

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Every firm needs adequate capital to perform efficiently. Capital market is a market for long-term securities having maturities greater than one year. They are vital to long term and prosperity of economy since they provide the channel through which needed fund can be raised. A rights issue an option for a company to raise capital under a secondary market offering or seasoned equity offering of shares to raise money. Generally, firms fulfill their financial requirement by issuing equity share, preference share, debentures and long term bonds. Some of the important members of capital markets are stock exchange, specialized financial institutions, bank and investment companies etc.

Every firm constantly faces the financial problems from its very inception. A growing firm, thriving day by day, always remains in the destitute of funds either for expansion or diversification of business or to sustain in the competitive business environment. In order to cope with various financial situations, firm usually issue common stock to general investors or right offering to existing shareholders or preference share and various types of debentures as demanded by their target capital structure. This paper mainly focused on the right offering to the existing shareholders. Right share are issued to the existing shareholders to increase capital if current reserve is not sufficient to issue bonus share. Company usually issues right share to raise the capital. Therefore, issue of right share represents the distribution of share in proportional to existing shareholders. The shareholder which have an option to purchase a stated no. of share at subscription price which is generally below the current market price within specified period of time.

Rights issue is one of the instruments to raise additional capital. We can describe the preemptive right or rights as the privilege offered to existing stockholders for buying specified number of 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. Capital market is organized market through which buyers and sellers of long term capital are met and the function of buying and selling takes place. Financial market is such a powerful marketing which gives opportunity to the investors to invest their savings in ordinary share, debenture and government securities. 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 shares to exercise the rights. Due to this double pressure, the price of share goes upwards.

Van Horne (2002) stated that, instead of selling a security issue to new investors, some firms offer the securities first to existing shareholders on a privileged subscription basis because of preemptive right.

Weston & Copeland (2005) stated that, if the new common stocks are issued giving the right to purchase first by the existing shareholders then it is called right offering. Each shareholder is issued an option to buy a certain number of new share and the terms of the option are contained on a piece of paper called right. Each stockholders receives one right for each shares of stock owned.

Theoretically price of share increases after rights offering and decreases after the issue of right share but some practical cases in Nepalese companies have mixed results in this regard. Nepal Finance and Saving Company Ltd. announced issue of right share for the first time (December 1,

1995) when market price of its share was constant at Rs. 110 for two months before announcement. But after announcement, there was only one transaction before the record date that even at a price below its previous market price. Ace Finance Company Ltd. is another example whose stock price was Rs. 410 before the announcement but after announcement there was no transaction at all before the record date. Necon Air's stock was priced at Rs. 309 before the right share announcement but it grew up to Rs. 366 after the announcement. This is the case that follows the price movement consistent with the theory that right offering announcement appreciates the price of the share. Share prices of the majority companies were decreased after the rights share announcement and decreased rapidly after allotment. Only few companies met the theory.

1.2 Statement of the problem

Right offering announcement by a company serves good news to its existing shareholders. Simply stated the existing shareholders have a right to subscribe for the shares which are offered by the company after initial allotment until some special right is reserved for any other person by special resolution in this respect. Right is a negotiable instrument, so it has certain value for sale. Theoretically, value of the right is determined using different equations and the value depend upon the market price of share, subscription price and number of rights required to purchase a new share. Immediately after the announcement of the right offering, the market price of the stock would increase by some amount but theoretically it is said that the right offering does not affect the value of shareholders. When the stock goes ex-right, the market price theoretically decline by the amount of value of each right. Hence, the positive or negative effect of the announcement to the right share in different points of the time i.e. before and after the book close date is another statement of the problem. A shareholder, whose name is in the company book before record date, is entitled to have a proportionate number of new shares at price below the market. Hence, the market price and the theoretically price after the book close date are equal or not, is one important aspect of the statement of the problem of this research work.

With the issued rights, existing shareholders have the privilege to buy a specified number of new shares from the firm at a specified price within a specified time. Subscription-right-holder can sell them privately, on the open market or not at all. When a company sells securities by privileged subscription, it should mail to its shareholders one right (i.e. legally transferable written instrument) for each share of the stock held with the common stock offering, this legal instrument called 'right' give shareholder the option to purchase additional shares according to the terms of offering.

Hence, another research problem is the subscription rate of the right issue in the country and how the investors perceive the right issue regarding the attractiveness.

Keeping these views into the considerations, this study deals with the following issues:

1. What is the procedure of issuing the right share?
2. What are the theoretical and the actual price of the share after the book close date?
3. When right issue is made, what is the subscription price of the right issue?
4. What will be the effect on the EPS, DPS and MPS after issuing the right share?
5. Does it effect on number of shares?

1.3 Focus of the study

In any firm, right share is taken as major financial decision that affects the value of firm. The main focus of this study is to examine the practice made of the sample firms in regards to the right share practices in Nepalese commercial banks. The focus of the study is to understanding clear cut procedure of the right share practices, to evaluate the theoretical and actual price of the share after the book close date etc. The purpose of this study is to provide a clearer understanding of the circumstances surrounding a right offering to analyses the result of the offer and improving its effectiveness.

1.4 Objectives of the study

This study focuses on right issue and its effect on stock price movement of the sample financial institutions. The specific objectives are as follows:

- a) To enlighten existing practices of right issues.
- b) To explore the theoretical and actual price of the share after the book close date.
- c) To evaluate the effect on EPS, DPS and MPS after issuing the right share.
- d) To examine the procedure followed by company with existing law related to right share.
- e) To point out suggestions to the related bodies on the basis of study findings.

1.5 Significance of the study

Right share are the shares offered by the company for the existing shareholders to increase the capital. In any firm, right share is taken as major financial decision that affects the value of firm. The main theme of this study is to examine the practice made by the sample firms in regards to the right share and its practices in commercial firms in Nepal. The purpose of this study is to provide a clearer understanding of the circumstances surrounding a right offering to analyze the result of the offer and improving its effectiveness. The study also examines the practice made by the Nepalese firm in this regard, and current legal provision regarding right share issue.

Nowadays, people are attracted to invest in shares knowingly or unknowingly. They invest in right share for the purpose of getting higher return; maintaining goodwill, make value maximization of the shareholder. This is the beginning of the new era in the sector of shares. The practice of the right share is very old in worldwide but in Nepal, it is started from the fiscal year 2052/53. So, this is the new topic for the researcher to prepare. And, this will also help those scholars who want to know about right share practices in commercial banks in Nepal.

1.6 Limitation of the study

The study will have the following limitations:

- a) The study will be based on the Annual report of commercial banks for the period of five years started from 2004/05 to 2008/09.
- b) The truth of the research result is based upon the available data from the NEPSE, SEBON and others.
- c) Most of data are obtained from secondary sources i.e. Newspaper, articles, journals, unpublished thesis etc. and also primary data are exists.
- d) As a research student, the study will be unbiased but resources and time period is limited.
- e) Due to wide range of data deficiencies only simple techniques will be used for the analysis of data.

1.7 Organization of the Study

The study will be divided into five chapters. Each devoted to some aspects of the study on right share practices in Nepalese commercial Banks. The chapter one to five will be consists of following:

Chapter I- Introduction

It will include the introductory framework of the study that contains general background, statement of the problem, objectives, significance of the study and limitation of the study.

Chapter II- Review of Literature

It will include the review of previous research, literature, review of books, articles, journals and unpublished thesis related to the study field.

Chapter III- Research Methodology

It will include the research design, population and sample, data collection procedure, tools for analysis, methods of analysis and presentation.

Chapter IV- Data Presentation and Analysis

This chapter will concern with the application of defined research method on the collected data and information. This is the main part of the study. The generated results after the application of research method on data will be analyzed and interpreted in this chapter. Similarly, this chapter includes the major findings of the study.

Chapter V- Summary, Conclusion and Recommendation

This chapter will summarize the finding of all the analyses and present the concluding remarks with a suggestive package as recommendation i.e. possible suggestions.

CHAPTER TWO

REVIEW OF LITERATURE

Review of literature is the study of past research studies and relevant materials. A literature review is the process of locating, obtaining reading and evaluating the research literature in the area of the researcher's interest. It is a way to discover what other has researched in the similar topic. It is an advancement of existing knowledge and in-depth study of subject matter. It starts with a search of a suitable topic and continues throughout the volumes of similar or related subjects. It is also a way to avoid investing problems that have already been definitely answered. It refers to the reviewing of the past studies in the concerned field of study. For this purpose, various books, articles, journals, newspapers, magazines and other related studies have been reviewed. The purpose of literature review is, thus to find out what research studies have conducted in one's chosen field of study and what remains to be done. This chapter is included three parts i.e. Conceptual Review, Review of Legal provisions and Review of Related Studies.

2.1 Conceptual Review

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. To raise the paid-up capital for financial institution, right share issue is emerging practice. Rights issue is directly concern to the primary issue or initial financing to raise the equity fund. The easy and fast way of generating the funds for the new company is to issue the ordinary shares. This financing is called initial financing.

2.1.1 Initial Financing

While establishing the new company, there is need of more capital or fund. Fund collected through various sources to establish a firm is called initial financing. It is called venture capital. Venture capital represents funds invested in a new enterprise. “Venture capital investments are like inefficiently priced stocks, with two differences. First because there are no short-selling mechanisms, venture capitalists, like a commodity investor, faces potential overpricing. Second, unlike stocks, which represents existing assets, as early-stage venture capital project may be an idea” (*James H. Scott, Jr. “Managing Asset Classes,” Financial Analysis Journal, February 1994.*) Major part of venture capital involves share capital for new firm because generating debt capital is not easy.

2.1.2 Initial Public Offering (IPOs)

To raise funds from the public by issuing securities is known as initial public offering. When a company wants to raise funds from the public, it issues securities. This announcement for the public to raise the fund is called initial public offering. Public issue of equity means, rising of share capital from the public. Issue of equity obviously creates a value of a company and no doubt, it is the major sources of capital. “Going public means selling some of the company’s stock to outside investors and then letting the stock trade in public market, and desire to convert into corporations”. (Brigham, Gapenski & Ehrhardt; 2001:698). “This public offering involves rising of funds for governments or corporations from the public through the only issuance of various securities in the primary market and is often the only major source of obtaining large sum fixed rate, long term funds”. (SEBSON, 2004:7)

“Public offering of various securities like equity share (both ordinary as well as right share), debenture, bonds etc. to the general public by corporate as well as the Government are made through the Merchant Bankers (MBs). As such, the MBs work as intermediates between the fund concerned groups (the general public and institutions) and the fund deficit group (corporate) to cater the needs of both through efficient fund mobilization. The MBs are mainly engaged in

creating and expanding primary and secondary market for securities and money market providing advisory services to corporations as well as managing their investment for portfolio. Thus, public offering involves rising of funds for Government or corporations from public through the issuance of various securities in the primary market and is often the only major sources of obtaining large sums of long term funds” (Vaidya & Parajuli; 2004:88).

If the company plans to sell stock to raise the new capital, the new shares may be sold in one of five ways:

- On a pro-rata basis to existing shareholders through a right offering,
- Through investment bankers to the general public in a public offering,
- To single buyer (or very small number of buyers) in private placement,
- To employee through employee stock purchase plan and
- Through a dividend reinvestment plan.

(Brigham, Gapenski & Ehardt; 1988:701).

2.1.3 A Brief Review of Historical Development of Capital Market in Nepal

Capital market is a market for long term securities having maturities greater than one year. An efficient and effective capital market is crucial for developing the economy of a country. Its role in reinvigorating and boosting the economic activity in the country is significant. The history of capital market was started since the period of Rana Prime Minister Judha Shamsheer. He set up a holding company namely “Biratnagar Jute Mills” under joint financing agreement with Indian Marwari merchant Mr. Radha Krishna Chamaria with an Indian Jute processing industry in 1936 A.D. as the first modern industry in the country. In 1937 A.D. Nepal Bank limited as a commercial bank was established. 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. The trading on securities on Nepal was recognized on too late a period of 1976 when Nepal Industrial Development Corporation (NIDC) and Nepal Rastra Bank (NRB) through their joint efforts initiated the establishment of Security

Market Center (SMC) to mobilize the public savings for ensuring public ownership in the shares of public limited companies.

After 1980s onwards, the center tried to create some securities exchange norms.

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

2.1.4 Nepal Stock Exchange (NEPSE)

A security market is a place for bringing together buyer and sellers of financial assets in order to facilitate trading. Security market of Nepal has not that long history. At first, Nepal Rastra Bank (NRB) and Nepal Industrial and Development Corporation made a joint effort to establish Security Market Center (SMC) to mobilize the public saving for ensuring public ownership in the share of public limited companies. “In the beginning of its establishment, the center made studies about the public limited companies and devising the ways and means of undertaking the business of buying and selling in securities” (Gautam, 2057:8)

In Nepal, Nepal Stock Exchange Limited (NEPSE), is the only organized stock market facilitating the trading of corporate securities, mainly common stock. Nepal Stock Exchange is a non-profit organization operating under Securities Exchange Act 1983. In 1993 it was converted into Nepal Stock Exchange Ltd. NEPSE opened its trading floor on 13th January 1994. To impact free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. are the major objectives of this organization.

However, in reality, the center was working as a body of NRB to reduce its working load relating to government securities. In 1983, the security market center passed a security exchange Act 1983 and mentioned the provision for listing. There were not any plans and programs of security market until seventh five-year plan. In the eighth five-year plan, security exchange center was established, with an objective of facilitation and promotion of growth of capital markets. Before conversion into stock exchange, it was only the capital market institution undertaking the job of broking, underwriting, managing public issue, making of government bonds and other financial services.

The securities exchange Act 1983 (2040) was amended in the period of eighth plan for the achievement of eighth five year plan objectives towards the capital market. The main objective of eighth five year plan was to establish the securities exchange board and rules and regulation followed through securities exchange board. The other important objectives of NEPSE are to protect rights of investors and develop a secondary market. The history of NEPSE begins with the listing of shares of 16 companies in 1986 where in 2008/09, there are 159 companies listed in NEPSE.

2.1.4.1 Functions of NEPSE

The main function of NEPSE is to provide trading floor on securities. Beside this, prime functions are as follows:

- To provide trading floor for the listed securities and enlist corporate as well as government securities like shares, preference shares, development bonds and corporate bonds.
- To supervise and regulate its members and provide clearing and settlement facility to traded securities.
- To disseminate information timely.
- To act as a front line regulator for members and also acquire and follow the best modern exchange practice.

2.1.5 Securities Board of Nepal (SEBON): An Introduction

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets in Nepal. Since, its establishment, SEBON has been concentrating its efforts to improve to the legal and statutory framework, which are the bases for the healthy development of the capital market. Under the present act, the SEBON is responsible for supervision for NEPSE. “It was established with the objective of promoting and protecting the interest of investors by regulating the securities markets. It is also responsible for the development of the securities markets in the country”(2001/02:3).

Since its establishment, SEBON has been continuously concentrating its efforts to improve the legal and statutory framework, for the healthy development of the stock market and to enhance the degree of investors’ protection. After the second amendment of securities exchange act in Jan 1993, SEBON is acting as an apex regulatory body by bringing market intermediaries directly under it’s jurisdiction and made it mandatory for the corporate bodies to report annually as well as semi annually regarding their performance. It also established directly relationship with market inventions were targeted to discipline the market and to consolidate its position as central securities market regulator. As a part of its continuous effort to build a sound system, the securities exchange act 1983 was amended for the second time on January 30, 1997 A.D. It has been regulating the market under the Securities Act, 2007.

2.1.5.1 Function of SEBON

The main objectives of SEBON are to regulate and develop the securities market and protect investor’s right. The functions, duties and powers of SEBON as per the Act are as follows.

- J To offer advice to Government on matters connected with the development of the capital market.
- J To register the securities of corporate bodies established with the authority to make a public issue of its securities.
- J To regulate and systematize the issue, transfer, sale and exchange of registered securities.

- J To give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Act or the rules and bye-rules framed under this Act.
- J To supervise and monitor the functions and activities of stock exchange.
- J To inspect whether or not any stock exchange is executing its functions and activities in accordance with this Act or the rules and bye-rules framed under this Act, and to suspend or cancel the license of any stock exchange which is not found to be doing so.
- J To issue licenses to conduct the business of dealing in securities, subject to this Act, or the rules and the bye-rules framed under this Act, to companies or institutions desirous of conducting the business of dealing in securities.
- J To supervise and monitor the functions and activities of securities-dealers.
- J To grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them.
- J To approve the bye-rules concerning transactions in securities framed by stock exchanges and institutions engaged in the business of dealing in securities, and, for the purpose of making necessary provisions concerning the development of the capital market and protecting the interests of investors investing in securities, issue orders to have necessary alterations made in such bye-rules of stock exchange and institutions engaged in the business of dealing in securities.
- J To systematize the task of clearing accounts related to transactions in securities.
- J To supervise whether or not security dealers are behaving in the manner prescribed in this Act, or the rules and the bye-rules framed under this Act, while conducting business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.
- J To make or ensure necessary arrangements to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.
- J To make necessary arrangements to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.

- J To review or make arrangement for reviewing the financial statements submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.
- J To systematize and make transparent the act of acquiring the ownership of a company or gaining control over its management by purchasing its shares in a single lot or in different lots.
- J To establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.
- J To discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market.

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

2.1.6 Right Issue

A right represents an option to buy new security at the subscription price, and it takes a specified number of rights to purchase security. “A right issue involves selling of ordinary shares to the existing shareholders of the company.” (Pandey. 1998:1015) When a firm wants to raise more fund then issues shares to the existing shareholders of a proportional number of additional securities, the stock floatation is called rights offering. A right issue involves selling of ordinary shares to the existing shareholders of the company. The right of existing shareholders in a firm is to retain an equal percentage ownership over time by subscribing to new stock issuance at or below market prices. “Instead of selling a security issue to new investors, some firms offer the securities first to existing shareholders on a privileged subscription basis. Sometimes the corporate charter requires that a new issue of common stock or an issue of securities convertible into common be offered first to existing shareholders because of their pre-emptive right” (Van Horne, 1995:570).

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

2.1.6.1 Features of Rights

The number of rights equal to the number of shares held by the respective shareholder i.e. the number of rights that a shareholders gets is equal to the number of share held by them. There are several features or characteristics where some of them are as follows:

- ✓ The number of rights equal to the number of shares held by the respective shareholders i.e. the number of rights that a shareholder gets is equal to the number of shares held by them.
- ✓ The right issuing company determines the number of rights required to subscribe to an additional share.
- ✓ The price per right share to be paid to the company is called subscription price and it is generally less than market price of existing shares.
- ✓ Right are transferable which means they can sell the rights.
- ✓ Rights have certain maturity periods. Right can be exercised only before ex-right date. Beyond the period, the right holder cannot exercise the right.

2.1.6.2 Pros and Cons of Right Issue

Rights share is issue for the existing shareholders of the company and they have value because generally they are offered at a subscription price somewhat lower than the market price of share. This system is advantageous for company also because all shares can be sold at certain period. According to the Pandey (1990:1002) there are some advantages and disadvantages of the rights issue which are as follows:

Pros:

- a. The existing shareholders control is maintained through the pro-rata issue of shares.
- b. Raising funds the sale of rights issue rather than public issue involves less floatation costs as the company can avoid underwriting commission. For example: the floatation costs of common stock issued during the period 1970 to 1975 were 6.17% on public issue whereas there is only 2.45% on right offering in USA.
- c. In the case of profitable companies the issue is more likely to be successful since the subscription price is set much below the current market price.

Cons:

- a. The shareholders who fail to exercise their rights; they lose in terms of decline in their wealth.
- b. Those companies who shareholding is concentrated in the hands of financial institutions because of the conversion of loan into the rights issue.

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

2.1.6.3 Procedures of Right Offering

When stocks traded in the stock exchange, during announcing period then the investors (buyer and sellers of stocks) may get problem, who will get the rights? To avoid this confusion the board of directors of the company fixed record date to give certainty about the possession of rights., Following are the procedure of right offering which is similar to the dividend payment procedures. Procedures of Right Offering consist of Declaration Date, Ex-right Date, Holder of Record Date and Subscription Date. They are briefly described below:

➡ **Declaration Date**

This is the date when the Management of BODs declares about the right shares which include the no. of right required to purchase one new shares, subscription price, holder of record date, subscription date. For example, BOK needs Rs. 400 million funds and the BODs decided to raise these funds through the rights offerings. The BODs met on January 1 and declared rights offering under the preemptive rights of the existing shareholders. The meeting also declared that, to purchase the additional shares, the shareholders must record these names until February 15.

➡ **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. In the Nepalese capital market, companies publish notice of book close date and the book close date is the ex-right date. This date normally is the four days from the ex-right date. But, in Nepalese context, it is after the 7 working days from the book close date or Ex-right date. In the above example, December 11 is the ex-right date and those who purchase shares on and after this date will not receive rights which will rather be received by the seller of the shares.

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

➡ **Subscription date**

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

2.1.6.4 Rights-on and Ex-rights

Those who buy stocks rights-on receive rights with stocks and can purchase right shares of the company and investors who buy stocks after this date do not receive the rights to subscribe additional stocks. For example: on October 15, Southeast company announces the terms of the new financing: the company states that rights will be mailed out on December 1 to stockholders of record as of the close of business on November 15. Anyway buying the old stock on or before November 15 will receive the rights; anyway buying the stock on or after November 16 will not receive them. Thus, November 16 is the ex-rights date; before November 16, the stock sells rights-on.

2.1.6.5 Valuation of Rights

The market value is a function of the present market price of the stock, subscription price and the number of rights required to purchase an additional share of stock. Right is negotiable, so, it has certain value for sale. The real value is determined in the market place through the interaction of demand and supply. The value we obtain using different equations is the minimum price to seller and maximum price to buyer.

“When companies announce right offering the shareholders and investors generally rush to buy the stocks of that company. Ultimately, the rights get certain value. When the stock is selling rights on, the theoretical value of rights can be calculated using following” (Pandey; 1999:1006).

Right-on value of a right

Right on: Equations have been developed for determining the value of rights equivalent to the reasoning process above. While the stock is still selling rights-on, the value at which the rights will sell when they are issued can be found by use of the following formula:

$$\text{Value of one right} = \frac{\text{Market value of stock, right on Z Subscription Price}}{\text{Number of rights required to purchase 1 share } \Gamma 1}$$

$$V_r = \frac{P_o Z P_s}{\# \Gamma 1}$$

where,

P_o = rights-on price of the stock

P_s = Subscription Price

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

V_r = Value of one right

Ex-right value of a right

Ex-rights: Suppose you are a stockholder in the Southeast Company who did not sell your shares when they were selling rights-on. The stock is now selling ex-rights for \$97.78 a share. How can you calculate the theoretical value of a right? By using the following formula, which follows the logic described in preceding sections, you can determine the value of each right:

$$\text{Value of one right} = \frac{\text{Market value of stock, ex right Z Subscription Price}}{\text{Number of rights required to purchase 1 share}}$$

$$V_r = \frac{P_e Z P_s}{\#}$$

Where,

P_e = Ex-right price of the stock

2.1.6.6 Right offering and Market Value of Share

Market price of the share means the price of share determined by the market and in which the shares are traded in the stock exchange. Generally, the market price of share is determined by demand and supply of market. But, besides this, there are other factors too which play vital role for price fixation in the market.

1. Dividend:- Shareholders who invest their money in common stock always seeks return in the form of dividend. If the company pays higher rate of dividend, then ultimately the share price goes higher and vice-versa. For example: standard Chartered Bank Ltd. provides 100% dividend. Thus, price of Standard Chartered Bank Ltd. provides 100% dividend. Thus, price of Standard Chartered stock is higher than other.
2. Cost of Capital:- Generally, cost of capital refers to the cost of fund raised. If cost of capital is higher, automatically return will be lower and the price of share goes down.
3. Company's earnings:- Higher earning organizations pay higher dividend. Thus, the price of the share goes upward and vice-versa.
4. Signaling Effect:- Another major share price determinant is signaling effect. Signaling effect or signals means the Dividend announcements, Stock dividend, Right offerings etc. Due to these rumors investors, shareholders buy and sell the stock which ultimately affects the share price.
5. Economic Condition:- Economic condition of the country is also indirectly responsible for the change in share price. If the economy is growing, obviously price of share also increases. In the phase of recession or depression, it goes downwards.

Above factors are the major determinants of share price. Market price of share is the function of dividend, cost of capital, company's earnings, signaling effect and economic condition of the country. Out of them, the researcher has taken right offering and its effect of share price in this study.

2.1.6.7 Theoretical Value and Market Values of Rights

Immediately after the announcement of the rights offering the market price of the stock would increase by some amount but theoretically it is said that the rights offering does not affect the value of shareholders what will happen to the price of share before ex-rights i.e. in rights-on and after ex-rights date? "If the price of share is significantly higher than its theoretical value, stockholder will sell their rights and purchase the stock in the market. Such action will be exerting downward

pressure on the market price of the stock. If the price of the right is significantly lower than its theoretical value arbitrageurs will buy the rights, exercise their option to buy stock and then sell the stock in the market. This occurrence will exert upward pressure on its theoretical value". (Pandey; 1999:495) But this transaction and movement is not applicable on Nepalese context because in Nepal rights can not be separated from shares. One cannot sell the rights discretely.

2.1.6.8 Right Offering and Public Offering

Right share is issued to the existing shareholders in the subscription price i.e. lower than the market price whereas with public issues, the major selling tool is the investment banking organization. So, shareholders were satisfied with right share issue because its price is generally lower than market price. "If a company goes to the equity market with reasonable frequency, this means that there will be 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 be desirable to the company" (Van Horne; 1998:574)

2.1.6.9 Right Share Vs Bonus Share

A **rights issue** is a common way for a company to raise fresh capital: it issues new shares, offering them first to existing shareholders. Indeed, it obliges a company to treat any issue of shares for cash as a rights issue unless the shareholders have first agreed otherwise. Rights are, an important tool of common stock financing without which shareholders would run the risk of losing their proportionate control of the company and dilution of their ownership. A listed company rights issue will usually offer shares at a discount to the current market price, sometimes a heavy discount if the shareholders' appetite for the shares needs to be stimulated. That discount means that there is an inherent value in the right to be offered the shares, and the shareholders in a listed company can trade those rights and realize that value if they do not want to take up the shares themselves. Alternatives to a rights issue include an open offer where shareholders are invited to subscribe to a number of new shares based on their proportionate entitlements. This can be less complex than a rights issue but it does not give shareholders the opportunity to trade their rights to

take up shares and so benefit from the discount. A vendor placing may also be used where one company is buying shares in another. Shares are allotted by the purchaser to the sellers of the target but the purchaser's investment bank agrees to find investors or places who will take those shares and so give the sellers cash. Institutional shareholders of the purchaser may insist on a clawback whereby those shares are first offered to them in proportion to their existing holdings.

