CHAPTER - I

INTRODUCTION

1.1 Background of the Study

“When a company is formed, it obviously must be finance. Often the seed money comes from founders and their families and friends. For some companies, this is sufficient to get things launched and with retained earnings, no more equity is needed. In other situations equity infusions are necessary” (Van Horne, 1999:548). Common stockholder's of a company are its ultimate owners, collectively they own, the company and assume the ultimate risk associated with ownership. The nature of equity ownership depends upon the type of the business or organization.

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 area. 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 focuses on the right offering to the existing shareholders. Sometime companies are bound to issue new shares of additional stock to the existing shareholders imply because of ‘pre-emptive right' clause in the act of incorporation.

Ordinary share, preference share and debenture are three important securities used by firm to raise fund to finance their activities. Ordinary share provide ownership right to ordinary shareholders. They are the legal owners of the company. As a result, they have residual claims on income and assets of the company. They have right to elect the board of directors and maintain their proportional ownership in the company called the pre-emptive right. The pre-emptive right of equity fund through right offerings. Right issue does not affect the wealth of the shareholders. “The price of the share with on gets dividend into ex-right price and the value of the right. So what the shareholder gains in terms of the value of the right he loses in term of the low ex-right price. However, he will lose if he does not exercise right” (Pandey, 1999: 548).

Right share are issued to the existing shareholders as a result of increased in 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 has an option to purchase a stated no of share at subscription price which is generally below the share current market price within specified period of time.

Large number of corporate firms announces and issue right share to increase the capital base if the corporate management felt such need or to comply with the policy directives given by concern authority to increase the capital base from time to time. In our country, Nepal Rastra Bank issues the policy directives to the commercial banks to control and for the supervision of the establishment and operation of commercial banks in Nepal. Nepal Rastra Bank had already issued the policy provisions regarding the requirements of minimum paid up capital in commercial bank, which significantly affected the right share issuing practices of commercial banks in Nepal. A company issues right share under the principle of preemptive right of the shareholders. Under this right, the existing shareholders have the first priority to purchase any new equity share issued by the company.

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

A company may give its existing stockholder the first opportunity to purchase a security issue on a privileged subscription basis. This type of issue known as right offering because existing stockholder receive one right for each share if stock they hold. A right represents an option to buy the new security at the subscription price and it takes a specified number of rights to purchase the security. Depending on the relationship between the current market price of the stock and the subscription price, a right usually will have a market value. Security offering to the general public and offering on a privileged subscription basis must comply with federal and state regulation. “The enforcement agency for the federal government is the Securities and Exchange Commission; whole authority encompasses both sale of new securities and trading of existing securities in the secondary market” (Van Horne, 1999:582).

It is often necessary to consider making new issue at a discount to the current market price but to do so would be to rob existing shareholders. This can be an avoided the existing shareholders are given right to buy these discounted share proportion to their existing shareholders: Hence the name 'right issues'. These issues are normally described by reference to how many new shares can be brought for a member of existing shares owned, e.g. a 1 for 5 right issue means that for every 5 shares owned the shareholder gets the right to buy 1 of new shares being offered. The company not forces its existing shareholders to buy any more shares in the company and hence it is granting them an option to buy these new shares. As the new shares are being issued at a lower price than the current market price of the existing shares, this option should have a value and can be sold if the current shareholder does not make to take it up.

Right have intrinsic financial values because they are normally offered at a price somewhat lower than the current market price of stock. Consequently a market exists for the buying and selling of rights and once again we enter the world of speculator. An especially attractive speculative investment is using margin to buy rights with the hope that the value will rise.

1.2 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 by the sample firms in regards to the right share issue & its impact on Share price. 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. This study also examines the practice made by the Nepalese firm in this regard, stock price movement and current legal provision regarding right share issue.

1.3 Statement of the Problem

Right offering announcement by a company serves good news to its existing shareholders. 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 market. A view held by professional investor. Finance directors and some academics is that a right issue because it increases the supply of a company's shares, will have a depressing effect on the share price. It should consider some theoretical relationship in rights offering. Several issues conformity the financial manager who is deciding on the details of right offering. Here it should also consider the pure stock split effect of the issue of right. Under there assumption the question posed to financial manager is:

1 How many right will be require purchasing a share of the newly issued stock?
2 What is the value of each right?
3 What effect will the rights offering have on the price of existing stock?

Nepalese stockholder are generally so easy going that they do not grumble even when deprived of their fundamental rights. They are kept in dark about the developments that may be determined to the functioning of their companies. Information provides knowledge and it leads to creating value and power. Therefore, owners of information wish to block the information so as to reap all the benefits themselves. In publicly owned companies some of the information cannot be covered up for ever and they are made public eventually but those who have the first hand access to such information try to cover up these as long as the value of such information is relevant.

The existing shareholders should not have only the right to purchase additional shares as issued by the company, but they should also have the right to renounce the right and which should not be provisional but automatic.

Therefore, the right holders always should have the following right.

1. Exercise the right and subscribe additional share.
2. Buy additional rights to meet the requirement of additional subscription.
3. To sell rights partially.
4. To sell all the rights to get benefits.
5. Let the rights to expire.

Thus the provision of right transaction not only provides an opportunity to the shareholders to sell and gain but it also provides good new investment opportunity to the existing shareholder. There is not any obligation for the existing shareholder to purchase additional share under the right issue. But there should be the right to them to sell the right. This means any shareholder unable to purchase additional share mist have right to sell the right and the buyer of such right should get to use these rights to purchase the right share of the company. Any country where these is provision for right issue also has the provision to sell and purchase rights.

Theoretical price of share increases, after right offering and decreases, after the allotment of right shares. But some examples have shown mix trend or result. Nepal share market and finance company is the first right share issuing company in Nepal. At that time the market price of its stock was Rs.110. but after right announcement there was only one transaction before the record date that even at a lower price.

Table 1.1

Right Issue During the fiscal year 2001/2002 to 2006/2007

	Total Issue Approved		Right Issue Approved	
Fiscal Year	Number Of Company	Issued amount (Rs. In Million)	Number Of Company	Issued amount (Rs. In Million)
2001/02	16	1416.63	4	387.87
2002/03	17	853.83	4	162.24
2003/04	16	1547.79	4	429.92
2004/05	12	1270.31	6	669.42
2005/06	34	2547.87	14	1241.45
2006/07	6	255	4	240

Source: SEBO Annual Report 2006/07

For example in the neighboring country India the right is negotiable. But despite the increasing trend of right issue in Nepal during the eleven years long history of right issue, there has not been any provision here to make the ‘right’ negotiable.

To sum up this study deals with the following issues:

1. What is the relationship between right share issue and market price of share?
2. What is the theoretical value of right and its practical effect on stock price?
3. When right issue is made, what the trend of shareholders is in subscribe for the new share, sell the right or do nothing at all?
4. What are the reasons behind price movement after announcement of right share?

1.4 Objectives of the Study

This study focuses on the study of the right issue announcement. The investigation covers two interrelated aspects. The characteristic features of rights offering by the price movement associated with the right offering.

The objectives are as follows:

1. To identify existing practices of right issues.
2. To find out impact on changes in market price of the stock, before and after the announcement of right offering.
3. Analyze the effect on the shareholders profitability due to the unreserved shareholders right.
4. To analyzes the inadequacy of existing law, on the matter of right share.
5. To point out suggestion to the related bodies.

1.5 Limitation of the Study

This study is required for the partial fulfillment of the MBS degree. The study is related to the study of share price movement due to right share offering by Nepalese firm. Therefore the scope is limited within the listed companies having right issue.

1. The study covers the period of five year.
2. Only the some right issue companies are considered out of 19 for the study.

3. While analyzing the data, price indices of total equity capital is taken everywhere simply because sector wise indices are not available for the period of the study.
4. The study is mostly based on secondary data.
5. This study heavily focuses on the right offering and current legal aspects associated there in Nepal.

1.6 Organization of the Study

This study has to be completed within the format provided by the research department of T.U. so the research has been divided into following chapters. They are as follows.

Chapter - I: - Introduction

This chapter contains the introductory part of the Study. As already mentioned this chapter describes the major issues to be investigated along with the general background, statement of problem, and objectives of the study.

Chapter - II: - Review of Literature

This chapter is directed towards the review of literature of related studies, which contains conceptual framework, review of related journals and review of related thesis.

Chapter - III: - Research Methodology

This chapter describes the research methodology employed in the study. It includes research design, nature and sources of data, selection of companies, method of analysis, used statistical tool and definition of key terms.

Chapter - IV: - Data Presentation and Analysis

Fourth chapter of the Study is data presentation and analysis. This is the main part of the study. Obtained data are presented in the tabular and other forms obtained data has been analyzed by using various statistical tools.

Chapter - V: - Summary, Conclusion and Recommendations

This chapter is the last chapter of the study and includes summary, conclusion and some recommendations.

CHAPTER - II

REVIEW OF LITERATURE

Review of literature means taking knowledge from different sources. In this chapter, the researcher has reviewed various published and unpublished materials. This chapter is divided into two parts i.e. conceptual review & review of related studies.

2.1 Conceptual Review

A publicly held corporation can raise capital either by selling equity directly to investors or by issuing subscription lights to its shareholders. Since there are various ways of generation fund in a firm but when a new company is firmed, the ways are limited. Right issue is relatively new practice for Nepalese organization. Rights issue is related to primary issue or initial financing to raise the equity fund, So the easy and fast way of generating funds for new company is to issue the ordinary shares. This financing is called initial financing.

2.1.1 Initial Financing

Fund collected through various sources to establish a firm is called initial financing. It is also called venture capital. Debt funds sometimes are provided, but for the most part, common stock is involved. Almost always the stock is not Registered for a period of years. Known as letter stock, it cannot be sold until the issue is registered; therefore, the investors have no liquidity for a period of years. So wealthy individuals and institutional investors such as pension funds, trusts life insurance companies and universities are one of the major sources of initial financing.

2.1.2 Initial Public Offering

When a company wants to raise funds from the public, it issues securities. This announcement for the public to raise fund is called initial public offering. If a private firm is successful usually the owners will want to take the company with a sale of stock to outsiders. Often this is prompted by the venture capitalists, who wish to realize a cash return on their investment. In other situations the founders simply want to establish a value and liquidity for their stock. Whatever the motivation, a decision is reached to become a public corporation, while there are advantages to be a public corporation and there are disadvantages as well. The public company in our context must conform to SEC requirements in having a board of directors, disclosing sensitive information having to employ certain accounting conventions and incurring expenses as a public company not incurred by a private one. In addition there is an investor fixation on quarterly earnings. At times this is a hindrance to management in trying to take long term decisions".

Public issue of equity means raising of share capital directly from the public. Issue of equity obviously creates a value of a company and no doubt it is the major sources of capital. But the company has to incur the cost of the public issue. This cost involves direct and indirect cost. Direct cost involves legal auditing and administrative cost and underwriting commission. "Thus public offering involves raising of funds for governments or corporations the public through the only issuance of various securities in the primary market and is often the only major sources of obtaining large sum of fixed rate, long term funds.

2.1.3 Right Issue

The easy way of raising capital is issue of common stock under the right offering the stockholder are provided a document called right which describes all about the condition of right issue. When a company issue shares to the existing shareholders the stock floatation is called a rights offering. Each stockholder receives one right for each share of stock owned. If the preemptive right is contained in a firm's charter then the firms must offer any new common stock to its existing shareholders. "A rights issue involves selling of ordinary shares to the existing shareholder of the company.

Company act 2053 B.S. has also provided about the preemptive right of shareholders in section 42(4). If the preemptive right is contained in firm charter, then the firm must offer any new common stock to existing shareholders. If the charter doesn't prescribe the preemptive right, the firm has a choice of making the sale to its existing shareholders or to an entirely new set of investors. If it sells to the existing stockholders, the stock flotation is issued an option to buy a certain number of the new share and the terms of the option are contained on a piece of paper called "Right" each stockholder receives one right for each share of stock owned.

