

CHAPTER- I

INTRODUCTION

1.1 Background of The Study

Nepal is one of the least developed countries in the world. For the balance economic development of the country, it has been adopting planned economic development since four decades. Recently it has faced the path of economic development through the liberalization.

The lack of capital has been one of the main causes for underdevelopment because any strategy for development requires a sound supply of medium to long term capital funds. The supply of capital fund is possible through capital market. Capital market is engaged in mobilization of idle saving in productive opportunity. For the mobilization of invest able resources, capital market is an important intermediary through which effective bridging of the deficit unit and surplus units can be bridged.

Particularly for capital starved country like Nepal effective allocation of scares capital resource is of vital importance

“A capital market is just what the name implies: a market for capital funds strictly speaking, the capital market encompasses any transactions involves long-term debt or equity obligation.” (Lockett, 1980)

“The capital market is designed to finance long-term investment, financial instrument traded in the capital market have original maturities of more than one year.” (Rose, 1983)

The main objective of capital market is to create opportunity for maximum number of people to get benefit from the return obtained by directing the economy towards the productive sector by mobilizing the long-term capital.

Further stock market liquidity may influence economic development. Many profitable projects require a long-term venture capital to finance. Most investors tend to avoid the risk and are often reluctant to lay their savings into the long term commitment. Liquid stock market makes the investment less risky and more attractive. It encourages savers to invest in long-term project because they can sell the security if they want to get back their funds before the project matures.

To maintain the high liquidity in sock market, the stock market has to be efficient in pricing the shares. It is true that in an efficient market price fully reflect available information regarding the company.

The capital market consists of primary and secondary market. The primary capital market denotes the markets in which securities are initially issued. On the other hand, the secondary market is that financial markets in which pre- owned securities (those that are not the new issue) are traded. Organizational stock exchange like Nepal Stock Exchange (NEPSE) is the example of secondary market.

Nepalese capital market is an infancy stage but it is growing slowly. The organized stock market is a recent phenomenon in Nepal. Nepalese capital market is very small as compared to other neighboring countries. On top of this, the stock market of Nepal is

heavily concentrated over commercial banks, on banking financial companies and insurance companies as they occupies majority of total market capitalization.

The history of capital markets in Nepal dates back to the era of Rana Prime Minister Juddha Samsar when Gunga man singh, the first secretary at the Nepalese embassy in England return back to Katmandu and set up the industrial council. The council drafted the company Act and Nepal bank Act for the first time in 1996. The first publication of share in the securities market initiated by Biratnagar Jute Mills Limited in 1937. There were very few companies in Nepal issuing share to the general public until another company Act came into operation in 1951.

Institutional development of securities market in Nepal started from the year 1976.when securities exchange center (SEC) was established under the company act with joint capital contribution of Nepal Rastra Bank and Nepal industrial development corporation. Industrial policy of the government also encourages the promotion of securities exchange activity in Nepal. Before the establishment of securities exchange center there was no any institutional arrangement to undertake new issue and manage the sale of share and debenture of the corporate bodies. A public limited company could make public offering according to the provisions of the company Act 1964.

The corporate bodies were required to list their shares and debenture in SEC in order to qualify for the trading. Securities stock exchange Act 1983 made it obligatory to trade the securities through the organized exchange center or through their licensed broker.

Therefore the securities exchange center (SEC) opens its floor for secondary trading of corporate share in November 1984. At present 27 members brokers and two market maker have been operating in the trading floor. The rate of broker in equity transaction varies from 1 percent to 1.5 percent depending upon the volume of trade. Higher the amount of transaction lower is the transaction of commission. The seller and buyer both parties have to pay the commission to the broker.

Along with the formation of security exchange board HMG converted the security exchange center limited into the Nepal Stock Exchange Limited (NEPSE). In 1983 with the view to reform the capital market. It is non profit making organization operating under the security exchange Act 1983. Broker and market maker operate on the trading floor.

As per the security exchange act rule and bylaws of NEPSE. Nepal stock exchange center started its trading operation on 13 January 1994 through its licensed member.

An introduction of Right Issue

“Insisted of selling a security issue to new investor, some firms offer the securities first to existing shareholders on privileged subscription basis: some time the new issue of common stock be offered first to existing shareholders because of their preemptive right” (Varn Horne, 1977)

“If the new common stocks are issued giving the right to purchase first by the existing share holders than it is called right offering. Each shareholder is issued an option to buy a certain number of new share and the terms of the option are contained on a piece of paper

called right. Each stock holders receives one right for each shares of stock owned” (Weston and Copland, 1992).

So, this is a method of rising further funds from existing shareholders by offering additional securities to them on a preemptive basis. It involves the offer of additional share to existing shareholders. These are offered in proportion of existing shareholdings. Each existing shareholder receives one rights for each share owned. The rights states the terms of the option to purchase new share new shares, specifying the number of share required to purchase each new share, the subscription price for new share and expiry date of the option.

1.2 Focus of the Study

This study investigates the rights share and its impact on shareholders wealth position in Nepal which is the subject of most empirical studies analyzing valuation effects of equity offerings in Nepal. There are many common stock rights issued by various sectors’ companies such as banking sector, financing sector, hotel sector, manufacturing and processing sector, insurance sector and other sector in Nepalese financial market. So the all rights issuing company and their activity are the main focus of this study.

1.3 Statement of the Problem

In Nepal, The trend of rights issue is increasing. Till now 2006/07, out of 196 different issues, there are 59 rights issued by 44 companies amounting Rs. 4982.75 million which

is equal to 41.90% of total issue approved. Similarly, during the study period the highest issue approved for rights offering is Rs. 1265.30 million in fiscal year 2005/06, Rs. 1013.45million in fiscal year 2006/07 and Rs. 949.34 million in fiscal year 2004/05 respectively. And total issue approved (rights and other issue) during the fiscal year 2005/06 (Rs. 2443.28 million) is the highest issue approved among the all of them. However, the lowest three rights issue approved during the study period is Rs. 30 million in fiscal year 2003/04, Rs. 69 million in fiscal year 1995/96 and Rs. 90 million in fiscal year 2003/04 respectively. The total issue approved during the fiscal year 1994/95 (Rs. 173.96 million) is the lowest issue approved among the all. But, in fiscal in fiscal year 1993/94 and 1994/95 SEBO/N didn't approve any rights issue for the existing shareholders.

However, the large number of investors and general public are still unknown about financial market which is the main problem in Nepalese capital market. Most of the investors are not well known about the rights share and investors are not rational so they are unable to get optimal benefit from their investment. In Nepal rights are under subscribing. Promotional role played by company is also insufficient. Nepalese capital market is centralized. It is still unable to cover the mass number of investors. NEPSE and SEBO/N have weak and ineffective working system. NEPSE was being the trading place of limited share based in open cry system but now NEPSE conducting computerized system even though SEBO/N is not able to monitor Nepalese capital market effectively.

In Nepal there are only few studies under taken by some persons. Hence there is a need to comprehensive study on right share issue and its effects on shareholders wealth position.

The problem of the studies can be mentioned as:

- What is the impact of right offering on stockholders wealth position?
- What are the problems of Nepalese financial market?
- Why rights share are under subscribe in Nepal?
- What are the problems regarding the rights offering in Nepal?
- What the trend of rights issue in Nepal?

1.4 Objective of the Study

The basic objectives of the research are to examine the issue of right share and its effect on shareholders wealth position of the listed companies in Nepal. To achieve this broad objective, the following specific objectives have been developed.

- To analyze the impact of right issue on stockholders wealth position.
- To examine the causes of under subscription of rights in Nepal
- To evaluate the trend and problems regarding rights offering in Nepal.
- To suggest the stakeholders with the help of findings

1.5 Importance of the Study

There are many studies related to this topic, some studies have been conducted regarding on right share and its impact on market price of the stock, right share practice in Nepal and so on. Some of them are underwriting of initial offering. But no researcher till today has researched on this topic. So this may be the new research done in management

faculty of Tribhuvan University, in addition to this, the result of this study may help the different areas like students, researcher, investor, financial manager, policy maker etc.

Especially:

- It can help us to understand right issue and its impact on stockholders wealth position in Nepal.
- This study helps to know the problems regarding the Nepalese financial market and their remedy
- It can be a guide line to the future researches who are interested on this topic.
- Especially, it fulfils the requirement of degree of Master of Business Studies.

1.6 Limitation of the Study

Research is the systematic process of searching something to find out the solution of a problem. The findings might not be equally applicable to all the problems. Every research has some limitations. A single research can't be perfect in itself. The present research too, can not be an exception. Hence the major limitations of this research are:

- i. The study is limited to the listed companies in Nepal Stock Exchange. Thus the findings may not be applicable to the other non-listed companies in Nepal and abroad.
- ii. For the purpose of study, only right shares on common stock are taken.
- iii. The reliability of the study is heavily dependent of the secondary sources of data and on questionnaires filled by the respondents.
- iv. Only the right issuing listed companies are considered for the study.

1.7 Organization of the Study

This study has been organized into 5 different chapters in order to make the study easy to understand. The introduction, literature review, research methodology, data presentation and analysis and summary, conclusions and recommendation are the major chapters included under this study.

Chapter I: Introduction

The first chapter consists of background of the study, focus of the study, statement of the problem, objective of the study and organization of the study.

Chapter II: Review of literature

The second chapter consists of literature review. This chapter is subdivided into various sections viz. theoretical framework, macro concept of the stock market, historical background of the Nepalese stock market, details of the stock issue and review of various article, journals and past research works.

Chapter III: Research methodology

The third chapter includes research methodology. This chapter will present the methodology adopted for the research. It comprises research design nature and source of data, data collection, presentation and analysis process employed and limitation of the study.

Chapter IV: Presentation and analysis of data.

The fourth, which is the important chapter of the study, will include data classification analysis and interpretation regarding the primary and secondary data.

Chapter V: Summary, conclusions and recommendations.

The last chapter i.e. chapter five will explain summary, conclusions and recommendation

CHAPTER-II

REVIEW OF LITERATURE

The term review of literature is very important for researcher or investigator in the area of concern problem. It distributes the knowledge and information for the researcher to discover the uncover things by other researcher. So, review of literature means reviewing the research studies or other relevant propositions in the related areas of the study. So that all the past studies, their conclusion and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research works.

The main reason for a full review of research in the past is to know the outcomes of those investigators in areas where similar concept and methodologies had been used successfully. Further an extensive or even exhaustive process of such review may offer vital links with the various trends and phases in the researches in one's area of specialization, familiarizing with characteristic percepts, concept and interpretation with special terminology with the rationale for understanding one's proposed investigation.

This chapter shows the background of the work and a review of recent and reticent literature. In this regard, basic academic course books specially related to topic, some of the major research works, major articles published in journals and the related thesis are reviewed.

There are significant importance of review of literature in any types of research works, some of which are:

- Identification of research problem and relevant variable.

- Avoidance of repetition.
- Synthesis of prior works.
- Determining meanings and relationship among variables.

The chapter has been arranged as follows:

2.1 Conceptual Review

2.2 Article Review

2.3 Thesis Review

2.1 Conceptual Review

2.1.1 Financial (Security) Market

Securities are financial assets that form the part of an investor's wealth. Common stocks, preferred stocks, bonds, convertibles, warrants, options, rights, futures etc are the examples of securities. The brief descriptions of these securities are called financial assets are provided under the investment alternative section.

Securities markets are mechanisms for channeling savings from savers to the ultimate investors who invest in real assets. They bring buyers and sellers of securities together and facilitate the flow of funds in the economy. The flotation of the shares and debentures by public limited companies, trading in mutual funds by an investment company and the auction of Treasury bills by government take place in security markets. The security markets are classified into I) money market and capital market and II) primary market and secondary market.

Financial market provides a forum in which suppliers of loans and investment can transact business directly. The loan and investment of institutions are made with out the

direct knowledge of the suppliers of fund (severs); suppliers in the financial markets know where their funds are being lent or invested. The two key financial markets are the money market and capital market. Transaction in short-term instruments or marketable securities takes place in money market. Long-term securities (bond and stock) are traded in the capital market (Gitman, 1988:30)

All securities, whether in the monetary or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from the issue that is, the company actually receives the proceed from the sale of securities. Once the securities begin to trade among individual, business, government or financial institutions savers and investors, they become part of the secondary market. The primary market is where new securities are sold. The secondary market can be viewed as a “used” or “pre-owned” securities market. (Securities Board)

2.1.2 An Introduction of Nepal Stock Exchange Ltd

Nepal Stock Exchange, in short NEPSE is a non-profit organization operating under, Securities Exchange Act, 2040. The former Securities Exchange Center was converted into NEPSE under the program initiated to reform the capital market. The basic objective of NEPSE is to arrange marketability and liquidity to the government and the corporate securities by facilitating transaction in its trading floor through the market intermediaries such as brokers, market makers and others.

The history of securities market begins with the floatation of share by Biratnagar Jute Mills Ltd. And Nepal Bank Ltd in 1937. Introduction of company Act in 1964, the first issue of Government Bond in 1964 and the establishment the Securities Exchange Center Ltd. In 1976 were other significant developments resulting to capital markets.

Securities exchange center was establishment with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was only the capital market institution undertaking the job of broking, underwriting, managing public issue, market making for government bonds and other financial services.

NEPSE opened its trading floor in 13th January 1994 through licensed members.

NEPSE has its own Board of director to direct, control, and monitor. It consists of 9 directors in accordance with the securities Exchange Act 2040. HMG /N and different institutional investor nominate six directors and two from the licensed members. The general manager of MEPSE is the Ex-Officio director of the board.

The authorized capital of the exchange is Rs.50 million. The issued capital is also Rs.50 million. HMG/N, NRB, NIDC, and the members subscribe Rs.34.91 million. HMG/N has contributed 58.67 percent, NRB 34.60 percent, NIDC 6.13 percent and the members .60 percent on its capital.

NEPSE presently has 24 broker and 9 issue managers and 2 portfolio managers i.e. dealer secondary market.

2.1.3 Money Market versus Capital Market.

2.1.3.1 Money Market.

Money market is created by a financial relationship between suppliers and demander market of short-term funds, which have maturities of one year or less. The money market is not as actual organization house in some certain location, such as a stock market, although the majority of money market transactions are made in marketable securities which are short-term debt instrument, such as treasury bills, commercials papers and negotiable securities of deposit issued by government, business and financial institutions respectively.

The money market exist because certain individual, business, government and financial institutions have temporarily idle funds that they which to place in some type of liquid assets or short-term interest earnings instrument. At the same, other individuals, business, government and financials institutions find themselves in need of seasonal or temporary financing. The money market thus brings together these suppliers and demand market of short-term liquid funds.

Security market is concerned; it is an important constituent of capital markets. It has a wide term embracing the buyers and sellers of securities and all the agencies and institutions that assists the sale and re-sale of corporate securities (Rough, 1966:50)

The development of sound securities market with its constituent financial institutions is one of the mechanisms which enable the efficient transaction of saving from the hands of

surplus spending unit to those of deficit spending ones who can use them more productivity and/ or have loss/ risk aversion (Rough, 1966:56)

The money market is a market for short-term (less than one year) loans, its very name suggests that it is money that is being bought and sold (Lockett, 1980)

Money market is mechanism through which short-term funds are loaned and borrowed and through which a large part of transactions of a particular country or other world are cleared. (Modden and Naddler)

The money market is a market which trades in short-term highly liquidity, negotiable debt instruments of one year or less in maturity. (J.A Cochran)

The money market is designed for the marketing of short-term loans where individual and institutions which temporary surpluses of funds meet borrowers who have temporary cash shortages. (Rose, 1983)

A market in which short-term securities such as Treasury- bills, certificates of deposits and commercials are traded. (World Bank)

2.1.3.2 Money Market in Nepal

Nepalese money market is quite poor in terms of securities dealt with and institutions involves in the market. Institutions that deal completely on money market instrument are absent. Similarly, many of the instruments which are popular in developed money market like commercial papers, bankers' acceptance, have not yet entered the Nepalese money market. Therefore the institutions that operate in the money market are basically Nepal

Rastra Bank and commercial banks and instruments dealt are treasury bills, commercial bills and short-term bank loan.

