RIGHT SHARE AND ITS IMPACT ON MARKET PRICE OF COMMON STOCK IN NEPAL

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RECOMMENDATION

This is to certify that the thesis

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Entitled:

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

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VIVA–VOCE SHEET

We have conducted the viva – voce examination of the thesis presented by

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RIGHT SHARE AND ITS IMPACT ON MARKET PRICE OF COMMON STOCK IN NEPAL

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

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DECLARATION

I, hereby, declare that, this thesis entitled "**RIGHT SHARE AND ITS IMPACT ON MARKET PRICE OF COMMON STOCK IN NEPAL"** submitted to New Horizon College, Faculty of Management, Tribhuvan University is my original work as partial fulfillment of the requirement for the degree of Master's of Business Studies (M.B.S), which is prepared under the supervision of Chandra Kant Sapkota of New Horizon College, T.U. An error of omission in this research is entirely on my own.

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ABBREVIATION

SEBON: Security Board of Nepal

NEPSE: Nepal Stock Exchange

F/Y: Fiscal Year

T.U: Tribhuvan University

MPS: Market Price per Share

EPS: Earning Per Share

Ltd.: Limited

Co.: Company

LBL: Lumbini Bank Ltd

KBL: Kumari Bank Ltd.

LXBL: Laxmi Bank Ltd.

BAN: Bank of Asia Nepal

SRBL: Sunrise Bank Ltd.

SBL: Siddhartha Bank Ltd.

SDBL: Siddhartha Development Bank Ltd.

N.M.B: NMB Bank Ltd.

NIB: Nepal Investment Bank ltd.

TDB: Triveni Development Bank Ltd

NRB: Nepal Rastra Bank

AGM: Annual General Meeting

BOD: Board of Director

SMC: Security Market Center

B.S.: Bikram Sambat

DPS: Dividend per Share

ROE: Return on Equit

CHAPTER – I

INTRODUCTION

1.1 Background of the study

The right shares are the shares which a company issues to its existing shareholders. In another word, a rights issue is an invitation to existing shareholders to purchase additional new shares in the company. More Specifically, this type of issue gives existing shareholders securities called “Right”, which give the shareholders the right to purchase new share at a discount to the market price on a stated future date. The company is giving shareholders a chance to increase their exposure to the stock at a discount price.

To develop the economy of a country an efficient and effective capital market is needed. The growth of capital market in a country depends upon the saving available, proper organization of intermediary, to bring the investors and business ability together for mutual interest. Capital market is organized market through which buyer and sellers of long term capital are met and the function of buying and selling takes place. Capital market plays an important role. Recently in Nepal, right share is one of the key instruments to raise capital from capital market. The practices of right share in Nepal are an increasing trend.

The Nepalese capital market was established as security market center (SMC) in 1976. In 1984, the SMC was renamed as security exchange center (SEC). After converting SEC into Nepal Stock Exchange (NEPSE) in 1993, it creates a new environment in the field of Nepalese capital market. NEPSE is nonprofit making organization, in 1993 SEC converting into Nepal Stock Exchange (NEPSE).Now this time, NEPSE plays a vital role for the developing of the economic condition of the country.

There are various alternatives to raise the fund; these are called financial instruments, such as common Stock, preferred stock, bond, and debenture and so on. Ordinary share Provide ownership rights to ordinary shareholders. Right share are issued to the existing shareholders, if current reserve is not sufficient. Troubled companies typically use rights issues to pay down debt, especially when they are unable to borrow more money.

Right also known as subscription warrants , is issued to give existing shareholders their preemptive right to subscribe to a new issue of common stock before the general public is given an opportunity where each share of stock receives one right. A stated number of rights plus cash equal to a specified subscription price are required in order to obtain one new share. The sale of the new stock is ensured by setting the subscription price below the stock's market price at the time the rights are issued. New subscribers do not get a bargain, however; they must pay old stockholders for the required numbers of right, which becomes valuable as a result.

After the securities are issued, either by public offering or by right offering, they are traded on the secondary market. This offers an opportunity to investors to invest in the long term ventures. While market also enable them to convert their securities into liquid cash before the maturity of the project. In addition, they can invest their current income against future income thereby achieves their time performance of consumption. The liquid market for they can get back the fund easily. The primary market is positively and highly elastic in the stock prices and the liquidity in the secondary market. According to semi strong form of efficiency all the publicly available information have a great influence on the market prices. This paper is mainly concerned in testing the semi strong form of market efficiency with respect to the announcement of right issues. In addition, this paper attempts to test the behavior of share prices after right offering. This study also concerns about current practices of right offering popularity and perception of Nepalese investors about right offering.

1.2 Statement of problem

Right offering is a way of raising fund. An existing shareholder is entitled to have a proportion number of new share at pre stated price, which is somewhat lower than the market price of share. But to buy additional number of shares, the shareholder's name should be in the company book before the record date. If any shareholder purchases shares after record date have no right to buy additional number of shares, the shareholder's name should be in the company book before the record date. If any shareholder purchases shares after record date he has no right to buy the additional number of shares. So, before record date there is high demand of shares in secondary market. Demand of shares increase because people rush to the secondary market in order to enlist their name in the company's book, before the record date. NO doubt the price of the new share is also lower than market price. On the other side the existing shareholder generally have no willingness to sell the shares to exercise the right. Due to this double pressure the price of share goes upward.

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

While offering the rights another problem of under subscription also arises there. Due to the lack of instrument of rights transfer, there arise a problem of under subscription of right share and finally this absence deprives the existing shareholders from enjoying the choice of selling the rights. The company should decide how many total funds required to be raised. Then, if the total funds to be raised are divided by subscription price, it gives the total number of shares to be issued. Number of rights to be required to purchase one new share is got if the total number of old shares is divided by total number of new shares. It creates the relation of low subscription price makes less rights needed for purchasing of a new share and vice versa. Common stockholders have option to purchase new share according to the terms of offering. When a company issues right offering to existing shareholders, a shareholder has three choices and they are 1) subscribe the new share of use right, 2) sell the right and 3) let the right expire or do nothing .The shareholder takes the decision if he/she feel the following points: Hence the absence of the right instrument and the implicit of the shareholders "wealth" which do not exercise the rights, is another aspect of the research problem, But the major issues are given below:

I. What is the impact on changes in market price of stock, before and after the announcement of right offering?
II. Is there, any problem regarding right issue practice in Nepalese capital market?
III. What is the theoretical value of right & real market value? And it's practical effect after the announcement of the right share?
IV. What are the existing practices of right issue in Nepal?
V. What are the motives for right share issue?

1.3 Objective of the study

The study has two main objectives, first is to study is the characteristics features of rights offering by listed financial institutions and next is to examine share price movement associated with the right offering.

The other specific objectives of the study are:

I. To analyze the impact on changes in market price of stock, before and after the announcement of right offering.
II. To analyze the problem of the right share practices in Nepal.
III. To compare the theoretical value and the real market value after the announcement of the right shares.
IV. To identify existing practices of the right issues
V. To analyze the motives for right share issue.

1.4 Limitation of the study

The study has been conducted with the following limitation.

I. Different internal and external factor such as economical, social, legal, political and internal e.g. are cause or responsible in the movement of share prices but this study consist only on the rights offering and current legal aspects.
II. This study covers only those companies who have been issued right share and deals with some statistical tools & variables such as theoretical value of stock after right issue, percentage change in MPS, percentage change in actual market price & theoretical price, value of rights and pair t-test hypothesis tools are used.
III. This study is based on both secondary and primary data which are collected from annual report of SEBON, NEPSE, respected company, issue manager, Broker and expert. Regarding primary data questionnaire and interviewed are used.
IV. Result of the study would be fully dependent on the accuracy and reliability of the data provided by the respected organization and respondents.

1.5 Organization of the study

For the convenience, the whole study will be organized in five main chapters. The First chapter is related with introduction. This chapter deals with the background of the study, statement of the problem, objectives of the study and limitation of the study. The Second chapter deals with the review of conceptual framework, review of journals and article and review of thesis those are relevant to the study. Likewise, the third chapter presents the research design, population and sample, source of data and research tools that will be adopted. The fourth chapter is the main part of the study which includes the data collection and analyzes them to achieve the research objectives and this chapter deals with practices of right issue in Nepal, contribution of Right share on total public issue, subscription of right share in Nepal, impact of right offering on price of the stock, comparison of stock price before and after right share issue, comparison of theoretical and actual market price after right share issue, hypothesis test and analysis of data obtained from questionnaire and interview and the last or fifth chapter covers summary of the study, conclusion and gives possible recommendation.

CHAPTER – II

REVIEW OF LITERATURE

This chapter deals with conceptual framework and review of empirical studies relating to the right share and capital market in more detail and descriptive manner. In the context of Nepal, specific research studies have been little available regarding right issue and its impact on stock price movement. However, the topic of research is absolutely new, effort has been made to cover various aspects of the study so that the adequate feedback could be obtained to broaden the base and input to the study. This study is carried out into different section such as historical development security market in Nepal, Right offering and its theoretical framework, review of journal & articles and research gap etc.

2.1 Conceptual Framework

The most popular way of raising capital is the issue of common stock. When a company issues the shares for public, the stock is said to be initial public offering (IPO). But, when a company issues shares giving the right to the existing shareholders first, it is said to be Right issue or Right Offering. Right Offering is a new phenomenon. It is relatively a new practice for Nepalese Organizations.

2.1.1 Historical Development of Securities Market in Nepal

Capital market is a crucial element in the National economy. The history of securities market began with the floatation of shares by Biratnagar jute Mills Ltd. and Nepal Bank Ltd. In 1937 Introduction of the company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of securities Exchange Center Ltd. In 1976 were other significant development relating to capital markets. Securities exchange center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Nepal Government, under a program initiated to reform capital markets converted securities exchange center into Nepal Stock Exchange in 1993.

2.1.2 Right Offering: A Theoretical Framework

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 a n issue of securities convertible into common be offered first to existing shareholders because of their pre emptive right" (Van Horne, 1995;570). A company may give its existing shareholder the first opportunity to purchase a new security on a privileged subscription basis. This type of issue is known as right offering, because existing stockholder receive one right for each share of stock they hold. A right represents an option to buy new security at the subscription price, and it takes a specified number of rights to purchase number of security. Those companies which have already issued share to the public are allowed to issue right share provided the shares already issued are fully paid. A company issues right shares under the principle of preemptive right of the shareholders. Under this right, the existing shareholders have the first priority to purchase any new equity share issued by the corporation.

2.1.3 Pre-emptive Right

The common stockholders are the owner of a corporation and as such they have certain right and privileged. "Common stock holders often have the right, called the preemptive right, to purchase any additional share sold by the firm. In some states the preemptive is automatically included in every corporate charter, in other it is necessary" (Weston& Brigham, 1990:677). Under a preemptive right, existing common stockholder have right to preserve their proportionate ownership in the corporation. If the corporation issues additional common stock they must be given right to subscribe to the new stock so that they maintain their pro-rata interest in the company. You won 1000 shares of a corporation that divides to make a new company stock offering for the purpose of increasing outstanding 10%. If you have a preemptive right, you must be given the option to buy 100 additional shares so that you can preserve your proportionate ownership in the company.

"A corporate offering to existing shareholder prier to public distribution is termed as (uninsured) right offering. A preemptive right is the privilege of existing shareholders to participate in a right offering. Shareholders are granted preemptive right either by common law or explicitly by the corporate charter. A corporation may have the right to amend the article of its incorporation to limit or deny this preemptive right" (Hanley & Ritter, 1994:250) the preemptive right gives the holder the first option to purchase additional issue of common stock.

Common stockholder often have the preemptive right to purchase any additional share sold by the firm. If the preemptive 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 shareholder 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 stockholder does not wise to purchase any additional shares, then he or she can sell the rights to some other person who does not want to be the stock "(Brigham, Gapenski & Ehrhardt, 1988:607). 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 stockholders would run the risk of losing their proportionate control of the corporation"(Gitman, 1988:607).

2.1.4 Offering through Right

Rights issues include the offering of additional shares to existing shareholders. There 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 rights give shareholders the option to purchase additional shares according to the terms of the offering. The term specifics the number of shares required to subscribe for an additional share of the stock, the subscription price per share, and the expiration date of the offering. The term specifics the number of shares required to subscribe for an additional share of the stock, the subscription price per share, and the expiration date of the offering. The holders of right s have three choices:

1) Exercise them and subscribe for additional shares,
2) Sell them , because they are transferable, or
3) Partially exercise the rights.
4) Do nothing and let them expire.

The last usually occurs only if the value of the rights is negligible or if the shareholder owns but a few shares of stock. Generally, the subscription period is about three weeks. A shareholder, who wishes to by a share of additional rights , To exemplify, if Mr. A now owns 85 shares of stock in the company, and the number of rights required one additional share is 10 his 85 rights would allow him , to purchase 8 full shares of stock. If he would like to buy the ninth share, he may do so by purchasing additional 5 rights.

Under the right offering , the stockholder are provided a document called 'right' which describes all about the conditions of right issues. Each shareholder receives right in the proportion of share currently held. Generally, "right" is a negotiable instrument and therefore transferable and negotiable because while somebody may have sufficient money to exercise the rights and they may actually exercise such right but some others may not have the money to exercise all the rights, they can sell the rights or partially exercise the right. While observing the rights offering practices of Nepalese companies' there is a complete absence of such negotiable rights.

2.1.5 Significance of Right Offering

The issue of further share is resorted to for a various reasons. A company may, for the purpose of expansion, need additional capital resources. These may be over in the cost of the project and, therefore, additional shares may have to be raise funds. 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 corporations Own stockholders and is also a least costly way of raising capital.

- **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.

- **To Indicate Higher Profit**:

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

- **To Bring the Market Price of Share within more popular Range:**

Right shares effect 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 investment also able to trade and can include in their portfolios a large number of different stocks.

- **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 amount of money. Reduction of share price and holding additional number of shares unable to trade and diversity in their portfolios.

- **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 reasonably took for increase in future dividends . As the investors take the right share is an effort to invest cash for profitable investment opportunities, the share prices have positive psychological value.

- **To Decrease Flotation Cost:**

"Raising fund through the stock of right issue rather than the public issue involves less flotation cost as the company can avoid underwriter commission"(Pandey; 1999:1006).

- **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 then current market price. It is not very practical to attempt to issue these new shares at a premium the existing price, because new investor would prefer to buy existing shares directly in the market rather than more expensive new ones from the company.

- **To Fulfill the Legal Requirement Imposed by the Authority**:

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

- **To Avoid External Incontinent:**

Investment financed from external resources is subject to screening by outside agencies as to its related profitability but investment financed generally from existing shareholders fund is subject to no such check.

- **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.

2.1.6 Limitation of Right Offering

Besides the significances, there are some limitations of the right share issues which are as follows:

- The company can't force its existing shareholders to buy any more shares in the company and hence it is granting them an option to buy these new shares.
- The shareholders who fail to receive or to exercise or to sell their rights lose in terms of decline in their wealth. Most right issues are undersubscribed because there is no legal obligation on the part of shareholders to subscribe.
- It deprives new investor from becoming the shareholders of the company. The control over the management of the company is not diluted and the present management may misuse its position.
- The issue of right share dilutes the existing share's earnings per share if the profit does not increase immediately in proportion to the increase in the number of ordinary shares.

