CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The economic sector plays a crucial role as a major determinant of development. Capital market is one of the major areas where a country's economic sector fully depends on. A healthy capital market plays a crucial role in the development of national economy. Capital market helps national economy by mobilizing long-term capital needed for the productive sector. Development and expansion of capital market is essential for rapid economic growth of the country. The significance of capital market in the economic development of a developing country like Nepal is so great.

Nepalese capital market is in growing stage. There are various inconsistencies and hindrances exist on the way to run the market smoothly. The Nepalese capital market was established as Security Market Center (SMC) in 1976. In 1984, the SMC was renamed as Security Exchange Center (SEC). After converting SEC into Nepal Stock Exchange (NEPSE) in 1993, it brought new atmosphere in Nepalese capital market. NEPSE is non-profit making organization. It is one and only secondary market for Nepalese corporate securities, operating under Security Exchange act 1983. NEPSE opened its trading floor on 13th January 1994 and started to calculate the NEPSE Index since 12th February 1994. NEPSE plays vital role for developing the efficient capital market. Managing public issue is one of the important roles of NEPSE.
Van Horne, (1998) states that, when a company is formed, it obviously must be financed. Often the seed money comes from the founders, 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 situation equity infusions are necessary.

From above quotation, it is clear that when a large-scale firm is to be established it fulfills the financial requirement by the issue of equity share. There are some other sources available to raise fund. These sources are called financial instruments such as preferred stock, bond, debenture, rights share, derivatives etc. Among these alternatives this study is mainly focused on the impact of right offering in share price movement and its practice in Nepal.

The study is concentrated on the various aspects of rights offering with special references to the selected listed commercial banks of Nepal. It covers the period of 16 years from FY 1993/94 to 2008/09. It includes the data of mostly rights issuing commercial banks. But to show the practice of rights offering in Nepal, researcher takes some data of all rights issuing companies.

Although Nepalese security market is practicing the rights offering for a long time period, but it's every essence is not seemed to practice here. Only 153 cases of rights offered by 159 companies, out of total listed companies in Nepal till the FY 2008/09. In Nepal few cases of rights offering meets the theory. Mixed results have been obtained from the sample companies regarding rights offering theory in Nepal. Share price of Bank of Kathmandu Ltd. before rights share announcement was Rs.801, but it went down to Rs.460 after rights share announcement. Similar trend was observed in case of Everest Bank Ltd., while mixed result in case of Nepal SBI Bank Ltd., Nepal Investment Bank Ltd., and Kumari Bank Ltd. was observed. But in case of Nepal Bangladesh Bank Ltd., share price was Rs.350 before the announcement date and it went up to Rs.393 after the announcement of rights share and again falls down to Rs.260 after allotment of rights share.

This study has been done to fulfill some specific objectives. Main objectives of this study, is to examine the movement in share price before and after the announcement of rights issues and to analyze the rights issue practice in Nepal. Finding out the problem of rights issue in Nepal is another objective of this study. Till the date, many studies have been done related to the impact on market price by various variables such as EPS, DPS and signaling effects. But very few studies are directly concerned with rights issue in Nepal. Still it is really tried hard to make full effort to collect the related studies for review.

This study is heavily based on secondary data. So useful data are collected from SEBO/N and other related organizations as well. Newspaper, annual reports of sample companies, journals and bulletins are important sources of secondary data in this study. Other information is collected through the internet as well.

1.1.1 Introduction of the Rights Issue

We can describe the right i.e. preemptive right, as the right of existing shareholders to buy the additional number of common stock or equity share if the company further issues the new share. The preemptive right gives the holders of common stock the first option to purchase additional issues of common stock. Thus, if the company sells the stock only to the existing shareholders, the stock floatation is called right offering.

Instead of selling a security issue to new investors, some firms offer such security issue first to existing shareholders on a privileged subscription basis. Some time the corporate charter requires that a new issue of common stock or an issue of securities convertible into common stock be offered first to existing shareholder because of their preemptive rights (Van Horne, 2000: 494).

If the new common stocks are issued giving the right to purchase first by the existing shareholders, than it is called rights offering. Each shareholder is issued an option to buy a certain number of new share and the terms of the option are contained on a piece of paper called right. Each stockholder receives one right for each shares of stock owned (Weston & Copeland, 1992: 906).

Usually, right shares are issued to the existing shareholders to raise the capital. Therefore, issue to right share represents the distribution of share in proportional basis to the existing shareholders for the purpose of raising the needed funds. The shareholder which has an option to purchase the stated number of shares at the subscription price, which is generally below the current market price of the share, can purchase such shares within the specified period of time.

So, right issue is a privilege given to the existing shareholders that helps them to keep their control position proportionately equal and the issuing price will also be lesser than the market price. This lower price would help to maximize the capital gain of the shareholders. Right is the negotiable instruments. It has its expiration date. One of the advantages of right offering is the minimization of flotation cost. The procedure of right offering is similar to the non-right issue.

Theoretically right offering affects the share price because it has some value. They have value because generally they are offered at a subscription price somewhat lower than the market price of share. In the secondary market, investors prefer to buy the shares that have attached the preemptive right. Due to speculation, share price may go up and down.

Right issue practice in Nepal has no long history as compare to other developing country. While looking the issue approval from the SEBO of Nepal researcher can easily notice an increasing trend of issuing right share. During the 16 years period, SEBO/N has granted right issue approval amounting Rs.28018.96 million out of total issue of Rs.39389.9 million of all types of securities.

This amount comes to be the largest amount among various issue approved by SEBO. Right issue occupied 65.31s% out of total issue approval out of total listed companies. In Nepal, Company act 1997 has provisioned about the preemptive right of shareholder in the section 42 (4). It stated that if the right is contained in a firm's charter then the firm must offer common stock to existing shareholders. If not, the company has choice of right offering or public offering. But the law in India requires that new common stock must be issued first to the existing shareholders on a pro rata basis. In India right is negotiable but in Nepal there has not been any provision to make the right negotiable.

This study is mainly focused on impact of right issue in share price movement in the context of Nepalese commercial banks and the practice of right issue in Nepal as well.

1.2 Focus of the Study

This study is concern with the right share practice and its impact on share price movement of commercial banks in Nepal. Basically this study has been focused on following topics:

- Price movement before and after announcement of right share.
- Practice of rights issue and its problem and prospects in Nepalese corporate firm.
- Procedure of rights issue in Nepal.

1.3 Statement of the Problems

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

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

While offering the rights another problem of under subscription also arises there. Due to the lack of instrument of rights transfer, there arise a problem of under subscription of right share and finally this absence deprives the existing shareholders from enjoying the choice of selling the rights. The company should decide how many total funds required to be raised. Then, if the total funds to be raised, is divided by subscription price, it gives the total number of shares to be issued. Number of rights to be required to purchase one new share is got if the total number of old shares is divided by total number of new shares. It creates the relation of low subscription price makes less rights needed for purchasing of a new share and vice versa. Common stockholders have option to purchase new shares according to the terms of offering. When a company issues right offering to existing shareholders, a shareholder has three choices and they are (i) subscribe the new share or use right, (ii) sell the right and (iii) let the right expire or do nothing. The shareholder takes the decision if he/ she feels the following points: Hence, the absence of the right instrument and the implicit of the shareholders “wealth, which do no exercise the rights, is another aspect of the research problem. But the major issues are given below:

- When right offering should be made?
- What is the trend of the shareholders about the right offering? That means use the right, or sell the right or let the right expire.
- What is the theoretical value of right and its practical effect on stock price?
- What are the reasons of the price movement after the right offering?
- What will happen in the share price movement after announcement of right share?
- Is there, any problem regarding right issue practice in Nepalese capital market?
- What are prospects of issuing the right shares in Nepalese capital market?

1.4 Objectives of the Study

The main objectives of this study are to examine the right share practice and its impact on share price movement of commercial banks in Nepal. The study covers two aspects of right issue (a) the characteristics of rights offering by the commercial banks (b) the share price movement associated with the rights offering. To achieve these basic objectives, the following specific objectives have also been considered in this study:

- To examine movement in stock price before and after the announcement of rights issue.
- To explore the procedure of rights issue in the context of Nepal.
- To analyze practice, problems and prospects of rights issue in Nepal.
- To determine the corrective measures to all concerned sectors on the basis of the findings of this study.

1.5 Statement of Hypothesis

To analyze the data available, t-statistics has been used to test the significance of the difference between the share prices under the following hypothesis:

Null Hypothesis (H_o): There is no significant difference between the share price movement before and after the announcement of the rights offerings.

Alternative Hypothesis (H_1): There is significant difference between the share price movement before and after the announcement of the rights offering.

1.6 Significance of the Study

It hopes that this study will be important and valuable source of information for those who are interested to the security market of Nepal. Basically investors, business organizations, security board, brokers, potential study, students and teachers will be benefited from this study. It hopes that this study will help the government and other institution as well to make their policies and programs properly.

1.7 Limitations of the Study

This study is required for the partial fulfillment of MBS Degree. Hence it is subject to some limitations, which affect the study.

They are given below:

- The study has analyzed the last 16 years data beginning from 1993/94 to 2008/09
- This study has assumed that the related published and unpublished documents, such as Journals, articles and other previous studies are realistic.
- Other variables that affect the stock price of sample companies are totally ignored while analyzing the share price movement.
- This study is mostly based on secondary data.
- Out of total right issuing companies only one sector i.e. commercial banks is considered, from which 6 banks are taken as sample for the study.

1.8 Organization of the Study

This study has been organized into five chapters. Each devoted to some aspects of the study on right share practice and its impact on share price movement of commercial bank in Nepal. The chapter one to five will be consists of following:

Chapter one contains the introductory matters, which describes the general background, statement of the problem, objectives of the study, limitation of the study, statement of the hypothesis and significance of the study.

Chapter two contains brief review of literature, which has been organized into two sections. Section one contains conceptual framework of rights offering and section two contains the review of related studies.

Chapter three contains research methodology employed in the study. It includes the introduction, research design, nature and sources of data, data analysis tools, sampling procedure and definition of some key terms.

Chapter four contains presentation and analysis of data. This is the main and key chapter of research study. In this chapter sources of data are primary and secondary, which are presented in appropriate form. Analysis and interpretation of data have been performed thereafter. From this analysis and interpretation major findings have been deduced.

Lastly, In *Chapter five* summarizes the main conclusion that flows from the study and offers for further improvement and conclusion of the study. After the completion of these five chapters a list of literature that reviewed earlier is included alphabetically in bibliography. Likewise, data information calculation sheet etc. are incorporated in appendix.

CHAPTER - II
REVIEW OF LITERATURE

Review of literature is an essential part of all studies. It is an way to discover what others have researched in the similar topic. It is also a way to avoid investing problems that have already been definitely answered. It refers to the reviewing of the past studies in the concerned field of study. Such studies can be thesis that are written earlier, books, articles and other such publications concerning the subject matter, which were written prior by any person or organization. The purpose of literature review is, thus to find out what research studies have conducted in one's chosen field of study and what remains to be done. This chapter is divided into three parts i.e. Conceptual Review, Review of Legal provisions and Review of Related Studies.

2.1 Conceptual Review

Right issue is a growing practice for financial institution to increase their paid-up-capital. Rights issue is related to the primary issue or initial financing to raise the equity fund. Since there are various ways of financing to a firm but when a new company is firmed, the ways are limited. 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. Venture capital includes the share capital and debt fund. For new firm, generating debt capital is not easy, so most part of the venture capital involves common stock. Wealthy individuals and institutional investors are one of the major sources of venture capital. In case of Commercial Banks Venture Capital is mainly about issuance of shares.

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 confirm to SEC requirements in having a board of directors, disclosing sensitive, information having to employ certain accounting conventions and incurring expenses as a public company not incurred by a private one. In addition there is an investor fixation on quarterly earnings. At times, this is a hindrance to management in trying to take long term decisions" (Van Horne, 1999: 501).

Public issue of equity means, rising 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 for the public issue which involves both direct and indirect costs. Direct cost involves legal auditing, administrative cost and underwriting commission. "Thus, public offering involves raising of funds for governments or corporations from the public through the only issuance of various securities in the primary market and is often the only major source of obtaining large sum fixed rate, long term funds" (SEBO/N, 2004: 7).

For the establishment of Commercial Banks large amount of money is required and public offering helps in raising such fund. Whenever Commercial Banks and other companies need additional funds then they go for right share issue.

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

The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1973. Introduction of the Company Act in 1964, the first issuance of Government Bond is 1964 and establishment of Securities Exchange Center Ltd. in 1976 were other significant developments relating to capital market. The trading on securities on Nepal was recognized on too late a period of 1976 when Nepal Industrial Development Corporation (NIDC) and Nepal Rastra Bank (NRB) through their joint efforts initiated the establishment of (SMC) to mobilize the public savings for ensuring public ownership in the shares of public limited companies. In order to promote the stock exchange business, the center made a series of studies in the beginning regarding both the public limited companies and devising the ways and means of undertaking the business of buying and selling securities. In pragmatic reality, however, the Center became nothing more than the satellite organization of NRB to undertake the over-burdened functions of the latter in selling Government securities that comprise treasury bills, development bonds etc. After a long period of seven years doing nothing substantial in the frontiers of stock exchange business, the Securities Marketing Center passed a new Securities Exchange Act 1983/84 to refresh its role in the capacity of a merchant banker in view of acting as a legally acknowledged stock exchange house.

In its early period of incorporation, the center focused much on the long list of objectives without really understanding the operational mechanism of securities exchange activities. As such, while referring to its introductory brochure, multifold objectives such as promoting public savings and mobilizing capital funds for investment, encouraging peoples' participation in ownership of business and industries, providing marketing facilities for channeling securities exchange business were prescribed. Mention was also made of underwriting, listing of securities, management of share prices, collection of essential information, etc. But in reality, for many years the center served in the capacity of an extra hand to support the selling function of NRB in disposing government securities comprising treasury bills, development bonds, promissory notes, etc. There is nothing substantial done about the business of buying and selling of securities despite laudable objectives enunciated without being pragmatic about possibilities of regulating and operating the stick exchange business. “Merely having an executive director at the helm of center does not serve the purpose of conducting the stock exchange business transaction without encouraging the broker’s networks that are essential in creating in linkage between buyers and sellers of securities. Despite making study regarding the stock exchange mechanism the center followed a reverse practice of doing securities business without developing the floor of securities exchange by membership through their broker’s network for a long period of its establishment. As a result, the securities of existing companies that would have been brought by brokers to manage buyers and sellers of securities could not come forthwith in view of the center’s strategy to monopolize the business by strict legal measures not attractive to unorganized stock brokers dealing in the securities business”.

After 1980s onwards, the center tried to create some securities exchange norms. But, all it became discouraging to develop the securities exchange business in view of lack of dashing leadership since the level of understanding about the pros and cons of stock exchange was relatively poor. The enactment of new securities exchange Act in 1984 became a landmark in the Nepalese history of stock exchange and this brought change in nomenclature to the extent that the title of the center changed to Securities Exchange Center. As a result of this the center prepared its new booklet to ensure its role in the capacity of a merchant banker, as it is the only legally acknowledged stock exchange house in national perspective. As per its information relating to listing the securities of eight public limited companies got listed in 1984 (Shrestha, 1996: 10).

2.1.4 Security Markets

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

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 market center passed a security exchange Act 1983 and also mentioned the provision for listing. There weren’t any plans and programs of security market until seventh five-year plan. In the eighth five year plan, security exchange center was established, with an objective of facilitation and promotion of the growth of capital markets. Before conversion into stock exchange, it was only the capital market institution undertaking the job of brokering, underwriting, managing public issue, making for government bonds and other financial services.

The securities exchange Act 1983 (2040) was amended in the period of eighth plan for the achievement of eighth five year plan objective towards the capital market. The main objective of eighth 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 (NEPSE) Ltd. in 1993. NEPSE is a non-profit making organization operating under securities exchange Act 1983.

The basic objectives of NEPSE is to make impact free marketability and liquidity of the government, and the corporate securities by facilitating transaction in its trading floor through intermediaries, such as; broker, market etc. NEPSE opened its trading floor in 13th January 1994 with 25 licensed broker members. The history of Nepalese Sock market begins with the listing of shares of 16 companies in 1986. According to the SEBO/N Annual report 2006/07, there are 135 companies listed in NEPSE.

2.1.5 Securities Board, Nepal (SEBO/N)

Securities board, Nepal was established in May 26, 1993 A.D. under the provision of Securities Exchange Act 1983 A. D. (First amendment). Since its establishment, SEBO/N has been concentrating its efforts to improve to the legal and statutory framework, which are the bases for the healthy development of the capital market. As a part of its continuous effort to build a sound system, the Securities exchange Act 1983 was amended for the second time on January 30, 1997 A.D. This amendment paved the way for establishing SEBO/N as an apex regulatory body as it widened the horizon of SEBO by bringing market intermediates directly under its jurisdiction and also made it mandatory for the corporate bodies to report to SEBO annually and semi annually. Although the second amendment in the Act established direct relationship of SEBO with market intermediaries and the listed companies, supremacy in its jurisdiction is yet to be established and clearly recognized.

