ABSTRACT

1. Introduction

Capital market is the market for the buying and selling of long-term financial instruments, such financial instruments include; ordinary shares, preference shares, bonds, mortgages. In capital market listed or unlisted companies can use many different types of corporate actions to raise funds, which in turn effect the liquidity and price of their shares in the market. There are various methods that a company can use to raise equity finance, some of such methods include obtaining lists on the stock market and selling some of its shares to the general public, other methods may include placing and bought deal. If the company is not yet listed on a stock exchange, the company can prepare for an initial public offering (IPO), in which it will be valued and an opening price will be set for its shares when they are released on the market. How much finance can be raised through an IPO depends partly on the perceived value and the share price of the company and partly on how much interest there is in the shares when that are released on the market.

For a company that is already listed on an exchange, an alternative route is to launch an additional share issue (also known as a seasoned equity offering, or SEO) or a rights issue. Right shares are those shares which are issued to existing shareholders. According to section 81 of Indian Company Act 1956, “Company can issue right shares only after the two years of creation of company or one year of first issue of shares whichever is earlier.”

A SEO is a new equity issue by a company following its IPO. A rights issue is an invitation to current shareholders to purchase additional new shares in a company. This type of issue gives the right to existing shareholders to purchase new shares, generally at a discount on the current market price on a future date. Therefore the company is giving an opportunity to shareholders to increase their holding at a discounted price. Companies may use rights issues to raise cash as an alternative to bank financing, funding acquisitions and paying down debt in order to finance future growth. For reassurance that it will raise the required finance, a company may have its rights issue underwritten by an investment bank, which would take delivery of all stock that was not taken up with the issue. Renounceable rights are rights offered by a company to existing stockholders to purchase further stock, usually at a discount. These rights have a value and can be traded. If rights are to be issued, the company has to set the price of the new shares, determine how much it will sell, and assess how the current share value will be affected as well as the effect on new and existing stockholders. Non-renounceable rights are not transferable and cannot be bought or sold, these rights must be taken up or that will be lapsed.

2. Objectives of the Study

The study was aimed to assess the impact of right issue on share prices and earning per share of the listed companies.
However, the study was carried out with the following specific objectives:

i) To examine the overall trend of right issues by Indian companies after liberalization period;

ii) To examine the effect of right issues on share prices of the companies;

iii) To examine the impact of right issue on Earning Per Share (EPS) of companies

3. Significance of the Study

The rights issue is a way for companies to raise capital. Capital is raised when investors pay for the new shares that are being issued. Companies can use the raised capital to acquire assets, make a takeover, repay debts or save themselves from bankruptcies. Of course, a company can raise capital by other ways, such as borrowing from banks or issuing bonds. However, there can be times where the bank may be reluctant to lend, especially if the company is not doing well. In addition, higher interest rate incurred by loans or the issuance of bonds may also force a company to raise capital through the rights issue offering.

This study helps to examine the overall trend of right issues by Indian companies after liberalization period. It also analyzes the frequency of right issues made by the same company during the period of study. The time interval between two successive right issues is also presented in this study. The study also incorporates the effect of right issues on share prices and Earning Per Share (EPS) of the companies. The study anticipates proposing some insight for Indian policy makers, shareholders and portfolio managers. Thus the study adds to the body of knowledge and existing effort of research fraternity in analyzing the impact of right issue on Indian stock market in the changing pace of development. Besides, its academic significance, the proposed study is likely to provide practical insights into the true nature, purpose and effects on the right issues, which may hopefully help corporate management, investors and policy makers in their decision-making.

4. Research Methodology

The methodology adopted for this study is presented below:

*Period of the Study:* The present study covers right issues made during 1991-2014 by the Indian Companies both from the public as well the private sectors.

*Type of Data:* The present study is analytical in nature and it is based on secondary data. The present study covers the right issue made during 1991-2014 by the Indian companies both from the public as well the private sectors listed on a stock exchange. The sample of listed Indian companies will be selected on the various basis, such as a size of the companies, age of the companies, frequency of right issues, ratio of the right issues, time lag between two right issues etc. Thus the study incorporates the data of the S & P CNX 100 listed on the National Stock Exchange were considered for the analysis.