2.1.7 Procedures of Right Offering

Procedures of Right offering consist of Declaration Date, Ex-right Date, Holder of Record Date and Subscription Date. They are briefly described below.

a) **Declaration Date**

This is the date when the Management or BODs declare about the right shares which include the no of right required to purchase one new shares, subscription price, holder of record date, subscription date.

b) **Ex-Right Date**

It is the date on and after which the right no longer goes to the stock. It means, the buyer of the shares on and after this date does not enjoy the right shares. This date is normally four days prior to the holder of record date. In Nepalese context, it is known as the Book Close Date.

c) **Holder of Record Date**

It is the date until which a person, who bought shares before ex-right date, must register his \her name in the company. It is the final date to transfer the title, meaning that the seller's name should be replaced by the buyer's name in the company's register till this date. Normally, it is after the four days from the right date. But, In Nepalese context, it is after the 7 working days from the book close date or Ex-right date

d) **Subscription Date**

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

2.1.8 Right Offering Vs Public Offering

By offering stock first to existing stockholders the company taps investors who are familiar with the operation of the company. The principal sales tools are the discount from the current market price, whereas with public issues, the major selling tool is the investment banking organization. When the issue is not underwritten with a standby arrangement, the flotation costs of a right offering are lower than the cost of an offering to the general public. Therefore, there is less drain in the system from the stand point of existing stockholders. Moreover, many stockholders feel that they should be given the first opportunity to buy new shares. 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 th*e* 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: 1998; 574).Therefore there is less drain in system from the standpoint of existing shareholders. Moreover, many shareholders feel that they should be given the first opportunity to buy new common stock. The rights offering will have to be sold at a lower price than will an issue to general public.

2.1.9 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 a 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, the 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.

2.1.10 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 dividends. Simply reading 'two for one' split instead of 100% stock dividend the meaning remains 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 in 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.

Right share and stock split are completely different. Stock right mean a method of raising further fund from existing shareholder, by offering additional securities to them as preemptive basis. It involves the offer of additional share to existing shareholders. These are offered in proportion of existing shareholders. A more lengthy analysis, however, is required to reveal the exact nature of stock rights the offering of securities to existing by means of rights, either as a matter of legal requirement or financial policy or both. The question of rights is intimately of connected with that of dividends. Companies frequently offer new stock (or securities convertible into stock i.e. contingent securities) to existing shareholders at prices below than the current market price of outstanding stock. In doing so, management may feel that it is giving something of value to its shareholders like stock dividends, stock rights are highly prized by investor. And like stock dividends. Rights may typically be sold on the market for cash if the holder decides not to exercise them. Brief in the value of right is, if anything even those rights have no inherent value to the investors no matter how large the discount at which the new shares are to be sold.

2.1.11 Right Share Vs Bonus Share

Bonus issue and right issue are very similar, although typically used for different purposes. Right are, an important tool of common stock financing without which shareholders would run the risk losing their proportionate control of the company and dilution of their ownership. Company offer rights generally at a price, which is lower than the value of the shares in the market to raise an additional capital. As a result the common stock paid in capital stock and total net worth amount of the company will change. "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 transfer to retained earnings to the capital amount. In a bonus issue, the nominal value per share stays the same and the new shares are issued by capitalization existing reserve. Thus share capital shown on the balance sheet does not increases but other reserves are be decreased by the same amount"(Manandhar, 2001; 4)

A right issue is involves selling of ordinary shares to the existing shareholders of the company. It is available for a specified period of time in order for shareholder to decide what to do, to send in their cheque or selling their rights in the market. Right share increases capital, as equal to how much, amount of right share issued. "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 issue because it may hesitate to declare dividends at such rates, which are likely to be criticized by the trade unions and the consumer"(yasaswy, 1982:137l) with a bonus issue, the number of shares increased through proportional reduction in the book value of stock, As a result, the worth of the company remains unchanged. Stock dividend is a dividend paid in additional shares\stock rather than cash.

2.1.12 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 thereby decreasing the number of shares, which should increase both EPS and stock price. Repurchase are careful for making major changes in capital structures 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 which shares as selling their, book value or merely retire outstanding shares.

Corporation is need of additional equity capital, some tines offer new issues 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 corporation's outstanding shares. For this reason such offerings are known as privileged subscription. Each shareholder is given one right for each share of stock owned. The right represents an option to purchase a new shares of stock at the fixed by corporation.

2.1.13 Procedural Aspects of Right Offering

A right issue involves selling of ordinary shares to the existing shareholders of the company. The law in India that the new ordinary share must be first issued the existing shareholder on a pro-rata basis. This pre-emptive right can be forfeited by shareholders through a special resolution. "A Company can make right to it's shareholder's after meeting the requirements specified by the securities and Exchange Board of India (SEBI). Those 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"(pandey, 1999:1002)

When a company makes a right offering, the board of director must set a date of record, which is the last date on which the recipient of a right must be the legal owner indicated in the company stock ledger. Due to the time needed to make bookkeeping entries when a stock is traded? Stock usually begins selling ex- right without the rights being attached to the stock four business days prior to the date of record. The issuing firm sends rights to holders of record owners of the firms share on the date of record, who are free to exercise their right, sell them or let them expire. Right are transferable and many are traded actively enough to be listed in the various securities exchange. They are exercisable for specified period to time generally not more than few months at price called the subscription price. Since fractions of share are not always issued. It is some time necessary to purchase additional right or sell extra right. The value of right depends largely on the number of right needed to purchase a share of stock and the amount by which the right's subscription price is below than current market price. If the right have a very low value and an individual owns only small number of shares, the right may be allowed top expire. Let us assume that a company announce that a company on 2nd January 2000 that all shareholder whose names in the register of member as on 25th February, 2000. The company will mail the "letter of right" on 5th April, 2000. In the example, 2nd January, 2000 is the announcement date 25th February, 2000 is the holder of the register of member date, 5th April, 2000 is the offer of right date and 10th March 2000 is the expiration of right date. It may be possible that share may be traded a few days before the holder of the register of member date (5th April 2000 in the example) and it may not be transferred and registered in the new name.

When a company sells securities by privilege subscription, it mails to its stockholders one right for each share of stock held. With a common stock offering, the rights give stockholders the option to purchase additional share according to the term of the offering. The terms specify the number of rights required to subscribe for an additional share of stock, the subscription price per share and the expiration date of offering. The holder of right had three choices (1) Exercise them and subscribes for additional shares (2) Sell them because they are transferable or (3) Do nothing and let them expire. Generally, the subscription period runs about 3 weeks. A stockholder who wishes to buy a share of additional stock but does not have the necessary number of right may purchase additional shares. If you own 152 shares of stock in a company, the number of right required to purchase additional share is 5, your 152 rights will allow you to purchase 30 full shares, if you would like to buy 31st share, you may do so by purchasing additional 3 rights. Investors who buy the stock prior to that date receive the right to subscribe to new issue. The stock is said to sell with right –on through the date of record. After the date of record, the stock is said to sell ex- right: that is the stock is traded without the rights attached. An investor who buys the stock after this date does not receive the right to subscribe additional stock.

2.1.14 Procedures of the Issue of Right in Nepal

Right Issues are conducted in Nepal in accordance with provision mainly in company act 2063 and rules, regulation set aside by SEBON. The actual mechanics and the sequence of events in the case of rights issues 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 followed certain rules and regulation 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 procedural are considered before right 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 SEBON 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 permission from them.
- Make announcement with prospects which gives a general indication o f the reasons, which have made the issue desirable, the purpose for which the new money is to be used.
- Letter of provisional allotment or rights offering to the shareholders with prospects. These letters 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, and payment in full or partial, must be made for those shares which renounce.
- The certificates 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 resolution of the director 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.

2.1.15 Nepalese Laws relevant to public issue:

The entire corporation, who wish to issue its share to the public, should follow following laws. The right issue guideline, still not implemented yet. It is under the process, we hope it will come soon. But issuing right share is one of the offering to the public. The corporation, who want to go public to raise it' a capital, should follow certain laws. Right is one of the instruments, to raise capital from the existing shareholder. Thus, the corporation, who is going to issue, right share as well as other stock, should follow following law.

I. Company Act 2053 (1997)
II. Security Exchange Act 2040 (1983)
III. Security Exchange Regulation 2050 (1993)
IV. New Issue Management guideline 2054 (1997)
V. Securities Registration and Issue Approval Guideline 2057 (2000)
VI. Securities Allotment Guidelines 2051 (1994)

VII. Bank and Financial Institutions Ordinance 2060 (2003)

2.1.16 under and Oversubscription of Right Offering

A company can ensure the complete success of right offering by having investment banker or group of investment bankers "stand by" to underwrite the unsold portion of the issue. Underwriting is the insurance function of bearing the risks of adverse price fluctuations during the period in which a new security is being distributed" (Weston & Copeland, 1992:891). Most rights offerings are made through investment banker, who underwrite and issue the rights. In most underwriting agreements, the investment banker agrees to be a standby arrangement, which is a formal guarantee that any shares not subscribed or sold publicly will be purchase by the investment banker. This guarantee assures the firm that the entire issue will be sold it will not be undersubscribed. The investment banker, of course, charges a higher fee for making this guarantee.

Most of right offerings include an oversubscription privilege, which gives stockholders not only the right to subscribe for their proportional shares of the total offering but also right to oversubscribe for any unsold shares. Oversubscriptions are awarded on pro_ rata basis relative to the number of unsold shares. Although the use of the oversubscription increases the chances that the issue will be entirely sold, it does not assure this occurrence, as does the standby agreement. It is possible that the combination of subscriptions and oversubscription will fall short of the amount of the stock the company desire to sell. This privilege is a method of restricting ownership to the some group, although ownership proportions may change slightly. Shares that cannot be sold through the oversubscription privilege may be offered to the public. If an investment banker is used, the disposition of unsubscribed shares may be least up to the banker.

2.2 Review of Empirical Research

2.2.1 Review of Journals/ Articles

This part deals with the review of journal and article by different expert relating to right share, which was published in various journals. Some are as follows:

J. Lukose PJ and Rao S Narayan(2003), “Operating Performance of Firms Issuing Equity through Right offer” In this paper, authors analyzed that the operating performance of the BSE listed manufacturing firms following rights equity issue and their linkages with firm specific characteristics as hypothesized in the finance theory. They have selected 392 Rights equity issues during the period 1991-2000 and used a methodology robust to the mean-reverting nature of accounting income. Consistent with empirical results for seasoned equity offerings in the US market, there is a statistically significant decline in the operating performance after the rights equity issue. This decline in performance is more severe for big firms, low market-to-book value firms, and firms with lower directors’ holdings. Interestingly, foreign companies and companies belonging to small business groups do not show any declining trend. The authors find that the decline in performance is due to the inefficiency in utilization of assets and not due to decrease in profit margins. Further, various proxies measuring market valuation also decline during the post-issue period after a run up in the pre-issue period. The results of the study suggest that over-investment hypothesis and agency models can better explain the decline in performance compared to asymmetric information hypothesis. The results also indicate that rights equity issues are not simple de-leveraging decisions.

Pjm Cotterell (2011) "The impact of rights issues announcements on share price performance in south Africa." The writer observed that on his study was conducted by analyzing right issue announcement period was between 1st January 2001 to 31st December 2010. 35 events were used in this study since they met the criteria for clean measurement. A standard extent study methodology was used. Abnormal returns were measured through both the market model and control portfolio, with the Altman Z score utilized as a measure of the issuers financial position. Statistical analysis was conducted throughout to confirm significance.

The research had three objectives:

1. To extract relevant existing theory on rights issue and their impact on share price performance.

2. To quantify the impacts of rights issues announcement on share price performance of companies listed on the Johannesburg Stock Exchange ("JSE") from January 2001 to December 2010.

3. To explore whether the financial position of the issuer influences the impact quantified in terms of the second objective

In this research author said that the comparison of the CAARs(Cumulative average abnormal returns) of the healthy, grey zone and unhealthy categories revealed significantly less negative impact on the share price performance of the healthy companies, to the extent that after the initial negative reaction ,CAARs almost disappeared at the end of the 20 day event window. The converse was true for the grey zone and unhealthy companies, which suffered significantly negative returns on the announcement and which negative returns increased in magnitude through the event window. The key conclusion is therefore that the markets negative response to a right issue announcement is significantly influenced by the financial position of the issuer, with a positive relationship between the financial position and the market response.

Raheja (2011) on her study, "the impact of Right Issue on MPS and EPS" writer observed that the impact of right issue on EPS and MPS during 2009-10 of 10 public limited companies listed on Bombay Stock Exchange. According to section 81 of Indian company act 1956, "Company can issue right shares only after the two year of creation of company or one year of first issue of shares whichever is earlier ". The result divulges that EPS of 2 companies out of 10 companies descent but not in that proportion in which right share has been allotted while other 8 companies demonstrate increasing trend in EPS. MPS of 7 companies out of 10 companies decayed as a result of right issue but not in that proportion in which right shares has been issued. Correlation between EPS and right issue is 0 .11 and between MPS and right issuer is -.8. Thus MPS is much negatively correlated than EPS with right issue.

This study has been following objectives:

1) Critically examine the relationship that is found between right issue and market price per share.
2) Critically examine the impact of right issue on earning per share of companies.

The present study is analytical in nature and it is based on secondary data. The data used for the study are for the period from March 2009 to March 2010. Karl Pearson Coefficient of Correlation has been used for measure the change in EPS and MPS with right issue.

Malhotra,(2007), of his study " Announcement effect of right issue on stock returns: a study of selected Indian manufacturing companies" author said that this paper examines ordinary share price abnormal returns reaction to announcement of rights issues in the Indian stock market. This paper also examines Information hypothesis, Price pressure hypothesis, Market condition hypothesis and semi strong form efficient market hypothesis. The event study technique has been used along with Multivariate Regression Analysis. The results of the study show that Indian Stock market reacts positively to the announcement of rights issue and there is no information leakage prior to the rights issue in India. There is little evidence on the Indian stock market being semi strong from efficient. There is no evidence to support the market condition hypothesis and information hypothesis but there is evidence of price pressure hypothesis.

Dolley (1934), conducted a study on the topic, "The price Effect of stock rights issues**".** In this study author uses 303 stock rights issued out of 422 privileged subscription recorded in NYSE. He classified these stock rights by various methods such as industry wise according to the years in which they were issued. In this study he defines a lot of key terms clearly with example.

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

The result of this study seems that the possibilities of a stockholder realizing an immediate profit from a right issue are narrowly limited. Investor is about as likely to lose, as he is to gain if he sells his stock at the announcement date and buys back just prior to the record date. If he sells his stock ex- rights together with his rights on the record date in two cases out of three, he will realize a slight appreciation over the value of his stock on the preceding business day. If the stockholder decides to exercise his rights, he would do well to exercise them toward the end of the subscription period, thus allowing for a possible decline in the market price of the stock ex- rights below the subscription price, which would render the stock ex-rights below the subscription price, which would render the stock rights valueless.

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

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

White and Luszting (1980) conducted a study on the topic price effects of rights offerings. The purpose of this study has been to test empirically two hypotheses with respect to the price effects of rights offerings. Its importance for the normative theory of financial management is obvious. The technique used in the study was a pooled cross section time series model. This approach permitted the abstraction from the components of returns attributable to market wide events and other firm specific events on or near the date of interest, as well as tests of significance of events on market prices. The result of the pooled regressions provides more definitive information on the price behavior associated with the announcement of a rights offering. Since the t-statistics on the announcement date dummy variables were statistically significant at the 1% level or better, the hypothesis that on average investors believe that there is negative information associated with a rights offering cannot be rejected.

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

Pathak and Giri (2008), in their article, "Right share issue practice in Nepal" have stated that every firm needs adequate capital to perform efficiently. Generally, firms fulfill their financial requirement by issuing equity share, preference share, debenture and long term bonds; Rights issue is one of the instruments to raise additional capital. They describe the preemptive right or rights as the privilege offered to existing stockholders for buying specified number additional shares of the company's stock before the stock is offered to outsiders for sale. They have value because generally they are offered at a subscription price somewhat lower than the market price of share.

In the secondary market , investors are willing to buy the share that has been attached to the preemptive right, But to buy additional number of shares , the shareholder should have his/her name in company's book before the record date. Hence before the record date, there will be a great demand of share attached with rights. Demand is increased because large numbers of people rush to secondary market in order to enlist their name in the company's book before record date so that they can enjoy the benefits of right offering. On the other hand, existing shareholders generally have no willingness to sell the share to exercise the rights. Due to this double pressure, the price of share goes upwards.

