

# **CHAPTER- I**

## **INTRODUCTION**

### **1.1 Background of the Study**

When a company is formed, it obviously must be financed. Often the seed money comes from the founders, their friends and families. For some companies this is sufficient to get things launched and with retained earnings, no more equity is needed. In other situation equity infusion are necessary. Common stockholders of a company are its ultimate owners, collectively they own the company and assume the ultimate risk associated with ownership. The nature of equity ownership depends upon the form of the business or organization. Every firm constantly faces the financial problems from its very inception. A growing firm, thriving day by day, always remains in the destitute of funds either for expansion or diversification of business or to sustain in the competitive area. In order to cope with various financial situations, firm usually issue common stock to general investors or right offering to existing shareholders or preference share and various types of debentures as demanded by their targeted capital structure. This paper mainly focuses on the right offering to existing shareholders. Sometimes companies are bound to issue new shares of additional stock to the existing shareholders imply because of pre-emptive clause in the act of incorporation.

Right share are issued to the existing shareholders as a result of increased in capital if current reserve is not sufficient to issue bonus shares. Company usually issues right share to raise the capital. Therefore, issue of right share represents the distribution of shares to the existing shareholders on the proportion of the number of shares they own. The shareholders' has an option to purchase a specified numbers of shares at subscription price which is below current market price with in specified period of time.

Right, also known as subscription warrants, is issued to give existing shareholders their preemptive right to subscribe to a new issue of common stock before the general public is given an opportunity where each share of stock receives one right. A stated number of rights plus cash equal to a specified subscription price are required in order to obtain one new share. The sale of the new stock is ensured by setting the subscription price below the stock's market price at the time the rights are issued. New subscribers do not get a bargain, however; they must pay old stockholders for the required number of right, which becomes valuable as a result (*Sharpe, Alexander & Bailey; 2003:470*).

The purpose of Preemptive right is two fold. First, it protects the power of control of present stockholders. If it were not for this safeguard, the management of the corporation under criticism from stockholders could prevent stockholders from removing it from office by issuing a large number of additional shares at a very low price and purchasing these shares itself. Management would thereby secure control of corporation to frustrate the will of the current stockholders. The second, and by far the more important, protection that the preemptive right affords stockholders concerns dilution of value (*Weston & Copeland; 1992:935-936*).

After the securities are issued, either by public offering or by right offering, they are traded on the secondary market. The stock markets also impart liquidity to the shareholders. This offers an opportunity to investors to invest in the long term ventures, while market also enables them to convert their securities into liquid cash before the maturity of the project. In addition, they can invest their current income against future income thereby achieves their time performance of consumption. The liquid market also promotes primary issuance of shares, because investors' participate in the share market for they can get back the fund easily. The primary market is positively and highly elastic in the stock prices and the liquidity in the secondary market.

It is essential that a country have efficient capital market if that country is to enjoy high possible level of wealth, welfare and education for population. An efficient capital market has a very important role in the economic development of a country. An efficient capital market is one in which a set of information is fully and immediately reflected in the market price of the share. In an efficient market it is not possible to earn abnormal profit. Investors earn only fair and normal return from their investment. In this situation, the investment decision problem of the general investors is greatly simplified because random selection of the stock which matches their portfolio risk level does not differ from its return significantly from others. "A market is efficient with respect to a particular set of information if it is impossible to make abnormal profits (other than by chance) by using this set of information to formulate buying and selling decisions" (*Sharpe et al.*; 2003:93).

Financial theories have discussed three forms, or levels, of market efficiency. According to weak form of efficiency, the movement of the share prices in the past is reflected in the current market price. According to semi-strong form of efficiency all the publicly available information have a great influence on the market prices. In the other words, current market price reflects all the publicly available information. According to the strong form of efficiency all the information, either publicly available or privately available, are reflected in the current market price. This paper is mainly concerned in testing the semi strong form of market efficiency with respect to the announcement of right issues. In addition, this paper attempts to test the behavior of share prices after right offering. This paper also studies about current practices of right offering, popularity and perception of Nepalese investors about right offering.

## **1.2 Statement of the Problem**

Right offering is considered as one of the popular methods of raising the long term fund as the targeted capital structure of the firm requires. Efficient capital market

is taken as the backbone of the industrial development and overall development of the country. Nepalese stock market has a brief history. The history of the security market proceeds with the flotation of shares of Biratnagar Jute Mill Ltd. and Nepal Bank Ltd. in 1937, introduction of the company act in 1951, the first issue of government bond in 1964 and the establishment of Security Exchange Centre Ltd. in 1976. The security market flourished after the conversion of Security Exchange Centre into Nepal Stock Exchange in 1993. Nepal Finance and Saving Company Ltd. got issue approval of right share in 1995/96 for the first time; it is therefore, right share offering is still a new and emerging concept for both organizations and investors.

Most of the Nepalese people are not known about the phenomenon of share trading, it is therefore; only few investors are getting advantage from share transaction. Among them large number of people who are the prospective investors are found to be very interested on share trading activities under such circumstances the study is focused on the level of knowledge of general people on share trading i.e. Right Share issue phenomenon.

Theoretically, the value of the share should increase after the announcement of right offering and then decrease (by value of the right) after the subscription date. But this trend is not found to be followed in Nepalese context. This can be clearly understood with the help of data found while doing the related study.

In the above mentioned condition, the problems towards which this study is directed are:-

- What is the existing practice of right issue in Nepal?
- How is the level of knowledge of Nepalese investors about right offering? In other words, how familiar are the Nepalese investors about right offering?

- Does share price fully reflect all the information's accompanying the right issue announcement?
- Do Nepalese investors use available information regarding right issue to maximize their wealth?
- What is the effect of Right Share issue on the market price of the share? In other words, Will the right share issue, because it increases the supply of share, have a depressing effect on the share prices?

### **1.3 Objective of the Study**

This study focuses on study of the rights share issue practices in Nepalese Stock market and its impact on market price of share. The investigation covers two interrelated aspects. First one, the characteristics/features of rights offering by the listed company and secondly, the share price movement associated with rights offering.

The specific objectives of this study are as follows:-

- To identify the existing practices of right issue in Nepal.
- To analyze whether Nepalese investors are well known about right issue.
- To test whether share prices fully reflect all the information accompanying right issue announcement.
- To find out whether Nepalese investors use available information regarding the right issue announcement to maximize their wealth.
- To test whether Right Share issue, because it increases the supply of share, will have a depressing effect on the share price.

### **1.4 Significance of the Study**

Almost all research study has unique type of importance and this study also has its unique type of importance. This is the first study of its kind in the Nepalese stock market. There is hardly any research which shows the relationship between

information accompanying the right issue announcement on the market price of the share. The results of this study should have important implications for financial managers, financial counselors and investors interested in capital market.

### **1.5 Limitation of the Study**

The study will be carried out to fulfill the partial requirement of MBS degree of T.U. Though full effort will be put to present it in the form, it is not without shortcomings. Like every other research, it also has its limitations. Therefore this study has following limitations:-

- The core of this study is based on the primary sources and secondary sources of information. Hence any incorrectness in the key information like NEPSE index gathered from secondary sources may affect the accuracy of outcome of the study.
- This study covers only those companies which have issued right share.
- A number of variables are responsible in the movement of share prices but this study focuses only on the right offering.
- This research is done for the partial fulfillment of the requirement for the degree of masters of business studies therefore; it has to follow strictly the format prescribed by Tribhuvan University.
- The main limitations are time constraints, financial problem and lack of research experience.

### **1.6 Organization of the Study**

The study has to be finished within the design offered by the research department of Tribhuvan University. Accordingly, the study will be organized into five chapters. Each chapter will be devoted with the relevant topics and it will also contain the required sub-topics in order to achieve the objective of the study.

## **Chapter-I Introduction**

Contains introduction part of the study. As already mentioned, this chapter describes the major issues to be investigated along with the background, statement of the problem, objects, significance, and limitation of the study.

## **Chapter-II Review of Literature**

Contains the theoretical analysis and brief review of related and pertinent literature available. It includes discussion on the conceptual framework and review of major studies.

## **Chapter-III Research Methodology**

Describes the research methodology employed in the study. This chapter deals with the nature and sources of data, list of selected companies, the model of analysis and meaning and definition of statistical tools

## **Chapter-IV Data Presentation and Analysis**

Deals with presentation and analysis of primary as well as secondary data to indicate quantities facts on Right Share issue and market efficiency.

## **Chapter-V Summary, Conclusion and Recommendations**

Describes summary, conclusion and recommendation of the study. This chapter presents the major findings and compares them with theory and other empirical evidence to extend possible.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual Framework**

##### **2.1.1 Stock and Stock Market**

“In finance, the subscribed capital of a corporation or limited liability company, usually divide into shares and represented by transferable certificates. Many companies have only one class of stock, called common stock. Common stock, as a share of ownership in the company, entitles the holder to an interest in the company's earning and assets. It carries voting rights that enable the holder to participate in the running of the company (unless such rights are specifically withheld, as in special classes of nonvoting shares). Dividends paid on common stock are often unstable” (*Encyclopedia Britannica; 2004:1*).

Securities markets facilitate the sale and resale of transferable securities. The market in which new securities are sold is called primary market; the market in which existing securities are resold is called the secondary market. The primary market deals with all the standard problems of lending. Lending involves risk. To manage this risk, one needs to acquire and process information, to draw up a contract with the borrower and to monitor compliance. In the secondary market, that allows one to undo the loan by selling it to someone else. Secondary markets are created by brokers and dealers. Brokers bring buyers and sellers together without themselves actually buying or selling; dealers set prices at which they themselves are ready to buy and sell.

Stock Exchange are the organized market for buying and selling financial instruments known as securities, which include stocks, bonds, options, and futures. Most stock exchanges have specific locations where the trades are completed. For



the stock of a company to be traded at these exchanges, it must be listed, and to be listed, the company must satisfy certain requirements. But not all stocks are bought and sold at a specific site. Such stocks are referred to as unlisted. Many of these stocks are traded over the counter—that is, by telephone or by computer. Major stock exchanges in the United States include the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX), both in New York City. Far more corporations list their stock on the NYSE than on the AMEX, however. Nine smaller regional stock exchanges operate in Boston, Massachusetts; Cincinnati, Ohio; Chicago, Illinois; Los Angeles, California; Miami, Florida; Philadelphia, Pennsylvania; Salt Lake City, Utah; San Francisco, California; and Spokane, Washington. In addition, most of the world’s industrialized nations have stock exchanges. Among the larger international exchanges are those in London, England; Paris, France; Milan, Italy; Hong Kong, China; Toronto, Canada; and Tokyo, Japan. These stock exchanges all have a central location for trading. The major over-the-counter market in the United States is the NASDAQ Stock Market (formerly, the National Association of Securities Dealers Automated Quotation [NASDAQ] system). The European Association of Securities Dealers Automated Quotation system (EASDAQ) is the major over-the-counter market for the European Union (EU). “Stock exchange transactions involve the activities of brokers and dealers. These individuals facilitate the buying and selling of financial assets. Brokers execute trades on behalf of clients and receive commissions and fees in exchange for matching buyers and sellers. Dealers, on the other hand, buy and sell from their own portfolios (inventories of securities). Dealers earn income by selling a financial instrument at a price that is greater than the price the dealer paid for the instrument. Some exchange participants perform both roles. These dealer-brokers sometimes act purely as a client’s agent and at other times buy and sell from their own inventory of financial assets” (*Encyclopedia Encarta; 2004:1*).

There are three things a security market must do (*Khan; 2003:302*).

- Determine a fair price for the securities in trade.
- Enable transactions to be made at this price quickly and easily.
- Enable transaction to be made at as low cost as possible.

Stock market transactions can be classified into three distinct types (*Brigham and Houston; 2004:309-310*).

- Trading of the outstanding shares of established, publicly owned companies: the secondary market.
- Additional shares sold by established, publicly owned companies: the primary market.
- Initial public offering by privately held firms: the IPO market.

Nepal Stock exchange (NEPSE) is only the stock market of Nepal.

### **2.1.2 Venture Capital**

Money or capital provided for new business ventures by investors other than the original proprietor. The term is sometimes also used for capital provided to rescue or turn around a company. Venture capitalists—that is, those who provide venture capital—include individuals, investment banks, and institutions that specialize in providing venture capital. Venture capitalists expect some of their investments to do well and some to do poorly. Their survival in business depends on picking more successful investments than unsuccessful ones. Venture capitalists face a higher risk of losing money than those providing capital to proven ventures, so they demand a higher potential return on their investment. When investing in new ventures, they often insist on owning a share of the business. As part owner, a venture capitalist can have more control over the investment and is in a better position to earn a higher return if the business succeeds than someone who lent money to the venture. The original proprietors may agree to this arrangement if it

is the only way to get the money or if they want to raise funds without incurring debt. The owner may also welcome the business and financial expertise venture capitalists often provide (*Encyclopedia Encarta; 2004:1*).

### **2.1.3 Initial Public Offering**

"Whenever stock in a closely held corporation is offered to the public for the first time, the company is said to be going public. The market for stock that is just being offered to the public is called the initial public offering (IPO) market" (*Brigham et al; 2004: 310*).

When a company wants to raise funds from the public, it issues securities. This announcement for the public to raise fund is called initial public offering. "If a private firm is successful usually the owners will want to take the company with a sale of stock to outsiders. Often this is promoted by the venture capitalist, who wishes to realize cash return on their investment. In other situation the founders simply want to establish a value and liquidity for their stock. Whatever the motivation, a decision is reached to become a public corporation, while there are advantages to be a public corporation and there advantages as well. The public company in US (and else where) must conform to SEC requirements in having a board of directors, disclosing sensitive information having to employ certain accounting conventions and incurring expenses as a public company not incurred by a private one. In addition there is an investor fixation on quarterly earnings. At times this is hindrance to management in trying to take long term decisions" (*Van Horne; 1999:501*).

By issuing publicly traded equity, the firm establishes both the value of the company and a market for common stock. This enhanced liquidity for the firm's share allows the company to raise capital on more favorable terms since it no longer needs to compensate investors for illiquidity associated with a privately

held firm. With these benefits, however, comes cost. In particular there are ongoing costs for publicly traded firms associated with the need to supply information on a regular basis to investors and regulations. Furthermore, there substantial onetime costs associated with IPO's that can be categorized as either direct or indirect costs. Direct cost include the legal, auditing, administrative and underwriting fees related to offerings, and the dilution associated selling shares of an offering price that is, on average, below the price prevailing in the market shortly after the IPO.

#### **2.1.4 Stock Right**

“Stock rights provide stockholder's with the privilege to purchase additional shares of stock based on their number of owned shares. Rights are an important tool of common stock financing with out which shareholders would run the risk of loosing their proportionate control of the corporation” (*Gitman; 2000:609*).

A security giving stockholders entitlement to purchase new shares issued by the corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

“Instead of making an issue of stock to investors at large, companies sometimes give their existing shareholders the right of first refusal. Such issues are known as privileged subscription or right issue” (*Brealey and Myers; 2000:425*).

Existing shareholders of company has legal right to buy the shares if new issue is made. If the chapter does not contain the preemptive right, the firm has a choice of making the sale to its existing stockholders or to an entirely new set of investors. In Nepalese context Company Ordinance 2062 section 42 (4) clearly mentions that

if a company wants to increase its capital and issues additional shares then existing shareholders will have first right (privilege) to buy such shares.

### **Characteristics of Right**

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

### **2.1.5 Preemptive Right**

“Literally, preemptive right is the right to do something before others. It is also a right of stockholders. In this right, the existing stockholders have right to purchase any additional shares issued by the company before they are offered to the public. Preemptive right is a provision in the corporate charter or bylaws that gives common stockholders the right to purchase on a pro rata basis new issue of common stock or convertible securities” (*Weston and Brigham; 1987:677*).

Many issues of common stock provide shareholders with preemptive right, which allows stockholders to maintain their proportionate ownership in the corporation when new issues are made. Most states permit shareholders to be extended this privilege in the corporate charter. Preemptive right allows existing shareholders to maintain their voting control and protects against the dilution of their ownership and earning. Dilution of ownership usually results in the dilution of earnings, since each present shareholder will have a claim on a smaller part of the firms earning than previously. “Of course, if total earning simultaneously increase, the long run effect may be an overall increase in earning per share. From the firm's view point,

the use of right offerings to raise new equity capital may be cheaper than public offering of stock” (*Gitman; 2000:610*).

### **2.1.6 Pros and Cons of Right Issue**

“There are three main advantages of right issue. First, the existing shareholder's control is maintained through the pro-rata issues of the shares. This is significant in the case of closely held company or when a company is going into financial difficulties or is under takeover threat. Second, raising fund through the sale of rights issue rather than the public issue involves less flotation cost as the company can avoid underwriting commission. Third, in the case of profitable companies the issue is more likely to be successful since the subscription price is set much below the current market price” (*Pandey; 1999:1002*).

The main disadvantage is to the shareholder's who fail to exercise their rights. They lose in terms of decline in their wealth. Another disadvantage is for those companies whose shareholding is concentrated in the hands of financial institutions because of the conversion of loans into equity. They would prefer public issue.

### **2.1.7 Mechanism of Right Offering**

When a company makes a right offering, the board of directors must set a date of record, which is the last date on which the recipient of a right must be the legal owner indicated in the company's stock ledger. Due to the time needed to make bookkeeping entries when a stock is traded, stocks usually begin selling ex-rights- without the right being attached to the stock four business days prior to the date of record.

The issuing firm sends right to holders of the record- owner of the firm's share on the date of record, who are free to exercise their rights, sell them or let them

expire. Rights are transferable and may be traded actively enough to be listed on the various security exchanges. They are exercisable for a specified period of time, generally not more than few months, at a price, called the subscription price, set some hoe below the prevailing market price. Since fractions of shares are not always issued, it is sometime necessary to purchase additional rights or sells extra rights. “The value of a right depends largely on the number of rights needed to purchase a share of stock and the amount by which right subscription price is below the current market price. If the rights have a very low value and an individual owns only a small number of shares the rights may be allowed to expire” (*Pandey; 1999:1002-1004*).

### **2.1.8 Management Decision**

A firm's management must make decisions while preparing for a right offering. “The price at which the right holders can purchase a new share of common stock. The subscription price must be set below the current market price, but how far below depends on managements evaluation of the sensitivity of the market demand to a price change, the degree of dilution in ownership and earning expected, and the size of the offering. Management will consider the right offering successful if approximately 90% of the rights are exercised” (*Pandey;1999:1004*).

Once management has determined the subscription price, it must determine the number of rights required to purchase a share of stock. Since the amount of fund to be raised is known in advance the subscription price can be divided into this value to get the total number of shares that must be sold. Dividing the total number of shares outstanding by the total numbers of shares to be sold will give the management the number of rights required to purchase a share of stock.

$$\text{No. of rights required to purchase one new share} = \frac{\text{No.of shares outstanding}}{\text{No.of shares to be sold}}$$

### 2.1.9 Value of Right

Right is a negotiable instrument, so it should have certain value for sale. Value of right depends upon the market price of share, subscription price and number of right required to purchase a new share. Theoretically, the value of right should be the same if the stock is selling with right or ex-right. In either case the market value of right may differ from its theoretical value.