"The law in India requires that the new ordinary shares must be first issued to the existing shareholders on a pro rata basis. This preemptive right can be forfeited by shareholders through a special resolution obviously this will dilute their ownership."

2.1.4 Features of Rights

Features of Rights are:

a. The number of rights equal to the number of shares held by the respective shareholder i.e. the number of rights that a shareholder gets is equal to the number of shares held by him.
b. Rights can be exercised only during a fixed period, which is usually about thirty days.
c. The issuing company determines the number of rights required to subscribe to an additional share.
d. Right are negotiable. The holder of rights can sell them. Right can be detachable i.e. only right can sell.
e. The price per share for additional equity called the subscription price is left to the discretion of the company.

2.1.5 Preemptive Rights

A publicly held corporation can raise equity capital either by selling equity directly to investors or by issuing subscription rights to its shareholders. A corporate offering to existing shareholders prior to public distribution is termed as rights offering. The preemptive right entitles a shareholder to maintain, his proportionate share of ownership in the company .The law grants shareholder the right to purchase new shares in the same proportion as their current ownership. Thus if a shareholder owns 1 % of the company's ordinary shares, he has preemptive right to buy 1% of new shares issued.

A preemptive right is the privilege of existing shareholders to participate in a right offering, so existing ordinary shareholders have legal right to purchase the new shares issued by the company. Company cannot sell their additional shares avoiding the existing shareholders and their right. Shareholders are granted preemptive right either by common law or explicitly by the corporate charter. A corporation may have the right to amend the article of its incorporation to limit or deny this preemptive right. "The preemptive right gives the holder the first option to purchase additional issues of common stock.

Corporations can contract with an investment-banker to issue new equity. This contract may specify that the investment banker buy all the new equity from the issuing company at a fixed price and resell it to the public or in a rights offering. Agree to buy the unsubscribed shares. If the preemptive right is 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 pre-emptive, the firm has a choice of making the sale to existing stockholder, or to an entirely new set of investor. If it sells to the existing stockholder, 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 called a right. Each stock holder receives one right for each share of stock owned.” Another important thing is preemptive right protects shareholders against a dilution of value we can classify it by following example:

Suppose there is 10,000 shares outstanding with Rs100 each making the value of the firm Rs 10,00,000. If additional 5000 share were sold@ Rs 75 a share for Rs 3,75000 making the total market value of firm Rs 1375000 But when total market value is divided by total number of share, a value of Rs 91.67 is obtained. Here the old shareholder then loose Rs 8.33 per share. It is due to selling ordinary share at below market price. But if rights share issue is made it protects the current stockholder from diluting their value.

2.1.6 Advantages and Disadvantages of Rights Issue

Right issue is advantageous for company because all shares can be sold at certain period and it also give the existing shareholder right to purchase additional shares at a price some what lower than market price. The advantageous and disadvantageous of right issue are as follows:

Advantages

i) The existing shareholders control is maintained through the prorate issue of shares.

ii) 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.

iii) Raising funds through the sale of rights issue rather than public issue involves less flotation costs as the company can avoid under writing commission.

Disadvantages

i. The main disadvantage is to the shareholders who fail to exercise their lights, they loose in terms of decline in their wealth.
ii. Second is for those companies whose shareholding is concentrated in the hands of financial institutions because of the conversion of loan into than the rights issue.

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

2.1.7 Rights Offering Procedures

Every company generally follows the same procedure for rights issue. Generally when a company sells securities by privileged subscription it mails to its stockholders one right for each share of stockholders. This 'Right' gives the stockholders the option to purchase additional shares. Before rights issue, the company publishes a "Prospectus" mentioning terms of offering. These terms include various things such as rights required to purchase one additional share of stock, subscription price, application procedure etc. After receiving the rights, the rights holder has three options, first exercise the right, sell right and do nothing & let them expire. Generally, the subscription period runs about 3 weeks. A stockholder who wishes to buy a share of additional stock but does not have the necessary number of rights may purchase additional rights.

For example if you have 10 shares and if 3 rights are required to purchase one additional share then you are able to purchase only three shares but after purchasing 2 rights you will be able to buy 4 shares of stock. Date of record or holder of record date is very important in right issue Board of directors fixes this date and the shareholders who purchase the shares after this date will not be able to purchase the additional shares. The stock is said to sell with rights on through the date of record. After the date of record, the stock is said to sell ex right i.e. the stock is traded without the rights attached.

2.1.8 Effects of Rights Issue on Shareholders Wealth

After receiving the rights from the issuing company, shareholders have three options. One is to exercise their rights and purchase additional number of shares. Second sell the rights and finally third option is do nothing and let them expire. If shareholders have sufficient fund then they exercise the right. If they do not have sufficient fund or do not want to buy more stock, they will sell the rights. In either case provided that the theoretical value of the rights holds true, stockholders will neither benefit nor lose by the rights offering. A stockholder may suffer a loss if he forgets to exercise, or sell his rights or brokerage cost of selling the rights are excessive.

2.1.9 A Brief introduction of Nepalese Securities Market

Security market of Nepal has no longer span of life. At first Nepal Rastra bank (NRB) and Nepal industrial development corporation made a joint effort to establish security market center (SMC) to monitor the public saving for ensuring public ownership in the share of public limited companies. In the beginning of the establishment, the center made studies the public limited companies and devising the ways and means of undertaking the business of buying and selling in securities. But in reality, the center was working as a body of NRB to reduce, its working load relating to government securities. In 1983, the security marketing center passed a security exchange act 1983 and also mentioned the provision for listing. There was not any plan and programmer of security market until seven five year plan eight five year plan only.

Security exchange center was established with an objective of facilitation and promoting the growth of capital markets before conversion into stock exchange it was only the capital markets institution undertaking the job of brokering underwriting, managing public issue, making for government bonds and other financial services.

The securities exchange act 1983 was amended in the period of eight plan for the achievement of eight five year plan objective towards the capital market. The main objective of eight five year plan was to establish the securities exchange board and rules and regulations followed through securities exchange board.

His majesty government initiated to reform capital market converting securities exchange center into Nepal Stock exchange ltd. In 1993 NEPSE is a non profit making organization operating under securities exchange ACT 1983.

The basic objective of NEPSE is to make impact free marketability and liquidity of the government, and corporate securities by facilitation transaction, its trading floor through market intermediaries shares broker market, market maker etc NEPSE opened its trading floor on 13th Jan 1994 with 25 licensed broker members.

2.2 Nepalese Economy and Securities Markets

The fiscal year 2005/06 could not be satisfactory in terms of national economic activities. During the year, the growth of agricultural sector, which makes up the major chunk of the national income, fell far short of expectations. Likewise, the growth rate of non agricultural sector also remained nominal, as industries faced difficulty in operation due to deteriorating security situation in the country. This decreased the economic growth rate to 1.9 percent in the fiscal year 2005/06, from 2.7 percent in the fiscal year 2004/05.

A total of 29 public companies mobilized Rs 2.4billion from the securities market during the fiscal year 2005/06 by issuing securities, a 50.2% rise as compared to the mobilization during the last fiscal year.

In the last fiscal year, total listed companies in Nepal Stock exchange ltd. Were 125, which has increased to 135 at the end of the fiscal year 2005/06. Total market capitalization of the listed companies at the end of the fiscal year 2005/06 is Rs 96813.74 million, which is 57.8% higher than that of the last fiscal year. In this fiscal year, the contribution of market capitalization to the GDP has been estimated to be 12.06 percent. The price index of the listed securities in Nepal Stock exchange ltd.(NEPSE Index) closed at 386.83 points, in the fiscal year 2005/06.It is 100.16 points higher than that of the last fiscal year’s index.

2.2.1 Securities Board of Nepal (SEBON)

Securities Board of Nepal was established on June 7, 1993 as an apex regulator of securities markets in Nepal. After its establishment, SEBO has been concentrating its efforts to improve the legal and statutory framework. Which are the bases for the healthy development of capital market. Second amendment was made in securities, exchange act to make the SEBON as an open regulator of Nepalese Security Market.

2.2.2 Objectives of SEBO/N

As per the securities act 2006, the major objectives of SEBON are to regulate issue and trading of securities and market intermediaries, promote the market and protect investor’s rights.

Other general objectives are as follows:

a. To promote and protect the interest of the investors by regulations the issuance, sale and distribution of securities and purchase, sale or exchange of securities.
b. To supervise, look after and monitor the activities of the stock exchange and of corporate bodies carrying on securities business.
c. To render contribution to the development of capital market by making securities transactions fair, healthy, efficient and responsible.

2.2.3 Functions, Duties and Authorities

As per the securities rules and regulation, following are the major functions duties and authorities of SEBO/N

a. Register securities and approve prospectus of public companies.
b. Provide license to operate stock exchanges.
c. Provide license to operate securities business.
d. Give permission to operate collective investment schemes and investment funds.
e. Draft regulations, issue directives, guide lines, and approve by laws of stock exchanges.
f. Supervise and monitor stock exchanges and securities business activities.
g. Take enforcement measures to ensure market integrity.
h. Review reporting of issuer and listed companies and securities businesspersons.
i. Conduct research, study and awareness programs regarding securities market.
j. Coordinate and cooperate with other domestic as well as international regulators.
k. Frame policies and programs relating to securities markets and advise the government of Nepal in this regard.

2.2.4 Procedures for the issue of Rights in Nepal

Every company which wishes to issue right share should follow some procedure. Company act 2053 is silent about the rights issue but mentioned that rights share shall be issued following the same procedure as ordinary regulation to issue the rights. Following procedure is generally adopted by Nepalese company to issue rights share:

a. The BOD should consider about that the determination of the quantum of further capital requirement and the proportions is which the rights issue might be offered to existing shareholder.
b. Company should notify NRB, NEPSE office of the company register and SEBON sufficiently with prospectus in advance of the date of board meeting at which the rights issue is likely to be considered and should get permission from them.
c. AGM should pass the proposal of BOD by its majority.
d. Make announcement with prospectus 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.
e. Letter of provisional allotment of rights offering to the shareholders about the terms of the rights offered, the number of new shares allocated to each given number of old shares, the price at which the issue is to be made and the conditions letter will be sent after the date announcement.
f. After the receipt of the letter of provisional allotment, the allotment must be made for those shares which are renouncing.
g. 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 certificate in favor of a third party. Because of nontransferable instrument, such practices are not seen in Nepalese context.

h. 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.

2.2.5 Nepalese Securities Market & Rights Issue

According to the SEBO during the fiscal year 2002/2003 total no of issuing companies were seventeen out of these four companies issued right share. In this year, total public issue approval is Rs. 853.83 million and out of this issue of securities through right share is 162.24 million. In the fiscal year 2003/04 total no of issuing companies were sixteen amounted to Rs. 1547.79 million out of which right issue were four amounting to Rs. 429.92 million similarly in fiscal year 2004/05 no of issuing companies are twelve out of which six issued right share. Total public issue approval in the year is 1270/31 million and issue of share through right issue is Rs. 669.42 million. In 2005.06 another fourteen companies has issued right share out of thirty four issuing companies. Through right issue amount Rs. 1241.45 million out of Rs. 2547.87 million in total public issue approval. Public and right issue approval of 2002/03 to 2005/06 is as follows.

Table 2.1

Public Issue Approval

Years	2002/03	2003/04	2004/05	2005/06
No of total issuing companies	17	16	12	34
No of right issuing companies	4	4	6	14
Total public issue approval (million)	853.83	1547.79	1270.31	2547.87
Right issue approval (million)	162.24	429.92	669.42	1241.45

2.3 Review of Different Studies

2.3.1Review of Mini Research

Khagendra Prasad Ojha (2000) had done mini dissertation on Financial Performance and Common Stock Pricing. His study set out following Objectives**:**

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

His findings were following:

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

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

2.3.2 Review of Journals/ Articles

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

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

10, 2006)

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

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

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

The measure varied from 4.07 percent for utilities to 8.04 percent for industries. A considerable portion of the decline took place shortly before the actual rights period.