Owen and Suchard (2010), in their article, "The Pricing and Impact of Rights Issues of Equity in Australia", have investigated abnormal returns resulting from the announcement of a rights issue of equity in Australia and also examined the pricing of rights issues and the determinants of that pricing. The announcements of rights issues of equity are met with a significant abnormal return of -1.83% and this negative abnormal return continues after the announcement, although there is a positive pre- announcement effect. In terms of pricing, 84.54% of Australian rights issue of equity are priced at an average discount of 18.89% and 3.38% are priced at the previous day's closing price. Issues made at a premium have significantly higher announcement returns than issues made at a discount (4.17% versus-2.64%)

For issues made at a discount, non-renounce able offers have a significantly higher discount than renounce able issues, which is consistent with expectations that firms offer a discount to induce shareholders to take up non renounce able rights. However, there is no significant difference between the pricing of underwritten and non – underwritten rights issues, which suggests that Australian issuers do not use large discounts as an alternative to having the issue underwritten. There is a significant negative relationship between expected shareholder concentration and the discount which supports the conjecture that firms with higher shareholder concentration don not have to offer large discounts in order to have a successful rights issue. '

Weston and Brigham (1992), state that Rights offering can be used effectively by financial managers. If the new financing, associated with the rights offering represents sound decision, improved earnings for the firm, a rise in stock values will probably be the result. The use of rights will permit shareholders to preserve their position or improve that. However, if investors feel that the new financing is not well advised, the rights offering may cause the price of the stock to decline by more than the value of the rights. Because rights offering are directed to existing shareholders, its use can reduce the cost of flotation that is associated with the new issue.

Prof. Dr. Shrestha (1992), states that thought the size of the shareholders population in Nepal has been growing constantly the government seems to have not taken any initiative in formulating the separate act which protects the shareholders rights. In Nepal, the concerned officials seem to be not relevant as they interfere in the shareholders get ignored. In the annual general meeting, shareholders can amend the internal by laws, elect director, authorize the sale of assets enter into mergers, change amount of the authorized capital and so on. But in practice, many annual general meeting have undermined the collective rights of the shareholders. National Life and General Insurance Company has suppressed the collective rights of the shareholders by not adhering to the consent of shareholders members in the board though the proposal was put forward by the management. Same case is happened of Butwal Dhago Udyog as the management wanted to have a control over the collective rights of shareholders.

A company can make rights offering to its existing shareholders after meeting the requirements specified by the securities and exchange Board of India (SEBI) in India.

Shareholders who announce their rights are not entitled for additional shares, shares becoming available on account of non –exercises of rights are allotted to shareholders who have applied for additional shares can be sold in the open market.

When the rights are offered for raising funds, there major issues are involved. They are as follows:

a) The number of rights needed to buy a new share,

b) The theoretical value of a right, and

c) The effect of rights offering on the value of the ordinary shares outstanding

Smith's (1997), samples accounted for less than ten percent of issue, whereas Britan and many other European countries, rights issues predominate. The price of the new shares in a rights issue is normally fixed at all level somewhat below the current market price of the shares.

But these lower prices should not generally diminish the wealth of the existing shareholders. The shareholders who do choose to take up the allocation, the fall in price is comparable to the in consequential decline which accompanies a capitalization issue or stock –split. But, shareholders who do not choose to take up the allocation of the new share can sell their rights to the new shares in the period before the payment is due. Only irrational shareholders, who neither exercise their rights 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.

Van Horne (2002), states that one of the most important aspects of successful rights offering is the subscription price. If the market price of the stock should fall below the subscription price, stockholders obviously will not subscribe to the stock, for they can buy it in the market at a lower price, a company will set the subscription price at a value lower than the current market price, to reduce the risk for the market price's falling below it .

Kalle Rinne and Matti J. Suominen (2007) A Behavioral Theory of Public and Rights Offerings: Empirical Evidence from Europe", in this research author developed a behavioral model of public equity offerings and rights issues that can account for several observed patterns around seasoned equity offerings In particular, the model predicts a pre – issue run –down for right offers, a price impact from the sale of new shares at the time of the issue, followed by positive long – run returns. In addition, the model predicts that there is a higher frequency of right offers amongst those stocks whose investors have large uncertainty over the true value of the asset. In the empirical part of the paper, authors test these predictions using data on stocks belonging to the Dow Jones STOXX 600 index (largest European Stocks). The test results support the model predictions, except for the case of long – run returns following rights offers, which authors find are effectively zero. The results regarding abnormal returns are size and book – to- market adjusted and the main results hold separately in every large European Country.

M.Mehjabeen (2009) of his study "Effect of Seasoned Offerings on Share Price: Evidence from Dhaka Stock Exchange" Writer examines that the impact of the announcement of seasoned equity offerings (SEO) i.e. right issue on stock price as well the impact on the ex-right day. Several studies have examined the relationship between the sizes of an equity issue and the market reaction to the announcement. The objective of this study is to find out the relevance of the previous studies in the Bangladeshi market and to document the existence of Dhaka Stock Exchange (DSE) market impact of SEOs. Data has been employed 37 samples from DSE who have raised capital through right issue from 2001 to 2008. The closing price series of the sample around the announcement date and the ex-right day, and the corresponding daily stock market price index is collect. A traditional event study performance analysis using market adjusted returns as the benchmark is conducted over 5 days,10 days and 20 days before and after the right offer announcement and also on and after the ex-right day. The event study methodology has been employed to document empirical price performance and behavior phenomena during announcement period and ex-right day.

The price performance of the stocks on ex-right day is examined by considering average cumulative abnormal return and average holding period return techniques. Both the techniques conclude that price fell significantly on ex- right day and continued for a number of trading days. Once the correction is completed, the price returns to its stochastic path. Generally it takes requires 1 or 2 days to complete the price adjustment process in developed market, but in Bangladesh, it took a longer period of time. It concluded that the the outcome of a small and shallow emerging stock market characterized by a thin market having small market capitalization, low level of liquidity and depth.

2.3 Review of Thesis

Lamichhane (2007), conducted a study related to "The Rights Offering and Its Impact on Market Price in 2007 in the Nepalese context"

His objectives in this study are:

- To identify the significant change in share price after announcement of rights offering.
- To recommend some policies that will help to rectify the current problems in the right issue of securities.

To conduct the study, he had used the correlation between share price and price index, t-statistics between share prices before and after the rights issue announcement. He did not consider the value of rights, which is very important in share price determination after the issue of rights shares. His analysis only covers the data from 2056 to 2060 B.S. But here the study has analyzed the data from 2054to 2064, which can show the present economic scenario. He had taken sample from different sector but here the study has use only one and most important sector i.e. commercial banks to conduct the study.

In this study his major findings were:

- Difference between share price before and after the rights issue of sample companies is significant.
- Rights share issue is new practice in Nepal: sample companies are unable to increase the market capitalization through rights issue as the practice does not follow the theory.

- Under subscription of rights share is common problem. Company act 2053 is not adequate for this and issues procedure of rights shares.

Rana (2007), in his thesis, "Equity Rights Issue, its practices and Impact in Nepal", has the following main objectives

- To examine the relationship between the stock price reaction and announcement of rights issue.
- To analyze the relationship between rights share and equity share, and rights share and NEPSE Index

The major findings of the study are:

Theoretical value of right differs from company to company.

- Announcement of equity rights issue are associated with a positive effect on share price.
- Firstly company issues rights share for increasing equity capital and to invest it in company's diversification and expansion. Secondly they issue rights share to increase capital to meet the level prescribed by Nepal Rastra Bank.
- The rights share and equity share has low degree of positive correlation. The correlation coefficient between right share and NEPSE has also positive correlation.

Adhikari (2008) had conducted the study on "Impact of Information on Share Price". In this study, his objective was to determine the impact of information, such as dividend declaration, return on equity and EPS, on share price. To analyze his study, he had use t-test and correlation.

But, he did not consider rights issue as an important factor in share price movement. In this study, he finds that:

- There is significant difference in share prices of four samples companies out of five, because of information of dividend declaration.
- It is also found that share price of the sampled organization has decreased significantly after the issuance of directives made by NRB. In most cases MPS is negatively correlated with EPS, DPS & ROE.

Ojha(2009),had conducted a research on "Financial performance and common stock pricing ". The main objectives of the study were:

- To study and examine the difference of financial performances and stock prices.
- To examine the relationship of dividends and stock price.

The main findings of the study were:

- Due to lack of proper investment opportunity most of the investors have directed their savings towards the secondary stock market
- People have misconception that the issuance of bonus share and rights shares, which actually decreases the net worth per share and resultantly, ought to decrease the market price of share.
- Other firms have been issuing bonus shares more items than a new one.

Khatiwada (2009), in his thesis," Right Issue Practices in Nepal and its Impact on Market price of share" has the following major objectives:

- To identify if there is significant changes in the share price after the announcement of right offering.
- To analyze the procedure and mechanism of right issue in the context of Nepal.
- To find out the problems with right issue in Nepal.
- To recommend some policies that will help to rectify the current problems in the right issue of securities.

The major findings of the study are:

- Share price of five companies have decreased after the announcement of right issue where as share price of two companies have increased after the right issue.
- Theoretically share price should increase after the right announcement and decrease after the allotment of share, but, the share prices of major companies don't follow the theory.
- From the analysis of primary data, most of Nepalese investors are not aware about the phenomenon of right issue.
- Company act is not adequate to regulate the right transferable and shareholders have to face difficulties due to non transferable of shares.
- Company Act should be amended to make the rights transferable and to make smooth transaction of right shares.

Acharya(2010), in his thesis, "Issue of Rights Share and its Effect on General Market Price in Nepalese Context", has the main objective to find out the effect of right offering on market price. The other specific objectives are:

- To examine the procedure and mechanism of rights issue in the context of Nepal.
- To analyze the problems associated with rights issue in Nepal.
- To recommend appropriate implications o the basis of findings

The major findings of the study are:

- The rights issue practice is mainly dominated by the banking and fiancé sectors. There are hardly few causes found of other sectors practicing the right issue.
- There is significant difference in the share price before and after the ex- rights dates in most of the sample company but they don't follow the theory of right offering exactly.
- The issuing of rights share has a long process. There is no time framework. The right announcement date, book closer date\ex-right date, right issue and closing dates are differing from one company to another. The announcement date and right issue date varies company to company. This makes the illusion to the investor and

affects the market price of the related stock and it's hared to study the price behavior of market price.

- Shareholders of Nepalese companies lack the knowledge about the right share and its impact on their wealth position. Due to this free movement of share movement of share price during rights on and ex-right is not confirmed.
- Under subscription of rights share is common phenomena. And most of the finance company doesn't show significant change in the price before and after ex – right date.

Kandel(2065) has made a study on " Practice of right share issue and its impact on share price movement of commercial bank in Nepal "

The main objectives of the study are as follows:

- Examine movement of stock price before and after right announcement.
- Analyze practice problems and prospects of right issue in Nepal.
- Analyze procedure of right issue.

The major findings of the study were:

- Share price of BOK does not follow the theory of right offering.
- Right offering is in increasing trend.
- Investor prefer financial sector.

Pradhan (2064) has made a study on "A case study on right offering and its impact on stock price in Nepalese market."

The main objectives of the study were:

- To examine and identify right issue practice in Nepalese Financial market.
- To test whether share price fully reflect all the information accompany right issue announcement.
- To examine the theoretical values of right and its effect of right on stock price.

- To find out impact on change in market price of the stock before and after the announcement of right offering.

2.15 Research Gap

Right share, is one of the major instrument for raising additional equity capital, which contribute second largest position on various issues approved by SEBON. However, there is still lack of complete and satisfactory research on right share. The purpose of this research is to provide clear picture on right share. Only few researches have been made on the topic "Right share practice in Nepal". Most of them selected very few samples size. Many, research has done, causes of impact on stock price movement, such as financial performance, bonus Share, dividend policy and right offering Announcement. Ojha's study was based on financial performance as well as dividend policy; on common stock pricing (stock price movement). Khatiwada's study was based on dividend policy on stock price movement. Giri's (2011) study based right share and its impact on market price of the stock. She also considered only 5 samples which was very low sample size. Similarly statistical tools which were applied by her are not right and sufficient. While besides impact on stock price movement, other's objectives are completely new.

This study also based on both secondary as well as primary data. In the context of Nepalese research, the earlier studies related with right offering, most of them are use old data and they not used comparative study between the last years & also not compare with outcomes between the sample companies. Considering all these facts it is necessary to carry out a fresh study in Nepal. Finally, this study is expected to be useful in information for all those including financial scholars, managers, investors and regulatory body (such as: NRB, SEBON, NEPSE)

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology is a technique of analyzing the obtained data to solve the research problem. This chapter deals with the overall plan associated with the study. The first section in this chapter is a description about the research design used in the study. Second section includes nature and the sources of data. Description of population and sample of the study is the third section. Similarly the fourth section deals with the data analysis tools used in the study. At last, the fifth section describes the limitations of the study.

3.1 Research Design

In simple language, planning for research is research design" A research design is the agreement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure"(Bhurtel, 2002:43)

This study follows the descriptive and co relational research design is used to evaluate the rights share and its impact on stock price movement of the sample firms and logical conclusion could be drawn. Most importantly, the study is designed as ex-post facto research as the study is based on historical data. Descriptive research design has been used for conceptualization, problem identification, conclusion, suggestion and analytical research design is used for analyzing the data to find out the result.

3.2 Nature and Sources of Data

This study mostly dependents on secondary data. Primary data will also be used as per need. To identify the problems and prospects of right share practices in Nepal, primary data are collected. Primary sources included in the study are response of the questionnaires, personal interview with concerned person such as company secretary, experts, brokers, investors, issue managers etc.

This research work is heavily bases on secondary data. Secondary data are collected from different sources i.e. SEBON, annual report of respective firm, NEPSE, some related information is taken from economic survey. Besides that the data have been collected from various sources like newspapers, magazines, published and unpublished reports from related document, journal and internet sources as well.

Necessary data for this study are collected from various sources, out of them only related data are considered for the study. Primary and secondary data are collected through the following method. Questionnaires are dispatched to a sample of 55 people and 50 responses are obtained. The table below shows the sample and response of primary source of data.

Table no 3.1
Sample & Response as Primary Sources of Data

S. no.	Responds	Sample	Response
1	**Manager & officers of Right Issuing Companies**		
a	Commercial Bank	10	10
b	Development Bank	5	5
c	Finance Company	5	5
d	Manufacturing Company	5	5
2	**Regulatory Body**		
	NMB	1	1
3	**Investor & Expert**		
a	Investor	19	14
b	Expert	5	5
c	Broker	5	5
4	Total	55	50

Source: Field Survey

Questionnaire is presented in the ANNEX: 1

a) Questionnaire Method

In this study questionnaire method has been used to get the information about right share and its different aspects. Opened, closed and mixed questionnaire methods are used to collect the data. Yes/No question, multiple choice question and descriptive questions are designed to get the response.

b) Interview Method

To make this study more reliable interview of some experts like company secretary, regulatory bodies, officer of NEPSE, are taken. Unstructured interview has been used for the data collection. Formal and informal discussions with students, teachers and representatives of some companies are also made as per need of study.

c) Historical data record method

The main sources of the data on this research are historical record method. They are collected from various reports, prospectus of companies and newspaper, previous data which was used by other party, official records in the SEBON, and lists of NEPSE published in the National daily newspaper.

3.3 Population and Sample

Population or universe refers to the entire group of people event or things of interest that researcher wishes to investigate & sample is the collection of items from population or universe. Due to the various limitation researcher cannot take all the right share issuing companies as the sample. To test the price movement of stock before & after the announcement of right share, some market prices are required. For simplicity and unbiased result 10 sample companies are taken randomly and researcher also taken share price of the different period of time as sample which is based on purposive and judgmental sampling method.

In this study the research population is all the financial institutions that issued equity through right share between the fiscal year 2064/65 to 2068/69.During that period, there are 164 cases of right issue in Nepal. Issue right share to increase the capital base if the corporate felt such need to comply with the policy directives, given by the concerned authority to increase the capital base from the time to time. The people trust in banking sector because of its transparency, which was also the main reason behind this large investment in the share market recently. Out of these 10 sample firm are taken which represent the most frequent right issue company.