A **bonus issue** involves no new money. Also called a capitalisation or scrip issue, it takes a sum from the company's reserves (distributable profits that could be used to pay a dividend, or the share premium account) and capitalises it by using it to pay for the new shares. The issued share capital is increased without any new money being invested. The new shares are issued to existing shareholders pro rata to their shareholdings and so no dilution occurs. Bonus share is a form of dividend that a company provides to its stockholders. A bonus is different from right issue. 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. Stock dividend paid in additional share of stock rather than in cash. It simply involves a transfer to retained earnings to the capital amount. In bonus issue, the nominal value per share stays the same and the new shares are issued by capitalization existing reserve. 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.

2.1.7 Preemptive Right

Existing ordinary shareholders have legal to purchase the new shares issued by the company, which is called the Pre-emptive rights. Company cannot sell their additional shares avoiding the existing shareholders and their rights. "If the preemptive rights are contained in a firm's charter then the firm must offer any new common stock to existing stockholder. If the charter does not prescribe a preemptive, the firm has a choice of making the sale to existing stockholders, or to an entirely new set of investor. If it sells to the existing shareholders, the stock flotation is called a right offering. Each stockholder is issued an option to buy a certain number of the new shares, and

terms of the option are contained on a piece of paper, which is called a right. Each stockholder receives one right for each share of stock owned.” (Weston and Copeland, 1992:902). The preemptive right gives holders of common stock the first option to purchase additional issues of common stock. In some states, the right is made part of every corporate charter; in others, the right must be specifically inserted in the charter.

The purpose of the preemptive right is twofold. First, it protects the power of control of present stockholders. If it were not for this safeguard, the management of a corporation under criticism from stockholders could prevent stockholders from removing it from office by issuing a large number of additional shares at a very low price and purchasing these shares itself. Management would thereby secure control of the corporation to frustrate the will of the current stockholders. The second, and by far the more important, protection that the preemptive right affords stockholders concerns dilution of value. For example, assume that 1000 shares of common stock, each with a price of Rs.100, are outstanding, making the total market value of the firm Rs.100000. An additional 1000 shares are sold at Rs.50 a share, a total of Rs.50000, thereby raising the market value of the firm to Rs.150000. When the total market value is divided by the new total share outstanding, a value of Rs.75 a share is obtained. Thus, selling common stock at below market value will enable new shareholders to buy stock on terms more favorable than those that had been extended to the old shareholders. The preemptive right prevents such occurrences.

The above views are not held by everyone. For example, in 1981 the shareholders of General motors approved a charter amendment to eliminate preferential subscription rights. A shareholder proposal to restore limited preemptive rights was opposed in GM’s proxy statement in relation to its annual meeting of May 24, 1991. The reason given was: “Wherever a broad base of corporate ownership and an active market for a corporation’s shares exist, preferential subscription rights serve no useful purpose”.

2.2 Review of Legal Provision

There are not many rules and regulations regarding the rights issue in Nepal. All the acts relating to general shares issue is followed while issuing the rights share in Nepal.

2.2.1 Nepalese Laws relevant to Public issue

All Nepalese corporations, who issue its shares to the public, should follow following laws. Company Act 2053 is the main Act that regulates the establishment and issue of securities of any company. But in case of right share issue, company is silent and do not mention about the procedure and method. Some of the provision made by the SEBON says regarding the rights issue. But issuing right share is share is one of the offering to the public. Issuing the share is to raise the new and fresh capital in the corporation, whether by public offering or by right issuing. Thus, the corporation, who is going to issue, right share as well as other stock, should follow following laws:

- a) Company Act 2053 (1997)
- b) Securities Exchange Act 2040 (1983)
- c) Securities Exchange Regulation 2050 (1993)
- d) New Issue Management Guideline 2054 (1997)
- e) Securities Regulation and Issue Approval Guideline 2057 (2000)
- f) Securities Allotment Guideline 2051 (1994)
- g) Bank and Financial Institutions Ordinance 2060 (2003)

2.2.2 Procedures of the Issue of Right in Nepal

There are some procedures to issue right share. 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 right issue practice is typically made in Nepal. Company must follow certain rules and regulations as mentioned in the company act and their respective memorandum and article of association. At present context, generally the following procedural are considered before right offering.

- The Board of Directors (BOD) should consider about the determination of the quantum of further capital requirement and the corporations in which the right issue might be offered to existing shareholders.
- Annual general meeting (AGM) should pass the proposal of board of directors (BOD) by its majority.
- Company should notify NRB, Nepal Stock Exchange, office of the company Registrar and SEBSON 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 take permission from them.
- Make announcement with prospects, which gives a general indication of the reasons, which have made the issue desirable, the purpose for which the new money is to be used.
- Letter of provisional allotment or rights offering to the shareholders with prospects. This letter will advise the shareholders about the rights offered, the number of new shares allocated to each given number of old shares, the price at which shareholders will qualify for the right issue. This letter will be sent after the date of announcement.
- After the receipt of the letter of provisional allotment, the allotment must be accepted or renounced, and payment in full or partial, must be made for those shares which are 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 now transferable instrument. Such practices are not seen in Nepalese context.
- Listing of the shares in the NEPSE again with increased number which must be approved by the stock exchange after which an application for listed new share could be made.

2.2.3 Review of Securities Law and Acts

There are some legislations regarding primary market of securities, which should be followed by companies, which are going to issue securities. Bureaucratic procedures of securities issue directed and control by legislation of securities. Important legislative provisions of securities have been made in Security Exchange Act 2007, Securities, Exchange Regulation 2008, Membership of

Stock Exchange and transaction Buy laws 1996, Securities Listing Byelaws 1996, Issue of Management Guidelines 2008, Security Allotment Guidelines 2008 and Securities Registration and Issue Approval Guidelines 2008. Like this way, special acts as Banking and financial Institution Ordinance 2008 and Company Ordinance 2008 has been passed.

a. Company Ordinance, 2064

There are following important regarding securities issues in Company Ordinance, 2064.

- ✓ Approval from the SEBON is must necessary while publishing company's prospectus. Company should publish its prospectus before issuing the securities.
- ✓ According to the format prescribed by the ordinance, various information about the company, its promoters and the contents of the issuing securities should be mentioned in the prospectus,
- ✓ Company must publish the notice of issuing securities in the national daily newspaper at list 3 times, 15 days prior to the security date.
- ✓ Par value of the company should not be more than Rs. 100 for shares.
- ✓ Company should not call the amount of more than 50% of its par value at the time of share application but this rule is not compulsory for those companies, which have published their balance sheet from last three years.
- ✓ Company should allot the issuing securities with in the three months of closing date for application submission and it should provide the certificate of securities within the 2 months of security allotment.
- ✓ Company should not allot the security to those applicants who have not subscribed 50% excluding underwriting.
- ✓ Company should not issue its securities on discount but in some cases, this rule is not applicable. For example, in the case of transfer of creditors, this rule is not applicable.
- ✓ Company should issue the securities at premium of that whose net worth is more than total liabilities, which has been profiting continuous for last 3 years and whose AGM has passed their rules.

- ✓ Company ordinance explains about the rights of the existing shareholders on new issuing share in section 54 (4).
- ✓ If the company can not sell its rights share within 35 days of the closed date, it should take the other alternatives to sell the shares by taking permission from SEBON.

b. Banking and Financial Institution Ordinance, 2064

There are following major provision for banking and financial institution to issue their securities on their ordinance.

- ✓ Every bank and financial institution should be approved from SEBON and their prospectus should be registered to NRB to issue any type of securities.
- ✓ Bank and financial institutions should call the total amount of share at the time of application.
- ✓ Every bank and financial institutions should follow the current rules of securities to do the activities about the securities issue.

c. Security Exchange Act 2007

Following provision is mention about the securities issue in the regulation.

- ✓ Before issuing the securities, every firm should be registering their securities in the SEBON. For this, firm should be given the application to SEBON.
- ✓ After investigating the application, SEBON can be given the permission to firm to issue the securities and registration the securities.
- ✓ Security Exchange Act 2007 prohibition to take the advantage on the basis of insider information.

d. Security Exchange Regulation 2008

Following provision is mention about the securities issue in this regulation. Under the Security Exchange Act 2008, there are following provisions in this regulation.

- ✓ Every security must be register in the SEBON and to issue them, related company should be taking the permission.
- ✓ For registration and permission, company should be given the application to SEBON along with various documents. Following are the some important document for application.
- ✓ Detail of memorandum, article of association and prospectus of the company.
 - Acts and rules under which company is formulated.
 - Amount, par value, number and type of share and special provisions of issuing security.
 - Other condition and facilities of security issue.
 - Reason of change in price on previous time issued securities.
 - Types, number, amount and transaction of last three years, if previous issued securities.
 - Issue manager of security and under writer of securities.
 - Provision of representation in board of directors for equity shares.
 - Provision about distribution of profile.
 - Three years audited and three years projected income statement and balance sheet.
 - Name, address, duties and responsibilities of directors, managers and chief officers.
 - Name, cast, address, qualification of person who prepares memorandum and article of associates.
 - Other detailed asked by SEBON.

e. Securities Registration and Issue Approval Guidelines 2008

Right Issue of Securities:

- ✓ The corporate body may increase capital through the issuance of shares to the existing shareholders through rights issue.
- ✓ While making rights issue pursuant to sub-regulation (1), the “Provisions and Disclosures Related to the Issue of Right Shares: drafted in the format prescribed in the Schedule-5, shall require to be signed by all of the members of board of directors and be submitted to

the Board through the Issue Manager which, after getting registered with and approved by the Board, shall be published.

- ✓ While issuing rights shares pursuant to sub-regulation (1) if the rights to be exercised by the existing shareholder is to be transferred wholly or partially to other nominee, the existing shareholder shall be required to apply to the issuer body corporate in the format prescribed in Schedule-6 having fulfilled the following conditions:
 - a. The memorandum or articles shall require containing provision of transferring the rights of existing shareholder to other person.
 - b. The rights obtained by the shareholder shall have to be nominated wholly or partially to only one person or institution.
 - c. Provision of applying as nominee shall have to correspond to the trading lot fixed by the stock exchange.
 - d. Provision that a shareholder who has nominated others to exercise his/her rights shall not be a nominee to exercise the rights of others. However, those who have exercised their own rights fully may exercise the rights as nominee of others.
 - e. The nominated of the rights shall require being in compliance to the limit of shareholding prescribed by the memorandum or articles of the company or that prescribed, if any, by the related regulator and that the nominee shall not apply for the shares including the existing shareholding that result in exceeding the said limit.
 - f. Provision of nomination shall be made to confirm to the same groupings of ownership and representation to the board of directors, if any, and if the exercise of rights after nomination brings changes in the structure of ownership and board of directors of the body corporate, shall be required to make the changes necessary to accommodate for the ownership limits within the groups and that there should be clear provision regarding the exercise of voting rights.
 - g. The person or the institution so nominated shall not be in the black list and shall not be having any disqualification under the prevailing laws.

- h. Require having provision that the nominee shall exercise the rights within the period opened for rights subscription.

f. Securities Allotment Guidelines 2008

Following provisions are mention about the securities allotment in securities allotment guidelines.

- ✓ There should be ranking, scrutiny and classifying the all applications of the securities.
- ✓ Securities should be allotment on the basis of board lot system.
- ✓ Where there is also subscription of the issued securities then these should be given the first priority to the minor applications.
- ✓ There should be published the notice about allotment after 3 days of allotment decision.

2.3 Review of Related Studies

This part of the study includes review of related studies through review of Journals / Articles and review of Masters' Thesis.

2.3.1 Review of Major Studies

This section deals with the review of journal and article by different expert relating to right share, which was published in various journals. To make more relevant and to add input in this study some Journals and Articles are also reviewed below follows:

Van Horne (1979) in his book Financial Management and Policy states that one of the most important aspects of a successful right 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. Consequently, a company will set the subscription price at a value lower than current market price to reduce the risk of the market price's falling below it.

Weston and Brigham (1992), state that right 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 though 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 directors, 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 had suppressed the collective rights of 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.

Paul Marsh (1980) on his article “**The Journal of Finance**” has concerned with “UK companies raise virtually all of their new equity capital via the rights issue”. Companies can guarantee the subscription of their issues having them underwritten and in recent years, this procedure has been adopted for 90% of UK rights issues. Underwriting is usually carried out on a fixed fee basis representing at least 1.25% of the money raised, and hence it is clear that quite substantial sums of money are involved. Since underwriting is simply a put option giving the company the right to put a failed issue onto the underwriter. In this paper, describe an application of the Black and Scholes model to the valuation of rights issue underwriting agreements over the period 1962-1975. Model prices are compared with the fees charged in order to assess whether the letter represent competitive prices. In fact, over this period, companies appear to have overpaid for underwriting.

When a company makes a rights issue, it is a London Stock Exchange requirement that at least three weeks should elapse between the ex-right date and the date of offer expires. If the share price falls below the issue price by the last acceptance date, shareholders will not take up their rights, since shares could be bought more cheaply in the market. Since rights issue arrangements are

costly, companies will clearly wish to avoid issues failing in this way. This can be achieved by having the issue underwritten. As an alternative to underwriting, companies can reduce the risk of a failed issue equally effectively by setting the issue price sufficiently low. This does not imply that underwriting is a waste of money, since if the issue is underwritten at a high enough price, there is a distinct possibility that the underwrites will be called upon to take up their commitment and buy shares from the company at a price above the ruling market price. The question is thus entirely one of whether or not companies pay a fair for underwriting the risks involved.

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

Black and Scholes model which is now widely accepted in both the academic and investment communities. B&S were the first to develop a theoretically complete, general equilibrium option valuation formula which was consistent with both rational pricing and the Capital Assets Pricing Model. This model is attractive not only because of its rigorous theoretical basis, but also because it is relatively simple, incorporating only five variables, four of which are directly observable. Given these variables, namely the stock price (x), the time to maturity (t), the exercise price (c), the risk free interest rate (r), and the variance rate of the return of the share (V_2), B & S shows the value of a call option ($w(x,t)$) can be written as :

$$W(x,t) = x.N(d_1) - c.e^{-r.t} N(d_2)$$

From July 1962 to the end of 1975, 1145 primary equity right issues were made by London quoted and registered companies. Of these, 148 issues involved more than one class of equity, or combine units of equity and other securities, and were therefore excluded from our sample. Of the remaining 997 issues, 671 were known to have been underwritten for a fee by a merchant bank of

banker in the standard manner. For 132 of these, however, we were unable to establish the date of the underwriting agreement with any degree of confidence. These issues were therefore excluded, leaving us with a sample of 539 underwritten issues for the purpose of this study.

2.3.2 Review of Thesis

Mr. Sujan Parajuli (2010) had done research on **“Practice of Right Share Issue And its Impact in Share Price”**. This study has set out the following objectives:

- To study and examine movement in stock price before and after the announcement of rights issues.
- To analyze the procedure of rights issue in the context of Commercial Bank of Nepal.
- To analyze practices, problems and prospects of rights issue in Nepal.
- To provide the corrective measures to all concerned on the basis of the findings of this study.

The major findings drawn on this study were:

- Most of the banks do not follow the theory of rights offerings.
- Though the right offerings have only twelve years history, its practices are in increasing trend.
- Most of the companies are issuing the right share in order to fulfill capital requirement as per the NRB directives.
- Commercial banking sector occupies largest almost of total right offering among all sectors.
- Under subscription of rights share is caused by various factors. Lack of investors' awareness, low performance of companies, lack of effective flow of information, untraceable shareholders and lack of provision for rights transfer and financial problem of shareholder are the major cause of under subscription.
- Subscription price of rights share is too low as compare to market price of share.
- There is no any provision to make rights share free pricing.
- Most of the companies are suffering from under subscription of their rights share but there is no clear and easy provision regarding the sales of under subscribed rights share.
- Large no. of shareholders holding small no. of share and they generally ignored rights issue.

Mr. Sunoj Shrestha (2010) has conducted a study on the topic, **“Right Share Practice and its impact on Share Price”**. The main objectives of his study were:

- To enlighten existing practices of right issues.
- To explore the impact of right offering on market price of the stock before and after the book close date.
- To examine the theoretical value and market price of the stock after the book close date of right.
- To evaluate the adequacy of existing law on the matter of right share.

In this study, his major findings were:

- The history of the right share issue is not so long in Nepalese context but its practices are being popular day by day.
- The major portion of total public issue from FY 1993/94 to 2007/08 is captured by right share which is 51% where as the contribution of both ordinary share and debenture is equal i.e.23%. The rest portion is captured by preference share that is 3% only.
- 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 investors' awareness.
- 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 the book close dare, the share price decreases as per right share portion. Generally, the right share itself does not increase the value or the wealth of the shareholders.
- It is found that out of 22 sample companies, 4 companies have theoretical price higher than actual market price causing negative percentage change and the 16 companies have actual market price higher than theoretical price causing positive change. The remaining 2 companies have equal market price and theoretical price.

- According to the hypothesis test, there is no significance difference between the actual market and theoretical price after the book close date of right share. It means, they are correctly priced in the market.
- Majority of the investors are well aware about the phenomenon of right share and subsequent consequences involved there in.
- Most preferred sectors for right share are Banking and Financial.
- The main purpose to purchase the right share is to increase the value.
- Nepalese corporate firms prefer right share instead of other instrument like bonds, preference share because of easy process to collect the fund and low flotation cost.
- The main causes of under subscription of right share in Nepal are lack of investor's awareness and low performance of the related companies.
- The main objectives of issuing right share are to increase share capital and as per requirement of NRB directives.
- The major problem is the insufficient knowledge of the investors regarding the shares and the right shares.
- 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 no transferability feature during the FY 2007/08. But now, SEBON had enacted the Securities Registration and Issue Regulation-2008 and clearly mentioned about the transferability features.
- It is found from the informal interviews with about 50 individual investors that most of them are illiterate of share market.

Mrs. Roji Karmacharya (2010) Researcher conducted a study related to **“Right Share Practice and Its Impact on Share Price Movement of Commercial Banks in Nepal”**. Its main objectives are as follows:

- To examine movement in stock price before and after the announcement of rights issue.
- To analyze the procedure of rights issue in the context of Nepal.

- To analyze practice, problems and prospects of rights issue in Nepal.
- To provide corrective measures based on the findings of this study.

And, its major findings are as follows:

- There is no uniformity in the impact of rights offerings of share price.
- Though the issues of right share offering have only fourteen years, but it has in increasing trend.
- Most of the companies are issuing rights share in order to fulfill capital requirement as per the NRB directives.
- All issue managers except United Finance Ltd. have underwritten the rights have in Nepal. NIDC is the largest issue manager among all issue managers and NSML is the smallest one.
- Most of the rights issues were under subscription in Nepalese companies. So, it is a common phenomenon in Nepal.
- There is no any provision to make rights free pricing.
- Lack of separate rules regarding rights share is another problem.
- Most of the companies are suffering from under subscription of their rights share but there is no clear and easy provision regarding the sales of under subscription rights share.
- There is a large no. of shareholders holding small no. of shares in Nepalese share market who generally ignore rights issue.

Mr. Kiran Maharjan (2010) had done research on **“Right Share Offering and Its Impact on Stock Price in Nepalese Market”**. This study has set out the following objectives:

- To find out whether Nepalese investors use available information regarding the right issue announcement to maximize their wealth.
- To examine and identify right issue practice in Nepalese financial market.
- To test whether share prices fully reflect all the information accompanying right issue announcement.

- To find out impact on changes in market price of the stock before and after the announcement of right offering.
- To examine the theoretical values of right and its effect of right on stock price.
- To recommend some policies that will help to rectify the current problems in the right issue of securities.

In this study, its major findings are as follows:

- The main objectives of issuing right share are to increase share capital and as per requirement of NRB directives.
- The major problem is the insufficient knowledge of the investors regarding the shares and the right shares.
- Major causes behind the under subscription of right share is the lack of awareness among the investors, untraceable shareholders, poor financial performance of the issuing company, financial problem of shareholders and lack of the provision for rights transfer.
- There is no easy and clear provision regarding the sales of under subscribed rights share in Nepal.
- Rights offering are comparatively new practice in Nepal. Therefore, the sample companies are unable to raise the desired capital thought it and the practice does not follow the theory.
- Another major cause is dilution in shareholders wealth position is the holder's record date. In some sample companies, offering rights holder's record date is price to the announcement date.
- Shareholder of Nepalese companies lacks the knowledge about the right share and its impact of in their wealth position. Due to this, free movement of share price during rights on and ex-right is not confirmed.
- Theoretically, after the issue of rights share the earning per share of companies decreases. But if the company utilize the rights offering, so it raised fund in effective way the earning per share can be increased. Similar result has obtained in case of sample companies.

Mrs. Mamata Acharya (2010). In the year 2010, Mrs. Mamata Acharya has made study on the topic of **“Issue of Right Shares & Its Practices in Nepal”**. The main objectives of his study were:

- To study and analyzed the right shares issue practices adopted in Nepal.
- To examine the significant difference of stock price movement before and after the announcement of the right share.
- To compare the theoretical value and the real market value after the announcement of the right share.
- To analyze the rules and regulation related to the right share offering in Nepal.
- To identify the problems of the right share practices in Nepal.
- To point out suggestions to the related bodies on the basis of study findings.

The major findings of her study were:

- There is only 14 years history of right share in Nepal. Until FY 2065/66 only 178 cases of right share announcement by 159 companies.
- Contribution of the rights share on total public issue till the FY 2065/66 is 69.02 %.
- Largest amount collected by commercial banks through the issue of right share. 65% of total amount collected by right share is by commercial bank & development banks.
- Large no. of right share issued is under subscribed. Poor performance of the related company, lack of effective information and lack of transferable right are the major cause of under subscription of right share in Nepal.
- Interest of the investor to purchase the right share depends upon the past performance of the organization.
- Due to low flotation cost, easy process to collect fund and legal provision are the cause of right share prefer by Nepalese corporate firms.
- There are difficulties to investors due to the not transferable rights in Nepal.
- Legal provisions about the right share in Nepal are insufficient.

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

Miss Kavita Lamichhane (2007) had conducted a research on **“Right Share & Its Impact on Market Price of the Stock”**. This study has set out the following objectives:

- To identify existing practices of right issues.
- To find out impact on changes in market price of the stock before and after the announcement of right offering.
- To examine the theoretical values of right and its practical effect of right on stock price.
- To analyze the inadequacy of existing law, on the matter of right share.

There were 41 cases of Right Issues till the fiscal year 2062/63. Out of which the researchers had taken 11 sample companies. Secondary as well as Primary data had been used. Most secondary data had been extracted from SEBON and NEPSE and annual reports of the respected companies. Interview and Questionnaires methods had also been wherever necessary.

Major findings of the study are as follows:

- Nepalese Capital market is narrow in term of capital market instruments, only common stock, right share and to a very little extent, preference shares, debenture and few mutual funds are brought into practice. Contingent securities like warrants and convertibles, option and other securities are not brought into practice.
- Nepalese equity (primary as well as secondary) is dominated by financial sectors companies; the participation of the real sector (manufacturing, hotels etc.) is quite low or negligible.
- Rights share contribute, the second largest among various issues to raise the capital of the corporation approved by SEBON.
- The practice of right share issue is in increasing trend.
- The maximum contribution of right offering in total flotation is 82.84% and minimum is 6.81%.

- The result of run test is positive, i.e. market price per share before 1 month of right share issue and after right share issue is found to follow randomness in price fluctuation.
- In majority of the cases, MPS after right share decrease. But some companies are not found to be following the rules. MPS of DCBL, FFCL and TRHL remain the same after the right share issue showing no effects of right share issue. MPS of KBL increase after right share issue.
- The theoretical and actual market price should be equal or actual market price should be slightly higher than the theoretical price due to singling effect but DCBL, KBL, JFCL, TRHL and MBL are not found to be following the rule. The actual market price of these companies after right share issue is lower than their theoretical value.
- Company Act has not mentioned about necessity of legally transferable rights instruments called right, which must be mailed to the stockholders for each stock held before the rights offering.
- Declaration of inappropriate holders of record date has caused dilution of wealth position of existing shareholders which is just opposite of the thereof rights offering (i.e. protecting dilution of wealth position of existing shareholders).
- Company Act has is silent regarding the issue of rights offering and subsequent allotment of the rights issue, most of the investors/shareholders also unaware about it.
- Regarding procedural aspects of rights offering, all the other procedures are same as IPO. Besides, rights issuing company (Issue Manager) should be mailed a document called a 'right' to the existing shareholders.
- Right appear as an obligation imposed on shareholders, otherwise he would suffer a loss in the form of decline in price of his holding.
- Under subscription of rights issue is common phenomena as rights is not transferable in Nepal, most of the companies unsubscribed give to the staff of the corporation, only some corporation have done underwriting.
- Because of under subscription, employee of rights issuing companies and issue manager are gaining on the expenses of the existing shareholders.

- Promotional role played by the issuing company and issue manage regarding to the rights offering is not sufficient.

Mrs. Anju Shrestha (2010) had done research on “**Right Share Issue and its Impact of Market Share Price**”. Its objectives are as follows:

- To examine the significant different of stock price movement before and after the announcement of the right share.
- To compare the theoretical value and the real marker value after the announcement of the right share.
- To identify the problem of the right share practice in Nepal.
- To point out suggestion to the related bodies.

And, its major findings are as follows:

- There is only 14 years history of right share in Nepal. Till fiscal year 2065/66 only 161 cases of right share announcement can we find by 28 companies.
- Contribution of the right share on total public issue till the FY 2061/62 is 32.27%.
- Largest amount collected by commercial banks through the issue of right share 65% of total amount collected by right share is by commercial bank.
- Large no. of right share issued is under subscribed. Poor performance of the related company, lack of effective information and lack of transferable right are the major cause of under subscription of right share in Nepal.
- Interest of the investor to purchase the right share depends upon the past performance of the organization.
- Due to low flotation cost, easy process to collection fund and legal provision are the cause of right share prefer by Nepalese corporate firms.
- There are difficulties to investors due to not transferable rights in Nepal.
- Legal provisions about right share in Nepal are insufficient.