In order to improve such a situation, SEBO focusing on the major areas where improvement is necessary, has launched a four-year strategic plan (1998-2002 A.D.) with major thrust in four major policy development areas. SEBO has also drafted a new Security and Exchange Act which has sought to improve inconsistencies observed in the present Act and establishes SEBO as an apex regulator of the securities market. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of the NEPSE.

2.1.5.1 General Objectives of SEBO

General objectives of SEBO are mentioned here under:

- The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as; broker, market makers etc. NEPSE opened its trading floor on 13th January 1994.
- To promote and protect the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities.
- To supervise, look after and monitor the Activities of the stock exchange and of corporate bodies carrying on securities business.
- To render contribution to the development of capital market by making securities transactions fair, healthy, efficient and responsible.

2.1.5.2 Functions of SEBO

The main functions of SEBO are as follows:

- To advice Government of Nepal on the issues related to development to capital market and the protection of shareholders' interest.
- To approve stock exchange for the operation and oversee them for healthy trading of securities.
- To register and regulate market intermediaries involved in the primary issues as well as the secondary trading of the securities.
- To regulate the public issues of securities including the mutual and trust funds.
- To monitor and supervise the securities transaction.
- To conduct the researches and studies along the area of security market.
- To conduct conferences, workshops and seminars and participate in such programs conducted in the regional and international level and join the forum and exchange with outside regulators.

As an apex regulatory body for the Nepalese securities market, the SEBO has adopted following set of strategic policies to handle the strategic issues that are inhibiting the growth and development of the market. The policies consist of:

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

In this section, some terminology, like venture capital, initial public offerings (IPOs), preemptive right of shareholders, rights offering, seasoned equity issues etc. are also explained separately, because one will confront with these terms quite frequently while reviewing this thesis.

2.1.6 Rights Issue

The easy way of raising capital is issue of common stock. When a company issues shares to the existing shareholders the stock flotation 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 shareholders of the company" (Pandey, 1988: 1015).

Existing shareholder of company has legal right to buy the shares if new issue is made. If the charter doesn't contain the preemptive right, the firm has a choice of making the sale to its existing stockholders or to an entirely new set of investors. In Nepalese context, Company Act 2053 section 42(4) clearly mentions that if a company wants to increase its capital and issues additional shares then existing shareholders will have first right (privilege) to buy such shares.

"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" (Pandey, 1999: 1007).

2.1.6.1 Features of Rights

Features of rights are:

- The number of rights equal to the number of shares held by the respective shareholders i.e. the number of rights that a shareholder gets is equal to the number of shares held by them.
- The issuing company determines the number of rights required to subscribe to an additional share.
- The price per share for additional equity called the subscription price is left to the discretion of the company.
- Right are negotiable. The holder of rights can sell them. Rights are detachable i.e. only right can be sold.
- Right can be exercised only before ex-right date.

2.1.6.2 Pros and Cons of Rights Issue

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

Pros (Advantages)

- The existing shareholders' control is maintained through the pro-rates issue of shares.
- Raising funds through the sale of rights issue rather than public issue involves less flotation costs as the company can avoid underwriting commission.
- In the case of profitable companies the issue is more likely to be

successful since the subscription price is set much below the current market price.

Cons (Disadvantages)

- The main disadvantage is to the shareholders who fail to exercise their rights, they loose in terms of decline in their wealth.
- 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.

2.1.6.3 Rights-on and Ex-rights

In above example the stock selling before December 11 is said to sell with rights-on. Those who buy stocks rights-on receive rights with stocks and can purchase right shares of the company. On and after the ex-rights date i.e. December 11 in above example, the stock is said to sell ex-rights, that is, the stock is traded without rights attached. Investors those who buy stocks after this date do not receive the rights to subscribe additional stocks.

2.1.6.4 Valuation of Rights

Right is a negotiable instrument, so, it has a certain value for sale. Theoretically, value of the right is determined using different equations and the value depends upon the market price of share, subscription price and number of rights required to purchase a new share. This value is also known as formula value. The real value is determined in the market place through the interaction of demand and supply. The value we obtain using different equations is the minimum price to seller and maximum price to the buyer.

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

Right-on value of a Right

Value of one right = (Right on price of the stock-subscription price)/(Number of rights required to purchase one share + 1)

$$(V_r) = \frac{P_0 - P_S}{\# + 1}$$

Where,

Po = rights on price of the stock

Ps = subscription price

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

Vr = value of one right or formula value or theoretical value of one right.

Ex-right value of a Right

Value of one right = (Ex-right price of the stock-Subscription price)/Number of rights required to purchase a new share of stock

$$(V_r) = \frac{P_e - P_S}{\#}$$

Where,

Pe = ex-right price of the stock

Ps = subscription price

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

Vr = value of one right or formula value or theoretical value of one right.

2.1.6.5 Rights Offering and Market Value of Share

Immediately after the announcement of the right offering the market price of the stock would increase by some amount but theoretically it is said that the right offering does not affect the value of shareholders what will happen to the price of share before ex-right i.e. in rights-on and after ex-rights date?

Rights-on Price of Stock

Rights-on price of stock is also known as cum-right price of stock. This is the time that the stock is selling rights-n that is before ex-right date. During the rights-on period, the market price per share theoretically remains same and demoted as Po

Rights-on Price = Cum-Right Price = Po

Ex-right Price of Stock

When the stock goes ex-rights, the market price theoretically declines by the amount of value of each right. The value of stock declines because the investors (buyers of stock) on longer receive the rights to subscribe to additional shares.

Ex-right value of stock = Rights-on value of stock-Value of each right
Pe = Po - Vr

Where,

Po = right-on price of stock

Vr = value of each right

Pe = ex-right price of stock

2.1.6.6 Theoretical Value Vs Market Value of Rights

Market value of right may differ somewhat from its theoretical value on account of transaction costs, speculation and the irregular exercise and sale of rights over the subscription period. Market price of rights may be higher or lower than theoretical value. "If the price of share is significantly higher than its theoretical value, stockholder will sell their rights and purchase the stock in the market. Such action will exert downward pressure on the market price of the stock. If the price of the right is significantly lower than its theoretical value arbitragers will buy the rights, exercise their option to buy stock, and then sell the stock in the market. This occurrence will exert upward pressure on its theoretical value" (Pandey, 1999: 495).

But this transaction and movement is not applicable in Nepalese context because in Nepal rights can not be separated from shares. One cannot sell the rights discretely.

2.1.6.7 Nepalese Securities Market and Rights Issue

Till the date 153 companies out of 159 listed companies have issued the right share. Up to fiscal year 2008/09, total issue approval (instrument wise) is as follows:

Tools	Percentage in total issuance
Ordinary shares	17.47
Right shares	66.05
Preference shares	14.86
Debenture	1.62
Total	100

Source: Annual Report of SEBO/N 2008/2009

2.1.6.8 Effect on Position of Stockholders

Theoretically, the wealth position of existing shareholders is not affected by the rights offering. Before and after the rights offering, the total wealth of the shareholders remains same if they exercise full rights or sell their rights or sell partially and exercise partially. But, in case of letting them to expire or partially exercise would affect the wealth position.

2.1.6.9 Subscription Price is Not Significant

The subscription price of rights issue is irrelevant in terms of the impact on the shareholders wealth. It can be fixed at any level below the current market price. What the shareholder gain in terms of the value of rights, he will lose in terms of declination in the share price. The primary objective, in setting the subscription price low is that after the rights offering the market price should not fall below it.

2.1.7 Preemptive Rights

"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 percent of the company's ordinary shares, he has preemptive right to buy 1 percent of new shares issued" (Pandey, 1999: 1019)

Existing ordinary shareholders have legal right to purchase the new shares issued by the company, which is called the preemptive rights. Company cannot sell their additional shares avoiding the existing shareholders and their right. "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 preemptive, 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 shareholders, the stock flotation is called a right offering. Each stockholder is issued an option to buy a certain number of the new shares, and terms of the option are contained on a piece of paper which is called a right. Each stockholder receives one right for each share of stock owned" (Weston and Copeland, 1992: 906).

Another important thing is that the preemptive right protects shareholders against a dilution of value. We can clarify it by the following example: Suppose, there are 10,000 shares outstanding with Rs.100 each, making the value of the firm Rs.10,00,000. If additional 5000 shares were sold @Rs.75 a share for Rs.3,75,000 making the total market value of firm Rs.13,75,000. 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.

2.2 Review of Legal Provision

There are not many Acts and Regulations regarding the rights issue in Nepal. All the Acts relating to general share issue are followed while issuing the rights share in Nepal.

2.2.1 Rules and Regulations Regarding Rights Issue in Nepal

Company Act 2053 is the main Act that regulates the establishment and issue of securities of any company. But in case of right share issue, company is silent and do not mention about the procedure and method. Some of the provisions made by SEBO/N say regarding the rights issue. The firm that has already gone to public can issue right share to acquire additional capital. The procedure regarding right share issue is similar to common stock issue. Besides it, the firm that wants to issue right shares should have enlisted in stock exchange, after full payment of the face value of securities issued earlier.

2.2.2 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 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:

- 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 shareholders.
- AGM should pass the proposal of BOD by its majority.
- Company should notify NRB, NEPSE, Office of the Company Register and SEBO/N 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.

- 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.
- Latter 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 which the issue is to be made and the conditions letter will be sent after the date of announcement.
- After the receipt of the letter of provisional allotment, the allotment must be made for those shares which are renouncing.
- 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 now transferable instrument, such practices are not seen in Nepalese context.

Listing of the shares in the NEPSE again with increased number which must be approved by the stock exchange after which an application for listed new share could be made. The above procedure can also be described as follows.

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

When stocks traded in the stock exchange, during announcing period then the investors (buyers and sellers of stocks) may get problem “who will get the right?” To avoid such confusion the board of directors of the company fix record date to give certainty about the possession of right. Following is the procedure of right offering which is similar to the dividend payment procedures:

a. Declaration Date

Managers are responsible to manage the company. However, the crucial decisions are made by the representatives of the shareholders and those are called board of directors (BODs), therefore, the firm is under the control of the BODs. BODs meet and with the help of management, declare right offering. For example, Nepal Investment Bank needs Rs.400 million funds and the BODs decided to raise these funds through the right offerings. The BOD met on November 1 and declared right offering under the preemptive right of the existing shareholders. The meeting also declared that, to purchase the additional shares, the shareholders must record these names until December 15.

b. Ex-right Date

It is the date on and after which the right no longer goes to the stock. The ex-right date varies country to country and may also be determined by the companies themselves. In the Nepalese capital market, companies publish notice of book closer date and the book closer date is the ex-right date. This date normally is the four days before the holder of record date. But in Nepalese companies ex-right date is seven days. In the above example, December 11 is the ex-right date and those who purchase shares on and after this date will not receive rights which will rather be received by the seller of the shares.

c. Holder of Record Date

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

d. Subscription Date

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

2.2.3 Company Ordinance, 2063

There are following important provisions regarding securities issue in Company Ordinance 2063.

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

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

2.2.4 Banking and Financial Institutions Ordinance, 2063

There are following major provisions for banking and financial institutions to issue their securities on their ordinance.

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

2.3 Review of Related Studies

2.3.1 Review of Major Studies

To make more relevant and to add input in this study some Journals and article are also reviewed below:

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

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

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

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

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

Marsh (1979), used London share price database to study equity rights issue and the efficiency of the UK stock market. He considers whole population of right issuing company i.e. 1145 companies on the London quoted and registered companies between 1962 and 1975 although 148 issues were excluded because of potential ambiguities in the calculation of rights issue adjustment factors. He found the population abnormal return estimate for the two years post announcement period was only 4.5% or almost exactly half of the figure obtained for the random sampling. Similarly, over the one-month period following the announcement the abnormal return estimated were 2.8% and 1.6% respectively. The mean ex-post market return was only 0.8% higher than the mean risk free rate over the two-year post announcement period, so he expects his results to be largely independent of his beta estimates.

Since it study was concerned with market efficiency, the confined his attention to the post announcement period and striking feature was the apparent existing of abnormal returns after the news has been made public. Furthermore, his results are unaffected by the choice of model although the returns were somewhat lower with market model.

It further states that price pressure implies a temporary price fall around the ex-date. To test this, he applied the single stage cross sectional model to full sample of nearly a thousand issues. The results are consistent with the existence of small amount of price pressure. Share prices appear to suffer a temporary set back of 0.9% during the immediate ex-right period, although they more than recover from this over the next month with an abnormal return of 1.8% over the second period examined. While a small part of the price fall could be due to information effects delayed until after announcement date because of non-trading. There appear to be no other plausible explanation, which are consistent with market efficiency.

The results of his tests on price pressure and market liquidity were for more conclusive. Although an average, there did appear to be small setback of 0.5% to 1% when the shares went ex-rights, he found no evidence whatsoever that the returns over the issue (or announcement) period were related to the size of the issue. Quoted companies appear to be able to sell any reasonable amount of new equity at effectively the current market price and do not appear to face a downward and sloping demand curve for their shares. Hence although in recent years there has been an active public debate in UK or the adequacy of the capital market there seems little satisfaction for any real concern over the operations of this particular segment. The London Stock Exchange appears to be a highly liquid market

Marsh (1980), in another study of valuation of underwriting agreements for UK rights issue states that UK companies raise virtually all of their new equity capital via the rights issue. Companies can guarantee the subscription of their issue having them underwritten and in recent years this procedure has been adapted for 90% of UK rights issues. Underwriting is usually carried out on a fixed fee basis representing at least 1.25% of the total 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 on to the underwriter. In this study it describes an application of Black and Scholes model to the valuation of rights issue underwriting agreements over the period of 1962 to 1975. Model prices are compared with the fees charged in order to asses whether the letter represent competitive prices.

Furthermore it uses the same population and sample as in previous study, however it is unable to establish the date of the underwriting agreement with any degree of confidence. These issues were therefore excluded, leaving them 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 the question 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 it used the Black and Scholes model to value UK underwriting, over period 1962 to 1975, the evidence strongly indicated that underwriting, taken alone and ignoring side payments, was considerably overpriced.

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

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

Bhandari (2008), wrote an article on the topic “Right Share and Stock Dividend Mania” in the August edition of ‘New Business Age’. In this study, it has mentioned about the lack of knowledge of general Nepali investors about the rights issue. It has tried to give the answer to the questions like; why a company offers right share? Does the right share really have positive impact on the share price? What are the parameters to consider before investing in case of right share?

A number of existing banks and financial institutions are issuing right share to upgrade themselves from ‘C’ and ‘B’ grade financial institutions to ‘A’ grade commercial banks. Usually companies offer right share when they are growing very fast. This is one of the cheapest means of getting fund from the market to fulfill their need for investment for expansion. As compared to public issue of the common stock of the company, rights offering are much less expensive because the transaction costs, administrative costs and underwriting commissions are much lower than in the public issue. Another reason for the rights offering in Nepal is the Nepal Rastra Bank regulation.

Some experts view that the accounting treatment for right shares should be the same as stock dividend or stock split. According to them, the market price will go down proportionately with the rights offering. However, many other study have shown mixed results. In deeper analysis, it can be found that in case of stock dividend and stock split, the total shareholders' fund doesn't change and total book value of the total no. of shares remain the same. But in the case of rights offering, the total shareholders' fund and book value of the total no. of shares change because the company gets additional capital from the stockholders.

The companies that have high earnings and low liquidity are commanding high market price while companies that have low earnings and paying low dividend have low market price. That means the price is high not because of the right share, but due to other business environment factors. Right share doesn't give high return. It is just like stock dividend and stock split and means more liquidity in the market.

Before going for the investment, the investors should evaluate the management, products, services and innovation of the companies. These factors determine whether the company can generate more revenue and ultimately profits.

2.3.2 Review of Nepalese Studies

Till the date, many studies have been done, related to the impact on market price by various variables such as; EPS, DPS and signaling effects. But out of them very few thesis directly consider the rights issue to study the impact on share price.

Gautam (2003), has conducted a study on the topic, *"Analysis of Share Price Movement Attributed to Rights Offering Announcement"*. The main objectives of the study were:

- To find the effect of rights offering on the share price movement.

- To find out, if there is any problem in the primary issue of securities.
- To analyze the adequacy of the contents of the company act 2053 B.S. in regard to section 21 that emphasized about the matter to be disclosed in the issue prospectus.

