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 founders and their families and friends. For some companies, this is sufficient to get things launched and with retained earnings, no more equity is needed. In other situations equity infusions are necessary” (Van Horne, 1998:548). Common stockholder's 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 type of the business or organization. Every firm constantly faces the financial problems from its very inception. A growing firm, flourishing day by day, always remains in the needy 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 target capital structure. This paper mainly focuses on the right offering to the existing shareholders. Sometime companies are bound to issue new shares of additional stock to the existing shareholders imply because of ‘pre-emptive right' clause in the act of incorporation.

Ordinary share, preference share and debenture are three important securities used by firm to raise fund to finance their activities. Ordinary share provide ownership right to ordinary share holders. They are the legal owners of the company. As a result, they have residual claims on income and assets of the company. They have right to elect the board of directors and maintain their proportional ownership in the company called the pre-emptive right. The pre-emptive right of equity fund through right offerings. Right issue does not affect the wealth of the share holders. “The price of the share with on gets dividend into ex-right price and the value of the right. So what the shareholder gains in terms of the value of the right he loses in term of the low ex-right price. However, he will lose if he does not exercise right” (Pandey, 1998:548).

Right share are issued to the existing shareholders as a result of increased in capital if current reserve is not sufficient to issue bonus share. Company usually issues right share to raise the capital. Therefore, issue of right share represents the distribution of share in proportional to existing shareholders. The shareholder which has an option to purchase a stated no of share at subscription price which is generally below the share current market price within specified period of time.

Large number of corporate firms announces and issue right share to increase the capital base if the corporate management felt such need or to comply with the policy directives given by concern authority to increase the capital base from time to time. In our country, Nepal Rastra Bank issues the policy directives to the commercial banks to control and for the supervision of the establishment and operation of commercial banks in Nepal. Nepal Rastra Bank had already issued the policy provisions regarding the requirements of minimum paid up capital in commercial bank, which significantly affected the right share issuing practices of commercial banks in Nepal. A company issues right share under the principle of preemptive right of the shareholders. Under this right, the existing shareholders have the first priority to purchase any new equity share issued by the company.

The pre-emptive right entitles a shareholder to maintain his/her proportionate share of ownership in the company. The law grants shareholders the right to purchase new share in the same proportion as their current ownership. Thus, if shareholder owners 1 per cent of company's ordinary share, he has pre-emptive right to buy 1 per cent of new share issued. A shareholder may decline to exercise this right. The shareholders' option to purchase a stated number of new shares at a specified price during a given period is called rights. These right can be exercised at a subscription price which is generally much below the share's current market price, or they can be allowed expire, or they can be sold in the capital market. A company may give its existing stockholder the first opportunity to purchase a security issue on a privileged subscription basis. This type of issue known as right offering because existing stockholder receive one right for each share if stock they hold. A right represents an option to buy the new security at the subscription price and it takes a specified number of rights to purchase the security. Depending on the relationship between the current market price of the stock and the subscription price, a right usually will have a market value. Security offering to the general public and offering on a privileged subscription basis must comply with federal and state regulation. “The enforcement agency for the federal government is the Securities and Exchange Commission; whole authority encompasses both sale of new securities and trading of existing securities in the secondary market” (Van Horne; 1998:582). It is not very practical to attempt to issue this new share at a premium to the existing share price because rational new investor would prefer to buy existing share directly in the market rather than more expensive new ones from the company. Equally it is normally difficult to make a substantial new issue share at the prevailing market price.

It is often necessary to consider making new issue at a discount to the current market price but to do so would be to rob existing shareholders. This can be an avoided id the existing shareholders are given right to buy these discounted share proportion to their existing shareholders: Hence the name 'right issues'. These issues are normally described by reference to how many new shares can be brought for a member of existing shares owned, e.g. a 1 for 5 right issue means that for every 5 shares owned the shareholder gets the right to buy 1 of new shares being offered. The company not forces its existing shareholders to buy any more shares in the company and hence it is granting them an option to buy these new shares. As the new shares are being issued at a lower price than the current market price of the existing shares, this option should have a value and can be sold if the current shareholder does not make to take it up.

Right have intrinsic financial values because they are normally offered at a price somewhat lower than the current market price of stock. Consequently a market exists for the buying and selling of rights and once again we enter the world of speculator. An especially attractive speculative investment is using margin to buy rights with the hope that the value will rise.

1.2 Introduction of the Right Issue

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

Instead of selling a security issue to new investors, some firms offer the securities first to existing shareholders on a privileged subscription basis. Some time the corporate charter requires that a new issue of common stock be offered first to existing shareholder because of their preemptive right (Van Horne, 2002).

Right issue practice in Nepal has no long history as compare to other developing country. While looking the issue approval from the SEBO of Nepal researcher can easily notice an increasing trend of issuing right share. During the 15 years period, SEBON has granted right issue approval amounting Rupees 24988.46 million. This amount comes to be second largest amount among various issue approved by SEBO. Right issue occupied 62.26.% of total issue approval out of total listed companies. In India right is a negotiable but in Nepal there has not been any provision here to make the right negotiable.

1.3 Focus of the Study

In any firm, right share is taken as major financial decision that affects the value of firm. The main focus of this study is to examine the practice made by the sample firms in regards to the right share and its impact on stock price movement. The purpose of this study is to provide a clearer understanding of the circumstances surrounding a right offering to analyses the result of the offer and improving its effectiveness. This study also examines the practice made by the Nepalese firm in this regard and stock price movement.

1.4 Statement of the Problems

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 industries 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 Ltd. 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 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. And the data have been presented in the table 1.1 as follows.

Table 1.1

Share Price Before and After Announcement Date

S.No.	Name of Bank	Days Before Announcement Date	Share Price	Days After Announcement Date	Share Price
1.	Laxmi Bank Ltd.	7	860	7	930
2.	Siddhartha Bank Ltd.	7	750	7	815
3.	Lumbini Bank Ltd.	7	540	7	495
4.	Nepal Credit & Commerce Bank Ltd.	7	315	7	350
5.	Nepal Investment Bank	7	1080	7	1101

Thus, the data in the table 1.1 shows that the share price before and after the announcement of the right offering have not followed the exact principle of the right offering effect on share price.

Announcement of right offering is good news to the existing shareholders. It is because existing shareholders can purchase the share of the company at subscription price which is far below the current market price. Under this condition also all the issued shares are not found to be subscribed by the existing shareholders.

After the subscription of right share, the number of share increases. Increased number of shares causes increase in the supply of shares. According to the low of economics, increase I supply causes decrease in price i.e. when supply increases keeping the demand constant, price decreases. The share price movement in Nepalese Banks after right share issue is not uniform. Share price of some banks are found decreased very heavily and some have very slightly after the issue of right share.

A lot of shares that were remained unsubscribed by the existing shareholders and were purchased by the employees of the respective companies and underwriter. the company Act is silent on this part and such situation makes the very essence of rights offering questionable, which can be sold separately, a number of share holders, who do not want to abandon completely their ownership over the company have the destitute to subscribe for new shares, will have no option to choice When investor neither subscribes nor sells. It reduces the wealth of investors (i.e. do nothing and let the right expire). Consequently, their post issue wealth position will suffer because of the subsequent dilution in the share price. Only those shareholders, who be stay themselves and exercise rights to purchase the pro-rata shares of new common stock, will remain unharmed by the right issue. If there were the rights instrument available with existing shareholders, who do not exercise the rights could protect them from incurring loss by selling only the rights. In this case, their post issue wealth position will not suffer because the value of rights, which they receive in its sale, exactly offsets the dilution in the market price of the share. Hence, the absence of the right instrument and the implicit of the shareholders' wealth, which do no exercise the rights, is another aspect of the research problem.

To sum up this study deals with the following issues:

1. What is the relationship between right share issue and stock price movement?
2. What is the theoretical value of right and its practical effect on stock price?
3. What is the existing practice of right issue in Nepal?
4. How is the level of knowledge of Nepalese investors about right offering?

5. Does share price fully reflect all the information's accompanying the right issue announcement?
6. Do Nepalese investors use available information regarding right issue to maximize their wealth?
7. What is the effect of Right share issue on the market price of the share?

1.5 Objective of the Study

This study basically deals with the right share issue practice in Nepalese capital market and its impact on market price of share. The study also covers the characteristics of right offering and the price movement of stock associated with right.

The specific objectives of the study are as follows;

- To analyze the impact of rights share issue in share price.
- To examine rights issue practice in Nepalese financial market.
- To examine the impact of rights offering in earning per share.
- To examine the theoretical values of right and its effect on stock price.
- To measure the movement in stock price before and after the announcement of right share in commercial banks.

1.6 Significance of the Study

This right share issue is important decision of corporate for different point of view. Although it is significant subject for all the concern people of the capital market. This can be said that this study is novel for Nepalese capital market. Now a day's people are attracted to invest in shares for the purpose of getting greater return by considering this, company try to provide higher return and try to make value maximizations of shareholders. Right share has become new concept to attract the investors as well as keep happy to maintain goodwill. Similarly company lunch a new promotion strategy, right share is one of them. Right share provide existing shareholders the right to buy new shares in specified ratio. The practice of right share is very old in worldwide but in

Nepal it starts from fiscal year 1993/94. Till the date there is hardly to find any research in right issues and its impact on stock price movement. Thus researcher chooses this topic. This research will help existing shareholders, company management, broker and issue managing company etc. It also help to analyze right share to security board of Nepal, NEPSE, Research board of NRB, it is also benefited that the study will provide some valuable input for the further scholar in this area Thus this study of right share and its impact on stock price movement may be rewarding.

1.7 Limitations of the Study

The study will be carried out to fulfill the partial requirement of MBS degree of T.U. It is only mini-research and hence researcher subject to have some limitations, which are as follows;

- Data used in the study are mostly of secondary nature.
- This study covers only those commercial Banks which have issued right share from Fiscal Year 1993/94 to 2008/09.
- A number of variables are responsible in the movement of share prices but this study focuses only on the right offering.
- The study tries to concentrate on the right issue practice of commercial bank and hence does not cover other financial institution.

1.8 Organization of the Study

The whole study has been divided into five chapters:

Chapter I: Introduction

This chapter deals with the introductory part of the study, which includes, introduction of capital market, background of the study, focus of the study, statement of the problems, objective of the study, limitation of the study, significance of the study, statement of hypothesis and organization of the study.

Chapter II: Review of Literature

This chapter deals with review of the different literature in regards to the theoretical analysis and review of books, article and thesis related to the study field. Therefore it includes conceptual framework and other related studies.

Chapter III: Research Methodology

This chapter deals with research methodology used to carry out the research. It includes research design, population and samples, sources and techniques of data collection and data analysis tools.

Chapter IV: Data Presentation & Analysis

This chapter is the main part of the study, which includes analysis and interpretation of data, using financial and statistical tools. Similarly this chapter also includes the major findings of the study.

Chapter V: Summary, Conclusion & Recommendations

This chapter covers, summary of the study, conclusion and possible suggestion.

CHAPTER - II

REVIEW OF LITERATURE

This chapter deals with the review relating to the Right Share and Capital Market in more detail and descriptive manner. For this purpose, various books, journal, articles from newspaper, magazines and other related studies have been reviewed. In the context of Nepal, no specific research studies have been available regarding right issue and its impact on stock price movement. However, the topic of research is absolutely new, effort has been made to cover various aspects of the study so that the adequate feedback could be obtained to broaden the base and input to the study. This study is carried out into different section such as Historical Development of Capital Market in Nepal, Initial financing, Right offering: A theoretical Framework, etc.

Conceptual Framework

The section of this chapter is presented to describe some theoretical terms that are relevant to this study.

2.1 Introduction of Capital Market

Capital market is a market for long-term securities having maturities greater than one year. They are vital to long term and prosperity of economy since they provide the channel through which needed fund can be raised. It is mechanism through which public saving is canalized to industrial and business enterprises. The key instruments used in capital market are debt, preference share, and bond & convertible issues. Demand of capital in the capital market comes from agriculture, industry, trade and government, which sources are from individuals, corporate saving, multinational investors and surplus of government. So, some of the important members of capital markets are stock exchange, specialized financial institutions, bank, and Investment Company etc.

A place where long-term lending and borrowing takes place is known as capital market. Therefore, the capital market is the market for long-term borrowing and lending. Capital market consists of securities market and non-security market. Securities market implies mobilization of funds through issuance of the securities: Shares, Bond, Bills and Debentures by corporate sector and Bonds, Bills and Debentures by government. These securities traded in the market and generally negotiable and hence can be traded in the secondary markets. Non securities market refers to the mobilization in the financial resources by the financial institutions in the form of deposits and loans.

Capital market plays a crucial and effective role in economy development of a nation. The health of the economy is reflected in two wings of capital market i.e. primary market or new issue market and secondary market/stock market. The main objective of the capital market is to create opportunity for maximum numbers of people to get benefit from return obtain by directing the economy towards the productive sector by mobilizing the long term capital. The objective can be fulfilled only by the rational accountable behaviors relating to the three factors of capital market such as institution, mediator and investor.

“Resource mobilization is assumed to be vital and challenging work in the present day world economy. In this era of financial economic and political liberalization the task is more complicated than before. Moreover, capital market, which is called the lifeblood of the liberalized economy, is the mechanism through which the resources (savings) are mobilized and flowed from nonproductive sector to productive sector” (Bhatta, 1995:1).

To develop the economy of a country an efficient and effective capital market is of vital importance. The growth of capital market in a country depends upon the saving available, proper organization of intermediary, to bring the investors and business ability together for mutual interest. Capital market is organized market through which buyers and sellers of long term capital are met and the function of buying and selling takes place. Capital market is such a powerful marketing which gives opportunity to the investors to invest their savings in ordinary share, debenture and government securities. In the present time, for fast industrial growth capital market plays an important role. Recently in Nepal, right share one of the key instruments to raise capital from capital market. It can be easily notice an increasing trend of issuing right share, a type of equity share issued by a company to the existing shareholders.

2.2 Historical Development of Securities Market in Nepal

Capital market is a crucial element in the National economy. Its role in reinvigorating and boosting the economic activity in the country is significant. The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Center Ltd. in 1976 were other significant development relating to capital markets. Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange in 1993.

2.2.1 Establishment of Nepal Stock Exchange

Nepal Stock Exchange Limited (NEPSE) is the only one organized stock market in Nepal facilitating the trading of corporate securities mainly common stock, which opened its trading floor in 1994. Prior to the establishment of NEPSE, securities market was operated over the counter facility managed by Security Exchange Center (SEC). The Nepalese security market is growing at a slow rate as it has to overcome various obstacles that it has to face due to the lack of proper development of market. In the field of securities market, Nepal

Rastra Bank (NRB) and Nepal Industrial Development Corporation (NIDC) have made a joint effort to establish Security Market Center (SMC) in 1976for the development of securities market. The main objective behind the establishment of this center was to mobilize the share of public limited companies and to encourage people to participate in business activities. Thus SMC was responsible for undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other securities market services.

In order to promote the stock exchange business, SMC made a series of studies in the beginning both public limited companies devising the ways and means of understanding the business of buying and selling in securities. In pragmatic reality, however, the center become nothing more than the satellite organization of NRB to undertake the over burdened functions of the later in selling government securities that comprise treasury bills, development bonds, etc. after a long period of seven years, doing nothing substantial in the frontier of stock exchange business, the Security Market Center (SMC) passed a new Securities Exchange Act in 1983 to revitalize its role capacity of a merchant banker in view of acting as a legally acknowledged some stock exchange house. After 1980s onward, the center tried to create some securities exchange norms. But all it become not encouraging to develop the securities exchange business in view of lack of dashing leadership since the level of understanding about the advantages and disadvantages of stock exchange was relatively poor. The enactment of new Securities Exchange Act in 1983 became landmark in the Nepalese history of stock exchange and this brought change in nomenclature to the extent that the title of the center changed to Securities Exchange Center(SEC) in 13 April 1984.

SEC was established with an objective of facilitating and promoting the growth of capital markets. As it was only the institution in the field of capital market, SEC was responsible to undertake the job of brokering, underwriting, managing public issue, market making for government bonds and other financial sector. Later in 1993, Securities Exchange Act was amended for the achievement of plan objective of developing capital market. Only then after, the development process of Nepalese capital market accelerated with the liberalization policy of the government. In 1993, the government, under a program initiated to reform capital markets converted the Securities Exchange Center (SEC) into Nepal Stock Exchange Limited (NEPSE). Nepal Stock Exchange 99% owned by the government, NRB and NIDC, is a nonprofit organization operating under Securities Exchange Act 1983. From that point NEPSE become responsible for the operation of the market for listed securities and the performance of some self-regulatory functions under the supervision of the new created Securities Board of Nepal (SEBON). NEPSE opened its trading floor on 13th January, 1994. Nepal government, NRB, NIDC and licensed members are the shareholders of NEPSE. The basic objective of NEPSE is to impart free marketability and liquidity to government and corporate securities by facilitating transactions in its trading floor through members and market intermediaries such as broker, market makers, etc.

A huge numbers of securities of existing financial, manufacturing, banking, service and production entities are traded in NEPSE. Only the securities of existing companies are traded there whose securities are listed in NEPSE. In comparison to other stock market of the world, we have nothing countable achievement in the case of secondary market. NEPSE has adopted Automation System in its trading floor replacing "Open Out-Cry" system and some of the stock broker are also given permission for online trading from their own premises. Over-The-Counter (OTC) market has also started its operation where the securities of de-listed companies and non-listed companies can be traded. The number of listed companies in NEPSE reached 159 and the market capitalization has also increased amounting Rs.512939.07 million at the end of fiscal year 2008/09.

2.2.2 Securities Board Nepal (SEBO/N): An Introduction

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets in Nepal. It has been regulating the market under the Securities Exchange Act, 2006. The functions, duties and powers of SEBON as per the Act are as follows.

- To offer advice to Government on matters connected with the development of the capital market.
- To register the securities of corporate bodies established with the authority to make a public issue of its securities.
- To regulate and systematize the issue, transfer, sale and exchange of registered securities.
- To give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Act or the rules and bye-rules framed under this Act.
- To supervise and monitor the functions and activities of stock exchange.
- To inspect whether or not any stock exchange is executing its functions and activities in accordance with this Act or the rules and bye-rules framed under this Act, and to suspend or cancel the license of any stock exchange which is not found to be doing so.
- To issue licenses to conduct the business of dealing in securities, subject to this Act, or the rules and the bye-rules framed under this Act, to companies or institutions desirous of conducting the business of dealing in securities.
- To supervise and monitor the functions and activities of securities-dealers.
- To grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them.
- To approve the bye-rules concerning transactions in securities framed by stock exchanges and institutions engaged in the business of dealing in securities, and, for the purpose of making necessary provisions concerning the development of the capital market and protecting the interests of investors investing in securities, issue orders to have necessary alterations

made in such bye-rules of stock exchange and institutions engaged in the business of dealing in securities.

- To systematize the task of clearing accounts related to transactions in securities.
- To supervise whether or not security dealers are behaving in the manner prescribed in this Act, or the rules and the bye-rules framed under this Act, while conducting business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.
- To make or ensure necessary arrangements to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.
- To make necessary arrangements to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.
- To review or make arrangement for reviewing the financial statements submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.
- To systematize and make transparent the act of acquiring the ownership of a company or gaining control over its management by purchasing its shares in a single lot or in different lots.
- To establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.
- To discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market.

The Governing Board of SEBON is composed of seven members including one full time chairman appointed by the Government for tenure of four years. Other members of the Board include joint secretary of Ministry of Finance, joint secretary of Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra 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 Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector.

The major financial sources of SEBON are the government grant, transaction fee from the stock exchange and registration fee of corporate securities. Other financing sources include registration and renewal of stock exchange and market intermediaries and the income from mobilization of its revolving fund.

2.2.2.1 General Objectives of SEBON

General objectives of SEBON are mentioned here under:

- To promote and protect the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities.
- To supervise, look after and monitor the activities of stock exchange and corporate bodies carrying on securities business.
- To render contribution to the development of capital market by making securities transaction fair, healthy, efficient and responsible.

2.3 Initial Financing

2.3.1 Venture Capital

Equity investment is the early stage of business is often called Venture Capital. In other word, Venture Capital represents fund invested in a new enterprise. It is the key to the success of any growing business firm. Institutional investors especially financial institutions, wealthy individual investors and specialist investors organized in partnership are the major source of venture capital. The investment in Venture Capital is very risky. Therefore, investors are rewarded with high rate of return in successful ventures. Unlike, most equity investors, venture capitalist typically play an active role in selecting management and overseeing strategy.

"Venture Capital investments are like inefficiently priced stock, with two differences. First because there are no short-selling mechanisms, a venture capitalist, like a commodity investors, faces potential overpricing. Second, unlike stocks which represent existing assets, an early stage venture capital project may be an idea" (Scotto, 1994).

Venture Capital can also include managerial and technical expertise. Most Venture capital comes from a group of wealthy investors, investments banks and other financial institutions that pool such investments or partnership. This form of raising capital is popular among new companies, or ventures, with limited operating history that cannot raise funds through a debt issue. The downside for entrepreneurs is that Venture capitalist usually gets a say in company decisions, in addition to a portion of the equity.

2.3.2. New Issue Market

The new issue market is a primary market, because it is concerned with the creation of new financial claims. It provides an organization which may be used by deficit units to raise fund from surplus units. A number of securities are issued by companies in the new markets they include:-

i. Equity Share

Equity Share represents the ownership position in a company. The holders of equity shares are owner of the company and they provide permanent capital. They have voting right and received dividends as the discretion of the board of directors.

ii. Preference Share

The holder of preference share has a preference owner the equity in the event of liquidation of the company. The preference dividend rate is fixed and known. A company may issue preference with a maturity period (called redeemable preference share). Preference shares may also provide for a accumulation of dividend. It is called cumulative preference share.

iii. Debenture

Debenture represent long term loan given by holders of debenture to the company. The rate of interest is specified and interest charges are treated deductible expenses in the hand of company. Debenture may issue without an interest rate. They are called zero interest debentures. Such debentures are issued at a price much below than their face value. Therefore they are called deep discount debenture/bond.

iv. Convertible Securities

A debenture or preference share may be issued with the future of being convertible in to equity shares after a specified period of time at a given price. Thus a convertible debenture will have features of a debenture as well as equity.

v. Warrants

A company may issue equity share or debentures attached with warrants. Warrants entitle an investor to buy equity share after a specified time period at a given price.

vi. Cumulative Convertible Preference Share

This is an instrument giving regular return at (zero) 0 percentages during the gestation period from 3 – 5 years and equity benefit there after introduce by government in 1994. Cumulative Convertible Preference Share has however of return been consider being too low in the initial years and the provision conversion into equity was also unattractive. If the company fell to perform well.

vii. Zero Coupon Bond & Convertible

These are two new instruments that have been floated by certain companies. Their overall impact and popularity will be known only during the years ahead.

2.3.3 Initial Public Offering (IPOs)

Most business begin life as proprietorships or partnership and the more successful ones, as they grow, find it desirable at some point to convert into company. Initially, these new corporations stock are owned by firms officers, key employees or very few investors the company may decide at some points to go public. As a company continue to mature. It must eventually decide whether it should become a public company. It is choose to go public, the procedures and alternatives for raising equity fund will define significantly from these use by privately held company or a closely held company, which is control by small group. "Going public means selling some of a company's stock to outside investors and then letting the stock trade in public market, and desire to convert into corporations" (Brigham, Gape ski & Ehrhardt; 2001:698).

