CHAPTER-I

INTRODUCTION

1.1 Background of the Study

The flow of funds in a firm is as a flow of blood in living body. The financial need occurs from very beginning in a firm. It needs for expansion, diversification and to sustain in composition. In some cases, fund can be raised to comply with the higher authority. Nepal Rastra Bank has issued a directive in Chaitra 2063, to all commercial banks that they must have minimum paid up capital of two billion by the end of fiscal year 2069/070. As per this directive, most of the commercial banks have to issue stocks or bonus shares to increase the paid up capital. The main objective of such directive is to enhance the liquidity position of the banks, to preserve the shareholders and to make the fund easily available from banking system in the country for big projects. In Nepal, issue of common stock is attractive among all securities. The common stock can be issued either by initial public offering or by rights offering or bonus shares. Most of the firms want to become a public and go for public offering of shares.

As per the various financial dearth positions, firms issue different securities. "Two long-term securities available to a company for raising capital are: Shares and debentures. Shares include ordinary shares and preference shares. Ordinary shares provide ownership right to the investors. Debentures or bonds provide loan capital to the company and investors get the status of lenders." (I.M. Pandy}. In order to cope with various financial situations, firm usually issue common stock to general investors or rights offering to existing shareholders and preference share and debentures as demanded by their target capital structure.

Common shareholders often have the right called the preemptive right to purchase any additional shares sold by the firm. If the carter of the company contains preemptive right, then the firm must offer any new common stock to existing shareholders. Otherwise there is a choice of public offering. If it sells to the existing shareholders, the stock flotation is called a right offering. Each shareholder is issued an option to buy a certain number of new shares, and the terms of the option are contained on a piece of the paper called a right.

"A right issue involves selling of ordinary shares to the existing shareholders of the company. The law in India requires that the new ordinary shares must be first issued to the existing shareholders on a pro-rata basis. This preemptive right can be forfeited by shareholders through a special resolution. Obviously, this will dilute their ownership" (I.M Pandy). Large number of corporate firms announces and issue right share to increase the capital base if the corporate management felt such need or to comply with the policy directives given by concern authority to increase the capital base form time to time.

"The preemptive right entitles a shareholder to maintain his proportionate share of ownership in the company. The law grants shareholders the right to purchase new shares in the same proportion as their current ownership. Thus if a shareholder owns 1 percent of the company's ordinary shares, he has preemptive right to buy 1 percent of new shares issued. A shareholder may decide to exercise this right. The shareholders' option to purchase a stated number of new shares at a specified price during a given period is called rights. These rights can be exercised at a subscription price which is generally much below the share's current market price, they can be allowed to expire or they can be sold in the stock market. (LC Gupta)."

It is important to issue these new shares at a premium to existing market price of share because rationale investor would prefer to buy existing shares directly in the market rather than more expensive new ones from the company. It will be so if it is issued at the prevailing market price. "It is often necessary to consider making new issue at a discount to the current market price but to do so would be to rob existing shareholders. This can be an avoided if the existing shareholders are given right to buy these discounted share proportion to their existing shareholders: hence the name 'right issue'.(Pratap Narayan Shrestha).

Instead of selling a security issue to new investors, some firms offer the securities first to existing shareholders on a privileged subscription basis. Sometimes the corporate charter requires that a new issue of common stock or an issue of securities convertible into common be offered first to existing shareholders because of their preemptive right".(James C Van Horne:2002). These issues are normally described by reference to how many new shares can be brought for a number of existing shares owned e.g 1 for 2 right issue means that for every 2 shares owned the shareholder gets the right to buy 1 of new shares being new shares being offered. The company not forces its existing shareholders to buy any more shares in the company and hence it is granting them an option to buy these new shares. As the new shares are being issued at a lower price then the current market price of the existing shares, this option should have a value and can be sold if the current shareholder does not make to take it up." (Keith Ward: 1995).

Right is an option. It has its own intrinsic value. It normally offered at a price below the market price. It has become an important financial instrument in the capital market for firms which wants to issue common stock.

1.2 Focus of the Study

There are 59 cases of right issue till the date 2006/07. The subscription price of right issue is generally lower than the market price. It means there is value of right in all cases. In addition, the price pressure hypothesis which asserts that equity issue, 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 a company's share, the result provide evidence not only on market efficiency but also on market liquidity, and whether companies can raise new equity at existing market prices. Thus, here this study is concern with whether share prices 'fully reflect' all the information accompanying the right issue announcement.

1.3 Statement of the Problem

Right offering announcement by a company serves good news to its existing shareholders. They receive new proportionate shares at a price below market price whose name is in the company book before holder of record date. Hence, as the news becomes public, there will be great demand of shares attached with right up to the record date. On the other hand, the existing shareholders, the subscription price of share will be lower than currently prevailing in the market and still others do not want to sell their shares right-on and thus, there will be decrease in supply of shares. Such a phenomenon drives the price of shares to rise to the upward direction. A view held by a professional investor, finance director and some academics is that a right issue because it increases the supply of company's shares, will have a depressing effects on the share price.

Here the question arises: does the share prices increases as the subscription price is below the market price and the existing shareholders do not want to sell their shares; or does the share price decreases as the supply of share increases in the market? What practically observed in the market? More clearly, does the right issue announcement fully reflect in the stock price?

Among all cases 59 of rights offering till the date 2006/07 only 10 cases of full subscription can be observed. When a company sells securities by privileged subscription, it should be mailed to its shareholders one right for each share of stock held with the common stock offering, this legal instrument called 'right' give shareholder the option to purchase additional shares according to the terms of offering. The terms of right offering generally include the there basic condition:

1. The number of rights require to purchase a share of the newly issued stock i.e. exercise ratio.
2. The time period within which the right holder exercise their rights and
3. The subscription price at which the right-holders purchase a share of the newly issued stock.

Thus the finance manager has to decide these basic terms and condition of right issue.

(a) What should be the exercise ratio?

(b) What should be the last date of exercise?

(c) What should be the subscription price?

Divided the subscription price in to the total funds to be raised gives the number of shares to be issued. The next step is to divide the number of new share in to the number of previously outstanding shares to get the number of rights required to subscribe to one share of new stock. It creates the relation of high subscription price makes more rights needed to buy a share of stock and vice versa. Value of right can be calculated in right-on and ex-rights price.

The holder of the right has three choices: (a) Exercise them and subscribe for additional shares (b) sell them as they are transferable or (c) do nothing and let them to expire. The flaw in the issuance procedure of rights shares as mentioned above is the absence of such legally transferable instrument of rights. These absences of the rights instrument transferable deprive the existing shareholders from enjoying the choice of selling the rights, and thus have only two options.

There were a lot of cases in which the rights not exercised all and the shares were remained unsubscribe by the existing shareholders and were sold to the employees of the respective companies and underwriter. But the company Act is silent on this part and such situation makes the very essence of rights offering questionable, which can be sold separately, a number of shareholders, who do not want to abandon completely their ownership over the company have the destitute to subscribe for new shares will have the no option to choice 'do nothing and let the rights to expire.' The unexercised of right will lead to loss to the existing shareholders as their post issue wealth position will suffer because of the subsequent dilution in the share price, which is exactly offset if the right is transferable and sell in the market in some value.

In some of the cases, after right issue announcement, it was observed that the trading of shares decreased and price of share also decreased. This study deals with the following issues:

1. What is the informational effects of rights offering to the stock price movement?
2. What is the wealth position of existing shareholders before and after rights offering?
3. What is the liquidity position of stock market before and after rights offering in Nepal?
4. What are the general procedure and practices in rights offering issues?

1.4 Objective of the Study

The main focus of the study is the informational effects of right issue on stock prices and liquidity of security market. Another aspect of the study is shareholder wealth position associated with rights offering. The main objectives of the study are:

1. To find out the informational effects of rights offering on stock prices.
2. To analyze the liquidity of stock market in Nepal associate with rights offering.
3. To examine the wealth position of shareholders before and after rights offering.
4. To analyze rights offering procedures and practices in Nepal.

1.5 Limitation of the Study

This study aims at finding the informational effects of rights offering the informational effects of right offering announcement on stock price of some Nepalese firm. It has some limitations:

1. The study is based on secondary data.
2. This study covers the listed public companies.
3. Only right issuing companies are considered in the study.
4. This study covers only commercial banks listed by NEPSE.

1.6 Organization of the Study

Chapter one: Introduction

Chapter two: Review of Literature

Chapter three: Research Methodology

Chapter four: Data Presentation and Analysis

Chapter five: Summary, Conclusion and Recommendations

CHAPTER-II

REVIEW OF LITERATURE

2.1 Security Market in Nepal

Security markets are the markets where financial assets are traded. Security market facilitates the process of transferring finds from savers to investors. People requiring money is brought together with those having surplus money in the security markets. Security markets are also known as mechanism created to facilitate the exchange of financial assets. (Shrestha Paudal, Bhattrai P.- 36).

A financial asset is created only when the investment of an economic unit in real assets exceeds its savings, and it finances this excess by borrowing or issuing equity securities. Of course, another economic unit must be willing to lend. This interaction of borrowers with lenders determines interest rates. In the economy as a whole, savings-surplus economic units (those whose saving exceed their investment in real assets) provide funds to savings deficit units (those whose investment in real assets exceeds their savings). This exchange of funds is evidenced by pieces of paper representing financial assets to the holder and a financial liability to the issuer.

Security market, or financial market, can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. One of its main functions is 'price discovery'- that is, to cause security price to reflect currently available information. The more quickly and accurately price discovery is achieved, the more efficiently financial markers will direct capital to its most productive opportunities, thereby leading to greater improvement in public welfare. (Sharpe: 47)

2.2 Money market in Nepal

The money markets refer to the markets in which short term financial assets are traded. The money market, which is a market for short term financial assets that are close substitute for money, facilitates the exchange of money for new financial claims in the primary market as also for financial claims, already issued in the secondary market (Pandy-878). It provides the mechanism for meeting the liquidity needs of the lender and the short term requirements of borrowers with the minimum of delay. When tight money conditions prevail the money market rates rise and similarly when easy conditions prevails, the money market rates fall, the fluctuations in the money market interest rates reflecting the demand for and supply of funds in a competitive market.

The development of an efficient money market requires the development of institutions, instruments, and operating procedures that facilitate widening and deepening of the market and allocation of short term resources with minimum transaction costs and minimum of delays. The money market consists of commercial paper, certificate of deposit, Banker's acceptance, Eurodollars, Repurchase agreements and short term treasury bills.

Nepalese money market is quite poor in terms of securities dealt with and institutions involved in the market. Institutions that deal completely on money market instruments are absent. Similarly, many of the instruments which are popular in developed money market like commercial paper, banker's acceptances, have not yet entered the Nepalese money market. Therefore, the institutions that operate in the money market are basically Nepal Rostra Bank and commercial banks instrument dealt are treasury bill, commercial bill and short term bank loan. Treasury bill is a major money market instrument started in 1961/62 in Nepal.

2.3 Capital Market

Capital market is a market for long-term securities having maturities greater than one year. They are vital to long term and prosperity of economy since they provide the channel through which needed fund can be raised. It is mechanism through which public saving is canalized to industrial and business enterprises. The key instruments used in capital market are debt, preference share, and bond & convertible issues. Demand of capital in the capital market comes from agriculture, industry, trade and government, which sources are from individuals, corporate saving, multinational investors and surplus of government.

The Nepalese capital market in open-market securities is in its infancy stage. The government established securities marketing center in 1976 and enacted securities exchange Act in 1983 to promote and regulate the market of open-market securities. Then after, the center started secondary market operation by listing corporate securities. In a bid to activate the capital market, the government massively amended the Act, constituted Security Exchange Board of Nepal and converted Securities Exchange Center into Nepal Stock Exchange. With these superstructure facilities, Nepal Stock Exchange now provides full-fledge secondary market (Shrestha, Poudel, Bhandari: 51).

Capital market plays a crucial and effectsive role in economic development of a nation. The health of the economy is reflected in the two wings of capital market i.e. primary market or new issue market and secondary market stock market. The main objective of the capital market is to create opportunity for maximum number of people to get benefit from return obtain by directing the economy towards the productive sector by mobilizing the long term capital. The objective can be fulfilled only by the rational accountable behaviors relating to the three factors of capital market such as institution, mediator and investor.

The state of primary issue market is still in infantile state. Some of the financial institutions like NIDC and NRB that existed prior to the incorporation of Security Exchange Center, had on object of providing primary issue services but they did not provide these services. Securities Exchange Center provided primary issue management services in a few cases. But, the center discontinued this service since it got converted into Nepal Stock Exchange. At present, new issue management service are being provided by finance companies like NIDC capital market, Nepal Merchant Banking and finance company, Citizen Investment Fund, National Finance Company, Nepal Share Markets limited etc.

2.4 Primary Market

A primary market is the place where corporations and government issue new securities. All securities, whether in money or capital markets are initially issued in the primary markets. This is the only market in which the company or government is directly involved in the transaction and receives direct benefits from an issue that is, the company actually receives the proceeds from the sale of securities. Once the securities begin to trade among individuals, businesses, governments or financial institutions, savers and investors, they become a part of the secondary market. The term 'primary market' is used to denote the market for the original sale of securities by an issuer to the public. The issuer receives cash which may be invested in productive assets or retirement of debt.

As in everywhere else there are there parties involved in primary market of securities in Nepal. They are (I) securities issuing companies / government (II) securities buyers (investors) and (III) issue managers performing the functions of merchant bank. General public, for profit and non profit organization are the buyers / investors of securities and finance companies licensed to carry out merchant banking activities (word as manager of issue) in Nepal. Before the establishment of the Securities Exchange Center in 1976, there was no institutional arrangement to undertake and to manage the new issue of securities. A public limited company could make public offering according to the provisions of the companies Acts. The establishment of securities Exchange center in 1976 (later converted into Nepal stock Exchange Limited), the enactment of securities Exchange Act in 1983, and the constitution of security Exchange Board of Nepal are important milestones in the development of primary market in Nepal (Shrestha, Poudel, Bhanari:48).

The primary market is still in infancy state in spite of some positive indications. The type of securities issued, and the volume of issue is still insignificant. The primary market in Nepal is characterized by small number of issues, a few types of securities and small volume of issues. The glimpse of the trend of primary market during 1993/94 to 2006/07 is presented in the following table.

Table 2.1

Amount Issue Approved During fiscal year 1993/94 to 2005/06

Fiscal Year	No. of issues Approved	Issue Approved Rs. In million
1993/94	16	244.40
1994/95	10	173.96
1995/96	12	293.74
1996/97	5	332.20
1997/98	12	462.36
1998/99	5	258.00
1999/00	6	326.86
2000/01	9	410.49
2001/02	12	1441.33
2002/03	18	556.54
2003/04	14	1027.50
2004/05	14	1626.82
2005/06	29	2443.28
2006/07	34	2295.60

SEBO: Annual Report 2006/07.

2.5 Secondary Market

The secondary market is a place where outstanding securities are brought and sold. The secondary market is a market for 'old' securities i.e. the securities which have already been listed in the stock exchange. There is a close relationship between the primary and secondary markets. Without on effectsive secondary market, the primary would fail, because investor subscribe to new issues only if they are hopeful if being able to sell at a profit at some time in future. The trading of securities takes place in organized securities exchange in the secondary market.

Organized securities exchange are the physical locations where trading of securities is done under a set of rules and regulations. Investors usually purchase securities in the secondary market by calling securities brokers. In the secondary market investors buy and sell securities themselves, the issuer never gets any cash flow from the trades. Nepal Stock Exchange is an Example of organized stock exchange and this is the only stock exchange in Nepal. Similarly the New York Stock Exchange (NYSE), Tokyo Stock Exchange, American Stock Exchange (AMEX), Bombay Stock Exchange (BSE) are the examples of organized stock exchanges.

The role of secondary market is more in focus than that of primary market in securities market. It is mainly due to the fact that secondary market provides liquidity to the securities and ensures continuous price formation. The continuous price formation process reduces sudden jump in the price of the securities in the market. Moreover, the operation of secondary market is also important from investor's point of view on the following grounds:

(a) The need for liquidity to meet sudden demands for funds due to premature payment of liabilities'.

(b) The need to shuffle portfolio to readjust the maturity structure to realign with the current liability structure.

(c) The investors' decision to improve the portfolio returns by shedding some securities which are yielding lower income and going in for other securities which yield income.