To test the hypothesis about the price movement of the stock before and after 90days the announcement of right share. For this purpose, researcher has taken price before and after 90day from the period of right issue as the sample, which is based on purposive and judgmental sampling method.

The sample taking companies are presented as follows.

Table no 3.2
List of Sample Company

SAMPLE COMPANY	
1	Lumbini Bank Ltd.
2	Sunrise Bank Ltd
3	Kumari Bank Ltd.
4	Laxmi Bank Ltd.
5	Siddhartha Bank ltd.
6	Bank of Asia Nepal Ltd.
7	Nepal Investment Bank Ltd.
8	N.M.B.Bank Ltd.
9	Siddhartha Development Bank Ltd
10	Triveni Development Bank Ltd.

3.4 Data analysis Tools and variables

The purpose of analyzing the data is to change it from an unprocessed from to understandable presentations the collected data need to be aggregated in to a form that presents the summary of answers from respondents. The raw data convey little information as such there must be, therefore be compiled analyzed and interpreted using different data analysis tools (Wolf and Pant, 1999:220)

3.4.1 Effect of market price movement

To analyze the share price movement, seven different times were selected. The book close date is taken as a base date to take the seven points. The selected points are as follows:

- 90 days before book close date:

  In order to isolate the effects of right offerings, it is necessary to make comparison with dated unaffected by the offering. New financing frequently becomes known in the financial community prior to its official announcement.
- 30 days before book close date:

  One month before the book close date, it is supposed that the information is publicly known.
- 10 days before book close date:

  Few days before the book close date, it is supposed that the information is publicly known that bring much influence on share price behavior of the stock.
- Book close date:

  It is the date on and after which the right no longer goes to the stock. It means the buyer of the share on and after this date does not enjoy the right share.
- 10 days after book close date:

After the book close date, the new purchaser doesn't get the right share. Thus, the price generally falls. After book close date, there is very few chance of share trading for 3-4 days.

- 30 days after book close date:
  One month after the book close date there is less chance of share trading & Price of share going to decline.
- 90 days after book close date:
  In order to assess the post offering effect of right offering, it is necessary to have the price quotation some time after the offering, yet not so much later the factors are vague. Hence, 90 days is reasonable for the price correction mechanism.

3.4.2 Theoretical Price of the Share after Right Share Issue

Theoretically, the market price after the book close date is decreased to the extent of value of the right but the actual market price is determined in the market place with the demand and supply mechanism.

It is also known as ex-right price. Theoretical price of share after right or ex – right price of the stock is given by the following equation. In this study, theoretical market price will be used to measure impact of right share issue on market price of share.

Theoretical Value of stock after right share issue (P_e) $= \frac{P_0 \times \# + P_S}{\# + 1}$

Alternatively,

Ex- right price (Pe) = P0 – Vr

Where,

Pre right issue stock price = Po

Value of right = Vr

Subscription price = Ps

No of rights required to purchase one new share = #

3.4.3 Percentage Change in Actual Market Price and Theoretical Price

This gives the percentage deviation of actual price on theoretical price after right share issue. If the percentage change comes negative, it indicates the theoretical price is greater than actual price after right share issue. Similarly, if the percentage change comes positive, it indicates that theoretical price is less than actual market price after right share issue and if the percentage change comes to be zero, it indicates that the theoretical price and actual price are same after right share issue. This has been given by the formula below

$$\% \text{ change} = \frac{\text{Actual Price} - \text{Theoretical Price}}{\text{Theoretical Price}}$$

3.4.4 Percentage change in MPS

This gives the deviations of the share price due to right share issue phenomenon on the share price before right share issue. If the percentage of change comes negative, it indicates that the MPS has decreased after right share issue. Similarly, if the percentage changes become positive, it indicates that the MPS has increased after right share issue and if the percentage change come zero, it indicates no change in MPS before and after right issue. The percentage that has been changed in MPS after right share issue is calculated by using the following formula.

$$\text{Change in Price (\%)} = \frac{\text{Post Right Issue Price} - \text{Pre Right Issue}}{\text{Pre Right Issue Price}}$$

3.4.5 Hypothesis Test

"Hypothesis is a statement about the relationship between two or more variables which needs to be investigated for its truth". (Wolf and Pant, 2003: 62) The following hypothesis is used to test our research problem.

Use of T – test

T-test is also used to test significance of the different between the share prices before and after announcement of the rights offering. In this study, T – test is a suitable tool for analyzing the significance of difference between the share price before and after the announcement of the rights offering.

Null Hypothesis (H0) $\mu x = \mu y$: Actual Market price after right share issue and theoretical price after right share issue are same. In other words, there is no significance difference between Theoretical price and actual market price after right share issue.

Alternative hypothesis (H1) $\mu x \neq \mu y$: Actual market price after right share issue is not equal to theoretical market price. In other words, there is significance difference between theoretical market price and actual market price after right share issue.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

This chapter makes systematic presentation and analysis of data. Analysis is based on the data obtained from both primary and secondary sources. Primary source includes mainly the responses to questionnaires and personal interview with investors, Broker, experts, officials and other resourceful persons. Similarly, the secondary sources include available annual reports of sample companies, publication of SEBON/NEPSE etc. Appropriate statistical as well 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 the key chapter, as it helps achieve the objective of the study as mentioned in the first chapter.

4.1 Existing practices of Right Share Issue in Nepal

An establishment of Biratnagar Jute Mills in 1993B.S. was first to initiate the issue of equity to the general public. The corporate stock sell took place only after this. Due to the absence of organized and legally established capital market, practices of issuing of equity and related function couldn't be exercised. It was only after 1976 A.D. Security exchange center was established which initiated various practice of equity financing. Security Exchange center, after its establishment has undergone various changes and till date security Board of Nepal (SEBON) and Nepal Stock Exchange provides floor and it creates the secondary market.

SEBON, which is a governing body, has formulated various acts, regulate and guide. Even through guideline especially for rights issue has not been formulated but is 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 three decade couldn't bring perfect change in this practice. The reason behind is the various factors that as political en-establishment, low economic growth, unsustainable government policy, lack of industrialization and various prevailing factors.

The history of rights offering is not so long in Nepalese context. 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. Nepal Finance & Saving Co. was the first company, who issued rights shares in Nepalese market in fiscal year 2052/53. The company announces on 2052/04/24, the ratio was 4:1, each existing shareholders who had 4 shares they owned were, allowed, to purchase each additional share issued by the company.

Since, from the fiscal year 2052/53, Nepalese corporate firm, started to issue rights share. Up to now (i.e. 2068/69) there are 224 cases of rights offering in Nepal. Most of them were finance and banking companies who issued rights share in Nepalese capital market. Large no of bank and finance companies announce and issue right 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 .Most of the companies issue right share in order to increase paid up capital as directed by NRB.

Nepal Finance and Saving Co. Ltd is the corporate company which issued right share first time in Nepal in FY1995/96. The company got permission to issue the right share at 22/10/1995. The issue manager of the right share was the company itself. In FY 1995/96 other company did not issue the right. Nepal Finance and Saving Co. Ltd issued the right share of Rs2.00million. In fiscal year1996/97 there are three companies which had issued as right share. Himalayan General Insurance Co.; bottlers Nepal Ltd, and Nepal Share Market Ltd, they issued Rs.30.00million, 225.20m and 20 million Rupees respectively. In FY 1997/98 three companies issued right they are Nepal united Co. Ltd. Nepal Bank Ltd., and Annapurna Finance Co. Ltd. They issued 3.1 million, 241.95 million & 5 million respectively. In fiscal year 1998/99, there is only one company issuing right share i.e. Nepal Share market Co. Ltd; which issued right share for 30 million Nepal Finance and Saving Co. Ltd is the corporate company which issued right share first time in Nepal in FY 1995/96. The company got permission to issue the right share at 22/10/1995. The issue manager of the right share was the company itself. In FY 1995/96 other company did not issue the right. Nepal Finance and Saving Co. Ltd issued the right share of Rs 2.00 million.

In fiscal year 1996/97 there is three companies which had issued as right share. Himalayan General Insurance Co.; bottlers Nepal Ltd, and Nepal Share Market Ltd, they issued Rs.30.00million, 225.20m and 20 million Rupees respectively. In FY 1997/98 three companies issued right they are Nepal united Co. Ltd. Nepal Bank Ltd., and Annapurna Finance Co. Ltd. They issued 3.1 million 241.95 million, 5 million respectively.

In fiscal year 1998/99, there is only one company issuing right share i.e. Nepal Share market Co. Ltd; which issued right share for 30million amount. And got permission to issue at 25/05/1999 and fund manager was AFCL (Annapurna finance Co. Ltd).

In Fiscal year 1999/2000, there are three cases of right issued, Necon Air Ltd, Paschimanchal Finance Co. Ltd, and Ace Finance Co. Ltd, are three companies. They issued amounted to Rs.89.60 million, Rs20.00million and Rs.15.00 million by right share .Narayani Finance Ltd, Everest Bank Ltd, and Bank of Kathmandu limited issued right share amounted to Rs.12.58million, 119.21million and 234.00 million right shares in Fiscal Year 2000/2001.In Fiscal year 2001/2002there is three cases of share issue, They are Nepal SBI Bank Ltd, and Nepal Housing and merchant financial Ltd and NIDC capitals market Ltd. In FY 2002/2003 three cases of right share issue we can find i.e. Nepal share markets and finance Ltd, Mahalaxmi Finance Ltd, and Peoples Finance Ltd. are four cases. Four cases are there of right share issue in 2003/2004. They are Alpic Everest finance Ltd, Siddhartha Finance Ltd, NB Finance and leasing Co. Ltd and Nepal Bangaladesh Bank Ltd. There are six cases of right share issue in FY 2004/2005. Annapurna Finance Company Ltd, Nirdhan Utthan Bank Ltd, Nepal SBI Bank Ltd, Nepal Investment Bank Ltd, National Finance Co. Ltd, and Development credit bank Ltd, are six right share issuing companies. The trend of issuing right share is increased from FY 2005/2006 to FY 2010/2011 but in f/y 2011/2012 issue of right share is decrease. The following table shows that fiscal year wise no of right issue companies and their right issued amount in total.

Table 4.1
Fiscal Year wise Right Share Issue in Nepal (in Millions)

S.N.	Fiscal Year	Right Issue Approved(in Millions)	Cases of Right Share Issue
1	1993-1994	-	-
2	1994-1995	-	-
3	1995-1996	69	2
4	1996-1997	275.5	3
5	1997-1998	249.96	3
6	1998-1999	30	1
7	1999-2000	124.6	3
8	2000-2001	131.79	2
9	2001-2002	621.87	5
10	2002-2003	162.24	4
11	2003-2004	70	3
12	2004-2005	949.34	6
13	2005-2006	1013.25	11
14	2006-2007	1265.3	17
15	2007-2008	6793.4	43
16	2008-2009	14262.19	50
17	2009-2010	8173.04	33
18	2010-2011	5049.33	31
19	2011-2012	451.68	7
Total		39693.01	224

Source: SEBON

4.1.1 Contribution of Right Share on Total Public Issue

Right share is an important part of total public issue. In Nepal, there are many other alternatives of the public issue. The following table and figure shows the contribution of right issue in the public flotation on each of the fiscal years in which the right offering has been taken place.

Table No 4.2
Contribution of Right Issue on the total Public Flotation(Amount in millions)

S.N.	Fiscal Year	Total Issued Approved		Right Issued Approved		Right issued in percentage	
		No of company	Amount(Rs)	No of company	Amount (Rs)	No of company	Amount (Rs)
1	1993-1994	16	244.4	-			
2	1994-1995	10	173.96	-			
3	1995-1996	12	293.74	2	69	16.67	23.49
4	1996-1997	5	322.2	3	275.5	60	85.41
5	1997-1998	12	462.36	3	249.96	25	54.06
6	1998-1999	5	258	1	30	20	11.63
7	1999-2000	6	326.86	3	124.6	50	38.12
8	2000-2001	9	410.49	2	131.79	22.22	32.11
9	2001-2002	12	1441.33	5	621.87	41.67	43.15
10	2002-2003	18	556.54	4	162.24	22.22	29.15
11	2003-2004	14	1027.57	3	70	21.43	6.81
12	2004-2005	14	1626.82	6	949.34	42.86	58.36
13	2005-2006	29	2443.28	11	1013.25	37.93	41.68
14	2006-2007	34	2295.5	17	1265.3	50	55.12
15	2007-2008	72	10668.2	43	6793.4	59.72	63.68
16	2008-2009	63	16828.51	50	14262.19	79.36	84.75
17	2009-2010	61	10822.41	33	8173.04	54.1	75.52
18	2010-2011	47	6777.29	31	5049.33	65.96	74.5
19	2011-2012	25	2950.18	7	451.68	28	15.31
	Total	439	59929.64	224	39693.01	51.02	66.23

Source: SEBON

The above table shows the contribution of right issue in the total public flotation in each of fiscal year in which the right offering has taken place. The table shows that from fiscal year 2052/53 (1995/96), Nepalese corporate firms had been started rights shares as a means to raise additional capital. During that fiscal year only 2 cases contributed 23.49% of total flotation of Rs 293.74 million. In fiscal year 1996/97 there are 3 cases of rights issue that covers 85.41% of the total flotation (i.e.332.2 million) during that fiscal year. In the fiscal year 1997/98 there is 3 cases of rights offering cover54.06 percentage of it. However, in the fiscal year 1998/99, the right share was lower than previous year amounting to Rs 30 million covering only 11.63% of the total public flotation, i.e. 30 million out of Rs 258 million. In the fiscal year 1999/2000, the amount of right share was Rs 124.6 million which cover 38.12% of the total public flotation, in this year, 3 companies issued right share.

In the fiscal year 2000/01, there are 2 cases of right issues that cover 32.11% of total flotation. Similarly, in fiscal year 2001/02, there are 5 cases of right offering amounting to Rs 621.87 million which covers 43.15% of total public flotation of the Rs 1441.33 million. In fiscal year 2002/03, the total public flotation was rs 556.54 millions out of which Rs 162.24 million were collected through right share issue, this is 29.15% of total flotation and cases were 4. In the fiscal year 2003/04, the amount raised through right share issue was Rs 70 million covering 6.81%of total public flotation, i.e. 1027.5 million. The total no of right share issue in this year is 3. In the fiscal year 2004/05, the total amount raised through right offering was Rs 949.34 million covering 58.36% of total public flotation, i.e. Rs 1626.82 million and the cases were 6.In the fiscal year 2005/06, the no. of right share issue were 11, the total amount raised though the right share issued were Rs 1013.45 million out of total public flotation of Rs 2443.28 million covering 41.48%.

Likewise, in f/y 2006/07, total amount raised through right offering was Rs 1265.3 million which cover 55.12%.In f/y2007/08 total amount raised through right is 63.68%. Similarly, in f/y 2008/09 total amount raised through right is 84.75% which is maximum amount raised through right offering. In f/y 2009/10 total amount raised through right is 75.52%. Likewise in f/y 2010/11 no. of right issue companies are 31 which cover 74.5% of the total public flotation. Lately, in f/y 2011/012 the total public flotation was Rs 2950.18 million out of which RS 451.68 million issue from right which cover only 15.31% of total public flotation.

A study of SEBON during the period of f/y 2050/51 to 2067/68, which analyzes the investment in different security in Nepalese corporate such as preference share, debenture, right share and ordinary share, right share investment is the prime source of investment which covers 69.14%. Likewise, 20.12% covered by ordinary share, 9.58 % occupied by debenture and at last 1.17% occupied by preference share.

Table no 4.3
Security Wise investment Percent
Fiscal year 2050/51 to 2067/68

Debenture	9.58%
preference share	1.17%
Right share	69.14%
ordinary share	20.12%

Source: SEBON

Similarly, SEBON also analyzed the right share investment in different sector during the period of f/y 2050/51 to 2067/68 found that, commercial bank sector is prime source of right issue in total public issue in Nepal. Mainly there are 8 types of sector of investment i.e. commercial bank, development bank, finance company, insurance company, hotel, manufacturing company, trading and other. The following figure clearly presents the contribution of each security and sector of investment in total public flotation in Nepal. The right share issue portion by sector wise analysis from F/y 2050/51 to 2067/68 is captured by right share is 35.67% in commercial bank, finance company 32.96%, development bank 19.48%, insurance company 2.31%, hotel 1.46%, manufacturing company 1.65%, trading 0.01% and other sector 6.47% occupied respectively.