To conduct the study, it had used correlation analysis between share price movement and NEPSE index i.e. general market movement and t-statistics between share price before and after right issue announcement. T-statistics is used to test if there was significant change in share price before and after the issue of right. But he did not consider the value of right, which is very important in share price determination after the issue of rights share. Further, his analysis only covers data from 2052 to 2056 B.S. That result may not represent the present economic scenario. He had taken only three companies as sample to complete his study but here the researcher has taken six rights issuing commercial banks as sample to conduct the study. The major findings of his study are that:

- The change in share price due to rights offering cannot be generalized.
- There is lack of legal provision in company act regarding the issue of rights share and also the lack of investors’ protection act.

It concludes that Nepalese security market has failed to use various capital market instruments such as warrants, convertible option etc.

Aryal (2005), on the topic "*Equity Rights Issue, its Practice and Impact in Nepal'* had been conducted. But his objectives of the study are different than Gautam's study. The main objectives of the study are:

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

To conduct this study it used cross sectional analysis by estimating the regression. It analyzed only the relationship between rights share to equity share and rights share to NEPSE index. In this research, it finds:

- Announcement of equity rights issue are associated with a positive effect on share prices.
- Theoretical value of right differs from company to company.

At last, it concludes that firstly company issues rights share for increasing equity capital and to invest it in company's diversification and expansion. Secondly they issue rights share to increase capital to meet the level prescribed by Nepal Rastra Bank. The rights share and equity share has low degree of positive correlation. The correlation coefficient between right share and NEPSE has also positive correlation.

Lamichhane (2007), conducted a study related to "*The Rights Offering and Its Impact on Market Price in 2007 in the Nepalese Context*'. The objectives in this study are:

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

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

In this study the major findings were:

- Difference between share price before and after the rights issue of sample companies is significant.
- Rights share issue is new practice in Nepal; sample companies are unable to increase the market capitalization through rights issue, as the practice does not follow the theory.
- Under subscription of rights share is common problem. Company Act 2053 is not adequate for this and issues procedure of rights shares.

Adhikaki (2008), had conducted the study on *"Impact of Information on Share Price"*. In this study, it objective was to determine the impact of information, such as; dividend declaration, return on equity and EPS, on share price. To analyze the study, it had use t-test and correlation. But, it did not consider rights issue as an important factor in share price determinants. So, here the study has analyzed the rights issue as an important factor in share price movement. In this study, it finds that:

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

Ojha (2009), had conducted a research on *"Financial Performance and Common Stock Pricing"*. The main objectives of the study were:

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

The main findings of the study were:

- Due to lack of proper investment opportunity most of the investors have directed their savings towards the secondary stock market.

- People have misconception that the issuance of bonus share and rights shares, which actually decreases the net worth per share and resultantly, ought to decrease the market price of share.
- Other firms have been issuing bonus shares more times than a new one.

Parajuli (2009), has made the study on the topics of *"Impact of Rights offering Announcement on the Share Price Movement"*. The main objectives of the study were:

- To find out the significant changes in share price after announcement of the rights shares.
- To study the rights share practice in Nepal.
- To study the impact of rights offering in earning per share.
- To analyze the problem regarding under subscription of rights share.

The major findings of the study were:

- There was significant difference between the share price before and after the announcement of the rights share, except in the case of People Finance Ltd. among 10 sample companies of his studies.
- Rights offering are comparatively new practice in Nepal. Market is not mature and company with track record is very low.
- Most companies are issuing rights shares to fulfill the capital requirements as per the NRB directives. Shareholders of Nepalese Security Market have lack of knowledge about the rights shares.
- The major causes of under subscription of rights share are lack of effectiveness in the flow of information, lack of awareness among the investors, poor financial performance of the issuing co., financial problem of shareholders and lack of the provision for rights transfer.
- After increasing the share capital through right shares, earning per share is increased by 0.59769 when 1 unit increment in share capital amount.

- To conclude the study, it had used the correlation coefficient, coefficient of determinants, regression analysis, t-test and financial formula.

After reviewing the above thesis, it is found that various studies have been done on the topic of share price and its determinant. The study have highlighted the rights share practice in Nepal from various aspects and also have made effort to highlight the under subscription problem. So, this study is trying to find the impact of rights issue on market price of share of sample companies. This study may be an important effort to inform the shareholders and companies regarding the rights issue practice in Nepal.

2.4 Research Gap

According to the theory of right offering, the price of shares increases after the announcement date and the price again decrease after the allotment of shares to the extent of value of right. So, if the same things happen in the share market scenario, then the research like this seems to be unnecessary one. But in real practical life the theory is not being followed.

Various studies have been done on the topic of share price and its determinants, but no one has given focus on right share as an important factor which affects the market price of shares in share market significantly.

Though, few studies have considered right shares and its impact on share price movement in Nepalese share market, they fail to focus on right share as the highest instrument of share fund required for a company. Furthermore previous studies had not tested the correlation of share price with general market movement.

Thus, with this several of research gap and weaknesses found in previous studies, this research has been conducted to find out value of right issuing companies. Though, there are eight different sectors, only one i.e. the commercial bank is selected for the research. Six commercial banks are taken as sample in the research but it has been tried at most to find the impact of right issue on market price of the sample commercial banks.

CHAPTER -III
RESEARCH METHODOLOGY

The above mentioned, objectives can be fulfilled by well-settled research methodology. The proper analysis of this study can be meaningful only if the right choice of research tools is made. Such selected tools should help to get meaningful conclusion. “Research methodology refers to the various sequential steps to be adopted by this studying problem with certain object in view. It would be appropriate to mention that research project are not susceptible to any one complete and inflexible sequence of steps and the types of problem to be studied will determine the particular steps to be taken and their order too” (Kothari, 1994: 19).

Thus, Research methodology is a technique of analyzing the obtained date to solve the research problem. It consists of descriptive approach and statistical tools. Descriptive approach is used to analyze the research problem, setting hypothesis and other theoretical problem. Statistical tools are used to analyze the numerical data.

This study about selected commercial banks in Nepal has been already done streamline to some extent in earlier chapter in general. But, the proper analysis of this study can give meaningful conclusion. The main objective of this study is to analyze the rights share practice and its impact on share price movement in the context of Nepalese commercial banks. Therefore, in this chapter the focus has been made on research design, nature and sources of data, sampling procedure, coverage of data, tools used for analysis and definition of some key terms used.

3.1 Research Design

"Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variance" (Kerlinger, 1978: 300).

Thus, Research methodology refers to the various sequential steps to be adopted by the study in studying problem with certain object in view.

To conduct this study, descriptive and analytical research design has been adopted. The study is based on historical data and an "ex post facto" research because no variables are in the control of the study and no variables in this research is manipulated during the study period. Descriptive research design is used for conceptualization, problem identification, conclusion and suggestion. Analytical research design is used for analyzing the data to find out the result. The study is based on primary and secondary data. Objective of the primary data analysis in this study is to survey the opinion of the concerned people about the topic i.e. rights share. Similarly, secondary data are analyzed to determine the relationship between the stock price and rights share issue and also to analyze the data related to practice of rights share issue in Nepal.

3.2 Populations and Sample

In attempting this study, only stock rights issues are considered, all other cases being excluded. Accordingly, nothing but privileged subscriptions issued to common stockholders permitting them to subscribe for additional common stock of identical corporation were included in the sample. Till the FY 2065/066, there are only 153cases of rights offered by 154 companies out of total 159 listed companies. Similarly, out of 21 listed commercial banks, only 19 banks issued rights to subscribe for additional common stock for their existing shareholders. Commercial bank controls the share market of Nepal. Many fluctuations in stock price of commercial bank directly affect the NEPSE Index. Due to various limitation the study cannot take all the companies as the sample. So, for this study out of 8 sector of NEPSE, only one and important sector i.e. commercial bank has been taken for the study. Here, 6 commercial banks, issuing rights share has been considered for the study. Some commercial banks had issued rights share more than one time, but the study takes the latest issue for the study. To measure the price movement of stock before and after the announcement of right share, some market prices are required. For this purpose this study has taken price of the different time of period as the sample, which is based on purposive and judgmental sampling method.

3.3 Nature and Sources of Data

This study is mostly based on secondary data. Primary data are also taken to some extent. So, qualitative as well as quantitative data are taken for the study. Which are as follows:

a) Primary Data

Primary data are collected to identify the problems and prospects of right share practice of commercial banks in Nepal. The sources for the primary data include the responses of the questionnaires, personal interviews with concerned person such as experts, brokers, investors, issue managers, issue companies etc.

b) Secondary Data

Secondary sources of data includes annual reports of SEBO/N, various publication of NEPSE, statistical book of Nepal, published and unpublished documents, previous studies, dissertation, articles and foreign related journals as well. Newspaper, magazine, books and other reports such as Kantipur, The Himalayan Times, Gorkhapatra, and New Business Age etc. are taken as useful sources of secondary data in this study. Some other important information has been collected from Internet.

3.4 Data Collection Technique

From various sources all the data relating to the study are collected. Not all the collected data are used, only necessary data for the study are taken into consideration. Following data collection techniques are used to collect the necessary data in the form of primary and secondary data.

a) Questionnaire Method

To get information about the right share and its various aspects, questionnaire method has been used. Three types of questionnaire methods are used to collect the data i.e. opened, closed and mixed questionnaire methods. Yes/No question, multiple choice question and descriptive questions are designed to get the response. Due to various limitations only 30 questionnaires are dispatched to the individual investors, brokers, issue managers, corporate firms and related experts and out of this, 25 responses were obtained.

b) Interview Method

Interview of some persons relating to the field of study are taken to make the study more reliable. Structured and unstructured interview has been used for the data collection. Formal and informal discussions with students, teachers and representatives of some companies make this study more reliable.

c) Historical Data Record Method

It is the main source of the data for this study. Historical data are collected from various reports, prospectus of companies and newspaper. Previous data, which was used earlier by other party, are also useful for this study.

3.5 Coverage of Data

This study covers the rights issue made by those companies, whose name is listed in the NEPSE. Out of total listed companies, only 153 companies issued the rights for their existing shareholder during the period of FY 1993/94 to FY 2008/09. So, the analysis covers the period of 17 years. The right issue made by the companies after FY 2008/09 are ignored in this study. Also the study throws the light on several aspects of the corporate financial policies and practices regarding rights offering, such as subscription price, subscription ratio, total issue versus total subscription of the rights shares, the frequencies of the rights offering by an individual company and the legal provisions regarding the rights offering.

3.6 Method of Analysis

Collected data from primary and secondary sources has been edited, classified and compiled according to research. Then the data are presented in appropriate forms of table, charts and figures. To analyze the data, financial as well as statistical tools are used. This study is mostly focused on share price movement before and after the rights share announcement. The share price not only moves up or down due to the rights offering, but also various market information affect share price. So, the study has used some assumption to remove the effect of information.

3.6.1 Allowance for Leakage of Information

Information about the director's intention to issue right share can be leaked out in many cases before the date of director's meeting. If that happens, the price should rise as a result of the impending decision that may take place much before the director's actual decision. There may be the cases of insiders taking advantage by making purchase in advance of the official announcement so that the market price begin to rise over before the actual announcement. For these reasons, only going back at least some days before the formal announcement of the board's decision, use the true price effect of right issue decision case. Considering all the factors, we decided to go back 90 days before from the date of right share announcement. Thus, for the study, the base date for measuring relative changes in share price as a result of right issue is the date 90 days prior to announcement date.

3.6.2 Removing the Effect of Market Movement

Measurement of the price effects of the right shares issue involves a comparison of share price of different point of time. In actual practice, general price movement also affects particulars share price. If particular share price is found to be raised by 10% after right share announcement, this cannot be attributed to the right offering over some period share price in general level also moved up by 10% more. On the other hand, if a particular share price just remains unchanged in the face of declining market trend, the strength may be due to right issue. Hence, the isolation of the effect of the right share issue necessarily requires the elimination of the general market movement.

a. To analyze the share price movement, five different times are selected. The announcement date is taken as a base date to take above five points. The selected points are as follows:

   i. *90 days before announcement date*: In order to isolate the effects of rights offerings, it is necessary to make comparison with dated unaffected by the offering. New financing frequently becomes known in the financial community prior to its official announcement. A 90 days lead-time appears adequate.

   ii. *10 days before announcement date*: Few days before the announcement date, it is supposed to that very limited shareholders do know it and does not bring any material influence on the share price behavior of the stock.

   iii. The day of announcement

   iv. *7 days after the announcement date*: When the company explicitly announces the issue of rights share, comparatively there will be high demand of the rights attached shares and this phenomenon causes the share price to rise. This period is supposed to depict the true picture of the share price of post announcement stock.

   v. *180 days after the announcement date*: In order to assess the post offering effects of rights offering, it is necessary to have a price quotation some time after the offering, yet not so much later that factors obscure the results. 180 days appears reasonable for this purpose.

b. Price quotations for each share were collected for all five periods of time or reasonably close to them. These price quotations were then converted into price relative with the point (i) as the base date. This all price changes have been expressed relative to the base date price i.e. the price 90 days before the announcement date.

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

d. Finally the price relative against each of five points of time, as obtained in step (b) above was expressed as a percentage of corresponding index numbers as adjusted in step (c) above.

Stated in simple terms, our procedure for eliminating the effect of the general market movement boils down to adjust the actual share price on any date downwards in proportion to an upward general market movement since the base date and adjusting it upwards in the proportion to a downward general movement.

Thus, we get a series of five percentages for each of the shares in our sample representing of time, after the effect of general market movement have been eliminated.

3.6.3 Data Analysis Tools

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

a) Co-efficient of Correlation (r)

Correlation analysis is the statistical tool that can be used to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the direction of relationship between two sets of figures. It is the square root of the coefficient of determination. Correlation can either be negative or positive. If both variables are changing in the same direction, then correlation is said to be positive but when the variations in the two variables take place in opposite direction the correlation is termed as negative. In the study, coefficient of correlation is calculated between rights share and NEPSE Index.

b) Coefficient of Determination (r^2)

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

c) Probable Error

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

$$\text{P.E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Where,

r = Value of correlation coefficient

n = No. of pairs of observation.

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

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

If r > 6P.E, it is significant, i.e. there exists correlation.

d) Use of t-test

T-statistics is also used to test the significance of the difference between the share price before and after the announcement of the right offering by the companies. Since the share prices of few transacted (i.e. less than 30 transactions) are taken, t-test is suitable tool for analyzing the significance of difference between the share price movement before and after the announcement of the right offering. Here, the study has used paired t-test.

$$S^2 = \frac{\phi(X - \grave{X})^2 + \phi(Y - \grave{Y})^2}{n_1 + n_2 - 2}$$

$$t_{cal} = \frac{\grave{X} - \grave{Y}}{\sqrt{S^2 \; \frac{1}{n_1} + \frac{1}{n_2}}})$$

Here,

X = Price Index of total equity capital before announcement.

Y = Price Index of total equity capital after announcement

n = Number of observation

In this analysis the study have used 5% level of significance to test the Hypothesis.

e) Valuation of Rights

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

$$\text{Value of Rights } (V_r) = \frac{P_0 - P_S}{\# + 1}$$

Theoretical price of share = $P_o - V_r$

Where, Po = Current market price of share, rights-on

S = Subscription price.

= Number of right required to purchase one new share.

f) Others

Other tools such as percentage, statistical diagram, statistical tables, and averages have been used as per demand of the study which are very useful in this study to analyze and present the data in appropriate form.

CHAPTER- IV
PRESENTATION AND ANALYSIS OF DATA

The rights share practice and its impact on share price movement of Nepalese commercial banks regarding objectives and practice has been already discussed in first chapter. At the same time, the relevant literature that matters important to this study is also streamline in second chapter. Moreover, the research methodology considering the methods of research chosen in this study had given detail in third chapter. Now the most important part of this study that consist of analysis and presentation of empirical data focus on how far the Nepalese companies are practicing the rights share and how it affects the share price movement of these companies.

In order to analyze the study, the necessary financial facts and figures as well as descriptive information are also gathered through financial statement, annual report, and questionnaire is used to obtain further qualitative information. Only the important variable that are very sensitive and pertinent are taken into account. To obtain the best result, the data have been analyzed according to research methodology as mentioned in previous chapter.

4.1 Rights Share Practice in Nepal

4.1.1 Characteristics of Rights Share in Nepal

By analyzing the various annex it is found that among total listed companies, 159 public issues have been approved from SEBO/N till FY 2008/09. Nepal Finance and Saving Co. Ltd. is the first company to issue the rights share in Nepal. In FY 2052/53 it issued rights share amounting to Rs.2 million. Most of the company had issued their rights share at par value i.e. Rs.100 per share. No company has issued their rights share at discount because company ordinance does not allow them to do so. The premium can be added but the fear of under subscription, forced companies, not to add any premium on issue. As a result, there is wide difference between subscription price and market price per share. Most of the companies have issued rights share in the ratio of 1:1 in Nepal.