(d) The need to constantly seize the opportunities available in the secondary market due to forces of demand and supply of certain securities. (Shrestha, Poudel, Bhandari: 49)

2.6 Nepal Stock Exchange

Nepal stock exchange is the only organized stock market in Nepal; facilitating the trading of corporate securities, mainly common stock. It opened its floor for the trading of corporate securities on the 13th January 1994, prior to the establishment of NEPSE in 1994. Previously, secondary market was operated over the counter facility managed by Security Exchange Center (SEC). The number of listed companies which stood at 15 in 1993/94 increased to135 by the fiscal year 2006/07. Over the past few years, both annual turnover and market capitalization of listed companies have increased substantially.

The trading of securities in Nepal was established in too late a period of 1976 when Nepal Industrial Development Corporation (NIDC) and Nepal Rastra Bank (NRB) through their joint efforts, initiated the establishment of Security Market Center (SMC) to mobilize the public savings for ensuring public ownership in the shares of public limited companies. In order to promote the stock exchange business, the center made a series of studies in the beginning both public limited companies and devising the ways and means of understanding the business of buying and selling of securities. In pragmatic reality, however, the center become nothing more than the satellite organization of NRB to undertake the over burdened functions of the later in selling government securities that comprise treasury bills, development bonds, etc. After a long period of seven years doing nothing substantial in the frontiers of stock exchange Act 1983/84 to revitalize its role in the capacity of a merchant banker in view of acting as a legally acknowledge some stock exchange house.

The growth of issue of securities was not well documented till late seventies. Date on issue of securities are available since late seventies when Securities Exchange Center (SEC) assumed the role of issue manager. The securities exchange center managed 26 issues between 1978 and 1992 until it was converted into Nepal Stock Exchange in 1993. Since then, primary issues are being managed by financial institutions, particularly by finance companies.

The securities exchange center was established with an objective of facilitating and promoting the growth of capital markets. Before its conversion into Stock Exchange, it was only a capital market institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. It was converted into Nepal Stock Exchange (NEPSE) with the basic objective of imparting free marketability and providing liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as brokers, market makers etc. and it is a non-profit organization, operating under securities Exchange Act, 1983.

Securities Exchange Act 1983 also prohibits the trading of unlisted securities. It has a provision for listing. Which clearly states that no securities can be traded without being listed. It means all the public limited companies must enlist their securities. In order to enlist the securities with a stock exchange, the company must submit an application form in the prescribe format along with required documents and listing annual fee. These documents are essential to analyze the profitability of the company to be assured that the proposed securities to enlist will be traded frequently in the trading floor. The major documents that are to be submitted are listed below:

1. Names and addresses of the shareholders, directors and their holdings.
2. Names and addresses of the shareholders holding more than 5 percent of the issued shares.

3. Name and address of the Managing Director, Chief Executive Officers, Accountant, Auditor, Company Secretary and their holdings, if any.
4. In case of an existing company, the last 3 year's audited balance sheet and profit and loss accounts and in case of a newly established company, projected balance sheet and profit and loss accounts for the next 3 years.
5. Shareholder's list.
6. Documents that reveal the name and address of the company and the date of business commencement.
7. Specimen of share certificate.
8. Tax registration certificate.
9. Approval letter from SEBO/N for public issue (only if the listing is requested after going to the public) and a letter from the NRB, the central bank.
10. Investment details of the company and promoters and directors if associated with any other organization.
11. The name and addresses of associated organizations.
12. Resolution passed by the board of directors for listing.
13. Memorandum and articles of association and prospectus.
14. If the organization is established under a special act a copy of such act.
15. Others.

To enlist the securities of any company, the following conditions need to be met, otherwise no company can be enlisted with the NEPSE.

(a) The minimum paid-up capital must be Rs. 25 million.

(b) The minimum number of shareholders should be 500 but if the company has not floated at the time of submitting the application form of listing, then listing can be done with the condition that the required number of shareholders should be attained within two years.

(c) The face value of the shares should be either Rs. 10 or Rs. 100.

(d) The flotation of the shares needs to be based on the basis of the issued capital. It is given below:

Capital	Flotation
Up to Rs. 10 million	25%
Rs. 10 million to Rs. 50 million	20%
Rs. 50 million to Rs. 100 million	15%
Rs. 100 million and above	As per the decision of NEPSE with the pre- approval of SEBO/N

(e) The listed firm must publish quarterly earnings reports and fully disclose its financial information annually etc.

Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and licensed members are the shareholders of the NEPSE. The board of directors of the NEPSE consists of nine directors in accordance with the Securities Exchange Act 1983. Six directors are nominated by government of Nepal from different institutional investors. Two from the licensed members and the general manager of the NEPSE is the Ex- officio director of the board.

S.N	Name of Organization	No of Directors	Designation
1	Ministry of Finance	1	Chairman
2	Securities Board	2	Director
3	Nepal Rastra Bank	2	Director
4	Nepal Industrial Development Corporation	1	Director
5	Licensed Members	2	Director
6	General Manager of NEPSE	1	Director

The authorized and issued capital of the NEPSE is Rs. 50 million. Of this Rs. 34.91 million is subscribed by government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and licensed members.

S.N	Shareholders	Rs. in million	Percentage (%)
1	Govt. of Nepal	20.48	58.67
2	NRB	12.10	34.60
3	NIDC	2.14	6.13
4	Members	0.21	0.60
		34.91	**100**

The members of NEPSE are permitted to act as a intermediaries in buying and selling of government bonds and listed corporate securities. At present there are 24 members brokers operating on the trading floor. Besides this, the NEPSE has also licensed dealer for the primary and secondary market. The 9 primary market dealers operate as a manager to the issue underwriter whereas 2 secondary market dealers operate as portfolio manager.

2.7 Securities Board Nepal

Security Board, Nepal was established in 26th may 1993 under the provision if Securities Exchange Act, 1983 (first amendment). SEBO has been concentrating its efforts on improving the legal and statutory frameworks which are the bases for the healthy development of the capital market. As a part of its continuous efforts to build a sound system, the securities Exchange Act-1983 was amended for the second time on January 30th 1997 and new securities Act 2004 has been enacted. This amendment and new Act paved the way for establishing SEBO as an apex regulatory body as it widened the horizon of SEBO by bringing market intermediaries directly under its' jurisdiction and also made it mandatory for the corporate bodies to report to SEBO annually as well as semi-annually regarding their performance. It also established direct relationship with market inventions, were targeted to the market and to consolidate its position as central securities market regulator.

Under the present act, SEBO is responsible for supervision of NEPSE. The board has companies of seven board members representing several government and private bodies for the operation and management of the board. It was established with the objective of promoting and protecting the interest of investors by regulating the securities market. it is also responsible for the development of the securities market in the country.

General objectives of SEBO:

(a) To promote and protect the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities.

(b) To supervise, look after and monitor the activities of stock exchange and corporate bodies carrying on securities business.

(c) To render distribution to the development of capital market by making securities transaction fair, healthy, efficient and responsible.

Functions of SEBO:

(a) To advice government of Nepal on the issue related to development of capital market and the protection of shareholders' interest.

(b) To approve stoke exchange for the operation and oversee them for healthy trading of securities.

(c) To register and regulate market intermediaries involve in the primary issues as well as the secondary trading of the securities.

(d) To regulate the public issues of securities including the mutual and trust fund.

(e) To monitor and supervise the securities transaction.

(f) To conduct conference, workshop and seminars and participate in such programs conducted in the regional and international level and join the forum and exchange with outside regulators.

(g) To conduct researches and studies along the area of security market.

Responsibilities of SEBO:

(a) Register securities and approve prospectus of public companies.

(b) Provide license to operate stock exchanges.

(c) Provide license to operate securities business.

(d) Give permission to operate collective investment schemes and investment funds.

(e) Draft regulation, issue directives and guidelines, and approve bylaws of stock exchanges.

(f) Supervise and monitor stock exchange and securities business activities.

(g) Take enforcement measure to ensure market integrity.

(h) Review reporting of issuer and listed companies, and securities business persons.

(i)Conduct research, study and awareness programmes regarding securities market.

(j)Coordinate and cooperate with other domestic as well as international regulators.

(k)Frame policies and programs relating to securities market and advice the government of Nepal in this regard.

The apex regulatory body of the Nepalese securities market, the SEBO has adopted following set of strategic policies to handle the strategic issues that inhabiting the growth and development of the market.

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

The governing Board of SEBO/N comprises of seven members representing various government and private sectors. The seven member board includes a full time chairman appointed by the Government of Nepal fore the tenure of four years. Other members of the Board are joint secretary form ministry of finance, joint secretary from ministry of law, justice and Parliamentary Affairs, a representative from Nepal Rastra Bank (the central bank), a representative from Institute of Chartered Accountants of Nepal, a representative from Federation of Nepalese Chambers of Commerce and Industries and a member appointed by the government of Nepal amongst market experts.

The major financial sources of SEBO/N are government grants, transaction fees from the stock exchange and registration fees of corporate securities. Other financial sources include fees from licensing and renewal of stock exchange, licensing and renewal of market intermediaries and income from mobilization of its revolving fund (SEBO: Annual report 2005/06: 7-9)

2.8 Regulation of Securities Market in Nepal

Securities markets are the mechanism for the trading of securities and it should be strictly regulated to stop the malpractices and to develop efficiently. A healthy corporate sector is vitally dependent on efficient transfer of funds from people who are net severs to firms who need capital. Securities market works as a medium to arrange such transfer of funds. Securities Board (SEBO) Nepal is the supreme body to regulate the Nepalese Securities market. It was established on 26 may 1993 under the provision of the Securities Exchange Ordinance 2005. SEBO works under the Ministry of Finance (MOF).

A number of institutional arrangements, legal reforms and policy stance are required to make the market allocationlly and operationally efficient. Securities Marketing Center 1976 was an outcome of this realization. Though established in 1976, then Securities Exchange Center (later converted into Nepal Stock Exchange) confined its activities in the purchase and self of government securities and management of few public issues of corporate securities till 1984. There was no separate regulation to regulate trading of securities till

Securities Exchange Act was enacted in 1983. The act prohibited the exchange of unlisted securities and entrusted the center with multiple role of a stock exchange, an operator in the stock exchange and regulator of the stock market.

Securities Exchange Center operated as stock exchange by listing corporate securities since Nov.1984. But these multiple roles were self-contradictory. Realizing it, the Securities Act (first amendment) 1992 was enacted in 1992, which came into force since 1993. This amendment converted Securities Exchange Center into Nepal Stock Exchange Limited which now acts as an organized exchange, and a separate regulator- Securities Exchange Board of Nepal (SEBO/N) has been constituted to regulate and promote the securities market in Nepal.

SEBO/N regulates both primary and secondary markets. To regulate primary markets different acts and laws have been passed. The public issue activities through the primary market are regulated by Securities Exchange Ordinance, 2005, the regulations and guidelines are made under the act as well as the company ordinance 2005. The related regulations and guidelines are securities exchange regulation 1993, securities registration and issue approval guidelines (frequently changed), and securities allotment guidelines 1997. Similarly to make the public issue it has made it mandatory to take services of an issue manager by the issuing companies. To regulate secondary market as well as the members, different Acts like Member of Stock Exchange and Transaction By Laws 1998 and Securities Listing By Laws 1996 have been passed. The prevailing securities legislation and other related laws are given below:

Prevailing securities legislations:

- Securities Exchange Ordinance, 2005.
- Securities Exchange Regulation, 1993.
- Membership of Stock Exchange and Transaction By Laws, 1998.
- Securities Listing By Laws, 1996.

- Issue Management Guidelines, 1997.
- Securities Allotment Guidelines, 1994.
- Securities Registration and Issue Approval Guidelines, 2000.
- Guidelines of Business of Ethics for Securities Brokers, 2001.
- Bonus Share Issue Guidelines, 2001.

Other related Acts:

- Company Ordinance, 2005.
- Insurance Act, 2005.
- Bank and Financial Institutions Ordinance, 2005.
- Foreign Exchange (Regulation) Act, 1962.
- Foreign Investment and Technology Transfer Act 1992, etc.

2.9 Initial Financing

When a company is formed, it obviously must be financed. Entrepreneurs have generated a continuous flow of successful new corporations. Some of the new companies managed to grow by their own bootstraps by borrowing and generating fund internally. Others sought out equity investment, often from wealthy families or established firms. In such situations, equity infusions are necessary. The initial investment in new corporations is called venture capital. Seed money is needed to provide a concept of product or service. Although, usually these needs are small several hundreds rupees or less and funded by the entrepreneur or angel investor on occasion venture capitalists will provide such financing.

Venture capital is significant innovation in the twentieth century. It is generally considered as a synonym of high risk capital. It is often thought of as "the early stage financing of new and young enterprises seeking to grow rapidly. It usually implies an involvement by the venture capitalist in the management of the client enterprises. It has also come to be associated with the financing of high and new technology based enterprises. The conventional financiers generally support proven technologies with established markets. But high technology is not a necessary condition for venture financing (Pandy: 963).

The venture capitalist's management approach differs significantly from that of a conventional banker or a lender. The banker does not directly get involved in the operation and management of the company. Venture capital is not widespread in developing countries. Only a few of them have made serious attempts to establish venture capital firms. Venture capital forms have been generally set up by development banks as subsidiaries or separately managed funds. Private sector venture capital firms are generally absent in developing countries.

The development of venture capital in developing countries suffers from a number of factors. A significant aspect is the paucity of funds. Development banks and commercial banks-promoters of venture capital firms in developing countries lack entrepreneurial approach. They are risk-averse and skeptical towards equity investment. It is also unlikely that they have the flexibility and managerial skills needed for venture financing.

The idea equity investor for start up companies must appreciate the risk involved, including the potential for a total loss of their investment, and must want to receive their financial return in the forms of capital gains. These venture capitalists are normally professional investor including investment managers controlling venture capital funds. Who accept the high risks associated with any specific investment by developing a portfolio comprising similarly high risk individual investment? One reason that new companies find venture capital firms attractive is that a venture capitalist typically view their investment as long term and are willing to wait several years before repaying their return (Ramesh Rao: 542). Almost always the stock is not registered for a period of years known as latter stock, it can not be sold until the issue registered, and therefore, the investors have no liquidity for a period of years.

2.10 Initial Public Offering

Very few new businesses make it big, but venture capitalist keeps sane by forgetting about the many failures and reminding themselves of the success stories. Most business begins life as proprietorships or partnership and the more successful one, as they grow, find it desirable at some point to convert into company. Initially these new corporation's stock are owned by firms, the company may decide at some point the company may decide at some points to go public. As a company continues to mature, it must eventually decide whether it should become a public company. If it chooses to go public, the procedures and alternatives for raising equity fund will define significantly from these uses by privately held company or a closely held company, which is control by small group.

If the private firm is successful, usually the owners will want to take the company with a sale of stock to outsiders often this is promoted by the venture capitalist, who wishes to realize a cash return on their investment. In other situations, the founders simply want to establish a value and liquidity for their stock. Whatever the motivation, a decision is reached to become a public corporation. While there are advantages to be a public corporation, there are disadvantages as well. The public company in US (and elsewhere) must confirm to SEC requirements in having a board of directors, disclosing sensitive information, having to employ certain accounting conventions, and incurring expenses as a public company not incurred by a private one. In addition there is an investor fixation on quarterly earnings. At times this is a hindrance to management in trying to take long term decisions (Van Horn: 601).

Going public means selling some of the company's stock to outside investors and then letting the stock trade in public market and desire to convert into corporations (Brigham: 698). Public offering of various securities like equity share (both ordinary as well as right share), debentures, bonds etc. to the general public by corporate as well as the government are made through the merchant Bankers (MBS). As such the MBs work as intermediates between the fund concerned groups (the general public and institutions) and the fund deficit group corporate to cater the needs of both through efficient fund mobilization. The MBs are mainly engaged in creating and expanding primary and secondary market for securities and money market providing advisory services to corporations as well as managing their investment for portfolio. Thus, public offering involves rising of funds for government or corporations from public through the issuance of various securities in the primary market and is often the only major sources of obtaining large sums of long term funds (Deepesh, Vaudy & Pravin Parafuli: 88)

Some of the biggest initial public offerings occur when government sell off their shareholdings in companies. Going public represents a fundamental change in lifestyle in at least four respects: (1) the firms moves from informal, personal control to a system control, and the need for financial techniques such as ratio analysis and Du-Pont system of financial planning and control greatly increases (2) information must be reported on timely basis to the outside investors even though the founders may continue to have majority control (3) the firm must have breadth of management in all business effectsively and (4) the publicly owned typically draws on a board of directors, which should include representatives of the public owners and other external interest group to help ultimate sound plans and policies (Western & Copland: 901-02).