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

2.4 Research Gap

Right share is the major instrument for raising additional equity capital which contributes the largest portion on various issues. According to the theory of rights share offering, the price of shares increases after the announcement date and the price again decrease after the allotment of shares to the extent of value of rights. 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 practice in Nepal including its all consequences and circumstances.

Only few researches have been made on the topic "Right Share Practice in Nepal". Most of them selected very few samples i.e. less than 10 which cannot be considered adequate. This study also based on both secondary as well as primary data. Moreover, the earlier studies on right offering have become old and need to be updated and validated, because of the rapid changes taking place in the capital market. Considering all these facts it is necessary to carry out a fresh study in Nepal. Finally, this study is expected to be useful for all the including financial scholars, managers, investors and regulatory bodies such as: NRB, SEBSON, and NEPSE.

Thus, research gap and weaknesses are found in previous studies, this research has been conducted to find out value of rights issuing companies. Though out of different sectors, only one i.e. commercial banks with 5 sample commercial banks, this research has been conducted but it has been tried at most to find the impact of rights issue on market price of the sample commercial banks.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a systematic way to solve the research problems. It describes the methods and process applied in the entire aspects of study. Research methodology is a technique of analyzing the obtained data to solve the research problems. So, it is the method, steps, and guidelines, which are to be followed in analysis and it is a way of presenting the collected data with meaningful analysis. An appropriate methodology makes the study become more relevant and more importance.

Research methodology refers to the various steps that are generally adopted by a researcher in studying his research problem along with logic behind it. Thus, research methodology is a systematic and organizes effort to investigate a specific problem that needs a solution (Wolf & Plant; 1999). “Research methodology refers to the various sequential steps to be adopted by a researcher in studying problem with certain object in view. It would be appropriate to mention that research project are not susceptible to any one complete and inflexible Sequence of steps and the types of problem to be studied will determine the particular steps to be taken and their order to” (Kothari; 1994:19).

This study is about the commercial banks in Nepal. It has been already done streamline to some extent in earlier chapter in general. But, the proper analysis of this study can give meaningful conclusion. The main objective of this study is to analyze the right share practice in Nepalese commercial banks. So, this part of the study incorporates the overall research framework having research design, population and sample, sources and technique of data collection and method of analysis, tools used in the study.

3.2 Research Design

In simply, research design is planning for research. Research design is a conceptual framework within which a research is conducted. Research design is necessary for each research work. It is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. “Research design is the plan, structure and strategy of investment conceived so as to obtain answer to research question and to control variance”, (Kerlinger, 1978:300). And in another words, “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”. (Bhirtel; 2002:43) Kothari (2000), states that research design is a plan, structure and strategy of investigation concerned so as to obtain answer to researcher question and to control variance. This research is based on the analytical and descriptive design as well.

To conduct this study, descriptive and analytical research design has been adopted to evaluate the right share practices in Nepalese commercial banks. Descriptive research design has been used for conceptualization, problem identification, conclusion and suggestion. Analytical research design is used for analyzing the data to find out the result. This study is based on primary and secondary data. Objectives of primary data analysis in this study is to survey the opinion of the concerned people about the right shares and objective of secondary data analysis of this study is to analyze the data related to practice of rights share issue in Nepal.

3.3 Population and Sample

The data collection activities consist of taking order information from reality and transferring into same recording system. So, that it can be examined and analyzed from pattern. Population or universe refers to the entire group of people events, or things of interest that the researcher wishes to investigate. In most of cases, we cannot collect data of whole population. Therefore, sample in the best technique of the research study. A sample is the collection of items from population or universe and comprises some observations selected from the population. Sampling method is the scientific procedure of selection those representative units which would provide the required

elements with associated margin of uncertainty arising from examining only a part and not to the whole.

Commercial banks control the share market of Nepal. Many fluctuations in stock price of commercial bank directly affect the NEPSE index. Due to the various limitation researcher cannot take all the companies as the sample. Therefore, there are eight sectors of NEPSE for the study, only one and important sector i.e. commercial bank has been taken for the study. Here, five commercial banks, issuing rights share has been considered for the study. The class A Licensed Commercial Banks in Nepal is under below:

Table 3.1
List of Class A Licensed Commercial Banks

S.N.	Names of Banks	Operation Date	Head Office
1.	Nepal Bank Limited	1937/11/15	Dharma path, Ktm
2.	Rastriya Banijya Bank	1966/01/23	Singhdarbar Plaza, Ktm
3.	Agricultural Development Bank Ltd.	1968/01/02	Kathmandu
4.	Nabil Bank Limited	1984/07/16	Kantipath, Ktm
5.	Nepal Investment Bank Ltd.	1986/02/27	Darbar Marg, Ktm
6.	Standard Chartered Bank Ltd.	1987/01/30	Naya Baneshwor, Ktm
7.	Himalayan Bank Limited	1993/01/18	Thamel, Ktm
8.	Nepal SBI Bank Limited	1993/07/07	Hattisar, Ktm
9.	Nepal Bangladesh Bank Ltd.	1993/06/05	Naya Baneshwor, Ktm
10.	Everest Bank Limited	1994/10/18	Lazimpat, Ktm
11.	Bank of Kathmandu Limited	1995/03/12	Kamaladi, Ktm
12.	Nepal Credit & Commerce Bank Ltd.	1995/10/14	Siddharthanagar, Rupandehi
13.	Lumbini Bank Limited	1998/07/17	Narayanghat, Chitwan
14.	Nepal Industrial & Commerce Bank L	1998/07/21	Biratnagar, Morang
15.	Machhapuchhre Bank Limited	2000/10/03	Prithvi Chowk, Pokhara
16.	Kumari Bank Limited	2001/04/03	Putalisadak, Ktm
17.	Laxmi Bank Limited	2002/04/03	Adarshanagar, Birgunj

18.	Siddhartha Bank Limited	2002/12/24	Kamaladi, Ktm
19.	Global Bank Limited	2007/01/02	Birjung, Parsa
20.	Citizen Bank Limited	2007/06/21	Kathmandu
21.	Prime Bank Limited	2007/09/24	Kathmandu
22.	Sunrise Bank Limited	2007/07/23	Kathmandu
23.	Bank of Asia Nepal Limited	2007/10/12	Kathmandu
24.	Development Credit Bank Ltd.	2009/01/02	Kathmandu
25.	Nepal Merchant Bank Limited	2009/02/22	Kathmandu
26.	Kist Bank Limited	2009	Kathmandu
27.	Janata Bank Limited	2010	Kathmandu
28.	Mega Bank Limited	2010	Kathmandu
29.	NMB Bank Limited	2010	Babarmahal, Kathmandu
30.	Citizens Bank International Nepal Ltd.	2010	Saradasadan, Kamaladi, Ktm

Source: Annual Report of SEBON (2009/10)

Out of them, only five commercial banks have been taken as sample for this study. Their head offices are in Kathmandu valley. The samples of commercial banks are:

- a. Nepal Investment Bank Limited
- b. Siddhartha Bank Limited
- c. Lumbini Bank Limited
- d. Laxmi Bank Limited
- e. Nepal SBI Bank Limited

3.4 Nature and Sources of Data

Data are considered as an integral part of research. Required data for this study is mostly dependent on secondary data as well as primary data to achieve real and factual result. Primary data will also be used as per need. So, qualitative as well as quantitative data are taken for the study. Hence, the main sources of data for the study are as follows:

a) Primary Source

To identify the problems and prospects of rights share practice in Nepal, primary data are collected. 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 etc. Questionnaires are used as the major source of primary data collected for this research. A set of structural questionnaire was made and distributed to the selected respondents in order to get the accurate and actual information with the concerned person. The questionnaires are asked to tick the best answer among the different alternatives. Data collected through questionnaire are tabulated and presented in required form to make interpretation easier. Questionnaire technique used in order to get some valuable information and resolutions to various problems with which the researcher confronted in the due course of completing study.

b) Secondary Source

This research work is heavily based on data collection through secondary sources. Due to the imperfect and undeveloped financial market, we may not collect all the data from NEPSE. Searching the relevant data is an ironical challenge work. Secondary Sources of data collection for this study are:

- Annual reports of SEBON,
- Various publications of NEPSE i.e. annual report and trading report
- Annual reports and Prospectus of concerned banks
- Various articles and journals related to this study i.e. foreign as well as domestic
- Related newspaper and magazines i.e. ArthicAbiyan, Economic Post, Kantipur, Gorkhapatra and New Business Age etc.
- Statistical book of Nepal, published and unpublished documents, previous studies, dissertation, books and other reports
- Some other important information has been collected from internet.

3.5 Data Collection Techniques

Necessary data for this study are collected from various sources, out of them only related data are considered for the study. Not all the collected data are used, only necessary data for the study are taken to the consideration. Primary data and secondary data are collected through following method.

a) Questionnaire Method

To get information about the right share and its different aspects, questionnaire method has been used. The questionnaire is designed in three groups. Group A contains a few multiple choices questions. Group B contains some ranking items questions and Group C contains a few opened-end questions where respondents can write their personal views about the research topic.

About 30 questionnaires are dispatched to the individual investors, brokers, issue managers, corporate firm and related experts.

Table no. 3.4.1

Sample and Response as a Primary Source of Data

S.N.	Responds	Sample	Response
1	Managers & Officers of Right Offering Banks	20	20
	a. Laxmi Bank Ltd.	4	4
	b. Investment Bank Ltd.	4	4
	c. Lumbini Bank Ltd.	4	4
	d. Siddhartha Bank Ltd.	4	4
	e. Nepal SBI Bank Ltd.	4	4
2	Manager & Officers of Issuing Mangers and Regulatory Office	15	15
	a. NIDC Capital Markets Ltd.	3	3
	b. NMB Bank	3	3
	c. SEBON	3	3
	d. NEPSE	3	3

	e. Ace Finance Ltd.	3	3
3	Investors & Experts	15	15
	a. Investors	12	12
	b. Experts	3	3
4	Total 100 %	50	50

b) Interview method

Interview of some experts like Company Secretary, Business Securities Persons, Officers of NEPSE are taken to make the study more reliable. 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 are historical data method. Historical data has been collected from various reports, prospectus of concerned companies and newspaper. Data that has been used by another party will also be useful for this study.

3.6 Method of Analysis

While collecting the data, there are many raw materials or data. That raw material should be edited, classified and compiled according to the research. The data, therefore, will be presented in appropriate forms of tables, figures and charts. To analyze the data clearly, financial tools as well as statistical tools will be used. This study is focus on right share practices in Nepalese commercial banks. The share price not only fluctuates through rights offering alone, various markets information also affecting the share price. So, some assumptions to remove the effect of information are used as follows:

3.6.1 Allowances for Leakage of Information

Information about the director's intention to issue right share may be found out in many cases before the date of directors' meeting. If it happens, the rises as a result of impending decision that may take place much before the director's actual decision. There may be the cases of insiders taking advantage by making purchase in advance of the official announcement so that the market price begins to rise over before the actual announcement. For these reason, only going back at least some days before the formal announcement of the board's decision use the true price effect of right issue decision. Considering all the factors, it is decided to go back 90 days before from the book close data of right share. Thus for the study, share price before 90 days and 10 days prior to Book Close Date were taken.

3.6.2 Removing the effect of Market Movement

Measurement of the price effects of the right shares issue involves a comprising of share of different point of time. In actual practice, general price movement also affects particular share price. If share price in general level moved up by 10%, and a particular share price is found to rise by 10%, this cannot be assumed to be the effect of right share Offering. On the other hand, if a particulars share price just remains unchanged in the face of declining market trend, the strength may be due to right issue. Hence, the isolation of the effect of the right share issue necessarily requires the elimination of the general market movement.

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

i. 90 days before Book Close Date

In order to isolate the effects of rights 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. 90 days lead-time appears adequate.

ii. 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.

iii. The 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 shares on and after this date does not enjoy the right shares.

iv. 10 days after the Book Close Date

After the book close date, the new purchaser doesn't get the right share. Thus, the price generally falls. After the book close date, there is less chance of share trading for 3-4 days. Hence 10 days is reasonable for the price correction mechanism.

v. 180 days after the Book Close Date

In order to assess the post offering effect of right offering, it is necessary to have a price quotation some time after the offering, yet not so much later that factors are vague. 180 days appears reasonable for this purpose.

3.7 Data Analysis Tools

Brief explanations of data analysis tools used in this study are as follows:

a) 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 change comes positive, it indicates that the MPS has increased after right share issue and if the percentage change zero, it indicated no change in MPS before and after right share issue. The percentage that has been changed in MPS after right share is calculated by using the following formula:

$$\text{Change in Price (\%)} = \frac{\text{Post Rt. Issued Price} - \text{Pre Rt. Issue Price}}{\text{Pre Rt. Issue Price}} \times 100$$

b) 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 that theoretical price is greater than actual price after right share issue. Similarly, if the percentage comes positive, it indicates that theoretical price is less than actual price after right share issue and if 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:

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

c) Co-efficient of Correlation (r)

Correlation analysis is the statistical tools that can be used to describe the degree to which one variable is linearly related to another. It is a statistical tool, which studies the relationship between two variables, and correlation analysis involves various techniques used for studying and measuring of the extent of relationship between the two variables. Correlation is an analysis of the covariance between two or more variables. The effect of correlation is to reduce the range of uncertainty to our prediction. It is the square root of correlation of determination. Correlation can be either negative or positive. The coefficient of correlation always varies between the two limits of +1 to -1, when there is perfect positive correlation, its value is +1 and when there is perfect negative correlation, its value is -1. Its mid point is 0 which indicates the absence of correlation. The value of the coefficient of correlation is always is always between +1 and -1. It cannot exceed unity.

d) Coefficient of determination (r^2)

The coefficient of determination measures the percentage of total variation in dependent variable explained by independent variables. The coefficient of determination is a measure of the degree (extent or strength) of linear association or correlation between two variables one independent and other are dependent variable(s). The coefficient of determination has value range from 0 to 1. For example, if r^2 is equal to 0.85 that indicates the independent variables used in regression model explain 85% of the total variation in the dependent variable. A value of one occur only if the unexplained variation is zero which simply means that all the points in the scatter diagram fall exactly on the regression line.

$$r^2 = \frac{\phi(X Z \bar{X})(Y Z \bar{Y})}{\sqrt{\phi(X Z \bar{X})^2 \phi(Y Z \bar{Y})^2}}^2$$

e) Probable Error

Probable Error (P.E.) is used to measure the reliability and test of signification of correlation coefficient. It is calculated by following formula:

$$P.E. = 0.6743 \times \frac{1 Z r^2}{\sqrt{n}}$$

where,

r = value of correlation coefficient

n = no. of pairs of observation

P.E. is used in interpretation whether the calculated value of 'r' is significant or not.

If $r < P.E.$, it is significant, i.e. there is no evidence of correlation.

If $r > P.E.$, it is significant, i.e. there exists correlation.

f) T-test

Hypothesis can be defined as “a logically conjectured relationship between two or more variables expressed in the form of testable statements” (Sekaran; 1992:79). “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). T-Statistic is also used to test the significance of the difference between the theoretical and actual market price after the book close date. Since the sample size is few (i.e. less than 30 transaction), t-test is suitable tool for analyzing the significance of difference between the theoretical and actual price after the book close date.

Null Hypothesis (H_0): There is no significant difference between the theoretical and actual market price after the book close date.

Alternative Hypothesis (H_1): There is significant difference between the theoretical and actual market price after the book close date.

$$S_1^2 = \frac{(X_1 - \bar{X}_1)^2 + \dots + (X_n - \bar{X}_1)^2}{n_1} + \frac{(X_2 - \bar{X}_2)^2 + \dots + (X_n - \bar{X}_2)^2}{n_2}$$

$$T_{\text{cal}} = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S_1^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Here,

X = index of theoretical price after the book close date

Y = index of actual price after the book close date

n = no. of observation

In this analysis research, 5% level of significance has been used to test the hypothesis.

g) Valuation of Rights

Rights have certain market value because the rights share is generally offered at lower than market price. The value of a stock right may be defined as the value at which the right should be quoted in the market. So, people are interested towards that particular share attached with rights. After rights offering, existing shareholders want to exercise that right to purchase new common stock and some want to sell rights. Though there is no provision to make right transferable in Nepal, but valuation of rights is very important to analyze the share price movement. After the closing date of rights share offering, the share price will drop to the extent of value of rights.

$$\text{Value of right (Vr)} = \frac{P_o Z P^s}{\# \Gamma 1}$$

Where,

P_o = Market price (Right on)

P^s = Subscription Price

= Number of right required to purchase one new share

h) Theoretical price of the share after Right share

After the book close of the right issue, the market price theoretically decreases because the new buyers of the share don't enjoy the right share in subscribed price. 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.

$$\text{Ex-right price (P}_e\text{)} = P_o - V_r$$

Alternatively,

$$P_e = \frac{P_o \times \# \Gamma P^s}{\# \Gamma 1}$$

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

The right share practices in Nepalese commercial banks regarding objectives and a practice has been already discussed in first chapter. In second chapter, the relevant literature that matters important to this study is also streamline. Moreover, the research methodology considering the methods of research chosen in this study had given detail in third chapter. Now the most important part of this study that consist of analysis and presentation of empirical data on how far the Nepalese companies are practicing the right share.

In order to analyze the study, the necessary financial figures as well as descriptive information are also gathered through financial statement, annual report of various banks, publication of SEBON, NEPSE and questionnaire is used to obtain further qualitative information. 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. Only the important variables that are very sensitive and pertinent are taken into account. This part of the study incorporates the presentation and analysis of the data. It incorporates Right share practice in Nepal, Right offering and its impact on share price, comparison of theoretical and actual market price of the share after the right share, Hypothesis test and the primary data analysis.

4.1 Right Share Practice in Nepal

Right share practice in Nepal includes Growth of right share in Nepal, Contribution of right share on total flotation in Nepal, issue manager wise right share issue and subscription rate of right share in Nepal.

4.1.1 Growth of Right Shares in Nepal

There is no long history of the share issue. In the year 1993 B.S., Biratnagar Jute Mills first issue the equity to the general public. This was the starting of the issuing public shares. Firstly, there was the absence of organized and legally established capital market, so, the practices of issuing of equity and related function could not be exercised. In 1976 A.D.(2033 B.S.), Security Exchange Center was established which initiated various practice of equity financing, Security Exchange Center, after its establishment, has undergone various changes. Security Exchange Center, which later changed into Nepal Stock Exchange Ltd. i.e. NEPSE in 2050. These days, Security Board of Nepal (SEBON) and Nepal Stock Exchange incorporate, enhance controls and manages all the activities regarding capital market.

The history of right offering is not so long in Nepalese context. Nepal Finance & Saving Co. was the first company, who issued right shares in Nepalese market in fiscal year 1995/96. The company issued the right share of Rs.2 million on 1995/12/1, the ratio was 4:1, i.e. each existing shareholders who had 4 shares owned were allowed to purchase each additional share issued by the company.

Since then, Nepalese corporate firms started to issue rights share. Up to now (i.e.2009/10), it is found that among total listed companies, 372 public issues have been approved from SEBON. Almost all of them were finance and banking companies who issued rights share in Nepalese capital market. Large no. of bank and finance companies announced and issued rights share to increase the capital base if the corporate management felt such need to comply with the policy directives given by the concerned authority to increase the capital base from time to time. The details of all right issuing companies are presented in the Appendix 2.

According to the table, 161 right issues had been made by 2009/10. All the companies except Bottlers Nepal Ltd. issued right share in Rs.100 per share but Bottlers Nepal Ltd. issued right share in Rs. 260 per share, this includes Rs. 160 premium per share and the rest of the companies could not add premium due to the fear of under subscription. No company had issued their right issue at discount because company ordinance does not allow them to sell the right share at discount. Subscription rate is seemed to be high in case of right share. Most of the financial institutions

issues right share in order to increase paid up capital as directed by NRB. Under rights offering, the shareholders are provided a document called 'right' which describes all about the conditions of rights issue. Each stockholder receives one right in the proportion of the share currently held.

4.1.2 Contribution of Right Share on Total Public Flotation in Nepal

A company can collect the money that it need through different instrument. The total money that the company can collect is called total public issue. The instrument may be different. Right share is one of them. Right share is an important part of total public in Nepal. There are many other alternatives of the public issue. Total flotation of the country comprises ordinary shares, preference shares, Debentures and Right shares. Right share is an important part of the total flotation. Following table and figure clearly shows the contribution of right share issue in the total public flotation in each of the fiscal year.

Table: 4.1
Contribution of Right Issue on Total Flotation

Fiscal year	Total Issue Approved		Right Issue Approved		Percentage	
	No. of Co.	Rs. in Millions	No. of Co.	Rs. in Millions	No. of Co.	Rs. in Millions
1993/94	16	244.4	0	0	0	0
1994/95	10	173.96	0	0	0	0
1995/96	12	293.74	2	69	16.67	23.49
1996/97	5	332.2	3	275.2	60	82.84
1997/98	12	462.36	3	249.96	25	54.06
1998/99	5	258	1	30	20	11.63
1999/00	6	326.86	3	124.6	50	38.12
2000/01	9	410.49	2	131.79	22.22	32.11
2001/02	12	1441.33	5	621.87	41.67	43.15
2002/03	18	556.54	4	162.24	22.22	29.15
2003/04	14	1027.5	3	70	21.43	6.81

2004/05	14	1626.82	6	949.34	42.86	58.36
2005/06	29	2443.28	11	1013.45	37.93	41.48
2006/07	34	2295.5	17	1265.3	50	55.12
2007/08	64	10668.20	43	6793.4	67.19	63.68
2008/09	64	16828.51	50	14262.81	78.13	84.75
2009/10	61	10822.40	33	8173.04	54.10	75.52
Total	385	50212.09	186	34192.00		

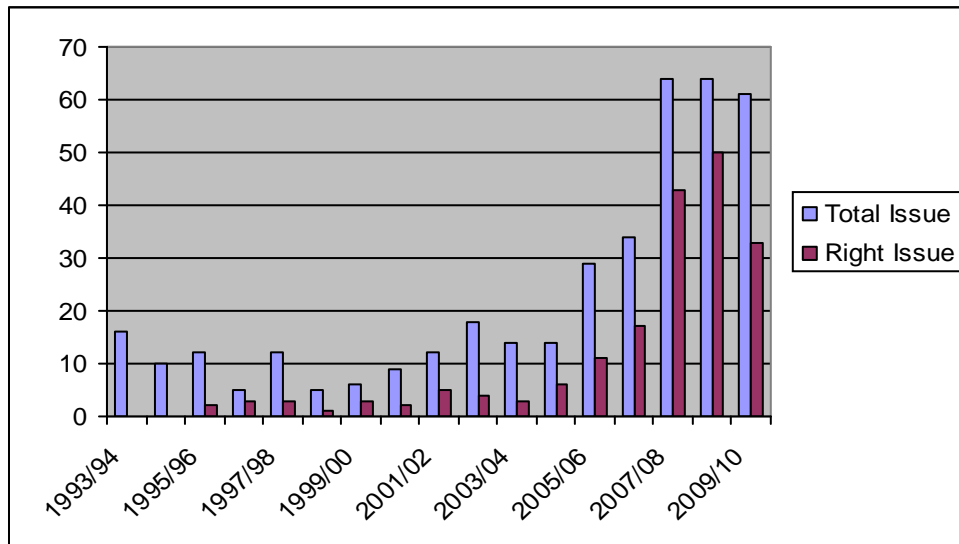
Source: Annual Report of SEBON (2009/10)

After analyzing the table 4.1; we know that there were no issues of right share in two Fiscal Year, i.e. F/Y 1993/94 and 1994/95. In the F/Y 1995/96, two cases of right issue had been made out of 12 public flotations' which occupied 23.49% of total amount. In FY 1996/97, there were 3 cases of issuing right share out of 5 total public flotations' and its contribution in total flotation was 82.84% and so on. The highest cases of right issues i.e. 50 cases were made in the F/Y 2008/09, whereas the lowest cases of right issues i.e. only one case was made in the F/Y 1998/99. There is no fixed trend of issuing the right shares i.e. in fluctuating trend. Considering the right share amount, the contribution of right share in total public flotation is highest i.e. 84.75% in F/Y 2008/09 which amounts to 14262.81 million. Contribution of Right share in total flotation is the lowest during the F/Y 2003/04 which is 6.81% only and which amounts to 21.43 millions.

The contribution of right share in total flotation can also be presented in figure which is as follows:

Figure No. 4.1

Contribution of Right Issue in Total Public Flotation

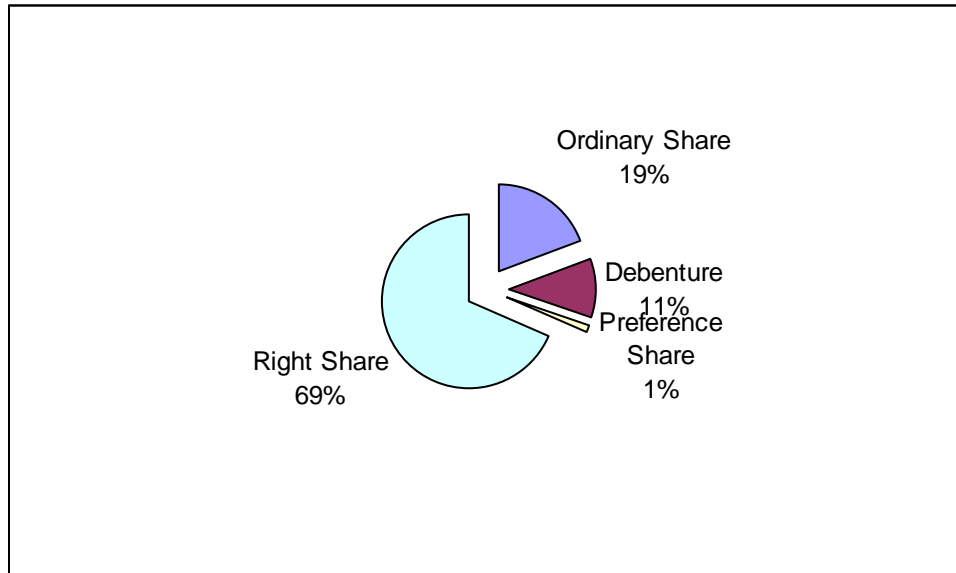


Source: Annual Report of SEBON (2009/10)

It is clearly apparent from the figure 4.1 that the contribution of right share is increasing gradually. The main reason behind the increment of the portion of the right share in total flotation is the directive of the NRB. According to the NRB directives, the paid up capital of all the commercial banks in Nepal must be Rs. 2 billion by 2067 B.S. similarly, the paid up capital of the development banks must be Rs. 640 million by 2067 B.S. In the same way, the paid up capital of the Finance Companies must be Rs. 200 million by 2067.