Seti Cigarette Factory Ltd. is the company, which did not issue its rights share after getting issue approval from SEBO/N amounting Rs.67 million in FY 2052/53. Generally commercial banks have issued large amount of rights share. For example, Nepal Investment Bank Ltd. has issued rights share amounting Rs.295.29 million in 1995, Nepal Bangladesh Bank Ltd. in 2004 has issued rights share amounting Rs.395.92 million. Similarly, Nepal SBI Bank Ltd., Everest Bank Ltd. and Bank of Kathmandu Ltd. has issued the rights share amounting Rs.287.87 million, Rs.119.21 million and Rs.234 million in year 2002, 2001 and 2001 respectively.

Similarly Bottlers Nepal Ltd., Necon Air Ltd. and Development Credit Bank Ltd. have also issued the large amount of rights share amounting to Rs.225.20 million in year 1997, Ltd. Rs.89.60 million in year 2000 and Rs.80 million in year, 2005 respectively. Nepal development bank ltd, Nepal Credit & Commerce Bank Finance company, Kist Bank Ltd. have also issued the large amount of rights share amounting to Rs.160 million in year 2006, Rs.700 million in year 2007 and Rs1200 million in year, 2008 respectively. In this way, researcher has concluded that the practice of rights share through various corporate firms is not similar in Nepal. Most of the companies has issued rights share at par value and 1:1 ratio. Size of the amount raised by rights share and difference between the issued and closed date of various corporate firms is different.

4.1.2 Contribution of Rights Share on Total Public Issue in Nepal

Rights share is an important part of total public issue in Nepal. There are many other alternatives of the public issue. Following table and figure shows the contribution of rights issue in the total public flotation in each of the fiscal years in which the rights offering has been taken place.

Table 4.1

Contribution of Rights Issue in Total Public Flotation

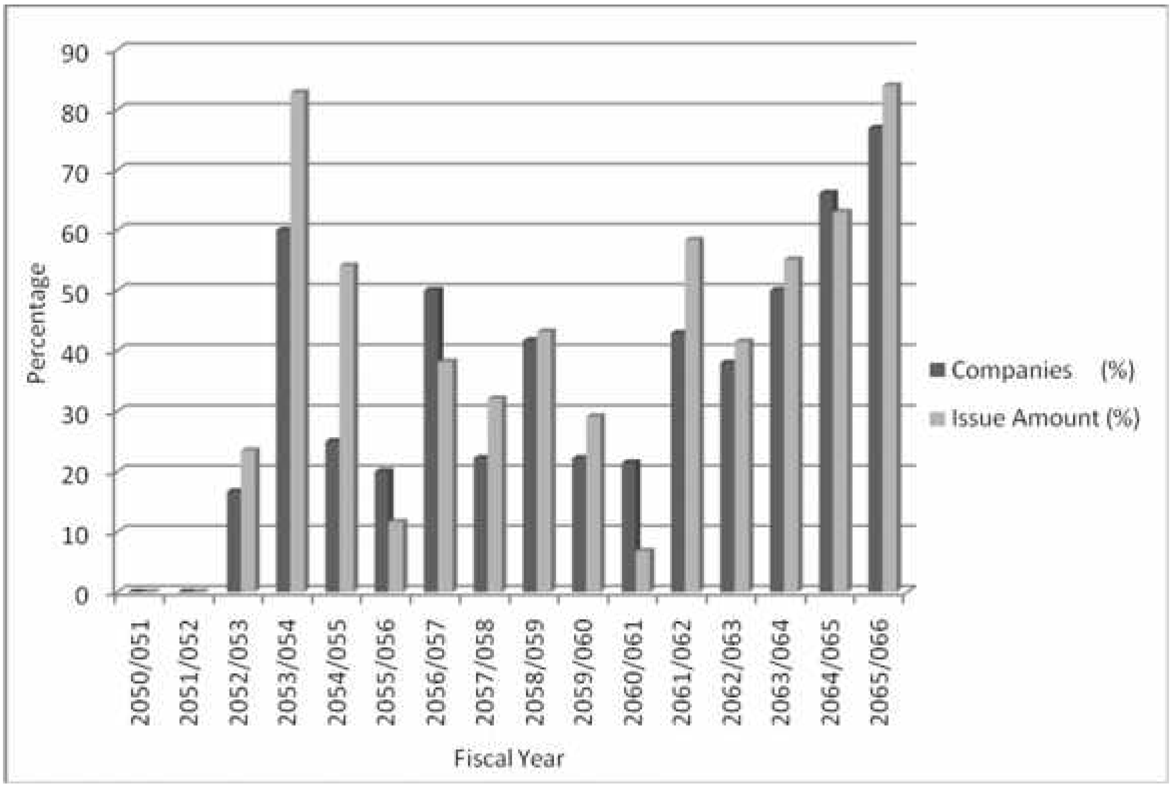
(Rs. in million)

Fiscal Year	Total Issue Approved		Rights Issue Approved		Percentage of Rights Issue Approval	
	No. of Companies	Amount in rupees	No. of Companies	Amount in rupees	Companies (%)	Issue Amount (%)
2050/051	16	244.40	0	0	0	0
2051/052	10	173.96	0	0	0	0
2052/053	12	293.74	2	69.00	16.67	23.49
2053/054	5	332.20	3	275.20	60.00	82.84
2054/055	12	462.36	3	249.96	25.00	54.06
2055/056	5	258.00	1	30.00	20.00	11.63
2056/057	6	326.86	3	124.60	50.00	38.12
2057/058	9	410.49	2	131.79	22.22	32.11
2058/059	12	1441.33	5	621.87	41.67	43.15
2059/060	18	556.54	4	162.24	22.22	29.15
2060/061	14	1027.50	3	70.00	21.43	6.81
2061/062	14	1626.82	6	949.34	42.86	58.36
2062/063	29	2443.28	11	1013.45	37.93	41.48
2063/064	34	2295.50	17	1265.30	50.00	55.12
2064/65	65	10668.20	43	6793.4	66.15	63
2065/66	65	16838.51	50	14262.81	76.92	84
Total	**324**	**39389.90**	**153**	**26018.96**	**-**	**-**

Source: Annual Report of SEBO/N, 2008/09

Figure 4.1

Contribution of Right Issue in Total Public Floatation



After analyzing the table and figure 4.1, it is clear that there are no right issues during the initial two fiscal years 2050/051 and 2051/052. In the FY 2052/053 two cases of right issues have been made out of twelve issues, which occupy 29.49% of total public flotation. The highest number of right issues i.e. 17 right issues has been made in FY 2063/064 whereas least number of right issues i.e. 1 right issue has been made in FY 2055/056.Till the date, the contribution of rights issue to the total public issue is highest in year 2053/054 because in this year only five public issues were made out of which, three were the right issues.

The contribution of right issue in FY 2055/056, 2056/057 and 2057/058 were 11.63%, 38.12% and 32.11% respectively. The contribution of right issue in FY 2058/059 was 43.15%, followed by 29.15% of FY 2059/060. The least contribution of right issue is in FY 2060/061 which was only 6.81%. In this year out of total 14 public issues only 3 issues were of right share. In FY 2062/063 out of 29 public issues, 11 issues were made for right share which occupies 41.48% of total issue amount. Similarly, in FY 2062/063, out of 34 public issues, 17 were for rights issue, which occupies 55.12% of total issue amount.

In FY 2062/063 out of 29 public issues, 11 issues were made for right share which occupies 41.48% of total issue amount. Similarly, in FY 2062/063, out of 34 public issues, 17 were for rights issue, which occupies 55.12% of total issue amount.

After analyzing the recent trend of right share practice of last two fiscal years, no. of right issues has been increasing. In FY 2064/65 out of 65 public issues, 43 issues were made for right share which occupies 63% of total issue amount. Similarly, in FY 2065/66 out of 65 public issues, 50 were for rights issue, which occupies 84% of total issue amount.

4.1.3 Instrument wise Public Issue in Nepal

Nepalese capital market is in the infant stage of development. The four different types of instruments have been used so far till the FY 2065/66 The table below clearly shows the various instruments issued by different firms to raise its capital in Nepalese Capital Market.

Table 4.2

Instruments Wise Public Issue in Nepal

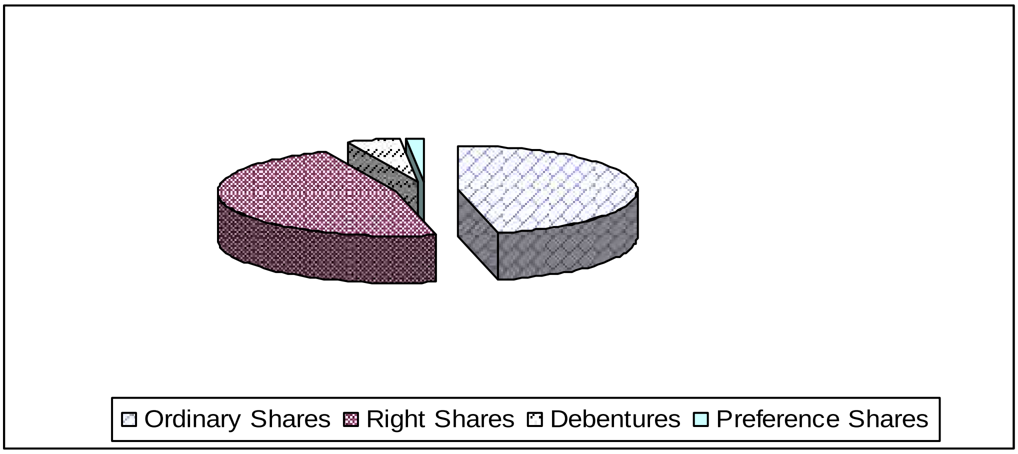
(Rs. in Million)

Instrument	Total no. of Issues	Amount	Amount in %
Ordinary Shares	150	6881.45	17.47
Right Shares	153	26018.96	66.05
Debentures	16	5853.00	14.86
Preference Shares	5	636.50	1.62
Total	**324**	**39389.91**	**100**

Source: Annual Report of SEBO/N, 2008/09

Figure 4.2

Total No. of Issues



Right share is the largest instrument on total public issue. According to the above table, it covers 17.47% in total public issue which is about 49% lower than ordinary shares. Besides right share, other instruments ordinary shares, debentures and preference shares occupy 66.05%, 14.86% and 1.62% respectively.

Till the FY 2065/66 ordinary share was the dominant instrument to cover the total public issue but in FY 2065/66 right share has covered the highest part of total public issue. Thus, it can be concluded that the contribution of right share issue on total public issue is significantly increasing in Nepal.

4.1.4 Issue Manager Wise Rights Issue in Nepal

There are 17 issue managers operating in security market in Nepal. All of them have issued right shares as issue manager but Rastriya Banijya Bank has not issued right share till FY 2062/063. The following table clearly shows the contribution of issue managers in right share offering in Nepal.

Table 4.3

Issue Manager wise Rights Issue in Nepal

(Rs. in million)

Issue Manager	Issued		Percentage	
	Amount(Rs.)	**No.**	**Amount (%)**	**No. (%)**
*	69.00	2	0.27	1.30
AFCL	655.29	7	2.52	4.58
CIT	3468.69	15	13.33	9.80
NFCL	1055.54	9	4.06	5.88
NSML	107.58	5	0.41	3.28
NCML	9518.81	48	36.58	31.37
NEFINSCO	211.00	5	8.11	3.28
NSMB	389.92	2	1.5	1.30
NMB	5623.00	31	21.61	20.26
ACE	4206.65	25	16.18	16.34
ELITE	382.86	3	1.47	1.96
DCBL	330.00	1	1.27	0.65
Total	**26018.96**	**153**	**100**	**100**

Source: Annual Report of SEBO/N, 2008/09

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

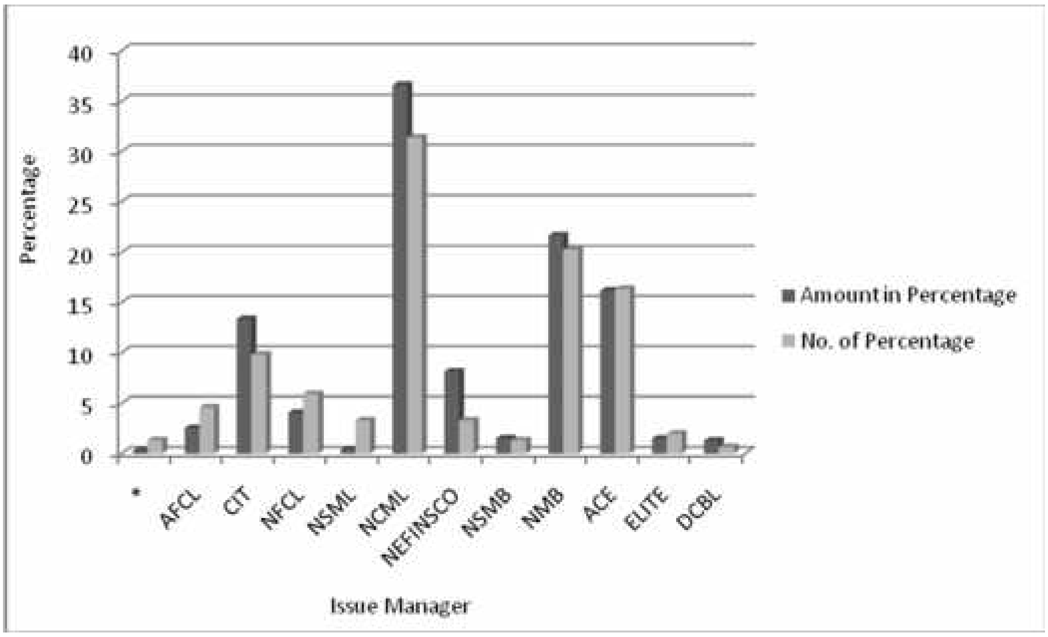
By analyzing the data summarized in table 4.3, it is noticed that two cases of right share issue having worth of 69.00 million was issued without any issue manager. NIDC capital markets Ltd. (NCML) is the largest issue manager till the FY 2065/66 It has managed Rs. 9518.81 million i.e. 36.58% of right shares issue in Nepal. Nepal Merchant Banking and Finance Ltd. (NMB) has become the second largest issue manager followed by ACE the third largest issue manager. Regarding the contribution made by NMB and ACE are 21.61% and 16.18% respectively.

Besides NCML, NMB and ACE the other small issue managers have also been playing crucial role in security market. Ace finance company Ltd. (AFCL) and Nepal Sri-Lanka Merchant Bank Ltd. (NSMB) have managed Rs.655.29 million and Rs.107.58 million which occupies 2.52% and 0.41% respectively in total right share issue. National finance company Ltd. (NFCL) is the smallest issue manager which has managed Rs.1055.54 million i.e. just 4.06% of total right share issue. Nepal Finance and Saving Company Ltd. (NEFINSCO) is the second smallest issue manager followed by Nepal Share Markets Company Ltd. (NSML).

Out of 153 right share issues, 2 cases were managed without any issue manager, which represent 1.30% of total no. of issues. NCML, NMB,ACE, CIT have managed 48, 31, 25 and 15 cases which represent 31.37%, 20.2%, 16.34% and 9.80% of total no. of cases. Similarly NSML managed 5 cases, NEFINSCO managed4 cases and NFCL managed 9 cases. NSMB have managed the least cases of right issue i.e. 2 cases which represent just about 1.30% of total no. of issues.

Figure 4.3

Issue Manager wise Rights Issue in Nepal



4.1.5 Classifying the Rights Issue according to the Sectors in Nepal

Those companies which are interested for public issue have to list their shares in NEPSE. Companies listed in NEPSE are divided into 8 different sectors. Following table and figure shows the sector wise rights issue in Nepal.

Table 4.4

Sector Wise Rights Issue in Nepal

(Rs. in million)

Sector	Listed Co.	No. of Right Issues	Percent (%)	Issued Amount (Rs.)	Percent (%)
Commercial Bank	21	27	17.65	8880.65	34.13
Development Bank	29	30	19.60	4322.62	16.61
Finance Companies	61	83	54.25	10943.18	42.06
Insurance Companies	17	7	4.58	346.2	1.33
Hotels	4	1	0.65	446.45	1.72
Mfg. and Processing	18	2	1.31	292.2	1.12
Trading	4	1	0.65	3.01	0.01
Others	5	2	1.31	784.54	3.02
Total	**159**	**153**	**100**	**26018.96**	**100**

Source: Annual Report of SEBO/N, 2008/09

By analyzing the above table 4.4, we can know that only 27, out of 21 listed commercial banks have issued the right share to their shareholders till the FY 2065/66. Since Nepal SBI Bank Ltd., Nepal Investment Bank Ltd. and Lumbini Bank Ltd. have issued the right share twice, the no. of total rights issue is 27 in the table. It means 21 listed commercial banks have made 27 rights share issues. Similarly out of 29 listed development banks 30 have made right issue. Since, the no. of finance companies is increasing rapidly, the no. of finance companies issuing rights share is also highest among all the sectors. There are 61 finance companies which have issued rights share 83 times till the FY 2065/66 Among those 61 Finance companies, Nepal Share Markets Co. Ltd. had issued right shares 4 times whereas Annapurana Finance Company and Ace finance Co. Ltd. both have issued 3 times. Similarly, Kist Merchant Banking and Finance Ltd. and Peoples Finance Ltd. have issue the rights twice. Thus, the total no. of right issues made by finance companies is 83 till the FY 2065/66.