Figure no 4.1
Security wise Investment Pie Chart
Fiscal year 2050/51 to 2067/68

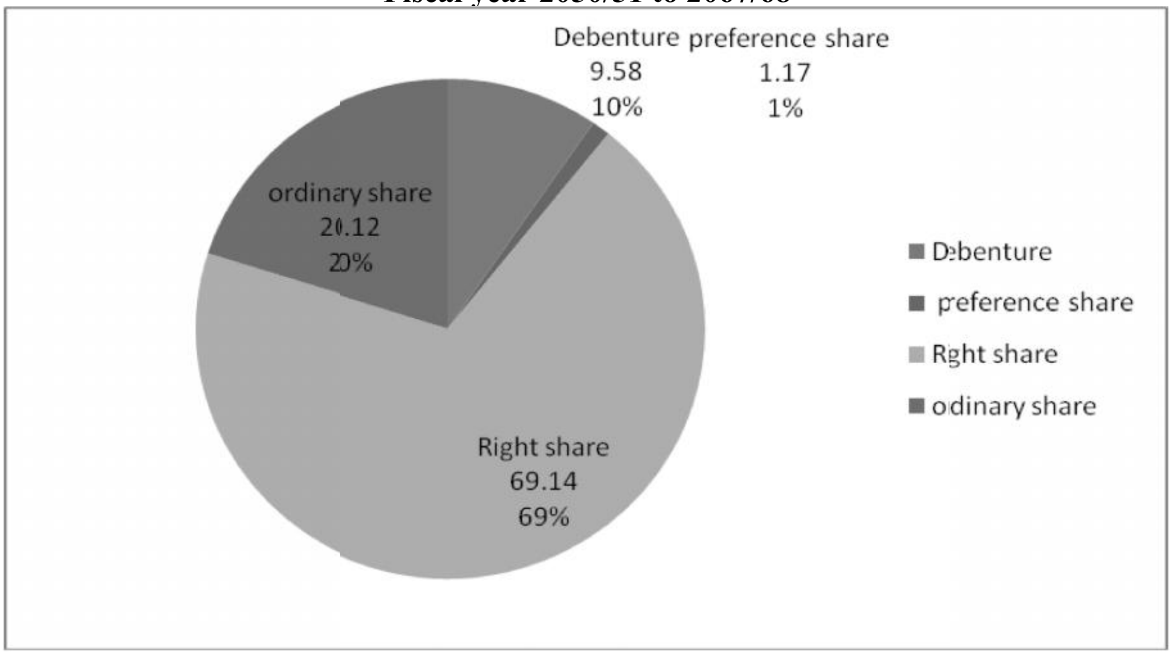
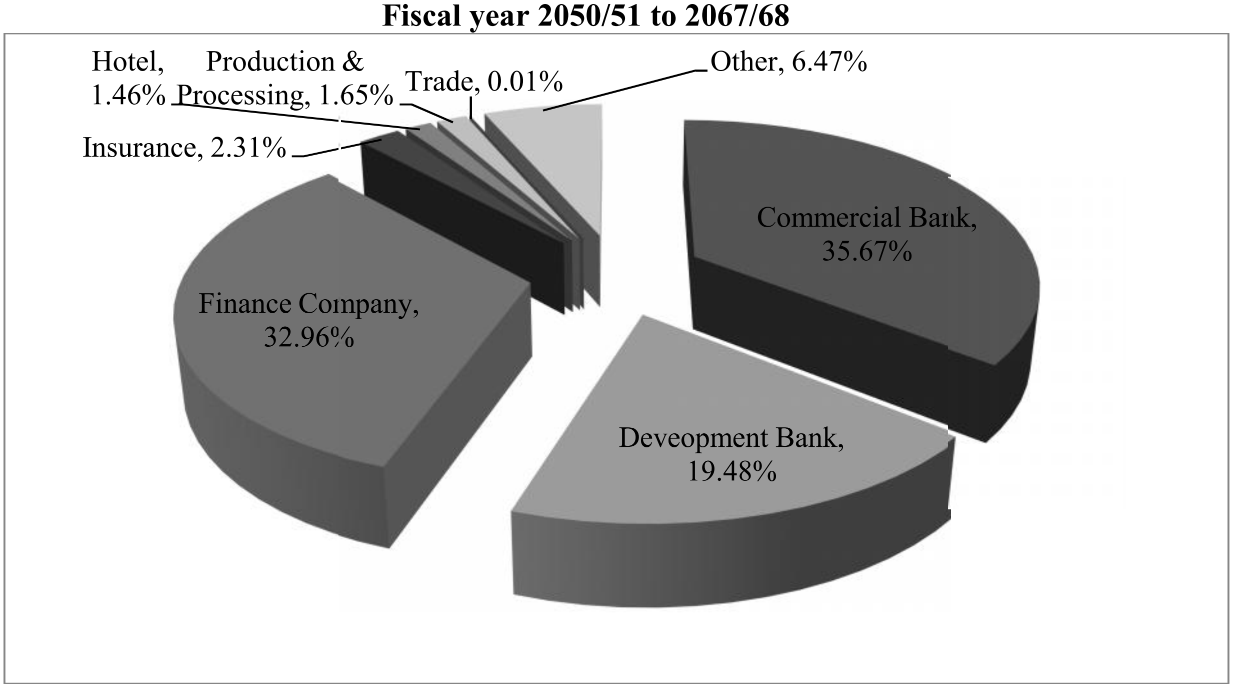


Figure no.4.2
Sector wise right issue pie chart
Fiscal year 2050/51 to 2067/68



Source: SEBON

4.1.2 Subscription of Right Share in Nepal

Generally there is not any case of actual subscription. When the existing shareholder apply for all the announced share that is called actual subscription. If there is application form more than the announcement is called oversubscription. And if there is application for less than requirement is called under subscription. About the right share subscription in Nepal we can get more information from the table below.

Table no 4.4
Subscription of Right share in Nepal

Subscription Cases	No of Corporate Firm	Percentage
Under Subscription	16	48.49%
Over Subscription	3	9.09%
Full Subscription	4	12.12%
Data not available	10	30.30%
Total	33	100%

Source: Annual report of SEBON, 2009/10.

From the above table, we can conclude that 16 companies out of 33 are under subscription. That means company was not able to collect sufficient amount that it need to expand its program by the announcement of right share .In this case, the board of director announce the right share was not good decision. Three companies out of 33 companies were able to collect actual amount that they need for the further program. Nepal share market Co. Ltd, Ace finance Co. Ltd and Nepal Housing and merchant finance Limited are three companies which were succeed to collect actual amount they need. These companies' subscription ratios were 1:2, 1:1 and 2:1 respectively. Four companies out of 33 companies were oversubscribed. They are bottlers Nepal Ltd, Narayani finance Limited, Nepal SBI Bank Limited and Paschimanchal finance Ltd. Subscribed amount are not available for 10 companies.

From the above analysis, researcher can conclude that the good performing companies are oversubscribed; bad performing companies are under subscribed and Normal companies are fully subscribed. When an investor thinks that the company would invest its extra fund in profitable way then they want more investment the company. If the existing share holders are not satisfied with the decision of Board of directors then they will not motivate to invest more.

4.2 Impact of Right offering on price of stock of Sample Company

To test the impact of right offering, this study used different tools and variables to get the result more reliable. Which are as follows.

4.2.1 Share price movement of Sample Company before and after right issue

The main focus of the study is to evaluate the right share & it's impact on MPS in Nepal. To obtain the best result, different points of time period presented as I to VII were selected for observing the price movement. The book close date is taken as the reference point as follows.

I. 90 days before the book close date
II. 30 days before the book close date
III. 10 days before the book close date
IV. The book close day (Closing Price)
V. 10 days after the book close date
VI. 30 days after the book close date
VII. 90 days after the book close date

Book close date itself is the ex-right date meaning that the share purchaser on book closes date and afterwards doesn't get right share so; the price is also reduced on and after the book close date. In this analysis, price of the share before the book close date (i.e. closing price for book close) is taken as the base price for price relative calculation. Now, analysis of share price movement of all 10 sample companies which are presented as below.

1	Lumbini Bank Ltd.(LBL)	6	Siddhartha Bank Ltd.(SBL)
2	Kumari Bank Ltd.(KBL)	7	Siddhartha Development Bank Ltd.(SDBL)
3	Laxmi Bank Ltd.(LXBL)	8	N.M.B Bank Ltd. (NMB)
4	Bank of Asia Nepal(BAN)	9	Nepal Investment Bank Ltd. (NIB)
5	Sunrise Bank Ltd.(SRBL)	10	Triveni Development Bank(TDB)

a) Analysis of market price movement before & after right issue for f/y 2064/2065

Table no 4.5
Stock price movement for f/y 2064/65

S..N	Name of the Org.	Book close Date	Before			Book close price	After		
			90 days	30 days	10 days		10 days	30 days	90 days
1	LBL	2008March31	835	520	470	460	481	496	615
2	KBL.	2008 Apr 24	1092	821	715	796	790	870	989
3	LXBL	2008 May 02	1113	904	814	852	890	1100	1295
4	SBL	2008 Feb 25	1078	1100	915	809	815	705	975
5	SDBL	2008 Feb 10	606	612	618	630	654	934	856
6	N.M.B	2008 Jan 08	1945	3760	3799	2860	1000	985	882
7	NIB	2008 Jan 29	2605	2110	1600	1580	1650	1505	1515

Source: Annual report of SEBON

In this F/Y out of 10 Sample Company, only 7 companies had been issued right share. To analyze the share price movement ,after 10 days from the book close date, share price are slightly increase of LBL,LXBL,SBL,SDBL & NIB but the share price of N.M.B was highly decrease and price of KBL was slightly decrease after 10 days. Likewise, the price movement of LBL, KBL, LXBL and SDBL after 30days and 90 days were increased as compare with the date of book close date. But the share price of SBL was decrease after one month and increase after 3 month from the date of book close date. Similarly, the share price of NIB is slightly decreased but the price of NMB is highly decreased after 30days and 90 days. In theoretically price should be decrease after book close date by its value of rights. But most of the cases of this year do not meet with the theory.

b) Analysis of market price movement before & after right issue for f/y 2065/2066

Table no 4.6
Stock price movement for f/y 2065/66

S.N	Name of the org.	Book close Date	Before			Book close price	After		
			90 days	30 days	10 days		10 days	30 days	90 days
1	SDBL	2009 Apr 08	1190	1179	342	336	325	313	249
2	N.M.B.	2008 May 17	961	882	810	810	801	965	961
3	NIB	2009 Feb 17	1270	1105	1195	1250	1285	1206	1180

Source: Annual report of SEBON

In this f/y only 3 firms were issued right share out of 10 sample firms. The share price movement of SDBL was highly fluctuating between the date before and after 90 days from the book close date. Similarly, the price movement of NMB was equal before and after 90days from the book close date. Similarly the price movement of NIB was increase after 10 days and decrease after 30 and 90days from the book close date.

c) Analysis of market price movement before & after right issue for f/y 2066/2067

Table no 4.7
Stock price movement for f/y 2066/67

S.N	Name of the Org.	Book close Date	Before			Book close price	After		
			90 days	30 days	10 days		10 days	30 days	90 days
1	BAN	2010 Apr 16	450	381	304	300	300	235	270
2	LBL	2009 Oct 15	571	888	1026	1000	980	612	701
3	SRBL	2010 June 01	379	281	315	334	330	255	226
4	SBL	2010 June 07	409	345	429	419	420	435	315
5	TDB	2010 Jan 26	749	686	665	659	610	340	327

Source: Annual report of SEBON

In this fiscal year 2066/67, only 5 firms were issued right share out of 10 sample firm. The share price movement of BAN was equal after 10 days and decrease after 30 and 90 days from the book close date. Similarly, price movement of LXBL was slightly greater before 10 days from the book close date and decrease after Right issue date. Likewise, the share price of SRBL & TDB was decrease after right issue date & the price movement of SBL was increase after 10 and 30 days & decrease after 90 days from the book close date.

d) Analysis of market price movement before & after right issue f/y 2067/2068

Table no 4.8
Stock price movement for f/y 2067/68

S.N	name of the organization	Book Close Date	Before			Book close price	After		
			90 days	30 days	10 days		10 days	30 days	90 days
1	KBL	2010 Sep 15	445	424	361	381	379	359	287
2	SRBL	2011 March 15	224	217	210	197	158	138	119
3	BAN	2011 Feb 10	290	263	273	261	261	210	160
4	N.M.B	2011 Apr 20	278	250	233	211	196	192	208

Source: Annual report of SEBON

F/y 067/68, 4 firms were issued right share out of 10 sample firms. In this f/y all right issued sample firm's share price were decrease after book close date. Share price movement of KBL before90, 30, and 10 was Rs445, 424 and 361 and after 10,30and 90 days was Rs 379,359 and 287 respectively. Similarly share price of SRBL before 90, 30 and 10 days from book close day was Rs 224,217 and 210 and after 10, 30 and 90 days was Rs158, 138 and 119 and its book close price was Rs 197.Likewise, share price of Bank of Asia Nepal before 90, 30 and 10 days was Rs290, 263 and 273 resp. and share price movement after 10, 30 and 90 days was Rs 261, 210 and 160 respectively. Its book close price was Rs 261. At last, the share price movement of N.M.B before 90, 30 and 10 was Rs278, 250 and 233 and after 10, 30 and 90 days was Rs 196,192 and 208 and its book close price was Rs 211.

e) Analysis of market price movement before & after right issue f/y 2068/2069

Table no 4.9
Stock price movement for f/y 2068/69

S.N	name of the organization	Book close Date	Before			Book close price	After		
			90 days	30 days	10 days		10 days	30 days	90 days
1	TDB	2012 Jan 04	151	149	149	115	117	114	108

Source: Annual report of SEBON

Fiscal Year 68/69 only one firms was issued right share out of 10 sample firms. The share price movement of TDB after 10 days was slightly increased and decrease after 30 & 90 days. The share price of TDB before 10 and 30 days are equally greater than book close date and before 90 days was somewhat greater than 30 or 10 days. Similarly after 10 days was Rs 117 which was slightly increased from book close date and then after 30 and 90 days from book close date was slightly decrease.

4.2.2 Percentage change in MPS of Sample Company before and after right issue

The impact of right share issue on market price per share is evaluated here. Theoretically, the price of the share should be decreased after right share issue. The table below shows the market price per share before right share issue and after right share issue and their percentage difference. To get the result more reliable this study use Pre right issue price is the closing market price 90 days prior to right share issue and post right issue price is the closing market price after 90 days to right share issue.