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

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

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

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

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

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

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

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

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

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

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

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

A senior official at the Security Exchange Board (SEBO) said that prices of banks' shares were overvalued and the recent crash of the stock market has served to cool the overheated market. "Our stock market suffers from the problem of overvaluation, and we have no mechanism to intervene in the market to make corrections", said Dipak Raj Kafle, chairman of SEBO. Citing the example of India, he said Indian security board puts companies in the red when their price-earning ratio crosses 20 percent. "But in the absence of proper mechanism, we can do nothing even when the ratio has gone up 74 times higher in case of some companies."

He also pointed out the need of immediate reform in the secondary market to protect the interest of investors. Strong regulatory framework, tools, institutions and mechanisms were necessary for carrying out capital market operations in a far and efficient manner.

These problems make our results harder to interpret in trying to reach conclusions on market efficiency. While it seems clear that an equally weighted portfolio of rights issue would have outperformed the broadly based market-value weight FTA index, it seems unlikely that this has anything to do with rights issues as such. Instead, it appears to reflect the 'company size' factors, which was at work during the period. If seems fair, therefore, to conclude that our result do not furnish any very strong evidence of significant market inefficiencies associated with rights issues. Because of this, we cannot reject the hypothesis that the UK market is efficient with respect to rights issue announcements. The test of our test on price pressure & market liquidity where of more conclusive although on average, there did appear to be small setback of ½ % know evidence what show over that the returns over issue (announcement) period were related to size of the issue. Quoted companies appear to be able to sell reasonable amount of new equity at effectively the current market price, and do not appear to face a downward sloping demand curve for their share. Hence although in recent years there has been seems little justification for any real concern over the operations of this particular segment. The London Stock Exchange and Nepal Stock Exchange appear to be a highly liquid market.

2.3.3 Review of Master's Thesis

There is many masters' thesis prepared by various researchers in the past years. Among them, some thesis is reviewed for the analysis of literature.

Padam Gharti (2001), had done research on "Bonus Share Announcement and Impact on Stock Price of Nepalese Corporate Firms"**.** This study is being undertaken to analyze bonus share issue practices in Nepalese listed companies and its impact on share price.

The main objectives of the study are: -

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

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

1 The immediate share price rise after bonus announcement is significant. Bonus share announcement of banking sector is considering positively by the invertors but shown reluctant for the non-banking sector that the price decrease immediately after bonus announcement.
2 The intention of issue bonus share of broad of directors leaks out before officially announcement. Therefore, the share price rises one month before the actual announcement due to the activities of the 'insiders'.
3 The share price, in most of the case, does not decrease after distribution of bonus according to bonus ratio as theory says. The reason behind the situation may be that the investors cannot interpret the information and data. There is a great misconception about bonus share that the general investors think that they receive extra/ additional share with same value.
4 The share price of the non-banking sectors shows inconsistency as compare to the banking sector. Therefore, investing on non-banking sector is more risky the banking sector.

5 Long-term effect of bonus share issue, as well as immediate, is significantly positive. In most of the cases the aggregate market valuation of the corporate firms' equity capital increased as the result of bonus issue. 81.2 Percent of the bonus issue is recorded different level gain over the base date price, after adjusting of the general market movement in share prices.

6 Most of the corporate firms do not maintain their dividend quantum 62.5 per cent of the companies did not maintain their dividend quantum and of course not dividend rate.

7 Nepalese capital market is speculative-oriented; therefore it takes more consciously bonus share announcement than the cash dividend announcement. Whatever the dividend policy of the company the immediate impact and a year are significantly positive.

8 The companies announce bonus share without frequently cash dividend distribution, ultimately faces drastic fall in their share price.

9 The Nepalese capital market did not show any response that whether the company is intended to increase future dividend (return) of not. The immediate response of the market is not sufficiently rational.

10 The public, in most of the cases, was provided with very little information about real motives behind an issue of bonus share.

11 The adjusted share price of the bonus ratio above 30% to 50% (consisting only 1:2 bonus ratio) increased by 58 percent one year after bonus share announcement with the least standard deviation of 6.6. Therefore, the bonus ratio 1:2 has good response even one year after bonus announcement, which is firm's real equity capital increment.

Bamshidhar Gautam (2001), had done research on "An Analysis of Share Price Movement Attributed to Right Offering Announcement"**.** This study has set out the following objectives:

1 To analyze the inadequacy of the contents of the company act 2053 B.S. in regard to section 21 that explains about the matters to be disclosed in the issue prospectus.
2 To find out if there is significant changes in share price after the announcement of right offering.
3 To find out if there is any problem in the primary issue of securities.
4 To prescribe some policies that will help to ratify the current problems in the issue in the issue of securities.

His findings were following:

1 Company Act is not clear regarding the issue of rights offering and subsequent allotment of the rights share.
2 Company Act has nowhere mentioned about necessity of legally transferable rights instrument called rights, which must be mailed to the stockholders for each stock held before the rights offering.
3 SEBO/N has failed to establish a 'one-window policy' causing various imbroglios for the companies that want to go primary issue market for raising the capital.
4 Till the date there is no enactment of the 'Investors Protection Act'.
5 Our capital market has made least of use the 'capital market instrument' contingent securities like warrants and convertibles, options, and other various kinds of debentures are not in practice.
6 Companies Act with regard to the contents of the issue prospectus is deemed to be insufficient on the ground that, it does not mention the companies are required to specify on the issue prospectus about the risk category on which their businesses fall.

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

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

His findings are as follows:

1 From the descriptive analysis we found that there is no consistency in dividend policy amongst the sample firm’s dividend policy adopted by a firm also varies from year to year.
2 We defined strategy dividend strategy consistent with the objective of firms is still a need in Nepalese Corporate Firms.
3 Analysis of the cost of capital and interest rate of return is not practiced while calculating dividend policy. Higher payout is made despite of high internal rate of return. But in some cases retained earnings is quite lower than the cost of capital. This represents that share holder are not always treated fairly.
4 Nepali Investor is actively participating in the capital market. Therefore, majority of them lack of financial knowledge are sill to analyze, the performance and future prospects of the firms. This has affected the market price of all firm.
5 Efficient communication network and promotion of security market are major problems hindering the Nepalese capital market.

Pankaj Khadka (Jan 2007), had done research on “Issue of Rights Share and Its effect on general market price in Nepalese context.”

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

1 To evaluate the significant changes in share price after the announcement of right offering.

2 To examine the procedure and mechanism of rights issue in the context of Nepal.

3 To analyze the problems associated with rights issue in Nepal.

4 To recommend appropriate implications on the basis of findings.

His findings are as follows:

1 Rights share issue is comparatively new practice in Nepal. Therefore only those sample companies whose market prospects are good are able to increase the market capitalization through right issue but small and now reputed companies' faces lots of problems in this regard.

2 The rights issue practice is mainly dominated by the banking and finance sectors. There are hardly few causes found of other sectors practicing the right issue.

3 The issuing of rights share has a long process. There is no time framework. The right announcement date, book closer date/ex-right date, right issue and closing dates are differing from one company to another. The announcement date and right issue date varies company to company. This makes the illusion to the investor and affects the market price of the related stock and it’s hard to study the price behavior of market price.

4 There is significant difference in the share price before and after the ex-rights dates in most of the sample company but they don’t follow the theory of right offering exactly.

5 According to the theory, the share price after ex-right date will decrease by the value of a right but most of the sample company market share price didn’t decrease accordingly.

6 Shareholders of Nepalese companies lack the knowledge about the right share and its impact on their wealth position. Due to this free movement of share movement of share price during rights on and ex-right is not

confirmed.

7 Under subscription of rights share is common phenomena as rights is not transferable in Nepal.

8 Most of the finance company doesn't show significant change in the price before and after ex-right date.

9 Market imperfection is found throughout the study period.

10 Company Act is not adequate regarding the issue procedure of right share and allotment.

2.3.4 Right Share Scandal

Nepali stockholders are generally so easy going that they do not grumble even when deprived of their fundamental rights. They are kept in dark about the developments that may be detrimental to the functioning of their company. Information provides knowledge and its leads to creating value and power. Therefore, owners of information wish to block the information so as to reap all the benefits themselves. In publicly owned companies, some of the information cannot be covered up forever and they are made public eventually. But those who have the first hand access to such information try to cover up these as long as the value of such information is relevant.

Nepali public generally does not respond to any type of stocks related scandal. The usual reaction if the uttering of "Bhaigo", "Hos" or "Ke Garne", each of these terms signifying a resigned attitude. But they do not realize that by doing this they are promoting unfair prices in secondary market letting the crooks reap undue profits and encouraging irregularities.

How many individual shareholders of Nepal SBI Bank Ltd. and NIDC Capital Markets Ltd. are aware that their rights to receive the right shares were unsubscribe? Sixty-nine thousand units of SBI shares were distributed to the company’s employees, and similar is the case with the unsubscribe right shares of NIDC Capital Markets Ltd. The existing shareholders have a natural first right to own the right shares in a specified ratio. How can the employees receive what is rightfully belonging to the owners? Whenever the application is called for subscribing to the right shares, the existing shareholders are asked to demand only up to what is their right, and this is logical. But illogical deeds start when some of the existing shareholders fail for some reason to claim their right. Logically, such unclaimed shares should be allotted to other existing shareholders. But in case of some companies, latest example being existing that of SBI Bank Ltd. and NIDC Capital Markets Ltd, such shares are illogically allotted to the employees.

There have been honest precedents established by the honest directors of a few publicly held companies. They let the investors demand more number of shares if they wish with clear information that their investment made with the application for additional shares may fetch zero return if all the existing owners opted to exercise their right to own the right shares. If some shareholders do not exercise their rights, the shares so left unsubscribe will be distributed to the existing owners who are demanding in excess of their right. It is just the logical way of allocating rights share.

Very often, the issue of right shares fails to garner full subscription. This is so in every market, whether in developed or developing country. So why the existing shareholders should be prevented to apply for 10 or 20 percent more than there share in the right? It is perhaps just because the employees have to work more to return the over subscription money, or it may be also because the company has to pay little extra to the issue manager. If first one is the real pretext to deny they should go to the investors not the employees. The latter should get wages or salaries, and if they work diligently and make the company profitable, they will get bonus. But the dividend, bonus share and right share are the returns on investment and therefore they must go to the investors. If the company decides to introduce the system of ‘stock option’, which is in practice in some western economies, it may do so by announcing the scheme in advance and getting approval from the stockholders meeting.

But neither of these two financial institutions have done so.

This has helped the employees make windfall gain. The current Rs. 200 plus profit on each share of Nepal SBI Bank and Rs.60 plus NIDC Capital markets that now goes to the employees due to the right allotted to them represents as immoral distribution. The regulators of the share market are silent on such matters. As usual they are engrossed in thinking how they could create more paper work by asking for several irrelevant reports form members of the market. So they have no time to devise mechanism to prevent such irregularities. Then it becomes incumbent on the shareholders to resent such tendencies. They can nullify these decisions by voting against these in the coming annual general meetings.

2.4 Research Gap

Right share, is one of the major instrument for raising additional equity capital, which contribute second largest position on various issues approved by SEBO/N. However, there is still not done yet, specific research on right share. The purpose of this research is to provide clear picture on right share. The main objective are mentioned in Chapter-I

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

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. This study is trying to find the Right issue & its impact on of share price.

Finally, this study may be an important effort to inform the shareholder to protect their money and wealth.

CHAPTER- III
RESEARCH METHODOLOGY

Research Methodology refers to the methods/ways that are used in conducting research or performing research operation. It is a way to solve the problem systematically. In order to achieve the objectives of the study mentioned in chapter one. An appropriate methodology becomes more relevant, which has been given importance throughout this study. Different section included in this chapter is research design, population and sample, sources and technique of data collection, coverage, and methods of analysis.