**With Right:-** “Once a right offering has been declared, shares will trade with right for only a few days. The following equation can be used to find the theoretical value of a right when the stock is trading with rights,” (*Pandey; 1999:1004*).

$$V_r = \frac{P_0 - P^s}{\# + 1}$$

$V_r$  = Theoretical value of right when stock is selling with right.

$P_0$  = Market value of Stock with right.

$P^s$  = Subscription price of the stock.

$\#$  = Number of rights required to purchase one share of stock.

**Ex-Right:-** “When a share of stock is traded ex-right, meaning that the value of the right is no longer included in the stock's market price, the share price of stock is expected to drop by the value of right. The following equation is used to find the value of stock trading ex-right,” (*Pandey; 1999:1004*).

$$M_e = M_w - R_w$$

The theoretical value of right when the stock is trading ex-right,  $R_e$  is given by,

$$V_r = \frac{P^e - P^s}{\#}$$

Where,

$P^e$  = Price of the stock ex-right

$P^s$  = Subscription Price



### **2.1.10 Market Behaviour of Right**

As indicated earlier, the stock rights are negotiable instruments, often traded on security exchanges. The market price of a right will generally differ from its theoretical value. The extent to which it will differ will depend on how the firm's stock price is expected to behave during the period when the right is exercisable. By buying rights instead of the stock itself, investors can achieve much higher returns on their money when stock price rise.

Under and oversubscribed offering rights offering may be made through an investment banker, who underwrite and issue the rights. In most underwriting agreements, the investment bankers agrees to a standby arrangement, which is a formal guarantee that any shares not subscribed or sold publicly will be purchased by investment banker. This guarantee assures the firms that the entire issue will be sold; it will not be undersubscribed. The investment banker of course, charges a higher fee for making this guarantee.

“Most rights offerings include an oversubscription privilege, which provides for the distribution of shares for which the rights were not exercised to interested shareholders on a pro rata basis at the stated subscription price. This privilege is a method of restricting ownership to the same group, although ownership proportion may change slightly. Shares that cannot be sold through the oversubscription privilege may be offered to the public. If an investment banker is used, the disposition of unsubscribed shares may be left up to the banker”(Pandey; 1999:1003).

### **2.1.11 Market Vs Theoretical Value of Rights**

Actual value or market value of right may differ somewhat from its theoretical value on account of transaction costs, speculation and the irregular exercise and sale of rights over the subscription period. Market price of the right may be higher

or lower than its theoretical value. "If the price of the right is significantly higher than its theoretical value, stockholder will sell their rights purchase the stock in the market. Such action will exert downward pressure on the market price of the stock. If the price of the right is significantly lower than its theoretical value arbitragers will buy the rights, exercise their option to buy the stocks, and then sell the stock in the market. This occurrence will excerpt upward pressure on its theoretical value" (*Van Horne; 1999:495*).

But this transaction and movement is not applicable in Nepalese context because in Nepal rights are not traded.

### **2.1.12 Market Efficiency Concept**

Efficiency has different connotations in literature. Oxford defines the word efficient as doing something well and thoroughly with no waste of time money and energy. The term retains the same meaning in the context of "Efficient Market". "The concept of capital market efficiency can be understood from various perspectives namely: allocation, operational, and informational efficiency" (*Head; 2003: 38*). In financial literature market efficiency exclusively refers to informational efficiency. "An efficient market simply doesn't waste information" (*Rose; 2000: 51*). "Market efficiency in this context refers to market's ability to price securities correctly and instantaneously change security price to reflect new information. The hypothesis that argues market is efficient is Efficient Market Hypothesis. According to EHM, an efficient capital market is one in which security price adjusts rapidly to arrival of new information and therefore the current price of reflect all information about security. EHM evolved in the 1960s from the Ph. D. dissertation of Prof. Eugene Fama, who persuasively made the argument that in an active market "securities will be appropriately priced and reflect all available information". LeRoy criticizes this definition of market efficiency as being empty and tautological and commented that an attempt to

formalize such notion as an equation cannot properly characterize an efficient capital market” (*LeRoy; 1976:139-140*). Later Fama refined the definition and states that prices must not only fully, but also correctly reflect all available information.

According to Fama an efficient market includes well informed and rational investors, who process information rationally, in the sense that relevant information is not ignored and systematic errors are not made. As information is freely available and already reflected in price, it is impossible to make abnormal profit by using that particular set of information. Hence in an efficient market price of security should be reasonable estimate of the rationally determined fundamentals at any point in time.

Rubinstein (1975) defined market efficiency as situation in which price would not change if all private information were publicized. In same line Jensen (1978) defined market efficiency in terms of absence of "economic profit". It emphasized that price reflect information up to a point where marginal benefit of acting on the information do not exceed the marginal cost of collecting it. However, all these informational-efficiency definitions apply to information set: all information known. So it can be taken to define only strong form of market efficiency. Another prominent definition of information efficiency states that "A market is efficient with respect to an information set A if the price it generate are identical to those generated in an otherwise identical market in which the set A accurately describe the information available to each and every participant" (*Verrecchia; 1979:957*). Grossman and Stiglitz (1980) have added another dimension in idea of information efficiency and stated that price fully reflects the information means that price "revel" that information. Sometime the information can be fully reflected without being revealed in prices. For instance information is made available to everyone yet the information may not be discernible from price alone,

so that by the Grossman and Stiglitz's definition, market would not be efficient with respect to it. So this definition implies that that market would be efficient with respect to information if it were revealed from the price. This means although data may be put publicly available the information is clearly not.

Beaver (1981) extended this idea and stated that market would be efficient to information set if revealing that information to all investors would not change equilibrium prices. "Market is E-efficient with respect to some information set E if revealing it to all agents would change neither equilibrium price nor portfolio. Hence market efficiency states that market is efficient with respect to particular information, if market price fully and correctly reflect that information" (*Later Latham; 1986:210*).

Thus EMH describes that price changes are unpredictable, it associate then with changes trader's belief with arrival of new information. Under the terms of EMH, the market will not consistently ignore information that can earn profits. "Each individual investor will rationally use all the information relevant to valuing the stock and such practice will drive the market price of security towards its true value. Because of such, investor expects to make only normal profit by earning a normal rate of return on their investment" (*Regev and Huberman; 2001:387*). "A market is efficient with respect to a particular set of information if is impossible to make abnormal profit, other than by chance, by using this set of information to formulate buying and selling decisions" (*Sharpe et al; 2003:93*). The phrase other than by chance means that investor in an efficient market may earn extraordinary profit but such is merely due to luck as equivalent to winning a lottery. In such market investor can earn returns above average only by taking more risk.

Briefly stated the hypothesis claims that assets prices are rationally related to economic realities and always incorporate the information available to the market.

Three sets of assumptions imply an efficient capital market: (a) an efficient market require that a large number of competing, profit maximizing participants that analyze and value security each independently of the others, (b) new information regarding securities come to the market in random fashion and the timing of announcement is generally independent of others and (c) the competing investors attempt to adjust security prices rapidly to reflect the effect of new information.

In nutshell, market efficiency is a description of how prices in competitive markets respond to new information. EMH asserts that stock market is efficient in processing information. The arrival of new information to a competitive market is compared to "the arrival of lamb chop to a school of flesh-eating piranha"*(Higgins; 1992:1)*. Here, the metaphor piranha is used to describe the behavior of investors. The instant the lamb chop hits the water; there is the turmoil as the fish devour the meat. Very soon the meat is gone leaving only the worthless bone behind and the water returns the normal. Similar will be the case in efficient market. If any new and valuable information arrives in market, active investors will immediately act upon such information. This will lead to adjustment in the market price and once the price adjusts, that particular information will be worthless.

### **2.1.13 Forms of Market Efficiency**

Definition of market efficiency is linked up with the information that is available to investors and is reflected in the price. Eugene Fama (1970) has suggested distinction between three forms of EMH. Under each form, different types are assumed to be reflected in security prices. They are

1. Weak form of EMH
2. Semi-strong Form of EMH
3. Strong Form of EMH

The weak form says that their current prices of stock already fully reflect all historical price and volume data. Therefore historical time series data of securities provide no information that can be used to predict future price. This weak form of EMH is popularly known as Random-walk theory, which states that path of stock's price is not influenced by past price movements. As stock follow the random walk in this form of EMH, there is no information in past series, which is useful in the predicting the future. The significant conclusion of this form of hypothesis is, investors must base their analysis on information other than the past price series.

EMH was first tested by evaluating the effectiveness of technical analysis, primarily charting techniques. The failure of the technical approaches to beat the market is described as weak support for the EMH. The adjective weak suggest that merely showing the failure of technical analysis doesn't provide a strong argument in favor of efficient markets. There has been number of empirical studies conducted to verify this form of EMH and bulk of evidence shows that prices change is random.

Semi strong form of EMH specifies that current stock price reflect all publicly available information. Such includes information on historical prices as well as published financial data about companies, government data about the starter of the economy, assessment of the security analyst and other publicly available information relevant to the valuation of the firm. If this form of market efficiency is in effect, no form of analysis either technical or fundamental will help to attain superior return.

This means using the fundamental analysis is as much a waste of time as drawing a chart of its price history. So to beat such form of market investor must attempt to uncover or purchase private information. Although the earlier studies supported the semi-strong form, recent studies offer mixed evidence. Some of the notable

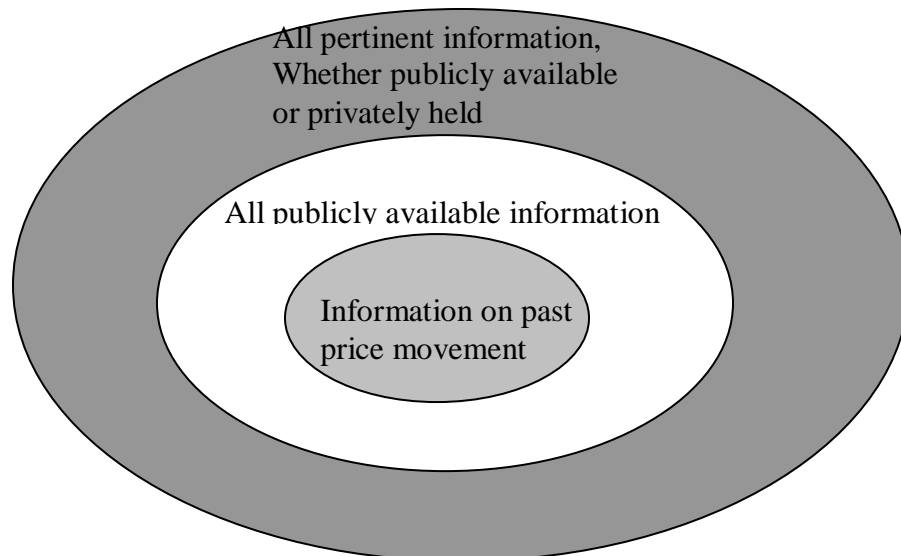
anomalies evident in the market are January effect, P/E effect, reversal effect post earning announcement price drift, the neglected firm effect and book to market effect.

“The strong form of EMH states that stock price reflects all information -both private and public. This includes the publicly available information about the company and also inside information that is privately held by selected group of individuals like directors, officials, principal owners etc. This version of hypothesis is quite extreme and state that even those who possess inside information would not have investment information of any value. Under this extreme form of EMH, the advice of professional investors will have a zero market value because no form of search or processing of information will be effective and useful. Contrary to this statement, many empirical studies have concluded that it is possible to earn above average return through monopolistic access to inside information.

Different forms of EMH are presented in figure below:

**Figure: 2.1**

**Efficient Market and Information sets**



The three hypothesis's overlap- they differ only in the degree of market efficiency. The outer circle of above figure represents all information relevant to the valuation of particular stock, which is currently "knowable" both privately and publicly. Such information set denotes the strong form of market efficiency. Within the outer circle, is the second circle, which represents that part of the information set that has been publicly announced and is therefore publicly available. Reflection of such information set indicate semi strong form. And lastly the third circle represents the information on past prices indicating weak form of market efficiency. The above figure highlights on the subset property" (*Latham; 1986:40*) a wide accepted feature of informational set necessarily implies efficiency with respect to any subset of that information set. It is by this principle that if market is semi-strong form efficient, it must be weak form efficient, since past prices are public and so on.

## **2.2 An Introduction of Nepalese Securities Market**

Security market of Nepal has no long span of life. At first, Nepal Rastra Bank (NRB) and Nepal Industrial Development Corporation made a joint effort to establish security market centre (SMR) to mobilize the public saving for ensuring public ownership in the share of public limited companies. But in reality, the centre was working as a body of NRB to reduce its working load relating to government securities. In 1983, the security marketing centre passed a security exchange act 1983 and also mentioned the provision of listing. There was not any plan and programmer of security market until seven five-year.

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



The Securities Exchange Act 1983 (2040) was amended in the period of eighth plan for the achievement of eighth five-year plan objective towards the capital market. The objective of eighth five-year plan was to establish the securities exchange board and rules and regulations followed through securities exchange board.

Nepal Government initiated to reform capital market covering securities exchange centre into Nepal stock Exchange (NEPSE) Ltd. in 1993. NEPSE is a non profit making organization operating under securities exchange Act 1983.

NEPSE opened its trading floor on 13th Jan. 1994 with 25 licensed broker members. The history of Nepalese Stock Market began with the listing of shares of 16 companies in 1986. Till the date (2008/09) there are 324 listed companies in NEPSE.

### **2.2.1 Securities Board of Nepal (SEBON)**

Securities Board of Nepal was established by the Nepal Government on June 7, 1993 and is now functioning as an apex regulator of Securities Markets in Nepal. As per the Securities Ordinance, 2008, the major objectives of SEBON are to regulate issue and trading of securities and market intermediaries, promote market development and protect investor's right. The functions of SEBON are as follows.

- directives and guidelines, and approve bylaws of stock exchanges. Register securities and approve prospectus of public companies.
- Provide license to operate stock exchanges.
- Provide license to operate securities businesses.
- Give permission to operate collective investment schemes and investment funds.
- Draft regulations, issue

- Supervise and monitor stock exchanges and securities business activities.
- Take enforcement measures to ensure market integrity.
- Review reporting of issuer and listed companies, and securities businesspersons.
- Conduct research, study and awareness programmes regarding securities market.
- Coordinate and cooperate with other domestic as well as international regulators.
- Frame policies and programmes relating to securities markets and advise Nepal Government in this aspect.

As per the Securities Ordinance, 2008, the governing Board of SEBON is composed of seven members including a full time Chairman appointed by the Nepal Government for the tenure of four years. Other members of the Board are joint secretary from Ministry of Finance, joint secretary from Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra Bank (the central bank), representative from Institute of Chartered Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Nepal Government on the recommendation of SEBO/N from amongst the market experts.

As per the Section 3 of Securities Exchange Act, 2040, the governing Board of SEBON was composed of one full time Chairman appointed by HMG/N, representatives one each from Ministry of Finance, Ministry of Law, Justice and Parliamentary Affairs, Ministry of Industries, Commerce and Supplies, Nepal Rastra Bank, Federation of Nepalese Chambers of Commerce and Industries and Association of Chartered Accountants of Nepal.

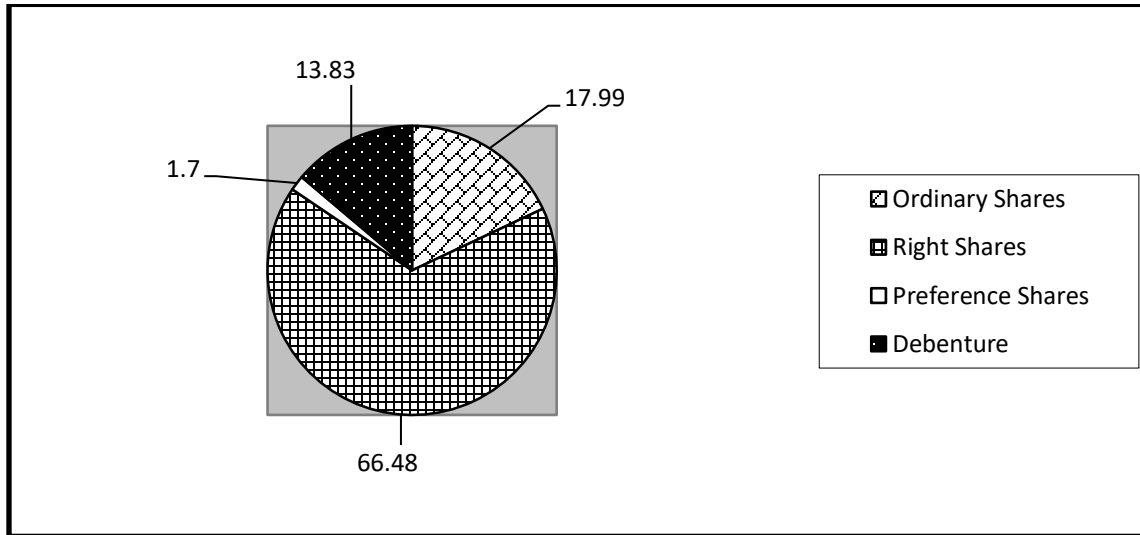
SEBON, in its organizational structure has two departments, six divisions and ten sections. Under the Corporate Finance and Administration Department, there are three divisions namely Corporate Finance and Reports Review Division, Accounts and Administration Division and HRD and Education Division. There are also three divisions under the Securities Market Regulation Department namely Legal and Enforcement Division, Market Regulation and Compliance Division and Market Analysis and Planning Development Division.

### **2.2.2 Nepalese Securities Market and Right Issue**

Till the date 150 companies out of 324 listed companies and 2 companies which are not in list at present have issued the right shares. Up to fiscal year 2008/09, total issue approval instrument wise is as follows:

<b>Tools</b>	<b>Percentage in Total Issuance</b>
Ordinary shares	17.99
Right Shares	66.48
Preference share	1.70
Debenture	13.83

**Figure: 2.2**  
**Instrument wise Securities Issue (In Percentage)**  
**(FY 1993/94 to 2008/09)**



### 2.2.3 Procedure for Right Issue in Nepal

Every company which wishes to issue right shares should follow some procedure. Company Ordinance 2065 is silent about the right issue but mentioned that Public Companies can issue shares according to the provision mentioned in this ordinance and other rules and regulations related to securities but, if the companies are issuing right shares or bonus shares they need not to follow all these rules. Following procedures are generally adopted by Nepalese companies to issue right shares

- The BOD should consider about the determination of the quantum of further capital requirement and the proportion in which the right issue might be offered to existing share holders.
- AGM should pass the proposal of BOD by its majority.
- Company should notify NRB, NEPSE office of the company register and SEBO/N sufficiently with prospectus in advance of the date of board

meeting at which the rights issue is likely to be considered and should get permission from them.

- Make announcement with prospectus which gives a general, indication of the reasons which has made the issue desirable, the purpose for which the new money is to be issued.
- Letter of provisional allotment of rights offering to the shareholders about the terms of the rights offered, the number of new shares allotted to each given number of old shares, the price at which the issue is to be made and the conditions letter will be sent after the date of announcement.
- After the receipt of the letter of provisional allotment, the allotment must be made for those shares which are reannouncing.
- Certificates are distributed to the shareholders who participated in the rights offering announcement. Shareholders who have accepted and fully paid up their allotment can renounce the actual certificate in favor of third party. Because of non transferable instrument, such practices are not seen in Nepalese context.
- Listing of the shares in the NEPSE again with increased number which must approved by the stock exchange after which an application for listed new share could be made.

