

# **A STUDY ON INITIAL PUBLIC OFFERING PRACTICES IN NEPAL**

**A THESIS**

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# RECOMMENDATION

This is certify that the thesis

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Entitled

## **A STUDY ON INITIAL PUBLIC OFFERING PRACTICES IN NEPAL**

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

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## DECLARATION

I here, declare that this thesis entitled **INITIAL PUBLIC OFFERING (IPO) PRACTICES IN NEPAL** have submitted to the Office Of the Dean, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of Master of Business Studies (M.B.S) under supervision and guidance of Dr. Sushil Bhakta Mathema, Head of Research Department And Sanjeev Parajuli Lecturer of Nepal Commerce Campus Tribhuvan University.

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**Rita Chhetri**  
Researcher

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## ABBREVIATIONS

ADB	Asian Development Bank
AGM	Annual General Meeting
BAFIO	Banks and Financial Institutions Ordinance, 2062
BOD	Board of Directors
BOK	Bank of Kathmandu Limited
CFG	Corporate and Finance Governance
CIT	Citizen Investment Trust
CMB	Capital Merchant Banking and Finance Limited
CMBL	Capital Merchant Banking and Finance Limited
CRO	Company Registrar's Office
DCBL	Development Credit Bank Limited
DDBL	DEPESROC Development Bank Limited
DEPROSC	Development Project Service Centre (DEPROSC) Development Bank Ltd.
EBL	Everest Bank Limited
EICL	Everest Insurance Company Limited
FFCL	Fewa Finance Company Limited
FY	Fiscal Year
GDP	Gross Domestic Product
HBTFLL	Harisiddhi Brik & Tile Factory Limited
HGICL	Himalayan General Insurance Company Limited.
HMG/N	His Majesty's Government of Nepal
ILFC	International Leasing and Finance Company Limited
IPO	Initial Public Offering
KBL	Kumari Bank Limited
LICL	Life Insurance Corporation (Nepal) Ltd
MOU	Memorandum of Understanding
NAL	Necon Air Limited
NBB	Nepal Bangladesh Bank Limited
NCC	Nepal Credit and Commerce Bank Limited
NCML	NIDC Capitals Markets Limited
NEPSE	Nepal Stock Exchange Ltd.
NFCL	National Finance Company Limited

NFDCL	Nepal Film Development Corporation. Limited
NHL	National Hydropower Limited
NIB	Nepal Investment Bank Limited
NLL	Nepal Leaver Limited
NMB	Nepal Merchant Banking & Finance Ltd.
NRB:	Nepal Rastra Bank
NUBL	Nirdhan Uthhan Bank Limited
NYSE	New York Stock Exchange
OHL	Oriental Hotels Limited Limited
PDBL	Pachhimanchal Development Bank Limited
PICL	Premier Insurance Company Limited
Rs.	Rupees (Nepalese currency unit)
RTS	Registrar to Share
SEBON	Securities Board, Nepal
SEC	Stock Exchange Center
SHL	Soltee Hotel Limited
SICL	Sagarmatha Insurance Company Limited
TRHL	Taragaun Regency Hotel Limited
UICL	United Insurance Company Limited

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background of the Study**

An initial public offering (IPO) occurs when a security is sold to the general public for the first time, with the expectation that a liquid market will develop. An IPO can be of any debt or equity.

Most companies start out by raising equity capital from a small number of investors, with no liquid market existing if these investors wish to sell their stock. If a company prospers and needs additional equity capital, at some point the firm generally finds it desirable to "go public" by selling stock to a large number of diversified investors. Once the stock is publicly traded, this enhanced liquidity allows the company to raise capital on more favourable terms than if it had to compensate investors for the lack of liquidity associated with a privately held company. Existing shareholders can sell their shares in open-market transactions. In particular, there are certain ongoing costs associated with the need to supply information on a regular basis to investors and regulators for publicly traded firms. Furthermore, there are substantial one-time costs associated with initial public offering that can be categorized as direct and indirect costs. The direct costs include the legal, auditing, and underwriting fees. The indirect costs are the management time and effort devoted to conducting the offering, and the dilution associated with selling shares at an offering price that is, on average, below the price prevailing in the market shortly after the IPO. These direct and indirect costs affect the cost of capital for firms going public.

Firms going public, especially young growth firms, face a market that is subject to sharp swings in valuations. The fact that the issuing firm is subject to the whims of the market makes the IPO processes a high-stress period for entrepreneurs.

Because initial public offerings involve the sale of securities in closely held firms in which some of the existing shareholders may possess non-public information, some of the classic problems caused by asymmetric information may be present. In addition to the adverse selection problems that can arise when firms have a choice of when and if to go public, a further problem is that the underlying value of the firm is affected by the actions that the managers can undertake. This moral hazard problem must also be dealt with by the market. In addition, evidence is presented on three patterns associated with IPOs: (i) new issues under pricing, (ii) cycles in the extent of under pricing, and (iii) long-run underperformance.

In Nepal the first public issue of ordinary shares took place more than 50 years back with the public issue of Biratnagar Jute Mills and Nepal Bank Ltd. in 1973 A.D. But the development of capital market started in 1976 A.D. after the establishment of Security Exchange Centre with the objective of facilitating and promoting the capital market in Nepal. It was the only capital market institution, which undertook the job of brokering, underwriting and managing public issue, market making for government bonds and other financial services. Securities Exchange Centre dealt in the securities as a broker as a broker and as a regulatory body. The Centre used to take; buy and sale only on orders from interested investors and confirm them if a price and quantity matched. There was no time limit within which a deal took place. It normally took one day to three weeks. Due to this, general public faced problems while buying and selling shares. The Security Exchange Centre issued 62 companies from the year of its inception to 1999 AD. Among these 23 companies were undersubscribed including Nepal Med. Ltd., Nirmod Pharmaceuticals Ltd, Harisiddi Brick & Tile Ltd. Himgari Textile Ltd, Banswari Lether and Shoes factory Ltd. Nepal Awas Biksah Bitta Company Ltd. and Yeti Finance Co. Ltd. etc. Although the secondary market was non-functional and public were not fully aware of on the working of the capital market. The public response to the

new issue of shares of selected companies like bank and finance companies were overwhelming.

Security Exchange Centre was converted into Stock Exchange Limited in 1993, and under its support, the broker system of secondary market was established. Until today out of 32 brokerage firms, 28 firms are doing their job regularly. Nepal Stock Exchange Limited is a non profit organization. It operates under Security Exchange Act 1983. The basic objective of the Nepal Stock Exchange Limited is to impart free marketability and liquidity to the government bonds and corporate securities. With the establishment of full fledged Stock Exchange, the shares, which the public had held for decades, become liquid. Capital market is gaining business attention since last few years. The NEPSE index, which shows the stock price trend of all the listed securities in the stock market, has been increasing in the recent fiscal years. Hence, the general investors are very keen to make investment in the securities of the companies, through both primary and secondary markets. In primary market, the investment is made through public issues of ordinary shares, preference shares, debentures and right shares as well as mutual fund and Units scheme.

This study is based on the dealing process in the primary market. As well as the study concerned with the pace public offering and public response to IPO in Nepal.

As per the provision of Company Act of Nepal, privately held companies cannot issue their shares in public by themselves. The issue must be done through issue managers. Though the company can raise the capital to the extent of its authorized capital, it generally issues stocks as per the need of its company. The amount of share capital of the issued share is called issued capital of the company. The total amount paid by the promoters at the time of establishment or after time-to-time rising of funds by the company is the paid-up capital.

## **1.2 Statement of the Problem**

Dealing in the public issues of the primary market securities is subject to the directives and regulatory framework of the concerned governing bodies.

Hence, the study is primarily deals with the process of managing the procedures of the public issues by the issue managers.

Besides, investment in the primary market instruments has gaining the interest of the general and corporate investors. Most of the initial public offerings have been successfully made since the investors have considerable concern and willingness for investment in these securities (SEBON, Annual Report, 2010/11). However, due to the upgrading performance of the banks and financial institutions, the market price of shares of such firms is raising, whereas those of other industries, particularly, manufacturing and processing companies, are performing poorly in the stock market (SEBON, Annual Report, 2010/11).

In this context, the study is meant to know the perception and preference of the general investors regarding the investment in the securities through primary market. The focus of study is on the status of the general investors in Nepal, the volume and portfolio of their investment, and the decisive factors they consider while opting companies for investment. But the study is also highly concentrated on investment in the manufacturing and processing companies.

Due to the poor performance of their shares in the stock market, how the investment opportunity on such companies is perceived and made by the general investors could have important impact on the capital market of the country. In 1999, top twelve individual enterprises reporting the turnover of about Rs.16320 million. It is observed that more than 140 companies or firms are run by 8 business houses with an average of 20 companies per group.

Those who own industrial units have also trading firms for export and import, and are also involved in various services including banking and finance. If such companies opt to “go public”, then the degrading image of their share in the

market would definitely hinder the successful completion of public offerings of their securities as the investors have declining confidence on their performance.

Hence, the study is aimed at revealing those core factors which could be decisive from the investors' view whether to invest or not in the particular company. Such information will help the issue manager to decide which factors should be considered to determine if the public offering of the manufacturing firm (issuing company) will be successful.

There are various types of obstacles existing in initial public offering stages in Nepal. In developed countries, generally people are aware of public offerings. However, in developing countries like Nepal, Initial Public Offering is still a new phenomenon. More than 50 percent of people are still uneducated. They don't know what public offering is. Why should they invest their money in stocks? Therefore, many problems are found in the field of public offerings in the Nepalese stock market rather than in other developed countries.

There is no provision to present citizenship at the time of submitting their share application form. So, a single investor can apply hundreds of applications showing dummy names. As a result, they can capture a large number of shares. When a single investor captures a large number of shares, he can influence the company's management and stock price too. In the light of these issues, this study, therefore, attempts to deal with the following specific issues.

- a. Whether the regulatory authority has a positive attitude for giving approval to IPO or not?
- b. Whether the government's policy has an impact on the issuance of IPO by the companies or not?
- c. Whether people are attracted to the IPO or not?
- d. What is the trend of the people's response on IPO?
- e. Whether people are aware of IPO and investment in shares or not?
- f.

### **1.3 Objective of the Study**

The basis objective of this study is to analyze the primary market behavior in Nepal. The specific objectives are:

- a. To assess the current situation of primary market issues.
- b. To examine the sectoral growth of primary market.
- c. To analyze initial public offering practices of securities of different sectors.
- d. To analyze the investors perception to initial public offering.

### **1.4 Significance of the Study**

Securities market in Nepal, until the recent past, had all the characteristics of an underdeveloped economy. It was characterized by the absence of professional promoters, underwriting agencies, market intermediaries, organized market, regulatory bodies, and rules and regulations. However, after the restoration of democracy in 1990, a trend towards an organized stock market can be marked with numerous developments in the Nepalese securities market, removing its earlier deficiencies.

This study helps us to find out legal provisions, possibilities, problems and prospects of Initial Public Offering in Nepal.

IPO is one of the crucial factors in every organization and initial public offering is one of the most important decisions. This study might serve to be crucial information for these respective institutions taken as sample for the study in IPO procedure. This research will be significant in the following way:

- a. In Nepal, there is still lack of study about initial public offering. Therefore, this study is expected to be helpful for the general investor and the organizations that directly or indirectly related to Public Offering.
- b. This study will assist to formulate of policy. They will be able to know the reasons for constant fluctuation of Initial Public Offering in Nepal. It

will also help to find out the financial status of publicly going companies. From this research, policy makers will get the knowledge of practical existing rules and regulation.

- c. From this research, the investor will have the clear conception over their investment. They will be able to distinct over the right investment. Thus, the decision for investment might be in right place, right time and right decision.

### **1.5 Limitations of the Study**

Data problem is more acute in conducting these kinds of study in the context of Nepal. Despite of the sincere effort made for arriving at meaning full conclusion form the study, some limitation deserve consideration in order to obtain reliable interpretation of the result. The major limitations of the study are as follows.

- (a) The significant size of sample and observation in the study are taken from secondary sources at NEPSE. Initial Public Offering of Bank and Financial Institution is more than that of manufacturing and other sector (Hotel, processing and trading). In this condition data are not exact availability at secondary source. Therefore, the accuracy of research depends up on its reliability.
- (b) The number of firm used in the study is not homogeneous amount sample Firm. It ranges from minimum 6 to maximum 10 firms. Comparatively, bank and financial institution have relatively larger number of firm than other sector. Therefore, the results may be biased to those firms which have relatively longer study period.
- (c) The study is not recent change because the data are used up to mid April 2010. Monthly and quarterly observations Issued by Nepal Rastra bank (NRB) is not matched with SEBON, and NEPSE annual report. For making this study more reliable annual data has been used.
- (d) Initial public offering process through it is not possible to study all factors; this study will be limited to the study of only following factors.

Issuing Company, Issue manager, government body, legal provision, researcher's limited financial resource.

- (e) The survey for executive and survey for security business person has been conducted in the Kathmandu valley only. The major reason for this are: Nepal stock exchange that exist in Kathmandu, further the head office of the most enterprises are incorporated in Kathmandu valley. Hence, the study does not incorporate wide geographical character of the respondents.

## **1.6 Organization of the Study**

The study is organized into five chapters, each devoted to some aspect of the study of initial public offering in Nepal followed by financial institutions in Nepal. The fields of each of these chapters are as follows:

Chapter one contains the introductory part of the study. This chapter describes the general background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study. Chapter two is devoted to theoretical framework and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies. Chapter three describes the research methodology employed in the study. This deals with the nature and sources of data, list of the selected Companies the model of analysis, meaning and definition of statistical tools. Chapter four deals with the presentation and analysis of both primary and secondary data by using statistical tools and it deals with major finding of the study. Finally chapter five states summary and conclusions of the study and suggests some recommendations.

## **CHAPTER-II**

### **LITERATURE REVIEW**

This chapter is divided into two parts. In the first part some conceptual framework has been provided and in the second part review of past research works, books, journals and articles has been provided.

#### **2.1 Conceptual Framework**

##### **2.1.1 Capital Market Vs Money Market**

Financial Markets provide a forum in which suppliers of loans and investments can transact business directly. The loans and investments of intuitions are made without the direct knowledge of the suppliers of funds (savers), suppliers in the financial markets know where their funds are being lent or invested. The two key of financial markets are the money and the capital market. Transactions in short term debt instruments, or marketable securities, take place in the money market. Long term securities (bonds and stocks) are traded in the capital market. (Gitman, 1988:30)

Money market activities include primary and secondary market activities in short-term negotiable instruments such as Treasury Bills, Government Bonds, and Certificates of Deposit, Bankers Acceptances and Commercial Paper or Promissory Notes. Merchant bankers are usually users and market-makers (dealers), rather than brokers in these types of paper.

In theory, the money market is different from the capital market. In practice, however, in most countries with efficient financial markets (that is, the money market and the capital market combined), the merchant banks are active in both. This is a simple function of the fact that a negotiable money market instrument for all practical purposes is simply a shorter-term capital market instrument. Therefore, the techniques and facilities needed to operate in the

money market are essentially the same as those needed to operate in the capital market.

### **2.1.2 Capital Market**

The capital market is defined as a place where finance is raised by companies for meeting their requirement of funds for new projects, modernization and expansion programs, long-term working capital needs and for various other purposes. The capital market mobilizes savings of individuals as investment in shares, debentures, Units of mutual funds and other like financial instruments, which are ultimately deployed for productive purposes in various sectors of the economy.

A place where long term lending and borrowing takes place is known as capital market. The capital market is the market for long-term loans and equity capital. Companies and the government can raise funds for long-term investments via the capital market. The capital market includes the stock market, the bond market, and the primary market. Securities trading on organized capital markets are monitored by the government; new issues are approved by authorities of financial supervision and monitored by participating banks.

Capital market refers to the links between lenders and borrowers of funds, arranging of funds-transfer process to seek each other's benefit.

Capital market consists of the various suppliers and users of long term finance. It is differentiated from 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 savings and channeling them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and the sellers of securities and all those agencies and institutions which assists the sale and release of corporate securities.

Primary markets are absolutely vital to capitalistic economic if they are to function properly, since they serve to channel funds from savers to borrowers. Furthermore, they provide an important locatives function by channeling the funds to those who can make the best use of them-presumably, the most productive. In fact, the primary function of the capital market is to allocate resources optimally. A securities market with this characteristic is said to be other hand, is one with the lowest possible prices for transactions services.

The capital market is a financial relationship created by a number of institutions and arrangements that allows the suppliers and demanders of long term funds, funds within maturities of more than one year to make transactions. Included among long term funds are securities issue of business and government. The backbone of the capital market is formed by the various securities exchanges that provide a forum for debt and equity transactions. The smooth functioning of the capital market, which is enhanced through the activities of investment bankers, is important to the long run growth of business.

The capital market also comprises two segments—the new issue of market that is commonly known as the primary market and the secondary market where already issued securities are traded. For the purpose of this manual, only primary market would be dealt in detail.

### **2.1.3 Security Market**

Security market sets a price for the securities it trades and makes it easy for people to trade them. Securities market facilities the sale and resale of transferable securities. The security market can be defined as a mechanism for bringing together buyer and sellers of financial assets to facilitate trading. Securities market is classified into two; the market in which new securities are sold is called the primary market and the market in which existing securities are resold is called the secondary market. Secondary markets are created by

brokers, dealers and market makers. Brokers bring buyer and seller together with themselves actually buying or selling; dealers set price at which they themselves are ready to buy and sell (bid and ask price respectively). Broker and dealer come together organized market or in stock exchange. (Gitman, 1992:457)

Securities are traded in a market called securities markets. Although, securities markets are concerned in few locations, they refer more to mechanism, rather than to place, designed to facilitate the exchange of securities by bringing buyers and sellers of securities together. In other words, people and organizations wanting to borrow money are brought together with those having surplus funds in the securities markets. Securities, such as equities, short and long term debt instruments, derivatives etc are the products that are traded in the markets, institutions such as investment bankers and security firms, securities issuing institutions such as government and corporate bodies and the participants of the securities markets. Securities markets major function is to provide line between saving and investment there by facilitating the creation of new wealth.

Securities markets covers both primary and secondary. The difference between the two markets is, the primary market consists of the companies making the issue of securities and the members of the public subscribing to them. Whereas, secondary market involves the purchase and sale of securities already issued to the general public and is traded in the stock exchange. The primary market also comprises the offer of securities to the existing shareholders of the company on right basis.

This study is only concerned with initial public offerings so, it deals with the process and activities incurred in rising of funds from the primary market. The operation of the secondary market, though is an important operation scope of the merchant banking, is not covered in this manual.

Primary market and the secondary market are present in both the capital market and the money market.

### **The Primary Market**

In the definition of primary market made above an addition is to be made. That is, depending upon the company offering securities for the first time or in succession, primary market can have public offerings as initial public offerings or the successive public offerings or so on.

#### **2.1.4 Public Offerings**

It is the raising of long-term funds for governments or corporation from a fund sufficient public group in the primary market. The most important aspect of public offerings is its role as the single most effective means by which government and corporate entities can obtain long-term (debt or equity) on a permanent basis. This not only permits them to broaden their sources of finance beyond the banking system, but because the banking system is usually a short- or medium term floating rate lender, the securities market is often the only means of obtaining large sums of fixed rate, long-term funds.

##### **2.1.4.1 Timing of an Public Offering**

Obviously, not all companies that would like to go public are in a position to do so. Factors relevant to a company's ability to successfully close an IPO include (i) its past financial performance, its financial projections for the future, and its ability to generate consistent increases in revenues and earnings, all of which are crucial for a public company to survive in the market place, (ii) the experience and depth of the company's management team, (iii) a solid product position in the market with growth potential, (iv) a focused mission set forth in a well written business plan to present to prospective underwriters, and (v) attorneys, accountants and public relations firms experienced in working with the SEC. The determining factor in the success of an IPO of technology-

based companies may ultimately be the receptivity of the stock market to new issuances.

The company will have to satisfy the underwriters that all of the above criteria are met, and even then the underwriter may insist on changes to the company's capital structure as a condition to its engagement. For example, the underwriters might require the company to affect a reverse stock split prior to the closing of the IPO in order to price the shares being offered in a typical IPO price range. If the underwriters do not feel that the company is offering a sufficient number of shares to ensure an acceptable "float" of publicly traded shares, they might require that certain stockholders participate in the offering by selling some of their own shares (a "secondary offering"). The underwriters might also insist on fundamental changes in the company's means of conducting its business as a condition to its engagement, such as the cessation of insider transactions and perceived conflicts of interest and the appointment of outside directors. Companies which are not willing to make such changes may not be able to attract an underwriter willing to manage the IPO.

If the issuer belongs to a certain industry that is particularly attractive to investors at the time of the proposed IPO, it will have more leverage in choosing and negotiating with an underwriter. Conversely, if market conditions are unfavorable at the time of the offering, the issuer will have less flexibility in how the deal is structured and may have to postpone the IPO altogether.

### **2.1.5 Types of securities offered in the primary market**

Different types of securities are offered in the primary market. They are:

#### **2.1.5.1 Common Stock offerings**

These are the offerings that entitle the holders or the buyers of the offerings the stake on the equity of the issuing company. In addition, they are entitled to:

- Voting right at the general meetings of the company and have the right to control the management of the company.
- Right to share the profits of the company in the form of distribution of dividend and bonus shares.
- In the event of the winding of the company, equity shares capitals are repayable only after repayment of the claims of all the creditors and preference shareholders.

### **2.1.5.2 Preferred Stocks offerings**

Preference shares capital mean, in the case of a company limited by shares, that part of the capital of the company which,

- Carries a preferential right to payment of dividend during the lifetime of the company;
- Carries, on a winding up, a preferential right to be repaid the amount of capital paid-up.

The different types of preference shares are:

- Cumulative Preferred stocks
- Non-cumulative Preferred stocks
- Redeemable Preferred stocks
- Non-redeemable Preferred stocks
- Convertible Preferred stocks

### **2.1.5.3 Debt offerings**

Debenture includes debentures stock, bonds and any other securities of a company, whether constituting a charge on the assets of the company or not.

Debenture is a document that either creates a debt or acknowledges it, and any document, which fulfills either of these conditions, is debenture. The characteristic features of a debenture are as follows,

- It is issued by the company and is in the form of a certificate of indebtedness.

- It usually specifies the date of redemption. It also provides for the repayment of principle and interest at specified date or dates.
- It generally creates a charge on the undertaking or undertakings of the company.