3.1 Research Design

Research design is necessary for each research work. It is a plan for the collection and analysis of data. It presents a series of guideposts to enable the researcher to progress in the right direction in order to achieve the goal. So, selecting a suitable methodology is a good part of the research study. Then a suitable research design has been employed in order to analyze the Rights of shareholders in Nepal.

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. "In other words, research design in the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances" (Kerlinger, 1978:300). As the principal objective of this study is to analyze the Right issue and its impact on share price. This study follows the descriptive as well as analytical approaches are used to evaluate the rights impact on share price. Most importantly, the study is designed as ex-post facto research as the study is based on historical data. However, descriptive approach has also been adopted for the analysis of primary data obtained from questionnaire.

3.2 Populations and Sample

3.2.1 Population

The data collection activities consist of taking order information from reality and transferring it into same recording system. So that it can later 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. All listed companies, which have issued rights share, have been taken as population.

Table 3.1

Corporate Firm taken as Sample

S.No.	Name of the Companies	Issue Manager	No. of Shares Issued
1	Machapuchre Bank Ltd.	NMB	493000
2	Goodwill Finance Company Ltd.	ACE	50000
3	Kist Merchant Bank and Finance	ACE	600000
4	NIC Bank	NCML	158400
5	Nepal Investment Bank Ltd.	ACE	201300
6	Annapurna Bikash Bank Ltd.	NEFINSCO	150000
7	Paschimanchal Bikash Bank Ltd.	ACE	47500
8	Capital Merchant Banking and Finance Ltd.	ACE	161000

Source: Annual Report of SEBO/N (Refer to ANNEX)

3.2.2 Sample

In most of cases, we can’t collect data of whole population. Therefore, sample is 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.

3.3Sources of Data

Data are considered as an integral part of research. Required data for this study is mainly based on secondary sources of information as well as primary sources of information.

3.3.1Secondary Sources

The data for this study was collected from secondary sources i.e. SEBO/N, annual report of respective companies, NEPSE; some related information is taken from economic survey. The share prices are collected from trading report, which was published by NEPSE, and national daily newspaper. The concern companies were also directly approached to obtain information on many points.

3.3.2Primary Sources

In order to make the study more realistic both primary and as well as secondary data have been applied. Following method has been used to collect primary data.

3.3.2.1 Questionnaire Method

To take the information about the rights and its various aspects, questionnaire method has been used.

The questionnaire was designed to get three kinds of responses viz.

1. Yes/No answer
2. Multiple choice answers

There are three factors of capital market such as institution, mediator and investor (Ninth Plan 1997:167). In order to elicit the answer the research questions, managers and officers (concerned with the issue of rights share) of the issuing companies, issue managing companies, regulatory bodies, investors and experts are for the primary source of data. Questionnaires are dispatched to a sample of 100 people and 90 responses are obtained. The table below shows the sample and response of the primary source of data.

Questionnaire is presented in the appendix: 1.

Table 3.2

Samples and Responses as a Primary Source of Data

S.No	Responds	Sample	Response
1	Managers & Officers of Right Issuing Companies	15	14
2	Managers & Officers of Issuing Manager and Regulatory Office	10	7
3	Investor	75	71
	Total (100%)	100	92

Source: Field Survey

3.3.2.2 Interview Method

To make the study more reliable, interviews of some concerned personalities was taken. The interview was related to right issue, its characteristics, its impact on share price, provision of rights issue in company act etc.

3.4 Data Processing Technique

The purpose of analyzing the data is to range it from an unprocessed form to understandable presentations. The collected data need to be aggregated in to a form that presents the summary of answers from respondents. The raw data convey little information as such there must be, therefore be complied analyzed and interpreted using different data analysis tools (Wolf and Pant, 2005:220).

In this study, theoretical market price will be used to measure impact of right share issue on market price of share. Theoretical market price of share after right share issue is given by:

Theoretical value of stock after right share issue (P^e) = $\frac{P_0 \times \# + P^s}{\# + 1}$

Pre right issue stock price $= P_0$

Subscription price $= P^s$

No. of rights required to purchase one new share = #

3.4.1 Percentage change in MPS

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

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

3.4.2 Percentage Change in Actual Market Price and Theoretical Price

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

$$\% \text{ Change in price } = \frac{\text{Actual Price} - \text{Theoretical Price}}{\text{Theoretical Price}} \times 100$$

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation, analysis and interpretation of data collected through primary and secondary sources in order to fulfill the objective of the study. Analysis is based on the data obtained from both primary and secondary sources. Primary source includes mainly the responses to questionnaires and personal interview with investors, experts, officials and other resourceful persons. Similarly the secondary sources include available annual reports of sample companies, publication of SEBO/N, NEPSE, etc. Appropriate financial tools as described in the research methodology chapter have been used in order to derive actual results from the analysis of data. This is key chapter, as it helps achieve the objective of the study as mentioned in the first chapter.

4.1 Rights Issue in Nepal

After the political change in 1990 A.D., Nepal adopted liberalization policy. Therefore, some joint venture company participated in the Nepalese Corporate Sector. This has brought a significant change and has brought practices concerned with corporate sector. The history of rights offering is not so long in Nepalese context. Nepal Finance & Saving Co was the first company, who issued rights shares in Nepalese market in fiscal year 2052/53. The company announced on 2052/04/24, the ratio was 4:1, each existing shareholders who had 4 shares they owned, were allowed to purchase each additional share issued by the company.

Since, from the fiscal year 2052/53, Nepalese corporate firm, started to issue rights share. Up to now (i.e. 2063/64) there are 60 cases of rights offering in Nepal. Almost all of them were finance and banking companies who issued rights share in Nepalese capital market. Large no of bank and finance companies announce and issue rights share, to increase the capital base if the corporate management felt such need to comply with the policy directives given by the concerned authority to increase the capital base from the time to time. 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. Though our study has cover only seventeen companies, which had issued right share in 2063/64 fiscal year. The details of all right issuing companies are as follows:

Table 4.1

Public Issue of Shares in Nepal

(Rs. In Million)

Fiscal Year	Total No. of Public Issue	Total Amount of Public Issue
2055/56	5	258.00
2056/57	6	326.86
2057/58	9	410.50
2058/59	12	1441.40
2059/60	18	556.50
2060/61	14	1027.50
2061/62	14	1626.80
2062/63	29	2443.30
2063/64	34	2295.50
2064/65	64	10668.2

Source: Economic Surveys of Government of Nepal, SEBON Annual Reports and NEPSE Trading Reports

Table 4.1 shows the total public issue in each of fiscal year. During the fiscal year 2055/56, the public offering was lower amounting to Rs.258 million, only 5 companies has made the public offering. In the fiscal year 2056/57, the amount of public offering was Rs.326.86 million. In this year, six companies made public offering. In the fiscal year 2057/58, there are nine companies to made public offering amounting Rs. 410.50 million, in fiscal year 2058/59, there are twelve companies to made public offering amounting Rs. 1441.40 million. In fiscal year

2059/60, there were 18 companies to made public offering amounting Rs. 556.50 million. In the fiscal year 2060/61, there were 14 companies to made public offering amounting Rs. 1027.50 million. In the fiscal year 2061/62, there were 14 companies to make public offering amounting Rs. 1626.80 million. In the fiscal year 2062/63 there was 29 companies make public offering amounting Rs. 2443.30 million. In the fiscal year 2063/64 the number of companies to make public offering were 34 and the total amount of the public offering was Rs 2295.50 million.. Finally in the fiscal year 2064/65 largest number of companies numbering 64 made the public offering with total floatation amount Rs. 10668.20 million.

4.2 Contribution of Rights Issue on the Total Public Flotation

The following table shows the contribution of right share issue in the total public flotation in each fiscal year in which the right offering has taken place.

Table 4.2

Contribution of Rights Issue on Total Public Flotation

Fiscal Year	No. of Companies Issuing Right	Amount of Right Issue (In million)	Total Issue Amount (In million)	% of right issue
2055/56	1	30.00	258.00	11.63
2056/57	3	124.60	326.86	38.12
2057/58	2	131.80	410.50	32.11
2058/59	5	621.90	1441.40	43.15
2059/60	4	162.20	556.50	29.15
2060/61	3	70.00	1027.50	6.81
2061/62	6	949.30.	1626.80	58.35
2062/63	11	1013.50	2443.30	41.48
2063/64	17	1265.30	2295.50	55.12
2064/65	51	8205.21	10668.2	76.91

Source: SEBO/N Annual Report 2064/65

Table 4.2 shows the contribution of rights issue in the total public flotation in each of fiscal year. During the fiscal year 2055/56, the right share was lower amounting to Rs.30 million covering only 11.63% of the total public flotation, i.e. Rs.30 million out of Rs.258 million. In the fiscal year 2056/57, the amount of right share was Rs.124.60 million which cover 38.12 % of total public flotation i.e. Rs.326.86 million. In this year, three companies issued right share. In the fiscal year 2057/58, there are two cases of rights issues that cover 32.12% of total flotation. Similarly, in fiscal year 2058/59, there are five cases of rights offering amounting to Rs.621.90 million which covers 43.15% of total public flotation of Rs.1441.40 million. In fiscal year 2059/60, the total public flotation was Rs.556.50 millions out of which Rs.162.20 million was collected through right share issue, this is 29.15 % of total flotation and cases were four. In the fiscal year 2060/61, the amount raised through right share issue was Rs.70 million covering 6.81 % of total public flotation, i.e. Rs.1027.50 million and the cases were four. In the fiscal year 2061/62, the total amount raised through right offering was Rs.949.30 million covering 58.35 % of total public flotation, i.e. Rs.1626.80 million and the cases were six. In the fiscal year 2062/63 the no. of right share issuing company were 11, the total amount raised through the right share issued was Rs.1013.50 million out of total public flotation of Rs.2443.30 million covering 41.48%. In the fiscal year 2063/64 the no. of right share issuing companies were 16 but no. of right share issuing cases were 17. (i.e. Lumbini Bank Ltd. re-issued right share at the end of fiscal year), which is the largest no. of right share issuing companies in the history of right share announcement, the total amount raised through the right share issued was Rs.1265.30 million out of total public flotation of Rs.2295.50 million covering 55.12%. Finally in the fiscal year 2064/65 largest number of companies issued right share in which right share covered 76.91% of the total floatation amount i.e. Rs. 8205.21 million out of the total public issue amount Rs. 10668.2 million.

By Table 4.2, it is clear that during the period in the fiscal year 2060/61, there was lowest percentage of right offering, i.e. 6.81 % in comparison to the other fiscal year. On the other hand, the highest amount of right offering was in the year 2064/65 which was Rs. 8205.21 million and lowest in the 2055/56 which was Rs.30 million.

4.3 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 1 month prior to right share issue and post right issue price is the closing market price after 1 month 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. Percentage change in price is calculated in appendix: 2.

Table 4.3

MPS of Sample Companies before and after Right Share Issue

S.No.	Name of Companies	Pre. Rt. Issue Price	Post Rt. Issue Price	% Change in Price
1	MBL	1340	860	-35
2	GWFL	633	405	-36
3	KMBFL	1560	485	-69
4	NIC	1070	1050	-2
5	NIBL	2850	2040	-28
6	ABB	1000	479	-52
7	PBB	375	456	22

8	CMBFL	768	622	-19

Source: Trading Report of NEPSE & Annex 3

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

From Table 4.3, it is clear that in majority of the case the change is in negative. This means the majority of companies follow the theory, i.e. the market price per share decreases after right share issue. Among the 8 sample companies, 7 companies share price has decreased after right share issue. The market prices per share of the remaining 1 company have increased after right share issue. From the above analysis, it can be concluded that generally the market price decreases after right share issue.