Once the company makes a decision to go public, the first task is to select the underwriter. By issuing publicly traded equity, the firm establishes both the value for the company and a market for the common stock. This enhance liquidity for the firm's share allows the company to raise capital on more favorable terms since it co longer needs to compensate investors for liquidity associated with a privately held firms. With these benefits, however, comes cost. In particular there are ongoing costs for publicly traded firms associated with the need to supply information on a regular basis to investors and regulators. Furthermore, there are substantial one time costs associated with IPOs that can be categorized as either direct or indirect costs. Direct cost includes the legal, auditing, administrative and underwriting fees related offerings, on the dilution associated with selling shares of an offering price that is, on average, below the price prevailing in the market shortly after the IPOs.

Under pricing is a hidden cost to the existing shareholders. Fortunately it is usually serious only for companies that are selling stock to the public for the first time. The winner's curse may be a serious problem with IPOS, Would be investors in an initial public offering do not know how investors will value the stock and they worry that they are likely to receive a larger allocation of the overpriced issues. Careful design of issue procedure may reduce the winner's curse. The extent of this price pressure varies, but for industrial issues fall in the value of the existing stock may amount to a significant proportion of the money raised. This pressure is due to the information that the market reads into the company's decision to issue stock.

Self registration reduces the time taken to arrange a new issue, it increases flexibility, and it may cut underwriting costs. It seems best suited for debt issues by large firms that are happy to switch between investment banks. It seems less suited for issues of unusually risky or complex securities or for issues by small companies that are likely to benefit from a close relationship with an investment bank. If the company plans to sell stock to raise the new capital, the new shares may be sold in one of five ways: (I) on a pro-data basis to existing to existing shareholders through a rights offering (II) through investment bankers to the general public offering (III) to single buyer (or very smaller buyers) in private placement (IV) to employees through employee stock purchase plan and (V) through a dividend reinvestment plan (Brigham:701)

2.11 New Issue Market

The new issue market is a primary market, because it is concerned with the creation of new financial claims. It provides an organization which may be used by deficit unites to raise fund from surplus unites. A number of securities are issued by companies in the new markets, they include-

(1) Equity share: Equity share represents the ownership position in the company. The holders of equality shares are owner of the company and they provide permanent capital. They have voting right and receive dividend as the discretion of the board of directors.

(2) Preference share: The holder of preference share have a preference owner of the equity in the event of liquidation of the company. The preference dividend rate is fixed and known. A company may issue preference share with a maturity period called redeemable preference share. Preference share may also provide for a accumulation of dividend. It is called cumulative preference share.

(3)Debenture: Debenture represent long term loan given by holders of debenture to the company. The rate of interest is specified and interest charges are treated deductible expense in the hand of company. Debenture may be issued without an interest rate, are called zero interest debentures. Such debentures are issued at a price below than their face value. Therefore they are called deep discount debenture/bond.

(4)Convertible securities: A debenture or preference share may be issued with the future of being convertible into equity shares after a specified period of time at a given price. Thus, convertible debentures will have features of a debenture as well as equity.

(5)Warrants: A company may issue equity share or debenture attached with warrants. Warrants entitle an investor to buy equity share after a specified time period at a given price.

(6)Cumulative convertible preference share: This is an instrument giving regular return at zero percentage during the gestation period from 3-5 years and equity benefit thereafter introduce by government in 1994. Cumulative convertible preference share has however of return been consider being too low in the initial year and the provision conversion into equity was also unattractive if the company fail to perform well.

(7)Zero coupon bond and convertible: These are two new instruments that have been floated by certain companies. Their overall impact and popularity will be known only during the years ahead.

2.12 Pre-emptive Right

Common stockholder often have the pre-emptive right to purchase any additional share sold by the firm. If the pre-emptive right is contained in a particular firm's charter, the company must offer any newly issued common stock to existing shareholders. If the charter does not prescribe a pre-emptive right, the firm has the option of selling to its existing shareholders or to the public at large. If it sells to the existing shareholders, the issue is called a right offering. Each shareholder is issued an option to buy a certain number of new shares and the terms of the option are listed on a certificate called a stock purchase right or simply a right. If a shareholder does not wish to purchase any additional shares, then he/she can sell the rights to some other person who want to buy the stock (Brigham:701).

The common stockholders are the owner of a corporation and as such they have certain right and privileged. Stock right provides holders with the privileged to purchase additional share of stock based on their number of owned shares.

Right are important tool of common stock financing without which shareholders would run the risk of losing their proportionate control of the corporation (gitman: 607). Under a preemptive right, existing common stockholder have right to preserve their proportionate ownership in the corporation. If the corporation issues additional stock they must be given right to subscribe to the new stock so that they maintain their pro-rata interest in the company (Western & Brigham: 570).

A corporate offering to existing shareholder prior to public description is termed as (uninsured) rights offering. A pre-emptive rights is the privilege of existing shareholders to participate in a right offering. Shareholders are granted pre-emptive right either by common law or explicitly by the corporate charter. A corporation may have the right to amend the article of it's incorporation to limit or deny this preemptive right. (Hanley & Ritter: 250). The purpose of pre-emptive right is twofold. First, it protects the power of control of present stockholders. If it were not for this safeguard the management of corporation under criticism from stockholders could prevent stockholders from removing it from office by issuing a large number additional shares and purchasing these shares. Management would thereby secure control of the corporation and frustrate the will of the current stockholders. The second and by for more important reason for the preemptive right is that it protects shareholders against a dilution of value.

The preemptive right gives the shareholders of a corporation the first chance to purchase newly issued common stock and newly issued securities convertible into common stock. The amount of newly issued securities that can be purchased by a stockholder is determined by the number of shares already owned in relation to the total share outstanding. As with many shareholders' right, it is possible for stockholders to waive the preemptive right at the time the common stock is purchased. If the charter denies the preemptive right, the stockholder automatically waive this at all time the stock is purchased. The exact status of the preemptive right varies somewhat from state to issue. Promoters may deny the preemptive right through a provision in the charter to this effects. It may be a burden to existing Stockholders.

2.13 Rights Offering

Instead of making an issue of stock to investors at large, companies sometimes give their existing shareholders the right of first refusal. Such issues are known as privileged subscription or right issues. A publicly held corporation can raise equity capital either by selling directly to investor or by issuing subscription right to its shareholders. Instead of selling a security issue to new investors, some firms offer the securities first to existing shareholders on a privileged subscription basis. Sometimes the corporate charter requires that a new issue of common stock or an issue of securities convertible into common stock be offered first to existing shareholders because of their preemptive right (Van Horne: 570).

A right issue involves selling of ordinary shares to the existing shareholders of the company. Right issues include the offering of additional shares to existing shareholder. These are offer in proportion to existing shareholders. When a company sells securities by privileged subscription, it mails to shareholders one right for share of the stock held. With common stock offering the right gives shareholders the option to purchase additional shares according to the terms of the offering. The term specifies the number of shares required to subscribe for an additional shares of the stock, the subscription price per share and the expiration date of the offering. The holder of the rights have three choices: (1) exercise them and subscribe for additional shares (2) sell them because they are transferable or (3) do nothing and let them to expire.

Under the right offering, the stockholders are provided a document called "right" which describes all about the conditions of right issue. Each shareholder receives right in the proportion of share currently held. In many countries 'right' is negotiable instrument and therefore transferable and negotiable because while somebody may have sufficient money exercise the rights and they may actually exercise such rights, some others may not have the money to exercise all the rights. Though, a right is legally transferable separate instrument that is mailed to existing shareholders for each stock held, while observing the right offering practices of Nepalese companies there is a complete absence of such instrument. Shareholders are not mailed the rights nor can they buy or sell it separately. All the terms and conditions are mentioned in the issue prospectus and this is distributed to the existing shareholders. On the basis of these information available for additional shares if they want to do so (Shrestha: 27-28).

The holder of record date is prefixed by the board of director (BOD). Investors receive the right to subscribe whose name is in the company record before the record date. The stock is said to sell with rights-on till the date of record and after that it goes to ex- rights. The investor who buys the stock attached with right after the record date does not receive the right to subscribe for the additional stock. The price of the new share in a right issue is normally fixed at a level somewhat below then current market price of the shares. But this lower price should not generally diminish the wealth of the existing shareholders. This is because, for shareholders, who do not choose to take up the allocation, the fall in the price is comparable to the inconsequential decline which accompanies a capitalization issue or stock- split. And shareholder, who chooses not to take up the allocation of the new shares can sell their rights to the new shares in the period before the payment is due. Consequently only irrational shareholders who neither subscribe for new shares nor sell their rights will see their wealth reduced. The company can, therefore, set a price for the rights issue sufficiently low to ensure that the rights will be exercised without fearing any adverse wealth implications for its existing shareholders. Right is an option. Shareholders option to purchase a stated number of shares at a specified price during a given period of time is called rights. Rights are also known as subscription warrants, are issued to give existing shareholder their preemptive right to subscribe to a new issue of common stock before the general public is given an opportunity. When the rights are issued for raising finds, there are involved: (i) the number of rights needed to buy one new share (ii) the theoretical value of right and (iii) the effects of right issue on the value of ordinary shares.

Right can be exercised at subscription price which is generally much below then current market price. It is exercised if the value of right is high and also if the shareholder is major stockiest, who wants to control on management by electing as a director, then he will exercise them. Rights can be allowed to expire if the value of right is negligible (Subscription price almost equal to market price) or stockholder own a few number of shares but as an irrational shareholder, who neither exercise nor sell his rights.

2.14 Right Offering Vs Public Offering

By offering common stock first to existing Stockholders the company taps investors who are familiar with the operation of the company. The principal sales tools is the discount from the current market price where as with a public issues, the major selling tool is the investment banking organization. When the issue is not underwritten with a stand by arrangement, the flotation cost of a right offering are lower than the cost of an offering to general public. Therefore, there is less drain in the system from the stand point of existing shareholders. Moreover, many stockholders feel that they should be given the first opportunity to buy new shares.

There is lower flotation cost of rights offering compared to public offering. The subscription chance of right offering is higher as the subscription price is much less than current market price than the public offering is higher as the subscription price is much less than current market price than the public offering. Offering these advantages in the minds of some is that a right offering will have to be sold at a lower price than will an issue to the general public. If a company goes to the equity market with reasonable frequency, this means that there will be with public issues. Even though, this consideration is not relevant theoretically, many companies wish to minimize dilution. Also a public offering tends to result in a wider distribution of shares, which may desirable to the company (Van Horne: 574). The chance of more declines in market price after the announcement is higher in case of right offering.

2.15 Stock Split Vs Stock Right

In the area of stock splits and stock rights misconception also exist to confuse unwary. In theory, stock splits, no problem: they are as value less to the investors as stock dividend. Simply reading "2-for-1 stock split instead of 100% stock dividend" the meaning remain unchanged. Similarly, an action taken by a firm to increase the number of shares outstanding, such as doubling the number of shares outstanding by giving each stockholder two new shares are formally held. Stock split generally used after a sharp price run up to produce a large price reduction. In theory, split should reduce the price per share in proportion to the increase in share because splits merely 'divide the pie into smaller slices'. However, firm generally split stock only if (i) the price is quite high and (ii) management thinks that future is right. Therefore, a stock split is often taken as positive signals and thus boosts stock prices. A share/stock split means that the nominal value of share capital on the balance sheet is unchanged. (Shrestha: 36). Right share is different from stock split.

Stock right is a method of raising fund from existing shareholders. These are offered in proportion to existing shareholders. A more lengthy analysis, however, is required to reveal the exact nature of Stock rights. The offering of new stock to existing by means of rights is intimately of connected with that of dividends. Companies generally offer right option at a price below market value to existing shareholders on preemptive basis. It as a stock dividend to the company.

2.16 Right Share Vs Bonus Share

Right issue and bonus share are very similar. They are used for different purpose. Right are important tool of common stock financing. Shareholder would not lose the control power and would not reduce the wealth position. The subscription price is lower than market price. The paid up capital and net worth of the company will change in Right issue. Bonus share is known as stock dividend. Since bonus share is a form of dividend that a company provide to its stockholders. Bonus share is also understood synonyms to the stock dividend. Stock dividend paid in additional share of stock rather than in cash. It simply involves a transfer of retained earnings to the capital amount. In a bonus issue, the nominal value per share stay the same and the new shares are issued by capitalization existing reserve. The share capital shown on the balance sheet does not increase but other reserves are be decreased by the same amount (Manandhar: 4).

With a bonus issue, the number of shares increased through proportional reduction in the book value of the stock. As a result, the worth of the company remains unchanged. A bonus is different from right issue. A bonus does not raise any new capital. It merely increases the nominal amount of the issued share capital by the company utilizing its undistributed profits in paying up for the new shares. Company declares for bonus share because it may hesitate to declare dividends as such rates, which are likely to be criticized by the trade unions and the consumer.

2.17 Stock Repurchase Vs Stock Right

In recent past, firms have increased their repurchasing of share outstanding (common stock in the market). Under a stock repurchase plan, a firm buys back some of its outstanding stock there by decreasing the number of shares, which should increase both EPS and stock price. Repurchase are careful for making major changes in capital structure as well as for distributing temporary excess cash. A stock repurchase is made a number of reasons: to obtain share to be used in acquisition to have shares available for stock option plans, to achieve again a book value of equity when share are selling their book value or merely retire outstanding shares. Corporation in need of additional equity capital, some times offer new issue of common stock to their present stockholders called voluntarily because they can market the issue most economically in this way, when this is done an individual is given to the present stockholder purchase the stock offering it to them at a price below the current market price for the corporations outstanding shares. For this reason such offering are known as privileged subscription. Each shareholder is given one right for each share of stock owned. The right represents an option to purchase new shares of stock at the price fixed by corporation.

2.18 Value of Right

The market value of a right is a function of the present market price and the number of rights required purchasing an additional share of stock (Van Horn:494). The theoretical share of one right after the offering is announced while the stock is still selling rights on is:

$$Vr = \frac{Po - Ps}{\# + 1}$$

Where:

Vr = Value of one right

Po = Right on price of the Stock price

Ps= Subscription price

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

When the stock goes ex-rights the market price theoretically declines, for investors no longer receive the right to subscribe to additional shares. The theoretical value of one right when it goes ex-right is:

$$Vr = \frac{Pe - Ps}{\#}$$

Where,

Vr = Ex-right value of one right

Pe = Ex-right price of the Stock price

Ps = Subscription price

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

2.19 Market Vs Theoretical Value of Right

We should be aware that the actual value of a right may differ somewhat from its theoretical value on account of transaction costs, speculation, and the irregular exercise and sale of right over the subscription period. However, arbitrage limits the deviation of actual value from the theoretical value. If the price of the right is significantly higher than its theoretical value, stockholder will sell the right and purchase the stock in the market. Such action will avert downward pressure on the market price of the right and upload pressure on the market price of the stock. If the price of right is significantly lower than its theoretical value, arbitragers will buy the right; exercise their option to buy stock, and downward pressure on its theoretical value. These arbitrage actions will contribute as long as they are profitable.

The market price of right will generally differ from its theoretical value. The extent to which it will differ will depends on how the firm's stock price is expected to behave during the period when the right is exercisable. By buying right instead of the stock itself, investors can achieve much higher returns on their money when stock price rise (Shrestha: 36).

2.20 Significance of Right Offering

A company needs additional capital resources for different purposes. It may be for expansion, construction of new project. Financial institutions grading. Loans may require the company to bring capital in desire proportion to the loan capital. Under the circumstances it is desirable to solicit additional capital for expansion from people who have a special interest in the welfare of the corporation, such as corporation's own shareholders and it also a least costly way of capital.

(a) Permanent capital:

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

(b) To Indicate Higher Profit:

Normally right share is an indication of higher future profits, right share usually declare only by board of directors who except rise in earnings of offset the additional shares. Board of directors does not want dilation of earnings therefore must invest on profitable opportunities.

(c) To bring the market price of share within more popular Range:

Right shares effects to increase in the number of outstanding shares and to decrease in share price. A share has a strong performance that leads to an increase in market value than popular range. Then the management of the firm determines that the price of the share is higher than (moving and of) the popular trading range and decides a right share would be useful to bring the high-priced share within the popular range. Where smaller investors also able to trade and can include in their portfolios a large number of different stocks.

