 1)S_1^2 + (n_2 - 1)S_2^2}{n_1 + n_2 - 2}$ = [(3*86.55) + (3*114.34)]/4+4-2 = 100.44

$S_p = \sqrt{S_p^2} = \sqrt{100.44}$ =10.02

$t = \frac{\overline{X}_1 - \overline{X}_2}{S} \sqrt{\frac{n_1 n_2}{n_1 + n_2}}$

$= \frac{119.08 - 124.36}{10.02} \sqrt{\frac{4*4}{4+4}}$ = (0.74)

$\therefore |t| = 0.74$

Degree of freedom = $n_1 + n_2 - 2$ = 4 + 4 -2 = 6

Level of significance (α) = 5% = 0.05

Critical Value: The tabulated value of t at 5% level of significance and 6 d.f. is 2.447

Appendix 4

Sanima Bikas Bank Limited

X_1	$(X_1 - \overline{X_1})^2$	X_2	$(X_2 - \overline{X_2})^2$
75.11	383.45	87.93	1.17
103.12	71.04	90.88	3.50
130.17	1,258.74	90.85	3.39
70.37	591.73	86.38	6.92
$\sum X_1$ = 378.77	$\sum (X_1 - \overline{X_1})^2$ = 2,304.97	$\sum X_2$ = 356.04	$\sum (X_2 - \overline{X_2})^2$ = 14.98
$\overline{X}_1$ = 94.69		$\overline{X}_2$ = 89.01	

X_1 = price relative before right announcement and X_2 = price relative after right announcement

$n_1 = n_2 = 4$

$S_1^2 = \frac{1}{n_1 - 1}\sum (X_1 - \overline{X_1})^2$ = 1/3*2,304.97 = 768.32

$S_2^2 = \frac{1}{n_2 - 1}\sum (X_2 - \overline{X_2})^2$ = 1/3*14.98 = 4.99

$S_p^2 = \frac{(n_1 - 1)S_1^2 + (n_2 - 1)S_2^2}{n_1 + n_2 - 2}$ = [(3*768.32) + (3*4.99)]/4+4-2 =386.66

$S_p = \sqrt{S_p^2} = \sqrt{386.66}$ =19.66

$$t = \frac{\overline{X}_1 - \overline{X}_2}{S}\sqrt{\frac{n_1 n_2}{n_1 + n_2}}$$

$$= \frac{94.69 - 89.01}{19.66}\sqrt{\frac{4*4}{4+4}} = 0.41$$

$\therefore |t| = 0.41$

Degree of freedom = $n_1 + n_2 - 2$ = 4 + 4 -2 = 6

Level of significance (α) = 5% = 0.05

Critical Value: The tabulated value of t at 5% level of significance and 6 d.f. is 2.447

Appendix 5

Kist Merchant Bank & Finance Company Limited

X_1	$(X_1 - \overline{X_1})^2$	X_2	$(X_2 - \overline{X_2})^2$
162.65	543.13	166.61	2,887.02
202.30	267.04	164.94	2,709.74
177.48	71.89	52.43	3,655.03
201.40	238.48	67.55	2,054.75
$\sum X_1$ = 743.84	$\sum (X_1 - \overline{X_1})^2$ = 1,120.55	$\sum X_2$ = 451.53	$\sum (X_2 - \overline{X_2})^2$ = 11,306.54
$\overline{X}_1$ = 185.96		$\overline{X}_2$ = 112.88	

X_1 = price relative before right announcement and X_2 = price relative after right announcement

$n_1 = n_2 = 4$

$S_1^2 = \frac{1}{n_1 - 1}\sum (X_1 - \overline{X_1})^2$ = 1/3*1,120.55 = 373.52

$S_2^2 = \frac{1}{n_2 - 1}\sum (X_2 - \overline{X_2})^2$ = 1/3*11,306.54 = 3,768.85

$S_p^2 = \frac{(n_1 - 1)S_1^2 + (n_2 - 1)S_2^2}{n_1 + n_2 - 2}$ = [(3*373.52) + (3*3,768.85)]/4+4-2 = 2,071.18

$S_p = \sqrt{S_p^2} = \sqrt{2071.18}$ = 45.51

$$t = \frac{\overline{X}_1 - \overline{X}_2}{S}\sqrt{\frac{n_1 n_2}{n_1 + n_2}}$$

$$= \frac{185.96 - 112.88}{45.51}\sqrt{\frac{4*4}{4+4}} = 2.27$$

$\therefore |t| = 2.27$

Degree of freedom = $n_1 + n_2 - 2$ = 4 + 4 -2 = 6

Level of significance (α) = 5% = 0.05

Critical Value: The tabulated value of t at 5% level of significance and 6 d.f. is 2.447

