Chapter One: Introduction

1.1 Background of the study

The purpose of dividends is to return wealth back to the shareholders of a company. There are two main types of dividends: cash and stock.

A cash dividend is a payment made by a company out of its earnings to investors in the form of cash (check or electronic transfer). This transfers economic value from the company to the shareholders instead of the company using the money for operations. However, this does cause the company's share price to drop my roughly the same amount as the dividend. For example, if a company issues a cash dividend equal to 5% of the stock price, shareholders will see a resulting loss of 5% in the price of their shares. This is a result of the economic value transfer. Another consequence of cash dividends is that receivers of cash dividends must pay tax on the value of the distribution, lowering its final value. Cash dividends are beneficial, however, in that they provide shareholders with regular income on their investment along with exposure to capital appreciation.

A stock dividend, on the other hand, is an increase in the amount of shares of a company with the new shares being given to shareholders. For example, if a company was to issue a 5% stock dividend, it would increase the amount of shares by 5% (1 share for every 20 owned). If there are 1 million shares in a company, this would translate into an additional 50,000 shares. If you owned 100 shares in the company, you'd receive five additional shares.

There are different methods of financing or capitalizing an organization an organization. Bonus share issue is one of them, since bonus share is a form of dividend. First, the term dividend should be clearly understood to know the bonus share well. Shareholders' investment in common stock sacrifices the present opportunity in expectation of future increased income or returns in the form of dividends and capital gains, dividends one the major reason of investment in financial securities, it is the net earnings paid out to the shareholders. It is the distributed earnings to the shareholders of the corporate forms in return to their investment in firm's stocks. It is direct return to shareholders.

Divided policy refers to the guidelines that corporate management uses in establishing portion or retained earnings that are paid to the shareholders in dividends (Mauther, 1979:297). It involves the complex and controversial decisions between dividend payment and retention of earnings. It is affected by taxation and additional capital required in the corporate firm. There is no one universally acceptable dividend policy.

The commonly used dividend payment methods are cash dividends and stock dividend. In cash dividend direct cash or rupees is provided to the shareholders as a return to their share in the corporate. However, in stock dividend, additional stock is increased but the shareholders wealth remains the same. Some companies provide cash dividend together. Bonus shares are also understood synonymous to the stock dividend. No. of common stock is increased but the shareholders wealth remains the same. Since bonus shares are dividends, these are studied under the dividend policy of a corporate firm. Since the term 'bonus share' and ' stock dividend' cannot the same meaning and implication, only the term bonus share is used afterward in the subsequent paragraph, as it is the most commonly used term in Nepalese context.

An issue of bonus share represents a distribution of shares in addition to the cash dividend (known as stock dividend in the USA) to the existing shareholders. This has the effect of increasing the number of outstanding shares of the company. The shares are distributed proportionate ownership of the company, for example if a shareholder owns 100 shares at the time when a 10% (i.e. 1:10) bonus issue is made; he will receive 10 additional shares. The deceleration of the bonus shares will increase the paid-up share capital and reduce the reserves and surplus (retained earnings) of the company. The total net worth is not affected by the bonus issue. In fact, a bonus issue represents a capitalization of owner's equity portion l.e. the reserves and surplus. It is merely an accounting transfer form reserves and surplus to paid up capital (Pandey, 1999:782).

Bonus shares imply a dispersment of additional shares of stocks to the firm's share shareholders. Thus, it can be understood as dividend paid in addition shares of stocks rather than in cash. It is simply involves a transfer of retained earnings to the capital stock account. According to the Company

Act, Nepal (2053,B.S.) section 1, clause I and clause M bonus share is dividend as additional shares issued to the existing shareholders to capitalize the reserve mean conversion of partly paid up shares into fully paid by capitalizing its reserve and surplus.

In common stock of equity it is vital matter to know how corporations issue securities to the investing public. The general procedures for debt and equity are quite similar. The procedures issuing securities to the public debt and equity are basically the same. Before securities can be traded in a securities market, they must be issued to the public. A firm making an issue to the public must satisfy requirement set out in various federal legislation and statuses and enforced by material information is the form of a registration statement and prospectus.

A public issue of equity can be sold directly to the public with the help of underwriters. This is called a general cash offer. Alternatively, a public equity issue can be sold to the firm's existing stockholders by what is called a rights offer. Stocks of the companies, going public for the first time, are typically under period. When a company decides to issue a new security, they can sell it as a public issue or a private issue, if it is a public issue, the firm is required to register the issue with SEC. If the issue is sold to fewer than 35 investors, it can be treated as a private issue, a registration statement is not required in this case.

There are two kids of public issue: the general cash offer and the rights offer. Cash offers are sold to all interested investors and rights offers are sold to existing shareholders. Equity is sold by both the cash offer and the right offer, though almost all debt is sold by cash offer. The first public equity issue that is made by a company is referred to as and initial public offering (IPO) or an unseasoned new issue. All initial public offerings are cash offers because if the firm's existing shareholders wanted to buy the shares, the firm would net need to sell them publicly.

When new shares of common stocks are offered to the public, the proportionate ownership of existing shareholders is likely to be reduced. However, if a preemptive right is contained in the firm's articles of incorporation, the firm must first offer any new issue of common stock to existing shareholders. This assures each owner his or her proportionate owner's share.

An issue of common stock to existing stockholders is called a right offering. Here, each shareholder is issued an option to buy a specified number of new shares from the firm at specified price within a specified time, after which the rights expire. For example, affirm whose stock is selling at $30 may let current stockholders buy a foxed number of s shares at $10 per share within two months. The forms of the option are evidenced by certificates such rights are often traded on securities exchanges of ever the counter.

Rights and Bonus shares issue are the recent and one of the popular methods of rewarding shareholders of corporate firms in Nepal. However, these two rights and bonus shares are different to each other. It took momentum after the in corporation of joint venture bank in mid-eighties because of economics liberalization policy. Nepalese corporate forms have already experienced the practice of rights and bonus shares issues for decades. However, very few studies have been done to relate the practice of bonus shares issue; the study on rights issue practice has not been met yet in Nepalese corporate forms. Therefore, necessity of this study is felt and done. This study may be a milestone in rights & bonus share issue in Nepalese corporate firms.

1.2 Statement of Problem

There are many studies on dividend and stock prices are developed. However, no smile and focusing studies related to rights and bonus shares issue practice have been done in the context current scenario. There still a considerable curiously about how Nepalese corporate issue the rights and bonus share. These are recent practice of rewarding shareholders. Decision to issue of bonus share without analyzing its effect on future dividend and stock price. This aspect has not been studies smoothly yet. What are the characteristics of rights and bonus share issue? What is the relationship between rights and bonus shares issue to size and age of the corporate firms? These problems related to rights and bonus shares issue is studied necessity to study the rights and bonus shares issue practices of corporate forms in Nepal.

1.3 Focus of the study

Since there are still considerable curiosity about the rights and bonus share issue practice in Nepalese corporate firms, there should be clear options to understand how Nepalese corporate firms practices the rights and bonus share? Are they depends upon the size and age of corporations? What are the features of rights issue as well as bonus share issue? These are the focuses of the study. Besides these practices, most popular issue rations of rights and bonus shares have of been studied and analyzed.

1.4 Significance of the Study

Nepalese corporate forms have already experienced the practice of rights and bonus share issue from decades. However, a few studies have been done about the bonus share issue practice in Nepalese corporate forms. There are still lacks of studies related to rights issue practice to understand the condition of rights issue practices in Nepalese corporate firms. The studies on rights issue practices have not been met yet. Therefore, this study may be milestone in rights and bonus share issue practices in Nepalese corporate firms.

Besides these, this study helpful for the following sector.

- For the further researchers of the field
- For the shareholders, Management and policy makers.
- For the government official in policymaking, controlling and monitoring activities of commercial banks.
- For the partial fulfillment of the requirements of MBS.

1.5 Objectives of the study

However, study has focused on the rights and bonus share issue practice in Nepalese corporate firms. The main objectives of the study are as follows:

- To identify and evaluate the characteristics of rights and bonus share issue,
- To study and analyze the regularity and frequency of rights and bonus share issue in Nepalese corporate firms,
- To study the rights and bonus share issue from corporate firms
- To study and analyze the relation to rights and bonus share issue to size and age of the corporate firms,
- To make recommendation based on findings of the study.

1.6 Limitation of the study

Since the study is oriented only the partial fulfillment of master in business studies, there are some information related to the study. They are:

a. Only 9 fiscal years bonus shares issue and rights issue from the fiscal year 1997/98 to 2005/06 have been taken in this study.
b. Only additional number of stocks are taken in this study as bonus shares though the conversion of partly paid up share into fully paid up by capitalizing its reserve and surplus is also called bonus shares by Company Act, Nepal (2053 B.S.)
c. Only focus the practices of bonus shares and rights issue but silent about their market price and theoretical price. The validity and confidence of the data depend on their faith and trustworthiness of different sources of secondary data.
d. Since the study on the rights issue has not been met yet and sources are also limited, therefore the study on practice of rights issues have been done with constrains sources as available in the market.
e. Time and resources are constrained for this study.

1.7 Organization of the study:

The study has been organized into five chapters each devoted to some aspects of the practice of the corporate forms with related to rights and bonus share issues in Nepal. The titles of each of these chapters are as follows:

Chapter one: Introduction
Chapter Two: Review of literature
Chapter three: Research methodology
Chapter four: Presentation and analysis of data
Chapter five: Summary, conclusion and recommendation

The rational behind this kind of organization is to follow a simple research methodology approach. The contents of each of the chapters of this study are briefly mentioned here.

Chapter one: It contains the introductory part of the study. As already mentioned, this chapter describes the major issue to be investigated along with the objectives and importance of the study.

Chapter two: It is devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion in the theoretical framework and review of the major studies.

Chapter three: It describes the research methodology employed in the study. This chapter deals with the matter and sources of data, population and sample, statistical and financial task as required.

Chapter four: It deals with presentation and analysis of relevant data and information through definite course of research methodology.

Chapter five: It states summary, conclusion and recommendations of the study. This chapter states main finding, issues and gaps and suggestive framework of study.

Chapter Two: Review of literature

2.1 Conceptual Review of the study

2.1.1Bonus Share Issue

Bonus Shares are shares issued to existing shareholders as a result of capitalization of the reserves (Chandra, 1994:540). It (known as stock dividend in U.S.A.) is a popular form of dividend in additional shares of stock rather than in cash (pandey, 1995:705). It is simply payment of additional stocks to share holders, which presented nothing more than a re-capitalization of corporate form's reserves and surplus created from the net profit (Van Horne, 1996:334). Corporate board (management) may decide to announce cash dividend and issue of bonus shares on the same data. Cash dividend involves actual paying of cash while bonus shares simply involve a transfer of retained earnings to the capital stock account. Therefore, an issue of bonus share represents a distribution of share in proportional in additional in addition to the cash dividend to the existing shareholders.