Regarding the other sectors, only 7 insurance company out of 17 i.e. Himalayan General Insurance Co. Ltd., 1 hotel out of 4 i.e. Taragaon Regency

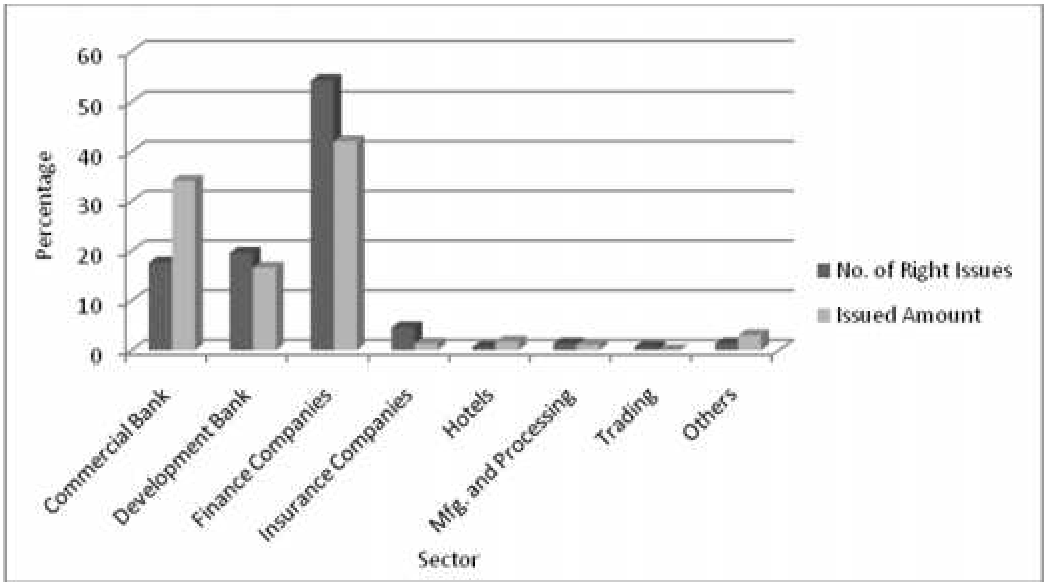
Hotels Ltd., and 2 manufacturing company out of 18 i.e. Bottlers Nepal Ltd. have issued right shares till the FY 2006/07. There are 4 listed companies which have issued 1 rights share from the trading sector as well as from others sector. 5 listed companies which have issued 2 rights share.

On the basis of right shares issued amount, largest sector of right issue is finance company which has issued rights amounting Rs.10943.18 millions i.e. 42.06 % of total right issue amount have played the dominant role. The second largest sector of right issue is commercial banks. Though only 27 cases of right shares have been made, it occupies the largest volume of right share i.e. Rs.8880.76 million which is 34.13%.. Likewise, Development bank is the third largest sector to issue right shares as it issued Rs.4322..62 million rights which is 16.61%. Besides Hotels Manufacturing and Processing Companies and Insurance Companies have issued 1.72 % 1.12% and 0.01 respectively. Trading and Others sectors have contributed nothing to the rights issue.

So, finally after analyzing the data, it can be concluded that commercial banks sector is the largest sector to issue right shares with high volume of right issue amount.

Figure 4.4

Sector wise Right Issue in Nepal



4.1.6 Procedure for Issue of Rights in Nepal

The mechanism and the sequence of events in the case of rights issues are somewhat complicated and it will therefore be useful to outline briefly the actual procedures by which a rights issue is typically made.

1. The board of director should decide and determine the quantum of further capital requirement and the proportions in which the rights issues might be offered to its existing shareholders.
2. AGM should pass the proposal of BOD by its majority.
3. Company should notify the NRB, NEPSE, office of the company registrar and SEBON with prospectus in advance of the date of board meeting on which rights issues is likely to be considered and should get permission from there.
4. Make an announcement with prospectus, which gives a general indication of the reasons, purpose of the issue, which will make the issue desirable.
5. Letter of provisional allotment or rights offering to the shareholders with the prospectus. This will define the term of the rights offering, the number of new shares allocated to each given no of old shares, the price at which the issue is to be made i.e. subscriptions price and the condition of which shareholders will qualify for the rights issue. The letter will be sent after the date of an announcement.
6. After the record of the letter of the provisional allotment, the allotment most be accepted or re-announced and payment in full or partial must be made for those shares, which are re-announced.
7. Certificates are distributed to the shareholders who have participated in the rights offering announcement. Shareholders who had accepted and fully paid up their allotment can re-announce the actual shares certificate in favor of third party.
8. List the shares in the stock exchange again with the increased number, which must be approved by the stock exchange after which an application for listed new shares could be made.

4.2 Rights Offering and its Impact on Share Price

4.2.1 Rights Share and its Impact on Share Price Movement of Companies before and after Rights Offering

In this part of the study, the main focus is to analyze the price movement of selected sample companies with NEPSE index. To obtain the best result, different points of time period i.e. I, II, III, IV & V are selected for observing the price movement assuming the announcement date as the reference point. The given point shows the following price quotation:

i. 90 days before the announcement date.
ii. 10 days before the announcement date.
iii. The day of announcement.
iv. 7 days after the announcement.
v. 180 days after the announcement

The main objective of this method of analysis is to eliminate the effect of the general market movement from our analysis. Otherwise stated, the procedure for eliminating the effect of general market movement boils down to adjust the actual share price on any date downwards in proportion to an upward general movement since the base date and adjusting it upwards in proportion to a downward, general market movement. Thus finally, we get a series of five percentages for each of the shares in our sample representing relative change in a share price at different points of time, after eliminating the effect of the general market movement.

There are 153 cases of rights offered by 159 companies, out of total listed companies in Nepal till the FY 2065/66 But here only one sector i.e. commercial banking sector is chosen as it is the largest sector to issue the right shares for the purpose of study. So, the following banks are the sample commercial banks which have issued the right shares in different time intervals;

1. Kumari Bank Ltd.
2. Everest Bank Ltd.

3. Bank of Kathmandu Ltd.
4. Nepal Bangladesh Bank Ltd.
5. Nepal SBI Bank Ltd.
6. Nepal Investment Bank Ltd.

4.2.2 Analysis of share price movement before and after the Rights Offering of Sample Companies

4.2.2.1 Analysis of Share Price Movement of Kumari Bank Ltd.

Table 4.5

Share Price Movement of Kumari Bank Ltd.

Point of Time	Share Price (Rs.)	Price Relatives	Total Price Index of Equity Capital	Price Index Converted to New Base	% Change from Base	Adjusted Price Relatives (2 as % of 4)	% Change from Base
	1	2	3	4	5	6	7
i	365	100	292.08	100	-	100	-
ii	385	105.48	305.01	104.43	4.43	101.01	1.01
iii	372	101.92	301.20	103.12	3.12	98.84	(1.16)
iv	378	103.56	301.76	103.31	3.31	100.24	0.24
v	453	124.11	370.89	126.98	26.98	97.74	(2.26)

Source: Annex 4

The above table 4.5 shows the price movement of Kumari Bank share and general market movement. We can see that the actual price of share increased from Rs.365 to Rs.385 from base date to 10 days before announcement date of rights share. The share price is Rs.372 at the day of announcement Rs.13 lower than the price before 10 days whereas it is increased to 378 after 7 days of announcement and there is further increment in share price to Rs.453 after 6 months of rights share announcement date. Total price index of equity share was 292.08 before 90 days of announcement date and it increased to 305.01, ten days before announcement date and it went down to 301.20 on the day of announcement date. There was small change i.e. increment of 0.56 from announcement date and after seven days of announcement. Total price index of share is raised up to 370.89 after 180 days of announcement date.

According to the theory of rights offering, the price of share will increase after the announcement and decrease after the allotment of share to the extent of value of rights. But, here the price of Kumari Bank Ltd. is different as follows:

Current Market Price of Stock = Rs.372

Value of One Right = Rs.54.40

Ex-rights Price of Share = Rs.317.60

The value of the share after allotment should be around Rs.317, but the share price of KBL was Rs.453 after 180 days of announcement date. This indicates that the share of Kumari Bank is overpriced (Annex-6).

4.2.2.2 Analysis of Share Price Movement of Everest Bank Ltd

Table 4.6

Share Price Movement of Everest Bank Ltd

Point of Time	Share Price (Rs.)	Price Relatives	Total Price Index of Equity Capital	Price Index Converted to New Base	% Change from Base	Adjusted Price Relatives (2 as % of 4)	% Change from Base
	1	2	3	4	5	6	7
i	875	100	375.07	100	-	100	-
ii	710	81.40	334.50	89.18	(10.82)	90.98	(9.02)
iii	701	80.11	333.60	88.94	(11.06)	90.07	(9.93)
iv	660	75.43	323.51	86.25	(13.75)	87.45	(12.55)
v	450	51.43	269.75	71.25	(28.08)	71.51	(28.49)

Source: Annex 4

From table 4.5, it can be analyzed that the share price of Everest Bank Ltd. is in decreasing trend. Share price of EBL before 90 days of announcement date was Rs.875 and was decreased to Rs.450 after 180 days of announcement date, nearly 50% decline over this period. While observing total price index of equity capital, it also declined from 375.07 to 333.60 on the period I to III. A decline of 41.47 was realized between periods I to III. Therefore the declination on market price of the share of EBL from base date to day of announcement is basically attributed to market trend. On the other hand, observing after the day of announcement, market price of the share went further down by Rs.41 during period III and IV and became Rs.660. Theoretically market price of the share should have gone up for few days just after the rights announcement, which did not happen in case of EBL due to holders record date. It means obviously, that the investors who purchased the share of EBL on the day of announcement or onwards were not entitled to buy rights share. It is quite contrary to the theory of rights issue. That's why market price of share went down instead of increasing. Investors after the date of announcement may have thought that, number of share were going to increase, EPS were going to decrease or Ex-right price of share was going to decrease. It is believed that the original share price will be restored and the market shows normal price behavior after 180 days of announcement date, but in case of EBL, the share price was still in decreasing trend and leveled up to at Rs.450, which seemed moving according to the principle of rights.

Rights offering theory does not match in case of EBL.

Market Price of Share	= Rs.701
Value of One Right	= Rs.300.50
Ex-right price of Share	= Rs.400.50

The value of the share after allotment should be around Rs.400, but the share price of EBL was Rs.450 after 180 days of announcement date. Thus, the share of EBL was overpriced (Annex-6).

4.2.2.3 Analysis of Share Price Movement of Bank of Kathmandu Ltd.

Table 4.7

Share Price Movement of Bank of Kathmandu Ltd

Point of Time	Share Price (Rs.)	Price Relatives	Total Price Index of Equity Capital	Price Index Converted to New Base	% Change from Base	Adjusted Price Relatives 2 as % of 4	% Change from Base
	1	**2**	**3**	**4**	**5**	**6**	**7**
i	1015	100	367.37	100	-	100	-
ii	801	78.92	323.51	88.06	(11.94)	89.62	(10.38)
iii	815	80.30	334.64	91.06	(8.91)	88.15	(11.85)
iv	460	45.32	321.96	87.64	(12.36)	51.71	(48.29)
v	315	31.03	259.75	70.74	(29.29)	43.88	(56.12)

Source: Annex 4

In case of BOK, the share price was in decreasing trend after announcement of rights issue, almost similar to Everest Bank Ltd. Price of BOK's share was Rs.1015 before 90 days of announcement date. It decreases up to Rs.801, ten days before the announcement date, but it increases to Rs.815 at the day of announcement date. After announcement date, the market price of share decreased substantially to Rs.460 despite the fact that general market movement was not going downward so rapidly. After 180 days of rights offering, the share price down to Rs.315. Total price index of equity share was 367.37 before 90 days of announcement date. It came to 323.51 ten days before announcement date and to 334.64 in the announcement date. The total price index of share went down to 259.75 after 180 days of announcement date.

While analyzing the percentage change in the adjusted price indices from the base index, the price index was decreased by 11.94% ten days before announcement date. Similarly, it decreased by 8.91% from point II to point III. After seven days of announcement date, it decreased by 12.36% and by 29.29% after 180 days of announcement date. The adjusted share price in column 7 is decreased by 10.38% before ten days of the announcement date and by 11.85% at the day of announcement date, the adjusted price is decreased by 48.29% from the base price index. After seven days of announcement date, decreases in the adjusted share price is far more than the decrease in the price index converted to new base, which is just 12.36%. Such a large percentage of decrease in the adjusted share price provides sufficient evidence to argue that this price decrease must have been attributed by the announcement of rights offering to the existing shareholders. Only the 12.36% and any further decrease in the share price can be attributed to the announcement effect of rights offering to the existing shareholders.

In case of BOK, the theory of rights offering does not match.

Market Price of Stock = Rs.815

Value of One Rights = Rs.357.5

Ex-rights Price of Share = Rs.457.5

Hence, after issue of rights share, share price of BOK felled more than its value of one right and ex-rights price is less than its theoretical price i.e. Rs.315 (Annex-6).

4.2.2.4 Analysis of Share Price Movement of Nepal Bangladesh Bank Ltd.

Table 4.8

Share Price Movement of Nepal Bangladesh Bank Ltd.

Point of Time	Share Price (Rs.)	Price Relatives	Total Price Index of Equity Capital	Price Index Converted to New Base	% Change from Base	Adjusted Price Relatives 2 as % of 4	% Change from Base
	1	2	3	4	5	6	7
i	432	100	200.84	100	-	100	-
ii	350	81.02	196.34	97.76	(2.24)	82.88	(17.12)
iii	365	83.33	201.22	100.19	0.19	83.17	(16.83)
iv	393	89.73	202.45	100.80	0.80	89.02	(10.98)
v	260	59.36	232.29	115.66	15.66	51.32	(48.68)

Source: Annex 4

In case of NB Bank Ltd, situation was somewhat different. The share price was Rs.432 before 90 days of the announcement date and it dropped to Rs.350, ten days before announcement date and increased to Rs.365 in the day of announcement. Increase of price to Rs.395 from Rs.365, has been found from the point III to IV. After 180 days of announcement date, it went down to Rs.260. When we look to the price index it was 200.84 before 90 days of announcement date and it dropped to 196.34, ten days before the announcement date and after the price index started to increase and it was 201.22 in the day of announcement of rights share. After seven days of announcement date it was increased to 202.45 and after 180 days of announcement, it was raised up to 232.29.

While examining the percentage change in the adjusted price indices from the base index in column 5 and percentage change in the adjusted share price from the base index in column 7, it is clear that change in share price is not only due to general market movement. The adjusted price was increased from 82.88% in ten days before announcement date to 83.17% in the day of announcement while converted price index has been increased to 100.19% from 97.76% between point II and III. The adjusted share price is increased by 5.85% while converted price has been increased by just 0.61% from the point III to IV. Thus we can say, this increment in share price is due to rights offering because shareholder rushes to share market to enlist their name within the record date. But after 180 days of announcement date the share price has been dropped to Rs.260.

In case of NB Bank Ltd., rights have positive impact on share price movement and it approximately meets the theory.

Market Price of Share = Rs.365

Value of One Right = Rs.132.50

Ex-rights Price of Stock = Rs.232.50

Since the share price of NB Bank Ltd. after 180 days of announcement is Rs.260 around the ex-rights price i.e. Rs.232.50. So one can easily conclude that NB Bank Ltd. approximately meet the theory of rights offering (Annex-6).

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

Table 4.9

Share Price Movement of Nepal SBI Bank Ltd.