(d) To increase the Number of Outstanding shares:

Issue of right share obviously increases the number of outstanding shares which again promotes the active trading in the stock market. Small investor may be unable to trade the minimum unit if this requires a large number of money. A reduction in share price and holding additional number of shares unable them to trade and to diversify in their portfolios.

(e) To have positive Psychological value:

The announcement of right is perceived as favorable news by the investors in that with growing earnings, the company has bring prospects and the investors can reasonable took for increase in future dividends. As the investors take the right share in an effects to invest cash for profitable investment opportunities, the share prices have positive psychological value. Instead of experiencing a drop in value after a right share, the price may actually raise. Pre-emptive right gives the shareholders the protection of preserving their pro-rata share in the earnings and control of the company.

(f) To Retain Proportional ownership for shareholders:

There is another alternative to meet company's additional equity capital through issuing in capital market. If the existing shareholders do not have the funds to purchase a new equity, their proportion of the ownership in the firm will decline. This can be avoided by right share which is only way to increase capital. Each shareholder receives a number of additional shares proportionate to his original holding. Right offering allows stockholders to maintain their proportionate ownership in the corporation and typically allow the corporation to raise new capital less expensively. If shareholders do not want to lose their proportional ownership in the company, they may not sell their shares.

(g) To decrease flotation cost:

Raising fund through the stock of right issue rather than the public issue involves less flotation costs as the company can avoid under-writing commissions. In the absence clear pattern in price behaviors of the adjustment in market price of the stocks may be affected. Through rights issuing, the true or adjusted down ward price pressure may actually be avoided. The flotation costs to issuer associated with a right issuing will be lower then the cost of public flotation.

(h) To be successful on subscription:

In the case of profitable companies, the issue is more likely to be successful since the subscription price is set much below than current market price. It is not very practical to attempt to issue these new shares at a premium to the existing price, because a rational new investor would prefer to buy existing shares directly in the market rather than more expensive new ones from the company.

(i) To Achieve a More Respectable Size in the Market:

After right share issue by a company, every shareholder receives additional share proportionate to original holding. Some of the old shareholders may sell their new shares. As a result a corporate firm may achieve a more respectable size in the capital market.

(j) To Fulfill the Legal Requirement Imposed by the Authority:

In the context of Nepalese Banks, Nepal Rastra Bank imposed legal requirement for increasing the equity base at certain standard level. Therefore the right share issue enthusiastically increased. To fulfill their legal requirement, Nepalese corporate firms practice raising the additional capital from the existing shareholder because of the lower cost fund, less flotation cost and to avoid the difficulties in raising public issues.

(k) To avoid External Incontinent:

Investment financed from external sources is subject to screening by outside agencies as to its related profitability but investment financed generally from existing shareholder find it subject to no such check.

(l) To Expand Company:

When a company wished to expand, it may well request extra cash from its shareholders by way of right issue to finance that expansion (Shrestha: 31-33).

2.21 Procedures of Right Offering in Nepal

A company can make right to its shareholders after meeting the requirements specified by the securities Board. These shareholders who renounce their right are not entitled for additional shares. Shares becoming available account of non-exercise of rights are allotted to shareholders who have applied for additional share on pro-rata basis. Any balance of share left after issuing the additional shares can be sold in the open market. Right issues are conducted in Nepal in accordance with provision mainly in company act 2063 and rules, regulation set aside by SEBO/N. the actual mechanisms and the sequence of events in the case of rights issue are somewhat complicated and it will therefore be useful to outline briefly the actual procedure by which a rights issue practice is typically made in Nepal. Company must follow certain rules and regulations as mentioned in the company act and their respective memorandum and article of association. In Nepal the actual mechanism and sequence of events in the case of right issue are somewhat complicated.

At present context, generally the following procedures are considered before rights offering.

- The BOD should consider about that the determination of the quantum of further capital requirement and the corporations in which the rights issue might be offered to existing shareholders.
- AGM should pass the proposal of BOD by its majority.
- Company should notify NRB, Nepal Stock Exchange, Office of the Company Register and SEBO/N sufficiently with prospectus in advance of the date of board of record meeting at which the rights issue is likely to be considered, and should get permission from them.
- Make announcement with prospects which gives the general indication of the reasons, which have made the issue desirable, the purpose for which the new money is to be used.

- Send letter provisional allotment of rights offering to the shareholders with prospects. This letter will advise the shareholders about the rights offered, the number of new shares allocated to each given number of old shares, the price at which shareholders will qualify for the right issue. This letter will be sent after the date of announcement.
- After the receipt of the letter of provisional allotment, the allotment must be accepted or renounced, in payment in full or partial must be made for those shares which are renouncing.
- The certifications are distributed to the shareholders who participated in the rights offering announcement. Shareholders who have accepted and fully paid up their allotment can renounce the actual share certificate in favor of a third party. Because of nontransferable instrument such practice are not seen in Nepalese context.
- The resolution of the board of director to distribute the right share had to approve by shareholder's AGM. This is very low chance that the resolution of the board of director's is disapproved by shareholders.
- Listing of the shares in the NEPSE again with increased number which must be approved by the stock exchange after which an application for listed new share could be made.

4. Review of Previous Studies

a) Mr. J. Welleger Kenneth had done a research on 'An analysis and Appraisal of rights offering as a method of Raising capital' in 1979. His study concerned with the technique of raising equity capital through the process of offering new share of common stock to the present owners at a price below the current stock price. Funds, therefore, are supplied to the corporation by the original owners and by the purchase of right. There is a marked tendency for 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 price decline and adjustment for changes in general market. A statistical analysis of the major issue of 1956 and 1957 indicates that the average price decline was 5.97%. The measure varied fro m4.07% for utilities to 8.04% for industries. A considerable portion of the decline took place shortly before the actual rights period.

b) 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 evidence in subscription is not 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 method of collection and reporting. Several factors influence the demand for shares by the existing holders. The fact that subscription is available at price below the market is important to some. Others are influenced by special purchasing privileges, the relative size of the required additional investment, and general attitude towards the future of the company. The corporation can reduce the cost and inrease the effectsiveness of rights offering. Different concepts of 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 cost associated with dilution can be controlled though the pressure on price of the stock during the issue.

c) Mr. Paul Marsh did research on 'Valuation of underwriting agreements for UK right issue'. UK companies raise virtually all of their new equity via the right issue method. Companies can guarantee the subscription of their issue the having them underwritten (The equivalent of stand-by arrangements in the USA), and in recent years this procedures has been adopted for 90% of UK right issues. Underwriting is usually carried out a fixed fee basis representing at least 1.25% of the money raised, and hence it is clear that quite substantial sums of money are involved. Since underwriting i simply a put option giving the company the right to put a failed issue into the underwriter. When a company make a right issue, iti s a London Stock Exchange requirement that at least three weeks should elapse between the ex-right date and the date of offer expires. If the share price falls below the stock price by the last acceptance date, shareholders will not take up their rights, since shares could be bought more cheaply in the market.

Mr. Paul Marsh did research on 'Equity Right issue and Efficient of the UK stock market in 1979. In the UK, as most other European countries, quoted companies raise virtually all their equity capital via the right issue method. In recent years some £1 to 1.5 billion has been raised in this way each year on London Stock Exchange, servicing to indicate the importance of equity right issue as a topic in corporate finance. This describes an empirical study on UK rights issues involving various test of semi-strong form market efficient with respect to the announcement of rights issue. 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 the company's share, 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.

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 stress, 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 importance and helped us to place our results in better prospective. 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.

These problems make our results harder to interpret in trying to reach conclusions on market efficiency. While it seems clear that an equity weighted portfolio of rights issue would have out performed the broadly based market value weight FTA index, it seems unlikely that this has anything to do with right issues as such.

Instead, it appears to reflect the 'company size' factors which was a work during the period. It seems fair, therefore, to conclude that our results do not furnish only very strong evidence of significant market inefficiencies associated with right issues. Because of this, we can not reject the hypothesis that the UK market is efficient with respect to rights issues announcement. Quoted companies appear to be able to sell reasonable amount of new equity at effectsively the current market price, and do not appear to face a down-ward sloping demand curve for their issues. 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 appears to be a highly liquid market.

d) In 2001, Mr. Bamsdhar Gautam had done research on 'An analysis of hare price movement attributed to Right offering announcement". His primary objective was to find the effects of right issue announcement on share price movement. Mr. Gautam selected five companies as sample out of eight companies that offered right issue. He had used both descriptive and analytical research designs in order to accomplish his research objective. The analysis covered the period of five years from 2052 to 2056 B.S. To attain his research objective he has used conclusion analysis and t-statistics. From the analysis, he found that share price movement due to the impact of right offering, an average can not be generalized for all companies. This depends upon the company specific.

e) In 2002, Mr. Pradhumna Upadhaya had done research on 'Right Issue Practice in Nepal and its Impact on Share Price of Listed Companies.' His main objective was to find out if there are significant changes in share price after the announcement of rights offering. He used descriptive and analytical research approach in conducting the research. Among 115 listed companies at that time, only 15 companies had issued rights. Among them, he had taken sample of 4 companies; three of them were banks and one is from service sector. He used primary as well as secondary data, T-statistics and correlation between NEPSE index and stock price, size of issue and ratio of right issue to equity capital. He used five time series data; three months before announcement date, ten days before announcement date, the day of announcement, seven day after announcement and six months after announcement to conclude that share price movement due to the impact of rights offering can not be generalized for all companies and for the growing companies that have good investment prospects and has shown a sound financial position in the past, the announcement of rights offering serves a happy news to the existing shareholders and they show their positive response to it, which reflects in the increase in share price and higher rate of subscription. His study is unable to describe the holder of record date which is the important variable in right issue phenomenon. His study remains silent about the wealth position if the existing shareholders are unable to subscribe their rights as the right can't be sold. Another fact is that he used data of five year period, much of infancy stage right offering, that may have brought another result.

f) In 2004, Mr. Suvas Lamicchane had done research on 'Right Issue Practice in Nepal and Its Impact on Market Price of Share'. His main objective was to identify if there is significant changes in share price after the announcement of right offering. Historical and ex-post facto research design was used by him. Among 108 companies listed, 18 companies had issued right share till that date. He had selected 5 right issuing companies; 2 from finance companies, one from merchant bank and one from service sector. He had collected data from secondary as well as primary sources. He had used five different time periods; three others before announcement, the day before announcement, the day announcement, seven days after announcement and six months after announcement after announcement correlation-T-test etc. was used as statistical tools. The variables used were: subscription price, subscription ratio, total issue, total subscription, the frequencies of the right offering etc. The NEPSE index and stock price of five different time period were used to conclude that share price of majority of companies were affected by right offering announcement.

g) In 2005, Mr.Pratap Narayan Shrestha had done research on 'Right Share and its impact on market price of the stock'. The focus of the study is to study the effects of right issue and its impact on stock price movement. He had followed descriptive, analytical and ex-post facto approach of research design. Among 114 companies listed in NEPSE 24 companies have issued right share by 27 cases. He had taken 8 companies as sample; 4 commercial banks, 3 development banks and 1 from others. He had used the variables like: subscription price, subscription ratio, total issues vs. total subscription and frequencies of the right offering. The value of right, ex-right market price was also used. Mean, standard deviation and hypothesis testing by t-test, correlation etc. were used in his study. The NEPSE index and price of stock of five different times period was used to conclude that share price movement due to the impact of right offering can not be generalized for all companies. He had used stock price and NEPSE index of five different periods: three months before announcement date as base period, ten day before announcement, the day of announcement, seven day after announcement and six month after announcement. The holder of record date is neglected in his study.

CHAPTER- III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a systematic way to solve the research problems. It describes the methods and process applied in the entire aspects of study. Every research should be outlined in the systematic manner for that reason. In fact, research methodology is a way to systematically solve the research problem. The purpose of this chapter is to discuss the research methodology such as research design, population and sample, data collection techniques and analytical tools of the research study.

To conduct the study, descriptive-cum analytical research approach has been adopted. Descriptive approach has been utilized for conceptualization, problem identification and for conclusion and suggestions. Simply statistical tools like test of significance, correlation etc. have been used for analyzing data.

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 (CR Kothari 1990.P 50). In other words, research design in the plan structure and strategy of investigation conceived so as to obtain answer to research question and to control variances (FN Kerlinger, 1978 p 300). As the principal objective of the study is to analyze the informational effects of right issue of share on stock price, it is not experimental one. This study is an 'ex-post facto' research because no variable in this research study is manipulated during the study period.

3.3 Population and 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 individuals under study is known as population. A finite subset of the population, selected from it with the objective of investigating its prospective is called a sample and the number of units of sample is known as sample size. The study of small portion and making a conclusion about the group based on the observation is the simple meaning of sample. Sampling is a tool which enables as to draw a conclusion about the characteristics of the population after studying only those object or items that are included in the sample.

There are altogether 135 listed companies in the NEPSE Ltd. categorizing under seven different sectors. Up to end of fiscal year 063/64 only 59 cases of right issue have observed is regarded as size of total population. On the other hand, only 11.11 percent is commercial banks listed in NEPSE with paid up value of 42.58%, annual turnover of 66.55% and the market capitalization of 72.78%. Thus, commercial banks are the sample. The number of commercial banks issuing rights share as an instrument to raise capital till at the end of F/Y 2063/064 are 13 cases by 10 banks. Thus the sample has restricted to those rights issuing commercial banks whose equity share showed a sufficient frequency of trading so that the necessary price quotations would be available.

Sample of the right issuing companies:

1. Everest Bank Ltd.
2. Bank of Kathmandu Ltd.
3. Nepal SBI Bank Ltd.
4. Nepal Investment Bank Ltd.
5. Nepal Bangladesh Bank Ltd.
6. Kumari Bank Ltd.

7. Machhapuchre Bank Ltd.
8. Lumbini Bank Ltd.
9. Siddhartha Bank Ltd.

3.4 Sources and Techniques of Data Collection

Data are considered as an integral part of research. In order to make the study more reliable and coherent secondary sources have been applied here while collecting data, facts and statistics. In this study secondary data are collected from different sources i.e. SEBO/N, annual report of respective companies, NEPSE, some related information is taken from economic survey and from internet websites.

3.5 Coverage of Data

This study covers the right issue made by commercial banks whose shares were listed in SEBO/N. this study throws light on several aspects of the corporate financial polices and practices regarding rights offering such as: subscription price subscription ratio, total issue Vs total subscription of the right shares, the frequencies of the right offering by an individual company and the legal provisions regarding the rights offering. The analysis covers the period of 14 years (1993/94 to 2006/07) and probably makes available for the first time an overall picture of the prevailing practices among Nepalese companies with regard to rights offering. The result obtained from the analysis has been clearly interpreted so as to depict the exact finding of the study. Details of useful information have been presented in the appendix at the end of the study.

3.6 Method of Analysis

Specific financial and statistical tools are used in the research. The analyze data is done accordingly to pattern of data available. The relationship between different variable related to study would drawn out by using financial and statistical tools. The calculated results are tabulated under different heading.

3.6.1 Financial Tools

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

I. No of new shares to be issued to raise the funds:

The price per share for additional equity, called the subscription price is left to the discretion of the company. The number of new shares can be calculated by using this formula.

No of new shares issued throw right= $\frac{\text{Funds to be raised}}{\text{Subscription price}}$

Where,

Funds to raise = Additional (amount) capital. Which is needed by a firm to raise (increase) its capital.

Subscription price = this is the price at which the corporation has agreed to sell the securities to existing security holders or their assignees.

II. No. of rights needed to buy a share of stock:

The number of rights required to subscribe to an additional share is calculated using the issuing company and it is calculated by using this formula.

No. of rights required to buy one new share = $\frac{\text{No. of old shares}}{\text{No. of new shares}}$

III. Value of right:

The market value of right is function at the present market price of the stock, the subscription price and the number of rights required to purchase an additional share of stock. The theoretical value of rights, while the stock selling rights-on, is calculated by using following formula.

$$Vr = \frac{Po - Ps}{\#+1}$$

Where,

Vr = Theoretical value of rights while stock is selling right-on.

Po = The market value of each stock selling right-on.

Ps = Subscription price per share.

= No of rights required to purchase one share of stock.

IV. Ex- right value:

When the stock goes ex-right, the market price theoretically decline, for investors no longer receive the rights to subscribe to additional shares. The theoretical value of one share of stock when it goes ex-right is calculated as:

$$Px = \frac{(Po \times \#) + Ps}{\# + 1}$$

Or, Px = Po - Vr

Where,

Px = Price of the stock when it goes ex-right.

Po = Market price of each share when stock is selling right-on.