*Scope of the Study:* The present study covers about 24 years period of the study and it also includes the impact of right issue on share prices, and Earning Per Share (EPS). So, the study is much relevant for those companies that want to issue right share. Besides, its academic significance, the proposed study is likely to provide practical insights into the
true nature, purpose and effects of the right issues, which may prove helpful for corporate management, investors and policy makers in their decision-making.

**Sources of Data:** The sources of data for the study has been collected from the publication of stock Exchanges, BSE, NSE official websites, SEBI Bulletins and other publications, Ministry of Company Affairs (Publications-Company News & Notes) and RBI Bulletins.

**5. Plan of Study**

The entire study has been divided into seven chapters, each deal with a specific spectrum of the whole research work.

**Chapter 1 Introduction:** It deals with the introduction and highlights the rationale behind the study. It brings the significance and objectives of the study. It explains data source and time period of the study. It outlines the methodology to be adopted and limitations of the present study.

**Chapter 2 Review of Literature:** It discusses the review of related earlier studies available in the literature. All the studies are divided into two parts including international and Indian studies in this context.

**Chapter 3 Rules & Regulation Relating to Right Share Issue in India:** It opens up with a description of the nature of right shares and their theoretical background. It also deals with rules & regulations relating to right shares issues in India.

**Chapter 4 Right Issue by Indian Companies- An Overall Trend:** It discusses the characteristic feature of right issue made in India during 1991-2014. This is an empirical retrospect of right issues in India.

**Chapter 5 Impact of Right Issue on Share Prices:** This chapter relates to the results obtained from empirical exercise done with respect to impact on the share price due to the right issue.

**Chapter 6 Impact of Right Issue on EPS :** It accommodates the impact of right share issue on Earning Per Share (EPS)

**Chapter 7 Summary of Findings, Conclusion and Suggestions:** It summarizes the findings, provides conclusions and draw suggestions from the present study and provide scope for further studies.

**6. Limitations of the Study**

Even though every possible effort has been made to make this research authentic and comprehensive, however many constraints were also at play. The limitation of the study comprises of the following.

- The present study is based on the secondary data published by BSE, NSE, SEBI and various publications. Homogeneity in the published data is not found in all cases. Even data published by the same organization vary, every possible effort has been made to comprise reliable data for those years where difference has been found by considering SEBI publications as a base.
- The study is mainly based on the data of BSE and NSE only.
The data considered are generally monthly or yearly as the period of study is quite long and daily based data would have been large to maintain.

It is noted that there were few companies available in this study that has not been categorized according to the BSE classification. So that companies were kept under other companies.

The data of the S & P CNX 100 listed on the National Stock Exchange as of 16/09/2015 were considered in the analysis. Out of these 100 companies only 29 companies were found to have made a right issue. Out of which 29 companies, there was no record found of Crompton Greaves Ltd (Electric Equipment Sector), Reliance Capital Ltd (Finance Sector), and Zee Entertainment Enterprises Ltd (Media & Entertainment Sector) as on 30/09/1993, 24/11/1994 and 30/09/1993 respectively. So for the analysis purpose only, 26 companies have been considered.

### 7. Findings of the Study

A two way matrix right issues made by different industries during 1991-2014 presenting the data relating to the right issues of our sample companies, according to the year and industry origin of the issue. It covers 1604 right issues made by 1221 companies belonging to 67 industry groups during a period of 24 years. Out of the 1604 right issues Textiles Industry alone account for 177 i.e. 11.03% and are highest distributors of right. It will be noticed that this group performed well in the years 1991, 1992, 1993 and 1994 with right issue 19, 32, 33 and 31 respectively. Finance Industry, Steel Industry, Chemical Industry and Auto Industry stood 2nd, 3rd, 4th and 5th rank with a right issue 158, 81, 73, and 71 respectively.

Distribution of companies, according to frequency of right issue made by the same company during 1991-2014 represents out of the 1221 companies issuing a total of 1604 right issues, 920 companies came out with just one issue during the whole of 24 year period. It will be noticed that only three companies could make right issue at the rate of 5 issues for 24 years. 466, 171 and 32 companies could make right issue at the rate of two, three and four respectively. On an average per company right issue works out to 1.31 [1604/1221] over the 24 year period and one right for every 18 years [24/1.31]. Less than one third of the companies have issued right shares more than once during the study period. The mean number of right issues of companies issuing two or more right issues works out to [(466+171+32+15) / (233+57+8+3)].