If security wise issue is analyzed, the right share is the prime source in the total public issue in Nepal. Mainly, there are 4 types of securities i.e. Debenture, Ordinary Share, Preference Share and Right Share. The following figure clearly presents the contribution of each security in total public flotation in Nepal.

Figure No. 4.2
Security wise Issue (Percent)
(Fiscal Year 1993/94 to 2009/10)



Source: Annual Report of SEBON (2009/10)

It is apparent from the figure 4.2 that, the major portion of total public issue from the F/Y 1993/94 to the F/Y 2009/10 is captured by right share which is 69% whereas the contribution of both Ordinary Share and Debenture is equal i.e. 30%. The rest portion is captured by preference share that is 1% only which indicates that preference share had not been much popular in Nepal Share Market.

To meet the capital adequacy imposed by the NRB, the best as well as the easy way to raise the capital is the issue of the right share. That's why; the right share occupied the biggest share in total flotation.

4.1.3 Existing practices of right shares in Nepal

There is no long history of share issue in Nepal. Firstly, Biratnagar Jute Mill had issue public share to the public people. This is the beginning of the issuing share. And Nepal Finance & Saving Co. was the first company, who issued right shares in Nepalese market in fiscal year 1995/96. The company issued the right share of Rs.2 million on 1995/12/1, the ratio was 4:1, i.e. each existing

shareholders who had 4 shares owned were allowed to purchase each additional share issued by the company. Till now, there were many companies that issue right shares i.e. Commercial Banks, Development Banks, Finance Companies, Insurance Companies, Hotels etc. Here, we only study about five commercial banks. So, we study existing practices of right share in Nepal of five commercial banks.

4.1.3.1 Number wise Right Share Issue in Nepal

There are many commercial banks in Nepal who issue right shares. We took five commercial banks as sample. Practices of right share issue in Nepalese commercial banks based on number of right share issued of the shares are as follows:

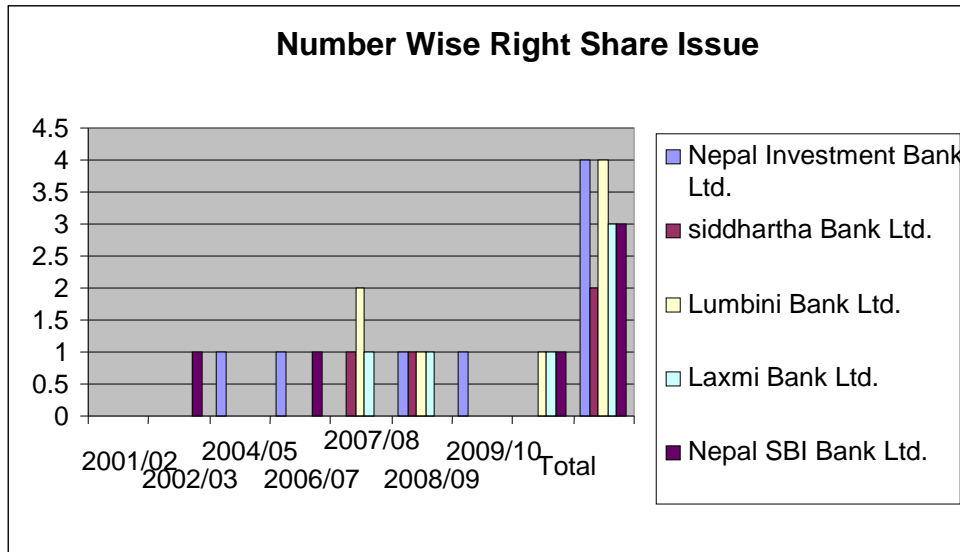
Table: 4.2
Number wise right share issue

S.N	Names of Banks	Size							Total
		2001/02	2002/03	2004/05	2006/07	2007/08	2008/09	2009/10	
1.	Nepal Investment Bank Ltd.		1	1		1	1		4
2.	Siddhartha Bank Ltd.				1	1			2
3.	Lumbini Bank Ltd.				2	1		1	4
4.	Laxmi Bank Ltd.				1	1		1	3
5.	Nepal SBI Bank Ltd.	1		1				1	3

Source: Annual Report of SEBON (2009/10)

It is apparent shown in the figure 4.1.3.1, that Investment Bank Ltd. and Lumbini Bank Ltd. are two highest right issue commercial banks. Laxmi Bank Ltd. and Nepal SBI Bank Ltd. had issue three times till 2009/10 and Siddhartha Bank Ltd. has issue two times. It is also clear by the bar diagram shown below:

Figure No. 4.3
Number wise right share issue



From the above figure 4.3, Investment Bank Ltd. and Lumbini Bank Ltd. have issue right share in high rate. In FY 2006/07, Lumbini Bank Ltd. had issues two time right shares. But in Nepal, there is no provision of issuing right share two times in one fiscal year. This is because it is only adjustment of previous year issuing of right share. Above figure shows that commercial banks are issuing the right shares in fast track i.e. increasing trend.

4.1.3.2 Amount wise Right Share Issue in Nepal

We also described the issuing of right share according to amount based. Practices of right share according to the amount are as follows:

Table: 4.3

Amount wise right share issue

(in million)

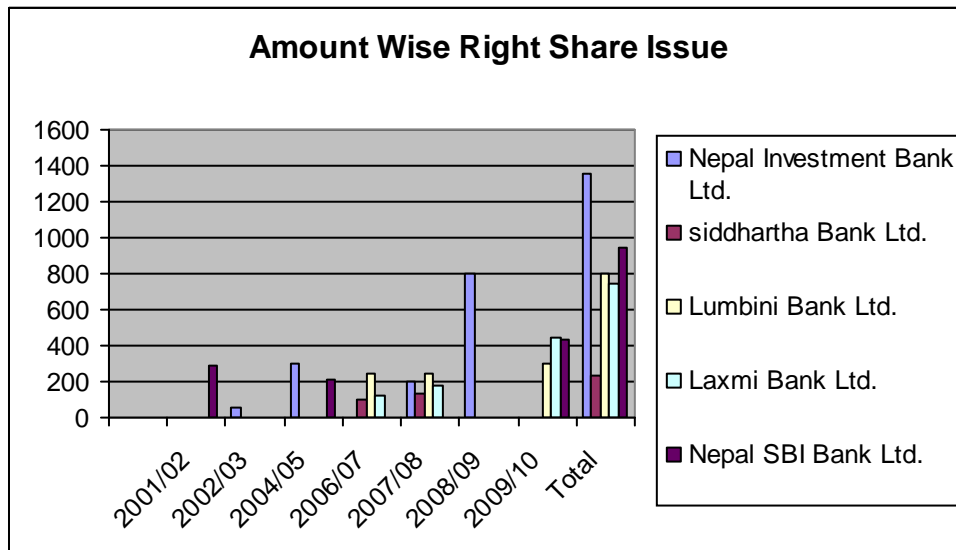
S.N	Names of Banks	Amount							Total
		2001/02	2002/03	2004/05	2006/07	2007/08	2008/09	2009/10	
1.	Nepal Investment Bank Ltd.		57.24	295.29		201.30	803.03		1356.86
2.	Siddhartha Bank Ltd.				100	138			238
3.	Lumbini Bank Ltd.				100/150	250		300	800
4.	Laxmi Bank Ltd.				122	183		439.23	744.23
5.	Nepal SBI Bank Ltd.	287.87		215.93				437.26	941.06

Source: Annual Report of SEBON (2009/10)

From the above table 4.3, Nepal Investment Bank Ltd. issues right share in big amount i.e. 1356.86 and Siddhartha Bank Ltd. in small amount i.e. 238. And Nepal SBI Bank Ltd, Lumbini Bank Ltd. and Laxmi Bank Ltd. have 941.06, 800 and 744.23 respectively. It's also clearer in following figure.

Figure No. 4.4

Amount wise right share issue



In above figure, Nepal Investment Bank Ltd. wins the race. It is because Nepal Investment Bank Ltd. issued the high amount in issuing the right share i.e. 1356.86 million. Nepal SBI Bank Ltd. had issued 941.06 million and low amount issued by Siddhartha Bank Ltd. i.e. 238 million. It means that Nepal Investment Bank Ltd. is the number one commercial bank in issuing the right share. That means Nepal Investment Bank Ltd. is ahead in issuing the right share.

4.1.3.3 Issue Manager Wise Right Share Issue in Nepal

Under the provisions of Securities related Act, 2066 and Securities Businesspersons (Merchant Banker) Regulation, 2007, SEBON provided licenses to the nine companies for the merchant banking operation in FY 2008/09. Beside this, under same provision SEBON renewed the licenses of eight merchant bankers. There are nine issue managers operating in security market in Nepal. Among them, ten merchant bankers have issued right shares as issue manager till FY 2009/10. All of them except United Finance Ltd. had issued different kind of instrument including right shares. Table 4.2 clearly shows the contribution of issue manager in right offering in Nepal.

Table No. 4.4
Issue Manager Wise Right Share Issue

S.N.	Name of Issue Manager	Issued		Percentage	
		Rs. in Million	No.	Rs. in million	No.
1.	-	69.00	2	0.21	1.12
2.	Ace Development Bank Ltd. (ACE)	5008.40	30	15.52	16.85
3.	Citizen Investment Trust (CIT)	3980.95	17	12.34	9.55
4.	DCBL Bank Ltd. (DCBL)	330.00	1	1.02	0.56
5.	Elite Capital Ltd. (ELITE)	1755.36	8	5.44	1.96
6.	National Finance Co. Ltd. (NFCL)	1055.54	9	3.27	4.49
7.	Nepal Share market Co. Ltd.(NSML)	107.58	5	0.33	2.81
8.	NIDC Capital Market Ltd. (NCML)	11808.76	55	36.60	30.90

9.	Nepal Finance & Saving Co. Ltd. (NEFINSCO)	211.00	5	0.65	2.81
10.	Nepal Srilanka Merchant Bank Ltd. (NSMB)	389.92	2	1.21	1.12
11.	Nepal Merchant Banking Ltd.(NMB)	6360.71	37	19.71	20.79
12.	Civil Capital	775.05	3	2.40	1.69
13.	Grow more	419.14	4	1.30	2.25
	Total	32271.41	178	100.00	100.00

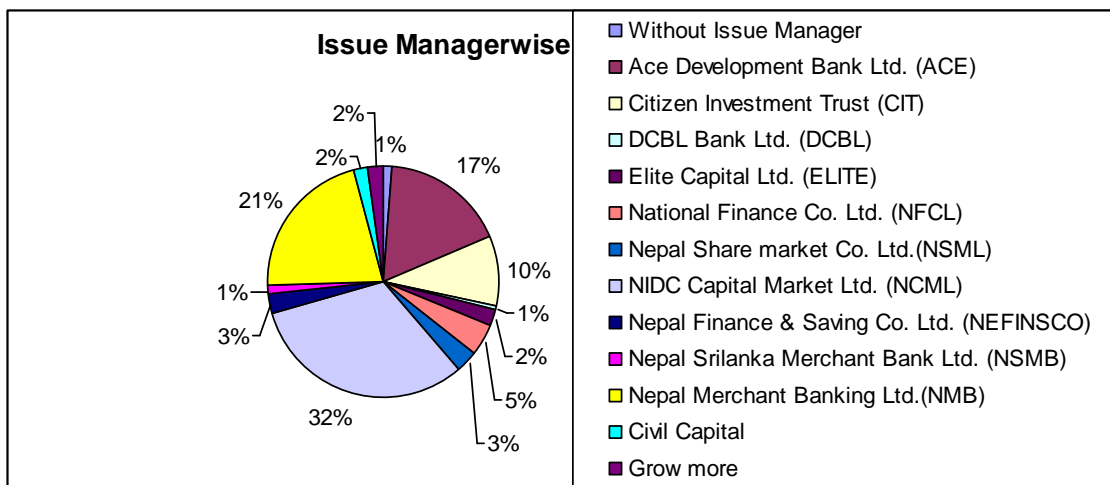
Source: Annual Report of SEBON (2009/10)

- First two right issues were issued without any issue manager.

In the above table 4.4, 69 million Rs. of right share had been issued without the issue manager. NIDC capital markets Ltd. (NIDC) is the largest right share issuer till 2009/10 which had undertaken 55 right issues of total Rs. 10808.76 millions and contributed 36.60% in total right issue in Nepal. NMB is the second largest issue manager considering the right issues amount till 2009/10 which contributed 19.71% (i.e. Rs. 6360.71 millions) in total right issue. Similarly, ACE Development Bank Ltd. (ACE) is the third largest issuer which had undertaken 30 right issues of total Rs. 5008.40 million which occupies 15.52% amount and so on. It is also shown in figure which is as follows:

Figure No. 4.5

Issue Manager wise Right Share Issue in Nepal



4.1.3.4 Subscription of the Right Issue in Nepal

The shareholders have the right to purchase the right shares but it is not the obligation. The shareholders may or may not apply for the right share. When the existing shareholder applies for the entire announced share, it is called actual subscription. Hence, if all the right shares are not applied, there is under subscription of the right share. And if there is application for more than the announcement it is called over subscription. The summary of the subscription rate is presented below:

Table 4.5
Rate of Subscription of Right Issue

Rate of Subscription	No. of the Companies	Percentage
Under Subscription	23	46
Over Subscription	9	18
Full Subscription	5	10
Not available	13	26
Total	50	100.00

Source: Annual Report of SEBSON (2009/10)

Table 4.5 shows that 23 companies out of 50 companies have under subscription. This means that company was not able to collect sufficient amount that it need to expand it is programmed by the announcement of right share. In this case, announcement of issuing the right share is not the good decision. 9 companies out of 50 companies were over subscribed. They are Bottlers Nepal Ltd., Narayani Finance Ltd., Nepal SBI Bank Ltd., Paschimanchal Finance Ltd., Global Bank Ltd., Kist Bank Ltd., Sanima Bikas Bank Ltd., Premier Finance Ltd. and Standard Finance Ltd. 5 companies out of 50 companies were able to collect actual amount that they need for the further programmed. Nepal Share Market Ltd., Ace Development Bank Ltd., Nepal Housing and Merchant Finance Ltd, Laxmi Bank Ltd., and United Finance are the five companies which were succeed to collect actual amount they need. And subscribed are not available for 13 companies.

The above data clearly says that 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, lack of the investors' awareness and the low performance of the related company or low trustworthiness upon the right share issuing company.

4.1.3.5 Instrument wise Public Issue in Nepal

Nepal has no long history of issuing of share. FY 1993/94 is the first ordinary share issue in Nepal. In FY 1995/96, first right share issue in Nepal. Nepalese capital market is in the infant stage of development. The four different types of instruments have been used so far till FY 2009/10. The table below clearly shows the various instruments issued by different firms to raise its capital in Nepalese capital market.

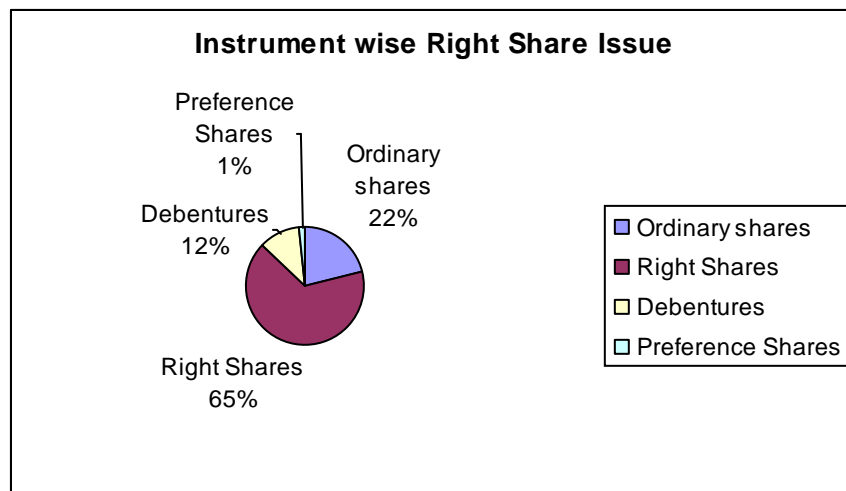
Table 4.6
Instruments wise Public Issue in Nepal

Instruments	Total no. of Issues	Amount	Amount in %
Ordinary shares	178	10796.11	21.50
Right Shares	186	32926.70	65.57
Debentures	16	5853.00	11.66
Preference Shares	5	636.50	1.27
Total	385	50212.31	100.00

Source: Annual Report of SEBON (2009/10)

It is also shown in figure which is as follows:

Figure No. 4.6
Instrument wise Public Issue in Nepal



It is apparent shown in figure 4.7, that right issue is the largest instrument on total public issue. Right share occupies 65.57% of total public issue. Similarly, ordinary share, debenture share and preference share have 21.50%, 11.66% and 1.27% respectively. It shows that issue of right share is in increasing trend day by day.

4.1.3.6 Size wise Right Share Issue in Nepal

We can also describe right share issue according to the size of the company. Practices of right share according to the size of the company are as follows:

Table 4.7
Size wise right share issue in Nepal

Banks	Authorized Capital	Issued Capital	Paid up Capital	Right share issued amount
Nepal Investment Bank Ltd.	4,000,000,000	2,409,097,700	2,407,068,900	1356.86
Siddhartha Bank Ltd.	3,000,000,000	1,571,130,000	1,095,030,000	238
Lumbini Bank Ltd.	1,600,000,000	1,300,000,000	1,294,547,600	800
Laxmi Bank Ltd.	2,000,000,000	1,613,520,500	1,613,520,500	744.23
Nepal SBI Bank Ltd.	2,000,000,000	1,661,602,896	1,653,623,877	941.06

Source: Annual Report of SEBON (2009/10)

In the above table 4.7, it is shown that Nepal Investment Bank Ltd. has the highest paid up capital (i.e. 2,407,068,900) and the Siddhartha Bank Ltd. has lowest (i.e. 1,095,030,000). It is shown in previous table that Nepal Investment Bank Ltd. issued highest amount of right share and the Siddhartha Bank Ltd. issued lowest amount of right share (i.e. 1356.86>238). It is clear from above table that highest capital company issued highest right share.

4.2 Right Share Offering and its Impact on Share Price

The main focus of the study is to evaluate the impact of Right Share Offering on its share price. To obtain the best result, different points of time period presented as I to V 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	⇒	10 days before the book close date
III	⇒	The book close price (Closing Price)
IV	⇒	7 days after the book close date
V	⇒	180 days after the book close date

Its main objective of this study is to eliminate the effect of the general market movement from our analysis. Otherwise the procedure for eliminating the effect of general market movement boils down to adjusting the actual share price on any date. Book close date itself is the ex-right date. It means that the share purchaser on book close 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. To eliminate the effect of market movement, adjusting price relative has calculated. To calculate the adjusted price relative, following steps has been implemented.

- Step I: - Calculation of price relative of share price of related company by dividing the each share price by its base date share price.
- Step II: - Calculation of price relative of NEPSE index by dividing each NEPSE index by its base data NEPSE index.
- Step III: - Calculate the adjusted price relative by dividing the result of step 1 by result of step 2.

There are many sectors issuing right share in Nepal. But, here, only one sector i.e. commercial banking sector is chosen as it is the largest sector to issue the rights issue shares for the purpose of study. So, the following banks are the sample commercial banks which have issued the rights issue share in different time intervals:

- a. Nepal Investment Bank Ltd.
- b. Siddhartha Bank Ltd.
- c. Lumbini Bank Ltd.
- d. Laxmi Bank Ltd.
- e. Nepal SBI Bank Ltd.

4.2.1 Analysis of Share Price Movement of Nepal Investment Bank Ltd.

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

Table 4.8

Share Price Movement of Nepal Investment Bank Ltd.

Point of Time	Share Price (Rs.)	Price Relatives	Total Price Index of Equality Capital	Price Index Converted to New Base	% Change from Base	Adjusted Price Relative 2 as % of 4	% Change from Base
	1	2	3	4	5	6	7
I	2162	100	958.39	100	-	100	-
II	2110	97.59	942.18	98.31	(1.69)	99.27	(0.73)
III	1960	90.66	957.12	99.87	(0.13)	90.78	(9.22)
IV	1650	76.32	966.53	100.85	0.85	75.68	(24.32)
V	1726	79.83	963.29	100.51	0.51	79.42	(20.58)

Source: Annual Report of SEBON and Trading report of NEPSE

In table 4.8, shows the share price of Nepal Investment Bank Ltd. in different period of time. The share price of NIBL was Rs. 2162 before 90 days of announcement date. It was decreased to Rs. 2110 before 10 days of announcement date, which is decreased to Rs. 1960 on the day of announcement date. Market price of share was Rs. 1650 after seven days of announcement date.

However, market price of the share slightly increased just after right share announcement. Again, decreasing trend of share seemed and it went to Rs. 1726 after 180 days of announcement date.

By analyzing the share price movement of NIBL and the trend of general market movement change in the market price from period I to V, is due to general market movement. It remained fluctuating in between Rs. 907.97 to Rs. 987.47 during the points I to V. Banking Sub Index was Rs. 958.39 in 90 days before the announcement date. It was decreased to Rs. 942.18 in ten days before the announcement date and it was RS. 957.12 in the announcement date but it was increased to Rs. 966.53 in seven days after the announcement date. It increased to Rs. 963.29 in 180 days after the announcement date. Hence, only in the case of Nepal Investment Bank Ltd., there was an obvious negative impact of right offering.

Value of one rights and ex-rights price of Nepal Investment Bank stock are as follows:

Market Price of Stock = Rs. 1960

Value of One Right = Rs.310

Ex-right Price of Stock = Rs. 1650

(Annex III)

The value of the share after the allotment should be around Rs. 1650 but the share price of Nepal Investment Bank Ltd. was 1726 after 180 days of right share announcement. Thus the share of Nepal Investment Bank Ltd. was overpriced.

4.2.2 Analysis of Share Price Movement of Siddhartha Bank Ltd.

Siddhartha Bank Limited (SBL) commenced its operation in 2002. The bank was promoted by a group of highly reputed Nepalese dignitaries having wide commercial experiences. The environment of Nepalese banking sector is undergoing a rapid transformation. With liberalization in financial markets and integration of domestic market with external markets, bank operations have become more complex and dynamic. We are geared to meet the challenges and keep abreast with the changes. The vision statement of the bank describes the core value and purpose that guide

the bank as well as an envisioned future. Fundamentally, in all dealings SBL earnestly believes in transparency, financial soundness, efficiency and better technology. The share price movement of the SBL was as follows:

Table No. 4.9
Share Price Movement of Siddhartha bank Ltd.

Point of Time	Share Price (Rs.)	Price Relatives	Total Price Index of Equality Capital	Price Index Converted to New Base	% Change from Base	Adjusted Price Relative 2 as % of 4	% Change from Base
	1	2	3	4	5	6	7
I	1160	100	1005.72	100	-	100	-
II	1224	105.52	952.23	94.68	(5.32)	96.90	(3.1)
III	1295	111.64	1037.13	103.12	3.12	84.27	(15.73)
IV	1300	112.07	1033.02	102.71	2.71	89.09	(10.91)
V	802	69.14	655.95	65.22	(34.78)	74.93	(25.07)

Source: Annual report of SEBON and Trading report of NEPSE

In case of Siddhartha Bank Ltd. (SBL), the share price was Rs. 1160, three month before the announcement date. It increases up to Rs. 1224 before ten days before announcement date and increase to Rs. 1295 at the day of the announcement. The share price of SBL increased to Rs. 1300 after the seven days of announcement the decrease to Rs. 802 after six month of announcement date.

By analyzing the share movement of Siddhartha Bank Ltd. and the trend of general market movement, change in the market movement, at the time market index had decreased from 1005.72 to 952.23 in points II and then increased to 1037.13 and then continuously decreased to 655.95 in V points of time. Column 5 shows the percentage change in the adjusted price indices from the base index. It shows that the price index was decreased by 5.32% ten days before announcement. Similarly, it increased by 3.12% and 2.71% in points III and IV. It was decreased by 34.78% in points of time V.

Similarly, column 6 & 7 shows the adjusted share price and its percentage increase or decrease from the base date respectively. In the column 7, adjusted share is decreased by 3.1% ten days before announcement date. The adjusted share price is decreased by 15.73%, 10.91% and 25.07% at the point of time III, IV and V. According to the theory of rights offering the price of share will

increase after the announcement and decrease after the allotment of share to the extent of value of rights.

Market Price of Share = Rs. 1295

Value of One Right = Rs. 199.67

Ex-right Price of Share = Rs. 1096

(Annex III)

The value of the share the allotment should be around Rs. 1096 but the share of Siddhartha Bank Ltd. was Rs. 815 after six months of rights share announcement. Thus, the share price of Siddhartha Bank Ltd. was underpriced.

4.2.3 Analysis of Share Price Movement of Lumbini Bank Ltd.

Lumbini Bank Ltd. is a national level commercial bank offering a wide range banking solutions and services meticulously customized to the needs of the customers. Established in 1998, this is the first regional commercial bank in Nepal, which started its operation from Narayangarh spreading its wings to further four more places at Hetauda, Butwal, Durbarmarg and Biratnagar.

LBL has restructured various products, as a part of an ongoing process, to cater to the retail segment. The structured products cover Personal Loan, Home Loan, Vehicle Loan, Mortgage Loan, Educational Loan, Time Loan etc.

Table No. 4.10

Share Price Movement of Lumbini Bank Ltd.

