

**EFFECT ON SHARE PRICE BEFORE AND
AFTER RIGHT OFFERING**

By

LEELA SIWAKOTI

Shanker Dev Campus

Campus Roll No.: 596/063

T.U. Regd. No.: 7-2-274-472-2003

2nd Year Exam Symbol No.: 1913

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

*In partial fulfillment of the requirement for the degree of
Master of Business Studies (MBS)*

Kathmandu, Nepal

January 2011

RECOMMENDATION

This is to certify that the thesis

Submitted by:

LEELA SIWAKOTI

Entitled:

**EFFECT ON SHARE PRICE BEFORE AND
AFTER RIGHT OFFERING**

*has been prepared as approved by this Department in the prescribed format of
the Faculty of Management. This thesis is forwarded for examination.*

.....
Rita Maskey
(Thesis Supervisor)

.....
Prof. Bishweshor Man Shrestha
(Head, Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

By

LEELA SIWAKOTI

Entitled:

EFFECT ON SHARE PRICE BEFORE AND AFTER RIGHT OFFERING

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Effect on Share Price Before and After Right Offering**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Rita Maskey, Lecturer** of Shanker Dev Campus, T.U.

.....

Leela Siwakoti

Shanker Dev Campus

Campus Roll No.: 596/063

T.U. Regd. No.: 7-2-274-472-2003

2nd Year Exam Symbol No.: 1913

ACKNOWLEDGEMENT

I wish to express deep gratitude to Rita Maskey, Lecturer, of Shanker Dev Campus for her Cordial Co-operation and valuable supervisions, without which this thesis would not have come into existence. Their intellectual guidance was of immense inspiration for me.

I would like to thanks Staff of Nepal Stock Exchange and Securities Board of Nepal for providing and suggesting for necessary data to conduct this thesis.

I would be failing my duty if I do not express my gratitude to my parents; brother and friends, whose unending inspiration and immense love have carried me through to the present status.

Leela Siwakoti

ABBREVIATIONS

ACE	:	Ace Finance Company Limited
AGM	:	Annual General Meeting
B.S.	:	Bikram Sambat
BOD	:	Board of Director
CIT	:	Citizen Investment Trust
Co.	:	Company
EPS	:	Earning Per Share
FY	:	Fiscal Year
LBL1	:	Laxmi Bank Limited
LBL2	:	Lumbini Bank Limited
Ltd.	:	Limited
NCCBL	:	Nepal Credit and Commerce Bank Limited
NCML	:	NIDC Capital Markets Limited (Bittiya Sanstha)
NEPSE	:	Nepal Stock Exchange
NIBL	:	Nepal Investment Bank Limited
NMB	:	Nepal Merchant Banking & Finance Company Limited
NRB	:	Nepal Rastra Bank
P.E.	:	Probable Error
Rs.	:	Rupees
SBL	:	Siddhartha Bank Limited
SEBO/N	:	Securities Board of Nepal
T.U.	:	Tribhuvan University

TABLE OF CONTENTS

Recommendation	
Viva Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
Abbreviations	
	Page No.
CHAPTER - I	INTRODUCTION
1.1 Background of the Study	1
1.2 Introduction of the Right Issue	4
1.3 Focus of the Study	5
1.4 Statement of the Problems	5
1.5 Objective of the Study	8
1.6 Significance of the Study	8
1.7 Limitations of the Study	9
1.8 Organization of the Study	9
CHAPTER - II	REVIEW OF LITERATURE
2.1 Introduction of Capital Market	11
2.2 Historical Development of Securities Market in Nepal	13
2.2.1 Establishment of Nepal Stock Exchange	13
2.2.2 Securities Board Nepal (SEBO/N): An Introduction	16
2.2.2.1 General Objectives of SEBON	18
2.3 Initial Financing	18
2.3.1 Venture Capital	18
2.3.2 New Issue Market	19
2.3.3 Initial Public Offering (IPOs)	21

2.4 Right Offering: A Theoretical Framework	23
2.4.1 Pre-emptive Right	23
2.4.2 Offering through Right	26
2.4.2.1 Significance of Right Offering	29
2.4.2.2 Limitations of Right Offering	33
2.5 Right Offering Vs Public Offering	34
2.6 Market Vs Theoretical Value of Right	34
2.7 Stock Split Vs Stock Right	35
2.8 Right Share Vs Bonus share	36
2.9 Stock Repurchase Vs Stock Right	37
2.10 Procedural Aspects of Right Offering	38
2.10.1 Procedures of the Issue of Right in Nepal	39
2.11 Success of Right Offering	41
2.12 Under and Oversubscription of Right Offerings	42
2.13 Review of Different Studies	43
2.13.1 Review of Journals/ Articles	43
2.13.2 Review of Previous Research Work (Unpublished Thesis)	56
2.14 Research Gap	62