Appendix 6

ICFC Bittiya Sansthan Limited

X_1	$(X_1 - \overline{X_1})^2$	X_2	$(X_2 - \overline{X_2})^2$
42.26	2,314.83	121.86	868.71
101.15	116.33	136.85	1,977.01
109.93	382.69	46.15	2,138.20
108.13	315.59	64.69	2767.12
$\sum X_1$ = 361.47	$\sum (X_1 - \overline{X_1})^2$ = 3,129.43	$\sum X_2$ = 369.54	$\sum (X_2 - \overline{X_2})^2$ = 5,751.04
$\overline{X}_1$ = 90.37		$\overline{X}_2$ = 92.39	

X_1 = price relative before right announcement and X_2 = price relative after right announcement

$n_1 = n_2 = 4$

$S_1^2 = \frac{1}{n_1 - 1}\sum (X_1 - \overline{X_1})^2$ = 1/3*3,129.43 = 1,043.14

$S_2^2 = \frac{1}{n_2 - 1}\sum (X_2 - \overline{X_2})^2$ = 1/3*5,751.04 = 1,917.01

$S_p^2 = \frac{(n_1 - 1)S_1^2 + (n_2 - 1)S_2^2}{n_1 + n_2 - 2}$ = [(3*1,043.14) + (3*1,917.01)]/4+4-2 = 1,480.08

$S_p = \sqrt{S_p^2} = \sqrt{1,480.08}$ = 38.47

$t = \frac{\overline{X}_1 - \overline{X}_2}{S}\sqrt{\frac{n_1 n_2}{n_1 + n_2}}$

$= \frac{90.37 - 92.39}{38.47}\sqrt{\frac{4*4}{4+4}}$ = (0.07)

$\therefore$ | t | = 0.07

Degree of freedom = $n_1 + n_2 - 2$ = 4 + 4 -2 = 6

Level of significance (α) = 5% = 0.05

Critical Value: The tabulated value of t at 5% level of significance and 6 d.f. is 2.447

Appendix 7

International Leasing & Finance Company Limited

X_1	$(X_1 - \overline{X_1})^2$	X_2	$(X_2 - \overline{X_2})^2$
81.22	2,960.93	165.19	3,381.14
66.26	4,811.97	149.54	1,806.02
187.81	2,722.92	57.03	2,501.41
207.23	5,126.72	56.41	2,563.47
$\sum X_1$ = 542.42	$\sum (X_1 - \overline{X_1})^2$ = 15,662.56	$\sum X_2$ = 428.16	$\sum (X_2 - \overline{X_2})^2$ = 10,252.04
$\overline{X}_1$ = 135.63		$\overline{X}_2$ = 107.04	

X_1 = price relative before right announcement and X_2 = price relative after right announcement

$n_1 = n_2 = 4$

$S_1^2 = \frac{1}{n_1 - 1}\sum (X_1 - \overline{X_1})^2$ = 1/3*15,662.56 = 5,207.52

$S_2^2 = \frac{1}{n_2 - 1}\sum (X_2 - \overline{X_2})^2$ = 1/3*10,252.04 = 3,417.35

$S_p^2 = \frac{(n_1 - 1)S_1^2 + (n_2 - 1)S_2^2}{n_1 + n_2 - 2}$ = [(3*5,207.52) + (3*3,417.35)]/4+4-2 = 4,312.43

$S_p = \sqrt{S_p^2} = \sqrt{4{,}312.43}$ = 65.67

$t = \frac{\overline{X}_1 - \overline{X}_2}{S}\sqrt{\frac{n_1 n_2}{n_1 + n_2}}$

$= \frac{135.63 - 107.04}{65.67}\sqrt{\frac{4*4}{4+4}}$ = 0.62

$\therefore |t| = 0.62$

Degree of freedom = $n_1 + n_2 - 2$ = 4 + 4 -2 = 6

Level of significance (α) = 5% = 0.05

Critical Value: The tabulated value of t at 5% level of significance and 6 d.f. is 2.447