Point of Time	Share Price (Rs.)	Price Relatives	Total Price Index of Equality Capital	Price Index Converted to New Base	% Change from Base	Adjusted Price Relative 2 as % of 4	% Change from Base
	1	2	3	4	5	6	7
I	600	100.00	971.71	100.00	-	100.00	-
II	806	134.33	1037.13	106.73	6.73	125.86	25.86
III	780	130	1033.02	106.31	6.31	122.28	22.28
IV	930	155	1086.13	111.18	11.18	138.66	38.66
V	567	94.5	790.62	81.36	(18.64)	116.15	16.15

Source: Annual Report of SEBON and Trading Report of NEPSE

The share price of Lumbini Bank Ltd. was Rs. 600, three months before the announcement date which increased to Rs. 806 before 10 days of announcement date. Market share price was Rs. 780 on the announcement date. However, market price of share was drastically increased just after the seven days of the announcement date. It was Rs. 930. After that it seemed decreasing share price after a month and two months of the announcement date. There was Rs. 567 in six months after the announcement date. It was decreased from Rs. 930 to Rs. 567 from the points IV to V respectively. Analyzing the share price movement of LBL, it seems that the price increased from period I to IV. Although the moment was fluctuate. It was increased in point II to Rs. 600 to Rs. 806. The price was increased 10 days before and after the announcement. Then the decreasing was continued with the banking sub index up to period V. On the other hand banking sub index was increasing from period I to IV then banking sub index started to decrease up to period V. Column 5 shows the percentage change in the adjusted price indices from the base index. It shows the banking sub index was increased by 6.31% three months before the announcement date and decreased by 0.40% before 10 days of announcement date which shown in II points of time. Column 6 in the above table shows adjusted price relatives. The adjusted price relative was increased from only period I to II of 25.86%. Then, it was increasing continuously up to period V.

Value of One rights and ex-rights price of Lumbini Bank Ltd. is as follows:

Market price Stock = Rs. 780

Value of One Right = Rs. 170

Ex-right Price of Share = Rs. 610

(Annex III)

The value of the share price the allotment should be around Rs. 610 but the share price of LBL was Rs. 492 after three months of right share announcement. Thus, the share of LBL was underpriced.

4.2.4 Analysis of Share Price Movement of Laxmi Bank Ltd.

Laxmi Bank Ltd. was incorporation in April 2002 as a commercial bank. The current shareholding constitutes of promoters holding 55.42%, Citizen Investment Trust holding 9.02% and the general public holding 35.56%. Promoters represent Nepal's leading business families with diversified business interests. The bank's share are listed and actively traded in the Nepalese Stock Exchange. Laxmi Bank has grown with 21 branches in Birgunj, Banepa, Two in Pokhara, Biratnagar, Narayanghat, Pulchowk, Lalitpur, Teku, New Road, Janakpur, New Baneshwor and Damak etc. Following the merger with Hisef Finance Ltd. a decade old first generation finance company, its office in Hattisar, Kathmandu was converted to that the Laxmi Bank. This office was converted to a full branch and our corporate office in October 2005. Today the bank is recognized as an innovative and progressive bank geared to providing shareholders and customers with quality earnings and value-added services.

Table No. 4.11

Share Price Movement of Laxmi Bank Ltd.

Point of Time	Share Price (Rs.)	Price Relatives	Total Price Index of Equality Capital	Price Index Converted to New Base	% Change from Base	Adjusted Price Relative 2 as % of 4	% Change from Base
	1	2	3	4	5	6	7
I	1028	100.00	962.29	100.00	-	100.00	-
II	1120	108.95	961.33	99.90	(0.10)	109.06	9.06
III	1185	115.27	951.26	98.85	(1.15)	116.61	16.61
IV	1065	103.59	867.68	90.17	(9.83)	130.36	30.36
V	939	91.34	691.12	71.82	(28.18)	125.79	25.79

Source: Annual Report of SEBON and Trading Report of NEPSE

When Laxmi Bank Ltd. announced right share to existing shareholders, the price on the day of announcement was Rs. 1185, which is Rs. 157 more than the price before 90 days of announcement date and has Rs. 65 more than the ten days before the announcement date. Share price of Laxmi Bank Ltd. was Rs. 1065 on the ten days after the announcement of right offering. It is found decrease to Rs. 939 after 180 days of the announcement date. But such price movement still decreases price index. It remained fluctuating in between Rs. 962.29 to Rs. 691.12 during the

points I to V. banking sub index was Rs.962.29 in 90 days before the announcement date. It was decreased Rs. 961.33 in 10 days before the announcement date and it was Rs. 951.26 in the announcement date again it was decreased to Rs. 867.68 in seven days after the announcement date. It decreased to Rs. 691.12 in 180 days after the announcement date.

Analyzing the above table share price movement of Laxmi Bank Ltd. and the trend of banking sub index movement, change in the market price is more fluctuate than banking sub index. Although both the market price and banking sub index are increased remarkably. At that time market was increase from Rs. 1028 to Rs. 1120 and banking sub index was increased from Rs. 962.29 to Rs. 961.33. After point II market share price remained fluctuate but banking sub index decreased continuously. Column 5 shows the percentage change in the adjusted price indices from the base index. It shows that the banking sub index was decreased by 0.1%, 10 days before announcement. Similarly, it decreased continuously up to 180 days after the announcement i.e. point V. Column 6 in the table 4.11 shows adjusted price relatives. The adjusted price relative was increased over the periods. Hence, in the case of Laxmi Bank Ltd. according to the theory of rights offering, the price of share will increase after the announcement and decreased after the allotment of share to the extent of value of rights. Here we found that Laxmi Bank Ltd. has seemed moving according to the theory of rights.

Values of One rights and ex-rights price of Laxmi Bank Stock are as follows:

Market Price Stock = Rs. 1185

Value of One Right = Rs. 217

Ex-right Price of Share = Rs. 968

(Annex III)

The value of the share after the allotment should be around Rs. 968 but the share price of Laxmi Bank Ltd. was Rs. 940 after the six month of right share announcement. Thus, the share of Laxmi Bank Ltd. was underpriced.

4.2.5 Analysis of Share Price Movement of Nepal SBI Bank Ltd.

Nepal SBI Bank Ltd. is a major national level financial services provider engaged in various commercial banking services. It works as a joint venture partner of State Bank of India-India's largest bank, with over 203 years of history and expertise in banking- which has 55% ownership. The remaining shares are held by Employees' Provident Fund of Nepal (15%) and the general public (30%). The bank has been continuously upgrading the quality of its service delivery with the help of state-of-the-art technology and creating value for all stakeholders. It gives services to through 23 districts including 43 branches, 6 extension counters and a corporate centre.

Table No. 4.12

Share Price Movement of Nepal SBI Bank Ltd.

Point of Time	Share Price (Rs.)	Price Relatives	Total Price Index of Equality Capital	Price Index Converted to New Base	% Change from Base	Adjusted Price Relative 2 as % of 4	% Change from Base
	1	2	3	4	5	6	7
I	1225	100	283.93	100	-	100	-
II	858	70.40	215.89	76.04	(23.96)	92.11	(7.89)
III	332	27.10	187.88	66.17	(33.83)	40.45	(59.55)
IV	376	30.69	204.28	71.95	(28.05)	42.65	(57.35)
V	350	28.57	222.87	78.49	(21.51)	36.40	(63.60)

Table 4.12 shows that the share price of Nepal SBI Bank Ltd. was Rs. 1225 three months before the announcement date. It was drastically decreased to Rs. 858 of ten days before the announcement. Market price of the share was Rs. 332 on the day of announcement. However, market price of the share was slightly increased just after the right share announcement. Market price of the share was Rs. 376 seven days after the right share announcement. Again decreasing trend of market price of share seemed and it was Rs. 350 after six month of right announcement.

By analyzing the share price movement of Nepal SBI Bank Ltd. and the trend of general market movement, change in the market price from pointy I to II is basically due to general market movement, at the time market index has decreased by Rs. 215 from Rs. 283.93. Column 5 shows the percentage change in the adjusted price indices from the base index column 5 shows that priced index was decreased by 23.96 percentage ten days before announcement. Similarly, it decreased by

33.83 percentages from point II to point III. Change in share price between II and III was not solely due to general market movement.

Declaration of right share & allotment of right share caused the rapid decrease in the share price can be observed in point IV in comparison to point III. In the table above, column 6 shows adjusted price relatives. The adjusted price relative was increased to 42.65% from 40.45% between IV and III. It clearly indicates that increase in share price was due to right announcement. It was compatible to point IV at the same period price relative also decreased from 42.65% to 36.40%. Hence, only in the case of Nepal SBI Bank Ltd. there was a positive impact of right offering.

Value of one rights and ex-right price of Nepal SBI bank's stock are as follows:

Market Price of Stock = Rs. 332

Value of One Right = Rs. 77.33

Ex-right Price of Stock = Rs. 254.67

(Annex III)

The value of the share the allotment should be around Rs. 216, but share price of Nepal SBI bank Ltd. was Rs. 350 after 180 days of right share announcement. Thus, the share of Nepal SBI bank Ltd. was overpriced.

4.3 Comparison between actual market and theoretical price after right share issue

While issuing the right share, there make effect on market price per share. To find the impact of right share issue on market price per share, it is necessary to calculate the theoretical market price. After evaluating the market price per share and the theoretical price, we can comparison between theoretical price and actual market price after right share issue.

The market price after ex-right date is compared with theoretical market price to measure the effect of right share. Positive change in share price means share price after book close of the right share is 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 book close of

right share is lower than theoretical price. Difference between the actual market price after 10 days of book close date and the theoretical price is taken and the difference in percentage is also clearly shown.

We can calculate from the following table.

Table 4.13

Comparison of Actual Market and Theoretical Price after right share issue

S.N.	Names of Banks	Actual MPS after Right issue	Theoretical value of share after Right issue	% change
1.	Nepal Investment Bank Ltd.	1726	1650	4.61
2.	Siddhartha Bank Ltd.	815	1096	-25.64
3.	Lumbini Bank Ltd.	492	610	-19.34
4.	Laxmi Bank Ltd.	940	968	-2.89
5.	Nepal SBI Bank Ltd.	370	216	71.30
	Total			2.03

Source: Annual report of SEBON and Trading report of NEPSE

$$\% \text{change} = \frac{\text{Actual Price} - \text{Theoretical Price}}{\text{Theoretical Price}} \times 100$$

The 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 book close of right share should be equal. The table shows that the actual market price of Nepal Investment Ltd. (NIBL) is Rs. 1726 and the theoretical value is Rs. 1650 which is 4.61% changes in two prices. The difference is (4.61)% of market price meaning that market price is 4.61% more than theoretical price after the right issue. The market price of Siddhartha Bank Ltd. is Rs. 815 and theoretical value is Rs. 1096. It means that there is -25.64% less in market price than theoretical price after right share issue. The actual market price of Lumbini Bank Ltd. is Rs. 492 and its theoretical price is higher than actual price is Rs. 610 and thus the change is -19.34%. This

negative change indicates that the right share announcement cannot spread positive message among the investors. Likewise, actual market price of Laxmi Bank Ltd. is Rs. 940 and theoretical price is Rs.968 causing a change of -2.89%. And last, the actual market price of Nepal SBI Bank Ltd. is Rs. 370 and the theoretical price is Rs. 254.67 which causing a change of 45.29%.

From the above analysis, it is found that out of 5 sample banks, 3 banks have actual market price lower than theoretical market price which is theoretically correct. Other 2 banks have actual market price greater than theoretical marker price causing positive percentage change.

4.4 Comparison of Stock Price before and after right share 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. Pre-right issue price is the closing market price 7 days prior to right share issue and post-right issue price is the closing market price after 7 days of 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.

Table 4.14
MPS of sample Banks before and after right share issue

S.N.	Names of Banks	Pre-right Issue Price	Post-right Issue Price	Change in Price (%)
1.	Nepal Investment Bank Ltd.	2110	1650	(28)
2.	Siddhartha Bank Ltd.	810	790	(2.47)
3.	Lumbini Bank Ltd.	450	465	3.33
4.	Laxmi Bank Ltd.	800	832	4
5.	Nepal SBI Bank Ltd.	459	370	(19.39)

Source: Annual Report of SEBON and Trading Report of NEPSE

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

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. market price per share decreases after right share issue. Among the 5 sample Banks, 3 banks share price has decreased after right share issue. From this, we can conclude that generally the marker price decreases after right share issue.

4.5 Correlation Coefficient between share price movement and NEPSE index Movement

In Nepalese index, NEPSE index represents the ups and downs movement of Nepalese security market. Share price movement, not only affected by rights offering but general market movement also largely affects it. To find the relation between share price movement and price indices of the company, we have to calculate the correlation. The correlation is a statistical tool, which studies the relationship between two variables, and correlation analysis involves various techniques used for studying and measuring of the extent of relationship between the two variables. Correlation is an analysis of the covariance between two or more variables. Two variables are said to be correlated if the change in one variable results in the corresponding change in the other variable. NEPSE has just started the practice of calculating and publishing the sector wise indices. For the period under the study, sector wise index was not available so that through out the study period the price index of total equity capital is used. After calculating the correlation between share price movements of sample banks with general market movement following result have been obtained.

Table 4.15
Correlation coefficient between Share price and NEPSE index

S.N.	Sample Banks	Correlation Coefficient(r)	Coefficient of Determination(r^2)	Probable Error (P.E.)	6 P.E.
1.	Nepal Investment Bank Lt	-0.7365	0.5424	0.138	0.828
2.	Siddhartha Bank Ltd.	0.9705	0.9419	0.0175	0.105
3.	Lumbini Bank Ltd.	0.8604	0.7403	0.078	0.468
4.	Laxmi Bank Ltd.	0.7787	0.6064	0.1187	0.712
5.	Nepal SBI Bank Ltd.	0.854	0.7293	0.082	0.492

(Annex IV)

By analyzing table 4.14, the correlation coefficient of Nepal Investment Bank Ltd. is negative and highly negative relationship between share price movement and general market movement. Its correlation i.e. $r = -0.7365$, is less than probable error (i.e., $P.E. = 0.138$). The coefficient of determination i.e. $r^2 = 0.5424$ which means that about 54.24% of variance in share price is explained by general market movement.

In case of Siddhartha Bank Ltd. the correlation coefficient is nearly about 1, which is perfect positive correlation. Its correlation is significant too, because its correlation coefficient i.e. $r = 0.9705$, is greater than $6P.E. = 0.105$. Its coefficient of determination (r^2) is 0.9419 or 94.19%, it means general market movement has 94.19% role in the share price behavior of SBL. In case of Lumbini Bank Ltd, correlation coefficient between its share price and general market movement is 0.8604. Its means there is high degree of positive correlation and this relation is further proved by the coefficient of determination which is 0.7403 and also more than 6 P.E. (i.e. $6 P.E. = 0.468$) which proves that correlation is significant and reliable.

In case of Laxmi Bank Ltd, there is moderate degree of positive correlation coefficient between its share price and general market movement. Its correlation coefficient is 0.7787 between its share price and general market movement. Its coefficient of determination is 0.6064, its probable error is 0.1187 and its 6 P.E. is 0.712. This relation is not significant and reliable. In case of Nepal SBI Bank Ltd, there is high degree of positive correlation i.e. $r = 0.854$ between share price movement and general market movement. Correlation coefficient of Nepal SBI Bank Ltd. is more than 0.50,

so it is defined as high degree of positive correlation. It is less than 6 P.E. i.e. $r (0.854) > 6 \text{ P.E. } (0.492)$, so it is proved that correlation is significant. The coefficient of determination i.e. $r^2 = 0.7293$ or 72.93%, means that about 72.93% of valuation in the share is explained by the general market movement. Thus rights offering have some effect in the share price movement of Nepal SBI Bank Ltd.

The relationship between share price and NEPSE index is always positive. In other words after increase in share price NEPSE index will also increase and after decrease in share price NEPSE index will also decrease.

But in above calculation of 5 sample banks a different result has been obtained. Two of them are highly correlated, one is perfectly positive correlated, one of them is moderate degree of correlation and one is highly negative correlated.

That result occurs because NEPSE index indicates the average increase or decrease in share price of all listed company. When individual share price are independent from each other, some may be increase and some may be decrease.

4.6 Use of T-Statistics to measure the impact of right offering on the share price and on general market

Theoretically, it is said that there is generally share price of concern company move upward while right share issue and fall down when its date of issue is closed. To analyze whatever there came any significant change in share price, we have used the t-statistics. For this we have taken the share price and price index before and after announcement date.

Following table shows the calculated and tabulated values of statistics of respective companies.

4.6.1 The calculated and tabulated values of statistics of respective commercial Banks

Table 4.16

T-test of share price of related commercial banks

S.N.	Sample Banks	Test For	Significance Level	Degree of Freedom	T-tab	T-cal	Result
1.	Nepal Investment Bank	Share Price	5%	8	2.306	5.68	Significance
		Banking Sub Index	5%	8	2.306	-2.97	Insignificance
2.	Siddhartha Bank Ltd.	Share Price	5%	8	2.306	0.055	Insignificance
		Banking Sub Index	5%	8	2.306	0.8085	Insignificance
3.	Lumbini Bank Ltd.	Share Price	5%	8	2.306	-0.7002	Insignificance
		Banking Sub Index	5%	8	2.306	0.5546	Insignificance
4.	Laxmi Bank Ltd.	Share Price	5%	8	2.306	8.55	Significance
		Banking Sub Index	5%	8	2.306	5.87	Significance
5.	Nepal SBI Bank Ltd.	Share Price	5%	8	2.306	3.85	Significance
		Banking Sub Index	5%	8	2.306	-13.61	Insignificance

(Annex V)

Where,

Tab= Tabulated

Cal= Calculated

Above table clearly shows that the calculated value of t in case of Nepal Investment Bank Ltd. is 5.68, where as the tabulated value at 5% level of significance at 8 degree of freedom is 2.306. Since, t -cal is greater than t -tab. So, it can be concluded that there is significance difference between share price before and after right offering. But, the difference in the price indices of banking index is insignificant. Thus, it can be calculated that increase in share price can be attributed to right offering. In this case alternative hypothesis that the share price changes significantly after the rights issue announcement can be accepted.

In case of Siddhartha Bank Ltd, the calculated value of t is 0.668 where as the tabulated value at 5% level of significance is 2.306 for degree of freedom. Since t -cal is lower than t -tab, it can be informed that the difference between the share price few days before and after the announcement of rights offering is insignificant. Thus, it can be inferred that the heavy decrease in share price of its stock can be attributed to rights offering. In this case, null hypothesis that the share price changes insignificantly after the announcement of the rights share is accepted and the null hypothesis that the share price doesn't changes significantly after the announcement of the rights offering is accepted. Similarly, the difference in the share price indices of banking indices is also insignificantly.

The calculated value of t incase of Lumbini Bank Ltd. is -0.7002, where the tabulated value at 5% level of significance is 2.306 for 8 degree of freedom. Since, t -cal is less than t -tab, it can be inferred that the difference between the share prices few days before and after the announcement of right offering is insignificant. Similarly, the differences in the price indices of banking indices are insignificant. Thus, it can be calculated that decreased in share price can be attributed to rights offering. In this case null hypothesis that the share price changes insignificantly after the rights issue announcement can be accepted.

The calculated value of t in case of Laxmi Bank Ltd. is 8.55, where as the tabulated value at 5% level of significance is 2.306 for 8 degree of freedom. Since, t -cal is greater than t -tab, it can be inferred that the differences between the share prices few days before and after the announcement of rights offering is significant. But the differences in the price indices of banking index are also significant. Thus it can be calculated that increase in share price can be attributed to rights

offering. In this case alternative hypothesis that the share price changes significantly after the right issue announcement can be accepted.

In the case of Nepal SBI Bank Ltd. the calculated value of t for share price is 3.85, where as the tabulated value at 5% level of significance for 8 degree of freedom is 2.306. Since, $t_{cal} > t_{tab}$, the hypothesis that the share price don't change, significantly is rejected and alternative hypothesis that the share price has changed significantly is accepted. Hence, we conclude that after the announcement of the rights offering, share price has increased significantly.

4.6.2 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 fluctuations, the test of hypothesis discloses the fact, whether the difference between the computed statistics and hypothetical parameter is significant.

4.6.2.1 Testing of variation in actual market price and theoretical price

Null Hypothesis (H_0): $\mu_x = \mu_y$ i.e. Actual market price after right share issue and theoretical price after right share issue are equal. In other words, there is no significant difference between actual market price and theoretical price after right share issue.

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

Table 4.17
Testing of variation in actual market price and theoretical price

S.N.	Name of Companies	Actual MPS after right issue (x)	Theoretical value of share after right issue (y)	d=(x-y)	D ²
1	NIBL	1726	1650	76	5776
2.	SBL	815	1096	-281	78961
3.	LBL1	492	610	-118	13924
4.	LBL2	940	968	-28	748
5.	NSBI	370	254.67	115.33	13301
				d = -235.67	d ² = 112710

$$\bar{d} \times \frac{d}{n} = \frac{Z235.67}{5} = Z47.134$$

$$s = \sqrt{\frac{1}{n} \sum \frac{d^2}{Z} - \frac{(\sum \frac{d}{Z})^2}{n}} = \sqrt{\frac{1}{5} \sum \frac{112710}{Z} - \frac{(Z47.134)^2}{5}} = 159.38$$

$$T = \frac{\bar{d}}{\frac{s}{\sqrt{n}}} = \frac{Z47.134}{\frac{159.38}{\sqrt{5}}} = -0.6613$$

T-tab at 5% level of significance for 10 degree of freedom = 2.228

Decision: Since the calculated value of 't' is less than critical value of 't', the null hypothesis **H₀** is accepted. Hence, we can conclude that there is no significance difference between actual market price and theoretical price after right share issue.

4.7 Presentation and Analysis of Primary data

As a primary source, questionnaire had been prepared and dispatched to about 50 respondents which include individual investors, brokers, issue managers and related experts and 50 responses were obtained. In addition to the questionnaire, personal interviews of experts have also been taken when necessary.

There were three groups. **Group A** contained three multiple choice questions. The summarized views to the respondents are as follows.

1. Getting reliable and adequate information about the right issue

According to the survey, out of 50 respondents, 80 % of the respondents agreed that investors get reliable and adequate information from the company and issue manager regarding right share. 20% of the respondents don't think that investors get reliable and adequate information from the company regarding right share.

Table 4.18

Calculation of getting reliable and adequate date about the right issue

Options	A	B
Options	Yes	No
No. of Respondents	40	10
Percentage	80%	20%

Direct Field Survey, 2010

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 knew the phenomena and subsequent consequences regarding the right share.

Table 4.19

Calculation of 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%

Direct Field Survey, 2010

3. Legally transferability of the right

Out of 50 respondents, 70% of the respondents said that they partially sell and partially exercise the right, 20% of the respondents are said that they exercise the rights, 8% of respondents said that they sells the rights and 2% respondents said that they neither sell nor exercise the rights.

Table 4.20

Calculation of legally transferability of right

Options	A	B	C	D
Options	Partially exercise the rights	Exercise the rights	Sell the rights	Neither sell nor exercise
No. of Respondents	35	10	4	1
Percentage	70%	20%	8%	2%

Direct Field Survey, 2010

Similarly, **Group B** contained some ranking questions. The summarized views of the respondents are as follows.

1. Most preferred sector between the Financial Institutions

To investigate the most preferred sector between financial institutions, 4 options were given as (A) Commercial banks (B) Development banks (C) Finance Companies and (D) Insurance Companies. Based on the survey, the following table presents the preference of the investors among the financial institutions.

Table 4.21

Calculation of most preferred sector between the financial institutions

Comment	Total	Rank	Percentage (%)
Commercial Bank	31	1	62 %
Development Bank	10	2	20 %
Financial Companies	5	3	10 %
Insurance Company	4	4	8 %
Total	50		100 %

Direct Field Survey, 2010

It is apparent from the table that 100% of the respondents chose option A i.e. *Commercial Banking* sector in first choice. Second priority is given to the option B i.e. *Development Banks*, third priority was given to the Finance Companies and the least priority was given for *Insurance Companies*. Generally, most investors trust the commercial banks rather than Insurance Companies. So, most of the respondents preferred Banking sectors rather than Insurance sectors.

2. 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 in-depth view points of the respondents.

Table 4.22

Calculation of reason purchasing the right share

Comment	Total	Rank	Percentage (%)
To increase the value	30	1	60 %
To increase the no. of shares	7	3	14 %
To increase the dividend	10	2	20 %
To maintain the control position of management	3	4	6 %
Total	50		100 %

Direct Field Survey, 2010

It is clear from the table that 100% respondents chose option A i.e. *to increase the value* in first choice meaning that all of them strongly believe that investors buy the right shares to increase the value. Second priority was given to the option C i.e. *to increase the dividend* and the investors gave third rank to the option B i.e. *to increase the no. of shares* and the least priority was given to the option D i.e. *to maintain the control position of management*.

3. 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 investors' awareness* (D) *Insufficient promotional roles played by the issue manager*. Based on the survey, the following table clearly states the causes.

Table 4.23

Calculation of causes of Under Subscription of right share

Comment	Total	Rank	Percentage (%)
Low performance of the related company	18	1	36 %
Transferability problem	14	2	28 %
Lack of investors' awareness	10	3	20 %
Insufficient promotional role played by the issue manager	8	4	16 %
Total	50		100 %

Direct Field Survey, 2010

It is apparent from the table that, the first priority is given to the option A i.e. *Low performance of the related company*. Second priority is given to the option B i.e. *Transferability problem*. Third priority is given to the option C i.e. *Lack of investors' awareness*. Last priority is given to option D i.e. *Insufficient promotional role played by the issue manager*.

4. Objectives of the right share issue

To know the objectives of the right share, there were three options given. They were (A) *To fulfill needed extra capital*, (B) *To meet directives of NRB*, (C) *To give benefit to the shareholders and* (D) *To increase the no. of outstanding shares*. Based on the survey, the following table clearly states the objective of the right share.

Table 4.24

Calculation of objectives of the right share issue

Comment	Total	Rank	Percentage (%)
To fulfill needed extra capital	20	1	40 %
To meet directives of NRB	13	2	26 %
To give benefit to the shareholders	7	4	14 %
To increase the no. of outstanding shares	10	3	20 %
Total	50		100 %

Direct Field Survey, 2010

It is apparent from the table that all the respondents chose the option A i.e. *to fulfill the extra needed share capital* with the first priority. Second priority is given to the option B i.e. *to meet directives of NRB* and the third priority is given to the option D i.e. *to increase the no. of outstanding shares* and the last Priority is given to the option C i.e. *benefit to the shareholders*.

In the same way, **Group C** 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 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.
- 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. As for example, Board members for KIST and NIB Bank

had already declared to increase the paid up capital to 500 million but they have not issued the right yet.