The positive change in price indicates that the post right issue price is greater than pre right issue price. This phenomenon is theoretically wrong. The negative change in price indicates that the post right issue price is smaller than the pre right issue price and this phenomenon is theoretically correct. The zero change indicates that the post right issue price and the pre right issue price are equal and this is also theoretically wrong.

$$\text{Change in price (\%)} = \frac{\text{Post Right Issue Price} - \text{Pre Right Issue Price}}{\text{Pre Right Issue Price}}$$

a) Percentage change in MPS of Sample companies for f/y 064/65

Table no 4.10
Percentage change in MPS of Sample companies for f/y 064/65

	Name of Companies	Pre. Right Issue price	Post Right Issue price	Change in price
1	LBL	835	615	-26.35
2	KBL	1092	989	-9.43
3	LXBL	1113	1295	16.35
4	SBL	1078	975	-9.55
5	SDBL	606	856	41.25
6	N.M.B.	1945	882	-54.65
7	NIB	2605	1515	-41.84

Source: Annual report of SEBON and Trading Report of NEPSE

Fiscal year 2064/65, in this F/Y out of 10 Sample Company, only 7 companies had been issued right share. From the above table, it is clear that in majority of the case the change is in negative. This means the majority of company follows the theory, i.e. the market price per share decreases after right share issue. Out of 7 companies, 5 companies share price has been decreased after right share issue and remaining 2 company's MPS have increase after right share issue.

b) Percentage change in MPS of Sample companies for f/y 065/66

Table no 4.11
Percentage change in MPS of Sample companies for f/y 065/66

S.N	Name of Companies	Pre. Right Issue price	Post Right Issue price	Change in price
1	SDBL	1190	249	-79.07
2	N.M.B	961	961	0
3	NIB	1270	1180	-7.086

Source: Annual report of SEBON and Trading Report of NEPSE

This f/y only 3firms were issued right share among 10 sample firm. From above table, the market price per share of 2 companies has decreased and one company remained constant after the right issue.

c) Percentage change in MPS of Sample companies for f/y 066/67

Table no 4.12
Percentage change in MPS of Sample companies for f/y 066/67

S.N	Name of Companies	Pre. Right Issue price	Post Right Issue price	Change in price
1	BAN	450	270	-40
2	LXBL	571	701	22.76
3	SRBL	379	226	-40.36
4	SBL	409	315	-22.98
5	TDB	749	327	-56.34

Source: Annual report of SEBON and Trading Report of NEPSE

Fiscal Year 2067/68, 5 companies had been issued right share out of 10 sample firm. From above table 4 companies share price has decreased after right share issue and remaining one company increase after right share issue. From this analysis, it can be concluded that generally the market price decrease after right share issue.

d) Percentage change in MPS of Sample companies for f/y 067/68

Table no 4.13
Percentage change in MPS of Sample companies for f/y 067/68

S.N.	Name of Companies	Pre. Right Issue price	Post Right Issue price	Change in price
1	KBL	445	287	-35.50
2	SRBL	224	119	-46.88
3	BAN	290	160	-44.83
4	N.M.B	278	208	-25.18

Source: Annual report of SEBON and Trading Report of NEPSE

The above table shows that all right issue company from sample of this study, market price per share decrease after right issue. Result of this table meet the theory.

e) Percentage change in MPS of Sample companies for f/y 068/69

Table no 4.14
Percentage change in MPS of Sample companies for f/y 068/69

S.N.	Name of Companies	Pre. Right Issue price	Post Right Issue price	Change in price
1	TDB	151	108	-28.48

Source: Annual report of SEBON and Trading Report of NEPSE

In this fiscal year only one company had been issued right share out of 10 sample firm. This table also shows that MPS after right issue was decreased by 28.48%.

From above analysis we can concluded that most of the firms are meet the theory. In theoretically price should be decrease after right issue.

4.2.3 Comparison of Theoretical and Actual Market Price after right share issue

To find the impact of right share issue on market price per share, it is necessary to calculate the theoretical market price. The market price after ex right date compares with theoretical market price to measure the effects. The comparison results of the firm measure the impact of the right share issue on market price of the share. Positive change in share price means share price after right share issue are higher than theoretical market price. This is good indicator for shareholder and company; it means they have good signaling effect. Negative change means share price after right share issue are lower than theoretical price.

90 days is suitable for the price correction mechanism after the ex –right. Further, the theoretical value of the stock is also computed using the formula. Difference between the actual market price after 90 days of book close date and the theoretical price is taken and the difference in percentage is also clearly shown.

Theoretical value of stock after right share issue (P_e) = $\dfrac{P_0 \times \# + P^S}{\# + 1}$

Pre right issue stock price = P_0

Subscription = p^s

No of right required to purchase one new share = #

a) Comparison of theoretical and actual Market price after right issue for f/y 064/65

Table no 4.15
Calculation of theoretical value of the stock for f/y 064/65

S. No	Name of the companies	P_o	P^s	Ratio	#	P^e
1	LBL	835	100	3:1	3	651.25
2	KBL	1092	100	5:1	5	926.67
3	LXBL	1113	100	4:1	4	910.4
4	SBL	1078	100	5:1	5	915
5	SDBL	606	100	1:1	1	353
6	N.M.B.	1945	100	1:4	0.25	469
7	NIB	2605	100	5:1	5	2187.5

Table no 4.16
Comparison of Theoretical and Actual Market price after right issue f/y 064/65

S. No	Name of the companies	Actual MPS after right issue	Theoretical price after right issue	Percentage change
1	LBL	835	651.25	256
2	KBL	1092	926.67	17.84
3	LXBL	1113	910.4	22.25
4	SBL	1078	915	17.81
5	SDBL	606	353	71.67
6	N.M.B.	1945	469	375.55
7	NIB	2605	2187.5	19.085
Total				780.20

% change = Actual price – Theoretical Price / Theoretical Price

Average Change = Sum of % change / No of observations

780.20/ 7 = 111.45%

The above table shows the percentage change in actual market price and theoretical price of share after right share issue. Theoretically, actual market price and theoretical price of the share after right share issue should be equal. Actual market price after right share issue is collected from the trading reports of the SEBON and theoretical price of the share after right share is calculated. The above table shows that the actual market price of LBL,KBL,LXBL,SBL SDBL,NMB, NIB are Rs 835,1092,1113,1078,606,1945 and 2605. Similarly their theoretical price after right issue are Rs 234.5,926.67,910.4,915,353,409 and 2187.5.Likewise percentage change between actual MPS after right issue and theoretical price after right issue of LBL,KBL,LXBL,SBL,SDBL,NMB and NIB are 256%, 17.84%, 22.25%, 17.81% 71.67%,375.55% and 19% . From the above analysis of fiscal year 2064/65, all right issue companies from sample companies of this study have higher actual MPS causing positive change. The average percentage changes between actual market price and theoretical price is 111.45%

b) Comparison of theoretical and actual market price after right issue for f/y 065/66

Table no 4.17
Calculation of theoretical value of the stock for f/y 065/66

S. No	Name of the companies	P_o	P^s	Ratio	#	P^e
1	SDBL	1190	100	1:5	0.20	281.67
2	N.M.B	961	100	10:3	3.33	762.15
3	NIB	1270	100	2:1	2	880

Table no 4.18
Comparison of Theoretical and Actual Market price after right share for f/y 065/66

S. No	Name of the companies	Actual MPS after right issue	Theoretical price after right issue	Percent age change
1	SDBL	1190	281.67	322.48
2	N.M.B	961	762.15	26
3	NIB	1270	880	44.31
Total				130.93

% change = Actual price – Theoretical Price / Theoretical Price

Average Change = Sum of % change / No of observations

392.79% / 3 =130.93%

In this f\y out of 10 sample companies only 3 firms were issued right share. The above table shows that the actual market price of SDBL, NMB & NIB are Rs 1190, 961& 1270.Similarly their theoretical price are Rs 281.67,726.15 and 880.Likewise, percentage change between actual MPS after right issue and theoretical price after right issue of SDBL,NMBAND NIB are 322.48%,26% and 44.31%. From the above analysis of fiscal year 2064/65, all right issue companies from our sample companies have higher actual MPS causing positive change. The average percentage changes between actual market price and theoretical price is 130.93%

d) Comparison of theoretical and actual market price after right issue for f/y 066/67

Table no 4.19
Calculation of theoretical value of the stock for f/y 066/67

S. No	Name of the companies	P_o	P^s	Ratio	#	P^e
1	BAN	450	100	2:1	2	333.33
2	LXBL	571	100	10:4	2.5	436.43
3	SRBL	379	100	10:3	3.33	314.56
4	SBL	409	100	2:1	2	306
5	TDB	749	100	1:1	1	424.5

Table no 4.20
Comparison of Theoretical and Actual Market price after right share for f/y 66/67

S. No	Name of the companies	Actual MPS after right issue	Theoretical price after right issue	Percentage change
1	BAN	450	333.33	35%
2	LXBL	571	436.43	30.83%
3	SRBL	379	314.56	20.48%
4	SBL	409	306	33.66%
5	TDB	749	424.5	76.44%
Total				196.41%

% change = Actual price – Theoretical Price / Theoretical Price

Average Change = Sum of % change / No of observations

196.41 / 5 = 39.28%

Fiscal year 2066/67, out of 10 sample companies only 5 firms were issued right share. The above table shows that the actual market price of BAN, LBL, SRBL, and SBL & TDB are Rs 450,571,379,409 & Rs 749. Similarly, their theoretical price of share after right issue are Rs 333.33,436 .43, 314.56, 306 & Rs 424.5. Likewise, percentage change between actual MPS after right issue and theoretical price after right issue of BAN, LBL, SRBL, SBL & TDB are 35%, 30.83%, 20.48%,33.66%,&76.44% respectively . From the above analysis of fiscal year 2066/67, all right issue companies from sample companies have higher actual MPS causing positive change. The average percentage changes between actual market price and theoretical price is 39.28%.

e) Comparison of theoretical and actual market price after right issue for f/y 067/68

Table no 4.21
Calculation of theoretical value of the stock for f/y 67/68

S. No	Name of the companies	P_o	P^s	Ratio	#	P^e
1	KBL	445	100	20:3	6.67	400
2	SRBL	224	100	10:2.4	4.17	200
3	BAN	290	100	3:1	3	242.5
4	N.M.B	278	100	10:2.1909	4.56	245.98

Table no 4.22
Comparison of Theoretical and Actual Market price after right share f/y 67/68

S. No	Name of the companies	Actual MPS after right issue	Theoretical price after right issue	Percentage change
1	KBL	445	400	11.25%
2	SRBL	224	200	12%
3	BAN	290	242.5	19.59%
4	N.M.B	278	245.98	13.01%
Total				55.85%

% change = Actual price – Theoretical Price / Theoretical Price

Average Change = Sum of % change / No of observations

55.85 / 4 = 13.96%

Fiscal year 2067/68, out of 10 sample companies only 4 firms were issued right share. The above table shows that the actual market price of KBL, SRBL, BOAN & N.M.B are Rs 445,224,290 & RS 278 respectively. Similarly, their theoretical price of share after right issue is Rs 400,200,242.5 & Rs 245.98.Likewise, percentage change between actual MPS after right issue and theoretical price after right issue of KBL, SRBL, BAN & N.M.B is 11.25%,12%,19.59% and 13.01%. The average percentage changes between actual market price and theoretical price is 13.96%.

f) Comparison of theoretical and actual market price after right issue for f/y 2068/69

Calculation of theoretical value of the stock

In the f/y 2068/69 only a firm i.e. Triveni development bank, was issued right share from selected 10 sample companies of this research.

Actual MPS after right share issue (p_0) = 151

Subscription price (P_s) = 100

Ratio (#) = 2:1

Theoretical price after right issue (p_e) == $\frac{P_0 \times \# + P^S}{\# + 1}$ =

= 134

Comparison of Theoretical and Actual Market price after right share

% change = Actual price – Theoretical Price / Theoretical Price

151- 134/ 134 = 12.69 %

From the above analysis, it is found that all company's actual market price is higher than theoretical market price causing positive change. Study period of this research is five year i.e./y 2064/065 to 068 /69. Selected all 10 sample companies were not issued right share by every year. This study based on 5 years comparative study between 10 sample companies. In f/y 064/65 only 7 companies, in f/y 065/66 only 3 companies, similarly f /y 067/86 only 4 companies & at last f/y 068/69 only a companies had been issued right share & their average percentage changes between actual market price and theoretical price of this research period is 111.45%,130.93%,39.28%,13.96% & 12.69% respectively. In f/y

065/66 was the higher percentage change which is 130.93% & the lowest percentage change is 12.96% in f/y 068/69.

4.2.4 Testing of Hypothesis

The test of hypothesis is a process of testing of significance regarding the parameter of the population on the basis of samples drawn from the population. In testing Hypothesis, we examine on the basis of statistics computed from sample drawn whether the sample drawn belongs to the parent population with certain characteristics. The computed value of statistics may differ from hypothetical values of the parameter due to the sampling fluctuation, the test of hypothesis discloses the fact whether the difference between the computed statistics and hypothetical parameter is significant.

a) Testing hypothesis of sample Company for f/y 2064/65

Null hypothesis H_0 : $\mu_x = \mu_y$, that actual market price after right share issue and theoretical price after right share issue are same. In other words, there is no significance difference between theoretical price and actual market price after Right share issue.

Alternative Hypothesis H_1:$\mu_x \neq \mu_y$ that is actual market price after right share issue is not equal to theoretical market price. In other words, there is significance difference between theoretical market price and actual market price after right share issue. (Two tail-test).

Table no 4.23
Testing of variation in actual market price & theoretical price f/y 064/65

s.no.	Name of the Companies	Actual Mps after right issue (X)	Theoretical value of the share after Right issue(y)	d=(x-y)	d^2
1)	LBL	835	651.25	183.75	33764.06
2)	KBL	1092	926.67	165.33	27334
3)	LXBL	1113	910.4	202.6	41046.76
4)	SBL	1078	915	163	26569
5)	SDBL	606	353	253	64009
6)	N.M.B.	1945	469	1476	2178576
7)	NIB	2605	2187.5	417.5	174306.25
				$\sum d =$ 2861.18	$\sum d^2$ =2545605.07

$$\bar{d} = \frac{\sum d}{n}$$

$$= \frac{2861.18}{7} = 408.74$$

$$s = \sqrt{\frac{1}{n-1}\left\{\sum d^2 - \frac{(d)^2}{n}\right\}}$$

$$s = \sqrt{\frac{1}{7-1}\left\{\sum 2545605.07 \quad - \frac{(2861.18\ )^2}{7}\right\}}$$

S=478.91

$$t_{cal} = \frac{\bar{d}}{\frac{s}{\sqrt{n}}} = \frac{408.74}{\frac{478.74}{7}} = \frac{408.74}{68.415} = 5.97$$

T tab at 5% level of significance for 6 degree of freedom is 1.943.

Decision:

Since the t cal > t tab i.e. 5.97>1.943, we accept alternative hypothesis

Conclusion:

Hence, we can conclude that there is significance difference between the actual market price and theoretical price of the share after right share issue.

b) Testing hypothesis of sample Company for f/y 065/066

Null hypothesis H_o : $\mu_x = \mu_y$, that actual market price after right share issue and theoretical price after right share issue are same. In other words, there is no significance difference between theoretical price and actual market price after Right share issue.

Alternative Hypothesis $H_1 : \mu_x \neq \mu_y$ that actual market price after right share issue is not equal to theoretical market price. In other words, there is significance difference between theoretical market price and actual market price after right share issue.(Two tail-test)

Table no 4.24
Testing of variation in actual market price & theoretical price f/y 065/66

s.no	Name of the Companies	Actual Mps after right issue (X)	Theoretical value of the share after Right issue(y)	d=(x-y)	d^2
1	SDBL	1190	100	1090	1188100
2	N.M.B	961	100	861	741321
3	NIB	1270	100	1170	1368900
Total				$\sum d$ = 3121	$\sum d^2$ = 3298321

$$\bar{d} = \frac{\sum d}{n} \qquad \frac{3121}{3}$$

$$=1040.33$$

$$s = \sqrt{\frac{1}{n-1}\left\{\sum d^2 - \frac{(d)^2}{n}\right\}}$$

$$s = \sqrt{\frac{1}{3-1}\left\{\sum 3298321 - \frac{(3121)^2}{3}\right\}}$$

S=160.37

$$t_{cal} = \frac{\bar{d}}{\frac{s}{\sqrt{n}}} = \frac{1040.33}{\frac{160.37}{\sqrt{3}}} = 11.236$$

T tab at 5% level of significance for 2 degree of freedom is 4.303

Decision:

Since the t cal > t tab i.e. 11.236>4.303, we accept alternative hypothesis.

Conclusion:

Hence, we can conclude that there is significance difference between the actual market price and theoretical price of the share after right share issue.

c) Testing hypothesis of sample Company for f/y 066/067

Null hypothesis H_o : $\mu_x = \mu_y$, that actual market price after right share issue and theoretical price after right share issue are same. In other words, there is no significance difference between theoretical price and actual market price after Right share issue.