2.1.3.3 Functions and Importance of Money Market

- | | |
|---|---------------------------------|
| 1) Mobilize savings | 6) Provide near money |
| 2) Bridge the gap between receipt and payment | 7) Provide reserves |
| 3) Provide an investment outlet | 8) Strengthen of capital market |
| 4) Short term loans | 9) Effectives monetary policy |
| 5) Provide an impersonal markets | 10) Communications links e.t.c |

2.1.3.4 Main Instruments of Money Market

- | | |
|---|------------------------|
| 1) Coins and rupee | 4) Bankers acceptance |
| 2) Cheques of current and savings account | 5) Commercial paper |
| 3) Certificates of deposits | 6) Federal fund |
| | 7) Euro currency e.t.c |

2.1.3.5 Constituents of Money Market

Table 2.1

Money market	
Main suppliers	Main demanders
➤ Central Banks	➤ Central Banks
➤ Commercial Banks	➤ Commercial Banks

➤ Financial Company	➤ Finance Company
➤ Business Firm	➤ Business Firm
➤ Mutual Funds	➤ Government
➤ Informal Institutions	➤ House Holds
➤ Credit Union	➤ Security Dealer

2.1.3.6 Capital Market

“Capital market refers to the links between lenders and borrowers of funds. Arrange of funds transfer process to seek each others’ benefits” (Philip, 1979:220). These lenders and borrowers coming together in the capital market and play effective financial intermediary role to activate both primary and secondary market through the use of various term capital market instrument like common stock, preferred stock, convertibles issue and many more like that. The participants in the capital market are small business, large business and government. Funds flowing into the capital market are available by lenders for terms longer than those following in the money market.

Capital markets consist of the various suppliers and users of long term finance. As it is differentiated form the money market which embraces short-term finance. The capital market serves as a link between suppliers and users of finance. It is a mechanism for the mobilization of public savers and changing them in productive investment. In this way, an important constituent of capital market is the securities market. It has a wide term embracing the buyers and sellers of securities and all those agencies and institutions which consists the sale and re-sale of corporate securities. (Gupta, 1978:88)

The capital market is the market for short-term, medium-term, long-term and permanent loans to government, industry and commerce. (J.L. Hanson)

A capital market is just what the name implies: a market for capital funds, strictly speaking the capital market encompasses any transactions involving long-term debt or equity obligations. (Luckett).

The capital market is designed to finance long-term investment financial instruments traded in the capital market have original maturities of more than one year. (Peter S. Rose).

The market in which long-term financial instrument such as equities and bonds are raised and traded. (World Bank).

2.1.3.7 Capital Market in Nepal

The Nepalese capital market in open-market securities is in its infancy stage. The government established security marketing center in 1976 and enacted securities exchange Act in 1983 to promote and regulate the market of open-market securities. Then after, the center started secondary market operation by listing corporate securities. In a bid to activate the capital market, the government massively amended the Act, constituted security exchange Board of Nepal, and converted securities exchange center into Nepal stock exchange. With these superstructure facilities, Nepal Stock Exchange now provides full-fledge secondary market.

The capital market can be categorized in two parts:

- 1) Primary market
- 2) Secondary market
 - a. Registered stock exchange
 - b. Over- the –counter market

2.1.3.8 Functions and Importance of Capital Market

- | | |
|---------------------------------------|----------------------------|
| 1) Mobilize savings | 5) Provides liquidity |
| 2) Channelise savings into investment | 6) Attract foreign capital |
| 3) Promote long-run investment | 7) Balance growth |
| 4) Increase quality of investment | 8) Enhance economic growth |

2.1.3.9 Main Instruments of Capital Market

- | | |
|-------------------|--------------------|
| 1) Mortgage | 3) Corporate stock |
| 2) Corporate bond | 4) Government bond |

2.1.3.10 Constituents of Capital Market

Table 2.2

Capital market	
Main suppliers	Main demanders
➤ Commercial Banks	➤ Households
➤ Development Banks	➤ Business

➤ Provident Fund	➤ Government
➤ Pension Funds	
➤ Insurance Company	
➤ Investment Trust	
➤ Savings and Loan Allocation	
➤ Mutual Saving Bank	

2.1.4 Classification of Security Markets

There are many ways to classify security market. One way is by the type of financial claim, such as debt market and equity market. Debt market is the market in which financials instruments (mainly bonds) dealing in outstanding debts are bought and sold. The New York Bonds Exchange is debt market. Equity market is market in which financial instruments (mainly equity) dealing in outstanding equity are bought and sold.

Another is by the maturity of the claim. For example, money market and capital market. Money markets are the market for short-term debt securities. Examples of money market securities are Treasury bills, bankers' acceptance, commercial paper and negotiable certificates of deposit issued by government, business and financial institutions. These instruments are very liquid and considered extraordinary safe. Because they are extremely conservative, money market securities offer significantly lower return than most other securities. Capital market is the market for long-term loan and equity capital. Companies and the government can raise funds for long-term investment via the capital market. The capital market includes the stock market, the bond market and the primary market. Security trading on organized capital markets is monitored by the government;

new issues are approved by authorities of financial supervision and monitored by participating banks.

Security markets can be categorized as those dealing with financial claim that are newly, called the primary market and those for exchanging financial claims previously issued, called the secondary market or the market for seasoned instruments.

Markets are classified as either cash or derivative market. The market in which a financial assets trades for immediate delivery or sold for 'on the spot' delivery (within a few days) is called cash or spot market. A derivative market is the market where derivative securities like, options, futures, forward are traded.

A market can be classified by its organizational structure. It may be an auction market, an over-the-counter (OTC) market or intermediated market.

2.1.4 Summary of Classifications of Security Market

Classification by nature of claim:

- Debt Market
- Equity Market

Classification by maturity of claim:

- Money Market
- Capital Market

Classification by seasoning of claim:

- Primary Market
- Secondary Market

Classification by immediate delivery or future delivery:

- Cash or Spot Market
- Derivative Market

Classification by organizational structure:

- Auction Market
- Over-The-Counter market
- Intermediate Market

2.1.5 Primary Markets versus Secondary Market

On the basis of seasoning of claim, the capital market can be categorized into primary and secondary market.

2.1.5.1 Primary Market

Primary market is the market for new securities is called primary market. The security market transfers the fund from savers to investors through out the primary market. Hence, the transactions of the securities issued for the first time take place in this market.

The main function of primary market is to make the financial capital available to make new investment in building, equipment and stock of the necessary goods. The investment bankers perform the role of an except in issuing new securities. These bankers make available advice to the business firms regarding the nature of securities, maturity and interest rate and underwrite the issue of securities. The commercial banks are not directly involved in the market. Usually, the business firms make private placement of securities. The direct sale of securities by the issue of the securities to the buyer without underwriting is called private placement of securities.

2.1.5.2 Primary Market in Nepal

As an everywhere else there are three parties involved in primary market of securities in Nepal. They are (i) securities issuing companies/government, (ii) securities buyers (investors) and (iii) issue managers performing the functions of merchant bank. The government and public limited companies issues securities. General public, for profit and non-profit organizations are the buyers/investors of securities and finance companies licensed to carry out merchant banking activities (work as manager of issue) in Nepal.

2.1.5.3 Secondary Market

Secondary market is the market for the existing securities. Second hand securities are bought and sold in the secondary market. Its main function is to provide liquidity to the purchasers of securities. This market remains as a center to convert stocks, bonds and other securities in to cash immediately. Since the secondary market provides liquidity to the securities, the investors are encouraged to buy securities in the primary market.

The transactions are more in secondary market than in primary market. But these markets involve in mutually closely related way. For instance, if the interest increases or the price of securities increases in secondary market, the interest and price of primary market also increase because of the investment transfer from one market to another according to price and return.

2.1.5.4 Secondary Market in Nepal

The role of secondary market is more in focus than of primary market in securities market. It is mainly due to the facts that secondary market provides liquidity to the securities and ensures continuous price formation. The continuous price formation process reduce sudden jump in the price of the securities in the market. Moreover, the operation of secondary market is also important from investors' point of view on the following grounds:

- 1) The need for liquidity to meet sudden demands for funds due to premature payment of liabilities.

- 2) The need of shuffle portfolio to readjust the maturity structure realign with the current liabilities structure.
- 3) The investors' decision to improve the portfolio returns by shedding some securities which are yielding lower income and going in for other securities which yield income.
- 4) The need to constantly seize the opportunities available in the secondary market due to forces of demand and supply of certain securities.

Nepal stock exchange (NEPSE) is the only organized exchange to carry out secondary market operation of corporate securities in Nepal. Therefore, the following section describes the organization and operation of Nepal Stock Exchange Ltd.

2.1.5.5 Difference between Primary Market and Secondary Market

Table 2.3

Basis	Primary market	Secondary market
Nature of securities	The new securities are traded in the primary market.	The second hand securities (issue earlier) are traded in secondary market
Objectives	The main functions of the primary market are to make the financial capital available to make new investments in buildings, equipments and stock of necessary goods.	The main function of secondary market is to provide liquidity to the purchaser of securities.
Risk	Buying securities in primary market is risky.	Buying securities in secondary market is less risky.
Transactions	The transactions are less in primary market.	The transactions are more in secondary market.
Role	The investment banker performs the role of an expert in issuing new securities.	The broker performs the role for the trading securities in the secondary market.

Funds Transfer	Funds transfer from savers to demanders (issuers).	Funds transfer from seller to buyer of the securities.
Importance to financial manager	Primary market is less important to financial manager.	Secondary market is more important to financial manager.

2.1.6 Initial Public Offerings

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 the 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 price at which they will be able to market the securities. Large investors communicate their interest in purchasing the share of the IPO to the underwriters; this indication of interest is called a book and the process of polling potential investors is called book building. The book provides valuable information to the issuing firm because large institutional investors often have useful insights about the market demand for the securities and the prospects of the firm as well as its competitors. It is common for investment banker to revise both their initial estimates of the offering price of a security and the number of shares offered based on the feed back from the investing community.

2.1.7 Venture Capital

Equity investment in the early stages of a business is often called venture capital. In other word, venture capital represents funds invested in a new enterprise. It is the key to the

success of any growing business firm. Institutional investors especially financial institutions, wealthy individual investors and specialist investors organized in partnership are the major sources of venture capital. The investment in venture capital is risky. Therefore, investors are rewarded with higher rate of return in successful venture. The venture capital activity is quite advanced in the development country.

2.1.7.1 Features of venture Capital

- 1) Venture financing is actual equity participations through direct purchase of share or convertibles securities to make capital gain.
- 2) Venture capital financial is a long-term less liquid investment, which is not repayable on demand.
- 3) Venture financing may ensure continuing participation of the venture capitalist in the management of enterprise.

2.1.8 Right Issue

This is the method of rising further fund from existing shareholders by offering additional securities to them on a preemptive basis. It involves the offer of additional share to existing shareholders. These are offered in proportion of existing shareholders. Each existing shareholders receives one right for each share owned. The right states the terms of the option to purchase new share specifying the number of share required to purchase each new share, the subscription price for new share and the expiry date of the option.

Rights are issued by a corporation to existing common stock holders in connection with the sale of additional share of stock. They are traded in the organization exchange and OTC market.

In Nepal, before right offering, a company should take permission from the security board of Nepal (SEBO/N) and must registered its share.

2.1.8.1 Preemptive Rights

A privilege offered to existing stock holders for buying a specified number of additional shares of the company's stock before the stock is offered to outsider for sale. In other words a provision in company's charter or by laws that gives the existing shareholders right to purchase new share at subscribed price on pro-rata basis. A stockholder is issued one right per share of stock already owned. (Gautam and Thapa).

2.1.8.2 Use of Rights in Financing

If the preemptive right is contained in a firm's charter, the firm must offer any new common stock to existing stockholders. If the charter does not prescribe a preemptive right, the firm has a choice of making the sale to its existing shareholders or to an entirely new set of investors. If it sells to the existing shareholders, the stock flotation is called right offering. Each stockholder is issued an option to buy a certain number of new shares; the term of such the option contained on a piece of paper is called rights. Each stockholder receives one right for each share of stock owned.

2.1.8.3 Value of a Right

The right provides the privilege, so it must have a value. The value of right can be calculated in two bases:

Right on:

With the privilege of receiving rights, a share of stock is rights on if it entitle its owner to a right that is about to be issued by the firm. In this case value of one right can be found by using the following formula.

$$\text{Value of } (v_r) = \frac{P_o - P^s}{\# + 1}$$

Ex-rights:

Without privilege of receiving rights a share of stock is ex-rights if it no longer entitles it owner to right that is about to be issued by the firm. In this case value of one right can be found by using the following formula.

$$\text{Value of right } (Vr) = \frac{P_e - P^s}{\#}$$

Where,

P_o = market value of stock, rights on

P_e = market value of stock, ex-rights

P^s = subscription price

$\#$ = number of old share required to purchase one new share

2.1.8.4 Characteristics of Rights

- 1) The number of rights that a shareholder gets is equal to the no. of shares held by him.
- 2) The number of rights required to subscribe to an additional share is determined by the issuing company and it is calculated by using this formula.

$$\text{No. of rights required to purchased a new share} = \frac{\text{No of old share}}{\text{No of new share}}$$

- 4) The price per share for additional equity, called the subscription price is left to the discretion of the company. The number of new share can be calculated by using this formula.

$$\text{No. of new share to be raised through rights} = \frac{\text{Funds to be raised}}{\text{Subscription price}}$$

- 4) Right are negotiable. The holder of rights can sell them.
- 5) Right can be exercised only during a fixed period which is usually about thirty days.

2.1.8.5 Significance of Right Offering

- 1) Permanent capital.
- 2) To indicate the higher profit.
- 3) To bring the market price of share with in more popular range.
- 4) To increase the no. of outstanding share.
- 5) To have positive psychological value.
- 6) To retain proportional ownership for shareholders.
- 7) To decrease the flotation cast.

- 8) To achieve a more respectable size in the market.
- 9) To be successful on subscription.
- 10) To fulfill the legal requirement imposed by the authority.
- 11) To avoid external incontinent.
- 12) To expand the company.

2.1.8.6 Limitation of Right Offering

- 1) **Ward** says The Company can not force its existing shareholders to buy any more shares in the company and hence it is granting them an option to buy these new shares.
- 2) Equally there is no reason for any outsider to want to buy these rights in order to take them up, thus the purposed right issue could ail with the result that the company does not receive its desired injection of new equity funding.
- 3) The share holders who fail to receive to exercise to sell their rights. They lose in terms of decline in their wealth. Most right issues are underwritten because there is no legal obligation on the part of shareholders to subscribe.
- 4) Issue of right share lower than the market value of existing share too. That may possess negative impact of particular shares on capital market.
- 5) It deprives new investor from becoming the shareholders of the company. The control over the management may misuse its position.
- 6) The issue of right share dilutes the existing shares' earnings per share if the profits do not increase immediately in proportion to the increases in the number of ordinary share.

- 7) Pandey says yet another disadvantage is for those companies whose shareholding is concentrated in the hand of financial institutions because of the conversion of loan into equity. They would prefer public of share rather than right issue.

2.1.8.7 Right Issue versus Public Offerings

- 1) A right issue, in comparison with a public offering, is likely to be more successful because it is made to investors who are familiar with the operations of the company.
- 2) Since the right issue is not underwritten, the flotation costs of rights issue are significantly lower than those of a public offering.
- 3) Under right offering issue price (subscription price) is set lower than the issue price of public offering. As a result number of total share which may causes dilution in EPS.

2.1.8.8 Market versus Theoretical Value of Rights

The market price of rights will generally differ from its theoretical value. Actual price of the right is determined in the market place and it is affected by the various factors. Therefore the theoretical value of right is approximate price of the right.

2.1.8.9 Stock Rights versus Stock Split

Right share and stock split are completely different. Stock right means a method of raising further fund from existing shareholders, by per-emptive basis. It involves the offer of additional share to existing share holders. There are offered in proportion of existing shareholders. A more lengthy analysis, however, is required to reveal the exact nature of stock rights. The offerings of new securities to existing by means of rights, either as a matter of legal requirement or financial policy or both.

A stock split (also known as straight stock split) is essentially when a company increases the no. of share. In case of stock split, a company may double, triple, or quadruple the no. of shares outstanding. The market price of each share is merely lowered; economic reality does not change at all. It is therefore, completely irrational for investors to get excited over the stock splits.

The effects of stock split is on increase in the number of share outstanding and a reduction in the par or stated, value of share. The total net worth of the firm remains unchanged. The stock split does not involve any cash payment, only additional certificates representing new share.

Why company split the stocks?

Some companies believe that their stock should be inexpensive so some people can buy it. This creates a condition where more companies stock is bought and sold (i.e. increased liquidity)

2.1.8.10 Stock Rights versus Reverse Split

A method that is used to raise the market price of a firm's stock by exchanging certain number of outstanding shares for one new share of stock.

The effect of a reverse split is a decrease in the no. of share outstanding and increase in the par, stated, value of the share. The total net worth of the firm remains unchanged. The reverse split does not involve any cash payment, only additional certificate represents new share.

Why company reverse split?