Public offering of various securities like equity share (both ordinary as well as right share), debentures, bonds etc. to the general public by corporate as well as the Government are made through the Merchant Bankers (MBs). As such the MBs work as intermediates between the fund concerned groups (the general public and institutions) and the fund deficit group (corporate) to cater the needs of both through efficient fund mobilization. The MBS are mainly engaged in creating and expanding primary and secondary market for securities and money market providing advisory services to corporations as well as managing their investment for portfolio. Thus public offering involves rising of funds for Government or corporations from public through the issuance of various securities in the primary market and is often the only major sources of obtaining large sums of long term funds.

“Going public represents a fundamental change in lifestyle in at least four respects: (1) the firm’s moves from informal, personal control to a system control and the need for financial techniques such as ratio analysis and DuPont system of financial planning and control greatly increase. (2) Information must be reported on timely basis to the outside investors, even though the founders may continue to have majority control. (3) the firm must have breadth of management in all business effectively and (4) the publicly owned typically draws on a board of directors, which should include representatives of the public owners and other external interest group, to help ultimate sound plans and policies” (Weston & Copeland, 1992:901).

By issuing publicly traded equity, the firm establishes both the value for the company and a market for the common stock. This enhance 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 liquidity associated with a privately held firms. 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 regulators. Furthermore, there are substantial onetime costs associated with IPOs that can be categorized as either direct or indirect costs. Direct cost includes the legal, auditing, administrative and underwriting fees related offering, and the dilution associated with selling shares of an offering price that is, on average, below the price prevailing in the market shortly after the IPOs.

“In the company plans to sell stock to raise the new capital, the new shares may be sold in one of five ways: (1) on a pro-rata basis to existing shareholders through a right offering, (2) through investment bankers to the general public in a public offering, (3) to single buyer (or very small number of buyers) in private placement, (4) to employee through employee stock purchase plan and (5) through a dividend reinvestment plan" (Brigham, Gapenski & Ehardt, 1988:701).

2.4 Right Offering: A Theoretical Framework

A publicly held corporation can raise equity capital either by selling directly to investor or by issuing subscription right to its shareholders. "Instead of selling a security issue to new investors, some firms offer the securities first to existing shareholders on a privileged subscription basis. Sometimes the corporate charter requires that a new issue of common stock or an issue of securities convertible into common be offered first to existing shareholders because of their pre-emptive right" (Van Horne, 1995:570). A company may give its existing shareholder the first opportunity to purchase a new security on a privileged subscription basis. This type of issue is known as right offering, because existing stockholder receive one right for each share of stock they hold. A right represents an option to buy new security at the subscription price, and it takes a specified number of rights to purchase security. Those companies which have already issued share to the public are allowed to issue right share provided the shares already issued are fully paid. A company issues right shares under the principle of pre-emptive right of the shareholders. Under this right, the existing shareholders have the first priority to purchase any new equity share issued by the corporation.

2.4.1 Pre-emptive Right

The common stockholders are the owner of a corporation, and as such they have certain right and privileged. "Common stock holders often have the right, called the pre-emptive right, to purchase any additional share sold by the firm. In some states the pre-emptive is automatically included in every corporate charter, in other it is necessary" (Weston & Brigham, 1990:677). Under a pre-emptive right, existing common stockholder have right to preserve their proportionate ownership in the corporation. If the corporation issues additional common stock they must be given right to subscribe to the new stock so that they maintain their pro-rata interest in the company. You won 1000 shares of a corporation that divides to make a new company stock offering for the purpose of increasing outstanding 10%. If you have a per-emptive right, you must be given the option to buy 100 additional shares so that you can preserve your proportionate ownership in the company.

"A corporate offering to existing shareholder prier to public distribution is termed as (uninsured) right offering. A pre-emptive right is the privilege of existing shareholders to participate in a right offering. Shareholders are granted pre-emptive right either by common law or explicitly by the corporate charter. A corporation may have the right to amend the article of its incorporation to limit or deny this pre-emptive right" (Hanley & Ritter, 1994:250). The pre-emptive right gives the holder the first option to purchase additional issues of common stock.

Common stockholder often have the "pre-emptive right" to purchase any additional share sold by the firm. If the per-emptive right is contained in a particular firm's charter, the company must offer any newly issued common stock to existing shareholders. If the charter does not prescribe a pre-emptive right, the firm has the option of selling to its existing shareholder or to the public at large. If it sells to the existing shareholders, the issue is called a right offering. "Each shareholder is issued an option to buy a certain number of new shares, and the terms of the option are listed on a certificate called a stock purchase right, or simply a right. If a stockholder does not wish to purchase any additional shares, then he or she can sell the rights to some other person who does not want to buy the stock" (Brigham, Gapenski & Ehrhardt, 1988:607). Stock right provides holders with the privileged to purchase additional share of stock based on their number of owned shares. "Right are important tool of common stock financing without which stockholders would run the risk of losing their proportionate control of the corporation" (Gitman, 1988:607). The purpose of pre-emptive right is twofold. First, it protects the power of control of present stockholders. If it were not for this safeguard, the management of corporation under criticism from stockholders could prevent stockholders from removing it from office by issuing a large number of additional shares and purchasing these shares it. Management would thereby secure control of the corporation and frustrate the will of the current stockholders.

The second, and by for more important, reason for the pre-emptive right is that it protects stockholders against a dilution of value. For example, suppose 1000 shares of common stock each with a price of Rs.100, were outstanding making the total market value of the firm Rs.1, 00,000. If additional 1000 shares were sold at Rs.50 a share, or for Rs.50, 000 this would raise the total market value is divided by the new total shares outstanding a value of Rs.75 a share is obtained. The old stockholders thus lose Rs.25 a share, and new stockholders have an instant profit of Rs.25 per share. Thus selling common stock at a price below the market value would dilute its price and would transfer wealth from the present stockholders to these who purchases new shares. Thus per-emptive right prevents such occurrences. Corporations can contract with an investment banker new equity. This contract may specify that the investment banker buy all the new equity from the issuing company at a fixed price and resell it to the public (from commitment underwritten offering) or, in a right offering agree to buy the unsubscribed shares (stand by right offering).

The pre-emptive right gives the shareholders of a corporation the first chance to purchase newly issued common stock and newly issued securities convertible into common stock. The amount of newly issued securities that can be purchased by a stockholder is determined by the number of shares already owned in relation to the total share outstanding. “As with many stockholders’ right, it is possible for stockholders to waive the per-emptive right at the time the common stock is purchased. If the charter denies the per-emptive right, the stockholders automatically waive this at all time the stock is purchased. The exact status of the pre-emptive right varies somewhat from state to issue. Promoters may deny the per-emptive right through a provision in the charter to this effect” (Bradley, 1955:99).

2.4.2 Offering through Right

Rights issues include the offering of additional shares to existing shareholders. There are offer in proportion to existing shareholders. When a company sells securities by privileged subscription, it mails to shareholders one right for share of the stock held. With common stock offering the rights give shareholders the option to purchase additional shares according to the terms of the offering. The term specifics the number of shares required to subscribe for an additional share of the stock, the subscription price per share, and the expiration date of the offering. The holders of rights have three choices: (1) exercise them and subscribe for additional shares, (2) sell them, because they are transferable, or (3) do nothing and let them expire. The last usually occurs only if the value of the rights is negligible or if the shareholder owns but a few shares of stock. Generally, the subscription period is about three weeks. A shareholder, who wishes to buy a share of additional rights,. To exemplify, if Mr. A now owns 85 shares of stock in the company, and the number of rights required one additional share is 10 his 85 rights would allow him, to purchase 8 full shares of stock. If he would like to buy the ninth share, he may do so by purchasing additional 5 rights.

Under the right offering, the stockholder are provided a document called ‘right’ which describes all about the conditions of right issue. Each shareholder receives right in the proportion of share current held. In many countries “right” is negotiable instrument and therefore transferable and negotiable because while somebody may have sufficient money to exercise the rights and they may actually exercise such rights some others may not have the money to exercise all the rights. Through a right legally transferable separate instrument that is mailed to the existing stockholders for each stock held, wile observing the rights offering practices of Nepalese companies there is a complete absence of such instrument. Shareholders are not mailed the rights nor can they buy of sell it separately. All the terms and conditions are mentioned in the issue prospectus and this is distributed to the existing shareholders. On the basis of these information available for additional shares if they want to do so.

In a right offering, the board of director (BOD's) establishes a date of record. Investors who buy the share prior to that date receive the right to subscribe to the new issue. The stock is said to sell with rights-on through the date of record. After the date of record, the stock is to sell ex-rights, that is, the stock is traded without the rights attached. An investor who the stock after this date does not receive the right to subscribed the additional stock. For the company to raise new equity capital, a right issue is an attractive method to underwritten offering to public. In the US right issued are relatively infrequent. In Smith's (1997) samples they accounted for less than ten percent of issues: whereas in Britain and many other countries, rights issues predominate.

The price of the new share in a rights issue is normally fixed at a level somewhat below than current market price of the shares. But this lower price should not generally diminish the wealth of the existing shareholders. This is because, for shareholders, who do not choose to take up the allocation, the fall in price is comparable to the inconsequential decline which accompanies a capitalization issue or stock-split. And shareholder, who chooses not to take up the allocation of the new shares, can sell their rights to the new shares in the period before the payment is due. Consequently, only irrational shareholders. Who neither exercise their rights nor sell their rights will see their wealth reduced. The company can, therefore, set a price for the rights issue sufficiently low to ensure that the rights will be exercised without fearing any adverse wealth implications for its existing shareholders.

Rights issues appear to be an expensive way of raising money then underwritten public offering. Smith (1997), estimated, for example, that for a

100 million dollars issue 'reported out of pocket expenses' would be 3.8 million dollar less for a rights issue and this difference was not offset by the other categories of expenses which he defined. But if they are cheaper than underwritten public offering, there is a paradox: why in the United States do the great majority of firms choose the apparently more expensive way of raising equity finance? "Hansen and Pinkerton (1982), contend that the direct comparison of costs of rights with underwritten public offering may be misleading because other things are not equal: a third variable, ownership predominately undertakes US rights issues; and the costs of right issues decline as the ownership concentration increases" (Hansen & Pinkerton, 1982:651-665).

The resolution of the paradox proposed by Heinkel and Schwart (1986) emphasizes the information asymmetry between invertors and firms seeking new equity, with the form of the new issue taking on a signaling role. For example, setting a low price in a right issue would have a detrimental signaling effect. But the higher price carries the risk that shareholders will not exercise their rights, and failure of the issue would bring the cost penalties. Then, only higher quality firms would opt for the right issue. Smith (1997), who so clearly posed the paradox in the first phase, offers a different resolution to it. He focuses on potential conflicts of interest between managers and directors, on the one hand, shareholders, on the other. Some of the benefits of underwriting may accrue to the directors and managers rather than to the shareholders. Investment bankers, whose firms act as underwriters, are often represented on BODs and are in a strong position to represent the interest of the underwriters: and underwriters are in a position (quite legally) to give a range of fervors to the management. But the question may arise, why would shareholders allow managers to impose extra cost on them for these reason? Smith invokes the agency cost framework of Jensen and Meckling (1976): only if the cost of monitoring the managers fall short of extra cost of the financing method will the shareholders curb the managers: monitoring, is of course, both expensive and best by public good problems. Perhaps, it is for these reasons that Bhagat (1983) found a significant negative price reaction when directors succeeded in removing from their charter the provision requiring that new equity be raised by rights issue. The directors' freedom to employ the more expensive underwritten offer does appear to have been achieved at the expense of the shareholders' wealth.

Shareholders options to purchase a stated numbers of rights at a specified price during a given period of time are called rights. Rights also known as subscription warrants, are issued to give existing stockholder their pre-emptive right to subscribe to a new issue of common stock before the general public is given as opportunities when the rights are issued for raising funds, there issued are involved: (i) the number of rights needed to buy one new share (ii) the theoretical value of right and (iii) the effect of right issuing on the value of ordinary shares. This right can be exercised at a subscription price, which is generally much below then current market price. It is exercised if the value of right is high and also if the stockholder is major stockiest, who wants to control on management by electing as a director, then he will exercise them and subscribe for additional shares. Right can be sold in the stock market. Generally, hampers when stockholders owns little number of shares and feels that it doesn't matter to him whether the management change or remain same, he will be satisfy. "Right can be allowed to expire; it occurs only if the value of right is negligible or stockholder own a few number of shares but as an irrational shareholder, who neither exercise nor sell his rights will see his wealth reduce" (Gupta, 1981:86). The company normally fixed the price of rights at a level of somewhat below the current market price to ensure that the rights will be exercised without fearing any adverse wealth implications for its existing shareholders.

2.4.2.1 Significance of Right Offering

The issue of further share is resorted to for a various reasons. A company may, for the purpose of expansion, need additional capital resources. These may be over in the cost of the project and, therefore, additional shares may have to be raise funds. Financial institutions grading loans may require the company to bring capital in desire proportion to the loan capital. Under the circumstances it is desirable to solicit additional capital for expansion from people who have a special interest in the welfare of the corporation, such as corporations' own stockholders and it also a least costly way of raising capital.

- **Permanent Capital**

Since ordinary/right share are not redeemable, the company has no liability for cash outflow associated with its redemption. It is a permanent capital and is available for use as long as the company goes.

- **To Indicate Higher Profit**

Normally right share is an indication of higher future profits, right share usually declare only by board of directors who expect rise in earnings of offset the additional shares. Board of directors does not want dilution of earnings therefore must invest on profitable opportunities.

- **To Bring the Market Price of Share within more Popular Range**

Right shares effect to increase in the number of outstanding shares and to decrease in share price. A share has a strong performance that leads to an increase in market value than popular range. Then the management of the firm determines that the price of the share is higher than (moving and of) the popular trading range and decides a right share would be useful to bring the high-priced share within the popular range. Where smaller investment also able to trade and can include in their portfolios a large number of different stocks.

- **To Increase the Number of Outstanding Shares**

Issue of right share obviously increases the number of outstanding shares which again promotes the active trading in the stock market. Small investor may be unable to trade the minimum unit if this requires a large amount of money. A reduction in share price and holding additional numbers of shares unable tem to trade and to diversity in their portfolios.

- **To Have Positive Psychological Value**

The announcement of right is perceived as favorable news by the investors in that with growing earnings, the company has bring prospects and the investors can reasonably took for increase in future dividends. As the investors take the right share is an effort to invest cash for profitable investment opportunities, the share prices have positive psychological value. Instead of experiencing a drop in value after a right share, the price may actually rise. Pre-emptive right gives the stockholders the protection of preserving their pro-rata share in the earnings and control of the company.

- **To Retain Proportional Ownership for Shareholders**

There is another alternative to meet company's additional equity capital through issuing in capital market. If the existing shareholders do not have the funds to purchase a new equity. Their proportion of the ownership in the firm will decline as new investors share. This can be avoided by right share which in only way to increase capital. Each shareholder receives a number of additional shares proportionate to his original holding. "Right offering allows stockholders to maintain their proportionate ownership in the corporation and typically allow the corporation to raise new capital less expensively" (Gitman, 1988:613). If does not want to lose his proportional ownership in the company, he many not sell his shares.

- **To Decrease Flotation Cost**:

"Raising fund through the stock of right issue rather than the public issue involves less flotation cost as the company can avoid underwriting commissions" (Pandey, 1999:1006). In the absence clear pattern in price behaviors of the adjustment market price of the stocks may be affected. Through rights issuing the true or adjusted down ward price pressure may actually be avoided. The flotation costs to issuer associated with a right issuing will be lower than the cost of public flotation.

- **To Be Successful on Subscription**

In the case of profitable companies, the issue is more likely to be successful since the subscription price is set much below then current market price. It is not very practical to attempt to issue these new shares at a premium the existing price, because a rational new investor would prefer to buy existing shares directly in the market rather than more expensive new ones from the company.

- **To achieve a more Respectable Size in the Market**

After right share issue by a company, every shareholder receives additional share proportionate to original holding. Some of the old shareholders may sell their new shares. As a result a corporate firm may achieve a more respectable size in the capital market.

- **To Fulfill the Legal Requirement Imposed by the Authority**

In the context of Nepalese Banks, Nepal Rastra Bank impose legal requirement for increasing the equity base at certain standard level. Therefore the right share issue enthusiastically increased. To fulfill their legal requirement, Nepalese corporate firms practiced of raising the additional capital from of the existing shareholder because of the lower cost of fund, to less flotation cost and to avoid the difficulties in raising public issues.

- **To Avoid External Incontinent**

Investment financed from external sources is subject to screening by outside agencies as to its related profitability but investment financed generally from existing shareholder fund is subject to no such check.

- **To Expand Company**

When a company wished to expand it may well request extra cash from its shareholders by way of right issue to finance that expansion.

2.4.2.2 Limitations of Right Offering

We discussed in the preceding section, the main advantages of right share issue is that it has favorable psychological value on shareholders. It indicates the company's growth to shareholders. Therefore they welcome right shares. But it has also limitations, without proper profit planning an issue of right share might invite over- capitalization. Some limitations are given below:

- The company can't force its existing shareholders to buy any more shares in the company and hence it is granting them an option to buy these new shares.
- Equally there is no reason for any outsider to want to buy these rights in order to take them up. Thus the proposed right issue could fail with the result that the company does not receive its desired injection of new equity funding.
- The shareholders who fail to receive to exercise to sell their rights. They lose in terms of decline in their wealth. Most right issues are underwritten because there is no legal obligation on the part of shareholders to subscribe.
- Issue of right share lowers than market value of existing share too. That may posses negative impact of particular share on capital market.
- It deprives new investor from becoming the shareholders of the company. The control over the management of the company is not diluted and the present management may misuse its position.
- The issue of right share dilutes the existing share's earnings per share if the profit do not increases immediately in proportion to the increase in the number of ordinary shares.
- "Yet another disadvantage is for those companies whose shareholding is concentrated in the hand of financial instructions because of the conversion of loan into equity. They would prefer public of share rather then right issue" (Pandey, 1999:1006).

2.5 Right Offering Vs Public Offering

By offering stock first to existing stockholders the company taps investors who are familiar with the operation of the company. The principal sales tools are the discount from the current market price, whereas with public issues, the major selling tool is the investment banking organization. When the issue is not underwritten with a standby arrangement, the flotation costs of a right offering are lower then the cost of an offering to the general public. Therefore, there is less drain in the system from the stand point of existing stockholders. Moreover, many stockholders feel that they should be given the first opportunity to buy new shares. Offering these advantages in the minds of some is that a right offering will have to be sold at a lower price than will an issue to the general public. “If a company goes to the equity market with reasonable frequency, this means that there will be with public issues. Even though this consideration is not relevant theoretically, many companies wish to minimize dilution. Also, a public offering tends to result in a wider distribution of shares, which may desirable to the company” (VanHorne: 1998; 574). Therefore, there is less drain in system from the standpoint of existing shareholders. Moreover, many shareholders feel that they should be given the first opportunity to buy new common stock. The rights offering will have to be sold at a lower price than will an issue to general public.

2.6 Market Vs Theoretical Value of Right

We should be aware that the actual value of a right may differ somewhat from its theoretical value on account of transaction costs, speculation, and the irregular exercise and sale of right over the subscription period. However, arbitrage limits the deviation of actual value from the theoretical value. If the price of a right is significantly higher then it’s theoretical value, stockholder will sell the right and purchase the stock in the market. Such action will avert downward pressure on the market price of the right and upload pressure on the market price of the stock. If the price, the right is significantly lower than its theoretical value, arbitragers will buy the right; exercise their option to buy stock, and downward pressure on its theoretical value. These arbitrage actions will contribute as long as they are profitable. The market price of right will generally differ from its theoretical value. The extent to which it will differ will depends on how the firm’s stock price is expected to behave during the period when the right is exercisable. By buying right instead of the stock itself, investors can achieve much higher returns on their money when stock price rise.

2.7 Stock Split Vs Stock Right

In the area of stock splits and stock rights misconception also exist to confuse unwary. In theory, stock splits, no problem: they are as value less to the investors as stock dividends. Simply reading ‘two-for one’s split instead of 100% stock dividend’ the meaning remains unchanged. Similarly, an action taken by a firm to increase the number of shares outstanding, such as doubling the number of shares outstanding by giving each stockholder two new shares are formally held. Stock split generally used after a sharp price run up to produce a large price reduction. In theory, split should reduce the price per share in proportion to the increase in share because splits merely “divide the pie into smaller slices”. However, firm generally split stock only if (i) the price is quite high and (ii) management thinks that future in right. Therefore, a stock split is often taken as positive signals and thus boosts stock prices. A share/stock split means that the nominal value of share capital on the balance sheet is unchanged.

Right share and stock split are completely different. Stock right means, a method of raising further fund from existing shareholder, by offering additional securities to them as per-emptive basis. It involves the offer of additional share to existing shareholders. These are offered in proportion of existing shareholders. A more lengthy analysis, however, is required to reveal the exact nature of stock rights the offering of new securities to existing by means of rights, either as a matter of legal requirement or financial policy or both. The question of rights is intimately of connected with that of dividends. Companies frequently offer new stock (or securities convertible into stock i.e. contingent securities) to existing shareholders at prices will below the current price the current market price of outstanding stock. In doing so, management may feel that it is giving something of value to its shareholders like stock dividends, stock rights are highly prized by investor. And like stock dividends, rights may typically be sold on the market for cash if the holder decides not to exercise them. Belief in the value of right is, if anything even those rights have no inherent value to the investors no matter how large the discount at which the new shares are to be sold.

2.8 Right Share Vs Bonus share

Bonus issue and right issue are very similar, although typically used for different purposes. Right are, an important tool of common stock financing without which shareholders would run the risk losing their proportionate control of the company and dilution of their ownership. Company offer rights, generally at a price, which is lower than the value of the shares in the market to raise an additional capital. As a result the common stock paid in capital stock and total net worth amount of the company will change. Since bonus share is a form of dividend that a company provide to its stockholders. Bonus share is also understood synonyms to the stock dividend. Stock dividend paid in additional share of stock rather than in cash. It simply involves a transfer to retained earnings to the capital amount. In a bonus issue, the nominal value per share stays the same and the new shares are issued by capitalization existing reserve. Thus share capital shown on the balance sheet does not increases but other reserves are be decreased by the same amount.

A right issue is involves selling of ordinary shares to the existing shareholders of the company. It is available for a specified period of time in order for shareholder to decide what to do, to send in their cheque or selling their rights in the market. Right share increases capital, as equal to how much, amount of right share issued. A Bonus is different from right issue. A bonus does not raise any new capital. It merely increases the nominal amount of the issued share capital by the company utilizing its undistributed profits in paying up for the new shares. Company declares for bonus issue because it may hesitate to declare dividends at such rates, which are likely to be criticized by the trade unions and the consumer. With a bonus issue, the number of shares increased through proportional reduction in the book value of stock. As a result, the worth of the company remains unchanged. Stock dividend is a dividend paid in additional shares/ stock rather than cash.

2.9 Stock Repurchase Vs Stock Right

In recent past, firms have increased their repurchasing of share outstanding (common stock in the market). Under a stock repurchase plan, a firm buys back some of its outstanding stock thereby decreasing the number of shares, which should increase both EPS and stock price. Repurchase are careful for making major changes in capital strictures as well as for distributing temporary excess cash. A stock repurchase is made a number of reasons: to obtain share to be used in acquisition to have shares available for stock option plans, to achieve again a book value of equity when shares as selling their, book value or merely retire outstanding shares.