Appendix 8

NIC Bank Limited

X_1	$(X_1 - \overline{X_1})^2$	X_2	$(X_2 - \overline{X_2})^2$
107.86	708.14	149.25	71.88
128.92	30.90	144.40	13.15
138.33	14.83	139.68	1.19
162.80	801.99	1329.76	121.26
$\sum X_1$ = 537.90	$\sum (X_1 - \overline{X_1})^2$ = 1,555.86	$\sum X_2$ = 563.10	$\sum (X_2 - \overline{X_2})^2$ = 207.48
$\overline{X}_1$ = 134.48		$\overline{X}_2$ = 140.78	

X_1 = price relative before right announcement and X_2 = price relative after right announcement

$n_1 = n_2 = 4$

$S_1^2 = \frac{1}{n_1 - 1}\sum (X_1 - \overline{X_1})^2$ = 1/3*1,556.86 = 518.62

$S_2^2 = \frac{1}{n_2 - 1}\sum (X_2 - \overline{X_2})^2$ = 1/3*207.48 = 69.16

Test Statistic, since $S_1^2 > S_2^2$, F = $\frac{S_1^2}{S_2^2}$

= $\frac{518.62}{69.16}$ = 7.50

$\therefore$ F = 7.50

Degree of freedom = (n_1 -1, n_2 –1) = (4-1, 4 -1) = (3, 3)

Level of significance (α) = 5% = 0.05

Critical Value: The tabulated value of F at 5% level of significance for 3 and 3 d.f. is 9.28

Appendix 9

Laxmi Bank Limited

X_1	$(X_1 - \overline{X_1})^2$	X_2	$(X_2 - \overline{X_2})^2$
107.17	141.87	133.39	81.61
128.09	81.08	126.30	3.80
116.51	6.63	108.93	237.89
124.57	30.05	128.80	19.73
$\sum X_1$ = 476.34	$\sum (X_1 - \overline{X_1})^2$ = 259.64	$\sum X_2$ = 497.42	$\sum (X_2 - \overline{X_2})^2$ = 343.02
$\overline{X}_1$ = 119.08		$\overline{X}_2$ = 124.36	

X_1 = price relative before right announcement and X_2 = price relative after right announcement

$n_1 = n_2 = 4$

$S_1^2 = \frac{1}{n_1 - 1} \sum (X_1 - \overline{X_1})^2$ = 1/3*259.64 = 86.55

$S_2^2 = \frac{1}{n_2 - 1} \sum (X_2 - \overline{X_2})^2$ = 1/3*343.02 =114.34

Test Statistic, since $S_2^2 > S_1^2$, F = $\frac{S_2^2}{S_1^2}$

= $\frac{114.34}{86.55}$ = 1.32

$\therefore$ F = 1.32

Degree of freedom = (n_1 -1, n_2 –1) = (4-1, 4 -1) = (3, 3)

Level of significance (α) = 5% = 0.05

Critical Value: The tabulated value of F at 5% level of significance for 3 and 3 d.f. is 9.28

Appendix 10

Sanima Bikas Bank Limited

X_1	$(X_1 - \overline{X_1})^2$	X_2	$(X_2 - \overline{X_2})^2$
75.11	383.45	87.93	1.17
103.12	71.04	90.88	3.50
130.17	1,258.74	90.85	3.39
70.37	591.73	86.38	6.92
$\sum X_1$ = 378.77	$\sum (X_1 - \overline{X_1})^2$ = 2,304.97	$\sum X_2$ = 356.04	$\sum (X_2 - \overline{X_2})^2$ = 14.98
$\overline{X}_1$ = 94.69		$\overline{X}_2$ = 89.01	

X_1 = price relative before right announcement and X_2 = price relative after right announcement

$n_1 = n_2 = 4$

$S_1^2 = \frac{1}{n_1 - 1}\sum (X_1 - \overline{X_1})^2$ = 1/3*2,304.97 = 768.32

$S_2^2 = \frac{1}{n_2 - 1}\sum (X_2 - \overline{X_2})^2$ = 1/3*14.98 = 4.99

Test Statistic, since $S_1^2 > S_2^2$, F = $\frac{S_1^2}{S_2^2}$

= $\frac{768.32}{4.99}$ = 153.82

$\therefore$ F = 153.82

Degree of freedom = (n_1 -1, n_2 –1) = (4-1, 4 -1) = (3, 3)

Level of significance (α) = 5% = 0.05

Critical Value: The tabulated value of F at 5% level of significance for 3 and 3 d.f. is 9.28