Industry-wise classification of right issues made by companies represents out of 1604 right issues, the highest right issue (177) distributed by Textiles Industry (134) during the same study period (1991-2014). It may be noted that, out of Textile Industry 100 companies could make right issues at the rate of one issue. At the rate of two, three and four right issues made by 26, 7 and 1 companies respectively. It may be also noted that at the rate of five right issues distributed by Banking Industry and Ceramics Industry. In Banking Industry, Karur Vysya Bank and Lakshmi Vilas Bank made 5 times right issues and in Ceramics Industry, Murudeshwar Ceramics made 5 times right issues.

The time interval presented measured between two right issues made by the same company during the 24 year period. In so doing the first issue by all such companies
will be counted out. Such exclusion will reduce the total number of right issue as shown in the second column of the table to 347. It may be recalled that the total number of right issue covered in this study i.e., 1604, 920 issues are excluded because they are not followed by any successive issue during the period of the study. Of the remaining (1604-920) 684 issues another 337 are excluded being the first issue and thus being the time reference point for measuring the interval between the first two successive right issues. The second successive issue is both a reference point for measuring the interval of the third successive issue and also a destination time point for measuring the time interval between the first and second issues. For example, consider a company issuing three right issues in 1992, 1995 and 1998. In his case the time interval between the first and second issues will be three years (1992-1995) and the interval between the next two issues again will be three years (1995-1998). It is obvious that for three issues only two intervals are counted because if the first issue in 1992 is the initial reference point and the second issue in 1995 is a reference point for the second interval of three years and a destination point for the computation of initial time interval of three years. It is gathered from analysis that 45 right issues had a time interval of one year. The largest number of issues 81 has a time interval of two years. This combined with 72 issues with a time interval of three years yields the model number of right issues of the series. In other words the time range 1-3 years was the most popular range accounting for 57 % \frac{(45+81+72)}{347}\). The time interval, ranging from 13-24 years has been less known, as there were only 47 issues in all within this range.

➢ The time distribution of right ratios brings out clearly the greatest significance of the 1:1 ratio followed by 1:2 ratios. The ratio 2:1 and 1:5 also appears to be adopted on a fairly large scale by companies. Thus, as many as 377 issues during the 24 year period have a 1:1 ratio, 276 issues was based on 1:2 ratios, 82 issues were based on 2:1 ratio, and 81 issues were based on 1:5 ratio. And these ratios are also the ratios rated in order of importance. It is interesting to note that the largest numbers of issue in any single period were based on 1:1 ratio. There were 83, 57 and 56 issues in 1992, 1994, and 1993 respectively. There were 48 and 31 issues in 1995 and 1996 respectively. The least right issue made in the year 2011 and 2014 with only 1.

➢ The popular right ratios throw further light on corporate adoption of certain right ratios during the period of study. The data has been split into five time period viz., 1991-95, 1996-00, 2001-05, 2006-2010 and 2011-2014. Out of 1604 right issue by 1221 companies the other ratio such as 1:5, 1:4, and 1:3 stands first with 754, 1:1 ratio stands second with 377, 1:2 ratio stands third with 276 and 3:5 stands last with 47 right issue. The percentage share of 1:1 ratio in all issuing increased from 25.09 percent in the first period to 28.92 percent in the second period. In the third period (2001-05) it decreased to 13.73 percent, but it increased in the study period 2006-2010. At the last stage of the study period 2006-2010, it decreased again to 6.94 percent. It is also noted that the other ratio such as 1:5, 1:4, and 1:3 having the increasing trend during the period if study. During the period 1991-95, the other ratio given by concerned company is 42.5 percent, but in the second period (1996-2000) it increased to 149.01 percent. The increasing trend is also going on in the third period, fourth period and fifth period 54.9, 63.01 and 65.28 percent respectively.
The industry-wise distribution of different right ratios noted that the popularity of 1:1 ratio is not shared by all industry groups alike. It appears to be a favourite of Textiles Industry followed by Finance Industry and Chemical Industry. These account for 45, 41 and 19 respectively. The best next ratio 1:2 happens to be a highly popular ratio, but at this time Textiles Industry and Finance Industry both stood rank first with 32 followed by Auto and Chemical Industry with 13. The third best next ratio is 2:1. The Finance Industry made the right issue, 14 times in the ratio of 2:1 followed by Steel Industry which made the right issue 7 times. It is interesting to note that 67 percent of total issue [1067/1604] is accounted by the ratios 1:1, 1:2, 1:3, 1:5, 2:1, 2:5 and 3:5. Thus, these ratios rank as the most favored ratios, both in over all time intervals and in terms of the industry wise distribution as well. It is also notable that the highest right issue made by the Textile Industry with 177, followed by Finance Industry, Steel Industry and Chemical industry group with 158, 81 and 73 respectively. The least right issue made by the Cigarettes Industry, Lubricants Industry and Refineries Industry with 2.