Corporation is need of additional equity capital, sometimes offer new issues of common stock to their present stockholders called voluntarily because they can market the issue most economically in this way, when this is done an individual is given to the present stockholder purchase the stock offering it to them at a price below the current market price for the corporation's outstanding shares. For this reason such offerings are known as privileged subscription. Each shareholder is given one right for each share of stock owned. The right represents an option to purchase a new shares of stock at the fixed by corporation.

2.10 Procedural Aspects of Right Offering

A right issue involves selling of ordinary shares to the existing shareholders of the company. The law in India that the new ordinary shares must be first issued the existing shareholder on a pro-rata basis. This pre-emptive right can be forfeited by shareholders through a special resolution. "A company can make right to its shareholder's after meeting the requirements specified by the Securities and Exchange Board of India (SEBI). Those shareholders who renounce their right are not entitled for additional shares. Shares becoming available account of non-exercise of rights are allotted to shareholders who have applied for additional share on pro-rata basis. Any balance of share left after issuing the additional shares can be sold in the open market" (Pandey, 1999:1002).

When a company makes a right offering, the board of director 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 stock ledger. Due to the time needed to make bookkeeping entries when a stock is traded? Stock usually begins selling ex-right without the rights being attached to the stock four business days prior to the date of record. The issuing firm sends rights to holders of record owners of the firms share on the date of record, who are free to exercise their right, sell them or let them expire. Rights are transferable and many are traded actively enough to be listed in the various securities exchange. They are exercisable for specified period of time, generally not more than few months at price called the subscription price. Since fractions of share are not always issued. It is some time necessary to purchase additional rights or sell extra right. The value of right depends largely on the number of right needed to purchase a share of stock and the amount by which the right's subscription price is below than current market price. If the right have a very low value and an individual owns only small number of shares, the rights may be allowed to expire. Let us assume that a company announce that a company on 2nd January 2000 that all shareholders whose names in the register of members as on 25th February,

2000. The company will mail the “letter of right” on 5th April, 2000. In the example, 2nd January, 2000 is the announcement date, 25th February, 2000 is the holder of the register of member date, 5th April, 2000 is the offer of right date and 10th March 2000 is the expiration of right date. It may be possible that share may be traded a few days before the holder of the register of member date (5th April 2000 in the example) and it may not be transferred and registered in the new name.

When a company sells securities by privilege subscription, it mails to its stockholders one right for each share of stock held. With a common stock offering, the rights give stockholders the option to purchase additional share according to the term of the offering. The terms specify the number of rights required to subscribe for an additional share of stock, the subscription price per share and the expiration date of offering. The holder of right had three choices (1) Exercise them and subscribes for additional shares (2) Sell them because they are transferable or (3) Do nothing and let them expire. Generally, the subscription period runs about 3 weeks. A stockholder who wishes to buy a share of additional stock but does not have the necessary number of right may purchase additional shares. If you own 152 shares of stock in a company, the number of right required to purchase additional share is 5, your 152 rights will allow you to purchase 30 full share. If you would like to buy 31st share, you may do so by purchasing additional 3 rights. Investors who buy the stock prior to that date receive the right to subscribe to new issue. The stock is said to sell with right-on through the date of record. After the date of record, the stock is said to sell ex-right: that is the stock is traded without the rights attached. An investor who buys the stock after this date does not receive the right to subscribe additional stock.

2.10.1 Procedures of the Issue of Right in Nepal

Right issues are conducted in Nepal in accordance with provision mainly in company act 2063 and rules, regulation set aside by SEBO/N. The actual mechanics and the sequence of events in the case of rights issues are somewhat complicated and it will therefore be useful to outline briefly the actual procedure by which a rights issue practice is typically made in Nepal. Company must followed certain rules and regulation as mentioned in the company act and their respective memorandum and article of association. In Nepal the actual mechanism and sequence of events in the case of right issue are somewhat complicated. At present context, generally the following procedural are considered before right offering.

- The BOD should consider about that the determination of the quantum of further capital requirement and the corporations in which the rights issue might be offered to existing shareholders.
- AGM should pass the proposal of BOD by its majority.
- Company should notify NRB, Nepal Stock Exchange, Office of the company Register and SEBO/N sufficiently with prospectus in advance of the date of board of record meeting at which the rights issue is likely to be considered, and should permission from them.
- Make announcement with prospects which gives a general indication of the reasons, which have made the issue desirable, the purpose for which the new money is to be used.
- Letter of provisional allotment or rights offering to the shareholders with prospects. This letter will advise the shareholders about the rights offered, the number of new shares allocated to each given number of old shares, the price at which shareholders will qualify for the right issue. This letter will be sent after the date of announcement.
- After the receipt of the letter of provisional allotment, the allotment must be accepted or renounced, and payment in full or partial, must be made for those shares which are renounce.
- The 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 share certificate in favor of

a third party. Because of nontransferable instrument such practice are not seen in Nepalese context.

- The resolution of the board of director to distribute the right share had to approve by shareholder's AGM. This is very low chance that the resolution of the board of director's resolution of the director is
- disapproved by shareholders.
- Listing of the shares in the NEPSE again with increased number which must be approved by the stock exchange after which an application for listed new share could be made.

2.11 Success of Right Offering

A firm's management must make two basic decisions when preparing for a right offering. One of the most important aspects of successful right offering is the subscription price. This is the price at which the corporation/ firm has agreed to the securities to existing stockholders. "If the market price of the stock should fall below the subscription price, stockholders obviously will not subscribe to the stock, for they can buy it in the market at a lower price. Consequently, a company will set the subscription price at value lower than the current market price, to reduce the risk of the market price's falling below it" (Van Horne, 1998:572).

"It is necessary to submit a certain number of rights along with the cash order for the shares to be purchased from the firm at the special subscription price" (Bradley, 1955:314). "Apart from the number of rights required to purchase one share the risk that the market price of stock will below the subscription price is a function of the volatility of the company's stock, the tone of the market, expectations of earrings and other factors. To avoid all risk, a company could set the subscription price so far below the market price that there is virtually no possibility that the market price will fall below it" (Van Horne, 1998:573).

The size of the capital outlay in relation to a stockholder existing ownership of the stock is an influence on the success of a rights offering. The balance between institutional and individual investor may also bear on the success of the right offering. The current trend and the tone of the stock market are influential. If the trend is upward and the market is relatively stable in this upward movement, the probability of a successful sale is high. The more uncertain the stock market greater the under pricing that be necessary to sell the issue. There are times when the market is so unstable that an offering will have to be postponed. An underwriting contract is a guarantee to take up, at the issue price, any of the new shares which are not bought by either existing shareholders or buyers of their rights in the market.

2.12 Under and Oversubscription of Right Offerings

A company can ensure the complete success of right offering by having investment banker or group of investment bankers “stand by” to underwrite the unsold portion of the issue. “Underwriting is the insurance function of bearing the risks of adverse price fluctuations during the period in which a new security is being distributed” (Weston & Copeland, 1992:891). Most rights offerings are made through investment banker, who underwrite and issue the rights. In most underwriting agreements, the investment banker agrees to be a standby arrangement, which is a formal guarantee that any shares not subscribed or sold publicly will be purchased by the investment banker. This guarantee assures the firm 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 of right offerings include an oversubscription privilege, which gives stockholders not only the right to subscribe for their proportional shares of the total offering but also right to oversubscribe for any unsold shares. Oversubscriptions are awarded on pro-rata basis relative to the number of unsold shares. Although the use of the oversubscription increases the chances that the issue will be entirely sold, it does not assure this occurrence, as does the standby agreement. It is possible that the combination of subscriptions and oversubscription will fall short of the amount of the stock the company desire to sell. This privilege is a method of restricting ownership to the some group, although ownership proportions 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 lest up to the banker.

2.13 Review of Different Studies

2.13.1 Review of Journals/ Articles

This section deals with the review of journal and article by different expert relating to right share, which was published in various journals. Some are as follows;

Jessica Rogers (2008) states that Entertainment Rights share price has plunged today after the company warned that its year-end profits would fall below market expectations.

The children's property rights owners share price has fallen over 25% from 11p at the start of the day's trading to just over 8p. The drop has been prompted by a statement to investors from the ER board stating that group revenues for the year ended 31 December 2007 had not met their expectations and that this will have an impact on profits. The company's share price has dropped by over 75% since January last year, from 37p to the current level.ER owns the rights to properties such as Basil Brush, Postman Pat and Rupert Bear, and in January last year completed a £106.9m deal to buy US rights owner Classic Media. The company also acquired the rights to where's Wally? For £2.5m. Both deals fall into the last financial year.ER funded its acquisition of Classic Media, and recapitalization of the group, through the placement of 249 million shares at 28.5p on the London Stock Exchange and the refinancing of its debts.

In the statement, the board confirmed that the company's net debt stands at £107.7m, with interest charges on the borrowings totaling £9m.

Despite the "disappointing" trading report, the board said the group has "experienced significant growth in its TV distribution business across all of its key brands" and was "greatly encouraged by the growth in its brands across key territories". Entertainment Rights chief executive Mike Heap said: "Whilst it is disappointing to report a trading period that is below our expectations, the board remains confident that ER's business model is robust and is convinced that the acquisition of Classic Media has already proven itself to be a significant strategic acquisition for the company."

Kenneth J. Weller (1979) on his article “The Journal of Finance” has concerned with the technique of raising equity capital through the process of offering new shares of common stock to the present owners at a price below the current market price. The rights to the new shares issued on a pro-rata basis can be utilized or sold by the recipient shareholders. Funds, therefore, are supplied to the corporation by the original owners and by the purchases of rights. The decision making process for the establishing the terms of the offering is analyzed as it affects the relationship of the rights offering to other financial policies. There is a marked tendency for the market for shares during a right offering to decline as a result of the large increase in the supply of the stock during a short period of time. This price decline can be measured by determining the amount of the price decline and adjustment for charges in the general market. A statistical analysis of the major issues of 1956 and 1957 indicates that the average decline price was 5.97 per cent. The measure varied from 4.07 per cent for utilities to 8.04 per cent for industries. A considerable portion of the decline took place shortly before the actual rights period.

This price decline result from insufficient demand for the new shares by two groups the original holders of the stock and the non-holders who seek to obtain shares by purchasing the rights. The demand by holders as evidenced in subscriptions is not a published fact for most issues. A mail survey reveals that a number of firms have this type of information but that is very difficult to draw any conclusion from the reported data because of the wide variation in the methods of collection and reporting. These are sufficient information, however, to suggest that in many issues a large portion of the funds comes from outside the ranks of the original shareholders. Several factors influence the demand for shares by the existing holders. The fact that subscription is available at prices below the market is important to some. Others are influences by special purchasing privileges, the relative size of the required additional investment, and general attitudes towards the future to the company. Special underwriting techniques can be used to simulate subscriptions. Some of the factors influence the non-holders who purchase rights, but special attention should be given to the lay-off procedure. The lay- off is a financial operation in which investment bankers' purchase rights on the market and concurrently sell the corresponding shares through their selling organization. The development of this technique, it's regulation by the Securities and Exchange Commission, it's possibilities, and it's limitations are considered at length. It appears that it cans an effective force in the prevention of excessive price declines during the issue.

The corporation can reduce the costs and increase the effectiveness of the rights offerings. Different concepts of the nature of costs complicate this matter, but there are many possibilities for reducing cash costs by adjusting the underwriting fees and eliminating certain of the underwriter's services. Non-cash costs associated with dilution can be controlled through various measures which seek to minimize the pressure on the prices of the stock during the issue.

Paul Marsh (1980) on his article "The Journal of Finance" volume XX has concerned with "UK Companies Raise" Virtually all of their new equity capital via the rights issue method. Companies can guarantee the subscription of their issues the having them underwritten (the equivalent of standby arrangements in the USA), and in recent years, this procedure has been adopted for 90% of UK rights issues. Underwriting is usually carried out on a fixed fee basis representing at least 1¼ % of the money raised, and hence it is clear that quite substantial sums of money are involved. Since underwriting is simply a put option giving the company the right to put a failed issue onto the underwriter. In this paper, describe an application of the Black and Scholes model to the valuation of rights issue underwriting agreements over the period 1962-1975. Model prices are compared with the fees charged in order to assess whether the letter represent competitive prices. In fact, over this period, companies appear to have overpaid for underwriting.

When a company makes a rights issue, it is a London Stock Exchange requirement that at least three weeks should elapse between the ex-right date and the date the offer expires. If the share price falls below the issue price by the last acceptance date, shareholders will not take up their rights, since shares could be bought more cheaply in the market. Since rights issue arrangements are costly, companies will clearly wish to avoid issues failing in this way. This can be achieved by having the issue underwritten. As an alternative to underwriting, companies can reduce the risk of a failed issue equally effectively by setting the issue price sufficiently low. This does not imply that underwriting is a waste of money, since if the issue is underwritten at a high enough price, there is a distinct possibility that the underwriters will be called upon to take up their commitment and buy shares from the company at a price above the ruling market price. The question is thus entirely one of whether or not companies pay a fair for underwriting the risks involved.

The underwriting decision is quite simply a problem in option valuation. When a company makes a rights issue, the company is in effect selling (giving) a short-term call option to its shareholders (i.e. to itself). The company's real objective however, is to new shares, and the only way in which the sale of a call can be converted into the sale of the underlying shares is for the company to simultaneously buy a put option, Kruizenga (20). The latter is of course, precisely what occurs when the company arranges for its issues onto the underwriters. The underwritten in turn reduce their exposure by buying put options from the sub underwriters giving them the right to pass a failed issue onto the sub underwriters.

Black and Scholes model which is now widely accepted in both the academic and investment communities. B & S were the first to develop a theoretically complete, general equilibrium option valuation formula which was consistent with both rational pricing and the Capital Assets Pricing Model. This model is attractive not only because of its rigorous theoretical basis, but also because it is relatively simple, incorporating only five variables, four of which are directly observable. Given these variables, namely the stock price(x), the time to maturity (t), the exercise price(c), the risk free interest rate(r), and the variance rate of the return of the share (v2), B & S show the value of a call option (w(x,t)) can be written as:

$$W(x, t) = x.N (d_1) – c.e –r.t N (d_2)$$

From July 1962 to the end of 1975, 1,145 primary equity right issues were made by London quoted and registered companies. Of these, 148 issues involved more than one class of equity, or combine units of equity and other securities, and were therefore excluded from our sample. Of the remaining 997 issues, 671 were known to have been underwritten foe a fee by a merchant bank of broker in the standard manner. For 132 of these, however, we were unable to establish the date of the underwriting agreement with any degree of confidence. These issues were therefore excluded, leaving us with a sample of 539 underwritten issues for the purpose of this study.

Underwriter performs an economically useful function by assuming the risks of a failed issue. Aside from questions of whether shareholders really wish to indulge in option trading with institution, the question of whether underwriting has historically proved worthwhile is an empirical one. In fact, when we used the Black and Scholes Model to value UK underwriting, over the period 1962-75, the evidence strongly indicated that underwriting, taken alone, and ignoring side payments, was considerably overpriced. For issues made in the USA, the degree of overpricing was even more marked, although the sample of issues examined here was small. There was even more marked, although the sample of issues examined here was small. There was some evidence that underwriters earn higher excess returns following poor market performance, on short-lived options and low variance shares, possibly as a result of the way in which they set the underwriting price. When side payment and other factors are considered, it still appears that the underwriting market is less than perfectly competitive. Furthermore, even taking these imperfections into account, it appears that companies overpay for underwriting, since the costs imposed by the alternative to underwriting, namely deep discount issues, seem very small. The imperfection is the market appears to stem from institutional factors and the nature of the relationship between company and financial adviser rather than from any more explicit from of underwriting cartel. Sub-underwriting can therefore be regarded as a very profitable activity, unless the side payment requires maintaining on underwriters' lists more than outweigh these excess return. Their losses on underwriting to be more than fully compensated for by gains on other transaction with the underwriting companies, with the underwriting companies, should either play a more active role in the pricing of underwriting, or they should avoid underwriting altogether, and set the terms of the issue accordingly.

Paul Marsh (1978) on his article "The Journal of Finance" has focused in the UK, as most other European countries, quoted companies raise virtually all their new equity capital via the rights issue method. In recent years some £1 to £1.5 billion has been raised in this way each year on London Stock Exchange, serving to indicate the importance of equity rights issues as a topic in corporate finance. This describes an empirical study of UK rights issues, involving various tests of semi-strong from market efficiency with respect to the announcement of rights issues. In addition, the Price Pressure Hypothesis, which asserts that equity issues, by increasing the supply of shares, temporarily depress the share price, is tested against the competing Substitution Hypothesis. Since this involves estimating the demand curve for company's shares, our results provide evidence not only on market efficiency but also on market liquidity, and whether companies can raise new equity at existing market prices. The study is also of methodological interest in that it uses a number of alternative models for testing market efficiency, thus allowing us to test the sensitivity of our conclusion to the new London Share Price Database (LSPD), which is the first comprehensive source of UK share return to become available for research purposes.

In fact, both considerations were important in this study. First, right issues alter companies' capital structures and may also herald changes in operating risk. Secondly, the LSPD provides data for a one third random sample of all London quoted shares together with a non-random sample of large companies. To avoid bias, restricted to the random sample, so that only one third of the population of rights issues was examined with time-series data. However, since the cross-sectional approach requires so much less data, it was possible to collect this, and to use this method to examine the full population of rights issues over the period of interest. So rather than limiting the studies to the one third random samples employ both methodologies. The available of trading data in the new LSPD made it possible to develop new methodologies such as the trade- to-trade method for beta estimation and for testing market efficiency, using date for small, infrequency-traded companies. Furthermore, all of the other methodological issues which we have considered are important, and can lead to serious problem in abnormal return estimation and tests of market efficiency. In practice, however, not all of the issues which were examined turned out to be important in the current study. In particular, our results were remarkably robust to the precise variant of the single factor Market Model based methodologies employed, and to our estimates beta. It should be stressed, however, that this is very much an ex-post judgment based on this particular sample and time period. On the other hand, however, our results do serve to emphasize the importance of sample the entire population of rights issues using the single cross-sectional model proved important and helped us to place out results in better perspective. Finally our results proved very quite different abnormal return estimates when we used equity weighted rather than market value weighted indices. Clearly, during this period, security return in the UK market was subject to some common factor which was strongly associated with company size.

These problems make our results harder to interpret in trying to reach conclusions on market efficiency. While it seems clear that an equally weighted portfolio of rights issue would have outperformed the broadly based market-value weight FTA index, it seems unlikely that this has anything to do with rights issues as such. Instead, it appears to reflect the 'company size' factors which was at work during the period. If seems fair, therefore, to conclude that our result do not furnish any very strong evidence of significant market inefficiencies associated with rights issues. Because of this, we cannot reject the hypothesis that the UK market is efficient with respect to rights issue announcements. The test of our test on price pressure & market liquidity where of more conclusive although on average, there did appear to be small setback of ½ % know evidence what show over that the returns over issue (announcement) period were related to size of the issue. Quoted companies appear to be able t sell reasonable amount of new equity at effectively the current market price, and do not appear to face a downward sloping demand curve for their share. Hence although in recent years there has been seems little justification for any real concern over the operations of this particular segment. The London Stock Exchange appears to be a highly liquid market.

Weston and Brigham (1992), state that Rights offering can be used effectively by financial managers. If the new financing, associated with the rights offering represents sound decision, improved earnings for the firm, a rise in stock values will probably be the result. The use of rights will permit shareholders to preserve their position or improve that. However, if investors feel that the new financing is not well advised, the rights offering may cause the price of the stock to decline by more than the value of the rights. Because rights offering are directed to existing shareholders, its use can reduce the cost of flotation that is associated with the new issue.

Prof. Dr. Shrestha (1992), states that though the size of the shareholders population in Nepal has been growing constantly the government seems to have not taken any initiative in formulating the separate act which protects the shareholders rights. In Nepal, the concerned officials seem to be not relevant as they interfere in the shareholders get ignored. In the annual general meeting, shareholders can amend the internal by laws, elect directors, authorize the sale of assets enter into mergers, change amount of the authorized capital and so on. But in practice, many annual general meeting have undermined the collective rights of the shareholders. National Life and General Insurance Company has suppressed the collective rights of shareholders by not adhering to the consent of shareholders members in the board though the proposal was put forward by the management. Same case is happened of Butwal Dhago Udhyog as the management wanted to have a control over the collective rights of shareholders.

A Company can make rights offering to its existing shareholders after meeting the requirements specified by the securities and exchange Board of India (SEBI) in India. Shareholders who announce their rights are not entitled for additional shares. Shares becoming available on account of non-exercise of rights are allotted to shareholders who have applied for additional shares can be sold in the open market.

When the rights are offered for raising funds, there major issues are involved. They are as follows:

a. The number of rights needed to buy a new share,
b. The theoretical value of a right, and
c. The effect of rights offering on the value of the ordinary shares outstanding.

Pandey (1999), states that a rights issue involves selling of ordinary shares to the existing shareholders of the company. The law in India states that the new ordinary shares must be first issued to the existing shareholders on a pro rata basis. This Pre-emptive right can be forfeited by shareholders through a special resolution. Obviously, this will dilute their ownership.

Pandey, further states that the existing shareholder does not benefit or lose from rights issue, whether he is selling ex-rights, or cum-rights.
What he receives in the form of the value of a right, he loses in the form of decline in share price. His wealth remains unaffected when he/she exercise his rights. He will lose if he does not exercise his/her rights or sells them. He/she loses under the third option. The shareholders have three options:

a. Exercise the rights,
b. Sell the rights, and
c. Do nothing.

In terms of the impact on the shareholders wealth, subscription price is irrelevant. What the shareholders gain in terms of rights, he will lose in terms of decline in the share price. The primary objective in fixing the subscription price below the current market price is that after the rights offering the market price should not fall below it.

Always the theoretical value of rights is not equal with market value because of three reasons. First, the high transaction cost can limit the investor arbitrage that would otherwise push the market price of the right to its theoretical value. Second, large flotation cost can affect these two values. Third, specialization over the subscription period can push the market price above or below the theoretical value.

Van Horne (2002), states that one of the most important aspects of successful rights offering is the subscription price. If the market price of the stock should fall below the subscription price, stockholders obviously will not subscribe to the stock, for they can buy it in the market at a lower price. Consequently, a company will set the subscription price at a value lower than the current market prices, to reduce the risk of the market price's falling below.

Eekbo and Masulis (1991) find evidence consistent with this market reaction is most negative for underwritten offerings and lest negative for uninsured rights, and in between for standby rights where the ex ante subscription rate is not as high as for uninsured rights offering. Many firms cannot expect to have their rights offering fully subscribed. As they noted rights subscription rates will depend on personal wealth constraints of shareholders, portfolio diversification considerations, transaction costs and tax liabilities of selling rights, and benefits from maintaining proportional voting power.