Reverse split is used to stop the market price per share below a certain level

2.1.8.11 Stock Right versus Bonus Share

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

2.1.8.12 Procedure of Right Issue in Nepal

Every company which wishes to issue right shares should follow some procedure. Company ordinance 2062 is silent about the right issue but mentioned that public companies can issue shares according to the provision mentioned in this ordinance and other rules and regulations related to securities but, if the companies are issuing right shares or bonus shares they need not to follow all these rules. Following procedures are generally adopted by Nepalese companies to issue right shares:

- 1) The BOD should consider about the determination of the quantum of further capital requirement and the proportion in which the right issue might be offered to existing share holders.
- 2) AGM should notify NRB, NEPSE office of the company register and SEBO/N sufficiently with prospectus in advance of the date of board meeting at which the right issue is likely to be considered and should get permission from them.
- 3) Make announcement with prospectus which gives a general, indication of the reasons which has made the issue desirable, the purpose for which the new money is to be issued.
- 4) Letter of provisional allotment of the right offering to the share holders about the terms of the rights offered, the number of new share allotted to each given number of old shares, the price at which the issue is to be made and the conditions letter will be sent after the date of announcement.
- 5) Certificates are distributed to the shareholders who participated in the rights offering announcement. Share holders who have accepted and fully paid up their allotment can

renounce the actual certificate in favor of third party. Because of non transferable instrument, such practices are not seen in Nepalese context.

- 6) Listing of the share in the NEPSE again with increased number which must approved by the stock exchange after which an application for listed new share could be made.

2.1.8.13 Rules and Regulation Regarding Right Issue in Nepal

Company ordinance 2062 is the main act that regulates the establishment and issue of securities of any company. But in case of right share issue, company ordinance is silence and do not mention about the procedure and method. Securities Registration and Issue Approval Guidelines, 2000 has mentioned in its article number five that the firms that has already gone to public can issue right share to acquire additional capital if it is enlisted in stock exchange, after full payment of face value of securities issued earlier. The procedure regarding right share issue is similar to common stock issue.

2.1.9 Evolution of the Capital Market in Nepal

The history of the capital market in Nepal dates back to the era of Rana priminister Juddha Shamsher when Gunjaman Singh, the first secretary at Nepalese Embacy in England returned back to Katmandu and set up the 'Industrial Council'. The council drafted company act and Nepal Bank Act for the first time in 1936. Biratnagar Jute Mills Ltd. Initiated the first public flotation of shares in the securities market in 1937. In the same year Nepal Bank Ltd also issued the shares. However at that time the participation on the ownership structure of the corporate sector was restricted mostly to the Rana Family.

In 1951 the 'company Act 1951' was introduced and first issued of government bond in 1964 was other important developments relating to capital markets. The establishment of securities exchange center (SEC) in 1976 was the first and most important attempt by the government. After the establishment of the SEC under company act, institutional development of the security market in Nepal was started.

The function of SEC was very limited on trading government bonds and national saving certificates only, which had predominantly held by Nepal Rasta Bank. SEC started secondary market for the corporate securities in 1984.

Securities Board of Nepal (SEBON) was established in 26 May 1993 after the first amendment in the Securities Exchange Act 1983 became effective. After the eighteen years of incorporation, HMG Nepal converted Security Exchange Center into Nepal Stock Exchange (NEPSE) on 16 May 1993, under a programme initiated to develop a competitive and efficient security market. Thus, NEPSE has the basic objective to impart free marketability and liquidity to government bonds.

The history of security market in Nepal start from Biratnagar Jute Mill issued 8,000 ordinary share of Rs. 100 each.

The first Securities Exchange Act was enacted in 1983 to regulate the trading of securities in Nepal. The Act restricted the exchange of unlisted securities and provided the role of stock exchange.

NEPSE is the sole organization for the operation of secondary market for listed companies. NEPSE is working under Security Board Nepal (SEBON). Following rules and regulations are followed by the issuing companies, investors, and broker in the securities market of Nepal.

Prevailing Securities Legislation

Security Exchange Act, 1983

Security Exchange Regulation, 1993

Membership of Stock Exchange and Transaction Bylaws, 1998

Securities Listing Bylaws, 1996

Issue Management Guidelines, 1997

Securities Allotment Guideline, 1994

Securities Registration and Issue Approval Guidelines, 2000

Guidelines on Business Code of Ethics for Securities Broker, 2001

Bonus Share Issue Guidelines, 2001

Other Related Acts.

Companies Act, 1997

Insurance Act, 1992

Commercial Bank Act, 1974

Finance Companies Act, 1986

Foreign Exchange (regulation) Act, 1962

Foreign Investment and Technology Transfer Act, 1992

The Securities Exchange Regulation 1993 implemented in 1993. The regulation has detailed the functions, power and duties of securities exchange board (SEBO). Regulation also provisions regarding the licensing of stock exchanges, their operation, registration and listing of securities. The regulation has been amended in 1995 and 1998.

Board is empowered to issue guidelines and directives to the stock exchange, issuing company and broker. Board has issued securities registration and issue Approval of Securities, 2000 to regulate the issue of securities by companies. Similarly, Board has issued the securities allotment guideline 1994 to make the share distribution among general investors fair and transparent. Board has also issued the issue management guidelines 1997 for the management of sale of securities.

NEPSE is empowered to issue securities listing by laws 1996 to regulate listing and trading of securities. Bonus share issues guidelines 2001 were effective in 2002. SEBO has drafted the new securities regulations to meet the changing needs of the market.

2.2 Review of Journals and Articles

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

According to Nickolaos V. Tsangarakis who is associated with national bank of Greece common stock price reaction to announcements of common stock offerings in Greece during the period 1981-1990. Equity offerings in Greece take the form of “rights issues” rather than “general cash offers”. From the study, He states that in Greece, the lack of the active secondary market for rights suggests large current – shareholders participation in the issue, thus reducing significantly the adverse-selection cost of the type described in Myers and Majluf (1984). Further more, rights offering in Greece lead to much larger increases in the firms’ capital relative to the corresponding increase reported in earlier studies. This has two important implications. First, rights offers substantially increase to supply of share of common stock, making this sample ideal for testing the price pressure hypothesis. Second, they are associated with large infusions of capital, providing, therefore, a good sample to test fore asymmetric information effects of the type analyzed in Miller and Rock (1985)

Furthermore, stock ownership in Greece is concentrated in the hands of a few shareholders, making both the agency and adverse information effects less severe relative to countries analyzed in prior studies. In addition, the lax financial reporting requirement (at least for the sample period), along with the lack of an active corporate bond market, make equity offering the major credible outlet for the release of important information into the capital market. In such an institutional setting, announcements of rights offering are likely to be perceived as hard evidence of the firms’ positive prospects, implying a positive stock –price reaction.

contrary to the predication of the Millar and Rock (1985) hypothesis, rights issue in Greece are associated with statistically significant positive abnormal stock return, indicating that rights issue announcements are considered good news. These findings agree with the evidence on rights issues in Korea, reported by Kang (1990), but differs from the evidence reported in prior studies for countries with developed capital markets.

he also furnish evidence that the abnormal returns are associated with the amount of capital raised relative to the existing capital, the degree of ownership concentration and the market conditions prevailing prior to the rights issue announcement. These findings provide further support for the view that rights issues in Greece are perceived as conveying positive information about the firms' outlook.

The evidence, based on the coefficients of the variable that measure the stock return variance and the size of the issuing firm, provides no support to the price pressure hypothesis. In addition, the stock-price reaction is not related to the level of the subscription price, providing no support to the signaling effect analyzed in Heinkel and Schwartz (1986). Also, abnormal returns are not related to the issuing firms' debt-assets ratio, providing no supporting to evidence for the existence of wealth redistribution effects. Nor do the findings reveal any relation between abnormal return and the liquidity of the firms' stock, the type of firm (state-owned versus non-state –owned), or the type of stock (registered versus bearer).

These findings are important because they help explain why the stock market price reaction to equity offerings varies according to issuing method, being negative for general cash offers and less negative to positive for rights issues. his results also offer a possible explanation for why abnormal returns associated with rights issue announcements vary across countries, being negative or zero in countries with developed capital markets and large ownership dispersion, but positive in countries with less developed capital markets and large ownership concentration.

while prior studies, relying on US data, have shown that announcement of general cash offers are associated with a significant price reduction of 3%, on average, of the firms' outstanding common stock, the evidence regarding rights issues is mixed.¹ for example,

Nelson, in 1985 examining all rights offering in the US for period 1946-1957, finds that share price six month after rights offerings are not significantly different from price six month prior to the offering.

Scholses, in 1972 investigating US rights issues for the period 1926-1966, finds that price of the share generally rise before the issue, fall by 0.3% during the month of the issue, but do not change after the issue.

Smith, in 1977 using monthly returns, finds no significant excess returns during the month of a rights offer.

Marsh, in 1979 analyzes rights issues in the UK and finds large positive abnormal returns prior to the announcement of the issue, but statistically insignificant set back in the months surrounding the issue itself.

White and Lusztig, in 1980 and Hansen, in 1988 document a negative reaction to rights offer announcements.

Loderer and Zimmermann, in 1988 investigate rights issues in Switzerland using monthly stock returns and report insignificant average abnormal returns.

Kang, in 1990 examining rights issues in Korea, finds a significant stock price increase during the period surrounding the announcement of a rights issue.

Kothare, in 1991 investigating US rights offering for the period 1970-1987, reports negative (statistically significant) announcement period abnormal returns.

Eckbo and Masulis, in 1992 examining rights offerings in the US for the period 1963-1981, report negative (marginally significant) announcement period abnormal returns.

There is a key difference between the studies on general cash offers and those on rights issue. Studies of general cash offers rely mainly on US data, while studies of rights issue cover various countries. Interestingly, the study from Korea reports strikingly different findings from those of the US and UK studies. This disparity suggests that the mixed

evidence in rights offerings may reflect the different institutional characteristics of the associated countries, making further research potentially useful.

For several reasons, presented in the next section, Nepal is an appropriate country for further investigation of the valuation effects of rights issue.

According to Peter W. Bacone who is the associated professor of finance at wright state university, viewed collectively, the findings summarized in this article imply that financial managers heretofore may have been overly concerned with the possible disadvantages of under pricing rights offerings. The evidence suggests that the grater the concession from market price, the higher will be the probability of a successful issue. Moreover, increasing the size of the discount apparently has no adverse effects on the performance of the firm's stock –at least in the short run. in fact ,there is evidence to suggest that the opposite may be true – that the higher the discount and , particularly, the larger the split effect inherent in the offering, the better the stock performs relative to it predicted price adjusted for the market movements.

Can the financial manager guarantee a more successful offering or a more favorable price by substantially under pricing a rights issue? The test statistical evidence suggests that although increasing the size of the discount apparently can have a favorable impact in success and price performance ratios, the impact is small. many others factors, such the size of the issue, distribution of ownership, the current trend and tone of the market, and particularly the prospects of the issuing company may all have an important bearing.

It does appear, however, that the financial manager is not facing a dilemma when he sets the subscription price. Rather, he can concentrate on minimizing his primary risk- the risk that the market price will fall below the subscription price during the offering period.

2.2.3 Review of Master's Thesis

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

Gautam, B. (2000) had done research on "An Analysis of Share Price Movement Attributed to Right Offering Announcement" "this study has set out the following objectives.

- To analyze the inadequacy of the company Act 2053 BS. In regard to section 21 that explain about the matters to be disclosed in the issue prospectus.
- To finds out if there is significant change in share price effect the announcement of right offering.
- To find out if there is any problem in the primary issue of securities.
- To prescribe some polices that will help to ratify the current problems in the issue in the issue of securities.

His findings are as follows:

- Company Act is not clear regarding the issue of rights offerings and subsequent allotment of the rights share.

- Company Act has nowhere mentioned about necessity of legally transferable rights instrument called rights, which must be mailed to the stockholders for each stock held before the right offering.
- SEBON has failed to establish a “one window policy” causing various imbroglios for the companies that want to go primary issue market for raising the capital.
- Till the date there is no enactment if the “investors protection Act”
- Out capital market has made lest of use the “capital market instrument” contingent securities like warrant and convertibles, options and other various kinds of debenture are not in practices.
- Company Act with regards to the content of the issue prospectus is deemed to be insufficient in the ground that, it does not mention the companies are required to specify on the issue prospectus about the risk category on which their business fall.

Gharti, P. (2001) had done research on “Bonus share announcement and impact on stock price of Nepalese corporate firms”. This study has set out the following objectives:

- To examine the relation between share price rise and bonus ratio.
- To examine the relation between share price rise and bonus share.
- To evaluate the relation of bonus share announcement and stock price.
- To remove some of widely held misconception about bonus share.
- To point out suggestions to the related bodies.

His major findings are as follows:

- The immediate share price rise after bonus announcement is significant. Bonus share announcement of banking sector is considered positively by the investors but shown reluctant for the non-banking sector that the price decrease immediately after bonus announcement.
- The intention of issue bonus share of board of directors leaks out before official announcement. Therefore, the share price rises one month before the actual announcement due to the activities of the ‘insiders’
- The share price, in most of the cases, does not decrease after distribution of bonus according to bonus ratio as theory says; the reason behind the situation may be that the investors cannot interpret the information and data. There is a great misconception about bonus share that the general investors think that they receive extra/additional share with same value.
- The share price of the non-banking sector shows inconsistency as compared to the banking sector. Therefore, investing on non-banking sector is more risky than the banking sector.
- Long-term effect of bonus share issue, as well as immediate, is significantly positive. In most of cases the aggregate market valuation of the corporate firm’s equity capital increased as the result of bonus issue. 81.2 percent of the bonus issue is recorded different level gain over the base date price, after adjusting of the general market movement in share prices.

Neupane, D. (2008) had done research on “A study on the rights share practice in Nepal and its impact on share price of listed companies” this study has set out the following objectives”

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

His findings are:

- Shareholders are not clear about the rights offering its benefit and impact on their wealth position. So, government should inspire them by good governance and provisions regarding rights share.
- To attract the investments, the issue prospectus should provide a clear picture of both the systematic and unsystematic risk of the business that will be make fear trade between risk and return.
- Critical factors affect the share price and subscription on the holder’s record date. The investors who purchase the share after that day are unable to get share. This can be better to set the proper holder record date by issuing companies.
- Nepalese investors are not all aware about right offering. Therefore, to increase awareness for investors some technique like interaction, used of information technology through media etc should be managed by related companies and government.

- There should be need of investment protection Act that helps to investors confidence and secured.
- Company Act 2053 is silent about the procedure and mechanism of rights issue. So, is should make rights share transferable that helps to solve the problem of under subscription.
- Most of the corporate firms do not maintain their dividend quantum 62.5 percent of the companies did not maintain their dividend quantum and of course not dividend rate.
- Nepalese capital market is speculative oriented; it takes more consciously bonus share announcement than the cash dividend announcement. Whatever the dividend policy of the company the immediate impact and a year are significantly positive.
- The companies announce bonus share without frequently cash whether the company is intended to increase future dividend (return) of not. The immediate response of the market is not sufficiently rational.
- The public, in most of the cases, was provided very little information about real motives behind an issue if bonus shares.
- The adjusted share price of the bonus ratio above 30% to 50% (consisting only 1:2 bonus ratio) increased by 58 percent one year after bonus share announcement with the least standard deviation of 6.6. Therefore, the bonus ration 1:2 has good response even one year bonus announcement, which is firm's real equity capital increment.

2.4 Research Gap

By the revision of above mentioned studies, it is found that different studies have different area of coverage. Some researchers have not focused on financial analysis and some others have not considered statistical analysis such as correlation, t-test, ANOVA test etc. Furthermore, some researchers have made their studies on two, three, four or five firms only. In this context, present study is different from these previous studies as I have used statistical tools (correlation test, pair t-test, one way ANOVA) of eight sample companies on which five banks and three finance companies.

In this study the researcher has taken ten days share price before and after the rights announcement and compares their average price through the different statistical tools between before and after the announcement. Till now, no one has considered the right and wealth position. The major concentration of this present thesis is to make clear picture about rights and wealth position by using the different statistical and financial tools like T-test, correlation test, ANOVA test etc of the sample companies. The main objectives are mentioned in chapter-I. Most of the previous researcher has used secondary data of mostly four/five years. But in this study, researcher has used at least eight samples of different companies such as banking, finance etc. and primary and secondary both types of updated data are used as per required. In sum this study is different than the others related studies according to sampling procedure and size, methodology and mainly objectives.

CHAPTER- III

RESEARCH METHODOLOGY

This chapter describes the methodology used in this study. Research methodology is the systematic method of finding solution to a problem i.e. systematic collection, recording, analysis, interpretation and reporting of information about various facts of a phenomenon under the study. This chapter includes research design, population and sampling procedure, sources of data and analysis techniques.

3.1 The Research Design

This research study attempt to analyze the rights share and its effect on shareholders wealth position in Nepal. Hence, to fulfill the objective of the study, both primary as well as secondary data are used and descriptive and analytical research design has been used. However, ex-post facto research design has also been adopted for the analysis of secondary data.

3.2 Population and Sample

The universe or population for this study comprised of all rights issuing public Ltd. Companies of various sector viz. banking sector, finance sector, manufacturing and processing sector, insurance sector, trading sector, hotels and other sector. Out of them, five commercials banks, i.e. Nepal SBI Bank Ltd, Everest Bank Ltd and Kumari Bank Ltd, Bank of Katmandu Ltd and Siddhartha Bank Ltd. and three finance companies i.e.