Alternative Hypothesis H_1:$\mu_x \neq \mu_y$ that is actual market price after right share issue is not equal to theoretical market price. In other words, there is significance difference between theoretical market price and actual market price after right share issue.(Two tail-test).

Table no 4.25
Testing of variation in actual market price & theoretical price f/y 066/67

s.no.	Name of the Companies	Actual Mps after right issue (X)	Theoretical value of the share after Right issue(y)	d=(x-y)	d^2
1	BAN	450	333.33	116.67	13611.89
2	LXBL	571	436.43	134.57	18109.08
3	SRBL	379	314.56	64.44	4152.51
4	SBL	409	306	103	10609
5	TDB	749	424.5	324.5	105300.25
Total				$\sum d$ = 743.18	$\sum d^2$ = 151782.73

$$\bar{d} = \frac{\sum d}{n}$$

$$= \frac{743.18}{5} = 148.636$$

$$s = \sqrt{\frac{1}{n-1}\left\{\sum d^2 - \frac{(d)^2}{n}\right\}}$$

$$s = \sqrt{\frac{1}{5-1}\left\{\sum 151782.73 - \frac{(743.18)^2}{5}\right\}}$$

S = 101.63

$$t_{cal} = \frac{\bar{d}}{\frac{s}{\sqrt{n}}} = \frac{148.636}{\frac{101.63}{\sqrt{5}}} = \frac{148.636}{45.45} = 3.27$$

T tab at 5% level of significance for 4 degree of freedom is 2.776

Decision:

Since the t cal > t tab i.e. 3.27>2.776, we accept alternative hypothesis.

Conclusion:

Hence, we can conclude that there is significance difference between the actual market price and theoretical price of the share after right share issue.

d) Testing hypothesis of sample Company for f/y 067/068

Null hypothesis H_0: $\mu_x = \mu_y$, that actual market price after right share issue and theoretical price after right share issue are same. In other words, there is no significance difference between theoretical price and actual market price after Right share issue.

Alternative Hypothesis H_1:$\mu_x \neq \mu_y$ that is actual market price after right share issue is not equal to theoretical market price. In other words, there is significance difference between theoretical market price and actual market price after right share issue.(Two tail-test).

Table no 4.26
Testing of variation in actual market price & theoretical price f/y 067/68

s.no.	Name of the Companies	Actual Mps after right issue (X)	Theoretical value of the share after Right issue(y)	d=(x-y)	d^2
1	KBL	445	400	45	2025
2	SRBL	224	200	24	576
3	BAN	290	242.5	47.5	2256.25
4	N.M.B	278	245.98	32.02	1025.28
Total				$\sum d$ = 148.52	$\sum d^2$ = 5882.53

$$\overline{d} = \frac{\sum d}{n} = \frac{148.52}{4} = 37.13$$

$$s = \sqrt{\frac{1}{n-1}\left\{\sum d^2 - \frac{(d)^2}{n}\right\}}$$

$$s = \sqrt{\frac{1}{4-1}\left\{\sum 5882.53 - \frac{(148.52)^2}{4}\right\}} = 11.075$$

$$= \quad t_{cal} = \frac{\overline{d}}{\frac{s}{\sqrt{n}}}$$

$$t_{cal} = \frac{37.13}{\frac{11.075}{\sqrt{4}}} = 6.705$$

T tab at 5% level of significance for 3 degree of freedom is 3.182

Decision:

Since the t cal > t tab i.e. 6.7>3.182, we accept alternative hypothesis.

Conclusion:

Hence, we can conclude that there is significance difference between the actual market price and theoretical price of the share after right share issue.

e) Testing hypothesis of sample Company for f/y 068/069

In the f/y 068/69 out of 10 sample company, only one company had been issued right share. In that situation, our no. of observation is 1.According to formula; it's not possible to test hypothesis.

4.3 Analysis of data Obtained from Questionnaire and Interview

As a primary source, questionnaire had been prepared and dispatched to about 55 respondents which include individual investors, brokers, issue managers and related experts and out of these only 50 responses were obtained.

There were two groups. Group A contained 11 multiple choice questions. And group B contained three opened end question .The summarized views of the respondents are as follows.

4.3.1 Group A:

Group a contain 11 multiple choice question which are as follows:

1. **Getting reliable and adequate information about the right issue**

According to the survey, out of 50 respondents, 50% of the respondents agreed that investors get reliable and adequate information from the company and issue manager regarding right share. 30% of the respondents don't think that investors get reliable and adequate information from the company regarding right share. 10% of respondents said that investors get a little bit information and 10% of the respondents can't say about the matter.

Table no 4.27
Getting reliable and adequate information about the right issue

Options	A	B	C	D
Options	Yes	No	A Little bit	Can't Say
No of Respondents	25	15	5	5
Percentage	50%	30%	10%	10%

Source: Opinion Survey 2013

2. **No. of shareholders aware about the right share**

According to the survey report, out of 50 respondents, 50% of the respondents said that majority of the investors are well aware about the phenomena of right share and subsequent consequences involved there in. 40% of the respondents accepted that only a few investors know the Phenomena and subsequent consequences regarding the right share.

Table no 4.28
No. of shareholders aware about the right share

Options	A	B	C	D
Options	All of them	Majority of them	A few	Don't Know
No of Respondents	2	25	20	3
Percentage	4%	50%	40%	6%

Source: Opinion Survey 2013

3) Legally transferability of the right

Out of 50 respondents, 70% of the respondents said that it should be transferable. 20% of the respondents are satisfied in the current provision and 10%respondents don't care about the matter.

Table no 4.29
Legally transferability of the right

Options	A	B	C	D
Options	Current provision is satisfactory	Should be transferred	Should not be transferred	Don't care
No of Respondents	10	35	0	5
Percentage	20%	70%	0%	10%

Source: Opinion Survey 2013

4) Most preferred sectors for right share

To explore the preferred sector of investors to invest in, four options were given as (A) Banking & Financial (B) Manufacturing & Trading (c) Insurance (D) Hotel & Others. Based on the survey, the following table presents the preference of the investors regarding the investment sectors.

Table no 4.30
Most preferred sectors for right share

Options	A	B	C	D
Options	Banking & Financial	Manufacturing & Trading	Insurance	Hotel & Others
No of Respondents	30	5	5	10
Percentage	60%	10%	10%	20%

Source: Opinion Survey 2013

Here, 60% of the respondents choose the option a i.e Banking & Financial in first choice. And, the second priority.20% is given to the option D i.e. Hotel & others Sectors. Similarly equally priority given to manufacturing & trading and insurance sector which is 10% . Mostly banking sectors are announcing the right frequently, so most of the investors are attracted on this sector.

5. Most preferred sector between the Financial Institutions

To investigate the most preferred sector between Financial Institutions, 3 options were given as (A) Commercial Banks (B) Development Banks (C) Finance Companies. Based on the survey, the following table presents the preference of the investors among the financial institutions

Table no 4.31
Most preferred sector between the Financial Institutions

Options	A	B	C
Options	Commercial Bank	Development Bank	Finance company
No of Respondents	35	10	5
Percentage	70%	20%	10%

Source: Opinion Survey 2013

It is apparent from the table that 70% of the respondents choose option A i.e. commercial bank and 20% of the respondent choose option B i.e. Development Bank and least priority is given for finance Company i.e. 10%. Generally, most investors trust the commercial banks .So, most of the respondent preferred banking institution.

6) Reason behind purchasing the right share

To explore the reason behind purchasing the right share, four options were given as (A) To increase the value (B) To increase the number of shares (C) To increase the dividend (D) To maintain the control position of management. Based on the survey, the following table presents the view points of the respondents.

Table no 4.32
Reason behind purchasing the right share

Options	A	B	C	D
Options	To Increase the value	To increase the number of shares	To increase the dividend	To maintain the control position of management
No of Respondents	40	3	5	2
Percentage	80%	6%	10%	4%

Source: Opinion Survey 2013

It is clear from the table that 80% respondents choose option a i.e. to increase the value in first choice meaning that most of them strongly believe that investors buy the right shares to increase the value. Second priority was given to the option c which is only 10% i.e.to increase the dividend .Similarly, third and fourth priority is given to option B and D i.e. 6% and 4% respectively.

7) Beneficiaries of the right share offering

Beneficiaries of the right share are (A) The issuing company (B) Shareholders (C) Issue manager and (D) Brokerage firm. Based on the survey, the following table clearly presents the beneficiaries of the right share offering.

Table no 4.33
Beneficiaries of the right share offering

Options	A	B	C	D
Options	Issuing Company	Shareholder	Issue manager	Brokerage firm
No of Respondents	20	20	6	4
Percentage	40%	40%	12%	8%

Source: Opinion Survey 2013

It is apparent from the table that 20-20 respondents are choosing option A & B which are given equal priority i.e. 40%, Meaning that both are equally benefited from the right issue. Third and fourth priority is given to the option C and D (i.e.12% and 8%) i.e. Issue manager and Brokerage firm.

8. Reason behind preferring the right share instead of other instruments by the firms

To explore the reason behind preferring the right share instead of other instruments like bonds, Preference shares, common stock etc by the concerned firms, four options were given i.e. (A) Low floatation cost(B) Easy process to collect the fund (C) To maintain the control position in management (D)other causes. Based on the survey, the following table clearly presents the reasons behind preferring the right share.

Table no 4.34
Motives behind preferring the right share instead of other instruments by the firms

Options	A	B	C	D
Options	Low Floatation Cost	Easy process to collect the fund	To maintain the control position in management	Other Cause
No of Respondents	18	25	5	2
Percentage	36%	50%	10%	4%

Source: Opinion Survey 2013

The following table presents the main cause to choose the right share is option B i.e easy process to collect the funds. And second priority is given to option A i.e. low floatation cost. The third and fourth priority is given to option C & D i.e. maintains control position in management and other causes respectively. The percentage given by the respondent is 50%, 36%, 10% & 4% to option B, A, C & D respectively.

9. Causes of under subscription of right share

To investigate the causes of under subscription of right share, four options were given. They are (A) Low performance of the related company (B) Transferability Problem (C) Lack of investor's awareness (D) Insufficient promotional roles played by the issue manager. Based on the survey, the following table clearly shows the view point of the respondent.

Table no 4.35
Causes of under subscription of right share

Options	A	B	C	D
Options	Low performance of the related company	Transferability problem	Lack of investors awareness	Insufficient promotional roles played by the issue manager
No of Respondents	15	2	28	5
Percentage	30%	4%	56%	10%

Source: Opinion Survey 2013

It is apparent from the table that the first priority is given to the option C i.e. lack of investor awareness no of respondents were 28 i.e. 56% .Similarly, 30%, 10% and lastly 4% i.e. no of respondents15,5 & 2 were choose option A ,D & B respectively.

10) Factors causing the share price movement

To investigate the factors affecting the share price movement, four options were given. They are (A) Right share announcement (B) Growth prospects of the company (C) Economic condition of the country (D) Directives of the controlling agencies. Based on the survey, the following table clearly states the factors affecting the share price.

Table no 4.36
Factors causing the share price movement

Options	A	B	C	D
Options	Right share announcement	Growth prospects of the company	Economic condition of the country	Directives of the controlling agencies
No of Respondents	5	8	32	5
Percentage	10%	16%	64%	10%

Source: Opinion Survey 2013

It is clearly seen from the table that 64% of the respondent i.e.32 person were prefer economic condition of the country i.e. option c and 8 respondent (i.e. 16%) were choose option B i.e. growth prospects of the company. Lastly option A & D (i.e. right share announcement and directives of the controlling agencies) gives equally priority (i.e. 10 %) by the respondents.

11) Objectives of the right share issue

To know the objectives of the right share, there were three options given. They were (A) to increase share capital (B) To increase the no of outstanding shares and promote an active trading in the stock market and (c) as per requirement of NRB directives. Based on the survey, the following table clearly states the objectives of the right share.

Table no 4.37
Objectives of the right share issue

Options	A	B	C
Options	To increase share capital	To increase the no of outstanding shares and promote an active trading in the stock market	As per requirement of NRB directives
No of Respondents	28	7	15
Percentage	56%	14%	30%

Source: Opinion Survey 2013

It is apparent from the table that 28 respondents chose the option A i.e. to increase the share capital with the first priority i.e. 56%, second priority is given to the option c i.e. As per requirement of NRB directives and the last priority is given to the option B i.e. to increase the no. Of outstanding shares and promote an active trading in the stock market.

4.3.2 Group B:

In the same way Group B contained three opened-end questions. The summarized views of the respondents are as follows.

1) **Major problems to practice the right share in Nepalese securities market.**

There are so many problems shown by the respondents. The summarized views are as follows:

- The major problem is the insufficient knowledge of the investors regarding the shares and the right shares. Many investors run after the right share which is nonsense. After the book close date, the share price is reduced proportionately to the right. Many investors don’t know the phenomena of right share issue and subsequent consequences.
- Insider trading is another major problem in Nepal. Board members can easily speculate the price movement during the right share announcement.

- The company having negative net worth are also issuing the right and collecting money from the shareholders. For example: - Nepal Development Bank Ltd. has issued the right shares. The ignorant shareholders deposit the hard nerved money for the right. This type of investment is very risky.
- Board members and directors announce the portion of the right issue they are planning to issue which might affect the market price greatly. They again hearsay that they increase the paid up capital to 400 million or 500 million.
- There is no transferability feature. So, an investor must subscribe the right share even s ⁄ he does not want the right or s ⁄ he does not have money for the right share purchase. If they don't exercise it, they lose the value. Here, Right appear as an obligation imposed on shareholders, otherwise he would suffer a loss in the form of decline in price of his holding. If there is transferability feature, s ⁄ he can transfer the right and, s ⁄ he holds the original portion of the share only without losing the value.

  Currently, Securities Registration and Issues Regualtion-2008 has clearly mentioned about the transferability feature in right issue. At present, some companies include the transferability feature while issuing the right share but some companies lack the feature. The company, previously transferability feature not include in the company Memorandum, cannot add the feature at present soon. Most of the respondents said threat there must be the transferability feature in right issue.

- Right share issue mechanism is too lengthy. First of all, passing from the BOD meetings, then sending the agenda to NEPSE, NRB and SEBON and again, putting the agenda in own AGM.
- There is less publicity about the right share compared to IPOs. In addition to this, the publicity is limited to newspapers and internet.
- Unsubscribed portion of right shares were used to distribute to the employees and promoters. There used to be a huge speculation on it.

Afterward, SEBON stopped the way of distributing the unsubscribed part of the right shares.

Currently, the unsubscribed portion of right shares is sold in the market to the public through the action meaning that the high price bidders are allotted the right shares.

2. Actions can be taken by the issuing company and issue manager for high subscription rate

According to the respondents, there are so many actions can be undertaken by the issuing company and issue manager to make high subscription rate of right issue. Specific points are as follows:

- First of all, the right issuing companies should have good performance in the market i.e. high profit, adequate cash flows, and good image e.tc then, shareholders automatically subscribes the right share themselves.
- All the shareholders must be well informed about the right share. For this they can use TV, newspaper, mailing, internet etc.
- They have to manage sufficient collection centers for the right issue.
- They should make and apply easily transferability features in right share.
- They can use extra ordinary database to know the full address of shareholders and use the blend of advertisement as per need.

3. Problems and prospects about the right share in Nepal

- The main issue is aware the investors about the share price movement mechanism and right share issue. NEPSE, SEBON, NRB can mutually assist the investors about the matter.
- The procedures of right share announcement, passing from BOD meeting, sending the agenda to NEPSE, SEBON, NRB then finally approving from own AGM is too lengthy. So, there must be the time limit for each step.
- The companies having negative net worth should not be allowed to issue the right shares.

- The governing body should inspect about the insider trading during the right share announcement. It is heard that, board members are speculating when they declare right, bonus or cash dividend. But, it is not been heard yet about the action taken from the governing bodies to stop the insider trading.

4.4 Major findings of the study

Here, the effort has been made to present the major findings of the study in "Right Share & its impact on market price of the stock in Nepal". The major findings of the study are presented below in the following sub headings, corresponding to the study objectives.

