Informational Effects of Right Issue on Stock Price

By

Kendra Kala Adhikari Mahendra Multiple Campus, Dharan T.U. Registration No.: 6-1-7-281-99

Exam Roll No.: 615

Thesis Submitted To:
Mahendra Multiple Campus, Dharan
Tribhuvan University

In partial fulfillment of the requirement for the Degree of Master of business studies (M.B.S.)

Dharan, Nepal

May, 2009

RECOMMENDATION

This is to certify that the thesis

Submitted by

KENDRA KALA ADHIKARI

Entitled

"INFORMATIONAL EFFECTS OF RIGHT ISSUE ON STOCK PRICE"

has been approved by this department in the prescribed format of Faculty of Management.

This thesis is forwarded for examination.

Mr. Khagendra Adhikari (Thesis Supervisor)	Ganga Chaulagain (Member of the Research Committee)
Prof. Tara Bahadur Niraula (Chairperson, Research Committee)	
Date:	

VIVA-VOCE SHEET

We have conducted the Viva-Voce Examination of the thesis **Presented by**

KENDRA KALA ADHIKARI

Entitled

"INFORMATIONAL EFFECTS OF RIGHT ISSUE ON STOCK PRICE"

And found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master's Degree in Business Studies (M.B.S.).

VIVA-VOCE COMMITTEE

Chairman (Research Committee)	
Member (Thesis supervisor)	
Member (External Expert)	
Member (Research Committee)	
Date:	

DECLARATION

I hereby declare that the work reported in this thesis entitled "Informational Effects of Right Issue on Stock Price" submitted to Mahendra Multiple Campus, Dharan is my original work in the form of partial requirement for the Degree of Masters in Business Studies

(M.B.S) under the supervision of Mr. Khagendra Adhikari of Mahendra Multiple Campus, Dharan.

Kendra Kala Adhikari

Researcher
Mahendra Multiple Campus
T.U. Registration No- 6-1-7-281-99
Roll No-615

Date: May, 2009

ACKNOWLEDGEMENT

This research work entitled "Informational Effects of Right Issue on Stock Price" is Master Degree thesis prepared as partial fulfillment of Master of Business Studies. This study focuses to find the impact of right issue on stock price movement. I am thankful to Tribhuvan University for providing me such an opportunity to experience the practical knowledge on my subject.

First of all, I am thankful to Mr. Khagendra Adhikari of Mahendra Multiple Campus, Dharan for providing me necessary guidelines for making my study successful. I would like to extend profounded gratitude to Prof. Tara Bahadur Niraula, chairman of research committee, Mr Ganga Chaulagain, Member of Research Committee whose proper guidance and direction made it possible to complete this thesis.

I am thankful to my colleagues especially Mr. Indra Prasad Bhattarai, Ms. Sunita Ghimire, Dhurba Niraula and my family members especially to my brothers Mr. Krishna Gopal Adhikari and Bodh Raj Adhikari for their continuous co-operation, co-ordination encouragement and economic support. At last, I am indebted to those who have directly and indirectly assisted me to make this study worthful.

I have attempted to bring the research errorless, however, consciously or unconsciously errors may be in this research works that are of course my responsibilities. I have hope the possible errors will serve as a stepping stone to all those interested with the rights offering and its impact on stock price movement who wish to make further research under this topic.

Last but not the least I would also like to thank Nikesh Maharajan, Kirtipur, Nayabazar for Typing and Printing the thesis.

Kendra Kala Adhikari Mahendra Multiple Campus, Dharan

CONTENTS

	Page No.
Recommendation	
Viva-Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
Abbreviations	
CHAPTER-I: INTRODUCTION	1-7
1.1 Background of the Study	1
1.2 Focus of the Study	3
1.3 Statement of the Problem	4
1.4 Objective of the Study	6
1.5 Limitation of the Study	7
1.6 Organization of the Study	7
CHAPTER-II: REVIEW OF LITERATURE	8-47
2.1 Security Market in Nepal	8
2.2 Money market in Nepal	9
2.3 Capital Market	10
2.4 Primary Market	11
2.5 Secondary Market	13
2.6 Nepal Stock Exchange	14
2.7 Securities Board Nepal	18
2.8 Regulation of Securities Market in Nepal	21
2.9 Initial Financing:	23
2.10 Initial Public Offering	25
2.11 New Issue Market	28
2.12 Pre-emptive Right	29