Narayani Finance Co. Ltd., Alpice Everest Finance Ltd., and Siddhartha finance co. Ltd. Those are in existing and doing share transaction in NEPSE, are considered as the sample for the study. Those samples are obtained from convenience sampling.

Corporate Right Share in Nepal (Fiscal Year 1993/94 -2006/07)

Table 4.1

(Rs. In million)

S.N.	Issuer	Issue Amount	Issue Date	Subscription (%)	Issuer Manager
Fiscal Year 1995/96					
1	Nepal Finance & Saving Co. Ltd.	2.00	01/12/1995	-	-
2	Seti Cigarette Factory Ltd.	67.00	11/07/1996	77.90	-
	Total	69.00			
Fiscal Year 1996/97					
3	Himalayan General Ins.Com. Ltd.	30.00	-	-	AFC
4	Bottlers Nepal Ltd.	225.20	14/04/1997	-	CIT
5	Nepal Share Market & Fin. Ltd.	20.00	06/07/1997	100.00	AFC
	Total	275.2			
Fiscal Year 1997/98					
6	Nepal United Com. Ltd.	3.01	18/02/1998	44.41	NFCL
7	Nepal Bank Ltd.	241.95	25/12/1997	-	CIT
8	Annapurna Finance Com. Ltd.	5.00	03/03/1998	81.72	NFCL
	Total	249.96			
Fiscal Year 1998/99					
9	Nepal Share Market Ltd.	30.00	09/06/1999	-	AFC
	Total	30.00			
Fiscal Year 1999/2000					
10	Necon Air Ltd.	89.60	03/03/2000	95.31	CIT
11	Paschimanchal Fin.Com. Ltd.	20.00	14/03/2000	129.65	NSML
12	Ace Finance Co. Ltd.	15.00	11/04/2000	100.00	NSML
	Total	124.6			
Fiscal Year 2000/2001					

13	Narayani Finance Ltd.	12.58	28/03/2001	122.02	NSML
14	Everest Bank Ltd.	119.21	11/07/2001	27.17	CIT
	Total	131.79			
Fiscal Year 2001/2002					
15	Bank of Katmandu Ltd.	234.00	31/08/2001	98.30	NCML
16	Nepal Housing & Merc. Fin. Ltd.	15.00	07/01/2002	100.00	NSML
17	Ace Finance Ltd.	45.00	25/02/2002	100.00	NSML
19	Nepal SBI Bank Ltd.	287.87	25/03/2002	97.26	NMB
20	NIDC Capital Market	40.00	08/04/2002	95.00	CIT
	Total	621.87			
Fiscal Year 2002/2003					
21	Nepal Investment Bank Ltd.	57.24	27/09/2002	97.42	NCML
22	Nepal Share Market & Fin Ltd.	60.00	29/01/2003	85.35	CIT
23	Mahalaxmi Finance Ltd.	25.00	28/02/2003	-	NFCL
24	People Finance Ltd.	20.00	03/06/2003	56.69	NCML
	Total	162.24			
Fiscal Year 2003/2004					
25	Alpic Everest Finance Ltd.	20.00	04/09/2003	100.51	NEFINSCO
26	Siddhartha Finance Ltd.	20.00	09/12/2003	88.84	NEFINSCO
27	NB Finance & Leasing Com. Ltd.	30.00	15/06/2004	66.84	NSMB
	Total	90.00			
Fiscal Year 2004/2005					
28	Nepal Bangladesh Bank Ltd.	359.92	16/07/2004	95.26	NSMB
29	Annapurna Finance Com. Ltd.	20.00	05/11/2004	97.33	NCML
30	Nirdhan Utthan Bank Ltd.	15.00	25/04/2005	65.92	NMB
31	Nepal SBI Bank Ltd.	215.93	03/05/2005	96.50	NMB
32	Nepal Investment Bank Ltd.	295.29	13/05/2005	99.04	AFC
33	National Finance Co. Ltd.	43.20	15/06/2005	97.06	NCML
	Total	949.34			
Fiscal Year 2005/2006					
34	Development Credit Bank Ltd.	80.00	24/08/2005	95.87	NMB
35	Kumari Bank Ltd.	125.00	21/12/2005	153.46	NCML
36	Fewa Finance Co. Ltd	30.00	18/01/2006	97.40	NMB

37	Om Finance Co. Ltd.	30.00	18/01/2006	99.66	NMB
38	Goodwill Finance Ltd.	25.00	03/03/2006	94.96	NCML
39	Janaki Finance Co. Ltd.	10.00	15/03/2006	98.33	NEFINC O
40	Central Finance Co. Ltd.	12.00	26/03/2006	98.32	NCML
41	Taragaun Regency Hotels Ltd.	446.45	26/03/2006	57.45	NCML
42	Machhapuchere Bank Ltd.	165.00	25/05/2006	87.13	NMB
43	Kist Merc. Banking & Fin. Ltd.	50.00	30/05/2006	78.01	NMB
44	Nepal Share Marker & Fin. Ltd.	40.00	04/06/2006	90.94	CIT
	Total	1013.45			
Fiscal Year 2006/2007					
45	Pokhara Finance Ltd.	20.00	20/06/2006	99.00	NMB
46	Lumbani Bank Ltd.	100.00	13/08/2006	100.00	NCML
47	Paschimanchal Bikash Bank Ltd.	28.00	20/08/2006	76.00	NCML
48	Alpic Everest Finance Ltd.	20.00	07/09/2006	96.00	NMB
49	People Finance Ltd.	40.00	28/09/2006	56.00	NCML
50	Chhimek Bikash Bank Ltd.	20.00	27/10/2006	81.00	NMB
51	Nepal Development Bank Ltd.	160.00	25/12/2006	54.00	NCML
52	Ace Finance Co. Ltd.	194.00	31/01/2007	99.00	NCML
53	Nawadurga Finance Co. Ltd.	11.00	02/02/2007	99.00	NEFINSC O
54	Annapurna Finance Co. Ltd.	80.00	09/02/2007	99.00	NCML
55	Laxmi Bank Ltd.	122.00	25/04/2007	98.00	NMB
56	Capital Merc. Banking & fin. Ltd.	84.00	27/04/2007	80.00	CIT
57	Yeti Finance Co. Ltd.	6.30	29/04/2007	83.00	NCML
58	Business Development Bank Ltd.	30.00	11/05/2007	100.00	AFC
59	Kist Merch. Bank & Finance Ltd.	100.00	23/05/2007	99.00	NCML
60	Siddhartha Bank Ltd.	100.00	04/06/2007	99.00	AFC
61	Lumbani Bank Ltd.	150.00	19/06/2007	-	AFC
	Total	1265.30			

Source Annual Reports of SEBO/N

In fiscal year 1995/96, only two companies comprising one finance and other is manufacturing company issued right share amounting to Rs. 69.00 million. Nepal Finance & Saving Co. Ltd. Is the first right share issuing company in Nepal. And Seti Cigarette Factory Ltd. Is the second one.

In fiscal year 1996/97, three companies, in 1997/98, three companies, in 1998/99, one company, in 1999/2000, three companies, in 2000/2001, two companies, in 2001/2002, five companies, in 2002/2003, four companies, in 2003/2004, three companies, in 2004/05, six companies, in 2005/06, eleven companies and in 2006/07 sixteen companies issued the right share amounting to Rs.69m, Rs.275.2m, Rs.249.96m, Rs.30m, Rs.124.6m, Rs.131.79m, Rs.621.87m, Rs.162.24m, Rs.90m, Rs.949.34m, Rs.1013.45m, Rs.1265.30 respectively. In fiscal year 2006/07, 16 companies comprising three commercial banks, four development banks, and nine finance companies issued right share amounting to Rs. 1265.30. The detail on securities issue in the fiscal year 2006/07 presented in above table no. 4

There are five trading companies listed in Nepal Stock Exchange and they have not yet been issued any right share in Nepal. And one insurance company and one hotel issued right share i.e. Himalayan General Insurance Company, Taragaon Regency Hotels Ltd. out of sixteen insurance company and four hotels listed in NEPSE.

The table below describe about the population and sample of rights issuing companies.

Table 4.2

Types of Listed Companies	Total Population	Sample Size	Sample Percentage (%)
Rights issuing commercials banks	16	5	31.25
Rights issuing Finance Companies	23	3	13.04
Total	39	8	

Source: Annual Report of SEBO/N (2006/07)

3.3 Nature and Sources of Data

Once the object and scope of the enquiry are finalized, once has to determine the sources from which the required informations are obtained. Generally, there are two sources of data – primary source and secondary source. The data collected for the first time by the investigator for the purposed inquiry are called primary data. Very often investigator can used the data which have already been collected by others. Then it is called the secondary data. The require data for the study are collected from the primary and secondary sources. Securities Board of Nepal is the main institution which provides most of the data required for the study. Secondary data are available through published and unpublished sources. The web site of SEBO/N is <http://www.sebo@ntc.net.np>. And its annual reports are the major sources of secondary data. Besides, data or informations are collected from Nepal Stock Exchange, different web sites, income statement and balance sheet of concern companies. And primary data are collected from individual investors, bank officials, SEBO/N and NEPSE staffs and other related personalities through the methods of questionnaire and interview.

3.4 Tools for the Analysis

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic. (Cottle Etal: 1988, 29). The empirical results have been extracted in this study by using annual data of listed companies from 1993/94 to 2006/07.

Statistical tools are the key for the analysis of numerical data in most of the research. In this study, data will be analyzed through the tabulation, multiple bar diagram, pie- charts, graph and other statistical and financial tools to implicit the comparative result.

Statistical Tools

Statistical tools help to measure the relationship between the variables. Mainly, correlation coefficient, coefficient of determination, probable error and t-test are calculated for examining the relationship between variables.

Arithmetic mean

The most popular and widely used measure of central tendency is the arithmetic mean. It is also called simply 'the mean'. The sum of all the observations divided by the number of observations is called arithmetic mean.

The formula for calculating the mean

$$\begin{aligned}\text{Mean } (\bar{X}) &= \frac{X_1 + X_2 + X_3 + X_4 + \dots\dots\dots X_n}{n} \\ &= \frac{\sum x}{n}\end{aligned}$$

Where, $\sum x$ = the sum of observations

n = no. of observations

Median

The median is the middlemost or most central item in the set of numbers. In other words, the median is a single value which divides the total number of observation into two equal parts such that 50% of the items lie above median value and 50% of the items lie below median value. As distinct from the arithmetic mean which is calculated from the value of all the items of the distribution, the median is what is called a positional average. It is denoted by M_d .

Simply, the median is defined by following formula.

$$M_d = \text{size of } \left(\frac{n+1}{2} \right)^{\text{th}} \text{ item,}$$

Where, n = no. of observations.

Standard deviation

It is the best measure of dispersion. It is an improvement over the mean deviation and is free from the defects of other measures of dispersion. The standard deviation is defined as positive square root of the arithmetic mean of the square deviations from their arithmetic mean of a set of value. It is also known as 'Root Mean Square Deviation'. It usually denoted by the Greek letter σ (small sigma).

$$\text{Thus, } \sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

Where, n = no. of observations.

Correlation Analysis

There are various ways of measuring the relationship existing between variables of an economic and social phenomenon. The simplest is correlation and regression analysis. We will start from correlation analysis as it gives a simple relationship between the variables and provides an essential tool for regression analysis to measure the improvement brought by regression.

Correlation may be defined as the degree of linear relationship existing between the variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. The value of correlation lies between (+1 to -1).

Formula for calculating correlation coefficient(r).

$$r = \frac{\sum xy}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

Probable Error

The probable error is used to measure the reliability and test of significance of correlation coefficient. It is calculate by the following formula

$$\text{Probable error (P.E)} = 0.6745 \frac{1-r^2}{\sqrt{n}}$$

Where, r = the value of correlation coefficient

n = number of pair of observation

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

- i. If $r < \text{P.E.}$, it is significant, i.e. there is no evidence of correlation.
- ii. If $r > \text{P.E.}$, it is significant.

- iii. If P.E. $< r > 6PE$ nothing can be concluded.
- iv. By adding and subtracting the value of probable error from the coefficient of correlation coefficient in the upper and lower limits respectively within which correlation coefficient in the population can be expected to lie. Symbolically correlation in the population = $r \pm P.E.$

T-test

T-test is used when sample size is considerably small i.e. < 30 . So it is called small sample test. Generally, when sample size is less than 30 and population standard deviation is not given, for this case the small sample test i.e. t-test is used. The test statistic for the small sample test is given by,

$$t = \frac{\bar{X} - \mu}{s/\sqrt{n}} \sim t_{n-1} \text{ (follows t-distribution with } n - 1 \text{ degree of freedom)}$$

Where, \bar{X} = sample mean = $\frac{\sum X}{n}$

s = unbiased estimate of the population standard deviation.

$n - 1$ = number of degree of freedom.

Test of Analysis of Variance (ANOVA)

In ANOVA test, the test statistic under the null hypothesis is given by,

$$F = \frac{\text{Sum of square between samples}/k - 1}{\text{Sum of square within samples}/n - k}$$

Where, k = No. of samples and n = Total number of observation

Degree of freedom = $(k-1, n-k)$

Financial Tools

Financial tools help to find the value of right before and after the right offering and also help to find the position of shareholders wealth through the company's balance sheet.

Value of a right

Right on:

$$\text{Value of right } (v_r) = \frac{p_o - p^s}{\# + 1}$$

Ex-rights:

$$\text{Value of right } (v_r) = \frac{p_e - p^s}{\#}$$

Where, p_o = market value of stock, rights on.

p_e = Market value of stock, ex-rights.

$\#$ = no. of rights required to purchase one share.

p_s = subscription price.

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

Data presentation and analysis is one of the important part of the research work. So, this chapter analyzes the data obtained from both primary and secondary sources in order to fulfill the objectives of this study. The basic objective of this chapter is to analyze and elucidate the collected data following the conversion of unprocessed data to an understandable presentation. Thus, this chapter presents the analysis and interpretation of the data related to topic.

4.1 Trend of Rights Issue in Nepal

Initial public offering (IPO's) can either be underwritten or sold to general public or to be sold to the company's existing investors through a preemptive right offering. To reduce the offering costs of the shares, the old companies, (those which have already issued shares) issue them through right offering. And the procedure of issuing the securities through right offering is the same as that of registering the non-right issue. The right issue in Nepal is increasing every year. The following table shows the right issue since the fiscal year 1993/94 to 2006/07

Up to now (F/Y, 2006/07), there are 135 companies are listed in Nepal Stock Exchange. In fiscal year 1993/94 and 1994/95 no any companies issued the rights share. The starting of rights share was From F/Y 1995/96. Nepal finance and saving company was the first rights issuing company in Nepal (01/12/1995). The amount of issue approval was 2

million. In F/Y 1995/96, 2 companies had issued rights share to their existing shareholders amounting Rs. 69.00 million out of Rs. 293.74 million of total public flotation. There were 3 cases of rights issue in 1996/97 and 1997/98, 1 case in 1998/99, 3 cases in 1999/2000, 2 cases in 2000/01, 5 cases in 2001/02, 4 cases in 2002/03, 3 cases in 2003/04, 6 cases in 2004/05, 11 cases in 2005/06 and 17 cases in 2006/07. All the companies had issued their rights share at par value i.e. Rs. 100 per share because according to company act 2053, no company can issue rights share at discount. Premium can be added but due to fear of under subscription no company had added any premium on their issue. By observing the above mentioned data and given table (Table no.5.1) we can conclude that the trend of rights issue is increasing.

Rights issue during fiscal year 1993/94 to 2006/07

Table 5.1

Fiscal Year	Rights shares				Total Issue Amount (in million)
	No. of Companies	No. of Issued	Rights Issue amount (in million)	Percentage (%)	
1993/94	-	-	-	0	224.40
1994/95	-	-	-	0	173.96
1995/96	2	2	69.00	23.49	293.74
1996/97	3	3	275.2	82.84	332.20
1997/98	3	3	249.96	58.62	462.36
1998/99	1	1	30.00	11.63	258.00
1999/2000	3	3	124.6	38.11	326.86
2000/01	2	2	131.79	32.11	410.49
2001/02	5	5	621.87	43.15	1441.33

2002/03	4	4	162.24	29.16	556.54
2003/04	3	3	90.00	8.76	1027.50
2004/05	6	6	949.34	58.36	1626.82
2005/06	11	11	1013.45	41.48	2443.28
2006/07	16	17	1265.30	55.12	2295.50
Total		59	4982.75	41.90	11893.20

Source: Annual report of SEBO/N, 2006/07

Table 5.1, indicates that during the period of fiscal year 1993/94 to 2006/07 SEBO/N approved the right issue amounting of Rs.4982.75 million which is equal to 41.90% of total issue approved and in term of number it approved 59 issues which is equal to

30.10% $\left[\frac{\text{rights issue}}{\text{total issue}} = \frac{59}{196} = 30.10\% \right]$ of total number of issue approved during the

period.