4.4 Comparison of Theoretical and Actual Market Price after Right Share Issue

To find the impact of right share issue on market price per share, it is necessary to calculate the theoretical market price. The market price after ex right date compare with theoretical market price to measure the effects. The comparison results of the firm measure the impact of the right share issue on market price of the share. Positive change in share price means share price after right share issue are higher than theoretical market price. This is good indicator for shareholder and company; it means they have good signaling effect. Negative change means share price after right share issue are lower than theoretical price. Actual MPS after right issue is taken from the following sources and theoretical price after right issue is calculated in appendix: 3.

Table 4.4

Comparison of Theoretical and Actual Market Price after Right Share Issue

S.No	Name of the Companies	Actual MPS after right issue	Theoretical Price after right issue	% Change
1	MBL	860	875	-1.71
2	GWFL	405	367	10.35
3	Kist Bank	485	465	4.30
4	NIC	1050	908	15.64
5	NIBL	2040	2392	-14.72
6	AFL	479	357	34.17
7	PBBL	456	283	61.13
8	CMBFL	622	434	43.32

Source: Trading Report of NEPSE and Annex-2

% Change in price = $\frac{\text{Actual Price} - \text{Theoretical Price}}{\text{Theoritical Price}} \times 100$

Table 4.4 shows the percentage change in actual market price and theoretical price of share after right share issue. Theoretically, actual market price and theoretical price of the share after right share issue should be equal. Actual market price after right share issue is collected from the trading reports of the SEBO/N and NEPSE and theoretical price of the share after right share is calculated in Appendix: 2.

Table 4.4 shows that the actual market price of Machapuchre Bank Ltd and Goodwill finance company Ltd. are Rs.860 and Rs.405 respectively and their theoretical market prices are Rs.875 and Rs.367 respectively. The % changes between the two prices are -1.71 and 10.35 respectively. Similarly, the actual market price of Kist Merchant Bank Finance Co. Ltd and NIC Bank Ltd are Rs.485 and Rs.1050 respectively and their theoretical values are Rs.465 and Rs.908 respectively. The percentage changes between two prices are positive i.e.4.30 and 15.64 respectively. In the case of Nepal Investment Bank Ltd, the actual market price is Rs.2040 where as its theoretical price is Rs2392. Here the actual market price is lower than that of theoretical price, which shows the negative change i.e. -14.72. The actual market price of Annapurna Bikash Bank Ltd, Paschimanchal Bikash Bank and Capital Merchant Banking and Finance Co. Ltd are Rs.479, Rs.456 and Rs622 respectively. Where as their theoretical price are Rs357. Rs283 and Rs.434 respectively, therefore the changes are 34.17%, 61.13% and 43.32% respectively.

From the above analysis, it is found that out of 8 sample companies, 6 companies have actual market price higher than theoretical market price causing positive percentage change and the remaining 2 companies have actual market price lower then to theoretical market price causing negative change.

4.5 Analysis of data Obtained from Questionnaire and Interview

In the context of Nepal, these are no long history of capital market. However, now a day's people's response towards share seems to be high, because lacks of better alternative for investment, and interest rate have gone down. At present equity market has been performing more strongly then in the earlier years. It has witnessed it strength surprisingly, and this has risen hoped for sustained growth of corporate undertakings. Stock market in Nepal has been growing gradually both in terms of turnover as well as the capital investment. To complete the study questionnaire, personal interview and other sources are taken. For questionnaire, the researcher distributed the question paper to different sectors such as, right share issuing companies, issuing manger, regulatory office, investors and experts to make the study more relevant and effective. A total of 100 question papers have been distributed to concerned persons and institutions, which were focused on different aspects of rights share. Out of 100 question papers, the researcher got the responses of 90 question papers. Questionnaire is presented in the appendix: 1.The analyses of responses from different sectors have been presented as follows:

Figure 4.1

Nepalese Corporate Firms Increasingly Practices the Rights Share

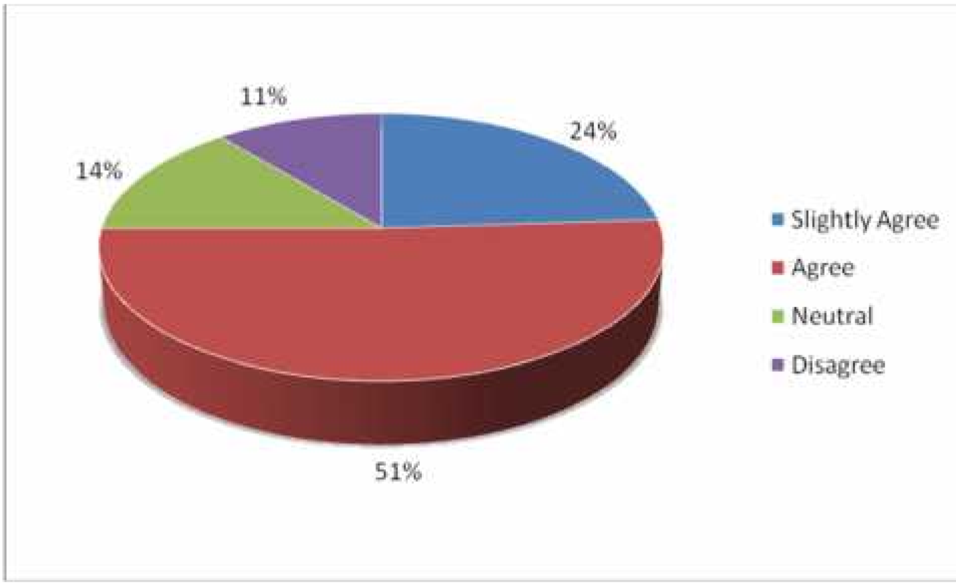


Figure 4.1 shows that, Out of 92 total respondents, 50% of them agree that the Nepalese Corporate Firms increasing practices of right shares to raise the additional capital, while 24.24% of the respondents slightly agree that, practice of right share increase by the Nepalese corporate firms. However 11.11% respondents disagree and 14.45% respondent's neutral, regarding practice of right share as a means of raising capital by the Nepalese corporate firms from the market.

Figure 4.2

Reason of Increasing Practice in Right Share Issue

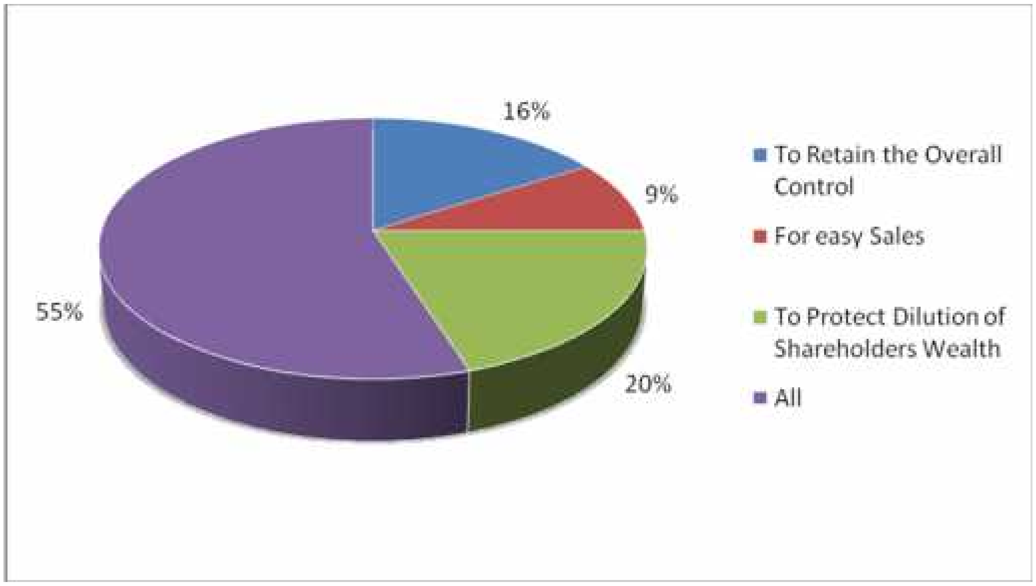
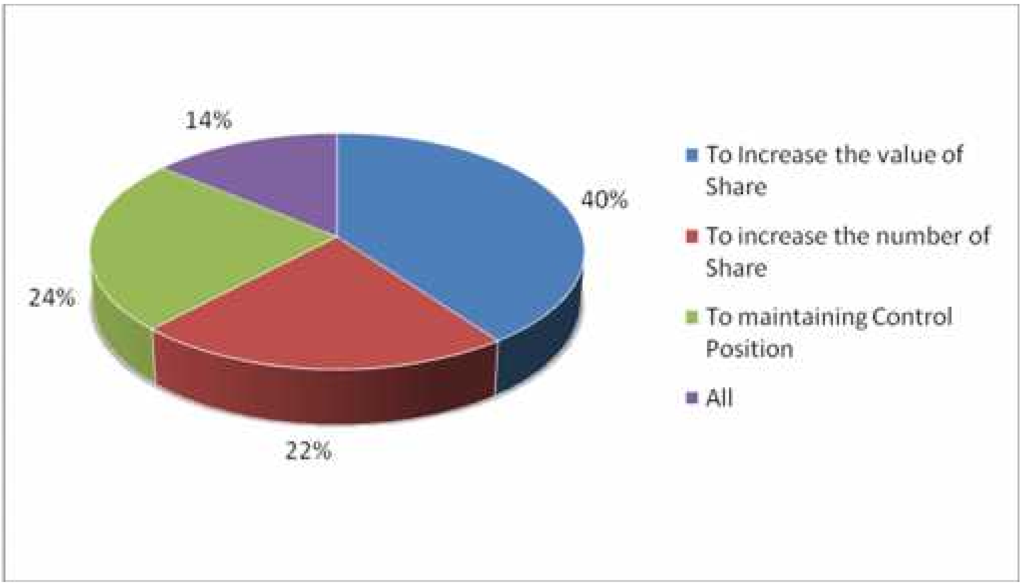


Figure 4.2 shows that, Out of 92 total respondents, 55% believe the all three reason are main reason of increasing practices of right shares to raise the additional capital, while 20% of the respondents think to protect dilution of shareholders wealth is the mail reason of practice of right share increase by the Nepalese corporate firms. However 16% respondents think main reason is to maintain the current control within the organization and 9% respondent's think the reason is for easy sales.

Figure 4.3

Purposes of Right Share Purchase

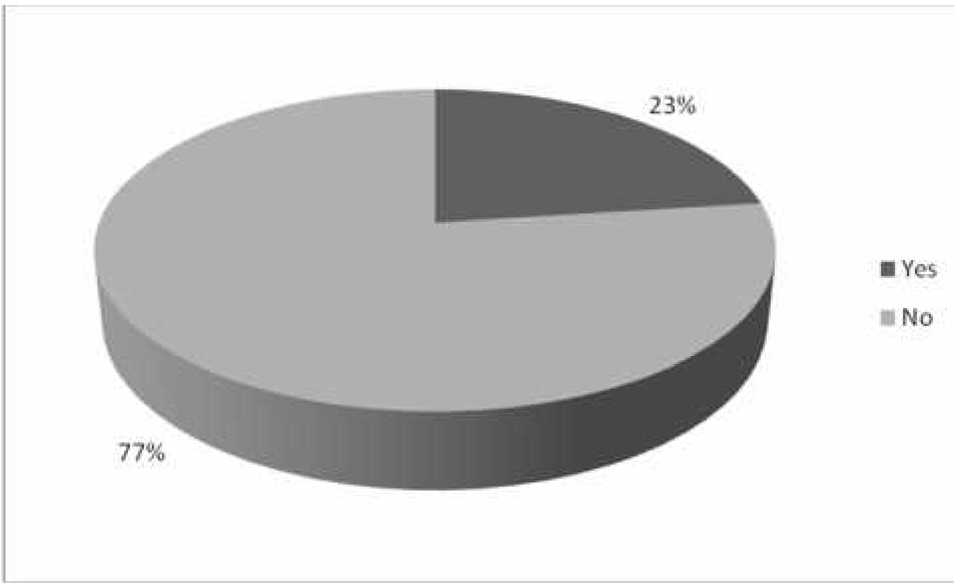


The researcher had also asked the respondents about the purposes of purchasing rights share. Replying the query, 38.89% respondents give first priority for the option to increase the value of share. The second priority was due for maintaining control position in management for which 24.44% of the respondents expressed their priority. Similarly, a total of 22.22% respondents said that they purchase right share to increase the number of shares and 14.44% of the respondents choose the option ‘D’. So, it is found from the views that most of the investors who want to have rights share have been attracted to increase the value of their shares. The finding is presented in the figure 4.3

Do you analyze financial report of the company before you invest in it?