The different types of debentures are:

- Secured debentures
- Unsecured debentures
- Redeemable debentures
- Perpetual debentures
- Convertible debentures

#### **2.1.5.4 Warrants**

The warrant gives a right to the holder to obtain equity shares specified in the warrant after the expiry of a certain period at a price not exceeding the cap price specified in the warrant. The warrant is a tradable and negotiable instrument and is also listed on the stock exchanges. It comes in different forms, mostly:

- Bonds with warrants
- Preferred stocks with warrants

Beside these instruments there is other instrumental mix available to the investment bankers to provide to the primary market investors. But, these are beyond the scope of this manual to describe.

#### **2.1.6 Initial Public Offering (IPO) Manual**

Initial Public Offerings (IPO) manual is the detail procedure of handling Initial Public Offerings of the companies seeking “going public” for the first time. This manual outlines all the activities and steps that have to be observed by all issuing companies and issue managers in respect to Initial Public Offerings (IPO). This manual has been prepared with a view to present a detailed,

descriptive and step-by-step action sequences in the Initial Public Offerings, relevant to all the companies offering shares to the general public. But, it is subject to periodic amendments and supplements.

The Public Offering is not an easy task. There are many that are involved during this periods. They are:

### **2.1.6.1 Issuing company**

Issuing company is the company raising funds from the general public through the process of public offering. The purpose of public offerings is for the collection of funds from general public, a fund sufficient group, by the company as per its requirement of business expansion. The company seeking for public offerings could be a completely new company (initial public offerings), a new company set by the existing company (initial public offerings) or by existing listed company (successive public offerings).

As per the Company Act, only public companies are liable to go for public offerings. The Act specifically states that private companies are not allowed to sell their shares and debentures in the free market. For public company issuing debentures, the reasons for such issue, project to be financed and its estimated budget along with the information about secured or naked nature of the debenture, needs to be approved from the governing bodies.

NRB has made mandatory that financial institutions must go for common stock public offerings within specified time of operation commencement. NRB has also set forth different minimum percentage of equity holding to be offered to the public shareholders. For commercial banks, minimum shares to be held by public is 30%; for finance companies, it is 40%; for development bank it is minimum 30% and maximum of 50%. In the case of foreign participation, their equity holding would be arranged from the percentage allocated for the public. For finance companies, in the event of foreign participation, the minimum percentage to be allocated to the general public is 25% of paid-up capital.

For other public companies such compliance to go into public offerings of equity holding are absent. For such companies, going into public signifies the need of funds for the company rather than the obligation.

#### **2.1.6.2 Merchant Bankers**

Merchant bankers are intermediaries in which they work as mediators in the fund mobilization from the general public to the business groups. The funds are raised from the hypothetical market that comprises widely spread fund surplus groups, mainly the general public and the concentrated fund deficient groups, mainly the business groups. Funds are raised under different tool names that have long term and short-term maturing period. According to such maturity period of the tools traded, market is identified as capital market for long-term and money market for short-term tools to be traded.

The role of merchant bankers in this market is to help create and expand securities underwriting, the secondary market for securities and money market. They also provide additional services in advising corporations and managing investment portfolio for the needing groups.

The concept of merchant Banking differs from other commercial and development banks in respect that they do not require large funds to be invested as a principle. Their sources of income are basically the service charge they charge to their clients for playing intermediary role in the fund mobilization and their advisory role. Typically, the activities of domestically oriented investment banks can be grouped under,

- Securities Underwriting
- The secondary market for securities
- The money market
- Corporate advisory services
- Investment portfolio management services, and also

- Venture capital
- Leasing/Hire purchase
- Other services (insurance, real estate etc.)

The role of merchant Banking in managing the public offerings comes under the heading of securities underwriting. The working process of which would be described comprehensively later.

For the working of merchant Banking function in Nepal, Nepal Rastra Bank (NRB) has set forth the working guidelines. Guidelines have identified working of merchant Banking into two sets of functions. The first set is the non fund-based functions and the second set is fund-based functions.

Fund-based activities identified for the merchant Banking are:

- Bridging finance
- Underwriting
- Project Finance
- Venture Capital
- Acquisition & Merger

Non fund-based activities identified for the merchant Banking are:

- Share issue management
- Mutual Fund
- Portfolio Management
- Corporate Counseling
- Project Counseling
- Debenture Trusteeship
- Arranging International Finance
- Investment Advisor
- Advising Corporate Mergers

NRB has set the directives as for non fund-based activities of merchant Banking, for underwriting and for bridging finance it is not necessary to take separate approval from NRB. But, for other fund-based activities of merchant banking, it is necessary to take separate approval from NRB for different activities to be undertaken.

Under the NRB directives of per client loan advancement and facility limit provision, such loan and facility can be provided to a client up to:

- In maximum of 25% of primary capital in fund-based activities.
- In maximum of 50% of primary capital in non fund-based activities.

In Nepal there are 7 merchant banks are already established. They are providing issue manager, lead underwriter, Register, Transfer of Shares etc. services to other institutions.

### **2.1.6.3 Securities Board**

Securities board has been formed under the Securities Exchange Act, 2040 Clause 3. This legislation has required for the creation of an independent statutory Board to be an apex authority for the securities market, thus resulting into the formation of Securities Board.

The need of legislative body is for maintaining healthy and orderly development of the securities markets and to ensure adequate investor protection. Establishment of SEB is necessary to promote markets that ensure:

#### **Fairness**

The markets must promote integrity in dealings, high standards of conduct and good business practice.

### **Efficiency**

The markets should with professionals and be well informed, offering high standards of service at reasonable cost.

### **Confidence**

The market must inspire confidence in both investors and issuers to actively participate in and rely more on the securities markets.

#### **2.1.6.4 Stock Exchange Market**

Stock exchange has been defined as anybody of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling of or dealing in securities. The stock exchange therefore is the most important institution in the secondary market. In the primary market, it comes into play during primary share allotment, during issuing share in premium and when Securities Board asks Securities Exchange Market for its opinion.

Securities Exchange Ordinance 2062 has stated that for the operation of the stock exchange market, approval needs to be taken from the Securities Exchange Board. Any registered institution except private companies willing to do or allow others to do security transaction should get approval for securities exchange market from the securities board.

After the issue of securities to the public, the Act requires that companies be listed in the Security Exchange Market before the floated shares can be traded in the market. Nepal Stock Exchange Limited (NEPSE) is the only stock exchange market in the country.

#### **2.1.6.5 Financial Institutions**

They are financial intermediaries like commercial banks, finance companies (merchant bankers), and development banks and cooperative institutions. These institutions are established under the Company Act and Nepal Rastra Bank

Directives. These financial institutions perform the role of intermediaries in the securities issue as per the authority received from the Securities Exchange Board. Financial Institutions are involved in securities issue process as:

- Issue managers
- Underwriters
- Collection centers
- Bankers to the issue

The role of financial institutions is to manage the issue process and be intermediaries in the process of transfer of funds from the investors to the issuing company. The financial institutions may also play a role of creditors to the issuing company by providing bridge finance.

Securities Issue By laws has specified required capital for intermediaries in the securities issue and transaction as,

**Table 2.1  
Required Amount of Authorized and paid-Up Capital for Securities Issue and Transactions**

<b>Transaction Type</b>	<b>Authorized Capital ('000)</b>	<b>Paid-up Capital ('000)</b>
Issue registration & issue management, Issue Underwriters	NPR. 20,000.00	NPR. 10,000.00
Dealer in securities market	NPR. 10,000.00	NPR. 5,000.00
Market makers in securities market	NPR. 10,000.00	NPR. 5,000.00
Brokers in securities market	NPR. 400.00	NPR. 200.00
Intermediaries in securities transfer, registration etc.	NPR. 400.00	NPR. 200.00

*Source: SEBON Annual Report 2009/10*

### **2.1.6.6 Nepal Rastra Bank (NRB)**

Nepal Rastra Bank is the central banking authority in Nepal. It is the governing authority in setting guidelines to all the financial institution regarding its area of operation. But, in the case of public offerings, its involvement is very minimal. Its role in the issue process is only to grant financial institutions approval to be involved with different role in the issue process. Also for

different fund based activities of merchant banking, approval needs to be taken from Nepal Rastra Bank.

## **2.1.7 Terms Involved in the Process of Initial Public Offerings of Common Stocks**

### **2.1.7.1 Initial Public Offering (IPO)**

It is a process by which an institution raises desired capital through issuing of securities (common stock, preferred stock, bond, commercial paper and debentures) in the capital or money market for the first time.

For the purpose of public offerings, Company Act has specified that the public issue process of any public company should be managed through the institution receiving authority from SEBON. Internationally, financial institutions with the merchant banking operations, manage the overall issue process of any public limited company. Such institution managing the overall process of the public offerings is termed as an issue manager.

### **2.1.7.2 Issue Manager**

Issue manager is the institution solely holding the responsibility of managing the public offerings of any issuing company. Securities Exchange Act, 2040 clause 18, has defined issue managers as institutions holding license from the Security Board to manage public offering process. The format of application letter and required information to be provided while registering for issue manager are given in the appendix.

### **2.1.7.3 Lead Manager**

In the event of more than one issue managers managing the issue of securities of any company, the term lead manager is used to identify the individual issue managers. The existing Act and the Directives have not clearly identified the maximum number of lead managers managing securities issue of any company at the same time.

#### **2.1.7.4 Underwriting**

Underwriting is an agreement between the issuing company and a financial institution like bank, merchant banker, broker or other person, providing for their taking up the shares or debentures to the extent specified in the agreement between them, if it is not subscribed by the public. The underwriting agreements ensure that the public issued is fully subscribed. The commission paid to the underwriters as consideration for the underwriting arrangement is known as underwriting commission.

The existing Company Ordinance does not require that the underwriting of all securities issued to be mandatory. Clause 26 of Company Act has specified that “in the event of issued securities subscribed less than the 50%, such securities should not be distributed to the general public”.

The Securities Exchange Directive 2055 has made mandatory for underwriting for those institution stated as “institution established as manufacturing industry and has not appraised its venture project from the financial institution for the purpose of loan agreement, should underwrite its securities before being offered to the general public”.

But in the case of financial institutions, the governing body NRB requires that issue of securities by commercial banks and development banks are fully underwritten. But in the case of finance company the requirement has been relaxed. Similarly, Beema Summity has made the public issue of securities of insurance companies to be fully underwritten. Under the underwriting provision, such information is to be mentioned in the prospectus.

The reservation for preferential allotment for reserved categories should be excluded and underwriting is compulsory only to the extent of the offer to the public.

#### **2.1.7.5 Lead Underwriter**

Lead Underwriter is the one that arranges the whole underwriting process for the issuing company with the help of other sub-underwriters. The issuing companies and intermediaries should note that underwriting is a serious contractual arrangement having financial implications on the issuer and the underwriter. The business of underwriting, therefore, presupposes inherent financial strength on the part of the underwriters. In the process of identifying underwriters, therefore, issue manager must satisfy himself about the net worth of the underwriters and their outstanding commitments and disclose.

In the event that the issued shares are not fully subscribed by general public, the distribution of unsold share to the underwriters would be held on the pro-rata basis based on the number of shares committed by them to underwrite.

#### **2.1.7.6 Underwriters or Sub-Underwriters**

They are the smaller institution agreeing to underwrite fewer number shares. Underwriters and sub-underwriters work under the management of the lead underwriter. Their financial responsibility remains within the total amount of shares agreed by them to undertake.

#### **2.1.7.7 Banker to the Issue**

Banker to the Issue(s) is (are) normally a commercial bank(s), which provide(s) the custodian service to the issuing company and keep the subscription money. Bankers to the issue may or may not receive applications from the investors, issue acknowledgements for the same, and enter the application details in application schedules. It also involves in the process by realizing the proceeds of the cheques /draft and issue final certificates to the issue manager for the number of applications and amount collected. Issuing company in consultation with the issue managers makes the appointment of bankers to the issue.

The bankers to the issue generally comprises the consortium of bankers providing working capital finance to the company, the banks providing underwriting assistance for the issue, the bank associated with the issue managers and other banks which are regularly and efficiently handling public issue work.

#### **2.1.7.8 Collection Centers**

Collection Centers are normally financial institutions such as banks, finance companies, brokerage houses etc. Collection centers receive applications from the investors, issue acknowledgements for the same, and enter the application details in application schedules. They also realize the proceeds of the cheques/draft and issue final certificates to the issue manager for the number of applications and amount collected. The appointment of collection centers is made in consultation with the issue managers.

#### **2.1.7.9 Prospectus**

The prospectus is defined as, “any document described or issued as a prospectus and includes any notice, circular advertisement or other document inviting deposits from the public or inviting offers from the public for the subscription or purchase of shares in, or debentures of, a body corporate”.

The Company Act 2053 has made mandatory that any public institution going into public offerings must issue the prospectus before issuing the securities to the public. The prospectus needs to be specific and patterned as per the clauses 20 (1) of Company Act 2053. According to the Act, before publishing for the public, the prospectus signed by the board of directors should be sent to and get approval from the Office of Registrar of the Companies and Securities Board. The requirement is made to make sure that the information provided to the public is as per requirement and is not manipulated to mislead the public. The prospectus published for the public should state in the publication the approval from the Office of Registrar of the Companies.

The Company Act 2053 has stated that matters referred in the prospectus are the liability and responsibility of company publishing it. Board of Directors signing the documents is answerable to the matters stated in the prospectus. In the event that, company has knowingly published false statement in the prospectus and believing on which if securities has been purchased and loss incurred, such loss coverage would be the personal liability of the directors signing the prospectus.

In short, prospectus is a legal document containing important features of Article of Association, Memorandum of Association, important decision taken by the board of the company affecting the future of the company and important conditions to be obeyed by the general applicants. The main purpose of the publishing prospectus is to inform public about the company and the issue.

The format and the example of prospectus are given in the appendix.

#### **2.1.7.10 Budget for the Issue**

Budget for the issue is a tentative figure of expenses that is estimated to incur in the process of public offerings. The budget is to be born fully by the issuing company, if not, according to the understanding reached between issuing company and the issue manager/s.

#### **2.1.7.11 Application form**

It is a form provided to general public to apply for the issued securities by a company. The application forms needs to be filled both in English and Nepali. It contains:

- Information about the company and issue
- Space for applicants to fill in his/her information

Application form is the legal document that the investor provides to the company stating the number of shares of a company he/she is willing to accept. The applicants submitting the application forms would imply that he/she has

accepted the terms and conditions stated in the application form with the full knowledge about the matters referred in the prospectus. Attached with the application form a photocopy of citizenship is collected as a proof to applicants' acceptance to terms and condition and a remedy to possible discrepancies in identification. In case of minor applicants, citizen certificate of parents or guardian is to be attached.

#### **2.1.7.12 Bridge Financing**

It is a short term lending provided to the issuing company till the date of share allotment, backed by the collection from public issue. The company is to make the payment after receiving allocated shares money from public offerings. Normally financial institutions provide bridge loans to companies against their underwriting commitments. The said loans are adjusted against allotment of shares/debentures. The bridge finance is issued when

- Companies require to meet their immediate requirement of funds
- If there is a substantial lead-time between making a public issue and commencement of commercial production
- If issues is to be deferred to the most opportune time.

#### **2.1.7.13 Memorandum of Understanding**

In the process of issuing securities to the public, beside issuing company, different intermediaries are involved. Memorandum of Understanding is the legal agreement made between issuing company and different intermediaries. This agreement states the terms and condition in respect to the function and authority of the involved parties. Securities Issue and Issue Manager Directives, 2054 (7) has provided guidelines while going into agreements.

Different MOU to be signed in the process of issue offerings are,

- MOU between issuing company and the issue manager/ lead managers: This is required as the Company Act requires securities issue process of any public company is to be done through the registered issue manager. This legal agreement between issuing

company and issue manager specifies terms & condition, responsibilities and the authorities of involved party.

- MOU between issue managers and the underwriters: Except for the finance companies and manufacturing industries (except identified in Securities Exchange Directive 2055), all other public institutions, as per their respective directives, underwriting is mandatory.
- MOU between issue manager and the bankers to the issue.
- MOU between issue manager and the collection centers.

Except for the MOU between issuing company and the issue manager, other MOU is to be signed by issue manager on behalf of issuing company with the notification and the consent of the issuing company.

In the case of MOU signed between issuing company and the issue manager, Company Act 2053 requires that copy of such agreements needs to be submitted to Office of Registrar of Companies within 7 days of such agreements made.

#### **2.1.7.14 Issue Commission**

It is the commission charged by the issue manager to the issuing company for the service it has provided. Issue commission is paid for issue management process. The responsibility of issue manager in the issue process and for which issue commission is to be charged is to be demarcated in the agreement itself. The commissions are normally set as per the negotiation.

Securities Issue Bylaws (2<sup>nd</sup> amendment), 2054 has set the maximum limit for issue commission as,

Table 2.2  
**Limit of Issuance Commission**

<b>Particulars</b>	<b>Percentage (of the issued amount)</b>
For issue upto NPR. 2.5 million	2.25 %
For issue above NPR. 2.5 million to 5.0 million	2.00%
For issue above NPR. 5.0 million to 10	1.75%

million	
For issue above NPR. 100 million	1.50%

*Source: www.sebon.gov.np*

### **2.1.7.15 Underwriting Commission**

Underwriting commission is the amount charged by the underwriters for underwriting the securities issued. Securities Issue Bylaws (2<sup>nd</sup> amendment), 2054 has specified that underwriters may charge in maximum 3% of underwritten amount as the service charge to the issuing company. The commissions are normally determined as per the negotiation.

### **2.1.7.16 Collection Charges**

Collection charges are the amount charged by the collection centers for collecting the application forms and other documentation process. The collection charges are also charged on percentage of the amount collected. The percentage charged also depends upon the negotiation between issue manager on behalf of issuing company and the collection centers.

### **2.1.7.17 Refund Charges**

Refund charges are the amount charged by the collection centers for refunding the oversubscribed money to the general investors. The refund charges are charged on percentage of the total amount refunded. The percentage charged depends upon the negotiation between issue manager on behalf of issuing company and the collection centers.

### **2.1.7.18 Fix Charges to the Collection Centers – Finance Companies**

It is a fix charged given to the collection centers like finance companies for making required preparation for collecting application from the investors and conducting other required activities. The fix charge amount provided to the collection centers is also based on the negotiation.

### **2.1.7.19 Listing in the Nepal Stock Exchange Limited**

The Securities Registration and Issue Approval Provision and Directives 2051 has stated that securities issued publicly or procedurally should be listed in the

registered securities exchange market or provision to be listed within 3 months of closure of the issue. For listing securities in the market, the issuing company should comply by the clauses as,

- Percentage of public issue stated by the securities exchange market
- Required number of public shareholders
- Easy transfer of ownership of issued securities
- Other stated directive for the listing of the securities in the market

Since, the securities listing is mandatory for the securities issued, SEB requires that the issue process be approved from the securities exchange market before approving for the public offerings. Securities exchange market gives approval based on its criteria for approval.

#### **2.1.7.20 Pre - Issue & Post Issue**

Pre-issue in the issue process is defined from the point of approach by the issue manager to the prospective issuing company to the point of allotment of securities and refund of oversubscribed money to the investors. This segregation has been made on the basis of Company Act, as it requires that the process of securities issue, allotment of securities, collection of subscription needs to be done through institutions approved to carry out issue management.

## **2.2 Review of Past Research Work**

Welch (2002) seasoned offering indicated that price is an information asymmetry between firm's owner and investor. High quality firms' owner can signal their superior information to investor because their marginal cost of under pricing is lower than the marginal cost of under pricing Low-quality firm's owners. To imitate high quality firms Low quality firms would not only have to incur the signaling cost but also expend the resource to imitate the observable real activities and attributes of high quality firms. The market may discover the true quality between Initial public offering and seasoned offering. And therefore force an imitating firms to some of the imitation

expenses whose only purpose was deductive investors. Higher signaling cost than increase the attractiveness of Low quality firms. In other words IPO under pricing can drive the additional wedge between the costs and benefits of Low quality firms. On a more general level, Imitation cost are alternative justification for underpricings and under pricing without Nelson (1984) and Milagros and Roberts (1986) Assumption that buyer Learn from their Initial purchase.

Ritter (2005) conducted a study to identify the investment banking and issuance of public offering and seasoned equity offering. One of the most contentious empirical findings of the study is that conducting IPOs and SEOS subsequently underperform relative to other matches non issuing firm. Relative to size matched firms, but since issuing firms tend to be small growth firms and non Issuer tend to be small value firm, the book to market effect is a confounding effect. IPO under underperform by 2.2 % per year on average. With SEOS on the other hand, economically significant underperformance of 3.4% per year is still present when style, benchmark is used. The reasons for the differences in sensitivities is that the book- to- market effect is concentrated among very small firms. A high proportions of IPOs are very small growth firms where's SEOS are loss concentrated in his extreme style.

Pandey (2005) conducted a study to identify the problem's of primary share issue market, assess the growth of primary issue market, analyze the pattern of public response to shares & find the reasons of variation. The study has documented that public response in primary market is high due to lack of opportunities for investment in other fields. No proper investment analysis has been made. Despite this, public are attracted towards shares than other sectors, basically to increase their value of investment, be it dividend capital gain or bonus shares. It can be seen that public response to primary issues on Banking and Financial sectors is normally higher than that of the manufacturing and services sector. Major causes for poor response in the period 1995-1998 were;

interest rates were higher as compared to dividend yield, the public companies were not performing well and people did not know about the importance of investing securities. Now the response is highly positive because people are aware, money flow in the market is higher, people have seen that most companies are distributing dividends, share prices are increasing for most companies and a lack of better alternatives for investment. Now that the average interest rates have gone down, more can be obtained from investment in stock.

Brav and Fawcett's (2006) study indicated that academics theory regarding the initial public offering (IPO) process is generally well grounded. While chief financial officer (CFO) strongly prefers firm commitment underwriting, they express few concern with SPO process Issue. CFOs at firms that have withdrawn IPOs are an exception, expressing greater concern with the uncertainty and cost encountered in the IPO propose. CFOs are well informed regarding expected under pricing. They attribute most under pricing to market uncertainty and the need to rewarded investor for taking the risk of IPO. With drawn and success full CFOs report little concern that underwriters are gaming the IPO process for self serving benefits; rather underwriter are performing the traditional intermediary role. Not tried CFOs is more skeptical. The underwriter, selection process is driven by very small set of selection criteria, normally, underwriter reputation and IPO process expertise CFOs perception on underwriter selection have remained consistent in pre-and post bubble year. The most important motivation for going public is to create public share for use in future acquisition.