Similarly, during the study period the three highest issues approved for right offering are Rs 1265.30million in fiscal year 2006/07, 1013.45 million in fiscal year 2005/06 and 949.34 million in fiscal year 2004/05 respectively and total issue approved(rights and others) during the fiscal year 2005/06 (Rs.2443.28 million) is highest issue approved among all of them. However, the lowest three rights issues approved during this period are Rs 30 million in fiscal year 1998/99, Rs. 69 million in fiscal year 1995/96 and Rs.90 million in fiscal year 2003/04. The total issue approved during the fiscal year 1994/95 (Rs. 173.96 million) is lowest issue approved among all. But, in fiscal year 1993/94 and 1994/94 SEBO/N did not approve any rights issue for the existing shareholders.

Likewise, the highest number of issue of right shares approved by SEBO/N during this period is 17 issues in fiscal year 2006/07 whereas the lowest number of issue approved is 1 issue in fiscal year 1998/99.

In the fiscal year 2006/07, the case of rights issue is very large. There are 17 cases of rights issue by 16 companies. Lumbabini Bank Ltd. made two times its rights share to the existing share holders. Out of 16 companies comprising three banks, four development banks, and nine finance companies issued rights shares amounting to Rs. 1265.30 million. The detail on securities issue in the fiscal year 2006/07 is presented in table no.5.2

Rights Issue in the Fiscal Year 2006/07

Table 5.2

S. N	Name of the Company	Amount	ratio	Issue date	Subscription (Times)
1	Pokhara Fin. Ltd.	20.0	2:1	20/07/2006	0.99
2	Lumbani Bank Ltd.	100.00	5:1	13/08/2006	1.00
3	Paschimanchal Bikas Bank Ltd.	28.00	1:1.4	20/08/2006	.76
4	People Fin. Ltd.	40.00	1:1	28/09/2006	0.56
5	Alpic Everest Fin. Ltd.	20.00	2:1	08/10/2006	.96
6	Chhimek Bikas Bank Ltd.	20.00	1:2	27/10/2006	.81
7	Nepal Bikas Bank Ltd.	160.00	1:1	25/12/2006	.54
8	Navadurga Fin. Co. Ltd.	11.00	2:1	02/02/2007	.99
9	Ace Fin. Co. Ltd.	194.00	1:1.53	31/01/2007	.99
10	Annapurna Fin. Co. Ltd.	80.00	1:1	09/02/2007	.98
11	Laxmi Bank Ltd.	122.00	5:1	25/04/2007	.98

12	Capital Merc. Banking & Fin. Ltd.	84.00	1:1.2	27/04/2007	.80
13	Yeti Fin. Ltd	6.30	4:1	29/04/2007	.83
14	Business Dev. Bank Ltd.	30.00	1:1	11/05/2007	1.00
15	Kist Merc.Banking & Fin. Ltd.	100.00	1:1	23/05/2007	.99
16	Siddartha Bank Ltd.	100.00	5:1	04/06/2007	.99
	Lumbani bank Ltd.*	150.00	4:1	19/06/2007	-
Total		1265.30			

Source: Annual report of SEBO/N, 2006/07

* Lumbani bank Ltd. made two rights issue.

4.2 Sector-Wise Right Shares' Issue Approved

The situation of right shares' issue approved during the period of fiscal year 1993/94 to 2006/07 is presented in Table 5.3

Sector-wise Rights share issue approved of year 1993/94 to 2006/07

Table 5.3

Sector	No of company	Amount approved (Rs in million)	% of approved amount
Finance Companies	23	1195.08	23.98%
Commercial Banks	11	2408.41	48.33 %
Insurance Companies	1	30.00	0.60 %
Development Banks	6	333	6.68%
Manufacturing & processing	2	292.20	5.86 %
Trading	0	0	0
Hotel	1	446.45	8.96
Other	2	92.61	1.86 %
Total	46	4982.75	

Source: SEBO/N Annual Report

Figure 5.1

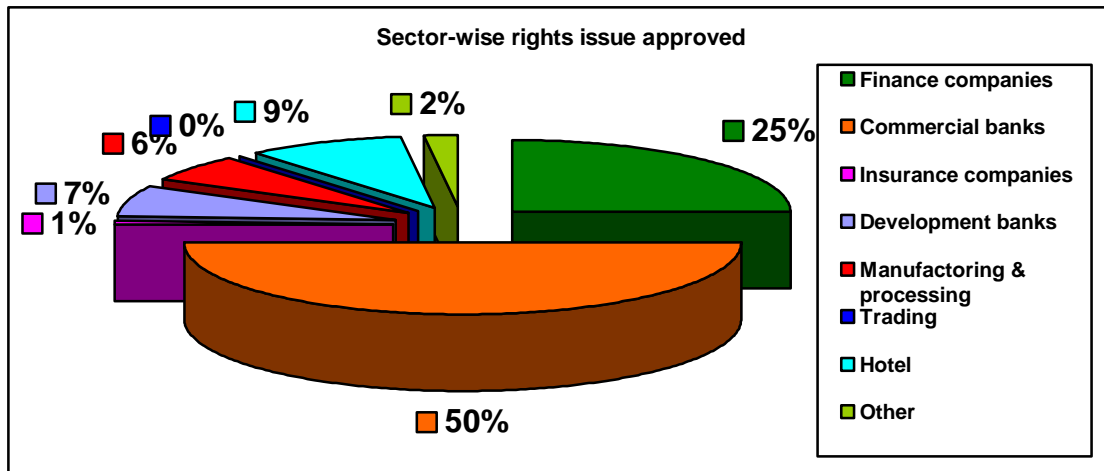


Table 5.3, shows that during the period of 1993/94 to 2006/07 there are 59 rights issue by 46 listed companies comprising 23 finance companies, 11 commercial banks, 1 insurance company, 6 development banks, 2 manufacturing and processing, 1 hotel and 2 other companies issued their rights shares to existing shareholders. The total amount of issue was Rs. 4982.75 million (from 1993/94 to 2006/07) comprising finance companies amounting Rs. 1195.08 million (23.98%), commercial banks amounting Rs. 2408.41 million (48.33%), insurance companies amounting Rs. 30 million (0.60%), development banks amounting Rs. 333 million (6.68%), manufacturing processing companies amounting Rs. 292.2 million (5.86%), hotel sector amounting Rs. 446.45 million (8.96%) and other sector amounting Rs. 92.61 million (1.86%). during the period, commercial banks issued the highest amount of rights share to existing shareholders then finance companies take place the second highest position and only one hotel i.e. Taragaun Regency Hotel Ltd. issued the single time amounting Rs. 446.45 million which takes place third position. similarly only one insurance company i.e. Himalayan General Insurance Co. Ltd., issued its rights share amounting Rs. 30 million which is the lowest issue approved sector during the period, then other sector issued second lowest position

amounting Rs. 92.61 million and development banks sector issued Rs. 333 million which takes place third lowest position out of total other sector issue approved. finally, till now no any listed trading sector has been issued rights share.

4.3 Share Prices Before and After the Rights Announcement.

Daily MPS of Ten Days before Rights Announcement Date

Table 5.4

Sample Companies	Period										\bar{X}
	-10	-9	-8	-7	-6	-5	-4	-3	-2	-1	
NFL	310	310	310	310	450	465	460	280	270	270	343.5
EBL	669	650	650	660	650	669	650	650	660	660	656.8
BOKL	450	446	440	424	420	425	416	400	383	382	418.6
NSBIBL	915	858	820	300	330	332	360	361	376	415	506.7
AEFL	186	190	135	136	136	142	145	145	150	150	151.5
SFL	140	140	140	147	150	150	150	150	150	150	146.7
KBL	300	325	300	315	326	325	330	341	345	345	325.2
SBL	595	600	590	590	590	590	595	605	610	620	598.5

Sources: www.nepalstock.com

Share Price of Sample Companies of Rights Announcement Date (0)

Table 5.5

Companies	Period (0)	Share price
NFL	28/03/2001	270
EBL	11/07/2001	660
BOKL	31/08/2001	385
NSBIBL	25/03/2002	420
AEFL	04/09/2003	155
SFL	09/12/2003	150
KBL	21/12/2005	340
SBL	04/06/2007	626

Sources: www.nepalstock.com

Daily MPS of Ten Days after Rights Announcement Date

Table 5.6

Sample Companies	Period										\bar{X}
	1	2	3	4	5	6	7	8	9	10	
NFL	270	260	260	260	250	250	250	255	255	250	256
EBL	700	750	615	600	600	600	600	600	605	610	628
BOKL	400	404	405	397	396	382	375	346	336	351	379.2
NSBIBL	430	391	376	415	400	400	415	410	415	420	407.2
AEFL	155	162	170	176	176	176	176	176	176	176	171.9
SFL	150	150	148	147	144	145	145	140	140	140	144.9
KBL	340	330	330	330	330	330	330	335	338	337	333
SBL	630	645	645	645	645	651	683	655	645	638	648.2

Sources: www.nepalstock.com

4.4 Comparison of Share Prices Before and After the Rights

Table 5.7

Samples	Before rights			After rights			Change in \bar{X}	Change (%)
	\bar{X}	<i>s.d</i>	M_d	\bar{X}	<i>s.d</i>	M_d		
NFL	343.5	76.81	310	256	6.24	225	-87.5	25.47
EBL	656.8	7.48	660	628	50	602.5	-28.8	4.38
BOKL	418.6	22.26	422	379.2	24.7	398	-39.4	9.14
NSBIBL	506.7	236.85	368.5	407.2	14.87	412.5	-99.5	19.71
AEFL	151.5	18.98	145	171.9	7.105	176	+20.4	13.46
SFL	146.7	4.47	150	144.9	3.726	145	-1.6	1.09
KBL	325.2	15.59	325.5	333	3.847	330	+7.8	2.40
SBL	598.5	9.76	310	648.2	13.23	645	+49.7	8.30

Refer to annex (1-16)

$$\text{Change \%} = \frac{APAP(0) - APBP(0)}{PABP(0)}$$

We can analyze from the above table 5.7 that there is no consistency in the result of all the banks and financial institutions taken for the study. Most of the sample companies i.e. NFL, EBL, BOKL, SBI and SFL have negative change in prices after rights issue. The range of negative is Min. 1.09% to Max.25.47%. But only three i.e. AEFL, KBL and SBL out of eight sample companies has positive change in price after the rights announcement date. The overall range is Min. -25.47% to Max. +13.71%.

In addition, there is less fluctuation on share price after the rights announcement. Theoretically after the rights issue, generally share price of the concerned companies move upwards till the date of issue closed there after share price is decreased by value of each rights. By observing the above table, we can conclude that share price is fluctuated after the right announcement in Nepal.

4.4 Correlation Coefficient between Average MPS Before and After the Rights Announcement

Table 5.8

Correlation Coefficient	Coefficient of Determination	Probable Error	6 P.E
r = .96	r ² = .9216 or 92.16%	P.E. = .0187	.1122

Refer to Annex (17)

Table 5.8, shows that there is high degree of positive (significant or reliable) correlation between before and after average share prices. It means there is a high similarity in share

prices between before and after the rights announcement. Coefficient of determination is .9216 or 92.16% which indicates that share prices (before and after) are depending on 92.16% each other. Probable error is 0.0187 and $6P.E$ is less than r or $r > 6P.E$ which indicates that it is significant.

4.6 Use of Pair t-test to Measure the Immediate Impact of Rights Offering

Table 5.9

Samples	NFL	EBL	BOK	SBI	AEFL	SFL	KBL	SBL
Before Rights (X)	343.5	656.8	418.6	506.7	151.5	146.5	325.2	598.5
After Rights (Y)	256	628	379.2	407.2	171.9	144.9	333	648.2

To analyze whether there is any significant change in share or not, pair t-test have been used. For this the researcher has taken the market price of share before and after 10 days of rights announcement date.

Testing of hypothesis:

Null hypothesis. H: $\mu_x = \mu_y$ i.e. there is no significant difference between market price of share before and after the rights announcement.

Alternative hypothesis: $\mu_x \neq \mu_y$ i.e. (two tailed test) there is a significant difference between the market price of share before and after the right announcement.

Test statistics:

Table 5.10

Level of significance	Degree of freedom	Calculated value	Tabulated value	Result
1%	$(n-1)=(8-1)=7$	1.2178	3.499	$T_{cal.} < T_{tab.}$ Insignificant
2%	7	1.2178	2.998	$T_{cal.} < T_{tab.}$ Insignificant
5%	7	1.2178	2.365	$T_{cal.} < T_{tab.}$ Insignificant
10%	7	1.2178	1.860	$T_{cal.} < T_{tab.}$ Insignificant

Refer to Annex (18)

Critical Value:

The tabulated value of t at 1%, 2%, 5% and 10% level of significance for two tailed test and for 7 degree of freedom are 3.499, 2.998, 2.365, and 1.860 respectively. Which are all insignificant.

Decision: since calculated value of t is less than all tabulated values of t. the null hypothesis is accepted in all level of significance. That is there is no significant change in market price of share after the right announcement.

4.7 Test of One Way Analysis of Variance to Measure for Significant Differences between Means.

Analysis of variance or ANOVA will allow the researcher to test the difference between two or more means. Here the researcher has taken the ten trading day's share price before and after the rights announcement. And analyze their average or mean of the share prices whether there is any significant difference between means or not.

Table 5.11

Samples	NFL	EBL	BOK	SBI	AEFL	SFL	KBL	SBL	Total
Bef. Rt.	343.5	656.8	418.6	506.7	151.5	146.5	325.2	598.5	3147.3
Aft. Rt.	256	628	379.2	407.2	171.9	144.9	333	648.2	2986.4
Total	599.5	1284.8	797.8	913.9	323.4	291.4	658.2	1246.7	6115.7

Testing of hypothesis:

Null hypothesis: H_0 : $\mu_B = \mu_A$ i.e. there is no significant difference in average share price between before and after the rights announcement

Alternative hypothesis: H_1 : $\mu_B \neq \mu_A$ i.e. there is significance difference in average share price between before and after the rights announcement.

Test statistics:

ANOVA TABLE

Source of variance (Sv)

Degree of freedom (D.f)

Sum of square (Ss)

Mean sum of square (Mss)

Table 5.12

Sv	D.f	Ss	Mss	F- ratio
Variation due to row	2-1 = 1	2000.325	2000.325/1	$\frac{2000.325}{33415.43} = .0598$
Variation due to error	16-2 =14	501231.489	501231.489/14	
Total	n-1 =15			

Refer to Annex (19)

Tabulated value of F at 5% and 10% level of significance for 1 and 14 d.f. is 8.86 and 4.60 respectively.

Decision: since calculated value of F is less than both tabulated value of F. so, null hypothesis i.e. H_0 is accepted in both level of significance. This means, there is no significance difference in average market price of share before and after the rights announcement.

4.8 Effect of Rights Issue on Shareholders' Wealth Position

Shareholders have the choice of exercising their rights or selling them. If they have sufficient funds and want to buy more shares of the company's stock, they will exercise the rights. If they do not have sufficient money or do not want to buy more stock, they will sell the rights. In either case, provided that the formula value of the rights holds true, share holders will neither benefits nor lose by the rights offering. A shareholder may suffer a loss if he forgets to exercise or sell his rights or brokerage cost of selling the rights are excessive.

In Nepal, through the various statistical tools show that there is no significance difference in market share price of the sample companies before and after the rights announcement which is applicable to all listed companies listed in SEBO/N. It means wealth position does not change or there is no effect of rights on shareholders wealth position. If there is significance change in company's share price, wealth position of shareholders can be calculated as follows;

Table 5.13

Value of stock (No. of share $\times P_e$)		xxxxx
Cash balance	xxxxx	
Add: cash from sale of rights (No. of rights sold $\times V_r$)	xxxxx	
Less: cash required to buy new share (No. of new share purchased $\times P^s$)	xxxxx	xxxxx
Total		
Total wealth		xxxxx

4.9 Primary Data Analysis

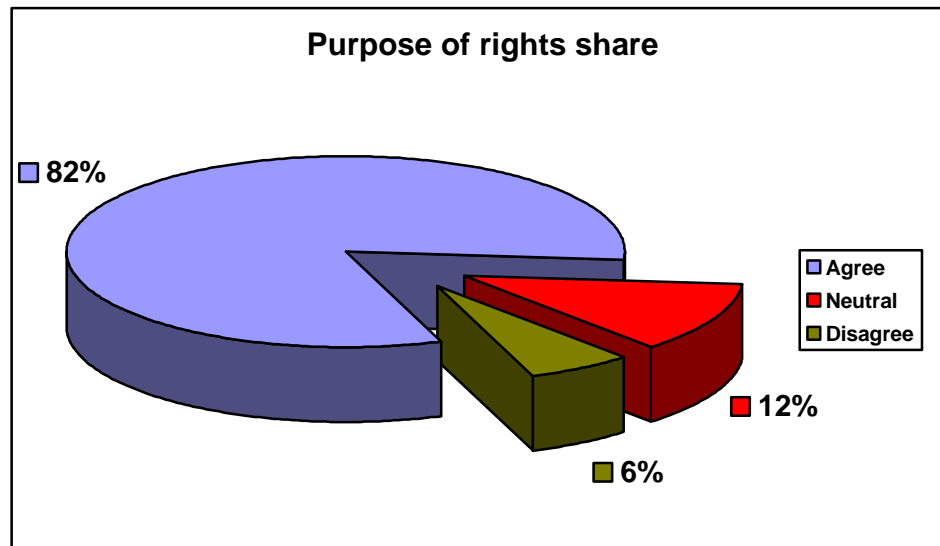
The researcher conducted the research taking 50 different personalities as sample for the public response to rights share in Nepal. During the research period researcher asked the questions about the causes of under subscription of rights in Nepal, trend and problem regarding the rights and effects of rights on shareholders wealth position and its solution.