Smith's (1997), samples accounted for less than ten percent of issue; whereas Britain and many other European countries, rights issues predominate. The price of the new shares in a rights issue is normally fixed at al level somewhat below the current market price of the shares. But these lower prices should not generally diminish the wealth of the existing shareholders. The shareholders who do choose to take up the allocation, the fall in price is comparable to the in consequential decline which accompanies a capitalization issue or stock-split. But, shareholders who do not choose to take up the allocation of the new share can sell their rights to the new shares in the period before the payment is due. Only irrational shareholders, who neither exercise their rights nor sell their rights, will see their wealth reduced. The company can, therefore, set a price for the rights issue sufficiently low to ensure that the rights will be exercised without fearing any adverse wealth implications for its existing shareholders.

Marsh (1980) conducted a study of a valuation of underwriting agreements for UK rights issue states that UK companies raise virtually all of their new equity capital via the rights issue. Companies can guarantee the subscription of their issue having them underwritten and in recent years this procedure has been adapted for 90% of UK rights issues. Underwriting is usually carried out on a fixed fee basis representing at least 1.25% of the total money raised, it shows substantial money are involved. Underwriting is simply a put option giving the company the right to put a failed issue on to the underwriter. He explains an application of Black and Scholes model to the valuation of rights issue underwriting agreements over the period of1962 to 1975. Prices are compared with the fees charged in order to assess whether the letter represent competitive prices.

Kenneth J. Weller (1979) on his article "The Journal of Finance" has concerned with the technique of raising equity capital through the process of offering new shares of common stock to the present owners at a price below the current market price. The rights to the new shares issued on a pro-rata basis can be utilized or sold by the recipient shareholders. Funds, therefore, are supplied to the corporation by the original owners and by the purchases of rights. The decision making process for the establishing the terms of the offering is analyzed as it affects the relationship of the right offering to other financial policies. There is a marked tendency for the market for shares during a right offering to decline as a result of the large increase in the supply of the stock during a short period of time. This price decline can be measured by determining the amount of the price decline and adjustment for charges in the general market. A statistical analysis of the major issues of 1956 and 1957 indicates that the average decline price was 5.97 percent. The measure varied from 4.07 percent for utilities to 8.04 percent for industries. A considerable portion of the decline took place shortly before the actual rights period.

This price decline result from insufficient demand for the new shares by two groups the original holders of the stock and the non-holders who seek to obtain shares by purchasing the rights. The demand by holders as evidenced in subscriptions is not a published fact for most issues. A mail survey reveals that a number of firms have this type of information but that is very difficult to draw any conclusion from the reported data because of the wide variation in the methods of conclusion from the reported data because of the wide variation in the methods of collection and reporting. These are sufficient information, however, to suggest that in many issues a large portion of the funds comes from outside the ranks of the original shareholders. The fact that subscription is available at prices below the market is important to some. Others are influences by special purchasing privileges, the relative size of the required additional investment, and general attitudes towards the future to the company. Special underwriting techniques can be used to simulate subscriptions. Some of the factors influence the non-holders who purchase rights, but special attention should be given to the lay-off procedure. The lay-off is a financial operation in which investment bankers' purchase rights on the market and concurrently sells the corresponding shares through their selling organization. The development of this technique, it's regulation by the securities and Exchange Commission, it's possibilities, and it's limitations are considered at length. It appears that it cans an effective force in the prevention of excessive price declines during the issue.

The corporation can reduce the costs and increase the effectiveness of the rights offerings. Different concepts of the nature of costs complicate this matter, but there are many possibilities for reducing cash cost by adjusting the underwriting fees and eliminating certain of the underwriter's services. Non-cash costs associated with dilution can be controlled through various measures which seek to minimize the pressure on the prices of the stock during the issue.

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

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

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

2.13.2 Review of Previous Research Work (Unpublished Thesis)

There are many masters' thesis prepared by various researchers in the past years. Among them, some thesis is reviewed for the analysis of literature.

Lamichhane (2007), had made study on the topic *"Right Share and Its Impact on Market Price of the Stock"*. The objectives of this study were:

- To identify existing practices of right issues.
- To find out. Impact on changes in market price of the stock, before and after the 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 existing law, on the matter of right share.
- To point out suggestion to the related bodies.

The main findings of the study were:

- Nepalese Capital Market is narrow in term of capital market instruments, only common stock, right share and to a very little extent, preference shares, debenture and few mutual funds are brought into practice. Contingent securities like warrants and convertibles, option and other securities are not brought into practice
- Nepalese equity market (primary as well as secondary) is dominated by financial sectors companies; the participation of the real sector (manufacturing, hotels etc.) is quite low or negligible.
- Rights share contribute, the second largest among various issues to raise the capital of the corporation approved by SEBO/N
- The result of run test is positive, i.e. market price per share before 1 month of right share issue and after right share issue is found to follow randomness in price fluctuation.
- In majority of the cases, MPS after right share decrease. But some companies are not found to be following the rule. MPS of DCBL, FFCL and TRHL remain the same after the right share issue showing no effects of right share issue. MPS of KBL increase after right share issue.
- The theoretical and actual market price should be equal or actual market price should be slightly higher than theoretical price due to signaling effect but DCBL, KBL, JFCL, TRHL and MBL are not found to be

following the rule. The actual market price of these companies after right share issue is lower than their theoretical value.

- Declaration of inappropriate holders of record date has caused dilution of wealth position of existing shareholders which is just opposite of the thereof rights offering (i.e. protecting dilution of wealth position of existing shareholders)
- Company Act has is silent regarding the issue of rights offering and subsequent allotment of the rights issue, most of the investors/shareholders also unaware about it.
- Because of under subscription employee of rights issuing companies and issue manager are gaining on the expenses of the existing shareholders.
- Promotional role played by the issuing company and issue manage regarding to the rights offering is not sufficient.

Gautam (2007), had made study on the topic *"Equity Right Issue and the Efficiency of the Nepalese Stock Market"*. The objectives of this study were:

- To identify the existing practices of right issue in Nepal.
- To analyze whether Nepal 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 price

The findings of the study were as follows:

- The practice of Right Share issue is in increasing trend per year, So far right Shares have been issued 45 times during the study period.
- The result of run test is positive i.e. Market prices per share before one month Of Right Share issue, after Right share issue and index no. Of

market price Taking base year as one month before Right Share issue) are 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.
- Most of the Nepalese investors invest in common stock mainly for dividend and capital gain.
- Majority of the Nepalese investors has known about right shares and likes 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.

Neupane (2008), had made study on the topic *"Rights Share Practice in Nepal & its Impact on Share Price of Listed Companies".* The objectives of this study were:

- To analyze the impact of rights share issue in share price.
- To examine, rights issue practice in Nepalese financial market.
- To identify the problems regarding under subscription.
- To examine the impact of rights offering earning per share.

The findings of the study were as follows:

- Most of companies follow the theory of right offering i.e. after the right announcement its share price increase significantly and after the allotment of right share and its share price was traded in ex-right price.
- Under subscription of rights share is common phenomena in Nepal.
- The major cause behind the under subscription of rights share is the lack of awareness among the investors, untraceable shareholders, poor

financial performance of the issuing company, financial problem of shareholders and lack of the provision for rights transfer.

- Recent year's subscription of rights share is in increasing trend.

Maharjan (2008), had made study on the topic *"Rights Share & its Impact on Market Price of Share".* The objectives of this study were:

- To identify existing practices of rights issues.
- To find out. Impact on changes in market price of the stock, before and after the 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 existing law, on the matter of right hare.
- To point out suggestion to the related bodies.

The findings of the study were as follows:

- Nepalese Capital Market is narrow in term of capital market instruments, only common stock, right share and to a very little extent, preference shares, debenture and few mutual funds are brought into practice. Contingent securities like warrants and convertibles, option and other securities are not brought into practice.
- Nepalese equity market (primary as well as secondary) is dominated by Financial sectors companies; the participation of the real sector (manufacturing, hotels etc.) is quite low or negligible.
- Rights share contribute, the second largest among various issues to raise the capital of corporation approved by SEBO/N
- Company Act has is silent regarding the issue of rights offering and subsequent allotment of the rights issue, most of the investors/ shareholders also unaware about it.
- Under subscription of rights issue is common phenomena as rights is not transferable in Nepal, most of the companies unsubscribed give to the staff of the corporation have done underwriting.

- Because of under subscription employee of rights issuing companies and issue manager are gaining on the expenses of the existing shareholders.
- Promotional role-played by the issuing company and issue manage regarding to the rights offering I not sufficient.

Paudel (2008), has done research on *"Right Share Issue Practice in Nepalese Market and its Impact on market Price of Share"*. This study has set out the following objectives:

- To find out the impact on changes in market price of stock, before and after the announcement of right offering.
- To examine the theoretical value of right and its practical effect of right on stock price.
- To analyze the inadequacy of existing law on the matter of right share.

The findings of the study were as follows:

- Majority of the companies followed the rules of right issue which can be observed through the decrease price of stock after right issue.
- Nepalese equity market is dominated by financial sector companies and the participation of the real sector is quite low or negligible.
- Right offering have some impact on the price of share either positive or negative, and mostly, market price of share are found decreased after the right issue.

Poudel (2009), has conducted the study on *"Effect of Right Share and Bonus Share in MPS of Listed Companies"* with reference to Nepalese financial institutions. In this study his objective was to examine and analyze various aspects of bonus share and right share. To evaluate the problems vegarclity to investors in associated with right share and bonus share to suggest and recommend on the basis of major findings. To analyze this study he has used hypothesis analysis to find out difference of MPS before and after announcement of right offering. He has also used co-efficient of correlation to describe degree to which are variable is linearly related to another. He has also used valuation of right to find out difference between MPS before and after announcement date.

Major objectives of his studies were:

- To examine and analyze various aspects of bonus share and right issue.
- To evaluate the effect in market price per share after the allotment of right share and bonus share.
- To evaluate the problems regarding to investors in associated with right share and bonus share.

Major findings of this study:

- All the sample company does not follow the theory of right and bonus share.
- All of investors do not know about the wealth position after issue of right and bonus share.

2.14 Research Gap

There are many studies conducted which are related to the capital market and share price behavior in Nepal. However, there is still not done yet, specific research on right share. The purpose of this research is to focus and provide clear picture on right share. Different studies showed that the capital 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 instrument for raising additional equity capital from the capital market.

After reviewing some thesis and other 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 some on Right offering announcement. Gautam's study was based on Equity Right Issue and he considered only three samples, which was very low sample size. While, beside impact on stock price movement, other objectives are completely new, which the previous researcher ignore it. Without those objectives, the research on right offering would not complete.

This study also based on both secondary as well as primary data. Moreover, the earlier studies on right offering have become old and need to be updated and validated, because of the rapid changes taking place in the capital market. Considering all these facts it is necessary to carry out a fresh study in Nepal. Finally, this study is expected useful information for all those including financial scholars, managers, investors and regulatory body (such as: NRB, SEBO/N, NEPSE).

CHAPTER - III

RESEARCH METHODOLOGY

In order to achieve the objectives of the study mentioned in chapter one. An appropriate methodology becomes more relevant, which has been given due importance throughout this study. Different section included in this chapter is research design, population and sample, sources and technique of data collection, coverage, and method of analysis.

Research methodology is a systematic way to solve the research problems. It describes the methods and process applied in the entire aspects of study.

3.1 Research Design

Research design is necessary for each research work. It is a plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. So, selecting a suitable methodology is a good part of the research study. Then a suitable research design has been employed in order to analyze impact on share price before and after right offering.

As the principal objective of this study is to analyze the Right Share & Its Impact on Stock Price of the stock. This study follows the descriptive as well as analytical approaches are used to evaluate the rights share & its impact on stock price movement of the sample firms and logical conclusion cloud be drawn. Most importantly, the study is designed as ex-post facto research as the study is based on historical data. However, descriptive approach has also been adopted for the analysis of primary data obtained from questionnaire.

3.2 Population and Sample

The data collection activities consist of taking order 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. Therefore, sample is the best technique of the research study.

In Nepal, Nepal Finance and Saving Company has issued right share first in fiscal year 1995/96 amounting to Rs.2.09 million. In 1996/97, 3 companies had issued right shares amounting to Rs.275.20 million. There were 3 cases of right share issue in 1997/98, 1 case in 1998/99, 3 cases in 1999/2000, 2 cases in 2000/01,5 cases in 2001/02, 4 cases in 2002/03, 3 cases in 2003/04, 6 cases in 2004/05 and lately 11 cases in 2005/06, 17 case in 2006/07, 43 case in 2007/08 and 50 case in 2008/09. Following are the corporate firms issuing right shares (Annex: 7).

3.3 Sources for Data

Data are considered as an integral part of research. Required data for this study is mainly based on secondary sources of information as well as primary sources of information.

3.3.1 Secondary Data

In this study secondary data are collected from different sources i.e. SEBO/N, annual report of respective Banks, NEPSE, some related information is taken from economic survey. Besides, that the data have been collected from various sources like newspapers, magazines, published and unpublished reports related document and journal and internet sources as well. The share prices are collected from trading report, which was published by NEPSE, and national daily news paper.

3.3.2 Primary Data

The concern banks were also directly approached to obtain information on many points. Questionnaire technique also used in order to get some valuable information and resolutions to various problems with which the researcher confronted in the due course of completing study.

3.4 Data Collection Technique

In order to elicit the answer the research questions managers and officers (concerned with the issue of rights share) of the issuing banks, issue managing companies, regulatory bodies, investors and experts are for the primary source of date. Questionnaires are dispatched to a sample of 20 people and 20 responses are obtained. Table No.3.5.1 shows the sample and response of the primary source of data.

Questionnaire is presented in the annex 8.

Table 3.1

Sample and Response as a Primary Source of Data

S.No.	Responds	Sample	Response
1	Managers & Officers of Right Offering Banks	5	5
	a. Laxmi Bank Ltd.	1	1
	b. Siddhartha Bank Ltd.	1	1
	c. Lumbini Bank Ltd.	1	1
	d. Nepal Credit and Commerce Bank Ltd.	1	1
	e. Nepal Investment Bank Ltd.	1	1
2	Managers & Officers of Issuing Manager and Regulatory Office	5	5
	a. NIDC Capital Markets Ltd.	1	1
	b. NMB	1	1
	c. Ace Finance Ltd.	1	1
	d. SEBO/N	1	1
	e. NEPSE	1	1
3	Investor & Experts	10	10
	a. Investor	7	7
	b. Expert	3	3
4	**Total (100%)**	20	20

Source: Field Survey

3.5 Method of Analysis

The data is analyzed by using various financial and statistical tools to achieve the research objectives. This study is based on share price before and after the rights share announcement. The share price moves up or down due to various market information. So, the researcher has used some assumption to remove the effect information.

3.5.1 Allowance for Leakage of Information

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

3.5.2 Removing the effect of Market Movement

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

a. For the purpose of analysis seven different times were selected for observing the price movement, with the announcement date as the point of reference. The selected point is as follows:
   1. Three months before announcement date: - it is taken as a base date simply because for that period the existing shareholders are not supposed to have information about the BOD'S intention to issue rights share. Hence there will not be any kind of signaling effect on the share price.
   2. Seven days before announcement date: - few days before the announcement day a very limited shareholders do know it and does not bring any immaterial influence on the share price behavior of the stock.
   3. The day of announcement.
   4. Seven days after announcement: - when the company explicitly announcement the issue of rights share, comparatively there will be a high demand of the rights attached share and this phenomenon causes the share price to rise. This period is supposed to depict the true picture of the share price of the post announcement.
   5. Six months after announcement: - after the actual issue of the rights share, the post issue share price dilutes simply because the number of outstanding shares increases and new shares are sold at a price below the current market price. when the digestion process is complete after a reasonable period of time, say six months, the original share price will be restored and again the market show a normal price behavior.
b. Price quotations for each share were collected for all the seven periods of time or reasonably close to them. These price quotations were then converted into price relative to the base date price, i.e. the price three months before the announcement date.
c. The Banking sub index was noted against each price relative. The price index was also converted to a new set of index numbers again with point (1) as the base.

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

In general terms, our procedure for eliminating the effect of the general market movement boils down to adjust the actual share price on any date downwards in proportion to a downward general movement.

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

3.6 Data Processing Technique

The purpose of analyzing the data is to hang it from an unprocessed form to understandable presentations .The collected data need to be aggregated into a form that presents the summary of answers from respondents. The raw data convey little information as such there must be, therefore be complied analyzed and interpreted using different data analysis tools (Wolf and Pant, 1999:220).

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

Theoretical Value of Stock after right share issue = $\dfrac{P_o \,|\#\Gamma P_s}{\#\Gamma 1}$

Where,

Pre right issue stock price $=P_0$

Subscription price $=P_s$

No. of rights required to purchase one new share = #

3.6.1 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 changes become positive, it indicates that the MPS has increased after right share issue and if the percentage change come zero, it indicates no change in MPS before and after right issue. The percentage that has been changed in MPS after right share issue is calculated by using the following formula.

$$\text{Change in Price (\%)} = \frac{\text{Post Rt. Issue Price - Pre Rt. Issue Price}}{\text{Pre Rt. Issue Price}}$$

3.6.2 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 the 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

$$\text{\% change} = \frac{\text{Theoretica l Price - Actual Price}}{\text{Actual Price}}$$

3.6.3 Co-efficient of Correlation (r)

The Co-efficient of Correlation measures the direction of relationship between two sets of figures. It is the squire root of coefficient of determination. Correlation can either be positive or it can be negative. If both variables are changing in the same direction, then correlation is said to be positive but when the variations in the both variables result opposite direction the correlation is termed as negative. In the study coefficient of correlation is calculated between Share Price and Banking Sub Index.

3.6.4 Co-efficient of Determination (r^2)

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

3.6.5 Probable Error

Probable Error (P.E) is used to measure the reliability and test of significance of correlation coefficient. The formula of P.E. is as follows:

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

Where,

r= the value of correlation coefficient

n= No. of pairs of observation

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

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

If r> 6 P.E., it is significant.

3.6.6 Use of T-test

T-test is also used to test significance of the difference between the share prices before and after announcement of the rights offering by the Banks. Since the share prices of few transacted (i.e. less than 30 transactions) are taken. In this study, T-test is a suitable tool for analyzing the significance of difference between the share price before and after the announcement -of the rights offering. The researcher has used paired t-test.

$$\text{t-cal} = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2\left(\frac{1}{N_1} + \frac{1}{N_2}\right)}}$$

$$S^2 = \frac{1}{n_1 + n_2 - 2}\left[\sum (X - \bar{X})^2 + \sum (Y - \bar{Y})^2\right]$$

Here,

X= Price index of total equity capital before announcement

Y= Price index of total equity capital after announcement and other Symbols have their usual meaning, i.e.

N= number of observation

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

3.6.7 Valuation of Rights

Rights must have a certain value because the rights shares are generally offered at lower than market price. After rights offering existing shareholders want to exercise that right to purchase, and some want to sell rights. After the closing date of rights share offering, the share price will drop to the extent of value of right.

$$\text{Valuation of One Right} = \frac{P_o - S}{n + 1}$$

Where,

Po= Current Market price of share, rights-on.

S= Subscription Price.

N= Number of Right

3.7.8 Others

Others tools such as statistical diagram, statistical tables, Percentage & average have been used as per requirement of the study which are very useful in this study to analyze, & present the data in appropriate form.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

This chapter makes systematic presentation and analysis of data. Analysis is based on the data obtained from both primary and secondary sources. Primary source includes mainly the responses to questionnaires with investors, experts, officials and other resourceful persons. Similarly the secondary sources include available annual reports of sample Banks, publication of SEBO/N, NEPSE, etc. Appropriate statistical as well financial tools as described in the research methodology chapter have been used in order to derive actual results from the analysis of data. This is key chapter, as it helps achieve the objective of the study of the study as mentioned in the first chapter.

4.1 Practice of Rights Issue in Nepal

An establishment of Biratnagar Jute Mills in 1993 B.S., was first to initiate the issue of equity to the general public. The corporate stock sell took place only after this. Due to the absence of organized and legally established capital market, practices of issuing of equity and related function couldn't be exercised. It was only after 1976 A.D., Security Exchange Center was established which initiated various practice of equity financing. Security Exchange Center, after its establishment has undergone various changes and till date Security Board of Nepal (SEBO/N) and Nepal Stock Exchange provides floor and it creates the secondary market.

SEBO/N, which is a governing body, has formulated various acts, regulate and guide. Even though guideline especially for rights issue has not been formulated but it has been mentioned about the issue of rights related acts. After the restoration of democracy the corporate sector has gone through a noticeable change. The period of three decade couldn't bring perfect change in this practice. The reason behind is the various factors that as political enestablishment, law economic growth, unsustainable government policy, lack of industrialization and various prevailing factors.

After the political change in 1990 A.D., Nepal adopted liberalization policy. Therefore, some joint venture company participated in the Nepalese Corporate Sector. This has brought a significant change and has brought practices concerned with corporate sector. The history of rights offering is not so long in Nepalese context. Nepal Finance & Saving Co was the first company, who issued rights shares in Nepalese market in fiscal year 1995/96. The company announces on 1995/08/09, the ratio was 4:1, each existing shareholders who had 4 shares they owned were, allowed, to purchase each additional share issued by the company.

Since, from the fiscal year 1995/96, Nepalese corporate firm, started to issue rights share. Up to now i.e. Fiscal year 2008/2009, 50 companies comprising 6 Commercial banks, 13 Development Banks, 27 Finance companies, 3 Insurance Companies and 1 other company issued right share amounting to Rs.11615.36. Large no of bank and finance companies announce and issue rights share, to increase the capital base if the corporate management felt such need to comply with the policy directives given by the concerned authority to increase the capital base from the time to time. Under rights offering, the shareholders are provided a document called 'right' which describes all about the conditions of rights issue. Each stockholder receives one right in the proportion of the share currently held. Though our study has cover only eleven companies.

Most of the companies issue right share in order to increase their paid up capital as directed by NRB. (Annex-7)

4.2 Contribution of Rights Issue on the Total Public Flotation

Table.4.1 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 Rights Issue on Total Public Flotation

Fiscal Year	No. of Companies Issued Right	Amount of Right Issue (Million)	Total Amount of Issue (Million)	% of Right Issue
1993/1994	0	0	344.40	0
1994/1995	0	0	254.21	0
1995/1996	2	69.00	293.74	23.49
1996/1997	3	275.20	332.20	82.84
1997/1998	3	249.96	462.36	54.06
1998/1999	1	30.00	258.00	11.63
1999/2000	3	124.60	326.86	38.12
2000/2001	2	131.79	410.49	32.11
2001/2002	5	621.87	1441.33	43.15
2002/2003	4	162.24	556.54	29.15
2003/2004	3	70.00	1027.50	6.81
2004/2005	6	949.34	1626.82	58.35
2005/2006	11	1013.45	2443.28	41.48
2006/2007	17	1265.30	2295.50	55.12
2007/2008	43	6793.56	10668.31	63.68
2008/2009	50	11615.36	16828.51	69.02
Total	**153**	**23371.67**	**38971.44**	**59.97**

Source: Annual Report of SEBO/N

Table.4.1 shows the contribution of rights issue in the total public flotation in each of fiscal year in which the rights offering has taken place. The table shows that from fiscal year 1995/1996, Nepalese corporate firms had been started, rights shares as a means to raise additional capital. During that fiscal year only two cases contributed 23.49% of total flotation of Rs.293.74 million. In fiscal year 1996/1997, there are three cases of rights issue (i.e. Himalayan General Insurance Co., Bottlers Nepal Ltd. and Nepal Share Market Co Ltd.) that covers 82.84% of the total flotation (i.e. 332.20 million) during that fiscal year.