Figure 4.4

Financial Report of the Company

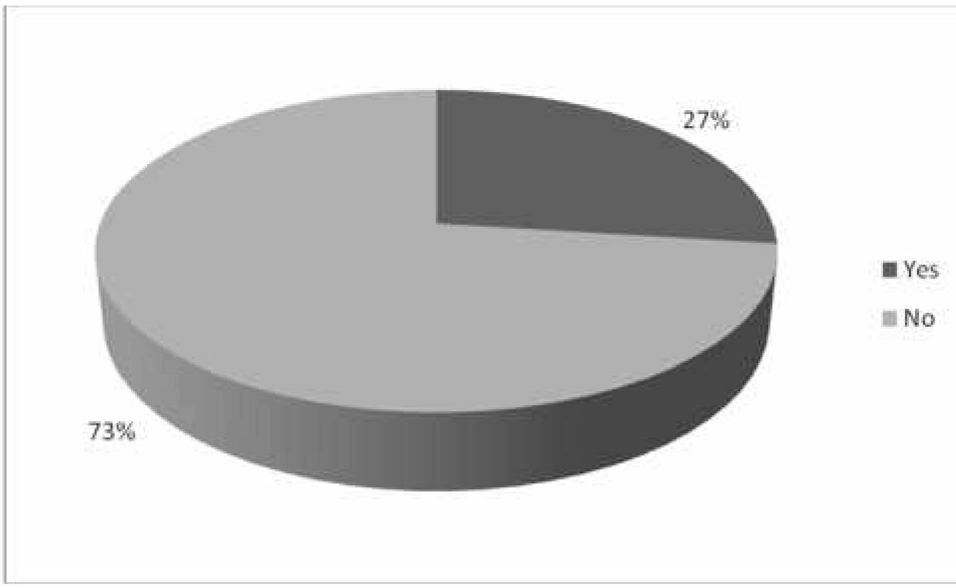


Analyzing financial report before making investment in ordinary share is most important. Regarding this researcher tried to find out the percent of the general investors who analyze financial report of the company that they are going to invest for which is presented in Figure 4.4. It has been found that only 235 of the investors analyze the financial report before investment, rest 77% of the investors use to invest without any analysis of financial report. It means that investment trend of the share market is risky in case of any negative effect cause in share market.

Do you have enough information of Shareholders right?

Figure 4.5

Information of Shareholders Right

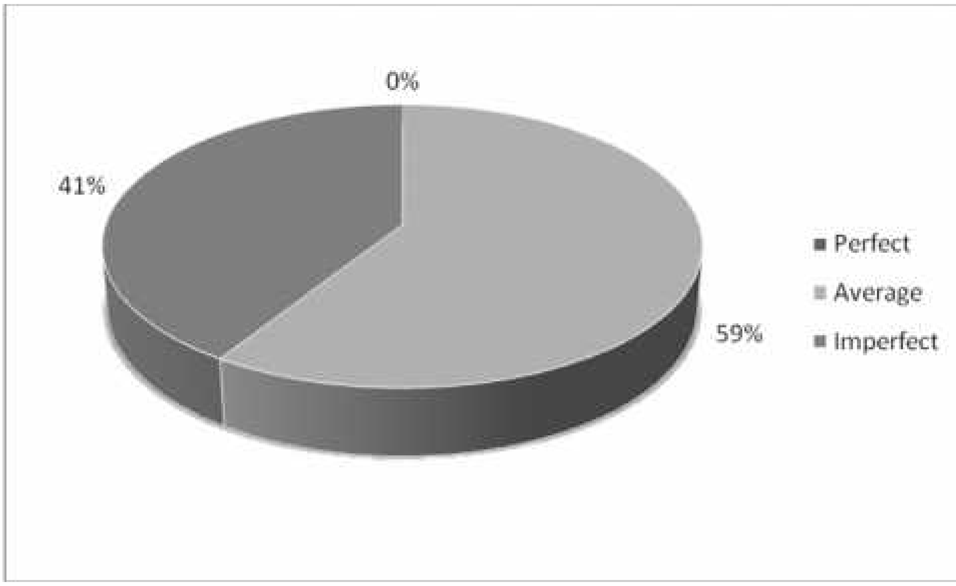


Every investors of share should have information about shareholders right. Researcher has tried to find out that how many of the investors have the information about shareholders right which is presented in Figure 4.5. Analysis shows that 73% of the investors are totally unknown about the shareholders right 27% have some information about the shareholders right.

How do you observe Right Issue Practice in Nepal?

Figure 4.6

Right Issue Practice in Nepal

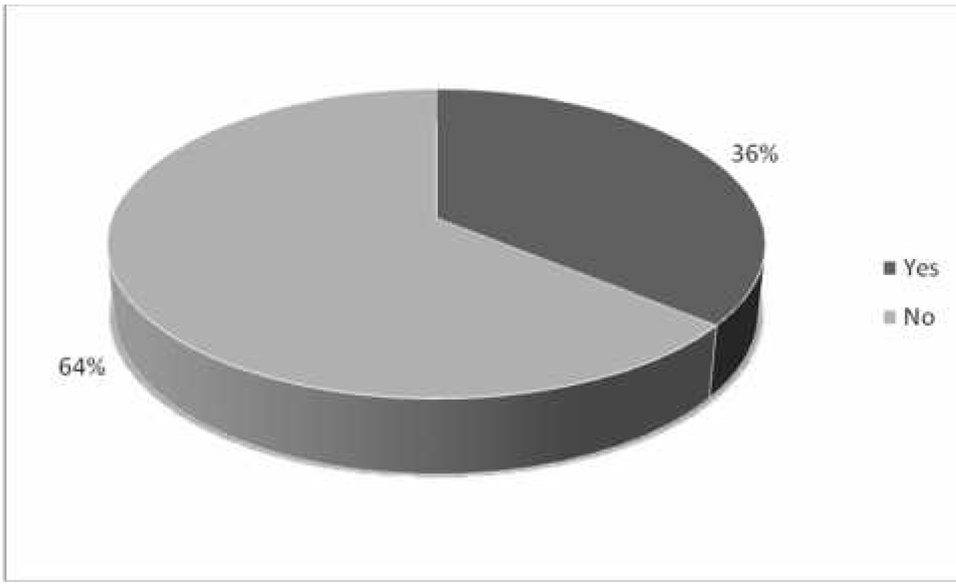


Right issue practice is increasing tremendously from several years. Researcher had tried to find that how is right issue practice system of Nepal felt by the investors which is presented in figure 4.6. It has been found that 59% of the investors feel it Imperfect, 41% of the investors feel it average and 0% of the investors feel it perfect. Interview regarding this with the with investors, Share Broker and organizational member that why the investors feel so. The main region is that while right issue announcement in Nepal many investors have to discard their right. One either the ratio of the right issue don't match with the share they hold and they cannot sale extra right to the market in previous days, two due to the legal restrictions and inefficient knowledge with the investors regarding right issue or right announcement. Which effect in the shareholders value negatively.

Have you ever missed to apply for right share? If yes how many times and what number of share?

Figure 4.7

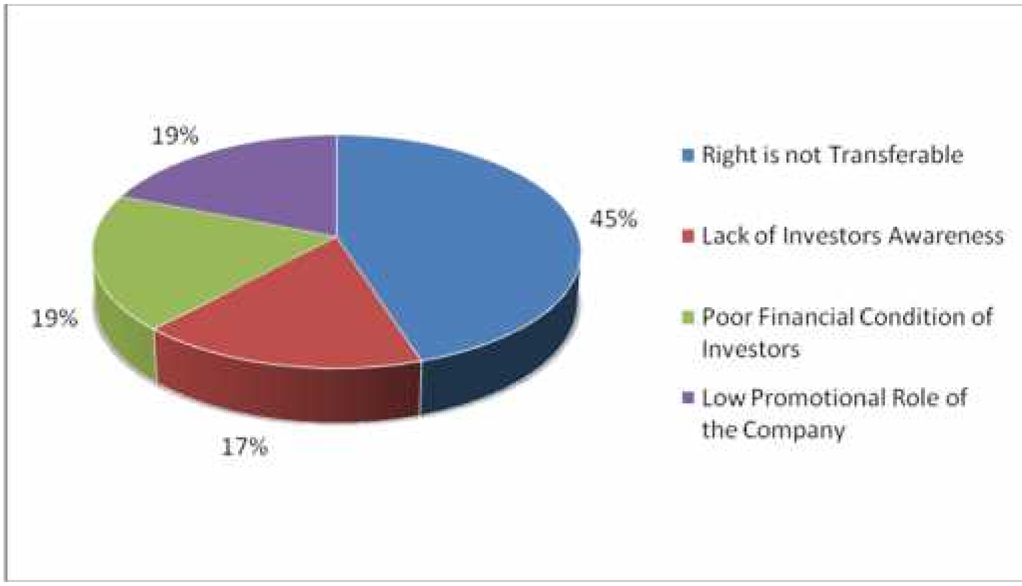
Missed to Apply for Right



Right issue plays vital role in the determination of the value of the shareholders everywhere in the world, if rights are discarded then the change in the shareholders wealth will vary much. So Researcher tried to find out the shareholders missing to apply for right share which is presented in Figure 4.7. It has been found that 64% of the investors have never missed to apply for right share rest 36% of the investors had missed to apply for right share once or twice, but not always. Interview regarding the cause of missing to apply for right issue, is found that most of them missed due to the lack of information and some forgot to apply.

Figure 4.8

Causes of Under Subscription of Rights Share

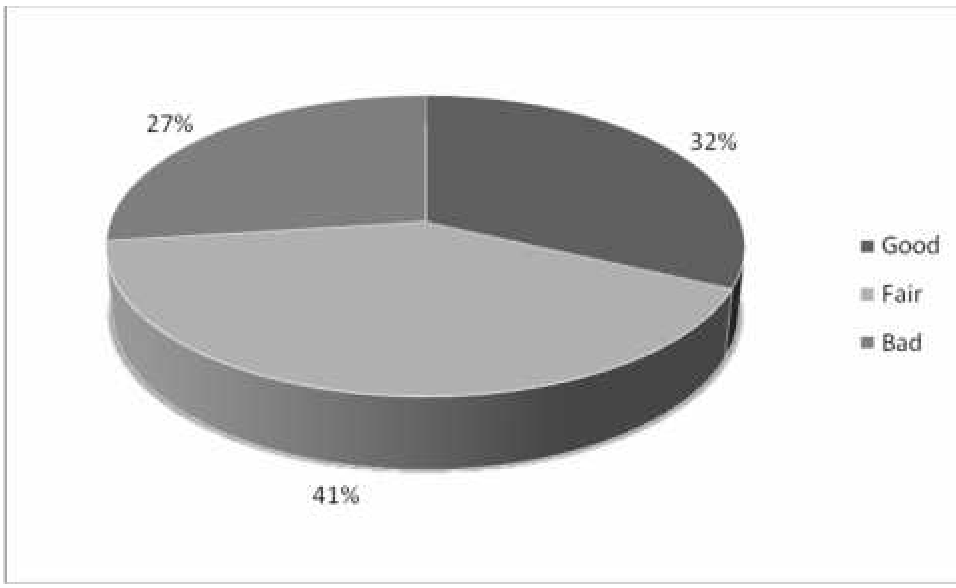


In responses to the question regarding the causes of under subscription of Rights share in Nepal. Most of the respondents said that Rights is not transferable. A total of 45.56% respondents indicated the problems of transferable and it is ranked in first problem. Second ranked of the problems are poor financial condition of investors and low promotional role of the company. They earned equal vote (i.e. 18.89%) and rest of the respondents (i.e. 16.67%) choose the option 'B'. This is shown in Figure 4.8.