1. Purpose of rights share

Table 5.14

Do you agree that the purpose of rights share is to increase the value of share?			
Options	Respondents	Rank	Per. (%)
Agree	41	1	82
Neutral	6	2	12
Disagree	3	3	6
Total	50		100%

Figure 5.2



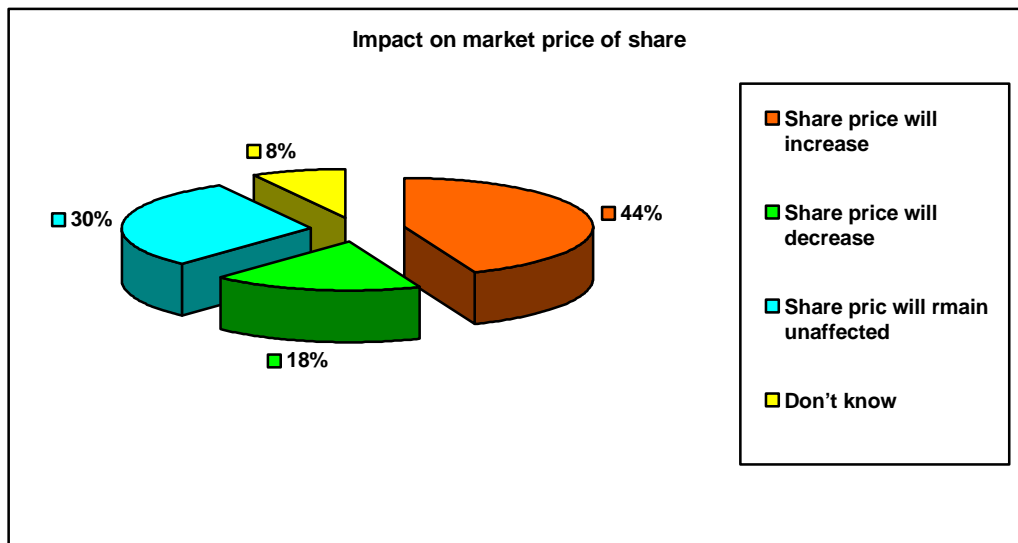
Out of 50 different respondents 82% showed their purpose to agree, 12% showed disagree and rest 6% showed in the neutral. Most of the respondents think that the purpose of rights share is to increase the value of share.

2. Impact on market price

Table 5.15

Before exercise the rights, what impact on market price of share?			
Options	Respondents	Rank	Per. (%)
Share price will increase	22	1	44
Share price will decrease	9	3	18
Share price will remain unaffected	15	2	30
Don't know	4	4	8
Total	50		100%

Figure 5.3



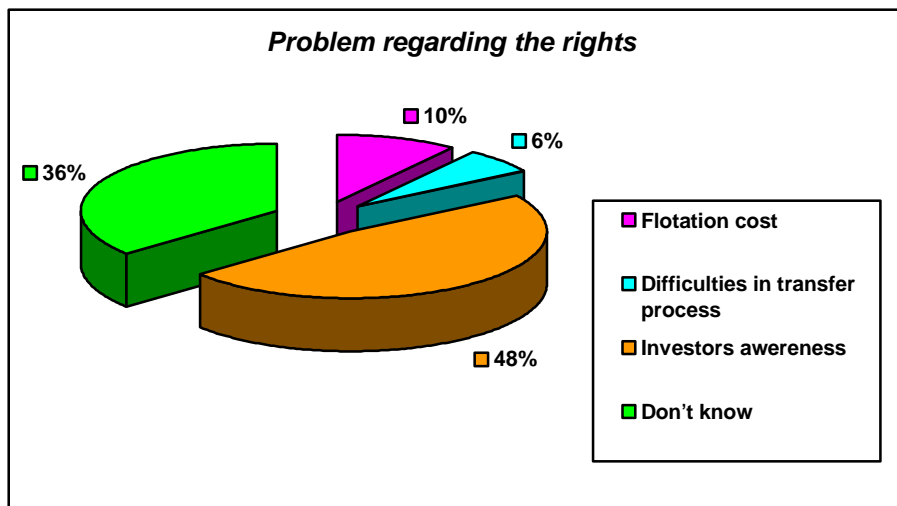
During the research period, the researcher had also asked the respondents about the impact of market price of share before rights exercise. Out of 50 respondents 22 respondents i.e. 44% expressed 'share price will increase', 15 (30%) respondents said that 'share price will remain unaffected', 9 (18%) of them said that 'share price will decrease' and only 4 (8%) of them said that 'don't know'. It means only few investors are known about theoretical aspect of rights issue.

3. Problem regarding the rights

Table 5.16

What is the problem regarding the rights in Nepal?			
Options	Respondents	Rank	Per. (%)
Flotation cost	5	3	10
Difficulties in transfer process	3	4	6
Investors awareness	24	1	48
Don't know	18	2	36
Total	50		100%

Figure 5.4



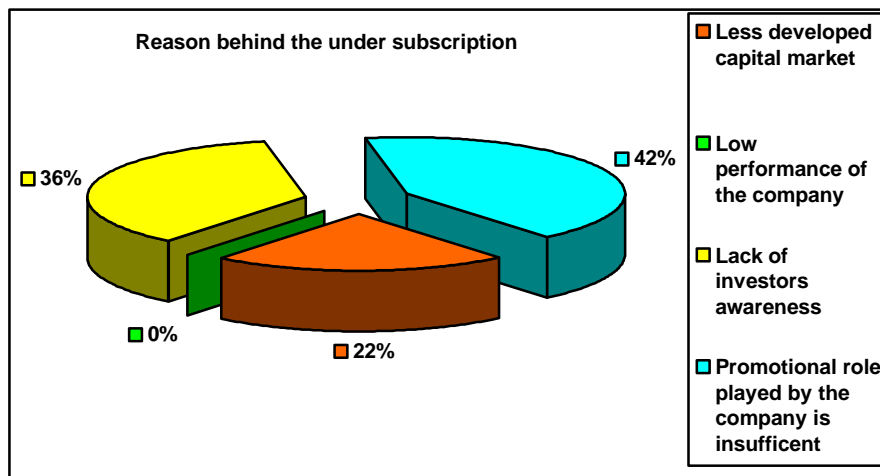
In response to the question related to the problem regarding the rights in Nepal, out of 50, 24 or 48% respondents said that 'investors awareness', then 18 (36%) of them expressed their view on 'don't know', 5(10%) showed that 'flotation cost' and only 3 respondents i.e. 6% tick on 'difficulties in transfer process'.

4. Reason Behind Under Subscription

Table 5.17

What do you think the reason behind under subscription of rights share?			
Options	Respondents	Rank	Per. (%)
1.Less developed capital market	11	3	22
2.Low performance of the company	0	4	0
3.Lack of investors awareness	18	2	36
4.Promotional role played by the company is insufficient	21	1	42
Total	50		100%

Figure 5.5



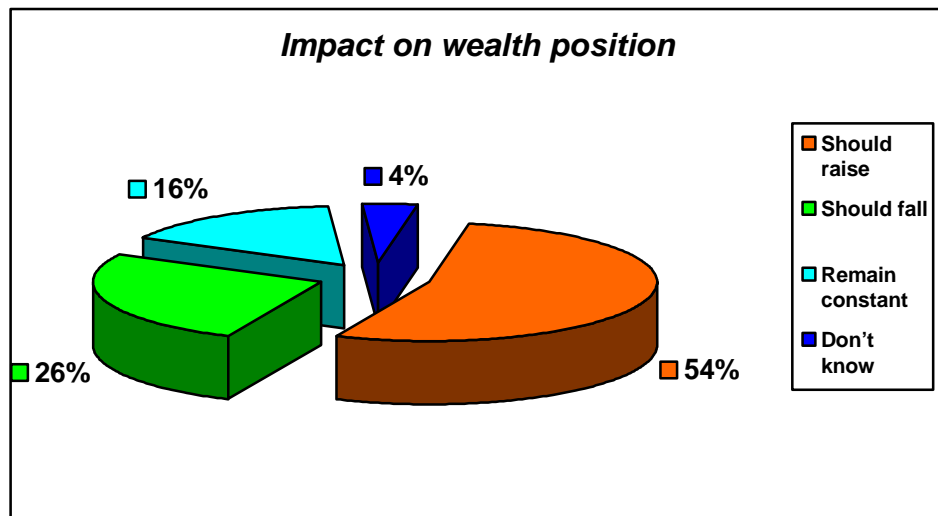
Out of total respondents, 21 or 42% responded that the reason behind the under subscription is ‘insufficient promotional role played by the company’. Then 18 or 36% responded in ‘lack of investor’s awareness’, 11 or 22% responded in ‘less developed capital market’ and none of them said that ‘low performance of the company’. It means there are many causes behind the under subscription of rights

5. Impact on Shareholders Wealth Position

Table 5.18

What do you think, right share issues and its impact on shareholders wealth position?			
Options	Respondents	Rank	Per. (%)
Should raise	27	1	54
Should fall	13	2	26
Remain constant	8	3	16
Don't know	2	4	4
Total	50		100

Figure 5.6



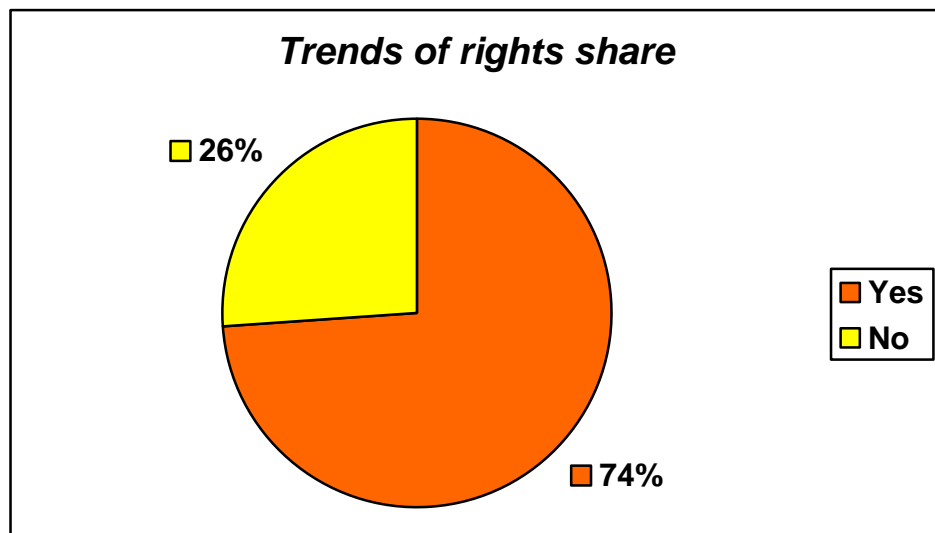
Out of 50, 27 or 54% showed their view 'share price should rise' in response to the question related to rights share and its impact on shareholders wealth position, 13 (26%) of them showed 'should fall, only 8 (16%) of them said that 'remain constant' and 2 (4%) said 'don't know'. It means large number of investors think that shareholders wealth position will rise after the rights issue.

6. Trend of Rights Share

Table 5.19

Do you think that the trend of rights share is increasing in Nepal?			
Options	Respondents	Ranks	Per. (%)
Yes	37	1	74
No	13	2	26
Total	50		100

Figure 5.7



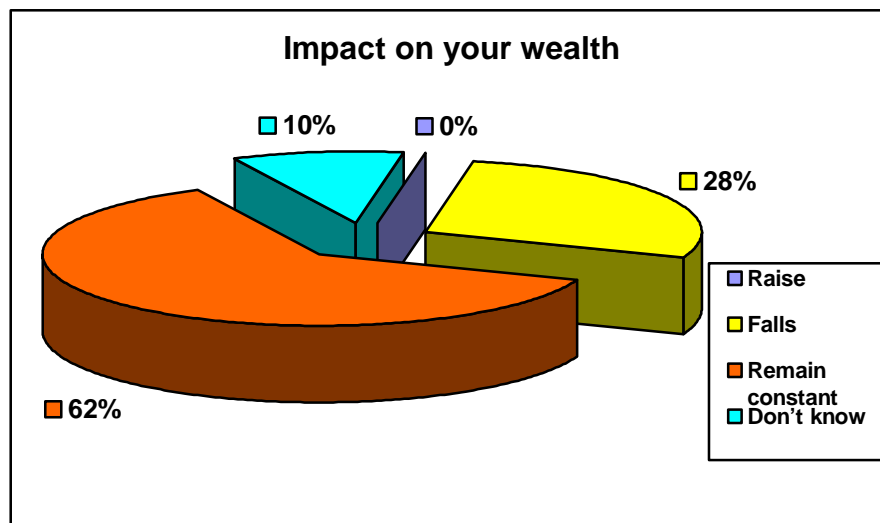
Most of the respondents agreed that the trend of rights issue is increasing. Rest few of them said 'No'. It means more than 70% investors are familiar with the trend of rights share issue practice in Nepal and only few investors are still unknown about trend of rights issue in Nepal.

7. Impact on Your Wealth Position

Table 5.20

What impact on your wealth position? If you neither sell nor exercise the rights			
Options	Respondents	Rank	Per. (%)
Raise	0	4	0
Falls	14	2	28
Remain constant	31	1	62
Don't know	5	3	10
Total	50		100%

Figure 5.8



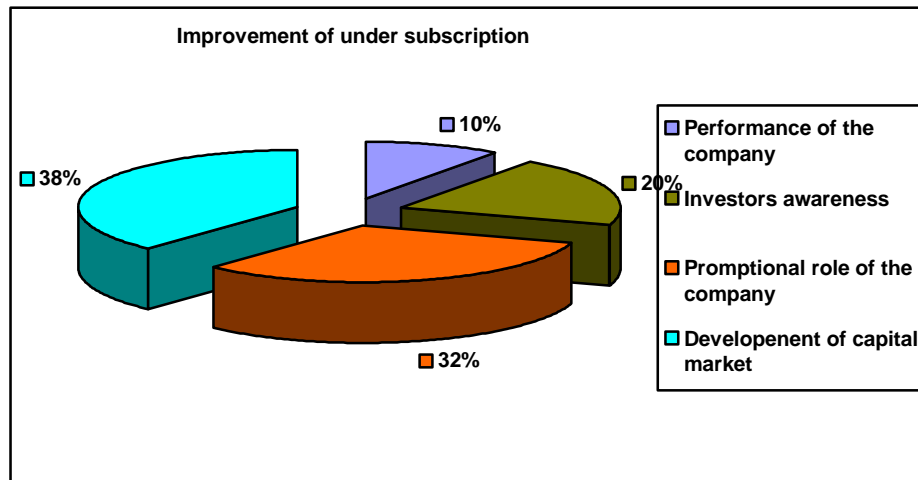
Out of 50, 31 (62%) respondents responded that share price 'remain constant' if neither sell nor exercise the rights. 14 (28%) of them responded that share price 'falls'. and 5 (10%) responded that 'don't know'. but no body responded in share price 'rises'. this investigation shows that more than 60% investors unfamiliar between relationship of rights and wealth position. only few of them are familiar with question.