1) It is found that out of 10 sample companies, it is found that the announcement of right share greatly affect the share price. After the announcement of the right issue, the share price increases till the book close date and after the book close date, the share price decreases as per right share portion. But in some case the share price movement varies heavily within a month. Sometime, Post right issue price of some banks are greater than pre right issue price. Generally, the right share itself does not increase the value or the wealth of the shareholders.

2) It is found that all companies have actual market price is higher than theoretical market price causing positive change. This study is mainly based on five year i.e.f/y 2064/065 to 068 /69. Selected all 10 sample companies were not issued right share by every year. This study based on 5 years comparative study between 10 sample companies. In f/y 064/65 only 7 companies, in f/y 065/66 only 3 companies, in f/y 66/67 no of 5 companies, similarly f /y 067/86 only 4 companies & at last f/y 068/69 only a companies had been issued right share & their average percentage changes between actual market price and theoretical price of this research period is 111.45%, 130.93%, 39.28%, 13.96% & 12.69% respectively. In f/y 065/66 was the higher percentage change which is 130.93% & the lowest percentage change is 12.96% in f/y 068/69.

3) According to the hypothesis test, there is significant difference between the actual market and theoretical price after the book close date of right share. It means they are not correctly priced in the market.

4) Majority of the respondents agreed that investors get reliable and adequate information from the company and issue manager regarding the right share.

5) Majority of the investors are well aware about the phenomena of right share and subsequent consequences involved there in.

6) Investors who don't know about the transferability feature, they don't care about it and when they are made understood about the necessity and the procedures about it, they felt that the transferability feature is essential.

7) Most preferred sectors for right share are Banking and Financial.

8) Among the financial institution, Commercial Bank is the most preferred sector for the right.

9) The main purpose to purchase right share is to increase the value.

10) Issuing company and the shareholders are equally benefited from the right share issue.

11) Nepalese corporate firms prefer right share instead of other instrument like bonds, preference, and debenture e.g. because of easy process to collect the fund and low floatation cost.

12) The major causes of under subscription of right share in Nepal are lack of investor's awareness and low performance of the related companies.

13) The main factors for the share price movement are economic condition of the country and growth prospects of the company.

14) The main objectives of issuing right share are to increase share capital and as per requirement of NRB directives.

15) There are a lot of problems about the right share practice in Nepalese capital market. The major problem is the insufficient knowledge of the investors regarding the shares and the right shares. Many investors don't know the phenomena of right share issue and subsequent consequences. Insider trading is another major problem. The company having negative net worth are also issuing the right and collecting money from the shareholders. Board members and directors are announcing the portion of the right issue they are planning to issue which might affect the market price greatly. There is no transferability feature. A right share issue mechanism is too lengthy. First of all, passing from the BOD meetings, then sending the agenda to NEPSE, NRB and SEBON and again, putting the agenda in own AGM.

16) There are so many actions can be undertaken by the issuing company and the issue manager to make high subscription rate of right issue. First of all, the right issuing companies should have good performance in the market i.e. high profit, adequate cash flows, good image etc. All the shareholders must be well informed about the right share. For this, they can use TV, newspaper, mailing, internet etc. They have to manage sufficient collection centers for the right issue. They should make and apply easily transferability features in right share. They can use extra ordinary database to know the full address of shareholders and use the blend of advertisement as per need.

17) Simply, the theory says that the market price of a security increases as to declaration of right share announcement and the market price goes down after the book close date. The share market increased dramatically during 2007/08. Even after the Book Close Date, the share price increased dramatically. Generally, the share price should be equal or nearly equal to theoretical value of the share. In some cases, the share price is dramatically changed with compared to theoretical price of the share after the right share. It is all because of the ignorance of the investors. Most of the investors follow the rumor and invest in the share market. As a result, they are losing the money at present.

18) It is found from the informal interviews with about 50 individual investors that most of them are illiterate of share market. They just make an investment of millions of rupees with hearsay and others' recommendations. It is also found that the new investors who don't have much knowledge about share market also have the addiction of investing in share market. Some Investors only invest in those shares which are giving the right share in near future. But they don't have the idea of the phenomenon of the right share. Even they don't have an idea of procedure of right share distribution i.e. the announcement of right share, pass by the AGM, permission of the Security Board, book close date, right share issue, right share allotment, share certificate issue, listing of the right share, verify of the shares and at last selling procedures of the shares in share brokerage office. There is a long procedure of right share distribution. Again, after book close of the right share, the share price is declined by the value of right. Actually, the shareholders position as well as the shareholders equity is not affected by the right share distribution.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Nepal Share Market is in developing stage in comparison to other neighboring countries. It has practiced only few financial instruments such as equity share, right share, debenture, preference share, mutual fund etc. This study is concentrate on the various aspects of right offering with special references to the selected listed companies of Nepal. Right share are issued to the existing shareholders to increase capital in certain proportion. The main objective of the study is to examine the right share and its impact on market price of the stock in Nepal.

Research methodologies are strong in this study. Descriptive as well as analytical research design has been adopted to satisfy the objectives of the study. For simplicity and unbiased result, 10 sample firms are taken from F/Y 2064/65 to F/Y 2068/69 which is judgmental. Mostly, right shares are issued by Financial Institutions. Hence, 8 Commercial Banks and 2 Development Banks are taken as sample for actual market measurement and valuable findings. Primary as well as Secondary data have been taken as per requirement. Primary sources included in the study are the responses of the questionnaires, personal interview with concerned person such as company secretary, experts, brokers, investors, issue managers, staffs of NEPSE etc. Secondary Sources of data included in this study are the annual reports of SEBON, various publications of NEPSE and sample firms, statistical book of Nepal, published and unpublished documents, previous studies, dissertation, articles and foreign related journals as well as Newspaper, books and other reports such as Economic Post, Kantipur, Gorkhapatra and New Business Age etc are useful sources of secondary data. Some other important information has been gathered from internet. To analyze the share price movement, the price of 7 different period of time has been selected logically. To make the study valuable, various tools have been used as per requirements.

The history of rights offering is not so long in Nepalese context. Nepal Finance & Saving Co. Was the first company who issued right shares of 2 million in Nepalese market in fiscal year1995/96. Since then, Nepalese corporate firms started to issue rights share. Up to now (i.e. 2068/69) there are 224 cases of rights offering in Nepal. Most of them were finance and banking companies who issued rights share. The right share practice is being popular day by day. The trend of right share issue is increasing. The major portion of total public issue from the FY 2050/51 to the FY 2067/68 is captured by right share which is 69.14% where as the contribution of Ordinary share, debenture & preference share is 20.12%, 9.58% and 1.17% respectively. The subscription rate of right share is not satisfactory. The major causes of under subscription of right share are low advertisement made by the issue manager and lack of investor's awareness. Observing the share price movement of 10 sample companies, it is found that the announcement of right share greatly affect the share price. After the announcement of the right issue, the share price increases till the book close date and after the book close date, the share price decreases as per right share proportion. But in some case the share price movement varies heavily within a month. Sometime, Post right issue price of some banks are greater than pre right issue price. Generally, the right share itself does not increase the value or the wealth of the shareholders. It is found that out of 10 sample companies, all companies have actual market price is higher than theoretical price after book close date causing positive change. According to the hypothesis test, there is significant difference between the actual market and theoretical price after the book close date of right share which indicates that they are not correctly priced in the market. A lot of facts have been disclosed after primary data analysis and from personal interview. Majority of the investors are well aware about the phenomena of right share and subsequent consequences involved there in. Investors who don't know about the transferability feature, they don't care about it and when they are made understand about the necessity and the procedures about it, they felt that the transferability feature is the most. Most preferred sectors for right share are Banking and Financial. Among the Financial Institutions, Banking is the most preferred sector for the right share. The main purpose to purchase the right share is to increase the value. Issuing company and the shareholders are equally benefited from the right share issue. Nepalese corporate firms prefer right share instead of other instrument like bonds, preference shares, debenture because of easy process to collect the fund and low floatation cost. The major causes of under subscription of right share in Nepal are the lack of investor's awareness and the low performance of the related companies. The main factors for the share price movement are economic condition of the country and growth prospects of the company. The main objectives of issuing right share are to increase share capital and as per requirement of NRB directives. There are a lot of problems about the right share practice in Nepalese capital market. The major problem is the insufficient knowledge of the investors regarding the shares and the right shares. Many investors don't know the phenomena of right share issue and subsequent consequences. Insider trading is another major problem. The company having negative net worth is also issuing the right share and collecting money from the shareholders. Board members and directors are announcing the portion of the right share they are planning to issue which might affect the market price greatly. There is no transferability feature. Right share issue mechanism is too lengthy. First of all, passing from the BOD meetings then after sending the agenda to NEPSE, NRB and SEBON and putting the agenda in own AGM. There are so many actions can be undertaken by the issuing company and the issue manager to make high subscription rate of right issue. First of all, the right issuing company should have good performance in the market i.e. high profit, adequate cash flows, good image etc. All the shareholders must be well informed about the right share. For this, they can use TV, newspaper, mailing, internet etc. They have to manage sufficient collection centers for the right issue. They should make and apply easily transferability features in right share. They can use extra ordinary database to know the full address of shareholders and use the blend of advertisement as per need. There is no transferability feature during the fiscal year 2007/08. But now, SEBON had enacted the Securities Registration and Issue Regulation-2008, it's clearly mentioned about the transferability feature. Currently, some companies include the transferability feature while issuing the right share but some companies lack the feature. Most of the respondents said that there must be the transferability feature in right issue. Simply, the theory says that the market price of a security increases as to declaration of right share announcement and the market price goes down after the book close date. The share market increased dramatically during 2007/08. Even after the Book Close Date, the share price increased dramatically. Generally, the share price should be equal or nearly equal to theoretical value of the share. In some cases, the share price is dramatically changed with compared to theoretical price of the share after the right share. It's all because of the ignorance of the investors. Most of the investors follow the rumor and invest in the share market. As a result, they are losing the money at present. It is found from the informal interviews with many individual investors that most of them are illiterate of share market. They just make an investment of millions of rupees with hearsay and other's recommendations. It is also found that the new investors who don't have much knowledge about share market also have the addiction of investing in share market. Some investors only invest in those shares which are giving the right share in near future. But they don't have the idea and phenomenon of the right share. Even they don't have an idea of procedure of right share distribution i.e. the announcement of right share, pass by the AGM, permission of the Security Board, book close date, right share issue, right share allotment, share certificate issue and listing of the right share. There is a long procedure of right share distribution. Again, after book close of the right share, the share price is declined by the value of right. Actually, the shareholders position as well as the shareholders equity is not affected by the right share distribution.

5.2 Conclusions

There is no long history of right share offering in Nepal. There is no doubt that a lot of things are to be worked out to make the rights offering as effective instrument of raising fund in Nepal. In Nepal, especially commercial banks and finance companies have found issued rights share increasingly to increase the total capital fund as required by policy directives in the fiscal year 1996/97 to commercial banks to increase their capital fund. With a view to increase liquidity position of the commercial banks, safeguard the depositors, interest and help mobilize resources for large project through the banking sector within the country.

Despite, the right share practice is being popular day by day and the trend of right share issue is increasing. The highest portion of total public issue is captured by the right share till 2007/8. The subscription rate of right share is not satisfactory. The major causes of under subscription of right share are low advertisement made by the issue manager and lack of investor's awareness. According to the hypothesis test, there is significant difference between the actual and theoretical price after the book close date of right share. There are a lot of problems about the right share practice in Nepalese capital market. The major problem is the insufficient knowledge of the investors regarding the shares and the right shares. Many investors don't know the phenomena of right share issue and subsequent consequences. They just make an investment of millions of rupees with hearsay and other's recommendations. Some investors only invest in those shares which are giving the right share in near future. But they don't have the idea and phenomenon of the right share. Even they don't have an idea of procedure of right share distribution i.e. the announcement of right share, pass by the AGM, permission of the Security Board, book close date, right share issue, right share allotment, share certificate issue, listing of the right share, verify of the shares and at last selling procedures of the shares in the share brokerage office. There is a long procedure of right share distribution. Again, after book close of the right share, the share price is declined by the value of right. Actually, the shareholders position as well as the shareholder's equity is not affected by the right share distribution. Insider trading is another major problem. The company having negative net worth are also issuing the right and collecting money from the shareholders. Board members and directors are announcing the portion of the right issue they are planning to issue which might affect the market price greatly. To avoid these problems, all related bodies like NEPSE, SEBON, NRB, Share Brokers, Issue managers, Share registrars, teachers and other private consultancies should mutually take actions so that the investors are aware about the share market and right share. In an aggregate, we can conclude that the share price movement due to the impact of rights offering cannot be generalized for all companies. This depends upon investment prospects and has shown a sound financial position in the past.

5.3 Recommendations

The recommendations are made as per the analysis of primary and secondary data and relating information about Nepalese corporation's right issue. This study use simple tool & variables such as theoretical price of the share after right share issue, percentage change in MPS, percentage change in Actual market price & theoretical price and hypothesis test. which are not a complete research for this study. It is important that changes are made so as to give more practical information related rights issue to the further researcher with easier, efficient, effective, reliable and nearer to the fact. Based on the findings, some corrective actions are recommended as follows:

- To test the impact of right share, further researcher can test EPS of the company. EPS is also one of the most important factors to exercise the right share which not tested in the study.
- Further researcher can use Karl Pearson Coefficient of Correlation to measure the impact of right share before and after right issue, which also not used in this research.
- To get the result more reliable researcher can use multivariate regression analysis which also not used in the study.

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ANNEX: 1

QUESTIONNAIRE

Dear Respondent,

I am in course of research on "Right share & its impact on market price of common stock in Nepal" as a part of partial fulfillment of master of business studies (M.B.S). This questionnaire is prepared to collect the data for as a part of the study. This questionnaire will be used only for research work & it does not have any commercial purpose. So, I humbly request you to fill it up at the best knowledge. Your cooperation will be great appreciation.

Thank you

Bijaya Laxmi Acharya

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Name of respondent:

Name of Organization:

Profession:

Address:

Instruction: Please tick in an appropriate option for group A and put your views in opened ended question for group B.

Group A

1) Do you think that investor get reliable information from the company regarding right share issue?

A) Yes B) No C) A little Bit D) Can't Say

2) How many shareholders are well aware about the right share issue?

A) All of them B) A few C) Majority of them D) don't know

3) Your Opinion regarding legally transferable instrument called "right"?

A) Current provision is satisfactory

B) Should be transferable
C) Should not be transferable
D) Don't Know

4) In which sector investor most preferred for right share?
A) Banking & Financial
B) Manufacturing & Trading
C) Insurance
D) Hotel & Other

5) Among financial institutions, which sector's right share issue do investors prefer most?
A) Commercial Banks
B) Development Banks
C) Finance Companies

6) What is the reason behind purchasing right share?
A) To increase the value
B) To increase the number of shares
C) To increase the dividend
D) To maintain the control position of management

7) Who are the beneficiaries of the right share offering?
A) Issuing Company
B) Shareholders
C) Issue Manager
D) Brokerage firm

8) What are the motives behind preferring the right share instead of other instruments by the firms?
A) Low floatation cost
B) Easy Process to collect the fund
C) To maintain the control position in management
D) Other causes

9) What are the major causes of under subscription of right share in Nepal?
A) Low Performance of the related company
B) Transferability Problem
C) Lack of investor's awareness
D) Insufficient Promotional roles played by the issue manager

10) Which factors are the vital for the share price movement?
A) Right share announcement
B) Growth prospects of the company
C) Economic condition of the country
D) Directives of the controlling agencies

11) What are the main objectives of issuing right share?
A) To increase share capital
B) To increase the no of outstanding shares & promote an active trading in the stock market
C) As per requirement of NRB directives

Group B

1) In your opinion, what are the major problems to practice the right share in Nepalese Securities Market?
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2) In your opinion, what actions the issuing company should take so that the subscription rate of right is high?
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3) Finally, any experience or problems & prospects about right share practice in Nepal?
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