This is the largest contribution of rights share in total flotation. Though, the total public flotation amount is significantly large in the fiscal year 1997/1998, three rights offering cover 54.06 % of it. However, in the fiscal year 1998/1999, the right share was lower than previous year amounting to Rs.30 million covering only 11.63% of the total public flotation, i.e. Rs.30 million out of Rs.258 million. In the fiscal year 1999/2000, the amount of right share was Rs.124.60 million which cover38.12% of total public flotation i.e. Rs.326.86 million. In this year, three companies issued right share. In the fiscal year 2000/2001, there are two cases of rights issues that cover 32.11% of total flotation. Similarly, in fiscal year 2001/2002, there are five cases of rights offering amounting to Rs.621.87 million which covers 43.15% of total public flotation of Rs.1441.33 million. In fiscal year 2002/2003, the total public flotation was Rs.556.54 millions out of which Rs.162.24 million was collected through right share issue, this is 29.15% of total flotation and cases were four. In the fiscal year 2003/2004, the amount raised through right share issue was Rs.70.00 million covering 6.81 % of total public flotation, i.e. Rs.1027.50 million. The total no. of right share issue in that year is three. In the fiscal year 2004/2005, the total amount raised through right offering was Rs.949.34 million covering 58.35% of total public flotation, i.e. Rs.1626.82 million and the cases were six. In the fiscal year 2005/2006 the no. of right share issue was 11, the total amount raised through the right share issued was Rs.1013.45 million out of total public flotation of Rs.2443.28 million covering 41.48%. In the fiscal year 2006/2007, there were 17 cases, which cover 55.12% of total flotation. In the fiscal year 2007/2008 no. of right share issue were 43 which cover 63.68%of total public flotation. Finally, during the fiscal year 2008/2009, the amount of right share was Rs.11615.36 million which covers 53.09% of total public flotation i.e. Rs.16828.51 million.

4.3 Rights Offering and its Impact on Share Price Move before and after Rights Offering

This study is focus to analyze the price movement of selected sample banks with NEPSE index. To obtain the best outputs, five different points of time were selected for observing the price movement assuming with the announcement date as the reference point. The given point shows the following price quotation.

- 60 days before the announcement date.
- 30 days before the announcement date
- 7 days before the announcement date.
- The day of announcement.
- 7 days after the announcement.
- 30 days after the announcement date
- 60 days after the announcement date.

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

a. Laxmi Bank Ltd.
b. Siddhartha Bank Ltd.
c. Lumbini Bank Ltd.
d. Nepal Credit and Commerce Bank Ltd.
e. Nepal Investment Bank Ltd.

Above given sample banks are analyzes of share price movement before and after the rights offering are as follows:

4.3.1 Analysis of share price movement of Laxmi Bank Ltd.

Laxmi Bank was incorporated in April 2002 as a commercial bank. The current shareholding constitutes of promoters holding 55.42 percent, Citizen Investment Trust holding 9.02 percent and the general public holding 35.56 percent. Promoters represent Nepal’s leading business families with diversified business interests. The Bank’s shares are listed and actively traded in the Nepalese Stock Exchange.

With a view to providing safe, seamless, quick and advance banking services, the bank has been heavily investing in contemporary banking technologies. The Bank uses Flex cube as its main banking platform. Flex cube incidentally has been ranked the number one selling core banking solution globally, and has been embraced by over 500 financial institutions across over 90 countries. The Bank provides its services through a host of delivery channels including cell phone, Internet, ATM, Point of Sales (PoS) etc., in addition to a network of physical branches. Our Internet banking facility comes with capabilities of online shopping in addition to regular Internet banking features. Similarly, through the bank's alliance with Smart Choice Technologies (SCT), the ATM/Debit cardholder of Laxmi Bank has access to a network of ATMs, and PoS terminals located in all major urban centers of the country. The bank is the first in South Asia to have implemented SWIFT Net, the advanced version of the SWIFT technology, which is used for speedy and secure payment and messaging services.

Under a professional management team, the bank has established itself as an emerging key player. Today the bank is recognized as an innovative and progressive bank geared to providing shareholders and customers with quality earnings and value-added services.

Table 4.2

Share price Movement of Laxmi Bank Ltd.

Selected points of time	**Share Price Rs.**	**Price Relatives**	**Banking Sub Index**	**Banking sub index converted into new Base**	**% Change from Base**	**Adjusted price relatives 2 as % of 4**	**% Change from Base**
	1	2	3	4	5	6	7
I	868	100.00	811.39	100.00	-	100.00	-
II	870	100.23	808.91	99.69	(0.13)	100.54	0.54
III	860	99.08	800.65	98.68	(1.32)	100.41	0.41
IV	942	108.53	804.91	99.20	(0.8)	109.41	9.41
V	930	107.14	810.18	99.85	(0.15)	107.30	7.30
VI	900	103.69	820.58	101.13	1.13	102.53	2.53
VII	800	92.17	825.48	101.74	1.74	90.59	(9.41)

Sources: Annual Report of SEBON and Trading Report of NEPSE

When Laxmi Bank Limited announced rights share to existing shareholders, the price on the day of announcement was Rs.942, which is Rs74 greater than the price before 60 days of announcement date and has Rs.860 share price seven days before the announcement date. Share price of Laxmi Bank Ltd. was Rs.930 on the seven days after the announcement of rights offering. Then, it is found decreased to Rs.900 and Rs.800 after 30 and 60 days of the announcement date. But such price movement still decreases price index. It remained fluctuating in between Rs.811.39 to Rs.825.48 during the points I and VII. Banking Sub index was Rs.811.39 in 60 days before the announcement date. It was decreased to Rs.800.65 in seven days before the announcement date and it was Rs.804.91 in the announcement date but it was increased to Rs.820.58 in seven days after the announcement date. It increased to Rs.825.48 in 60 days after the announcement date.

By analyzing the share price movement of Laxmi Bank Ltd. and the trend of Banking Sub Index movement, change in the market price from point I to II is basically due to Banking Sub index movement, at that time Banking Sub index had decreased from Rs.811.39 to 808.91. Banking Sub index was decreased to Rs. 800.65, Rs. 804.91 in among III and IV points of time. After point V, VI and VII it increased slightly from Rs.810.18, 820.58 and Rs.567.51 respectively. Column 5 shows the percentage change in the adjusted price indices from the base index. It shows that the Banking Sub index was decreased by 1.32%, seven days before announcement. Similarly, it increased by 1.13% and 1.74% after 30 and 60 days of announcement.

Column 6 shows adjusted price relatives. The adjusted price relative was increased by 0.54% in II and increased by 0.41% in III. At point IV, V, VI the adjusted price relative was increased by 9.41%, 7.30% and 2.53% respectively. It was compatible to point VII at the same period price relative also decreased to9.41%. Hence, in the case of Laxmi Bank Ltd. we found that Laxmi Bank Ltd. has not seemed moving according to the theory of rights.

Values of one rights and ex-rights price of Laxmi Bank stock are as follows:

Market price Stock	=Rs 942
Value of one Right	= Rs. 168.40
Ex-rights price of share	= Rs. 773.60

The value of the share after the allotment should be around Rs. 773.60 but the share price of Laxmi Bank Ltd. was Rs. 800 after three months of rights share announcement. Thus the share of Laxmi Bank Ltd. was overpriced (Annex-1&3).

4.3.2 Analysis of Share Price Movement of Siddhartha Bank Ltd.

Siddhartha Bank Limited (SBL) commenced operations in 2002. The Bank was promoted by a group of highly reputed Nepalese dignitaries having wide commercial experience.

The environment of Nepalese banking sector is undergoing a rapid transformation. With liberalization in financial markets and integration of domestic market with external markets, bank operations have become more complex and dynamic. We are geared to meet the challenges and keep abreast with the changes.

The Vision statement of the Bank describes the core values and purposes that guide the Bank as well as an envisioned future. Fundamentally, in all dealings SBL earnestly believes in transparency, financial soundness, efficiency and better technology.

Table 4.3

Share price Movement of Siddhartha Bank Ltd.

Selected points of time	Share Price Rs.	Price Relatives	Banking Sub Index	Banking sub index converted into new Base	% Change from Base	Adjusted price relatives 2 as % of 4	% Change from Base
	1	2	3	4	5	6	7
I	830	100.00	790.10	100	-	100	-
II	800	96.39	802.80	101.61	1.61	94.86	(5.14)
III	750	90.36	811.55	102.71	2.71	87.98	(12.02)
IV	891	107.35	809.00	102.39	2.39	104.84	4.84
V	815	98.19	815.60	103.23	3.23	95.12	(4.88)
VI	810	97.59	810.95	102.64	2.64	95.08	(4.92)
VII	803	96.75	809.01	102.39	2.39	94.49	(5.51)

Sources: Annual Report of SEBON and Trading Report of NEPSE

From Table 4.3, it can be analyze that the share price of Siddhartha Bank Ltd. is in decreasing trend. Share price of Siddhartha Bank Ltd. before 60 days of the announcement date was Rs.830 and was decreased to Rs.803 after 60 days of the announcement date. While observing banking sub index, it increased form Rs.790.10 to Rs.802.80 on the period I to II and also increased from Rs.802.80 to Rs.811.55 in the period II to III. An increased of Rs.21.45 was realized between periods I to III. Therefore, the increased on market price of share of Siddhartha Bank Ltd. from base date to day of announcement is basically attributed to announcement; market price of the share went up by Rs.141 during period III to IV and became Rs.891. Theoretically market price of share should have gone up for few days just after the rights announcement, which didn't happen in case of Siddhartha Bank Ltd. due to holder's record date. It means obviously, that the investors who purchased the share of Siddhartha Bank Ltd. on the day of announcement or onwards were entitled to buy rights share. It is meeting to the theory of right issue. Investors after the date of announcement may have thought that, number of share were going to increase, EPS were going to decrease or ex-right price of share price will be restored ad the market shows normal price after 90 days of announcement date, but in case of Siddhartha Bank Ltd., the share price was in decreasing trend up to 60 days after the announcement date but after that decreased to Rs.803, which was not following the principle of rights.

Values of one rights and ex-rights price of Siddhartha Bank stock are as follows:

Market price Stock	=Rs.891
Value of one Right	= Rs. 131.83
Ex-rights price of share	= Rs.759.17

The value of the share after the allotment should be around Rs.759.17 but the share price of Siddhartha Bank Ltd. was Rs.803 after three months of rights share announcement. Thus the share of Siddhartha Bank Ltd. was overpriced (Annex-1&3).

4.3.3 Analysis of Share Price Movement of Lumbini Bank Ltd.

Lumbini Bank Limited is a national level commercial bank offering a wide range of banking solutions and services meticulously customized to the needs of the customers. Established in 1998, this is the first regional commercial bank in Nepal, which started its operation from Narayangarh spreading its wings to further four more places at Hetauda, Butwal, Durbarmarg and Biratnagar.

Lumbini Bank Limited has restructured various products, as a part of an ongoing process, to cater to the retail segment. The newly structured products cover Personal Loan, Home Loan, Vehicle Loan, Mortgage Loan, Educational Loan, Time Loan etc.

Table 4.4

Share price Movement of Lumbini Bank Ltd.

Selected points of time	Share Price Rs.	Price Relatives	Banking Sub Index	Banking sub index converted into new Base	% Change from Base	Adjusted price relatives 2 as % of 4	% Change from Base
	1	2	3	4	5	6	7
I	490	100	816.10	100	-	100.00	-
II	540	110.20	812.76	99.59	(0.41)	110.65	10.65
III	540	110.20	810.95	99.37	(0.63)	110.90	10.90
IV	510	104.08	810.50	99.37	(0.63)	104.74	4.74
V	495	101.02	808.91	99.12	(0.88)	101.92	1.92
VI	510	104.08	804.91	98.63	(1.37)	105.53	5.53
VII	588	120	820.25	100.51	0.51	119.39	19.39

Sources: Annual Report of SEBON and Trading Report of NEPSE

In case of Lumbini Bank Ltd., the share price was Rs.490, two months before the announcement date which slightly increased to Rs.540 before the seven days of announcement date. Market share price was Rs.510 on the announcement date. However, market price of share was drastically decreased just after the seven days of the announcement date. It was Rs.495. After that it was seemed increasing share price after a month and two months of the announcement date. There was Rs.588 in 60 days after the announcement date. It was increased from Rs.510 to Rs.588 from the points VI to VII respectively.

By analyzing the share price movement of Lumbini Bank Limited and the trend of Banking Sub index, change in the market price from point I to III is basically due to banking index movement, at that time banking index had decreased from Rs.816.10 to Rs.810.95. Banking sub index was decreased to Rs.810.50, Rs.808.91, Rs.804.91, in among points of times IV, V and VI respectively.

Again Banking sub index increased to Rs.820.25 at VII point of time. Column 5 shows the percentage change in the adjusted price indices from the base index. It shows the banking sub index was decreased by 0.41% one month before the announcement date and again increased by 0.63% before seven days of announcement date which shown in III points of time. However, 1.37% decreased in banking sub index can be observed in points VI in comparison to point V. It was increased by 0.51% in points VII. Column 6 in the above table shows adjusted price relatives. The adjusted price relative was increased from 10.65% to 10.90% between II and III. It was compatible to points V, VI and VII at the same period price relatives also increased from 1.92% to 5.53%, from 5.53% to 19.39%. Hence in the case of Lumbini Bank Ltd., there was a positive impact of right offering.

Values of one rights and ex-rights price of Lumbini Bank Stock are as follows:

Market price Stock	=Rs 510
Value of one Right	= Rs. 102.50
Ex-rights price of share	= Rs. 407.50

The value of the share after the allotment should be around Rs.407.50 but the share price of Lumbini Bank Ltd. was Rs.588 after three months of rights share announcement. Thus the share of Lumbini Bank Ltd. was overpriced (Annex-1&3).

4.3.4 Analysis of Share Price Movement of NCC Bank Ltd.

Nepal Credit & Commerce Bank Ltd. (NCC Bank) formally registered as Nepal - Bank of Ceylon Ltd. (NBOC), commenced its operation on 14th October, 1996 as a Joint Venture with Bank of Ceylon, Sri Lanka. It was the first private sector Bank with the largest authorized capital of NRS. 1,000million. The Head Office of the Bank is located at Siddhartha Nagar, Rupandehi, the birthplace of LORD BUDDHA, while its Corporate Office is placed at Bagbazar, Kathmandu.

The name of the Bank was changed to Nepal Credit & Commerce Bank Ltd., (NCC Bank) on 10th September, 2002, due to transfer of shares and management of the Bank from Bank of Ceylon, an undertaking of Government of Sri Lanka to Nepalese Promoters.

At present, NCC Bank provides banking facilities and services to rural and urban areas of the Kingdom through its 17 branches. The Bank has developed corresponding agency relationship with more than 150 International Banks having worldwide network.

Table 4.5

Share Price Movement of NCC Bank Ltd.

Selected points of time	Share Price Rs.	Price Relatives	Banking Sub Index	Banking sub index converted into new Base	% Change from Base	Adjusted price relatives 2 as % of 4	% Change from Base
	1	2	3	4	5	6	7
I	330	100	810.95	100.00	-	100.00	-
II	310	93.94	819.90	101.10	1.10	92.92	(7.08)
III	315	95.45	821.56	101.31	1.31	94.22	(5.78)
IV	326	98.79	815.16	100.52	0.52	98.28	(1.72)
V	350	106.06	815.19	100.51	0.51	105.52	5.52
VI	375	113.64	830.35	102.39	2.39	110.99	10.99
VII	369	111.82	835.68	103.05	3.05	108.51	8.51

Sources: Annual Report of SEBON and Trading Report of NEPSE

In case of NCC Bank Ltd., the share price was Rs.330, two months before the announcement date which slightly decreased to Rs.315 before the seven days of announcement date. Market share price was Rs.326 on the announcement date. However, market price of share was increased just after the seven days of the announcement date. It was Rs.350. After that it was seemed increasing share price after a month and two months of the announcement date. There was Rs.369 in 60 days after the announcement date.

By analyzing the share price movement of NCC Bank Limited and the trend of Banking Sub index, change in the market price from point I to II is basically due to banking index movement, at that time banking index had increased from Rs.810.95 to Rs.819.90. Banking sub index was increased to Rs821.56 at point III and decreased at point IV & V with Rs.815.16 & 815.19 respectively. Banking index increased to Rs.830.35 & 835.68 in among points of times VI, and VII respectively. Column 5 shows the percentage change in the adjusted price indices from the base index. It shows the banking sub index was increased by 1.10%one month before the announcement date and again increased by 1.31% before seven days of announcement date which shown in III points of time. However, 2.39% increased in banking sub index can be observed in points VI in comparison to point V. It was increased by 3.05% in points VII. Column 6 in the above table shows adjusted price relatives. The adjusted price relative was decreased from by 7.08% between I and III. It was compatible to points V and VI at the same period price relatives also increased from 5.52% to 10.99% and the adjusted price relative was 8.51% at point VII which is 2.48% less than point VI.

Values of one rights and ex-rights price of NCC Bank Stock are as follows:

Market price Stock	=Rs.326
Value of one Right	= Rs. 113
Ex-rights price of share	= Rs. 213

The value of the share after the allotment should be around Rs.213 but the share price of NCC Bank Ltd. was Rs.369 after three months of rights share announcement. Thus the share of NCC Bank Ltd. was overpriced (Annex-1&3).

4.3.5 Analysis of share price movement of Nepal Investment Bank Ltd.

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure. We believe that NIBL, which is managed by a team of experienced bankers and professionals having proven track record, can offer you what you're looking for. We are sure that your choice of a bank will be guided among other things by its reliability and professionalism.

Table 4.6

Share Price Movement of Nepal Investment Bank Ltd

Selected points of time	Share Price Rs.	Price Relatives	Banking Sub Index	Banking sub index converted into new Base	% Change from Base	Adjusted price relatives 2 as % of 4	% Change from Base
	1	2	3	4	5	6	7
I	1055	100.00	620.95	100	-	100	-
II	1060	100.47	609.80	98.08	(1.92)	102.44	2.44
III	1080	102.37	611.17	98.42	(1.58)	104.01	4.01
IV	1105	104.74	611.15	98.41	(1.59)	106.43	6.43
V	1101	104.36	600.50	96.71	(3.29)	107.91	7.91
VI	1060	100.47	560.15	90.21	(9.79)	111.37	11.37
VII	1020	96.68	555.86	89.52	(10.48)	107.99	7.99

Sources: Annual Report of SEBON and Trading Report of NEPSE

When Nepal Investment Bank Limited announced rights share to existing shareholders, the price on the day of announcement was Rs.1105, which is

Rs25 greater than the price before seven days of announcement date. Share price of Nepal Investment Bank Ltd. was Rs.1101 on the seven days after the announcement of rights offering. Then, it is found decreased to Rs.1060 and Rs.1020 after 30 and 60 days of the announcement date. It remained fluctuating in between Rs.620.95 to Rs.555.86 during the points I and VII. Banking Sub index was Rs.620.95 in 60 days before the announcement date. It was decreased to Rs.611.17 in seven days before the announcement date and it was Rs.611.15 in the announcement date but it was creased to Rs.600.50 in seven days after the announcement date. It decreased to Rs.555.86 in 60 days after the announcement date. Hence, only in the case of Nepal Investment Bank Ltd., there was an obvious positive impact of rights offering.

Values of one rights and ex-rights price of Nepal Investment Bank stock are as follows:

Market price Stock	=Rs 1105
Value of one Right	= Rs. 335
Ex-rights price of share	= Rs. 770

The value of the share after the allotment should be around Rs.770 but the share price of Nepal Investment Bank Ltd. was Rs.1020 after two months of rights share announcement. Thus the share of Nepal Investment Bank Ltd. was overpriced (Annex-1&3).

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

To find the impact of right share issue on market price per share, it is necessary to calculate the theoretical market price. The market price after ex right date compare with theoretical market price to measure the effects. The comparison results of the firm measure the impact of the right share issue on market price of the share. Positive change in share price means share price after right share issue are higher than theoretical market price. This is good indicator for shareholder and company; it means they have good signaling effect. Negative change means share price after right share issue are lower than theoretical price.

Table 4.7

Comparison of Theoretical and Actual Market Price after Right Share Issue

S. No.	Name of the Banks	Actual MPS after right issue	Theoretical Price after right issue	% change
1	LBL1	800	773.60	-0.033
2	SBL	803	759.17	-0.055
3	LBL2	588	407.50	-0.31
4	NCCBL	369	213	-0.423
5	NIBL	1020	770	-0.25
Total				-1.071

% change = Theoretical Price – Actual Price / Actual Price

Average Change = Sum of % change / No. of Observations = -1.071/5 = -0.2142%.

Table 4.7 shows the percentage change in actual market price and theoretical price of share after right share issue. Theoretically, actual market price and theoretical price of the share after right share issue should be equal. Actual market price after right share issue is collected from the trading reports of the SEBO/N and theoretical price of the share after right share is calculated in Annex 3.

Table 4.7 shows that the actual market price of Laxmi Bank Ltd. and Siddhartha Bank Limited are respectively Rs.800 and Rs.803 and their theoretical market price are Rs.773.60 and Rs.759.17 respectively. The percentage changes between the two prices are -0.033% and -0.055% respectively. Similarly, the actual market price of Lumbini Bank Ltd., NCC Bank Ltd. and Nepal Investment Bank Ltd. are Rs.588, Rs.369 and Rs.1020 and their theoretical values are Rs.407.50, Rs.213 and Rs.770 respectively. The

% change between two prices is also negative i.e. -0.31%, -0.423 % and -0.25% respectively. Here all the actual market price is greater than that of theoretical price which shows the negative change.

From the analysis, it is found that out of 5 sample Banks, all Banks have theoretical market price lower than actual market price causing negative percentage change. The average percentage change between the actual market price and theoretical price is negative -0.2142%.

4.5 Comparison of Stock Price before and After Right Share Issue

The impact of right share issue on market price per share is evaluated here. Theoretically, the 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 7 days prior to right share issue and post right issue price is the closing market price after 7 days 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 the pre right issue price and this phenomenon is theoretically correct. The zero change indicates that the post right issue price and the pre right issue price are equal and this is also theoretically wrong.

Table 4.8

MPS of sample Banks before and after Right Share Issue

S.No.	Name of Banks	Pre. Rt. Issue Price	Post Rt. Issue Price	Change in Price (%)
1	LBL1	860	930	8.14
2	SBL	750	815	8.67
3	LBL2	540	495	-8.33
4	NCCBL	315	350	11.11
5	NIBL	1080	1101	1.94

Source: Annual Report of SEBON and Trading Report of NEPSE

$$\text{Change in Price (\%)} = \frac{\text{Post Rt. Issue Price - Pre Rt. Issue Price}}{\text{Pre Rt. Issue Price}}$$

From Table 4.8, it is clear that in majority of the case the change is in positive. This means the majority of company does not follows the theory, i.e. the market price per share decreases after right share issue. Among the 5 sample Banks; one bank share price has decreased after right share issue.

4.6 Correlation Coefficient between Share Price Movement and Movement in Banking Sub index

Nepal Stock Exchange has just started the practice of calculating and publishing the sector wise indices. So under the study Banking Sub indices are used.

In practice, not only the rights offering but also general market movement largely affects the share price of Banks. For this reason correlation between share price movement and Banking Sub Index is calculated by considering share price of Banks as the dependent variables and the share price fluctuate according to the fluctuation on the index of Bank.