8. Suggestion for improvement of under subscription

Table 5.21

Do you have any suggestions for the improvement of under subscription?			
Options	Respondents	rank	Per. (%)
Performance of company	5	4	10
Investors awareness	10	3	20
Promotional role of the company	16	2	32
Development of capital market	19	1	38
Total	50		100%

Figure 5.9



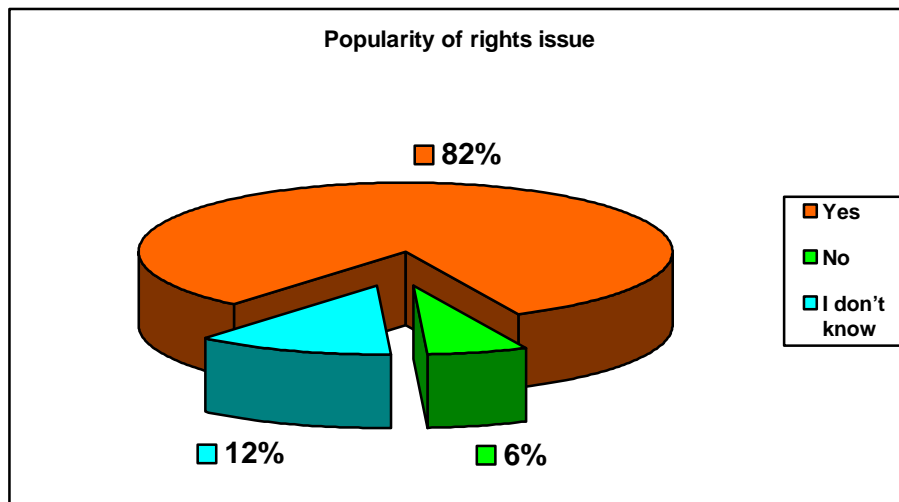
In response to the question related to improvement of under subscription, out of total, 19 or 38% suggested that need to develop Nepalese capital market, then 16 or 32% respondents suggested that need to increase promotional role of the company, 10 or 20% suggested that improvement of investors awareness and only 5 or 10% respondents suggested that performance of the company. The response of this question shows that there is need to improve various factors in order to avoid the problems of under subscription

9. Popularity of rights issue

Table 5.22

Do you think that the rights issue is popular in Nepal?			
Options	Respondents	Rank	Per. (%)
Yes	41	1	82
No	3	2	6
I don't know	6	3	12
Totals	50		100%

Figure 5.10



At the end, most of the respondents i.e. 82% said 'yes', 6 or 12% respondents said 'I don't know' and 3 or 6% said 'No' in response of popularity of rights issue in Nepal.

4.10 Major Findings

The major findings of the study are described as follows:

From the data presentation and analysis, the following points can be listed out as the major findings of the study

From Secondary Data Analysis:

1. During the period of fiscal year 1993/94 to 2006/07 SEBO/N approved the rights issue amounting of 4982.75 million which is equal to 41.90% of total issue approved or total public flotation and in terms of number, it approved 59 rights issue out of 196 total issue which is equal to 30.10% of total number of issue approved during the period.
2. During the period of fiscal year 1993/94 to 2006/07, the highest issues approved for the rights offering are Rs. 1265.30 million in fiscal year 2006/07. Then the lowest rights issue approved in fiscal year 1998/99 i.e. Rs. 30 million only. And in fiscal year 1993/34 to 1994/95 no any company issued their rights share to the existing shareholders.
3. In fiscal year 2006/07, the case of rights issue is very large. There were 17 cases of rights issued by 16 companies. Lumbani Bank Ltd. made two times its rights share to the existing shareholders.
4. According to the sector-wise rights issue, during the period, banking sector issued the highest amount i.e. 2741.41 million of rights share to their existing share holders on which commercial banks is the highest position than other banks i.e. 2408.41 million. Similarly, insurance sector is the lowest issue approved sector

- during the period. I.e. Himalayan General Insurance Company only. And any trading sector has not been issued any rights to their existing shareholders.
5. After rights announcement, there is no consistency result in share price of all the banks and financial institutions taken for the study.
 6. After rights issue share prices are less fluctuate than the before in Nepal
 7. After rights announcement, five companies' share price remained negative change and only three companies' share price remained positive change out of total sample companies.
 8. The correlation coefficient between average 10 days share price before and after the rights announcement is high degree positive correlation [$r = 0.96$] i.e. significant or realizable. It means there is high degree of similarity in share prices before and after. And 6PE is less than the value of correlation which indicates that it is significant.
 9. The pair t- test shows that there is no significance difference in share price between before and after the rights announcement in all level of significance i.e. 1%, 2%, 5% and 10%
 10. The one way analysis of variance (ANOVA) also shows the same result as pair t- test i.e. insignificant.
 11. All statistical tools show the same result of sample companies which means there is no any effects on share holders' wealth position after the rights announcement due to unchanged MPS

From Primary Data Analysis:

12. Most of the people think that the purpose of rights share is to increase the value of share.
13. The main problem regarding the rights is lack of investors' awareness and most of the investors still unknown about the rights.
14. The main reasons behind the under subscription are insufficient promotional role of the company, lack of investors awareness, and less development capital market respectively.
15. Most of the investors think that share price should rise after the rights issue. Only few people are known about the theoretical aspect of rights issue i.e. share prices are slightly rise during exercise period.
16. The trend of rights issue is increasing in Nepal.
17. More than 60% investors think that share price remain constant, if they neither sell nor exercise the rights. It means investors are not well known about the phenomenon of rights issue.
18. In order to avoid the under subscription of rights, the following three most essential factors need to improve. They are 1) improvement of capital market, 2) need to improve promotional role of the company and 3) need to increase the investors' awareness.
19. Rights issue has been popular than other issue in Nepal.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENTATIONS

5.1 Summary

This chapter deals with the findings and conclusions derived from the study of rights share and its impact on shareholders wealth position of eight sample companies and other information regarding the rights. The study consists of five sections, the first section provides the background, introduction, objectives, problems of the study, importance, limitations of the study, and the second section draws the previous study in the form of literature from the various previous researches and from various books and articles published and unpublished sources from recognized institutions. The third section explains the research methodology followed during study period and it also clearly explains the different statistical and financial tolls adopted during the study. The fourth chapter is data presentation and analysis which explains methods of the organizing data by tabulating and then placing that data in presentable form by using figure and table. This section provides valuable findings of the study which is followed by chapter five conclusions and summary.

Although some studies regarding the different issue of rights are already conducted in Nepal. The study is based on the primary and secondary data of different sectors whose issues were approved by SEBO/N. this study covers almost all sector' companies (i.e. banking sector, financing sector, development bank sector, manufacturing and processing sector, hotel sector, insurance sector, trading sector and other sector) whose issues were approved for issue are taken as a sample for the

purpose of this study, the necessary secondary data were collected from the period 1993/94 to 2006/07 from the various annual reports, bulletin of SEBO/N and its website: <http://www.sebo@np.com>, <http://www.nepalstock.com> and annual report of specific companies. This study used a variety of statistical tools to accomplish its objectives. The arithmetic mean, standard deviation, percentage different statistical tools were used to analyze purpose of this study.

5.2 Conclusions

On the basis of findings of the present study it can be concluded that SEBO/N approved the various types of securities (i.e. ordinary shares, preference shares, mutual fund's shares, debenture and rights shares) of various companies going to public and till now it has approved altogether 196 different issues amounting Rs. 11893.20 million on which the proportion of rights issue is 41.90% i.e. Rs. 4982.75 million. Out of 196 issues approved, there are 59 rights issue which is equal to 31.10% of total number of issue approved during the period. During the research period, the highest issues approved through the rights offering are Rs. 1265.30 million in fiscal year 2006/07. Then the lowest issue approved in fiscal year 1998/99 i.e. Rs. 30 million. In terms of number, the highest number of issue in fiscal year 2006/07 i.e. 17.

According to the sector wise issue approved by SEBO/N for the rights offering shows that banking sector issued the highest amount of rights issue i.e. 2741.41 million on which commercial banks are the highest position in comparison of others i.e. Rs.

2408.41 million. But from the view point of number of issue approved, finance sector has the highest growth and banking sector takes the second place. In addition, insurance sector is the lowest issue sector during the research period i.e. only one Himalayan General Insurance company amounting Rs. 30 million.

After rights issue, there is no consistency result in samples companies' share price. NFL, EBL, BOKL and SFL have negative and AEFL, KBK and SBL have positive change in their share prices. Median and standard deviation have also remained change. There is no consistency result in share price fluctuation. Some sample companies have high fluctuation in their share price before rights issue and some have high fluctuation after. Most of the sample companies didn't flow the theoretical aspect when the rights issue is made. All the statistical tools show the same result like, correlation coefficient saw high degree positive correlation in 10 days average share price before and after the rights issue. In addition, pair t-test and one way ANOVA saw the same result in different significance level i.e. there is no significance difference in share price before and after the rights announcement or insignificant. According to this, share holders wealth position also remains unchanged due to the unchanged sample companies share price, if other factors remained constant.

Various investors and personalities who are involved directly and indirectly in financial market think that the purpose of rights share is to increase the value of shares. However, Nepalese financial market is developing stage. There are various

problems in Nepalese financial market. Most of the investors are still unknown about the rights share. Lack of investor's awareness is the main problem in our financial market. In our Nepalese context, most of the rights are under subscribed which are due to insufficient promotional role of the concerned companies, lack of investors awareness, less developed capital market e.t.c. most of investors think that share price should rise after the rights issue. According to theoretical aspect, share price increases slightly during the exercise period then decreased by value of rights. However the trend of rights issue is increasing and being popular in Nepal. Numbers of investors are not well known about the phenomenon of rights issue. They thought that share price remain constant if they neither sell nor exercise the rights. In order to avoid the problems of under subscription, following factors need to be improve 1) improvement of capital market. 2) Need to improve promotional role of the company.3) need to improve the investors' awareness respectively.

5.3 Recommendation

The findings of this study may provide important information for those who are concern directly or indirectly with the stock market activities especially rights share.

Thus, the following recommendation can be outlined:

- Mass people are unknown about rights issue. So rights issuing company should initiate effective promotional activities to remove this problem.
- The procedure for rights offering should be simplified and rationalized.
- The government should make clear and specific plans and policies to expand the capital market and should implement these.

- NEPSE and SEBO/N have weak and ineffective working system. NEPSE was being the trading place of limited share based in open cry system but now NEPSE conducting computerized system even though SEBO/N is not able to monitor Nepalese capital market effectively.
- The Securities Board Nepal and other concerned authorities should conduct public awareness and investors education programs to increase the level of investors' awareness.
- Large and ineffective government corporations should be privatized in order to develop the Nepalese stock market through the wide spread distribution of shares to public investors.
- Still rights are not negotiable in Nepal. The holders of rights can't sell them which is the main cause of under subscription. So rights should be negotiable or transferable.
- The information of the rights announcement should communicate through the various channels.
- The trend of rights issue is increasing which is not good. Different sources of rising funds are available and practice in Nepal. The proper combination of different long-term as well as short-term capital helps to maintain the optimal capital structure. The objective of any firm is to make wealth maximization which is possible through the optimal capital structure.
- The other aspects other than discussed in this study are suggested to be searched by the future researchers.

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<http://www.jstor.org>

Primary Data Analysis

Dear Respondent,

I am doing a research on the topic “Rights Share And its Effects on Shareholders Wealth Position in Nepal.” in Partial Fulfillment of the Requirement of the Degree of Master of Business of Studies (MBS). Your sincere and unbiased response will be highly beneficial and as such will be appreciated. The information you provide hereby will be kept confidential and be solely used for this research purpose.

So, I hearty request you to fill this questionnaire at the best of your knowledge. Your kind co-operation in this regard will be of great value to me.

Thank you

Dinesh Ghimire

Researcher

Shanker Dev Campus

Instruction: Please answer the following questions with tick mark in appropriate space.

1. Do you agree that the purpose of rights share is to increase the value of share?

Agree

Neutral

Disagree

2. Before exercise the rights, what impact on the market price of share?

Share price will increase Share price will decrease

Don't know Share price will remain unaffected

3. What is the problem regarding the rights in Nepal?

Flotation cost Difficulties in transfer process

Investors awareness Don't know

4. What do you think the reason behind under subscription of rights share?

Less developed capital market

Low performance of the company

Lack of investors awareness

Promotional role played by the company is insufficient

5. What do you think, right share issues and its impact on shareholders wealth position?

Should raise Should fall

Remain constant Don't know

6. Do you think that the trend of rights share is increasing in Nepal?

Yes No

7. What impact on your wealth position? If you neither sell nor exercise the rights.

Raise Fall

Remain constant Don't know

8. Do you have any suggestions for the improvement of under subscription?

Performance of the company Investors awareness

promotional role of the company development of capital market

9. Do you think that the rights issue is popular in Nepal?

Yes No I don't know

ANNEX-1

Mean Median and Standard Deviation of Narayani Finance Ltd.

Period	Share price (X)	$(X - \bar{X})$	$(X - \bar{X})^2$	Ascending order (X)
-1	270	-73.5	5402.25	270
-2	270	-73.5	5402.25	270
-3	280	-63.5	4032.25	280
-4	460	116.5	13572.25	310
-5	465	121.5	14762.25	310
-6	450	106.5	11342.25	310
-7	310	-33.5	1122.25	310
-8	310	-33.5	1122.25	450
-9	310	-33.5	1122.25	460
-10	310	-33.5	1122.25	465
	$\sum X = 3435$		$\sum (X - \bar{X})^2 = 59002.25$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{3435}{10} = 343.5$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{310+310}{2} = 310 \end{aligned}$$

$$M_d = 310$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{59002.25}{10}} = 76.81$$

$$(\sigma) = 76.81$$

ANNEX-2

Mean Median and Standard Deviation of Everest Bank Ltd.

Period	Share price (X)	$(X - \bar{X})$	$(X - \bar{X})^2$	Ascending order (X)
-1	660	3.2	10.24	650
-2	660	3.2	10.24	650
-3	650	-6.8	46.24	650
-4	650	-6.8	46.24	650
-5	669	12.2	148.84	650
-6	650	-6.8	46.24	660
-7	660	3.2	10.24	660
-8	650	-6.8	46.24	660
-9	650	-6.8	46.24	669
-10	669	12.2	148.84	669
$\sum X = 6568$			$\sum (X - \bar{X})^2 = 559.6$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{6568}{10} = 656.8$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{660 + 660}{2} = 660 \end{aligned}$$

$$M_d = 660$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{559.6}{10}} = 7.48$$

$$(\sigma) = 7.48$$

ANNEX-3

Mean Median and Standard Deviation of **Bank of Katmandu Ltd**

Period	Share price (X)	(X - \bar{X})	(X - \bar{X}) ²	Ascending order (X)
-1	382	-36.6	1339.56	382
-2	383	-35.6	1267.36	383
-3	400	-18.6	345.96	400
-4	416	-2.6	6.76	416
-5	425	6.4	40.96	420
-6	420	1.4	1.96	424
-7	424	5.4	29.16	425
-8	440	21.4	457.96	440
-9	446	27.4	450.76	446
-10	450	31.4	985.96	450
	$\sum X = 4186$		$\sum(X - \bar{X})^2 = 5226.4$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{4186}{10} = 418.6$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{424 + 420}{2} = 422 \end{aligned}$$

$$M_d = 422$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{5226.4}{10}} = 22.56$$

$$(\sigma) = 22.56$$

ANNEX-4

Mean Median and Standard Deviation of Nepal SBI Bank Ltd.

Period	Share price (X)	$(X - \bar{X})$	$(X - \bar{X})^2$	Ascending order (X)
-1	415	-91.7	8408.89	300
-2	376	-130.7	17082.49	330
-3	361	-145.7	21228.49	332
-4	360	-146.7	21520.89	360
-5	332	-174.7	30520.09	361
-6	330	-176.7	31222.89	376
-7	300	-206.7	42724.89	415
-8	820	313.3	98156.89	820
-9	858	351.3	123411.69	858
-10	915	408.3	166708.89	915
	$\sum X = 5067$		$\sum (X - \bar{X})^2 = 560986.1$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{5067}{10} = 506.7$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{361+376}{2} = 368.5 \end{aligned}$$

$$M_d = 368.5$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{560986.1}{10}} = 236.85$$

$$(\sigma) = 236.85$$

ANNEX-5

Mean Median and Standard Deviation of **Alpic Everest Finance Co. Ltd.**

Period	Share price (X)	$(X - \bar{X})$	$(X - \bar{X})^2$	Ascending order (X)
-1	150	-1.5	2.25	135
-2	150	-1.5	2.25	136
-3	145	-6.5	42.25	136
-4	145	-6.5	42.25	142
-5	142	-9.5	90.25	145
-6	136	-15.5	240.25	145
-7	136	-15.5	240.25	150
-8	135	-16.5	272.25	150
-9	190	38.5	1482.25	186
-10	186	34.5	1190.25	190
	$\sum X = 1515$		$\sum (X - \bar{X})^2 = 3604.5$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{1515}{10} = 151.5$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{145+145}{2} = 145 \end{aligned}$$

$$M_d = 145$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{3604.5}{10}} = 18.98$$

$$(\sigma) = 18.98$$

ANNEX-6

Mean Median and Standard Deviation of Siddhartha Finance Ltd.