Corporate forms, generally, announce bonus shares rather than cash dividend or cash dividend plus bonus shares in proportion to reward to their shareholders. Although the recipients may feel psychologically better of after receiving the bonus shares (stock dividend), they are actually no better off then they were prior to its payment. It is also generally believed that the stockholders are actually worse off as result of the payment of bonus shares since issuing the new shares creates no value and the firm must pay for printing up and issuing the new shares. Technically an issue of bonus share is nothing more than an accounting transfer from retrained earnings to the capital stocks accounts. A bonus share simply splits the 'ownership pie' into more pieces but does not affect the size of the pie.

A second alternative to the payment of cash dividends involves the purchase of a portion of the firm's outstanding common stock should a corporation decide to engage in the repurchase of its outstanding common shares? Resources of share result (i) reducing the number of shares outstanding and (ii) transferring cash from the corporate coffers to those shareholders who tender their shares (Bowlin, et al, 1990:372) Repurchase of shares is not allowed to exercise in Nepal yet. So this aspect is not studied in this study.

Corporate firms in Nepal also have been practicing the stock dividends and bonus shares as a means of rewarding to the shareholders. In 1992/93, Nepal Arab Bank Ltd in its fifth annual General Meeting declared in principle 60% cash dividend which included 20% actual cash dividend and 40% cash dividend which was capitalized from profits which correspond of Rs. 12 million transferred from profit and loss account to equity capital resulting no affect in financial position (Shreshta,M , 1992:35). Since then bank increased its equity capital from time to time by issuing bonus shares. Likewise, Nepal Bank Ltd. Nepal Bank Ltd, Nepal Grindlays Bank Ltd., Nepal Indosuez Bank Ltd., Nepal Insurance Company, Bishal Bazar Company Ltd have also been found increased in equity capital many times by way of issuing bonus shares. The study of practice of stock dividends or bonus shares issue and its effect on price of listed stocks of Nepalese corporate firms are presented in subsequent paragraph.

Advantage of Bonus Share

Corporate forms can conserve cash pay dividends under financial difficulty and contractual restriction and lower share prices to the active trading range by issuing bonus share. Similarly, shareholders gain tax benefit on bonus share over cash dividend, bonus share has favorable psychological value to the shareholders and they interpret it as an indication of higher profitability. The advantages of bonus share issue to shareholders and the company can be explained as follows:

To the shareholders:

a) Tax benefit: Cash dividend is included as ordinary income and taxed at ordinary income tax rate. But the receipt of bonus shares by the shareholders is not taxable as income. Further, the shareholders can sell the new shares received by the way of the bonus issue to satisfy his desire for income and pay capital gain taxes, which are usually less that the income taxes on the cash dividends. The shareholders could sell a few shares of his original holding to desire capital gains. But selling the original shares considered as a sale of principal by some shareholders. They do not mind selling the shares received by way of the bonus shares as they consider as they consider it a windfall gain not a part of the principal.

b) Indication of higher future profits: The issue of bonus shares is normally interpreted by shareholders as an indication of higher profitably. When the profits of a company do not rise and it declares a bonus issue, the company will experience a dilution of earnings as a result of the additional shares outstanding. Since a dilution of earnings is not desirable, the directors usually declare bonus shares only when they expect rise in earnings to offset the additional outstanding shares. Bonus shares thus may convey some information, which may have a favorable impact on value of the shares. But it should be noticed that the impact on value is that of the growth expectation and not the bonus shares, which simply conveys in information.

c) Future dividend may increase: If a company has been following a policy of paying a fixed amount of dividend per share and continues it after the declaration of the bonus issue, the total cash dividends of the shareholders will increase in future. The increase in the shareholder's cash dividend may have a favorable effect on the value of the share. It should be however, realized that the bonus issue per share has no effect on the value of the share.

d) Psychological value: The declaration of the bonus issue may have a favorable psychological effect on shareholders. The receipt of bonus shares gives them a chance to sell the shares to make capital gains without imparting their principal investment. They also associated it with the prosperity of the company. Because of these positive aspects of the bonus issue, it is usually received positively by the marked. The shale of the shares, received by the way of the bonus shares, by some shareholders widens the distribution of the company shares. This tends to increase the market interest in the company shares; thus supporting of raising its market price.

To the company:

a) Conservation of cash: The declaration of a bonus issue allows the company to declare a dividend without using up cash that may be needed to finance the profitable investment opportunities within the company. The company is, thus, able to retain earnings and at the same time satisfy the desires of shareholders to receive dividend. Directors of a company must consider the financial needs of the company and the desires of shareholders while making dividend decision. These two objectives are often in conflict the use of bonus issue represents a compromise, which enables directors to achieve both these objectives of a dividend policy. The company could retain earnings without declaring bonus share issue. But the receipt bonus shares satisfies shareholder psychologically. Also their total cash dividend can increase in future when cash dividend per share remains the same.

b) Only means to pay dividend under financial difficulties and contractual restrictions: In some situation, even if the company's intention is not to retain earnings, the bonus issue is the only means to pay dividend and satisfy the desires of shareholders. When a company is facing a stringent cash situation, the only way to replace the cash dividend is the issue of bonus shares. The declaration of bonus issue under such as situation would not convey a message of the company profitability, but financial difficulty. The declaration of the bonus share issue is necessitated when the restrictions to pay the cash dividend are put under loan agreements. Thus under the situation of financial stringency or contractual constrain in paying cash dividend, the bonus issue is meant to maintain the confidence of shareholders in the company.

c) More attractive share price: sometimes the intension of a company is issuing bonus shares is reduce the market price of the share and make it more attractive to investors. If the market price could be brought down to a desired range, the trading activity would increase. Therefore, the bonus issue is used as a means to keep the market price of the share within a desired trading range.

Limitation of Bonus Shares

Issue of bonus share is not free to limitations although it has many advantages. It has the following limitations:

a) Shareholders' wealth remain unaffected: Bonus shares are considered valuable by most shareholders. But they fail to realize that the bonus shares do not affect their wealth and therefore, in itself it has no value for them. The declaration of bonus shares is a method of capitalizing the past earnings of the shareholders. In fact the bonus issue does not give any extra or special benefit to a shareholder. His proportional ownership in the company does not change. The chief advantage of the bonus share issue is that it has a favorable psychological impact on shareholders. The issue of bonus share gives an indication of the company growth to shareholders. Shareholders welcome the distribution of bonus share since it has informational value.

b) Costly to administer: The disadvantage of bonus issues from the company's point of view is that they are more costly to administer then cash dividend. The company has to print new certificates and post them to thousands of shareholders.

c) Problem of adjustment EPS and P/E ratio: The bonus issue can be disadvantageous if the company declares periodic small bonus shares. The investment analysis does not adjust the earnings per share for small issues of bonus shares. Only the significant issues of bonus shares are adjusted by them. When the earnings per share are not adjusted, the measured growth in the earnings per share will be less than the true growth based on the adjusted earnings downwards.

Condition for the issue of Bonus Shares

In India, bonus shares are issued in addition to and not in lieu of cash dividends. A company is not allowed to declare bonus shares unless partly paid up shares have been converted into fully paid up shares. Bonus shares are made out of share premium and free reserve, which includes investment, allowance reserve but exclude capital reserve on account of assets revaluation. In no time, the amount of bonus issue should exceed the paid up capital. A company can declare bonus shares once in a year. A resolution approving the proposal of the bonus issue, clearly indicting the rate of dividend payable on the increased capital should be passed by company's shareholders. Company intending to issue bonus share should no be in default of payments of statutory dues to employees and term loans to financial institutions (Pandey, 1999:786)

Causes of Bonus share Issue

General Causes: General causes of bonus issue are (1) for increasing the capitalization for the increased scale of operation, (2) for compensating to the existing shareholders for the decrease yield.

A large number of corporate firms announce an disuse bonus shares to increase the capital base if the corporate management felt such need of to comply with the policy directives given by concerned authority to increase the capital base from time to time. In our country, NRB issues the policy directives to the commercial banks to control and for the supervision of the establishment and operation of commercial banks in Nepal. NRB had already issued the policy directives regarding the requirement of increasing minimum paid up capital in old commercial banks (NRB, circular, 25Nov 1996), which significantly affected the bonus issuing practice of commercial banks in Nepal. Corporate firms, other than in banking sector can issue the bonus shares to their shareholders by the corporate management as per the rules and provisions in Company Act 1997

Some or the corporate firms issue bonus shares to their existing shareholders in order to compensate for the decrease in dividend Yield decrease because of rapid increase in the market price of the shares compared to increase in nominal rate of dividend. Cash dividend divided by paid up price of share gives nominal rate of dividend. Because of the fast growth rate and partly because of under capitalization, the market price of the stock of such firms increases in fast rate continuously. The value of existing shareholders' stock rises. As a result, even if normal dividend rate seems attractive, dividend yield decrease and continues to be lowered. Thus to compensate to the existing shareholders for their increased value of investment and also to correct the effect of under capitalization, bonus shares are issued to them by corporate management which help to raise up the dividend yield in future because of the effect of decrease in market price of shares.

Specific Causes: The specific causes why corporate firms issue bonus shares may be as follows (Chandra, 1994:540-541):

- To bring the market price of the stock in most popular range
- To increase the number of shares and to promote active trading in the stock market
- To minimize the adverse effect of high nominal dividend rate and to minimize the effect of profiteering in the market.
- To increase the share capital base.
- Tom improve the prospects of rising additional found.
- To gain the confidence of stockholders in the prospects of the corporate firm and increasing the total dividends

Effect of bonus share issue

Theoretically bonus share issue is not a thinking of value to the investors (Van Home, 1963:335). It does not affect the wealth of the shareholders (pandey, 1995:707). In efficient market, bonus share issue causes decrease in market price per share proportionately to bonus issue ratio and hence shareholders' wealth would not be affected. However, if market is inefficient, corporate management's decision to issue.

Bonus shares Vs. New share

Bonus share differ from an issue of a new equity share. If a firm needs to finance, it can also obtain fund by selling new shares. To sell new shares in market, a company must bear flotation costs are high; it might be reluctant to sell new common stock. Therefore to save the flotation cost and to avoid the difficulties in raising external equity a company practices raising the additional capital from internal sources. A company can use bonus share as a less expensive alternative source of capital.