Point of time	Share Price (Rs.)	Price Relatives	Total Price Index of Equity Capital	Price Index Converted to New Base	% Change from Base	Adjusted Price Relatives 2 as % of 4	% Change from Base
	1	2	3	4	5	6	7
i	338	100	247.17	100	-	100	-
ii	459	135.80	289.56	117.15	17.15	115.92	15.92
iii	370	109.47	292.59	118.38	18.38	92.08	(7.92)
iv	346	102.37	296.78	120.07	20.07	85.26	(14.74)
v	373	110.36	305.32	123.53	23.53	89.34	(10.66)

Source: Annex 4

Table 4.8 shows that the share price of Nepal SBI Bank Ltd. increased from Rs.338 to Rs.459, from base date to the ten days before the announcement date. This price is Rs.370 at the day of announcement date and it dropped to Rs.346, after seven days of announcement date. But it increased to Rs.373 after 180 days of announcement date, while price index shows the increasing trend. It was 247.17, 90 days before the announcement date. It moved up to 287.56 ten days before the announcement date and to 292.59 on the day of announcement of rights offering. Seven days after the announcement, total price index of equity shares reached up to 296.78 and even after the 180 days of announcement date, it is still increased up to 305.32, which obviously depicts the increasing trend in the general market movement. Column 5 shows that price index is increased by 17.15% ten days before the announcement date and by 18.38% in the day of announcement date. After seven days of announcement date, increased by 20.07% and by 23.53% after 180 days of announcement date. Similarly, column 6 and 7 shows the adjusted share price and its percentage increases or decreases from the base date respectively. In the column 7, adjusted share price was increased by 15.92% ten days before the announcement date, but was decreased by 7.92% at the day of announcement date and by 14.74% after seven days of announcement date. Thus, this increase in share price was because of rights offering and general market movement. Both have equal effect on the share price movement.

Values of one rights and ex-rights price of Nepal SBI Bank's stock are as follows:

Market Price of Stock = Rs.370

Value of One Rights = Rs.90

Ex-rights Price of Stock = Rs.280

The value of the share after the allotment should be around Rs.280, but the share price of Nepal SBI Bank Ltd. was Rs.373 after 180 days of rights share announcement. Thus, the share of Nepal SBI Bank Ltd. was overpriced (Annex-6).

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

Table 4.10

Share Price Movement of Nepal Investment Banks Ltd.

Point of Time	Share Price (Rs.)	Price Relatives	Total Price Index of Equity Capital	Price Index Converted to New Base	% Change from Base	Adjusted Price Relatives 2 as % of 4	% Change from Base
	1	2	3	4	5	6	7
I	1170	100	247.41	100	-	100	-
II	1331	113.76	293.58	118.66	18.66	95.87	(4.13)
III	801	68.46	288.89	116.77	16.77	58.63	(41.37)
IV	880	75.21	288.34	116.54	16.54	64.54	(35.46)
V	831	71.03	306.15	123.74	23.74	57.59	(42.41)

Source: Annex 4

In table 4.9 column 1 shows the share price of Nepal Investment Bank Ltd. in different period of time. The share price of NIB was Rs.1170 before 90 days of announcement date. It was increased to Rs.1331 before 10 days of announcement date, which drastically decreased to Rs.801 on the day of announcement date. Market price of the share was Rs.880 after seven days of announcement date. However market price of the share was slightly increased just after rights share announcement. Again decreasing trend of market price of share seemed and it went to Rs.831 after 180 days of announcement date.

By analyzing the share price movement of NIB and the trend of general market movement change in the market price form period I to period II, is basically due to general market movement, at that time market index had increased to 293.58 from 247.41. Column 5 shows that, price index was increased by 18.66%, ten days before the announcement date. Similarly it increased by 16.77% from point I to III. Change in share price between II and III was not solely due to general market movement. Other factor like dividend caused the rapid decrease in share price. However slight increase in share price can be observed in point IV in comparison to point III. In the above table column 6 shows adjusted price relatives. The adjusted price relative was increased to 64.54% from 58.63% between point III and IV. It clearly indicated that increase in share price was due to rights announcements. It was compatible to point IV at the same period price relative also decreased from 64.54% to 57.59%.

Theoretically, the share price decreases after rights offering. But the price behavior of NIB share did not follow the theory.

Market Price of Share = Rs.801

Value of One Rights = Rs.350.50

Ex-rights Price of Share = Rs.450.50

The value of the share after the allotment be around Rs.450.50 but the share price of NIB was Rs.831 after six month. Thus the share price of NIB is overpriced (Annex-6).

4.3 Correlation Coefficient between Share Price Movement and General Market Movement

Share price movement is not only affected by rights offering but general market movement also largely affects it. So, the correlation between the share price before and after the announcement of rights share and price index before and after the announcement of rights share has been calculated to find out, if there is any relation between the share price and price indices of the company. For calculation of correlation, share price of company are considered as the dependent variable, which fluctuate according to the fluctuation on the index of the total equity capital.

NEPSE has just started the practice of calculating and publishing the sector wise indices. For the period under the study, sector wise index was not available. So, through out the study period the price index of total equity capital is used. Calculation of correlation coefficient and P.E. gives following results:

Table 4.11

Correlation Coefficient between Share Price and NEPSE Index

Companies	r	r^2	P.E.	6 P.E.
Kumari Bank Ltd.	0.9959	0.9918	0.0025	0.0150
Everest Bank Ltd.	0.9997	0.9994	0.0002	0.0012
Bank of Kathmandu Ltd.	0.8925	0.7965	0.0626	0.3755
Nepal Bangladesh Bank Ltd.	-0.8181	0.6693	0.1000	0.6000
Nepal SBI Bank Ltd.	0.3091	0.0955	0.2728	1.6368
Nepal Investment Bank Ltd.	-0.3987	0.1590	0.2537	1.5221

Source: Refer to Annex - 4

By table 4.10, this study can clearly analyze that; there is no consistent result of all banks taken for the study. The correlation coefficient of Kumari Bank Ltd. is 0.9959 (nearly about 1), which means that there is perfect positive correlation. Its correlation is significant too because its correlation coefficient i.e. r = 0.9959, is greater than 6P.E. i.e. 6P.E. = 0.015. Its coefficient of determination (r^2) is 9918 or 99.18%, which indicates that 99.18% movement of Kumari Bank Ltd. is explained by overall market movement and the remaining is due to rights offering.

While analyzing, the correlation coefficient of Everest Bank Ltd., it is nearly about 1, which is perfectly positive correlation. Its correlation is significant too because its correlation coefficient i.e. r = 0.9997, is greater than 6P.E. i.e. 6P.E. = 0.0012. Its coefficient of determination (r^2) is 0.9994 or 99.94%, it means general market movement has 99.94% role in the share price behavior of EBL.

In case of Bank of Kathmandu, correlation coefficient between its share price and general market movement is 0.8925. It means, there is strong positive correlation between share price and general market movement. This relation is further proved by the coefficient of determination, which is 0.7965, and the correlation coefficient (r) is greater than 6P.E. Thus, we can conclude that share price behavior of BOK depends on the general market movement, since its correlation is significance and reliable.

Nepal Bangladesh Bank Ltd., it has the high degree of negative correlation between share price movement and general market movement i.e. r = -0.8181, which is significant too because r > 6P.E (0.60). It means there is negative correlation between share price movement and general market movement. Coefficient of determination is 66.93% i.e. general market movement has 66.93% influence on the price behavior of Nepal Bangladesh Bank Ltd.

The Nepal SBI Bank Ltd., there is low degree of positive correlation i.e. r = 0.3091 between share price movement and general market movement. Correlation coefficient of Nepal SBI Bank Ltd. is less than 0.50. So, it can be said that there is a low degree of positive correlation. It is also less than 6P.E. i.e. r (0.3091) < 6P.E.(1.6368). So, it is proved that the correlation is not significant. The coefficient of determination i.e. r^2 = 0.0955 or 9.55%, means that about 9.55% of valuation in the share is explained by the general market movement. Thus, rights offering have some effect in share price movement of Nepal SBI Bank Ltd.

But, Nepal Investment Bank Ltd., there is a low degree of negative relationship between share price movement and general market movement. But, this is not significant because its correlation i.e. -0.3987 is less than 6 times probable error i.e. 1.5221. General market movement explains only 15.90% of the variation in the share price of Nepal Investment Bank Ltd. Thus, it can be said that the rights offering have some effect in the share price movement of Nepal Investment Bank Ltd.

4.4 Use of t-statistics to Measure the Immediate Impact of Rights offering on the Share Price and on General Market Movement

Theoretically, after rights issue date, share price of the company moves upward till the close of issue date. To analyze whether there is any significant change in share price movement and price index (NEPSE index) or not after announcement of the rights share, researcher has used t-statistics. Following table shows the calculated and tabulated values of t-statistics of respective companies.

Table 4.12

Calculated Value and Tabulated Value of t-statistics

Name of Company	Test For	Significance Level	Degree of Freedom	t_{tab}	t_{cal}	Result
KBL	Share Price	5%	8	2.306	1.776	Insignificant
	Price Index	5%	8	2.306	4.103	Significant
EBL	Share Price	5%	8	2.306	3.29	Significant
	Price Index	5%	8	2.306	0.02	Insignificant
BOK	Share Price	5%	8	2.306	45.95	Significant
	Price Index	5%	8	2.306	1.478	Insignificant
NBBL	Share Price	5%	8	2.306	6.24	Significant
	Price Index	5%	8	2.306	5.74	Significant
NSBIBL	Share Price	5%	8	2.306	4.49	Significant
	Price Index	5%	8	2.306	3.122	Significant
NIBL	Share Price	5%	8	2.306	1.9872	Insignificant
	Price Index	5%	8	2.306	5.42	Significant

Refer to Annex – 3

In table 4.12, it can be clearly seen that the calculated value of ‘t’ and tabulated value of 't' at 5% level of significance for 8 degree of freedom for share price and price indices, which are used to analyze the significance of change are presented. The calculated value of 't' in case of Kumari Bank Ltd. is 1.776 but tabulated value at 5% significance level for 8 degree of freedom is 2.306. Thus, tabulated ‘t’ is greater than calculated ‘t’ so, the null hypothesis is accepted. This suggests that there is no significant difference between the share prices few days before and after announcement of rights offering. Hence, our hypothesis that the share price movements before and after the announcement does not differ significantly can be accepted and researcher can conclude that price doesn’t decline significantly after announcement of the rights offering. But, while calculating the t-statistics for the NEPSE indices, t_{cal} (4.103) > t_{tab} (2.306) at given level of significance for 8 degree of freedom. Thus, it can be concluded that there is significant difference in the general market movement before and after announcement of rights. Hence, if the market had declined significantly, the decline in the share prices could be attributed to the decline in the NEPSE indices.

In case of Everest Bank Ltd., there is same declining pattern as Nepal Bank Ltd. in share price after the announcement of rights offering. Calculated value of 't' in case of EBL is 3.29, whereas the tabulated value at 5% level of significance for 8 degree of freedom is 2.306. Since t_{cal} is greater than t_{tab}, it can be inferred that the difference between the share price few days before and after the announcement of the rights offering is significant. But the difference in the price indices of total equity capital is insignificant because, 't' calculated for NEPSE indices is less than tabulated value of 't' i.e. $t_{cal}(0.02) < t_{tab}(2.306)$. Thus, it can be inferred that the change in share price of EBL is attributed by the announcement of rights offering. In this case, hypothesis that the share price does not increase significantly after the announcement of the rights offering can be rejected and the alternative hypothesis that the share price increases significantly is accepted.

In case of Bank of Kathmandu Ltd. the calculated value of ’t’ for share prices is 45.95, whereas the tabulated value at 5% level of significance for 8 degree of freedom is 2.306. Since $t_{cal} > t_{tab}$, the hypothesis that the share price do not change significantly is rejected and the alternative hypothesis that the share price has changed significantly is accepted. Thus, it can be inferred that the heavy decrease in share price of its stock can be attributed to rights offering. But while calculating the t-statistics for the NEPSE indices $t_{cal}(1.478) < t_{tab}(2.306)$, which shows there is no significant difference in general market movement before and after the announcement of the rights offering.

In case of Nepal Bangladesh Bank Ltd. calculated value of 't' is 6.24 whereas tabulated value at 5% level of significance for 8 degree of freedom is 2.306. Since t_{cal} is greater than t_{tab}, the hypothesis that the share price does not change significantly is rejected and the alternative hypothesis that the share price has change significantly is accepted. Hence, researcher may conclude that after the announcement of rights offering share price has increased significantly. Such conclusion may be derived by change in general market movement also as there is significant change in general market index during the same period.

While analyzing the 't' test of Nepal SBI Bank Ltd., it has also high-calculated value of 't' for share price than tabulated value of 't' i.e. $t_{cal}(4.49) > t_{tab}(2.306)$ at 5% level of significant for 8 degree of freedom. From which, researcher can conclude that the difference between the share price few days before and after the announcement of the rights offering is significant. Similarly, the difference in the price indices of total equity capital is also significant. Thus, it can be concluded that increase in share price can be attributed to rights offering. In case of NSBI, alternative hypothesis that the share price changes significantly after the rights issue can be accepted.

Finally, in case of Nepal Investment Bank Ltd. the calculated value of 't' is 1.9872, whereas the tabulated value of 't' at 5% significance level is 2.306 for 8 degree of freedom. Since, t_{tab} is greater than t_{cal}, it can be inferred that the difference between the share prices few days before and after the announcement of rights offering is not significant. But the difference in the price indices of total equity capital is significant because t_{cal} for NEPSE index is 5.42, which is greater than t_{tab} i.e. 2.306. Thus, it can be concluded that the decrease in the share price of NIB is not attributed by the announcement of the rights offering. In this case null hypothesis that the share price does not change significantly after the rights issue announcement can be accepted.

So far as it has been observed that in the case of EBL, BOK, NSBI, and NBB, there is obvious impact of rights offering on the share price movement of these companies. But, this does not hold true in the case of Kumari Bank Ltd. and Nepal Investment Bank Ltd. Change in the share price of KBL and NIBL is due to some other factors rather than rights offering. It can be attributed to general market movement.

4.5 Subscription of Rights Share in Nepal

Subscription is the major part of the public issue. There are lots of cases of under subscription in Nepalese companies. Problem of under-subscription arises due to various reasons, such as; lack of instrument of right transfer, lack of investors' awareness, financial problem of investors etc. Following table shows the subscription of rights share in Nepal.

Table 4.13
Subscription of Rights Share in Nepal

Issue Date	Issuer Company	Subscription in %
25/12/1997	Nepal Bank Ltd.	N/A
11/07/2001	Everest Bank Ltd.	27.17
31/08/2001	Bank of Kathmandu Ltd.	98.30
25/03/2002	Nepal SBI Bank Ltd.	97.26
27/09/2002	Nepal Investment Bank Ltd.	97.42
16/07/2004	Nepal Bangladesh Bank Ltd.	95.26
03/05/2005	Nepal SBI Bank Ltd.	96.50
13/05/2005	Nepal Investment Bank Ltd.	99.04
21/12/2005	Kumari Bank Ltd.	153.46
25/05/2006	Machhapuchhere Bank Ltd.	87.13
13/08/2006	Lumbin Bank Ltd.	100.00
25/04/2007	Laxmi Bank Ltd.	98.00
04/06/2007	Siddhartha Bank Ltd.	99.00
19/06/2007	Lumbini Bank Ltd.	N/A
29/01/2008	Nepal Investment Bank Ltd.	99
25/02/2008	Sibbhartha Bank Ltd.	99
14/03/2008	NIC Bank Ltd.	96
31/03/2008	Lumbini Bank Ltd.	85
24/04/2008	Kumari Bank Ltd.	99
02/05/2008	Laxmi Bank Ltd..	99
03/01/2008	Development Credit Bank Ltd.	99
08/01/2008	NMB Bank Ltd.	95
29/07/2008	Machhapuchhre Bank Ltd.	N/A
09/11/2008	Kist Bank Ltd.	N/A
01/12/2008	Nepal Bangladesh Bank Ltd.	N/A
17/02/2009	Nepal Investment Bank Ltd.	N/A
17/05/2009	NMB Bank Ltd.	N/A
19/05/2009	Development Credit Bank Ltd.	N/A

Source: Annual Report SEBO/N 2008/09

From table 4.12, it is clearly seen that under subscription has been a major problem in right share practice of commercial banking sector. Except in the case of Kumari Bank Ltd and Lumbini Bank Ltd. all the banks have faced the problem of under subscription which creates problems to the companies to fulfill the capital requirement for which they have issued right share.

The first case of right share issue made by Nepal Bank Ltd is seen heavily undersubscribed though the exact data is not available. This Bank has been already de-listed from the NEPSE. Everest Bank Ltd. is the first listed Commercial Bank which issued rights share amounting Rs.119.21 millions but the subscription percent was only 27.17. It could be due to lack of awareness among investors and lack of proper knowledge regarding right share practice. In other cases of right share practice, there is also the problem of under subscription but the subscription percentage is above 90 except in the case of Machhapuchhre Bank Ltd.

The problem of under subscription has been more complicated because there is lack of clear and easily provisions regarding sales or undersubscribed shares. Similarly, in Nepal there exists large number of share holders holding few number of shares so, they generally ignore right share.

