

**PRACTICE OF RIGHTS SHARE ISSUE AND ITS IMPACT
ON SHARE PRICE
(Price Movements of Commercial Banks in Nepal)**



A THESIS

Submitted By:

Sujan Parajuli

Makwanpur Multiple Campus

Hetauda, Makwanpur

TU Reg. No. 7-1-2-952-99

Exam Roll No. 923

Submitted To:

Office of the Dean

Faculty of Management

Tribhuvan University

In partial fulfillment of the requirements for the degree of
Masters of Business Studies (M.B.S)

Hetauda, Makwanpur

July 2010

RECOMMENDATION

This is certify that the thesis

Submitted by
Sujan Parajuli

Entitled:
PRACTICE OF RIGHTS SHARE ISSUE AND ITS IMPACT
ON SHARE PRICE

(Price Movements of Commercial Banks in Nepal)

has been prepared as approved by this department in the prescribed format of the Faculty of Management. This is forwarded for examination. We recommend this thesis for acceptance.

.....
Bin Bahadur Raut
Thesis Supervisor
(Makwanpur Multiple Campus)

.....
Jayaram Devkota
Thesis Supervisor
(Makwanpur Multiple Campus)

.....
Uddhav Prasad Sapkota
Co-ordinator, MBS Program
(Makwanpur Multiple Campus)

.....
Bachhu Ram Adhikari
Campus Chief
(Makwanpur Multiple Campus)

VIVA-VOCE SHEET

We have conducted the viva-voce sheet examination of the thesis

Submitted by
Sujan Parajuli

Entitled:

**PRACTICE OF RIGHTS SHARE ISSUE AND ITS IMPACT
ON SHARE PRICE**

(Price Movements of Commercial Banks in Nepal)

And found the thesis to be the original work of the student and written in according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the Degree of Master's in Business Studies (MBS)

Viva – Voce Committee:

Head Of Research Department:

Member (Thesis Supervisor):

Member (Thesis Supervisor):

Member (External Expert):

Date:

DECLARATION

I here by declare that the work reported in this thesis entitled **Practice of Rights Share Issue and Its Impact on Share Price (Price Movements of Commercial Banks in Nepal)** submitted to office of the Dean, Faculty of management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the Master's Degree in Business Study (M.B.S.) under the supervision of Mr. Bin Bahadur Raut and Mr. Jayaram Devkota.

Date: _____

Sujan Parajuli
Researcher
Makwanpur Multiple Campus

ACKNOWLEDGEMENTS

Writing this thesis has been rewarding experience for me as I have been obliged to collect the materials required and have had rewarding and supportive suggestions from the individuals to who I owe my enormous debt.

My sincere gratitude goes to my thesis Advisors Mr. Bishnu Dahal (Department Head Faculty of Management), Mr. Bin Bahadur Raut, Mr. Jayaram Devkota, Mr. Uddhav Sapkota and Mr. Bijay Sharma (Head of Research Department) of Makawanpur Multiple campus for their encouragement, constructive suggestions and valuable guidance, who generously took time out from their own busy schedule.

I am extremely thankful to all those issue managers who enabled me to collect all the required data during the entire period of this study. Similarly, I am grateful to the staff of Security Exchange Board Nepal (SEBO/N) and Nepal Stock Exchange (NEPSE) for their worthy suggestions and guidance.

My special thanks go to my intimate friends Dinesh Devkota, Laxmi Wagle, Saraswati Shrestha, Anjana Dhusuju, Gopal Dhodari, Subash Adhikari, Shambhu Parajuli, Badri Mainali, Anuj Basnet, Ram Kinker, Gokul Shrestha and few of many names whose hands are always ready to help me.

I am beholden to my parents and all the family members, especially for my brother Rishikesh Parajuli for his encouragement and providing me a very friendly environment for my study.

Last but not the least I would also like to thanks Bishnu Bista, Sampras Paudel and S.S. Print & Stationers, Hetauda entire computer work.

.....

Sujan Parajuli

Makwanpur Multiple Campus

TABLE OF CONTENTS

Contents	Page No.
Recommendation	
Viva-Voce Sheet	
Declaration	
Acknowledgements	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	

CHAPTER – I

INTRODUCTION	1-10
1.1 Background of the Study	1
1.2 Introduction of the Rights Issue	4
1.3 Statement of the Problem	5
1.4 Objectives of the Study	7
1.5 Significance of the Study	7
1.6 Focus of the study	8
1.7 Limitation of the Study	8
1.8 Organization of the Study	9

CHAPTER- II

REVIEW OF LITERATURE	11-31
2.1 Conceptual Review	12
2.1.1 General Rights of Shareholders	12
2.1.2 Characteristic of Rights Share	13
2.1.3 Rights Share offering	13
2.1.4 Pros and Cons of Rights Issue	15