2.13 Rights Offering	31
2.14 Right Offering Vs Public Offering	33
2.15 Stock Split Vs Stock Right	34
2.16 Right Share Vs Bonus Share	35
2.17 Stock Repurchase Vs Stock Right	35
2.18 Value of Right	36
2.19 Market Vs Theoretical Value of Right	37
2.20 Significance of Right Offering	38
2.21 Procedures of Right Offering in Nepal	41
CHAPTER- III: RESEARCH METHODOLOGY	48-57
3.1 Introduction	48
3.2 Research Design	48
3.3 Population and Sample	49
3.4 Sources and Techniques of Data Collection	50
3.5 Coverage of Data	50
3.6 Method of Analysis	50
3.6.1 Financial Tools	51
3.6.2 Statistical Tools	52
3.7 Rights Offering and Valuation of its Equity	53
3.8 Method of Measurement	54
Chapter-IV: Presentation and Analysis of Data	58-91
4.1 Characteristics of Right Offering in Nepal	58
4.2 Contribution of Rights Offering on Total Floatation	59
4.3 Analysis of Information Effect of Right Issue on Stock	
Price Movement	62

4.4 Analysis of Liquidity of Shares Before and After	
Right Announcement	77
4.5 Right Issue and Wealth Position of Shareholders	
4.6 Correlation Coefficient Between Share Price Movement and	
General Market Movement During Five Different Point of Time	81
4.7 Use of t-statistics to Measure on Impact on Share Price Movement	84
4.8 Theoretical Value of Rights and its Actual Impact on Stock Price	88
4.9 Major Findings of the Study	
CHAPTER-V: SUMMARY, CONCLUSION	
AND RECOMMENDATION	92-99
5.1 Summary	92
5.2 Conclusion	96
5.3 Recommendation	97
Bibliography	100

List of Tables

	Page No
Table No. 2.1 : Amount Issue Approved During fiscal year 1993\94 to	
2005\06	12
Table No. 4.1: Contribution of Rights Offering in Total Flotation	60
Table No. 4.2 : Analysis of Share Price Movement of Everest Bank Ltd.	63
Table No. 4.3: Analysis of share price movement of Bank of Kathmandu	
Ltd.	65
Table No. 4.4: Analysis of Share price movement of Nepal Bangladesh	
Bank Limited	66
Table No. 4.5: Analysis of share price movement of Nepal SBI Bank	
Limited	68
Table No. 4.6: Analysis of share price movement of Nepal Investment	
Bank Ltd.	69
Table No. 4.7: Analysis of share price movement of Kumari Bank Limited	1 71
Table No. 4.8: Analysis of share price movement of Machhapuchre Bank	
Ltd.	72
Table No. 4.9: Analysis of share price movement of Lumbini Bank Limited	d 74
Table No. 4.10: Analysis of share price movement of Siddhartha Bank	
Limited	75
Table No. 4.11: Liquidity of share before and after right announcement	77
Table No. 4.12: Shareholder wealth before and after right issue	79
Table No. 4.13: Share prices and NEPSE/ Banking sector indicates	81
Table No. 4.14: Use of t-statistics to measure the impact of right offering of	n
the share price movement	84
Table No. 4.15: Comparing the calculated value of right and its actual	
impact on stock price	88

LIST OF ABBREVIATIONS

AGM Annual General Meeting

BOO's Board of Directors

CIT Citizen Investment Trust

Co. Company

e.g. For example

EPS Earning per share

FY Fiscal Year

ie. That is

IPO Initial Public Offering

Ltd. Limited

MB's Merchant Bank

MC Market Capitalization

NA Not available

NBL Nepal Bank Limited

NEPSE Nepal Stock Exchange Limited

NIDC Nepal Industrial Development Corporation

no. Number

NRB Nepal Rastra Bank

NYSE New York Stock Exchange

P.I. Price Index

Pvt. Private

SE Standard Error

SEBI Security and Exchange Board of India

SEBO/N Security Board of Nepal

SEC Securities Exchange Center

SMC Security Marketing Center

t-cal Calculated value of 't'

t-tab Tabulated value of 't'

Viz. Namely

Vs Versus