4.6 Analysis of Primary Data

As this study has mentioned, this study is heavily based on secondary data. But to make the study more effective and fruitful, here researcher has collected some data by distribution of questionnaire to the concern persons. So, here researcher analyzes the responses received from respondents.

a) Preference of Sector to Invest

Sector	Mean Rank	Result
Banking/ Financial	1.00	1
Manufacturing/Trading	3.08	3
Hotel/Other	3.76	4
Insurance	2.16	2

During the study period, to the question regarding investor's preference of sector to invest, all the respondents gave first priority to the Banking and Financial sector. Its mean rank is 1 whereas for Insurance sector, mean rank is 2.16. So, it is the second preferable sector of investor. For Manufacturing/ Trading sector mean rank is 3.08, which occupied third position to attract investor. Mean rank of Hotel and Other sector is 3.76, which is last priority of investors to invest. This data clearly shows that, investors are more interested to invest in banking and financial sector.

b) Investors Purpose of Rights Share Purchase

Cause	Mean Rank	Result
To Increase the total value	1.96	1
To Increase the no. of share	2.20	2
To Increase the dividend	2.56	3
To Maintain the control position in management	2.60	4

Regarding the question about the purpose of investors to purchase the rights share, most of the respondents give first priority for the option that to increase the value. Its mean rank is 1.96. For the second option to increase the no of share, mean rank is 2.20, which becomes second in ranking. Likewise for third option to increase the dividend mean rank is 2.56 and described as third rank. Mean rank for fourth option to maintain the control position in management, is 2.60, which is last in ranking. In this way it can be concluded that main purpose of investor is to increase the value.

c) Action of shareholders, if rights are Transferable

Option	Mean Rank	Result
Sell the rights	2.20	3
Exercise the rights	1.84	1
Partially exercise & sell the rights	1.96	2
Neither sell nor exercise	4.00	4

For the question regarding the action of shareholders if rights are transferable in Nepal, the option, ‘exercise the rights’ has got the mean rank of 1.84 which is least among the four options.

Thus, it is ranked as first. Whereas for another option ‘Partially exercise & sell the rights’, mean rank is 1.96, which means this option should be ranked in second position. For the option ‘sell the rights’, mean rank is 2.20 and it is ranked as third. The option ‘neither sell nor exercise the rights’ has been ranked in 4^{th} position because it has got the highest mean rank of 4.00. So, it can be concluded that shareholder are well aware about their wealth position. They never let the rights to expire and they utilize the rights either by exercising them or by selling them if rights are transferable, in case of Nepal.

d) Beneficiaries of the Rights Issue

Option	Mean Rank	Result
Issuing company	1.68	2
Shareholders	1.60	1
Issue managers	3.00	3
Brokers	3.72	4

As a response to the question about the beneficiaries of the rights issue, most of the respondents indicated to shareholders as the prime beneficiaries of rights issue. It got the mean rank of 1.60, which is the lowest of all the four options. Issuing companies as beneficiaries got the 2^{nd} rank with mean rank of 1.68. Likewise, with the mean rank of 3.00, issue managers have been ranked in the third position. Brokers are the last to gain the benefit of rights issue among the four beneficiaries. Since, it has got the highest mean rank of 3.72, it is ranked in the 4^{th} position.

This data suggests that there is no any confusion about that the shareholders, issuing companies, issue managers and brokers are the main beneficiaries of the rights offering.

e) Cause of preference given to rights issue by Company

Causes	Mean Rank	Result
Low flotation cost	2.00	2
Easy process	1.76	1
Maintain control position in management	2.56	3
Other	3.76	4

In another major question about the preference given to issue rights share by companies instead of other instrument, most of the respondents point towards the option ‘easy process of rights issue’ as the most important cause. It has been ranked as first with mean rank of 1.76. For another option ‘low flotation cost’, mean rank is 2, which is in the second rank. Another reason of practicing rights share by companies rather than other instruments is to maintain the control position in management, which is in the 3rd position with the mean rank of 2.56. Respondents gave 4th rank for the option ‘other causes’. The mean rank for that option is 3.76. In this way, it can be concluded that Nepalese corporate firms issue rights share instead of other instruments due to low flotation cost, easy process to collect fund, to maintain the control position in management and due to some other causes like legal provision etc. as well.

f) Causes of under subscription of Rights Share

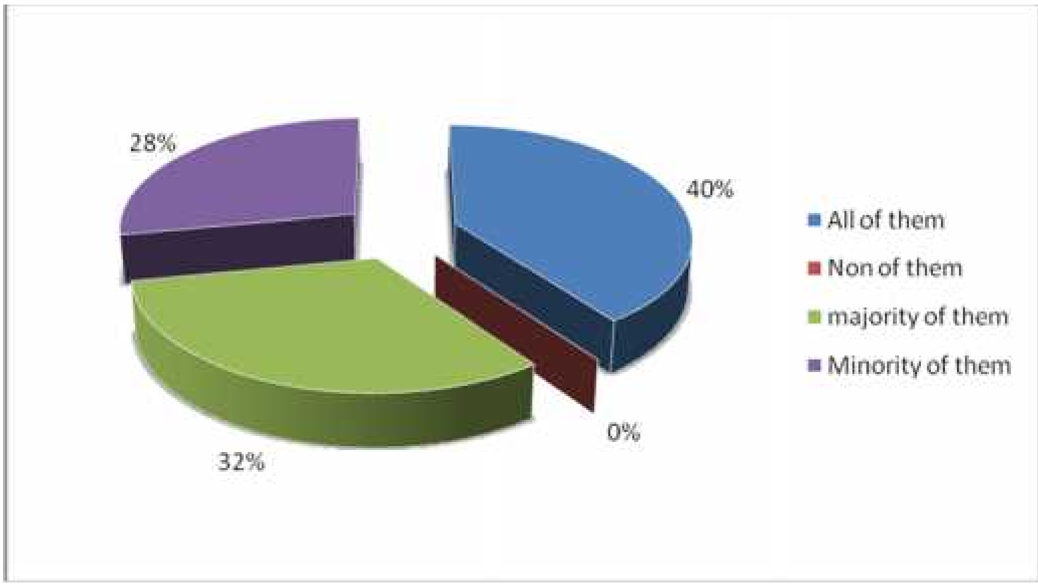
Causes	Mean Rank	Result
Low performance of company	1.52	1
Rights is not transferable	2.44	3
Lack of investors awareness	2.08	2
Other causes	4.00	4

In response to the question regarding the cause of under subscription of rights share, low performance of company is pointed out for first rank with mean rank of 1.52. Another cause the lack of investor's awareness has got the second lowest mean rank of 2.08. Thus, this option is ranked in 2nd important reason of under subscription of rights issue. Rights are not transferable in Nepal, which causes the under subscription of rights share. It becomes third most influencing cause with mean rank of 2.44. Whereas, another option ‘other causes’ with mean rank of 4 has been ranked in the last rank. This helps researcher to conclude that the low performance of the rights issuing companies is the main cause of under subscription of rights share, whereas other causes like lack of rights transferable provision, investors awareness regarding rights share are other causes of under subscription of rights share in Nepal.

g) Investors' awareness about Rights Offering

Figure 4.5

Investors Awareness to the Rights Offering



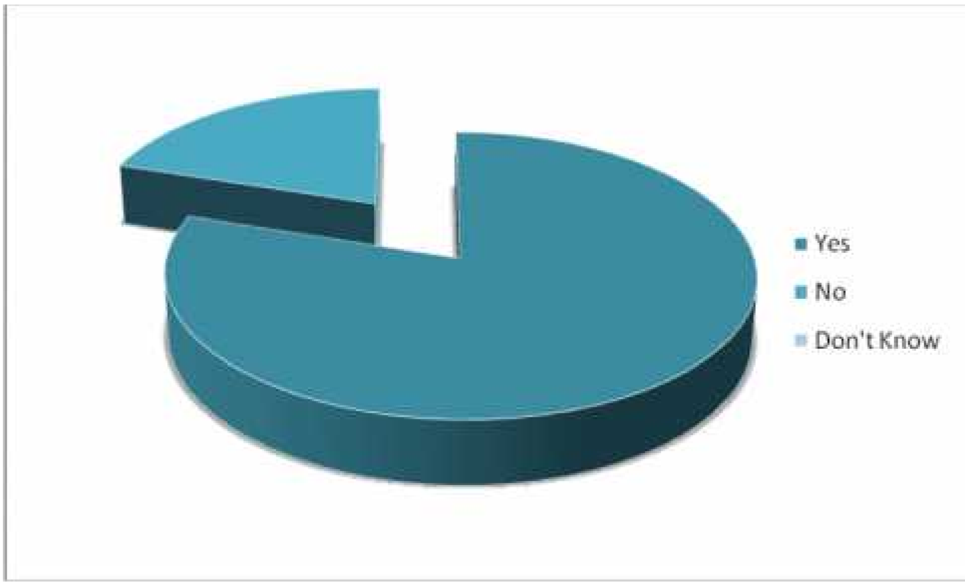
Question regarding awareness of investors about rights offering, out of total of 25 respondents, 10 said that all the investors are well aware to the entire phenomenon of rights share in Nepal. Whereas, 8 respondents said that majority of the investors are well aware and remaining 7 said minority of them are well aware to the entire phenomenon of the rights share in Nepal. So, here researcher can conclude that most of the investors are well aware to entire phenomenon of rights share in Nepal

h) Difficulties regarding provision 'not to transfer the Rights'

In response to the question about difficulties regarding the provision 'not to transfer the rights', 20 respondents said that yes the investors face difficulties because of that provision and remaining 5 said no there is not any difficulties due to lack of provision to make rights transferable. Thus, it can be concluded that due to lack of the provision to make rights transferable, investors face difficulties.

Figure 4.6

Difficulties due to Non-transferable Rights Share

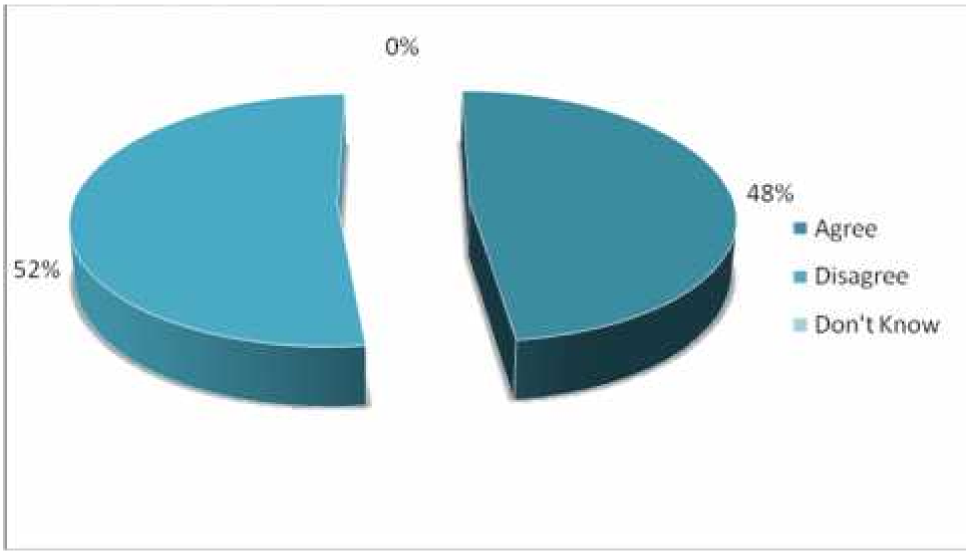


i) Role of large corporate firms in Developing Rights Share Practice in Nepal

Next question about lack of large corporate firms is the cause of low practice of rights share in Nepal, 12 respondents out of total said yes large corporate firms play significant role to develop the rights share practice in Nepal, whereas remaining 13 disagreed with those 12 respondents. In conclusion, there is neither too much nor too less role of large corporate firms in developing the practice of rights share in Nepal.

Figure 4.7

Practice of Rights Share due to Large Corporate Firm

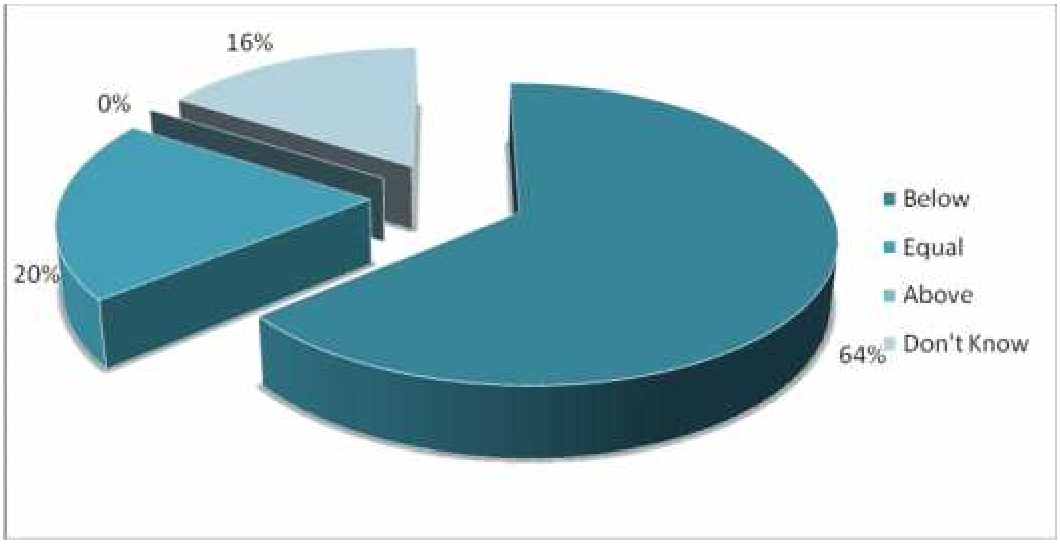


j) Subscription Price of Rights Share

The question regarding subscription price, 16 respondents said it should be below the market price of the share, whereas 5 said that it should be equal to market price, remaining 4 said that they don't know what should be the subscription price but non of them said that the subscription price should be higher than the market price. So, it can be concluded that subscription price of rights share should be below the market price of share.

Figure 4.8

Subscription Price Compare to Market Price

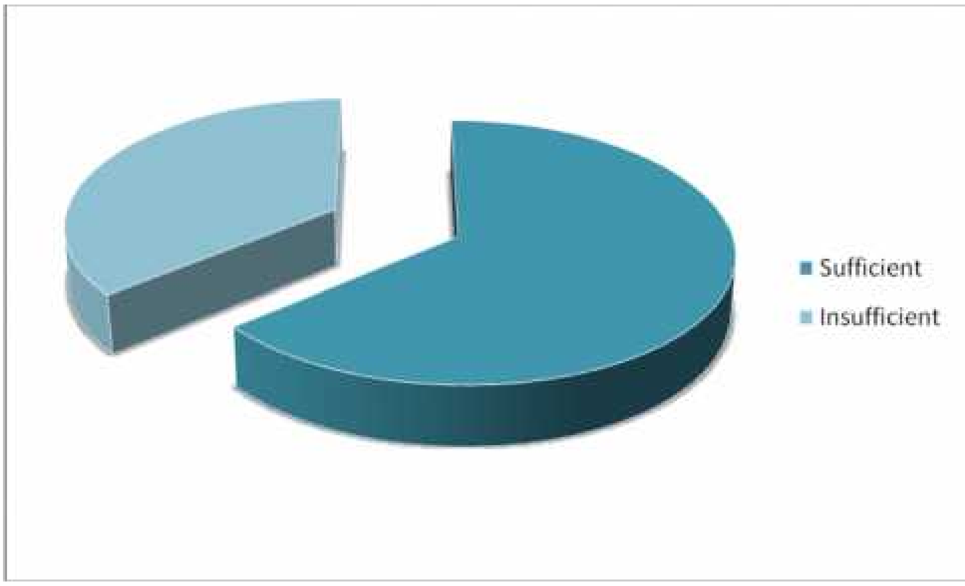


k) Adequacy of Current Legal Provision Regarding Rights Issue

As far as regarding the current legal provision especially about rights offering 16 respondents said that, it is inadequate and remaining 9 said that it is adequate. Among the respondents, who said that current legal provision regarding rights offering is inadequate, cent percent are agreed on the clause that rights share should be transferable but in addition to this 80% said that there should be provision of premium issue of rights share and remaining 20% feels that there should be the clear procedure of rights transfer.