Bonus shares vs. Cash Dividend

The distribution of stock dividend in various circumstances becomes an effective method of concerning to the shareholders and assurance about the profitable reinvestment of the retained profits. The stock dividend represents a certificate indicating the amount of reinvestment made on behalf of each shareholder (Williams, 1965: 55). But there is no obligation on the management to ensure that reinvestment of past-accumulated profits and reserves (retained income) via issue of bonus share yield a reasonable return for shareholders. Therefore most investors express serious doubt about the retained profits being taken at their face value or being invested in sufficiently remunerative schemes.

Moreover, unless there are special tax consideration (e.g. an exceptionally high proportion of the shareholders are surtax payers hence making retained earning specially advantageous) shareholders may be justifiably suspicious of companies, which retain and exceptionally high proportion of earnings and thus decline to submit to the financial scrutiny and discipline involved in raising external equity (Merrect, A.J. and Allen

Sykes, 1966: 46). One seems to be left with the conclusion that there (companies) which retain a relatively high proportion of profit select relatively unprofitable investments. The present result, therefore, seem to lend some weak support to the view that institutional or fiscal arrangement which limit dividends are relatively inefficient method of increasing investment (Little, 1962: 412).

These are the reasons that the market assigns several times more weight to dividends than to retained income. But if the management is able to assure or convey to the shareholders about the profitable reinvestment of the retained profit via increase in the quantum of dividend or retained income may be preferable. There are some other conflicting reasons between bonus share and cash dividend. They are,

a) Liquidity position,

b) Degree of accumulated retained earning,

c) Legal requirement or desire to increase paid up capital.

Bonus share in any ratio as expected by the shareholders may have psychological effects on existing shareholders that may have favorable impact in the share price; share price is expected to increase normally because shareholders interpret the issue of bonus shares as an indication of corporate firm's prospect of higher profitability and expectation of increased total cash dividends.

Bonus share issue increases the outstanding number of shares but does not change the shareholders' proportional ownership pattern. Shareholders retain the proportional ownership in the corporate firm and total net worth remains same. There is only readjustment of the paid up share capital. Bonus share issue has a definite advantage to the corporate firm also. Generally bonus share may be accompanied by an increased cash dividend, which may have positive effect in shareholders wealth in future period of time.

Issue of bonus share does not make a cash drain from the bank balance of the corporate firm as payment of cash dividend does. It conserves cash, as it is a popular means to pay dividend under financial difficulty and at the same time helps in bringing the market price of share in most popular range (Pandey, 1995:708). Thus in order to avoid the borrowing in case of cash shortage for payment of cast dividend, corporate firm is reduced. As such the market price of the share, in most of the cases in efficient market, decreases by the amount of cash dividend distributed.

It is believed that neither the firm nor its shareholders' are better of worse off after a issue of bonus shares unless there is an increase in the dividend payout ratio and or stock price earning ratio. Shareholders also generally expect increase in DPR in the future years as a result of bonus share issue. In another word, if increase in total amount of cash dividend - and increase in earnings do no accompany bonus share issue; such issue does not benefit shareholders in term of value of stocks. There is thought that shareholders get increased cash dividend because of increased DPR only and thus it seems increased cash dividend not because of bonus share.

Bonus share is expected to project an image of growth hopefully and create a favorable impression of existing and prospective shareholders and also more protection for shareholders in the event of financial difficulty by capitalizing some of the retained earnings into common stock and! or additional paid in capital; issue of bonus share may have favorable impact on market price of stock in subsequent years (Gitman, et at. 1985:875).

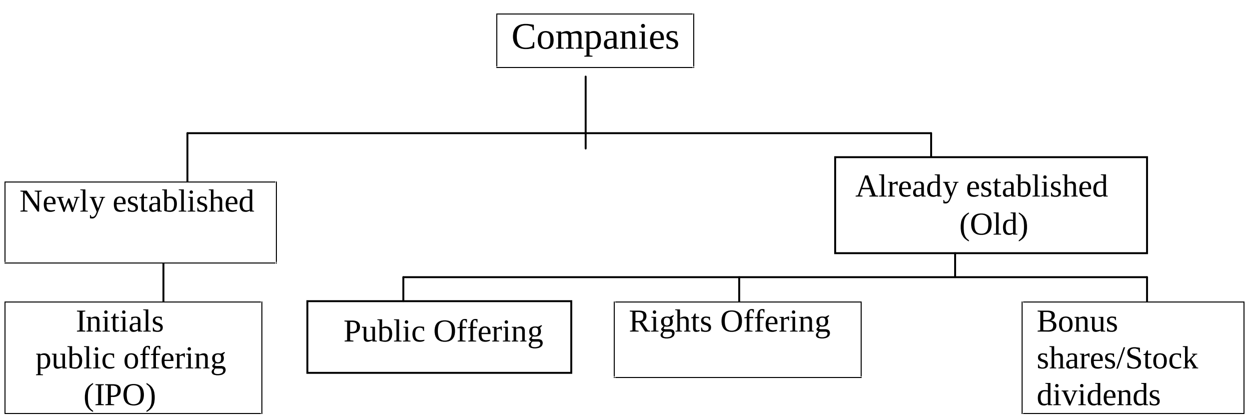
Bonus shares Vs. Share Splits

In an economic sense bonus shares and stock splits are very similar although used for different purposes. There is significant difference only from accounting standpoints. In stock splits the numb of shares is increased through a proportional reduction in the par value of the stock. While in issuing bonus shares par value is not reduced. Thus from a practical standpoint there is little difference between a bonus share and a stock split. Stock split may convey the same information about the future earnings to investors and favorable prospect of corporate firm as bonus shares. Both affect the market price in the same direction. The New York Stock Exchange considers any distribution of stock totaling less than 25 percent or more a stock split (Weston, and Copeland, 1990:680-81). But we consider both are similar, the discussion below equally applies to both.

Bonus shares vs. rights offering

When new shares of common stocks are offered to the general public, the proportionate ownership of existing shareholders is likely to be reduced. However, if a preemptive right is contained in the firm's articles of incorporation, the firm must first offer any new issue of common stock to existing shareholders. This assures each owner his or her proportionate owner's share. An issue of common stock to existing shareholders is called a right offering. Here, each shareholder is issued an option to buy a specified number of new shares from the firm at a specified price within a specified time after which the rights expire.

Therefore, a public issue of equity can be sold directly to the public with the help of underwriters; this is called a general cash offer. Alternatively, a public equity issue can be sold to the existing shareholders by what is called rights offer. Bonus shares and Rights offering are cleared with the help of chart given below;



Legal and Procedural Aspects of Bonus share Issue

The bonus share that can be legally issued to the existing shareholders is governed by Company Act, 1997 (2053 B.S.), and in case of commercial banks by the commercial Banks Act, 1974 (2031 B.S.), and subsequent amendment thereon in addition.

Company Act, 1997 section 21-clause'd' required the corporate firm to state the point Relating to the bonus share issue in the prospectus. Section 42 subsections 3 of the act Stated that in case of need of issuing bonus shares corporate firm is not required publishing the prospectus. Sub section 4 of the same section is concerned with the issue of bonus share to the corporate employees. The sub section restricted the issue of bonus shares if corporate management thinks necessary to appropriate not more than 5 percent of the increased capital to the employees of the corporation.

Sections 68 required the corporate management to table on and pass the special resolution as regards to the issue of bonus share in the annual general matting. Corporate management must give notice of bonus share before its issue to the concerned authority, SEBON (Company Act, 1997, section 137)

Section 42 sub-sections 5 debarred the corporate firm in increasing share capital or issuing the bonus shares from reserves and surplus created by any other source created by revaluation of corporate firms' assets except earned profits.

Besides, regarding the share capital and distribution of dividend, Commercial Bank Act, 1947 and subsequent amendments there on also govern commercial banks. Section 14, subsection 5 stated that commercial banks have to increase their authorized, issued and paid up capital as per directives given by NRB from time to time (4^{th} Amendment.1989) section 18 restricted the commercial banks to announce the dividend unless it has recovered the preliminary expenses, debit balance of profit and loss account and build capital reserve, risk bearing reserve and general reserve as required by policy provisions (4^{th} Amendment, 1989). The government's budget speeches and policy directives by NRB changed these provisions later on from time. In this regard, effective from Aug. 31, 1995 NRB made necessary changed relating to paid up capital of commercial banks to be newly established afterwards. NRB issued a circular to raise their paid up capital of old commercial banks already in operation with their head office in Katmandu up to Rs. 500 million by the end of 2000/01 (NRB, circular, 25 Nov. 1996).

These new provisions relating to the paid up capital of commercial banks have directly affected the dividend policy and practices of old commercial banks. Most of the commercial banks are bound to review and change their dividend practice in terms of dividend rate and amount. Even if they have capacity to pay higher rate of dividend, commercial banks are induced to maintain higher reserves and surpluses by retaining more earning so that corporate management can attain to minimum level of paid up capital as directed by NRB.

2.1.2 Right share Issue

Preemptive Rights: When new shares of common stocks are offered to the general public, the proportionate ownership of existing shareholders is likely to be reduced. However, if a preemptive right is contained in the firm's articles of incorporation, the firm must first offer any issue of common stock to existing shareholders. This assures each owner his or her proportionate owner's share.

The preemptive right gives holders of common stock the first option to purchase additional issues of common stock. The purpose of preemptive right is to protect the Power of control of present stockholders. But it is a burden to the promoter shareholders.

Use of rights in financing

When a company needs additional fund for a long-term purpose it can raise the fund either issuing new common stock, preferred stock on debt instruments. If the new common stocks are issued giving the right to purchase first by the existing shareholders then it is called right offering. Each stockholder is issued an option to buy a certain number of a new share and the terms of the option are contained on apiece of paper called a right. Each stockholder receives one fight for each shares of stock owned.

Right issue is a privileged 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. Rights have the following characteristics:

- Number of shares equal to number of rights, i.e., one share equal to one right.
- Rights are negotiable. The holder of rights can sell them.
- Rights have expiration date, i.e., rights can be exercised only during a fixed period of time.
- The price of additional share is called the subscription price.
- Number of rights required to purchase one additional share is determined by the issuing company.

Number of rights needed to purchase a new share

It is determination of old shares required to purchase one new share. So, to determine the required rights first we need total new shares to be issued and it is obtained dividing the subscription price into the total funds to be raised

$$\text{Number of new shares} = \frac{\text{Funds to be raised}}{\text{Subscription price}}$$

The next step is to divide the number of new shares into the number of previously
Outstanding shares (old shares) to get the number of rights required to subscribe to one
Share of new stock.

$$\text{Number of rights needed to buy a share of the stock (\#)} = \frac{Oldshare}{Newshare}$$

If the number of new shares exceeds the number of old shares, the number of rights required to subscribe to each new share would be a fraction of one.

Right of the right holder

Right is an option to a common stockholder; therefore, there is no obligation to purchase the additional shares. The rights holder has the following rights.