- There is no transferability feature till the fiscal year 2007/08. But now, SEBON had enacted the “Securities Registration and Issue Regulation-2008” and clearly mentioned about the transferability feature. There exists transferability/renounce feature from last two years. But, there doesn't mention whether shares can renounce/transferability to only one investor or many investors.
- Right share issue mechanism is too lengthy. First of all, passing from the BOD meetings, then sending the agenda to NEPSE, NRB and SEBSON 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 auction 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, good image etc. then; shareholders automatically subscribe 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. Transferability Feature

There is no transferability feature during the fiscal year 2007/08. But now, SEBON had enacted the “Securities Registration and Issue Regulation-2008” and clearly mentioned about the transferability feature. Currently, some companies include the transferability feature while issuing the right share but some companies lack the feature. The company, previously transferability feature not included in the Company Memorandum, cannot add the feature at present soon. Most of the respondents said that there must be the transferability feature in right issue.

Currently, there is transferability feature but actually, the rights cannot be sold in the market place. Nowadays, the right holder can only renounce the rights to his/her near and dear ones through mutual understanding.

4. Problems and prospects about the right share in Nepal

- The main issue is to 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.

4.8 Major Findings of the study

Here, the effort has been made to present the major findings of the study in “Right Share Practice in Nepal and its impact on Share Price”. The major findings of the study are presented below in the following sub-heading; corresponding to the study objectives.

4.8.1 Right Share Practice in Nepal

- ❖ The history of the right share issue is not so long in Nepalese context. Nepal Finance & Saving Co. was the first company who issued right shares in Nepalese Share Market in fiscal year 1995/96 A.D. There are 185 cases of rights offering in Nepal till 2009/10. Almost all of them were finance and banking companies who issued rights share in Nepalese capital market.
- ❖ 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 1993/94 to the FY 2009/10 is captured by right share which is 68.46% where as the contribution of both Ordinary Share and Debenture is equal i.e.19.41% and 10.80%. The rest portion is captured by preference share that is 1.33% only.
- ❖ There are thirteen issue managers operating in security market in Nepal. All of them except United Finance Ltd. Had issued right shares. NCML is the largest right share issuer till 2009/10 which had undertaken 55 right issues of total Rs. 10808.76 millions and contributed 36.60% in total right share issues in Nepal. Similarly, DCBL is the smallest issuer which had undertaken only 1 right issue of total Rs. 330 millions which occupies only 0.56% amount in aggregate.
- ❖ 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 investors' awareness.

4.8.2 Right offering and its impact in Share Price

Observing the share price movement of 5 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. Generally, the right share itself does not increase the value or the wealth of the shareholders.

4.8.3 Comparison between actual and theoretical price after right share issue

- ❖ It is found that out of 5 sample companies, 3 companies have theoretical price higher than actual market price causing negative percentage change and the 2 companies have actual market price higher than theoretical price causing positive change.

4.8.4 Testing of Hypothesis

- ❖ According to the hypothesis test, there is no significant difference between the actual market and theoretical price after the book close date of right share. It means, they are correctly priced in the market.

4.8.5 Presentation and Analysis of Primary Data

- ❖ Majority of the respondents agreed that investors get reliable and adequate information from the company and issue manager regarding the right share.
- ❖ Majority of the investors are well aware about the phenomena of right share and subsequent consequences involved there in.
- ❖ Though the transferability feature is exists from last two years, investors as well as companies don't get reliable and adequate knowledge about transferability/renounce feature.
- ❖ Most preferred sectors for right share are Banking and Financial.
- ❖ Among the Financial Institutions, Banking is the most preferred sector for the right.
- ❖ 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 because of easy process of collect the fund and low flotation cost.
- ❖ The major causes of under subscription of right share in Nepal are lack of investor's awareness and 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 to fulfill the capital requirements as per the 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 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. Recently, there exists transferability feature, but most of the investors as well as companies don't exercise the transferability feature. 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 are so many actions can be undertaken by the issuing company and the issue manager to make high subscription rate of right share. 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.
- ❖ There is no transferability feature during the fiscal year 2007/08. But now, SEBON had enacted the Securities Registration and Issue Regulation-2008 and 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 2009/10. 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 follows 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 about 20 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' positions as well as the shareholders' equity are not affected by the right share distribution.

CHAPTER FIVE

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 practice in Nepal and its effect on share price.

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, 5 sample firms are taken for the study. Mostly, right shares are issued by Banking and Financial Institutions. 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, and statistical book of Nepal, published and unpublished documents, previous studies, dissertation, articles and foreign related journals as well. Newspaper, magazine, books and other reports such as ArthicAbhiyan, 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 prices of 5 different points have been selected logically. To make the study valuable, various tools have been used as per requirement.

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 year 1995/96.

Since then, Nepalese corporate firms started to issue rights share. There are 185 cases of rights offering in Nepal up to date (i.e. 2009/10). Almost all of them were finance and banking companies who issued rights share. The right share practice is being popular day to day. The trend of right share issue is increasing. The major portion of total public issue from the FY 1993/94 to the FY 2009/10 is captured by right share which is 68.46% where as the contribution of both Ordinary share and Debenture is equal i.e. 19.41% and 10.80% respectively. The rest portion is captured by preference share that is 1.33% only. There are thirteen issue managers operating in security market in Nepal. All of them except United Finance Ltd. had issued different kind of instrument including right shares. NCML is the largest right share issuer till 2009/10 which had undertaken 55 right issues to total Rs.10808.76 millions and contributed 36.60% in total right share issues in Nepal. 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 investors' awareness.

Observing the share price movement of 5 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. Generally, the right share itself does not increase the value or the wealth of the shareholders. It is found that out of 5 sample companies, 3 companies have theoretical price higher than actual market price after book close date causing negative change and the 2 companies have actual market price higher than theoretical price causing positive change. According to the hypothesis test, there is no significant difference between the actual market and theoretical price after the book close date of right share which indicates that they are 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 must. 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 because of easy process to collect the fund and low flotation 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 are 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 exists the transferability feature. Right share issue mechanism is too lengthy i.e. First of all, passing from the BOD meetings, sending the agenda to NEPSE, NRB and SEBON and again, 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 T.V., 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 and 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 2009/10. 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 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 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 positions as well as the shareholders' equity are 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. 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 2009/10. 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 investors' awareness. According to the hypothesis test, there is no 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 others' 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 phenomena 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 positions as well as the shareholders' equity are 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 share 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 Registers, teachers and other private consultancies should mutually take actions so that the investors are aware about the share market and right share.

5.3 Recommendations

Based on the findings, some corrective actions are recommended as follows:

- ✓ The main issue is to aware the investors about the share price movement and right share mechanism. Like NEPSE, SEBON, NRB, Share Brokers, Issue Managers, Share Registrar etc.
- ✓ In Nepal, all companies do not do rights share practice properly. So government should positively motivate them by good governance and provisions regarding rights share.
- ✓ In order to make the capital market more efficient and systematic, market participations and academic institutions should jointly promote and make analysis the market activities.

- ✓ The procedures of right share announcement, passing from BOD meeting, sending the agenda to NEPSE, SEBON, NRB, then finally approving from own AGM, publishing about the book close date, appointment of issue manager, right share issue and finally listing of right share is too lengthy and takes around 6 months. So, there must be the time limit for each step and must be less time consuming.
- ✓ Nepalese investors are not so well aware about right offering. So, to increase awareness of investors some programs like interaction, advertisement, videoconference, radio talk etc. should be managed by related companies, government and Medias as well.
- ✓ Free pricing concept should be implemented in right offering to get rid off from the problem of low subscription price of rights share.
- ✓ Lack of investor's protection act is another cause of under subscription of rights share. So, there should separate investor's protection act so that investors can maintain their confidence over their investment and feel secured.
- ✓ Currently, "Securities Registration and Issue Regulation-2008" has clearly mentioned about the transferability feature of the right issue. It also helps to solve the problem of under subscription of right share to some extent. It also protects the dilution in wealth of shareholders and also enhances the dimension of security market.
- ✓ One critical factor that affects the share price and subscription is the holder's record date. The investors who purchase the share after that date are unable to get share. So, rights issuing companies should set the proper holder record date so that investors who want to enjoy the rights share offering can purchase the share issued by them.
- ✓ To attract the investors, the issue prospectus should provide a clear picture of both the systematic and unsystematic risk of the business that will be make fear trade between risk and return.

The rights must be made detachable to original one and then the right holder can easily transfer or sell the rights in the market taking benefits without exercising the rights.

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Annex I
Rights Share Issue in Nepal

Fiscal Year	S. No.	Name of the Companies	Issue Manager	No. of Shares Issued
2052/53	1	Nepal Finance & Saving Co.	AFCL	20000
	2	Seti Cigarette Factory Ltd.	-	670000
2053/54	3	Himalayan General Insurance Co.	AFC	300000
	4	Bottlers Nepal Ltd.	CIT	2252000
	5	Nepal Share Markets & Finance Ltd	AFC	200000
2054/55	6	Nepal United Co. Ltd.	NFCL	30100
	7	Nepal Bank Ltd.	CIT	2419500
	8	Annapurna Finance Co. Ltd.	NFCL	50000
2055/56	9	Nepal Share Market Ltd.	AFC	300000
2056/57	10	Necon Air Ltd.	CIT	896000
	11	Paschimanchal Finance Co. Ltd.	NSML	200000
	12	Ace Finance Co. Ltd.	NSML	150000
2057/58	13	Narayani Finance Ltd.	NSML	125800
	14	Everest Bank Ltd.	CIT	1192100
2058/59	15	Bank of Kathmandu Ltd.	NCML	2340000
	16	Nepal housing & Merchant Finance	NSML	150000
	17	Ace Finance Ltd.	NSML	450000
	18	Nepal SBI Bank Ltd.	NMB	2878700
	19	NIDC Capital Markets Ltd.	CIT	400000
2059/60	20	Nepal Share Market & Fin. Ltd.	CIT	600000
	21	Mahalaxmi Finance Ltd.	NFCL	250000
	22	Peoples Finance Ltd.	NCML	200000
2060/61	23	Alpic Everest Finance Ltd.	NEFINSCO	200000
	24	Siddhartha Finance Ltd.	NEFINSCO	200000
	25	NB Finance & Leasing Co. Ltd.	NSMB	300000
2061/62	26	Nepal Bangladesh Bank Ltd.	NSMB	3599200
	27	Annapurna Finance Co. Ltd.	NCML	200000
	28	Nirdhan Utthan Bank Ltd.	NMB	150000
	29	Nepal SBI Bank Ltd.	NMB	2159300
	30	Nepal Investment Bank Ltd.	AFC	2952900
	31	National Finance Co. Ltd.	NCML	432000
2062/63	32	Development Credit Bank Ltd.	NMB	800000
	33	Kumari Bank Ltd.	NCML	1250000
	34	Fewa Finance Co. Ltd.	NMB	300000
	35	Om Finance Co. Ltd.	NMB	300000

	36	Goodwill Finance Co. Ltd.	NCML	250000
	37	Janaki Finance Co. Ltd.	NEFINSCO	100000
	38	Central Finance Co. Ltd.	NCML	120000
	39	Taragaun Regency Hotels Ltd.	NCML	4464500
	40	Machhapuchere Bank Ltd.	NMB	1650000
	41	Kist Merchant Banking & Fin. Ltd.	NMB	500000
	42	Nepal Share Markets & Fin. Ltd.	CIT	400000
2063/64	43	Pokhara Finance Ltd.	NMB	200000
	44	Lumbini Bank Ltd.	NCML	1000000
	45	Paschimanchal Bikas Bank Ltd.	NCML	280000
	46	Alpic Everest Finance Ltd.	NMB	200000
	47	Peoples Finance Ltd.	NCML	400000
	48	Chhimek Bikas Bank Ltd.	NMB	200000
	49	Nepal Development Bank Ltd.	NCML	1600000
	50	Ace Finance Co. Ltd.	NCML	1940000
	51	Navadurga Finance Co. Ltd.	NEFINSCO	110000
	52	Annapurna Finance Co. Ltd.	NCML	800000
	53	Laxmi Bank Ltd.	NMB	1220000
	54	Capital Merchant Banking & Fin.	CIT	840000
	55	Yeti Finance Ltd.	NCML	63000
	56	Business Development Bank Ltd.	AFC	300000
	57	Kist Merchant Banking & Fin.	NCML	1000000
	58	Siddhartha Bank Ltd.	AFC	1000000
	59	Lumbini Bank Ltd.	AFC	1500000
2064/65	60	Nepal Investment Bank Ltd.	ACE	2013000
	61	Siddhartha Bank Ltd.	NMB	1380000
	62	NIC Bank Ltd.	NCML	1584000
	63	Lumbini Bank Ltd.	ACE	2500000
	64	Kumari Bank Ltd.	NCML	1800000
	65	Laxmi Bank Ltd.	NMB	1830000
	66	Nepal Credit & Commerce Bank	NCML	7000000
	67	Paschimanchal Bikas Bank Ltd.	ACE	475000
	68	Bhrikuti Bikas Bank Ltd.	NCML	300000
	69	Development Credit Bank Ltd.	NMB	8064000
	70	Siddhartha Bikas Bank Ltd.	ACE	500000
	71	Sanima Bikas Bank Ltd.	NCML	640000
	72	Ace Development Bank Ltd.	NCML	960000
	73	Gorkha Bikas Bank Ltd.	CIT	1600000
	74	Business Development Bank Ltd.	ACE	1500000
	75	Himchuli Bikas Bank Ltd.	NCML	600000
	76	Annapurna Bikas Bank Ltd.	NEFINSCO	1500000

	77	Sahayogi Bikas Bank Ltd.	NCML	100000
	78	Capital Merchant Banking & Fin.	ACE	1610000
	79	Premier Finance Co. Ltd.	NCML	144000
	80	Nirdhan Uthan Bank Ltd.	NCML	395000
	81	Central Finance Ltd.	NCML	240000
	82	Nepal Merchant Banking & Fin. Ltd.	NFC	8000000
	83	Nepal Share Market & Fin. Ltd.	CIT	2400000
	84	IME Financial Institutions Ltd.	NMB	500000
	85	Prudential Bittiya Sanstha Ltd.	ACE	500000
	86	Paschimanchal Finance Co. Ltd.	NFC	278000
	87	Kist Merchant Banking & Fin. Ltd.	ACE	6000000
	88	Goodwill Finance Ltd.	ACE	500000
	89	United Finance Ltd.	NCML	750000
	90	Nepal Express Finance Ltd.	NCML	300000
	91	Royal Merchant Banking & Fin.	ACE	606000
	92	ICFC Bittiya Sanstha Ltd.	NMB	2248000
	93	International Leasing & Fin. Ltd.	NCML	5040000
	94	Nepal Housing & Merchant Fin.	ACE	804000
	95	Shree Investment Finance Ltd.	NMB	168000
	96	Standard Finance Ltd.	NCML	726000
	97	Gorkha Finance Ltd.	CIT	300000
	98	Guheswori Mechant Banking & Fin	NCML	370000
	99	Nepal Awas Bikas Bitta Co. Ltd.	NFC	705000
	100	Sagarmatha Insurance Co. Ltd.	ACE	236000
	101	Premier Insurance Co. Ltd.	ACE	390000
	102	Himalayan General Insurance Ltd.	ACE	378000
2065/66	103	Machhapuchhre Bank Ltd.	NMB	4930000
	104	Kist Bank Ltd.	ACE	12000000
	105	NB Bank Ltd.	NMB	11168900
	106	Nepal Investment Bank Ltd.	NCML	8030300
	107	NMB Bank Ltd.	DCBL	3300000
	108	DCBL Bank Ltd.	NMB	5537300
	109	Gandaki Development Bank Ltd.	NMB	500000
	110	Swabalamwan Bikas Bank Ltd.	NMB	350000
	111	Bageshwori Bikas Bank Ltd.	NMB	150000
	112	Nepal Bikas Bank Ltd.	NCML	3200000
	113	Infrastructure Development Bank	NMB	2400000
	114	Siddhartha Development Bank	ACE	5378600
	115	Sanima Bikas Bank Ltd.	CIT	3840000
	116	Ace Development Bank Ltd.	ELITE	2928600
	117	Narayani Development Bank Ltd.	ELITE	100000

	118	Gorkha Development Bank Ltd.	ACE	1200000
	119	Nepal Development & Employment Promotion Bank Ltd.	ACE	1600000
	120	Bhrikuti Bikas Bank Ltd.	NCML	1410000
	121	Excel Development Bank Ltd.	ACE	600000
	122	Kathmandu Finance Ltd.	ACE	379500
	123	Narayani Finance Ltd.	NMB	1500700
	124	Yeti Finance Ltd.	ACE	312500
	125	Om Finance Ltd.	NFC	140000
	126	Union Finance Ltd.	NCML	725200
	127	Srijana Finance Ltd.	NCML	140000
	128	National Finance Ltd.	NMB	628000
	129	Nepal Srilanka Merchant Bank Ltd.	NCML	2000000
	130	Peoples Finance Ltd.	ACE	1680000
	131	Pokhara Finance Ltd.	NMB	1800000
	132	IME Financial Institution Ltd.	NMB	1250000
	133	Samjhana Finance Ltd.	NCML	278300
	134	Universal Finance Ltd.	NFC	602300
	135	Civil Merchant Bittiya Sanstha Ltd.	NFC	500000
	136	Premier Finance Ltd.	NCML	475200
	137	Imperial Finance Ltd.	NCML	500000
	138	World Merchant Banking & Fin.	NCML	720000
	139	Central Finance Ltd.	NMB	253900
	140	Standard Finance Ltd.	NCML	8349000
	141	Lumbini Finance & Leasing Co.	ACE	450000
	142	Navadurga Finance Co. Ltd.	NMB	547100
	143	Prabhu Finance Ltd.	ELITE	800000
	144	Patan Finance Ltd.	NCML	500000
	145	Everest Finance Ltd.	ACE	200000
	146	Nepal Share Markets & Finance	CIT	15677300
	147	Nepal Express Finance Ltd.	NCML	240000
	148	General Finance Ltd.	NCML	24241800
	149	Neco Insurance Co. Ltd.	CIT	550000
	150	United Insurance Co. (Nepal) Ltd.	NCML	288000
	151	National Life Insurance Co. Ltd.	CIT	1320000
	152	National Hydropower Co. Ltd.	NCML	6949400
2066/67	153	Lumbini Bank Ltd.	NCML	3000000
	154	Laxmi Bank Ltd.	NMB	4392300
	155	Nepal SBI Bank Ltd.	CIT	4372600
	156	Global Bank Ltd.	Elite Capital	5000000
	157	Bank Of Asia Ltd.	Civil Capital	5000000

158	Sunrise Bank Ltd.	NCML	3750000
159	Malika Bikas Bank	NMB	1500000
160	Business Development Bank Ltd.	ACE	4410000
161	Himchuli Bikas Bank Ltd.	NMB	3174000
162	Paschimanchal Development Bank	Growmore	2100000
163	Annapurna Bikas Bank Ltd.	Elite Capital	4620000
164	Tribeni Bikas Bank Ltd.	ACE	500000
165	Paschupati Bikas Bank Ltd.	Growmore	500000
166	Sahayogi Bikas Bank Ltd.	NCML	150000
167	Fewa Finance Ltd.	Elite Capital	1820000
168	Sagarmatha Merchant Bank & Fina	CIT	750000
169	Lord Buddha Finance Ltd.	ACE	375000
170	Kaski Finance Ltd.	ACE	1000000
171	Birgunj Finance Ltd.	NMB	3347000
172	Goodwill Finance Ltd.	ACE	1732500
173	International Leasing & Finance	NCML	13608000
174	Kuber Merchant Finance Ltd.	NMB	1000000
175	Mahalaxmi Finance Ltd.	NMB	3240000
176	Butwal Finance Ltd.	NMB	3372600
177	Yeti Finance Ltd.	Elite Capital	625000
178	CMB Finance Ltd.	Civil Capital	750500
179	Prudential Finance Ltd.	Civil Capital	2000000
180	United Finance Ltd.	Elite Capital	1650000
181	Om Finance Ltd.	NCML	1050000
182	Gorkha Finance Ltd.	Growmore	691400
183	Merchant Finance Co. Ltd	Growmore	900000
184	Alliance Insurance Co. Ltd.	NCML	599500
185	Nepal Life Insurance Co. Ltd.	NCML	750000

Annex II

Information about Share Price and NEPSE index before and after announcement of Right share

1. Nepal Investment Bank Ltd.

Announcement date of right offering	=	2008/01/11
Permission date	=	2008/01/14
Issued date	=	2008/01/29
Subscription Price	=	Rs. 100 per share
Subscription Ratio	=	5:1
Amount to Issued Approved	=	Rs. 201.28 million
Issue Manager	=	ACE

Table no. II.1

Information about Share Price and Banking Sub Index

Share Price Before Announcement Date			Share Price After Announcement Date		
Date	Share Price Rs.	Index	Date	Share Price Rs.	Index
2007/10/11	2750	948.63	2008/01/17	1650	966.53
2007/11/12	2162	958.39	2008/01/26	1750	998.23
2007/12/11	2350	907.97	2008/02/11	1650	987.47
2007/12/26	2387	967.82	2008/03/12	1450	999.23
2008/01/08	2110	942.18	2008/04/14	1726	963.29

Source:- Official quotation of Share Prices published in the National Daily Newspaper & NEPSE site.

2. Siddhartha Bank Ltd.

Announcement date of right offering	=	2007/12/05
Permission Date	=	2008/02/06
Issued Date	=	2008/02/25
Subscription Price	=	Rs. 100 per share
Subscription Ratio	=	5:1
Amount of Issued Approved	=	Rs. 138 million
Issued manager	=	NMB

Table no. II.2

Information about Share Price and Banking Sub Index

Share Price Before Announcement Date			Share Price After Announcement Date		
Date	Share Price Rs.	Index	Date	Share Price Rs.	Index
2007/09/05	811	871.39	2007/12/06	560	552.01
2007/10/04	1160	1005.72	2007/12/12	590	566.29
2007/11/05	1115	737.39	2008/01/07	645	614.65
2007/11/29	1224	952.23	2008/02/05	600	684.56
2007/12/04	1270	1025.07	2008/03/05	815	742.31

Source:- Official quotation of Share Prices published in the National Daily Newspaper & NEPSE site.

3. Lumbini Bank Ltd.

Announcement date of right offering	=	2007/12/04
Permission Date	=	2008/03/10
Issued Date	=	2008/03/31
Subscription Price	=	Rs. 100 per share
Subscription Ratio	=	3:1

Amount of Issued Approved = Rs. 250 million
 Issued manager = ACE

Table no. III.3
Information about Share Price and Banking Sub Index

Share Price Before Announcement Date			Share Price After Announcement Date		
Date	Share Price Rs.	Index	Date	Share Price Rs.	Index
2007/09/12	458	921.80	2007/12/16	840	1086.47
2007/10/14	600	971.71	2007/12/20	930	1086.73
2007/11/14	545	976.62	2008/01/14	731	951.26
2007/12/05	806	1037.13	2008/02/14	567	790.62
2007/12/12	780	1033.02	2008/03/12	492	703.45

Source:- Official quotation of Share Prices published in the National Daily Newspaper & NEPSE site.

4. Laxmi Bank Ltd.

Announcement date of right offering = 2008/01/14
 Permission Date = 2008/04/03
 Issued Date = 2008/05/02
 Subscription Price = Rs. 100 per share
 Subscription Ratio = 4:1
 Amount of Issued Approved = Rs. 183 million
 Issued manager = NMB

Table no. IV.4

Information about Share Price and Banking Sub Index

Share Price Before Announcement Date			Share Price After Announcement Date		
Date	Share Price Rs.	Index	Date	Share Price Rs.	Index
2007/10/14	950	971.71	2008/01/21	1061	867.68
2007/11/01	1028	962.29	2008/02/14	1101	790.62
2007/12/16	1380	1080.47	2008/02/30	912	739.29
2008/01/07	1120	961.23	2008/03/13	939	691.12
2008/01/13	1182	974.95	2008/04/14	940	704.74

Source:- Official quotation of Share Prices published in the National Daily Newspaper & NEPSE site.

5. Nepal SBI Bank Ltd.

Announcement date of right offering	=	2005/04/21
Permission Date	=	2005/04/32
Issued Date	=	2005/07/01
Subscription Price	=	Rs. 100 per share
Subscription Ratio	=	2:1
Amount of Issued Approved	=	Rs. 215.93 million
Issued manager	=	NMB

Table no. V.5

Information about Share Price and Banking Sub Index

Share Price Before Announcement Date			Share Price After Announcement Date		
Date	Share Price Rs.	Index	Date	Share Price Rs.	Index
2005/04/07	459	289.56	2005/11/05	375	307.42
2005/04/11	464	290.65	2005/11/06	385	303.94
2005/04/13	475	293.26	2005/11/07	385	306.15
2005/04/17	470	293.71	2005/11/09	390	307.98
2005/04/19	370	292.59	2005/11/12	380	306.15

Source:- Official quotation of Share Prices published in the National Daily Newspaper & NEPSE site.