Period	Share price (X)	$(X - \bar{X})$	$(X - \bar{X})^2$	Ascending order (X)
-1	150	3.3	10.89	140
-2	150	3.3	10.89	140
-3	150	3.3	10.89	140
-4	150	3.3	10.89	147
-5	150	3.3	10.89	150
-6	150	3.3	10.89	150
-7	147	0.3	0.09	150
-8	140	-6.7	44.89	150
-9	140	-6.7	44.89	150
-10	140	-6.7	44.89	150
	$\sum X = 1467$		$\sum(X - \bar{X})^2 = 200.1$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{1467}{10} = 146.7$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{150+150}{2} = 150 \end{aligned}$$

$$M_d = 150$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{200.1}{10}} = 4.47$$

$$(\sigma) = 4.47$$

ANNEX-7

Mean Median and Standard Deviation of **Kumari Bank Ltd.**

Period	Share price (X)	$(X - \bar{X})$	$(X - \bar{X})^2$	Ascending order (X)
-1	345	19.8	392.04	300
-2	345	19.8	392.04	300
-3	341	15.8	249.64	315
-4	330	4.8	23.04	325
-5	325	-0.20	0.04	325
-6	326	0.8	0.64	326
-7	315	-10.2	104.04	330
-8	300	-25.2	635.04	341
-9	325	-0.2	0.04	345
-10	300	-25.2	635.04	345
	$\sum X = 3252$		$\sum (X - \bar{X})^2 = 2431.6$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{3252}{10} = 325.2$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{325 + 326}{2} = 325.5 \end{aligned}$$

$$M_d = 325.5$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{2431.6}{10}} = 15.59$$

$$(\sigma) = 15.59$$

ANNEX-8

Mean Median and Standard Deviation of **Siddhartha Bank Ltd.**

Period	Share price (X)	$(X - \bar{X})$	$(X - \bar{X})^2$	Ascending order (X)
-1	620	21.5	462.25	590
-2	610	11.5	132.25	590
-3	605	6.5	42.25	590
-4	595	-3.5	12.25	590
-5	590	-8.5	72.25	595
-6	590	-8.5	72.25	595
-7	590	-8.5	72.25	600
-8	590	-8.5	72.25	605
-9	600	1.5	2.25	610
-10	595	-3.5	12.25	620
	$\sum X = 5985$		$\sum(X - \bar{X})^2 = 952.5$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{5985}{10} = 598.5$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{595 + 595}{2} = 595 \end{aligned}$$

$$M_d = 310$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{952.5}{10}} = 9.75$$

$$(\sigma) = 9.75$$

ANNEX-9

Mean Median and Standard Deviation of Narayani Finance Ltd.

Period	Share price (X)	$(X - \bar{X})$	$(X - \bar{X})^2$	Ascending order (X)
1	270	14	196	250
2	260	4	16	250
3	260	4	16	250
4	260	4	16	250
5	250	-6	36	255
6	250	-6	36	255
7	250	-6	36	260
8	255	-1	1	260
9	255	-1	1	260
10	250	-6	36	270
$\sum X = 2560$			$\sum (X - \bar{X})^2 = 390$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{2560}{10} = 256$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{255 + 255}{2} = 255 \end{aligned}$$

$$M_d = 255$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{390}{10}} = 6.24$$

$$(\sigma) = 6.24$$

ANNEX-10

Mean Median and Standard Deviation of Everest Bank Ltd.

Period	Share price (X)	$(X - \bar{X})$	$(X - \bar{X})^2$	Ascending order (X)
1	700	72	5184	600
2	750	122	14884	600
3	615	-13	169	600
4	600	-28	784	600
5	600	-28	784	600
6	600	-28	784	605
7	600	-28	784	610
8	600	-28	784	615
9	605	-23	529	700
10	610	-18	624	750
	$\sum X = 6280$		$\sum (X - \bar{X})^2 = 25010$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{6280}{10} = 628$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{600 + 605}{2} = 602.5 \end{aligned}$$

$$M_d = 602.5$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{25010}{10}} = 50.009$$

$$(\sigma) = 50$$

ANNEX-11

Mean Median and Standard Deviation of **Bank of Katmandu Ltd.**

Period	Share price (X)	$(X - \bar{X})$	$(X - \bar{X})^2$	Ascending order (X)
1	400	20.8	432.26	336
2	404	24.8	615.04	346
3	405	25.8	665.64	651
4	397	17.8	316.84	375
5	396	16.8	282.24	382
6	382	2.8	7.84	396
7	375	-4.2	17.64	397
8	346	-33.2	1102.24	400
9	336	-43.2	1866.24	404
10	351	-28.2	795.24	405
	$\sum X = 3792$		$\sum(X - \bar{X})^2 = 6101.224$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{3792}{10} = 379.2$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{382 + 396}{2} = 389 \end{aligned}$$

$$M_d = 389$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{6101.224}{10}} = 24.7$$

$$(\sigma) = 24.7$$

ANNEX-12

Mean Median and Standard Deviation of Nepal SBI Bank Ltd.

Period	Share price (X)	$(X - \bar{X})$	$(X - \bar{X})^2$	Ascending order (X)
1	430	22.8	519.84	376
2	391	-16.2	262.44	391
3	376	-31.2	973.44	400
4	415	7.8	60.84	400
5	400	-7.2	51.84	410
6	400	-7.2	51.84	415
7	415	7.8	60.84	415
8	410	2.8	7.84	415
9	415	7.8	60.84	420
10	420	12.8	163.84	430
	$\sum X = 4072$		$\sum (X - \bar{X})^2 = 2213.6$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{4072}{10} = 407.2$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{410 + 415}{2} = 412.5 \end{aligned}$$

$$M_d = 412.5$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{2213.6}{10}} = 14.87$$

$$(\sigma) = 14.87$$

ANNEX-13

Mean Median and Standard Deviation of **Alpic Everest Finance Co. Ltd.**

Period	Share price (X)	$(X - \bar{X})$	$(X - \bar{X})^2$	Ascending order (X)
1	155	14	-16.9	155
2	162	4	-9.9	162
3	170	4	-1.9	170
4	176	4	4.1	176
5	176	-6	4.1	176
6	176	-6	4.1	176
7	176	-6	4.1	176
8	176	-1	4.1	176
9	176	-1	4.1	176
10	176	-6	4.1	176
	$\sum X = 1719$		$\sum(X - \bar{X})^2 = 504.9$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{1719}{10} = 171.9$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{176+176}{2} = 176 \end{aligned}$$

$$M_d = 176$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{504.9}{10}} = 7.105$$

$$(\sigma) = 7.105$$

ANNEX-14

Mean Median and Standard Deviation of Siddhartha Finance Co. Ltd.

Period	Share price (X)	(X - \bar{X})	(X - \bar{X}) ²	Ascending order (X)
1	150	5.1	26.01	140
2	150	5.1	26.01	140
3	148	3.1	9.61	140
4	147	2.1	4.41	144
5	144	-0.9	0.81	145
6	145	0.1	0.01	145
7	145	0.1	0.01	147
8	140	-4.9	24.01	148
9	140	-4.9	24.01	150
10	140	-4.9	24.01	150
	$\sum X = 1449$		$\sum(X - \bar{X})^2 = 138.9$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{1449}{10} = 144.9$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{145+145}{2} = 145 \end{aligned}$$

$$M_d = 145$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{138.9}{10}} = 3.726$$

$$(\sigma) = 3.726$$

ANNEX-15

Mean Median and Standard Deviation of **Kumari Bank Ltd.**

Period	Share price (X)	$(X - \bar{X})$	$(X - \bar{X})^2$	Ascending order (X)
1	340	7	49	330
2	330	-3	9	330
3	330	-3	9	330
4	330	-3	9	330
5	330	-3	9	330
6	330	-3	9	330
7	330	-3	9	335
8	335	2	4	338
9	338	5	25	337
10	337	4	16	340
	$\sum X = 3330$		$\sum(X - \bar{X})^2 = 148$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{3330}{10} = 333$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{330 + 330}{2} = 330 \end{aligned}$$

$$M_d = 330$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{148}{10}} = 3.847$$

$$(\sigma) = 3.847$$

s

ANNEX-16

Mean Median and Standard Deviation of **Siddhartha Bank Ltd.**

Period	Share price (X)	$(X - \bar{X})$	$(X - \bar{X})^2$	Ascending order (X)
1	630	-18.2	331.24	630
2	645	-3.2	10.24	638
3	645	-3.2	10.24	645
4	645	-3.2	10.24	645
5	645	-3.2	10.24	645
6	651	2.8	7.84	645
7	683	34.8	1211.04	645
8	655	6.8	46.24	651
9	645	-3.2	10.24	655
10	638	-10.2	104.04	683
	$\sum X = 6482$		$\sum(X - \bar{X})^2 = 1751.6$	

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} = \frac{6482}{10} = 648.2$$

$$\begin{aligned} \text{Median } (M_d) &= \text{Value of } \left(\frac{n+1}{2}\right)^{\text{th}} \text{ item} \\ &= \left(\frac{10+1}{2}\right)^{\text{th}} \text{ item,} = (5.5)^{\text{th}} \text{ item,} = \frac{645 + 645}{2} = 645 \end{aligned}$$

$$M_d = 645$$

$$\text{Standard Deviation (s.d)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = \sqrt{\frac{1751.6}{10}} = 13.23$$

$$(\sigma) = 13.23$$

ANNEX-17

Correlation Coefficient of Average Shares Prices before and After the Rights Announcement

X = 10 Days Average Share Prices before Rights Announcement of Sample Companies

Y = 10 Days Average Share Price after Rights Announcement of Sample Companies

Samples	X	Y	XY	X ²	Y ²
NFL	343.5	256	87936	117992.25	65536
EBL	656.8	628	412470.40	43138624	394384
BOKL	418.6	379.2	158733.12	175225.96	143792.64
NSBIL	506.7	407.2	206328.24	256744.89	165811.84
AEFL	151.5	171.9	26042.85	22952.25	29549.61
SFL	146.7	144.9	21227.85	21462.25	20996.01
KBL	325.2	333	108291.60	105755.04	110889.00
SBL	598.5	648.2	387947.70	358202.25	420163.24
	$\sum X =$ 3147.30	$\sum Y =$ 2968.40	$\sum XY =$ 1408977.76	$\sum X^2 =$ 1489721.13	$\sum Y^2 =$ 1351122.34

$$\begin{aligned} \text{Correlation Coefficient (r)} &= \frac{n \sum XY - \sum X, \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}} \\ &= \frac{8 \times 1408977.76 - 3147.30 \times 2968.40}{\sqrt{8 \times 1489721.13 - (3147.30)^2} \sqrt{8 \times 1351122.34 - (2968.40)^2}} \end{aligned}$$

$$= \frac{11271822.08 - 9342445.32}{1418.55 - 1413.36}$$

$$= \frac{1929376.76}{2004918.65}$$

$$r = 0.96, r^2 = 0.9216 \text{ or } 92.16\%$$

ANNEX-18

Use of Pair t-test to Measure the Immediate Impact of Rights issue

Samples	X	Y	$d = (X - Y)$	$d - \bar{d}$	$(d - \bar{d})^2$
NFL	343.5	256	87.5	65.1375	4242.8939
EBL	656.8	628	28.8	6.4375	41.4414
BOKL	418.6	379.2	39.4	17.0375	290.2764
NSBIL	506.7	407.2	99.5	77.1375	5950.1939
AEFL	151.5	171.9	-20.40	-42.7625	1828.6314
SFL	146.5	144.9	1.60	-20.7625	431.0814
KBL	325.2	333	-7.80	-30.165	909.7764
SBL	598.5	648.2	-49.7	-72.0625	5193.0039
			$\sum d =$ 178.9		$\sum (d - \bar{d})^2 =$ 18887.2978

$$\sum \bar{d} = \frac{\sum d}{n} = \frac{178.9}{8} = 22.3625$$

$$s.d = \sqrt{\frac{1}{n-1} \sum (d - \bar{d})^2} = \sqrt{\frac{1}{8-1} \times 18887.2978} = 51.944$$

Test-statistics,

$$t = \frac{\bar{d}}{\frac{s.d}{\sqrt{n}}} \sim t_{n-1}$$

$$= \frac{22.3625}{\frac{51.944}{\sqrt{8}}} = \frac{22.3625}{18.3649} = 1.2178, \quad t_{cal.} = 1.2178$$

Degree of freedom (n-1) = 7

Level of significance	Critical values
1%	3.499
2%	2.998
5%	2.365
10%	5.408

ANNEX-19

Analysis of Variance (ANOVA)

Samples	NFL	EBL	BOKL	SBI	AEFL	SFL	KBL	SBL	Total
Bef. Rt.	343.5	656.8	418.6	506.7	151.7	146.5	325.2	598.5	3147.3
Aft. Rt.	256	628	379.2	407.2	171.9	144.9	333	648.2	2968.4
Total	599.5	1284.8	797.8	913.9	323.4	291.4	658.2	1246.7	6115.7

$$\begin{aligned} \text{Grand Total (T)} &= \sum X_1 + \sum X_2 + \dots + \sum X_k \\ &= 6115.7 \end{aligned}$$

$$\text{Correction Factor (CF)} = \frac{T^2}{N} = \frac{(6115.7)^2}{16} = 2337611.656$$

$$\begin{aligned} \text{Sum of Squire Due to Total (SST)} &= \sum X_1^2 + \sum X_2^2 + \dots + \sum X_k^2 - \frac{T^2}{N} \\ &= 2840843.47 - 2337611.656 \\ &= 503231.814 \end{aligned}$$

$$\begin{aligned} \text{Sum of Squire Due to Row (SSR)} &= \left[\frac{(\sum X_1)^2}{n_1} + \frac{(\sum X_2)^2}{n_2} + \dots + \frac{(\sum X_k)^2}{n_k} \right] - \frac{T^2}{N} \\ &= \frac{(3147.3)^2}{8} + \frac{(2968.4)^2}{8} - 2337611.656 \\ &= 2000.325 \end{aligned}$$

$$\begin{aligned} \text{Sum of Squire due to Error (SSE)} &= \text{SST} - \text{SSR} = 503231.814 - 2000.325 \\ &= 501231.4890 \end{aligned}$$

ANOVA TABLE

Sources of Variance (SV), Degree of Freedom (DF), Sum of Squire (SS), Mean Sum of Squire (MSS)

SV	DF	SS	MSS	F-Ratio
----	----	----	-----	---------

Variation due to row	2-1=1	2000.325	$\frac{SS}{DF} = 2000.325$	$\frac{2000.325}{33415.43} = 0.059$
Variation due to error	16-2=14	501231.4890	$\frac{SS}{DF} = 33415.43$	
Total	n-1=15			

$F_{0.01}(1, 14) = 8.86$

$F_{0.05}(1, 14) = 4.60$

PROFILE OF THE SAMPLE COMPANIES

S.N.	Name of the Company	Listing Date	Address	Tel. No.	Fax No.
1	Nepal SBI Bank Ltd	17/01/1995	POB 6049, Hattisar kamalpokhari, Katmandu E-mail: nsbloc@mos.com.np	4435516 4435613	4435612
2	Everest Bank Ltd.	07/04/1996	POB 13384, Lazimpat, Katmandu E-mail: elb@mos.com.np	4443377 4443863 4443864	4443160
3	Kumari Bank Ltd.	29/07/2004	POB: 21128 Putalisadak, Katmandu E-mail: info@kbl.com.np	4232112 4232113	4231960
4	Siddhartha Bank Ltd.	24/02/2006	POB:13806, Tindhara Marg, Kamaladi	4442918 4442920	4442921
5	Bank of Katmandu Ltd.	17/07/1997	POB:9044, Kamal Pokhari, Katmandu E-mail: info@bok.mos.com.np	4414541	4418990
6	Narayani Fin. Co. Ltd.	25/06/1996	Central office: POB 03,Sahid Chowk, Narayanghat, Chitwan City Office: POB 4861, Baluwatar, Kathmandu E-mail: narayani@nafil.mos.com.np	056- 520313 056- 520345 4422554	056- 522230 442690
7	Siddhartha Fin. Co. Ltd.	20/06/2001	Siddartha Nagar, Bhairahawa Contact Office:	071- 521478	071- 523272

			Ramshahpath, Kathmandu E-mail: sfin@mos.com.np	4442968	
8	Alpic Everest Fin. Ltd.	12/10/2001	POB 12034, Aradhana Complex, Bagbazar, Katmandu E-mail: alpic@info.com.np	4241605 4228470	4241605

Curriculum- vitae

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Hobby : To innovate new business concept

Educational Qualification:

Master of Business Studies (MBS) Affiliated To Tribhuwvan University
Shanker Dev Campus, Putalisadak, Kathmandu. Nepal
Specialization: Finance (Investment & capital structure)
Passed year: 2008

Bachelor of Business Studies (BBS) Affiliated To Tribhuwvan University
Nepal commerce Campus, Minbhawn, Kathmandu, Nepal
Specialization: Banking, Account & Taxation
Passed year: 2005

Intermediate in Commerce (I.COM) Affiliated To Tribhuwvan University
Mahendra Morang Campus, Biratnagar, Morang, Nepal

Specialization:

Passed year: 2002

School leaving Certificate (SLC) Affiliated to HMG Board of Nepal
Shree Himalaya Secondary School khandbari, Sankhuwa-sava, Nepal

Specialization: Optional Math & Account

Passed year: 2000