After calculating the correlation between share price movement of sample Banks and Banking Sub Index movement (refer to annex-4) following results have been obtained.

4.7 Correlation Coefficient between Share Price & Banking Sub Indices

Table 4.9

Correlation Coefficient between Share Price & Banking Sub Indices

Sample Banks	Correlation Coefficient	Coefficient of Determination	Probable Error (P.E.)	6 Probable Error (P.E.)
Laxmi Bank Ltd.	-0.111	0.0123	0.2518	1.5108
Siddhartha Bank Ltd.	-0.0688	0.0047	0.2537	1.5224
Lumbini Bank Ltd.	-0.143	0.0204	0.2497	1.4984
Nepal Credit & Commerce Bank Ltd.	0.363	0.131	0.2215	1.3292
Nepal Investment Bank Ltd.	0.5004	0.2504	0.1911	1.1466

Refer to Annex-4

Table 4.9 shows that there is no consistent result of all sample Banks. In case of Laxmi Bank Ltd., There is low degree of negative correlation coefficient between its share price and Banking Sub index i.e. r=-0.111. This relation is further proved by the coefficient of determination which is 0.0123 or 1.23% and the correlation coefficient (r) is less than 6 P.E. (i.e. 6 P.E. =1.5108). Thus the correlation is not significant and reliable. Thus rights offering have some sort of impact on share price of Laxmi Bank Ltd. In case of Siddhartha Bank Ltd., there is low degree of negative correlation between its share price and banking index movement (i.e. r =-0.0688). The coefficient of determination i.e.r2 = 0.0047 means that about 0.47% of variation in the share price is explained by the Banking Sub Index movement. The coefficient of correlation is less than 6 P.E. (i.e.6 P.E. =1.5224) which proves that correlation is insignificant and unreliable. Thus rights offering have some sort of impact on share price of Laxmi Bank Ltd. and Siddhartha Bank Ltd.

In another case of Lumbini Bank Ltd., there is low degree of negative correlation i.e. of -0.143, and This relation is further proved by the coefficient of determination which is 2.04% and also it is greater than 6 P.E. (i.e.6 P.E. =1.4984) which proves that correlation is significant and reliable. So, we can also conclude that share price behavior of Lumbini Bank Ltd. is because of Banking Sub index movement. There is also low degree of positive correlation i.e. r = 0.363 between share price movement and Banking Sub index movement in case of NCC Bank Ltd. This relation is further proved by the coefficient of determination which is 0.131 or 13.1% and correlation coefficient (r) is less than 6 P.E. Thus the correlation is not significant and reliable. In case of Nepal Investment Bank Ltd., there is high positive relationship between its share price movement and Banking Sub index movement & its correlation coefficient (i.e. r=0.5004) is less than probable error (i.e.6 P.E.= 1.1466). The coefficient of determination i.e.r2 =0.2504 means that about 25.04% of variance in share price is explained by Banking Sub index movement.

4.8 Use of t-statistics to measure the Immediate Impact of Rights Offering on the Share Price and on Banking Sub Index

Theoretically, after the rights issue, generally share price of concern company move upwards till the date of issue closed. To analyze whether there came any significant change is share price, we have used t-statistics. For this we have taken the share price and price index before and after announcement date. Table 4.10 shows the calculated and tabulated values of t-statistics of respective companies.

Table 4.10

Calculated Value and Tabulated Value of t-statistics

Banks	Test for	Significance Level	Degree of Freedom	t-tab	t-cal	Inferences: the difference is
Laxmi Bank Ltd.	Share Price	5%	8	2.306	-1.290	Insignificance
	Banking Sub Index	5%	8	2.306	-2.090	Insignificance
Siddhartha Bank Ltd.	Share Price	5%	8	2.306	-10.145	Insignificance
	Banking Sub Index	5%	8	2.306	-2.544	Insignificance
Lumbini Bank Ltd.	Share Price	5%	8	2.306	-0.452	Insignificance
	Banking Sub	5%	8	2.306	1.27	Insignificance
NCC Bank Ltd	Share Price	5%	8	2.306	-7.378	Insignificance
	Banking Sub Index	5%	8	2.306	-1.05	Insignificance
Nepal Investment Bank Ltd.	Share Price	5%	8	2.306	1.087	Insignificance
	Banking Sub Index	5%	8	2.306	5.32	Significance

Source: Annex 5

Table 4.10 clearly shows that the calculated value of t in case of Laxmi Bank Ltd. is -1.290, whereas the tabulated value at 5%level lf significance is 2.306 for 8 degree of freedom. Since t-cal is less than t-tab, it can be inferred that the differences between the share prices few days before and after the announcement of rights offering is insignificant. Also the differences in the price indices of banking index are insignificant. Thus it can be calculated that increase in share price can be attributed to rights offering. In this case alternative hypothesis that the share price changes significantly after the rights issue announcement can be accepted.

In case of calculated value of t for Siddhartha Bank Ltd. is -10.145. Whereas the tabulated value at 5% level of significance is 2.306 for degree of freedom. Since t-cal is lower than-tab, it can be informed that the difference between the share prices few days before and after the announcement of rights offering is insignificant. Thus, it can be inferred that the heavy decrease in share price of its stock can be attributed to rights offering. In this case, null hypothesis that the share price changes insignificantly after the announcement of the rights share is accepted and the null hypothesis that the share price does not changes significantly after the announcement of the rights offering is accepted. Similarly, the difference in the share price indices of banking indices is also insignificant.

The calculated value of t in case of Lumbini Bank Ltd is -0.452, whereas the tabulated value at 5% level of significance is 2.306 for 8 degree of freedom. Since t- cal is less than t- tab, it can be inferred that the differences between the share prices few days before and after the announcement of rights offering is insignificant. Similarly, the differences in the price indices of banking indices are also insignificant. Thus it can be calculated that decreased in share price can be attributed to rights offering. In this case null hypothesis that the share price changes insignificantly after the rights issue announcement can be accepted.

The calculated value of t in case of NCC Bank Ltd is -7.378, whereas the tabulated value at 5% level of significance is 2.306 for 8 degree of freedom. Since t- cal is less than t- tab, it can be inferred that the differences between the share prices few days before and after the announcement of rights offering is insignificant. Similarly, the differences in the price indices of banking indices are also insignificant. Thus it can be calculated that decreased in share price can be attributed to rights offering. In this case null hypothesis that the share price changes insignificantly after the rights issue announcement can be accepted.

Finally, in case of Nepal Investment Bank Ltd. The calculated value is 1.087, whereas the tabulated value at 5%level lf significance is 2.306 for 8 degree of freedom. Since t-cal is less than t-tab, it can be inferred that the differences between the share prices few days before and after the announcement of rights offering is insignificant. But the differences in the price indices of banking index are significant. Thus it can be calculated that increase in share price can be attributed to rights offering. In this case alternative hypothesis that the share price changes significantly after the rights issue announcement can be accepted.

4.9 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.

4.9.1 Testing of Variation in Actual Market Price and Theoretical Price

Null hypothesis H : μx **= μ**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 H1: **μ** x ≠ **μ** 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-tests).

Table 4.11

Testing of Variation in Actual Market Price and Theoretical Price

S.No.	Name of the Companies	Actual MPS after right issue (x)	Theoretical Value of the share after right issue (y)	d (x- y)	d^2
1	LBL1	800	773.60	26.40	696.96
2	SBL	803	759.17	43.83	1921.07
3	LBL2	588	407.50	180.50	32580.25
4	NCCBL	369	213	156	24336
5	NIBL	1020	770	250	62500
				Σd = 656.73	Σd^2 =122034.28

Source: Annex 3

$$\mathbf{d=}\ \frac{d}{n} = \frac{656.73}{5} = 131.35$$

$$\mathbf{s=}\sqrt{\frac{1}{n-1}}\quad d^2 - \frac{(d)^2}{n} = \sqrt{\frac{1}{5-1}(122034.28 - \frac{(656.73)^2}{5})} = 94.57$$

$$\mathbf{t=}\frac{\bar{d}}{\frac{s}{\sqrt{n}}} = \frac{131.35}{\frac{94.57}{\sqrt{5}}} = 3.11$$

t tab at 5% of level of significance for 10 degree of freedom = 2.228.

Decision:

Since the t cal > t tab i.e. 3.111 > 2.228, alternative hypothesis is accepted.

Conclusion: Hence, it can be concluded that there is significant difference between actual market price and theoretical price of the share after right share issue.

4.10 Analysis of Primary Data

This study is based on secondary data some information was collected through distribution of questionnaire to the share holders, issuing company and issue managers as well.

Our capital market is in the process of modernization. If we compare the development stage of our capital market with that of highly developed or developed countries, undeniably, it is under-developed one. Even in the comparison of cross boarder country like India, our capital market is incomparably small and under-developed.

Familiar with Rights Issue Practice

During the period of study, regarding the questionnaire and personal interview, various information was obtained. In 20 random samples of respondents it, most of the respondent said that they know about the rights issue practice. Almost all the issuing company and issue manager knows about the rights Issue practice very clearly but majority of the shareholders knows about the rights issue practice to some extent.

Similarly, 17 of the respondent said that they are very clear with rights offering. This represent, 85% of total respondent, while there of them said that they know about the rights share to some extent which is 15% of the total respondent.

Table 4.12

Familiar with rights issue practice

Comment	Issuing Company	Issue Manager & Regulatory Office	Investors & Experts	Total
A. Yes	5	5	7	17
B. No	0	0	3	3
Total	5	5	10	20

Source: Field Survey

Holding Share of Any Listed Companies

In another question raise about the share holding, 70% of the respondents are holding the share of Banking sector while 20% are holding the share of finance company, 10% insurance company and rest are others company. It shows that all the respondents are holding share of different companies.

Table 4.13

Holding Share of Any Listed Companies

Comment	Issuing Company	Issue Manager & Regulatory Office	Investors & Experts	Total
A. Banks	3	5	6	14
B. Finance Co.	0	0	4	4
C. Insurance and Others	2	0	0	2
Total	5	5	10	20

Source: Field Survey

Interest to Buy Rights Share if your Company Offer Rights

Most of the respondent shareholders want to buy rights share if their company offers but some of them said that to buy or do not to buy rights depends upon the company's performance.

Table 4.14

Interest to Buy Rights Share if your Company Offer Rights

Comment	Issuing Company	Issue Manager & Regulatory Office	Investors & Experts	Total
A. Yes	5	4	7	16
B. Depends upon Performance	0	1	3	4
Total	5	5	10	20

Source: Field Survey

Investors Get Reliable and Adequate Information Regarding Right Share Issue

Out of 20 respondents, 5 respondents said that they are getting reliable and adequate information from related companies, friends and outsource. This represents only 25% of total respondents, where 14 respondents said that they are not. It means 70% respondents are not getting reliable and adequate information and rest one respondent said doesn't know which only 5% is.

Table 4.15

Investors Get Reliable and Adequate Information Regarding Right Share Issue

Comment	Issuing Company	Issue Manager & Regulatory Office	Investors & Experts	Total
A. Yes	3	1	1	5
B. No	2	4	9	15
Total	5	5	10	20

Source: Field Survey

Awareness about the Rights Issue

In another question about the awareness about the rights issue, most respondent i.e.12 have said that majority of them are aware about rights issue. This represents the 60% of total respondents, 30% has said that very few of shareholders know about rights issue and 10% said that they don't know about it.

Table 4.16

Awareness about the Rights Issue

Comment	Issuing Company	Issue Manager & Regulatory Office	Investors & Experts	Total
A. Aware	4	3	5	12
B. Very Few	1	2	3	6
C. Don’t Know	0	0	2	2
Total	5	5	10	20

Source: Field Survey

Investors see the Company's Future Prospectiveness by Using Tools

Most respondent i.e.13 have said that majority of them are not using any tools to see the company's future prospective. It means none of them are using tools.

This represents 65% of total respondents. Only 7 respondents said that very few of them are using tools now days.

Table 4.17

Investors see the Company's Future Prospectiveness by Using Tools

Comment	Issuing Company	Issue Manager & Regulatory Office	Investors & Experts	Total
A. Majority	5	3	5	13
B. Very Few	0	2	5	7
Total	5	5	10	20

Source: Field Survey

Impact of Rights Share on Stock Price Movement

In another question about the impact of rights issue on market price of share, a mix result has been obtained, 85% of the respondents said that share price will increase after the announcement of rights share while 5% said that share price will decrease after rights share announcement. 10% respondent told that they have no idea about the impact of rights share announcement on market price of share.

Table 4.18

Impact of Rights Share on Stock Price Movement

Comment	Issuing Company	Issue Manager & Regulatory Office	Investors & Experts	Total
A. Increase	5	5	7	17
B. Decrease	0	0	1	1
C. No Idea	0	0	2	2
Total	5	5	10	20

Source: Field Survey

Rights are Not Transferable in Nepalese Financial Markets

Rights are not transferable in Nepal. Due to this shareholders have to face many difficulties. Among the respondent, who said that, current legal provision regarding rights offering is inadequate cent percent are agreed on the clause that rights share should be transferable but in addition to this 80% said that there should be the provision of premium issue of rights share and remaining 20% feels that there should be the clear procedure of rights transfer.

Table 4.19

Rights are Not Transferable in Nepalese Financial Markets

Comment	Issuing Company	Issue Manager & Regulatory Office	Investors & Experts	Total
A. Provision of premium issue	3	4	9	16
B. Clear procedure of rights transfer	2	1	1	4
Total	5	5	10	20

Source: Field Survey

Beneficiaries of Right Offering

The researcher's next and last question was regarding the beneficiaries of the rights offering. About 40% of the respondent ticket in the all of them option (i.e. issuing company, shareholder with rights and Security broker), 35% of the respondent said that both issuing company and shareholder with right will be beneficial and only 25% of the respondent said that shareholder with rights will be benefited.

Table 4.20

Beneficiaries of Right Offering

Comment	Issuing Company	Issue Manager & Regulatory Office	Investors & Experts	Total
A. All of them	1	2	5	8
B. Both issuing company and shareholder	4	3	0	7
C. Shareholder	0	0	5	5
Total	5	5	10	20

Source: Field Survey

4.11 Major Finding of the Study

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

4.11.1 Analyze the impact of right share issue on share price

- There is insignificant difference between the share prices of Laxmi Bank Ltd. Before and after the rights issue. The Laxmi Bank's stock had not followed the theory of rights offering i.e. after rights issue its share price increased significantly and after the allotment of the rights share and its share was traded in ex-rights price.
- This trend was also observed in case of Siddhartha Bank Ltd. and Lumbini Bank Ltd's stock price. There were not significant differences between the share prices of both banks before and after the rights issue.
- In case of NCC Bank Ltd., its share price increased significantly. There was no significant difference between the share price of NCC Bank Ltd., before and after the rights share issue.
- There was insignificant difference between the share price of Nepal Investment Bank Ltd., before and after the rights issue. Its stock price doesnot followed the theory of rights offering.

4.11.2 Rights Share Practice in Nepal

- Rights offering are comparatively new practice in Nepal. Therefore, some sample companies are able to raise the raise the desired capital thought it and the practice does follow the theory.
- Another major cause is dilution in shareholders wealth position is the holder's record date. In some sample companies, offering rights holder's record date is prior to the announcement date.
- Market is going to mature and company with track record is low.

- There are many cases of rights offering till the date. Most Companies are issuing rights share in order to fulfill the capital requirements as per the NRB directives.
- There is not like uniformity in the impact of rights offering of share price.
- Shareholder of Nepalese Financial Companies, there is lacks the proper knowledge about the rights share and its impact of in their wealth position. Due to this, free movement of share price during tights on and ex- rights are not confirmed.

4.11.3 Regarding the Impact of Rights offering in Earning per Share

Theoretically, after the issue of rights the earning per share of companies decreases. But if the company utilizes the rights offering, so it raised fund in effective way the earning per share can be increased. Similar result has obtained in case of sample banks.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Nepalese Security market is in developing stage in comparison to other countries such as China, United States and United Kingdom. Nepalese Security markets has practiced limited investment instrument such as equity share, debenture, preference, mutual fund, rights share and initial public offering. Thus such limited number of investment instrument cannot attract the saving held by the potential investors. This is one of the causes for low market capitalization in stock of Nepal.

This study is concentrated on the various aspects of rights offering with special references to the selected listed Banks of Nepal. Although since 13 years, Nepalese security markets is practicing the rights offering out is every essences is not seemed to be practiced here. Out of 162 listed companies in Nepal, there are certain number of rights offering cases till date but some cases of rights offering in Nepal meets the theory.

Theoretically, after the rights share announcement, the share price move upward till the closing date. After the closing date it will be traded at ex-right price. It means the share price move downward to extent of value of rights. But while observing the share price behavior of sample companies mixed results have been obtained. Share price of Laxmi Bank Ltd., before rights share announcement was Rs942 but it increased to Rs.969 after rights share announcement. In case of Siddhartha Bank Ltd., share price before announcement date was Rs.891 but after rights share announcement it went down to Rs.802 .In case of Lumbini Bank Ltd., share price before announcement date was Rs.510 but it decreased to Rs500 after rights share announcement. Similar trend was observed in case of NCC Bank Ltd., whose share price before announcement date was Rs.326 but after rights share announcement it decreased to Rs.320. Similarly, in case of Nepal Investment Bank Ltd., share price before announcement was Rs.1105 but decreased to Rs.1101 after rights share announcement.

The major objective of this study were to analyze the impact of right share issue on share price and to examine rights issue practice in Nepalese financial market and to examine the impact of rights offering in earning share.

Rights issue is comparatively new practice in Nepalese financial markets. Therefore, research not found more studies have been undertaken in Nepal but there are several cases of studies taken outside the country. But researcher had made full effort to collect the related studies for review in second chapter. This study is basically based in secondary data but some primary data has been used as well. Secondary data was taken from SEBO/N, Newspaper and Annual Report of respective companies and primary data are collected through the personal interview and distribution of questionnaire to the concerned personal. To conduct this study, statistical tools as well as financial tools have been used.

5.2 Conclusion

Conclusively, rights share practice is comparatively new phenomena in Nepalese Financial Market. There are no easy things to work out to make the rights offering as effective instrument of raising capital.

Here, researcher has found from the sample banks there are more cases of rights offering which has met theory i.e. the share price has increased significantly after the announcement of right share and then traded on ex- right price after the allotment of rights shares otherwise in few cases share price has decrease significantly after the rights shares announcement and it was traded even below subscription price after the announcement date in case of other financial institutions. This all may be because of poor performance of the issuing company, keeping the holders record date prior to the announcement date by the company etc. theoretically, the share price has been changed significantly after the rights offering but it was increased in more banks and decreased in others.

In most case of rights offering there exists some sort of under subscription of rights share. It may be lack of information to the shareholders even cannot get about the rights share announcement made by their companies others who are informed are not all aware of what the rights share means and what can be impact on their wealth position. There is no easy and clear provision to sales of under subscribed rights share. In practice many banks are distributing the right to their employees because of large number of shareholders are holding the few share and they ignore about the rights share and the cost of existing shareholders are getting by the bank’s employees. So, under subscription of rights is also case of no provision of transferable.

Testing the hypothesis, researcher has obtained mixed result. Some banks rights share affects the share price movement and banking index movement in more case positively correlated and some cases negatively correlated. Different result has obtained for share price movement during seven periods. There is take long formalities by issue manager. The regulation regarding the calculation of premium is not clear and certain regulation require company to issue rights share in par value that result in wide difference between market price per share and subscription price.

Finally, rights offering are increasing trend in Nepalese Security Market. Basically, Banking and Finance sector's are more practicing. Rights offering have both positive and negative impact to change on share price. The market price of share is also influenced by general market movement to greater extent in Nepal.

5.3 Recommendation

The Financial Market has come a long way it is still in primary stage and is not without flaws. The fallacies are founded on the part of regulating bodies, legal framework, investors and the associated companies. On the base of finding for the analysis and the issues and gaps mentioned above, the researcher has provided some practicable recommendation in the following points:

- Shareholders are not clear about the rights offering its benefit and impact on their wealth position. So, the concerned authorities should make aware them by good governance and provisions regarding rights share.
- To attract the investments, the issue prospectus should provide a clear picture of both the systematic and unsystematic risk of the business that will be make fear trade between risk and return.
- The critical factor affects the share price and Subscription on the holder's record date. The investors who purchase the share after that day are unable to get share. This can be better to set the proper holder record date by issuing banks.
- Nepalese investors are not all aware about rights offering. Therefore, to increase awareness for investors some technique like interaction, used of information technology through media etc should be managed by related companies and government.
- There should be need of Investment protection Act that helps to investors confidence and secured.
- Most of the Nepalese investors are holding financial institutional share. It means they are more attracted in that sector. So investors should also be diverted to other sector.
- Most of the Nepalese investors are not using any tools to see the company's future prospective. Therefore they should trained and make them aware for using analytical tools while buying shares.

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ANNEXURE

ANNEX-1

Information of Rights Offering of the Respective Banks

1. Laxmi Bank Ltd.

Announcement date of right Offering	= 2008/03/25
Permission date	=2008/04/03
Issued date	=2008/05/02
Subscription Price	= Rs.100 per Share
Subscription Ratio	=4:1
Amount of Issued Approved	=Rs.183 Million
Issue Manager	= NMB

Table A 1.1

Information about Share Price and Banking Sub Index

Share Price Before Announcement Date		Share Price After Announcement Date	
Date	Share Price Rs. (B.I.)	Date	Share Price Rs. (B.I.)
2008/01/10	868(811.39)	2008/03/27	969(802.27)
2008/02/13	865(803.75)	2008/04/02	930(810.18)
2008/02/15	870(808.91)	2008/04/28	900(820.58)
2008/03/01	869(807.10)	2008/05/30	915(822.44)
2008/03/15	860(800.65)	2008/06/27	800(825.48)

Sources: Official quotation of Share Prices published in the National Daily Newspapers and NEPSE Site.

2. Siddhartha Bank Ltd.

Announcement date of right Offering	= 2008/02/01
Permission date	=2008/02/06
Issued date	=2008/02/25
Subscription Price	= Rs.100 per Share
Subscription Ratio	=5:1
Amount of Issued Approved	=Rs.138Million
Issue Manager	= NMB

Table A 1.1

Information about Share Price and Banking Sub Index

Share Price Before Announcement Date		Share Price After Announcement Date	
Date	**Share Price Rs. (B.I.)**	**Date**	**Share Price Rs. (B.I.)**
2007/11/10	830(790.10)	2008/02/05	802(809.45)
2007/12/20	820(798.25)	2008/02/10	815(814.69)
2008/01/01	800(802.80)	2008/02/20	830(817.16)
2008/01/18	790(810.36)	2008/03/10	810(810.95)
2008/01/21	750(811.55)	2008/05/07	803(809.01)

Sources: Official quotation of Share Prices published in the National Daily Newspapers and NEPSE site.