- Exercise them and subscribe additional shares.
- Exercise partially to subscribe additional shares and sell the rest
- Sell whole rights. Because they are transferable.
- Do nothing and let them expire.

Procedure of rights 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 this confusion the board of directors of the company fixed record date to give certainty about the possession of right. The following is the procedure of right offering and the right offering procedure is similar to the divided payment procedures:

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 meet and with the help of the management, declare right offering. For example, Nepal Investment Bank needs Rs 4OO million funds and the BoDs decided to raise these funds through the right offerings. The BoDs 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 their name until December 15.

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 determine by the companies themselves. In the Nepalese capital market companies published notice of book closer date and the closer Date is the ex-right date. This date normally is the four days before the holder of record date. In the above example, December 11 is the ex-right date and those show purchase shares on and after this date will not receive1ights and receive by the seller of the shares.

Holder of record date

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

Subscription date

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

Rights-on and ex-rights

In the 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 fight 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.

Valuation of a right

Right is a negotiable instrument, so it has certain value for sale. Theoretically, value of the right is determined using different equations and the value 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 obtained using different equations is the minimum price to seller and maximum price to buyer. The following are the equations for determining the value of right:

Rights-on value of a right,

$$\text{Value of one right} = \frac{\text{Market value of stock, rights-on-subscription price}}{\text{Number of rights required to purchase one share + 1}}$$

Alternatively,

$$Vr \ \mathrm{X} \frac{Po \ \mathrm{Z} \ Ps}{\# \Gamma 1}$$

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

Alternatively,

$$Vr \ \mathrm{X} \frac{Po \ \mathrm{Z} \ Ps}{N \ \Gamma 1}$$

Where

Po = rights on price of the stock
Ps = subscription price.
N = 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-rights value of a right

$$\text{Value of one right} = \frac{\text{Market value of stock, ex.-rights-subscription price}}{\text{Number of rights required to purchase one share}}$$

Alternatively,

$$Vr \ \mathrm{X} \frac{Po \ \mathrm{Z} \ Ps}{\#}$$

Where,
Po = ex-rights 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

Alternatively, $$Vr\ \mathrm{X} \frac{Po\ \mathrm{Z}\ Ps}{N}$$

Where,
Po = ex-rights price of the stock
Ps = subscription price.
N = 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

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 stock. This is the time that the stock is selling rights-on that is before ex-right date. During the rights-on period, the marker price per share theoretically remains same and denoted as Po

Ex-rights price of stock

When the stock goes ex-rights, the market price theoretically decline by the amount of value of each right. The value of stock declines because the investors (buyers of stock) no longer receive the rights to subscribe to additional shares.

Ex-rights value of stock = right on value of stock- value of each right.

$$Pe = Po - Vr$$

Where,
Po = rights- on price of stock
Vr = value of each right
Pe = ex-rights price of stock

Alternatively,

$$Pe \ \mathrm{X} \frac{Po*\#\Gamma Ps}{\#\Gamma 1}$$

Where,
Po = right-on price of the stock
Ps = subscription price
Pe = ex-rights price of stock
# = Number of rights required to purchase a new share of stock.

Alternatively

$$Pe \ \mathrm{X} \frac{Po * N \ \Gamma \ Ps}{N \ \Gamma 1}$$

Where,
Po = right –on price of the stock
Ps = subscription price
Pe = ex-rights price of stock
N = Number of rights required to purchase a new share of stock.

Effect on position of stockholders

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

Statement of Asset (wealth position)

Market value of stocks		***
(pe * total shares after exercise of rights)	***	
cash balance	***	
Add: Cash from sale of rights	***	
Total cash available		
Less: Cash paid to purchase new shares	***	
(Ps*number of new shares purchased)		***
Total assets (wealth)		***

Rights issue versus public offering

Right issue and public offering both are the issue of common stocks. However, there are many differences exist between the two offerings.

- A right issue is likely to be more successful than public. Offering because the right offering is made to the investors who are familiar with the operations of the company.
- Right issue not underwritten, so flotation cost of right issue is lower than public offering.
- A right issue has issue price lower than public offering.
- The principal sales tool in the right offering is the discount from the current market price, whereas with the public offering, the major selling tool is the investment banking organization.

Rights issue versus bonus share issues

When new shares of common stocks are offered to the general public, the proportionate ownership of existing shareholders is likely to be reduced. However, if a preemptive right is contained in the firm's articles of incorporation, the firm must first offer any new issue of common stock to existing shareholders. This assures each owner his or her proportionate owner's share. An issue of common stock to existing shareholders is called a right offering. Here, each shareholder is issued an option to buy a specified number of new shares from the firm at a specified price within a specified time after which the rights expire.

Therefore, a public issue of equity can be sold directly to the public with the help of underwriters; this is called a general cash offer. Alternatively, a public equity issue can be sold to the existing shareholders by what is called a rights offer.

2.2 Review of Related Studies

2.2.1 Review of Master Thesis

Padam Gharti (2001) conducted a study on "Bonus Share Announcement and its Impact on stock price of Nepalese corporate firms".
The main objectives of the study were:

- To examine the relation of dividend quantum change and stock price.
- To examine the relation between share price rise and bonus ratio.
- To evaluate the relation of bonus share announcement and stock price.

This study is limited to mainly five years data. The study had covered the period of
1995/96 to 1999/2000. The study had used only secondary data. The study had included 16 numbers of bonus shares issue in the sample. 9 commercial banks, 2 insurance companies, 2 finance companies, 2 trading companies and lather were taken in sample organization.

Gharti found that the immediate share price rise after bonus share announcement is significant. The share price, in most of the cases, does not decease after distribution of bonus share according to bonus ratio as theory says. The reason behind the situation may be that the investors cannot interpret the information and data. There is a great misconception about bonus share that the general investors think that they receive extra/additional share with same value. According to Gharti's findings, long-term effect of bonus share issue as well as immediate is significantly positive. In most of the case, the aggregate market valuation of the corporate firm's equity capital increased as the result of bonus share issue. The companies announce bonus share without frequently cash dividend distribution ultimately faces drastic fan in their share prices. The Nepalese capital market did not show any response that whether the company was intended to increase future dividend (return) or not. The immediate response of the market was not sufficiently rational. The public in most of the cases was provided with very little information about real motive behind an issue of bonus share. Nepalese capital market was speculative-oriented; therefore it takes more consciously bonus share announcement than the cash dividend announcement. Whatever the dividend policy of the company, the immediate impact and a year later are significantly positive. (Gharti, 2001)

Bishnu Kumar Thapa (2003) studied the "Comparative study of dividend policy and valuation of listed companies". The objectives of the study were;

- To highlight the dividend policy and practices of the companies.
- To access the impact of dividend on market price of share.
- To analyze the variable such of profit, retained earning, dividend, growth rate and other relevant variables to share the relationship between the value and other ingredient affecting it.

The study had taken 4 commercial banks, 4 finance and insurance companies and 4 trading and manufacturing listed in NEPSE in the sample. The study had used only secondary data. The statistical tools to analyze the data were graphic presentation, trend analyzed, and cross-section, analyzed, co-efficient of correlation and regression analysis. Similarly, the study had also med price determination as financial tools, Thapa (2003) found that the shareholders have high expectation, which is partly accepted.

Dividend paid only in profitable years. He concluded that there was no stability of dividend. He found that there was positive impact of earnings per share on valuation of share, market price considerably higher than net worth. The researcher concluded the calculated price did not match with quoted price and stock price had been fluctuating. (Thapa, 2003)

Dinesh Dhakal (2007) conducted the study of "Rights and Bonus share issue Practices in Nepalese Corporate Sectors". The main objectives of the study are:

- To identify and evaluate the characteristics of rights and bonus share issue,
- To study and analyze the regularity and frequency of rights and bonus share issue in Nepalese corporate firms
- To study the rights and bonus share issue from corporate firms
- To study and analyze the relation to rights and bonus share issue to size and age of the corporate firms,

The study had taken 23 listed companies including commercial banks, manufacturing companies, finance and insurance companies and others. The study used only secondary data available from NEPSE. The statistical tools used by the researcher are very simple in manner like simple average, percentage and simple graphical methods.

He found that corporate firms especially commercial banks in Nepal have the practice of issuing bonus shares to increase the total capital fund.(capitalization) as required by policy directives issued by NRB. There is more frequent issue of bonus share after the policy directives by NRB in fiscal year 1996/97 to commercial banks to increase their capital fund with a view to increase the liquidity position of the commercial banks, safeguard the depositors interest and help mobilize resources for large projects through the banking sector within the country, the commercial banks under operations and having a low capital base have been directed to raise their capital fund at a minimum level.

From the sample bonus share study the overall trend are going positively practice of issuing the bonus share by Nepalese corporate firms. According to the findings of the study, bonus share issue practice is being increased among the Nepalese corporate firms. Shareholders' perception towards bonus share is positive. They are optimistic to the firms who have issue bonus share. They get tax benefit over cash dividend and capital gain in future. They also hope mare dividends in future. Bonus share is one of the important causes of buying, selling and holding the stock. However, there seemed to have been no regular and consistent policy regarding bonus issue in terms of bonus ratios and time interval between one bonus issue and another. From the study Nepalese corporate firms followed a wide variety of bonus share ratio ranging form 1:1 to 1:10. However, it was found that out of many bonus ratios in practice 1:1, 1:2, 1:10, 1:4 and 3:5 are more popular among the corporate firms. It is found that from the analysis, large corporate firms in general tend to issue bonus share in higher ratio as compared to the small corporate firms. But there was more bonus share issuing by corporate firms of moderate age than the high or low age of the corporate firms.

2.2.2 Review of Ph D Thesis

K.D. Manandhar (2002) conducted a study on "Corporate Dividend Policy arid practice in Nepal". Since bonus share is a form of dividend, the study had included 36 number of bonus share issue from fiscal year 1999/94 to 1997/98. Both primary and secondary data were used. Some of the major findings of the study were;

- It is found that increase in dividend rate is common with the lower bonus share ratio and decrease with higher ratio. Corporate firms announcing the higher bonus share ratio would likely to decrease the post bonus dividend rate.
- Dividend behavior after bonus share is not clear at the time of its announcement.
- There is not immediate price rise significantly after bonus share announcement as expected. Market price starts rising after six month from the announcement month.
- Majority of the investors invest in common stocks in expectation of capital gain resulting from increase in market price of the 65% of the respondents are found interested in investing in stock to realize capital gain and 35% in expectation of receiving bonus share.