Figure 4.9

Sufficiency of Legal Provision

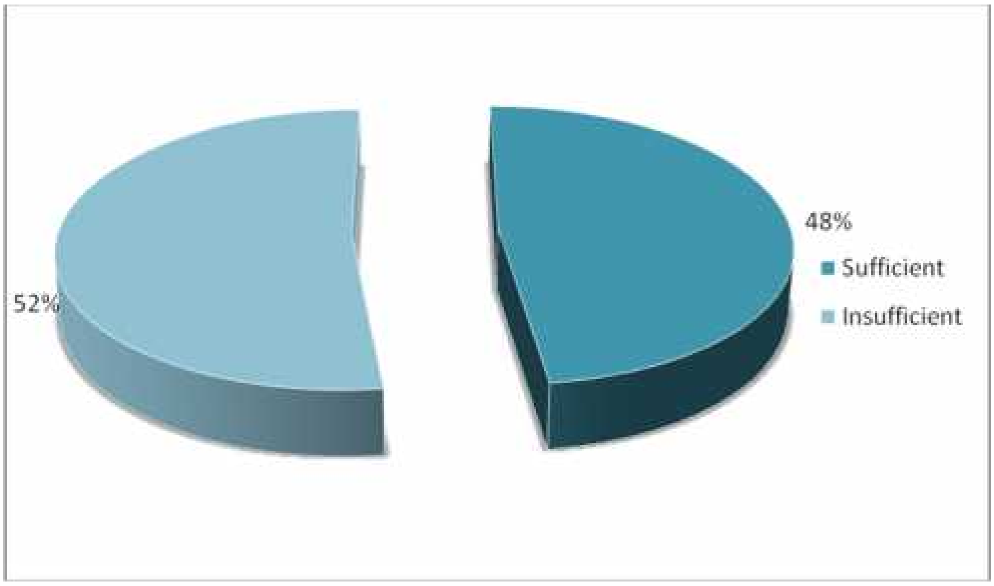


l) Sufficiency of Infrastructure of Nepalese Security Market

In response to the question regarding the sufficiency of infrastructure in Nepalese security market, out of total of 25 respondents, 12 said that infrastructure are sufficient and remaining 13 said it is insufficient. Here, researcher can conclude that there should be a lot of things to do to make Nepalese security market effective.

Figure 4.10

Sufficiency of Infrastructure



m) Problems of Rights Share Practice in Nepal

Finally, for the question regarding problems of rights share practice, different kinds of opinion were received. According to them the major problems of rights share practice in Nepal are lack of infrastructure, low subscription price of rights share, under subscription of rights share, lack of provision regarding allotment of under subscribed rights share, poor financial condition of investors, low economic growth of the country etc.

4.7 Major Findings of the Study

Here, the effort has been made in to present major findings of the study in rights share practice in Nepal and its impact on share price movement of commercial banks. The major findings of this study are presented in following headings; correspondence to the study objectives.

4.7.1 Significance of Changes in Share Price after the Announcement of Rights Share

From the analysis, the following results have been obtained:

1. There is no significant difference between share price of Kumari Bank Ltd. before and after the rights issue. But, KBL doesn't follow the theory of rights offering its share was overpriced.
2. There is significant difference between share prices of Bank of Kathmandu Ltd. before and after the rights issue. But, BOK also does not follow the theory of rights offering because its share price had moved downwards than its ex-rights price.
3. In case of Everest Bank Ltd., share price also decreased after rights issue and there was significant different between share price before and after the announcement of rights share.
4. In case of Nepal Bangladesh Bank Ltd., its share price increased significantly and after allotment of the rights share its share was traded nearly in ex-rights price. So, researcher can say that stock of Nepal Bangladesh Bank Ltd. followed the theory of rights offering.
5. There is significant difference between the share prices before and after rights share announcement of Nepal SBI Bank Ltd. But stock of NSBI does not follow the theory of rights offering. Its market price was overpriced.
6. Finally in case of Nepal Investment Bank Ltd., there is no significant difference between share prices few days before and after the announcement of rights share. So share price movement of NIB cannot be attributed to the rights offering. Share price of NIB was overpriced, so it does not follow the theory of rights offering.
7. There is no uniformity in the impact of rights offering of share price.

4.7.2 Rights Share Practice in Nepal

1. Rights offering have only fourteen years of history, so it is a growing practice for Nepalese companies.
2. A rights offering in Nepal is in increasing trend in recent years. It occupied 84% in total public flotation, which is the largest position among all instruments.

3. Out of total listed companies, there are only 153 cases of rights offered by 159 companies in Nepal. Most of the companies are issuing rights share in order to fulfill capital requirement as per the NRB directives.
4. All the sectors except Trading and Others have practiced rights share in Nepal. Commercial Banking sector occupies largest amount of total rights offering among all sectors. It is about 34.13% of total rights issued amount. Till the study period, only 21 commercial banks have issued rights share for their existing shareholders. Nepal Bank Ltd. is the first commercial bank to issue rights share in Nepal though it is de-listed from NEPSE currently. Nepal SBI Bank Ltd., Nepal Investment Bank Ltd. issue rights share twice, whereas other commercial banks have issued only one time.
5. All issue managers except United Finance Ltd. have underwritten the rights share in Nepal. NCML is the largest issue manager among all issue managers and NFCL is the smallest one.
6. Nepalese investors mostly prefer the Banking and Finance sectors shares to invest rather than other sectors.
7. Majority of the investors are well aware about the rights share in Nepal.

4.7.3 Subscription of the Rights Share Issued

1. Most of the rights issues were under subscribed in Nepalese companies. So, it is a common phenomenon in Nepal.
2. Under subscription of rights share is caused by various factors. Lack of investors' awareness, low performance of companies, lack of effective flow of information, lack of provision for rights transfer, untraceable investors and financial problem of shareholders are the major causes of under subscription.
3. There is no clear and easy provision regarding the sales of under subscribed rights share in Nepal.
4. Subscription of rights share in recent years is in increasing trend.

4.7.4 Problems Regarding Rights Share in Nepal

As it is mentioned above, there are lots of things to be done to develop rights share practice in Nepalese security market. In this research, some problems has been found, which are given below:

1. Subscription price of rights share is too low as compared to market price of share.
2. There is no any provision to make rights share free pricing.
3. Lack of separate rules regarding rights share is another problem.
4. Lack of provision to make rights share negotiable, which is the main cause of under subscription of rights share.
5. Most of the companies are suffering from under subscription of their rights share but there is no clear and easy provision regarding the sales of under subscribed rights share.
6. Poor financial condition of shareholders in Nepal.
7. There is a large no. of shareholders holding small no. of shares in Nepalese share market who generally ignore rights issue.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

A rights offering in Nepal and its impact on share price movement of commercial banks is an exciting and challenging study. A brief introduction of the study and the overall view of rights offering are presented in introductory chapter and available literature on rights issue is reviewed in the second chapter. The appropriate research methodology is presented in chapter third and the data are presented and analyzed in chapter four. Now, in this final chapter an attempt has been made to present summary of findings, issue and gaps observed and give some suggestion for future course of action.

This study is concentrated on the various aspects of rights offering with special references to the selected listed commercial banks of Nepal. It covers the period of 16 years from FY 1993/94 to 2008/09. It includes the data of mostly rights issuing commercial banks. But, to show the practice of rights offering in Nepal, researcher takes some data of all rights issuing companies.

Although, Nepalese security market is practicing the rights offering since 1995, almost for 16 years, but it's every essence is not seemed to practice here. Only 153 cases of rights offered by 159 companies, out of total listed companies in Nepal till the FY 2065/066. In Nepal few cases of rights offering meet the theory. Mixed results have been obtained from the sample companies regarding rights offering theory in Nepal. Share price of Bank of Kathmandu Ltd. before rights share announcement was Rs.801, but it went down to Rs.460 after rights share announcement. Similar trend was observed in case of Everest Bank Ltd., while mixed result in case of Nepal SBI Bank Ltd., Nepal Investment Bank Ltd., and Kumari Bank Ltd. was observed. But in case of Nepal Bangladesh Bank Ltd., share price was Rs.350 before the announcement date and it went up to Rs.393 after the announcement of rights share and again fell down to Rs.260 after allotment of rights share.

This study has been done to fulfill some specific objectives. Main objectives of this study, is to examine the movement in share price before and after the announcement of rights issues and to analyze the rights issue practice in Nepal. Finding out the problem of rights issue in Nepal is another objective of this study. Till the date, many studies have been done related to the impact on market price by various variables such as EPS, DPS and signaling effects. But, very few studies are directly concerned with rights issue in Nepal, because rights issue is a growing phenomenon in Nepal. But, it is really tried hard to make full effort to collect the related studies for review in second chapter.

This study is heavily based on secondary data. So, useful data are collected from SEBO/N and related organization as well. Newspaper, annual reports of sample companies, journals and bulletins are important source to get secondary data in this study. Other information is collected through internet as well. Primary data to make this study more reliable has been used to some extent. To collect primary data, personal interview and distribution of questionnaire to some specific people has been done. To conduct this study statistical tools as well as financial tools have been used.

5.2 Conclusion

It can be concluded that there is no long history of rights share in Nepal. So, it is a growing phenomenon in Nepal. There is no doubt that a lot of things to be worked out to make the rights offering as effective instrument of raising fund in Nepal. While analyzing the rights offering by Nepalese companies, there are very few companies, which has meet the theory of rights offering i.e. the share price has increased significantly after the announcement of rights share and then traced on ex-rights price after the allotment of rights shares. In most of the cases, share price has decreased significantly after the rights share announcement and it was traded even below the ex-rights price. In our sample, the bank's entire share was either traded above ex-rights price or below it. Almost in all cases of rights offering there exists some sort of under subscription of rights share. Some of shareholders even cannot get information about the rights share announcement made by their companies, other who are informed are no all aware of what the rights share means and what can be its impact on their wealth position. In Nepal, rights are not transferable, which is also one of the causes of under subscription of rights share. There is no clear and easy provisions regarding sales of under subscribed rights share and many companies are distributing it to their employees. The employees are gaining in the cost of existing shareholders. The large no. of shareholders is holding the few share and they generally ignore about the rights share.

While testing the hypothesis, mixed results have been obtained. In most companies, rights share affects the share price movement whereas in some it does not affect. Share price movement and general market movement in some cases positively correlated and in some cases it is negatively correlated. While analyzing share price movement during five periods, researcher has obtained different results. The legal provision and policies regarding of securities is not clear and the process of approval is lengthy. The formalities to be completed by issue manager before getting approval, is time consuming and lengthy. Some time it may take a fiscal year and in next fiscal year the essence of issue may not remain and this is the reason that in some cases of rights offering holders record date remains prior to the announcement date, which is not consistent with the theory of rights offering. The regulation regarding the calculation of premium is not clear and certain regulation requires company to issue rights share in par value that results in wide difference between market price per share and subscription price.

Thus, finally the study say that rights offering have some impact on share price that can be positive or negative. The general market movement to greater extent in Nepal also influences the market price of share. The capital market is not matured and the rights issue has not practiced properly by all sectors and companies.

5.3 Recommendations

Based on the findings of the analysis and the issues and gaps mentioned above, the researcher has provided some practicable recommendation in the following points:

1. In Nepal all companies do not do rights share practice properly. So, government should positively motivate them by good governance and provisions regarding rights share.
2. Nepalese investors are not so well aware about rights offering. So, to increase the awareness of investors, some programs like; interaction, advertisement, videoconference, radio talk etc, should be managed by related companies, government and media as well.
3. The mechanism of information flow is not found to be appropriate and effective that results in heavy under subscriptions of rights share. Thus, effective alternative of information flow should be searched.
4. Free pricing concept should be implemented in rights offering to get rid off the problem of low subscription price of rights share.
5. There is no any provision in company Act 2063 to make rights negotiable. So, it should be amended and should make a provision of transferable rights, which will help to solve the problem of under subscription of rights share to some extent. It also will protect the dilution in wealth of shareholders and also will enhance the dimension of security market.
6. Provisions regarding sales of under subscribed rights share should be made. The current practice to distribute them among the employees of the respective companies violates the very essence of the rights offering. The company act, therefore, should be quite clear is this regard.
7. Lack of Acts for the investors' protection, is another cause of under subscription of rights share. So, there should separate investors' protection

Act, so that, investors can maintain their confidence, over their investment and feel secured.

8. One critical factor that affects the share price and subscription is the holder's record date. The investors who purchase the share after that date are unable to get share. So, right issuing companies should set the proper holder record date so the investors who want to enjoy the right offering can purchase the share issued by them.

BIBLIOGRAPHY

Adhikari, K.R. (1998). *Study on the Impact of Information on Share Price.* An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U.

Aryal, N.B. (2005). *Equity Rights Issue; It's Practice and Impact in Nepal*. An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U.

Bajracharya, B.C. (2055). *Business Statistics & Mathematics*. Kathmandu: M.K Publishers & Distributors.

Bhattarai, R. (2061). *Investments Theory & Practices.* Kathmandu: Buddha Academic Publishers & Distributors Pvt. Ltd.

Bhattarai, R. (2065). *Nepalko Share Bazaar, Ek Bislasan*. Kathmandu: Securities Research Centre and Service Pvt. Ltd.

Bhattrai, R. (2005). *Capital Structure Management.* Kathmandu: Dhaulagiri Books and Stationary.

Brealy, R.A. & Myers, S.C. (2002). *Principles of Corporate Finance.* New Delhi: Tata McGraw-Hill Publishing Co. Ltd.

Chapman, C. (1998). *How the Stock Market Work.* Melbourne: Random House Business Book Publishing.

Companies Annual Reports

Dolley, J.C. (1934). The Price Effect of Stock Rights Issue, *The Journal of Business of the University of Chicago*, Vol.VII(II):133-160.

Gautam, B. (2003). *An Analysis of Share Price Movement Attributed to Rights Offering Announcement.* An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U.

Gautam, N. (2064). *Equity Right Issue and the Efficiency of the Nepalese Stock Market*. An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U.

Gautam, R.R. & Thapa, K. (2004). *Capital Structure Management*. Kathmandu: Asmita Books Publishers and Distributors.

Kerliger, F.N. (1978). *Foundation of Behaviour Research.* New Delhi: Surjeet Publications.

Kevin, K., Hudson, R. & Kevin, L. (1998). *The Intelligent Guide to Stock Market Investment*. London: Wiley Editorial Office.

Kothari, C.R. (1994). *Quantitative Techniques.* New Delhi: Vikash Publishing House Pvt. Ltd.

Lamichanne, S. (2007). *Right Share Issue Practice in Nepal and Its Impact on Market Price of Share.* An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U.

Maharjan, A. (2065). *Right Share and Its Impact on Market Price of the Stock*. An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U.

Marsh, P. (1979). Equity Rights Issue and the Efficiency of the UK Stock Market, *The Journal of Finance*, Vol. XXXIV(IV):839-861.

Marsh, P. (1980). Valuation of Underwriting for UK Right Issue, *The Journal of Finance*, Vol. XXXV(III):639-715.

Nelson, R.J. (1965). Price Effects of Rights Offering, *The Journal of Finance*, Vol. XX(IV):647-650.

Nepal Stock Exchange (NEPSE) Annual Reports.

Neupane, P.Y. (2064). *A Study on the Rights Share Practice in Nepal and It's Impact on Share Price of Listed Companies*. An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U.

Pandey, I.M. (1999). *Financial Management.* New Delhi: Vikash Publishing House Pvt. Ltd.

Parajulii,Ram Prasad (2009). *Rights Share Practice in Nepal and its Impact on Share Price of Listed Companies*. An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U.

Pinches, E.G. (1990). *Essential of Financial Management.* New York: Harper Collins Publishers.

Pradhan, R.S. (2004). *Financial Management.* Kathmandu: Buddha Academic Publisher and Distributor Pvt. Ltd.

Securities Board (SEBO) Annual Reports

Shrestha, M.K. (1992). *Shareholders Democracy and Financial General Meeting Feedback, Portfolio Analysis*. Kathmandu: Nepal Publication.

Shrestha, P.N. (2005). *Right Share and its Impact on Market Price of the Stock.* An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U.

Sthapit, A.B. (2004). *Statistical Method*. Kathmandu: Buddha Academic Publisher and Distributors Pvt. Ltd.

Sthapit, A.B., Gautam, H., Joshi P.R., & Dangol, P.M. (2003). *Statistical Methods.* Kathmandu: Buddha Academic Publications and Distributors Pvt. Ltd..

Van Horne, J.C. (2002). *Financial Management and Policy*. New Delhi: Prentice Hall of India.

Weston, J.F. & Briagham, E.F. (1992). *Managerial Finance*. Hinsdale Illinois: The Dryden Press.

White, R.W & Lusztig, P.A. (1980). The Price Effect of Rights Offering, *The Journal of Financial and Quantitative Analysis*, Vol. XV(I):25-40.

Wolf, H.K. & Pant, P.R. (2004). *Social Science Research and Thesis Writing*. Kathmandu: Buddha Academic Publisher and Distributors Pvt. Ltd.

Websites

www.nepalsharemarkets.com

www.nepalstock.com

www.nrb.org.com.np

www.sebonp.