3. Lumbini Bank Ltd.

Announcement date of right Offering	= 2008/03/07
Permission date	=2008/03/10
Issued date	=2008/03/31
Subscription Price	= Rs.100 per Share
Subscription Ratio	=3:1
Amount of Issued Approved	=250 Million
Issue Manager	= ACE

Table A 1.1

Information about Share Price and Banking Sub Index

Share Price Before Announcement Date		Share Price After Announcement Date	
Date	**Share Price Rs. (B.I.)**	**Date**	**Share Price Rs. (B.I.)**
2008/01/09	490(816.10)	2008/03/10	500(811.39)
2008/01/20	498(818.25)	2008/03/15	495(808.91)
2008/01/25	510(815.60)	2008/04/25	510(804.91)
2008/02/02	540(812.76)	2008/04/27	530(810.85)
2008/03/01	540(810.95)	2008/06/20	588(820.25)

Sources: Official quotation of Share Prices published in the National Daily Newspapers & NEPSE site.

4. Nepal Credit and Commerce Bank Ltd.

Announcement date of right Offering	= 2008/04/29
Permission date	=2008/05/02
Issued date	=2008/05/20
Subscription Price	= Rs.100 Per Share
Subscription Ratio	=1:1
Amount of Issued Approved	=Rs.436.80Million
Issue Manager	= NCML

Table A 1.1

Information about Share Price and Banking Sub Index

Share Price Before Announcement Date		Share Price After Announcement Date	
Date	**Share Price Rs. (B.I.)**	**Date**	**Share Price Rs. (B.I.)**
2008/02/01	330(810.95)	2008/05/01	320(812.06)
2008/02/05	320(809.10)	2008/05/06	350(815.19)
2008/03/12	310(819.90)	2008/05/10	390(816.10)
2008/04/21	315(821.56)	2008/05/29	375(830.35)
2008/04/25	325(820.25)	2008/07/29	369(831.68)

Sources: Official quotation of Share Prices published in the National Daily Newspapers and NEPSE site.

5. Nepal Investment Bank Ltd.

Announcement date of right Offering =2009/01/18

Permission date =2009/01/23

Issued date =2009/02/17

Subscription Price = Rs.100 per Share

Subscription Ratio =2:1

Amount of Issued Approved =Rs.803.03 Million

Issue Manager = NCML

Table A 1.1

Information about Share Price and Banking Sub Index

Share Price Before Announcement Date		Share Price After Announcement Date	
Date	**Share Price Rs. (B.I.)**	**Date**	**Share Price Rs. (B.I.)**
2008/11/25	1055(620.95)	2009/01/27	1101(600.05)
2008/12/05	1065(613.63)	2009/02/02	1003(561.03)
2008/12/05	1060(609.80)	2009/02/25	1060(560.15)
2009/01/05	1075(610.06)	2009/03/15	1055(564.20)
2009/01/10	1080(611.17)	2008/04/25	1020(555.86)

Sources: Official quotation of Share Prices published in the National Daily Newspapers & NEPSE site.

Annex 2

Calculation of Theoretical Price of the Stock after Right Share Issue

$$\text{Theoretical Value of Stock after right share issue} = \frac{P_o \text{ X } \# + P^s}{\# + 1}$$

Pre right issue stock price $=P_0$

Subscription price =Ps

No. of rights required to purchase one new share = #

S.NO.	Name of the Banks	P_0	Ps	Ratio	#	Pe
1	LBL1	942(801.03)	100	4:1	4	967
2	SBL	891(811.25)	100	5:1	5	911
3	LBL2	510(809.81)	100	3:1	3	543
4	NCCBL	326(815.16)	100	1:1	1	426
5	NIBL	1105(611.55)	100	2:1	2	1155

Annex 3

Value of Rights and the Theoretical Ex-rights price

Variable Defined:

P_o = Current Market Prices

P_s = Subscription Price

N = Number of rights required for an additional share

P_x = Ex-rights Price

V_r = Value of Rights

$$V_r = \frac{P_o - P_s}{N+1}$$

$$P_x = \frac{N \times P_o + P_s}{N+1} \quad \text{Or} \quad P_o - V_r$$

1. Laxmi Bank Limited

P_o = Rs.942 P_s =Rs.100 N=4 Share

Now,

$$V_r = \frac{P_o - P_s}{N+1} \quad = 942\text{-}100/4+1 \quad = \text{Rs.}168.40$$

$$P_x = \frac{N \times P_o + P_s}{N+1} \quad \text{Or} \quad P_o - V_r = 4 \times 942 + 100/\ 4+1 = \text{Rs.}773.60$$

2. Siddhartha Bank Limited

P_o = Rs.891 P_s =Rs.100   N=5 Share

Now,

$$V_r = \frac{P_o - P_s}{N+1} = 891\text{-}100/\ 5+1 \quad = Rs.131.83$$

$$P_{x\,=} \frac{N \times P_o + P_s}{N+1} \text{ Or } P_o - V_r \quad = 5 \times 891 + 100/\ 5+1 = Rs.759.17$$

3. **Lumbini Bank Limited**

P_o = Rs.510 P_s =Rs.100   N=3 Share

Now,

$$V_r = \frac{P_o - P_s}{N+1} = 510\text{-}100/\ 3+1 = Rs.102.50$$

$$P_{x\,=} \frac{N \times P_o + P_s}{N+1} \text{ Or } P_o - V_r = 3 \times 510 + 100/\ 3+1 = Rs.407.5$$

4. **Nepal Credit & Commerce Bank Limited**

P_o = Rs.326 P_s =Rs.100   N=1 Share

Now,

$$V_r = \frac{P_o - P_s}{N+1} = 326\text{-}100/\ 1+1 = Rs.113$$

$$P_{x\,=} \frac{N \times P_o + P_s}{N+1} \text{ Or } P_o - V_r \quad = 1 \times 326 + 100/\ 1+1 = Rs.213$$

5. Nepal Investment Bank Limited

P_o = Rs.1105 P_s =Rs.100 N=2 Share

Now,

$$V_r = \frac{P_o - P_s}{N+1} = 1105\text{-}100/\ 2+1 \qquad = \text{Rs.}335$$

$$P_x = \frac{N \times P_o + P_s}{N+1} \quad \text{Or } P_o - V_r \qquad = 2 \times 1105 + 100/\ 2+1 \qquad = \text{Rs.}770$$

Annex 4

Table A4.1

Laxmi Bank Ltd.

Points of Time	X	(x) (X-X)	X^2 $(X\text{-}X)^2$	Y	(y) (Y-Y)	Y^2 $(Y\text{-}Y)^2$	xy
I	865	-39.29	1543.70	803.75	-6.24	38.94	245.17
II	870	-34.29	1175.80	808.91	-1.08	1.17	37.03
III	869	-35.29	1245.38	807.10	-2.89	8.35	101.99
IV	942	37.71	1422.04	804.91	-5.08	25.81	-191.57
V	969	64.71	4187.38	802.27	-7.72	59.60	-499.56
VI	900	-4.29	18.40	820.58	10.59	112.15	-45.43
VII	915	10.71	114.70	822.44	12.45	155	133.34
	∑x=6330 X =904.29		x^2=9704.40	Y=5669.96 Y=809.99		y^2=401.02	xy=-219.03

Karl Pearson's coefficient of Correlation

$$r= \frac{xy}{\sqrt{\quad x2 \quad y2}} \qquad = \frac{-219.03}{\sqrt{9704.40x401.02}} \quad =-0.111$$

Coefficient of determination $(r)^2 = (-0.111)^2$ = 0.0123

$$\text{P.E.} =0.6745\frac{1 Z r2}{\sqrt{n}} \quad =0.6745 \text{ x } \frac{1 Z 0.0123}{\sqrt{7}} \qquad = 0.2518$$

6 x P.E. = 6 x 0.2518 =1.5108

Table A4.2

Siddhartha Bank Ltd.

Points of Time	X	(x) (X-X)	X^2 $(X-X)^2$	Y	(y) (Y-Y)	Y^2 $(Y-Y)^2$	xy
I	830	3.43	11.76	790.10	-17.25	297.56	-59.17
II	820	-6.57	43.16	798.25	-9.1	82.81	59.79
III	790	-36.57	1337.36	810.36	3.01	9.06	-110.08
IV	891	64.43	4151.22	809.00	1.65	2.72	106.31
V	815	-11.57	133.86	815.60	8.25	68.06	-95.45
VI	830	3.43	11.76	817.16	9.81	96.24	33.65
VII	810	-16.57	274.56	810.95	3.6	12.96	-59.65
	X X5786 X =826.57		x^2=5763.68	Y=5651.42 Y=807.35		y^2=569.41	xy= -124.6

Karl Pearson's coefficient of Correlation

$$r = \frac{xy}{\sqrt{x2 \quad y2}} = \frac{-124.4}{\sqrt{5763.68x569.41}} = -0.0688$$

Coefficient of determination $(r)^2 = (-0.0688)^2 = 0.0047$

$$\text{P.E.} = 0.6745 \frac{1 Z r2}{\sqrt{n}} = 0.6745 \text{ x } \frac{1 Z 0.0047}{\sqrt{7}} = 0.2537$$

6 x P.E. = 6 x 0.2537 = 1.5224

Table A4.3

Lumbini Bank Ltd.

Points of Time	**X**	**(x) (X-X)**	**X^2 $(X-X)^2$**	**Y**	**(y) (Y-Y)**	**Y^2 $(Y-Y)^2$**	**xy**
I	498	-16	256	818.25	6.21	38.56	-99.36
II	510	-4	16	815.60	3.56	12.67	-14.24
III	540	26	676	812.76	0.72	0.52	18.72
IV	510	-4	16	810.50	-1.54	2.37	6.16
V	500	-14	196	811.39	-0.65	0.42	9.1
VI	510	-4	16	804.91	-7.13	50.84	28.52
VII	530	16	256	810.85	-1.19	1.42	-19.04
	X X3598 X =514		x^2=1432	Y=5684.26 Y=812.04		y^2=106.80	xy=-55.9

Karl Pearson's coefficient of Correlation

$$r = \frac{xy}{\sqrt{x2 \quad y2}} \qquad = \frac{-55.9}{\sqrt{1432 x 106.80}} \qquad = -0.143$$

Coefficient of determination $(r)^2 = (-0.143)^2$ = 0.0204

$$\text{P.E.} = 0.6745 \frac{1 Z r2}{\sqrt{n}} \quad = 0.6745 \text{ x } \frac{1 Z 0.0204}{\sqrt{7}} \qquad = 0.2497$$

6 x P.E. = 6 x 0.2497 =1.4984

Table A4.4

Nepal Credit & Commerce Bank Ltd.

Points of Time	**X**	**(x) (X-X)**	**X^2 $(X-X)^2$**	**Y**	**(y) (Y-Y)**	**Y^2 $(Y-Y)^2$**	**xy**
I	330	-9.43	88.92	810.95	-7.36	54.17	69.40
II	310	-29.43	866.12	819.90	1.59	2.53	-46.79
III	325	-14.43	208.22	820.25	2.22	4.93	-32.03
IV	326	-13.43	180.36	818.03	-0.28	0.078	3.76
V	320	-19.43	377.52	812.60	-5.71	32.60	110.95
VI	390	50.57	2557.32	816.10	-2.21	4.88	-111.76
VII	375	35.57	1265.22	830.35	12.04	144.96	428.26
	X X2376 X =339.43		x^2=5543.68	Y=5728.18 Y=818.31		y^2=244.15	xy=421.79

Karl Pearson's coefficient of Correlation

$$r = \frac{xy}{\sqrt{x2 \quad y2}} = \frac{421.79}{\sqrt{5543.68 x 244.15}} = 0.363$$

Coefficient of determination $(r)^2 = (0.363)^2 = 0.131$

$$P.E. = 0.6745 \frac{1 Z r2}{\sqrt{n}} = 0.6745 \times \frac{1 Z 0.131}{\sqrt{7}} = 0.2215$$

6 x P.E. = 6 x 0.2215 =1.3292

Table A4.5

Nepal Investment Bank Ltd.

Points of Time	X	(x) (X-X)	x^2 $(X-X)^2$	Y	(y) (Y-Y)	y^2 $(Y-Y)^2$	xy
I	1065	-10.14	102.82	613.63	17.77	315.77	-180.19
II	1060	-15.14	229.22	609.80	13.94	194.32	-211.05
III	1080	4.86	23.62	611.17	15.31	234.40	74.41
IV	1105	29.86	891.62	611.55	15.69	246.18	468.50
V	1101	25.86	668.74	600.50	4.63	21.47	119.73
VI	1060	-15.14	229.22	560.15	-35.71	1275.20	540.65
VII	1055	-20.14	405.62	564.20	-31.66	1002.36	637.63
	X X7526 X =1075.14		x^2=2550.86	Y=4171 Y=595.86		y^2=3289.70	xy=1449.68

Karl Pearson's coefficient of Correlation

$$r = \frac{xy}{\sqrt{x2 \quad y2}} = \frac{1449.68}{\sqrt{2550.86 x 3289.70}} = 0.5004$$

Coefficient of determination $(r)^2 = (0.5004)^2 = 0.2504$

$$P.E. = 0.6745 \frac{1 Z r2}{\sqrt{n}} = 0.6745 \text{ x } \frac{1 Z 0.2504}{\sqrt{7}} = 0.1911$$

6 x P.E. = 6 x 0.1911 = 1.1466

ANNEX: 5

I) Test of Hypothesis by using t-statistic for the Test of Significance of the difference between share prices before and after the announcement of Rights Offering.

Variables Defined:

H_o= Null Hypothesis that there is a not significance difference between the share price before and after the announcement of rights offering.

H_1= Alternative Hypothesis that there is a significant different between the share price before and after the announcement of rights offering.

X= Share Price before announcement date.

Y= Share Price after announcement date.

X= Mean of share price before announcement date

Y= Mean of share price after announcement date

t-cal= Calculated value of t.

t-tab= Tabulated Value of t at a given significant level for a certain degree of freedom.

D.F. = Degree of Freedom

σ^2 = An unbiased estimate of population variance.

σ = Standard Deviation of Share Price before and after announcement date.

Table A5.1

Laxmi Bank Ltd.

X	(X-X)	$(X-X)^2$	Y	(Y-Y)	$(Y-Y)^2$
868	1.6	2.56	969	66.20	4382.44
865	-1.4	1.96	930	27.20	739.84
870	3.6	12.96	900	-2.8	7.84
869	2.6	6.76	915	12.20	148.84
860	-6.4	40.96	800	-102.80	10567.84
X=4332 X=866.40		$(X-X)^2$= 65.20	Y=4514 Y=902.80		$(Y-Y)^2$= 15846.8

$$\sigma_x=\sqrt{\frac{(X-\overline{X})2}{N}}=\sqrt{\frac{65.20}{5}}=3.611$$

$$\sigma_y=\sqrt{\frac{(Y-\overline{Y})2}{N}}=\sqrt{\frac{158468}{5}}=56.30$$

$$S^2=\frac{1}{n1+n2-2}\quad (X-X)^2+\quad (Y-Y)^2\quad=\frac{1}{5+5-2}\text{ x }65.20+15846.80\ =1989$$

$$\text{t-cal}=\frac{\overline{X}-\overline{Y}}{\sqrt{S2\ \frac{1}{N1}+\frac{1}{N2}}}=\frac{866.40-902.80}{\sqrt{1989(\frac{1}{5}+\frac{1}{5})}}=-1.290$$

t-cal=-1.290

t-tab value at 5% level of significance for 8 degree of freedom =2.306

Decision:

Since $t_{cal} < t_{tab}$, the alternative hypothesis is accepted hence the difference is insignificant.

Table A5.2

Siddhartha Bank Ltd.

X	(X-X)	(X-X)^2	Y	(Y-Y)	(Y-Y)^2
830	32	1024	802	-10	100
820	22	484	815	3	9
800	2	4	830	18	324
790	-8	64	810	-2	4
750	-48	2304	803	-9	81
X=3990 X=798		((X-X)^2= 3880	Y=4060 Y=812		(Y-Y)^2= 518

$$\sigma_x = \sqrt{\frac{(X-\overline{X})2}{N}} \quad = \sqrt{\frac{3880}{5}} \quad = 27.86$$

$$\sigma_y = \sqrt{\frac{(Y-\overline{Y})2}{N}} \quad = \sqrt{\frac{518}{5}} \quad = 10.18$$

$$S^2 = \frac{1}{n1+n2-2} \quad (X\text{-}X)^2 + \quad (Y\text{-}Y)^2 \quad = \frac{1}{5+5-2} \text{ x } 27.86+10.18 \quad = 4.755$$

$$\text{t-cal} = \frac{\overline{X}-\overline{Y}}{\sqrt{S2\left(\frac{1}{N1}+\frac{1}{N2}\right)}} \quad = \frac{798-812}{\sqrt{4.775(\frac{1}{5}+\frac{1}{5})}} \quad = -10.145$$

t-cal= -10.145

t-tab value at 5% level of significance for 8 degree of freedom =2.306

Decision:

Since $t_{cal} < t_{tab}$, the null hypothesis is accepted hence the difference is insignificant.

Table A5.3

Lumbini Bank Ltd.

X	(X-X)	$(X-X)^2$	Y	(Y-Y)	$(Y-Y)^2$
490	-25.6	655.36	500	-24.60	605.16
498	-17.6	309.76	495	-29.60	876.16
510	-5.6	31.36	510	-14.60	213.16
540	24.4	595.36	530	5.4	29.16
540	24.4	595.36	588	63.40	4019.56
X=2578 X=515.6		$(X-X)^2$= 2187.20	Y=2623 Y=524.60		$(Y-Y)^2$= 5743.20

$$\sigma_x=\sqrt{\frac{(X-\overline{X})^2}{N}} = \sqrt{\frac{2187.20}{5}} =20.92$$

$$\sigma_y=\sqrt{\frac{(Y-\overline{Y})^2}{N}} = \sqrt{\frac{5743.20}{5}} =33.90$$

$$S^2= \frac{1}{n1+n2-2} \quad (X-X)^2 + \quad (Y-Y)^2 \quad = \frac{1}{5+5-2} \text{ x } 2187.20+5743.20 =991.3$$

$$\text{t-cal}=\frac{\overline{X}-\overline{Y}}{\sqrt{S2\left(\frac{1}{N1}+\frac{1}{N2}\right)}} = \frac{515.6-524.60}{\sqrt{991.30(\frac{1}{5}+\frac{1}{5})}} = -0.452$$

t-cal= -0.452

t-tab value at 5% level of significance for 8 degree of freedom =2.306

Decision:

Since $t_{cal} < t_{tab}$, the null hypothesis is accepted hence the difference is insignificant.

Table A5.4

NCC Bank Ltd.

X	(X-X)	$(X-X)^2$	Y	(Y-Y)	$(Y-Y)^2$
330	10	100	320	-40.80	1664.64
320	0	0	350	-10.80	116.64
310	-10	100	390	29.20	852.64
315	-5	25	375	14.2	201.64
325	5	25	369	8.2	67.24
X=1600 X=320		$(X-X)^2$= 250	Y=1804 Y=360.80		$(Y-Y)^2$= 2902.80

$$\sigma_x = \sqrt{\frac{(X\ \mathrm{Z}\overline{X})2}{N}} = \sqrt{\frac{250}{5}} = 7.071$$

$$\sigma_y = \sqrt{\frac{(Y\ \mathrm{Z}\overline{Y})2}{N}} = \sqrt{\frac{360.80}{5}} = 8.495$$

$$S^2 = \frac{1}{v1\,\Gamma\, v2\,\mathrm{Z}2} \quad (X-X)^2 + \quad (Y-Y)^2 \quad = \frac{1}{5\,\Gamma\,5\,\mathrm{Z}2} \text{ x } 250+360.80 \quad = 76.35$$

$$\text{t-cal} = \frac{\overline{X}\ \mathrm{Z}\overline{Y}}{\sqrt{S2\ \frac{1}{N1}\,\Gamma\,\frac{1}{N2}}} \quad = \frac{320\ \mathrm{Z}360.80}{\sqrt{76.35(\frac{1}{5}\,\Gamma\,\frac{1}{5})}} \quad = -7.378$$

t-cal= -7.378

t-tab value at 5% level of significance for 8 degree of freedom =2.306

Decision:

Since $t_{cal} < t_{tab}$, the null hypothesis is accepted hence the difference is insignificant.

Table A5.5

Nepal Investment Bank Ltd.

X	(X-X)	(X-X)^2	Y	(Y-Y)	(Y-Y)^2
1055	-12	144	1101	53.20	2830.24
1065	-2	4	1003	-44.80	2007.04
1060	-7	49	1060	12.20	148.84
1075	8	64	1055	7.2	51.84
1080	13	169	1020	-27.80	772.84
X= 5335 X= 1067		(X-X)^2= 430	Y= 5239 Y=1047.80		(Y-Y)^2= 5810.8

$$\sigma_x = \sqrt{\frac{(X - \overline{X})2}{N}} = \sqrt{\frac{430}{5}} = 9.27$$

$$\sigma_y = \sqrt{\frac{(Y - \overline{Y})2}{N}} = \sqrt{\frac{5810.80}{5}} = 34.09$$

$$S^2 = \frac{1}{n1 + n2 - 2} \quad (X-X)^2 + \quad (Y-Y)^2 \quad = \frac{1}{5+5-2} \text{ x } 430+5810.80 \quad = 780.10$$

$$\text{t-cal} = \frac{\overline{X} - \overline{Y}}{\sqrt{S2 \; \frac{1}{N1} + \frac{1}{N2}}} \quad = \frac{1067 - 1047.80}{\sqrt{780.10(\frac{1}{5} + \frac{1}{5})}} \quad = 1.087$$

t-cal= 1.087

t-tab value at 5% level of significance for 8 degree of freedom =2.306

Decision:

Since $t_{cal} < t_{tab}$, the alternative hypothesis is accepted hence the difference is significant.

II) Test of Hypothesis by using t-statistic for the Test of Significance of the difference between Banking sub Index before and after the announcement of Rights Offering.

Variables Defined:

H_o= Null Hypothesis that there is a not significance difference between the Banking sub index before and after the announcement of rights offering.

H_1= Alternative Hypothesis that there is a significant different between the Banking sub index before and after the announcement of rights offering.

X= Banking sub index before announcement date.

Y= Banking sub index after announcement date.

X= Mean of Banking sub index before announcement date

Y= Mean of Banking sub index after announcement date

t-cal= Calculated value of t.

t-tab= Tabulated Value of t at a given significant level for a certain degree of freedom.

D.F. = Degree of Freedom

σ^2 = An unbiased estimate of population variance.

σ = Standard Deviation of Banking sub index before and after announcement date.

Table no.A5.1

Laxmi Bank Ltd.

X	(X-X)	(X-X)^2	Y	(Y-Y)	(Y-Y)^2
811.39	4.64	21.53	802.27	-13.92	193.77
803.75	-2.61	6.81	810.18	-6.01	36.12
808.91	2.55	6.50	820.58	4.39	19.27
807.10	0.74	0.55	822.44	6.25	39.06
800.65	-5.71	32.60	825.48	9.29	86.30
X=4031.18 X=806.36		(X-X)^2= 67.99	Y=4080.95 Y= 816.19		(Y-Y)^2= 374.52

$$\sigma_x = \sqrt{\frac{(X - \overline{X})2}{N}} = \sqrt{\frac{67.99}{5}} = 3.69$$

$$\sigma_y = \sqrt{\frac{(Y - \overline{Y})2}{N}} = \sqrt{\frac{374.52}{5}} = 8.65$$

$$S^2 = \frac{1}{n1 + n2 - 2} \quad (X\text{-}X)^2 + \quad (Y\text{-}Y)^2 \quad = \frac{1}{5 + 5 - 2} \text{ x } 67.99 + 374.52 = 55.31$$

$$\text{t-cal} = \frac{\overline{X} - \overline{Y}}{\sqrt{S2 \quad \frac{1}{N1} + \frac{1}{N2}}} = \frac{806.36 - 816.19}{\sqrt{55.31(\frac{1}{5} + \frac{1}{5})}} = -2.090$$

t-cal= -2.090

t-tab value at 5% level of significance for 8 degree of freedom =2.306

Decision:

Since $t_{cal} < t_{tab}$, the null hypothesis is accepted hence the difference is insignificant.