- Expectation of bonus. share is ranked first (86%), expectation of higher return ranked second (70%) and expectation of regular dividend is ranked third

  (65%) by the shareholders as the causes of interest in investing in stocks of the corporate firms,
- Shareholders are not found satisfied with the dividend paying culture of the corporate management.
- Shareholders in Nepal want the corporate firms to follow stable and gradually increasing dividend payout policy, rather than earning based dividend payou policy.
- 88% of the respondents are of the opinion that issue of bonus shares must be accompanied by higher dividend rate.
- The most practical form of dividend in Nepal is cash dividend.
- Corporate firms are found to have issued bonus shares in order to increase the capital base and achieve the most respectable size of the corporate firms.(*Manandhar, 2002*)

2.3 Review of Other Studies

2.3.1 Review of Previous Studies

Barker (1958) studied the effect of stock dividend and stock split on common stock ownership daring four years period from 1950-53. On the basis of the empirical work, he concluded that stock dividend and stock split result larger increase in stock ownership. He found that percentage increase was highest of 30% because of stock split of 5 for 4 or above, sock dividend of 5% to 25% resulted 17% increase in common stockowners. The increase in common stock ownership was only 5% in case of the corporate firms, which did not announce the stock dividend or split. His work revealed the fact that the use of stock dividend and split effectively increases the stock ownership.

Fama, Fisher, Jenson and Roll (1969) studied that exact effect of stock splits on shareholders' wealth extensively. Their pioneering study measured unexpected stock price changes around split ex-dates. They studied monthly data fro 940 splits between 1927and 1959 and revealed no significant changes in shareholders' wealth in split month. However, for a sub sample of firms that split and increased their dividend that found an increase in shareholders' wealth in the months following the split. For a dividend decreased, they found decrease in the shareholders' wealth. Researchers concluded that stock split could be interpreted as messages about dividend increase or about higher future cash flows (Fama, et al., 1969: 1-21).

There is nevertheless a widespread belief in financial circles that an optimal or psychological price range exists for stocks due to stock dividend. Optimal means that if the price is within this range, P/E ratio and hence the value of the firm will be maximized (Weston, Beasley and Brigham, 1996:660). Thus it is believed that there is an optimal price range due to stock split and hence there is more trading liquidity which causes the rise in price of stock. Copeland (1979) tested this assumption but found little empirical evidences. Contrary to the belief, he found another empirical result that market liquidity actually decreased following a stock split. He argued that the volume of trade proportionately decreases because of increase in brokerage charges and transaction cost because of increases in number of outstanding shares. The empirical work of Copeland revealed that stock split lowers the post split liquidity (Copeland, 1979: 115-141).

Many other scholars also studied extensively the effect of stock dividend on shareholders' return. Foster and Vickery (1978) and Woolridge (1983a, 1983b) found that stock dividend effect on shareholders' return was larger than stock splits.

Grinblatt, Masulis and Titman (1984) studied the effect of stock splits on shareholders' return. They examined a special sub sample of splits where no other announcement were made in the 3-day period around the split announcement and where no cash dividends had been declared in the previous three years. On the basis if 125 pure stock splits, they found a statistically significant announcement was considered as favorable signal about the firm's future cash flows. They also confirmed the work of Foster, Vickrey, and Woolridge and found that the announcement effect of stock dividends was larger compared to pure stock split. Their study showed that the increase in shareholders' return due the stock dividend announcement was 4.9% based on 382 sample and it was even more 5.89% in a sub sample of 84 stock dividend announcement cases. McNicholes and Dravid(1990) in their study found the significant increase in earnings after stock split (McNcholes and Dravid, 1990:877).

The effect of stock dividend and stock split is widely studied by many researchers. Most of the researchers attempted to isolate the abnormal return associated with a particular event of stock dividend or stock split, and found that there was a stock prices increase owing to the favorable information effect. From the various empirical studies it seems that stock dividends and stock splits are best explained as signals about better future prospects for the firms.

Rrennan and Copeland (1988) studied the signaling effect of stock splits. They are of the view that transaction cost is higher for low price stock than high price stock. The signaling effect is positive in the future if the cash flow exceed the cost of lower liquidity. There will be more favorable response to lower stock split compared to high stock split. There is also said to be a statistically significant and positive stock price reaction around the announcement of stock dividend (Van Horne, 1996:337-38).

In stock dividend, the retained earnings must be reduced by the rupee amounts of stock dividend. As stock dividends are limited by the size of retained earnings, only those corporate firms willingly announce the stock dividend maintaining the minimum required level of retained earnings. As stock dividend is looked as a positive signal of improved performance and increased profitable investment it is natural that existing and prospective shareholders expect return to rise following the stock dividend announcement and hence the increase in he value to the stocks.

However, there are also studies that revealed the insignificant influence of stock dividend on stock prices. They argued that if risk adjusted market movement is considered there is no uniform conclusion in this regard.

Barker (1958) and Fama, and others (1969) remarked that investors see stock split and stock dividend for what they are simply additional pieces of paper called share certificates. They are of the view that only if stock dividend is accompanied by higher earnings and cash dividends, then investors will bid up the price of the stock, if not the dilution of earnings and dividend per share causes share price to fall by the same percentage as the stock dividend. Stock dividend itself is not the cause of market price change in the market. The empirical study by Barker, revealed that when stock dividend was associated with cash dividend increase, the value of the company's stock 6 month after stock dividend were not accompanied by cash dividend increase, stock values fell by 12% during the subsequent 6 month period. Therefore, researcher concluded that stock dividend is simply a piece of paper, not representing true income unless accompanied by dividend increase (Barker, 1958:99-114). Thus, it makes the fact clear that the fundamental determinants of stock prices are earning per share and dividend per share and dividend per share rather than stock dividend and stock split (Weston, et al., 1996:664),

2.3.2 Shrestha and Manandhar's Study (1999)

Dr. M.K. Shrestha and K.D. Manandhar jointly conducted a study on **"Bonus share issue practices in Nepalese corporate firms."**

The specified objectives of the study were:-

- To study and analyze the frequency of bonus share issue;
- To study and analyze he regularity of bonus share issue;
- To identify the most popular bonus share issue ratio;
- To study and analyze the relation to bonus share issue to the size and age of the corporate firms.

The study was based as only secondary data before the fiscal year 1997/98. 12 firms were taken as samples, which was issued bonus share at least once during the period of1987/88 to1997/98. Samples from manufacturing sector were not included. Only simple statistical tools such as percentage, frequency distribution and average were used to study, understand and analyze the collected data.

Some of the findings of the study were:-

- The most popular bonus ratios prevalent in Nepalese corporate practices are 1:1, 1:2 and 1:5.
- The number of bonus issue tended to rise from 1992/93.
- There is a trend of raise the additional equity capital by capitalizing the reserve and net profit by issuing bonus shares of stock dividend.
- No consistency in bonus issue ratio is observed.
- Large corporate firms are found to issue bonus shares more times than the small size corporate firms.
- Corporate firms over than20 years are found to have issued bonus shares more times (Shrestha & Manadhar; 1999:47-67).

Chapter Three: Research Methodology

Research methodology is to be described before presenting, analyzing and interpreting data. The process of investigation involves a series of activities a like gathering, recording, analyzing and interpreting the data with the purpose of finding answers to the problem. Generally, research is an effort to search new fact, knowledge and principle in scientific manner. In addition to that research work can be carried out very common topics like human development, history, religion, custom and culture and values to examine the human behaviors, festivals, rituals, language, tradition etc. The research work may be employed on the basis of available resources in different results. Thus, every object or event that happened in the universe may be the part of research work.

Research Methodology is also known as a systematic way to solve the research problem. It describes the process and methods applied in the entire aspects of the study. Research methodology also refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives. This chapter contains the research design, Sample size and population, data collection procedure and data processing tools and techniques

3.1 Research Design

Research design is the specification of procedures for colleting and analyzing the data necessary to help identify an opportunity such that the difference between the cost of obtaining various levels of accuracy and the expected value of the information associated with each level of accuracy is maximized.

Research design is the research method of technique used through the entire study. For this study, analytical as well as descriptive research design have been used to analyze and examine about the rights and bonus shares issues practice.

3.2 Populations and Sample

For the purpose of the study, the size of the population has been considered as the total number of 162 listed companies in Nepal Stock Exchange Limited up to 2006 (Annual Reports, NEPSE).

3.2.1 Sampling Techniques

In order to make the sample more representative of the population stratified cum judgmental sampling technique has been used for selecting the sample from the population for the purpose of the study, samples has been judicially selected which has the practice of rights and bonus share issues records in the Nepal stock Exchange Ltd. Sample has been choosed according as the practiced of rights and bonus share issues since last several years. And to make the study more relevant and representatives of such corporate firms, three strata of the listed companies have been selected judiciously merging the strata followed by Nepal stock exchange. The strata of the population for the purpose of the study are as under given.

a. Commercial Banks
b. Insurance and finance companies.
c. Manufacturing, Trading, Hotel and others

3.2.2 Sample Size

Sample size consisted total of 23 listed companies for both of rights and bonus shares issue practice. Among them there are 13 corporate firms which have been selected for bonus shares issue practices and 17 corporate firms which have been selected for rights issue practices. There are 7 corporate firms which issue both bonus share and right share. Sample has been selected which has supposed to represent all the strata of listed companies covering the period from the FY1997/1998 to 2005/06. The first group has included 9 commercial banks. Likewise second group has covered 6 insurance and finance companies and last group has included 2 manufacturing companies.

Sample corporate firms

- Nepal Bank Limited
- Nepal Investment Bank Limited
- Standard Chartered Bank Limited

- Himalayan Bank Limited
- Nabil Bank Limited
- Everest Bank Limited
- Nepal SBI Bank Limited
- Nepal Bangladesh Bank limited
- Bank of Kathmandu Limited
- Annapurna Finance Company
- Narayani Finance Company
- Union Finance Company
- Ace Finance Company
- Peoples Finance Company
- Siddhartha Finance Company
- Nepal Finance and Saving Company Limited
- Nepal Share Markets and Finance Limited
- Nepal Housing and Merchant Finance Limited
- NIDC Capital Markets Limited
- Sagarmatha Insurance Company Limited
- Everest Insurance Company Limited
- Bottler's Nepal Limited
- Necon Air Limited

3.3. Nature and sources of data:

The nature of data used in the study is secondary data. Secondary data and information are collected from the published and unpublished sources. The sources of secondary data and information are mentioned below.

- Annual reports of corporate firms in sample
- Annual reports. NEPSE
- Trading reports, NEPSE
- Financial statements of listed companies, NEPSE
- Annual reports, Nepal Rastra Bank
- Various reports and research studies
- Various journals and magazines
- Articles and publications
- Daily newspapers

3.4. Data collection techniques

Secondary data which are used in this study are collected from the web site www.nepalstock.com, www.sebonp.com**,** records available in the Nepal stocks exchange and annual reports of corporate firms. Share prices are collected from the trading report and monthly market price of listed share, NEPSE.