How do you feel the government policy towards the shareholders right Protection?

Figure 4.9

Government Policy

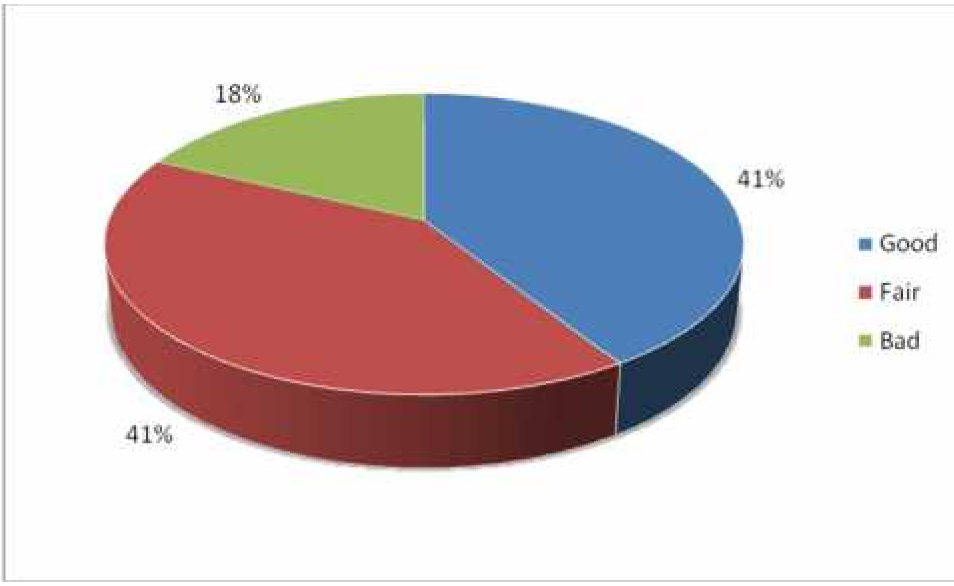


Government policy plays vital role to protect shareholders right. So researcher asks how government policy is regarding shareholders right protection which is presented in Figure 4.9. It has found that 32% of the investors say the government policy is good, 41% say it is fair and 27% say it is bad. Interview regarding this response of the investors to the to the share brokers and authorized person of the issue manager, it has been found that government policy regarding the share and share and share market is very strong to protect shareholders right even though investors think shareholders right is not protected that is because the implementation of the policy is some how missing some where.

How is the role of SEBO to protect Shareholders right?

Figure 4.10

Role of SEBO

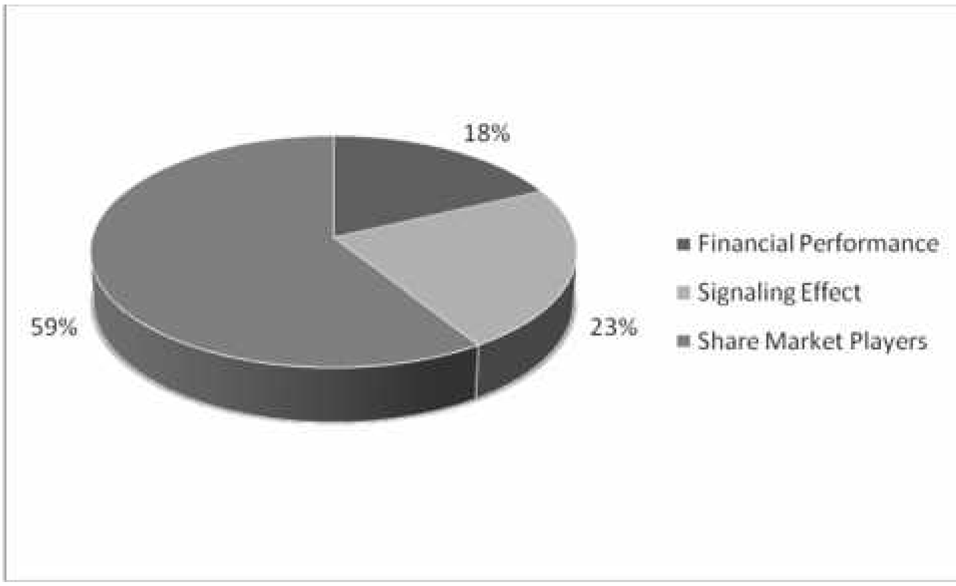


SEBO is the organization which is authorized to regulate the policies of share and share market. It is the organization which plays vital role to protect the rights of the shareholders. Researcher tried to find out how the SEBO is performing in Nepal which is presented in Figure 4.10. It has been found that role of the SEBO is good in the view of 41% of the investors; it is fair in the view of 41% of the investors and bad in the view of 18% of the investors. Interview regarding this shows that SEBO is authorized to implement the policies of the government regarding securities. But SEBO is not able to implement the rules and policies. While asking this with the authorized person of the SEBO they say it is very difficult to implement the policies because of the unstable economical and political situation.

How do you observe the market price of shares in Nepal?

Figure 4.11

Market Price of shares in Nepal

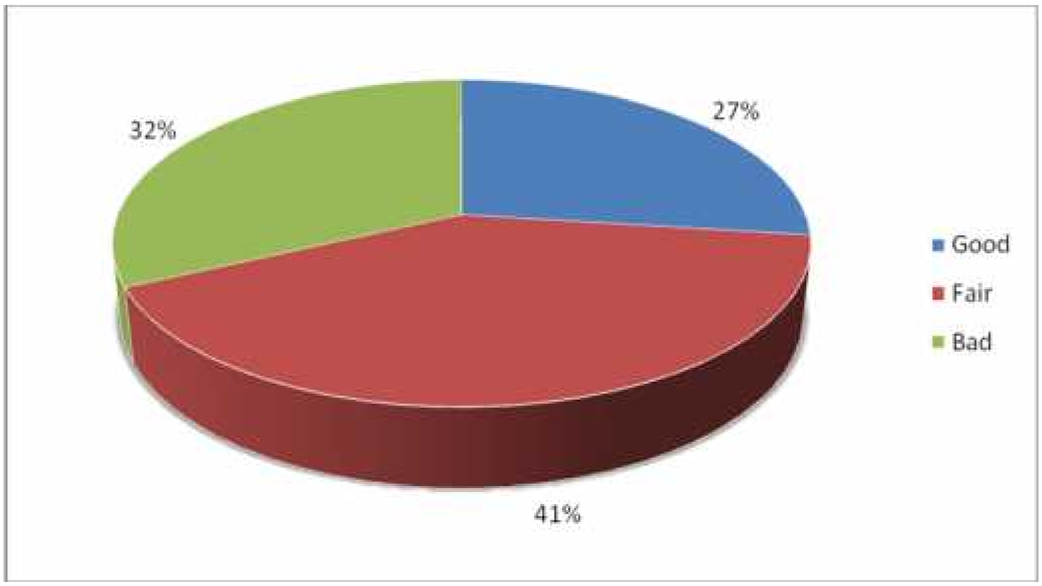


Market price movement of the share is related with the risk and return of the shareholders, so researcher tried to fins how market of the share moves in the Nepalese market which is presented in figure 4.11. It has been found that 59% of the price change in Nepalese market depends upon market players, 23% of the price change occur due to the signaling effect and only 18% of the price change depends upon the financial performance of the company. It shows that in the Nepalese market only big investors who can turn the market by playing the market can gain high profit from the investment in the securities. Small investors will gain nominal amount of profit but if lose occur then small investors will be in heavy lose.

How do you observe the role of share brokers towards the shareholders right protection?

Figure 4.12

Role of Share Brokers

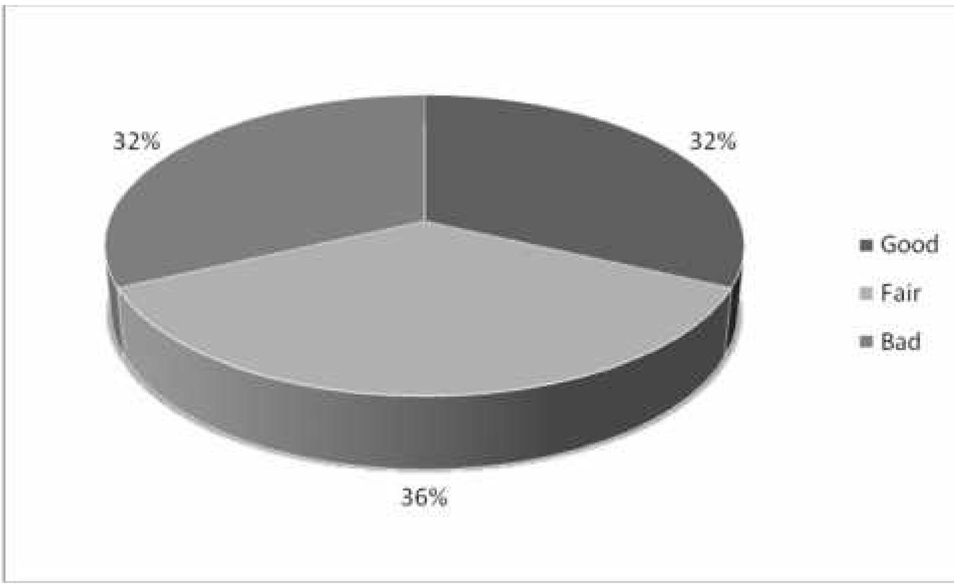


Share brokers have power to direct the share market. Share brokers also have certain role to protect shareholders right. Researcher has tried to find how investors see the share brokers role regarding right protection of the shareholders which is presented in Figure 4.12. It has been found that 41% of the investors see it fair, 32% see it bad and 27% see it good.

How do you observe the role of issue managers regarding the shareholders right protection?

Figure 4.13

Role of Issue Managers



Issue managers are directly related with the primary market of the share, so issue managers also have certain role regarding shareholders right protection. Researcher has tried to find that how investors see the role of issue managers which is presented in Figure 4.13. It has been found that 36% see it fair, 32% see it good and 32% see it bad.

4.6 Major Findings

1. Public issue approval and issue of the ordinary share is been growing rapidly within the ten years scenario.
2. Position of right issue is higher now a day's then the previous years. Where there is the higher right issue then the initial public offering in current few years.
3. Share market of Nepal is growing rapidly and the increment of the investors

in the ordinary share is also increasing simultaneously.

4. Share price change due to the right issue is positive in most of the cases but there are negative changes in some cases. Even though comparison of the market price of the share after right issue with the theoretical price of the share shows that the market price of the share after right issue is always below the theoretical price only in few cases the prices are above. Whereas the prices should be equal generally.
5. It also found that Nepalese corporate firms increase the practice of right issue. Majority of companies issue right share to retain the overall control, for easy sales and to protect dilution of shareholders wealth.
6. Reason of purpose right share is to increase the value, increase the no of share and to maintaining control position.
7. Investment without analyzing financial report of the company is not fruitful, we say. But in the contest of Nepalese market more than 75% of the investors invest in the share without analyzing the financial report.
8. Rights and the responsibilities of the shareholders and the Organization issuing security are all defines by the law, but ordinary investors do not have enough knowledge about those things. It shows that authorized body of the government is not able to provide enough knowledge about these things to the ordinary investors.
9. Right issue practice is growing rapidly in Nepalese market. Even shareholders are always looking forward to the right issue of the share, but while the right issue they lose some right if there is no proportional match of the share hold with the right issue. It shows the imperfectness of the share market.
10. To make appeal against the organization or board member if any activities performed to harm the shareholders wealth is the right of shareholders. Most of the Nepalese investors do not know if there is any such provision or not. It shows the lack of knowledge of the ordinary investors regarding

their rights.