Ps = Subscription price per share.

= No. of rights required to purchase one share of stock.

Vr = Theoretical value of each right.

3.6.2 Statistical Tools

Statistical tools help to measure the relationship between variables. In this study following statistical tools are used.

I. Mean

Arithmetic mean of a given set of a observation is their sum divided by the number of observations. It is denoted by $\overline{X}$ and is computed as:

$$\overline{X} = \frac{\sum X}{N}$$

II. Standard Deviation:

Standard deviation is a measure of dispersion of possible outcomes around the expected value of a random variable. It is a weight average deviation from the expected value and it gives and idea of how far above or below the expected value the actual value is likely to be.

III. Hypothesis testing:

Testing of hypothesis begin with a assumptions called hypothesis that we make about a population parameter for the purpose of testing whether the assumption or hypothesis is valid or not, a sample is selected from the population, sample statistics is obtained to observe the difference between sample mean and population hypothesized value, and the test is done whether the difference is significant or insignificant. Each hypothesis is set as null and alternative hypothesis.

Null Hypothesis:

The hypothesis of no difference, which is under statistical test, is known as null hypothesis. It is usually denoted by Ho.

Alternative Hypothesis:

Any hypothesis that is complementary to the null hypothesis is called alternative hypothesis. It is usually denoted by H1.

3.7 Rights Offering and Valuation of its Equity

The section deals with the question to whether the aggregate market value of a company's equity increases as a result of right issues. It traces the immediate market reaction to a right issue. It may be noted that the problem with which the researcher is concerned here is not how the cum- right share price (or the rights on share price) changes into ex-right prices. The real problem is how a decision to issue rights shares affects the market valuation of the aggregate equity of an enterprise. Such effects will take immediately after the decision becomes known and much before the date of actual issue of rights shares or the date from which the share quotation on the stock exchange changes from cum rights to ex- rights.

3.8 Method of Measurement

I. Allowance for leakage of information:

Information about the director's intention to issue right shares may leak out in many cases some weeks before the date of directors meeting, such as when the agenda papers are circulated. If this happened, the price rises as a result of the impending decision may take place much before the directors' actual decision. There may also be the cases of insiders taking advantage by making purchase in advancement of the official announcement so that the market price begins to rise even before the actual announcement. For these reasons, the true price effects of the rights issue decision can be measured only going back at least some weeks before the formal announcement of the board's decision to recommend rights issue. Thus, for the analysis the based rate for measuring relative change in share price as a result of rights issue is the date three months prior to announcement date.

II. Removing the effects of general market movement:

Measuring the share price effects of the rights issue involves a comparison of share prices at different points of time. In day to day practice general price movement also affects a particular share price. If the particular share price is found to rise by 10 percent since right announcement, this can't be attributed to the rights offering if, over sample period, share price in general have moved up by 10 percent or more. On the other hand if a particular share price just remains unchanged in the face of declining market trend, the strength may well be due to rights issue. Hence, the isolation of the effects of the rights issue necessarily requires the elimination of the general market movement.

III. For the purpose of analysis five different times where selected for observing the price movement with the announcement date as the point of reference. The selected points are:

(a) Three months before announcement date (the base date). It is taken as base date simply because for that period the existing shareholders are supposed not to have any information about the BOD's intention to issue rights shares. Hence, there will not be any kind of signaling effects on the share prices.

(b) Ten days before announcement date: only a very limited shareholder does know about it and that does not bring any material on the share price behavior of the stock.

(c) The day of announcement.

(d) Seven day after announcement: When the companies explicitly announce the issue of rights share, there will be a relatively high demand of the rights-attached shares and this phenomenon causes the share price to rise. This period is supposed to depict the true picture of the share price of post announcement stock.

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

Although the price movements over the five points of time have been observed, the focus of our analysis will be on the price change from the base date to dates represented by (b) and (d).

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

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

VI. Finally, the price relative against each of five points of time, as obtained in step (II) above was expressed as a percentage of corresponding index numbers as adjusted instead (III) above.

Simply, our procedure eliminating the effects of the general market movement boils down to adjusting the actual share price on any date downward in proportion to an upward general movement. Since the base and adjusting it upward in proportion to a downward general movement.

Thus, we get a series of five percentage for each of the shares in our sample representing relative changes in a share price of different points of time, after the effects of general market movement have been eliminated.

VII. Use of t test

T-statistic is also used to test the significance of the differences between the share price before and after the announcement of the rights offering by the companies. Since, the share prices of some transacted days (i.e. less than 30 transactions) are taken, t-test is a suitable tool for analyzing the significance of difference between the share price before and after announcement of the rights offering.

VIII. Statement of the Hypothesis

In order to carry out the study, t-statistics is used in order to test the significance of the difference between the share price before and after the rights offering under the following hypothesis.

a. Null; Hypothesis (H_0): There is no significance difference between the share prices before and after the announcement of the rights offering.

b. Alternative Hypothesis (H_1): Share prices are increased (or decreased) significantly after the announcement of the rights offering.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

This chapter makes systematic presentation and analysis of data. Analysis is based on the data obtained from secondary sources like annual reports of sample companies, publications of SEBO/N, NEPSE and Web sites. Appropriate statistical as well as Financial tools as described in the research methodology chapter have been used in order to derive actual results from the analysis of data. This is key chapter, as it helps achieve the objective of the study as mentioned in the first chapter.

4.1 Characteristics of Right Offering in Nepal

After the establishment of Biratnagar Jute Mills in 1936 A.D. (first to initiate the issue of equity to general public), the corporate stock sell took place. Due to the absence of organized and legally established capital market, practices of issuing of equity and related functions couldn't be exercised. After the establishment of security exchange centre in 1976 A.D., various practices of equity financing has initiated. Security exchange centre, after its establishment has undergone various changes and till the data security board of Nepal (SEBO/N) and Nepal Stock Exchange provides floor and it creates the secondary market.

The governing body SEBO/N has formulated various acts, regulate and guide even though the guidelines especially for right issue has not been formulated but it has been mentioned about the issue of rights related acts. After the restoration of democracy, the corporate sector has gone through a noticeable change. The period of over three decade could not bring perfect change in this practice. The reason behind is the various factors that as political enestablishment, low economic growth, unsustainable government policy, lack of industrialization and various prevailing factors.

After the political change in 1990 A.D., Nepal adopted liberalization policy. Therefore, some joint venture company participated in the Nepalese corporate sector. This has brought a significant change and has brought practices concerned with corporate sector. The history of right offering is not so long in Nepalese context. Nepal Finance and saving Co. Ltd., was the first company, who issued rights shares in Nepalese market in fiscal year 1995/96. The subscription ratio announced by the company was 4:1, each existing shareholders who had 4 shares, were allowed to purchase each additional share issued by the company.

Since, from the fiscal year 1995/96, Nepalese corporate firm started to issue rights share. Upto now (i.e. 2006/ 07) there are 59 cases of rights offering in Nepal. Almost all of them were finance and banking companies who issued rights share in Nepalese capital market. Large number of commercial bank and finance companies announce and issue rights share, to increase the capital base if the corporate management felt such need to comply with the policy directives given by the concerned authority to increase the capital base from the time to time. During the 14 years period 196 number of times were given the issue approval, out of these 59 times issued rights share.

4.2 Contribution of Rights Offering on Total Floatation

In the table below, it is shown that there are two cases of rights offering in Fiscal year 1995/96, three cases in 1996/97 and three cases in 1997/ 98. It is also shown that all the companies have issued rights shares at per value of the stock i.e. Rs. 100 but the subscription ratios differ from company to company. As per provision made in company act 2053, section 25 there is compulsion to issue shares (including rights shares) at Rs. 100 per value. That is why all rights has Rs. 100 per value.

Table No. 4.1

Contribution of Rights Offering in Total Flotation

Fiscal year (1)	Total public flotation (2)	No. of rights offering (3)	Amount raised through rights offering (4)	4 as percentage of 4 (5)
1995/96	293.74	2	69.00	23.49
1996/97	332.20	3	275.20	92.84
1997/98	462.36	3	249.96	54.06
1998/99	258.00	1	30.00	11.63
1999/00	326.86	3	124.60	38.12
2000/2001	410.49	2	131.79	32.11
2001/02	1441.33	5	621.87	43.15
2002/03	556.54	4	162.24	29.15
2003/04	1027.50	3	70.00	6.81
2004/05	1626.82	6	949.34	58.36
2005/06	2443.28	11	1029.32	42.13
2006/07	2295.50	16	1265.30	55.12
Grand total	11474.62	59	4978.62	43.39

Source: Annual Report, SEBO/N 2006/07.

The size of the amount of rights offering vary significantly from company to company which is highest in the case of Taragaun Regency hotels Ltd. amounting to Rs. 446.45 million and lowest in the case of Nepal Finance and saving Co. Ltd. amounting to Rs. 2 million.

The above table shows the contribution of right issue in the total public flotation in each of fiscal year in which the rights offering has taken place. The table shows that from fiscal year 1995/96, Nepalese Corporate Firms had been started right shares as a means to raise additional capital. During that fiscal year only two cases contributed 23.49% of total flotation of Rs. 293.74 million. In fiscal year 1996/97 there are three cases of rights issue that covers 82.84% of the total flotation of Rs. 332.20 million, during that fiscal year. This is the largest contribution of rights share in total flotation. In the fiscal year 1997/ 98 the three cases of rights offering covers 54.06% of total flotation. The contribution of right offering is much low in fiscal year 1998/99 i.e. only 11.63% that is only one case of right offering. In the fiscal year 1999/00, there are three cases of right offerings that covers 38.12% of the total public flotation of Rs. 326.86 million where the right offering amounted to Rs. 124.60 million.

In the fiscal year 2000/01, there are two cases of right issues that covers 32.11% of total flotation (i.e. Rs. 410.49 million). Similarly, in the fiscal year 2001/02, there are 5 cases of rights offering that contribute 43.15% of the total public flotation, while in the fiscal year 2002/2003 29.15% of the total flotation contributes the 4 cases of rights offering. In the fiscal year 2003/04, there are three cases of rights issue that contributes 6.81% of the total flotation of Rs. 1027.50, which is lowest in any of the fiscal year. The rights offering contributes 58.36%, 42.13% and 55.12% in the fiscal years 2004/05, 2005/06 and 2006/07 respectively in the total public flotation.

From the fourteen year history of the issue approval from the SEBO/N, one can easily notice an increasing trend of issuing rights share. During this period, SEBO/N has granted issue approval amounting Rs. 4978.62 million. This comes to be the second largest issue among various issues approved by SEBO/N. The largest issue is ordinary share. On the above table, on average, right issue covers 43.39% on the total flotation considering the right issuing fiscal year.

Subscription Price

As per the provision made in Company Act 2053, section 25 there is compulsion to issue shares (including rights shares) at Rs. 100 par value. That is why all rights issue has Rs. 100 par value and it is also seen that all the companies have issued rights shares at par value of the stock i.e. Rs. 100.

Subscription Ratio

The subscription ratio differs from company to company. It is within the rage of 5:1 to 2:1. The most common subscription ratio is 1:1. Most of the companies have issued rights share in 1:1 subscription ratio. In our sample of 9 companies, 4 of them have the subscription ratio of 1:1. 2 of them have 5:1 and others have like 4:1, 10:3 and 1:2. The Nepal SBI Bank Ltd. has offered highest subscription ratio of 1:2.

Holder of Record Date

The holder of record date is much before the announcement date for all the concerned companies. It is around 8 months to 1 months before the announcement date except the Nepal Bangladesh Bank Ltd. In case of Nepal Bangladesh Bank Ltd, the holder of record date is 5 days after announcement date. Theoretically, if it is some day, or week after the announcement date, the price of stock increase upto the holder of record. But that is not happening in case of sample banks.

4.3 Analysis of Informational effects of Right Issue on Stock Price Movement

To observe the price movement, five different points of time has been selected randomly. The selected points are I) three months before announcement date, which will be, base date for the price comparison II) ten days before announcement date III) the day of announcement IV) seven days after announcement V) six months after announcement date. As already mentioned in chapter III nine companies are considered for the analysis of the share price movement from commercial banks.

The main objective of this method of analysis is to eliminate the effects of the general market movement from our analysis otherwise stated, our procedure for eliminating the effects of the general market movements boils down to adjusting the actual share price on any date downwards in proportion to an upward general movement. For the analysis¸ it had taken one price and indices as a base and remaining price and indices are adjusted on the basis of proportion of the base. The purpose of this method of analysis is to eliminate the effects of the general market movement (i.e. there exists market imperfection; relevant information is not easily available to the investors; lack of technical knowledge, majority of the investors are unable to analyze the available information). Thus, we had taken one price and indices as a base and remaining price and indices are adjusted on the basis of the base. Thus, finally, we get a series of five percentage of each of the shares in our sample representing relative change in a share price at different points of time, after the effects of the general market movement has been eliminating.

Table No. 4.2

Analysis of Share Price Movement of Everest Bank Ltd.

Selected point of time	**Share price**	**Price relatives**	**Total price index of equity capital**	**Index relatives**	**% change from base**	**Adjusted price relative 2 as % of 4**	**% change from base**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I	875	100	375.07	100	-	100	-
II	710	81.14	334.50	89.18	10.82	90.98	(9.02)
III	701	80.11	333.60	88.94	11.06	90.07	(9.93)
IV	660	75.43	323.51	86.25	13.75	87.45	(12.55)
V	450	51.43	269.75	71.92	28.08	71.51	(28.49)

Source: Appendix A.

In case of Everest Bank Ltd. the share price was Rs. 875 three months before the announcement date, which rapidly decreased to be Rs. 710 on the date of 10 days before announcement. Market price of share was Rs. 701 on the day of announcement, which went further down and become Rs. 660 on seven days after the date of announcement. The decreasing trend of share price went on continuously and after six months of announcement, share price is only Rs. 450 which is just 51 percentage of base date price.

The market price of the share had decreased from base date to ten days before announcement and it continued to on the day of announcement. change in market price of the shares is 19.89 percentage. While observing total price index of equity capital, it also declined 375.07 on base date to 333.60 on the day of announcement. Such declination is 11.06 on the day of announcement. Therefore, the declination of market price of the share of Everest Bank from base date to the day of announcement is basically attributed to market trend. On the other hand, observing after the day of announcement market price of the share went further down and become Rs. 660.

Theoretically, market price of the share should have gone up for few days just after the right announcement. It did not happen in case of Everest Bank Ltd. due to holder of record date. The holder of record date is around 8 months before the day of announcement. It means obviously, that the investors who purchased the shares of Everest Bank Ltd. on the day of announcement or onwards were not entitled to buy rights share. It is quite contrary to the theory of rights issue. That is why, market price of share went down instead of increasing. Investors after the date of announcement, may had thought that:

a) number of shares were going to increase
b) Earning per share were going to decline
c) Ex-right price of share was going to decrease.

After six months of day of announcement (when it is believed that original price will be restored and the market shows normal price behaviour) the price of share was still declining trend and leveled up at Rs. 450 which seemed moving according to the principle of rights.

Table No. 4.3

Analysis of share price movement of Bank of Kathmandu Ltd.

Selected point of time	**Share price**	**Price relatives**	**Total price index of equity capital**	**Index relatives**	**% change from base**	**Adjusted price relative 2 as % of 4**	**% change from base**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I	1015	100	367.37	100	-	100	-
II	801	78.92	323.51	88.06	11.94	89.62	(10.38)
III	815	80.30	334.64	91.09	8.91	88.15	(11.85)
IV	460	45.32	321.96	87.64	12.36	51.71	(48.29)
V	315	31.03	259.75	70.71	29.29	43.88	(56.12)

Source: Appendix A.

The column I of the above table shows that the actual price of Bank of Kathmandu decreased from Rs. 1015 to 801 from base date to ten days before announcement date. It is Rs. 815 in the day of announcement whereas it is Rs. 460 seven days after announcement and Rs. 315 six months after announcement. This shows that was a rapid decrease in the actual price movement except on the day of announcement. Total price index of equity capital also seems in decreasing trend except on the day of announcement. Relative price was rapidly decreased after the base date and after the announcement date as well.

This analysis gives substantial reasons to argue that share price decrease of Bank of Kathmandu Ltd. from base date to day of announcement was basically by decreasing market trend. Whereas decrease in share price after right announcement is quite abnormal with theoretical concept of rights. Market price of shares should have increased just announcement of rights. Unlike the theory, market price of the share had decreased. Again, it happened due to the holders' of record date as it was set before the announcement date, and the investors were not able to buy rights share who purchased the share just after the announcement day, later on, market price of the share had decreased as per the theory of rights.