3.5. Data analysis tools:

Only simple statistical tools such as percentage, frequency distribution and average are used to study, understand and analyze the bonus share and rights issuing practices and their features. Various features of bonus share and right issue are studied by classifying the total period into major group of period 1997/98 to 2001/02 and 2002/03 to 2005/06. The period are classified on the basis of the major turning point in bonus share and rights issue practice in terms of ratios, number of time of issue and amount of bonus and rights issues.

3.6 Limitation of the methodology:

- Only 9 fiscal years bonus shares and rights issue from fiscal year 1997/98 to 2005/06 are taken in this study.
- Only the secondary data are used to analyze the study.
- Only simple statistical tools are used for the analyze the study.

Chapter Four
Data Presentation and Analysis

In research process, various data are successfully collected but it is not sufficient to complete the research properly by only the collecting the data. To complete the research process successfully, every collected data should be processed through various methods by researcher. These random data become meaningful and answerable only when researcher made it by presenting and analyzing. Therefore, data presentation and analysis means the categorizing, ordering, manipulating and summarizing of data to obtain answers to research questions.

4.1 Bonus share Issue practices of corporate sector in Nepal.

Bonus share issue practice is a recent phenomenon of corporate firms in Nepal. As such, characteristic of bonus shares issuing practice of corporate share in Nepal may differ from these corporate firms in other develop countries. For the purpose of understanding the several aspects of bonus share issue practice affecting corporate dividend policies and practices, various aspects of characteristics of bonus shares issue practice of corporate firms in Nepal such as amount of bonus share, bonus share issue ratio, the frequency and regularity of such issues by corporate firms, the relation of bonus, issue to the size and age of corporate firms etc have been studied, examined and analyzed as explained methodology.

Bonus share, ratio refers to the proportion of issuing bonus share to the existing share holders, Size of the bonus share issuing corporate firm refers to the size in terms of its amount of equality share capital before each bonus share issue is made. Age of the bonus share issuing corporate firm is measured from the year the corporate firms incorporated.

The practice followed by Nepalese corporate forms issuing the bonus shares with the support and factual analysis of data that helps to understand some of the prevalent features of bonus share issue by Nepalese corporate firms are presented below.

4.1.1 Characteristics of Bonus Shares Issue of Nepalese Corporate Sector.

Table 4.1 below gives a year - wise data relating to the number and amount of bonus share issues covered by the study for the period. The table also shares the total equity share capital of all the bonus issuing corporate firms in sample taken together immediately preceding the bonus issue of each year and also the average bonus ratio.

Table- 4.1
Bonus share issues by sample corporate Sector from period 1997/98 to 2005/06

(Amount in million of Rs.)

F/Y	No. of Bonus issue (1)	Amount of Bonus shares issue (2)	Amount of Equity shares capital before each bonus share issue (3)	Average ratio of bonus issue to Equity capital (2)/(3)=(4)
1997/98	1	50.00	100.00	0.50
1998/99	1	130.85	130.85	1.00
1999/00	4	271.62	571.70	0.47
2000/01	3	186.91	355.49	0.53
2001/02	1	48.00	192.00	0.25
2002/03	7	450.30	1134.29	0.40
2003/04	2	209.09	538.16	0.39
2004/05	3	219.99	959.30	0.23
2005/06	5	57.82	1185.88	0.31
Total	27	1624.58	4167.67	0.39

Source: Financial statements of listed companies, SEBD

Bonus shares in table relate with 9 years only from 1997/98 to 2005/06. The table revealed that these were a total of 27 bonus issues amounting to Rs. 1624.58 million for the period under study by the sample corporate firms. The number of bonus issue remained same for the first two years. There was an enthusiastic increase in number of bonus share issue i.e.

4 times is the fiscal year 1999/00. Four corporate firms issued the bonus share is this year amounting to Rs. 271.62 million. There were decreasing trend after 1999/00 for the period of 2000/01 and 2001/02 were 3 times and one times amounting to Rs. 186.91 million and Rs. 48.00 millions respectively. In fiscal year 2002/03, there was a huge increase in bonus issues i.e. 7 times. Seven corporate firms issued the bonus share in this fiscal year amounting to Rs. 450.30 million. The amount of bonus share issue showed increase trend and reached to 2 times, 3 times and 5 times for the fiscal year 2003/04, 2004/05 and 2005/046 respectively and amount of bonus share issue reached to 209.9 million. Rs 209.99 million and Rs. 57.82 million is respective fiscal years. The increase in bonus share issue from 1999/00 might be attributable to the number of factors such as practice of raising the additional capital from internal source because of the lower cost of found as a remedy of under capitalization, to the floatation cast, to avoid the difficulties in raising external equity, to increase the market transaction of the stocks by lowering the already high market price in the stock market and to compensate existing shareholders for the decreased dividend yield because of increase in market price of stock.

The average ratio of bonus share issue to equity share capital and amount of bonus share showed fluctuating trend. The biggest ratio 1.00 was found in 1998/99 and lower 0.23 in 2004/05 with mean ratio 0.39, s.d 0.31 and c.v. 79.4% . There was less fluctuating in amount of bonus share. Co-efficient of variation came equal to 68% with mean amount of bonus share Rs. 180.51 million and s.d. Rs 122.75 million. The aggregate ratio came to be equal to 0.39. The aggregate ratio is lower as compared to ratio (0.58) for the period 1988/89-1997/98 (Manandhar, K.D. 2002:167)

4.1.2 Regularity and Frequency of Bonus Share issue in Nepalese Corporate Sector.

Table 4.2 gives a frequency distribution of corporate firms according to the number of times bonus shares are issued by the same corporate from during the period under study.

Table- 4.2
Distribution of corporate firms according to frequency of bonus issue made by the same corporate from during period 1997/98- 2005/06

No. of bonus Issue by each Corporate firms	No. of Corporate firms	Total No. of Bonus Issue
1	5	5
2	4	8
3	3	9
4	-	-
5	1	5
6	-	-
Total	13	27

Source: Financial statements of Listed companies, NEPSE

A total of 13 sample corporate firms accounted for 27 bonus issue giving an overall average of 2.077- bonus share per corporate firm over the 9 year's period. HBL was the only corporate firm, which made five bonus share issues over the period of 9 years. SCBNL, NIB and NABIL each made three bonus share issues, NB Bank, Everest Bank, Annapurna finance and Narayani finance each made two issue and Necon Air , Nepal SBI Bank, Union finance, Sagarmatha insurance and Everest Insurance each made only one bonus share issue over the period under the study.

However, there seemed to have been no regular and consistent policy regarding bonus issue in terms of bonus ratios and time interval between one bonus issue and another.

Further, 9 corporate firms which made less than 3 bonus issues for the period. In all , 4 out of 13 corporate firms i.e. only 30.71% have been found to have followed the consistent bonus issue of 3 or more times under the study period, which came to be equal to 51.85% of total bonus issue.

4.1.3 Frequency Distribution of Bonus Issue ratio of Nepalese corporate sector

Table-4.3

Distribution of bonus issue ratio of sample corporate sector during the period of 1997/98 to 2005/06

Ratio of Bonus Issue to outstanding Equity	Number of Bonus Issue	Percentage of Total
1:1	7	25.92%
1:2	6	22.22%
1:4	3	11.11%
1:5	1	3.70%
2:5	1	3.70%
3:5	3	11.11%
1:10	4	14.82%
3:10	1	3.70%
11:50	1	3.70%
Total	27	100%

Source: Financial statements of listed Companies, NEPSE.

Table 4.3 presents the frequency distribution of bonus issue according to certain specific bonus ratios. The table revealed that Nepalese corporate firms followed a wide variety of bonus share ratio ranging from 1:1 to 1:10. It was found that out of many bonus ratios in practice few ratios were more popular among the corporate firms. The five most typical ratios together with the percentage of the total number of bonus issues accounted for each of these ratios were found to be as follows:

S. No.	Bonus Ratio	% of total No. of Bonus Issue.
1.	1:1	25.92%
2.	1:2	22.22%
3.	1:10	14.82%
4.	1:4	11.11%
5.	3:5	11.11%
	Total	85.18%

Source: Financial statements of listed companies, NEPSE

During the period the largest proportion (25.92%) of bonus share issued was in the ratio of 1:1 followed by 1:2 which accounted for 22.22%, ratios 1:10, 1:4 and 3:5 accounted for 14.82%,11.11% and 11.11% respectively. The data above revealed the fact that corporate firms have gradually decreased the bonus share ratio at the later period under the study from 1997/98 to 2005/06, because of the recessionary trends in the economy. That is why corporate firms might have better taken the policy of distributing cash dividend rather than capitalizing the profit by issuing the bonus shares.

4.1.4 Corporate size and Bonus Issue

It is generally believed that larger size corporate firms tend to issue bonus share at higher ratio and more times than the smaller size firms. An attempt has been made to study the relation between corporate size and bonus share ratio; for the purpose of studying the relation between corporate size and bonus ratio, all bonus issuing corporate firms are classified according to the size of equity capital of the issuing corporate firm immediately before each bonus issue and the corresponding bonus ratio.

Table 4.4 below presents average bonus ratio according to their size of the corporate firms sub-period wise and also for the entire period under study. Size of the corporate firms is measured by equity share capital before bonus issue.

Table- 4.4
Average Bonus Ratio for corporate sector of different size.

Size (Million Rs.)	1997/98-01/02	2002/03-05/06	All year
Less than 50	0.10(1)	0.70(4)	0.58(5)
50 and under 100	0.55(2)	0.10(2)	0.325(4)
100 and under 200	0.64(6)	0.85(4)	0.725(10)
200 and over 200	0.42(3)	0.274(5)	0.3275(8)

Figures within parentheses are the number of bonus issued.
Source: Financial Statements of Listed Companies NEPSE.

Table-4.4 presented the result of the analysis of the size of the corporate firms sub-period-wise and also for the entire period under study. Corporate firms are classified into four groups based on equity share capital before each bonus issue.

The average bonus for every Sub-Period examined showed a clear and regular tendency to increase in bonus ratio with increase in corporate size. The average ratio for the sub period 1997/98 – 01/02 was found higher to the extent of 0.64 for the corporate firms in size group 100 and under 200 million equity capital before each bonus issue followed by 0.85 in the subsequent sub-period. For the corporate group of 200 and over 200 million equity capital, the average ratio came to 0.42 and 0.274 for the sub period 1997/98-01/02 and 2002/03 – 05/06 respectively. In overall, the average ratio was found highest (0.725) in corporate firms group in 100 to under 200 million equity capitals.

It is found that from the analysis of the table presented above that large corporate firm in general tend to issue bonus shares in higher ratios as compared to the small corporate firms. But bonus ratio of corporate firms which have equity capital 200 and more than 200 million came to fall for the period of the study. Beside this, it is concluded that strengthening the equity capital base is considered to be one of the important objectives of bonus share issue among the larger size corporate firms and such firms are found to have maximized the value of the firms by broadening the ownership base without affecting the control pattern adversely.