#### **2.2.4 Rules and Regulation Regarding Rights Issue in Nepal**

Company Ordinance 2065 is the main act that regulates the establishment and issue of securities of any company. But in case of right share issue, Company Ordinance is silent and do not mention about the procedure and method. Securities Registration and Issue Approval Guidelines, 2000 has mentioned in its article number 5 that the firms that has already gone to public can issue right share to acquire additional capital if it is enlisted in stock exchange, after full payment of face value of securities issued earlier. The procedure regarding right share issue is similar to common stock issue.

### **2.3 Review of Journals and Articles**

**Pokhrel** (2008), Published an article on “*Hakprad Share Kindai Hunuhuncha? Ekchin Parkhanuhos!* ”, writes that the flood of share has entered in our capital market at the moment. The shareholders and those who have purchased shares are getting even more shares although shares are scarce in the market to buy. Now a day, Nepalese investors have developed a new principle that is “Buy shares and get immense number of shares” where the prevailing principles propounded by experts kneeled down before them. Nepalese investors’ principle is suspiring but this principle is backed up by the decision taken in 23 April, 2004 where Nepal became the member of World Trade Organization (WTO) and committed to adopt more open and liberal economic policy after 2010. Certainly, foreign investment basically in financial sectors, will enter in our country after 2010 because our financial institutions are operating with very low capital base and are unable to invest individually even in a single hydropower project or in a big project. Considering this fact, Nepal Rastra Bank (NRB) issued a directive to increase the capital base of the financial institutions by the end of 2070 B.S. According to the directive of NRB, Commercial Banks, Development Banks and Finance Companies are required to maintain their paid-up capital of 2 billion, 640 million and 200 million respectively. Due to this reason, Nepalese financial institutions are issuing a large volume of rights share at the moment to meet the target set by NRB.

Most surprisingly, the investors are purchasing shares at very high price only to get the right shares. Investors are in ignoring the performance, capacity of risk bearing, future strategies, management team, decision of management in past, quality of human resources, etc. of concerned companies while buying shares. Even some are affording shares, having less book value then Par Value, at the price more than 240 times of their book value. In Nepalese capital market, shares of those financial institutions, which are declared in critical state by NRB, are also

trading at high price. Such institutions know that the Nepalese investors are attracted towards financial institution's share. So, taking advantage of this, they are also issuing rights shares in the market at a very large amount. If any investors are asked why they are buying such shares then they simply give the same answer that the company is going to offer rights issue. Obviously, they are bound to share the risk associated with such companies by purchasing their shares and promoters may also transfer their risk to the new investors by shifting their investment from such companies. Even some big manipulators of stock market are also selling their shares after realizing the current risk and the new ignorant investors are being trapped by them. So, its time for our investors not to run after market rumors but to invest after analyzing the financial performance and prospects of concerned companies. Otherwise knocking-out from capital market is always probable for such investors.

**Pathak & Giri** (2008) Published an article, "*Rights Share Issue Practice in Nepal*" indicating the attraction of focused on practice of rights offering in Nepal and its impact on share price movement. It covers two interrelated aspects: Characteristics of rights offering of listed companies and Share price movement associated with rights offering. Nepal Finance and Saving Company Ltd. started the practice of rights share in Nepal by issuing right share for the first time in 1<sup>st</sup> December 1995. In this journal, the rights share issue practice and impact of rights offering on market price of share have been analyzed by taking five rights issuing companies as sample. The findings of the study are not consistent with the theory of rights offering.

The trend of issuing rights share is increasing in Nepalese capital market. There are a large number of shareholders who are holding small quantities of share. Price behaviors shown by the stock of sample organizations do not satisfy the theory of rights offering. Most of the investors like to invest in banking and financial

organizations. More than 50% investors like to subscribe rights share just to increase the number of shares. Existing legal provision is not adequate and needs to be amended as soon as possible. The under-subscription of rights share is caused by various factors such as lack of investor's awareness, low performance of companies and lack of adequate information. Among these factors, lack of adequate information to shareholders is major.

## **2.4 Review of Thesis**

**Gautam** (2001) conducted a research on "*Share Price Movement Attributed to Right Offering Announcement*". The objectives of this thesis were:-

- To analyze the inadequacy of the contents of the Company Act 2053 B.S.in regard to section 21 that explains about the matters to be disclosed in the issue prospects.
- To find out if there is significant changes in the share prices after the announcement of right offering.
- To find out if there is any problem in the primary issue of securities.
- To prescribe some policies that will help to rectify the current problems in the issue of securities.

The main findings of the study were:

- The share price movement due to the impact of right offering can't be generalized for all companies. This depends upon the company specific. For the shown a sound financial position in the past, the announcement of right offering serves a happy news to the existing shareholders and they show their positive response to it, which is reflected in the increase in share price and higher rate of subscription.
- Company Act is not clear regarding the issue of right offering and subsequent allotment of right shares.



- Company Act has nowhere mentioned about necessity of legally transferable rights instruments called right, which must be mailed to the stockholders for each stock held before the right offering.
- SEBO/N has failed to establish a 'one window policy' causing various imbroglios for the companies that want to go to primary issue market for raising the capital.
- Till the date there is no enactment of the 'Investment Protection Act'.
- Our capital market has made least use of the "Capital Market Instruments" contingent securities like Warrants and Convertibles, Options and other various kinds of debentures are not in practice.
- Companies Act with regard to the contents of the issue prospectus is deemed to be insufficient on the ground that, it does not mention the companies are required to specify on the issue prospectus about the risk category on which their business fall.

**Lamichhane** (2004) conducted a research on "*Right Issue Practices in Nepal and its Impact on Market Price of Share.*" The objectives of this study were:-

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

The main findings of the study were:

- Share price of five companies have decreased after the announcement of right issue where as share price of two companies have increased after the right issue.

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

**Khadka** (2007) conducted a research on “*Issue of Rights Share and its effect on general market price in Nepalese context*” The objectives of this study were:-

- To evaluate the significant changes in share price after the announcement of right offering.
- To examine the procedure and mechanism of rights issue in the context of Nepal.
- To analyze the problem associated with rights issue in Nepal.
- To recommend appropriate implications on the basis of findings.

The main findings of the study were:

- Rights share issue is comparatively new practice in Nepal. Therefore only those sample companies whose market prospects are good and able to increase the market capitalization through right issue but small and now reputed companies' faces lots of problems in this regard.
- The rights issue practice is mainly dominated by the banking and finance sectors. There are hardly few causes found of other sectors practicing the right issue.

- The issuing of rights share has a long process. There is no time framework. The right announcement date, book closer date/ex-right date, right issue and closing dates are differing from one company to another. This makes the illusion to the investor and affects the market price of the related stock and it's hard to study the price behavior of market price.
- There is significant difference in the share price before and after the ex-rights dates in most of the sample company but they don't follow the theory of right offering exactly.
- According to the theory, the share price after ex-right date will decrease by the value of a right but most of the sample company market share price didn't decrease accordingly.
- Shareholders of Nepalese companies lack the knowledge about the right share and its impact on their wealth position. Due to this free movement of share movement of share price during rights on and ex-right is not confirmed.
- Under subscription of rights share is common phenomena as rights is not transferable in Nepal.
- Most of the finance company doesn't show significant changes in the price before and after ex-right date.
- Market imperfection is found throughout the study period.
- Company Act is not adequate regarding the issue procedure of right share and allotment.

**Poudel** (2008) conducted a research on "*Right Share Practice in Nepalese Market & Its impact on Market Price of Share*" This study has set out the following objectives.

- To find out if there is significant changes in share price after the announcement of right offering.

- To find out if there is any problem in the primary the current problem in the issue in the issue of securities.

The main findings of the study were:

- Company Act is not clear regarding the issue of right offering and subsequent allotment of the rights share.
- Company Act has nowhere mentioned about necessity of legally transferable rights instrument called rights, which must be mailed to the stockholders for each stock held before the rights offering.
- SEBON has failed to establish a ‘one window policy’ causing various imbroglios for the companies that want to go primary issue market for raising the capital.
- Our capital market has made least of use the ‘capital market instrument’ contingent securities like warrants and convertibles, options and other various kinds of debentures are not in practice.
- Companies Act with regard to the contents of the issue prospectus is deemed to be insufficient on the ground that, it does not mention the companies are required to specify on the issue prospectus about the risk category on which their businesses fall.

**Limbu** (2009) conducted a research on “*Rights Share issue in Nepalese Market And Its impact on Market Price of Stock*” This study has set out the following objectives.

- To identify existing practices of right issues.
- To analyze the significant change in stock price after announcement of right share.
- To explore the problems associated with rights share issue in the Nepalese capita market.

The main findings of the study were:

- Nepalese stock market is dominated by financial sector companies; the participation of the real sector i.e. manufacturing, hotels, etc. is quite low or negligible.
- Lack of provision to make rights transferable which creates difficulties to shareholders.
- Most of the companies are suffering from under subscription of their rights share and the causes of under subscription are poor performance of issuing company, investors' lack of knowledge.
- Some investors still don't have the knowledge about rights share and large number of shareholders holds small number of shares and they generally ignored rights share.
- At present, most of the banking and financial institutions are issuing share to increase their capital base to comply with the policy directive given by NRB.

**Kachhipati** (2010) conducted a research on "*Right Share issue and its impact in Nepalese Capital Market*" This study has set out the following objectives.

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

The main findings of the study were:

- Nepalese equity market (primary as well as secondary) was dominated by financial sectors companies; the participation of the real sector (manufacturing, hotels etc.) was quite low or negligible.

- Nepalese investor's preferred the banking sector's rights share rather than other sectors because the performance of banking sector was better than others.
- The practice of rights share issue is in increasing trend every year.
- Due to low flotation cost, easy process to collect funds and maintaining control position in management are the causes of rights share prefer by the Nepalese Corporate Firms.
- There was no uniformity in the impact of rights offering.
- There was still difficult to investors due to not transferable of rights in Nepal.
- Majority of the investors were well aware to the entire phenomena of rights share in Nepal.
- Existing legal provision were not adequate and need to be amended as soon as possible.
- Promotional role played by the issuing company and issue manager regarding to the right offering was also increased.

### **Research Gap**

There are many studies conducted which are related to the capital market and share price behavior in Nepal but this study especially focuses on an issue of rights share and its impact on the movement of share price in Nepalese stock market. Different studies showed that the stock market is the essential sector in order to develop the nation because the nation will be strong and developed only if each and every sector is capable and strong. Right share is also one of the major instruments for raising additional equity from the stock market.

After reviewing some these and related sources, it is found that various studies were done on the topic of share price and its determinants. Some of the studies were conducted based on financial performance, some were based on dividend

policy, some were based on bonus share and nominal researches were based on right shares. Similarly, only few Nepalese writers have written articles directly based on the rights share and some of those studies are conducted several years ago. Therefore, there is a gap of time period which will be fulfilled by this study. More precisely at present context, commercial bank and development bank sector have covered a major portion of rights share issues in Nepalese stock market. So, this study tries to show the issue of rights share price of commercial bank and development bank sectors. It is hoped that it will give more detailed information about the right share. Samples from the Commercial Bank and development bank sectors are taken to be considered because these sectors are issuing largest amount of shares in Nepalese stock market. Moreover, the earlier studies on rights share have become old and need to be updated and validated because of the rapid changes taking place in stock market.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

“Research Methodology refers to the various steps that are generally adopted by a researcher in studying his research problem along with logic behind it. Thus, research methodology is a systematic and organizes effort to investigate a specific problem that needs a solution” (*Wolf and Pant; 1999:15*).

This section highlights the methodology adopted in the process of present study. It also focuses about sources and limitations of the data, which are used in the present study. “Research methodology is a way for systematically solving the research problem” (*Kothari; 1990:18*). In other words; research methodology indicates the methods and processes employed in the entire aspects of the study. It refers to the various subsequent steps to be adopted by a researcher in studying a problem with certain objectives in a view. So, it is the method, steps, and guidelines, which are to be followed in analysis and it is a way of presenting the collected data with meaningful analysis.

#### **3.1 Research Design**

Research Design is a conceptual framework within which a research is conducted. In simple language, planning for research is research design. It is a purpose full scheme of action proposed to be carried out in a sequence during the process of research. Research design helps the researcher to enable him to keep tack of action and to know whether he is moving the right direction to achieve his goal.

“Research design is the way to subsequently solve the research problem” (*Kothari; 1990:19*). It describes the method and process applied in the entire



aspect of the study. A focus is given to the nature and sources of data, the model of statistical tools used and limitation of the study.

This analysis is based on certain research design keeping on objective of study in mind. This research design is guideline studying profound ways of research ability. This study focus on the Right Share Issue of Nepalese Stock Market. In this research, research design is used for analytical as well as descriptive method of data collected. This is the empirical research work, this research work help to understand some of the features of Right Share Issue of Nepalese Stock Market.

### **3.2 Population and Sample**

The data collection activity consists of taking ordered information from reality and transferring it into same recording system so that it can later be examined and analyzed from pattern. Population or universe refers to the entire group of people, events or things of interest that the researcher wishes to investigate. In most of cases we cannot collect data of whole population or universe (an aggregate of the set of result operation). Therefore, sampling is the best technique of the research study.

A sample is the collection of items or elements from a population or universe and comprises some observations selected from the population. Sampling method is the scientific procedure of selecting those representative units which would provide the required elements with associated margin of uncertainty arising from examining only a part and not to the whole.

In Nepal, Nepal Finance and Saving Company has issued right share first in fiscal year 2052/53 amounting to Rs. 2.09 million. In 2053/54, 2 companies had issued right shares amounting to Rs. 275.2 million. There were 3 cases or right share issue in 2054/55, 1 case in 2055/56, 3 cases in 2056/57, 2 case 2057/58, 5 cases in

2058/59, 4 case 2059/60, 3 case 2060/61, 6 cases in 2061/62, 11 cases in 2062/63, 17 cases in 2063/64, 42 cases in 2064/65 and 50 cases in 2065/66. The lists of the company issuing Right Share are presented in Annex-1;

For simplicity and unbiased result samples are taken randomly. 58 sample companies are taken on the basis of Commercial Bank and Development Bank of Right share issue. The companies which have issued Right Shares of the year are taken as the sample companies.

**Table 3.1**  
**Corporate Firms Issuing Right Share in Nepal**

<b>Fiscal Year</b>	<b>S. No</b>	<b>Name of the Companies</b>	<b>Issue Manager</b>	<b>No. of Shares Issued</b>
2054/55	1.	Nepal Bank Ltd.	CIT	2,419,496
2057/58	2.	Everest Bank Ltd.	CIT	1,192,100
2058/59	3.	Bank of Kathmandu Ltd.	NCML	2,340,000
	4.	Nepal SBI Bank Ltd	NMB	2,878,704
2059/60	5.	Nepal Investment Bank Ltd.	NCML	572,395
2061/62	6.	NB Bank Ltd.	NSMBL	3,599,260
	7.	Nirdhan Uthan Bank Ltd.	NMB	150,000
	8.	Nepal SBI Bank Ltd.	NMB	2,159,300
	9.	Nepal Investment Bank Ltd.	AFCL	2,952,900
2062/63	10.	Development Credit Bank Ltd.	NMB	800,000
	11.	Kumari Bank Ltd.	NCML	1,250,000
	12.	Machhapuchhre Bank Ltd.		
2063/64	13.	Paschimanchal Bikas Bank	NCML	280,000
	14.	Lumbini Bank Ltd.	NCML	1,000,000
	15.	Chhimek Bikash Bank Ltd.	NMB	200,000
	16.	Nepal Development Bank Ltd.	NCML	1,600,000
	17.	Laxmi Bank Ltd.	NMB	1,220,000
	18.	Business Development Bank Ltd.	AFC	300,000
	19.	Siddhartha Bank Ltd.	AFC	1,000,000
	20.	Lumbini Bank Ltd.	AFC	1,500,000
2064/65	21.	Nepal Investment Bank Ltd.	ACE	2,013,000
	22.	Siddhartha Bank Ltd.	NMB	1,380,000
	23.	NIC Bank Ltd.	NCML	1,584,000
	24.	Lumbini Bank Ltd.	ACE	2,500,000
	25.	Kumari Bank Ltd.	NCML	1,800,000
	26.	Laxmi Bank Ltd.	NMB	1,830,000
	27.	Nepal Credit & Commerce Bank Ltd.	NCML	7,000,000
	28.	Paschimanchal Bikas Bank Ltd.	ACE	475,000
	29.	Bhrikuti Bikas Bank Ltd.	NCML	300,000
	30.	Development Credit Bank Ltd.	NMB	8,064,000
	31.	Siddhartha Bikas Bank Ltd.	ACE	500,000

	32.	Sanima Bikas Bank Ltd.	NCML	640,000
	33.	Ace Development Bank Ltd.	NCML	960,000
	34.	Gorkha Bikas Bank Ltd.	CIT	1,600,000
	35.	Business Development Bank Ltd.	ACE	1,500,000
	36.	Himchuli Bikas Bank Ltd.	NCML	600,000
	37.	Annapurna Bikas Bank Ltd.	NEFINSCO	1,500,000
	38.	Sahayogi Bikas Bank Ltd.	NCML	100,000
	39.	Nirdhan Uthan Bank Ltd.	NCML	395,000
2065/66	40.	Machhapuchhre Bank Ltd.	NMB	4,930,000
	41.	Kist Bank Ltd.	ACE	12,000,000
	42.	Nepal Bangladesh Bank Ltd.	NMB	11,168,900
	43.	Nepal Investment Bank Ltd.	NCML	8,030,300
	44.	NMB Bank Ltd.	DCBL	3,300,000
	45.	DCBL Bank Ltd.	NMB	5,537,300
	46.	Gandaki Development Bank Ltd.	NMB	500,000
	47.	Swabalamwan Bikas Bank Ltd.	NMB	350,000
	48.	Bageswori Bikas Bank Ltd.	NMB	150,000
	49.	Nepal Bikas Bank Ltd.	NCML	3,200,000
	50.	Infrastructure Development Bank Ltd.	NMB	2,400,000
	51.	Siddhartha Development Bank Ltd.	ACE	5,378,600
	52.	Sanima Bikas Bank Ltd.	CIT	3,840,000
	53.	Ace Development Bank Ltd.	ELITE	2,928,600
	54.	Narayani Development Bank Ltd.	ELITE	100,000
	55.	Gorkha Development Bank Ltd.	ACE	1,200,000
	56.	Nepal Development & Employment promotion Bank Ltd.	ACE	1,600,000
	57.	Bhrikuti Bikas Bank Ltd.	NCML	1,410,000
	58.	Excel Development Bank Ltd.	ACE	600,000

Source: Annual Reports of SEBO/N

### 3.3 Nature and Sources of Data

The data and information in this study are collected from both primary and secondary source to achieve real and factual result. For this research, all the possible and useful data as far as possible have been collected. The major sources of data for this study are as follows.