Table No. 4.4

Analysis of Share price movement of Nepal Bangladesh Bank Limited

Selected point of time	**Share price**	**Price relatives**	**Total price index of equity capital**	**Index relatives**	**% change from base**	**Adjusted price relative 2 as % of 4**	**% change from base**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I	350	100	194.58	100	-	100	-
II	380	108.86	225.95	116.12	16.12	93.75	(6.25)
III	441	126	239.00	122.83	22.83	102.58	2.58
IV	290	82.86	231.97	119.22	19.22	69.50	(30.5)
V	216	61.71	249.46	128.20	28.20	48.14	(51.86)

Source: Appendix A.

When Nepal Bangladesh Bank Limited announced the rights offering to its existing shareholders, there was still an increasing trend in the general market movement. The price of Nepal Bangladesh Bank Limited was Rs. 350s three months before the announcement. It increased upto Rs. 380 ten days before announcement date and to Rs. 441 because of the fact that general market movement was so rapid. Banking sector index of equity share was 194.58 three months before the announcement date. It moved upto 225.95 ten days before the announcement and to 23900 at the day of announcement. Seven days after the announcement of right offering banking sector index of equity share was 231.97 and after the six months of the announcement date it increased upto 249.46. This obviously depicts the increasing trend in the general market movement column 4 in the above table shows the banking sector index converted into indices from the base index. The column 5 shows that the banking sector index is increased by 16.12 percent 10 days before announcement day and that by 22.83 percent on the day of announcement. After seven days of announcement date it increased by 19.22 percent and by 28.20 percent after six months of announcement date.

The column 6 and 7 of above table shows the adjusted share price and its percentage change from the base date respectively. In column 7, adjusted share price is decreased by 6.25 percentage 10 days before the announcement date and it is increased by 2.58 percentage at the day of announcement. But after seven days of announcement date, the adjusted share price decreased by 30.50 percentage from the base date banking sector index. After seven days of announcement date there is decrease in adjusted share price but there is increase in relative banking sector index, converted into new base. The decrease in adjusted share price provides sufficient evidence to argue that this price rise must had been attributed by the information of announcement of rights offering to the existing shareholders. In this case the decrease in the adjusted share price only upto 15 percentage can be attributed to the general market movement because general market is increased by 19.22 percentage. Any further decrease in the adjusted share price can be attributed to the informational effects of announcement of rights offering to the existing shareholders. Hence in the case of Nepal Bangladesh Bank Limited, there is an obvious negative impact of rights offering on the share price movement. It has gone opposite to the theory of rights offering, the share price should increase. But after the six months of announcement the adjusted share price has decreased by 51.86 percentage where the relative banking sector index has increased by 28.20 percentage. It can be said that the decrease in adjusted share price of Nepal Bangladesh Bank Ltd. was as per the theory of rights offering after the issue of rights as the number of shares increased and the earnings per share decreased.

Table No. 4.5

Analysis of share price movement of Nepal SBI Bank Limited

Selected point of time	Share price	Price relatives	Total price index of equity capital	Index relatives	% change from base	Adjusted price relative 2 as % of 4	% change from base
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I	334	100	247.88	100	-	100	-
II	426	127.54	306.61	123.69	23.69	103.11	3.11
III	459	137.43	320.54	129.92	29.31	106.22	6.28
IV	470	140.72	322.04	129.92	29.92	108.31	8.31
V	365	109.28	318.55	128.51	28.51	85.04	(14.96)

Source: Appendix A.

In the case of Nepal SBI Bank Limited, the share price was Rs. 334 three month before the announcement date, which rapidly increased to Rs. 426 on the day ten days before announcement. The market price of the share was Rs. 459 on the day of announcement which was slightly increased from ten days before the announcement. Similarly market price of the stock slightly increased and reached to Rs. 470 seven days after the announcement of rights offering. After the six month of announcement of rights offering the market price of the stock rapidly decreased and reached to Rs. 365. The share price of Nepal SBI Bank Limited increased upto the seven days after the announcement date of rights offering. There may be leakage of information about the bank is going to offer right share. The price change from seven days, after the announcement to six months after the announcement of rights offering is seemed as per the theory.

The banking sector index was 247.88 three months before the announcement. It rapidly increased and reached to 306.61 ten days before the announcement of rights offering and further increased and reached to 320.54 on the day of announcement. The banking sector index further increased to 322.04 seven days after the announcement and slightly decreased to 318.55 six months after the announcement of rights offering. From this, it can be said that the share price increased from base date to the date seven days after the announcement is due to general market movement. The column 6 of the above table shows adjusted price relatives. There were no any significant different between them, during five selected points of time. Price relative to new base and adjusted price relatives represents some explanations that, upto seven days after announcement, it was increasing trend, after share goes to ex-right it has decreased. The adjusted price relatives provide sufficient evidence to argue that, rise of rights issue made by the company. Hence, in the case of Nepal SBI Bank Limited, there is an obvious impact of right issue on the share price.

Table No. 4.6

Analysis of share price movement of Nepal Investment Bank Ltd.

Selected point of time	Share price	Price relatives	Banking sector index	Index relatives	% change from base	Adjusted price relative 2 as % of 4	% change from base
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I	1175	100	255.29	100	-	100	-
II	1326	112.85	321.08	125.77	25.77	89.73	(10.27)
III	1430	121.70	323.44	126.70	26.70	96.05	(3.95)
IV	880	74.89	309.60	121.27	21.27	61.75	(38.25)
V	831	70.72	333.48	130.63	30.63	54.14	(45.86)

Source: Appendix A.

In the case of Nepal Investment Bank Limited, the share price was Rs. 1175 three months before the announcement date which rapidly increased to be Rs. 1326 on the day of ten days before announcement. Market price of the share was Rs. 1430 on the day of announcement which was further increased from the base date. However, market price of the share was drastically decreased just after the announcement of rights and become Rs. 880. Again decreasing trend of market price of the shares seemed and it was Rs. 831 after six months of rights announcement. Above all, the market price of the share was increased upto the date of announcement of rights offering and thereafter it was dramatically decreased after the seven days and six months of announcement. This price movement of Nepal Investment Bank Limited, i.e. the increase in price before the announcement date shows there may be leakage of information about the bank is going to offer right share.

The column three of the above table shows Banking sector indices. The banking sector index was 255.29 three months before the announcement and it rapidly increased to be 321.08 just ten days before the announcement of rights offering. It was slightly increased to be 323.44 on the day of announcement. After the seven days of announcement the banking sector index decreased to be 309.60 but it increased again after the six months of announcement of rights offering. It was 333.48 after the six months of announcement. The movement of banking sector indices shows that the share price movement of Nepal investment Bank Limited upto the announcement date of rights offering was due to general market movement not by the leakage of information about the rights offering by the bank. But the price movement after the announcement was not by movement of banking sector indices, it was by the issue of rights share.

The column six of the above table shows the adjusted price relatives. The adjusted price relatives were decreased from the base date. It was decreased by 10.27 percentage 10 days before the announcement date and by 3.95 percentage on the day of announcement of rights offering. Seven days after the announcement it was decreased by 38.25 percentage and six months after the announcement it was decreased by 45.86 percentage as comparing to the relative banking sector indices which were almost increased from the base date, the adjusted price relative were decreased in all points of time from the base date. It shows that the information of rights offering announcement do not affect the share price movement upto the announcement date. But thereafter, the increased number of shares decreases the earning per share after the right issue. Thus, right issue of share cause to decrease the share price after the announcement of rights offering.

Table No. 4.7

Analysis of share price movement of Kumari Bank Limited

Selected point of time	**Share price**	**Price relatives**	**Total price index of equity capital**	**Index relatives**	**% change from base**	**Adjusted price relative 2 as % of 4**	**% change from base**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I	370	100	309.59	100	-	100	-
II	371	100.27	326.51	105.47	5.47	95.07	(4.93)
III	378	102.16	327.31	105.72	5.72	96.63	(3.37)
IV	315	85.14	322.87	104.22	4.29	81.64	(18.36)
V	451	121.89	423.09	136.66	36.02	89.19	(10.81)

Source: Appendix A.

The share price of Kumari Bank Limited found to follow price consistent upto the announcement date. Before three months of announcement, the market price of the share was Rs. 370 and slightly increased to be Rs. 371 just ten days before the announcement. It was further increased to be Rs. 378 on the day of announcement day of rights offering. There was a dramatic decrease in market price of share just after the ten days of announcement. It was Rs. 315 ten days after the announcement. The price decreased due to rights issue. But after the six months of announcement of rights offering the market price of the share was increased to be Rs. 451. This rapid increased may be cause by general market movement.

The banking sector indices showed increasing trend in general market. It was 309.59 three months before the announcement and increased to 326.51 ten days before the announcement of rights offering. The banking sector index slightly increased to be 327.31 on the day of announcement. It was 322.87 just seven days after the announcement of rights offering and again it was increased drastically to be 423.09 after the six months of announcement. The movement in general market and share price of Kumari Bank Limited showed similar trend in different point of time. Thus, it can be said that there is no informational effects of rights offering announcement on share price movement. The movement is due to general market trend.

The column 6 of the above table shows adjusted price relatives. The adjusted price relatives have decreased in all points of time from the base date. It means that the share price of Kumari Bank Limited has not significantly increase as compared to banking sector indices except seven days after the announcement. The adjusted price relative on the day seven days after the announcement has decreased more than 15 percentage. Hence, it can be said that the share price has decreased due to right issue of share.

Table No. 4.8

Analysis of share price movement of Machhapuchre Bank Ltd.

Selected point of time	**Share price**	**Price relatives**	**Total price index of equity capital**	**Index relatives**	**% change from base**	**Adjusted price relative 2 as % of 4**	**% change from base**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I	340	100	335.15	100	-	100	-
II	342	100.59	376.61	112.37	12.37	89.52	(10.48)
III	365	107.35	428.07	127.72	27.72	84.05	(15.95)
IV	395	116.18	431.92	128.87	28.87	90.15	(9.85)
V	382	112.35	469.29	140.02	40.02	80.24	(19.76)

Source: Appendix A.

As like in Nepal SBI Bank Limited, the share price of Machhapuchre Bank Limited has also increased upto seven days after the announcement date of rights offering. The share price three months before the announcement was Rs. 342 and it slightly increased to Rs. 340 ten days before the announcement. The share price was Rs. 365 on the day of announcement. It further increased to be Rs. 395 seven days after the announcement and after the six months of announcement of rights offering the share price has decreased and it was Rs. 382. The banking sector index showed increasing trend in general market. It was 335.15 three months before the announcement and increased to 376.61 ten days before the announcement. It was further increased to be 428.07 on the day of announcement and 431.92 seven days after the announcement. The banking sector index was 469.29 six months after the announcement of rights offering. The trend in banking sector index and market price of share of Machhapuchre Bank Limited shows that the price movement upto the seven days after the rights offering were due to the impact of general market movement and after that it was due to the impact of right issue of share.

If it is seen comparatively; the adjusted price relatives and the relative banking sector indices; it is found that the relative banking sector indices were increased from the base point of time. Whereas the adjusted price relatives were decreased from the base point of time. From this it can be concluded that the increment in share price has no impact on banking sector indices but the increment in banking sector indices caused to increase the market price of the share. Thus, there was no informational effects of rights offering announcement on market price of the stock. But the issue of right shares; after six months of announcement has caused to decrease the market price of the share.

Table No. 4.9

Analysis of share price movement of Lumbini Bank Limited

Selected point of time	Share price	Price relatives	Total price index of equity capital	Index relatives	% change from base	Adjusted price relative 2 as % of 4	% change from base
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I	165	100	366.41	100	-	100	-
II	172	104.24	437.14	119.30	19.30	87.38	(12.62.)
III	181	109.70	451.84	123.32	23.32	88.96	(11.04)
IV	NA	-	437.01	119.27	19.27	-	-
V	355	215.15	588.18	160.53	60.53	1.34.82	(34.02)

Source: Appendix A.

When Lumbini Bank Limited announced the rights offering to its existing share holders, there was still an increasing trend in the general market movement. Share price of Lumbini Bank Ltd. was Rs. 165 three months before the announcement. It increased upto Rs. 172 ten days before announcement date and to Rs. 181 on the day of announcement despite the fact that general market movement was so rapid. But after the six months of announcement, the market price of the share was increased drastically to be Rs. 355, far more than general market movement. The banking sector index of equity share was 366.41 three months before the announcement date. It moved upto 437.14 ten days before the announcement and to 451.84 at the day of announcement. Seven days after the announcement of rights offering, the banking sector index of equity shares decreased to 437.01 and even after the six months of announcement date, it again increased upto 588.18. Column 4 in the above table shows the price index converted into relative indices from the base index. The column 5 shows that price index is increased by 19.30 percentage ten days before announcement; that by 23.32 percent on the day of announcement and after the seven days of announcement date it increased by only 19.27 percentage. After the six months of announcement date the banking sector index was increased by 60.53 percentage. This obviously depicts the increasing trend in the general market movement.

The column 6 and 7 shows the adjusted share price and its percentage change from the base date respectively. In column 7, adjusted share price is decreased by 12.62 percentage ten days before announcement date and by 11.04 percentage at the day of announcement. The adjusted share price after the seven days of announcement was unavailable because the shares were not traded till a month after the announcement of rights offering by Lumbini Bank Limited. After six months of announcement date, the adjusted share price is increased by 34.02 percentage, not more than increase in banking sector index, converted into new base. In this case, the share price movement is attributed by general market movement not by the announcement of rights offering. Hence, in the case of Lumbini Bank Limited, there is not any obvious impact of rights offering on the share price movement.

Table No. 4.10

Analysis of share price movement of Siddhartha Bank Limited

Selected point of time	Share price	Price relatives	Total price index of equity capital	Index relatives	% change from base	Adjusted price relative 2 as % of 4	% change from base
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I	660	100	577.02	100	-	100	-
II	645	97.73	557.74	96.66	3.34	101.11	1.11
III	560	84.85	552.01	95.67	4.33	88.69	(11.31)
IV	590	89.39	566.00	98.09	1.91	91.13	(8.87)
V	1200	181.82	NA	-	-	-	-

Source: Appendix A.

The share price movement of Siddhartha Bank Limited showed that the market price of share was decreased upto the announcement date and afterwards it started to increase. Three months before the announcement date, the market price of the share was Rs. 660 which slightly decreased to be Rs. 645 just ten days before announcement. On the day of announcement the share price was Rs. 560 which was drastically decreased. It was slightly increased to Rs. 590 seven days after the announcement but after six months of announcement date, the market price of the share was dramatically increased to Rs. 1200. The column 2 of the above table shows share prices converted into new base which showed that the share prices were below the base price upto the seven days after the announcement date. But after the six months of announcement there was 81.82 percentage increase in share price from the base price. Thus, the share price movement of Lumbini Bank Limited showed opposite movement as per the theory of right issue. As per the theory, the market price of the share should increase upto the announcement date and after that it should decrease.

The banking sector indices were also declined from the base date to the day of announcement. It was 577.02 three months before the announcement date and decrease to 557.74 ten days before the announcement. It further decreased to 552.01 on the day of announcement. After the seven days of announcement the banking sector index increased to 566.00 but after the six months of announcement, the banking sector index was not available. From above it has observed that the market price of the share followed the trend of movement of banking sector indices. If we observe the column 6, the adjusted share price; and column 7 percentage change of adjusted price relative from the base period, there is no any information content of rights offering to the stock price movement of Siddhartha Bank Limited. The adjusted price relative was increased by 1.11 percentage ten days before the announcement date and it decreased by 11.31 percentage on the day of announcement from base date. It was further decreased by 8.87 percentage seven days after the announcement. Hence, it can be concluded that the information of rights offering announcement has no impact on stock price movement.

4.4 Analysis of Liquidity of Shares Before and After Right Announcement

The trading in secondary market shows liquidity position of the shares. The Nepalese secondary market not so liquid because only around 30 companies; out of 135 listed companies; share have been trading so far on daily basis. The shares of some companies remain not trading in NEPSE floor. So far, with concerned to rights announcement, in some cases, the shares of some companies were not traded till one months and more. Sometimes the NEPSE 'ceiling' also banned the trading of stock. The high demand and less supply of right attached shares obviously increases the price but due to NEPSE ceiling bar the trading of stock is impossible in some cases.