2.1.5	Valuation of Rights	16
2.1.6	Market Price of Share	17
2.1.7	Market value of rights Vs theoretical Value of Rights	18
2.1.8	Effects of Rights Issue on Stockholders Wealth	18
2.1.9	Nepalese perspective of Rights Issue	18
2.1.10	Procedure for the Issue of Rights in Nepal	20
2.1.11	Procedures for the sale of securities	21
2.2	Review of Related Studies	21
2.2.1	Review of Articles	21
2.2.2	Review of thesis	26
2.3	Research Gap	31

CHAPTER - III

RESEARCH METHODOLOGY 32-40

3.1	Introduction	32
3.2	Research Design	32
3.3	Sources of Data and Collection Procedure	33
3.4	Population and Samples	33
3.4.1	Allowance for Leakage of Information	35
3.4.2	Removing the Effect of Market Movement	35
3.4.3	Data Analysis Tools	37

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS 41-68

4.1	Procedure for Issue of Rights in Nepal	41
4.2	Rights Offering and its Impact on Share Price	42
4.2.1	Rights Share and its Impact on Share Price Movement of Companies before and after Rights Offering.	42
4.2.2	Analysis of Share Price Movement of Everest Bank Ltd	44

4.2.3	Analysis of Share Price Movement of Bank of Kathmandu Ltd	45
4.2.4	Analysis of Share Price Movement of Nepal Bangladesh Bank Ltd.	47
4.2.5	Analysis of Share Price Movement of Nepal SBI Bank Ltd.	48
4.2.6	Analysis of Share Price Movement of Nepal Investment Bank Ltd.	50
4.3	Correlation Coefficient between Share Price Movement and General Market movement	51
4.4	Use of t-Statistics to Measure the Immediate Impact of Rights Offering on the Share Price and on General Market Movement.	53
4.5	Subscription of Rights Share in Nepal	56
4.6	Analysis of Primary Data	58
4.7	Major Findings of the Study	65
4.7.1	Significance of Changes in Share Price after the Announcement of Rights Share	66
4.7.2	Rights Share Practice in Nepal	66
4.7.3	Subscription of the Rights Share Issued	67
4.7.4	Problems Regarding Rights Share in Nepal	68

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION S	69-73
5.1 Summary	69
5.2 Conclusion	71
5.3 Recommendations	73

Bibliography

Annex

Questionnaire

LIST OF TABLES

Table No.	Title	Page No.
1.1	List of Licensed Commercial Banks	3
4.1	Share Price Movement of Everest Bank Ltd	44
4.2	Share Price Movement of Bank of Kathmandu Ltd	45
4.3	Share Price Movement of Nepal Bangladesh Bank Ltd.	47
4.4	Share Price Movement of Nepal SBI Bank Ltd.	48
4.5	Share Price Movement of Nepal Investment Bank Ltd.	50
4.6	Correlation Coefficient between Share Price and NEPSE Indices	52
4.7	Calculated Value and Tabulated Value of t-statistics	54
4.8	Subscription of Rights Share in Nepal	57
4.9	Preference of Sector to Invest	58
4.10	Investors Purpose of Rights Share Purchase	59
4.11	Action of Shareholder, If Rights are Transferable.	59
4.12	Beneficiaries of the Rights Issue	60
4.13	Cause of Preferences given to rights issue by company	60
4.14	Causes of Under-subscription of Rights Share	61

LIST OF FIGURES

Figure No	Title	Page No.
4.1	Investors Awareness to Rights offering	62
4.2	Difficulties Due to Non-transferable Rights Share	63
4.3	Practice of Rights Share Due to Large Corporate Firm	63
4.4	Subscription Price compare to Market Price	64
4.5	Sufficiency of Legal Provision	64
4.6	Sufficiency of Infrastructure	65

ABBREVIATION

AFCL	Ace Finance Company Limited
BOD	Board of Director
BOK	Bank of Kathmandu
CIT	Citizen Investment Trust
Co.	Company
COR	Company Register Office
EBL	Everest Bank Limited
FY	Fiscal Year
Ltd.	Limited
NBB	Nepal Bangladesh Bank Limited
NBL	Nepal Bank Limited
NCML	NIDC Capital Markets Limited
NEFINSCO	Nepal Finance and Saving Company Limited
NEPSE	Nepal Stock Exchange
NFCL	National Finance Company Limited
NIB	Nepal Investment Bank Limited
NIDC	Nepal Industrial and Development Corporation
NMB	Nepal Merchant Banking and Finance Limited
NRB	Nepal Rastra Bank
NSBI	Nepal SBI Bank Limited
NSMBL	Nepal Srilanka Merchant Bank Limited
NSML	Nepal Share Markets and Finance Limited
NYSE	New York Stock Exchange
Pvt.	Private
Regd.	Registration
SEBO/N	Security Board of Nepal
SEC	Security Exchange Center
SMC	Securities Marketing Center
T.U.	Tribhuvan University