Bhagat (2007) analyzed the corporate ownership structure and IPO valuation modal in which the current value of firms is positively related to the percentage of equity retained by entrepreneur taking the firm public. Under the signaling model, the entrepreneur knows more about the expected cash flows of the firms than do potential investor. Further it is costly for the entrepreneur to retain

share in the firm because by doing so he foregoes the benefits of diversifying his personal portfolio... There force firm will retain share in the IPO that has private information that expected cash flow are likely to be high. Study implies that greater equity ownership by pre-IPO share holder holder a credible signal of their confidence about the company's prospects to the investment banker and to potential investor, and leads to higher IPO value.

James (2007) attempted to examine the effects of initial public offering (IPO) lock up features on share price and market activity. Lock-up refers to the agreements by firm insider not to sell a certain portion of their share for a specified length of time (often 180 days) these agreement are quite common and the portion of total outstanding share subject to lock up can be substantial. Ibbotson and Ritter (1995) argued that an important valuation issue for sophisticated investors is whether inside share holder sell some of their own stock holding in the firms of the time of IPO. Consistent with this argument, research shown that the degree of ownership retained by insider of the date of IPO is positively related to firm value, (Downs and Monika [1982] and Riffled [1984]) little is known. However, about how market participants respond to the expiration of the lock up period. Since lock up agreement effectively restrict insider sale immediately following the IPO, investor can reasonably anticipate that insider will sell share one the lock up period expires.

Ritter (2008) presented evidence that the value of natural- resource firms increased substantially around the period of the 1980 hot issue market. It is plausible that this increase in value was associated with the exogenous shock of the 1979 oil crisis. This resulted in substantially increased price for petroleum products worldwide. The new prospect of highly profitable energy may well have been the impetus for the 1980 hot issue market in a natural resource firms, characterized by both under pricing and the flood of New Issues noted by Ritter. In facts the study found that almost all of these (Natural resource related) stock had large initial price jumps.

In other empirical work, Borry , (1999) showed evidence that IPO of firms initially backed by venture capitalist are just as under priced as those with out such backing. Venture capitalists stork at least some of the private information about the prospects of the firm they back, and they come to the IPO market repeatedly. There fore, the authors speculate, venture capitalists may have on even greater incentive to build a reputation, as the type that back good firm.

Habibullah (2008) indicated the evidences that in some Asian countries including Nepal economic development reflected in economic growth leads the financial development measured in the ratio of broad money to gross national product (M2/GNP). This implies that economic development has preceded the financial market development in the case of Nepal. But several other studies conducted in other LDCs reveal that the financial development has preceded the economic development. The stock market development measured by market liquidity, market capitalization and total turnover is correlated with current and future economic growth, capital accumulation, and productivity growth, as evidenced by Levine and Zervos (1996). The efficient money, foreign exchange and capital markets increase investment to the most productive sector of the economy and thereby increase output through saving mobilization. Such markets also price the risk associated with any investment accurately.

Kviback (2009) "Nepal Survey: Issues in Local Bond Market Development". Major finding of his studies were: The financial market in Nepal is relatively undeveloped. The government market is more developed, but prices are not market oriented....The state of development of equity markets indicates how well versed issuers, investors, and intermediaries are in dealing with securities at the primary and secondary market levels. Nepal's overall market is still in its infancy, however. The Nepal Stock Exchange (NEPSE) is a late development, founded only in 1993. It is owned by the government and is a not-for-profit institution.

The equity market of Nepal is relatively small from the international standards. With only 140 companies being listed in about 11 years of establishment of NEPSE, the equity market in Nepal requires more effort and contribution from the privately held companies as well as the investors. The status of Nepalese equity market is being elaborated in the following extraction of a report. The report shows that in the last four fiscal years from 2003/04 to 2007/08, the amount of issue approved have accounted Rs.556.54 ml, Rs.1027.5 ml, Rs.1626.82 ml and Rs.2443.28 ml respectively. However, there are only 9 issue managers who have sole authority to manage these public issues. But, only few are active in the issue management process. NMB is one of such active player.

Despite the fact NMB commenced its public issue function only in the FY 1998/99; it has established itself as an efficient and successful issue manager as it has already managed the public issue of some 24 companies till the FY 2004/05. Due to this very fact, NMB as a leading finance company as well as active issue manager is the best suited company from where the entire process of the initial public offerings as well as the analysis of the competitive environment in the industry can be learnt. These facts are further highlighted by the following report of SEBON.

“The performance of the issue managed by Nepal Merchant Banking and Finance Ltd., NIDC Capital Markets Ltd. and National Finance Co. Ltd. are the first, second and third best respectively in terms of timely allotment and refunding, timely listing, over subscription, actual profit higher than the forecasted profits and opening day closing price of the stock higher than paid-up value of the stock.”

Paudel (2009) studied on "Investing in shares of Commercial Banks in Nepal: An assessment of Return and Risk Elements," Major finding of his studied were: The shares of commercial banks in Nepal are heavily traded in the stock market and, therefore, these shares play a key role in the determination stock

exchange indicators. The average mean return on market portfolio, as measured by percent changes in the NEPSE index, was 5.51 percent over the sample period. All the shares produced higher rates of return than the return on market portfolio. However, the risk-return characteristics do not seem to be the same for all the shares reviewed. The shares with larger standard deviations seem to be able to produce higher rates of return. The portion of unsystematic risk is very high with the shares having negative beta coefficient. The risk per Units of return, as measured by the coefficient of variation, is less than that of the market as a whole for all the individual shares. Most of the shares fall under the category of defensive stocks, (having beta coefficients less than 1), except the shares of Bank of Kathmandu Limited. Return on the shares of Nepal Arab Bank Limited is negatively correlated with the return on market portfolio and, therefore, it has negative beta coefficient. From the analysis, it appears that none of the shares are correctly priced. Theoretically, the market price of an over-priced (under-priced) share will fall (rise) in order to increase the expected return such that the expected return equals the required return. Therefore, shares of Nepal Arab Bank Limited, Nepal Indosuez Bank Limited and Himalayan Bank limited which are overpriced relative to equilibrium thus market forces, will decline. The remaining share appears to be under-priced indicating a possible positive long term price trend.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

Research methodology describes the methods and process applied in the entire aspect of the study. In other words, research methodology is a systematized way to solve a research problem. Research methodology refers to the various sequential steps (along with a rationale, of each step) to be adopted by a researcher in studying a problem with a certain object in view (Cothari, 1994:19). A focus is given to research design, sample selection and size, data collection procedure, data processing, definition of variables, meaning and definition of statistical tools used. This chapter highlights the research methodology used for the study.

#### **3.1 Research Design**

This study has employed descriptive, field study, research design to deal with the fundamental issue associated with factors influencing initial public offering practice in the context of Nepal. The descriptive research design has been adopted for fact-finding and searching adequate information about factors affecting IPO's. This design has also been employed to assess the opinions, perception of respondents. This study is also based on field study research. This design has been adopted to ascertain and understand the direction perception, response between financial and non-financial sectors. Moreover, this study has also to determine the effect size of IPO and public awareness, attraction. Other methodological issues associated with this study are dealt extensively in the respective section.

#### **3.2 Population and Sample**

The population for this study is the Initial Public Offering made by various organizations up to FY 2010/11. There are 214 companies listed in Nepal Stock Exchange Limited. To find out the public response to the Initial Public

Offering, this study has divided in two sectors as Financial Institutions, Insurance Sector and Non Financial Sector. The population is shown clearly in the following table.

**Table 3.1**  
**Population of the Study**

S.N.	Listed Institutions	No.
<b>Financial Institutions &amp; Insurance Sector</b>		
1	Commercial Banks	24
2	Development Banks	64
3	Finance Companies	73
4	Insurance Companies	21
<b>Total (a)</b>		<b>179</b>
<b>Non Financial Sector</b>		
1	Manufacturing & Processing Co.	18
2	Trading Companies	4
3	Hotels	4
4	Hydropower	2
5	Others	4
<b>Total(b)</b>		<b>32</b>
<b>Grand Total (a+b)</b>		<b>214</b>

*Source: Listed of Nepse(www.nepse.com.np)*

If the samples are properly selected, the characteristics of the sample will reflect that the population. Due to unavailability of reliable data this study has completed upon the base of selected sample from each sectors.

A total of 214 company were listed in NEPSE as mid April 2010 and 32 of them were Included in the sample List. First the population of the NEPSE was stratified in to different sector as defined by the NEPSE and then enterprises from each stratum were selected on the basis of availability of specific financial

information. There were total 182 enterprises from financial sector. Of these 149 enterprises did not have complete information at different sources (SEBON, NEPSE) Therefore, these enterprises were excluded from sample only 23 of them were included.

The data problem is more acute for non financial sector (Manufacturing and Processing, Trading, Hotel, Hydropower and Other) enterprise. Out of 32 enterprises from this sector most have not trading in NEPSE frequently. Number of issued share and par value are also found different at SEBON, NEPSE and their annual report. Therefore 23 enterprises were excluded from sample. Only 9 of them were included in the sample.

**Table 3.2**  
**Sample selected from the population**

S.N.	Institutions	Population	Sample Size	Sample % (Approximately)
<b>Financial Institutions and Insurance Sectors</b>				
1	Commercial Banks	24	6	25
2	Development Banks	64	5	8
3	Finance Companies	73	6	8
4	Insurance Companies	21	6	29
<b>Total A</b>		<b>182</b>	<b>23</b>	<b>12.64</b>
<b>Non Financial Sectors</b>				
5	Manufacturing & Processing Co.	18	4	22
6	Trading Companies	4	2	50
7	Hotels	4	2	50
8	Hydropower	2	1	50
8	Others	4	1	25
<b>Total B</b>		<b>32</b>	<b>10</b>	<b>31.25</b>
<b>Total(A+B)</b>		<b>214</b>	<b>33</b>	<b>15.42</b>

### **3.3 Sources of Data**

The require data for the study are collected from the both primary and secondary sources. Nepal's three leading issue managers NMB, CIT and NIDC Capital Markets are the main source of the required secondary data for the study. Similarly, the data have also been acquired from different libraries and journals published by NEPSE / SEBON etc. The primary data have been collected by using structured questionnaire and asked to the general public who are investing their money in primary market.

### **3.4 Methods of Data 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 (Cottleetal; 1988, 29). This study is mostly based on the analysis of secondary data with the help of different statistical tools. The empirical results have been extracted in this study by using annual data of listed companies from 1995/096 to 2010/11.

### **3.5 Statistical Tools**

Some statistical tools are used to implicit the comparative results are as follows:

#### **3.5.1 Multiple Bar- diagrams and graphs**

Diagrams and graphs are visual aids which give a bird's eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than two sets of data. Diagrams are in different types. Out of these various types of diagram one of the most important form of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristics of the same set of data have to be presented and compared. In this study data are in multiple firms. In a same year public response, Amount of issued approve, and number of approve must shown in a one diagram so multiple Bur diagram and graph is used.

### **3.5.2 Percentage**

Percentage is one of the most useful tools for the comparison of two quantities or variables. Simply, the word percentage means per hundred. In other words, the fraction with 100 as its denominator is known as a percentage and the numerator of this fraction is known as rate of percent. Original data are in vague they can't express any signal without converting suitable position. Percentage helps to convert the data as required firm.

### **3.5.3 Pie -Diagram**

A pie- diagram is a widely used aid that is generally used for diagrammatic presentation of the values differing widely in magnitude. In this method all the given data are converted into 360 degree as the angel of a circle is 360 degree and all components of the data are presented in terms of angels that total 360 degree for one set of data. Study has also used primary data: respondents take answerer as their own opinion and thoughts. All the answer of provided question represent in a single diagram. At that condition pie diagram is one the best tools.

## **CHAPTER - IV**

### **PRESENTATION AND ANALYSIS OF DATA**

#### **Introduction**

This chapter includes presentation and analysis of data to reach at a conclusion. The primary data are used to analyze the public awareness, response, expectation, choice for investment etc. The secondary data are used to analyze the public response to the initial public offering per year sector-wise along with under subscription and oversubscription, growth of public offering and the behavior of general investors. The collected data are tested through suitable statistical tools such as percentage, simple average, and correlation coefficient of two variables. The purpose of the analyses is to achieve the objectives set in the chapter one.

#### **4.1 Secondary Data Analysis**

##### **4.1.1 Amount of Issue Approved**

The Securities Exchange Act, 1963 has made mandatory that the issuing company should register the securities in Security Board of Nepal (SEBON) and get approval before going to public. For registration the company must submit its memorandum and prospectus with other securities related documents within prescribed format. After registering the securities the company must inform about any allotment or sale within seven days of allotment or sale. If the company is going to sell securities to more than 50 persons at once, it must publish this information for public purpose. The provisions regarding application period price and allotment are as per specification made by SEBON. The issuing company must publish its prospectus after approval of SEBON at any easily assessable media for public purpose. The prospectus should consist of general information of company, capital, its product, and services, legal provisions, economic conditions of issuing authority, management, information regarding its promoters.

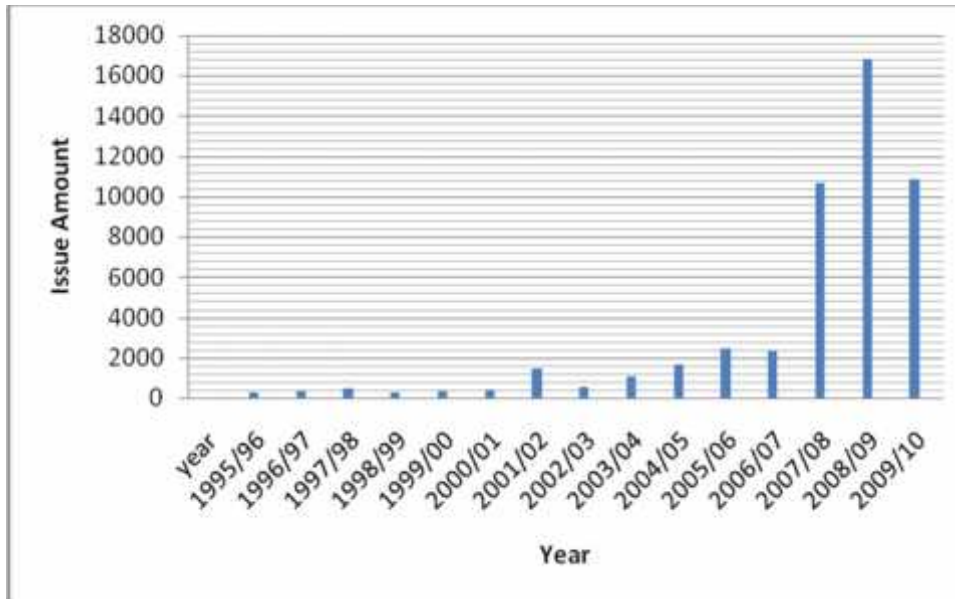
From the fiscal year 1995/96 to 2009/10 SEBON has approved 359 issues of securities amounting to Rs.49793.81 million. The detail situation of issue approved in different year is presented in the table 4.1

**Table: 4.1**  
**Amount of issue approved**

<b>Year</b>	<b>Approved (Rs. in Million)</b>	<b>% of Issue Approved</b>
1995/96	293.7	0.59
1996/97	332.2	0.67
1997/98	462.4	0.93
1998/99	258	0.52
1999/00	326.9	0.66
2000/01	410.5	0.82
2001/02	1441.4	2.89
2002/03	556.5	1.12
2003/04	1027.5	2.06
2004/05	1626.8	3.27
2005/06	2443.3	4.9
2006/07	2295.5	4.61
2007/08	10668.2	21.42
2008/09	16828.5	33.8
2009/10	10822.41	21.74
<b>Total</b>	<b>49793.81</b>	<b>100.00</b>

*Source: SEBON Annual Report 2009/10*

**Figure: 4.1**  
**Amount of Issue Approved**



The table 4.1 and figure 4.1 shows the securities issue amount approved by SEBON vary during the period. The highest amount of issue approved was Rs.16828.5 million in the fiscal year 2008/9, which is 33.8 percentage of total issue till date. This is mainly because of IPOs and Right issues made by financial sector. They have been issuing shares to fulfill capital requirement obligations enforced by central bank.

During last five years approved amount are in growing trend despite is fiscal year 2007/08, which indicates that companies are now interested in public offering of securities and right issues. Before the year 2003/04 issue amount is quite consistent and hovering around 150 million to 400 million. During this period Nepalese capital market was not so popular among investors. Only few investors of Kathmandu valley were trading. But, after 2004/05 more and more people entered in market. Specially, people who have been hard hit by Maoist people's war found capital market as a good shelter for their money.

#### 4.1.2 Number of Issue Approved

The number of issue approved is the total number of issue approved by the Security Board of Nepal. Before issuing securities, the issuing company must make approval from Security Board of Nepal (SEBON). For issue approval and registration, the company must submit required information within prescribed format otherwise SEBON may reject it. After registration and issue approval, the company must open issue within three month of issue approval. In case if the issue couldn't be made, then after another date should be fixed consulting with SEBON. The advertisement for application should be published in national daily news paper, the advertisement should consist all actual and real information. The advertisement should be able to identify application collection centre and its duration. The number of issue approved during the period of 1995/96 to 2009/10 varies differently which is presented in the table 4.2

**Table: 4.2**  
**Number of Issue Approved since 1995/96 to 2009/10**

<b>Year</b>	<b>No. of issue approved</b>	<b>% of issue approved</b>
1995/96	12	3.34
1996/97	5	1.39
1997/98	12	3.35
1998/99	5	1.39
1999/00	6	1.67
2000/01	9	2.51
2001/02	12	3.34
2002/03	18	5.01
2003/04	14	3.90
2004/05	14	3.90
2005/06	29	8.07
2006/07	34	9.47
2007/08	64	17.83
2008/09	64	17.83
2009/10	61	17
<b>Total</b>	<b>359</b>	<b>100.00</b>

*Source: SEBON Annual Report 2009/10*

**Figure: 4.2**  
**Number of Issue Approved**

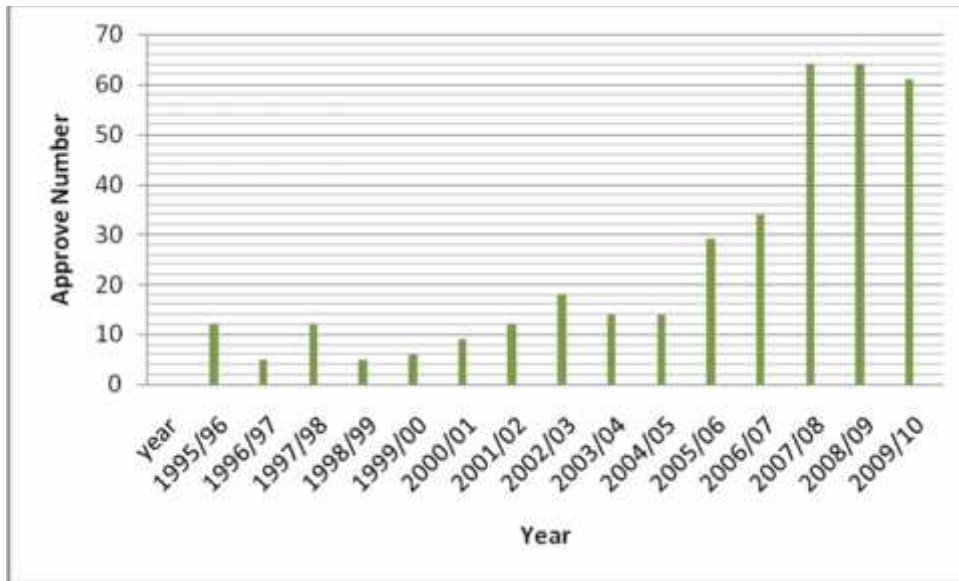


Table 4.2 and Figure 4.2 depict number of issues approved. The numbers of issues approved were 16 in fiscal year 1995/96 but at the end of fiscal year 2009/10 the total number of approved issue was reached to the point of 359 issues. The highest number of issue approved till date is 64 that is almost twice of previous year figure. Over the five years period number of issues has increase significantly. This is because of establishment of new financial institution. Before FY 2005/06 numbers of issues are varying every where showing inconsistency.

#### **4.1.3 Over and Under Subscription of Securities**

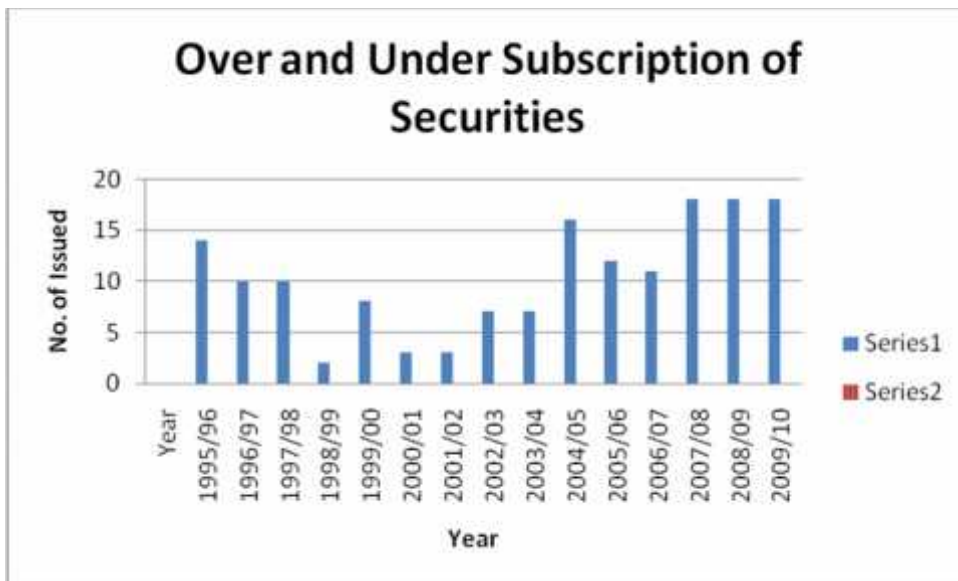
At the time of issue the demand for securities may be greater or lesser than the issuing amount. When the demand of securities is higher than issued securities, the situation is called the case of oversubscription but if the demand of securities is lower than issued securities that situation is called under subscription of securities. Below table 4.3 shows the oversubscription & under subscription of different companies from year 1995/96 to 2009/10, while issuing their Ordinary share to general public.

**Table: 4.3****Over and Under Subscription of Securities since 1995/96 to 2009/10**

Year	No. of issued Co.	Over subscribed Co.		Under Subscribed Co.		Constant	
		No.	Percentage	No.	%	No.	%
1995/96	14	14	100%	0	0	0	0
1996/97	10	8	80%	0	0	2	20%
1997/98	10	5	50%	5	50%	0	0
1998/99	2	2	100%	0	0	0	0
1999/00	8	6	75%	1	12.50%	1	12.50%
2000/01	3	3	100%	0	0	0	0
2001/02	3	3	100%	0	0	0	0
2002/03	7	7	100%	0	0	0	0
2003/04	7	4	80%	1	20%	0	0
2004/05	16	14	100%	0	0	0	0
2005/06	12	10	100%	0	0	0	0
2006/07	11	6	85.71%	1	14.29%	0	0
2007/08	18	14	100%	0	0	0	0
2008/09	18	15	100%	0	0	0	0
2009/10	18	16	100%	0	0	0	0
<b>Total</b>	<b>157</b>	<b>127</b>	<b>92.03%</b>	<b>8</b>	<b>5.80%</b>	<b>3</b>	<b>2.17%</b>

*Source: SEBON Annual Report 2009/10*

**Figure-4.3**



The table 4.3 shows that during the period of Fiscal Year 1995/96 to 2009/10 out of the total listed companies only 157 companies issued their common stock for public and among them 127 companies (92.03%) have been oversubscribed and 8 companies (5.80%) have been undersubscribed and remaining 3 companies (2.17%) issue have been fully subscribed. Furthermore, those companies who issued shares to public in fiscal year 1996/97, 1997/98, 1999/00, 2002/03, 2005/06 were under subscribed. In these years issues of both financial and non-financial sectors were undersubscribed due to different reasons i.e. lack of information, limited number of investors etc. Similarly, all those companies who issued their common stock in Fiscal Year 1995/96, 1997/98, 1999/00, 2000/01, 2001/02, 2003/04, 2004/05, 2006/07, 2007/08, 2008/09 and 2009/10 have been oversubscribed.

## **4.2 Public Response to Initial Public Offering**

The total listed companies are divided into eight sectors by Nepal Stock Exchange Limited. which are Commercial Banks, Finance Companies, Development Banks, Insurance Companies, Manufacturing & Processing Companies, Trading Companies, Hotels and Others sector. Investors have to decide in which sector they want to made investment. As per objective, this

study only concerned with the investors priority and response for the Initial Public Offering.

#### 4.2.1 Public Response to Financial Sector

Financial Sector includes commercial banks, development banks, finance companies, insurance companies. Responses to the financial sector are presented below.

##### 4.2.1.1 Public Response to Commercial Banks

According to the SEBON Annual Report 2009/10, there are 24 commercial Banks which are listed in Stock Exchange. All of these had issued their Share to public. Nepal Arab Bank Limited (NABIL Bank) is the first commercial bank to issue Share to public. Public issues of commercial bank are highly appreciated by public. Investors give high priority and response to the public issue. From the population of all total of 24 only 6 are taken as sample.

**Table 4.4**  
**Public Response to Commercial Banks**

S.N.	Name of Companies	Issued Year	No. of Shares	Shares Applied	Sub. Times	Result
1	Nepal SBI Bank	1995	360000	5056416	14.0456	Over Subscribed
2	Bank of Katmandu.	1997	450000	2413485	5.3633	Over Subscribed
3	Everest Bank.	1996	360000	1851660	5.1435	Over Subscribed
4	Kumari Bank	2004	1500000	12170250	8.1135	Over Subscribed
5	Siddhartha Bank	2006	1500000	27979950	18.6533	Over Subscribed
6	Global Bank	2009	3000000	102750000	34.25	Over Subscribed

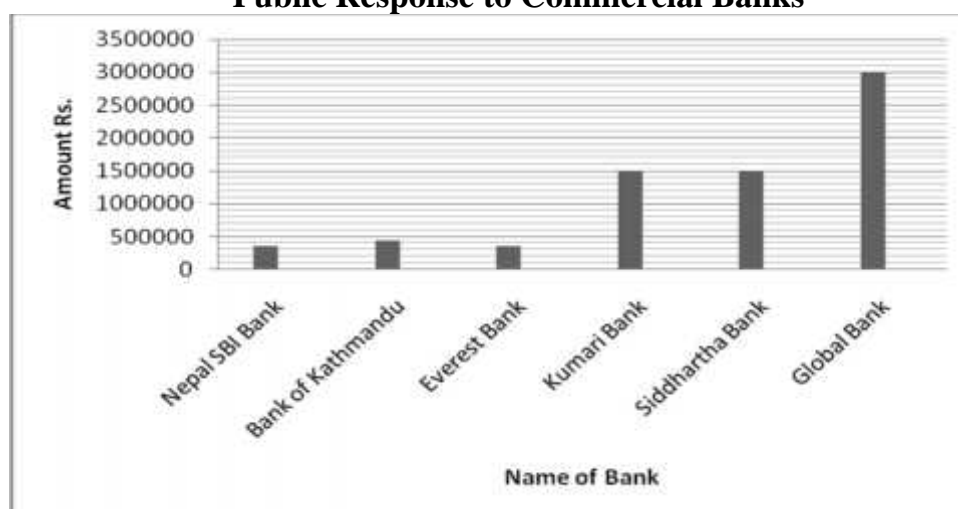
*Source: SEBON/NEPSE Annual Report*

The above table 4.4 shows the information of six different commercial banks with their number of shares issued and number of applications applied by the general public to the company. The public response to these companies is also shown.

Nepal SBI Bank Limited had issued 360,000 units share to the public. But the demand of the share of this company was 5,056,416 Units. Subscription was approximately 14.04 times more than issue size. It means investors gave high response to this company. Bank of Kathmandu Limited had issued 450,000 units Share to the public. The investors applied for 2,413,485 Units Share. Subscription was approximately 5.36 times. This shows the medium response of the investors to the company. Similarly, Everest Bank issued 360,000 Units Share to the public. Public applied for 1,851,660 Units Share. Subscription was approximately 5.14 times. Public response to this bank was also medium. Like the way Siddhartha Bank and Kumari Bank both issued 15,00,000 units of shares. The investor applied for 27,979,950 units and 12,170,250 units for Siddhartha Bank and Kumari Bank respectively. Subscription was approximately 18.65 times and 8.11 times for Siddhartha Bank and Kumari Bank respectively. Similarly, Global Bank Limited issued 3,000,000 Units Shares for public. The applied Units were 102,750,000 which very above the issue size. Subscription was about 34.25 times. Public response to this company can be considered to be Very High.

Table 4.4 also shows that investors are more interested to purchase the shares of commercial banks. Banking sectors of Nepal seems to be more successful to attract the investors. The above information is also shown in the figure 4.4.

**Figure: 4.4**  
**Public Response to Commercial Banks**



#### 4.2.1.2 Public Response to Development Banks

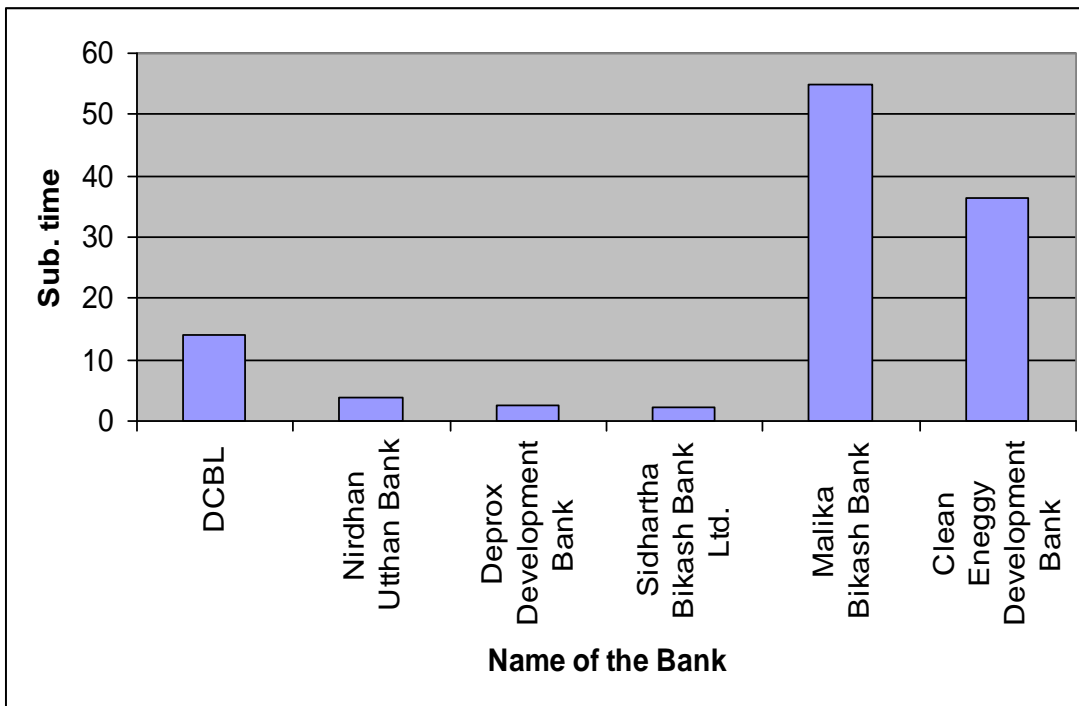
To analyze the public response to development banks, six companies are chosen as sample, which are shown in the following table below.

**Table-4.5**  
**Public Response to Development Banks**

S.N.	Name of the Company	Issued Year	No of Shares	Shares Applied	Sub. Times	Result
1	DCBL	2003	480,000	6,766,608	14.0971	Over Subscribed
2	Nirdhan Utthan Bank	2003	33000	128080	3.8812	Over Subscribed
3	Deprox Development Bank	2005	34,800	90,250	2.5934	Over Subscribed
4	Sidhartha Bikash Bank Ltd.	2006	200000	444860	2.2243	Over Subscribed
5	Malika Bikash Bank	2007	150000	8,226,000	54.84	Over Subscribed
6	Clean Enegy Development Bank	2009	960000	3,500,160	36.46	Over Subscribed

*Source: SEBON/NEPSE Annual Report*

**Figure: 4.5**  
**Public Response to Development Banks**



All the public issue of development banks we found over subscription all the time. That means public are also interested in development banks shares. Among them Malika Bikash Bank was highly subscribed in 2007, the subscription time was 54.84.

Development Credit Bank issued 480000 Units shares to the public. But the demand of the share of this company was 6,766,608 Units. Subscription was approximately 14.0971 times more than issue size. It means investors gave high response to this company. Nirdhan Utthan Bank had issued 33,000 units shares to the public. The investors applied for 128,080 unit shares. Subscription was 3.8812 times. This shows the response of the investors to the company was medium. Same way Sidhartha Development Bank issued 200,000 units of shares but the demand was 444,860 units. Subscription was approximately 2.2243 times. Similarly in year 2010 Clean Energy Development Bank issued 960,000 units of shares but the demand was approximately 36.46 times more.

That is public applied for 3,500,160 units of shares. This also shows a very high level of subscription like Malika Bikash Bank in 2008.

#### 4.2.1.3 Public Response to Finance Companies

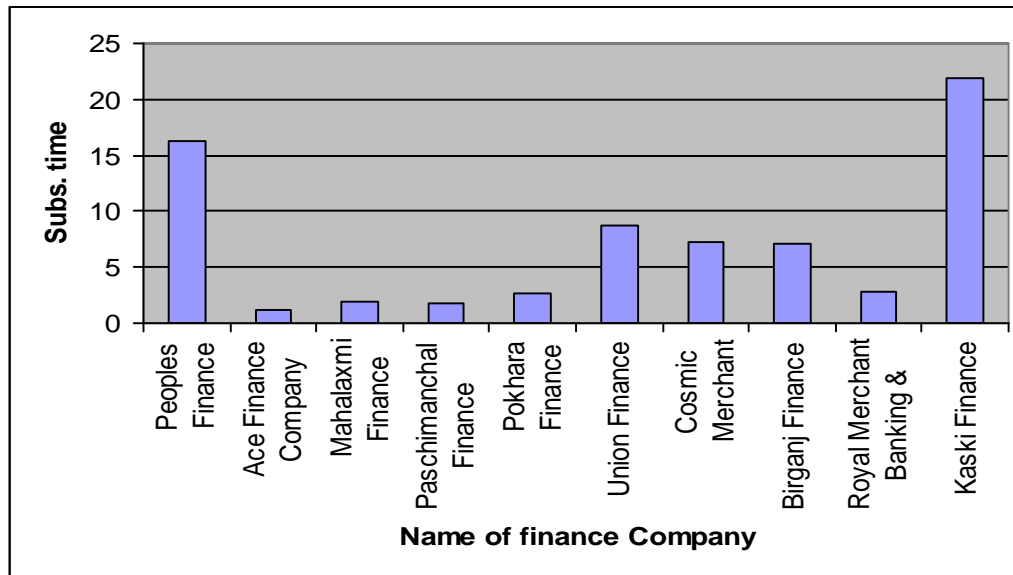
There are 73 Finance companies which had issued share to the public and listed in the Nepal Stock Exchange Limited. Almost of these companies received good response from general public. Among 73 Finance Companies 10 are taken for public response.

**Table-4.6**  
**Public Response to Finance Companies**

S.N.	Name of Companies	Issued Year	No of Shares	Shares Applied	Subs. Times	Result
1	Peoples Finance	1995	98000	1588276	16.2069	Over Subscribed
2	Ace Finance Company	1997	120000	144876	1.2073	Over Subscribed
3	Mahalaxmi Finance	1999	100000	188520	1.8852	Over Subscribed
4	Paschimanchal Finance	1999	80000	137440	1.7180	Over Subscribed
5	Pokhara Finance	2000	80000	212600	2.6575	Over Subscribed
6	Union Finance	2003	240000	2108136	8.7839	Over Subscribed
7	Cosmic Merchant Banking & Finance	2004	240000	1722792	7.1783	Over Subscribed
8	Birganj Finance	2005	240000	1690752	7.0448	Over Subscribed
9	Royal Merchant Banking & Finance	2007	175000	495775	2.8330	Over Subscribed
10	Kaski Finance	2009	200000	4386000	21.93	Over Subscribed

*Source: SEBON/NEPSE Annual Report*

**Figure- 4.6**  
**Public Response to Finance Companies**



The above table 4.6 and bar figure 4.6 show the status of IPO of different finance company over the same period. All the IPO's presented in the table are oversubscribed that shows the popularity of IPO made by finance companies. Among these companies three companies viz. Union Finance Company (UFL)'s IPO are highest (240,000). These IPO's were highly oversubscribed by 8.78, 7.17 & 7.05 times respectively. According to the table Kaski Finance's IPO was highly oversubscribed (22 times). Similarly, People's Finance Company's IPO was oversubscribed by 16 times. People's IPO was lower than Kaski's IPO. PFL issued 90,000 shares while KFL issues 200,000 shares. Out of the 10 IPO's ACE's IPO received lowest attention from public, although it was oversubscribed by 1.21 times. Ace issued 180,000 shares but received applications for 144,876 shares.

Among these 10 finance company IPO, two IPOs were highly oversubscribed (22 & 16 times), whereas three had medium public response (7 to 9 times) and five IPO's have lower oversubscription rate (more than one to 3 times). This shows that investors are more interested to purchase the shares of finance companies. Finance companies are also getting successful to attract investors.

#### 4.2.1.4 Public Response to Insurance Companies

Out of 21 insurance companies, 6 were taken for research. Which are shown in the following table 4.7

**Table-4.7**

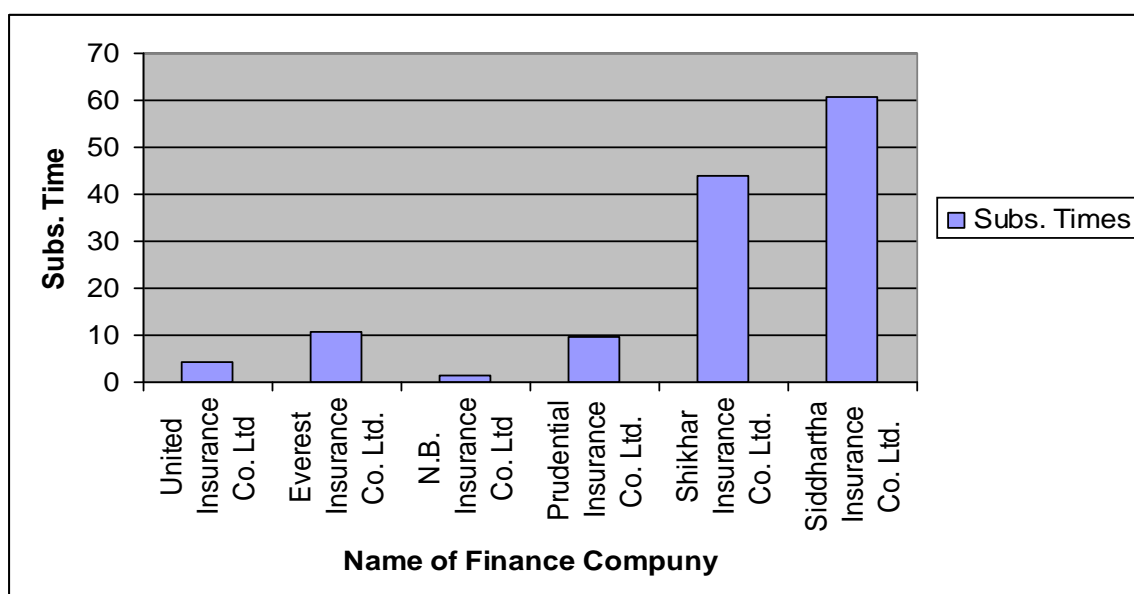
**Public Response to Insurance Company**

S.N.	Name of Companies	Issued Year	No of Issued Shares	Shares Applied	Subs. Times	Public Response
1	United Insurance Co. Ltd	1995	240000	1056360	4.4015	Over Subscribed
2	Everest Insurance Co. Ltd.	1995	120000	1301568	10.8464	Over Subscribed
3	N.B. Insurance Co. Ltd	2004	200000	265380	1.3269	Over Subscribed
4	Prudential Insurance Co. Ltd.	2005	200000	1913620	9.5681	Over Subscribed
5	Shikhar Insurance Co. Ltd.	2007	250000	10939650	43.7586	Over Subscribed
6.	Siddhartha Insurance Co. Ltd.	2008	250000	15157500	60.63	Over Subscribed

*Source: NEPSE/SEBON Annual Report*

**Figure: 4.7**

**Public Response to Insurance Company**



The above table and figure 4.7 shows the public response to six different insurance companies with issued and applied number of shares. According to the table all six IPOs were oversubscribed. Table shows that among six insurance companies three had medium public response (4.4, 9.57, and 10.85 times), one had low level (1.33 times) oversubscription rate and two have high oversubscription rate (43.76 and 60.63 times). This shows that investors are more interested to purchase the shares of insurance companies. SHICL and SICL both received flood of application when they floated 250,000 shares in the year 2007 and year 2009 respectively. SHICL received applications for 10,939,650 shares which were 43.76 times of its issues. Similarly, SICL received application for 15,157,500 shares in response of 350,000; 60.63 times more than that issued shares. The main factor behind this oversubscription was management and BOD of the companies and market sentiment. Well-known personalities of financial sector were involved in these companies and the stock market was in boom at that time. Contrary to these issues, NBICL received 265,380 shares for its 200,000 issue, just 1.33 times more than its size. Because of the promoters bad reputation in market it received few applications. EICL received 10.85 times more applications and PICL received 9.57 times more applications and UICL received 4.40 times more application. UICL and EICL floated shares in 1995, at that time Nepalese security market was in its initial stage. Many people were not aware of IPO's and shares but these issues were acclaimed by investor that is because of the promoters and management team. These two issues made quite easy for PICL to raise capital through IPO.

#### **4.2.2 Public Response to Non Financial Sector**

In Nepalese context, non financial sector does not seem to be performing well in the market in comparison to financial sector. Many such companies are not able to make profit. Some companies, like Necon Air Limited, were already dissolved. Non-Financial Sector includes manufacturing and processing companies, trading companies, hotels and others (which also include

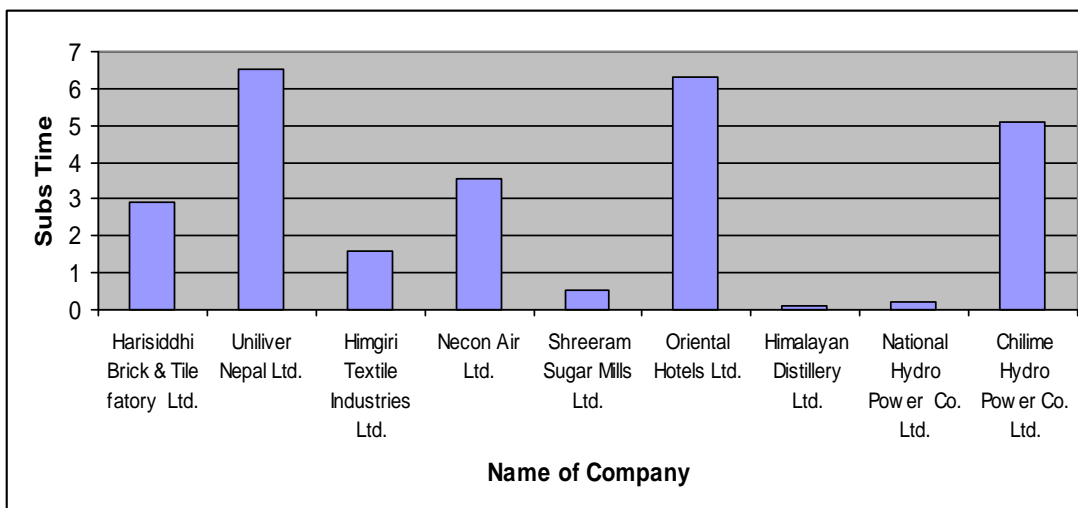
hydropower sector). Up to the fiscal year 2008/09 end, there are 32 non financial Sector companies listed. Among them 9 are taken for research.

**Table 4.8**  
**Public Response to Non Financial Sectors**

S.N.	Name of Companies	Issued Year	Issued No of Shares	Shares Applied	Subs. Times	Public Response
1	Harisiddhi Brick & Tile fatory Ltd.	1995	532,000	1,541,896	2.8983	Over Subscribed
2	Uniliver Nepal Ltd.	1996	138,000	901,844	6.5351	Over Subscribed
3	Himgiri Textile Industries Ltd.	1996	192,000	301,152	1.5685	Over Subscribed
4	Necon Air Ltd.	1995	165,000	588,407	3.5661	Over Subscribed
5	Shreeram Sugar Mills Ltd.	1998	465,000	245,985	0.5290	Under Subscribed
6	Oriental Hotels Ltd.	2001	1,500,000	9,429,000	6.2860	Over Subscribed
7	Himalayan Distillery Ltd.	2002	1,734,600	183,347	0.1057	Under Subscribed
8	National Hydro Power Co. Ltd.	2005	1,400,000	301,700	0.2155	Under Subscribed
9	Chilime Hydro Power Co. Ltd.	2006	2,374,100	12,104,111	5.0984	Over Subscribed

*Source: SEBON/NEPSE Website*

**Figure: 4.8**  
**Public Response to Non Financial Sectors**



The above table and figure shows that the subscription of three companies are under subscribed and rest 6 companies are over-subscribed. Harisiddhi Brick & Tile Factory Ltd. had issued 532,000 unit shares and had received application for 1,541,896 unit shares. The public response to this company was medium with 2.8983 times subscription. Uniliver Nepal Ltd. and Himgiri Textile Industries Ltd. issued 138,000 units and 192000 units shares, had received application for 901,844 units & 301,152 shares. The response to these companies was also medium with 6.5351 & 1.5685 times respectively. Necon Air Limited issued 165,000 unit shares for which application was received for 588,407 unit shares. This shows the subscription times to be 3.5661 and hence the public response was medium. Likewise, the public response was medium to the Oriental Hotels with subscription of 6.2860 times. This company had issued 1,500,000 unit shares and had received application for 9,429000 unit shares. Shreeram Sugar Mills Ltd. had issued 465,000 unit shares and had received application for 245,985 unit shares. The public response to this company was too low with 0.5290 times subscription. Similarly Himalayan Distilary Ltd. and National Hydropower Company Ltd. issued 1,734,600 units & 1,400,000 units shares and had received application for 183,347 units & 301,700 shares. The responses to these companies were too low with 0.1057& 0.2155 times respectively.

Chilime Hydropower Company Ltd. had issued 2,374,100 unit shares and had received application for 12,104,111unit shares.

### **4.3 Analysis of Primary Data**

To make the study more realistic primary data has been taken for analysis. For this purpose a questionnaire (see appendix) was designed. Questionnaire was distributed to 200 respondents (students, businessmen, bankers, brokers, and others) for their responses. The sample are selected under the judgmental sampling method among the 200 respondents for the primary data collection,

20%(40) are students, 40%(80) are businessman, 15%(30) are bankers, 5%(10) are brokers and rest 20%(40) are others.

Investors have mixed feelings on the primary market in Nepal. For the primary data collection 200 respondents from bank, business, university student and brokerage firm and investors have been taken as sample.

### 4.3.1 Knowledge about IPO

The survey reveals that majority of respondents knows about IPO. They are asked either they have knowledge of IPO or not? The finding is presented below in the table and pie chart.

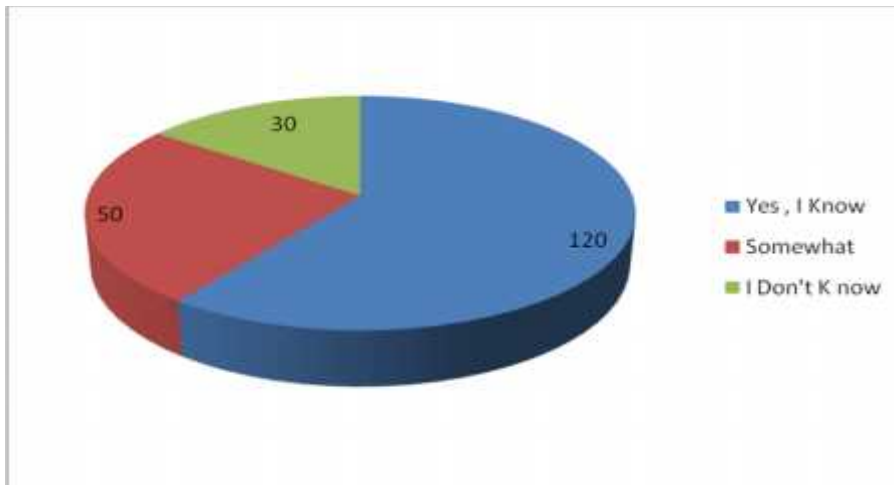
### 4.3.2 Showing response from the participants

These figures show that most of the people 60 percent of the respondents have knowledge about IPO and 25 percent of respondent have little bit knowledge. Similarly, 15 percent of the respondents are completely unaware of IPO. A chunk of University student and bank staffs were familiar with IPO. But, minority of them responded with negative answer. Similarly Investors labeled their knowledge as ‘somewhat’ and ‘yes’.

**Table- 4.9**  
**Response from the participants**

S.N	Response	Numbers	Percentage
1.	Yes, I know	120	60
2.	Somewhat	50	25
3.	I Don't Know	30	15
<b>Total</b>		<b>200</b>	<b>100</b>

**Table 4.9**  
**Response from the participants**



### 4.3.3 Sources of information about IPOs

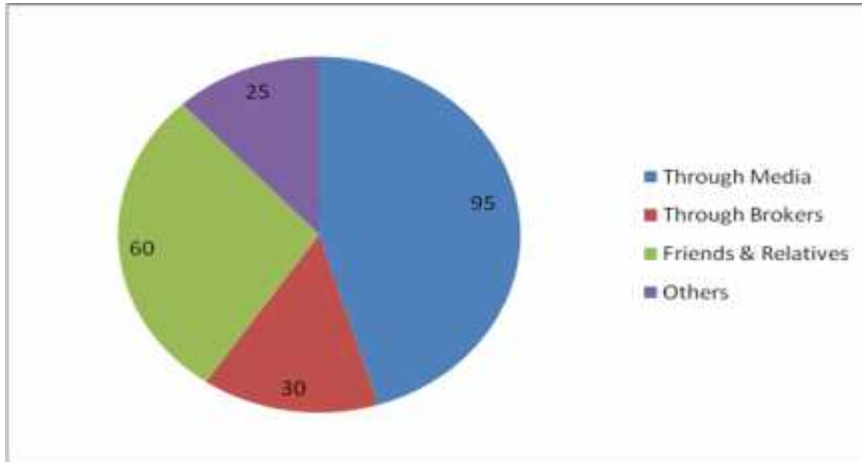
Out of 200 respondent most of the respondents 47.5%, gets information through media.30% through friends & relative and 15% & 12.5% through brokers & others sources respectively. Which is shown in the below table and figure.

**Table- 4.10**  
**Showing sources of information about IPO**

S.N	Alternative	No of Response	%age
1	Through media	95	47.5
2	Through Brokers	30	15.00
3	Friends & Relatives	60	30.00
4	Others	25	12.5
<b>Total</b>		<b>200</b>	<b>100</b>

**Figure- 4.10**

**Showing Sources of information about IPO**



These figures show that most of the investors 47.5% get information about IPO through media. Similarly 30% gets through their friends & relatives. The percentage of investors get information through different Brokers are 15% and rest 12.5% get information through other sources.

#### **4.3.4 Investing through IPO**

200 respondents were asked whether they are investing on IPO or not. The result shows, most of the respondents from different sector were investing in shares through IPO. The detail is shown in the table and figure below.

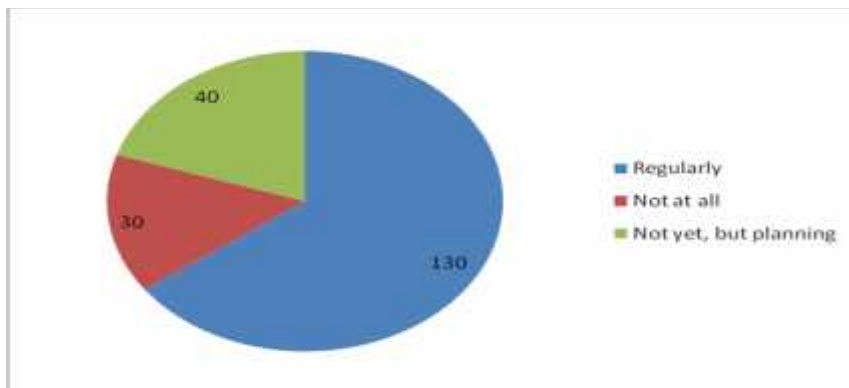
**Table- 4.11**

**Showing investing interest on IPO**

S.N	Alternative	No of Response	%age
1	Regularly	130	65.00
2	Not at all	30	15.00
3	Not yet, but planning	40	20.00
<b>Total</b>		<b>200</b>	<b>100</b>

**Figure- 4.11**

**Showing investing interest on IPO**



The above figure shows the respondents interest on Nepalese capital market through IPO. Out of 200 respondents 65% are investing regularly.15 % are not investing in IPO and around 20% are planning for IPO.

**4.3.5 Habit of reading Prospectus before investment.**

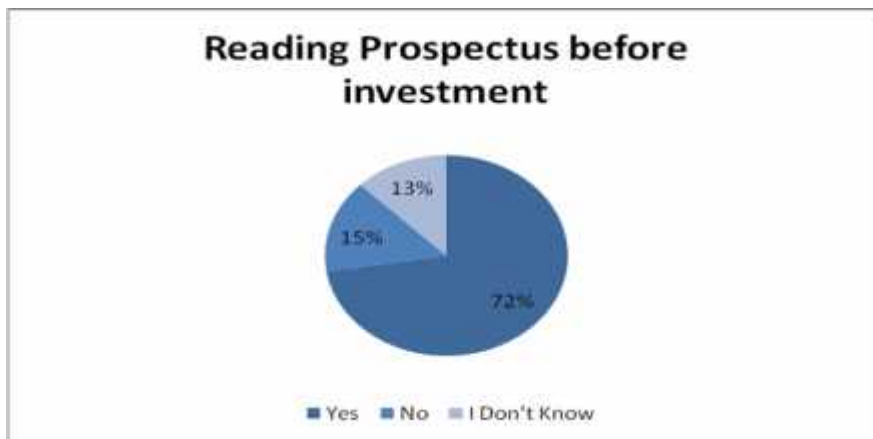
While investing in shares issued by different companies everyone should have the habit of reading prospectus of that particular company. The prospectus gives lots of information about the company. To know the prospectus reading habit 200 responds were asked the question. The result is shown in the table & figure below.

**Table – 4.12**

**Showing habit of reading prospectus before investment.**

S.N	Alternative	No of Response	%age
1	Yes	145	72.5
2	No	30	15.00
3	I Don't K now	25	12.5
<b>Total</b>		<b>200</b>	<b>100</b>

**Figure- 4.12**



While going to public Companies issue their prospects, to show their image in the market. This question was related with this. The investor has asked do they read prospects before the investment. The reply is quite satisfactory. 72.5% investor read the prospects before they invest their money.14% investor does not consider the prospectus, while investing and 12.5% investors have I don't know.

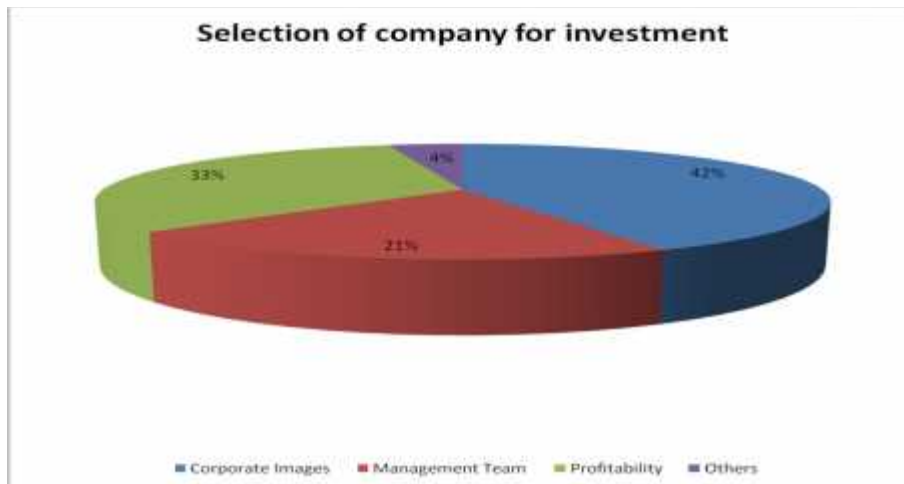
#### **4.3.6 Selection of company for investment.**

The question was asked to know why the investor chooses the particular company to investment. This question was asked with four alternatives. The result is shown in the table & figure below.

**Table 4.13**  
**Showing selection of company for investment.**

<b>S.N</b>	<b>Alternative</b>	<b>No of Response</b>	<b>%age</b>
1	Corporate Image	85	42.5
2	Management Team	42	21.0
3	Profitability	65	32.5
4	Others	8	4.00
<b>Total</b>		<b>200</b>	<b>100</b>

**Figure- 4.13**



Out of 200 respondents most of them 32.5% select the company for their profitability. 42.5% choose their company for their corporate image. Similarly 21% choose for the management team of the company and 4% select the company for other reasons. Which are shown in the above figure.

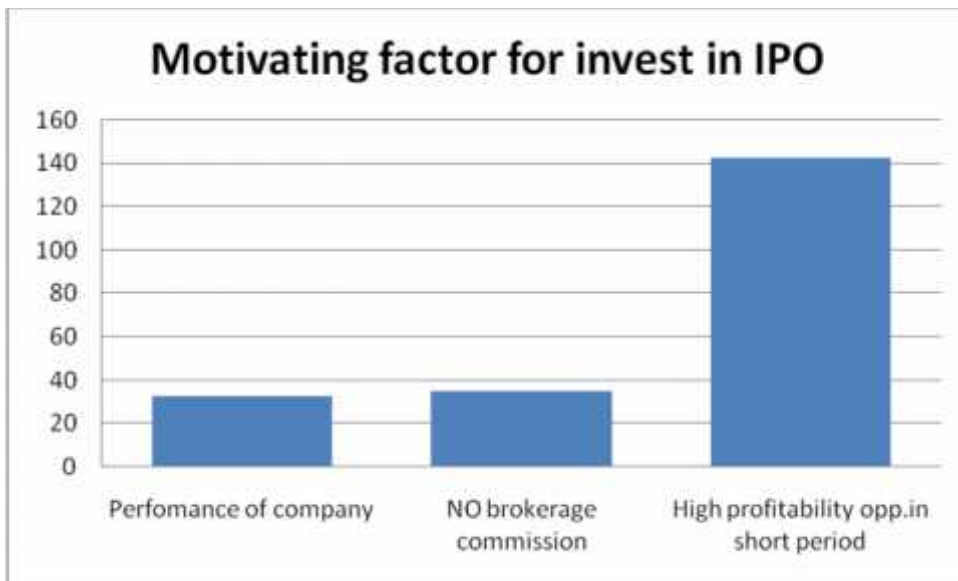
#### **4.3.7 Motivating factor for invest in IPO**

The question was designed to know the motivating factor for investment. Most of the respondents said as their motivating factor for investment was high profitability opportunity in short period of time.

**Table 4.14**  
**Showing the motivating factor for invest in IPO.**

S.N	Alternative	No of Response	%age
1	Performance of company	22	11.00
2	No brokerage Commission	35	17.5
3	High profitability opportunity in short period	143	71.5
<b>Total</b>		<b>200</b>	<b>100</b>

**Figure- 4.14**



While investing, the motivating factor plays a vital role. What factors really motivate the investor to invest in shares? Out of 200 respondents most of them, around 71.5% invest in IPO for high profitability in a very short period of time with a very low risk. 17.5% invest in IPO as there is no brokerage commission and 11% invest for the performance of the company.

#### **4.3.8 Preferred Sector for Investment**

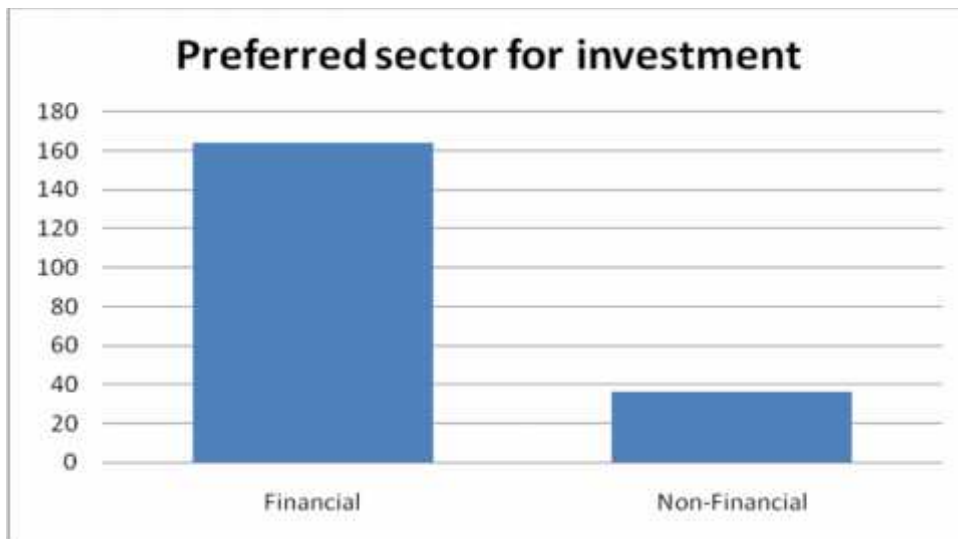
200 respondents from different sector were asked which sector they prefer to invest in, the result is shown in the table and figure below.

**Table – 4.15**

**Showing preferred sector for investment.**

<b>S.N</b>	<b>Alternative</b>	<b>No of Response</b>	<b>%age</b>
1	Financial	164	82
2	Non- Financial	36	18
<b>Total</b>		<b>200</b>	<b>100</b>

**Figure- 4.15**



Most of the investors prefer to invest in the financial sectors rather than in non financial sectors. Among 200, 82% said that they prefer financial sectors while 18% said they prefer non financial sectors.

#### **4.3.9 Preferred Financial Sector for Investment**

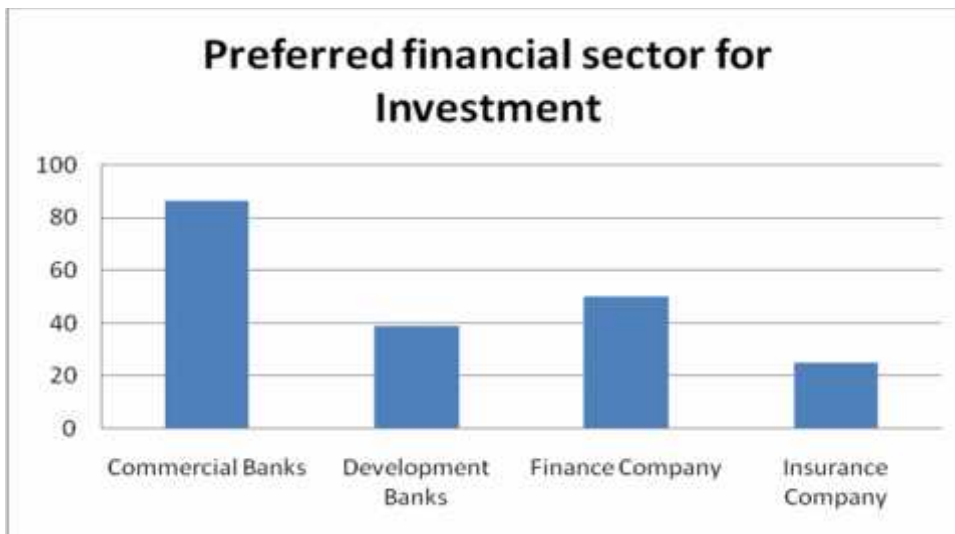
Among the 200 respondents 86 prefer commercial bank, 39 prefer development bank, 50 prefer finance company and only 25 prefer Insurance company for investment in financial sector.

**Table- 4.16**

**Showing the preferred financial sector for investment.**

<b>S.N</b>	<b>Alternative</b>	<b>No of Response</b>	<b>%age</b>
1	Commercial Banks	86	43.00
2	Development Banks	39	19.50
3	Finance Company	50	25.00
4	Insurance Company	25	12.5
<b>Total</b>		<b>200</b>	<b>100</b>

**Figure- 4.16**



Most of the investors, 43.00%, said that they prefer to invest in Commercial Banks. 19.5% people said they prefer to invest in Development Banks. Investors preferring to invest in finance companies and insurance companies are 25% and 12.5% respectively.

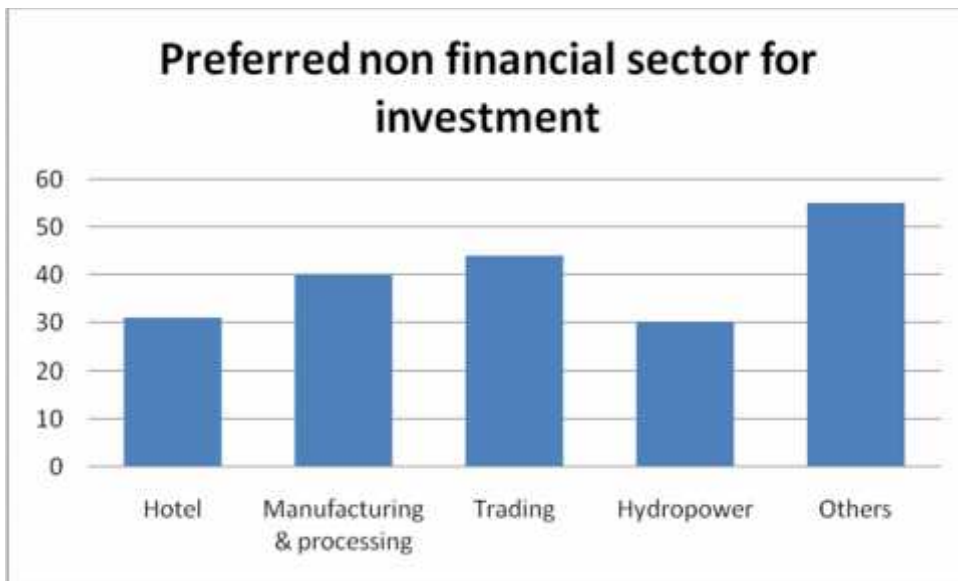
#### **4.3.10 Preferred Non-Financial Sector for Investment.**

Among the 200 respondents for the question which non- financial would you prefer to invest in, the responses are as follows:

**Table – 4.17**  
**Showing the preferred non- financial sector for investment.**

S.N	Alternative	No of Response	%age
1	Hotel	31	15.5
2	Manufacturing & processing	40	20.00
3	Trading	44	22.00
4	Hydropower	30	15.00
5	Others	55	27.5
Total		200	100

**Figure-4.17**



Among non financial sectors, Survey done among 200 investors 27.5% said they prefer to invest in others. 20% said they prefer to invest in manufacturing and processing companies. 22% prefer to invest in trading and only 15.5% and 15% preferred for hotel and hydropower sector.

#### **4.3.11 Is the present condition of Nepal is suitable for investment?**

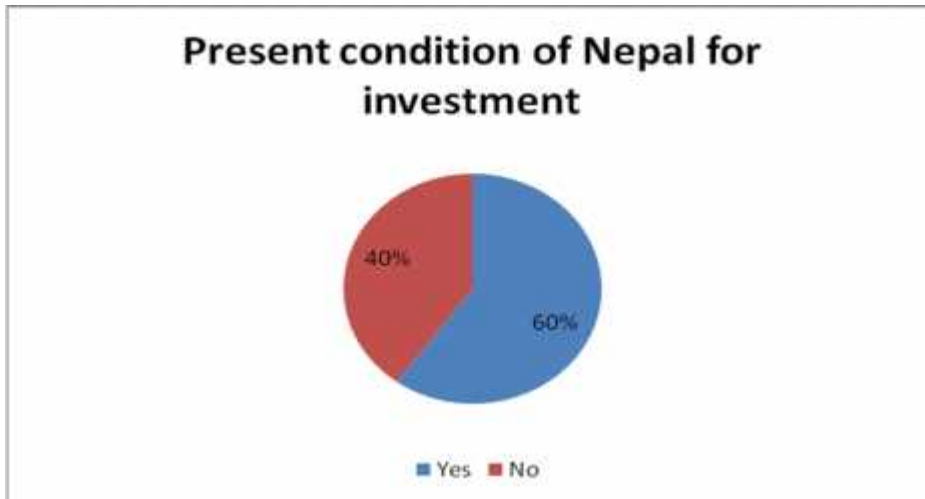
This question was designed to know the investors response for investment in the current situation. The result is shown in the figure below.

**Table 4.18**

**Showing present condition of Nepal for investment.**

<b>S.N</b>	<b>Alternative</b>	<b>No of Response</b>	<b>%age</b>
1	Yes	120	60.00
2	No	80	40.00
<b>Total</b>		<b>200</b>	<b>100</b>

**Figure- 4.18**



Economic & Political factors have direct impact on capital market. As Economic & Political factors are not stable these days here in Nepal so we asked 200 respondents that the present situation is suitable for investment. Out of 200 respondents 60% said yes and 40% said this is not the suitable situation for investment.

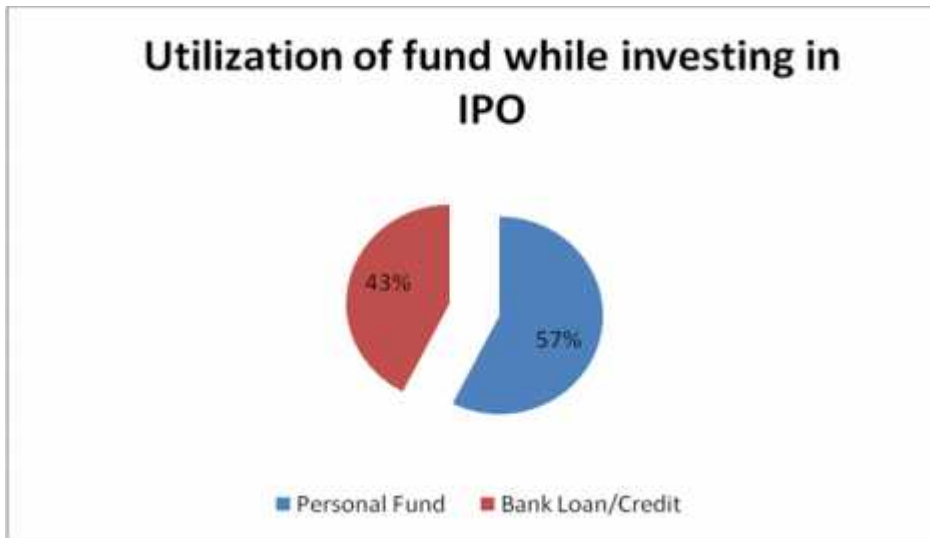
#### **4.3.12 Utilization of fund while investing in IPO**

The question was asked to know whether the investor use personal fund or take bank loan for investment. The result is shown in table below and in figure.

**Table 4.19**  
**Showing utilization of fund while invest in IPO.**

<b>S.N</b>	<b>Alternative</b>	<b>No of Response</b>	<b>%age</b>
1	Personal Fund	115	57.5
2	Bank loan/Credit	85	42.5
<b>Total</b>		<b>200</b>	<b>100</b>

**Figure- 4.19**



57.5%, the majority of respondents said that they use their own fund to invest in primary market. But 42.5% people used Bank loan for investment. It means 42.5 think they can earn more from investing in shares than the cost of loan or credit.

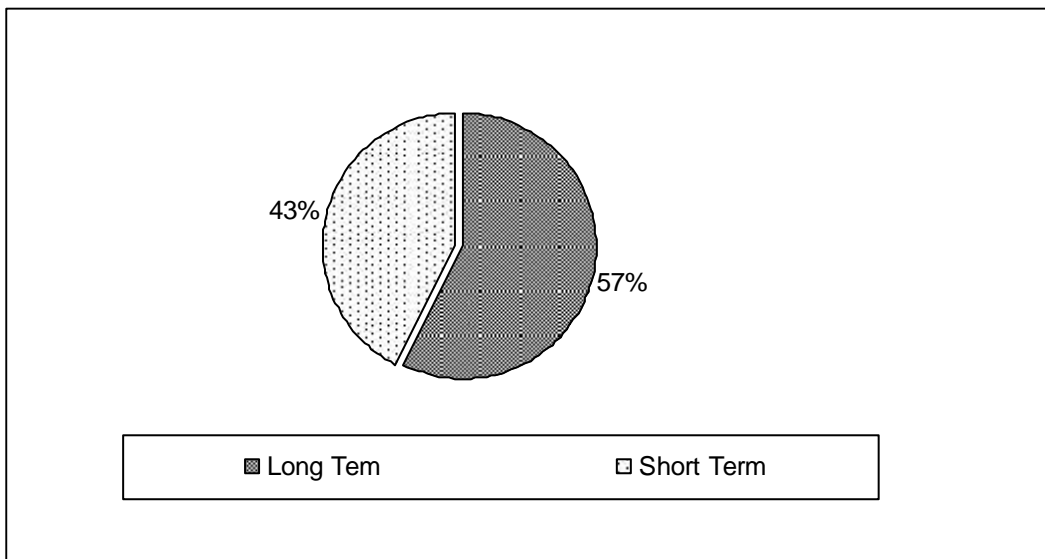
#### **4.3.13 What type of IPO investor are you?**

The question are asked to know whether the investor investing in IPO for the long term purpose or the short term purpose. The result is shown in the table & figure below.

**Table – 4.20**  
**Showing type of IPO investor**

<b>S.N</b>	<b>Alternative</b>	<b>No of Response</b>	<b>%age</b>
1	Long Tem	115	57.5
2	Short Term	85	42.5
<b>Total</b>		<b>200</b>	<b>100</b>

**Figure no. 4.20**  
**Type of IPO investor**



Out of 200 respondents most of the respondents (57.5%) investing in IPO for long term purpose, that is they want to hold the shares for long time to get more benefit. Rests 42.5% invest in IPO for short term purpose.

**4.3.14 Reason that most of the firms do not like to go to public.**

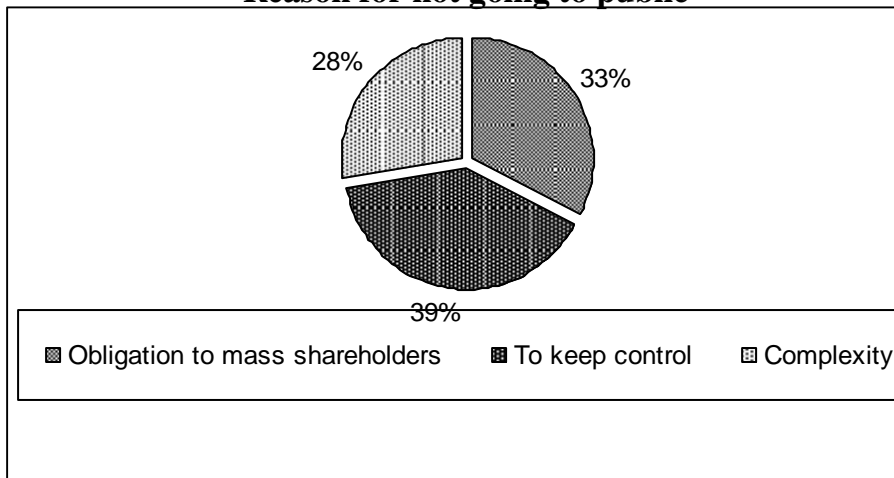
This question was asked to know how the investors think about the reason for why the companies performing very well in the market do not like to go to the public. 150 respondents from different sector were asked. The result is shown in the table and figure below.

**Table no. 4.21**  
**Showing reason for not going to public.**

S · N	Alternative	No of Response	%age
1	Obligation to mass shareholders	65	32.5
2	To keep control	80	40.00
3	Complexity in management	55	27.5
<b>Total</b>		<b>200</b>	<b>100</b>

**Figure no. 4.21**

**Reason for not going to public**



Most of the companies do not want to go to public. Among 200 respondents 40% thinks control is the major reason for not going to public. Other 32.5% think they do not want to bear the obligation to mass shareholders. And rest 27.5% thinks they don't want to go to public due to the Complexity in management.

**4.3.15 Number of companies invested.**

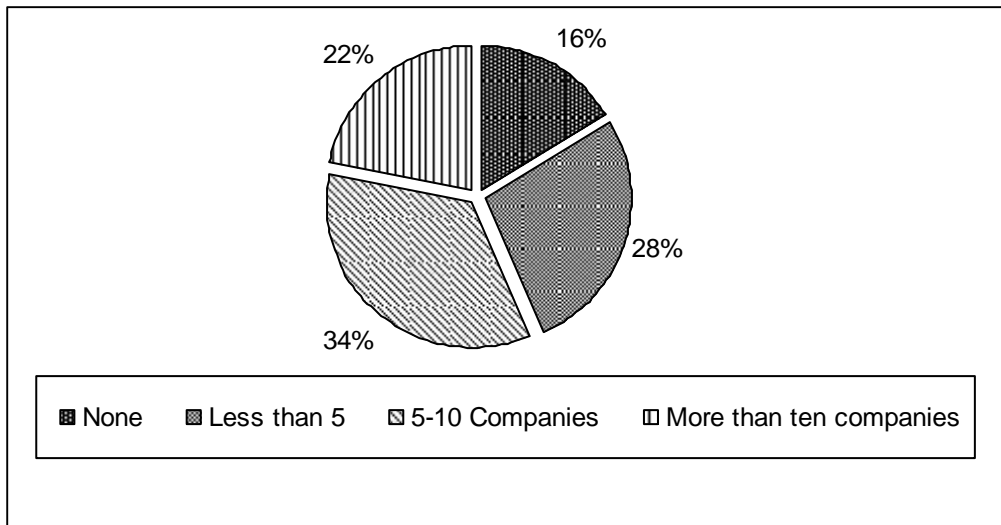
This question was designed to know the frequency of investment by different investors in the IPO. 200 respondents were asked. The result is shown in the table and figure below.

**Table no. 4.22**

**Showing No. of companies invested**

S.N	Alternative	No of Response	%
1	None	32	16.00
2	Less than 5	55	27.50
3	5-10 Companies	69	34.50
4	More than ten companies	44	22.00
<b>Total</b>		<b>200</b>	<b>100</b>

**Figure no. 4.22**  
**No. of companies invested**



Out of 200 respondents 34.5% said that they have invested in 5-10 companies. 27.5% said less than Company, 22.00% said that they have invested in more than ten company and 16% were found to invest in none of the organization.

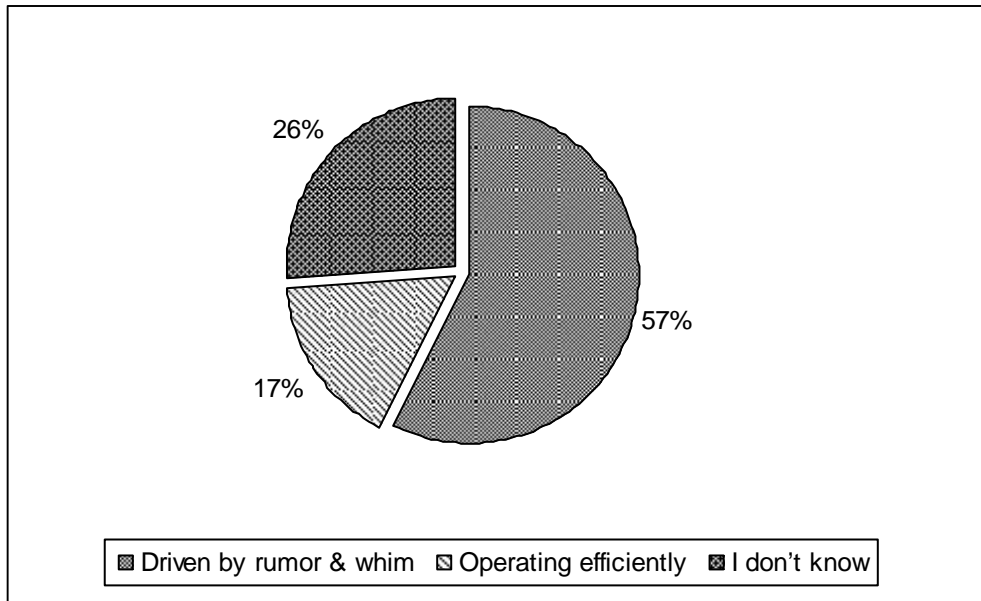
#### **4.3.16 Public thought about Nepalese Capital Market**

This question was asked to different respondents to know their view about the Nepalese Capital Market. In the current situation most of the respondents thinks Nepalese Capital Market is driven by rumor & whim. The result is shown in the table & figure below.

**Table – 4.23**  
**Showing thought of Nepalese Capital Market**

<b>S.N</b>	<b>Alternative</b>	<b>No of Response</b>	<b>%age</b>
1	Driven by rumor & whim	115	57.5
2	Operating efficiently	33	16.50
3	I don't know	52	26.00
<b>Total</b>		<b>200</b>	<b>100</b>

**Figure no. 4.23**  
**Thought of Nepalese Capital Market**



Out of the 200 respondents most of the respondents 57.5% said our capital market is driven by rumor & whim. 26.00% said they have no idea and 16.5% said it is operating efficiently. With the response of different respondents in this question we may say that our capital market is driven by rumor & whim.

#### **4.4 MAJOR FINDING OF THE STUDY**

The secondary data was taken to justify of the research on the topic. Along with secondary data, primary data was taken to justify the study on the topic. Both interviews and questionnaires methods were implemented for this purpose.

The major findings data are as follows:

- ) In recent years the trend of giving approval by SEBON is drastically increasing.
- ) In the year 2009/10 the approval amount for public offering was almost double (47.29) of the total amount approved till then.

- ) It was due to policy impact of central bank for increasing total paid up capital of the Banks & Financial Institutions.
- ) The no. of approved issue is also slowly increasing in the recent years.
- ) Most of the companies' initial public offerings (92.03%) are oversubscribed and only few companies's IPO are undersubscribed.
- ) Public response to the financial institutions and insurance sectors is higher than non financial sectors.
- ) In the year 1997/98 it was poor response to initial primary issues.
- ) Among financial institutions and insurance sector, the subscriptions of commercial banks were 14.26 times in average, and of development banks were 19.02 times in average. This shows the public response to development banks were greater or more than commercial banks.
- ) Past data shows that the average subscription of finance companies was 7.14 times while average subscription of insurance company was 21.76 times. Which shows the most responded sector was insurance sector.
- ) In the non financial institutions the average subscription was 2.98 times. It shows non financial sector has got not such better response from the public. Last few years' experience shows that there are limited non financial sectors available in the country.
- ) Now-a-days the public response is highly positive , because people are aware, money flow in the market is higher, people now realize the importance of share investment, people have seen that most companies are distributing dividends, and lack of better alternatives for investment.
- ) Majority of the people (60% of respondents) have knowledge about IPO and 25% have some knowledge but 15% of the people invest without any knowledge about IPO.
- ) Almost half of the general public investors get information about IPO through media; following 30% of them get it from friends and relatives.
- ) Brokers role in primary information to people about IPO is very limited (15%).

- ) Majority(65%) of the respondents show interest in investing on IPO
- ) Majority of the respondents has the habit of reading prospectus before investment.
- ) Selecting the company for investment is generally based on corporate image (42.5%) and profitability(32.5%) followed by management team(21%).
- ) Majority 71.5% of respondent are motivated on IPO because of high profitability opportunity in short period.
- ) 82% of the respondent Preferred Financial sector for investment.
- ) Commercial Bank, Finance Company Development Bank and Insurance Company are the preferred financial sectors by the investors.
- ) Trading .Manufacturing & Processing, Hotel& Hydropower are the major non- financial sectors preferred by investors.
- ) Majority of the people (60%) think that present situation of Nepal's favorable for investment in share capital.
- ) Majority of the investors use their personal fund for investment in IPO and majority of them are long term investors.
- ) This study has found that public response to the primary market is highly positive due to lack of opportunities for investment in other sector. Despite this, public are attracted towards shares to increase their value of investment.

## **CHAPTER –V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary**

Primary market is the market for new securities. The key mechanism of primary market is initial public offering (IPO). The first time issuance of securities to the public is known as IPO. The securities market consists of new issue market and Stock Exchange. New securities are offered to the investors for the first time through Initial Public Offering. Primary market allows issuance of new securities in order to help the issuing companies to raise funds for starting new enterprise or for expansion and diversification of the existing ones. The securities market development in Nepal is in early stage of growth.

The basic objective of this study is to assess public response to the initial public offering; this study also focuses on the dealing process and pace of the initial public offerings.

The primary and secondary, both types of data are taken to analyze the objective of the study. Primary data are taken from direct questionnaire provided to the general investors. Secondary data are taken from the publication of SEBON, NEPSE and various merchant bankers.

The securities market plays a strong role in bringing into contact the firm and the individuals. So it can be said that the confidence of the public depends heavily on the functioning and the implementation of regulations of SEBON. Securities Board Nepal is the regulatory body of Nepalese stock market. Stock Exchange Limited is the trading body. Before going to the public, the company must be approved from SEBON. After getting approval, issuing company must give its information to the Nepal stock Exchange Limited and Company Register's Office.

Issuing company is free to choose one or more than one issue manager/s for the process of issuing the shares. Bankers to the issue also involve during this

period. Issue manager has to publish a public notice in the national daily newspapers to offer public for investment. The notice must be published seven days before the application form distribute date. The issue manager has to publish and distribute the prospects. Prospects make easy to the public to decide whether to invest their money in the share or not. The application period must not be more than one month. If issue managers think the required applications have been collected, they can close, anytime after one week, to receive application. If over application is received, the distribution of share should be decided through allotment procedure. For this purpose additional 40 to 90 days can be taken. After allotment within next 15 days the issue manager has to refund the money of those public whose application has not been accepted. Within 30 days of refund period the certificates has to be distributed.

According to Securities Board, 359 issue approval of different companies for public issue. There are 214 companies listed in Nepal Stock Exchange Limited. In a year 2009/10, maximum, 64 companies have got approval from SEBON. Minimum 5 companies have got approved form SEBON in each of the year 1998/99, 2000/01. Public response to the financial institutions and insurance sectors is higher than non financial sectors.

In financial institutions and insurance sector, the subscription of commercial bank seems 14.26 times in average, and of development banks has took 19.01 times in average. This shows the public response to development banks was greater or more than commercial banks. Past data shows that the average subscription of finance companies was 7.14 times while average subscription of insurance company seems 21.76 times. Which shows the most responded sector was insurance sector.

Similarly, of non financial institutions the average subscription is 2.98 times. It shows non financial sector has also got cheering response from the public. Last few year's experience shows that there are limited non financial sectors available in the country that satisfied the investors.

The primary source of data shows that the major source of information of public offering is media, 44% gets information through media. Majority investors are seemed to be new in the market. 35.33% investor invests their money in two to four companies. These days, people are getting aware to primary market to choose the right sector for investment. They read prospects of the company before investing their money in stocks. More than 70% respondents read prospectus before investment. Corporate image & Profitability is the encouragement factor for investment. The investors think that those companies who are performing well in the market will do better in the future. More than 65% investors invest money in the primary market by using their own fund. 42% investors think that the companies do not like to go to public, the major reason they think is Control. 76% People think that the present environment is suitable for investment in IPO. 80.67% people prefer to invest their money in the financial institutions and insurance sector. 70% people investing in IPO having good knowledge of it.

Most of the respondents, about 61.33% are of the view that capital market is driven by rumor & whim. Also most of the respondents who are investing in IPO for the long term purpose that is if they get the shares they want to hold. Rather few respondents hold shares for long time that is they want short term benefit.

This study has found that public response to the primary market is highly positive because people are getting aware of stock market, flow of money in the market is higher, people have realized the importance of the investment in shares, people have seen that most companies are distributing dividends, share prices of most companies are increasing and a lack of better alternative for investment.

Public Response in stock market is high due to lack of opportunities for investment in other sector. Despite this, public are attracted towards shares to increase their value of investment.

## 5.2 Conclusions

Most of the general investors in Nepal do not have sufficient information regarding the primary market but still they are interested to invest money in the primary market. This is good sign to the expansion of the primary market.

As per this study, almost every sector is getting good response from general public. Specifically financial institutions and insurance sector is more preferable for general public than non financial sector.

Pace of initial public offering in Nepal seems to be irregular. The number of companies approved for public offering by SEBON in a single year varies from 18 to 5. The highest amount of issue approved by the board was Rs.1555.11 million while the lowest amount of issue was Rs.254.21 million. If we see on the basis of sector, SEBON had granted 74% approval for financial institutions and insurance sectors and 26% approval for non financial sectors. Out of 16,772 million, the financial and insurance sectors paid up capital hold 65% and that of non financial sectors hold 35%.

Even though the organization's process of public offering is quite long; the service provided to the investors seems to be satisfactory. If raising interest of the public in to primary market is one of the objectives, then the primary market of Nepal is fulfilling this role gradually.

The structure of both segments of the market primary/New and secondary/Stock exchange has witnessed significant change. Some of the important development in the primary market which deserve specific mention are the establishment of merchant banks, provision of speedy up allotment/refund, proportionate allotment of shares, allotment of financial institution, increase in minimum application amount of investment in primary issue such change have brought significant public response in new issue.

The secondary market which presented an institutional mechanism that may be transparent, hardly regulate and rarely feared to investor's protection but not yet in practice. Among them are prescription of norms for intermediaries like broker in trading/settlement and the bound of stock exchange with participant

from stock exchange members and investors. The exchange has made tremendous effect in the volume of transaction, share turnover, number of shareholders, public response and market capitalization.

### **5.3 Recommendations**

To make the IPO more efficient, effective and convenient, following suggestions are recommended:

- ) Investing in shares is a speculation which involves huge amount of risk. To be successful in the stock market, investors should always be clear to his strengths, weakness, requirements, wishes, risk taking capabilities and how to react on different and ever changing market conditions. They should not buy the shares of a company until they know details about it.
- ) Most of the public issues are from banking and finance sector so issue-manager should take initiative step to promote their business from other sectors too. They should be equally effortful in developing the public offering market as an avenue for cost effecting financing.
- ) In Nepal, opportunity to invest in primary market is low. They have to wait a long period to invest. If they hurry to invest in any of the company, they may have to suffer from loss. So, to get opportunity to invest in profitable stock they should have patience on them.
- ) Issuing company's post issue compliance practice is found to be poor. The issuer companies should be made aware in complying with the post issue legal provisions at the time of public issue. Issue manager should also take the responsibility to make the issuer companies aware of compliance issue.
- ) The concerned authorities should conduct various research studies and disseminate the information relating to the share trading activities to increase the understanding of the investors in using financial tools to estimate the intrinsic value of shares of a company before making investment decision.
- ) The government, concerned bodies and individuals have to work hard to make the investment in securities preferable to investors by implementing

the rules, regulations, policies and activities more strictly. The regulatory authorities of the stock market should try to rise the trading of shares by regulating the activities and performance concerned bodies such as brokers and the listed companies frequently to create the efficient pricing of shares.

- ) The stock market lacks the existence of sophisticated investors. So, it is recommended to the regulatory bodies to carry out programs using various media and spot program to inform and attract the potential investors, both individual and institutional, in investing into shares.
- ) Stock market is heading towards the right directions so it is developing and growing. It is utilizing the unused surplus resources in productive sectors. With the provision of stockbrokers and market makers in 1994, the securities market has been broadened and this has also developed specialization in providing services to securities market.
- ) Restriction on foreign direct and portfolio investment should be reviewed with a view toward the elimination of unnecessary impediments.
- ) The Central Depository System (CDS) must be introduced to the current trade as soon as possible. This means that very high volume or trading can be cleared and settled in timely and cost-effective way, there by supporting the overall development of NEPSE.
- ) Presently, intuitional players have not been able to play any noticeable role in the stock exchange. Limited market, allotment procedure and emphasis of small investors have not helped to enhance the role of the institutional players. Increased role of such players will make the market more competitive.
- ) While investing or trading in the primary or secondary market, the major consideration should be made that of the promoters, directors and managers in Nepal. Other considerations may be market prospect, professionalization of management and overall environment.

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## Appendix-1 Questionnaire

This questionnaire is a part of my research work entitled "Public Response to IPO". I request you all to fill this questionnaire with sincerity. Your response will have direct impact on research outcome, so I request you to be honest.

### **Personal Information:**

Name: ..... Occupation: .....

Age/Sex: ..... Education: .....

Address/Phone No.....

### **Objective Questions**

1) What is IPO? Do you have any idea?

- a) Yes, I know properly (    )    b) Somewhat (    )
- c) Don't know (    )

2. What are the sources of information about IPOs

- a) Through Media (    )    b) Through brokers (    )
- c) Friends and relatives (    )    d) others (    )

3. Are you investing in stocks through IPO?

- a) Regularly (    )    b) Not at all (    )    c) Not yet, but planning (    )

4. Before the Investment decision do you read prospectus of offering company?

- a) Yes (    )                      b) No (    )                      c) I don't know (    )

5. How do you select the company for investment? (Tick one or more, if applicable)

- a) Corporate image (    )
- b) Management team (    )
- c) Profitability (    )
- d) other (please specify).....

6. What is the motivating factor that you come to Investment in Public Offering?

- a) Performance of Company (    )
- b) No brokerage commission (    )
- c) High profitability opportunity in short period (    )

7. Which sector would you prefer to invest?

- a) Financial (    )
- b) Non Financial (    )

8. Which sector would you prefer to invest in financial institution and Insurance?

- a) Commercial Banks (    )
- b) Development Banks (    )
- c) Finance Companies (    )
- d) Insurance Companies (    )

9. Which sector would you prefer to invest in non financial institution?

- a) Hotel (    )
- b) Manufacturing & Processing (    )
- c) Trading (    )
- d) Hydropower (    )
- d) Other companies please specify..... (    )

10. Do you think Nepal's present condition is suitable for investment in IPO?

- a) Yes. (    )
- b) No. (    )

11. Which fund would you like to use while investing in IPO.
- a) Personal Fund (     )
  - b) Bank loan/ Credit (     )
12. What type of IPO investor are you?
- a) Long term (     )
  - b) Short term (     )
13. What do you think most of the firms do not like to go to public?  
What may be the reason?
- a) Obligation to mass shareholders (     )
  - b) To keep control (     )
  - c) Complexity in management (     )
14. How many companies have you invested in?
- a) None (     )
  - b) Less than 5 (     )
  - c) 5-10 Companies (     )
  - d) More than ten Companies (     )
15. What do you think about the Nepalese Capital market as an IPO investor?
- a) Driven by rumor & whim. (     )
  - b) Operating efficiently. (     )
  - c) No Idea. (     )

**Appendix-2**  
**Processing of Primary Data**

<b>Query</b>	<b>Description</b>		<b>Number</b>	<b>Percentage</b>
1. Knowledge of Initial public offering:	a.	Yes	<b>120</b>	<b>60</b>
	b.	Somewhat	<b>50</b>	<b>25</b>
	c.	I Don't Know	<b>30</b>	<b>15</b>
<b>Total</b>			<b>200</b>	<b>100</b>

<b>Query</b>	<b>Description</b>		<b>Number</b>	<b>Percentage</b>
2. Source of information about IPO.	a.	Through Media	<b>95</b>	<b>47.5</b>
	b.	Through Brokers	<b>30</b>	<b>15</b>
	c.	Friends & Relatives	<b>60</b>	<b>30</b>
	d.	Others	<b>25</b>	<b>12.5</b>
<b>Total</b>			<b>200</b>	<b>100</b>

<b>Query</b>	<b>Description</b>		<b>No</b>	<b>Percentage</b>
3. Investment through IPO:	a.	Regularly	130	65
	b.	Not at all	30	15
	c.	Not yet but planning	40	20
<b>Total</b>			<b>200</b>	<b>100</b>

<b>Query</b>	<b>Description</b>		<b>No</b>	<b>Percentage</b>
4. Habit of reading prospectus before investment:	a.	Yes	145	72.5
	b.	No	30	15
	c.	I don't know	25	12.5
<b>Total</b>			<b>200</b>	<b>100</b>

<b>Query</b>	<b>Description</b>		<b>Number</b>	<b>Percentage</b>
5. Selection of company for investment.	a.	Corporate image	85	42.5
	b.	Management team	42	21
	c.	Profitability	65	32.5
	d.	Others	8	4
<b>Total</b>			<b>200</b>	<b>100</b>

Query	Description		No	Percentage
6.Motivating factor for invest in IPO:	a.	Performance of Company	22	11
	b.	No brokerage commission	35	17.5
	c.	High profitability opportunity in short period	143	71.5
<b>Total</b>			<b>200</b>	<b>100</b>

Query	Description		No	Percentage
7. Preferred sector for investment:	a.	Financial	164	82
	b.	Non-financial	36	18
<b>Total</b>			<b>200</b>	<b>100</b>

Query	Description		Number	Percentage
8. Preferred financial sector for investment.	a.	Commercial Banks	86	43
	b.	Development Banks	39	19.5
	c.	Finance Companies	50	25
	d.	Insurance Companies	25	12.5
<b>Total</b>			<b>200</b>	<b>100</b>

Query	Description		Number	Percentage
9. Preferred non-financial sector for investment.	a.	Hotel	31	15.5
	b.	Manufacturing & Processing	40	20
	c.	Trading	22	22
	d.	Hydropower	30	15
	e.	Others	55	27.5
<b>Total</b>			<b>200</b>	<b>100</b>

Query	Description		No	Percentage
10.Present condition of Nepal for investment:	a.	Yes	120	60
	b.	No	80	40
<b>Total</b>			<b>200</b>	<b>100</b>

Query	Description		No	Percentage
11.Utilization of fund while invest in IPO:	a.	Personal Fund	115	57.5
	b.	Bank Loan/Credit	85	42.5
<b>Total</b>			<b>200</b>	<b>100</b>

Query	Description		No	Percentage
12.Type of IPO investor:	a.	Long Term	115	57.5
	b.	Short Term	85	42.5
<b>Total</b>			<b>200</b>	<b>100</b>

Query	Description		No	Percentage
13.Reason for not going to public:	a.	Obligation to mass shareholders	65	32.5
	b.	To keep control	80	40
	c.	Complexity in management	55	27.5
<b>Total</b>			<b>200</b>	<b>100</b>

Query	Description		Number	Percentage
14. No. of Companies invested.	a.	None	32	16
	b.	Single	55	27.5
	c.	2-4 Companies	69	34.5
	d.	More than four Companies	44	22
<b>Total</b>			<b>200</b>	<b>100</b>

Query	Description		No	Percentage
15.Thinking about Nepalese capital market:	a.	Driven by rumor & whim	115	57.5
	b.	Operating efficiently	33	16.5
	c.	No idea	52	26
<b>Total</b>			<b>200</b>	<b>100</b>

### Appendix-3

#### Details of Listed Companies

<b>COMMERCIAL BANK</b>					
<b>S. N.</b>	<b>Name of the Company</b>	<b>Issuing Date</b>	<b>Address</b>	<b>Tel. No.</b>	<b>Public Response</b>
1	Nabil Bank Ltd.	24/11/1985	POB 3729, Nabil House, Kamaladi, Ktm. E-mail : nabil@nabil.com.np	4429546, 4429547 4435380	10.05
2	Nepal Investment Bank Ltd.	22/07/1986	POB 3412, Darbar Marg, Ktm.	4228229, 4242530	9.35
3	Standard Chartered Bank (Nepal) Ltd.	04/07/1988	POB 3990, Naya Baneshwor, Ktm. E-mail : ANZ@Dixitu.com	4782333	20.20
4	Himalayan Bank Ltd.	05/07/1993	POB 20590, Tridevi Marg, Thamel, Ktm. E-mail : hbl@hbl.mos.com.np	4250201, 4227749 4227745, 4227756	18.25
5	Nepal SBI Bank Ltd.	17/01/1995	POB 6049, Hattisar, Kamalpokhari, Ktm. E-mail : nsblco@mos.com.np	4435516, 4435613	14.05
6	Nepal Bangladesh Bank Ltd.	24/12/1995	POB 9062, Bijuli Bazar, New Baneshwor, Ktm. E-mail : nbbl@mos.com.np	4490195, 4490698 4490767, 4490770	13.06
7	Everest Bank Ltd.	07/04/1996	POB 13384, EBL House, Lazimpat, Ktm. E-mail : elb@mos.com.np	4443377, 4443863 4443864	5.14
8	Bank of Kathmandu Ltd.	17/07/1997	POB 9044, Kamal Pokhari, Ktm. E-mail : info@bok.mos.com.np	4414541	5.36
9	Machhapuchhare Bank Ltd.	28/05/2003	Central Off. POB:41, Naya Bazar, Pokhara-9, Corp: off: POB:12427, Putalisadak, Ktm. Email: machbank@.mbl.com.np	061-530900  4425356	4.25
10	Nepal Industrial & Commercial Bank Ltd.	13/06/2000	Central Off. POB 252 Main Road, Biratnagar Email: nicb@brt.wlink.com.np City Off. New Road. POB 7367 Ktm Email: newroad@nicbank.com.np	021-521921  4243718	3.60
11	Laxmi Bank Ltd.	20/04/2004	POB. 61, Adrashanagar, Birgunj, Parsa. Email: info@laxmibankltd.com	021-521921 4243718	2.25

12	Kumari Bank Ltd.	29/07/2004	POB 21128, Putalisadak, Kathmandu Email: <a href="mailto:info@kbl.com.np">info@kbl.com.np</a>	4232112/113	8.11
13	Lumbini Bank Ltd.	10/11/2004	Central Off., Narayanghat, Chitwan Corp: Off: Durbarmarg, Kathmandu Email: <a href="mailto:lumbiniktm@mos.com.np">lumbiniktm@mos.com.np</a>	056-524150, 521919 4243158, 4243165	4.26
14	Nepal Credit and Commerce Bank Ltd.	31/01/2005	Central Off., Bhairahawa, Siddharthanagar Corp: Off: POB 12559, Bagbazar, Kathmandu Email: <a href="mailto:corporate@nccbank.com.np">corporate@nccbank.com.np</a>	071-521953 4246991	3.2
15	Siddhartha Bank Ltd.	24/02/2006	Tindhara Marg, Kathmandu POB 13806,	4442918, 4442920	18.65
16	NMB Bank Ltd. (upgraded as a commercial bank on 2065/2/12)	20/06/2001 (2058/3/6)	NMB Building, Babarmahal, Kathmandu POB 11543, Email: <a href="mailto:nmb@wlink.com.np">nmb@wlink.com.np</a>	4246160	9.56
17	Development Credit Bank Ltd. (upgraded as a commercial bank on 2065/2/12)	13/06/2002 (2059/2/30)	Kathmandu Plaza, Kamaladi, Ktm. POB 7716, Email: <a href="mailto:info@dcbl.com.np">info@dcbl.com.np</a>	4231120, 4231490	6.29
18	Global Bank Ltd.	(2065/12/13)	Central Off.: Adarsanagar, Birgung Corp. Off.: Panipokhari, Ktm. POB 19327 Email: <a href="mailto:info@globalbank.com.np">info@globalbank.com.np</a>	051-530337 4002507 4002508	34.25
19	Kist Bank Ltd. (upgraded as a commercial bank on 2066/1/24)	(2061/9/13)	Anamnagar, Kathmandu POB No.: 8975 E-Mail: <a href="mailto:info@kistbank.com">info@kistbank.com</a>	4232500	14.26
20	Bank of Asia Nepal Ltd.	(2066/2/11)	Tripureshwor, Ktm. Email: <a href="mailto:boan@bankofasia.com.np">boan@bankofasia.com.np</a>	4263212 4263213	18.16
21	Citizen Bank International Ltd.	(2066/2/11)	Sarada Sadan, Kamaladi, Ktm. POB 19681 Email: <a href="mailto:info@citizenbank.com">info@citizenbank.com</a>	4262699	24.23

<b>Development Bank</b>					
<b>S. N.</b>	<b>Name of the Company</b>	<b>Listing Date</b>	<b>Address</b>	<b>Tel. No.</b>	<b>Public Response</b>
1	Nepal Industrial Development Corporation	18/03/1985	POB 10, Darbar Marg, Ktm. E-mail : nidc@Wlink.com.np	4228322, 427220	14.20
2	Nepal Development Bank Ltd.	31/12/2001	POB 11017, Heritage Plaza, Ktm. Email: ndb@ccsl.com.np	4245740, 4245759, 4254639	8.65
3	Nirdhan Uthan Bank Ltd.	24/04/2003	Central Off. POB:41, Siddharthanagar, Rupandehi, Email: nirdhan@mail.com.np	071-523764, 523768	3.88
4	Chhimek Bikash Bank Ltd.	28/12/2004	Central Off. Ajaramar Road, Hetauda Sanogaucharan, Kathmandu Email: cbb@ntc.net.np	057-521575 4415825	9.41
5	Paschimanchal Bikash Bank Ltd.	28/12/2004	Central Off. Mahendrapark, Butwal, Rupandehi,	071-549899, 549900	5.23
6	Deprox Development Bank Ltd.	29/05/2005	Sahid Path, Narayanghat, Chitawan Kathmandu office: Email: ddb@narayani.com.np	056-527900 4262396	2.59
7	Gandaki Development Financial Institution Ltd.	26/06/2006 (2063/3/12)	POB:160, New Road, Pokhara-9	061-540466, 061-541244	3.35
8	Business Development Financial Institution Ltd.	(2063/5/29)	POB 264, New Road, Pokhara Email: info@bifil.com.np	061-540725	2.23
9	Bhrikutee Vikash Bank	(2063/6/5)	POB 73, Traffic Chowk, Butwal-8  Email: bdbank@nec.com.np	071-544967  071-546967	3.36
10	Siddhartha Development	(2063/6/5)	Butwal-11, Milanchowk, Rupandehi	071-545543 071-548502	5.56

	Bank Ltd.		Email: sdbl@hons.com.np		
11	Sanima Vikash Bank Ltd.	(2063/8/27)	Nagpokhari, Naxal, Kathmandu Email: sanima@sanimabank.com	4428979, 4428980	2.29
12	Narayani Industrial Development Bank Ltd.	(2063/9/26)	Ratna nagar, Chitwan	056-561258	1.23
13	Sahayogi Vikas Bank Ltd.	(2064/1/31)	POB 18, Vidyapati chowk, Janakpur-4	041-525972 041-525971	2.89
14	Bageshori Development Bank Ltd.	(2064/1/31)	POB 46, Dhamboji chowk, Nepalgunj Email: bdbl@wlink.com.np	081-526246 081-523457	3.21
15	Gurkha Development Bank (Nepal) Ltd.	(2064/2/23)	POB 5617, Triveni Complex, Kath Email: info@gdbl.com.np	4255650	2.19
16	Annapurna Bikas Bank Ltd.	(2064/4/16)	Banepa, Kavre Email: anbbl@ntc.net.np	011-660480	7.26
17	Swabalamban Bikas Bank Ltd.	(2064/4/16)	Janakpur, Nepal Email: sb_bank@jnscweb.net	041-524342 041-4426063	3.28
18	Ace Development Bank Ltd.	(2053/8/5)	POB 13383, Naxal Kathmandu Email: info@ace.com.np	4411760, 4441110	4.36
19	Himchuli Bikash Bank Ltd.	(2064/6/1)	Mahendrapool, Pokhara-9 Email: himchulibbs@wlink.com.np	061-551800, 061-551900	2.31
20	Malika Bikash Bank Ltd.	10/02/2007	Dhangadhi, Kailali Website: www.mdbank.com.np	091-520775	54.84
21	Excel Development Bank Ltd.	06/11/2007	Anarmani-3, Birtamod, Jhapa Email: exclbirta@yahoo.com	023-543564 023-543714	13.36
22	Infrastructure Development Bank Ltd.	24/04/2008 2065/1/12	Tribhuvan Chowk, Banepa, Kavre, Nepal Email: info@idbank.com.np	011-660543, 011-660578	11.24
23	Clean Energy Development Bank	19/12/2008			36.46

<b>Finance Company</b>					
1	Nepal Finance & Saving Co. Ltd.	02/02/1993	POB 6867, Kamaladimode, Putalisadak, Ktm. E-mail: nefinco@info.com.np	4220031, 4247020	3.32
2	NIDC Capital Markets Ltd.	28/06/1993	POB 7423, Kamal Pokhari, Ktm.	4423398, 4415958	6.68

			E-mail: ncml@wlink.com.np	4423219	
3	National Finance Co. Ltd.	06/07/1993	POB 6942, Pako, New Road, Ktm. E-mail : nfc@nfcl.wlink.com.np	4242302, 4228380 4240134	3.68
4	Nepal Share Markets Co. Ltd.	28/10/1993	POB 7958, Ram Shah Path, Ktm.	4425864, 4426984 4430153, 4250427	2.32
5	Annapurna Finance Company Ltd.	22/09/1994	POB 288, Chipledhunga, Pokhara - 4 E-mail : anapurna@afc.mos.com.np	061-522671, 524556	4.75
6	Kathmandu Finance Ltd.	13/07/1995	POB 5090, New Plaza, Putlisadak, Ktm.	4430506, 4430527	6.65
7	Peoples Finance Ltd.	07/08/1995	POB 9416, K. K. M. Building, Tripureswor, Ktm. E-mail : finance@peoples.Wlink.com.np	4255829, 4262405, 4252178	2.17
8	Union Finance Co. Ltd. Promoter's Share Ordinary Share	27/11/1995 16/07/2002	POB 9263, Kathmandu Plaza, X Block, Third Floor, Kamaladi, Ktm. E-mail : union@unlimit.com.np	4240779, 4240813, 4231512	8.78
9	Citizen Investment Trust	26/12/1995	POB 5823, Putalisadak, Ktm.	4228759, 4240598	6.45
10	Nepal Abas Bikash Bitta Co. Ltd.	01/05/1996	POB 5624, Naya Baneshwor, Ktm.	4780259, 4782753	.379
11	Narayani Finance Ltd.	25/06/1996	City Office : POB 4861, Baluwatar, Ktm. Central Office : POB 03, Sahid Chowk, Narayanghat, Chitwan E-mail : narayani@nafil.mos.com.np	4422554  056-520313, 520345	5.68
12	Yeti Finance Co. Ltd.	23/01/1997	POB 35, Main Road, Hetauda, Nepal Contact Office: Teku, Ktm.	057-520822, 521842 4240711, 4226423	5.68
13	Gorkha Finance Co. Ltd. Promoter's Share Ordinary Share	19/02/1997 27/02/2003	POB 10951, Siddhi Bhowan Kantipath, Ktm.	4222508, 4220337-38 445442	6.57

14	Shamjana Finance Co. Ltd.	28/03/1997	City Office : POB 10457 Ward No. 30 Kamalachhi , Ktm. Head Office : Banepa, Kavre	4231051  011-661207	4.68
15	Universal Finance Ltd.	10/04/1997	POB 12396, Siddhi Bhavan, Kantipath, Kathmandu.	4230234, 4240998, 4226002	1.26
16	Nepal Housing & Merchant Finance Ltd.	08/08/1997	POB 10609, Batule ghar, Dillibazar, Ktm. E-mail : nhmf@ccsl.com.np	4430528, 4430838, 4436182	1.79
17	General Finance Ltd.	20/04/1998	Central Office: POB 20258 Chabahil, Ktm. Branch Office: New Road (Ranjana Galli), Ktm.	4484753, 4484754 4258880	2.59
18	Mahalaxmi Finance Ltd.	31/08/1998	POB 65, Alikiiya Road, Birgunj	051-523271, 529143	1.88
19	Lalitpur Finance Co. Ltd.	08/10/1998	GPO 8975, EPC 585, Lagankhel, Lalitpur Email: lalitpur@fclWlink.com.np	5536598, 5523850	5.89
20	Goodwill Finance Co. Ltd.	22/12/1998	POB 8867 Dillibazar, Ktm. Email: goodwill@FinanceWlink.com .np	4422290, 4422878	4.75
21	Pashchimanchal Finance Co. Ltd.	20/05/1999	POB 11, Butwal, Rupandehi	071-541609, 543924	1.71
22	Pokhara Finance Co. Ltd.	02/09/1999	POB;470, Gairapatan, Pokhara Email: :pfl@ Pofil.mos.com.np	061-524942, 524975 531145	2.65
23	Lumbini Finance & Leasing Co. Ltd.	08/01/2001	POB 11503, Tridavi Marga, Thamel, Ktm.	4423443, 4423445	2.90
24	Siddhartha Finance Ltd.	20/06/2001	Siddhartha Nagar, Bhairahwa Contact Office: Ramshahpath, Ktm. Email: sfil@mos.com.np	071- 521478, 4442968	3.68
25	Nepal Merchant Banking & Finance Ltd.	20/06/2001	POB 11543, I.J. Plaza, Darbarmarg, Ktm. Email: nmb@Wlink.com.np	4246160	2.12
26	Alpic Everest Finance Ltd.	12/10/2001	POB 12034, Aradhana Complex, Bagbazar, Ktm. Email: alpic@info.com.np	4241605, 4228470	4.51

27	Nepal Bangladesh Finance & Leasing Co. Ltd.	12/10/2001	Head Off: Main Road, Biratnagar, Liaison Off: POB 21754, New Banashwor, Ktm.	021-530903, 530972 4490195, 4490770	7.54
28	International Leasing & Finance Co. Ltd.	26/11/2002	POB 8975, Naya Baneshwor, Ktm.	4480067, 4481010, 4481011	6.15
29	United Finance Ltd.	26/11/2002	POB 12311, I.J.Plaza, Durbar marg, Ktm. Email: ufl@mos.com.np	4241648, 4241649	4.21
30	Shree Investment & Finance Co. Ltd.	14/02/2003	POB 10717, Dillibazar Ktm. Email: shreefin@finance.mos.com.np	4421779, 4422038, 4426146, 4415344	2.20
31	Central Finance Co. Ltd.	18/03/2003	POB 7062, Kupondol, Lalitpur Email: central@ntc.net.np	5522289, 5536420, 5544517	1.21
32	Nepal Srilanka Merchant Bank Ltd.	24/04/2003	POB 12248, N.S.L.B Building, Kamaladi, Kth.	4440300, 4440824, 4441200, 4441198	1.68
33	Premier Finance Co. Ltd.	28/05/2003	POB 13471, Manbhawon, W. No.5, Lalitpur	5521402, 5521223	2.60
34	Navadurga Finance Co. Ltd.	05/08/2003	POB.25, Itachha, Bhaktapur. Email: mafaco@infoclub.com.np	6612999, 6614699	2.48
35	Butwal Finance Ltd.	30/12/2003	POB.25, Amarpath 7, Butwal, Rupandahi. Email: butwalfin@bccci.com.np	071-44288, 44888	2.30
36	Janaki Finance Co. Ltd.	30/12/2003	POB.30, Bhanuchok, Janakpurdham, Dhanusha	041-21586, 23339	1.20
37	Standard Finance Ltd.	02/03/2004	POB.8973 NCP.164, Ramsahapath, Kathmandu	4244504, 4240004	4.13
38	Om Finance Co. Ltd.	02/03/2004	POB.538, Newroad, Pokhara.	061-32600, 32700	5.18
39	Cosmic Merchant Banking & Finance Ltd.	02/05/2004	POB.21507, Lal durbar, Kathmandu Email: cmbfl@wlink.com.np	4222154, 4223178	7.17
40	Fewa Finance Ltd.	17/09/2004	Chiplebunga, Pokhara	061-538300	7.54
41	World Merchant Banking & Finance Ltd.	31/01/2005	Kajilal Bhawan, Hetauda wmbfl@ntc.net.np	057-521479, 521129, 525100	7.95

42	Birjung Finance Co. Ltd.	20/03/2005	Nina Commercial Complex, Adrasha Nagar, Birgunj Email: bfl@bfl.com.np	051-523468, 051-527429	7.04
43	Capital Merchant Banking & Finance Ltd.	27/11/2005 (2062/8/12)	Battisputali, Kathmandu POB:4193 Email: cmbfl@ntc.net.np	4471458, 4469738, 4469702	5.23
44	Everest Finance Ltd.	27/11/2005 (2062/8/12)	Narayan Path, Siddhartha Nagar, Bhairahawa Email: efl@softtach.com.np	071-526507	5.62
45	Prudential Bittiya Sanstha Ltd.	23/02/2006 (2062/11/11)	Dillibazar, Kathmandu. POB 5681	4445988, 4446454	1.27
46	Srijana Finance Ltd.	26/05/2006 (2063/2/12)	Lahan, Siraha	033-560769, 031-520979	
47	Royal Merchant Banking & Finance Ltd.	26/06/2006 (2063/3/12)	Durbar Marg, Kathmandu. POB: 24062 Email: rmbank@mos.com.np	4242900	2.83
48	Guheshowori Merchant Banking & Finance Ltd.	06/07/2006 (2063/3/22)	Jawalakhel, Lalitpur-13. POB 8975 EPC 446	5521506, 5539407	1.24
49	IME Financial Institution Ltd.	15/09/2006 (2063/5/30)	Kantipath, Kathmandu POB 19797 Email: info@imefil.com	4239170, 4239171	2.10
50	Bhajuratna Finance & Saving Co. Ltd.	(2063/06/05)	Birgung, Parsa POB 14 Kantipath, Kathmandu POB 133	4249534	2.91
51	Patan Finance Ltd.	(2064/01/28)	Manbhawan, Lalitpur	5551102, 5539475	4.01
52	Imperial Financial Institution Ltd.	(2064/05/11)	Putalisadak, Kathmandu POB 24262 Email: imperial@ifil.com.np	4432373, 4427923	8.07
53	Civil Merchant Bittiya Sanstha	(2064/06/01)	Kuleshwor, Kathmandu Email: marketing@civilmbsl.com	4289524, 4671916	3.2
54	ICFC Bittiya Sanstha Ltd.	(2064/06/24)	1425 Thirbam marg, Bhatbhateni, Kathmandu POB 14350 Email: icfc@subisu.net.np	4425292	4.28
55	Nepal Express Finance Ltd.	(2064/09/04)	Butwal, Rupandehi Email: nepexltd@wlink.com.np	071-546895, 546896	1.03
56	Kuber Merchant Bittiya Sanstha Ltd.	(2065/01/31)	Putalisadak, Kathmandu Email: kubermbssl@wlink.com.np	4239797, 4239798	4.20
57	Lord Buddha Finance Ltd.	(2065/08/29)	Fasikeba, Newroad, Kathmandu	4212770, 4212870	3.02

			POB 20100		
58	Sagarmatha Merchant Banking & Finance Ltd.	(2065/09/01)	Manbhawan, Lalitpur POB 8975 Email: smbfl@wlink.com.np	5547841, 5535158	6.09
59	Kaski Finance Ltd.	(2065/09/11)	Newroad, Pokhara, Kaski POB 244 Pokhara-9 Email: kafil@pinet.com.np	061-523011, 061-523733	21.93
60	Merchant Finance Co. Ltd.	(2065/11/04)	New Road, Pako, Kathmandu POB 10390 Email: merchantfl@wlink.com.np	4246402, 4241244	3.01
61	Reliable Investment Bittiya Sanstha Ltd.	(2065/12/13)	Baghdurbar, Sundhara-11, Kathmandu POB 6247 Email: reliable@ribssl.com.np	4218927, 4218989	4.09
62	Shikhar Bittaya Sanstha Ltd.	(2065/12/13)	Thapathali, Kathmandu POB 25762 Email: sbsl@mail.com.np	4100525, 4100526	0.25
63	Prabhu Finance Company Ltd.	(2065/04/26)	Head Office: Prabhu Complex Lainchor, Kathmandu Email: prabhubank@prabhubank.com	4442364, 4429124	2.09

<b>Insurance Company</b>					
1	Rastriya Beema Sansthan	08/11/1984	POB 527, Ramsaha Path, Ktm. E-mail : ema@Wlink.com.np	4262520	1.04
2	Nepal Insurance Co. Ltd.	08/11/1984	POB 3623, NIC Building, Kamaladi, Ktm. E-mail : nic@wlink.com.np	4221353, 4245565/68	2.07
3	National Life & General Insurance Co. Ltd.	20/12/1988	POB 4332, Lazimpat, Ktm.	4412625, 4416556, 4418113,	2.08
4	Himalayan General Insurance Co. Ltd.	26/01/1994	POB 148, Darbar Marg, Ktm. E-mail : ktm@hgi.com.np	4231788, 4231581	4.07
5	United Insurance Co.(Nepal) Ltd.	01/08/1994	POB 9075, I.J. Plaza, Darbar Marg, Tindhara Pathashala, Ktm. E-mail : uic@dmarg.mos.com.np	4230958, 4240957, 4246686, 4220492	4.40
6	Everest Insurance Co. Ltd.	03/04/1995	POB 10675, Siddhi Bhawan, Kantipath, Ktm. E-mail : eveinsco@mos.com.np	4240363, 4243631 4255679, 4255680	10.84
7	Premier Insurance	03/05/1995	POB 9183, Ram Rukmani	4417765,	2.01

	Co. Ltd.		Sadan, Kamaladi, Ramsah Path, Ktm. E-mail : premier@picl.com.np	4420549, 4420659	
8	Neco Insurance Co. Ltd.	30/03/1998	POB 12271, Hattisar, Laldarbar, Ktm. E-mail : info@necoins.mos.com.np	4427354, 4427355	5.01
9	Alliance Insurance Co. Ltd.	14/04/2000	City Off Kings way, Ktm. Redg Off. POB 10811. Sitapaila, Ring Road. Email: SK@aicwlink.com.np	4222836, 4253166 4242484	1.04
10	Sagarmatha Insurance Co. Ltd.	15/03/2001	POB 12211, Kathmandu Plaza, Kamaladi, Email: sagarmatha@insuranceWlink.com.np	4240896, 4241245, 4247941	5.07
11	N.B. Insurance Co. Ltd.	13/04/2001	Bagbazar, Ktm.	4418862	1.32
12	Nepal Life Insurance Co. Ltd.	22/01/2003	Heritage Plaza, Kamaladi, Kathmancu. Email: nlic@mos.com.np	4223440, 4241212, 4223189	4.18
13	Life Insurance Corporation (Nepal) Ltd.	21/03/2003	POB 21905, Kathmandu Plaza, Kamaladi, Ktm. Email: lic@licnepal.com	4229688	2.07
14	Prudential Insurance Company Ltd.	10/11/2004	Central Off. Birgung, Parsa Cor. off: Triveni Complex, Putalisadak, Kathmandu	057-531681, 522588 4219860, 4256704	9.56
15	Lumbini General Insurance	23/06/2006 (2063/3/9)	POB 23100, Tridevi Marg, Thamel Email: lgic@mos.com.np	4411707	8.78
16	Shikhar Insurance Ltd.	(2063/10/21)	POB 11133, Nayabaneshwor, Kath Email: shikharins@mos.com.np	4784515, 4784514	43.75

#### HOTELS

1	Yak & Yeti Hotel Ltd. Ordinary Share Preference Share	22/10/1984 11/04/1994	POB 1016, Lal Darbar, Darbar Marg, Ktm. E-mail : businesscentre@yakandyeti.com	4248999, 4240520	1.24
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2	Soaltee Hotel Ltd.	07/02/1993	POB 3800, Tahachal, Ktm. E-mail : shl@shicp.com.np	4273999	1.03
3	Taragaon Regency Hotels Ltd. Ordinary & Preference Share (Promoter) Ordinary & Preference Share (Public)	13/10/1998 18/11/1999	POB 9604, Bouddha, Ktm.	4491234	0.89
4	Oriental Hotels Ltd.	21/08/2001	POB 2269, Lazimpat, Ktm.	4411818, 4423888	6.28
<b>Manufacturing and Processing Company</b>					
1	Nepal Battery Co. Ltd.	21/06/1984	POB 3194, BID, Balaju, Ktm. E-mail : eveready@mos.com.np	4350909, 4350954	0.18
2	The Juddha Match Factory (Biratnagar) Ltd.	23/07/1985	Office : Rainbasera, Gangapath, Ktm. Fact.: Rani, Mills Area, Biratnagar, Morang	4221574	1.20
3	Morang Sugar Mills Ltd.	01/10/1985	Head Office: POB 33, Rani, Mills Area, Biratnagar-20 Branch Office: POB 483, Salt Trading Corporation Ltd. Building Kalimati, Ktm.-13	021-522733 524792 4271014	0.98
4	Nepal Plywood & Bobbin Co. Ltd.	30/10/1985	Office : Rainbasera, Gangapath, Ktm. Head Office: Purniya, Biratnagar, Morang	4221574, 021-522776	0.80
5	Himal Cement Co. Ltd.	28/07/1986	POB 321, Chovar, Ktm.	4331761-4, 4330958	.25
6	Bottlers Nepal Ltd.	05/11/1986	POB 2253, BID Balaju, Ktm.	4350602, 4351871	2.35
7	Nepal Lube Oil Ltd.	14/12/1986	Corporate Off : POB 1916, Chaudhari Tower, Jhamishikhel, Lalitpur. Fact.: Amlekhgunj, Bara E-mail : cg gulf@mos.com.np	5545891-95 053-529104	1.28
8	Biratnagar Jute Mills Ltd.	14/12/1986	Office : Dillibazar, Ktm. Fact. : Mills Area, Biratnagar - 20, Morang	4423246 021-525058, 523243, 523246-48	2.35

9	Nepal Banaspati Ghee Udyog Ltd.	05/06/1988	City Office: POB 483, Kalimati, Ktm. Fact. : POB 8, HID, Hetauda, Narayani Zone	4271270, 4271014 057-520369, 520660, 520753	8.98
10	Sri Raghupati Jute Mills Ltd.	17/06/1988	Head Office: POB 22, Golchha House, Main Road, Biratnagar Fact.: POB 114, Mills Area, Rani, Biratnagar E-mail : raghujm@ccls.com.np	021-530316  021-524896	4.21
11	Butwal Dhago Karkhana Ltd.	14/11/1988	City Office: POB 3550, Anamnagar, Ktm. Head Office: POB 37, Ramnagar, Butwal	4251295, 4252537 071-540963	2.21
12	Gorakhkali Rubber Udhog Ltd.	08/03/1991	Office: POB 1700, Kalimati, Ktm. Fact.: Majuba, Deurali, Gorkha E-mail : gral@wlink.com.np	4271102, 4274537 065-540069	1.02
13	Jyoti Spinning Mills Ltd. Ordinary Share Preference Share	27/09/1991 27/09/1991	GPO Box 133, Jyoti Bhawan, Kantipath, Ktm.  Fact. Jyoti Firm, POB: 1, Parwanipur, Birgunj E-mail : jsml@jyoti.mos.com.np	4227517, 4225490 051- 539405/7/8	4.25
14	Bottlers Nepal (Terai) Ltd.	07/11/1991	Office: POB 2253 BID Balaju, Ktm.. Fact: POB: 20, Bharatpur-9, Chitwan	4350602 056-520416, 520031	6.68
15	Arun Vanaspati Udyog Ltd.	16/12/1991	Office : GPO 363, Golchha House, Ganabahal, Ktm. Fact: POB 24, 25 Duhabi, Sunsari M.D.'s Office : Golchha House, Main Road, Biratnagar E-mail : ovul@cctl.com.np E-mail : golcha@cctl.com.np	4250001, 4221101  025-540049-51 021-525310, 525081	1.04
16	Sayapatri Colour Lab. Co. Ltd.	03/09/1992	Ward No. 1, Jamal, Ktm.	4227692	.08
17	Harisiddhi Brick & Tiles Factory Ltd.	05/05/1994	City Office : POB 476, Kamaladi, Ktm.	4241344, 4248327 4222637,	2.89

			Fact. : Harisiddhi, Lalitpur E-mail : nbgroupp@mos.com.np	4240698 5521451, 5521178	
18	Nepal Lever Ltd.	22/09/1994	Corporate Off: POB 7765 Heritage Plaza, Ktm.  Fact.: POB 11, Hetauda, Makawanpur E-mail : nilktm@mos.com.np	4253351, 4269218  057-521632, 521958	2.10
19	Khadhya Udyog Ltd.	25/11/1994	City Office :POB 483, Kalimati, Ktm. Fact : POB 6, Hetauda Industrial District E-mail : noonkath@mos.com.np	4271395 057-520127, 520315	.87
20	Birat Shoe Ltd. Ordinary Share Preference Share	25/10/1994 25/10/1994	Head Office : POB 1887, Dillibazar, Ktm. Fact.: Budhanilkantha, Ktm.	4418429 4371666, 4290666	0.75
21	Nepal Med Ltd.	17/01/1995	POB 6943, Ktm.	4214083	0.32
22	Ace Laboratories (Nepal) Ltd.	21/03/1995	City Office : POB 4250, Dhakhwa Building (First Floor), Dharmapath, Ktm. Fact. : POB 110, Simara, Bara, Birgunj E-mail : acelabnp@Wlink.com.np	4252908, 4241501, 4230681 4230681 053-520229	2.20
23	Himgiri Textile Industries Ltd.	28/05/1995	Registered Office: Ward No. 7, Birgunj Cont. Off. POB.2441, Ranjana Galli, Ktm. Birgunj Office: POB, 32, Adersa agar,Birgunj Fact.: Parwanipur, Parsa	4250015, 4230429 4421184, 4421884 051-522799	1.56
24	Shree Bhrikuti Pulp and Paper Nepal Ltd.	01/06/1997	Head Office: POB 3259, Naya Banewor, Ktm. Fact.: Gaidakot, Nawalparasi Email: bhrikuti@mos.com.np	4486155, 4471030 056-520230, 520266	2.32
25	Fleur Himalayan Ltd.	03/09/1997	Mkt. Office : Gha -3, Pulchowk, Latitpur Fact.: Adarsha Nagar, Birgunj E-mail :	5529436, 5529059 051-521097	0.36

			nplmkt@Wlink.com.np		
26	Leatherage Bansbari Tannery and Shoe Factory Ltd.	01/04/1998	Fact.: Ward No. 5, Khirindpur, Chanauta, Krishna Nagar	076-520166	1.01
27	Sri Ram Sugar Mills Ltd. Ordinary Share Debenture	18/04/1999 18/04/1999	Registered Off: Golchha House, Ganabahal, Ktm. Fact: Mahammadpur (Garuda), Rautahat District E-mail : sriram@golchha.com	4250001, 4250004 055-529506	.53
28	Nepal Bitumen and Barrel Udhog Ltd.	10/05/1999	City Office: POB 4508, Pulchok, Lalitpur Fact.: Amlekhgunj, Bara E-mail: bitumin@panchakanya.mos.com.np	5536311, 5520343 053- 529103	1.24
29	Himalayan Distillery Ltd.	21/03/2003	POB 423 Jawalakhel, Lalitpur Email: jd@ecomail.com.np	5522010, 5538239, 5538875	10.57
<b>Trading Company</b>					
1	Bishal Bazar Co. Ltd.	08/11/1984	POB 4565, Sukrapath, Ktm.	4242185, 4222423 4228343	1.50
2	Salt Trading Corporation Ltd.	08/11/1984	POB 483, Kalimati, Ktm. Email: noonkath@mos.com.np saltkath@mos.com.np	4270315, 4271208, 4271014	2.58
3	Nepal United Co. Ltd.	15/06/1988	POB 1389, 6/286, Ganabahal, Ktm.	4249453, 4250009	0.78
4	Plastic Trading Co. Ltd.	25/07/1989	POB 4871, Teku, Ktm.	4262258	1.1
5	Nepal Byapar Co. ( Koshi ) Ltd.	14/09/1989	POB 135, Ward No. 17, Biratnagar, Morang	021-525119, 525289	1.11
6	Nepal Byapar Bikash Co. Ltd.	04/09/1990	POB 2714, Kuleshwor, Ktm.	4283007, 4224514	0.93
7	Nepal Trading Ltd.	18/12/1992	POB 7146, Chakra Path, Sanepa, Lalitpur	5522941	2.34
8	Nepal Welfare Company Ltd.	12/12/1994	POB 9478, Maitidevi, Ktm.	4429406	0.56
<b>OTHERS</b>					
1	National Productivity & Economic Development Centre Ltd.	18/06/1989	POB 1318, BID Balaju, Ktm. E-mail : npedc@Wlink.com.np	4350522, 4350566 4350567	2.69

2	Necon Air Ltd. Ordinary Share Preference Share	09/05/1994 09/05/1994	POB 10038, Neco Complex Building 3 <sup>rd</sup> Floor, Baneswor, Ktm. E-mail : info@necon.mos.com.np	4473860	3.56
3	Nepal Film Development Co. Ltd.	15/07/1996	GPO 549, Balaju Industrial Estate, Ktm. E-mail : nfdc@complex.mos.com. np	4350113, 4350947	2.56
4	National Hydro Power Co. Ltd.	02/07/2003	POB 6518, Kathmandu  Email: nspc@info.com.np	4437359, 4437362	0.2155
5	Butwal Power Company Ltd.	28/12/2004	POB 11728, Kathmandu	5535595, 5538404	2.2
6	Chilime Hydropower Ltd.	(2062/2/17)	Kalikasthan, Kathmandu POB 25210 Email: chpol@wlink.com.np	4417434	5.09
7	Telecom Doorsachar Co. Ltd.	2065/04/26	Central Office Bhadrakali Plaza, Kathmandu Web: www.ntc.net.np		1.78