### **3.3.1 Primary Data**

Questionnaires are used as the major source of primary data collected for this research. A set of structural questionnaire was made and distributed to the selected respondents in order to get the accurate and actual information with the concerned person. The questionnaires are asked to tick the best answer among the different alternatives. Data collected through questionnaire are tabulated and presented in required form to make interpretation easier.

### **3.3.2 Secondary Data**

This research work is heavily based on data collected through secondary source. Due to imperfect and underdeveloped financial market we may not collected all the data from only NEPSE. We may not find all the related information even in published journals and reports. Therefore, searching the relevant data is an ironical challenge work. Mainly secondary data are collected from the following sources.

- Annual Reports of concerned enterprises
- Related news paper and magazines
- Annual Reports and trading Reports published by NEPSE
- Annual Report of SEBO/N

### **3.4 Data Processing Technique and Tools used**

The purpose of analyzing the data is to change it from an unprocessed form to understandable presentations. The collected data need to be aggregated in to a form that presents the summary of answers from respondents. "The raw data convey little information as such there must be, therefore be compiled analyzed and interpreted using different data analysis tools" (*Wolf and Pant; 1999:406*).

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

$$\text{Theoretical Value of Stock after Right Share Issue} = \frac{P_0 \times \# + P^s}{\# + 1} \times 100$$

$$\text{Pre Right Issue Stock Price} = P_0$$

$$\text{Subscription Price} = P^s$$

$$\text{No. of rights required to purchase one new share} = \#$$

### 3.4.1 Percentage Change in MPS

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

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

### 3.4.2 Percentage Change in Actual Market Price and Theoretical Price

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

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

### 3.4.3 Coefficient of Correlation

The correlation is a statistical tool, which studies the relationship between two variables, and correlation analysis involves various techniques used for studying and measuring the extent of relationship between the two variables. Correlation is an analysis of the covariance between two or more variables. The effect of correlation is to reduce the range of uncertainty of our prediction. Two variables are said to be correlated if the change in one variable results in the corresponding change in the other variable. Correlation coefficient can be either positive or negative. If the values of two variables deviate in the same direction i.e. if the increase in the value of one variable results, on an average, in a corresponding increase in the values of other variables or if a decrease in the values of results, on an average, corresponding decrease on the values of other variables, the correlation is said to be positive and direct. On the other hand, correlation is said to be negative or inverse if the variable deviate in the opposite direction i.e. if the increase/decrease in the values of one variable result, on an average in a corresponding decrease/increase in the values of other variable. It is also likely that there may be no relationship between the variables of the two series in which case there is said to be no correlation between them.

The formula for the correlation of coefficient is given below

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

Where,

X = Variable X

Y = Variably Y

$x = X - \bar{X}$

$y = Y - \bar{Y}$

$\bar{X}$  = Average of variable X

$\bar{Y}$  = Average of variable Y

N = Number of companies taken

r = Correlation coefficient between the company size and the ratio of the amount of right share issue with the total equity capital before right offering.

The coefficient of correlation always varies between the two limits of +1 and -1, when there is perfect positive correlation, its value is +1 and when there is perfect negative correlation its value is -1. Its mid point is 0 which indicates the absence of correlation. The value of the coefficient of correlation is always between +1 and -1. It cannot exceed unity.

#### **3.4.4 Coefficient of Determination**

The coefficient of determination is a measure of the degree of linear association between two variables, one of which happens to be independent and other being dependent. In other words, coefficient of determination measures the percentage of total variation in dependent variable explained by independent variable. The coefficient of determination can have value ranging from zero to one. The coefficient of correlation has been grossly overrated and is entirely too much. Its square, the coefficient of determination is a much more useful measure of the linear covariance of two variables. The reader should develop the habit of squaring every correlation coefficient he finds stated before coming to any conclusion about the extent of the linear relationship between the two correlated variables. For example, if the value of  $r = 0.8$ , we can conclude that 80 percent of variation in the relative series (dependent variable) is due to the variation in the subject series (independent variables). But the coefficient of determination in this case is  $r^2 = .64$  which implies that only 64 percent of the variation in the relative series has been explained by the subject series and the remaining 36 percent of the variation is due to other factors.



Coefficient of determination is the square of the coefficient of correlation.

Symbolically

$$R^2 = r^2$$

$R^2$  = Coefficient of Determination

$r$  = Coefficient of Correlation

### **3.4.5 Run Test**

Run test is one of the techniques used to analyse the behaviour of stock prices. Run is based on the percentage change in prices. A run occurs in a series of numbers wherever the change in the numbers reverse sign. The run may be positive (+ve %) negative (-ve %) and zero run. Until the price change alter (i.e. the change in positive to negative, +ve to zero etc.) the total change are called one run. The run test also finds that the active traders who search for various types of non random trends from which to earn a profit will not be able to beat a native buy and hold strategy, on average.

**Null hypothesis  $H_0$**  : Price of the share is changed randomly before one month of right share issue.

**Alternative Hypothesis  $H_1$**  : Share price change is not random before one month of right share issue

**Null hypothesis  $H_0$**  : The price of share is randomly distributed after one month of right share issue

**Alternative Hypothesis  $H_1$**  : The price of share is not randomly distributed after one month of right share issue

### 3.4.6 Hypothesis Test

Hypothesis can be defined as "a logically conjectured relationship between two or more variables expressed in the form of testable statements" (Sekaran; 1992:79). "Hypothesis is a statement about the relationship between two or more variables which needs to be investigated for its truth" (Wolf and Pant; 2003:62). Following hypothesis are set in this research paper.

**Null hypothesis  $H_0$  :  $\mu_x = \mu_y$** , that Actual Market Price after Right Share Issue and Theoretical Price after Right Share Issue are same. In other words, there is no significance difference between Theoretical Price and Actual Market price after Right share issue.

**Alternative Hypothesis  $H_1$  :  $\mu_x \neq \mu_y$**  that is Actual Market Price after Right Share Issue is not equal to Theoretical Market Price. In other words, there is significance difference between Theoretical market Price and Actual Market Price after Right Share Issue. (Two tail-test)

**$\mu_x$  = Closing Market Price after Right Share issue**

**$\mu_y$  = Theoretical Market Price after Right Share issue**

Test Statics: Under  $H_0$ , the test statistics is

$$Z = \frac{\bar{X} - \bar{y}}{\sqrt{\frac{S_x^2}{n_1} + \frac{S_y^2}{n_2}}}$$
$$\bar{x} = \frac{\sum x}{n} \quad \bar{y} = \frac{\sum y}{n}$$
$$s_x^2 = \frac{\sum (x - \bar{x})^2}{n-1} \quad s_y^2 = \frac{\sum (y - \bar{y})^2}{n-1}$$

Where,

$s_x^2$  = variance of Actual Market Price from its central value

$s_y^2$  = variance of Theoretical Market Price from its central value

n = no of samples

$\bar{x}$  = Central value of Actual Market Price after Right Share issue

$\bar{y}$  = Central value of Theoretical Market Price after Right Share issue

## **CHAPTER - IV**

### **DATA PRESENTATION & ANALYSIS**

This chapter deals with the presentation, analysis and interpretation of data collected from primary and secondary sources in order to fulfill the objective of this study. Secondary sources include official quotations of share prices, publication of SEBO/N and NEPSE, issue prospectus and annual reports of respective companies etc. Primary sources include the response of questionnaires from professional and general investors.

#### **4.1 Characteristics of Right Offering in Nepal**

Up to now, there are 324 companies listed in SEBO/N and NEPSE. Out of them 153 companies have got issue approval and 150 companies have issued right shares. 3 companies, Seti Cigarette Factory, Himalayan General Insurance Co. Ltd. and Nepal Development Bank Ltd. have not issued right shares after getting approval. This study has covered only 58 companies. These 58 companies are selected on the basis of right share issue in the Commercial Bank and Development Bank.

In Nepal, Nepal Finance and Saving Company has issued right share first in fiscal year 2052/53 amounting to Rs. 2.09 million. In 2053/54, 2 companies had issued right shares amounting to Rs. 275.2 million. There were 3 cases or right share issue in 2054/55, 1 case in 2055/56, 3 cases in 2056/57, 2 case 2057/58, 5 cases in 2058/59, 4 case 2059/60, 3 case 2060/61, 6 cases in 2061/62, 11 cases in 2062/63, 17 cases in 2063/64, 42 cases in 2064/65 and 50 cases in 2065/66. The list of the company issuing Right Shares is presented in Annex-1.

All the companies except Bottlers Nepal Ltd. issued right shares at par value i.e. Rs. 100 per share. Bottlers Nepal Ltd. issued right share in Rs. 260 per share this includes Rs. 160 premium per shares. Right shares can not be issued at discount according to Company Ordinance 2062. The rests of the companies could not add premium due to the fear of under subscription. Most of the companies issued right shares in order to increase the paid up capital as directed by NRB.

#### 4.2 Contribution of Right Share Issue in the Total Public Flotation

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

**Table 4.1**  
**Contribution of Right Share Issue in total Public Flotation**

<b>Fiscal Year</b>	<b>No. of Companies Issuing Right</b>	<b>Amount of Right Issue (Million)</b>	<b>Total Issue (Million)</b>	<b>% of Right Issue</b>
2050/51	0	0	244.40	0
2051/52	0	0	174.00	0
2052/53	1	2.09	293.70	0.71
2053/54	2	275.20	332.20	82.84
2054/55	3	249.96	462.36	54.06
2055/56	1	30.00	258.00	11.63
2056/57	3	124.60	326.90	38.12
2057/58	2	131.79	410.50	32.10
2058/59	5	621.87	1441.40	43.14
2059/60	4	162.24	556.50	29.15
2060/61	3	70	1027.50	6.81
2061/62	6	949.34	1626.80	58.36
2062/63	11	1013.45	2443.30	41.48
2063/64	17	1265.30	2295.50	55.12
2064/65	42	6793.40	10668.20	63.68
2065/66	50	13912.19	16828.51	82.67
<b>Total</b>	<b>150</b>	<b>25601.43</b>	<b>39389.77</b>	<b>65.00</b>

*Source: Different issues of SEBO/N*

Above table show that in fiscal year 2050/51 and 2051/52 total issues approved was Rs. 244.40 millions and Rs. 174.00 millions respectively all from primary issue no company issued right shares. In fiscal year 2052/53, only one company issued right shares. The contribution of right shares on total public flotation was 0.71% i.e. Rs. 2.09 millions out of Rs. 293.70 millions. In fiscal year 2053/54, two companies had issued right shares. The proportion of right shares was 82.84% i.e. Rs. 275.20 millions out of 332.20 millions total public flotation. In that fiscal year two companies, Bottlers Ltd. and Nepal Share Markets Co. Ltd. had issued large amount of right shares and that was the highest percentage of right shares issue over the total public flotation till the date. In the year 2054/55, three companies had issued right shares amounting to Rs. 249.96 millions which was 54.06% of total public flotation i.e. Rs. 249.96 millions out of Rs. 462.36 millions. In the fiscal year 2055/56, the right shares was lower than the previous years amounting to Rs. 30 millions covering only 11.63% of total public flotation i.e. Rs. 30 millions out of Rs. 258 millions. In fiscal year 2056/57, the amount of right shares issue was Rs. 124.60 millions which covered 38.12% of total public issuance of Rs. 326.90 millions. In this year three companies, Necon Air Ltd., Paschimanchal Finance Co. Ltd., and Ace Finance Co. Ltd. In the next fiscal year, 2057/58 there was two cases or right share announcement of the total amount of Rs. 131.79 millions which covers 32.10% of total public flotation i.e. Rs. 410.50 millions. In fiscal year 2058/59, there were five cases of right share issue amounting to Rs. 621.87 millions which covers 43.14% of total public flotation i.e. Rs. 1441.40 millions. In fiscal year 2059/60, the total public flotation was Rs. 556.50 millions out of which Rs. 162.24 millions was collected through right share issue this is 29.15% of total flotation, the cases were four. In fiscal year 2060/61, total amount raised through right share issue was Rs. 70.00 millions covering 6.81% of total public flotation i.e. Rs. 1027.50 millions. The total number of right share issue in that year was also three. In the fiscal year, 2061/62, total amount raised through right offering was Rs. 949.34 millions covering 58.36% of total public flotation

i.e. Rs. 1626.80 millions and the cases were six. In the year 2062/63 number of right share issue was eleven cases. The total amount raised through right share issue was Rs. 1013.45 millions out of total public flotation of Rs. 2443.30 millions covering 41.48%. In the fiscal year 2063/64, total amount raised through right offering was Rs. 1265.30 millions covering 55.12% of total public flotation i.e. Rs. 2295.50 millions and the cases were seventeen. In the fiscal year 2064/65, total amount raised through right offering was Rs. 6793.40 millions covering 63.68% of total public flotation i.e. Rs. 10668.20 millions and the cases were forty two. Finally, in the year 2065/66 number of right share issue was fifty which is the highest number of right share issue in the history of right share announcement. The total amount raised through right share issue was Rs. 13912.19 millions out of total public flotation of Rs. 16828.51 millions covering 82.67%.

By the above table it is clear that, during the period in the fiscal year 2052/53 there was lowest percentage of right offering i.e. 0.71% in comparison to the year 2053/54 i.e. 82.84%. On the other hand, the highest amount of right offering was in the year 2065/66 which was Rs. 13912.19 millions and lowest in the year 2055/56 which was Rs. 30 millions.

### **4.3 Correlation between the Company Size and the Ratio of the Amount of Right Share Issue with the Total Equity Capital before Right Offering**

We calculate the correlation between the company size and amount of right share issue to find if there is any relation between the amount and size of the company as well as the ratio of rights required to purchase additional shares.

**Table 4.2**

**Correlation Between the Ratios of the Amount of Right Share Issue with the Total Equity Capital before Right Offering**

<b>S. No.</b>	<b>Particular</b>	<b>Issue Ratio (%)</b>
1	Coefficient of correlation (r)	27.3%
2	Coefficient of determination( $R^2$ )	7.5%

*Source: annex 2*

The correlation between the company size and ratio of amount of right share issue is 0.273 i.e.  $r = 27.3\%$ . This shows there is low degree of positive relationship between company size and amount of right share issue. Companies' issues right shares according to their need so; issued amount is not so much related to size.

Coefficient of determination ( $R^2$ ) = 0.075 i.e. 7.5% also signifies that the relation between company size and ratio of right share issue is very weak. This implies that 7.5% change in amount of right share issue is explained by company size and the remaining change is explained by other factors.

**4.4 Comparison of Stock Prices before and after Right Share Issue**

The impact of Right Share issue on market price per share is evaluated here. Theoretically, price of the share should be decreased after Right Share issue. The table below shows the Market Price per share before Right Share issue and after Right Share issue and their percentage difference. Pre Right issue price is the closing market price one month prior to Right Share issue and Post Right issue price is the closing market price after one month of Right Share issue.

The positive change in price indicates that the post Right issue price is greater than pre right issue price. This phenomenon is theoretically wrong. The negative change in price indicates that the post Right issue price is smaller than Pre Right



issue price and this phenomenon is theoretically correct. The zero change indicates that the Post Right issue price and Pre Right issue price are equal and this is also theoretically wrong.

**Table 4.3**  
**MPS of Sample Companies before and after Right Share Issue**

S. No.	Name of Companies	Pre Rt. Issue Price	Post Rt. Issue Price	Change in Price (%)
1.	NBL	250	245	-2.00
2.	EBL	680	660	-2.94
3.	BOK	325	300	-7.69
4.	SBI	330	441	33.64
5.	NIB	315	178	-43.49
6.	NBBL	1000	1170	17.00
7.	NUBL	84	85	1.19
8.	SBI	410	333	-18.78
9.	NIB	1340	780	-41.79
10.	DCBL	260	240	-7.69
11.	KMBF	341	344	0.88
12.	MBL	415	320	-22.89
13.	PDBL	103	132	28.15
14.	LUBL	173	182	5.20
15.	CBBL	155	155	0.00
16.	NDB	133	145	9.02
17.	LBL	520	660	26.92
18.	BDBL	381	365	-4.20
19.	SBL	546	778	42.49
20.	LUBL	370	370	0.00
21.	NIB	1750	1355	-22.57
22.	SBL	610	898	47.21
23.	NICB	1044	831	-20.40
24.	LUBL	932	1065	14.27
25.	KBL	460	558	21.30
26.	LBL	775	1009	30.19
27.	NCCB	975	1163	19.28

28.	PDBL	290	300	3.45
29.	BBBL	132	168	27.27
30.	DCBL	150	150	0.00
31.	SDBL	2866	2900	1.89
32.	SBBL	903	1450	60.58
33.	ACEDBL	889	856	-3.71
34.	GDBNL	830	860	3.61
35.	BDBL	1115	510	-54.26
36.	HBBL	1776	1456	-18.01
37.	ABBL	993	615	-38.06
38.	SBBLJ	600	618	3.00
39.	NUBL	114	116	1.75
40.	MBL	1265	800	-36.76
41.	KMBF	252	245	-2.77
42.	NBBL	775	320	-58.71
43.	NIB	820	930	13.41
44.	NMBF	765	855	11.76
45.	DCBL	236	236	0.00
46.	GDBL	884	710	-19.68
47.	EDBL	680	908	33.53
48.	NIB	1200	1170	-2.50
49.	NBBL	116	107	-7.75
50.	IDBL	1670	535	-67.96
51.	SDBL	900	892	-0.89
52.	SBBL	580	600	3.45
53.	ACEDBL	835	588	-29.58
54.	NABBC	298	376	26.17
55.	GDBNL	618	717	16.02
56.	NDEP	520	417	-19.80
57.	BBBL	138	140	1.45
58.	EDBL	306	306	0.00

*Source: Annual Reports of SEBO/N and Trading Reports of NEPSE*

From the table above it is clear that in majority of the cases the change is negative.

This means majority of the companies follow the theory i.e. the Market Price per

share decreases after Right Share issue. Among the 58 sample companies, 25 companies' share price has decreased after Right Share issue. 5 companies show no change i.e. the Market Price per share of those companies remained the same after Right share issue. The Market Price per share of the remaining 28 companies increased after Right Share issue. From the above analysis it can be concluded that generally the market Price increases after Right Share issue.

#### **4.5 Comparison of Theoretical Price and Actual Market Price after Right Share Issue**

To find the impact of Right Share issue on Market price of Share, it is necessary to calculate the Theoretical Market Price. The market Price after ex-right date compared with Theoretical Market Price to measure the effects. The comparison results of the firms measure the impact of Right Share issue on Market Price of share, positive change in Share Price means Share Price after Right Share issue are higher than Theoretical Market Price. This is good indicator for shareholders and company; it means they have good signaling effect. Negative change means share price after Right Share issue are lower than Theoretical Price.

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

<b>S. No.</b>	<b>Name of Companies</b>	<b>Actual MPS after Rt. issue</b>	<b>Theoretical value of Share after Rt. issue</b>	<b>% Change</b>
1.	NBL	245	175	40.0
2.	EBL	660	390	69.2
3.	BOK	300	175	71.4
4.	SBI	441	253	74.3
5.	NIB	178	261	-31.8
6.	NBBL	1170	700	67.1
7.	NUBL	85	87	-2.3
8.	SBI	333	307	8.5
9.	NIB	780	1030	-24.3
10.	DCBL	240	180	33.3
11.	KMBF	344	221	55.7
12.	MBL	320	342	-6.4
13.	PDBL	132	101	30.7
14.	LUBL	182	161	13.0
15.	CBBL	155	118	31.4
16.	NDB	145	117	23.9
17.	LBL	660	450	46.7
18.	BDBL	365	241	51.5
19.	SBL	778	472	64.8
20.	LUBL	370	303	22.1
21.	NIB	1355	1475	-8.1
22.	SBL	898	525	71.0
23.	NICB	831	887	-6.3
24.	LUBL	1065	724	47.1
25.	KBL	558	400	39.5
26.	LBL	1009	640	57.7
27.	NCCB	1163	317	266.9
28.	PDBL	300	200	50.0
29.	BBBL	168	114	47.4
30.	DCBL	150	112	33.9
31.	SDBL	2900	1483	95.5

32.	SBBL	1450	769	88.6
33.	ACEDBL	856	707	21.1
34.	GDBNL	860	587	46.5
35.	BDBL	510	551	-7.4
36.	HBBL	1456	659	120.9
37.	ABBL	615	355	73.2
38.	SBBLJ	618	433	42.7
39.	NUBL	116	106	9.4
40.	MBL	800	1199	-33.3
41.	KMBF	245	160	53.1
42.	NBBL	320	368	-13.0
43.	NIB	930	580	60.3
44.	NMBF	855	611	39.9
45.	DCBL	236	191	23.6
46.	GDBL	710	426	66.7
47.	EDBL	908	390	132.8
48.	NIB	1170	833	40.5
49.	NBBL	107	108	-0.9
50.	IDBL	535	490	9.2
51.	SDBL	892	233	282.8
52.	SBBL	600	340	76.5
53.	ACEDBL	588	548	7.3
54.	NABBC	376	199	88.9
55.	GDBNL	717	514	39.5
56.	NDEP	417	380	9.7
57.	BBBL	140	113	23.9
58.	EDBL	306	151	102.6
Total				2738.5
<b>Average Change=</b> $\frac{\text{Sum of \% change}}{\text{Number of observation}} = \frac{2738.5}{58}$				47.21%

*Source: Annual Reports of SEBO/N and Trading Reports of NEPSE*

The table above shows the % change in Actual Market Price and Theoretical Price of share after Right Share issue. Theoretically, Actual Market Price and Theoretical Price of share after Right Share issue should be equal. Actual Market

Price after Right Share issue is collected from the trading reports of SEBO/N and Theoretical Price of the share after Right Share issue is calculated in Annex 3.

The table above shows that the Actual Market Price of Nepal Bank Ltd., Nepal Everest Bank Ltd., Bank of Kathmandu Ltd. and Nepal SBI Bank Ltd. are respectively Rs.245, Rs. 660, Rs. 300 and Rs. 441 and their Theoretical Market Price are respectively Rs.175, Rs.390, Rs.175 and Rs. 253. The percentage changes between the two prices are positive i.e. 40%, 69.2%, 71.4% and 74.3% respectively. The Actual Market Price of Nepal Investment Bank Ltd. is Rs.178 and their Theoretical Market Price is Rs.261 and thus has negative change i.e. - 31.8%. The Actual Market Price of NB Bank Ltd. is Rs.1170 and Theoretical Prices is lower than the Actual market Prices and is Rs.700 and therefore the change is 67%. The Actual Market Price of People's Nirdhan Utthan Bank Ltd. is Rs.85 and their Theoretical Price, which is higher than Actual market, is Rs.87 and thus the change is -2.3% this negative change indicates that the Right Share announcement cannot spread positive message among the investors. The Actual Market Price of Nepal SBI Bank Ltd. is Rs.333, the Theoretical Price of which is Rs.303 and thus has positive change i.e.8.5%. Similarly the Actual Market Price of Nepal Investment Bank Ltd.(for second time) is Rs.780 the Theoretical Price of which is calculated to be higher than this i.e. Rs.1030 causing a change of -24.3%. The Actual Market Price of Development Credit Bank Ltd. and Kumari Bank Ltd. are respectively Rs.240 and Rs.344 the Theoretical Prices which are lower than these prices are respectively Rs.180 and Rs.221 causing a change of 33.3% and 55.7%. The Actual Market Price of Machhapuchhre Bank Ltd. is Rs.320 and the Theoretical Price is Rs.342 causing a negative change of -6.4%. The Actual Market Price of Paschimanchal Bikash Bank Ltd., Lumbini Bank Ltd., Chhimek Bikash Bank Ltd., Nepal Development Bank Ltd., Laxmi Bank Ltd., Business Development Bank Ltd., Sidhartha Bank Ltd. and Lumbini Bank Ltd. are respectively Rs.132, Rs.182, Rs.155, Rs.145, Rs. 660, Rs. 365, Rs. 778 and Rs.370

and there Theoretical Price are respectively Rs.101, Rs. 161, Rs.118, Rs. 117, Rs.450, Rs. 241, Rs.472 and Rs.303 and The percentage changes between the two prices are positive i.e. 30.7%, 13%, 31.4%, 23.9%, 46.7%, 51.5%, 64.8% and 22.1% respectively. The Actual Market Price of Nepal Investment Bank Ltd. is Rs.1355, the Theoretical price of whose is calculated to be Rs.1475 and causing a negative change of -8.1%. The Actual Market Price of Siddhartha Bikash Bank Ltd. is Rs.898 the Theoretical Price of which is Calculated to be Rs.525 causing a positive change of 71%. The Actual Market Price of Siddhartha Bank Ltd. is Rs. 831 the Theoretical Price of which is Calculated to be Rs. 887 causing a negative change of -6.3%. The Actual Market Price of NIC Bank Ltd., Lumbini Bank Ltd., Kumari Bank Ltd., Laxmi Bank Ltd., Nepal Credit & Commerce Bank Ltd., Paschimanchal Bikash Bank Ltd., Bhrikuti Bikash Bank Ltd., Development Credit Bank Ltd., Siddhartha Bikash Bank Ltd., Sanima Bikash Bank Ltd., Ace Development Bank Ltd. and Gorkha Bikash Bank Ltd. are respectively Rs.1065, Rs.558, Rs.1009, Rs.1163, Rs. 300, Rs. 168, Rs. 150, Rs. 2900, Rs. 1450, Rs. 856 and Rs.860 and there Theoretical Price are respectively Rs.724, Rs. 400, Rs.640, Rs. 317, Rs.200, Rs. 114, Rs.112, Rs. 1483, Rs. 769, Rs. 707 and Rs.587 and The percentage changes between the two prices are positive i.e. 47.1%, 39.5%, 57.7%, 266.9%, 50%, 57.4%, 33.9%, 95.5%, 88.6%, 21.1% and 46.5% respectively. The Actual Market Price of Business Development Bank Ltd. is Rs. 510 the Theoretical Price of which is Calculated to be Rs. 551 causing a negative change of -7.4%. The Actual Market Price of Himchuli Bank Ltd., Annapurna Bikash Bank Ltd., Sahayogi Bikash Bank Ltd. and Nirdhan Uthan Bank Ltd. are respectively Rs.1456, Rs.615, Rs.618 and Rs.116 and there Theoretical Price are respectively Rs.659, Rs. 355, Rs.433 and Rs.106 and The percentage changes between the two prices are positive i.e. 120.9%, 73.2%, 42.7% and 9.4% respectively. The Actual Market Price of Machhapurchhre Bank Ltd. is Rs. 800 the Theoretical Price of which is Calculated to be Rs. 1199 causing a negative change of -33.3%. The Actual Market Price of Kist Bank Ltd. is Rs. 245 the

Theoretical Price of which is Calculated to be Rs. 160 causing a positive change of 53.1%. The Actual Market Price of Nepal Bangladesh Bank Ltd. is Rs. 320 the Theoretical Price of which is Calculated to be Rs. 368 causing a negative change of -13%. The Actual Market Price of NMB Bank Ltd., DCBL Bank Ltd., Swabalamwan Bikash Bank Ltd., Gandaki Development Bank Ltd., Bageswori Bikash Bank Ltd. and Nepal Investment Bank Ltd. are respectively Rs.930, Rs.855, Rs.236, Rs. 710, Rs. 908 and Rs.1170 and there Theoretical Price are respectively Rs.580, Rs. 611, Rs.191, Rs. 426, Rs. 390 and Rs.833 and The percentage changes between the two prices are positive i.e. 60.3%, 39.9%, 23.6%, 66.7%, 132.8% and 40.5% respectively. The Actual Market Price of Nepal Bikash Bank Ltd. is Rs. 107 the Theoretical Price of which is Calculated to be Rs. 108 causing a negative change of -0.9%. The Actual Market Price of Infrastructure Development Bank Ltd., Siddhartha Development Bank Ltd., Sanima Bikash Bank Ltd., Ace Development Bank Ltd., Narayani Development Bank Ltd., Gorkha Development Bank Ltd., Nepal Development & Employment Promotion Bank Ltd., Bhrikuti Bikash Bank Ltd. and Excel Development Bank Ltd. are respectively Rs.535, Rs.892, Rs.600, Rs.588, Rs.376, Rs.717, Rs.417, Rs.140 and Rs.306 and there Theoretical Price are respectively Rs.490, Rs.233, Rs.340, Rs. 548, Rs.199, Rs.514, Rs.380, Rs.113 and Rs.115 and The percentage changes between the two prices are positive i.e. 9.2%, 282.8%, 76.5%, 7.3%, 88.9%, 39.5%, 9.7%, 23.9% and 102.6% respectively.

From the above analysis, it is found that out of 58 sample companies 10 companies have Theoretical Market Price higher than Actual Market Price causing negative percentage change and the remaining 48 companies have Actual Market Price higher than the Theoretical Market Price causing positive change. The average Percentage change between the Actual Price and Theoretical Price is 47.21%.



## 4.6 Testing of Hypothesis

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

**Null hypothesis  $H_0$  :  $\mu_x = \mu_y$** , that Actual Market Price after Right Share Issue and Theoretical Price after Right Share Issue are same. In other words, there is no significance difference between Theoretical Price and Actual Market price after Right share issue.

**Alternative Hypothesis  $H_1$  :  $\mu_x \neq \mu_y$**  that is Actual Market Price after Right Share Issue is not equal to Theoretical Market Price. In other words, there is significance difference between Theoretical market Price and Actual Market Price after Right Share Issue (Two tail-test).

**Table 4.5**  
**Calculation of Test Statistics**

S. No.	Name of Companies	Actual MPS after Rt. issue (x)	Theoretical value of Share after Rt. issue (y)	$d_x = (x - \bar{x})$	$d_x^2 = (x - \bar{x})^2$	$d_y = (y - \bar{y})$	$d_y^2 = (y - \bar{y})^2$
1.	NBL	245	175	-369	136161	-255.4	65229.2
2.	EBL	660	390	46	2116	-40.4	1632.2
3.	BOK	300	175	-314	98596	-255.4	65229.2
4.	SBI	441	253	-173	29929	-177.4	31470.8
5.	NIB	178	261	-436	190096	-169.4	28696.4
6.	NBBL	1170	700	556	309136	269.6	72684.2
7.	NUBL	85	87	-529	279841	-343.4	117923.6
8.	SBI	333	307	-281	78961	-123.4	15227.6
9.	NIB	780	1030	166	27556	599.6	359520.2
10.	DCBL	240	180	-374	139876	-250.4	62700.2
11.	KMBF	344	221	-270	72900	-209.4	43848.4
12.	MBL	320	342	-294	86436	-88.4	7814.6
13.	PDBL	132	101	-482	232324	-329.4	108504.4
14.	LUBL	182	161	-432	186624	-269.4	72576.4
15.	CBBL	155	118	-459	210681	-312.4	97593.8
16.	NDB	145	117	-469	219961	-313.4	98219.6
17.	LBL	660	450	46	2116	19.6	384.2
18.	BDBL	365	241	-249	62001	-189.4	35872.4
19.	SBL	778	472	164	26896	41.6	1730.6
20.	LUBL	370	303	-244	59536	-127.4	16230.8
21.	NIB	1355	1475	741	549081	1044.6	1091189.2
22.	SBL	898	525	284	80656	94.6	8949.2
23.	NICB	831	887	217	47089	456.6	208483.6
24.	LUBL	1065	724	451	203401	293.6	86201.0
25.	KBL	558	400	-56	3136	-30.4	924.2
26.	LBL	1009	640	395	156025	209.6	43932.2
27.	NCCB	1163	317	549	301401	-113.4	12859.6
28.	PDBL	300	200	-314	98596	-230.4	53084.2
29.	BBBL	168	114	-446	198916	-316.4	100109.0
30.	DCBL	150	112	-464	215296	-318.4	101378.6

31.	SDBL	2900	1483	2286	5225796	1052.6	1107966.8
32.	SBBL	1450	769	836	698896	338.6	114650.0
33.	ACEDBL	856	707	242	58564	276.6	76507.6
34.	GDBNL	860	587	246	60516	156.6	24523.6
35.	BDBL	510	551	-104	10816	120.6	14544.4
36.	HBBL	1456	659	842	708964	228.6	52258.0
37.	ABBL	615	355	1	1	-75.4	5685.2
38.	SBBLJ	618	433	4	16	2.6	6.8
39.	NUBL	116	106	-498	248004	-324.4	105235.4
40.	MBL	800	1199	186	34596	768.6	590746.0
41.	KMBF	245	160	-369	136161	-270.4	73116.2
42.	NBBL	320	368	-294	86436	-62.4	3893.8
43.	NIB	930	580	316	99856	149.6	22380.2
44.	NMBF	855	611	241	58081	180.6	32616.4
45.	DCBL	236	191	-378	142884	-239.4	57312.4
46.	GDBL	710	426	96	9216	-4.4	19.4
47.	EDBL	908	390	294	86436	-40.4	1632.2
48.	NIB	1170	833	556	309136	402.6	162086.8
49.	NBBL	107	108	-507	257049	-322.4	103941.8
50.	IDBL	535	490	-79	6241	59.6	3552.2
51.	SDBL	892	233	278	77284	-197.4	38966.8
52.	SBBL	600	340	-14	196	-90.4	8172.2
53.	ACEDBL	588	548	-26	676	117.6	13829.8
54.	NABBC	376	199	-238	56644	-231.4	53546.0
55.	GDBNL	717	514	103	10609	83.6	6989.0
56.	NDEP	417	380	-197	38809	-50.4	2540.2
57.	BBBL	140	113	-474	224676	-317.4	100742.8
58.	EDBL	306	151	-308	94864	-279.4	78064.4
<b>Total</b>		$\sum x =$ <b>35613</b>	$\sum y =$ <b>24962</b>		$\sum d_x^2 =$ 13046763		$\sum d_y^2 =$ 5865726

Source: Annual Reports of SEBO/N and Trading Reports of NEPSE

$$\bar{x} = \frac{\sum x}{n} = \frac{35613}{58} = 614.0$$

$$\bar{y} = \frac{\sum y}{n} = \frac{24962}{58} = 430.4$$

$$s_x^2 = \frac{\sum (x - \bar{x})^2}{n-1} = \frac{13046763}{58-1} = 228890.6$$

$$s_y^2 = \frac{\sum (y - \bar{y})^2}{n-1} = \frac{5865726}{58-1} = 102907.5$$

### Test Statistics

$$Z = \frac{\bar{x} - \bar{y}}{\sqrt{\frac{s_x^2}{n_1} + \frac{s_y^2}{n_2}}} = \frac{614.0 - 430.4}{\sqrt{\frac{228890.6}{58} + \frac{102907.5}{58}}} = \frac{183.6}{75.6} = 2.43$$

**Level of significance ( $\alpha$ ) = 5%**

**Critical Region:** The critical value of Z at 5% level of significance for two tail test is  $z_{\alpha/2} = z_{0.025} = 1.96$  and the critical region is  $|Z| < |z_{\alpha/2}|$ .

**Decision:** Since the computed value of Z,  $|Z| = 2.43$  is smaller than the critical value  $z_{\alpha/2} = 1.96$  we rejected null hypothesis  $H_0$

**Conclusion:** Hence we can conclude that there is no significant difference between actual market price and theoretical price of share after right share issue.

### 4.7 Presentation and Analysis of Primary Data

Primary data are collected from Shareholder's survey by using questionnaires. The main tool that is used in survey research is questionnaire. A questionnaire is a format list of questions designed to gather responses from respondents on a given topic. Thus, a questionnaire is an efficient data collecting mechanism when the researcher has known what is required and how to measure the variables of

interest. The questionnaire survey method is used to analyze the Right Share Issue and Efficiency of Nepalese Stock Market. In this research study, 100 aggressive Shareholders are taken for the Shareholder's survey. Those Shareholders taken are serious in investing Stock and buy stock for active trading.

**1. Often, from which market do you buy stock?**

**Table 4.6**

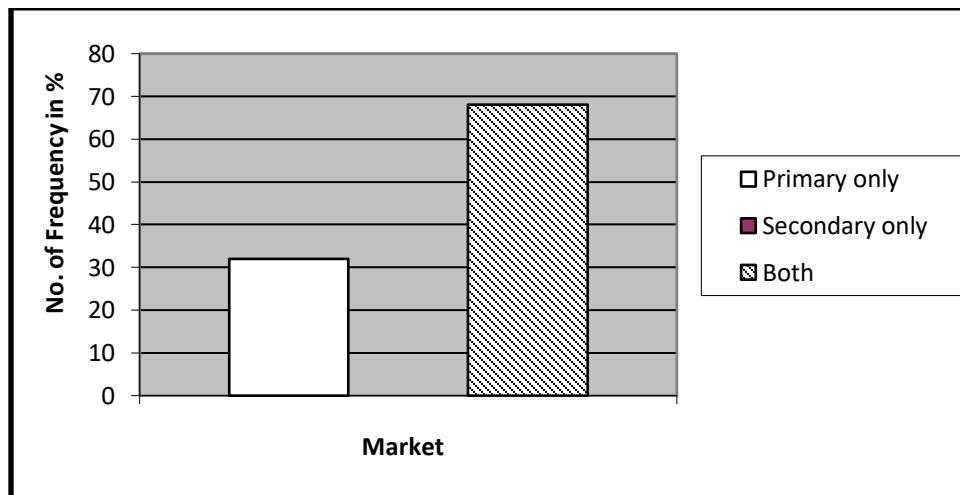
**Market Selection of Investors**

S.N.	Market	No. of Frequency	Percentage
1	Primary only	32	32
2	Secondary only	0	0
3	Both	68	68
	Total	100	100

*Source: Field Survey 2010*

**Figure 4.1**

**Market Selection of Investors**



During the period of study, various types' information was collected. In response to the question about the market selection 68% of the respondents said that they buy stock from both the markets, primary and secondary. The remaining 32% respondents who are not the professional investors buy stock from primary market

only. There were no respondents who buy stock from secondary market only. The investors buy stock either from primary market only or from both the markets, primary and secondary. This is presented in Figure 4.1.