11. It has been found that most of the under subscription of right share is cause because of the right not transferable.
12. It has been found that the government policy regarding the securities is not so worse in Nepal. Wackiness of the government is in the implementation of the policy.
13. Nepal's one and only regulating body of the securities in the country, SEBO has made different rules and regulations regarding security system in the country. This effort of SEBO is even not being appropriate to give right direction to the security market of Nepal.
14. Market price of the security is affected by different elements of the market. It should be identified which element is effecting the most. It would be better if the financial performance of the organization affect the share price of that organization. In Nepal market price of the share is mostly affected by the activities of the share market player which is not good for the market in ling run.
15. Duties and responsibilities of the share brokers are to facilitate investors by providing right information about securities in market and trading for investors. It is found that the investors are not so satisfied by the role of the share brokers in Nepal.
16. Role of the issue manager is to facilitate organization issuing share and investors in case of initial offering. From the survey it has been found that the roles of issue manager are not so satisfactory for the investors regarding there right protection.

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the important chapter for the research because this chapter is the extracts of the entire previous discussion chapter. This chapter consists of mainly three parts: Summary, Conclusion and Recommendation. In summary part, revision of summary of all four chapters is made. In Conclusion part, the result from the research is summed up and in recommendation part, suggestion and recommendation is made for improving the present situation to the concerned parties as well as for future research.

5.1 Summary

Nepalese security market is not developed enough in comparison with the market of other countries such as India, China and United States. So, initial public offering, rights offering and its practices in Nepal has always been an exciting and challenging study. In Nepal, very few investment instruments are in use such as ordinary share, debenture, preference share, mutual fund and rights share. But other instruments such as warrants, convertibles, option and transferable rights are not in use which deprives the people from investing their saving in highly productive sectors.

This study is divided in five chapters. In introductory chapter, a brief introduction of the study and overall view of rights offering are presented while available literature on rights issue is reviewed in second chapter. Research methodology is mentioned in third chapter and presentation and analysis of data is made in fourth chapter. So this chapter is all about summarization and conclusion of findings.

Right offering is considered as one of the popular methods of raising the long-term fund, as the targeted capital structure of the firm requires. Efficient capital market is taken as the backbone of the industrial development and overall development of the country. Nepalese stock market has a brief history. The history of the security market proceeds with the flotation of shares of Biratnagar Jute Mill Ltd. and Nepal Bank Ltd. in 1937A.D, introduction of the company act in 1951A.D, the first issue of government bond in 1964A.D and the establishment of Security Exchange Center Ltd. in 1976A.D. The security market flourished after the conversion of Security Exchange Center into Nepal Stock Exchange in 1993A.D. Nepal Finance and Saving Company Ltd. got issue approval of right share in 1995/96A.D for the first time; it is therefore, right share offering is still a new and emerging concept for both organizations and investors.

In Nepal, Nepal Finance and Saving Company has issued right share first in fiscal year 2052/53 amounting to Rs.2.00 million. During that fiscal year only two companies had issued right shares. In 2055/56 there was 1 case of right issue, 3 cases in 2056/57, 2 cases in 2057/58, 5 cases in 2058/59, 4 cases in 2059/60, 3 cases in 2060/61, 6 cases in 2061/62, 11 cases in 2062/63, 17 cases in 2063/64 and 51 cases in 2064/65.

Both primary and secondary sources of data are used for research work. Structured questionnaire is used as the primary source of data and Annual Reports of concerned enterprises; related newspaper and magazines, Annual Reports and trading Reports published by NEPSE and Annual Report of SEBO/N are used as the secondary source of data.

Nepalese equity market (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. Nepalese investors prefer the banking sector’s share rather than other sectors because the performance of that sector has better. The practice of rights share issue is in increasing trend per year. Due to low flotation cost, easy process to collect fund and maintaining control position in management are the causes of rights share prefer by the Nepalese Corporate Firms.

Company Act is silent regarding the issue of rights offering and subsequent allotment of the rights issue. There is no clear and easy provision regarding the sales of under-subscribed right share. There are not any separate rules and regulations about the right share in Nepal. There is difficulty to investors due to not transferable of rights in Nepal. Regarding procedural aspects of rights offering, all other procedure is same as IPO. Besides, rights issuing company should be mailed a document called a ‘right’ to the existing shareholders. Right is appear as an obligation imposed on shareholders, otherwise she/he would suffer a loss in the form of decline in price of her/his holding.

Under subscription of rights issue is common phenomena as rights is not transferable in Nepal. It is found that under- subscription of rights share is caused by various factors such as inadequate legal provision, low promotional role of the company, poor financial condition of investors, lack of adequate information, lack of investor’s awareness and low economic growth of the country. Existing legal provisions are not adequate and needs to be amended as soon as possible. Promotional role played by the issuing company and issue manager regarding to the right offering is also increased. Subscription of rights share in recent year is increasing trend.

5.2 Conclusion

Rights share is still a new phenomenon in Nepalese context and it has a long way ahead. There are many things to work towards making rights offering as an effective instrument of raising fund in Nepal. After going through whole study, the following conclusions can be drawn regarding rights share issue in Nepal.

1. Theoretically, the market price of stock has decreased after right share issue. The above study shows that the majority of the companies follow the rule.
2. The theoretical and actual market price should be equal or actual market price should be slightly higher than theoretical price due to signaling effect. The researcher found that the above sample companies follow this principle.
3. Under subscription of rights share in most of the cases due to lack of not transferable of rights, poor financial condition of investors and low promotional role of the issuing company.
4. The Company Act has not mentioned anything regarding the transfer of rights.
5. Company Act should be amended to make the rights transferable and to make smooth transaction of rights share.
6. The overall procedure regarding the issuance of rights share is time consuming and lengthy.
7. Rights offering have some impact on the price of share either positive or negative.
8. Market price of share is greatly influenced by general market movement in Nepal.
9. Nepalese capital market is still in its infancy stage and rights issue hasn't practiced properly by all sectors and companies.
10. Share issuing companies are almost financial institution (i.e. bank and finance company). Their main motives of right share issuing is increased

the paid up capital as directed by NRB.

11 Ordinary investors are not able to perform well because of the lacking Knowledge about rights of shareholders and securities. Governing body should organize the programs which will provide knowledge to the ordinary investors.

12 Role of Authorized body which is directly related with the security market of Nepal like SEBO, NEPSE, Share brokers, Issue Managers and concern organization are not so perfect to protect the rights of the shareholders.

5.3 Recommendations

After analyzing the data obtained from primary as well as secondary sources. We got various findings. It is important that changes are made so as to make rights of the shareholders strong and right issue more easy, effective and efficient. On the basis of findings, the following recommendation can be made.

1. In order to make the capital market more efficient. At first government should create the friendly environment and then, market participants and academic institutions should jointly promote and undertake more research and market analysis activities.
2. Company should play promotional role, for the full subscription of rights share, because there exist large no rights not exercise by the existing shareholders. Thus, misconception and rumors about rights share, to lead them to irrational decision. Thus the concern authorities must consider making aware to the investors regarding misconception about right share and other influential factors. The awareness program should be available for general investors through interaction, advertisement, videoconference, seminars, training, workshops and radio talk.
3. Under-subscription of rights issue is a common phenomenon. Existing shareholders that aren’t willing to buy extra shares have no alternative than

expire their rights. This is why, company act 2063 B.S should be amended and provision if legally transferable rights should be made and rights should be listed in secondary market. It not only prevents existing shareholders from dilution of their wealth position but also adds dimensions in secondary market that makes secondary market (stock exchange) more divergent and investors find another financial tool to invest their money. Problem of under-subscription of rights issue can be reduced simultaneously.

4. A new investor's protection act should be designed. So that the investors can maintain their confidence over their investment and feel secured. By this, they can also protect them from the probable losses that arise from the wrong practices and ultimately assist in the healthy growth of the capital market.
5. Company Act 2063 is not clear regarding the allotment of the rights shares those aren't subscription by the existing shareholder. The current practice is to distribute them among the employee of the respective companies. It isn't good practice. So, company act should be amended to make clear provision regarding the issue of rights share and subsequent allotment of rights issue.
6. Infrastructure like good communication, banking facilities and postal services should be developed to encourage investors.
7. Regulation and their implementation should be sound and strict. So that all kinds of investors can earn equal benefit on the basis of their investment.
8. Regulatory offices, issue managers, issuing companies and government should jointly organize investors awareness program on stock because still number of investors are unaware about share and share market it.
9. Free pricing concept should be implemented in rights offering to get rid off from the problems of under subscription of rights share.

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ANNEX -1

Dear respondents,

I am M.B.S. student of Tribhuvan University, Shanker Dev Campus, Conducting a research in “Right issue & its impact on share price” as final year research work. I appreciate your co-operation in completing this survey questionnaire. I also assure you that the information provided by you will be kept highly confidential and used only for the purpose of this research work.

Name:.. **Address: ....**

Questionnaire

1. Nepalese corporate firms regarding issue of Right Share?

   (a) Slightly Agree (b) Agree

   (c) Natural (d) Disagree

2. Reason of increasing practice in right share issue

   (a) To retain the overall control.

   (b) For easy sale

   (c) To protect dilution of share holder's wealth.

   (d) All

3. Purposes of Right share purchase.

   (a) To increase the value of share.

   (b) To increase the no. of share.

   (c) To maintain control position.

   (d) All

4. Do you analyze financial report of the company before you invest in it?

   a. Yes b. No

5. Do you have enough information of Shareholders right?

   a. Yes b. No

6. How do you observe right issue practice in Nepal?
   a. Perfect
   b. Average
   c. Imperfect
7. Have you ever missed to apply for right share? If yes how many times and what number of share?
   a. Yes   Times ....   No. of share loose ....
   b. No
8. Cause of under subscription of Right Share.
   (a) Right isn't transferable.
   (b) Lack of investors awareness.
   (c) Poor financial condition of investors.
   (d) Low promotional role of the company.
9. How do you feel the government policy towards the shareholders right Protection?
   a. Good
   b. Fair
   c. Bad
10. How is the role of SEBO to protect Shareholders right?
   a. Good
   b. Fair
   c. Bad
11. How do you observe the price market of shares in Nepal?
   a. According to financial performance
   b. According to the signaling effects
   c. According to the share market players

12. How do you observe the role of share brokers towards the shareholders right protection?
    a. Good
    b. Fair
    c. Bad
13. How do you observe the role of issue managers regarding the shareholders right protection?
    a. Good
    b. Fair
    c. Bad

Thank You!

ANNEX -2

Calculation of Theoretical Price of the share

S. No	Name of the companies	P_0	P^s	Ratio	#	$(P^e)=\frac{P_0 \times \# + P^s}{\# + 1}$
1	MBL	1340	100	1:0.6	1.66666667	875
2	GWFL	633	100	1:1	1	367
3	KMBFL	1560	100	1:3	0.33333333	465
4	NIC	1070	100	5:1	5	908
5	NIBL	2850	100	5:1	5	2392
6	ABB	1000	100	1:2.5	0.4	357
7	PBB	375	100	2:1	2	283
8	CMBFL	768	100	1:1	1	434

0Theoretical value of stock after right share issue $(P^e) = \frac{P_0 \times \# + P^s}{\# + 1}$

Where

P_0 = Pre right issue stock price

P^s = Subscription price

\# = No. Of rights required to purchase one new share

ANNEX- 3

MPS of Sample Companies before and after Right Share Issue

S.No.	Name of Companies	Pre. Rt. Issue Price	Post Rt. Issue Price	% Change in Price
1	MBL	1340	860	-35
2	GWFL	633	405	-36
3	KMBFL	1560	485	-69
4	NIC	1070	1050	-2
5	NIBL	2850	2040	-28
6	ABB	1000	479	-52
7	PBB	375	456	22
8	CMBFL	768	622	-19

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

$= \frac{860 - 1340}{1340} \times 100 = -35\%$

Same process has been followed to calculated the of other banks: