CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Development of any country is directly related with the economic development. The economic development of the country in turn depends upon the capital formation and industrialization. Industrialization can be achieved through proper use of the funds and their investment in the productive sector. Scattered funds around the country can be collected through the financial institutions. The growth of economy depends on availability of funds to finance the increased needs. Private, domestic and public investment can be the major contributor to economic growth and employment generation in the developing countries. For the economic development of any country, public participation plays a vital role. If the people are rich and aware, people will have enough and be interested to invest. This will play a vital role in the economic growth of the country.

Financial markets are the catalyst in the development of the country's economy. Financial market facilitates the flow of funds from surplus to deficit units. As such, financial market is a mechanism by which savings in one sector of the economy flows to another sector. Those financial markets that facilitate the flow of short-term funds, that is, less than one year are known as money markets. Money market is the type of market which is meant for a short-term and for highly liquid debt securities. It typically involves financial assets that have a life span of one year or less. Money market instruments include short-term marketable, liquid and low-risk securities. While those markets that facilitate the flow of long-tern funds are known as capital markets. Capital markets are the markets meant for long-term securities issued by the government or corporations. Capital markets typically involve financial assets that have life span of greater than one year which include Shares, Bonds, Debentures, etc.

A healthy capital market is the crucial element for the development of the national economy. For the development of any country, each and every sector should be strong and capable. Among them, capital market is one major sector. Capital market helps the national economy by mobilizing the long term capital for productive sectors. Capital markets are vital to long term and prosperity of economy since they provide the channel through which needed fund can be raised. It is the mechanism through which public savings are channelized to industrial and business enterprises. 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 savings available, proper organization of intermediary to bring the investors and business ability together for mutual interest. Capital market is an 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 investor to invest their savings in ordinary share, debentures and government securities.

Demand of capital in the capital market comes from agriculture, industry, trade and government whose sources are individuals, corporate savings, multinational investors and surplus of government. So, some of the important members of capital markets are stock exchanges, specialized financial institutions, banks and investment companies, etc. Capital market consists of securities market and non-securities market. Securities market implies mobilization of funds through issuance of the securities like shares, bonds bills and debentures by corporate firms, government, etc. These securities trade in the market and are generally negotiable and hence can be traded in the secondary market. Stock market is a major component of the securities market. Stock market is a medium through which corporate sector mobilizes funds to finance productive projects by issuing shares in the market. Whereas non-securities market refers the mobilization of the financial resources by the financial institutions in the form of deposits and loans.

Nepalese capital market is in very early stage of development. The paucity of the capital has been the main cause for slow development. Nepal launched planned economic development more than four decades ago. Recently, Nepal has adopted the path of economic development through liberalization. However, any strategy for development requires a steady supply of medium to long-term capital funds for productive investment. For the mobilization of investable resources, capital market is an important intermediary through which effective bridging of the deficit units and surplus units can be ensured. Capital market institutions are engaged in mobilization of savings from surplus units and deploy funds into the deficit units for productive investment. However, there are various inconsistencies and hindrances that exist on the way to run the market smoothly.

Fund is the lifeblood of every firm. Therefore formations and operations can't be imagined without it. Every firm has to be financed from the day of beginning to the day to day operations. Every firm constantly faces the financial problems from its very inception. A growing firm, thriving day by day, always remains in the destitute of funds either for expansion or diversification of business or to sustain in the competitive area. In order to cope with various financial situations, firm usually collects funds by issuing common stock to general people/investors or right offering to existing shareholders or preference share and various types of debentures as demanded by their target capital structure. Common stock/ordinary share, preference share and debentures are the three important securities used by the firms to raise funds to finance their activities. This paper mainly focuses on the study of rights offering to the existing shareholders.

According to James C.VanHorne, "When a company is formed, it obviously must be financed. Often the seed money comes from the 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. " From this quotation, it is clear that when a large scale of firm is to be established, it fulfills its financial requirement by issuing equity share or using other sources like preferred stock, debenture and bond. Equity shareholders, even called ordinary shareholders or common stockholders, of a company are its ultimate owners, collectively they own, the company and assume the ultimate risk associated with ownership. Ordinary shares provide ownership rights to ordinary shareholders. They are the legal owners of the company. As a result, they have the residual claims on income and assets of the company. They have right to elect the board of directors and maintain their proportionate ownership in the company, called the preemptive right.

If the preemptive right is contained in a firm's charter, then the firm must offer any new common stock to the existing stockholders. If the charter doesn’t prescribe a preemptive right, the firm has a choice of making a sale to its existing stockholders or to an entirely new set of investors. If it sells to the existing shareholders, the stock floatation is called rights offering. While raising fund, instead of issuing common stock to new investors, a number of firms offer the securities first to the existing shareholders on a privileged basis. The corporate charter or state statute requires that a new issue of common stock or an issue of securities convertible into common stock be offered giving priority to the existing shareholders because of their preemptive right. Each shareholder is issued an option to buy a certain number of new shares. The shareholder who has an option to purchase a stated number of shares can buy prescribed number of shares at subscription price which is generally below the shares current market price within a specified period of time.

Large number of corporate firms announce 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 (NRB) issues the policy directives for the Commercial Bank and other financial institutions to control and for the supervision of the establishment and operation of such institutions in Nepal. Nepal Rastra Bank (NRB) has already issued the policy provisions regarding the requirements of minimum paid-up capital for Commercial Banks, Development Banks and Finance Companies. According to the policy, the minimum paid-up capital of Commercial Banks, Development Banks and Finance Companies must be 2 billion, 640 million and 200 million respectively. This policy has significantly affected the right share issue practices of such financial institutions in Nepal because almost all such financial institutions have not met the requirement of minimum paid-up capital. In order to meet the requirement, financial institutions are using different instruments among which right share issue is a major instrument. Recently many financial institutions had offered right shares and many other institutions are on the way to offer right shares to their existing shareholder to meet the requirement of minimum paid-up capital.

Right shares are issued to the existing shareholders to increase the capital if current reserve is not sufficient to issue bonus share. Company usually issues right share to raise the capital. A company may give its existing shareholders the first opportunity to purchase a new security issued on a privileged subscription basis. This type of issue is known as rights offering, because existing shareholders receive one right for each share of stock that they hold. A right represents a short term option to buy the new security at the subscription price and it take a certain 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. But it is not compulsory for the stock holders to exercise their rights and the company also does not forces them to buy any more shares of the company. This is only an option granted to them (existing shareholders) to buy specified number of shares at subscription price.

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 like to exercise them. In many countries "right" is a negotiable instrument and therefore transferable also. Somebody may have sufficient money to exercise the rights and they may actually exercise such rights while others may not have sufficient money to exercise all their rights. Under such situation, being negotiable and transferable instrument, rights can be easily sold in the market which protects the shareholders from dilution of wealth. Therefore rights can be either exercised at a subscription price which is generally much below the shares current market price, or they can be allowed expire, or they can be sold in the capital market.

1.2 Focus of the Study

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

1.3 Statement of the Problem

In this study, we are trying to analyze the problem faced by individual investors due to lack of knowledge and information and at the same time, we are trying to discuss the weakness of concerned people in not being able to develop the stock market properly. Number of the public limited companies are increasing rapidly but the investment opportunities have not increased in that ratio. The rapid expansion in the amount of fund raised, numbers of investors in the capital market and increasing number of listed securities has speedily raised the market capitalization, which is the indication of bright future of capital market in Nepal.

The investment practice of Nepalese investors has remained the same. They still believe in the mouth publicity and friends opinion while making an investment. They do not try to seek information about the organization on whose stock they are going to make investment. Due to the lack of information and poor knowledge, individual investors are manipulated by market intermediaries in such extent, that investing in stock market has become a tough job. Even everyone realizes that investors are the main sources of funds for the company, despite this fact, investors are being neglected. Furthermore, small investors have no value and position in Nepalese stock market.

In any firm, right share is taken as major financial decision that effects the value of firm. Right offering announcement by a company serves good news to its existing shareholders. A shareholder, whose name is in the company book before record date, is entitled to have a proportionate number of new shares at the price below market. A view held by professional investors, finance directors and some academics is that a right issue, because it increases the supply of a company's shares, will have a depressing effect on the share price. It should consider some theoretical relationship in right offering. The price movement of share after the announcement of right offering by different companies are inconsistent. So, what is the price impact of right offering announcement on share price of listed companies under consideration is one aspect of the statement of the problem of this research work.

Shareholders who exercise their rights to purchase the pro-rata shares of new common stock will remain unharmed by the right issue. If they do not have sufficient money or do not want to buy more stock, they can sell the rights in stock market to protect them from incurring loss. But a stock holder may suffer a loss if he forgets to exercise or sell his rights or brokerage cost of selling the rights are excessive. In Nepalese stock market, rights can't be transferred. So shareholders are obliged to either exercise the rights or let them expire. Hence, the absence of the provisions of transferable rights and its impact on shareholders wealth is another aspect of the research problem. Another problem in the context of Nepalese stock market is that whether the existing shareholders are enjoying the right offering or not, in other words, whether the existing shareholders are exercising their rights or not is the matter to be studied.

Therefore this study focuses on the following statement of the problems:-

a) What is the theoretical value of right and its practical effect on stock price?
b) What is the impact of right share issue announcement on the movement of share price in the Nepalese capital market?
c) What are the reasons behind price movement after announcement of right share?
d) Is there any problem regarding the right share issue and practice in the context of Nepalese capital market?

1.4 Objective of the Study

This study basically deals with the rights share issue practices 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 offering. Specifically, objectives of the study are:-

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

1.5 Significance of the Study

Today, capital market of Nepal is growing rapidly and the investors from all parts of the country are interested in stock market which was also shown by the share issue of

Agricultural Development Bank. As we have discussed above, major target of the study is to explore the rights share issue practice in Nepalese capital market and its impact on stock price, the study will be beneficial to investors and other concerned parties.

After the restoration of democracy in 2046 B.S., people's participation in security investment and stock trading increased unexpectedly but it could not attract people as expected because there was lack of proper information. Nepalese stock market has great potentialities, which can be utilized by increasing transparency, flow of information and developing analytical power of public stock investors. This study will be beneficial to the potential investors who want to invest in security by providing them with the needed information and it will prove equally beneficial to the existing shareholders also.

Now a days, people are attracted to invest in security 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 to maintain good will. The practice of right share is very old in worldwide but in Nepal, it start from fiscal year 2052/53. So, this study will not only provide some informations about the rights share issue to the investors but it will also provide some guidelines for the new researchers in the field of stock market.

1.6 Limitation of the Study

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

- Only some sample of listed companies who have issued right share will be taken for analysis.
- Result of the study would be fully dependent on the accuracy and reliability of the data provided by the respected organization and respondents.
- The non-availability of various reference and resources act as constraints.
- There may be different form of information affecting share price, however, this study only considers rights share issue.

1.7 Organization of the Study

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

Chapter I: Introduction

This chapter contains the subject matter of the study which includes background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

Chapter II: Review of Literature

This chapter consists of review of literature which is organized into two sections. The first section deals with the conceptual framework and the second section contains the review of books, articles and thesis related to the study.

Chapter III: Research Methodology

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

Chapter IV: Data Presentation and Analysis

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

Chapter V: Summary, Conclusion and Recommendations

This chapter is the last chapter of the research. It includes summary, conclusion and recommendations which sums the whole study and finds conclusions.

CHAPTER-II

REVIEW OF LITERATRUE

This chapter is mainly concerned with the complete comprehensive review of recent and relevant literatures relating to the topic of the study. This chapter deals with the review relating to the rights share and capital market in more detail and descriptive manner. In this regards, various books, journals, articles from newspapers, magazines and other related studies including published and unpublished materials have been reviewed. But so far, only nominal research has been performed in Nepal regarding rights issue and its impact on stock price movement. Our stock market is on emerging state and is unable to provide necessary information to general people as well as to investors regarding the rights issue and its impact on stock price. So, effort has been made to cover various aspects of the study so that adequate feedback could be obtained to broaden the base and input to the study. This chapter includes some conceptual frameworks and review of related studies.

2.1 Historical Development of Capital Market in Nepal

Capital market of Nepal has neither a long history nor is very complex. The history of Nepalese capital market dates back to the era of Rana Prime Minister Juddha Samsher. Though the history of capital market dates back to Rana dynasty, it is not still properly developed. The industrial revolution took place in Nepal after the establishment of Biratnagar Jute Mill in 1936 A.D., as the first modern industry in the country. After that, various mills of rice, cotton, sugar and other were established to mobilize the capital for the industrial development. In 1937, Nepal Bank Limited as a commercial bank was established for promoting banking and industrial sector. In the same year, the first industrial act was promulgated which was a favorable step in the history of Nepalese capital market. The history of securities market began with the flotation of shares by Biratnagar Jute Mill, incorporate under Company Act 1936 and Nepal Bank Limited, incorporated under Nepal Bank Act 1937. Introduction of Company Act in 1964 and the first issuance of government bonds in the same year were also other significant developments relating to capital markets. Only few companies had issued their shares to the public before operation of company act.

Government was the sole issuing authority when there was absence of developed security market. However, the formal institutionalization began only after the establishment of Security Market Center (SMC) in 1976 under the company act as a joint effort of Nepal Rastra Bank (NRB) and Nepal Industrial Development Corporation (NIDC). This center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into the security exchange, it was the only capital market institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds, and other financial services. However, securities trading were insignificant because of absence of private brokers, dealers and investment banks or securities firms.

The Securities Exchange Act was promulgated in 1983 and provision of listing the securities was included in the act. With the promulgation of Securities Exchange Act, SMC was then converted into Securities Exchange Center (SEC) in 13 April, 1984. SEC was established with an objective of facilitating and promoting the growth of capital market. Later, Securities Exchange Act was amended in 1993 in the period of Eight plan for the achievement of the plan objectives of developing capital market. The development process accelerated with the liberalization policy of the government during 1990s. During this period, major initiatives were taken for the development of the securities market, the most important one being establishment of Securities Board of Nepal (SEBON) in 1993 as an apex regulator of securities market. With the establishment of SEBON, Securities Exchange Center (SEC) was converted into Nepal Stock Exchange Ltd. (NEPSE) which is a non-profit organization, operating under Securities Exchange Act, 1983. From that point, NEPSE became responsible for the operation of the market for listed securities and the performance of some self-regulatory functions.

Recently, many initiatives were taken for the development of securities market. NEPSE had adopted Automation System in trading floor replacing “Open Out-Cry” system, a system where transactions of securities were conducted on the open auction principle on the trading floor. Similarly, NEPSE granted permission to some brokers for online trading from their premises also. The process of providing license to 27 new stock brokers is also in the pipe-line. Trading hours are also increased to 3 hours from 2 hours in a day and the rate of brokerage commission was also reduced to encourage the investors to participate actively in securities market. Similarly, the practice of circuit-breaker and trading halt to control the undue ups and downs of security prices, opening of trading floor for promoters’ share, etc. are some of the major initiatives taken to develop the security market. As a result one million people are engaged actively in Nepal’s share market. Due to increase in the number of daily newspapers and their coverage of share market news, share transactions have gained public attention. Television Broadcasting of share prices, talk programmes, interviews and FM radio programmes on stock market have immensely popularized this sector and the general people have noticed the boom effects of share market.

2.2 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, secondary 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 lack of proper development of market. In the field of securities market, Nepal Rastra Bank (NRB) and Nepal Industrial Development Corporation (NIDC) had made a joint effort to establish Security Market Center (SMC) in 1976 for the development of securities market. The main objective behind the establishment of this center was to mobilize public saving for ensuring public ownership in the shares 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 and 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 frontiers of stock exchange business, the Security Market Center (SMC) passed a new Securities Exchange Act in 1983 to revitalize its role in the 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 became not encouraging to develop the securities exchange business in view of lack of dashing leadership since the level of understanding about the pros and cons 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.

Securities Exchange Center (SEC) was established with an objective of facilitating and promoting the growth of capital markets. As it was only one institution in the field of capital market, SEC was responsible to undertake the job of brokering, underwriting, managing public issue, market marking for government bonds and other financial services. Later in 1993 in the period of Eighth plan, Securities Exchange Act was amended for the achievement of the plan objectives 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 Ltd. (NEPSE). NEPSE, 99 percent owned by the government, NRB and NIDC, is a non-profit organization, operating under Securities Exchange Act 1983. From that point, NEPSE became responsible for the operation of the market for listed securities and the performance of some self-regulatory functions under the supervision of the newly created Securities Board of Nepal (SEBON). NEPSE opened its trading floor on 13th January, 1994 adopting “Open Out-Cry” system of trading through its licensed members. Nepal government, NRB, NIDC and licensed members are the shareholders of the 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 brokers, market makers, etc.

A huge number 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 achievements in the case of secondary market. However, what the Nepalese stock market did in almost two decades of its establishment is considered a watershed in the history of the securities market of Nepal. Nevertheless, some historic initiatives took place in recent years. NEPSE has adopted Automation System in its trading floor replacing "Open Out-cry" system and some of the stock brokers are also given permission for online trading from their own premises. It is also in the process of increasing the number of stock brokers and it has already increased the daily trading hours to 3 hours in a day. Over –The –Counter (OTC) market has also started its operation where the securities of de-listed companies and non-listed companies can be traded. Similarly, the practice of circuit-breaker and trading halt are introduced in stock transactions to control the unexpected fluctuations of stock prices. The number of listed companies in NEPSE reached 143 and the market capitalization has also increased amounting Rs. 354 billion at the end of fiscal year 2007/08. The total amount of securities traded in the fiscal year also increased and stood at Rs. 22.83 billion.

2.3 Securities Board of Nepal (SEBON)

2.3.1 Introduction

Securities Board of Nepal (SEBON) was established on June 7, 1993 as an apex regulator of securities market in Nepal. It was established under the provision of

Securities Exchange Act 1983 (first amendment) with the objective to promote and protect the interest of investors by regulating the securities market and its working transparent. It was also responsible for the development of the securities market in the country. Since its establishment, SEBON has been concentrating its efforts on improving the legal and statutory frameworks which are the bases for the healthy development of the capital market. As a part of its continuous efforts to build a sound system, the Securities Exchange Act 1983 was amended for the second time on Jan 30, 1997. This amendment made mandatory for all capital market intermediaries to be registered with SEBON before undertaking securities business and to report their financial and trading activities to it. This amendment also paved the way for establishing SEBON as an apex regulatory body as it widened the horizon of SEBON by bringing market intermediaries directly under its jurisdiction and also made it mandatory for the listed companies to submit their annual and semi-annual progress reports to SEBON. Moreover banking and financial institutions have to submit their quarterly progress reports.

Besides, SEBON was also made responsible for the development of security market in Nepal by promoting the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities. It is made an apex organization with effective regulatory unit in 1997 with a responsibility of regulating and supervising market intermediaries involved in the primary issues as well as in the secondary transaction of securities. Thus, SEBON has an important role of developing the capital market by making securities transaction fair, healthy, efficient and responsible. The role of SEBON is rigorously increasing in the field of securities market as the securities market has shown its dynamism with the rising number of companies floating shares, increase in the number of listed companies, significant increase in market capitalization and market index, and percent of turnover on market capitalization.

2.3.2 General Objectives of SEBON

The main objectives of SEBON are mentioned hereunder:

- 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 of corporate bodies carrying on securities business.
- To render contribution to the development of capital market by making securities transaction fair, healthy, efficient and responsible.

2.3.3 Functions of SEBON

The main functions of SEBON are as follows:

- Register securities and approve prospectus of public companies.
- Provide license to operate stock exchanges.
- Provide license to operate securities businesses.
- Permit the operation of collective investment schemes and investment fund programme.
- Draft regulations, issue directives and guideline, and approve bylaws of stock exchanges.
- Supervise and monitor stock exchanges and securities business activities.
- Take enforcement measures to ensure market integrity.

- Review reporting of issuer and listed companies, and securities businesspersons.
- Conduct research, study and awareness progrmmes regarding securities markets.
- Coordinate and cooperate with other domestic as well as international securities related regulatory agencies.
- Formulate policies and programmes relating to securities markets and advise the government of Nepal as and when required.

2.4 Venture Capital

Equity investment in young private companies is generally known as venture capital. Such venture capital may be provided by investment institutions, or by wealthy individuals who are prepared to back an untried company in return for a piece of the action. It is also one of the way of financing a business. It is 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 sources of venture capital. Venture capitalists invest in new or young firms in return for equity in the firm. They are not lenders, but are equity investors at a stage at which the firm's share do not yet trade on public market. Unlike most equity investors, venture capitalists typically play an active role in selecting management and overseeing strategy. They normally seek to sell their shares only after some periods, usually by taking the firm public and selling their shares on the public equity markets. One reason that new companies find venture capital firms attractive is that a venture capitalist typically view their investment as long-term and are willing to wait several years before repaying their return. As the investment in venture capital is risky, investors are rewarded with high rate of return in successful ventures.

In broad terms, venture capital is the investment of long-term equity finance where the venture capitalist earns his return primarily in the form of capital gain. The underlying assumption is that the entrepreneur and the venture capitalist would act as “Partners”. The true venture capital does not remain just confined to high technology; any risky idea could be financed by the venture capitalist. In fact, venture capital can prove to be a powerful mechanism to institutionalize innovative entrepreneurship. It is a commitment of capital, or shareholdings, for the formation and setting up of small scale enterprises specializing in new ideas or new technologies. The venture capitalist focuses on growth; he would like to see small business growing into larger ones. Venture capital also includes development, expansion and buyout financing for the enterprises which are unable to raise funds from the normal financing. It is a long-term illiquid investment which is not repayable on demand. It requires long-term investment attitude that necessitates the venture capital firms to wait for a long period to make large profits.

2.5 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 funds from surplus units. A number of securities are issued by companies in the new issue markets. Out of them, some of the major securities are as follows:

i) **Equity Share:** Equity Share represents the ownership position in a company. The holders of equity share are owners of the company and they provide permanent capital. They have voting rights and receive dividends at the discretion of the board of directors.

ii) **Preference Share** : Stock issued giving first priority to receive dividend as well as claim on assets at the time of bankruptcy of the corporation over equity share is called preference share. The preference dividend rate is fixed but do not represents obligation of the issuer. Some preference shares are perpetual, some are redeemable, some are callable and some are convertible into equity shares.

iii) **Debenture**: Debenture represents long-term loan given by the holders of debenture to the company. The rate of interest is specified and interest charges are treated deductible expenses in the hands of the company. Debentures are issued by a private firm business enterprises whether owned by private investors or by government.

iv) Convertible Securities: A debenture or a preference share may be issued with a feature of being convertible into equity share 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:** Warrants are long-term option that give the holders the rights to purchase a stated number of shares of the company’s stock at a specified price within stipulated period of time. Generally, warrants are distributed with debt and preferred stock, and they are used to induce investors to buy long-term debt or preferred stock with a lower coupon rate than would otherwise be required.

2.6 Initial Public Offering (IPO)

When a company wants to raise funds from the public, it issues securities. Such announcement for the public to raise funds is called initial public offering (IPO). If a private firm is successful, usually the owners will want to take the company with a sale of stock to outsiders. Often this is prompted by the venture capitalists, who wish to realize a cash return on their investment. In other situations, the founders simply want to establish a value and liquidity for their stock. Whatever the motivation, a decision is reached to become a public corporation, while there are advantages to be a public corporation, and there are disadvantages as well. The public company in our context (and else where) must conform to SEC requirements in having to employ certain accounting conventions and incurring expenses as a public company not incurred by a private one. In addition, there is an investor fixation on quarterly earnings. At times, this is a hindrance to management in trying to take long-term decisions. .

Public issue of equity means raising of share capital directly from the public. Issue of equity obviously creates a value of a company and, no doubt it is the major source of capital. But the company has to incur the cost for the public issue. This cost involves direct and indirect cost. Direct cost involves legal, auditing and administrative cost and under writing commission. Thus public offering involves raising of funds for governments or corporations from the public through the only issuance of various securities in the primary market and is often the only major source of obtaining large sum of fixed rate, long-term funds. If the company plans to sell stock to raise the new capital, the new shares may be sold in one of the 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.

Once the decision of going to public is made, the first task was to select the underwriters. Underwriters act as financial middlemen in bringing together parties who need funds with those who have savings. Usually, they play a triple role, viz. providing advice to the company, buying the new issue, and reselling it to the public. In return they received payment in the form of a spread; that is , they were allowed to buy the shares for less than the offering price at which the shares were sold on to investors. In the more risky cases the underwriter usually receives some extra non-cash compensation, such as warrants to buy additional common stock in the future. Occasionally where a new issue of common stock is regarded as particularly risky, the underwriter may be unwilling to enter into a fixed commitment and will handle the issue only on a best- efforts which means that the underwriter promises to sell as much of the issue as possible but does not guarantee the sale of the entire issue.

Several empirical studies put forward that initial public offerings (IPOs) are sold at a significant discount, a phenomenon known as underpricing, from the prices that prevail in the aftermarket that results into significantly better performance of IPOs than that of equity market in general. Many investment bankers and institutional investors argue that underpricing is in the interests of the issuing firm. They say that a low offering price on the initial offer raises the price of the stock when it is subsequently traded in the market and enhances the firm’s ability to raise further capital. The deeper the underpricing, the higher will be the initial returns resulting into the better performance of IPOs for the investors. On the other hand, the deeper the underpricing, the lesser will be the net proceeds for the issuing companies resulting into the loss of wealth of the company as it represents the part of the cost of going public for the companies.

2.7 Right Offering

A Publicly held company can raise equity capital either by selling directly to investors or by issuing subscription rights to its existing shareholders. Instead of making an issue of stock to investors at large, companies sometimes give their existing shareholders the right to purchase a specified number of shares at subscription price. Such an issue is known as right issue and the offering is right offering. A right issue involves selling of ordinary shares to the existing shareholders of the company. Each stockholder is issued an option to buy a certain number of new shares and the terms of the option are contained on a piece of paper called a right. Each stockholder receives one right for each shares of stock owned, and it requires a specified number of rights to purchase a share of the company. The shareholder who has an option to purchase a stated number of shares can buy prescribed number of shares at subscription price which is generally below the shares’ current market price, within a specified period of time. Company usually issues right share to raise capital. Right shares are issued to the existing shareholders to increase the capital if current reserve is not sufficient to issue bonus share. Large number of corporate firms announce and issue right share to increase the capital base if the corporate management felt such need to comply with the policy directives given by concern authority to increase the capital base.

A company issues right shares 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 corporation. However, existing stockholders are not obliged to exercise their rights and the company also does not forces them to buy any more shares of the company. This is only an option granted to them to buy specified number of shares at subscription price. Since right is a negotiable and transferable instrument, the holder of right can sell his/her right in stock market. Therefore rights can be either exercised at a subscription price, or they can be sold in stock market, or they can be allowed to expire. Right issue doesn't affect the shareholders' wealth if they exercise their rights or sell them in the stock market. But of course, if they forget to exercise their rights or are unable to sell them, then their wealth may dilute because a right usually will have a market value.

2.8 Preemptive Right

2.8.1 Introduction

Preemptive right is a privilege offer to existing shareholders to buy a specified number of additional shares of the company's stock before the stock is offered to outsiders for sale. In other words, preemptive right is a provision in company's charter or bylaws that gives the existing shareholders right to purchase new shares at subscribed price on pro-rata basis. The preemptive right entitles a shareholder to maintain his proportionate share of ownership in the company. The law grants shareholders the right to purchase new shares in the same proportion as their current ownership. Thus, if a shareholder owns 10 percent of the company's ordinary shares, he has right to buy 10 percent of new shares 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 right. Common stockholders often have the right, called the preemptive right, to purchase any additional share sold by the firm. In some states, the preemptive right is automatically included in every corporate charter, in other it is necessary. Under a preemptive right, existing common stockholders 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.

Common stockholder often have the preemptive right to purchase any additional share sold by the firm. If the preemptive 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 preemptive right, the firm has the option of selling to its existing shareholders or to the public at large. If it sells to the existing shareholders, the issue is called a right offering. Each shareholder is issued on 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 want to buy the stock. Stock right provides holders with the privileged to purchase additional share of stock based on their number of owned shares. Rights are important tool of common stock financing without which stockholders would run the risk of loosing their proportionate control of the corporation.

The preemptive 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 shares outstanding. As with many shareholders' right, it is possible for stockholders to waive the preemptive right at the time the common stock is purchased. If the charter denies the preemptive right, the stockholders automatically waive this at the time the stock is purchased. The exact status of the preemptive right varies somewhat from state to issue. Promoters may deny the preemptive right through a provision in the charter to this effect.

If the preemptive right is contained in firm's charter, then the firm must offer any new common stock to existing shareholders. If the charter does not prescribe a preemptive right, the firm has a choice of making the sale to its existing stockholders or an entirely new set of investors. A corporate offering to existing shareholders prior to public distribution is termed as (uninsured) right offering. A preemptive right is the privilege of existing shareholders to participate in a right offering. Shareholders are granted preemptive right either by common law or explicitly by the corporate charter. A corporation may have the right to amend the article of it's incorporation to limit or deny this preemptive right. The preemptive right gives the holder the first option to purchase additional issues of common stock.

The purpose of preemptive 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 itself. Management would thereby secure control of the corporation to frustrate the will of the current stockholders.

The second, and by for more important, reason for the preemptive right is that is protects stockholders against a dilution of wealth. 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 Rs. 150,000 in total with total 2000 shares outstanding. Now, if the new 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 new investors who purchase new shares. Thus preemptive right prevents such occurrences and protects the current stockholders from the dilution of their wealth.

2.8.2 Offering through Right

Right issues include the offering of additional shares to existing shareholders. They are offered in proportion to existing ownership of the shareholders. When a company sells securities by privileged subscription, it mails to shareholders one right for each share of stock they hold. With common stock offering, the rights give shareholders the option to purchase additional shares according to the terms of the offering. The term specifies 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 options: (1) exercise them and subscribe for additional shares, (2) sell them as they are transferable , or (3) do nothing and let them expire. The last option usually occurs only if the value of the right is negligible or if the shareholder owns very few number of shares. Generally, the subscription period is about three weeks. For example, if a shareholder, who wishes to buy a share of additional rights, now owns 85 shares of stock in the company, and the number of rights required to purchase one additional share is 10, then 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 or, he may either sell or let the remaining rights to expire.

Under the rights offering, the stockholders are provided a document called 'right' which describes all about the conditions of rights issue. Each shareholder receives right to purchase new shares in the proportion of shares current held. In many countries right is a negotiable instrument and therefore transferable because somebody may have sufficient money to exercise the rights and they may actually exercise their rights, while some others may not have sufficient money to exercise all their rights. Though, right is a legally transferable and a separate instrument, it is mailed to the existing stockholders for each stock held. Whereas 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 or 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, the existing shareholders can purchase specified number of shares using their rights that are available for additional shares if they want to do so.

In a right offering, the board of director established an ex-right date, also known as book-close date. Investors who buy the share prior to that date receive the right to subscribe the new issue. The stock is said to sell with rights-on through that date. After that date, the stock is to sell ex-rights, that is, the stock will trade without the rights attached. An investor who purchase the stock after this date does not receive the right to subscribe 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 issues are relatively infrequent. In Smith's (1997) samples, they accounted for less than ten percent of issues; whereas in Britain and many other countries, right issues predominate.

The price of 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 would not generally diminish the wealth of the existing shareholders. This is because, for shareholder, who chooses to take up the allocation, the fall in price is comparable to the inconsequential decline which accompanies a capitalization issue or stock-spilt. And shareholder, who chooses not to take up the allocation of the new shares, can sell his/her rights in a period before the payment is due. Consequently, only irrational shareholders, who neither exercise their rights nor sell their rights, will get their wealth reduced. The company, therefore, sets 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.

Shareholders options to purchase a stated numbers of shares at a specified price during a given period of time are called rights. Rights are issued to give existing stockholders their preemptive right to subscribe a new issue of common stock before the general public is given an opportunity. When the rights are offered for raising funds, three issues are involved: (i) the number of rights needed to buy a new share, (ii) The theoretical value of a right, and (iii) the effect of rights offerings on the value of the ordinary shares outstanding. 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. Rights can be sold in the stock market. Generally, it hampers when stockholder owns little number of shares and feels that it doesn't matter to him whether the management changes or remain same, he will be satisfy. Rights can be allowed to expire; it occurs only if the value of right is negligible or stockholder owns a few number of shares but as an irrational shareholder, who neither exercises nor sells his rights, will see his wealth reduce. The company normally fixes the price of rights issue at a level of somewhat below the current market price to ensure that the rights will be exercised by the owners of the rights.

2.8.3 Significance of Rights Offering

A firm fulfills its financial needs using different sources of financing and there are various alternatives available for firms to raise funds. While raising funds, instead of issuing common stock to general public, firms may offer first to their existing shareholders on privileged basis. Such offering is known as right issue or right offering. 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 issued to raise funds. Financial institutions, providing loans may require the company to bring capital in desire proportion to the loan capital. Under such 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 corporation's own stockholders. In overall, significance of rights offering can be viewed as follows:

- Rights issue provides permanent capital for the company since the company has no liability for cash outflows associated with its redemption.
- The existing shareholders can maintain their proportionate ownership through rights issue.

- Raising funds through the sale of rights issue rather than public issue involves less flotation cost as the company can avoid underwriting commission.
- It is quite successful, for the profitable companies, to subscribe the right issue as the subscription price is set much below the current market price of stock.
- Rights issue is a suitable way to increase the equity base to fulfill the legal requirements imposed by the authority if reserve is not sufficient for bonus share.
- Rights issue helps to bring the market price of share within more popular range by increasing the number of outstanding shares and decreasing the share price.
- Rights issue is mostly perceived as a favourable news by shareholders which will have a positive psychological value.
- Generally, rights issue is the signal of higher profit in future with rise in earnings.
- Rights issue also increases the number of outstanding shares that promotes the active trading in stock market.
- Rights issue helps the company to raise funds for expansion.

2.8.4 Limitations of Rights Offering

As discussed above, the main advantage of rights issue is that it has favourable psychological value on shareholders. It indicates the company's growth to shareholders. Therefore, they welcome rights issue, but it has also some limitations. Without proper profit planning, an issue of right share might invite overcapitalization. Some of the limitations of rights issue can be stated as follows:

- The Shareholders, who fail to exercise their rights or fail to sell their rights, lose in terms of decline in their wealth.
- The company can't forces its existing shareholders to exercise their rights to subscribe more shares of the company as it is only an option granted to them. Most right issues are undersubscribed because there is no legal obligation on the part of shareholders to subscribe.
- Equally there is no reason for any outsiders who 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.
- In the case of sick companies, the issue is more likely to be unsuccessful because existing shareholders hesitate to subscribe their rights.
- Issue of rights share lowers market value of existing shares too. That may posses negative impact on particular share on capital market.
- It deprives new investors form 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' earning per share (EPS) if the profit does not increase 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 hands of financial institutions because of the conversion of loan into equity. They would prefer public issue rather than the rights issue.

2.8.5 Value of a Right

Since right is a negotiable instrument and it provides the privilege to existing stockholders, it must have a certain value. When companies announce right offering, the shareholders and investors generally rush to buy the stock of that companies. Ultimately, the rights get certain value. Theoretically, value of right is determined using different equations and the value depends upon the market price of share, subscription price and number of rights required to purchase a new share.. When the stock is selling rights-on, the theoretical value of rights can be calculated as follows:

$$V_r = \frac{Po \, \mathrm{Z} \, Ps}{\# \Gamma 1}$$

Where, V_r= Market value of one right when stock in selling rights-on

P_o= Market Price of a share

P_s= Subscription Price

= Number of rights required to purchase a new share of stock.

Example:

If current market price of share is Rs. 500, Subscription price is Rs. 100 at par value and number of rights required to purchase one share is 4. Then the theoretical value of one right using above formula is,

$$V_r = \frac{Rs.500 \, \mathrm{Z} \, Rs100}{4 \, \Gamma 1} \, \mathrm{X} \, Rs.80$$

Here, the theoretical value of one right is Rs. 80.

2.8.6 Market Vs Theoretical Value of Right

Actual value of a right may differ some what form its theoretical value because of transactions costs, speculation, and the irregular exercise and sale of rights over the subscription period. However, arbitrage acts to limit the deviation of the actual value from the theoretical value. If the price of a right is significantly higher than its theoretical value, shareholders will sell their rights and purchase the stock in the market. Such action will exert downward pressure on the market price of the right and upward pressure on its theoretical value. The latter occurs because of the upward pressure on the market price of the stock. If the price of the right is significantly lower than its theoretical value, arbitragers will buy the rights, exercise their option to buy stock, and then sell the stock in the market. This occurrence will exert upward pressure on the market price of the right and downward pressure on its theoretical value. These arbitrage actions will continue as long as they are profitable. The extent to which market price of a right differs from its theoretical value depends on how the firm's stock price is expected to behave during the period when the rights are exercisable. By buying rights instead of the stock itself, investors can achieve much higher returns on their money when stock price rises.

2.8.7 Effect of Rights Issue on Shareholders' Wealth

When a company raise funds through rights offering from its existing shareholders, then shareholders have three choices. First is to exercise their rights and purchase additional number of stocks. Second, sell the rights and finally third option is, do nothing and let them expire. If shareholders have sufficient fund and want to buy more shares of the company's stock, they can exercise their rights. If they do not have sufficient money or do not want to purchase any more stock of the company, then they can sell their rights in stock market. But what they receive in the form of the value of right, they lose in the form of decline in share price. It is because when the stock goes ex-rights, the market price theoretically declines by the amount of value of each right. So in either of the case, provided that the theoretical value of the rights holds true, stockholders will neither benefit nor lose by the rights offering. In contrast, a stockholder may suffer a loss if he forgets to exercise or sell his full rights, or brokerage costs of selling the rights are excessive.

2.8.8 Market Price of Share

Market price of share means the price of share determined by the market and traded in stock exchange. Generally, this market price of share is determined by demand and supply of market. But this is not only the determinant of share price. Other factors that determine the market price of share are as follows:

i) **Dividend:** Shareholders who invest their money in common stock always seek returns in the form of dividends. So, if the company pays higher rate of dividends, then ultimately the share price goes higher and vice versa.

ii) **Cost of Capital:** Cost of capital refers to the cost of fund raised in the company. If cost of capital is higher, then return will be automatically lower and finally the share price goes down.

iii) **Company's Earning:** Highly earning organization pays higher dividend that moves the price of share upward and vice versa.

iv) **Signaling Effects:** Signaling effects are those rumours which are related to stock market like budget speech, insurgency, dividend announcement, rights offerings, etc. Due to these rumours investors buy and sell stocks, which finally affects the price of share.

v) **Economic Condition:** Overall economic condition of the country is also one of the determinant of stock price. If the economy is in growing trend, price of share also increases and vice versa.

2.8.9 Public Offering Vs Rights Offering

Public offering includes the flotation of new securities to the general public by corporate firms as well as the government. The major selling tool for public offering is the investment banking organization. Investment bankers manage the issuance of new securities to the public. Once security exchange center has commented on the registration statement and a preliminary prospectus has been distributed to interested investors, the investment bankers organize “road shows” in which they travel around the country to publicize the imminent offering. These road shows serve two purposes. First, they attract potential investors and provide them information about the offering. Second, they collect for the issuing firm and its underwriters about the price at which they will be able to market the securities. A huge mass of public participation takes in public offering that results in a wider distribution of securities, which may be desirable to the company. Usually, the flotation cost of public offering is higher as compared to right offering since it includes underwritten commission.

Offering through rights is a way of raising capital from the existing shareholders of the issuing company. So, by offering stock first to existing shareholders, the company taps investors who are familiar with the operation of the company. The principle sales tool in right offering is the discount from the current market price. Under this offering, existing shareholders have a preemptive right to purchase a stated number of shares at a subscription price which is generally set below the current market price of stock. Shareholders are able to maintain their proportionate ownership in the company by exercising their rights without diluting their wealth but dilution may cause in EPS as number of outstanding shares increase after rights issue. In comparison with public offering, rights offering is likely to be more successful because subscription price is set lower than market price and it is offered to investors who are familiar with the operation of the company. Moreover, many stockholders feel that they should be given the first opportunity to buy new shares.

2.8.10 Right Share Vs Bonus Share

Bonus issue and rights issue are very similar, although typically used for different purposes. Rights share are an important tool of common stock financing without which shareholders would run the risk of losing their proportionate control of the company and dilution of their wealth and ownership. Company offers 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 provides to its stockholders, bonus share is also understood as synonyms to the stock dividend. Stock dividend is paid in additional share of stock rather than in cash. It simply involves a transfer of 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 of existing reserve. Thus, share capital shown on the balance sheet does not increases but other reserves are decreased by the same amount.

A right issue is involved in selling of ordinary shares to the existing shareholders of the company. It is available for a specified period of time in order for shareholders 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 increases through proportional reduction in the book value of stock. As a result, the net worth of the company remains unchanged.

2.8.11 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 value less to the investors as stock dividends. Simply reading “two for one’s spilt 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 spilt is generally used after a sharp price run up to produce a large price reduction. In theory, stock spilt reduces the price per share in proportion to the increase in number of shares because splits merely “divide the pie into smaller slices”. However, firm generally splits stock only if (i) the stock price is quite high, and (ii) management thinks that future is bright. Therefore, a stock spilt is often taken as positive signal and thus boosts stock prices. A stock spilt means that the nominal value of share capital on the balance sheet is unchanged.

Right share and stock spilt are completely different. Right share or stock right means, a method of raising further fund from existing shareholders, by offering additional securities to them on preemptive basis. It involves the offer of additional shares to existing shareholders. These are offered in proportion of existing shareholders ownership. A more lengthy analysis, however, is required to reveal the exact nature of stock rights, the offering of new securities to existing shareholders 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) to existing shareholders at price below current market price of outstanding stock. In doing so, management may feel that it is giving something of value to its existing shareholders as stock dividends, stock rights are highly prized by investors. And like stock dividends, rights may typically be sold on the market for cash if the holder decides not to exercise them.

2.8.12 Under and Over Subscription of Rights Offering

A firm's management must make two basic decisions when preparing for a rights offering. One of the most important aspects of successful rights offering is the subscription price. This is the price at which the corporation/ firm has agreed to sell the securities to existing stockholders. If the market price of the stock is below the subscription price, stockholders obviously will not subscribe the stock, for that they buy it in the market at 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 falling below it.

A company can ensure the complete success of rights 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. Most rights offerings are made through investment banker, who underwrite and issue the rights. In most underwriting, 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 and will not be under subscribed. The investment banker, of course, charges a higher fee for making such guarantee.

Most of rights offering includes an over subscription privilege, which gives stockholders not only the right to subscribe for their proportional shares of the total offering but also right to over subscribe for any unsold shares. Over subscriptions are awarded on pro-rata basis relative to the number of unsold shares. Although the use of the over subscription 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 over subscription will fall short of the amount of the stock the company desires to sell. This privilege is a method of restricting ownership to some groups, although ownership proportions may change slightly. Shares that cannot be sold through the over subscription privilege may be offered to the public. If an investment banker is used, the disposition of unsubscribed shares may be left up to the banker.

2.8.13 Procedural Aspects of Rights Offering

A right issue involves selling of ordinary shares to the existing shareholders of the company. The law in India is that the new ordinary shares must be first issued to the existing shareholders on a pro-rata basis. This preemptive right can be forfeited by shareholders through a special resolution. A company can make rights offering to its shareholders after meeting the requirements specified by the Securities and Exchange Board of India (SEBI). Those shareholders who renounce 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 on pro-rata basis. Any balance of shares left after issuing the additional shares can be sold in the open market.

When a company makes a decision of right issue, the board of directors and the management should declare right offering. The meeting of board of directors must also set a date of record or holder of record date which is the last date on which the recipient of a right must be the legal owner indicated in the company's stock ledger. In other words, holder of record date is a final date to transfer the title, meaning that the seller's name should be replaced by the buyer's name in the company's register till this date. Due to the time needed to make book-keeping entries when stocks are traded, stock usually beings selling ex-rights without the rights being attached to the stock four business days prior to the holder of record date, which is often called ex-rights date. Investors who purchase share before ex-rights date will get rights being attached to the stock and they must register their name in the record of the company till the holder of record date in order to receive the right shares. Investors who purchase shares on and after ex-rights date will not receive rights as the stocks begin selling without the rights attached to them. The issuing company sends rights to holders of record owner of the company's share on the date of record, who are free to exercise their rights, 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. All the investors and shareholders whose names are in company's register up to holders of record date are eligible to purchase additional shares and they can exercise their rights during the subscription period.

2.8.14 Procedures of the Issue of Rights in Nepal

Right issues are conducted in Nepal in accordance with provisions mainly in Company Act 2063, and rules, regulation set aside by SEBON. The actual mechanism and the sequence of events in the case of rights issues are some what 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 follow certain rules and regulation as mentioned in the company act and, their respective memorandum and articles of association. In Nepal, the actual mechanism and sequence of events in the case of rights issue are somewhat complicated. At present context, generally the following procedures are considered while offering rights:

I) Declaration Date

The meeting of board of directors and the management declares rights issue, and the date on which they declared the rights issue is called declaration date or announcement date. The meeting also determines the quantum of further capital requirement and declares holder of record date. The issuing company should notify NRB, NEPSE, Office of the Company Registrar and SEBON sufficiently with prospectus in advance and should get permission from them. Investors are informed about the terms of rights offering; the number of new shares allocated to each given number of old shares, the subscription price, the period at which they can exercise their rights, etc.

ii) Ex-right Date

This is the date on and after which the right no longer goes with the stock. It means that the stocks begin selling without rights attached to them on and after the ex-right date. The ex-right date varies country to country and may also be determined by the companies themselves. In the Nepalese capital market, companies publish notice of book-close date and the book-close date is the ex-right date. This date normally is four days before the holder of record date. The stockholders, who purchase stocks prior to this date, should register their names in the companies record to receive right shares.

iii) Holder of Record Date

Holder of record date, often called date of record, is very important in rights issue. The shareholders whose names are in company's register till this date are only entitled to receive rights share. Only those shareholders who purchase stocks prior to ex-right date can register their names in company's record. So, shareholders who bought shares before ex-right date must register their names in the company. Holder of record date is a final date to transfer the title of ownership, meaning that the seller's name should be replaced by the buyer's name in the company's register till this date.

iv) Subscription Date

This is the date, on which company starts to sell the right shares to the shareholders who have registered their names on and before the holder of record date. Normally, the subscription period runs about 3 weeks and even extended if sufficient applications are not received.

2.9 Review of Related Sources

2.9.1 Review of Articles

Weller (1962), conducted a study on the topic "An Analysis and Appraisal of Rights Offerings as a Method of Raising Equity Capital". This study is 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 purchasers of rights. The decision making process for 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 changes in the general markets. 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 issued. A mail survey revels 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 come 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 underwriting attitudes towards the future of the company. Special techniques can be used to stimulate 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, its regulation by the Securities and Exchange Commission, its possibilities, and its limitations are considered at length. It appears that it can act as an effective force in the prevention of excessive price declines during the issue.

The corporations 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 underwriters' 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.

Marsh (1979), had conducted a study on a topic "Equity Rights Issues and Efficiency of the UK Stock Market". The writer used London Share Price Data base (LSPD) to study equity rights issue and the efficiency of the UK stock Market. The writer considers whole population of right issuing companies i.e. 1145 companies on the

London quoted and registered companies between 1962 to 1975 although 148 issues were excluded because of potential ambiguities in the calculation of rights issue adjustment factors. The writer found the population abnormal return estimate for the two years post announcement period was only 4.5 percent or almost exactly half of the figure obtained for the random sampling. Similarly, over the one-month period following the announcement, the abnormal return estimated were 2.8 percent and 1.6 percent respectively. The mean ex-post market return was only 0.8 percent higher than the mean risk free rate over the two-year post announcement period. So, he expects his results to be largely independent of his beta estimates.

Since the study was concerned with market efficiency, the writer confined his attention to the post announcement period and striking feature was the apparent existing of abnormal returns after the news has been made public. Furthermore, the results are unaffected by the choice of model although the returns were somewhat lower with market model.

The writer further states that price pressure implies a temporary price fall around the ex-right date. To test this, the writer applied the single stage cross sectional model to full sample of nearly a thousand issues. The results are consistent with the existence of small amount of price pressure. Share prices appear to suffer a temporary set back of 0.9 percent during the immediate ex-right period, although they more than recover from this over the next month with an abnormal return of 1.8 percent over the second period examined. While a small part of the price fall could be due to information effects delayed until after announcement date because of non-trading. There appears to be no other plausible explanations, which are consistent with market efficiency.

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

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

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

2.9.2 Review of Thesis

There are many thesis conducted by different researchers in the past years relating to this topic. Many thesis were studied during the period. Among them, some of the thesis were reviewed and presented here for the analysis of literature.

Gautam (2001), had done research on "An Analysis of Share Price Movement Attributed to Rights Offering Announcement". This study has set out the objectives to analyze the inadequacy of the contents of the Company Act, 2053 B.S in regard to section 21 that explains about the matters to be disclosed in the issue prospectus, to find out if there is significant change in share price after the announcement of rights offerings, etc.

To conduct the study, the researcher had used correlation analysis between share price and NEPSE index i.e. general market movement and t-statistics between share price before and after rights issue announcement. T-statistics was used to test if there was significant change in the share price before and after the issue of rights. But the researcher did not consider the value of right which is very important part of the study. It is seen that the researcher was concentrated on the company act and due to small sample size, the result may not represent the present scenario of rights share issues.

The researcher founds that the company Act was not clear regarding the issue of rights offering and subsequent allotment of the right shares and has nowhere mentioned about necessity of legally transferable rights instrument called rights, which must be mailed to the stockholders for each stock held before the rights offering. The study revealed that there was sharp decline in the share price after the announcement of rights issue. The researcher pointed Nepalese security market has failed to use various capital market instruments such as warrants, convertibles, options and other various kinds of debentures.

Baral (2003), in master's thesis entitled "Stock Price Movement in Nepalese Security Market" sets some specific objectives. The objectives of the study were to study and analyze the stock price and volume, to study and analyze the rate of newly listed companies in NEPSE, to study and analyze the investors views regarding the decision on stock investment and to study and examine the signaling factors' impact on the stock price with the help of NEPSE index.

The researcher analyzed the data of six years and concluded that Nepalese stock market is in the growth stage. Although it has crossed the initial stage but not reached in the matured stage. The researcher also found that the international environment also affects the Nepalese stock market. But the researcher didn't consider the factors that make a direct effect on the movement of share price.

From the study, the researcher founds that most of the stock prices are affected by the dividend policy of the company. The researcher found that most of the investors prefer banking sectors for investment and are not aware about the investment.

Aryal (2003), had made a study on the topic "Equity Rights Issue; its Practice and Impact in Nepal". The main objectives of the study were to examine the relationship between the stock price reaction and announcement of rights issue, and to analyze the relationship between rights share and equity share, and rights share and NEPSE index.

To conduct the study, the researcher had used cross-sectional analysis by estimating the regression and concluded that the announcement of rights offering will have positive effect on share price.

The researcher founds that the theoretical value of right differs from company to company and the announcement of equity rights issue are associated with a positive effect on share prices. Company issues rights share to increase equity capital for mainly two reasons. The first reason is to invest it in company's diversification and expansion, and the next reason is to increase capital to meet the level prescribed by Nepal Rastra Bank (NRB). The researcher also founds that rights share and equity share has low degree of positive correlation, and the correlation coefficient between rights share and NEPSE index has also positive correlation.

Regmi (2005), conducted a study on "Share Price Behaviour in Nepal". The main objectives of the study were to test the random walk or weak form of efficient market hypothesis, to examine whether successive price changes are independent or dependent of each other, and to conduct the opinion survey of financial executives regarding various aspects of share price behaviour in Nepal.

From the study, the researcher concluded that both tests serial correlation and run-test analysis do not support terms of both tests, a few of price series support the random walk model. One important implication of the non random behaviour of share prices in that the Nepalese stock market may not be termed as “weakly efficient” in pricing shares where market efficiency is reflected in security prices.

As regard the current trading price of share in the market, the researcher founds that the majority of the respondents felt “moderate”. In this respect when the responses of finance sector respondents, the majority of the respondents from each sector opined that the current trading price of shares in the market is moderate. The informal interview with financial executives in this respect indicated that the current trading price of shares in the market is low except for financial institutions. The researcher also concludes that Nepalese investors are not really indifferent towards making or non-making of information public.

Chongbang(2007), had done a research on “A study on Issue of Right Share and its Impact on the Movement of Share Price with Special Reference of Nepalese Capital Market”. The study had set out the objectives to analyze the significant change of share price after announcement of right share and to analyze the problems associated with issuing of right shares in the Nepalese capital market.

To conduct the study, the researcher used the correlation analysis as a major statistical tool and t-test to test the hypotheses of the study. The researcher concluded that there were only few companies that follow the theory of rights offering. Only a little number of Commercial Banks followed the theory but in the case of Finance Companies, no one met the theory of rights offering. Although the researcher analyzed the 11 years data, the researcher failed to include other sector companies rather than banking and finance sectors in the study. But the researcher was successful in analyzing recent data which may show the present scenario of Nepalese capital market.

From the study, the researcher founds that there was no uniformity in the impact of right share in different companies. A practice of right share issue in Nepal is in increasing trend in recent years where Nepalese investors mostly prefer the banking and finance sectors to invest rather than other sectors. Subscription price of rights share is too low as compared to market price of share. The researcher also found that Most of the right issues were undersubscribed in Nepalese capital market and there is lack of clear and easy provision regarding the sales of under subscribed shares.

Paudel (2008), in master's thesis entitled "Rights Share Issue Practice in Nepalese Market and its Impact on Market Price of Share", focuses the study in rights share practice and its impacts. The main objectives of the study were to find out the impact on changes in market price of stock, before and after the announcement of rights offering, to examine the theoretical value of right and its practical effect of right on stock price, and to analyze the inadequacy of existing law on the matter of rights share.

The researcher analyzed the primary data as well as secondary data to conduct the study. Run test, t-test and Chi-square test were used as statistical tools to test the hypotheses. The researcher concluded that the majority of the companies followed the rule of rights issue which can be observed through the decreased price of stock after rights issue. The study had taken the whole companies as sample that had issued rights share in a single year to explore the facts of rights offering practices in Nepalese capital market.

The researcher founds that Nepalese equity market is dominated by financial sector companies and the participation of the real sector is quite low or negligible. Rights offering have some impact on the price of share either positive or negative, and mostly, market price of shares are found decreased after the rights issue. Under subscription of rights issue is common phenomena as right is not transferable in Nepal. So existing legal provisions are not adequate and needs to be amended as soon as possible.

2.10 Research Gap

There are many studies conducted which are related to the capital market and share price behaviour in Nepal but this study especially focuses on an issue of rights share and its impact on the movement of share price in Nepalese capital market. 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. Rights 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 nominal researches were based on right shares.

Similarly, only few Nepalese writers have written articles directly based on the rights share and some of those studies are also conducted several years ago. Therefore, there is a gap of time period which will be fulfilled by this study. Though, some researches were conducted on right share issues, but they were especially concerned with the rights offerings of listed Commercial Banks and Finance Companies ignoring the rights offering of other sectors. Therefore, those studies couldn't cover the whole sector in Nepalese capital market. More precisely at present context, Development Bank sector has covered a major portion of rights share issues in Nepalese capital market. But none of the studies on rights shares issues have covered this sector and Insurance sector till the date in their studies. So, this study tries to show the issue of rights share and its impact on movement of share price of Banking, Finance, Development Bank and Insurance sectors. It is hoped that it will give more detailed information about the rights share. Samples from the Banking, Finance, Development Bank and Insurance sectors are taken to be considered because these sectors are issuing largest amount of shares in Nepalese capital market. Moreover, the earlier studies on rights share have become old and need to be updated and validated because of the rapid changes taking place in capital market.

CHPATER III

RESEARCH METHODOLOGY

In this chapter, focus has been made on research design, nature and sources of data, sampling procedure, coverage of data, tools used for analysis and definition of some key terms used

3.1 Research Design

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 Size

The population for this study comprised all those companies which have issued rights share till the end of fiscal year 2064/65 in Nepalese capital market. By the end of the fiscal year, 72 companies issued rights share among which four companies were already de-listed from NEPSE and the total number of rights issue cases were 103. Till the date, there were 142 companies listed in NEPSE which are categorized under nine different sectors as follows:

Table 3.1

Population and Sample of Right Issuing Companies

S. N.	Sectors	No. of Listed Companies	No. of Right Issuing Co.	No. of Right Issues	Sample
1	Commercial Bank	17	13	21	3
2.	Development Bank	23	13	17	2
3.	Finance Company	55	38	56	4
4.	Insurance Company	17	3	4	1
5.	Mfg. & Processing Co.	18	2	2	-
6.	Hotel	4	1	1	-
7.	Trading Company	4	1	1	-
8.	Hydropower Company	3	-	-	-
9.	Others	1	1	1	-
Total		**142**	**72**	**103**	**10**

For simplicity and unbiased result, samples are taken from the fiscal year 2064/65 from four sectors viz. Commercial Bank, Development Bank, Finance and Insurance Company. The researcher has taken samples from these sectors because they control share market of Nepal. Sample of ten companies are taken for study which includes three Commercial Banks, two Development Banks, four Finance Companies and one Insurance Company. Sample companies are as follows:

Table 3.2

List of Selected Sample Companies

S.N.	Sample Companies
1	Nepal Investment Bank Ltd. (NIBL)
2	Nepal Industrial & Commercial Bank Ltd. (NICBL)
3	Kumari Bank Ltd. (KBL)
4	Development Credit Bank Ltd.(DCBL)
5	Siddharatha Development Bank Ltd. (SDBL)
6	Nepal Share Markets & Finance Ltd. (NSMFL)
7	IME Financial Institution Ltd.(IMEFIL)
8	Nepal Merchant Banking & Finance Ltd. (NMBFL)
9	United Finance Ltd. (UFL)
10	Sagarmatha Insurance Co. Ltd. (SICL)

3.3 Nature and Sources of Data

In order to make the study more reliable and coherent, both primary and secondary sources have been used in collecting data, facts and statistics. But most of the analysis is based on secondary data. Primary data has been also taken to some extent. So, qualitative and quantitative data are taken for the study which are mentioned as follows:

a) Secondary Data

Secondary data concerned with this study are collected from the sources like published and unpublished journals, annual reports and publications of SEBON, NEPSE, concerned companies and issue managers. Besides that, data have been collected from various sources like newspapers, magazines, documents and other related reports as well. The share prices were collected from trading reports which were published by NEPSE and national daily newspapers such as Kantipur, Annapurna Post and Gorkhapatra. The concerned companies were also directly approached to obtain information on many points.

b) Primary Data

In this study, primary data are also collected to identify the practice, problems and prospects of rights issue in Nepalese capital market. Primary sources include responses of the questionnaires of shareholders regarding rights issue, its characteristics, its impact on share price and provision of rights issue in company act.

3.4 Data Collection Techniques

To conduct the study, various data from primary and secondary sources are collected to make the study more realistic. Out of them, only screened data are used for the study. Secondary data are collected from the published and unpublished books, journals or annual reports of SEBON, NEPSE, concerned companies and issue managers. The share price of sample companies were also collected from the trading reports which were published by NEPSE and national daily newspapers. This study covers the data from the fiscal year 2052/53 to till the date even though; this study analyzes the latest data of right issuing companies. For the primary data, questionnaire method has been used to obtain the information relating with rights issue and its various aspects. But due to various limitations, only 50 questionnaires were distributed to shareholders who came into contact with researcher at the premises of different issue managers, brokerage house, securities consultancy office, etc. and their responses are collected. Yes/ No questions and multiple choice answers are designed to get the responses. The detail of questionnaire is given in Annex-1 and the table below shows the sample and response of primary source of data.

Table 3.3
Sample and Responses of Primary Source of Data

S.N	**Location (Office)**	**Sample**	**Response**
1.	Issue Managers:		
	a. ADBL	10	10
	b. NCML	10	10
	c. NMBFL	5	5
	d. CIT	5	5
2.	Securities Research Center and Services (SRCS) Pvt. Ltd	10	9
3.	Aashutosh Brokerage and Securities Pvt. Ltd.	5	5
4.	Others	5	4
Total		**50**	**48**

b) Historical Data Record Method

It is the main source of data for this study. Secondary data are collected from the published and unpublished books, journals or annual reports of SEBON, NEPSE and concerned companies and issue managers. The share price of sample companies were also collected from the trading reports which were published by NEPSE and national daily newspapers. This study covers the data from the fiscal year 2052/53 to till the data even though; this study analyzes the latest data of right issuing companies. For the primary data, questionare method has been used to

3.5 Method of Data Analysis

After collecting the required data from the primary and secondary sources, the data are at first screened. And the screened data are tabulated and presented in the appropriate form to analyze it so that the objective of the study can be obtained. To analyze the data, financial as well as statistical tools were used. This study mainly focuses on issue of right share and its impact on market price of share in Nepalese capital market. But it was found that movement of share price was not as a theoretical aspect because according to the theory, it was thought that the share price after announcement of right share goes upward. But in practice, it is found the mixed results i.e. the share price after the right share announcement went up and down due to various other factors that affect the share price. To analyze the impact of right share on the market price of share, the market price of different time points before and after the rights issue were taken.

a) Allowance of Leakage of Information

Before the issue of rights share, the board of directors took the meeting to make a decision. Information about the directors' intention to issue the rights share may leak out in many cases before the date of directors' meeting. If that happens, the price rise as a result of the impending decision, may take place much before directors' actual decision. There may also be the cases of insiders taking advantage by making purchase in advancement of the official announcement which helps the market price of share to rise even before the actual announcement. Due to these various reasons, the actual impact on share price movement due to right share issue is difficult to find out only considering the share price some days before the announcement of right share. Therefore, true price effect can be measured only going back at least some weeks before the actual announcement of the boards and approving from SEBON for rights issue. Therefore for this study, the data for measuring the relative changes in share price due to the impact of rights issue was taken as six months before the date of issue approval from SEBON.

b) Removing the Effect of General Market Movement

To find out the actual result, i.e. movement of share price due to rights issue, involves a comparison of share price of different points of time. Therefore, it is necessary to remove the general market effect on the movement of share price because share price moves ups and downs due to general market effect. If a particular share price is found to rise by 10%, this cannot be attributed to the rights issue over sample period if share price in general level have also moved up by 10% or more. On the other hand, if a particular share price just remains unchanged in the face of declining market trends, the strength may well be due to rights issue. Hence, the isolation of the effect of the rights issue necessarily requires the eliminations of the general market effects on the movement of share price.

To eliminate the general market effect, five different time points were selected for observing the price movement, with the book-close date as the point of reference. The selected time points are as follows:

I. **Six months before the issue approval date:** In order to isolate the effects of rights issue, it is necessary to make comparison with dated unaffected by the issue. In that date, the existing shareholders are supposed not to have any information about the company's intention to issue rights share. Hence there will not be any kind of signaling effect on the share price.

II. **One month before the book-close date**: It may be a few days before the actual announcement of rights issue and it is supposed that very limited shareholders do know it and does not bring any material influence on the share price behaviour of the stock.

III. **The day before book-close date**: This is the market price of share where the shares are traded with rights attached with them and rights remain no longer attached with them after that date. So, investors and shareholders try to purchase shares before book-close date to get rights to subscribe additional shares at lower price that results in high demand of shares with rights attached. Such demand of the shares cause rise in price, therefore the share price just before book-close date depicts the actual picture of share price due to rights issue.

IV. **Ten days after the book-close date:** After book-close date or ex-right date, shares begin to trade without rights attached to them. So there will be relatively low demand of shares which causes the fall in share price after book-close date.

Theoretically, share price should drop to the extent of value of each right after the book-close date. Thus, share price after 10 days of book-close date or reasonably close to them were taken for the analysis.

V. **Three months after the issued date:** Generally, there is time limit to subscribe the share after rights offering. After subscription of rights share, the price dilutes simply because the number of outstanding shares increases and the new shares are sold at a price below the current market price. When the digestion process is complete after reasonable period of time, say 3 months, the original share price will be restored and again the market shows normal price behaviour.

For our analysis, the price quotations for each share and price index i.e. NEPSE index were collected for all the five points of time or reasonably close to them. These price quotations and price index were then converted into their relatives with point (I) as the base date. Thus, all changes in price and index have been expressed in relative to the base date price and index i.e. the price and index of six months before the issue approval date.

To analyze the data, some statistical as well as financial tools are used which are explained as follows:

a) Co-efficient of Correlation (r)

Correlation analysis is the statistical tool that can be used to explain the degree to which one variable is linearly related to another. The correlation coefficient measures the direction of relationship between two sets of figure. Correlation can either be negative or positive. If both variables are in the same direction, then correlation is said to be positive but when the variations in the two variables take place in opposite direction, the correlation is termed as negative. In this study, Karl Pearson's method of correlation coefficient is calculated between share price and price index i.e. NEPSE index. The formula for computing Pearson's correlation coefficient (r) using actual mean method is as follows:

$$r = \frac{(X - \bar{X})(Y - \bar{Y})}{\sqrt{(X - \bar{X})^2 \quad (Y - \bar{Y})^2}}$$

where, X: Share price — $\bar{X}$: Mean share price

Y: Market index i.e. NEPSE index — $\bar{Y}$: Mean index

r: Correlation Coefficient

b) Coefficient of Determination (r^2)

The coefficient of determination is a measure of the degree of linear association or correlation between two variables. One of which happens to be independent and other being dependent variables. In other words, coefficient of determination measures the percentage of total variation in dependent variable explained by independent variables. The coefficients of determination have value range from 0 to 1. For example, if r^2 is 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 1 occurs only if the unexplained variation is 0 which simply means that all the points in the scatter diagram fall exactly on the regression line.

c) Use of t-test

T- statistics is also used to test the significance differences between the share price before and after the rights issue offered by the companies. Since the share prices of few transacted days (i.e. less than 30 transactions) are taken, t-test is suitable tool for analyzing the significance differences between the share price movement before and after the rights issue. Here the researcher has used paired t-test.

$$S^2 = \frac{(X - \bar{X})^2 + (Y - \bar{Y})^2}{n_1 + n_2 - 2}$$

$$\text{t-cal} = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2}\right)}}$$

where, X: Share price before book-close date

$\bar{X}$: Mean share price before book-close date

Y: Share price after book-close date

$\bar{Y}$: Mean share price after book-close date

S^2: An unbiased estimate of population variance

t-cal: Calculated value of t

In this analysis, the researcher has used 5% level of significance to test the hypothesis.

d) Statement of Hypothesis

To analyze the available data, t-test will be used. It helps to test the significance differences between the share price movement before and after right share issue. It will be appropriate for this study because share prices of less than 30 transactions are to be taken for analysis.

Null Hypothesis (Ho): There is no significant difference between share price before and after the rights issue.

Alternative Hypothesis (H_1): There is significant difference in share price (increased or decreased) before and after the rights issue.

e) Valuation of Rights

Rights have certain value because right shares are generally offered at lower price than market price. The value of stock right may be defined as the value at which the right should be quoted in the market. So, investors are interested towards that particular share attached with rights. After the rights offering, some of the existing shareholders want to exercise their rights and some want to sell their rights only but there is no provision of transferable rights in Nepal till the date. Even though, valuation of right is very important to analyze the share price movement. After the book-close or ex-right date of rights offering, the share price should drop to the extent of value of a right.

Value of right (Vr) = $\frac{Po - Ps}{\# + 1}$

Ex-right price of share (Pe)=Po-Vr

Where, Po= Current market price of a share

Ps = Subscription price

= No. of rights required to purchase a new share of stock.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation, analysis and interpretation of data collected through primary and secondary sources in order to fulfill the objective of the study. Thus this chapter has been presented into three sections; section:1 deals with secondary data analysis, section:2 deals with analysis of primary data and section:3 deals with major findings of the study.

Analysis of Secondary Data

4.1. Rights Issue Practice in Nepal

The history of rights issue is not so long in Nepalese context. Nepal Finance & Saving Company is the first company to issue rights share in Nepal. The company issued rights share in the fiscal year 2052/53 amounting Rs. 2 million at the subscription ratio of 4:1 where 4 shares were required to purchase each additional share issued by the company. Since from that date, Nepalese corporate firms started to issue rights share.

In the current years, the practice of issuing rights share in banking and financial institutions is in increasing trend due to the directive of NRB. According to the directive, all banking and financial institutions have to increase their capital base before 2070. To comply with the policy directive, large number of such institutions are issuing rights share. Even some of the Development Banks and Finance Companies are issuing rights share at high ratio to raise funds to maintain capital base required for upgrading their class category. Till the data (i.e. FY2064/64), 72 companies have issued rights share and there are total 103 cases of rights issue of those companies. The details of all rights issuing companies are given in Annex-2.

It is clear that the practice of rights issue in Nepalese corporate firms is in increasing trend both in number and amount. Till the end of fiscal year 2063/64, 72 companies have issued rights share and there are 103 cases of rights issue in total. Out of them, four companies viz. Seti Cigarette Factory Ltd., Nepal United Co. Ltd., Nepal Bank Ltd. and Necon Air Ltd. are already de-listed form NEPSE. Among other listed companies, Nepal Share Markets & Finance Ltd. has issued rights share for 5 times till the date. But some of the listed companies with high earnings are providing bonus shares to their shareholders rather than issuing rights share to increase their capital base. Whereas some of the other companies, mostly financial institutions, are in the process to issue rights share which indicates the increasing trend of rights issue in Nepalese capital market.

4.2 Contribution of Rights Issue in Total Public Flotation

The following table and figure shows the contribution of rights issue in total public floatation in each of the fiscal year where the rights issue has taken place.

Table 4.1

Contribution of Rights Issue in Total Public Flotation

(Rs. in million)

Fiscal Year	Number of Rights Issue	Total Public Flotation	Amount of Rights Issue	% of Rights Issue
2052/53	2	293.74	69.00	23.49
2053/54	3	332.20	275.20	82.84
2054/55	3	462.36	249.96	54.06
2055/56	1	258.00	30.00	11.63
2056/57	3	326.86	124.60	38.12
2057/58	2	410.49	131.79	32.11
2058/59	5	1441.33	621.87	43.15
2059/60	4	556.54	162.24	29.15
2060/61	3	1027.50	70.00	6.81
2061/62	6	1626.82	949.34	58.35
2062/63	11	2443.28	1013.45	41.48
2063/64	17	2295.50	1265.30	55.12
2064/65	43	10668.31	6793.56	63.68
Total	**103**	**22142.93**	**11756.31**	**53.09**

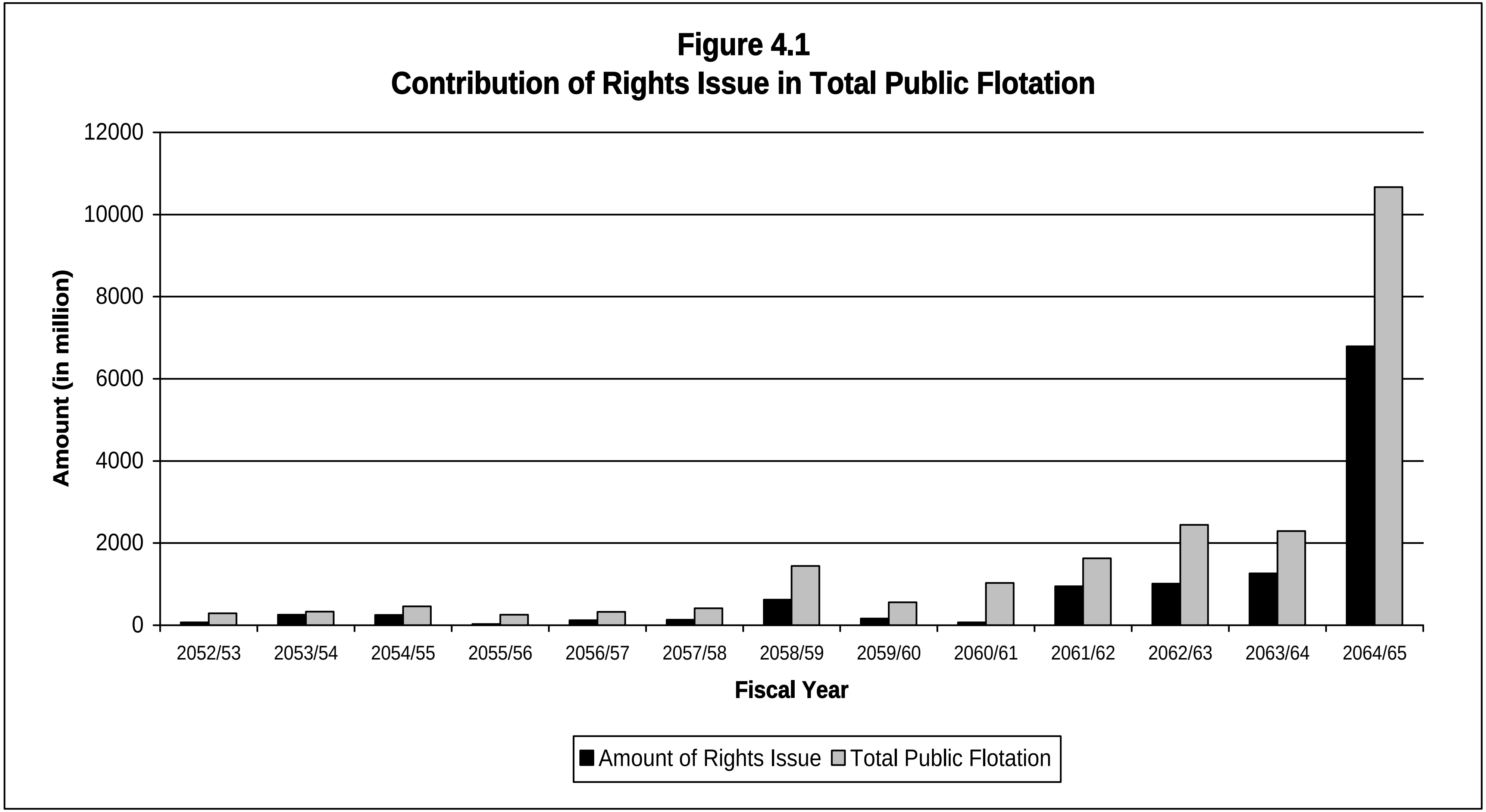


Figure 4.1
Contribution of Rights Issue in Total Public Flotation
Amount (in million)
12000
10000
8000
6000
4000
2000
0
2052/53
2053/54
2054/55
2055/56
2056/57
2057/58
2058/59
2059/60
2060/61
2061/62
2062/63
2063/64
2064/65
Fiscal Year
Amount of Rights Issue
Total Public Flotation

The above table and figure shows the contribution of rights issue in each of the fiscal year since after they were practiced in Nepalese capital market. It is seen that Nepalese corporate firms started to issue rights share to raise additional capital from fiscal year 2052/53. During that fiscal year, Nepal Finance & Savings Co. and Seti Cigarette Factory Ltd. issued rights share amounting Rs. 69 million which contribute 23.49% of total public flotation. In the fiscal year 2053/54, there were three cases of rights issue amounting Rs. 275.20 million out of Rs. 332.20 million public flotation covering 82.84% of total public flotation. Similarly, three companies issued rights share in the fiscal year 2054/55 which covered 54.06% of the total public flotation of Rs.462.36 million. But only one company i.e. Nepal Share Markets & Finance Ltd. had issued rights share in the fiscal year 2055/56 amounting Rs. 30 million which contributed only 11.63% in total public issue. In the fiscal year 2056/57, three companies issued rights share amounting Rs. 124.60 million that covered 38.12% of total public issue. Two companies issued rights share in the fiscal year 2057/58, which covered 32.11% of total public flotation of Rs.410.49 million. In the next fiscal year 2058/59, there were five cases of rights issue amounting Rs.621.87 million out of Rs. 1441.33 million in total public issue. Similarly, four companies issued rights, share in the fiscal year 2059/60 amounting Rs. 162.24 million which contributed 29.15% in total public flotation. In the fiscal year 2060/61, the amount raised through rights share issue was Rs. 70 million, which covered only 6.81% of total public issue from three rights issue. Then in fiscal year 2061/62, six companies issued rights share amounting Rs. 949.34 million which contributed 58.35% of total public issue. In the fiscal year 2062/63, 11 companies issued rights share which covered 41.48% of total issue and the amount of rights issue was Rs. 1013.45 million. In the next fiscal year 2063/64, 16 companies issued rights share but the cases of rights issue were 17 (i.e, Lumbini Bank Ltd. issued twice) and the amount of rights issue was Rs. 1265.30 million which covered 55.12% of total public issue. Finally, in the fiscal year 2064/65, 43 companies issued rights share amounting Rs. 6793.56 million that covered 63.68% of total public flotation of Rs. 10668.31 million which is the largest in terms of number and amount of issue till the date.

By the above table, it is clear that there was the lowest percentage of rights issue i.e. 6.81% in the fiscal year 2060/61 whereas the highest percentage of rights issue was 82.84% in the fiscal year 2053/54. Similarly, the highest amount of rights issue was Rs. 6793.56 million in the fiscal year 2064/65 and the lowest was Rs. 30 million in the fiscal year 2055/56. So, it is clear from the above table and figure that the practice of rights issue in Nepalese corporate firms is in increasing trend both in number and amount.

4.2.1 Contribution of Rights Issue in Total Public Flotation in FY 2064/65

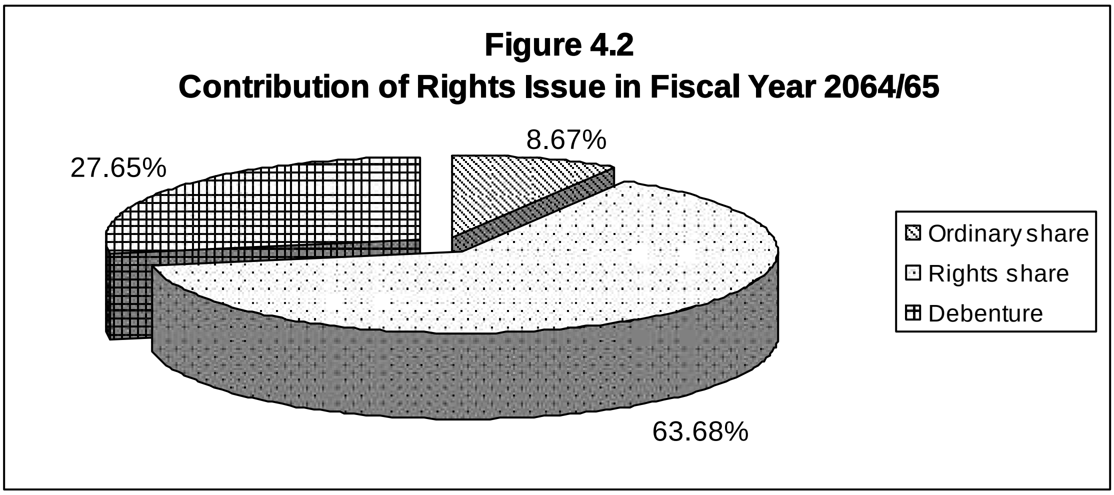
The following table and figure shows the contribution of rights issue in total public flotation in the fiscal year 2064/65.

Table 4.2

Contribution of Rights Issue in Fiscal Year 2064/65

(Rs. in million)

Securities	**No of Issues**	**Issued Amount**	**Percentage (%)**
Ordinary share	16	924.75	8.67
Rights share	43	6793.56	63.68
Debenture	5	2950	27.65
Total	**64**	**10668.31**	**100**



From the above table and figure, securities wise contribution in total public flotation in the fiscal year 2064/65 can be clearly seen. In the fiscal year, only three securities viz. ordinary share, rights share and debenture were issued by firms to public amounting Rs. 10668.31 million in total. Out of them, 16 companies issued ordinary shares to public amounting Rs. 924.75 million which contribute 8.67% in total public issue. Similarly, 43 companies issued rights share to their existing shareholders which contribute 63.68% in total public issue and the amount of rights issue was Rs. 6793.56 million. And 5 companies issued debenture of Rs. 2950 million which contribute 27.65% in total public issue in the fiscal year 2064/65. So it is clear that rights issue contributes the highest in total public issue in the fiscal year 2064/65.

4.2.2 Sector Wise Contribution in Rights Issue in Fiscal Year 2064/65

The following table and figure shows the sector wise contribution in rights issue in the fiscal year 2064/65.

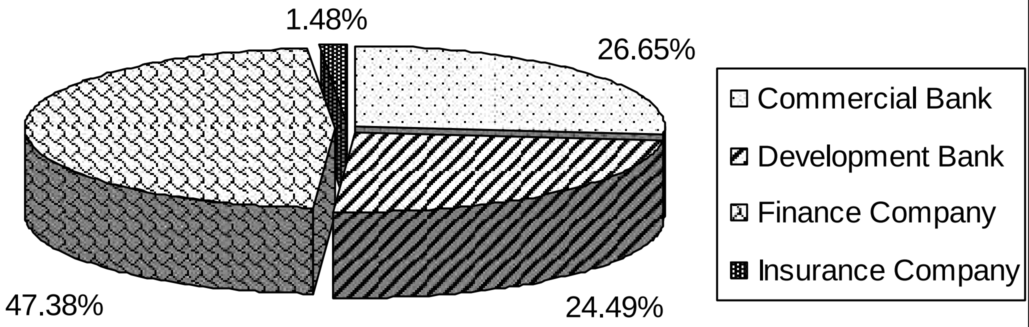
Table 4.3

Sector Wise Contribution in Right Issue in Fiscal Year 2064/65

(Rs. in million)

Sector	**No of Companies**	**Rights Issue Amount**	**Percentage (%)**
Commercial Bank	7	1810.68	26.65
Development Bank	12	1663.45	24.49
Finance Company	21	3219.07	47.38
Insurance Company	3	100.36	1.48
Total	**43**	**6793.56**	**100**

Figure 4.3
Sector Wise Contribution in Rights Issue in FY 2064/65



The above table and figure shows the contribution of each sector in rights issue in the fiscal year 2064/65. Only four sectors viz. Commercial Bank, Development Bank, Finance and Insurance sectors issued rights share in the fiscal year. Among them, 7 Commercial Banks issued rights share amounting Rs. 1810.68 million which contribute 26.65% in total amount of rights issue of Rs. 6793.56 million. The contribution of Development Banks was 24.49% in total where 12 Development Banks issued rights share of amount Rs. 1663.45 million. Similarly, 21 Finance

Companies issued rights share of Rs. 3219.07 million which covered 47.38% in total rights issue amount. And finally, 3 Insurance Companies issued Rs. 100.36 million of rights share which contribute 1.48% in total amount of rights issue. Beside these, other sectors didn't issue rights share in the fiscal year. From the above table and figure, it is clear that only banking and financial institutions issued rights share in the fiscal year 2064/65.

4.3 Subscription of Rights Issue

Generally, the issue of rights share fails to full subscription in Nepalese capital market because some of the existing shareholders fail to claim their right due to some reasons. Logically, such unclaimed shares should be allotted to other existing shareholders but in most of the cases, the shareholders are asked to demand only up to what is their right whenever the application is called for right shares. Hence the usual results is the under subscription of rights issues. Since, Nepalese company act is totally silent regarding the allotment of unsubscribed shares, right issuing companies used to distribute the remaining shares to their employees. The following table shows the subscription of right shares of sample companies:

Table 4.4

Subscription of Rights Issue

S.N	Company	No of Issued Shares	No of Subscribed Shares	No of Unsubscribe Shares	% of Subscription
1.	NIBL	2,012,813	2,005,675	7,138	99.65
2.	NICBL	1,584,000	1,518,771	65,229	95.88
3.	KBL	1,800,000	1,785,052	14,948	99.17
4.	DCBL	8,064,000	7,977,522	86,478	98.93
5.	SDBL	500,000	487,430	12,570	97.49
6.	NSMFL	2,400,000	2,381,745	18,255	99.24
7.	IMEFIL	500,000	422,200	77,800	84.44
8.	NMBFL	8,000,000	7,628,465	371,535	95.36
9.	UFL	750,000	734,860	15,140	97.98
10.	SICL	235,620	225,872	9,748	95.86

The above table shows that there were a lot of shares that were remained unsubscribed by the existing shareholders. Shareholders of NMBFL failed to subscribe 371,535 shares out of 8,000,000 shares issued subscribing 95.36% of total issue. Similarly, 86,478 shares were unsubscribed by the shareholders of DCBL and they subscribed 98.93% of total issue. Whereas only 7,138 share of NIBL were unsubscribed by the shareholders and the portion of subscribed shares was 99.65%. Similarly, only 84.44% of total shares i.e. 500,000 shares were subscribed by the shareholders of IMEFIL and 77,800 shares remained unsubscribed. After the study of subscription of rights issue reports of above companies, no full subscription of rights shares in all cases has been found, varying the degree of under subscription of shares in different companies.

4.4 Analysis of Impact of Rights Issue on Market Price of Share

This portion of study analyzes the impact of rights issue on share price movement of selected sample companies. For our study, five different points of time period were selected for observing the impact of rights issue i.e. the price movement of shares, considering the data six months before the issue approval date as the base date. Our selected time points are as follows:

I. Six months before the issue approval date
II. One month before the book-close date
III. The day before book-close date
IV. Ten days after the book-close date
V. Three months after the issued date

The researcher has analyzed the impact of rights issue on share price movement of sample companies viz. NIBL, NICBL, KBL, DCBL, SDBL, NSMFL, IMEFIL, NMBFL, UFL and SICL.

4.4.1 Analysis of Impact of Rights Issue on Share Price of Nepal Investment Bank Ltd. (NIBL)

Table 4.5

Impact of Rights Issue on Share Price of NIBL

Time Points	Date of Time Points	Share Price (Rs.)	Price Relative	% Change in New Base	Price Index	Price Index Converted to New Base	% Change in New Base
I	2064-3-25	1510	100	-	615.43	100	-
II	2064-7-26	2162	143.18	43.18	889.12	144.47	44.47
III	2064-8-25	2690	178.15	24.42	996.29	161.89	12.06
IV	2064-9-9	2040	135.10	(24.17)	1018.16	165.44	2.19
V	2065-1-22	1595	105.63	(21.81)	740.18	120.27	(27.30)

The above table shows the share price movement of NIBL along with price index i.e. NEPSE index. Share price of NIBL before 6 months of issue approval date was Rs. 1510 and the price index of general market at the time was 615.43. Before one month of book-close date of rights issue, share price was increased to Rs. 2162 along with the increment in price index to 889.12. This increment in share price was not only due to the impact of rights issue because price index has also increased at the same percentage which can be seen in column 5 and 8. These columns show the percentage change in new bases of price and index. Similarly, share price increased to Rs. 2690 just before the book-close date and the price index has also increased to 996.29. But the share price has increased by much higher percentage then general market which was in accordance of the theory of rights offering. According to the theory, generally, share price increases due to rights offering until the book-close date or ex-right date no matters, whether the general market moves up or down. After 10 days of book-close date, share price has decreased to Rs. 2040 decreasing by Rs 650 per share where general market remained increasing at the meantime. Price relative has decreased by 24.17% in comparison of 2.19% increment in price index converted to new base. After rights issue i.e.3 months after the issued date, share price of NIBL dropped down to Rs. 1595 and market index has also decreased to 740.18. The decline of share price was also somehow supported by the general market movement because both of them have decreased nearly at the same percentage.

According to the theory of rights issue, share price should decrease to the extent of value of right after it starts to sell ex-rights.

Market price of Share = Rs. 2690

Value of right = Rs. 432

Ex-right price of share = Rs. 2258

Theoretically, share price of NIBL should decrease to the extent of value of right i.e. Rs. 432 and the share price should be around Rs.2258 after book-close date. In spite of that, market price of NIBL stock fall to Rs. 2040 after the book-close date falling down more than the value of right. Therefore it can be said that the stock of NIBL was under priced after the book-close date. Though the stock was under priced, the movement of share price was according to the theory of rights issue. (Refer to annex-4).

4.4.2 Analysis of Impact of Rights Issue on Share Price of NIC Bank Ltd. (NICBL)

Table 4.6

Impact of Rights Issue on Share Price of NICBL

Time Points	Date of Time Points	Share Price (Rs.)	Price Relative	% Change in New Base	Price Index	Price Index Converted to New Base	% Change in New Base
I	2064-5-5	875	100	-	722.54	100	-
II	2064-10-6	1219	139.31	39.31	897.69	121.75	21.75
III	2064-11-14	1046	119.54	(14.19)	759.51	105.12	(13.66)
IV	2064-11-27	989	113.03	(5.45)	749.05	103.67	(1.38)
V	2065-3-1	1350	154.29	36.50	941.07	130.24	25.63

The above table shows the share price movement of NICBL before and after rights issue and the movement of general market index simultaneously. The table shows that the share price of NICBL was Rs. 875 and the market index was 722.54 before 6 months of issue approval date. Share price reached to Rs. 1219 and market index also increased to 879.69 before one month of book-close date but the increment in share price was higher than that of market index. The increment in price relative was

39.31% whereas the increment in new base of price index was only 21.75%. Due to the effect of downward movement of general market, share price also decreased to Rs. 1046 and market index dropped to 759.51 point the day before book-close date. Although the price relative has decreased 14.19% whereas price index converted to new base has decreased by 13.66%. After 10 days of book-close date, share price has decreased by only Rs. 57 and traded at Rs. 989. General market has also decreased to 749.05 but share price has decreased in higher percent than the market index. It is believed that the original share price will be restored and the market shows normal price behaviour after few months of rights issue. In case of NICBL, with the upward movement of general market, share price also reached to Rs. 1350 after 3 months of rights issue where price index touched 941.07 point. From the above table, it is clear that the movement of share price and market index were in same direction in each point of time although their magnitudes of change were found to be different.

Theoretically, share price should decrease to the extent of value of right after the book-close date because shares start to trade without rights attached to them.

Market price of share = Rs. 1046

Value of right = Rs. 158

Ex-right price of share = Rs. 888

While observing the share price of NICBL after book-close date, it is found that the share price didn’t fall to the extent of value of right. Share price should have to fall by value of right i.e. Rs. 158 and market price should have to be around Rs. 888 but in actual, shares of NICBL traded at Rs. 989. So, it can be said that the stock of NICBL was over priced after the book-close date. Though the stock was over priced, the movement of share price followed the theory of rights issue. (Refer to annex-4)

4.4.3 Analysis of Impact of Rights Issue on Share Price of Kumari Bank Ltd. (KBL)

Table 4.7

Impact of Rights Issue on Share Price of KBL

Time Points	Date of Time Points	Share Price (Rs.)	Price Relative	% Change in New Base	Price Index	Price index Converted to New Base	% Change in New Base
I	2064-6-10	970	100	-	878.35	100	-
II	2064-11-21	940	96.91	(3.09)	766.98	87.32	(12.68)
III	2064-12-20	860	88.66	(8.51)	716.56	81.58	(6.57)
IV	2065-1-3	715	73.71	(16.86)	746.69	85.01	4.20
V	2065-4-13	962	99.18	34.55	983.07	111.92	31.66

The above table shows the movement of share price of KBL and the trend of general market movement during the period of rights issue. Share price of KBL was Rs. 970 before 6 months of issue approval date and the general market index was 878.35 at the time. Since general market started to decrease before book-close date, it might have affected the market price of KBL stock such that share price had decreased slightly in comparison to high decrease in market index one month before book-close date. Share price decreased to Rs. 940 decreasing only 3.09% in price relative whereas price index decreased to 766.98 decreasing 12.68% in new base of price index. Similarly, the downward movement of share price along with the general market was found before the book-close day. On that day, share price fall to Rs. 860 and price index fall to 716.56 point. Considering the percent change in new bases, new base of share price decreased by 8.51% and that of price index decreased by 6.57%. After 10 days of book-close date, share price decreased by Rs. 145 per share and fell down to Rs.715 in spite of the upward movement of general market. Price index increased to 746.69 increasing 4.20% in new base whereas price relative decreased by 16.86%. There was high appreciation in share price after 3 months of issued date which might be also due to the improvement in general market. Share price reached Rs. 962 increasing 34.55% in price relative and price index reached 983.07 increasing 31.66% in new base of price index.

Normally, share price used to decrease after book-close date of rights issue because shares begin to trade ex-rights which means no rights attached to them.

Market price of share = Rs. 860

Value of right = Rs. 127

Ex-right price of share = Rs. 733

Theoretically, share price should decrease to extent of value of right after book-close date. Considering the value of right of KBL stock i.e. Rs. 127, the ex-right price should be around Rs. 733. But there was only slightly difference in price of stock of KBL in market after book-close date. The actual market price was found to be Rs. 715 which can be considered as equivalent to the theoretical value. So, the price movement of KBL stock was found to be as per the theory of rights issue. (Refer to annex-4)

4.4.4 Analysis of Impact of Rights Issue on Share Price of Development Credit Bank Ltd. (DCBL)

Table 4.8

Impact of Rights Issue on Share Price of DCBL

Time Points	Date of Time Points	Share Price (Rs.)	Price Relative	% Change in New Base	Price Index	Price Index Converted to New Base	% Change in New Base
I	2064-2-27	750	100	-	559.15	100	-
II	2064-8-6	2270	302.67	202.67	855.24	152.95	52.95
III	2064-9-8	2900	386.67	27.75	1045.65	187.01	22.27
IV	2064-9-18	750	100	(74.14)	778.13	139.16	(25.59)
V	2064-12-19	605	80.67	(19.33)	712.52	127.43	(8.43)

The above table shows the price movement of DCBL stock along with the market index before and after the period of rights issue. Share price of DCBL was Rs. 750 before 6 months of issue approval date and the general market index was also only 559.15 at the time. After DCBL declared to upgrade into "A" category Commercial Bank and planned to offer rights shares at high ratio to raise capital, share price started to move in bullish trend. It issued rights shares at 1:3 ratio i.e. 3 shares could be subscribed for each stock held. So share price increased to Rs. 2270 before one month of book-close date and general market index also increased to 855.24. While observing the percentage change in new bases of price and index, price relative increased by 202.67 % where adjusted price index increased by 52.95% only. Such a large percent increment in adjusted price provides sufficient evidence to argue that this increment must have been due to the rights offering. Before the day of book-close date, share price increased to Rs. 2900 and market index also increased at the same rate and reached 1045.65 point. After 10 days of book-close date, share price sharply decline to Rs. 750 decreasing by Rs. 2150 per share where market index also decreased to 778.13. Adjusted price relative has fallen down by 74.14% whereas adjusted price index has decreased by only 25.59%. There was downward movement of share price along with general market after rights issue. Share price dropped to Rs.605 and market index also dropped to 712.52 point after 3 months of issued date.

In case of DCBL, share price movement was also found to follow the theory of rights issue.

Market price of share = Rs.2900

Value of right = Rs. 2100

Ex-right price of share = Rs. 800

Since the share price of DCBL decreased by nearly equivalent value of right i.e. Rs. 2100 after the book-close date and the market price was also nearly equal to ex-right price i.e. Rs. 800, it can be said that the movement of share price followed the theory of rights issue. (Refer to annex-4)

4.4.5 Analysis of Impact of Rights Issue on Share Price of Siddhartha Development Bank Ltd. (SDBL)

Table 4.9

Impact of Rights Issue on Share price of SDBL

Time Points	Date of Time Points	Share Price (Rs.)	Price Relative	% Change in New Base	Price Index	Price Index Converted to New Base	% Change in New Base
I	2064-4-11	300	100	-	687.83	100	-
II	2064-9-5	612	204	104	1055.73	153.48	53.48
III	2064-10-13	634	211.33	3.59	867.61	126.14	(17.81)
IV	2064-10-24	618	206	(2.52)	705.86	102.62	(18.65)
V	2065-1-26	835	278.33	35.11	776.92	112.95	10.07

The above table shows the movement of share price of SDBL before and after the issue along with the general market trend during the period. Before 6 months of issue approval date, share price of SDBL was only Rs. 300 and the market index was 687.83 at the time. The offering of rights shares and the upward movement of general market might have also supported to increase the share price of SDBL. Share price doubled within short period of time and reached Rs. 612 before one month of book-close date where market index also increased to 1055.73. But the percent increment in price relative i.e.104% was much higher than that of adjusted price index i.e. 53.48%. This high appreciation in share price must have been due to rights issue. More precisely, the strength of rights issue was clearly seen before the day of book-close date where share price kept on increasing on the contrast to heavy decline on general market. On that day, share price reached Rs. 634 increasing 3.59% in price relative whereas market index dropped down to 867.61 decreasing 17.81% in adjusted price index. After 10 days of book-close date, share price decreased by only Rs. 16 and traded at Rs. 618 at market whereas market index continued to fall and dropped to 705.86 point. After rights issue, share price of SDBL continued to increase along with the increment in market. Share price increased to Rs. 835 after 3 months of issued date increasing 35.11% in price relative where market index also increased to 776.92 and the adjusted price index has increased by 10.07%

According to the theory, share price should decrease to the extent of value of right after ex-right date (i.e. book-close date).

Market price of share = Rs. 634

Value of right = Rs. 267

Ex-right price of share = Rs. 367

Theoretically, share price of SDBL should decrease by Rs. 267 and the market price should be around Rs. 367 after book-close date. In contrast to it, share price decreased only by Rs. 16 and continued to increase even after rights issue. So it can be said that the stock of SDBL was over priced after ex-right date and the movement of share price also didn’t follow the theory. (Refer to annex-4).

4.4.6 Analysis of Impact of Rights Issue on Share Price of Nepal Share Markets & Finance Ltd. (NSMFL)

Table 4.10

Impact of Rights Issue on Share Price of NSMFL

Time Points	Date of Time Points	Share Price (Rs.)	Price Relative	% Change in New Base	Price Index	Price Index Converted to New Base	% Change in New Base
I	2063-12-18	310	100	-	502.15	100	-
II	2064-5-24	310	100	0	828.78	165.05	65.05
III	2064-6-21	335	108.06	8.06	873.45	173.94	5.39
IV	2064-7-11	335	108.06	0	858.06	170.88	(1.76)
V	2064-11-6	1410	454.84	320.91	757.08	150.77	(11.77)

The above table shows that there was only nominal impact of rights issue on share price of NSMFL. Share price was Rs. 310 before 6 months of issue approval date and the market index was 502.15 at the time. Share price remained at the same price in spite of the rapid increment in general market and showing no impact of right issue before one month of book-close date. On the other hand, market index increased to 828.78 increasing 65.05% in adjusted index at the same period. Before the day of book-close date, share price slightly increased and reached Rs. 335 where general market also increased to 873.45. Normally, share price used to decrease on and after book-close date which was not found in the case of NSMFL stock price. Share price remained Rs. 335 even after 10 days of book-close date and share price was not also affected by the downward movement of market. General market started to decline and dropped to 858.06 point at the time. The downward trend of market didn't stop as a result, the market index dropped to 757.08 point dropping down by more than 100 point within four months which was 11.77% decrement in adjusted price index. In spite of the decline in general market, share price of NSMFL increased to Rs. 1410 after 3 months of issued date increasing more than 3 times within short period. This high increment in share price might be due to the decision of the company to upgrade itself into "A" category Commercial Bank.

Theoretically, share price should decrease on and after book-close date to the extent of value of right.

Market price of share = Rs. 335

Value of right = Rs. 141

Ex-right price of share = Rs. 194

Share price of NSMFL should decrease by the amount of value of right i.e. Rs. 141 on and after book-close date and the market price should be around Rs. 194. But share price didn't decrease even after book-close date instead, it moved upward. So the price movement of NSMFL stock didn't follow the theory of rights issue. (Refer to annex-4).

4.4.7 Analysis of Impact of Rights Issue on Share Price of IME Financial Institution Ltd. (IMEFIL)

Table 4.11

Impact of Rights Issue on Share Price of IMEFIL

Time Points	Date of Time Points	Share Price (Rs.)	Price Relative	% Change in New Base	Price Index	Price index Converted to New Base	% Change in New Base
I	2064-1-16	288	100	-	509.62	-	-
II	2064-5-23	453	157.29	57.29	811.98	159.33	59.33
III	2064-6-16	462	160.42	1.99	890.56	174.75	9.68
IV	2064-7-11	612	212.50	32.46	878.86	172.45	(1.32)
V	2064-11-6	1060	368.06	73.20	757.08	148.56	(13.85)

The above table shows the increasing trend of share price of IMEFIL during the study period. Share price before 6 months of issue approval date was only Rs. 288 and the index of market was 509.62 at the time. Similar increment was seen in share price and market index before one month of book-close date. On that date, share price increased to Rs. 453 increasing 57.29% in price relative where market index increased to 811.98 increasing 59.33% in adjusted index. Only small amount increased in share price in comparison to the increment of general market the day before book-close date. Share price increased to Rs.462 whereas market index reached 890.56 point. Instead of decreasing in share price after book-close date, share price increased by Rs. 150 and increased to Rs. 612 after 10 days of book-close date even showing no influence of downward movement of general market. At that time market index decreased to 878.86 decreasing 1.32% in adjusted index whereas price relative increased by 32.46%. Inspite of decreasing trend of general market, there was rapid growth in market price of stock after book-close date. Share price increased to Rs. 1060 increasing 73.20% in price relative after 3 months of issued date whereas market index dropped to 757.08 decreasing 13.85% in adjusted index.

Theoretically, share price should decrease to the extent of value of right after book-close date as they begin to trade without rights attached to them. .

Market price of share = Rs. 462

Value of right = Rs. 181

Ex-right price of share = Rs. 281

Theoretically, share price of IMEFIL should decrease to the amount of value of right i.e. Rs.181 and the market price after book-close date should be around Rs. 281. In contrast to it, share price didn't decreased instead, it increased by the amount nearly equal to the value of right. So, share price movement of IMEFIL was found to be in increasing trend during the period and the movement was not according to the theory. (Refer to annex-4)

4.4.8 Analysis of Impact of Rights Issue on Share Price of Nepal Merchant Banking & Finance Ltd. (NMBFL)

Table 4.12

Impact of Rights Issue on Share Price of NMBFL

Time Points	Date of Time Points	Share Price (Rs.)	Price Relative	% Change in New Base	Price Index	Price Index Converted to New Base	% Change in New Base
I	2064-2-27	840	100	-	559.15	100	-
II	2064-8-10	2910	346.43	246.43	867.61	155.17	55.17
III	2064-9-9	3799	452.26	30.55	1018.16	182.09	17.35
IV	2064-10-7	1000	119.05	(73.68)	867.46	155.14	(14.80)
V	2064-12-18	900	107.14	(10)	709.40	126.87	(18.22)

The above table shows the price movement of NMBFL stock before and after rights issue along with the market index. Share price of NMBFL was Rs. 840 before 6 months of issue approval date and the index of market was 559.15 at the time. After NMBFL declared to upgrade into Commercial Bank and offered rights shares at high ratio to increase capital, market price of share started to increase in bullish trend. It issued rights shares at the ratio of 1:4 i.e. 4 shares could be subscribed for each stock held earlier. As a result, share price increased to Rs. 2910 before one month of book-close date and the market index also increased to 867.61. While observing the percentage change in new bases of price and index, price relative increased by 246.43% where adjusted index increased by only 55.17%. Such a large increment in price provides sufficient evidence to argue that this increment must be due to the effect of rights issue. Before the day of book-close date, share price reached Rs. 3799 increasing 30.55% in price relative where market index also increased to 1018.16 increasing 17.35% in adjusted index. After 10 days of book-close date, share price decreased by Rs. 2799 dropping down to Rs. 1000 where market index also dropped to 867.46 point. Due to the downward movement of market, share price also decreased to Rs. 900 after 3 months of issued date and the market index decreased to 709.40 but the decrement in share price was less than that of general market.

Theoretically, share price should decrease to the extent of value of right after book-close date.

Market price of share = Rs. 3799

Value of right = Rs. 2959

Ex-right price of share = Rs. 840

Theoretically, share price of NMBFL should decrease to the extent of value of right i.e. Rs. 2959 and the market price should be around Rs. 840 after book-close date. But share price didn’t fall down by the amount of value of right and market price was found to be Rs. 1000 after book-close date. Therefore it can be said that the stock of NMBFL was over priced after book-close date. Though the stock was over priced, the movement of share price was according to the theory. (Refer to annex-4).

4.4.9 Analysis of Impact of Rights Issue on Share Price of United Finance Ltd. (UFL)

Table 4.13

Impact of Rights Issue on Share Price of UFL

Time Points	Date of Time Points	Share Price (Rs.)	Price Relative	% Change in New Base	Price Index	Price Index Converted to New Base	% Change in New Base
I	2064-10-24	867	100	-	705.86	100	-
II	2065-1-5	900	103.81	3.81	734.83	104.10	4.10
III	2065-2-5	1030	118.80	14.44	798.56	113.13	8.67
IV	2065-2-23	565	65.17	(45.14)	885.81	125.49	10.93
V	2065-5-19	1326	152.94	134.68	1076.20	152.47	21.50

The above table shows the price movement of UFL stock before and after rights issue along with the index of general market. Share price of UFL was Rs. 867 before 6 months of issue approval date and the market index was 705.86 at the time. Before one month of book-close date, share price increased to Rs. 900 increasing 3.81% in price relative where market index also increased to 734.83 increasing 4.10%. Share price reached Rs. 1030 on the day before book-close date and the market index also increased to 798.56 point. The increment in share price was not only due to increasing trend of general market as the percent change in price relative is higher than that of adjusted index which can be seen from column 5 and 8. After 10 days of book-close date, share price dropped down at Rs. 565 decreasing Rs. 465 per share whereas market index continued increasing and remained at 885.81 point. While considering percent change in new bases, price relative decreased by 45.14% whereas adjusted index increased by 10.93%. Although market was in increasing trend, share price increased with large amount within 3 months of time. Share price reached Rs. 1326 after 3 months of issued date increasing 134.68% in price relative whereas market index increased to 1076.20 increasing only 21.50%.

According to the theory, share price should decrease to the extent of amount of right on and after book-close date.

Market price of share = Rs. 1030

Value of right = Rs. 465

Ex-right price of share = Rs. 565

Since the market price of UFL stock after book-close date was equal to the theoretical value of stock i.e. Rs. 565, the stock was correctly priced. Hence the price movement of UFL stock comply with the theory of rights issue. (Refer to annex-4).

4.4.10 Analysis of Impact of Rights Issue on Share Price of Sagarmatha Insurance Co. Ltd. (SICL)

Table 4.14

Impact of Rights Issue on Share Price of SICL

Time Points	Date of Time Points	Share Price (Rs.)	Price Relative	% Change in New Base	Price Index	Price Index Converted to New Base	% Change in New Base
I	2064-3-26	227	100	-	620.61	100	-
II	2064-5-27	270	118.94	18.94	811.98	130.84	30.84
III	2064-6-24	320	140.97	18.52	866.13	139.56	6.66
IV	2064-7-19	320	140.97	0	902.45	145.41	4.19
V	2065-2-8	300	132.16	(6.25)	812.67	130.95	(9.94)

The above table shows the price movement of SICL stock before and after rights issue along with the index of general market. Share price of SICL was Rs. 227 before 6 months of issue approval date and the market index was 620.61 at the time. Share price and market index were in increasing trend before book-close date. So, share price increased to Rs. 270 before one month of book-close date and market index also increased to 811.98 point. But the increment in share price is relatively low than that of market index as adjusted index increased by 30.84% while price relative increased only by 18.94%. Before the day of book-close date, share price increased to Rs. 320 increasing 18.52% in price relative whereas market index increased to 866.13 increasing 6.66% in adjusted index. But share price showed no response of book-close date and remained at the same price. i.e. Rs. 320 whereas market index increased to 902.45 point after 10 days of book-close date. Due to the downward movement of general market, it might have affected the share price to decline. As a result, share price decreased to Rs. 300 decreasing 6.25% in price relative after 3 months of issued date whereas market index also dropped down to 812.67 point decreasing 9.94% in adjusted market index.

According to the theory of rights issue, share price should decrease to the extent of value of right on and after book-close date.

Market price of share = Rs. 320

Value of right = Rs. 51

Ex-right price of share = Rs. 269

Theoretically, share price of SICL should decrease to the amount of value of right i.e. Rs. 51 after book-close date and share price should be around Rs.269. But share price of SICL was not affected by the book-close date and remained at the same price which was not in accordance of the theory. Therefore movement of share price of SICL stock didn’t follow the theory. (Refer to annex-4)

4.5 Correlation Coefficient between Share Price Movement and General Market Movement

According to the theory of rights issue, share price increases after the announcement of rights share till the period of book-close date and declines after that date. Share price declines after book-close date because shares begin to trade without rights attached with them and declines to the extent of value of right. In practice, not only rights offering but the movement of general market also affects the share price. So it is important to study the correlation between share price movement and general market movement. Therefore, correlation coefficient between share price of sample companies and market index i.e. NEPSE index were calculated to find out if there exists any relation between share price and market index.

After calculating the correlation between share price movements of sample companies and general market movement, following results have been obtained.

Table 4.15

Correlation Coefficient Between Share Price and NEPSE Index

S.N	Companies	Correlation Coefficient	Coefficient of Determination
1	NIBL	0.8343	0.6961
2	NICBL	0.9816	.9635
3	KBL	0.6288	0.3954
4	DCBL	0.8685	0.7543
5	SDBL	0.2174	0.0769
6	NSMFL	-0.0081	0.0001
7	IMEFIL	0.2945	0.0867
8	NMBFL	0.797	0.6352
9	UFL	0.5128	0.2629
10	SICL	0.9479	0.8986

(Refer to annex-5)

By observing the results form above table, it can be concluded that there is no consistent result of all sample companies which were taken into consideration. The correlation coefficient between the movement of share price of NIBL and general market index is 0.8383 which shows positive and high correlation between them. Coefficient of determination is 0.6961 which means that 69.61% of share price movement was caused by the movement of market and remaining was due to the impact of rights issue. Similarly, correlation coefficient of NICBL stock with market is 0.9816 which indicates positive and very high degree of relationship between them. Their coefficient of determination is 0.9635 which indicates that general market movement has 96.35% role in share price behaviour of NICBL. In case of KBL, correlation coefficient with general market movement is 0.6288 and coefficient of determination is 0.3954. It means the movement of KBL stock was slightly influenced by market movement.

In case of DCBL, there is positive and high degree of correlation i.e r = 0.8685 between share price and market trend. Coefficient of determination is 0.7543 which shows that 75.43% of share price movement was due to the affect of market. Correlation coefficient of SDBL stock with general market is 0.2774 and coefficient of determination is 0.0769 which indicates positive but low correlation between them and general market also contributed only 7.69% in share price increment. Contrarily, there is negative but low correlation between share price movement of NSMFL and market trend. Share price movement was not affected by the movement of market. In case of IMEFIL, correlation coefficient is 0.2945 which shows positive but relatively low relationship between share price and market movement. Only 8.67% of price increment was contributed by market movement and remaining was due to the impact of rights issue.

Similarly, correlation coefficient between share price of NMBFL and market movement is 0.797 which indicates positive and high correlation among them. Coefficient of determination is 0.6352 which means market movement has contributed 63.52% in movement of share price. In case of UFL, correlation coefficient is 0.5128 which shows positive relation between share price movement and market movement where only 26.29% movement of share price was influenced by general market. Finally, correlation was found to be highly positive between share price of SICL stock and general market movement. Correlation coefficient is 0.9479 and coefficient of determination is 0.8986 which also indicates that the share price was heavily influenced by general market movement. So rights issue has affected the share price less than general market movement.

From the above analysis, it can be concluded that share price movement of Nepalese companies are somehow affected by general market movement and some are affected by the announcement of rights share offering.

4.6 Use of t- Statistics to Measure the Immediate Impact of Rights Issue on Share Price

Theoretically, after the announcement of rights offering, share price used to increase till the date of book-close date and decreases after that day. To analyze whether there exists any significant change in share price movement during this period, researcher has used t-statistics. For this, researcher has taken the share prices of 10 days before and after the book-close date. Following table shows the calculated and tabulated values of t-statistics of respective companies.

Table 4.16

Calculated and Tabulated Values of t-Statistics

S.N	Companies	Significance Level	Degree of Freedom	t-tab	t-cal	Result
1	NIBL	5 %	8	2.306	6.58	Significant
2	NICBL	5 %	8	2.306	2.57	Significant
3	KBL	5 %	8	2.306	3.09	Significant
4	DCBL	5 %	8	2.306	38.93	Significant
5	SDBL	5 %	8	2.306	3.03	Significant
6	NSMFL	5 %	8	2.306	5.19	Significant
7	IMEFIL	5 %	8	2.306	11.20	Significant
8	NMBFL	5 %	8	2.306	98.72	Significant
9	UFL	5 %	8	2.306	8.66	Significant
10	SICL	5 %	8	2.306	1.68	Insignificant

(Refer to annex-6)

Above table shows the calculated value of t (t-cal) and tabulated value of t (t-tab) at 5% level of significance and 8 degree of freedom for share prices 10 days before and after the book-close date which are used to analyze the significance of the changes of price movement before and after rights issue. From the above table, it is clear that the calculated value of t at 5 % level of significance and 8 degree of freedom are different for different companies. In the case of NIBL, the calculated value of t is 6.58 where as the tabulated value of t at 5% level of significance and 8 degree of freedom is 2.306. Since the calculated value of t is greater than the tabulated value of t, there is significant difference between the share price before and after the rights issue. Therefore it can be concluded that the change in share price of NIBL was due to the rights issue. Hence the null hypothesis that there is no significant difference between share price before and after the rights issue is rejected and the alternative hypothesis that there is significant difference in share price before and after the rights issue is accepted. In other words, the null hypothesis that share price doesn't decrease significantly after rights issue is rejected and the alternative hypothesis that share price decreases significantly after the rights issue is accepted.

In the case of NICBL, the calculated value of t is 2.57 whereas the tabulated value of t at 5% level of significance for 8 degree of freedom is 2.306. Since the calculated value of t is greater than the tabulated value, the null hypothesis that there is no significant change in share price before and after rights issue is rejected. Hence the alternative hypothesis that share price changes significantly is accepted. Therefore it can be concluded that the change in share price is due to the rights offering. Similarly, the calculated value of t for KBL is 3.09 whereas the tabulated value is 2.306. Therefore, there is significant difference in share price of KBL before and after the rights issue. In another case of DCBL, the calculated value of t is 38.93 whereas the tabulated value of t is 2.306. Hence, the null hypothesis is rejected and the alternative hypothesis that there is significant difference in share price before and after rights issue if accepted. Similarly, the calculated value of t for SDBL is 3.03 and the tabulated value of t at 5% level of significance and 8 degree of freedom is 2.306. Since the calculated value is greater than the tabulated value of t, the null hypothesis is rejected and hence the alterative hypothesis that there is significant difference in share price before and after rights issue is accepted. Thus it can be concluded that the change in share price is attributed by the rights issue.

In the case of NSMFL, the calculated value of t is 5.19 whereas the tabulated value of t at 5% level of significance and 8 degree of freedom is 2.306. Since the calculated value of t is greater than the tabulated value, there is significant difference between share prices before and after rights issue. In the case of IMEFIL, the calculated value of t i.e. 11.20 is greater than the tabulated value of t i.e 2.306 at 5% level of significance for 8 degree of freedom. Therefore the alternative hypothesis that there is significant difference in share price before and after rights issue is accepted. In another case of NMBFL, the calculated value of t is 98.72 and the tabulated value of t at 5% level of significance for 8 degree of freedom is 2.306. Since the calculated value of t is greater than tabulated value of t, the null hypothesis is rejected and the alternative hypothesis that share price decreases significantly after the rights issue is accepted. In the case of UFL, the calculated value of t is 8.66 and the tabulated value of t at 5% level of significance and 8 degree of freedom is 2.306. Since the calculated value is greater than the tabulated value of t, the null hypothesis is rejected and hence the alternative hypothesis that there is significant difference in share price before and after the rights issue is accepted. Therefore it can be concluded that the change in share price of UFL was due to the rights issue.

Finally, the calculated value of t for SICL is 1.68 whereas the tabulated value of t for 5% level of significance and 8 degree of freedom is 2.306. Since the calculated value is less than the tabulated value of t, it shows that there is no significant difference in share price before and after the rights issue. In other words, the null hypothesis that share price doesn't decrease significantly after rights issue is accepted.

Analysis of Primary Data

4.7 Analysis of Data Obtained from Questionnaire

Though this study is based on secondary data, some information were collected through the distribution of questionnaires to shareholders to make the study more effective and reliable.

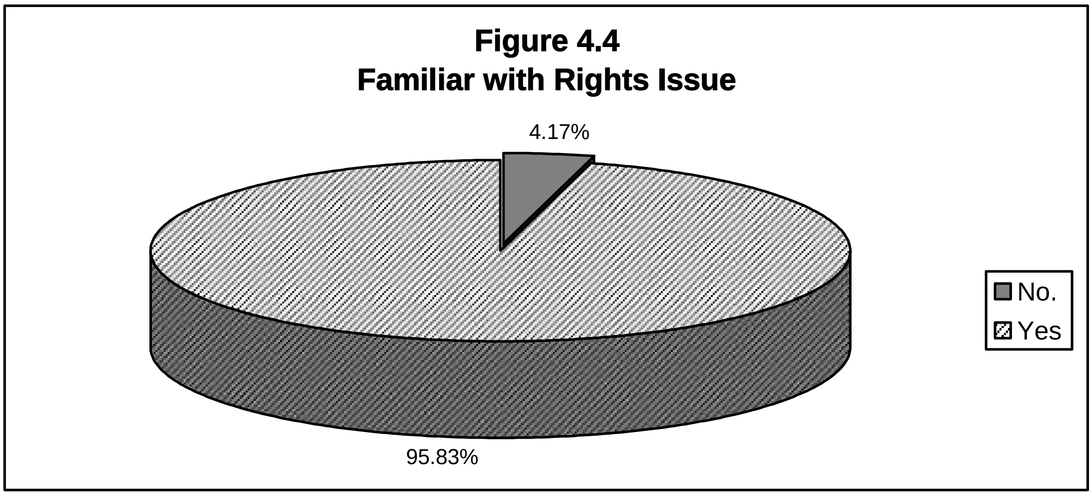
Nepalese capital market is in the process of modernization but it is still underdeveloped in comparison to capital markets of other developed countries. However now a days, peoples' response towards stock market seems to be high because of lack of better alternative investment and due to lower interest rate. At present, stock market has been performing more strongly than in the earlier years. It has witnessed its strength surprisingly, and this has risen hope for sustained growth of corporate undertakings. Stock market in Nepal has been growing gradually both in terms of turnover as well as the capital investment. To complete the study, questionnaires were also distributed to collect the responses of shareholders. For questionnaire, the researcher has distributed 50 questionnaires in total to shareholders which were focused on different aspects of rights issue. Out of them, the researcher got the responses of 48 respondents and their responses are tabulated and presented in Annex-7. The analysis of responses have been presented in this section as follows:

4.7.1. Holding of Shares

All of the respondents of questionnaire are shareholders and they hold stocks of different companies. Out of total 48 respondents, all of them hold stocks which mean that 100% respondents are shareholders.

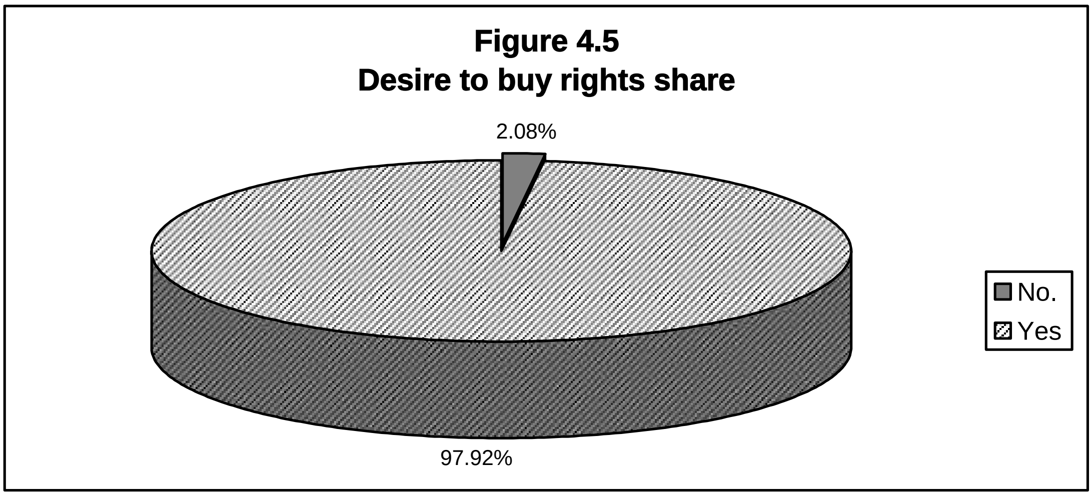
4.7.2. Familiar with Rights Issue

Respondents were asked whether they are familiar with rights issue practice or not. Out of total respondents, 95.83% i.e. 46 respondents replied that they are familiar with rights issue practice whereas only 4.17% i.e. 2 respondents said that they don’t have any knowledge about rights issue. Therefore it can be concluded from the responses that most of the shareholders are familiar with rights issue.



4.7.3. Desire to Buy Rights Share

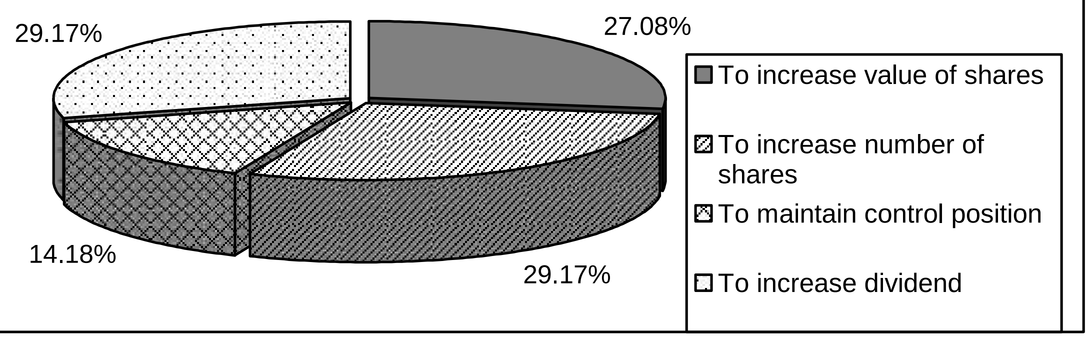
Respondents were asked whether they want to buy rights share or not if their company offers rights issue. Among 48 respondents, 97.92% i.e. 47 respondents said that they are willing to buy rights share if their company offers them whereas only 2.08% i.e. 1 respondent denied to buy rights share.



4.7.4. Purpose to Buy Rights Share

Most shareholders are willing to buy rights share but the intensions and priority to buy rights share were different. Among them, 27.08% i.e. 13 respondents said that they want to buy rights share to increase the value of shares, 29.17 % i.e. 14 respondents want to buy rights share to increase the number of shares, 14.58 % i.e. 7 respondents want to buy rights share to maintain control position in management and 29.17 % i.e. 14 respondents want to buy rights share to increase the dividend.

Figure 4.6
Purpose to Buy Rights Share

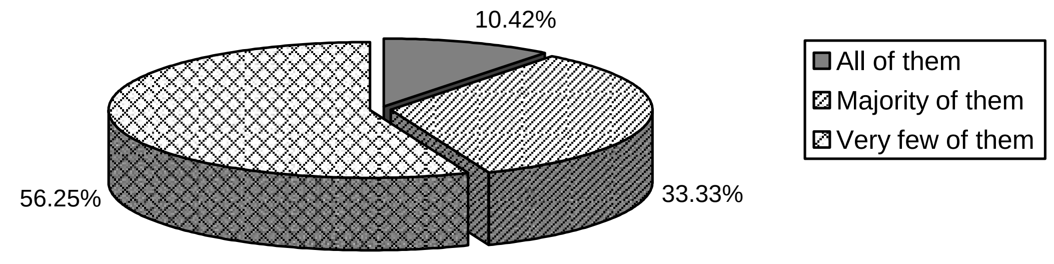


From the above analysis, it is found that most of the investors who want to buy rights share are attracted to increase the value of shares, number of shares and amount of dividend.

4.7.5. Awareness of Nepalese Investors about Rights Issue

Out of total 48 respondents, 10.42 % i.e. 5 respondents said that all the Nepalese investors/shareholders are well aware about the phenomenon of rights issue, 33.33 % i.e. 16 respondents said that majority of them are aware about rights issue and 56.25 % i.e. 27 respondents argued that very few of them are well aware about the rights issue.

Figure 4.7
Awareness of Nepalese Investors about Rights Issue

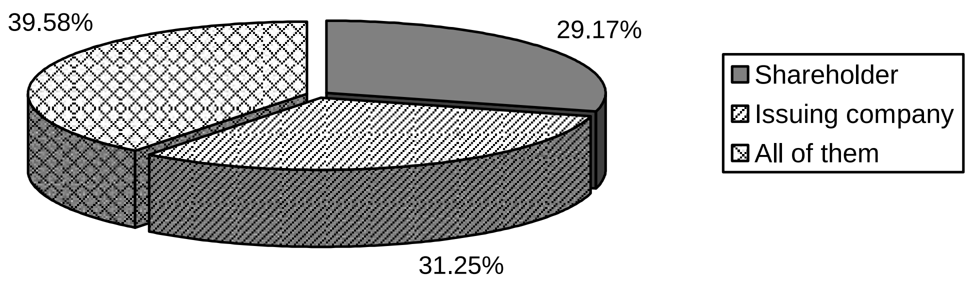


From the above analysis, it can be concluded that very few Nepalese investors are well aware about the phenomenon of rights issue.

4.7.6. Beneficiary of Rights Issue

The major stakeholders of rights issue are shareholders, issuing company and brokers. They all are somehow benefited through rights issue. Shareholders can buy stock at lower price than current market price, issuing company can raise capital at lower cost and of course, brokers earn something as commission. Respondents were asked who benefits the most from rights issue. Out of total respondents, 29.17% i.e. 14 respondents said that shareholders are the benefactors, 31.25 % i.e. 15 respondents said that issuing company benefits through rights issue and 39.58 % i.e. 19 respondents said that all shareholders, issuing company and brokers benefit from rights issue.

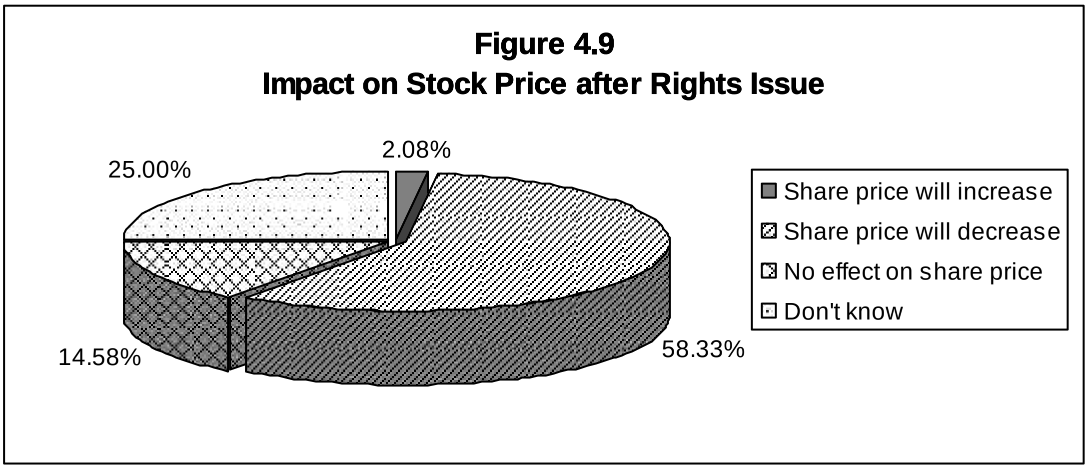
Figure 4.8
Beneficiary of Rights Issue



From the above analysis, it can be said that shareholders, issuing company and brokers are all benefited from rights issue.

4.7.7. Impact on Stock Price after Rights Issue

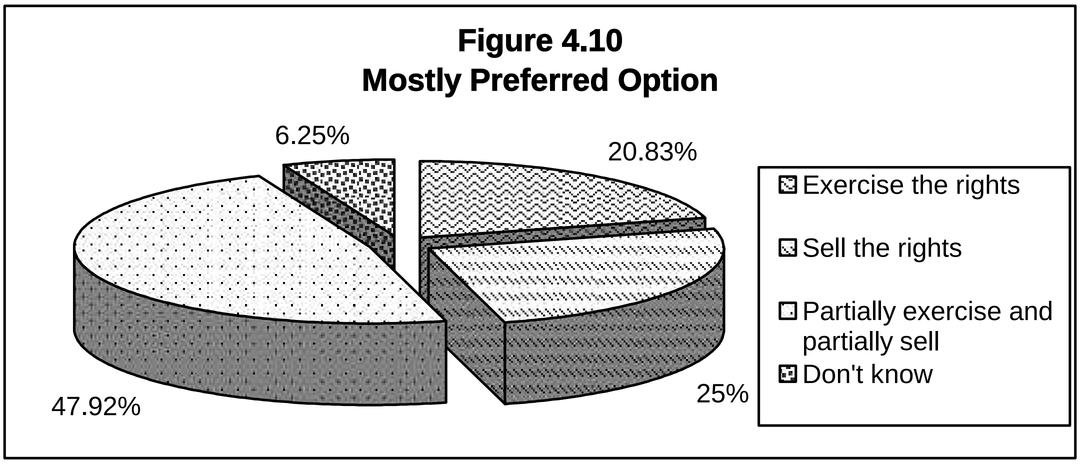
Generally share price increases after the announcement of rights offering till the book-close date. After the book-close date, share price should decrease and theoretically, it should decrease to the extent of value of right. But different opinions of respondents were found regarding the market price of share after rights issue. Among them, 2.08% i.e. 1 respondent said that share price will increase after rights issue, 58.33% i.e. 28 respondents said that share price will decrease after rights issue, 14.58 % i.e. 7 respondents said that share price shows no effect after rights issue and 25 % i.e. 12 respondents said that they don’t know the impact on stock price after rights issue.



It is clear from the above analysis that share price will decrease after rights issue.

4.7.8. Mostly Preferred Option if rights were transferable

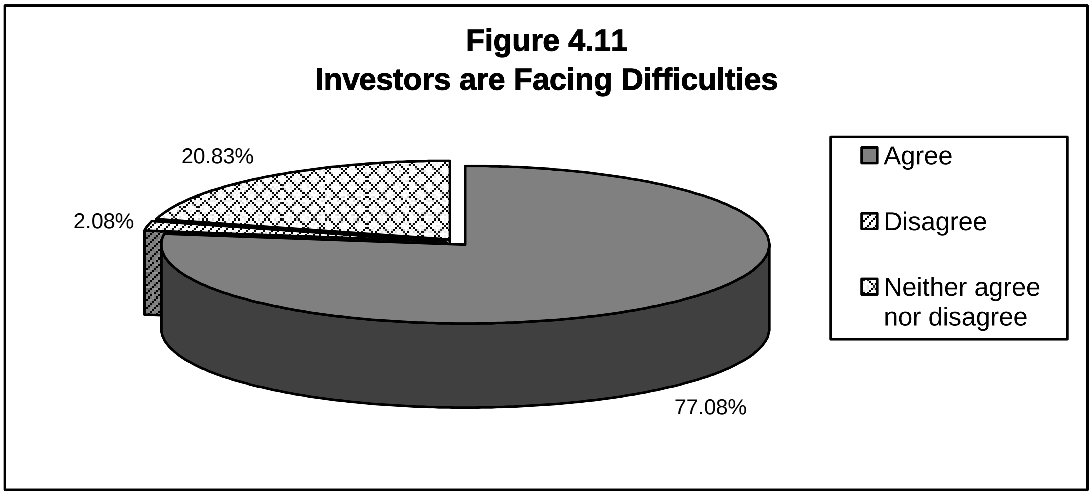
Respondents were asked what the shareholders would prefer to do if rights had been transferable. A mix result has been obtained from the respondents. Among them, 20.83% i.e. 10 respondents said that shareholders would exercise the rights, 25% i.e. 12 respondents said that shareholders would sell the rights, 47.92% i.e 23 respondents said that shareholders would partially exercise and partially sell the rights, and 6.25% i.e. 3 respondents were unknown about what the shareholders would prefer to do if rights had been transferable.



From the above analysis, it can be concluded that most of the shareholders would partially exercise and partially sell their rights if rights had been transferable.

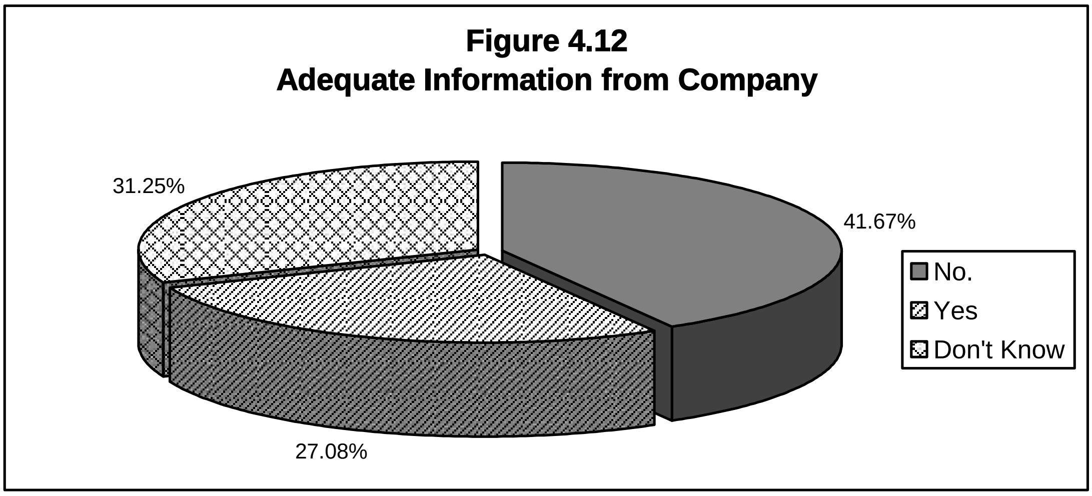
4.7.9. Investors are Facing Difficulties

Respondents were asked whether they agree or disagree that investors are facing difficulties due to the non-transferability of rights in Nepal. Out of total respondents, 77.08% i.e. 37 respondents agreed that investors are facing difficulties and only 2.08% i.e. 1 respondent disagreed with the statement. Remaining 20.83% i.e. 10 respondents neither agreed nor disagreed that investors are facing difficulties due to non-transferability of rights in Nepal.



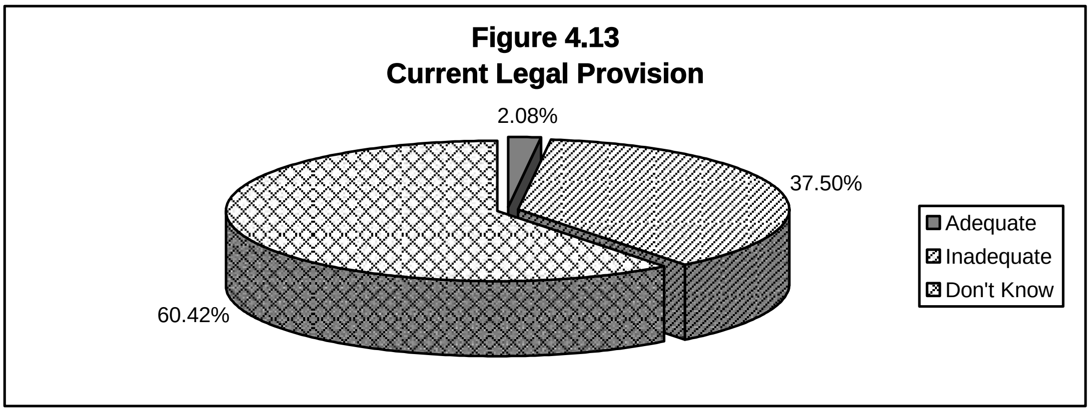
4.7.10. Adequate Information from Company

Questions regarding the access of reliable and adequate information for the investors from the right issuing company were asked to respondents. Among them, 27.08% i.e. 13 respondents said that investors get reliable and adequate information from the company regarding rights share issue whereas 41.67% i.e. 20 respondents said that investors are unable to get such information. Remaining 31.25% i.e. 15 respondents don’t know whether investors get adequate information or not.



4.7.11. Current Legal Provision

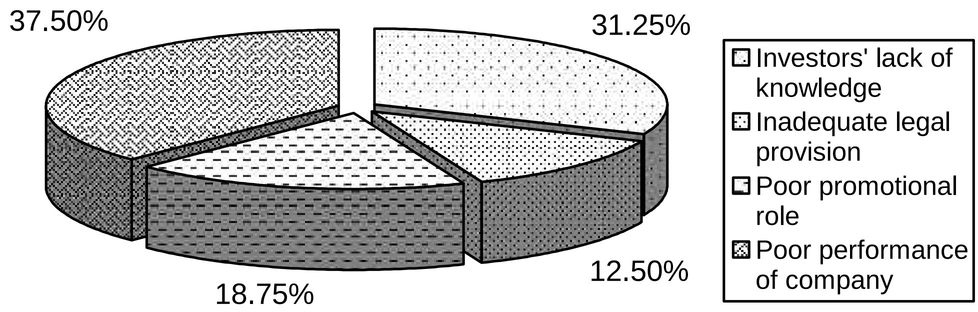
Respondents were asked about the current legal provisions regarding rights issue. Among them, only 2.08% i.e. 1 respondent said that the current legal provision is adequate whereas 37.50% i.e. 18 respondents said that the current legal provision is not adequate regarding rights issue. Remaining 60.42% i.e. 29 respondents are not clear about the current legal provisions regarding rights issue.



4.7.12. Cause of Under Subscription of Rights Share

In Nepalese stock market, rights are not transferable in practice though company act has already mentioned this provision. Nepalese company act is also totally silent about the allotment of under subscribed right shares. So no full subscriptions of right shares were found during the rights issue. In response to the question about under subscription of right shares, 31.25% i.e. 15 respondents said that due to lack of knowledge of investors, 12.50% i.e. 6 respondents said that inadequate legal provision causes under subscription, 18.75% i.e. 9 respondents said that poor promotional role of issuing company causes under subscription and 37.50% i.e. 18 respondents said that the cause of under subscription is the poor performance of the company.

Figure 4.14
Cause of Under Subscription of Rights share



From the above analysis, it is clear that the major causes of under subscription are the poor performance of issuing company and investors' lack of knowledge about rights share.

4.8 Major Findings of the Study

From the analysis of both primary as well as secondary data, the researcher finds some findings from the study which are concerned with the issue of rights share and its impact on market price of stock in the Nepalese capital market. The major findings of the study are presented as follows which are correspondences to the objectives of the study:

- Nepalese stock market is dominated by financial sector companies; the participation of the real sector i.e. manufacturing, hotels, etc. is quite low or negligible.

- Nepalese investors mostly prefer the Banking and Finance sectors' share to invest rather than other sectors because of their better performance and returns.
- Nepalese capital market is narrow in terms of capital market instruments. Only common stock, rights 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.
- Rights share practice in Nepal is in increasing trend in recent years. It contributes 53.09% in total public issue till the end of fiscal year 2064/65 which is in the largest position among all other instruments.
- There are 103 cases of right share issues of 72 companies out of 142 listed companies that have issued rights share till the end of fiscal year 2064/65.
- Seti Cigarette Factory Ltd., Nepal United Co. Ltd., Nepal Bank Ltd. and Necon Air Ltd. are the four companies that have issued rights share and are currently de-listed from NEPSE.
- Most of the right issuing companies are from the banking and financial institutions though entire sector had already issued rights share and Nepal Share Markets & Finance Ltd. is the company that has issued rights share for 5 times till the date.
- At present, most of the banking and financial institutions are issuing rights share to increase their capital base to comply with the policy directive given by NRB.
- Due to low flotation cost, easy process to collect fund and maintaining control position in management, are also the causes to prefer rights share by Nepalese

corporate firms.

- During the fiscal year 2064/65, only four sectors issued rights share; 7 Commercial Banks, 12 Development Banks, 21 Finance Companies and 3 Insurance Companies had issued right shares.
- The contribution of rights share during the fiscal years 2064/65 was 63.68% in total public issue and Finance Company sector contributed the highest i.e. 47.38 % in total rights issue during the fiscal year.
- In the fiscal year 2064/65, 43 companies issued rights share amounting Rs. 6793.56 million which was the highest both in number and amount in the history of Nepalese rights issue.
- In majority of cases, market price of share of sample companies was found increasing till the date of book-close date except of NIC Bank Ltd. and Kumari Bank Ltd. which were highly influenced by the downward market trend. So, it can be concluded that share price increases comparatively with the subscription ratio till the date of book-close date.
- Theoretically, market price of share should decrease to the extent of value of right on and after book-close date. In majority of cases, share price also decreased after rights issue. But share price of some companies were not found to follow the theory. Market price of share of Nepal Share Markets & Finance Ltd. and Sagarmatha Insurance Company Ltd. remained same showing no effect of book-close date whereas share price of IME Financial Institution Ltd. increased even after book-close date.
- The theoretical and actual market price of stock should be equal after rights issue. But only theoretical and actual market price of stock of United Finance Ltd. was found to be equal which means that the stock was correctly priced after

rights issue. Market price of stock of Kumari Bank Ltd. was also slightly equal to the theoretical price after rights issue. Similarly, market price of stock of Nepal Investment Bank Ltd. and Development Credit Bank Ltd. were under priced after rights issue whereas stock price of rest of the sample companies were over priced after rights issue.

- In majority of cases, correlation between share prices of sample companies and market index i.e. NEPSE index were found to be positive but the magnitude of correlation were different for different companies. The stock of NIC Bank Ltd. has the highest positive correlation with market index and Siddhartha Development Bank Ltd. has the lowest positive correlation whereas Nepal Share Markets & Finance Ltd. has negative correlation with market index but the correlation was relatively low.
- While examining the result of t-statistics, calculated value of t of most of the sample companies were found to be greater than the tabulated value of t at 5% level of significance and 8 degree of freedom which indicates that there is significant difference between the share prices before and after rights issue. Only tabulated value of Sagarmatha Insurance Company Ltd. stock was greater than the calculated value of t which implies that there is no significant difference in share prices before and after the rights issue.
- Company act has not clearly mentioned the provision of legally transferable instrument called right and the act is not adequate regarding the issue procedure and allotment of rights share. There is no clear and easy provision regarding the sell of under-subscribed right shares.
- Investors are unable to get reliable and adequate information from the issuing company regarding the rights issue.

- Very few Nepalese investors are all aware about the phenomenon of rights share and they are ready to buy rights share if their company offers rights share to increase the value of shares, to increase the number of shares and to increase the dividend.
- Lack of provision to make rights transferable which creates difficulties to shareholders.
- Most of the companies are suffering from under subscription of their rights share and the causes of under subscription are poor performance of issuing company, investors' lack of knowledge, etc.
- Some investors still don't have the knowledge about rights share and large number of shareholders holds small number of shares and they generally ignored rights share.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Right offering has become one of the popular method of raising long-term fund as per the requirement of targeted capital structure of Nepalese corporate firms. Though Nepalese corporate firms started to issue rights share since the fiscal year 2052/53, the volume of rights issue started to increase only after the fiscal year 2061/62. In current years, the practice of issuing rights share in banking and financial institutions is in increasing trend to meet their capital requirement as directed by NRB. As a result, some of the Development Banks and Finance Companies are issuing rights share at high ratio as they have operated with low capital. Even some of the financial institutions have issued rights share at high ratio to raise capital required to upgrade their class category. Such issues greatly affect the market price of stock of concerned companies. Till the end of fiscal year 2064/65, 72 companies had issued rights share and there are 103 cases of rights issue of those companies. Nepal Share Markets & Finance Ltd. has issued rights share for 5 times till the date whereas four companies who had issued rights share were already de-listed from NEPSE.

Among the listed companies in NEPSE, 7 Commercial Banks, 12 Development Banks, 21 Finance Companies and 3 Insurance Companies had issued rights share of Rs. 6793.56 million in the fiscal year 2064/65 which contribute 63.68% in total public flotation. During the year, Finance sector had issued the highest amount of rights share amounting Rs.3219.07 million that covered 47.38% of total amount of rights issue. Nepal Merchant Banking & Finance Ltd. alone had issued rights share of Rs.

800 million at the subscription ratio of 1:4. Similar amount was raised by Development Credit Bank Ltd. through rights issue by offering rights share at 1:3 ratio. Both of the companies issued rights share at such a high ratio to raise capital required to upgrade themselves into “A” class Commercial Bank. Though 43 companies had issued rights share during the year, all rights share were not subscribed by the shareholders. Among the sample companies, shareholders of Nepal Investment Bank Ltd. subscribed the highest right shares subscribing 99.65% of rights issue whereas shareholders of IME Financial Institution Ltd. subscribed only 84.44% of rights issue.

Theoretically, after the announcement of rights issue, market price of stock used to increases till the date of book-close date and decreases thereafter to he extent of value of right. But while observing the market price of stock of sample companies, mix results have been obtained. Market price of stocks of sample companies were found increasing till the date of book-close date except the stock prices of Kumari Bank Ltd. and NIC Bank Ltd. Stock prices of these two companies were highly influenced by the downward trend of market which resulted the fall in stock price much before book-close date. After 10 days of book-close date, stock prices of most of the companies were found to be decreased and stocks of those companies were either over priced or under priced in the market but only the stock of United Finance Ltd. was correctly priced after book-close date. Stocks of Kumari Bank Ltd. and Development Credit Bank Ltd. were only slightly under priced whereas the stock of Nepal Investment Bank Ltd. was highly under priced after book-close date. But the stocks of remaining companies were over priced after book-close date. Stock prices of Nepal Share Markets & Finance Ltd. and Sagarmatha Insurance Co. Ltd. didn’t decrease and were traded at the same price after book-close date whereas the stock price of IME Financial Institution Ltd. increased instead of decreasing even after book-close date.

Generally rights offering affect the market price of stock of right issuing companies. In practice, not only rights offering but the movement of general market also affects the stock price. While examining the correlation between stock prices of sample companies and market index, correlation between them were found to be positive in most of the cases but the magnitude of correlation were different for different companies. The stock of NIC Bank Ltd. has the highest positive correlation with market index whereas Siddhartha Development Bank Ltd. has the lowest positive correlation. Only the stock of Nepal Share Markets & Finance Ltd. has negative correlation but the correlation was relatively low. Similarly, while examining the results of t-statistics of stock prices 10 days before and after book-close date, calculated value of t of most of the sample companies were found to be greater than the tabulated value of t at 5% level of significance and 8 degree of freedom. This indicates that there is significant difference between share prices before and after rights issue which means that the change in share prices were due to the rights issue. Only tabulated value of t of stock price of Sagarmatha Insurance Co. Ltd. was greater than the calculated value of t which implies that there is no significant difference in share prices before and after the rights issue.

This study has been conducted to fulfill some specific objectives. The major objective of this study is to identify existing practices of rights issue and to analyze the significant change in stock price after announcement of rights issue. To conduct this study, ten listed companies are taken as sample who had issued rights share in the previous fiscal year. Both primary and secondary sources of data are used, however the study is basically based on secondary data. Secondary data are collected from Annual Report of SEBON, Annual Report and Trading Report of NEPSE, Annual Reports of concerned companies/issue managers, related newspaper and magazines whereas primary data are collected through personal interviews and distribution of questionnaire to concerned personals. To make the analysis easy to understand, tables and figures are used to present the data and results. Statistical tools as well as financial tools have been also used to make the analysis more effective.

5.2 Conclusion

From the analysis of primary and secondary data, we can reach in following conclusions:

- Right offering is still a new and emerging concept for both issuing companies and investors in Nepalese capital market even though its practice is in increasing trend.
- The company act is not adequate regarding the rights share and the existing legal provisions and policies are also not clear. So company act should be amended to make the smooth transactions of rights share.
- Rights have not been negotiable instrument in practice till the date though company act has already mentioned about the transferable rights.
- Shareholders and investors are also not well aware about rights issue and its impact on their wealth position.
- Nepalese stock market is dominated by Banking and Financial sector companies and investors also prefer the stocks of those companies rather than of other sectors because of bonus share and rights share

- Only share prices of two companies have decreased before book-close date of rights issue whereas share prices of remaining sample companies have increased after book-close date.
- Theoretically share price should increase after the announcement of rights offering till the date of book-close date and decrease thereafter. But the share price movement of all sample companies didn't follow the theory. Share price of two companies didn't show any affect of book-close date and their price remain constant whereas share price of one company increased even after book-close date. Share price movement of remaining companies somehow follow the theory of rights issue.
- Share price should decrease to the extent of value of right on and after book-close date. But share price of only one company decreased by the amount of value of right whereas share price of three companies decreased by greater amount than the value of right and share price of six companies decreased by less amount than the value of right.
- General market trend also influences the movement of market price of stocks.
- Most of the companies are suffering from under subscription of their rights share and the causes of under subscription are poor performance of issuing companies, investors lack of knowledge, etc.