4.1.5 Corporate age and bonus issue

Table-4.5 below shows the age patterns of bonus issuing corporate firms on the basis of age computed at the time of each bonus issue from the year of incorporation of the corporate firms.

Table- 4.5

Age pattern of bonus issuing corporate sector

Age Groups in Years	Bonus Issuing Corporate Firms	Percentage of The Total
Below 5	5	18.5%
5 and under 10	16	59.26%
10 and under15	5	18.52%
Over 15	1	3.70%
Total	27	100%

Source: financial statements of listed companies, NEPSE.

Table-4.5 showed that about 59% of the bonus shares was issued by corporate firms with age group of 5 and under 10 years followed by18.52 %

each of age group of 10 and under 15 years. Only in 3.70 % of the cases, bonus shares were issued during the period under study in age group of over 15 years. In general, there was more bonus share issuing by corporate firms of moderate age than the high or low age of corporate firms.

4.2 Rights Issue Practices of Corporate Sector in Nepal.

Rights Issue Practices is modern phenomenon in Nepalese Cooperate Firms. It plays vital role in current years however it was going slow in the previous years. For the purpose of understanding the several aspects of rights issues practice, various aspects of characteristics of right issue practice of corporate firms in Nepal such as amount of right issue, right issue ratio, the frequency and regularity of such issues by corporate firms the relation of right issue to the size and age of the corporate firms etc have been studied, examined and analyzed as explained in methodology.

Right issue ratio refers to the proportion of new common stocks to the existing shareholders. Size of the rights issuing corporate firms refers to the size in terms of its amount of equity share capital before each right issue is made. Age of the rights issuing corporate firms is measured from the year the corporate firms incorporated.

The practice followed by the Nepalese corporate firms issuing the right shares with the support and factual analysis of data as possible that helps to understand. Some of the features of rights issue by Nepalese corporate firms are presented below.

4.2.1. Characteristics of right issue of Nepalese corporate sector.

Table 4.6 below should a year-wise data relating to the number and amount of rights issues covered by the study for the period. The table also shows the total amount of equity share capital of all rights issuing corporate firms in sample taken together immediately preceding the right issue of each year and also the average right issue ratio.

Table – 4.6

Right issued by sample corporate sector from period 1997/98 to 2005/06.

(Amount in million of Rs)

F/Y	No. of right Issue(1)	Amount of right issue (2)	Amount of equity share capital before each right issue(3)	Average ratio of right issue to equity capital (2)/(3)=(4)
1997/98	1	2.00	6.18	0.32
1998/99	2	245.20	136.75	1.79
1999/00	2	246.95	382.67	0.64
2000/01	1	30.00	30.00	1.00
2001/02	2	104.60	104.60	1.00
2002/03	3	365.44	365.44	1.00
2003/04	4	387.87	238.94	1.62
2004/05	3	137.24	249.98	0.55
2005/06	2	379.92	379.92	1.00
Total	20	1899.22	1894.48	1.00(appro.)

Source: Financial Statements of listed companies, NEPSE

Above table covers the rights issue by the sample corporate firms, which had issued the right-share at least once during the study period.

Right shares in table relate with 9 years only from 1997/98 to 2005/06. The table contained that there were a total of 20 right share issues amounting Rs.1899.22 million for the period under study. The number of rights issue remained same for the period 1998/99 & 1999/00. There was not so fluctuating trend recorded both in terms of numbers of right shares and amount of right shares issues.

Four corporate firms issued the right share in the year 2003/04 amounting to Rs.387.87 millions which was the highest right issues amount the study period. Similarly, three corporate firms issued the right share in the year 2002/03 & 2004/05 amounting to Rs.365.44 millions & Rs.137.24 millions respectively. There was two fiscal years in which only one corporate firm issued the right share i.e. in 1997/98 & in 2000/01amounting to Rs. 2.00 million & 30.00 millions respectively.

The average ratio of amount of right share issue to equity share capital showed uniform trend. The highest ratio (1.79) was found in 1998/99 and lowest 0.32.in 1997/98 with mean ratio 0.99, s.d. 0.45 and c.v. 45.45%. There was more fluctuation in amount of right issue Co-efficient of variation came equal to 66.89% with mean amount of right issue Rs. 211.02 million and s.d. of Rs. 141.16 million. The aggregate ratio came to be equal to 1.00 approximately.

4.2.2. Frequency & Regularity of Rights Issues in Nepalese Corporate Sector.

Table-4.7

Distribution of corporate sector according to frequency of Rights issues made by the same corporate firms during period 1997/98 – 2005/06.

No. of Right Issue by each Corporate firms	No. of Corporate firms	Total NO. of Rights Issue
1	15	15
2	1	2
3	1	3
4	-	-
Total	17	20

Source: Financial Statements of Lasted Companies, NEPSE

Table-4.7 gives a frequency distribution of corporate firms according to the number of times rights issued by the same corporate firm during period under the study

A total of 17 sample corporate firms accounted for 20 right issue during the study period. Nepal share markets & finance ltd. was the only corporate firm, which made three right issues over the period of 9 years. Ace finance ltd. made two right issues whereas other corporate firms each made only one right share issue over the period under the study.

Above distribution shows, 15 corporate firms when made only one right issues for the period, which has been found as 88.23% of total right issues during the study period. In all, 1 corporate firm out of 17 corporate firms i.e. 5.88% have been found which issued the 2 right share and same as 5.88% i.e. one corporate firm has been issued the right share 3 times under the study period.

4.2.3 Frequency distribution of Right issue ratios Nepalese Corporate sector

Table-4.8
Frequency distribution of Right issue ratios of sample corporate sector during the period of 1997/98 – 2005/06.

Ratio of Right issue to outstanding equity	Number of right issue	Percentage of total
1:1	14	70%
1:2	1	5%
1:3	2	10%
2:1	3	15%
Total	20	100%

Source: Financial statements of listed companies NEPSE.

Table-4.8 presents the frequency distribution of right issue according to certain specific right ratios. The table revealed that Nepalese corporate firms followed the most common ratio of 1:1. There was 14 corporate firms followed the ratio of 1:1 and 3 corporate firms issued the right share by 2:1 similarly 2 corporate firms issued by 1:3 and one corporate firm by 1:2 Which showed 70% of total issue maintained 1:1 and 5%, 10% and 15% maintained by 1:2, 1:3 and 2:1 respectively.

4.2.4. Corporate size and Right Issue.

The table-4.9 below present average right issue ratios according to the Corporate firms size sub-period-wise and also for the entire period under study. Size of the corporate firms is measured by equity share capital before right issue.

Table – 4.9
Average Right Issue Ratio for Corporate.
Firms of Different size.

Size(millions)Rs.	19997/98-01/02	2002/03-05/06	All Years
Less than 20.	0.78 (3)	1.00 (1)	0.83 (4)
20 & under 50.	1.00 (2)	1.10 (5)	1.07 (7)
50 & under 100.	1.00 (1)	1.00 (1)	1.00 (2)
100 & over 100.	1.50 (2)	1.07 (5)	1.19 (7)

Figures within parentheses are the number of right issues.
Source: Financial statements of listed Companies & Annual Reports of SEBON.

Table-4.9 presents the result of the analysis of the average right issues ratio distribution according to the size of the Corporate firms sub-period-wise and also for the entire period under study. Corporate firms are classified into 4 groups based an equity share capital before each right issue.

However average ratio for the sub-period 1997/98 – 01/02 was found higher to the extent of 1.50 for the corporate firms in size group of 100 & over 100 million equity capital before each right issues, there was seem constant right issue ratio of 100 for most of the corporate firms. That means most of the corporate firms, however it is big or small they issue the right share by 1:1.

4.2.5. Corporate Age & Right Issues.

Table 4.10
Age pattern of rights issuing corporate sector.

Age Group in yrs.	Right Issuing Corporate Firms	Percentage of the Total
Below 5	10	50%
5 & under 10	7	35%
10 & under 15	1	5%
Over 15	2	10%
Total	20	100%

Source: Annual Reports of SEBON

Table-4.10 above shows the age pattern of right issuing Corporate firms on the basis of age computed at the time of each right issue from the year of incorporation of the corporate firms.

Table-4.10 revealed the 50% of the right issue was made by Corporate firms with age group less then 5 years followed by 35%, 5% and 10% with age group 5 and under 10 ,10 and under 15 and over 15 respectively. In general there was more right issue made by new established corporate firms rather than that of old corporate firms.

Chapter Five
Summary, Conclusion and Recommendation

In this chapter, the summary of the findings generated from the data analysis and interpretation has included, the major conclusion drawn is strictly based upon bonus share and rights issue practice in Nepalese corporate firms. Like wise, chapter deals with appropriate suggestion based on findings of the study.

5.1 Summary and Conclusion:

Our entire analysis focuses upon the bonus share and rights issue practice is Nepalese corporate firms. Before summarizing the target issues characteristics of bonus share and rights issues are summarized.
To explore the target issues, some general and specific objectives should be made. The general objectives of the study are to focus the trend of bonus shares and rights issue by Nepalese corporate firms.

Practice of bonus share issues

The study is concentrated on dividend especially stock dividend (bonus share) new, bonus share is a popular form of dividend among the shareholders and its issuance is being increased. It solves the complex and controversial decision about retention of earning and payment of dividend. So it has been emerged as a popular method of capitalizing earnings and rewarding shareholders. Its perception on shareholders is found positive and they liked it for capital gain the future and tax benefit over cash dividend.

Bonus share issue in corporate firms in Nepal is a recent practice firms in Nepal is a recent practice. Specifically, after the incorporation of joint venture banks in the mid-eighties and with gradual development of stock market, the number of bonus share issues increased significantly. Now it has become an important and prevalent source for increasing the equity capital internally at a relatively lower cost of financing compared to external equity in Nepalese corporate practice however bonus issue must be related to the objective of maximizing the welfare to its shareholders in forms of future dividend and capital gain. Besides, raising additional equity capital by issuing bonus share must be justified by investment requirement in addition to the legal requirement. An important question that arises in the shareholders mind is whether a bonus share issue will be followed by an increased dividend distribution and, if so, to what extend. This problem is faced by most of the shareholders because the intention of the future dividend the increased capital after a bonus share issue will be seldom of bonus issue announcement.

Corporate firms especially commercial banks in Nepal have the practice of issuing bonus shares to increase the total capital fund.(capitalization) as required by policy directives issued by NRB. There is more frequent issue of bonus share after the policy directives by NRB in fiscal year 1996/97 to commercial banks to increase their capital fund with a view to increase the liquidity position of the commercial banks, safeguard the depositors interest and help mobilize resources for large projects through the banking sector within the country, the commercial banks under operations and having a low capital base have been directed to raise their capital fund at a minimum level.