## 2. Why do you buy stocks?

**Table 4.7**

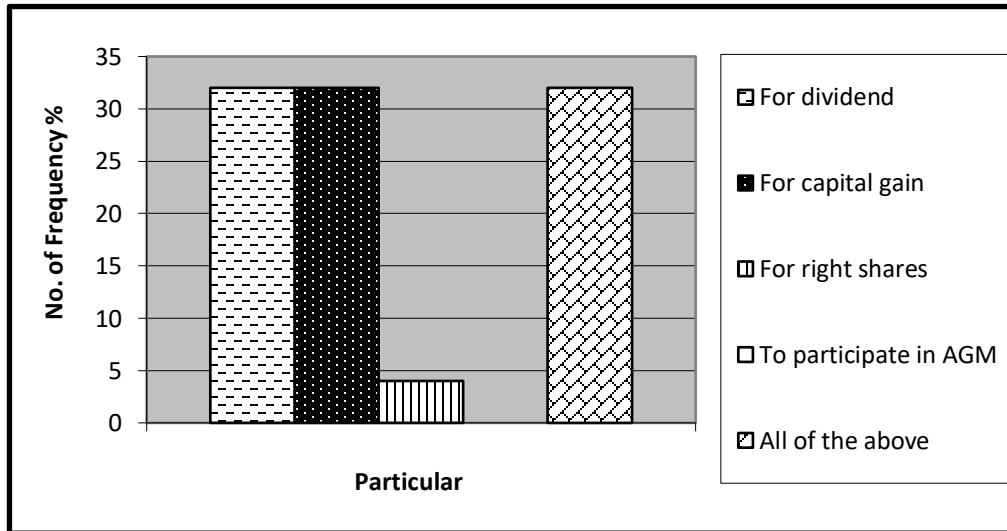
**Reasons of Buying Stocks by Nepalese Investors**

S.N	Particular	No. of Frequency	Percentage
1	For dividend	32	32
2	For capital gain	32	32
3	For right shares	4	4
4	To participate in AGM	0	0
5	All of the above	32	32
	Total	100	100

*Source: Field Survey 2010*

**Figure 4.2**

**Reasons of Buying Stocks by Nepalese Investors**



Most of the Nepalese investors buy stock for dividend and bonus shares. From the responses made in the questionnaire, 32% of the investors make investment in the shares for dividend and bonus. 32% had said that they make investment in the

shares for capital gain. Only 4% of the investors make investment in the shares for right shares. There were no respondents who buy shares only to participate in the AGM. 32% had said that they like to buy shares for all the reasons mentioned in the questionnaire i.e. for dividend, for capital gain, for right shares, to participate in AGM. This has been presented in Figure 4.2

### 3. How often do you make trading of shares?

**Table 4.8**

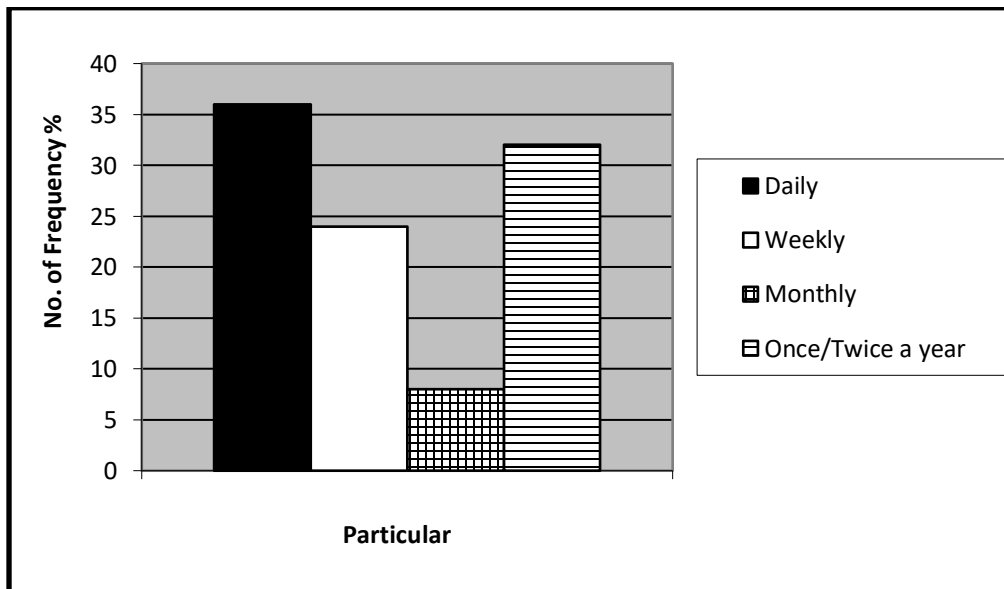
**Frequency of trading shares by Nepalese Investors**

S.N	Particular	No. of Frequency	Percentage
1	Daily	36	36
2	Weekly	24	24
3	Monthly	8	8
4	Once/Twice a year	32	32
	Total	100	100

*Source: Field Survey 2010*

**Figure 4.3**

**Frequency of Trading Shares by Nepalese Investors**



In another question about the frequency of transaction, 36% respondents said that they make transaction of shares daily. 24% respondents said that they make transaction weekly. These investors were big investors. 8% respondents said that they make investment monthly. 32% of the respondents said that they making trading once/twice a month. This figure consists of the investors who buy stock from primary market only.

**4. Have you ever bought Right shares?**

**Table 4.9**

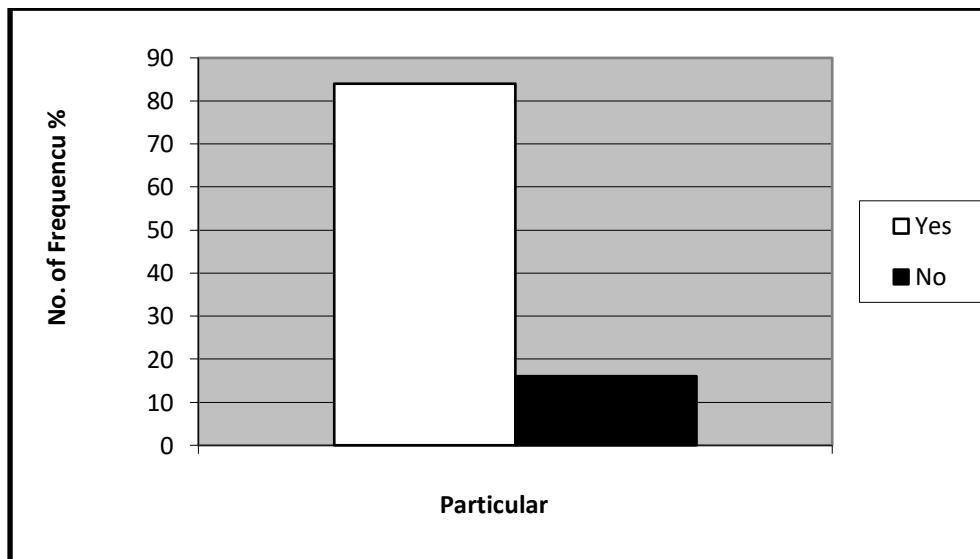
**Nepalese Investors buying Right Shares**

S.N	Particular	No. of Frequency	Percentage
1	Yes	84	84
2	No	16	16
	Total	100	100

*Source: Field Survey 2010*

**Figure 4.4**

**Nepalese Investors buying Right Shares**





Majority of the shareholders have bought right shares during their investment period. 84% of the respondents bought right shares offered by the company in which they have invested. Remaining 16% have not bought right shares yet. It is because their companies have not offered right shares yet and some have not got information about the issue of right shares. This have been presented in Figure 4.4

**5. In your experience, what is the trend of right share issues in Nepal?**

**Table 4.10**

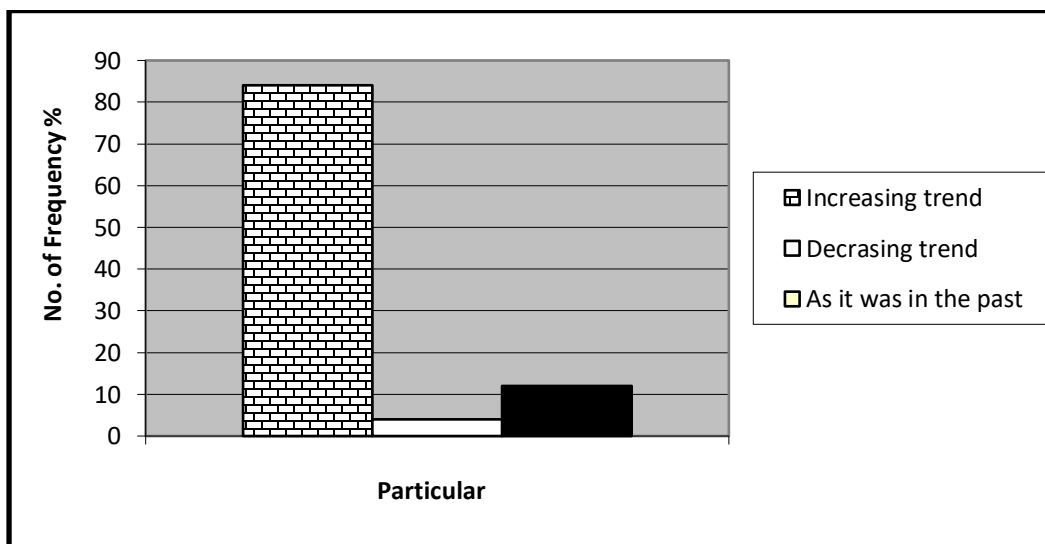
**Trend of Right Share Issue in Nepal**

S.N	Particular	No. of Frequency	Percentage
1	Increasing trend	84	84
2	Decreasing trend	4	4
3	As it was in the past	12	12
	Total	100	100

*Source: Field Survey 2010*

**Figure 4.5**

**Trend of Right Share Issue in Nepal**



In another question about the trend of right share issue, majority of the respondents had said that it is in the increasing trend i.e. 84% of the respondents

had said that right share issue practice has been increasing year by year. Very few respondents i.e. 4% had said that it is in decreasing trend and 12% said that right share issue practice has neither increased nor decreased it as it was in the past. This has been presented in Figure 4.5

**6. Do you think that Investors are well aware all the Phenomenon of Right Offering?**

**Table 4.11**

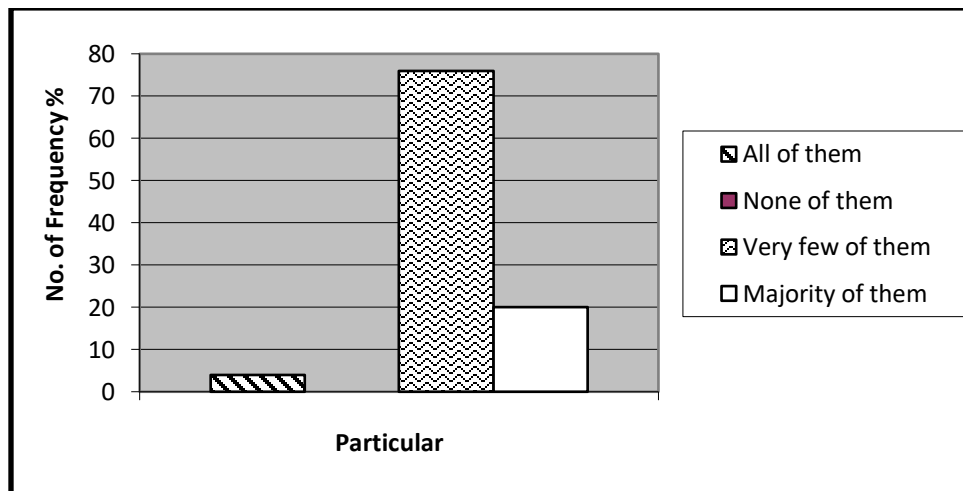
**Awareness of Nepalese Investors on Right Share Issue**

S.N	Particular	No. of Frequency	Percentage
1	All of them	4	4
2	None of them	0	0
3	Very few of them	76	76
4	Majority of them	20	20
	Total	100	100

*Source: Field Survey 2010*

**Figure 4.6**

**Awareness of Nepalese Investors on Right Share Issue**



In another question about the awareness about the right share issue, most of the respondents i.e. 76% had said that very few investors are well aware about right share issue; 20% said that majority of the shareholders know about right share

issue phenomenon. Only 4% respondents said had said that all of the investors has known about the phenomenon of right share issue. This has been presented in Figure No. 4.6

**7. Do you Collect Information Regarding the Right Issue Announcement?**

**Table 4.12**

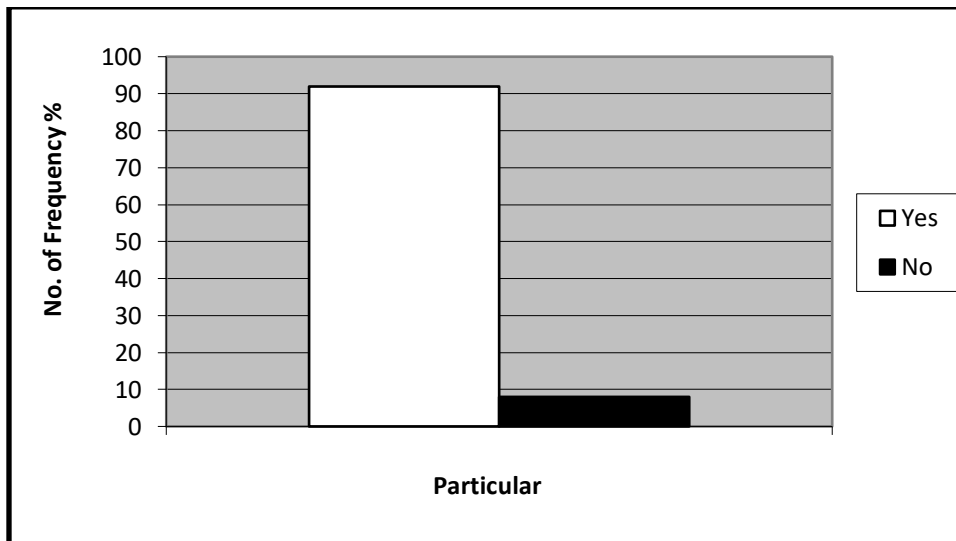
**Collection of Information by Nepalese Investors**

S.N	Particular	No. of Frequency	Percentage
1	Yes	92	92
2	No	8	8
	Total	100	100

*Source: Field Survey 2010*

**Figure 4.7**

**Collection of information by Nepalese Investors**



Most of the respondents had said that they collect information regarding the right share issue announcement. This group consists of 92% of the respondents and only 8% had said that they do not collect any information about right share issue announcement. This has been presented in Figure 4.7

**8. If yes, what is the Source of Information?**

**Table 4.13**

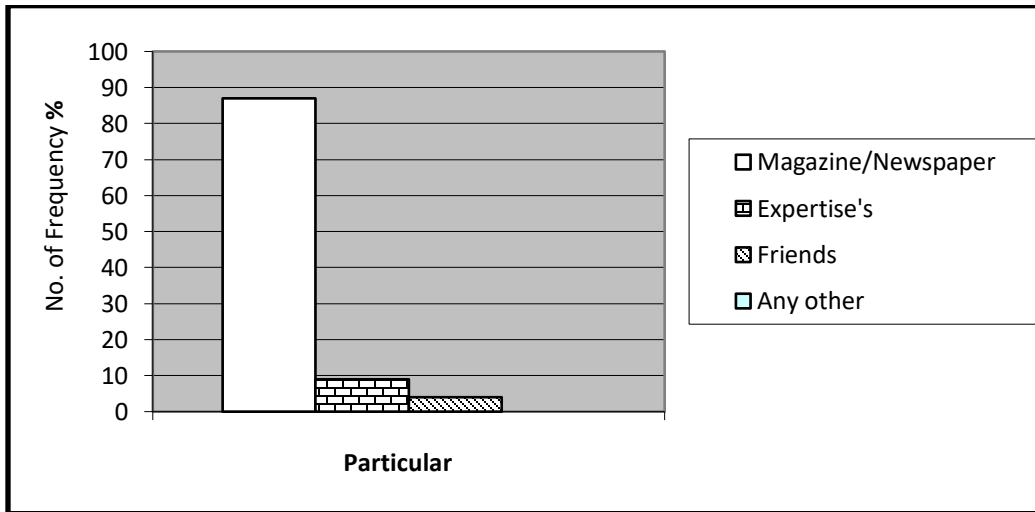
**Sources of Information of Nepalese Investors**

S.N	Particular	No. of Frequency	Percentage
1	Magazine/Newspaper	87	87
2	Expertise's	9	9
3	Friends	4	4
4	Any other	0	0
	Total	100	100

*Source: Field Survey 2010*

**Figure 4.8**

**Sources of Information of Nepalese Investors**



Among the respondents who collect information regarding right share issue announcement 87% collect information from magazines/newspaper, 9% from expertise and 4% from friends. This has been presented in Figure 4.8

**9. In your Experience, what Happens to the MPS after Right Share Issue?**

**Table 4.14**

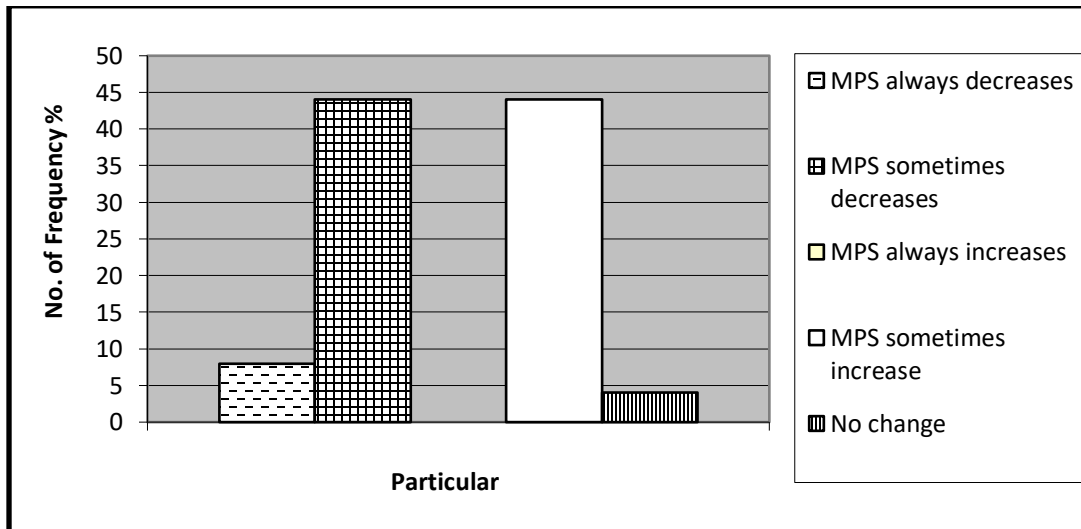
**Impact of Right Share Issue on MPS**

S.N	Particular	No. of Frequency	Percentage
1	MPS always decreases	8	8
2	MPS sometimes decreases	44	44
3	MPS always increases	0	0
4	MPS sometimes increase	44	44
5	No change	4	4
	Total	100	100

*Source: Field Survey 2010*

**Figure 4.9**

**Impact of Right Share Issue on MPS**



In another major question about the impact of right share issue on market price per share, a mixed result has been obtained. 44% respondents said that in their experience, market price per share sometimes decreases after right share issue. Another 44% said that market price per share sometimes increases after right share

issue and 4% had said that market price per share does not change after right share issue. This has been presented in Figure 4.9.