Table A5.2

Siddhartha Bank Ltd.

X	(X-X)	(X-X)^2	Y	(Y-Y)	(Y-Y)^2
809.0	6.9	47.61	809.45	-2.98	8.88
790.10	-12	144	815.60	3.17	10.05
798.25	-3.85	14.82	817.16	4.73	22.37
802.80	0.7	0.47	810.95	-1.48	2.19
810.36	8.26	68.23	809.01	-3.42	11.70
X= 4010.51 X=802.10		(X-X)^2= 275.13	Y= 4062.17 Y=812.43		(Y-Y)^2= 54.56

$$\sigma_x = \sqrt{\frac{(X \, Z \overline{X})2}{N}} = \sqrt{\frac{275.13}{5}} = 7.42$$

$$\sigma_y = \sqrt{\frac{(Y \, Z \overline{Y})2}{N}} = \sqrt{\frac{54.56}{5}} = 3.30$$

$$S^2 = \frac{1}{n1 \, \Gamma \, n2 \, Z2} \quad (X-X)^2 + \quad (Y-Y)^2 \quad = \frac{1}{5 \, \Gamma \, 5 \, Z2} \text{ x } 275.13+54.56 = 41.21$$

$$\text{t-cal} = \frac{\overline{X} \, Z \overline{Y}}{\sqrt{S2 \; \frac{1}{N1} \Gamma \frac{1}{N2}}} = \frac{802.10 \, Z 812.43}{\sqrt{41.21(\frac{1}{5} \Gamma \frac{1}{5})}} = -2.544$$

t-cal= -2.544

t-tab value at 5% level of significance for 8 degree of freedom =2.306

Decision:

Since $t_{cal} < t_{tab}$, the null hypothesis is accepted hence the difference is insignificant.

Table A5.3

Lumbini Bank Ltd.

X	(X-X)	$(X-X)^2$	Y	(Y-Y)	$(Y-Y)^2$
816.10	1.37	1.88	811.39	0.13	0.017
818.25	3.52	12.39	808.91	-2.35	5.52
815.60	0.87	0.76	804.91	-6.35	40.32
812.76	-1.97	3.88	810.85	-0.41	0.17
810.95	-3.78	14.29	820.25	8.99	80.82
X=4073.66 X=814.73		$(X-X)^2$= 33.2	Y=4056.31 Y=811.26		$(Y-Y)^2$= 126.85

$$\sigma_x=\sqrt{\frac{(X\ \mathrm{Z}\overline{X})2}{N}} \quad =\sqrt{\frac{33.2}{5}} \quad = 2.58$$

$$\sigma_y=\sqrt{\frac{(Y\ \mathrm{Z}\overline{Y})2}{N}} \quad =\sqrt{\frac{126.85}{5}} \quad = 5.04$$

$$S^2= \frac{1}{n1\,\Gamma\, n2\,\mathrm{Z}2} \quad (X-X)^2 + \quad (Y-Y)^2 \quad =\frac{1}{5\,\Gamma\,5\,\mathrm{Z}2}\text{ x } 33.20+126.85 = 20.01$$

$$\text{t-cal}=\frac{\overline{X}\ \mathrm{Z}\overline{Y}}{\sqrt{S2\ \frac{1}{N1}\,\Gamma\,\frac{1}{N2}}} \quad =\frac{814.73\,\mathrm{Z}811.26}{\sqrt{20.01(\frac{1}{5}\,\Gamma\,\frac{1}{5})}} \quad = 1.27$$

t-cal= 1.27

t-tab value at 5% level of significance for 8 degree of freedom =2.306

Decision:

Since t_{cal} < t_{tab}, the null hypothesis is accepted hence the difference is insignificant.

Table A5.4

NCC Bank Ltd.

X	(X-X)	$(X\text{-}X)^2$	Y	(Y-Y)	$(Y\text{-}Y)^2$
810.95	-5.48	30.03	812.60	-9.38	87.98
809.50	-6.93	48.02	815.19	-6.79	46.10
819.90	3.47	12.04	816.10	-5.88	34.57
821.56	5.13	26.32	830.35	8.37	70.06
820.25	3.82	14.59	835.68	13.7	187.69
X=4082.16 X=816.43		$(X\text{-}X)^2$= 131	Y=4109.92 Y=821.98		$(Y\text{-}Y)^2$= 426.4

$$\sigma_x = \sqrt{\frac{(X\ Z\overline{X})2}{N}} = \sqrt{\frac{131}{5}} = 5.12$$

$$\sigma_y = \sqrt{\frac{(Y\ Z\overline{Y})2}{N}} = \sqrt{\frac{426.40}{5}} = 9.23$$

$$S^2 = \frac{1}{n1\,\Gamma\,n2\,Z2}\quad (X\text{-}X)^2 + \quad (Y\text{-}Y)^2 \quad = \frac{1}{5\,\Gamma\,5\,Z2} \text{ x } 131+426.40 = 69.68$$

$$\text{t-cal} = \frac{\overline{X}\ Z\overline{Y}}{\sqrt{S2\ \frac{1}{N1}\,\Gamma\,\frac{1}{N2}}} = \frac{816.43\,Z821.98}{\sqrt{69.68(\frac{1}{5}\,\Gamma\,\frac{1}{5})}} = -1.05$$

t-cal= -1.05

t-tab value at 5% level of significance for 8 degree of freedom =2.306

Decision:

Since $t_{cal} < t_{tab}$, the null hypothesis is accepted hence the difference is insignificant.

Table A5.5

Nepal Investment Bank Ltd.

X	(X-X)	$(X-X)^2$	Y	(Y-Y)	$(Y-Y)^2$
620.95	7.83	61.31	600.5	32.15	1033.62
613.63	0.51	0.26	561.03	-7.32	53.58
609.80	-3.32	11.02	560.15	-8.2	67.24
610.06	-3.06	9.36	564.20	-4.15	17.22
611.17	-1.95	3.80	555.86	-12.49	156.00
X= 3065.61 X=613.12		$(X-X)^2$= 85.75	Y= 2841.74 Y=568.35		$(Y-Y)^2$= 1327.66

$$\sigma_x=\sqrt{\frac{(X-\overline{X})2}{N}} \quad =\sqrt{\frac{85.75}{5}} \quad = 4.14$$

$$\sigma_y=\sqrt{\frac{(Y-\overline{Y})2}{N}} \quad =\sqrt{\frac{1327.66}{5}} \quad = 16.30$$

$$S^2= \frac{1}{n1+n2-2} \quad (X-X)^2 + \quad (Y-Y)^2 \quad =\frac{1}{5+5-2} \text{ x } 85.75+1327.66 = 176.68$$

$$\text{t-cal}= \frac{\overline{X}-\overline{Y}}{\sqrt{S2\ \frac{1}{N1}+\frac{1}{N2}}} \quad =\frac{613.12-568.35}{\sqrt{176.68(\frac{1}{5}+\frac{1}{5})}} \quad = 5.32$$

t-cal= 5.32

t-tab value at 5% level of significance for 8 degree of freedom =2.306

Decision:

Since $t_{cal} > t_{tab}$, the null hypothesis is accepted hence the difference is significant.

Annex 6

Impact of Rights Offering Announcement of Share Price Movement

Variable Defined:

X = Weeks before and after announcement of rights share

Y_1 = Share Price

Y_2 = Banking Sub Index

1. Laxmi Bank Ltd.

X	-12	-4	-1	0	1	4	12
Y_1	868	870	860	942	930	900	800
Y_2	811.39	808.91	800.65	804.91	810.18	820.58	825.48

2. Siddhartha Bank Ltd.

X	-12	-4	-1	0	1	4	12
Y_1	830	800	750	891	815	810	803
Y_2	790.10	802.80	811.55	809.0	815.60	810.95	809.01

3. Lumbini Bank Ltd.

X	-12	-4	-1	0	1	4	12
Y_1	490	540	540	510	495	510	588
Y_2	816.10	812.76	810.95	810.50	808.91	804.91	820.25

4. NCC Bank Ltd.

X	-12	-4	-1	0	1	4	12
Y_1	315	310	330	326	350	375	369
Y_2	821.56	819.90	810.95	815.16	815.19	830.35	835.68

5. Nepal Investment Bank Ltd.

X	-12	-4	-1	0	1	4	12
Y_1	1055	1060	1080	1105	1101	1060	1020
Y_2	620.95	609.80	611.17	611.55	600.50	560.15	555.86

Annex 7

Corporate Firm Right Share in Nepal

S.N.	Name of Issuing Company	Amount of Issue Approval (Rs. in Million)	Permission Date	Issue Manager
1	Nepal Finance & Saving Co. Ltd.	2.00	22/10/1995	AFCL
2	Seti Cigarette Factory Ltd.	67.00	02/07/1996	0
3	Himalayan General Insurance Co. Ltd.	30.00	03/04/1997	AFCL
4	Bottlers Nepal Ltd.	225.20	03/04/1997	CIT
5	Nepal Share Markets Co. Ltd.	20.00	13/05/1997	AFCL
6	Nepal United Co. Ltd.	3.01	16/11/1997	NFCL
7	Nepal Bank Ltd.	241.95	27/11/1997	CIT
8	Annapurna Finance Co. Ltd.	5.00	25/01/1998	NFCL
9	Nepal Share Markets Co. Ltd.	30.00	25/05/1999	AFCL
10	Necon Air Ltd.	89.60	21/01/2000	CIT
11	Paschimanchal Finance Co. Ltd.	20.00	14/02/200	NSML
12	Ace Finance Co. Ltd.	15.00	29/03/2000	NSML
13	Narayani Finance Ltd.	12.58	12/03/2001	NSML
14	Everest Bank Ltd.	119.21	30/05/2001	CIT
15	Bank Of Katmandu Ltd.	234.00	13/07/2001	NCML
16	Nepal Housing & Merchant Finance Ltd.	15.00	20/11/2001	NSML
17	Ace Finance Ltd.	45.00	02/01/2002	NSML
18	Nepal SBI Bank Ltd.	287.87	15/01/2002	NMB
19	NIDC Capital Markets Ltd.	40.00	18/03/2002	CIT
20	Nepal Investment Bank Ltd.	57.24	19/08/2002	NCML
21	Nepal Share Markets & Finance Ltd.	60.00	06/01/2003	CIT
22	Mahalaxmi Finance Ltd.	25.00	12/02/2003	NFCL
23	Peoples Finance Ltd.	20.00	05/05/2003	NCML
24	Alpic Everest Finance Ltd.	20.00	21/08/2003	NEFINSCO
25	Siddhartha Finance Ltd.	20.00	14/11/2003	NEFINSCO
26	NB Finance & Leasing Co. Ltd.	30.00	10/05/2004	NSMBL
27	NB Bank Ltd.	359.92	17/06/2004	NSMBL
28	Annapurna Finance Company Ltd.	20.00	07/10/2004	NCML
29	Northern Udthan Bank Ltd.	15.00	28/03/2005	NMB
30	Nepal SBI Bank Ltd.	215.93	06/04/2005	NMB
31	Nepal Investment Bank Ltd.	295.29	02/05/2005	AFCL
32	National Finance Ltd. (B.S.)	43.20	02/06/2005	NCML
33	Development Credit Bank Ltd.	80.00	14/07/2005	NMB
34	Kumari Bank Ltd.	125.00	23/11/2005	NCML
35	Nepal Development Bank	160.00	26/12/2005	NCML
36	Fewa Finance Company Ltd.	30.00	26/12/2005	NMB

37	Om Finance Ltd.	30.00	26/12/2005	NMB
38	Goodwill Finance Co. Ltd.	25.00	03/01/2006	NCML
39	Central Finance Ltd. (B.S.)	12.00	02/02/2006	NCML
40	Taragaon Regency Hotels Ltd.	446.45	07/02/2006	NCML
41	Janaki Finance Co. Ltd. (B.S.)	10.00	21/02/2006	NEFINSCO
42	Machhapuchhre Bank Ltd.	165.00	01/05/2006	NMB
43	Nepal Share Markets & Finance Ltd. (B.S.)	40.00	10/05/2006	CIT
44	Kist Merchant Banking & Finance	50.00	11/05/2006	NMB
45	Pokhara Finance Ltd. (B.S.)	20.00	29/06/2006	NCML
46	Paschimanchal Bikash Bank Ltd. (B.S.)	28.00	09/07/2006	NCML
47	Lumbini Bank Limited	100.00	13/07/2006	NCML
48	Peoples Finance Ltd. (B.S.)	40.00	03/08/2006	NCML
49	Chhimek Bikash Bank Ltd. (B.S.)	20.00	01/09/2006	NMB
50	Alpic Everest Finance Ltd. (B.S.)	20.00	07/09/2006	NMB
51	Nepal Development Bank Ltd. (B.S.)	160.00	30/10/2006	NCML
52	Navadurga Finance Co. Ltd. (B.S.)	11.00	12/12/2006	NEFINSCO
53	Ace Finance Co. Ltd. (B.S.)	194.00	12/01/2007	NCML
54	Annapurna Finance Co. Ltd. (B.S.)	80.00	15/01/2007	NCML
55	Yeti Finance Ltd. (B.S.)	6.25	05/03/2007	NCML
56	Capital Merchant Banking & Finance Ltd.	84.00	28/03/2007	CIT
57	Laxmi Bank Limited	122.00	04/04/2007	NMB
58	Business Development Bank Ltd.	30.00	18/04/2007	ACE
59	Kist Merchant Banking & Finance Ltd.	100.00	04/05/2007	NCML
60	Siddhartha Bank Ltd.	100.00	16/05/2007	ACE
61	Lumbini Bank Ltd.	150.00	29/05/2007	ACE
62	Nepal Credit & Commerce Bank Ltd.	700.00	06/06/2007	CIT
63	Central Finance Company Ltd.	24.00	03/08/2007	NCML
64	Nirdhan Uttan Bank Limited	39.52	26/09/2007	NCML
65	Nepal Share Markets & Finance Ltd.	240.00	28/09/2007	CIT
66	Paschimanchal Development Bank Ltd.	47.50	04/11/2007	ACE
67	Bhrikuti Bikash Bank Ltd.	30.03	12/11/2007	NCML
68	Capital Merchant Banking & Finance Ltd.	161.00	12/11/2007	ACE
69	Premier Finance Company Ltd.	14.40	28/11/2007	NCML
70	Development Credit Bank Ltd.	806.40	13/12/2007	NMB
71	Nepal Merchant Banking & Finance Ltd.	800.00	13/12/2007	NFL
72	Sagarmatha Insurance Company Ltd.	23.56	14/01/2008	ACE
73	Siddhartha Development Bank Ltd.	50.00	16/01/2008	ACE
74	Prudential Bittiya Sanstha Ltd.	50.00	16/01/2008	ACE

75	Siddhartha Bank Ltd.	138.00	06/02/2008	NMB
76	NIC Bank Ltd.	158.40	15/02/2008	NCML
77	Lumbini Bank Ltd.	250.00	10/03/2008	ACE
78	Kumari Bank Ltd.	180.00	24/03/2008	NCML
79	Laxmi Bank Ltd.	183.00	03/04/2008	NMB
80	Sanima Bikash Bank Ltd.	64.00	03/04/2008	NCML
81	Paschimanchal Finance Co. Ltd.	27.83	04/04/2008	NFL
82	Ace Development Bank Ltd.	96.00	05/04/2008	NCML
83	Goodwill Finance Ltd.	50.00	05/04/2008	ACE
84	Nepal Credit & Commerce Bank Ltd	436.80	02/05/2008	NCML
85	Gorkha Development Bank	160.00	05/06/2008	CIT
86	Business Development Bank	150.00	08/05/2008	ACE
87	Mimchuli Bikas Bank Ltd.	60.00	08/05/2008	NCML
88	United Finance Ltd.	75.00	08/05/2008	NCML
89	Nepal Express Finance Ltd.	30.00	12/05/2008	NCML
90	Royal Merchant Banking & Finance	60.14	12/05/2008	ACE
91	ICFC Bittiya Sanstha	224.81	13/05/2008	NMB
92	International Leasing & Finance Ltd.	504.00	18/05/2008	NCML
93	Annapurna Bikash Bank Ltd.	150.00	18/05/2008	NEFINSCO
94	Nepal Housing & Merchant Finance	80.44	26/05/2008	ACE
95	Sahayogi Bikash Bank	10.00	26/05/2008	NCML
96	Shree Investment Finance Ltd.	16.80	01/06/2008	NMB
97	Premier Insurance Co. Ltd.	39.00	01/06/2008	ACE
98	Standard Finance Ltd.	72.60	03/06/2008	NCML
99	Guheswori Merchant Banking & Finance	37.01	05/06/2008	NCML
100	Himalaya General Insurance	37.80	06/06/2008	ACE
101	Gorkha Finance Ltd.	30.00	22/06/2008	CIT
102	Nepal Awas Bikash Bitta Company	70.49	24/06/2008	NFL
103	OM Finance Ltd.	14.00	17/07/2008	NEFINSC
104	Union Finance Ltd.	72.52	23/09/2008	NCML
105	Kist Merchant and Finance Ltd.	1200.00	24/09/2008	ACE
106	Peoples Finance Ltd.	168.00	03/01/2008	ACE
107	Srijana Finance Ltd.	14.00	19/10/2008	NCML
108	Swabalamwan bank Ltd.	35.00	19/10/2008	NMB
109	Nepal Srilanka Merchant Bank Ltd.	200.00	21/10/2008	NCML
110	National Finance Ltd.	62.80	22/10/2008	NMB
111	Samjhana finance ltd.	27.83	26/10/2008	NCML
112	Nepal Bangladesh Bank Ltd.	1116.89	27/10/2008	NMB
113	Bageshwori Bikash bank Ltd.	16.50	11/11/2008	NMB
114	Pokhara Finance Ltd.	180.00	11/11/2008	NMB
115	IME Financial Institution Ltd.	125.00	25/11/2008	NMB

116	Nepal Bikash Bank Ltd.	320.00	11/01/2009	NCML
117	Infrastructure Development Bank Ltd.	240.00	21/01/2009	NMB
118	Nepal Investment Bank Ltd.	803.03	23/01/2009	NCML
119	Universal Finance Ltd.	60.22	26/01/2009	NEFINSCO
120	National Life Insurance Company	132.00	09/02/2009	CIT
121	Siddhartha Development Bank	537.86	09/02/2009	ACE
122	Civil Merchant Bittiya Sanstha Ltd.	50.00	05/04/2009	NEFINSCO
123	Premier Finance Ltd	47.52	05/04/2009	NCML
124	United Insurance Company(Nepal) Ltd.	28.80	05/04/2009	NCML
125	World Merchant banking & Finance Ltd.	72.00	08/04/2009	NMB
126	Imperial Finance Ltd	50.00	13/04/2009	NCML
127	Sanima Bikas Bank Ltd.	384.00	20/04/2009	CIT
128	Ace Development Bank Ltd.	292.86	23/04/2009	ELITE
129	NMB Bank Ltd.	330.00	26/04/2009	DCBL
130	DCBL Bank Ltd.	553.73	26/04/2009	NMB
131	Lumbini Finance and Leasing Company Ltd.	45.00	29/04/2009	ACE
132	Narayani Development Bank	10.00	10/05/2009	ELITE
133	Patan Finance Ltd.	50.00	10/05/2009	NCML
134	Nepal Share Market Finance Company Ltd.	1567.73	11/05/2009	CIT
135	Excel Development Bank	60.00	11/05/2009	ACE
136	Gorkha Development Bank Ltd.	120.00	13/05/2009	ACE
137	Central Finance Ltd.	25.38	13/05/2009	ACE
138	Standard Finance Ltd.	834.90	14/05/2009	NCML
139	Bhrikuti Bikas Bank Ltd.	140.99	14/05/2009	NCML
140	Nepal Development & Employment Promotion Bank Ltd.	160.00	14/05/2009	ACE
141	Navadurga Finance Ltd.	54.71	22/05/2009	NMB
142	Everest Finance Ltd.	20.00	24/05/2009	ACE
143	Prabhu Finance Ltd.	80.00	25/05/2009	ELITE
144	Fewa Finance Ltd.	182.00	28/05/2009	ELITE
145	General Finance Ltd	24.24	04/06/2009	NCML
146	Nepal Express Finance Ltd.	24.00	07/06/2009	NCML
147	Malika Bikas Bank Ltd.	150.00	18/06/2009	NMB
148	Annapurna Finance Ltd.	419.33	14/07/2009	ACE
149	Kaski Finance Ltd.	100.00	18/06/2009	ACE
150	Lord Buddha Finance Ltd.	37.50	18/06/2009	ACE

Annex 8

Questionnaire

Dear respondent,

This Questioner is prepared for my research on "**Effect on Share Price before and after right offering**" which, I am doing for the partial fulfillment for the degree of Master of Business Studies (M.B.S.).I humbly requests you to fill at the best knowledge. Your cooperation in this regard will immense value for me.

I assured that the information collected from you will be exclusively used for the research purpose and will not be published in any media.

I shall be highly obliged for your response as for as possible.

Thanking You.

Leela Siwakoti
(Researcher)
Shankar Dev Campus.
Putalisadak, Kathmandu.

Name (Optional): - Date:-

Organization: - Designation:-

Address: - Occupation:-

Instruction: Please tick [√] in an appropriate place and put your views in opened ended Question.

Questions:

1. Sir, are you familiar with rights issue practice?

   [ ] Yes [ ] No

2. Have you hold share of any listed companies?

   [ ] If yes, write name of the company [ ] No

   …………………………………..

   …………………………………..

3. Will you be interested to buy rights share if your company offer?

   [ ] Yes [ ] No

4. Do you think that investor get reliable and adequate information from the company regarding right share issue?

   [ ] Yes [ ] No

5. Do you think that shareholders are well aware about all the phenomena of right share issue and subsequent consequences involved there in?

   [ ] Yes [ ] No

6. Do the Investors see the company's future prospectiveness by using tools, when they accept the offer?

   [ ] All of them [ ] Majority of them [ ] Very few of them

   [ ] Nome of them [ ] Don't Know

7. What do you think, right share issues and its impact on stock price movement?

   [ ] Should raise [ ] should be fall [ ] Remains constant

   [ ] Don't know

8. Rights are not transferable in Nepalese Financial Markets; in your opinion do investors have to face any difficulties because of this?

[ ] Yes [ ] No

9. In your opinion, who are the beneficiaries of right offering?

[ ] Shareholders with rights

[ ] Issuing Company

[ ] Security Brokers

[ ] All of them

[ ] Don't Know

10. In your opinion, which sector's right share issue does investors prefer most?

[ ] Banking/ Financial

[ ] Manufacturing/trading Sector

[ ] Hotel/ other sector

[ ] Insurance Sector

11. In your opinion, why investors are interested to purchase the right share?

[ ] To increase the value

[ ] To increase the number of share

[ ] To increase the dividend

[ ] To maintain the control position in management