Table No. 4.11

Liquidity of share before and after right announcement

Name of the company	Before announcement	After announcement
Nepal Bangladesh Bank Ltd.	0.04%	0.70%
Nepal SBI Bank Ltd.	0.06%	0.50%
Nepal Investment Bank Ltd.	0.11%	0.20%
Kumari Bank Ltd.	0.20%	0.01%
Machhapuchre Bank Ltd.	0.18%	1.40%
Lumbini Bank Ltd.	0.08%	-
Siddhartha Bank Ltd.	0.72%	0.21%

Source: Appendix F.

The shares trading in NEPSE floor of sample companies showed that the right announcement provides more liquidity to the shares. The shares of Nepal Bangladesh Bank Ltd. traded only 0.04 percentage seven days before the announcement. But ten days after the announcement of rights offerings 0.07 percentage of total shares were traded. It shows increase in shares trading after the announcement of rights offering. In the case of Nepal SBI Bank Ltd. 0.06

percentage of total shares were traded during seven days before the rights announcement but it increased to 0.05 percentage after the announcement of rights offering 0.11 percentage of shares were traded before rights offering announcement and it increased to 0.20 percentage after the announcement of rights announcement in Nepal Investment Bank Ltd. In the case of Kumari Bank Limited, 0.20 percentage of shares were traded before right announcement. But after the announcement only 0.01 percentage of total shares were traded. Thus, it decreased after the announcement of rights offering. In the case of Machhapuchre Bank Ltd, 0.18 percentage of total shares were traded in NEPSE floor and after the announcement it was 1.40 percentage. Similarly, in the case of Lumbini Bank Limited, around 0.08 percentage of total shares were traded before the announcement of rights offering. But after the announcement of rights offering, the shares were not traded till one month. In the case of Siddhartha Bank Ltd., around 0.72 percentage of shares were traded before the announcement and after the announcement, it was only 0.21 percentage.

These analysis suggests that Nepalese secondary market is not so liquid. The analysis carries only commercial banks, the more liquid shares. Thus, that will be in the case of other companies? one can easily determine. Anyway, the right issue announcement provides more liquidity to the shares on secondary market.

4.5 Right Issue and Wealth Position of Shareholders

There are three options to the shareholders when right is offered (1) exercise the rights (2) sell the right (3) do nothing and allow them to expire. When all three options are available and if the rights are fully or partially exercised or sold, wealth position of the shareholders theoretically will remains unchanged. But if remains idle as an irrational shareholder neither exercises nor sells the rights, then the shareholder would suffer a loss in the form of decline in price of his holdings. In Nepalese context, shareholders have only two options as the rights are not legally transferable. In such case, shareholders who do not want to buy additional shares of same company has no option to let the right to expire. In such case he/she should loss the lower subscription price of the shares. Lets analyze how much he losses actually.

Table No. 4.12

Shareholder wealth before and after right issue

Name of the company	Before exercise	After Exercise			
		If exercise	Increase (decrease) %	If not exercise	Increase (decrease) %
Everest Bank Ltd.	71000000	8000000	12.7	45000000	(36.6)
Bank of Kathmandu Ltd.	8150000	5300000	(33.97)	3150000	(61.3)
Nepal Bangladesh Bank Ltd.	4410000	3320000	(24.7)	2160000	(51)
Nepal SBI Bank Ltd.	4590000	4975000	8.4	3650000	(20.5)
Nepal Investment Bank Ltd.	14300000	15620000	9.2	8310000	(41.9)
Kumari Bank Ltd.	3780000	5387500	42.5	4510000	19.3
Machhapuchre Bank Ltd.	6500000	4666000	(28.21)	3820000	(41.23)
Lumbini Bank Ltd.	1810000	4060000	124.3	3550000	96.1
Siddhartha Bank Ltd.	35600000	14200000	(60.11)	12000000	(66.29)

Source: Appendix D.

The above table shows that the wealth position of shareholders increased by 12.7 percentage in case of Everest Bank Ltd. when one exercises his rights. But it decreased by 36.6 percentage on not exercising the rights. In case of Bank of Kathmandu Ltd., the wealth position of shareholders decreased by 33.97 percentage after the right issue when one exercised his rights. When one unable to exercise his rights, he should loss 61.3 percentage of his wealth after the right issue. In the case of Nepal Bangladesh Bank Ltd., the wealth position of shareholders is decreased by 24.7 percentage after the right issue when the rights are exercised and it decreased by 51 percentage when the right are not exercised. The wealth position of shareholders decreases less when one exercises his rights as compared to one who does not exercises his rights.

In the case of Nepal SBI Bank Ltd. shareholders have a gain of 8.4 percentage in his wealth position if they exercise the rights. But they should bear a lose of 20.5 percentage if they do not exercise the rights. similarly, the shareholders of Nepal Investment Bank Ltd. gained 9.2 percentage in their wealth position when they exercised their rights. But their wealth decreased by 41.9 percentage when they didn't exercise their rights. Thus, one should conclude that the wealth position will increase in exercising the rights but it will decrease in unexercising the rights. After the exercise of rights, the wealth position of shareholders Decreased by 28.21 percentage when the rights were exercised but it was increased by 19.3 percentage only when the rights were not exercised in Kumari Bank Ltd. In the case of Machhapurchhare Bank Ltd., the wealth position of the shareholders increased by 27.8 percentage after the rights were exercised. The shareholders of Lumbini Bank Ltd. had triple figure gain of 124.3 percentage in their wealth position when the rights were exercised. The wealth position of shareholders increased by only 96.1 percentage when the rights were not exercised. Similarly, the wealth position of shareholders of Siddhartha Bank Limited has decreased by 60.11 percentage after the right issue when the rights were exercised. The wealth position of shareholders decreased by 66.29 percentage when the rights were not exercised.

Thus, when the share price after right issue decreases much more than the expected, the wealth position of shareholders will decrease in both case i.e. exercise of rights and unexercise of rights but it will decrease more in not exercising the rights as compared to exercising the rights. Similarly, when the share price after right issue will some point above its theoretical ex-right price, the wealth position of shareholders will increase when the rights are exercised. But when the rights are not exercised, the wealth position of shareholders will decrease after the right issue. When the share price after right issue increases much more than expected, the wealth position of shareholders will increase much more on exercise of rights than not exercising the rights.

4.6 Correlation Coefficient Between Share Price Movement and General Market Movement During Five Different Point of Time

Correlation coefficient between share prices and NEPSE Index/ Banking sector index makes easier to find out whether the general price movement of sampled companies share is due to rights offering or not for the period under study. Banking sector index and NEPSE index both are used when available throughout the analysis.

Table No. 4.13

Share prices and NEPSE/ Banking sector indicates

Name of company	Correlation coefficient	Coefficient of determination
Everest Bank Ltd.	0.99	0.9801
Bank of Kathmandu Ltd.	0.8925	0.7965
Nepal Bangladesh Bank Ltd.	-0.30	0.09
Nepal SBI Bank Ltd.	0.73	0.5329
Nepal Investment Bank Ltd.	-0.09	0.0081
Kumari Bank Ltd.	0.84	0.71
Machhapuchre Bank Ltd.	0.85	0.7225
Lumbini Bank Ltd.	0.94	0.8836
Siddhartha Bank Ltd.	0.66	0.4356

Source: Appendix E.

The above table showed that there was a very high degree of positive correlation (ie. r=0.99) between share price movement and general market movement in case of Everest Bank Ltd. The coefficient of determination showed that about 98 percentage of variation in share price is explained by the variation in NEPSE index. The case of Bank of Kathmandu Ltd., there was a high degree of positive correlation (i.e. r=0.8925) between share price movement and general market movement. The coefficient of determination also showed that about 79.65 percentage of variation in share price is explained by the variation in the NEPSE index.

In the case of Nepal Bangladesh Bank Ltd, there occurred negative correlation (i.e. r=-0.30) in very low degree between share price movement and general market movement. The coefficient of determination of 0.09 meant that only about 9 percentage of the variation in the share price is caused by the fluctuation in the Banking sector index (i.e. general market movement). In the case of Nepal SBI Bank Ltd. there occurred moderate degree of correlation (i.e. r=0.73) between share price movement and general market movement. The coefficient of determination of 0.5329 meant that about 53.29 percentage of variation in the share price is caused by the fluctuation in the Banking sector index (i.e. general market movement).

In the case of Nepal Investment Bank Ltd., alike Nepal Bangladesh Bank Ltd., has a low degree of negative correlation (i.e. r= -0.09) This is the result of the tremendous decline in the share prices after the announcement of right offering and the Banking sector index was in the increasing trend. The coefficient of determination 0.0081 means that only about 0.8 percentage of the variation in the same price is caused by the fluctuation in the Banking sector index or general market movement. The Kumari Bank Limited had a high degree of positive correlation (i.e. r= 0.84) between share price movement and general market movement. The coefficient of determination of 0.71 means that about 71 percentage of the variation in the share price is caused by the fluctuation in the banking sector index (general market movement. Alike Kumari Bank Ltd., Machhapuchre Bank Ltd. had also a same degree of positive correlation (i.e. r=0.85) between share price movement and general market movement. About 72. 25 percentage of variation in the share price is caused by the fluctuation in the Banking sector index or general market movement as showed by coefficient of determination of 0.7225.

In the case of Lumbini Bank Limited, there was a very high degree of positive correlation (i.e. r=0.94) between share price movement and general market movement. The coefficient of determination of 0.8836 means that about 88.36 percentage of the variation in the share price is caused by the fluctuation in the banking sector index or general market movement. In the case of Siddhartha Bank Ltd., there was relatively moderate level of positive correlation (i.e. r= 0.66) between share price movement and general market movement. The coefficient of determination (r^2= 0.4356) means that only about 43.56 percentage of the variation in the share price is caused by the fluctuation in the banking sector index or general market movement.

Thus, the five sampled companies had high degree of positive correlation between share price movement and general market movement. The banking sector index highly determines the variation in share price of these five companies. The two of the sampled companies had moderate degree of positive correlation between share price movement and general market movement. The banking sector index moderately determines the variation in share price of these two companies. The other two companies had very low degree of negative correlation between share price movement and general market movement. The Banking sector index almost unable to determine the variation in the share price of these two companies.

4.7 Use of t-statistics to Measure on Impact on Share Price Movement

Table No. 4.14

Use of t-statistics to measure the impact of right offering on the share price movement

Name of company	Test for	Level of significance	Degree of freedom	t-tab	t-cal	difference
Everest Bank Ltd.	Share price	5%	4	2.776	4.3167	Significant
	Total index	5%	4	2.776	6.0006	Not Significant
Bank of Kathmandu Ltd.	Share price	5%	4	2.776	9.054	Significant
	Total index	5%	4	2.776	0.22	Not significant
Nepal Investment Bank Ltd.	Share price	5%	4	2.776	7.12	Significant
	Total index	5%	4	2.776	1.90	Not significant
Kumari Bank Ltd.	Share price	5%	4	2.776	2.19	Not significant
	Total index	5%	4	2.776	0.176	Not significant
Machhapuchre Bank Ltd.	Share price	5%	4	2.776	0.3684	Not significant
	Total index	5%	4	2.776	0.698	Not significant
Siddhartha Bank Ltd.	Share price	5%	4	2.776	4.94	Significant
	Total index	5%	4	2.776	1.025	Not significant
Nepal Bangladesh Bank Ltd.	Share price	5%	4	2.776	6.748	Significant
	Total index	5%	4	2.776	3.99	Significant
Nepal SBI Bank Ltd.	Share price	5%	4	2.776	0.1769	Not significant
	Total index	5%	4	2.776	2.139	Not significant
Lumbini Bank Ltd.	Share price	5%	4	2.776	-	
	Total index	5%	4	2.776	0.301	Not significant

Source: Appendix B and C.

Above table represents whether the share price movement is significance or not before and after an announcement of rights offering. In the table it clearly shows that the calculated value of Everest Bank Ltd. is 4.3167, while the tabulated value at 5 percent significant level for 4 degree of freedom is 2.776. Since t-calculated is more than t-tabulated, it can be concluded that the difference between share prices few days before (i.e. 10 days before) and after the announcement (i.e. 7 days after) of the rights is significant. But the price difference in the price indices of total equity capital is not significant because calculated value of t is less than tabulated value of t. Thus it can be concluded that changes in share price of its stock is attributed by the announcement of rights offering. In this case, hypothesis that the share price change significantly after the announcement is accepted. However, there is not significant change in market index during the same period.

In case of Bank of Kathmandu Ltd., calculated value of t is 9.05 whereas tabulated value at 5 percent significance level is 2.776 for 4 degree of freedom. Since t-cal is greater than t-tab it can be concluded that the difference between the share price few days before and after the announcement of the rights is significant and the difference in the price indices of the total equity capital is insignificant. Thus, it can be concluded that changes in the share price of the stock is attributed by the announcement of the rights offering. In this case, hypothesis that the share price changes significantly after the announcement of the rights offering can be accepted.

In the case of Nepal Investment Bank Ltd. where the calculated value of t is 7.12 but tabulated value is 2.776 at 5 percent level of significance for 4 degree of freedom. This suggests that there is significant difference between the share price few days before (i.e. 10 days before) and after (i.e. 7 days after) the announcement of the rights offering. Hence, the hypothesis that share price movement before and after the announcement differ significantly can be accepted. Similarly, calculating the t-statistics for the banking sector indices, calculated t is 1.90 and tabulated t at 5 percent level of significant for degree of freedom is 2.776. From this, it can be concluded that there is no significance difference in general market movement before and after the announcement of rights offering. Hence, the market had remained constant though the share price had decreased significantly after the announcement of rights offering.

In the case of Kumari Bank Limited, calculated value of t is 2.19, while the tabulated value of t is 2.776 at 5 percent level of significance for 4 degree of freedom. Since, t-calculated is less than t tabulated, it can be concluded that there is not significance difference between the share price 10 days before and 7 days after the announcement of right offering. The price indices of banking sector is also not significant different as the calculated value of t (i.e. 0.176) is less than the tabulated value of t (i.e. 2.776) at 5 percent level of significance for 4 degree of freedom. From this it can be concluded that there is not significance different in general market movement before and after the announcement of rights offering. Hence, if the market had declined significantly, the decline in the share price could be cause to the decline in the banking sector indices.

In the case of Machapuchhre Bank Ltd., where the tabulated value of t is 2.776 at 5 percent level of significance for 4 degree of freedom and the calculated value of t is 0.3684. This suggests that there is no significant difference in the share price few days before and after the announcement of the rights offering. Hence, the null hypothesis that share price movement before and after announcement does not differ significantly can be accepted. Similarly, the calculated value of t for the banking sector indices is 0.648 and tabulated value of t at 5% level of significance for 4 degree of freedom is 2.776. From this it can be concluded that there is no significant difference in general market movement before and after the announcement of the right offering.

In the case of Siddhartha Bank Limited, calculated value of t statistics for share price movement showed 4.94, whereas the tabulated value of t at 5 percent level of significance is 2.776 for 4 degree of freedom. Since, t cal>t-tab (i.e 4.94> 2.776), null hypothesis is rejected and alternative hypothesis is accepted. Hence, impact on share price movement before and after the rights offering by right issue is significant. However, impact on Banking sector index is not significant as the t cal< t-tab (i.e. 1.025< 2.776). Thus, it can be concluded that right offering does not affect significantly on banking sector index. In the case of Nepal Bangladesh Bank Limited, the calculated value t for share price movement before and after the announcement of rights offering is 6.748, while tabulated value at 5% significant level is 2.776 for 4 degree of freedom. Since, t-calculated is greater than t-tabulated, it can be concluded that the difference between the share price few days before (i.e. 10 days before) and after (i.e. 7 days after) the announcement in the share price is significant. Thus, it can be concluded that changes in share price of stock is attributed by the announcement of rights offering. By calculating the t-statistics for banking sector indices, t-calculated is 3.99 and t-tabulated is 2.776, i.e. calculated t is greater than tabulated t. Thus, in this case, right offering announcement significantly affected the banking sector indices.

In the case of Nepal SBI Bank Limited, calculated value of t is 0.1769 whereas tabulated value at 5% level of significant for 4 degree of freedom is 2.776. Since t-cal<t-tab, it can be concluded that the difference between the share prices few days before and after the right offering is not significant. Here, the difference in the price indices of banking sector is also not significant. Thus, the information about rights offering announcement does not impact significantly on banking sector indices. In this case, hypothesis that share price does not change significantly after the announcement of rights offering can be accepted as both share prices and banking sector indices does not change significantly. In the case of Lumbini Bank Ltd., the hypothesis for share price changes fails due to unavailability of share prices as shares of Lumbini Bank did not trade till one months after the announcement of right offering. However, the banking sector indices did not change as t-cal<t-tab. Thus, the

banking sector indices does not affect significantly by the information of right offering announcement.