**10. Rank the following Factors from Highest (1) to Lowest (6) in Terms of the Effect on Share Price Fluctuation**

**Table 4.15**

**Rating of the Factors Affecting the Share Price**

<b>S.N</b>	<b>Particular</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
1	Dividend announcement	48	36	4	8	4	0
2	Right issue announcement	0	44	44	4	4	4
3	Political condition	36	8	28	20	8	0
4	Economic conditions (inflation, deflation, Int. rates etc.)	0	0	4	32	60	4
5	Directives of regulatory body	16	8	12	36	20	8
6	Natural disasters	0	4	8	0	4	84

*Source: Field Survey 2010*

While rating the factors responsible for share fluctuation in Nepal, majority of the respondents had ranked dividend and bonus share announcement in the first place, right share announcement in the second place, political condition in the third place, directives of the regulatory body in the fourth place, Economic condition in the fifth place and natural disasters in the sixth place. This has been presented in the table no. 4.14. According to the responses of the respondents the factors responsible for share price fluctuation can be ranked as:

1. Dividend and Bonus share announcement
2. Right Share issue announcement
3. Political Condition
4. Directives of Regulatory Body
5. Economic Condition
6. Natural Disasters

**11. Which of the following Analysis do you Perform while Buying or Selling Stocks?**

**Table 4.16**

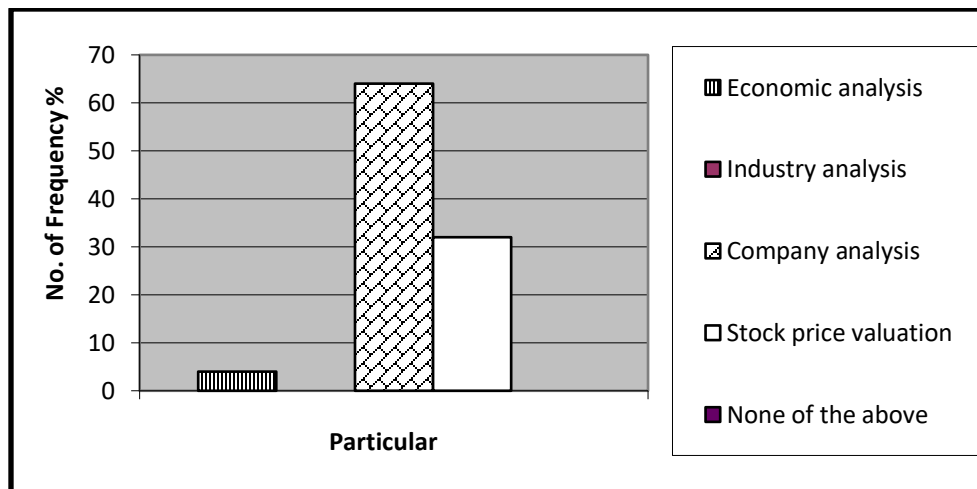
**Tools used by Nepalese Investors to Evaluate Share Price**

S.N	Particular	No. of Frequency	Percentage
1	Economic analysis	4	4
2	Industry analysis	0	0
3	Company analysis	64	64
4	Stock price valuation	32	32
5	None of the above	0	0
	Total	100	100

*Source: Field Survey 2010*

**Figure 4.10**

**Tools used by Nepalese Investors to Evaluate Share Price**



In another question about the tools used in the analysis of share price behavior, majority of the respondents i.e. 64% had said that they make company analysis, 32% had said that they make share price valuation and 4% had said that they make economic analysis. This has been presented in Figure 4.10

## 12. What Types of Companies are in your Target to Invest in Stock?

**Table 4.17**

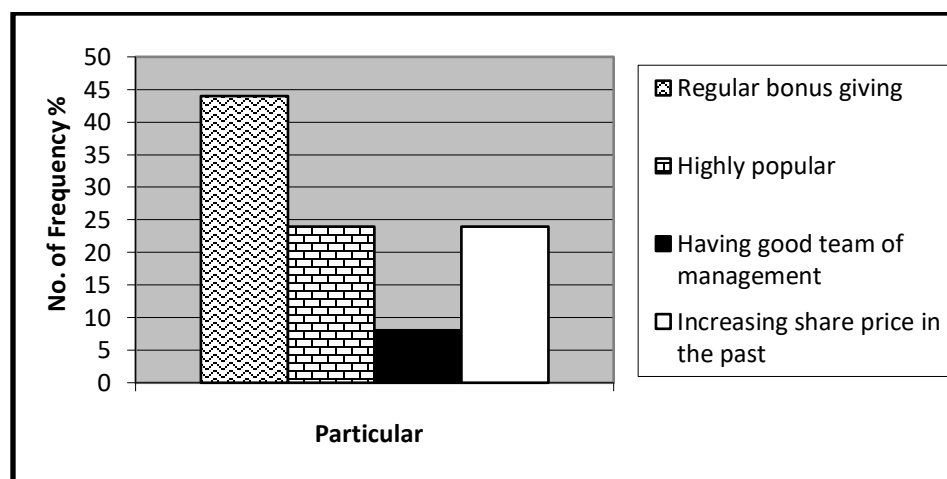
**Company Selection**

S.N	Particular	No. of Frequency	Percentage
1	Regular bonus giving	44	44
2	Highly popular	24	24
3	Having good team of management	8	8
4	Increasing share price in the past.	24	24
	Total	100	100

*Source: Field Survey 2010*

**Figure 4.11**

**Industry Selection by Nepalese Investors**



Regarding the selection of the company, 44% of the respondents had said that they want to make investment in stock of regular dividend and bonus giving companies. 24% investors want to invest in highly popular companies; another 24% of the respondents had said that they want to make investment in the companies whose share price has been increasing since the past. 8% had said that they want to invest in those companies whose management team is good. This has been presented in Figure 4.11



## 4.8 Major Findings of the Study

The findings of the study are as follows:

- The practice of Right Share issue is in increasing trend per year, so far right shares have been issued 150 times during the study period.
- The minimum shares issued through right offering 20,000 shares by Nepal Finance and Saving Co. Ltd. and maximum number of shares issued is 15,677,300 Nepal Share Markets & Finance Ltd. But; in this study the minimum shares issued through right offering 100,000 shares by Sahayogi Bikash Bank Ltd. (2064/65) and Narayan Development Bank Ltd.(2065/66) and maximum number of shares issued is 12,000,000 (2065/66) Kist Bank Ltd.
- The maximum contribution of Right offering in the total public flotation is 82.84% in 2053/54 and minimum is 0.71% in 2052/53
- The average contribution of right share on total public flotation is 65%.
- Amount of Right share issue and company size have low degree of negative correlation i.e.  $r = 0.273$ .
- Market price per share before one month of Right share issue, after Right Share issue (taking base year as one month before Right Share issue) has positive runs, negative runs but no zero runs. It is therefore, they are not found to follow randomness in price fluctuation.
- In majority of the cases, MPS after right share issue decreased. But, some companies are not found to be following the rule; MPS of Nepal Share Market Ltd. remained the same after Right Share Issue showing no effect of Right Share issue. The MPS of the same company in the next time increased after Right Share issue. MPS of Chhimek Bikash Bank Ltd. (2063/64), Lumbini Bank Ltd. (2063/64), Bhurikuti Bikash Bank Ltd. (2064/65), Gandaki Development Bank Ltd. (2065/66) and Excel

Development Bank Ltd. (2065/66) have not shown any change after and before Right Share issue.

- The Theoretical price and the Actual market price should be equal or Actual market price should be slightly higher than Theoretical price due to signaling effect but Nepal Investment Bank Ltd. (2059/60), Nirdhun Uthan Bank Ltd. (2061/62), Nepal Investment Bank Ltd. (2061/62), Machhapuchhre Bank Ltd. (2062/63), Nepal Investment Bank Ltd. (2064/65), Siddhartha Bank Ltd. (2064/65), Business Development Bank Ltd. (2064/65), Machhapuchhre Bank Ltd. (2065/66), NB Bank Ltd. (2065/66) are not found to be following the rule. The Actual price of these companies after right share issue is lower than their Theoretical price.
- Most of the investors buy share from both primary and secondary market.
- Most of the Nepalese investors invest in common stock mainly for dividend and capital gain.
- Majority of the Nepalese investors making trading of shares daily.
- Majority of the Nepalese investors have known about right shares and like to purchase right share if their companies offer.
- Most of the Nepalese investors collect information regarding the right share issue through the magazines and newspaper.
- Most of the Nepalese investors perform company analysis to make investment in common stocks.

## **CHAPTER -V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary**

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

In Nepal, Nepal Finance and Saving Company has issued right share first in fiscal year 2052/53 amounting to Rs. 2.09 million. In 2053/54, 2 companies had issued right shares amounting to Rs. 275.2 million. There were 3 cases of right share issue in 2054/55, 1 case in 2055/56, 3 cases in 2056/57, 2 case 2057/58, 5 cases in 2058/59, 4 case 2059/60, 3 case 2060/61, 6 cases in 2061/62, 11 cases in 2062/63, 17 cases in 2063/64, 42 cases in 2064/65 and 50 cases in 2065/66.

Both primary and secondary sources of data are used for research work. Structured questionnaire is used as the primary source of data and Annual Reports of concerned enterprises, related news paper and magazines, Annual Reports and

trading Reports published by NEPSE and Annual Report of SEBO/N are used as the secondary source of data.

The practice of Right Share issue is in increasing trend per year, so far right shares have been issued 150 times during the study period. The minimum shares issued through right offering 20,000 shares by Nepal Finance and Saving Co. Ltd. and maximum number of shares issued is 15,677,300 Nepal Share Markets & Finance Ltd. But; in this study the minimum shares issued through right offering 100,000 shares by Sahayogi Bikash Bank Ltd. (2064/65) and Narayan Development Bank Ltd.(2065/66) and maximum number of shares issued is 12,000,000 (2065/66) Kist Bank Ltd. The maximum contribution of Right offering in the total public flotation is 82.84% in 2053/54 and minimum is 0.71% in 2052/53. The average contribution of right share on total public flotation is 65%. Amount of Right share issue and company size have low degree of negative correlation i.e.  $r = 0.273$ .

Market price per share before one month of Right share issue, after Right Share issue (taking base year as one month before Right Share issue) has positive runs, negative runs but no zero runs. It is therefore, they are not found to follow randomness in price fluctuation. In majority of the cases, MPS after right share issue decreased. But, some companies are not found to be following the rule; MPS of Nepal Share Market Ltd. remained the same after Right Share Issue showing no effect of Right Share issue. The MPS of the same company in the next time increased after Right Share issue. MPS of Chhimek Bikash Bank Ltd. (2063/64), Lumbini Bank Ltd. (2063/64), Bhurikuti Bikash Bank Ltd. (2064/65), Gandaki Development Bank Ltd. (2065/66) and Excel Development Bank Ltd. (2065/66) have not shown any change after and before Right Share issue. The Theoretical price and the Actual market price should be equal or Actual market price should be slightly higher than Theoretical price due to signaling effect but Nepal Investment Bank Ltd. (2059/60), Nirdhun Uthan Bank Ltd. (2061/62), Nepal

Investment Bank Ltd. (2061/62), Machhapuchhre Bank Ltd. (2062/63), Nepal Investment Bank Ltd. (2064/65), Siddhartha Bank Ltd. (2064/65), Business Development Bank Ltd. (2064/65), Machhapuchhre Bank Ltd. (2065/66), NB Bank Ltd. (2065/66) are not found to be following the rule. The Actual price of these companies after right share issue is lower than their Theoretical price.

## **5.2 Conclusion**

Most of the investors buy share from both primary and secondary market. Most of the Nepalese investors invest in common stock mainly for dividend and capital gain. Majority of the Nepalese investors making trading of shares daily.

Majority of the Nepalese investors have known about right shares and like to purchase right share if their companies offer. Most of the Nepalese investors collect information regarding the right share issue through the magazines and newspaper. Most of the Nepalese investors perform company analysis to make investment in common stocks.

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

Theoretically, the market price of stock has decreased after right share issue. The above study shows that the majority of the companies follow the rule. The theoretical and actual market price should be equal or actual market price should be slightly higher than theoretical price due to signaling effect. The researcher found that the above sample companies follow this principle. Under subscription of rights share in most of the cases due to lack of not transferable of rights, poor financial condition of investors and low promotional role of the issuing company.

The company Act has not mentioned anything regarding the transfer of rights. Company Act should be amended to make the rights transferable and to make smooth transactions of rights share. The overall procedure regarding the issuance of share is time consuming and lengthy.

Rights offering have some impact on the price of share either positive or negative. Market price of share is greatly influenced by general market movement in Nepal. Nepalese capital market is still in its infancy stage and rights issue hasn't practiced properly by all sectors and companies. Rights share issuing companies are almost financial institution (i.e. bank and finance company.) Their main motives of right share issuing is increased the paid up capital as directed by NRB.

### **5.3 Recommendation**

This stage deals with only examining the Right Share issue and Stock Market Efficiency with reference of 58 sample companies. Based on the findings of the analysis and the issues and gap mentioned above, the researcher has provided some practical recommendation in the following points

- Nepalese investors are not all aware about right offering. So to increase awareness of investors some programmes like interaction, advertisement, videoconference, radio talk etc. should managed by concerned authority.
- Legal rules and regulations must be improved to suit the Corporate Firms requirements, to exercise control in Right share issue practice and to protect shareholders interest.
- The mechanism of information flow is not found to be appropriate and effective that result in heavy under subscription of right share. The effective alternative of information flow should be searched.
- The True objective behind the issue of Right Share must be disclosed for all stockholders. The information leakage before the actual announcement of

Right Share issue must be prohibited and immediate action should be taken against the insiders.

- There is no any provision in Company Ordinance 2062 to make rights negotiable. So it should be amended and should make a provision of transferable rights, which helps to solve the problem of under subscription of Right Share to some extent. It also protects the dilution in wealth of shareholders and also enhances the dimension of security market.
- One critical factor that affects the share price and subscription is the holder's record date. The investors who purchase the share after that date are unable to get share. So, right issuing companies should set the proper holder record date to the investors who want to enjoy the right offering can purchase the shares issued by them.
- For prospective development of Capital Market, investors must know the source of information and interpret the available data. A conscious investor with good knowledge about the Capital Market only takes the rational decision. But the general investors of our Capital Market are unable to take rational investment decision. Misconceptions and rumors about Right Share issue leads them irrational decision. Thus, the concerned authorities must consider making aware to the investors regarding misconceptions about Right Share and other influential factors. The awareness programmes can be done through publishing the matters more frequently and should be made available to general investors, using mass media through programme via seminars and workshops.
- Further market infrastructures like central depository system of securities, over the counter market, e-trading system and credit rating agency are necessary for promoting securities market standard.
- Security market is dominated by risky investment, i.e. equity share, which may not be attractive to risk averter and risk neutral investors. So there must be initiation toward investment instruments diversification.

- Infrastructure like good communication, banking facilities and postal services should be developed to encourage investors.
- Regulatory offices, issue managers, issuing companies and government should jointly organize investors awareness program on stock especially rights share because still no. of investors unaware about it.
- Free pricing concept should be implemented in rights offering to get rid off from the problems of under subscription of rights shares.
- Finally, Nepalese people should make effort to maintain political stability in the country.



## APPENDICES

### Appendix-1

#### Corporate Firms Issuing Right Share in Nepal

<b>Fiscal Year</b>	<b>S. No</b>	<b>Name of the Companies</b>	<b>Issue Manager</b>	<b>No. of Shares Issued</b>
2052/53	59.	Nepal Finance and Saving Co.	AFCL	20,000
2053/54	60.	Bottlers Nepal Ltd.	CIT	2,252,000
	61.	Nepal Share Market Ltd.	AFCL	200,000
2054/55	62.	Nepal United Co. Ltd	NFCL	30,100
	63.	Nepal Bank Ltd.	CIT	2,419,496
	64.	Annapurna Finance Co. Ltd.	NFCL	50,000
2055/56	65.	Nepal Share Market Co. Ltd	AFCL	300,000
2056/57	66.	Necon Air Ltd.	CIT	896,000
	67.	Paschimanchal Finance Co. Ltd.	NSML	200,000
	68.	Ace Finance Co. Ltd.	NSML	150,000
2057/58	69.	Narayani Finance Co. Ltd.	NSML	125,800
	70.	Everest Bank Ltd.	CIT	1,192,100
2058/59	71.	Bank of Kathmandu Ltd.	NCML	2,340,000
	72.	Nepal Housing and Merchant Fin. Ltd.	NSML	150,000
	73.	Ace Finance Co. Ltd.	NSML	450,000
	74.	Nepal SBI Bank Ltd	NMB	2,878,704
	75.	NIDC Capital Market Ltd.	CIT	400,000
2059/60	76.	Nepal Investment Bank Ltd.	NCML	572,395
	77.	Nepal Share Market and Fin. Ltd.	CIT	600,000
	78.	Mahalaxmi Finance Ltd.	NFCL	250,000
	79.	People's Finance Ltd.	NCML	200,000
2060/61	80.	Alpic Everest Finance Ltd.	NEFINSCO	200,000
	81.	Siddhartha Finance Ltd.	NEFINSCO	200,000
	82.	NB Finance and Leasing Co.	NSMBL	300,000
2061/62	83.	NB Bank Ltd.	NSMBL	3,599,260
	84.	Annapurna Finance and Co. Ltd.	NCML	200,000
	85.	Nirdhan Uthan Bank Ltd.	NMB	150,000
	86.	Nepal SBI Bank Ltd.	NMB	2,159,300
	87.	Nepal Investment Bank Ltd.	AFCL	2,952,900

	88.	National Finance Co. Ltd.	NCML	432,000
2062/63	89.	Development Credit Bank Ltd.	NMB	800,000
	90.	Kumari Bank Ltd.	NCML	1,250,000
	91.	Fewa Finance Co. Ltd.	NMB	300,000
	92.	Om Finance Ltd.	NMB	300,000
	93.	Goodwill Finance Ltd.	NCML	250,000
	94.	Central Finance Co. Ltd.	NCML	120,000
	95.	Taragaun Regency Hotel Ltd.	NCML	4,464,500
	96.	Janaki Finance Co. Ltd.	NEFINSCO	100,000
	97.	Machhapuchhre Bank Ltd.	NMB	1,650,000
	98.	Nepal Share Market and Fin.	CIT	400,000
	99.	KIST Merchant Banking and Fin. Co. Ltd.	NMB	500,000
2063/64	100.	Pokhara Finance Ltd.	NCML	200,000
	101.	Paschimanchal Bikas Bank	NCML	280,000
	102.	Lumbini Bank Ltd.	NCML	1,000,000
	103.	People's Finance Ltd.	NCML	400,000
	104.	Alpic Everest Finance Ltd.	NMB	200,000
	105.	Chhimek Bikash Bank Ltd.	NMB	200,000
	106.	Nepal Development Bank Ltd.	NCML	1,600,000
	107.	Ace Finance Co. Ltd.	NCML	1,940,000
	108.	Navadurga Finance Co. Ltd.	NEFINSCO	110,000
	109.	Annapurna Finance Co. Ltd.	NCML	800,000
	110.	Laxmi Bank Ltd.	NMB	1,220,000
	111.	Capital Merchant Banking & Finance Ltd.	CIT	840,000
	112.	Yeti Finance Ltd.	NCML	63,000
	113.	Business Development Bank Ltd.	AFC	300,000
	114.	Kist Merchant Banking & Finance Ltd.	NCML	1,000,000
	115.	Siddhartha Bank Ltd.	AFC	1,000,000
	116.	Lumbini Bank Ltd.	AFC	1,500,000
2064/65	117.	Nepal Investment Bank Ltd.	ACE	2,013,000
	118.	Siddhartha Bank Ltd.	NMB	1,380,000
	119.	NIC Bank Ltd.	NCML	1,584,000
	120.	Lumbini Bank Ltd.	ACE	2,500,000