Annex III

Value of Rights and the theoretical Ex-rights Price

Variable defined:

P_o = Current Market Price

P_s = Subscription Price

N = Number of rights required for an additional share

P_x = Ex-right Price

V_r = Value of Rights

$$V_r = \frac{P_o Z P_s}{N \Gamma 1}$$

$$P_x = \frac{N x P_o \Gamma P_s}{N \Gamma 1} \quad \text{or, } P_o - V$$

1. Nepal Investment Bank Ltd.

P_o = Rs. 1960, P_s = Rs. 100, N = 5 share

Now,

$$V_r = \frac{P_o Z P_s}{N \Gamma 1} = \frac{1960 Z 100}{5 \Gamma 1} = Rs.310$$

$$P_x = \frac{N x P_o \Gamma P_s}{N \Gamma 1} \quad \text{or, } P_o - V = \frac{5 x 1960 \Gamma 100}{5 \Gamma 1} = Rs.1650$$

2. Siddhartha Bank Ltd.

P_o = Rs. 1295, P_s = Rs. 100, N = 5 share

Now,

$$V_r = \frac{P_o Z P_s}{N \Gamma 1} = \frac{1295 Z 100}{5 \Gamma 1} = Rs.199.67$$

$$P_x = \frac{NxPo \Gamma Ps}{N \Gamma 1} \quad \text{or, } P_o - V \quad = \frac{5x1295 \Gamma 100}{5 \Gamma 1} \quad = Rs.1096$$

3. Lumbini Bank Ltd.

$$P_o = Rs. 780, \quad P_s = Rs. 100, \quad N = 3 \text{ share}$$

Now,

$$V_r = \frac{Po Z Ps}{N \Gamma 1} \quad = \frac{780 Z 100}{3 \Gamma 1} \quad = Rs.170$$

$$P_x = \frac{NxPo \Gamma Ps}{N \Gamma 1} \quad \text{or, } P_o - V \quad = \frac{3x780 \Gamma 100}{3 \Gamma 1} \quad = Rs.610$$

4. Laxmi Bank Ltd.

$$P_o = Rs. 1185, \quad P_s = Rs. 100, \quad N = 4 \text{ share}$$

Now,

$$V_r = \frac{Po Z Ps}{N \Gamma 1} \quad = \frac{1185 Z 100}{4 \Gamma 1} \quad = Rs.217$$

$$P_x = \frac{NxPo \Gamma Ps}{N \Gamma 1} \quad \text{or, } P_o - V \quad = \frac{5x1185 \Gamma 100}{5 \Gamma 1} \quad = Rs.968$$

5. Nepal SBI Bank Ltd.

$$P_o = Rs. 332, \quad P_s = Rs. 100, \quad N = 2 \text{ share}$$

Now,

$$V_r = \frac{Po Z Ps}{N \Gamma 1} \quad = \frac{332 Z 100}{2 \Gamma 1} \quad = Rs.77.33$$

$$P_x = \frac{NxPo \Gamma Ps}{N \Gamma 1} \quad \text{or, } P_o - V \quad = \frac{2x332 \Gamma 100}{2 \Gamma 1} \quad = Rs.254.67$$

Annex IV

Correlation (r) between share price fluctuations with price index movement

Variables

I	=	90 days before the announcement of the right share
II	=	10 days before the announcement of the right share
III	=	the day of announcement of the right share
IV	=	7 days after the announcement of the right share
V	=	180 days after the announcement of the right share
X	=	Share Price
Y	=	Index

Correlation (r) between share price fluctuations with price index movement of Commercial Banks:

a) Nepal Investment Bank Ltd.

Table IV.1

Nepal Investment Bank Ltd.

Point of Time	X	$x = (X - \bar{X})$	X^2	Y	$y = (Y - \bar{Y})$	Y^2	xy
I	2162	240.40	57792.16	958.39	0.888	0.7885	213.4752
II	2110	188.40	35494.56	942.18	-15.322	234.7637	-2886.665
III	1960	38.40	1474.56	957.12	-0.382	0.1459	-14.6688
IV	1650	-271.6	73766.56	966.53	9.028	81.5048	-2452.004
V	1726	-195.60	38259.36	963.29	5.788	33.5009	-1132.132
	$\sum X$ 9608		$\sum x^2$ 206787.2	$\sum Y$ 4787.51		$\sum y^2$ 350.7038	$\sum xy$ -6271.995

$$\bar{X} \times \frac{\sum X}{N} = \frac{9608}{5} = 1921.60$$

$$\bar{Y} \times \frac{\sum Y}{N} = \frac{4787.51}{5} = 957.502$$

Karl Pearson's coefficient of Correlation

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{26271.995}{\sqrt{206787.2 \times 350.7038}} = 0.7365$$

$$\text{Coefficient of determination } (r^2) = (-0.7365)^2 = 0.5424$$

$$\text{P.E.} = 0.6745 \times \frac{1}{\sqrt{n}} \times \frac{1}{\sqrt{0.5424}} = 0.6745 \times \frac{1}{\sqrt{5}} \times \frac{1}{\sqrt{0.5424}} = 0.1380$$

$$6 \times \text{P.E.} = 6 \times 0.1380 = 0.828$$

b) Siddhartha Bank Ltd.

Table IV.2
Siddhartha Bank Ltd.

Point of Time	X	x=(X - \bar{X})	X ²	Y	y = (Y - \bar{Y})	Y ²	xy
I	1160	3.8	14.44	1005.72	68.91	4748.59	261.858
II	1224	67.8	4596.84	952.23	15.42	237.78	1045.476
III	1295	138.8	19265.44	1037.13	100.32	10064.10	13924.416
IV	1300	143.8	20678.44	1033.02	96.21	9256.36	13834.998
V	802	-354.20	125457.64	655.95	-280.86	78882.34	99480.612

	$\phi X X$ 5781		$\phi x^2 X$ 170012.80	$\phi Y X$ 4684.05		$\phi y^2 X$ 103189.17	$\phi xy X$ 128547.36
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$$\bar{X} X \frac{X}{N} = \frac{5781}{5} = 1156.20$$

$$\bar{Y} X \frac{Y}{N} = \frac{4684.05}{5} = 936.81$$

Karl Pearson's coefficient of Correlation

$$r = \frac{xy}{\sqrt{x^2 y^2}} = \frac{128547.36}{\sqrt{170012.80 \times 103189.17}} = 0.9705$$

$$\text{Coefficient of determination } (r^2) = (0.9705)^2 = 0.9419$$

$$\text{P.E.} = 0.6745 \times \frac{1 Z r^2}{\sqrt{n}} = 0.6745 \times \frac{1 Z 0.9419}{\sqrt{5}} = 0.0175$$

$$6 \times \text{P.E.} = 6 \times 0.0175 = 0.105$$

c) **Lumbini Bank Ltd.**

Table IV.3
Lumbini Bank Ltd.

Point of Time	X	x=(X Z \bar{X})	X²	Y	y = (Y Z \bar{Y})	Y²	xy
I	600	-136.6	18659.56	971.71	-12.01	144.24	1640.57
II	806	69.4	4816.36	1037.13	53.41	2852.63	3706.65
III	780	43.4	1883.56	1033.02	49.3	2430.49	2139.62
IV	930	193.4	37403.56	1086.13	102.41	10487.81	19806.09
V	567	-169.6	28764.16	790.62	-193.10	37287.61	32749.76

	$\phi X X$ 3683		$\phi x^2 X$ 91527.2	$\phi Y X$ 4918.61		$\phi y^2 X$ 53202.78	$\phi xy X$ 60042.69
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$$\bar{X} X \frac{X}{N} = \frac{3683}{5} = 736.6$$

$$\bar{Y} X \frac{\bar{Y}}{N} = \frac{4918.61}{5} = 983.72$$

Karl Pearson's coefficient of Correlation

$$r = \frac{xy}{\sqrt{x^2 y^2}} = \frac{60042.69}{\sqrt{91527.2 \times 53202.78}} = 0.8604$$

$$\text{Coefficient of determination } (r^2) = (0.8604)^2 = 0.7403$$

$$\text{P.E.} = 0.6745 \times \frac{1 Z r^2}{\sqrt{n}} = 0.6745 \times \frac{1 Z 0.7403}{\sqrt{5}} = 0.078$$

$$6 \times \text{P.E.} = 6 \times 0.078 = 0.468$$

d) **Laxmi Bank Ltd.**

Table IV.4
Laxmi Bank Ltd.

Point of Time	X	$x = (X - \bar{X})$	X^2	Y	$y = (Y - \bar{Y})$	Y^2	xy
I	1028	-39.4	1552.36	962.29	75.55	5707.80	-2976.67
II	1120	52.6	2766.76	961.33	74.59	5563.67	3923.43
III	1185	117.6	13829.76	951.26	64.52	4162.83	7587.55
IV	1065	-2.4	5.76	867.68	-19.06	363.28	45.74
V	939	-128.4	16486.56	691.12	-195.62	38267.18	25117.61

	$\phi X X$ 5337		$\phi x^2 X$ 34641.20	$\phi Y X$ 4433.68		$\phi y^2 X$ 54064.76	$\phi xy X$ 33697.66
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$$\bar{X} X \frac{X}{N} = \frac{5337}{5} = 1067.4$$

$$\bar{Y} X \frac{\bar{Y}}{N} = \frac{4433.68}{5} = 886.74$$

Karl Pearson's coefficient of Correlation

$$r = \frac{xy}{\sqrt{x^2 y^2}} = \frac{33697.66}{\sqrt{34641.20 \times 54064.76}} = 0.7787$$

$$\text{Coefficient of determination } (r^2) = (0.7787)^2 = 0.6064$$

$$\text{P.E.} = 0.6745 x \frac{1 Z r^2}{\sqrt{n}} = 0.6745 x \frac{1 Z 0.6064}{\sqrt{5}} = 0.1187$$

$$6 \times \text{P.E.} = 6 \times 0.1187 = 0.7122$$

e) Nepal SBI Bank Ltd.

Table IV.5
Nepal SBI Bank Ltd.

Point of Time	X	$x = (X - \bar{X})$	X^2	Y	$y = (Y - \bar{Y})$	Y^2	xy
I	1225	596.8	356170.24	283.93	60.96	3716.12	36380.93
II	858	229.8	52808.04	215.89	-7.08	50.13	-1626.98
III	332	-296.2	87734.44	187.88	-35.09	1231.31	10393.66
IV	376	-252.2	63604.84	204.28	-18.69	349.32	4713.62
V	350	-278.2	77395.24	222.87	-0.1	0.01	27.82

	$\phi X X$ 3141		$\phi x^2 X$ 637712.8	$\phi Y X$ 1114.85		$\phi y^2 X$ 5346.89	$\phi xy X$ 49889.05
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$$\bar{X} X \frac{X}{N} = \frac{3141}{5} = 628.2$$

$$\bar{Y} X \frac{Y}{N} = \frac{1114.85}{5} = 222.97$$

Karl Pearson's coefficient of Correlation

$$r = \frac{xy}{\sqrt{x^2 y^2}} = \frac{49889.05}{\sqrt{637712.8 \times 5346.89}} = 0.854$$

$$\text{Coefficient of determination } (r^2) = (0.854)^2 = 0.7293$$

$$\text{P.E.} = 0.6745 \times \frac{1 Z r^2}{\sqrt{n}} = 0.6745 \times \frac{1 Z 0.7293}{\sqrt{5}} = 0.082$$

$$6 \times \text{P.E.} = 6 \times 0.082 = 0.492$$

Annex V

I) Test of Hypothesis by using t-statistic for the Test of Significance of the difference between share prices before and after the announcement of Rights Offering.

Variable Defined:

- H_0 = Null Hypothesis that there is no significance difference between the share price before and after the announcement of rights offering.
- H_1 = Alternative Hypothesis that there is a significance different between the share price before and after the announcement of rights offering.
- X = Share Price before announcement date.
- Y = Share Price after announcement date.
- \bar{X} = Mean of share price before announcement date.
- \bar{Y} = Mean of share price after announcement date.
- t-cal = Calculated value of t.
- t-tab = Tabulated value of t at a given significant level for a certain degree of freedom.
- D.F. = Degree of Freedom
- \dagger^2 = An unbiased estimate of population variance.
- \dagger = Standard Deviation of share price before and after announcement date.

1. Nepal Investment Bank Ltd.

Table V.I.1

Nepal Investment Bank Ltd.

X	$(X - \bar{X})$	$(X - \bar{X})^2$	Y	$(Y - \bar{Y})$	$(Y - \bar{Y})^2$
2750	398.2	158563.24	1650	4.8	23.04
2162	-189.8	36024.04	1750	104.8	10983.04
2350	-1.8	3.24	1650	4.8	23.04
2387	35.8	1281.64	1450	-195.2	38103.04

2110	-241.8	58467.24	1726	80.8	6528.64
$\phi X \sum X = 11759$ $\bar{X} = 2351.8$		$(\sum XZ\bar{X})^2 = 254339.40$	$\phi Y \sum Y = 8226$ $\bar{Y} = 1645.20$		$(\sum YZ\bar{Y})^2 = 55660.80$

$$t_x = \sqrt{\frac{(\sum XZ\bar{X})^2}{N}} = \sqrt{\frac{254339.40}{5}} = 255.54$$

$$t_y = \sqrt{\frac{(\sum YZ\bar{Y})^2}{N}} = \sqrt{\frac{55660.80}{5}} = 105.51$$

$$S^2 = \frac{1}{n_1 + n_2 - 2} (\sum XZ\bar{X})^2 + (\sum YZ\bar{Y})^2$$

$$= \frac{1}{5 + 5 - 2} (254339.40 + 55660.80)$$

$$= 38750.03$$

$$t_{\text{cal}} = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{2351.80 - 1645.20}{\sqrt{38750.03 \left(\frac{1}{5} + \frac{1}{5} \right)}} = 5.68$$

$$t_{\text{cal}} = 5.68$$

t-tab value at 5% level of significance for 8 degree of freedom = 2.306

Decision:- Since $t_{\text{cal}} > t_{\text{tab}}$, the alternative hypothesis is accepted hence the difference is significant.

2. Siddhartha Bank Ltd.

Table V.I.2
Siddhartha Bank Ltd.

X	(X Z \bar{X})	(X Z \bar{X}) ²	Y	(Y Z \bar{Y})	(Y Z \bar{Y}) ²
811	-305	93025	560	-82	6724
1160	44	1936	590	-52	2704
1115	-1	1	645	3	9
1224	108	11664	600	-42	1764
1270	154	23716	815	173	29929
ϕX X5580 \bar{X} X1116		(X Z \bar{X}) ² X 130342	ϕY X3210 \bar{Y} X642		(Y Z \bar{Y}) ² X 41130

$$t_x = \sqrt{\frac{(X Z\bar{X})^2}{N}} = \sqrt{\frac{130342}{5}} = 161.46$$

$$t_y = \sqrt{\frac{(Y Z\bar{Y})^2}{N}} = \sqrt{\frac{41130}{5}} = 90.70$$

$$S^2 = \frac{1}{n_1 + n_2 - 2} [(X Z\bar{X})^2 + (Y Z\bar{Y})^2]$$

$$= \frac{1}{5 + 5 - 2} (130342 + 41130)$$

$$= 21434$$

$$t_{\text{cal}} = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{1116 - 642}{\sqrt{21434 \left(\frac{1}{5} + \frac{1}{5} \right)}} = 0.0553$$

$$t_{\text{cal}} = 0.0553$$

t-tab value at 5% level of significance for 8 degree of freedom = 2.306

Decision:- Since $t_{\text{cal}} < t_{\text{tab}}$, the null hypothesis is accepted hence the difference is insignificant.

3. Lumbini Bank Ltd.

Table V.I.3
Lumbini Bank Ltd.

X	(X - \bar{X})	(X - \bar{X}) ²	Y	(Y - \bar{Y})	(Y - \bar{Y}) ²
458	-179.8	32328.04	840	128	16384
600	-37.8	1428.84	930	218	47524
545	-92.8	8616.84	731	19	361
806	168.2	28291.24	567	-145	21025
780	142.2	20220.84	492	220	48400
$\sum X = 3189$ $\bar{X} = 637.8$		$\sum (X - \bar{X})^2 = 90880.8$	$\sum Y = 3560$ $\bar{Y} = 712$		$\sum (Y - \bar{Y})^2 = 133694$

$$t_x = \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{90880.80}{5}} = 134.82$$

$$t_y = \sqrt{\frac{(Y - \bar{Y})^2}{N}} = \sqrt{\frac{133694}{5}} = 163.52$$

$$S^2 = \frac{1}{n_1 + n_2} [(X - \bar{X})^2 + (Y - \bar{Y})^2]$$

$$= \frac{1}{5 + 5} (90880.80 + 133694)$$

$$= 28071.85$$

$$t\text{-cal} = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{637.8 - 712}{\sqrt{28071.85 \left(\frac{1}{5} + \frac{1}{5} \right)}} = 20.7002$$

$$t\text{-cal} = -0.7002$$

t-tab value at 5% level of significance for 8 degree of freedom = 2.306

Decision:- Since $t_{\text{cal}} < t_{\text{tab}}$, the null hypothesis is accepted hence the difference is insignificant.

4. Laxmi Bank Ltd.

Table V.I.4

Laxmi Bank Ltd.

X	(X Z \bar{X})	(X Z \bar{X}) ²	Y	(Y Z \bar{Y})	(Y Z \bar{Y}) ²
950	-182	33124	1061	59	4956.16
1028	-104	10816	1101	15	12188.16
1380	248	61504	912	-7	6177.96
1120	-12	144	939	-40	2662.56
1182	50	2500	940	-27	2560.36
ϕX X5660 \bar{X} X1132		(X Z \bar{X}) ² X 108088	ϕY X4953 \bar{Y} X990.60		(Y Z \bar{Y}) ² X 28545.20

$$t_x = \sqrt{\frac{(X Z \bar{X})^2}{N}} = \sqrt{\frac{108088}{5}} = 147.029$$

$$t_y = \sqrt{\frac{(Y Z \bar{Y})^2}{N}} = \sqrt{\frac{28545.20}{5}} = 75.56$$

$$S^2 X \frac{1}{n_1 \Gamma n_2 Z^2} (X Z \bar{X})^2 \Gamma (Y Z \bar{Y})^2$$

$$= \frac{1}{5 \Gamma 5 Z^2} x(108088 \Gamma 28545.20)$$

$$=17079.15$$

$$t\text{-cal} = \frac{\bar{X} Z \bar{Y}}{\sqrt{S^2 \frac{1}{N_1} \Gamma \frac{1}{N_2}}} = \frac{5660 Z 4953}{\sqrt{17079 \frac{1}{5} \Gamma \frac{1}{5}}} = 8.55$$

$$t\text{-cal} = 8.55$$

t-tab value at 5% level of significance for 8 degree of freedom = 2.306

Decision:- Since $t_{\text{cal}} > t_{\text{tab}}$, the Alternative hypothesis is accepted hence the difference is significant.

5. Nepal SBI Bank Ltd.

Table V.I.5
Nepal SBI Bank Ltd.

X	(X Z \bar{X})	(X Z \bar{X}) ²	Y	(Y Z \bar{Y})	(Y Z \bar{Y}) ²
459	11.4	129.96	375	-8	64
464	16.4	268.96	385	2	4
475	27.4	750.76	385	2	4
470	22.4	501.76	390	7	49
370	-77.6	6021.76	380	-3	9
$\phi X \times 2238$ $\bar{X} \times 447.6$		$(X Z \bar{X})^2 \times$ 7673.2	$\phi Y \times 1915$ $\bar{Y} \times 383$		$(Y Z \bar{Y})^2 \times$ 130

$$t_x = \sqrt{\frac{(X Z \bar{X})^2}{N}} = \sqrt{\frac{7673.20}{5}} = 39.17$$

$$t_y = \sqrt{\frac{(Y Z \bar{Y})^2}{N}} = \sqrt{\frac{130}{5}} = 26$$

$$S^2 = \frac{1}{n_1 + n_2 - 2} \left[(X - \bar{X})^2 + (Y - \bar{Y})^2 \right]$$

$$= \frac{1}{5 + 5 - 2} (7673.2 + 130)$$

$$= 975.4$$

$$t\text{-cal} = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{447.6 - 383}{\sqrt{975.4 \left(\frac{1}{5} + \frac{1}{5} \right)}} = 3.27$$

$$t\text{-cal} = 3.27$$

t-tab value at 5% level of significance for 8 degree of freedom = 2.306

Decision:- Since $t_{\text{cal}} > t_{\text{tab}}$, the Alternative hypothesis is accepted hence the difference is significant.

II) Test of Hypothesis by using t-statistic for the Test of Significance of the difference between general market index before and after the announcement of rights offering.

Variable defined:

H_0 = Null Hypothesis that there is no significance difference between the general market index before and after the announcement of rights offering.

H_1 = Alternative Hypothesis that there is a significance different between the general market index before and after the announcement of rights offering.

X = General market index before announcement date.

Y = General market index after announcement date.

\bar{X} = Mean of general market index before announcement date.

\bar{Y} = Mean of general market index after announcement date.

t-cal = Calculated value of t.

t-tab = Tabulated value of t at a given significant level for a certain degree of freedom.

D.F. = Degree of Freedom

†² = An unbiased estimate of population variance.

† = Standard Deviation of general market index before and after announcement date.

1. Nepal Investment Bank Ltd.

Table V.II.1

Nepal Investment Bank Ltd.

X	(X - \bar{X})	(X - \bar{X}) ²	Y	(Y - \bar{Y})	(Y - \bar{Y}) ²
948.63	-3.63	13.17	966.53	16.42	269.62
958.39	13.4	179.56	998.23	15.28	233.48
907.97	-37.02	1370.48	987.47	4.52	20.43
967.82	22.83	521.21	999.23	16.28	265.04
942.18	-2.81	7.89	963.29	-19.66	386.52
∑X = 4724.99 \bar{X} = 944.99		(X - \bar{X}) ² ∑ = 2092.31	∑Y = 4914.75 \bar{Y} = 982.95		(Y - \bar{Y}) ² ∑ = 1175.09

$$t_x = \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{2092.31}{5}} = 20.46$$

$$t_y = \sqrt{\frac{(Y - \bar{Y})^2}{N}} = \sqrt{\frac{1175.09}{5}} = 15.33$$

$$S^2 = \frac{1}{n_1 + n_2 - 2} [(X - \bar{X})^2 + (Y - \bar{Y})^2]$$

$$= \frac{1}{5 + 5 - 2} (2092.31 + 1175.09)$$

$$= 408.43$$

$$t\text{-cal} = \frac{\bar{X} Z \bar{Y}}{\sqrt{S^2 \frac{1}{N_1} \Gamma \frac{1}{N_2}}} = \frac{944.99 Z 982.95}{\sqrt{408.43 \frac{1}{5} \Gamma \frac{1}{5}}} = Z 2.97$$

$$t\text{-cal} = -2.97$$

t-tab value at 5% level of significance for 8 degree of freedom = 2.306

Decision:- Since $t_{\text{cal}} < t_{\text{tab}}$, the null hypothesis is accepted hence the difference is insignificant.

2. Siddhartha Bank Ltd.

Table V.II.2
Siddhartha Bank Ltd.

X	(X Z \bar{X})	(X Z \bar{X}) ²	Y	(Y Z \bar{Y})	(Y Z \bar{Y}) ²
871.39	-87.08	7582.92	1056.18	166.42	27695.62
1005.72	47.25	2232.56	1033.02	143.26	20523.43
937.93	-20.54	421.89	961.33	76.57	5122.26
952.23	-6.24	38.94	655.95	-233.81	54667.12
1025.07	66.6	4435.56	742.31	-147.45	21741.50
$\phi X X 4792.34$ $\bar{X} X 958.47$		$(X Z \bar{X})^2 X$ 14711.88	$\phi Y X 4448.79$ $\bar{Y} X 889.76$		$(Y Z \bar{Y})^2 X$ 129749.93

$$t_x = \sqrt{\frac{(X Z \bar{X})^2}{N}} = \sqrt{\frac{14711.88}{5}} = 54.24$$

$$t_y = \sqrt{\frac{(Y Z \bar{Y})^2}{N}} = \sqrt{\frac{129749.93}{5}} = 161.09$$

$$S^2 = \frac{1}{n_1 + n_2 - 2} [(X - \bar{X})^2 + (Y - \bar{Y})^2]$$

$$= \frac{1}{5 + 5 - 2} (14711.88 + 129749.93)$$

$$= 18057.73$$

$$t_{\text{cal}} = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{958.47 - 889.76}{\sqrt{18057.73 \left(\frac{1}{5} + \frac{1}{5} \right)}} = 0.8085$$

$$t_{\text{cal}} = 0.8085$$

t-tab value at 5% level of significance for 8 degree of freedom = 2.306

Decision:- Since $t_{\text{cal}} < t_{\text{tab}}$, the null hypothesis is accepted hence the difference is insignificant.

3. Lumbini Bank Ltd.

Table V.II.3
Lumbini Bank Ltd.

X	(X - \bar{X})	(X - \bar{X}) ²	Y	(Y - \bar{Y})	(Y - \bar{Y}) ²
921.5	-49.49	2161.32	1086.48	162.76	26490.82
971.71	3.72	13.84	1086.73	163.02	26575.52
976.62	8.63	77.48	951.26	27.55	759.00
937.13	-30.86	952.34	790.62	-133.09	17712.95
1033.02	65.03	4228.9	703.45	-220.26	48514.47
$\sum X = 4839.98$ $\bar{X} = 967.99$		$(\sum (X - \bar{X}))^2 = 7430.86$	$\sum Y = 4618.53$ $\bar{Y} = 923.71$		$(\sum (Y - \bar{Y}))^2 = 120052.76$

$$t_x = \frac{\sum (X - \bar{X})^2}{N} = \frac{7430.86}{5} = 38.55$$

$$t_y = \sqrt{\frac{(Y Z \bar{Y})^2}{N}} = \sqrt{\frac{120052.76}{5}} = 154.95$$

$$S^2 X \frac{1}{n_1 \Gamma n_2 Z^2} (X Z \bar{X})^2 \Gamma (Y Z \bar{Y})^2$$

$$= \frac{1}{5 \Gamma 5 Z^2} x(7430.86 \Gamma 120052.76)$$

$$= 15935.45$$

$$t\text{-cal} = \frac{\bar{X} Z \bar{Y}}{\sqrt{S^2 \frac{1}{N_1} \Gamma \frac{1}{N_2}}} = \frac{967.99 Z 923.71}{\sqrt{15935.45 \frac{1}{5} \Gamma \frac{1}{5}}} = 0.5546$$

$$t\text{-cal} = 0.5546$$

t-tab value at 5% level of significance for 8 degree of freedom = 2.306

Decision:- Since $t_{\text{cal}} < t_{\text{tab}}$, the null hypothesis is accepted hence the difference is insignificant.

4. Laxmi Bank Ltd.

Table V.II.4

Laxmi Bank Ltd.