4.8 Theoretical Value of Rights and its Actual Impact on Stock Price

Table No. 4.15

Comparing the calculated value of right and its actual impact on stock price

Name of the company	Stock price before right issue	Theoretical value of right	Theoretical ex-right price of stock	Ex-right market price of stock
Everest Bank Ltd.	701	300.5	400.5	450
Bank of Kathmandu Ltd.	815	357.5	457.5	315
Nepal Bangladesh Bank Ltd.	441	170.5	270.5	216
Nepal SBI Bank Ltd.	459	119.67	339.33	365
Nepal Investment Bank Ltd.	1430	665	765	831
Kumari Bank Ltd.	378	55.6	322.4	451
Machhapuchre Bank Ltd.	365	61.15	303.85	382
Lumbini Bank Ltd.	181	13.5	167.5	355
Siddhartha Bank Ltd.	560	76.67	483.33	1200

Source: Appendix G.

The above table shows theoretical value of rights and its exact impact on stock price. However, the market price of the rights differ, it might be over than its theoretical value or below than it. But, in the Nepalese context, lack of transferable and it is still not in practice trading 'right' on the stock market and the holder of record date is before the announcement date. But, obviously, as the rights issue increases the number of shares, how it impact on ex-right price of the stock, because shareholder have no option to exercise their rights (to purchase additional shares which was offered by the company, increases the supply of shares and theoretically stock price should be decreased when the stock trading as ex-right than right on stock price. From nine companies as a sample, all company's share price were higher than the theoretical ex-right price of the share.

Everest Bank Ltd., which is taken as a oldest company as a sample, who issued rights share. Its theoretical value of right was Rs. 300.5 before the right issue and after the right issue, the market price should be Rs. 400.5 (i.e. P_x=P_o-V_r). But the stock was trading on market at Rs. 450 which was Rs. 50 higher than its theoretical ex-right stock price. The latest company of sample, Siddhartha Bank ltd. The theoretical value of right was Rs. 76.67 when the stock was selling right on and theoretical ex-right price should be Rs. 480 (around). But the stock was trading on Rs. 1200 on the stock market which was Rs. 720 higher than its theoretical ex right stock price.

In case of Bank of Kathmandu ltd. and Nepal Bangladesh Bank Ltd. the theoretical ex-right market price of stock is higher than the actual ex-right market price of the stock. The theoretical value of right was Rs. 357.5. In case of Bank of Kathamndu when stock is selling right on and its theoretical price of share should be Rs. 457.5. But the stock was trading on market on Rs. 315 which was Rs. 142 lower than its theoretical ex-right stock price. The theoretical value of right of Nepal Bangladesh Bank ltd. was Rs. 170.5 and the theoretical ex-right price of share should be Rs. 270.5. It was trading on Rs. 216 in the market which was Rs. 54 below the theoretical ex-right stock price. these are only two cases where the market price of stock was below the theoretical stock price when it was trading ex-right.

Nepal Investment Bank Ltd. had the largest theoretical value of right i.e. Rs. 665, the theoretical ex-right price of stock was Rs. 765 and the ex-right market price was Rs. 66 higher than its theoretical value i.e. Rs. 831. Lumbini Bank Ltd. had lowest theoretical value of right i.e. Rs. 13.5. The Ex-right market price of stock was Rs. 355 which was Rs. 188 higher than its ex-right theoretical value of Rs. 167. Finally, almost all the companies of sample had higher ex-right market price/ value than its theoretical price/ value, besides Bank of Kathmandu Ltd. and Nepal Bangladesh Bank Ltd.

4.9 Major Findings of the Study

From the analysis of data and other available information, the major findings of the study are as follows:

- Nepalese financial market is narrow in terms of market instruments. Only short term treasury bill, certificate of deposit and government bond of money market instrument and common stock, right-shares, preference shares, debentures and very few mutual funds are brought into practice. The commercial paper, bankers acceptances, eurodollars, repurchase agreements of money market and warrants, convertibles, option, forward, future are not brought into practice till the date.
- Nepalese equity market (primary as well as secondary) is basically dominated by financial sector companies. Manufacturing and hotel of real sector companies has very low participation which is negligible.
- Common stock and right share contribute, largest and second largest among various issues to raise the capital of the corporation approve by SEBO/N.
- Informational effects of rights offering is found positive impact on stock price movement because the stock price has increased before announcement and decreased after announcement in most of sampled companies.
- The hypothesis test on stock price movement between before and after the announcement resulted significant in most of the sampled companies. Thus, the stock price movement before and after the announcement of rights offering is significant.
- Impact of right offering announcement on banking sector index and NEPSE index is found insignificant. Hence, rights offering

announcement don't affect significantly on NEPSE and banking sector index.

- The rights are not legally transferable. Its necessity of legally transferable has not mentioned in any act basically in company act. Thus, right appear as an obligation imposed on existing shareholders, otherwise he would suffer a loss in the form of decline in price of his holdings.

- Because of under subscription, employees of right issuing companies and issue manager are gaining at the expense of the existing shareholders).

- Declaration of inappropriate holders of record date has caused dilution of wealth position of existing shareholders which is just opposite of the theory of rights offering (i.e. protecting dilution of wealth position of existing shareholders.

- The ex-right market price of the stock of almost all companies' is higher than theoretical ex-right price. Thus, it can be said the ex-right market price is higher than theoretical ex-right price.

- The company act is silent regarding the issue of rights offering and subsequent allotment of the rights issue. Most of the investors/ shareholders also unaware about it.

- The procedure of rights offering is as same as IPO besides, right issuing company/ issue manager should mailed a document called a 'right' to the existing shareholders.

- As the right is not transferable, under subscription of rights issue is seen in most of the cases. The unsubscribed shares are given to the staff of the corporation and issue manager. Only some companies have done underwriting.

- The Nepalese capital market is not so liquid. Out of 135 listed companies, only about 30-40 companies share were traded on NEPSE floor on daily basis.

- Company cold not issue right hares on time with the provision of rights renouncements as enabled by the new provision made in the Companies Act, 2006 and Securities Act, 2006, because SEBON could not give proper modality for rights renouncement as per the provision of the acts. This shows he deficiency in the legal framework.

- The trading has not able to gain confidence in terms of efficiency and transparency. The trading facility is limited only in Kathmandu valley and there is no any provision for providing this facility to the people in other parts of the country. This has also hindered in increasing public participation in the securities markets.

- The market is dominated by individual investors and most of them are not making informed investment decisions rather driven by market rumours. Because of lack of institutional investors in the market, there is no pressure for the issuers to make timely and regular disclosure.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The world has become a global village with the advancement in technology and with the globalization of business, the competition among firms has tremendously increased. The firms need huge amount of fund to successfully compete and to expand and modernize their business. Capital market is the life blood of the liberalized economy which is the mechanism through which the resources (saving) are mobilized and flowed from non-productive sector to productive sector. Capital market is organized market through which buyers and sellers of long term capital are met and the function of buying and selling takes place. The pace of development of equity market in Nepal is extremely slow and it has not efficient to contribute to the development of corporate sector. Developing country like Nepal, there is greater importance of capital market and particularly the equity market. Since, it facilitates the development of corporate sector and overall growth of the economy. The history of capital market in Nepal dates back to 1937 A.D. when the shares of Biratnagar Jute Mills and Nepal Bank Limited, were floated to the general public.

SEBO/N was established under securities exchange act 1983 on 26^{th} May 1993, with a major objective of regulating and managing capital market. Following the establishment, then the security transaction center was re-named into Nepal Stock Exchange ltd. and began share transaction with 'open cry' system for the first time. Recently it was replaced with Electronic Trading System and the government bond are also brought in secondary market for trading. In its early stage, company needs financing, one source is the venture capitalist that specialize in financing new enterprises. If the company is successful, it often will go public with an initial public offering of common stock. In order to cope with various financial dearth situations, firms usually issue common stock to general investors or rights offering to the existing shareholders or preference. Share and various types of debenture as demanded by the target market structure. This research mainly focuses on the rights offering to existing shareholders. The investment bankers provide middleman services to both seller and the buyer of new securities, helping plan to issue. Underwriting, it mean the job of selling the issue to the ultimate investors. Nepalese money market is quite poor in terms of securities dealt with an institutions involved in the market. Institutions that deal completely on money market instruments are absent. The state of primary issue market is still in infantile state. Some of the financial institutions (like NIDC and NRB) that existed prior to the incorporation of security exchange centre, had an object of providing primary issue services but they did not provide those services. Securities exchange centre provided primary issue management services in a few cases. But the center discontinued this service since it got converted into Nepal Stock Exchange. At present, new issue management service are being provided by finance companies like NIDC capital market, Nepal Merchant Banking and Finance Company, Citizen Investment Fund, National Finance Company, Nepal Share Markets Limited etc. The primary market is still in infancy state in spite of some positive indications. The type of securities issued, and the volume of issue is still insignificant. The primary market in Nepal is characterized by small number of issues, a few types of securities and small volume of issues. SEBO/N regulates both primary and secondary markets. To regulate primary markets different acts and laws have been passed. The public issue activities through the primary market are regulated by securities exchange ordinance, 2005, the regulations and guidelines are made under the act as well as the company ordinance, 2005.

Right share, a type of equity share issued by corporation to raise additional fund giving first priority to the existing shareholders to take the share those corporations, which have already issued shares to the public and fully paid allowed to issue right shares, provided the right share. Right share is issued giving proportionate right to the existing shareholders to purchase the new shares. It is option based financing approach, where existing shareholders are given an option to purchase fraction of new shares equal to maintain the original ownership percentage of the shareholders. Right offering is a method of raising further fund from the existing shareholders by offering additional securities to them on a pre-emptive basis. It involves the offer of additional shares to existing shareholders.

These are offered in proportion of existing shareholders. Each existing shareholders received one rights for each share they owned. They normally offered at a subscription price some what lower then the current market price of the stock within specified period of time. The pre-emptive right is the right of existing shareholders to maintain their ownership of the company by purchasing new share issued by the company. The pre-emptive right gives holders of common stock the first option to purchase additional issues of common stock. Right share is an option attached with common stock, gives the existing holders an inherent rights to maintain their proportionate ownership of the company. Sometimes companies are bond to issue new shares of additional stock to existing shareholder because of pre-emptive right' clause in the act of incorporation. If such clause are not include in the company charter then company has a choice of making the sale to its existing shareholder or to an entirely new set of investors. The stock flotation is called right offering, if it sells to the existing shareholders. A rights issue involves selling of ordinary shares to existing shareholders of the company. The pre-emptive rights give holders of common stock the first option to purchase additional shares of common stock.

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

At present there are 135 listed companies. During this fourteen year period 196 times for different companies were given the issue approval. Out of these 59 times were right issue. Almost all of them were Bank and finance group, who issued rights share. Rights issue comes to be the second largest issue among various issues approved by SEBO/N. From the analysis of sample, there was some informational effects of rights offering announcement on stock price movement. But after the rights issue, it had some impact on share price because most of the cases the share price has decreased after right issue. In order to measure the immediate impact of rights offering on the share prices, hypothesis is tested. This test shows mixed result. Some companies found there is significance difference between the share price few days before and after the announcement of rights offering. However, some companies, it was found that there is no significant difference between share price before and after the announcement of rights offering but it didn't impact significantly on price indices (i.e. NEPSE and Banking Sector indices).

Despite the fact that 135 companies are listed, very few of companies are actively traded. On the average about 30 companies shares were traded on a daily basis, especially commercial banks and finance companies. In the case of Everest Bank Ltd. Bank of Kathmandu Ltd. Nepal Bangladesh Bank ltd. and

Nepal Investment Bank ltd., there were sharp decline in the share price after the announcement of rights issue. While in the case of Kumari Bank Ltd. there was slightly decline of share price after the announcement of rights issue. In the case of Machhapuchre Bank and Siddhartha Bank, it can be concluded that the share price increased significantly after the announcement of rights offering. Similarly in the case of Nepal SBI Bank Ltd. stock price slightly increased after the announcement of right issue, it might be market cause for being so. But all companies right offering some how impact on stock price movement.

5.2 Conclusion

Despite a series of political unrest and disturbances, during the last fourteen years old history. It can be easily noticed that the increasing trend of issue approval of right share from SEBO/N, a type of equity, which issued by the corporation to raise the additional capital giving first priority to the existing shareholders. In Nepal, especially commercial banks and finance companies have been issuing rights share increasingly to increase the total capital fund, as required by policy directives issued by NRB. There is more frequent issue of rights share after the policy directives in the fiscal year 1996/97 to commercial banks to increase their capital fund with a view to increase the liquidity position of the commercial banks, safeguard the depositors' interest and help mobilize resources for large projects through the banking sector within the country. The commercial banks in the operations and having a low capital base have a Rs. 500 million within F.Y. 2000/01 and Rs. 2 billion within F.Y. 2012/13. Other corporations than commercial banks and finance companies have also increased their capital fund by issuing the rights shares to meet the investment required and gain the confidence of the existing shareholder in the operation of corporate firms.

Rights share occupied second largest position on various issues approved by SEBO/N. Out of total issued amount of Rs. 11893.20 million, right shares occupied 4978.62 million (i.e. around 42%). In many countries, 'right' is a negotiable instrument and transferable. But in the context of Nepal it is not transferable, which might be the main cause of undersubscription of right share. Almost all corporations do not have 100% subscription for their right share. As regard to the right issue also the corporate management has not found to follow consistent right issue ratio during the period under study. It ranged from 5:1 to 1:2. Besides it, it has a significant impact on market price of the stock, while some companies affect slightly. However, right offering don't affect significantly on price indices (i.e. NEPSE index and banking sector index). In an aggregate, it can be concluded that the share price movement due to the informational effects of rights offering can not generalized for all companies. This depends on investment prospects and sound financial position in the past. The announcement of rights offering serves a happy news to the existing shareholders and they show their positive response to it, which reflects in the increase in share price and higher rate of subscription. Nepalese capital market is not liquid enough associated with right offering. The unexercised right decreases the wealth position of the shareholders. Thus right appear as an obligation imposed on existing shareholders.

5.3 Recommendation

The recommendations are made as per the analysis of secondary and valid from study as well as relating information about Nepalese corporations rights issue. It is important that changes are made so as to make rights issue more easy, effectsive and efficient. Following are some corrective actions recommended.

1. In order to make the capital market more efficient, market participants and academic institutions should jointly promote and undertake more research and market analysis activities.
2. Undersubscription of rights issue is a common phenomenon. Existing shareholders that are not willing to buy extra shares have no alternative than expiring their rights. That is why rights should be made legally

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

3. Company act is not clear regarding the allotment of the rights shares those are not subscribed by the existing shareholders. The current practice is to distribute them among the employees of the respective companies and underwriting. This violates the very essence of rights offering. Company act should be amended to make provision regarding the issue of rights share and subsequent allotment of the rights issue.
4. Those rights, which did not exercise by the existing shareholders exercised by the employees of the respective company. It is not good practice. Therefore, shareholders should have given option to buy those unexercised rights, if remaining shareholders don't exercise it. Those rights should be sell in the market.
5. In order to attract the investments the issue prospects should provide some incentives for rights offering.
6. There should be a separate investment protection act so that the investors can maintain their confidence over their investment and can fell secured. This can also protect them from the probable losses that may rise from the insiders trading and ultimately assit in the healthy growth of the capital market.
7. Infrastructure like good communication, banking facilities and postal services should be developed to encourage investors.
8. Company should play promotional role for the full subscription of rights share because there exist large number of rights not exercised by the existing shareholders. Thus, misconception and rumors about rights share and, too lead them to irrational decision. Thus, the concern

authorities must consider making aware to the investors regarding misconception about right share and other influential factors. The awareness program should be available for general investors using mass and through programme via seminars, training and workshops.

9. Existing acts law and regulations should be reviewed; moreover an evolution should be made regarding their effectsive market promotion. Still, a right issue guideline does not come. Thus, it must come soon, which is base and key to approve the right share issue.
10. Regulation and implementation should be sound and strict. It should be realized that good rules and regulations with poor implementation virtually no work.
11. Regulatory offices, issue managers, issuing company and government should jointly organize investors awareness program, on stock, especially rights share because large number of investors unaware about it.

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