	121.	Kumari Bank Ltd.	NCML	1,800,000
	122.	Laxmi Bank Ltd.	NMB	1,830,000
	123.	Nepal Credit & Commerce Bank Ltd.	NCML	7,000,000
	124.	Paschimanchal Bikas Bank Ltd.	ACE	475,000
	125.	Bhrikuti Bikas Bank Ltd.	NCML	300,000
	126.	Development Credit Bank Ltd.	NMB	8,064,000
	127.	Siddhartha Bikas Bank Ltd.	ACE	500,000
	128.	Sanima Bikas Bank Ltd.	NCML	640,000
	129.	Ace Development Bank Ltd.	NCML	960,000
	130.	Gorkha Bikas Bank Ltd.	CIT	1,600,000
	131.	Business Development Bank Ltd.	ACE	1,500,000
	132.	Himchuli Bikas Bank Ltd.	NCML	600,000
	133.	Annapurna Bikas Bank Ltd.	NEFINSCO	1,500,000
	134.	Sahayogi Bikas Bank Ltd.	NCML	100,000
	135.	Capital Merchant Banking & Fin. Ltd.	ACE	1,610,000
	136.	Premier Finance Co. Ltd.	NCML	144,000
	137.	Nirdhan Uthan Bank Ltd.	NCML	395,000
	138.	Central Finance Ltd.	NCML	240,000
	139.	Nepal Merchant Banking & Finance Ltd.	NFC	8,000,000
	140.	Nepal Share Markets & Finance Ltd.	CIT	2,400,000
	141.	Prudential Bittiya Sanstha Ltd.	ACE	500,000
	142.	Paschimanchal Finance Co. Ltd.	NFC	278,000
	143.	Kist Merchant Banking & Fin. Ltd.	ACE	6,000,000
	144.	Goodwill Finance Ltd.	ACE	500,000
	145.	United Finance Ltd.	NCML	750,000
	146.	Nepal Express Finance Ltd.	NCML	300,000
	147.	Royal Merchant Banking & Fin. Ltd.	ACE	606,000
	148.	ICFC Bittiya Sanstha Ltd.	NMB	2,248,000
	149.	International Leasing & Finance Ltd.	NCML	5,040,000
	150.	Nepal Housing & Merchant Finance. Ltd.	ACE	804,000
	151.	Shree Investment Finance Ltd.	NMB	168,000
	152.	Standard Finance Ltd.	NCML	726,000
	153.	Gorkha Finance Ltd.	CIT	300,000

	154.	Guheswori Merchant Banking & Fin. Ltd.	NCML	370,000
	155.	Nepal Awas Bikas Bitta Co. Ltd.	NFC	705,000
	156.	Sagarmatha Insurance Co. Ltd	ACE	236,000
	157.	Premier Insurance Co. Ltd.	ACE	390,000
	158.	Himalayan General Insurance Ltd.	ACE	378,000
2065/66	159.	Machhapuchhre Bank Ltd.	NMB	4,930,000
	160.	Kist Bank Ltd.	ACE	12,000,000
	161.	Nepal Bangladesh Bank Ltd.	NMB	11,168,900
	162.	Nepal Investment Bank Ltd.	NCML	8,030,300
	163.	NMB Bank Ltd.	DCBL	3,300,000
	164.	DCBL Bank Ltd.	NMB	5,537,300
	165.	Gandaki Development Bank Ltd.	NMB	500,000
	166.	Swabalamwan Bikas Bank Ltd.	NMB	350,000
	167.	Bageswori Bikas Bank Ltd.	NMB	150,000
	168.	Nepal Bikas Bank Ltd.	NCML	3,200,000
	169.	Infrastructure Development Bank Ltd.	NMB	2,400,000
	170.	Siddhartha Development Bank Ltd.	ACE	5,378,600
	171.	Sanima Bikas Bank Ltd.	CIT	3,840,000
	172.	Ace Development Bank Ltd.	ELITE	2,928,600
	173.	Narayani Development Bank Ltd.	ELITE	100,000
	174.	Gorkha Development Bank Ltd.	ACE	1,200,000
	175.	Nepal Development & Employment promotion Bank Ltd.	ACE	1,600,000
	176.	Bhrikuti Bikas Bank Ltd.	NCML	1,410,000
	177.	Excel Development Bank Ltd.	ACE	600,000
	178.	Kathmandu Finance Ltd.	ACE	379,500
	179.	Narayani Finance Ltd.	NMB	1,500,700
	180.	Yeti Finance Ltd.	ACE	312,500
	181.	Om Finance Ltd.	NFC	140,000
	182.	Union Finance Ltd.	NCML	725,200
	183.	Srijana Finance Ltd.	NCML	140,000
	184.	National Finance Ltd.	NMB	628,000
	185.	Nepal Srilanka Merchant Bank Ltd.	NCML	2,000,000
	186.	Peoples Finance Ltd.	ACE	1,680,000

	187.	Pokhara Finance Ltd.	NMB	1,800,000
	188.	IME Financial Institution Ltd.	NMB	1,250,000
	189.	Samjhana Finance Ltd.	NCML	278,300
	190.	Universal Finance Ltd.	NFC	602,300
	191.	Civil Merchant Bittiya Sanstha Ltd.	NFC	500,000
	192.	Premier Finance Ltd.	NCML	475,200
	193.	Imperial Finance Ltd.	NCML	500,000
	194.	World Merchant Banking & Finance Ltd.	NMB	720,000
	195.	Central Finance Ltd	ACE	253,900
	196.	Standard Finance Ltd.	NCML	8349,000
	197.	Lumbini Finance & Leasing Co. Ltd.	ACE	450,000
	198.	Navadurga Finance Co. Ltd.	NMB	547,100
	199.	Prabhu Finance Ltd.	ELITE	800,000
	200.	Patan Finance Ltd.	NCML	500,000
	201.	Everest Finance Ltd.	ACE	200,000
	202.	Nepal Share Markets & Finance Ltd.	CIT	15,677,300
	203.	Nepal Express Finance Ltd.	NCML	240,000
	204.	General Finance Ltd.	NCML	24,241,800
	205.	Neco Insurance Co. Ltd.	CIT	550,000
	206.	United Insurance Co. ( Nepal) Ltd.	NCML	288,000
	207.	National Life Insurance Co. Ltd	CIT	1,320,000
	208.	National Hydropower Co. Ltd.	NCML	6,949,400

*Source: Annual Reports of SEBO/N*

## Appendix - 2

### Correlation between the Company Size and the Ratio of the Amount of Right Share Issue with the Total Equity Capital before Right Offering

Variables defined

X = Amount of right share issue in millions of Rs.

Y= Ratio of right share issue to equity capital (in terms of percentage)

$$x = X - \bar{X}$$

$$y = Y - \bar{Y}$$

N = Number of companies taken

r = Correlation coefficient between the company size and the ratio of the amount of right share issue with the total equity capital before right offering.

$R^2$  = Coefficient of determination between the company size and the ratio of the amount of right share issue with the total equity capital before right offering.

#### Calculation of Sum Values

S.N.	X	x	$x^2$	Y	y	$y^2$	xy	#
1.	241.94	21.34	455.39	100	-2	4.00	-42.68	1
2.	119.21	-101.39	10279.93	100	-2	2.25	202.78	1
3.	234	13.4	179.56	200	99	9702.25	1326.6	0.5
4.	287.87	67.27	4525.25	50	-52	2652.25	-3498.04	2
5.	57.23	-163.37	26689.76	33	-68	4646.69	11109.16	3
6.	359.92	139.32	19410.06	50	-52	2652.25	-7244.64	2
7.	15	-205.6	42271.36	25	-77	5852.25	15831.2	4
8.	21.59	-199.01	39604.98	50	-52	2652.25	10348.52	2
9.	295.29	74.69	5578.59	33	-68	4646.69	-5078.92	3
10.	80	-140.6	19768.36	100	-2	2.25	281.2	1
11.	125	-95.6	9139.36	100	-2	2.25	191.2	1
12.	165	-55.6	3091.36	30	-71	5107.96	3947.6	3.33
13.	28	-192.6	37094.76	141	39	1548.03	-7511.4	0.71
14.	100	-120.6	14544.36	20	-82	6642.25	9889.2	5
15.	20	-200.6	40240.36	200	99	9702.25	-19859.4	0.5
16.	16	-204.6	41861.16	100	-2	2.25	409.2	1
17.	12.2	-208.4	43430.56	20	-82	6642.25	17088.8	5

18.	30	-190.6	36328.36	100	-2	2.25	381.2	1
19.	100	-120.6	14544.36	20	-82	6642.25	9889.2	5
20.	150	-70.6	4984.36	33	-68	4646.69	4800.8	3
21.	201.3	-19.3	372.49	20	-82	6642.25	1582.6	5
22.	138	-82.6	6822.76	20	-82	6642.25	6773.2	5
23.	158.4	-62.2	3868.84	20	-82	6642.25	5100.4	5
24.	250	29.4	864.36	33	-68	4646.69	-1999.2	3
25.	180	-40.6	1648.36	20	-82	6642.25	3329.2	5
26.	183	-37.6	1413.76	25	-77	5852.25	2895.2	4
27.	700	479.4	229824.4	303	202	40614.46	96838.8	0.33
28.	47.5	-173.1	29963.61	90	-11	130.19	1904.1	1.11
29.	30	-190.6	36328.36	125	24	552.25	-4574.4	0.8
30.	806.4	585.8	343161.6	303	202	40614.46	118331.6	0.33
31.	50	-170.6	29104.36	100	-2	2.25	341.2	1
32.	64	-156.6	24523.56	20	-82	6642.25	12841.2	5
33.	96	-124.6	15525.16	30	-71	5107.96	8846.6	3.33
34.	160	-60.6	3672.36	50	-50	2652.25	3030	2
35.	150	-70.6	4984.36	125	24	552.25	-1694.4	0.8
36.	60	-160.6	25792.36	200	99	9702.25	-15899.4	0.5
37.	150	-70.6	4984.36	250	149	22052.25	-10519.4	0.4
38.	10	-210.6	44352.36	50	-52	2652.25	10951.2	2
39.	39.5	-181.1	32797.21	120	19	360.31	-3440.9	0.83
40.	493	272.4	74201.76	6	-94	9119.79	-25605.6	16.66
41.	1200	979.4	959224.4	152	50	2501.52	48970	0.66
42.	1116.89	896.29	803335.8	152	50	2501.52	44814.5	0.66
43.	803.03	582.43	339224.7	50	-52	2652.25	-30286.4	2
44.	330	109.4	11968.36	30	-70	5107.96	-7658	3.33
45.	553.73	333.13	110975.6	50	-51	2652.25	-16989.6	2
46.	50	-170.6	29104.36	141	39	1548.03	-6653.4	0.71
47.	35	-185.6	34447.36	100	-2	2.25	371.2	1
48.	15	-205.6	42271.36	50	-52	2652.25	10691.2	2
49.	320	99.4	9880.36	100	-2	2.25	-198.8	1
50.	240	19.4	376.36	303	202	40614.46	3918.8	0.33
51.	537.86	317.2	100653.9	500	399	158802.25	126562.8	0.2
52.	384	163.4	26699.56	100	-2	2.25	-326.8	1
53.	292.86	72.2	5221.50	64	-36	1398.57	-2599.2	1.56
54.	10	-210.6	44352.36	100	-2	2.25	421.2	1
55.	120	-100.6	10120.36	25	-75	5852.25	7545	4
56.	160	-60.6	3672.36	50	-52	2652.25	3151.2	2
57.	141	-79.6	6336.16	200	99	9702.25	-7880.4	0.5
58.	60	-160.4	25792.36	303	202	40614.46	-32400.8	0.33
<b>Total</b>	$\sum X =$ <b>12794.72</b>	$\sum x =$ <b>0.0</b>	$\sum x^2 =$ <b>3891885.85</b>	$\sum Y =$ <b>5886</b>	$\sum y =$ <b>0.0</b>	$\sum y^2 =$ <b>530835.94</b>	$\sum xy =$ <b>392946.08</b>	

$$\bar{X} = \frac{\sum X}{N} = \frac{12794.72}{58} = 220.6$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{5886}{58} = 101.5$$

Karel pearson's coefficient of Correlation

$$\begin{aligned} r &= \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} \\ &= \frac{392946.08}{\sqrt{3891885.85} \sqrt{530835.94}} \\ &= 0.273 \text{ or } 27.3\% \end{aligned}$$

$$\begin{aligned} \text{Coefficient of determination } (R^2) &= r^2 = (0.273)^2 \\ &= 0.075 \\ &= 7.5\% \end{aligned}$$



### Appendix - 3

#### Calculation of Theoretical Price of Stock after Right Share Issue

Pre Right Issue Stock Price =  $P_0$

Subscription Price =  $P^s$

No. of right required to purchase one new Share = #

Value of Right =  $V_r$

Theoretical Value of Stock after Right Share Issue ( $P^e$ ) =  $\frac{P_0 \times \# + P^s}{\# + 1}$

#### Calculation of Theoretical Price of Stock after Right Share Issue

S. No.	Name of Companies	$P_0$	$P^s$	Ratio	#	$P^e$
1.	NBL	250	100	1:1	1	175
2.	EBL	680	100	1:1	1	390
3.	BOKL	325	100	1:2	0.5	175
4.	NSBL	330	100	2:1	2	253
5.	NIBL	315	100	3:1	3	261
6.	NBBL	1000	100	2:1	2	700
7.	NUBL	84	100	4:1	4	87
8.	NSBL	410	100	2:1	2	307
9.	NIBL	1340	100	3:1	3	1030
10.	DCBL	260	100	1:1	1	180
11.	KBL	341	100	1:1	1	221
12.	MBL	415	100	10:3	3.33	342
13.	PBBL	103	100	1:1.4	0.71	101
14.	LUBL	173	100	5:1	5	161
15.	CBBL	155	100	1:2	0.5	118
16.	NDBL	133	100	1:1	1	117
17.	LBL	520	100	5:1	5	450
18.	BDBL	381	100	1:1	1	241

19.	SBL	546	100	5:1	5	472
20.	LUBL	370	100	3:1	3	303
21.	NIBL	1750	100	5:1	5	1475
22.	SBL	610	100	5:1	5	525
23.	NICBL	1044	100	5:1	5	887
24.	LUBL	932	100	3:1	3	724
25.	KBL	460	100	5:1	5	400
26.	LBL	775	100	4:1	4	640
27.	NCCBL	975	100	1:3	0.33	317
28.	PBBL	290	100	1:0.9	1.11	200
29.	BBBL	132	100	1:1.25	0.8	114
30.	DCBL	150	100	1:3	0.33	112
31.	SIBBL	2866	100	1:1	1	1483
32.	SBBL	903	100	5:1	5	769
33.	ACEDBL	889	100	10:3	3.33	707
34.	GDBNL	830	100	2:1	2	587
35.	BDBL	1115	100	1:1.25	0.8	551
36.	HBBL	1776	100	1:2	0.5	659
37.	ABBL	993	100	1:2.5	0.4	355
38.	SABBL	600	100	2:1	2	433
39.	NUBL	114	100	1:1.20	0.83	106
40.	MBL	1265	100	10:0.6	16.66	1199
41.	KBL	252	100	1:1.5	0.66	160
42.	NBBL	775	100	1:1.5	0.66	368
43.	NIBL	820	100	2:1	2	580
44.	NMBF	765	100	10:3	3.33	611
45.	DCBL	236	100	2:1	2	191
46.	SBBLJ	884	100	1:1.4	0.71	426
47.	EDBL	680	100	1:1	1	390
48.	NIB	1200	100	2:1	2	833
49.	NBBL	116	100	1:1	1	108
50.	IDBL	1670	100	1:3	0.33	490
51.	SDBL	900	100	1:5	0.2	233
52.	SBBL	580	100	1:1	1	340
53.	ACEDBL	835	100	1:0.64	1.56	548
54.	NABBL	298	100	1:1	1	199

55.	GDBNL	618	100	4:1	4	514
56.	NDEP	520	100	2:1	2	380
57.	BBBL	138	100	1:2	0.5	113
58.	EDBL	306	100	1:3	0.33	151

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## Questionnaire

I have been conducting study on "Equity Right Issue in Nepalese Stock Market."  
This questionnaire is developed and presented before you as a part of study. The  
issues raised in this questionnaire are related to my study.

I humbly request you to fill it up at the best of your knowledge. Your kind  
cooperation in this regard will be of immense value for me.

I shall be highly obliged for prompt responses as far as possible.

Thanking you

Narayan Prasad Dhakal

Shankar Dev Campus

Kthmandu

Name of the Respondent:-

Designation:-

Name of the organization:-

Age:-

Sex:-

Please answer the following questions with tick mark in the appropriate places and  
as required by the question.

### Question

1. Often, from which market do you buy stocks?

a. Primary market only

b. Secondary market only

c. Both the markets.

2. Why do you buy stocks?

a. For dividend

b. For capital gain

c. For right shares

d. To participate in

e. AGM All of the above

3. How often do you make trading of shares?

a. Daily

b. Weekly

c. Monthly

d. Once/ Twice . a year

4. Have you ever bought Right shares?

a. Yes

b. No

5. In your experience, What is the trend of right share issues in Nepal?

a. Increasing trend

b. Decreasing trend

c. As it was in the past

6. Do you think that investors are will aware all the phenomenon of right offering?

a. All of them

b. None of them

c. Very few of them



- d. Majority of them [ ]
- e. Don't know. [ ]

7. Do you collect information regarding the right issue announcement?

- a. Yes [ ]
- b. No [ ]

8. If yes, what is the source to information?

- a. Magazines/ Newspaper [ ]
- b. Expertise [ ]
- c. Friends [ ]
- d. Any other [ ]

9. In your experience, what happens to the MPS after right share issue?

- a. MPS always decreases [ ]
- b. MPS sometimes decreases [ ]
- c. MPS always increases [ ]
- d. MPS sometimes increase [ ]
- e. No change [ ]

10. Rank the following factors from highest (1) to lowest (6) in terms of the effect on share price fluctuation

- a. Dividend announcement [ ]
- b. Right issue announcement [ ]
- c. Political condition [ ]
- d. Economic conditions (inflation, deflation, interest rates etc.) [ ]
- e. Directives of regulatory body [ ]
- f. Natural disasters [ ]

11. Which of the following analysis do you perform while buying or selling stocks?

- a. Economic analysis [ ]
- b. Industry analysis [ ]
- c. Company analysis [ ]
- d. Stock price valuation [ ]
- e. None of the above [ ]

12. What types of companies are in our target to invest in stock?

- a. Regular bonus giving [ ]
- b. Highly popular [ ]
- c. Having good team of management [ ]
- d. Increasing share price in the past. [ ]