From the sample bonus share study the overall trend are going positively practice of issuing the bonus share by Nepalese corporate firms. According to the findings of the study, bonus share issue practice is being increased among the Nepalese corporate firms. Shareholders' perception towards bonus share is positive. They are optimistic to the firms who have issue bonus share. They get tax benefit over cash dividend and capital gain in future. They also hope mare dividends in future. Bonus share is one of the important causes of buying, selling and holding the stock. However, there seemed to have been no regular and consistent policy regarding bonus issue in terms of bonus ratios and time interval between one bonus issue and another. From the study Nepalese corporate firms followed a wide variety of bonus share ratio ranging form 1:1 to 1:10. However, it was found that out of many bonus ratios in practice 1:1, 1:2, 1:10, 1:4 and 3:5 are more popular among the corporate firms. It is found that from the analysis, large corporate firms in general tend to issue bonus share in higher ratio as compared to the small corporate firms. But there was more bonus share issuing by corporate firms of moderate age than the high or low age of the corporate firms.

Practice of rights issue:

This study is also focused on rights this issues on Nepalese corporate firms. Which are also going popular in Nepalese capital market. Right offering

have been developed as a modern method of increasing the fund for a long term purpose. By this, fund can be raise by issuing the new common stock to the existing shareholders. Shareholders are been positive towards this method of capitalizing the fund.
Right offering or right issue practice right is recent phenomenon is Nepalese corporate firm, which has been developed thoroughly after the establishment of joint venture banks in the mid – eighties. Now, it has become one of the popular and important methods of raising the fund. Corporate firms especially commercial banks and finance companies have the practice of issuing the rights to increase the long term fund. There is more frequent issue of rights after the policy directives by Nepal Rastra Bank in fiscal year 1996/97 to commercial Bank and financial institution to increase their fund.

From the sample rights issues of the study, the overall trends are also going positively the practice of rights issue by Nepalese corporate firms. As our findings, from the study, right issue practice is being increased towards the existing shareholders' perception among Nepalese corporate firms. From the study, there seemed corporate firms started the offering rights after 1994 than it took momentum in gradually successive years. Study showed there was not so fluctuating trend regarded both in term of number of right shares and amount of rights issue. From the study, it has been concluded that most of the corporate firms offer the rights only one time during the study period. Only few corporate firms are practicing the rights issue more than one time during the study period. Study showed, Nepalese corporate firms followed rights share ratios ranging from 1:1 to2:1. However it was found that out of these right issue ratios in practice 1:1 is more popular among the Nepalese corporate firms. It is found that from the analysis, most of the corporate firms, however it is big or small in size, they issue the right shares by 1:1. Study showed 50% of right issues was made by corporate firms with age group less than 5 years, followed by 35 %, 5 % and 10 % with age group 5 and under 10 years, 10and under 15years and over 15 years respectively.

In overall, it is concluded that the issue of rights and bonus shares on banking and financial sector is normally higher than that of manufacturing and service sectors.

5.2 Recommendation

The study concentrates on rights and bonus shares issue practices in Nepalese corporate firms. So, recommendations based on these are build here:

Bonus share issue practice

- Bonus share issue must be related to the objectives of maximizing the welfare of the stockholders.
- Bonus share issue ratio must be optimal so that shareholders' psychological value of investing in stocks could be improved.
- Bonus share issue must be justified by the investment requirement and growth prospect so that post bonus dividend rate could be increased.
- It is required to regulate bonus share issue in terms of ratio, amount, difference in timing of two issues and reserve requirements.
- Specific criteria for the bonus share issue must be spelled out in rules and regulations in these regards. Related at rules and regulations must be amended to constrain of bonus issue on ado decision basis and to ensure the practice of bonus share issue.
- Corporate firms should use the additional fund capitalized through issuing bonus shares most effectively and profitably. They must have the investment strategy and planning for the use of capitalized fund so that systematic pattern of dividend behavior before and after bonus share issue could be maintained.

Rights issue practice

- Corporate firms should play a vital role as an encourager and as a promoter to ensure the full subscription of the rights.
- Rights share should be as an option instead of obligation imposed on shareholders.
- Infrastructure like good communication banking facilities and postal services should be developed to encourage the investors.
- Some amendment should be made on act so that rights could appear as legally transferable instrument.
- There should be made on effective and separate rules and regulations, which clear the perfect information and procedures to issue about rights shares.
- To avoid the problem of under-subscription of rights share in Nepal there should be provision about transferable rights in act and there should be alternative provision to sell the under-subscribed rights share.
- There should be a separate investors' protection act so that they can maintain their confidence over their investment and can feel secured.
- Act and their implementation both should be sound and strict.

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APPENDIX-1

Calculation of mean ratio, standard deviation and co-efficient of variance (Amount in million)

SN	F/Y	No. of Bonus Share Issue	Amount of bonus share issue (X)	Amount of equity share capital before bonus share issue	Average ratio of bonus issue to equity capital (Y)	x^2	Y^2
1	**1997/98**	**1**	**50.00**	**100.00**	**0.50**	**2500.00**	**0.2500**
2	**1998/99**	**1**	**130.85**	**130.85**	**1.00**	**17121.72**	**1.0000**
3	**1999/00**	**4**	**271.62**	**571.70**	**0.47**	**73777.42**	**0.2209**
4	**2000/01**	**3**	**186.91**	**355.49**	**0.53**	**34935.35**	**0.2809**
5	**2001/02**	**1**	**48.00**	**192.00**	**0.25**	**2304.00**	**0.0625**
6	**2002/03**	**7**	**450.30**	**1134.29**	**0.40**	**202770.09**	**0.1600**
7	**2003/04**	**2**	**209.09**	**538.16**	**0.39**	**43718.63**	**0.1521**
8	**2004/05**	**3**	**219.99**	**959.30**	**0.23**	**48395.60**	**0.0529**
9	**2005/06**	**5**	**51.82**	**185.88**	**0.31**	**3343.15**	**0.0961**
Total		**27**	**1624.67**		**4.09**	**428865.97**	**2.2754**

Here,

N = 9

X = 1624.58, X^2 = 428865.97

Y = 4.08 and Y^2 = 2.2754

Now,

…Mean Amount of Bonus Issue $(\bar{X}) = \frac{X}{N}$

$$= \frac{1624.58}{9}$$

= 180.51 millions

Mean Ratio $(\bar{Y})\ \mathrm{X} \frac{Y}{N}$

$$= \frac{4.08}{9}$$

= 0.4533

Standard deviation of Amount of Bonus issue,

$$\text{i.e. } (\pm_{x}) = \sqrt{\frac{X\,2}{N}\ \mathrm{Z}\ \frac{X}{N}\ 2}$$

$$= \sqrt{\frac{428865.97}{9}\ \mathrm{Z}\ \frac{1624.58}{9}\ 2}$$

= 122.75 millions

Standard Deviation of average ratio bonus issue to equity capital,

$$\text{i.e. } f\pm y A = \sqrt{\frac{Y2}{N} \, Z \left(\frac{Y}{N}\right)^{2}}$$

$$= \sqrt{\frac{2.2754}{9} \, Z \left(\frac{4.08}{9}\right)^{2}}$$

$$= 0.2175$$

Co-efficient of Variance $(c.v_{x})$ $= \dfrac{\pm x}{\bar{X}} * 100\%$

$$= \frac{122.75}{180.51} * 100\%$$

$$= 68\%$$

Co-efficient of Variance $(c.v_{y})$ $= \dfrac{\pm y}{\bar{Y}} * 100\%$

$$= \frac{0.2175}{0.4533} * 100\%$$

$$= 47.98\%$$

APPENDIX-2

Calculation of mean ratio, standard deviation and co-efficient of variance

(Amount in million)

SN	F/Y	No. of Rights Share Issue	Amount of rights share issue (X)	Amount of equity share capital before rights share issue	Average ratio of rights issue to equity capital (Y)	X^2	Y^2
1	**1997/98**	**1**	**2.00**	**6.18**	**0.32**	**4.00**	**0.1024**
2	**1998/99**	**2**	**245.20**	**136.75**	**1.79**	**60123.04**	**3.2041**
3	**1999/00**	**2**	**246.95**	**382.67**	**0.64**	**60984.30**	**0.4096**
4	**2000/01**	**1**	**30.00**	**30.00**	**1.00**	**900.00**	**1.00**
5	**2001/02**	**2**	**104.60**	**104.00**	**1.00**	**10941.16**	**1.00**
6	**2002/03**	**3**	**365.44**	**365.44**	**1.00**	**133546.39**	**1.00**
7	**2003/04**	**4**	**387.87**	**238.94**	**1.62**	**150443.14**	**2.6244**
8	**2004/05**	**3**	**137.24**	**249.98**	**0.55**	**18834.82**	**0.3025**
9	**2005/06**	**2**	**379.92**	**379.92**	**1.00**	**144339.21**	**1.00**
Total		**20**	**1899.22**		**8.92**	**580116.06**	**10.643**

Here,

N = 9

$X = 1899.22$, $X^2 = 580116.06$

$Y = 8.92$ and $Y^2 = 10.643$

Now,

…Mean Amount of Rights Issue $(\bar{X}) = \dfrac{X}{N}$

$$= \frac{1899.22}{9}$$

$$= 211.02 \text{ millions}$$

Mean Ratio $(\bar{Y})\ X \dfrac{Y}{N}$

$$= \frac{8.92}{9}$$

$$= 0.99$$

Standard deviation of Amount of Rights Issue,

$$\text{i.e. } (\pm_{x}) = \sqrt{\frac{X2}{N} \text{ Z } \frac{X}{N}\ 2}$$

$$= \sqrt{\frac{580116.06}{9} \text{ Z } \frac{1899.22}{9}\ 2}$$

$$= 141.16 \text{ millions}$$

Standard Deviation of average ratio rights issue to equity capital,

$$\text{i.e. } \sigma_y = \sqrt{\frac{\sum Y^2}{N} - \left(\frac{\sum Y}{N}\right)^2}$$

$$= \sqrt{\frac{10.643}{9} - \left(\frac{8.92}{9}\right)^2}$$

$$= 0.45$$

Co-efficient of Variance $(c.v_x) = \frac{\sigma_x}{\overline{X}} * 100\%$

$$= \frac{141.16}{211.02} * 100\%$$

$$= 66.89\%$$

Co-efficient of Variance $(c.v_y) = \frac{\sigma_y}{\overline{Y}} * 100\%$

$$= \frac{0.45}{0.99} * 100\%$$

$$= 45.45\%$$