5.3 Recommendations

After analyzing the data obtained from primary as well as secondary sources, the researcher has got various findings. These findings are directly and indirectly related with the rights issue practice, its difficulties and its impact on market price of stock. The researcher has provided some recommendations to concerned personals, authorities and regulatory bodies. The given recommendations, if they are implemented properly, will help us to make rights issue more easy, effective and efficient. On the basis of findings, the following recommendations can be made:

- Most of the shareholders are unknown about the rights issue, its benefits and its impact on their wealth position. If they don't have sufficient fund to purchase the additional shares, they let the rights to expire. This will negatively affect their position. So, concerned authorities such as issuing companies, issue managers, SEBON, NEPSE, etc. should organize and launch various programs to increase the awareness about rights issue and its aspects.
- Right issuing companies should also play promotional role for full subscription of rights share because there exists large number of rights share not subscribed by the existing shareholders. They should bring awareness programs to general investors through interaction, advertisements, video conferences, seminars, trainings, workshops and radio talks.
- Nepalese securities market is heavily regulated and controlled by company act regarding the issue of securities. Company Act 2063 is still not clear about the procedure and mechanism of rights issue though it has mentioned about the transferable right. So it should be amended and should make a clear provision of transferable right. If this amendment is made, the problem of under subscription will be solved to some extent. It protects the dilution in wealth of shareholders and also enhances the dimension of security market.
- Before the announcement of rights share, an issue prospectus is prepared and circulated to the existing shareholders. But during the analysis, it has been found that unrealistic income statement is published. This kind of unrealistic publication misleads the shareholders to irrational decision and they become

frustrated if they know the fact. So, SEBON and Office of Company Registrar should approve only to publish realistic prospectus of income statement.

- During analysis, it is found that the share price behaviour of all sample companies does not follow the theory of rights issue. One major cause for this is the poor performance of issuing company. So the rights issuing company should improve their image to make the shareholders safe and confident.
- Company Act 2063 is not clear regarding the allotment of rights shares which are not subscribed by the existing shareholders. The current practice is to distribute them among the employees of respective companies but this violates the essence of theory of rights share. So company act should be amended to make clear provision regarding the issue of rights share and subsequent allotment of rights share.
- From the study, it is found that one of the critical factor that affects the share price and subscription is the ex-right date i.e. book-close date. This date is very important as investors who purchase shares on and after that day are unable to purchase additional shares. So, right issuing companies should set the proper book-close date so that every shareholder can purchase the additional shares issued by them.
- Shareholders and investors also used to rush behind market rumours and purchase shares at high price only to get rights share without analyzing the financial conditions and future prospects of the issuing companies. So investors should be well aware themselves before investing in stocks by analyzing the company in detail.

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ANNEXICES

ANNEX-1

QUESTIONNAIRE

Dear Respondent,

This questionnaire is prepared for my research on “Rights Share Issue in Nepalese Market and its Impact on Market Price of Stock” which, I am doing for the partial fulfillment for the Degree of Master of Business Studies (MBS). I humbly request you to fill it up with the best of your knowledge. Your kind cooperation in this regard will be of immense value for me.

I assure that the information collected from you will be exclusively used for the research purpose and will not be disclosed to third parties.

I shall be highly obliged for your prompt response as far as possible. Also, please do not hesitate to add any comments and suggestions which you feel may be relevant to the objectives of this study. And thank you in advance for your kind cooperation in completing this questionnaire.

Bhanu Limbu

(Researcher)

Shanker Dev Campus

Kathmandu

Name of Respondent:

Designation:

Organization:

Started to invest:

No. of Companies:

Value of Shares:

Please tick (√) in an appropriate place and put your views in open ended questions.

1. Do you hold shares of any company?

( ) Yes ( ) No

2. .Are you familiar with rights issue practice?

( ) Yes ( ) No

3. If yes, do you want to buy rights share if your company offers rights issue?

( ) Yes ( ) No

4. In your opinion, what is the main purpose that shareholders buy rights share? (Please tick any one)

( ) To increase the value of shares
( ) To increase the number of shares
( ) To maintain control position in management
( ) To increase dividend
( ) Other (if any)………………

5. Do you think that Nepalese investors are all aware of the phenomenon of rights offering? (Please tick any one)

( ) All of them ( ) Majority of them
( ) Very few of them ( ) None of them

6. In your opinion, who is the most beneficiary of rights issue? (Please tick any one)

( ) Shareholder ( ) Issuing company
( ) Broker ( ) All of them

7. What do you think about the impact on market price of share after rights issue? (Please tick any one)

( ) Share price will increase ( ) Share price will decrease
( ) No effect on share price ( ) Don’t know

8. If rights had been transferable, what would the shareholders prefer to do in your opinion? (Please tick any one)

( ) Exercise the rights
( ) Sell the rights
( ) Partially exercise and partially sell the rights
( ) Neither sell nor exercise
( ) Don't know

9. Investors are facing difficulties due to the non-transferability of rights in Nepal.

( ) Agree ( ) Disagree ( ) Neither agree nor disagree

10. Do you think that investors get reliable and adequate information from the company regarding rights share issue?

( ) Yes ( ) No ( ) Don't know

11. What do you think about the current legal provision regarding rights issue?

( ) Adequate ( ) Inadequate ( ) Don't know

12. What do you think the main cause behind under subscription of rights share? (Please tick any one)

( ) Investors' lack of knowledge about it.
( ) Inadequate legal provision
( ) Poor promotional role played by the company
( ) Poor performance of the company
( ) Other (if any)…………….

13. Do you want to share any experience about the rights issue?

…………………………………………………………………………………………
…………………………………………………………………………………………
………………………………………………………………………………………

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ANNEX-2

Table A 2

Rights Issue of Corporate Firms in Nepal

(Rs. in million)

Fiscal Year	S.N	Name of the Company	Issue Manager	Issued Amount
2052/53	1	Nepal Finance Savings Co. Ltd.	AFCL	2
	2	Seti Cigarette Factory Ltd.	-	67
2053/54	3	Himalayan General Insurance Co. Ltd.	AFCL	30
	4	Bottlers Nepal Ltd.	CIT	225.20
	5	Nepal Share Markets & Finance Ltd.	AFCL	20
2054/55	6	Nepal United Co. Ltd.	NFCL	3.01
	7	Nepal Bank Ltd.	CIT	241.95
	8	Annapurna Finance Co Ltd.	NFCL	5
2055/56	9	Nepal Share Markets & Finance Ltd.	AFCL	30
2056/57	10	Necon Air Ltd.	CIT	89.60
	11	Paschimanchal Finance Co. Ltd.	NSML	20
	12	Ace Finance Co. Ltd.	NSML	15
2057/58	13	Narayani Finance Co. Ltd.	NSML	12.58
	14	Everest Bank Ltd.	CIT	119.21
2058/59	15	Bank of Kathmandu Ltd.	NCML	234
	16	Nepal Housing & Merchant Finance Ltd.	NSML	15
	17	Ace Finance Co. Ltd.	NSML	45
	18	Nepal SBI Bank Ltd.	NMB	287.87
	19	NIDC Capital Markets Ltd.	CIT	40
2059/60	20	Nepal Investment Bank Ltd.	NCML	57.24
	21	Nepal Share Markets & Finance Ltd.	CIT	60
	22	Mahalaxmi Finance Ltd.	NFCL	25
	23	Peoples Finance Ltd.	NCML	20
2060/61	24	Alpic Everest Finance Ltd.	NEFINSCO	20
	25	Siddhartha Finance Ltd.	NEFINSCO	20
	26	NB Finance &Leasing Co. Ltd.	NSMBL	30
2061/62	27	Nepal Bangaladesh Bank Ltd.	NSMBL	359.92
	28	Annapurna Finance Co. Ltd.	NCML	20
	29	Nirdhan Utthan Bank Ltd.	NMB	15
	30	Nepal SBI Bank Ltd.	NMB	215.93
	31	Nepal Investment Bank Ltd.	AFCL	295.29
	32	National Finance Co. Ltd.	NCML	43.20

2062/63	33	Development Credit Bank Ltd.	NMB	80
	34	Kumari Bank Ltd.	NCML	125
	35	Fewa Finance Co. Ltd.	NMB	30
	36	Om Finance Co. Ltd.	NMB	30
	37	Goodwill Finance Ltd.	NCML	25
	38	Janaki Finance Co. Ltd.	NEFINSCO	10
	39	Central Finance Ltd.	NCML	12
	40	Taragaun Regency Hotels Ltd.	NCML	446.45
	41	Machhapuchhare Bank Ltd.	NMB	165
	42	Kist Merchant Banking & Finance Ltd.	NMB	50
	43	Nepal Share Markets & Finance Ltd.	CIT	40
2063/64	44	Pokhara Finance Ltd.	NMB	20
	45	Lumbini Bank Ltd.	NCML	100
	46	Paschimanchal Bikash Bank Ltd.	NCML	28
	47	Alpic Everest Finance Ltd.	NMB	20
	48	Peoples Finance Ltd.	NCML	40
	49	Chhimek Development Bank Ltd.	NMB	20
	50	Nepal Development Bank Ltd.	NCML	160
	51	Ace Finance Co. Ltd.	NCML	194
	52	Navadurga Finance Co. Ltd.	NEFINSCO	11
	53	Annapurna Finance Co. Ltd.	NCML	80
	54	Laxmi Bank Ltd.	NMB	122
	55	Capital Merchant Banking & Finance Ltd.	CIT	84
	56	Yeti Finance Ltd.	NCML	6.30
	57	Business Development Bank Ltd.	AFCL	30
	58	Kist Merchant Banking & Finance Ltd.	NCML	100
	59	Siddhartha Bank Ltd.	AFCL	100
	60	Lumbini Bank Ltd.	AFCL	150
2064/65	61	Nepal Credit & Commerce Bank Ltd.	CIT	700
	32	Central Finance Co. Ltd.	NCML	24
	63	Nirdhan Utthan Bank Ltd.	NCML	39.52
	64	Nepal Share Markets & Finance Ltd.	CIT	240
	65	IME Financial Institution Ltd.	NMB	50
	66	Paschimanchal Bikash Bank Ltd.	AFCL	47.50
	67	Capital Merchant Banking & Finance Ltd.	AFCL	161
	68	Bhrikuti Development Bank Ltd.	NCML	30.03
	69	Development Credit Bank Ltd.	NMB	806.40
	70	Premier Finance Co. Ltd.	NCML	14.40

	71	Nepal Merchant Banking & Finance Ltd.	NFCL	800
	72	Nepal Investment Bank Ltd.	AFCL	201.28
	73	Siddhartha Development Bank Ltd.	AFCL	50
	74	Sagarmatha Insurance Co. Ltd.	AFCL	23.56
	75	Siddhartha Bank Ltd.	NMB	138
	76	Nepal Industrial & Commercial Bank Ltd.	NCML	158.40
	77	Prudential Bittiya Sanstha Ltd.	AFCL	50
	78	Lumbini Bank Ltd.	AFCL	250
	79	Kumari Bank Ltd.	NCML	180
	80	Laxmi Bank Ltd.	NMB	183
	81	Sanima Bikash Bank Ltd.	NCML	64
	82	Kist Merchant Banking & Finance Ltd.	AFCL	600
	83	Paschimanchal Finance Co. Ltd.	NFCL	27.83
	84	Ace Development Bank Ltd.	NCML	96
	85	Goodwill Finance Ltd.	AFCL	50
	86	Gorkha Development Bank Ltd.	CIT	160
	87	Business Development Bank Ltd.	AFCL	150
	88	Himchuli Bikash Bank Ltd.	NCML	60
	89	United Finance Ltd.	NCML	75
	90	Royal Merchant Banking & Finance Ltd.	AFCL	60.61
	91	Nepal Express Finance Ltd.	NCML	30
	92	International Leasing & Finance Co. Ltd.	NCML	504
	93	Annapurna Bikash Bank Ltd.	NEFINSCO	150
	94	ICFC Bittiya Sanstha Ltd.	NMB	224.81
	95	Sahayogi Bikash Bank Ltd.	NCML	10
	96	Shree Investment & Finance Co. Ltd.	NMB	16.80
	97	Nepal Housing & Merchant Finance Ltd.	AFCL	80.44
	98	Premier Insurance Co. Ltd.	AFCL	39
	99	Standard Finance Ltd.	NCML	72.60
	100	Himalayan General Insurance Co. Ltd.	AFCL	37.80
	101	Gorkha Finance Co. Ltd	CIT	30
	102	Guheshwori Merchant Banking & Finance Ltd.	NCML	37.09
	103	Nepal Abas Bikash Bitta Co. Ltd.	NFCL	70.49

ANNEX-3

Information of Rights Offering of Respective Companies

Nepal Investment Bank Ltd. (NIBL)

Issue approval date	2064-9-25
Book-close date	2064-8-26
Issued date	2064-10-15
Closed date	2064-11-20
Subscription ratio	5:1
Subscription price	Rs. 100
Number of shares issued	2012813
Number of shares subscribed	2005675
Issue manager	ADBL

Table A 3.1

Information about Share Price and Market Index

10 days before book-close date			10 days after book-close date		
Date	**Prices (Rs.)**	**Index**	**Date**	**Price (Rs.)**	**Index**
2064-8-6	2380	855.24	2064-9-9	2040	1018.16
2064-8-11	2350	869.38	2064-9-10	2200	992.92
2064-8-13	2473	897.29	2064-9-11	2110	967.74
2064-8-16	2550	922.44	2064-9-24	2068	956.82
2064-8-17	2610	942.99	2064-9-25	2027	964.19

Source: Official Quotation of Share Prices Published in National Daily Newspaper

Nepal Industrial & Commercial Bank Ltd (NICBL)

Issue approval date	2064-11-5
Book-close date	2064-11-15
Issued date	2064-12-1
Closed date	2065-1-5
Subscription ratio	5:1
Subscription price	Rs. 100
Number of shares issued	1584000
Number of shares subscribed	1518771
Issue manager	NCML

Table A 3.2

Information about Share Price and Market Index

10 days before book-close date			10 days after book-close date		
Date	**Prices (Rs.)**	**Index**	**Date**	**Price (Rs.)**	**Index**
2064-10-20	1000	778.13	2064-11-30	932	714.76
2064-10-21	929	752.30	2064-12-3	839	712.97
2064-10-22	837	708	2064-12-4	830	720.92
2064-10-27	1113	776.74	2064-12-5	825	718.93
2064-11-5	1024	809.91	2064-12-6	825	715.95

Source: Official Quotation of Share Prices Published in National Daily Newspaper

Kumari Bank Ltd. (KBL)

Issue approval date	2064-12-11
Book-close date	2064-12-21
Issued date	2065-1-12
Closed date	2065-2-15
Subscription ratio	5:1
Subscription price	Rs. 100
Number of shares issued	1800000
Number of shares subscribed	1785052
Issue manager	NCML

Table A 3.3

Information about Share Price and Market Index

10 days before book-close date			10 days after book-close date		
Date	**Prices (Rs.)**	**Index**	**Date**	**Price (Rs.)**	**Index**
2064-12-5	825	718.93	2065-1-3	715	720.24
2064-12-6	825	715.95	2065-1-4	714	708.81
2064-12-7	855	716.72	2065-1-5	771	734.83
2064-12-10	851	710.80	2065-1-8	814	744.04
2064-12-11	850	704.54	2065-1-9	821	739.63

Source: Official Quotation of Share Prices Published in National Daily Newspaper

Development Credit Bank Ltd. (DCBL)

Issue approval date	2064-8-27
Book-close date	2064-9-8

Issued date	2064-9-19
Closed date	2064-10-23
Subscription ratio	1:3
Subscription price	Rs. 100
Number of shares issued	8064000
Number of shares subscribed	7977522
Issue manager	NMBFL

Table A 3.4

Information about Share Price and Market Index

10 days before book-close date			**10 days after book-close date**		
Date	**Prices(Rs.)**	**Index**	**Date**	**Price (Rs.)**	**Index**
2064-8-20	2600	992.89	2064-10-27	725	776.74
2064-8-23	2660	1000.49	2064-10-28	711	806.03
2064-8-24	2714	992.02	2064-10-29	650	818.43
2064-8-26	2810	1000.27	2064-11-1	650	809.91
2064-8-27	2866	1025.91	2064-11-2	610	795.89

Source: Official Quotation of Share Prices Published in National Daily Newspaper

Siddhartha Development Bank Ltd. (SDBL)

Issue approval date	2064-10-2
Book-close date	2064-10-14
Issued date	2064-10-27
Closed date	2064-12-3
Subscription ratio	1:1
Subscription price	Rs. 100
Number of shares issued	500000
Number of shares subscribed	487430
Issue manager	ADBL

Table A 3.5

Information about Share Price and Market Index

10 days before book-close date			**10 days after book-close date**		
Date	**Prices (Rs.)**	**Index**	**Date**	**Price (Rs.)**	**Index**
2064-9-5	612	1055.73	2064-11-6	630	757.08
2064-9-24	612	956.82	2064-11-8	654	756.44
2064-9-26	612	982.38	2064-11-13	680	761.17
2064-9-30	610	958.91	2064-11-19	720	772.88
2064-10-8	610	890.25	2064-11-20	785	771.21

Source: Official Quotation of Share Prices Published in National Daily Newspaper

Nepal Share Markets and Finance Ltd. (NSMFL)

Issue approval date	2064-6-11
Book-close date	2064-6-23
Issued date	2064-8-3
Closed date	2064-9-8
Subscription ratio	1:1.5
Subscription price	Rs. 100
Number of shares issued	2400000
Number of shares subscribed	2381745
Issue manager	CIT

Table A 3.6

Information about Share Price and Market Index

10 days before book-close date			**10 days after book-close date**		
Date	**Prices (Rs.)**	**Index**	**Date**	**Price (Rs.)**	**Index**
2064-5-6	305	725.51	2064-7-11	335	858.06
2064-5-16	305	756.05	2064-8-16	347	922.44
2064-5-17	310	769.07	2064-8-17	367	942.99
2064-5-24	310	828.78	2064-8-18	381	963.79
2064-6-2	310	837.92	2064-8-19	395	974.41

Source: Official Quotation of Share Prices Published in National Daily Newspaper

IME Financial Institution Ltd. (IMEFIL)

Issue approval date	2064-7-14
Book-close date	2064-6-22
Issued date	2064-8-6
Closed date	2064-9-11
Subscription ratio	1:1
Subscription price	Rs. 100
Number of shares issued	500000
Number of shares subscribed	422200
Issue manager	NMBFL

Table A 3.7

Information about Share Price and Market Index

10 days before book-close date			**10 days after book-close date**		
Date	**Prices (Rs.)**	**Index**	**Date**	**Price (Rs.)**	**Index**
2064-4-21	426	706.11	2064-7-14	612	878.86
2064-4-24	427	723.32	2064-7-21	624	880.06
2064-5-19	443	723.74	2064-8-3	624	855
2064-5-13	445	739.53	2064-8-6	686	855.24
2064-5-23	453	811.98	2064-8-12	699	879.58

Source: Official Quotation of Share Prices Published in National Daily Newspaper

Nepal Merchant Banking & Finance Ltd. (NMBFL)

Issue approval date	2064-8-27
Book-close date	2064-9-10
Issued date	2064-9-24
Closed date	2064-10-28
Subscription ratio	1:4
Subscription price	Rs. 100
Number of shares issued	8000000
Number of shares subscribed	7628465
Issue manager	NFCL

Table A 3.8

Information about Share Price and Market Index

10 days before book-close date			10 days after book-close date		
Date	**Prices (Rs.)**	**Index**	**Date**	**Price (Rs.)**	**Index**
2064-8-20	3780	992.81	2064-10-7	1000	867.46
2064-8-23	3760	1000.49	2064-10-8	1000	890.25
2064-8-24	3640	992.20	2064-11-13	961	761.17
2064-8-26	3700	1000.27	2064-11-20	960	771.21
2064-8-27	3751	1025.91	2064-11-21	941	766.98

Source: Official Quotation of Share Prices Published in National Daily Newspaper

United Finance Ltd. (UFL)

Issue approval date	2065-1-26
Book-close date	2065-2-8
Issued date	2065-2-17
Closed date	2065-3-19
Subscription ratio	1:1
Subscription price	Rs. 100
Number of shares issued	750000
Number of shares subscribed	734860
Issue manager	NCML

Table A 3.9

Information about Share Price and Market Index

10 days before book-close date			10 days after book-close date		
Date	**Prices (Rs.)**	**Index**	**Date**	**Price (Rs.)**	**Index**
2065-1-18	850	736.46	2065-2-11	565	873.77
2065-1-22	850	740.18	2065-2-16	565	885.81
2065-1-24	840	767.93	2065-2-17	621	924.65
2065-1-25	840	776.92	2065-2-18	670	923.17
2065-1-26	825	771.33	2065-2-19	683	930.65

Source: Official Quotation of Share Prices Published in National Daily Newspaper

Sagarmatha Insurance Co. Ltd. (SICL)

Issue approval date	2064-9-30
Book-close date	2064-6-30
Issued date	2064-11-8
Closed date	2064-12-12
Subscription ratio	10:3
Subscription price	Rs. 100
Number of shares issued	235620
Number of shares subscribed	225872
Issue manager	ADBL

Table A 3.10

Information about Share Price and Market Index

10 days before book-close date			10 days after book-close date		
Date	**Prices (Rs.)**	**Index**	**Date**	**Price (Rs.)**	**Index**
2064-5-23	270	811.98	2064-7-14	320	878.86
2064-6-1	275	827.74	2064-7-28	320	902.45
2064-6-9	300	855.13	2064-8-4	302	852.68
2064-6-13	306	885.50	2064-8-5	302	855.56
2064-6-17	312	899.42	2064-8-11	300	869.38

Source: Official Quotation of Share Prices Published in National Daily Newspaper

ANNEX- 4

Calculation of Value of Right and Theoretical Ex-right Price

Variables defined:

Po : Market price of share on the day before book-close date

Ps : Subscription price

: Number of rights required to purchase one new share

Pe : Ex-right price of share

Vr : value of each right

Now, We have,

Value of right (Vr) = $\frac{Po\,\mathrm{Z}\,Ps}{\#\Gamma 1}$

Ex- right price of share (Pe) = Po-Vr

Table A 4

Value of Rights and Theoretical Ex- right Price

S.N	Companies	Po (Rs.)	Ps (Rs.)	#	Vr (Rs.)	Pe(Rs.)
1	NIBL	2690	100	5	432	2258
2	NICBL	1046	100	5	158	888
3	KBL	860	100	5	127	733
4	DCBL	2900	100	0.33	2100	800
5	SDBL	634	100	1	267	367
6	NSMFL	335	100	0.67	141	194
7	IMEFIL	462	100	1	181	281
8	NMBFL	3799	100	0.25	2959	840
9	UFL	1030	100	1	465	565
10	SICL	320	100	3.33	51	269

ANNEX-5

Correlation Coefficient and Coefficient of Determination between Share Price and Market Index.