Appendix 11

Kist Merchant Bank & Finance Company Limited

X_1	$(X_1 - \overline{X_1})^2$	X_2	$(X_2 - \overline{X_2})^2$
162.65	543.13	166.61	2,887.02
202.30	267.04	164.94	2,709.74
177.48	71.89	52.43	3,655.03
201.40	238.48	67.55	2,054.75
$\sum X_1$ = 743.84	$\sum (X_1 - \overline{X_1})^2$ = 1,120.55	$\sum X_2$ = 451.53	$\sum (X_2 - \overline{X_2})^2$ = 11,306.54
$\overline{X}_1$ = 185.96		$\overline{X}_2$ = 112.88	

X_1 = price relative before right announcement and X_2 = price relative after right announcement

$n_1 = n_2 = 4$

$S_1^2 = \frac{1}{n_1 - 1} \sum (X_1 - \overline{X_1})^2$ = 1/3*1,120.55 = 373.52

$S_2^2 = \frac{1}{n_2 - 1} \sum (X_2 - \overline{X_2})^2$ = 1/3*11,306.54 = 3,768.85

Test Statistic, since $S_2^2 > S_1^2$, F = $\frac{S_2^2}{S_1^2}$

= $\frac{3,768.85}{373.52}$ = 10.09

$\therefore$ F = 10.09

Degree of freedom = (n_1 -1, n_2 –1) = (4-1, 4 -1) = (3, 3)

Level of significance (α) = 5% = 0.05

Critical Value: The tabulated value of F at 5% level of significance for 3 and 3 d.f. is 9.28

Appendix 12

ICFC Bittiya Sansthan Limited

X_1	$(X_1 - \overline{X_1})^2$	X_2	$(X_2 - \overline{X_2})^2$
42.26	2,314.83	121.86	868.71
101.15	116.33	136.85	1,977.01
109.93	382.69	46.15	2,138.20
108.13	315.59	64.69	2767.12
$\sum X_1$ = 361.47	$\sum (X_1 - \overline{X_1})^2$ = 3,129.43	$\sum X_2$ = 369.54	$\sum (X_2 - \overline{X_2})^2$ = 5,751.04
$\overline{X}_1$ = 90.37		$\overline{X}_2$ = 92.39	

X_1 = price relative before right announcement and X_2 = price relative after right announcement

$n_1 = n_2 = 4$

$S_1^2 = \frac{1}{n_1 - 1}\sum (X_1 - \overline{X_1})^2$ = 1/3*3,129.43 = 1,043.14

$S_2^2 = \frac{1}{n_2 - 1}\sum (X_2 - \overline{X_2})^2$ = 1/3*5,751.04 = 1,917.01

Test Statistic, since $S_2^2 > S_1^2$, F = $\frac{S_2^2}{S_1^2}$

= $\frac{1{,}917.01}{1{,}043.14}$ = 1.84

$\therefore$ F = 1.84

Degree of freedom = (n_1 -1, n_2 –1) = (4-1, 4 -1) = (3, 3)

Level of significance (α) = 5% = 0.05

Critical Value: The tabulated value of F at 5% level of significance for 3 and 3 d.f. is 9.28

Appendix 13

International Leasing & Finance Company Limited

X_1	$(X_1 - \overline{X_1})^2$	X_2	$(X_2 - \overline{X_2})^2$
81.22	2,960.93	165.19	3,381.14
66.26	4,811.97	149.54	1,806.02
187.81	2,722.92	57.03	2,501.41
207.23	5,126.72	56.41	2,563.47
$\sum X_1$ = 542.42	$\sum (X_1 - \overline{X_1})^2$ = 15,662.56	$\sum X_2$ = 428.16	$\sum (X_2 - \overline{X_2})^2$ = 10,252.04
$\overline{X}_1$ = 135.63		$\overline{X}_2$ = 107.04	

X_1 = price relative before right announcement and X_2 = price relative after right announcement

$n_1 = n_2 = 4$

$S_1^2 = \frac{1}{n_1 - 1}\sum (X_1 - \overline{X_1})^2$ = 1/3*15,662.56 = 5,207.52

$S_2^2 = \frac{1}{n_2 - 1}\sum (X_2 - \overline{X_2})^2$ = 1/3*10,252.04 = 3,417.35

Test Statistic, since $S_1^2 > S_2^2$, F = $\frac{S_1^2}{S_2^2}$

= $\frac{5,207.52}{3,417.35}$ = 1.52

$\therefore$ F = 1.52

Degree of freedom = (n_1 -1, n_2 –1) = (4-1, 4 -1) = (3, 3)

Level of significance (α) = 5% = 0.05

Critical Value: The tabulated value of F at 5% level of significance for 3 and 3 d.f. is 9.28