CHAPTER – III RESEARCH METHODOLOGY

3.1 Research Design	64
3.2 Population and Sample	64
3.3 Sources for Data	65
3.3.1 Secondary Data	65
3.3.2 Primary Data	65
3.4 Data Collection Technique	66
3.5 Method of Analysis	67
3.5.1 Allowance for Leakage of Information	67
3.5.2 Removing the effect of Market Movement	67
3.6 Data Processing Technique	69
3.6.1 Percentage Change in MPS	69

3.6.2 Percentage Change in Actual Market Price and Theoretical Price	70
3.6.3 Co-efficient of Correlation (r)	70
3.6.4 Co-efficient of Determination (r^2)	71
3.6.5 Probable Error	71
3.6.6 Use of T-test	71
3.6.7 Valuation of Rights	72
3.7.8 Others	72

CHAPTER - IV PRESENTATION AND ANALYSIS OF DATA

4.1 Practice of Rights Issue in Nepal	73
4.2 Contribution of Rights Issue on the Total Public Flotation	75
4.3 Rights Offering and its Impact on Share Price Move Before and after Rights Offering	77
4.3.1 Analysis of share price movement of Laxmi Bank Ltd.	78
4.3.2 Analysis of Share Price Movement of Siddhartha Bank Ltd.	80
4.3.3 Analysis of share price movement of Lumbini Bank Ltd.	82
4.3.4 Analysis of Share Price Movement of NCC Bank Ltd.	84
4.3.5 Analysis of share price movement of Nepal Investment Bank Ltd.	86
4.4 Comparison of Theoretical and Actual Market Price after Right Share Issue	88
4.5 Comparison of Stock Price before and After Right Share Issue	90
4.6 Correlation Coefficient between Share Price Movement and Movement in Banking Sub index	91
4.7 Correlation Coefficient between Share Price & Banking Sub Indices	92
4.8 Use of t-statistics to measure the Immediate Impact of Rights Offering on the Share Price and on Banking Sub Index	93
4.9 Testing of Hypothesis	96

4.9.1 Testing of Variation in Actual Market Price and Theoretical Price	96
4.10 Analysis of Primary Data	98
4.11 Major Finding of the Study	103
4.11.1 Analyze the impact of Right Share Issue on Share Price	103
4.11.2 Rights Share Practice in Nepal	103
4.11.3 Regarding the Impact of Rights offering in Earning per Share	104

CHAPTER – V SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary	105
5.2 Conclusion	106
5.3 Recommendation	108

Bibliography

Appendices

LIST OF TABLES

Table No.	Title	Page No.
1.1	Share Price Before and After Announcement Date	6
3.1	Sample and Response as a Primary Source of Data	66
4.1	Contribution of Rights Issue on Total Public Flotation	75
4.2	Share Price Movement of Laxmi Bank Ltd.	79
4.3	Share Price Movement of Siddhartha Bank Ltd.	81
4.4	Share Price Movement of Lumbini Bank Ltd.	83
4.5	Share Price Movement of NCC Bank Ltd.	85
4.6	Share Price Movement of Nepal Investment Bank Ltd	87
4.7	Comparison of Theoretical and Actual Market Price after Right Share Issue	89
4.8	MPS of sample Banks before and after Right Share Issue	90
4.9	Correlation Coefficient between Share Price & Banking Sub Indices	92
4.10	Calculated Value and Tabulated Value of t-statistics	94
4.11	Testing of Variation in Actual Market Price and Theoretical Price	97
4.12	Familiar With Rights Issue Practice	98
4.13	Holding Share of Any Listed Companies	99
4.14	Interest to Buy Rights Share if your Company Offer Rights	99
4.15	Investors Get Reliable and Adequate Information Regarding Right Share Issue	100
4.16	Awareness about the Rights Issue	100
4.17	Investors see the Company's Future Prospectiveness by Using Tools	101
4.18	Impact of Rights Share on Stock Price Movement	101
4.19	Rights are Not Transferable in Nepalese Financial Markets	102
4.20	Beneficiaries of Right Offering	102