X	(X Z \bar{X})	(X Z \bar{X}) ²	Y	(Y Z \bar{Y})	(Y Z \bar{Y}) ²
971.71	-18.42	339.30	867.68	108.99	11878.82
962.29	-27.84	775.07	790.62	31.93	1019.52
1080.47	90.34	8161.32	739.29	-19.40	376.36
961.23	-28.90	835.21	691.12	-67.57	4565.70

974.95	-15.48	239.63	704.74	-53.95	2910.60
ϕX X4950.65 \bar{X} X990.13		$(X Z \bar{X})^2$ X 10350.52	ϕY X3793.45 \bar{Y} X758.69		$(Y Z \bar{Y})^2$ X 20751.01

$$t_x = \sqrt{\frac{(X Z \bar{X})^2}{N}} = \sqrt{\frac{10350.52}{5}} = 45.49$$

$$t_y = \sqrt{\frac{(Y Z \bar{Y})^2}{N}} = \sqrt{\frac{20751.01}{5}} = 64.42$$

$$S^2 = \frac{1}{n_1 + n_2 - 2} [(X Z \bar{X})^2 + (Y Z \bar{Y})^2]$$

$$= \frac{1}{5 + 5 - 2} (10350.52 + 20751.01)$$

$$= 3887.69$$

$$t\text{-cal} = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{990.13 - 758.69}{\sqrt{3887.69 \left(\frac{1}{5} + \frac{1}{5} \right)}} = 5.87$$

$$t\text{-cal} = 5.87$$

t-tab value at 5% level of significance for 8 degree of freedom = 2.306

Decision:- Since $t_{\text{cal}} > t_{\text{tab}}$, the Alternative hypothesis is accepted hence the difference is significant.

5. Nepal SBI Bank Ltd.

Table V.II.5
Nepal SBI Bank Ltd.

X	(X - \bar{X})	(X - \bar{X}) ²	Y	(Y - \bar{Y})	(Y - \bar{Y}) ²
289.56	-2.39	5.71	307.42	1.09	1.19
290.65	-1.3	1.69	303.94	-2.39	5.71
293.26	1.31	1.72	306.15	-0.18	0.03
293.71	1.76	3.10	307.98	1.65	2.72
292.59	0.64	0.41	306.15	-0.18	0.03
$\sum X = 1459.77$ $\bar{X} = 291.95$		$\sum (X - \bar{X})^2 = 12.63$	$\sum Y = 1531.64$ $\bar{Y} = 306.33$		$\sum (Y - \bar{Y})^2 = 9.68$

$$t_x = \sqrt{\frac{(X - \bar{X})^2}{N}} = \sqrt{\frac{12.63}{5}} = 1.59$$

$$t_y = \sqrt{\frac{(Y - \bar{Y})^2}{N}} = \sqrt{\frac{9.68}{5}} = 1.39$$

$$S^2 = \frac{1}{n_1 + n_2} [(X - \bar{X})^2 + (Y - \bar{Y})^2]$$

$$= \frac{1}{5 + 5} (12.63 + 9.68)$$

$$= 2.79$$

$$t\text{-cal} = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{N_1} + \frac{1}{N_2} \right)}} = \frac{291.95 - 306.33}{\sqrt{2.79 \left(\frac{1}{5} + \frac{1}{5} \right)}} = -13.61$$

$$t\text{-cal} = -13.61$$

t-tab value at 5% level of significance for 8 degree of freedom = 2.306

Decision:- Since $t_{\text{cal}} < t_{\text{tab}}$, the null hypothesis is accepted hence the difference is insignificant.

Annex VI

Provisions related to securities Registration made by the Security Board of Nepal (SEBON)

A. Securities to be registered:

- (1) A body corporate incorporated as a public limited company or if incorporated in other form enabled to raise funds through the issuance of the Board before issuance of the securities.
- (2) If the body corporate intends to issue the portion of securities remaining to be subscribed after being subscribed by the promoters as according to the terms of memorandum and articles of association or issues additional securities or is to sale securities some one other than the promoters or in case securities hold by the promoter is to sold, shall have to get the securities registered with the Board before such allotment or transfer.
- (3) While registering the securities pursuant to the sub-regulation (2), the securities allotted to the promoters that has not yet been registered, shall also require to be registered with the Board.

B. Submission of an Application for Registration of Securities:

(1) For the registration of securities pursuant to Regulation 3, the body corporate is required to submit an application to the Board in the format as prescribed in Schedule-1, along with cash receipt or bank voucher for registration fee as mentioned in Schedule-2.

(2) While submitting application pursuant to Sub-regulation (1), the body corporate shall be required to submit the following information and documents:

a. Memorandum and Articles of Association of the body corporate if the body corporate is established under Company Act or relevant regulation and bylaws if the body corporate has been established under other special law.

b. Audited report for the latest year, in case the body corporate has completed one year of year of operation and audited financial report for the period of operation if in operation for less than a year, and if audit is not complete, may submit the financial report verified by the management.

(3) The application submitted pursuant to Sub-regulation (1) and the information and documents submitted pursuant to Sub-regulation (2) shall be required to be signed by the person authorized by the Board of Directors of the body corporate.

C. Registration and Issuance of Certificate:

(1) Upon receiving the application pursuant to Regulation 4, the Board shall examine the information and documents attached thereto and shall register the securities in the register book in the format as prescribed in Schedule-3.

(2) The Board, in course of examining the information and documents submitted with the application for registration, may require the body corporate to submit additional information or documents, seek clarification, may require making amendment or submitting information related to the issue process, method to be used for allotment as according to the type and nature of securities to be issued.

(3) If the Board deems appropriate to register the securities and issue certificate according to these regulations, may register and issue certificate in the format as prescribed in the Schedule-4.

(4) The Board may, considering the nature of securities, price of securities or modality of issue and target group or considering the application and the information and documents submitted pursuant to Regulation 4 or based on the process of sales of securities pursuant to Sub-section (2) of Section 30 of the Act, issue appropriate directives regarding the process of issue, allotment and distribution of the securities in order to make the securities issue and transactions fair and informed in the interest of the investors.

(5) It shall be the duty of the body corporate to issue, allot or sale securities according to the terms and conditions as specified by the Board pursuant to the Sub-regulation (4).

D. Provision related to the Sales and Transfer of Securities:

The body corporate shall inform the Board with the following particulars of the securities registered under these regulations within seven days of distribution and allotment.

- a. Allotment date, type of securities issued and number thereof.
- b. Method of issue
- c. Name and address of the buyer or holders of the allotted shares
- d. Paid up value of each securities

Provisions related to the issue of securities made by Securities Board of Nepal (SEBON)

A. Public Issuance of Securities:

- (1) If a corporate body intends to sale and distribute its securities to more than fifty persons at a time, it shall be required to make public issuance of securities.
- (2) If the corporate body is making public issuance pursuant to Sub-regulation (1), the issuance corporate body shall, unless otherwise prescribed by the regulating body related with the concerned business, set aside at least thirty percent of its issued capital for public subscription.
- (3) Notwithstanding anything mentioned in Sub-regulation (1), the corporate body using local natural resource and materials as its raw materials shall be required to set aside at least fifteen percent of its issued capital to the public and ten percent of its issued capital for the people

residing in the area affected by the industry. The shares issued to the people residing in the area affected by the industry pursuant to this Sub-regulation shall not be allowed to sell or transfer within the minimum period of three years from the date of allotment.

- (4) Unless otherwise it is prescribed by the concerned regulating body, the public issuance shall be made making at least fifty one percent promoters' share holding.
- (5) If the corporate body making public issuance pursuant to Sub-regulation (1) is a Bank, Financial Institution or Insurance Company, it shall be required to have completed one year of business operation under its objectives and also required to have published its audited financial reports and completed its annual General Meeting.
- (6) If the corporate body making public issuance pursuant to Sub-regulation (1) is other than a Bank, Financial Institution or Insurance Company, it shall be required to complete the condition as follows:-
 - a. The company is required to complete one year of initiating necessary works required for operation of Business under its objectives,
 - b. Have completed audit and Annual General Meeting as per the regulations,
 - c. If the corporate body has to obtain approval, license or consent from anybody pursuant to the prevailing laws, it is required to have obtained such approval, license or consent,
 - d. Have purchased or managed through other means, the land required for the corporate body and have initiated construction works of factory building, office building, warehouse and other necessary amenities.
 - e. If it is required to select the manufacturing technology and purchase necessary mechanical equipment required for the industry, should have initiated the purchasing procedure,
 - f. Should have concluded financial closure for the construction of the project,
 - g. If it is a corporate body manufacturing hydropower, it should have concluded Power Purchase Agreement and have called tender for construction of Powerhouse and other infrastructure.
 - h. Should have agreed to maintain the loan and capital ratio of the company throughout the project construction period as it is prescribed by the Securities Issuance Directives.

- i. The share amount as agreed by the promoters should have been paid in full.
 - j. The shares set aside for the public issuance should have been underwritten as prescribed in the Securities Issuance Directives.
- (7) Along with the application form submitted for purchasing the shares of the public issuance pursuant to Sub-regulation (1), it shall be required to submit the copy of citizenship certificate verified by the applicant attached thereto and also shall have to mention the name, address of the bank or financial institution where the applicant has maintained account and account number and the issue manager require to have arranged the refund of application money to be deposited in the bank account.
- (8) The account to be mentioned by the applicant pursuant to this regulation shall be the account of bank or financial institution having membership of the clearing house.
- (9) Each applicant subscribing for more than Rs. 50,000 is required to deposit the applicant amount compulsorily through account payee cheque.
- (10) The applicant subscribing for up to Rs. 10,00,000/- may by wish and the applicant subscribing for more than Rs. 10,00,000/- is compulsorily required to mention their Permanent Account Number (PAN) in the application form.
- (11) In case the applicant money so received has been deposited with the Banker to the issue for interest, eighty percent of the interest so received shall be required to be given to the applicant in a proportional basis for the days from the application date to the day before the allotment date and the Board shall be informed of such arrangement.
- (12) The body corporate making public issuance may reserve and allot up to five percent of the shares, as prescribed in Securities Issuance Directives, from the shares that is set aside for public issuance for the working staffs. The shares allotted as such shall not be eligible to be sold or transferred within a minimum period of three years from the date of allotment.
- (13) The shares set aside for the public shall be sold only after selling the shares set aside for the people residing in the area affected by the industry pursuant to Sub-regulation (3).

- (14) The people residing in the area affected by the industry pursuant to Sub-regulation (3) shall not be eligible for re-applying the shares issued for the public.
- (15) If the shares set aside pursuant to Sub-regulation (3) and (12) could not be sold completely and it's remained, such remaining shares may be added to the public shares and issued.
- (16) The issue manager shall be required to cancel any unauthorized application that it detects to have stated false information thereon, seize the amount against the application and deposit it on the bank account as specified by the Board. The Board shall use the amount such deposited for the development and promotion works of capital market only.
- (17) Other provisions regarding public issuance shall be as mentioned in the Directives.

B. Provision related to the Issue of Securities through Circular Method:

- (1) A body corporate shall issue and sale securities by using letter or electronic means targeting to a maximum of fifty investors through the use of circular method.
- (2) While issuing shares through circular method pursuant to Sub-regulation (1), the body corporate shall be required to have obtained the resolution of the general meeting and target the sale of the securities to different associations, institutions, persons or institutional investors designated to be qualified by the Board.

C. Rights Issue of Securities:

- (1) The body corporate may increase capital through the issuance of shares to the existing shareholders through rights issue.
- (2) While making rights issue pursuant to Sub-regulation (1), the "Provisions and Disclosures Related to the Issue of Rights Shares" drafted in the format prescribed in the Schedule-5, shall require to be signed by all of the members of board of directors and be submitted to the Board through the Issue Manager which, after getting registered with and approval by the Board, shall be published.
- (3) While issuing rights shares pursuant to Sub-regulation (1) if the rights to be exercised by the existing shareholder is to be transferred wholly or partially to other nominee, the existing

shareholder shall be required to apply to the issuer body corporate in the format prescribed in Schedule-6 having fulfilled the following conditions

- a. The memorandum or articles shall require to contain provision of transferring the rights of existing shareholder to other person
 - b. The rights obtained by the shareholder shall have to be nominated wholly or partially to only one person or institution.
 - c. Provision of applying as nominee shall have to correspond to the trading lot fixed by the stock exchange.
 - d. Provision that a shareholder who has nominated others to exercise his/her rights shall not be a nominee to exercise the rights of others. However, those who have exercised their own rights fully may exercise the rights as nominee of others.
 - e. The nomination of the rights shall require being in compliance to the limit of shareholding prescribed by the memorandum or articles of the company or that prescribed, if any, by the related regulator and that the nominee shall not apply for the shares including the existing shareholding that result in exceeding the said limit within the groups and that there should be clear provision regarding the exercise of voting rights.
 - f. The person or the institution so nominated shall not be in the black list and shall not be having any disqualification under the prevailing laws.
 - g. Require having provision that the nominee shall exercise the rights within the period opened for rights subscription.
- (4) Notwithstanding anything mentioned in Sub-regulation (3), in case of the Board provisioning for making transaction of rights through Stock Market, the right transfer shall be as per the same provisions.

D. Offering of Shares by the Shareholders in the Groups other than Public:

- (1) The shares subscribed by the shareholders in the groups other than public (group of promoter and other) of the body corporate which is eligible for going public, shall not be qualified for sale unless a three years period after the allotment of such shares is complete.
- (2) If the shareholders of the groups other than public (group of promoter and other), having completed the period pursuant to sub-regulation (1) but have not yet listed the registered shares, intend to sell their shares shall have to furnish the Board with the notice and modality of sales through the licensed share registrar, prior to seven office days of the sales.
- (3) In case the shareholders other than public (promoter and others), having fulfilled the time frame pursuant to sub-regulation (1), intend to offer their securities to the public, and shall have to fulfill the following conditions:-
 - (a) Require the body corporate to be in operation with a record of positive net profit during at least, three out of last five years and shall require having net worth per share more than paid up value per share.
 - (b) Require to have held statutory general meeting and update audit of the financial reports.
 - (c) If the share ownership has been categorized into different groupings, the changes in the groupings shall be required through amendment in the memorandum and articles from general meeting and such resolution shall have to be recorded in the minute book.
 - (d) If the price of the securities to be issued is fixed higher than the face value, the methodology of fixation of price and basis to justify the premium requires to be mentioned.
 - (e) Requires to have complied with the regulatory provision related to the business it conducts and directives of the regulatory body.

E. Provisions related to new Issue (Further Public Issue):

- (1) A body corporate having issued the securities publicly and having been listed may go for new issue (further public issue) in order to raise its capital.
- (2) While making new issue (further public issue) pursuant to Sub-regulation (1) the following conditions shall have to be fulfilled:-

- (a) Require to have a track record of net profit in the latest two years out of last five years and have net worth per share higher than paid up value (per share)
- (b) Require to have a resolution related to the new issue (further public issue) passed by the general meeting
- (c) If the price of the proposed issue is to be fixed higher than the face value, the methodology of fixation of price and basis and justification of the premium.
- (d) Prospectus shall have to be published according to the section 30 of the Act.

F. Offer Document to be published:

(1) In order to offer publicly the securities held by shareholders in the group other than public (group of promoter and other) of body corporate that already have made public issue, the offer document shall be required to be prepared through Issue Manager in the format prescribed in the Schedule-7 and shall be published with the approval of the board.

(2) If the body corporate has not yet made public offering, intends to offer securities as mentioned in Sub-regulation (1) to the public shall have to prepare the offer document having included the information mentioned in Schedule-8 and require obtaining Board's approval before the issuance and publication of the offer document.

(3) The information mentioned in the offer document drafted pursuant to this regulation shall have to be approved by the Board of Directors of the body corporate

G. Prospectus to be published for Public Issuance:

(1) A body corporate, before the issuance of its securities to the public pursuant to these regulations shall require publishing the prospectus in the format prescribed in the Schedule-9.

Provided, however, that the issuance of bonus share shall not require the publication of the prospectus.

(2) The prospectus pursuant to the Sub-regulation (1) requires the approval of the Board before its publication.

H. Application to be submitted for the approval of the prospectus:

(1) The body corporate in order to obtain the approval for the publication of prospectus shall require applying to the Board in the format prescribed in the Schedule-10.

(2) While submitting the application pursuant to the Sub-regulation (1), the following information and documents along with a soft copy thereof, shall be required to be submitted to the Board:-

- (a) Document to verify the Capital Structure (authorized, issued and paid up) of the body corporate,
- (b) Updated Memorandum and Articles of the body corporate,
- (c) If the body corporate has been established under law, the regulations and by laws there under,
- (d) Audited financial statement of the latest year
- (e) Due diligence certificate issued by the Issue Manager declaring that the draft prospectus have been prepared professionally and in compliance to the Act, there regulations and other regulations under the Act, bylaws, directives related to the issue management.
- (f) In case the securities are underwritten, a copy of the related agreement.

(3) The Board shall start processing the prospectus only after the draft prospectus, required information and documents to be submitted to the Board pursuant to this regulation have been received.

(4) All the members of the Board of directors shall have to fix signature in the prospectus to be submitted to the Board pursuant to Sub-regulation (1).

I. Approval and Publication of the Prospectus:

(1) The board, upon receipt of the prospectus attached to the application pursuant to Regulation 14 shall examine the prospectus to see whether it fulfills requirements pursuant to Section 31 of the Act and if the Board is satisfied with the content and presentation of the prospectus, the Board shall approve the prospectus for its publication in the format as prescribed in the Schedule-11.

(2) While examining the prospectus pursuant to Sub-regulation (1), the Board finds that some important information has been omitted or undesirable information has been included, the Board may notify to include required information, amend as required or change and the Board shall proceed further processing only after the receipt of the prospectus with the required amendments or changes.

(3) The prospectus approved pursuant to Sub-regulation (1) shall remain valid for the public issuance of the securities so long as the content and information in the prospectus remain complete and accurate.

(4) In case of changes in the disclosures made through the prospectus approved prior to the opening of subscription whether it be due to regulatory provisions or directives of the regulatory body or due to other reason, and such changes is material beyond normal course of business operation having substantial impact on the decision of investor, the prospectus shall require to be changed and amended by including such changes and the issue process shall require to start only after getting the amended prospectus approved by the Board.

(5) Whatsoever mentioned in the Sub-regulation (4), any changes having material impact occurs accidentally or otherwise during the period of opening of public issue, the collection of the application should be on hold and the information on the event, its impact and changes shall have to be published immediately in the national daily, through the Issue Manager, for the information of the concerned investors and the Board shall have to be informed accordingly.

(6) The collection of application shall require starting only after including the changes pursuant to Sub-regulation (5) and getting the amended prospectus approved by the Board.

J. Announcement to be published:

(1) In order to issue and sale securities through the publication of prospectus or offer document, a body corporate shall have to publish announcement with information at least in one national level daily newspaper minimum one week earlier from the date of opening of the issue and the Board shall have to be informed on such matters.

(2) While publishing announcement pursuant to the Sub-regulation (1) or publishing issue related advertisement, the issuer, through the Issue manager, shall be required to publish and communicate truthful and factual matters related to the issue including management, technical and economic matters. Each of such issue related notices shall have to be presented to the Board before one working day of the publication.

(3) The prospectus, announcement, information regarding the rights issue, offer document or other documents required by the Board shall contain issue related information only and publicizing the product and services excepting the issue related notices shall be prohibited.

K. Issue Management to be done through the Licensed Securities Businessperson:

(1) A body corporate while making public issue of securities, rights issue of share or making public offering of securities held by group of shareholder other than in public group shall require using the services of the Securities Businessperson licensed to function as Issue Manager.

(2) The body corporate while using the service of the Issue manager pursuant to Sub-regulation (1) shall require entering into an agreement with the Securities Businessperson and a copy of the agreement shall be required to be submitted to the Board within fifteen days of the date of the agreement.

L. Provision related to Obtaining the Views/ Suggestions from Stock Exchange:

(1) A body corporate while submitting a copy of prospectus, documents related to the issue of rights share, offer document and other documents designated by the Board to be prepared and submitted to the Board, shall also require to submit a copy of such document to the Stock Exchange.

(2) The Stock Exchange, within seven working days from the date of submission of the document pursuant to Sub-regulation (1), shall require giving its views/suggestions to the Board whether the securities are qualified for listing or not under the related bylaws of the Stock Exchange.

(3) If the views/ suggestions from the Stock Exchange are not available within the time frame pursuant to Sub-regulation (2), the board shall assume the concurrence of Stock Exchange on the disclosure and shall approve disclosure documents for the public issue.

(4) The body corporate shall submit a copy of approved prospectus, document related to rights issue, offer document and other documents required by the Board to be submitted to it, to the Stock Exchange.

M. Issuance of Additional Securities:

The body corporate may issue additional shares within the limit of five percent of the issued capital in case practical difficulties arise while making allotment and require flexibility. The following conditions shall be required to have fulfilled for the issuance of such additional shares:

- (a) The issuance of the additional shares shall have to be in congruence to the capital structure and composition of the Board of directors of the body corporate mentioned in the Memorandum and Articles of Association.
- (b) The prospectus requires having disclosures regarding the issuance of the additional shares.
- (c) The registration fee for the additional capital shall have to be received.
- (d) Agrees to publish about issuance of additional share and the rationale thereof publicly.

N. Value of Securities:

(1) The face value of securities shall, generally, be Rs. 100 per unit, if shares, Rs. 1000 per unit, if debenture, and Rs. 10 per unit, if collective investment scheme.

(2) The face value of securities other than those mentioned in Sub-regulation (1) shall be prescribed by the Board from time to time depending on the nature and volume of securities.

O. Provision relating to processing fee:

(1) While submitting the prospectus, offer document, document related to the issue of rights share and other documents required by the Board to be submitted to it, a receipt or bank voucher worth of rupees twenty thousands shall be required to be submitted to the Board.

(2) The processing fee submitted pursuant to Sub-regulation (1) shall be valid for one time approval for the issue. In case securities could not be issued within the stipulated period and has to be submitted to the Board for obtaining reapproved, shall have to submit along with the processing fee pursuant to Sub-regulation (1).

(1) While submitting the prospectus, offer document, document related to the issue of rights share and other documents required by the Board to be submitted to it, a receipt or bank voucher worth of rupees twenty thousands shall be required to be submitted to the Board.

(2) The processing fee submitted pursuant to Sub-regulation (1) shall be valid for one time approval for the issue. In case securities could not be issued within the stipulated period and has to be submitted to the Board for obtaining reapproved, shall have to submit along with the processing fee pursuant to Sub-regulation (1).

Research Questionnaire

Dear Respondent,

This questionnaire is prepared for my research on **“Issue of Right Share Practices in Nepalese Commercial Bank”** which helps me to the partial fulfillment for the degree of Master of Business Studies (MBS). I humbly request you to fill at the best knowledge. Your co-operation will be highly appreciated.

I assumed that the information collected from you will be exclusively used for the research purpose only and will not be published in any media.

I shall be highly obliged for your response as for as possible.

Thank you,

NABIN KUMAR DANGOL

Researcher

Nuwakot Adarsa Multiple College

Battar, Nuwakot

Respondent’s Detail

Name:-

Address:-

Organization:-

Designation:-

Date:-

a. Choose best alternative. Tick [].

i. Do you agree that Nepalese firms are using right share as an instrument to increase their capital in increasing ratio?

1. Strongly 2. Agree 3. Neutral 4. Disagree

ii. In your opinions, who are the beneficiaries of the right offering?

1. Shareholders with rights 2. Issuing Companies
3. Security Brokers 4. All of them

iii. In your opinion, in which sector investors prefer most in issuing right share?

1. Banking/Financial 2. Insurance Sectors
3. Manufacturing/Trading Sector 4. Hotels & Other Sectors

iv. Do you think that investors are well aware of the phenomenon of right offering?

1. All of them 2. None of them 3. Very few of them 4. Majority of them

v. What do you think the effect of the right share would be on the Market price (MPS) of the stock?

1. Would rise 2. Would fall 3. Remain constant 4. Don't know

vi. What do you think the effect of the right share would be on the Earning per price (EPS) of the stock?

1. Would rise 2. Would fall 3. Remain constant 4. Don't know

vii. What do you think the effect of the right share would be on the Dividend per share (DPS) of the stock?

1. Would rise 2. Would fall 3. Remain constant 4. Don't know

viii. In your opinion, do you satisfied with the legal provision about right share in Nepal?

1. Adequate 2. Inadequate 3. Don't know

ix. Do you think that investor get reliable and adequate information from the company regarding right share issue?

1. Yes 2. No

x. Why does the Nepalese corporate firms prefer right share instead of other instruments like bonds, debenture, preference shares etc.

1. Low flotation cost 2. Easy process to collect fund
3. To maintain control position in Management 4. Other cause

xi. Now, rights have transferable feature in Nepal, what will the shareholders do, if rights are issuing by a company?

1. Sells the rights 2. Exercise the rights 3. Partially sells the rights
4. Neither sells nor exercises the rights

b. Rank the following factors from highest [1] to lowest [4] in terms of the effects.

i. In your opinion, what is the reason for issuing right share?

1. To fulfill needed extra capital
2. To meet directives of NRB
3. To give benefit to shareholders
4. To increase the no. of outstanding shares

ii. What are the major causes of under subscription of right share in Nepal?

- 1. Low performance of the related company
- 2. Transferability problem
- 3. Lack of Investors awareness
- 4. Insufficient promotional role played by the issue manager

iii. Among financial institutions, which sectors right share issue to investors prefer most?

- 1. Commercial Banks
- 2. Development Banks
- 3. Financial Companies
- 4. Insurance Companies

iv. In your opinion, why investors are interested to purchase the rights share?

- 1. To increase the value.
- 2. To increase the number of shares
- 3. To increase the Dividend
- 4. To maintain the control position in Management

c. Please give your views in open and ended questions.

i. In your opinion, what are the major problems to practices the right share in Nepalese securities market?

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ii. In your opinion, what actions the issuing company should take so that the subscription rate of right share is high?

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iii. Currently, right share practices exists transferability feature in Nepal, are you satisfied with it?

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iv. Finally, any experience, problems and recommendation, you want to share about right share practices in Nepal?

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.....
.....

☺ Thank you, ☺

RESUME

Bio-data of: -

NABIN KUMAR DANGOL

Bidur-1, Dhunge, Nuwakot

010-560705, 9849559779

dglabin@gmail.com, me_newnabin@hotmail.com

Education:-

M.B.S. in Nuwakot Adarsha Multiple Campus

B.B.S. in Peoples' Campus,

+2 in Tribhuwan Trishuli Multiple Campus and

S.L.C. in Shree Jalpa Devi English B. School

No. of years of education:-

M.B.S.- 19 years (till the date)

Apprenticeship

Training: -

Basic computer Course in Vision Computer and language Inst.

Diploma in Micro tech computer Institution

Tally Course

Languages:-

Can speak, read and write English fluently.

Can speak Nepali, English and Newari languages.

Health:-

Excellent, willing to relocate, travel

Personal data:-

Age: 25 years. Born on 30/01/2042 (12 May, 1985) at Bidur-1,

Dhunge, Nuwakot

Martial status: -

Single