It was clear from the results that there was a magnificent difference between the pre and post period average returns for the companies.

It was also noticed that the effect of right issue over the share prices was negative for maximum companies. Just six companies benefited from a right issue. It can thus be said that the right issue was not so fruitful for the investors because they were left with very poor return in the post period as compared to that pre average period returns.

There were three companies from the Pharmaceuticals industry and only one company was benefited, viz; Cipla Ltd. There were four and three companies from the Auto industry and Finance industry respectively, and only one company was benefited, viz; Eicher Motors Ltd. and HDFC Ltd. There was only one company from the Hospital & Medical Services, Telecommunication industry and Miscellaneous Sector and all are positively affected.

ACC Ltd and Ambuja Cements Ltd both were from the Cement industry and all are the negatively affected as compared to those pre average period returns. The three companies Federal Bank Ltd, Kotak Mahindra Bank Ltd and SBI were from the Banking Industry and all are found negatively affected during the period of the study.

The right issue failed to hold the average return to the investors. Rather, it led to major fluctuations in the share prices during the post issue period.

There are usually downward trends during the period of right issue and even the existing shares will come under heavy strains. In case financial management does not move swiftly on the terms, its whole financial policy might come under unbearably heavy strains.

8. Conclusion

The present study covers right issues made during 1991-2014 by the Indian Companies both from the public as well the private sectors. It covers 1604 right issues made by 1221 companies belonging to 67 industry groups during a period of 24 years. The sample of
listed Indian companies are selected on the various basis such as a size of the companies, age of the companies, frequency of right issues, ratio of right issues, time lag between two right issues etc. In order to enhance the quality of the inference to be concluded, the data of the S & P CNX 100 listed on the National Stock Exchange as on 16/09/2015 were considered for the analysis. Out of these 100 companies only 29 companies were found to have made a right issue the said period. Out of which 29 companies there were no record found of three companies. So for the analysis purpose only 26 companies have been considered. For the analysis purpose, share prices of these twenty six companies were collected for one month before and one month after the announcement date. The data was also collected for ten days before and ten days after the announcement date. The announcement date was considered as the border line because the real effect of right issues on share prices starts taking effect from the announcement date itself. With help of t–test it implies that there was a magnificent change in the average return of the shares of the companies reviewed. The average monthly return for the T-30 days was 0.19 and that of the post issue period was -0.13. Thus, the right issue led to a negative effect over the return of the shares. The negative average annual return for the post issue period also denotes the negative effect of the right issue over the share prices. On the basis of the T±30 and T±10 day analysis, it is sufficient to be concluded that although the right issue has affected the share prices, it had not done the same as expected positively. The pre issue period there was an upswing in the share prices, but the post issue period was the dark side. It was not expected of a right share. Family owned business like Tata Motors Ltd, Tata Power Ltd, Tata Steel Ltd, Reliance Industries Ltd and Reliance Infrastructure Ltd, all were left with very poor return in the post period as compared to those pre average period returns. It is thus finally concluded that the post liberalization right issues have led to negative effect over the share prices of the companies who have made the right issue.

9. Suggestions

➢ Firms can hold fund raisings via the easier and quicker route of a share placing, where they just approach their top institutional investors rather than asking all shareholders to put their hands in their pockets in a right issue.

➢ The company should not issue share if they are not prepared to give up a certain amount of decision –making to shareholders.

➢ The company should consider, whether option for raising capital other than a share issue might be more suited to their investment plans.

➢ The shareholder should find out why the company is coming out with a right issue. If it is to raise money for a sound business plan that will eventually increase the profits and share price, then it is a good deal.

➢ In our study, the right issue was not very fruitful for the companies because they were left with very poor return in the post period as compared to that pre average period returns. So, the company should have been adopted the another method to raise equity finance.

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