Variables defined:

X: Share price $\bar{X}$: Mean share price

Y: Market index i.e. NEPSE index $\bar{Y}$: Mean index

r: Correlation Coefficient

r^2 : Coefficient of Determination

Table A 5.1

Nepal Investment Bank Ltd. (NIBL)

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$	$(X-\bar{X})(Y-\bar{Y})$
1510	-489.40	239512.36	615.43	-236.41	55889.69	115699.05
2162	162.60	26438.76	889.12	37.28	1389.80	6061.73
2690	690.60	476928.36	996.29	144.45	20865.80	99757.17
2040	40.60	1648.36	1018.16	166.32	27662.34	6752.59
1595	-404.40	163539.36	740.18	-111.66	12467.96	4515.53
$\sum X = 9997$ $\bar{X} = 1999.40$		$\sum (X-\bar{X})^2 = 908067.20$	$\sum Y = 4259.18$ $\bar{Y} = 851.84$		$\sum (Y-\bar{Y})^2 = 118275.59$	$\sum (X-\bar{X})(Y-\bar{Y}) = 273425.85$

Karl Pearson's Coefficient of Correlation

$$r = \frac{\sum (X-\bar{X})(Y-\bar{Y})}{\sqrt{\sum (X-\bar{X})^2 \sum (Y-\bar{Y})^2}}$$

$$r = \frac{273425.85}{\sqrt{908067.20 \times 118275.59}}$$

$$= 0.8343$$

$$r^2 = (0.8343)^2$$

= 0.6961 i.e. 69.61 %

Table A 5.2

Nepal Industrial & commercial Bank Ltd. (NICBL)

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$	$(X-\bar{X})(Y-\bar{Y})$
875	-220.80	48752.64	722.54	-87.83	7714.11	19392.86
1219	123.20	15178.24	879.69	69.32	4805.26	8540.22
1046	-49.80	2480.04	759.51	-50.86	2586.74	2532.83
989	-106.80	11406.24	749.05	-61.32	3760.14	6548.98
1350	254.20	64617.64	941.07	130.70	17082.49	33223.94
$\Sigma X = 5479$ $\bar{X} = 1095.80$		$\Sigma(X-\bar{X})^2 =$ 142434.80	$\Sigma Y = 4051.86$ $\bar{Y} = 810.37$		$\Sigma(Y-\bar{Y})^2 =$ 35948.74	$\Sigma(X-\bar{X})(Y-\bar{Y}) =$ 70238.83

Karl Pearson's Coefficient of Correlation

$$r = \frac{(X-\bar{X})(Y-\bar{Y})}{\sqrt{(X-\bar{X})^2 \quad (Y-\bar{Y})^2}}$$

$$r = \frac{70238.83}{\sqrt{142434.80 \times 35948.74}}$$

$$= 0.9816$$

$$r^2 = (0.9816)^2$$

= 0.9635 i.e. 96.35 %

Table A 5.3

Kumari Bank Ltd. (KBL)

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$	$(X-\bar{X})(Y-\bar{Y})$
970	80.60	6496.36	878.35	60.02	3602.40	4837.61
940	50.60	2560.36	766.98	-51.35	2636.82	-2598.31
860	-29.40	864.36	716.56	-101.77	10357.13	2992.04
715	-174.40	30415.36	746.69	-71.64	5132.29	12494.02
962	72.60	5270.76	983.07	164.74	27139.27	11960.12
$\Sigma X = 4447$ $\bar{X} = 889.40$		$\Sigma(X-\bar{X})^2 =$ 45607.20	$\Sigma Y = 4091.65$ $\bar{Y} = 818.33$		$\Sigma(Y-\bar{Y})^2 =$ 48867.91	$\Sigma(X-\bar{X})(Y-\bar{Y}) =$ 29685.48

Karl Pearson's Coefficient of Correlation

$$r = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2 \sum (Y - \bar{Y})^2}}$$

$$r = \frac{29685.48}{\sqrt{45607.20 \times 48867.91}}$$

$$= 0.6288$$

$$r^2 = (0.6288)^2$$

= 0.3954 i.e. 39.54 %

Table A 5.4

Development Credit Bank Ltd. (DCBL)

X	$(X - \bar{X})$	$(X - \bar{X})^2$	Y	$(Y - \bar{Y})$	$(Y - \bar{Y})^2$	$(X - \bar{X})(Y - \bar{Y})$
750	-705	497025	559.15	-230.99	53356.38	162847.95
2270	815	664225	855.24	65.10	4238.01	53056.50
2900	1445	2088025	1045.65	255.51	65285.36	369211.95
750	-705	497025	778.13	-12.01	144.24	8467.05
605	-850	722500	712.52	-77.62	6024.86	65977
$\sum X = 7275$ $\bar{X} = 1455$		$\sum (X - \bar{X})^2 =$ 4468800	$\sum Y = 3950.69$ $\bar{Y} = 790.14$		$\sum (Y - \bar{Y})^2 =$ 129048.85	$\sum (X - \bar{X})(Y - \bar{Y}) =$ 659560.45

Karl Pearson's Coefficient of Correlation

$$r = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2 \sum (Y - \bar{Y})^2}}$$

$$r = \frac{659560.45}{\sqrt{4468800 \times 129048.85}}$$

$$= 0.8685$$

$$r^2 = (0.8685)^2$$

= 0.7543 i.e. 75.43 %

Table A 5.5

Siddhartha Development Bank Ltd. (SDBL)

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$	$(X-\bar{X})(Y-\bar{Y})$
300	-299.80	89880.04	687.83	-130.96	17150.52	39261.81
612	12.20	148.84	1055.73	236.94	56140.56	2890.67
634	34.20	1169.64	867.61	48.82	2383.39	1669.64
618	18.20	331.24	705.86	-112.93	12753.18	-2055.33
835	235.20	55319.04	776.92	-41.87	1753.10	-9847.82
$\sum X = 2999$ $\bar{X} = 599.80$		$\sum(X-\bar{X})^2 =$ 146848.80	$\sum Y = 4093.95$ $\bar{Y} = 818.79$		$\sum(Y-\bar{Y})^2 =$ 90180.76	$(X-\bar{X})(Y-\bar{Y}) =$ 31918.97

Karl Pearson's Coefficient of Correlation

$$r = \frac{(X-\bar{X})(Y-\bar{Y})}{\sqrt{(X-\bar{X})^2 \quad (Y-\bar{Y})^2}}$$

$$r = \frac{31918.97}{\sqrt{146848.80 \times 90180.76}}$$

$$= 0.2774$$

$$r^2 = (0.2774)^2$$

= 0.0769 i.e. 7.69%

Table A 5.6

Nepal Share Markets & Finance Ltd. (NSMFL)

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$	$(X-\bar{X})(Y-\bar{Y})$
310	-230	52900	502.15	-261.75	68513.06	60202.50
310	-230	52900	828.78	64.88	4209.41	-14922.40
335	-205	42025	873.45	109.55	12001.20	-22457.75
335	-205	42025	858.06	94.16	8866.11	-19302.80
1410	870	756900	757.08	-6.82	46.51	-5933.40
$\sum X = 2700$ $\bar{X} = 540$		$\sum(X-\bar{X})^2 =$ 496750	$\sum Y = 3819.52$ $\bar{Y} = 763.90$		$\sum(Y-\bar{Y})^2 =$ 93636.30	$(X-\bar{X})(Y-\bar{Y}) =$ −2413.85

Karl Pearson's Coefficient of Correlation

$$r = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2 \sum (Y - \bar{Y})^2}}$$

$$r = \frac{-2413.85}{\sqrt{946750 \times 93636.30}}$$

$$= -0.0081$$

$$r^2 = (-0.0081)^2$$

= 0.00007 i.e. 0%

Table A 5.7

IME Financial Institution Ltd. (IMEFIL)

X	$(X - \bar{X})$	$(X - \bar{X})^2$	Y	$(Y - \bar{Y})$	$(Y - \bar{Y})^2$	$(X - \bar{X})(Y - \bar{Y})$
288	-287	82369	509.62	-260	67600	74620
453	-122	14884	811.98	42.36	1794.37	-5167.92
462	-113	12769	890.56	120.94	14626.48	-13666.22
612	37	1369	878.86	109.24	11933.38	4041.88
1060	485	235225	757.08	-12.54	157.25	-6081.90
$\sum X = 2875$ $\bar{X} = 575$		$\sum (X - \bar{X})^2 =$ 346616	$\sum Y = 3848.10$ $\bar{Y} = 769.62$		$\sum (Y - \bar{Y})^2 =$ 96111.48	$\sum (X - \bar{X})(Y - \bar{Y}) =$ 53745.84

Karl Pearson's Coefficient of Correlation

$$r = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2 \sum (Y - \bar{Y})^2}}$$

$$r = \frac{53745.84}{346616 \times 96111.48}$$

$$= 0.2945$$

$$r^2 = (0.2945)^2$$

= 0.0867 i.e. 8.67 %

Table A 5.8

Nepal Merchant Banking & Finance Ltd. (NMBFL)

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$	$(X-\bar{X})(Y-\bar{Y})$
840	-1049.80	1102080.04	559.15	-245.21	60127.94	257421.46
2910	1020.20	1040808.04	867.61	63.25	4000.56	64527.65
3799	1909.20	3645044.64	1018.16	213.80	45710.44	408186.96
1000	-889.80	791744.04	867.46	63.10	3981.61	-56146.38
900	-989.80	979704.04	709.40	-94.96	9017.40	93991.41
$\sum X = 9449$ $\bar{X} = 1889.80$		$\sum(X-\bar{X})^2 =$ 7559380.80	$\sum Y = 4021.78$ $\bar{Y} = 804.36$		$\sum(Y-\bar{Y})^2 =$ 122837.96	$\sum(X-\bar{X})(Y-\bar{Y}) =$ 767981.10

Karl Pearson's Coefficient of Correlation

$$r = \frac{\sum(X-\bar{X})(Y-\bar{Y})}{\sqrt{\sum(X-\bar{X})^2 \sum(Y-\bar{Y})^2}}$$

$$= \frac{767981.10}{\sqrt{7559680.80 \times 122837.96}}$$

$$= 0.797$$

$$r^2 = (0.797)^2$$

$= 0.6350$ i.e. 63.52 %

Table A 5.9

United Finance Ltd. (UFL)

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$	$(X-\bar{X})(Y-\bar{Y})$
867	-70.60	4984.36	705.86	-134.39	18060.67	9487.93
900	-37.60	1413.76	734.83	-105.42	11113.38	3963.79
1030	92.40	8537.76	798.56	-41.69	1738.06	-3852.16
565	-372.60	138830.76	885.81	45.56	2075.71	-16975.66
1326	388.40	150854.56	1076.20	235.95	55672.40	91642.98
$\sum X = 4688$ $\bar{X} = 937.60$		$\sum(X-\bar{X})^2 =$ 304621.20	$\sum Y = 4201.26$ $\bar{Y} = 840.25$		$\sum(Y-\bar{Y})^2 =$ 88660.22	$\sum(X-\bar{X})(Y-\bar{Y}) =$ 84266.89

Karl Pearson’s Coefficient of Correlation

$$r = \frac{(X-\bar{X})(Y-\bar{Y})}{\sqrt{(X-\bar{X})^2 \quad (Y-\bar{Y})^2}}$$

$$r = \frac{84266.89}{\sqrt{304621.20 \times 88660.22}}$$

$$= 0.5128$$

$$r^2 = (0.5128)^2$$

$= 0.2629$ i.e. 26.29 %

Table A 5.10

Sagarmatha Insurance Co. Ltd. (SICL)

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$	$(X-\bar{X})(Y-\bar{Y})$
227	-60.40	3648.16	620.61	-182.16	33182.27	11002.46
270	-17.40	302.76	811.98	9.21	84.82	-160.25
320	32.60	1062.76	866.13	63.36	4014.49	2065.54
320	32.60	1062.76	902.45	99.68	9936.10	3249.57
300	12.60	158.76	812.67	9.90	98.01	124.74
$\sum X = 1437$ $\bar{X} = 287.40$		$\sum (X-\bar{X})^2 =$ 6235.20	$\sum Y = 4013.84$ $\bar{Y} = 802.77$		$\sum (Y-\bar{Y})^2 =$ 47315.69	$(X-\bar{X})(Y-\bar{Y}) =$ 16282.05

Karl Pearson's Coefficient of Correlation

$$r = \frac{(X-\bar{X})(Y-\bar{Y})}{\sqrt{(X-\bar{X})^2 \quad (Y-\bar{Y})^2}}$$

$$r = \frac{16282.05}{\sqrt{6235.20 \times 47315.69}}$$

$$= 0.9479$$

$$r^2 = (0.9479)^2$$

$= 0.8986$ i.e. 89.86%

ANNEX- 6

Use of t-statistics for the test of significant difference between share prices before and after rights issue

Variables defined:

X	:	Share price before book-close date
$\bar{X}$	:	Mean share price before book-close date
Y	:	Share price after book-close date
$\bar{Y}$	:	Mean share price after book-close date
S^2	:	An unbiased estimate of population variance
t-cal	:	Calculated value of t
t-tab	:	Tabulated value of t at a given significant level for certain degree of freedom

Table A 6.1

t-Test for Share Prices of NIBL

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$
2380	-92.60	8574.76	2040	-49	2401
2350	-122.60	15030.76	2200	111	12321
2473	0.40	0.16	2110	21	441
2550	77.40	5990.76	2068	-21	441
2610	137.40	18878.76	2027	-62	3844
$\Sigma X = 12363$ $\bar{X} = 2472.60$		$\Sigma(X-\bar{X})^2 = 48475.20$	$\Sigma Y = 10445$ $\bar{Y} = 2089$		$\Sigma(Y-\bar{Y})^2 = 19448$

$$S^2 = \frac{(X-\bar{X})^2 + (Y-\bar{Y})^2}{n_1 + n_2 - 2}$$

$$= \frac{48475.20 + 19448}{5 + 5 - 2}$$

$$= 8490.40$$

$$\text{Now, t-cal} = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}}$$

$$= \frac{2472.60 - 2089}{\sqrt{8490.40\left(\frac{1}{5} + \frac{1}{5}\right)}}$$

$$= 6.58$$

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

Since t-cal > t-tab, the null hypothesis is rejected and hence the difference is significant.

Table A 6.2

t-Test for Share Prices of NICBL

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$
1000	19.40	376.36	932	81.80	6691.24
929	-51.60	2662.56	839	-11.20	125.44
837	-143.60	20620.96	830	-20.20	408.04
1113	132.40	17529.76	825	-25.20	635.04
1024	43.40	1883.56	825	-25.20	635.04
$\Sigma X = 4903$ $\bar{X} = 980.60$		$\Sigma(X-\bar{X})^2 =$ 43073.20	$\Sigma Y = 4251$ $\bar{Y} = 850.20$		$\Sigma(Y-\bar{Y})^2 =$ 8494.80

$$S^2 = \frac{\Sigma(X-\bar{X})^2 + \Sigma(Y-\bar{Y})^2}{n_1+n_2-2}$$

$$= \frac{43073.20+8494.80}{5+5-2}$$

$$= 6446$$

$$\text{Now, t-cal} = \frac{\bar{X}-\bar{Y}}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}}$$

$$= \frac{980.60-850.20}{\sqrt{6446\left(\frac{1}{5}+\frac{1}{5}\right)}}$$

$$=2.57$$

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

Since t-cal > t-tab, the null hypothesis is rejected and hence the difference is significant.

Table A 6.3

t-Test for Share Prices of KBL

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$
825	-16.20	262.44	715	-52	2704
825	-16.20	262.44	714	-53	2809
855	13.80	190.44	771	4	16
851	9.80	96.04	814	47	2209
850	8.80	77.44	821	54	2916
$\Sigma X = 4206$ $\bar{X} = 841.20$		$\Sigma(X-\bar{X})^2 =$ 888.80	$\Sigma Y = 3835$ $\bar{Y} = 767$		$\Sigma(Y-\bar{Y})^2 =$ 10654

$$S^2 = \frac{(X-\bar{X})^2 + (Y-\bar{Y})^2}{n_1+n_2-2}$$

$$= \frac{888.80+10654}{5+5-2}$$

$$=1442.85$$

$$\text{Now, t-cal} = \frac{\bar{X}-\bar{Y}}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}}$$

$$= \frac{841.20-767}{\sqrt{1442.85\left(\frac{1}{5}+\frac{1}{5}\right)}}$$

$$=3.09$$

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

Since t-cal > t-tab, the null hypothesis is rejected and hence the difference is significant.

Table A 6.4

t-Test for Share Prices of DCBL

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$
2600	-130	16900	725	55.80	3113.64
2660	-70	4900	711	41.80	1747.24
2714	-16	256	650	-19.20	368.64
2810	80	6400	650	-19.20	368.64
2866	136	18496	610	-59.20	3504.64
$\Sigma X = 13650$ $\bar{X} = 2730$		$\Sigma(X-\bar{X})^2 =$ 46952	$\Sigma Y = 3346$ $\bar{Y} = 669.20$		$\Sigma(Y-\bar{Y})^2 =$ 9102.80

$$S^2 = \frac{(X-\bar{X})^2 + (Y-\bar{Y})^2}{n_1+n_2-2}$$

$$= \frac{46952+9102.80}{5+5-2}$$

$$=7006.85$$

$$\text{Now, t-cal} = \frac{\bar{X}-\bar{Y}}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}}$$

$$= \frac{2730-669.20}{\sqrt{7006.85\left(\frac{1}{5}+\frac{1}{5}\right)}}$$

$$= 38.93$$

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

Since t-cal > t-tab, the null hypothesis is rejected and hence the difference is significant.

Table A 6.5

t-Test for Share Prices of SDBL

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$
612	0.80	0.64	630	-63.80	4070.44
612	0.80	0.64	654	-39.80	1584.04
612	0.80	0.64	680	-13.80	190.44
610	-1.20	1.44	720	26.20	686.44
610	-1.20	1.44	785	91.20	8317.44
$\sum X = 3056$ $\bar{X} = 611.20$		$\sum(X-\bar{X})^2 = 4.80$	$\sum Y = 3469$ $\bar{Y} = 693.80$		$\sum(Y-\bar{Y})^2 = 14848.80$

$$S^2 = \frac{\sum(X-\bar{X})^2 + \sum(Y-\bar{Y})^2}{n_1+n_2-2}$$

$$= \frac{4.80+14848.80}{5+5-2}$$

$$=1856.70$$

$$\text{Now, t-cal} = \frac{\bar{X}-\bar{Y}}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}}$$

$$= \frac{611.20-693.80}{\sqrt{1856.70\left(\frac{1}{5}+\frac{1}{5}\right)}}$$

$$=-3.03$$

$$\therefore |\text{t-tcal}| = 3.03$$

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

Since t-cal > t-tab, the null hypothesis is rejected and hence the difference is significant.

Table A 6.6

t- Test for Share Prices of NSMFL

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$
305	-3	9	335	-30	900
305	-3	9	347	-18	324
310	2	4	367	2	4
310	2	4	381	16	256
310	2	4	395	30	900
$\sum X = 1540$ $\bar{X} = 308$		$\sum (X-\bar{X})^2 = 30$	$\sum Y = 1825$ $\bar{Y} = 365$		$\sum (Y-\bar{Y})^2 = 2384$

$$S^2 = \frac{(X-\bar{X})^2 + (Y-\bar{Y})^2}{n_1+n_2-2}$$

$$= \frac{30+2384}{5+5-2}$$

$$= 301.75$$

$$\text{Now, t-cal} = \frac{\bar{X}-\bar{Y}}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}}$$

$$= \frac{308-365}{\sqrt{301.75\left(\frac{1}{5}+\frac{1}{5}\right)}}$$

$$=-5.19$$

$$\therefore |\text{t-cal}| = 5.19$$

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

Since t-cal > t-tab, the null hypothesis is rejected and hence the difference is significant.

Table A 6.7

t- Test for Share Prices of IMEFIL

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$
426	-12.80	163.84	612	-37	1369
427	-11.80	139.24	624	-25	625
443	4.20	17.64	624	-25	625
445	6.20	38.44	686	37	1369
453	14.20	201.64	699	50	2500
$\sum X = 2194$ $\bar{X} = 438.80$		$\sum (X-\bar{X})^2 = 560.80$	$\sum Y = 3245$ $\bar{Y} = 649$		$\sum (Y-\bar{Y})^2 = 6488$

$$S^2 = \frac{(X-\bar{X})^2 + (Y-\bar{Y})^2}{n_1+n_2-2}$$

$$= \frac{560.80+6488}{5+5-2}$$

$$= 881.10$$

$$\text{Now, t-cal} = \frac{\bar{X}-\bar{Y}}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}}$$

$$= \frac{438.80-649}{\sqrt{881.10\left(\frac{1}{5}+\frac{1}{5}\right)}}$$

$$= -11.20$$

$$\therefore |\text{t-cal}| = 11.20$$

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

Since t-cal > t-tab, the null hypothesis is rejected and hence the difference is significant.

Table A 6.8

t- Test for Share Prices of NMBFL

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$
3780	53.80	2894.44	1000	27.60	761.76
3760	33.80	1142.44	1000	27.60	761.76
3640	-86.20	7430.44	961	-11.40	129.96
3700	-26.20	686.44	960	-12.40	153.76
3751	24.80	615.04	941	-31.40	985.96
$\Sigma X = 18631$ $\bar{X} = 3726.20$		$\Sigma(X-\bar{X})^2 = 12768.80$	$\Sigma Y = 4862$ $\bar{Y} = 972.40$		$\Sigma(Y-\bar{Y})^2 = 2793.20$

$$S^2 = \frac{(X-\bar{X})^2 + (Y-\bar{Y})^2}{n_1+n_2-2}$$

$$= \frac{12768.80+2793.20}{5+5-2}$$

$$= 1945.25$$

$$\text{Now, t-cal} = \frac{\bar{X}-\bar{Y}}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}}$$

$$= \frac{3726.20-972.40}{\sqrt{1945.25\left(\frac{1}{5}+\frac{1}{5}\right)}}$$

$$= 98.72$$

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

Since t-cal > t-tab, the null hypothesis is rejected and hence the difference is significant.

Table A 6.9

t- Test for Share Prices of UFL

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$
850	9	81	565	-55.80	3113.64
850	9	81	565	-55.80	3113.64
840	-1	1	621	0.20	0.04
840	-1	1	670	49.20	2420.64
825	-16	256	683	62.20	3868.84
$\Sigma X = 4205$ $\bar{X} = 841$		$\Sigma(X-\bar{X})^2 =$ 420	$\Sigma Y = 3104$ $\bar{Y} = 620.80$		$\Sigma(Y-\bar{Y})^2 =$ 12516.80

$$S^2 = \frac{(X-\bar{X})^2 + (Y-\bar{Y})^2}{n_1+n_2-2}$$

$$= \frac{420+12516.80}{5+5-2}$$

$$= 1617.10$$

$$\text{Now, t-cal} = \frac{\bar{X}-\bar{Y}}{\sqrt{S^2\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}}$$

$$= \frac{841-620.80}{\sqrt{1617.10\left(\frac{1}{5}+\frac{1}{5}\right)}}$$

$$= 8.66$$

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

Since t-cal > t-tab, the null hypothesis is rejected and hence the difference is significant.

Table A 6.10

t- test for share prices of SICL

X	$(X-\bar{X})$	$(X-\bar{X})^2$	Y	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$
270	-22.60	510.76	320	11.20	125.44
275	-17.60	309.76	320	11.20	125.44
300	7.40	54.76	302	-6.80	46.24
306	13.40	179.56	302	-6.80	46.24
312	19.40	376.36	300	-8.80	77.44
$\sum X = 1463$ $\bar{X} = 292.60$		$\sum(X-\bar{X})^2 =$ 1431.20	$\sum Y = 1544$ $\bar{Y} = 308.80$		$\sum(Y-\bar{Y})^2 =$ 420.80

$$S^2 = \frac{\sum(X-\bar{X})^2 + \sum(Y-\bar{Y})^2}{n_1 + n_2 - 2}$$

$$= \frac{1431.20 + 420.80}{5 + 5 - 2}$$

$$= 231.50$$

$$\text{Now, t-cal} = \frac{\bar{X} - \bar{Y}}{\sqrt{S^2\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}}$$

$$= \frac{292.60 - 308.80}{\sqrt{231.50\left(\frac{1}{5} + \frac{1}{5}\right)}}$$

$$= -1.68$$

$$\therefore |t - cal| = 1.68$$

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

Since t-cal < t-tab, the null hypothesis is accepted and hence the difference is insignificant.

ANNEX – 7

Table A 7

Tabulation of Data from Questionnaire

S.N	Question and Option	Respondents	
		Number	Percent (%)
1.	Hold any shares		
	-Yes	48	100
	-No	0	0
2.	Familiar with rights issue		
	-Yes	47	97.92
	-No	1	2.08
3.	Desire to buy rights share		
	-Yes	47	97.92
	-No	1	2.08
4.	Purpose to buy rights share		
	-To increase the value of shares	13	27.08
	-To increase the number of shares	14	29.17
	-To maintain control position	7	14.58
	-To increase dividend	14	29.17
	-Others	0	0
5.	Awareness about rights offering		
	-All of them	5	10.42
	- Majority of them	16	33.33
	-Very few of them	27	56.25
	- None of them	0	0
6.	Beneficiary of rights issue		
	- Shareholder	14	29.17
	-Issuing company	15	31.25
	- Broker	0	0
	-All of them	19	39.58
7.	Market price of share after rights issue		
	-Share price will increase	1	2.08
	- Share price will decrease	28	58.33
	-No effect on share price	7	14.58
	-Don’t know	12	25
8.	If rights had been transferable		
	- Exercise the rights	10	20.83
	-Sell the rights	12	25
	-Partially exercise and partially sell	23	47.92

	-Neither exercise nor sell	0	0
	- Don’t know	3	6.25
9.	Investors are facing difficulties		
	- Agree	37	77.08
	-Disagree	1	2.08
	-Neither agree nor disagree	10	20.83
10.	Investors get adequate information		
	-Yes	13	27.08
	-No	20	41.67
	-Don’t know	15	31.25
11.	Current legal provision		
	-Adequate	1	2.08
	- Inadequate	18	37.50
	- Don’t know	29	60.42
12.	Cause of under subscription		
	-Investor’s lack of knowledge	15	31.25
	- Inadequate legal provision	6	12.50
	- Poor promotional role of company	9	18.75
	- Poor performance of company	18	37.50
	-Others	0	0