DETERMINANTS OF INITIAL PUBLIC OFFERING (IPO) UNDERPRICING IN NEPAL

A Dissertation submitted to the Office the Dean, Faculty of Management in partial fulfilment of the requirements for the Master of Business Studies (MBS)

By

Rishi Ram Parajuli

Campus Roll No: 257/076

Exam Symbol No.: 23865/20

T.U. Regd. No.: 7-2-151-70-2015

Shanker Dev Campus

Finance Group

Kathmandu, Nepal

December, 2024

CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"Determinants of Initial Public Offering (IPO) Under-pricing in Nepal"** The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

……………………….

Rishi Ram Parajuli

Date: -

REPORT OF RESEARCH COMMITTEE

Rishi Ram Parajuli has defended research proposal entitled **"Determinants of Initial Public Offering (IPO) Under-pricing in Nepal"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Hiranya Niroula and submit the thesis for evaluation and viva voce examination.

Signature: …………………………

Hiranya Niroula

Dissertation supervisor

Dissertation proposal Defended Date:

Dissertation Submitted Date:

Asso. Prof. Dr Sajeeb Kumar Shrestha

Head of Research Committee

Signature: ………………………….

Dissertation viva-voce Date:

APPROVAL - SHEET

We, the undersigned have examined the thesis entitled **"Determinants of Initial Public Offering (IPO) Under-pricing in Nepal"** presented by Rishi Ram Parajuli, a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the viva voce examination of the candidate. We hereby certify that the thesis acceptable for the award of degree.

…………………………….
Hiranya Niroula
Dissertation Supervisor

………………………………
Internal Expert

………………………………
Internal Expert

…………………………….
External Expert

…………………………….
Asso. Prof. Dr. Sajeeb Kumar Shrestha
Chairperson Research Committee

………………………
Joginder Goet
Acting Campus Chief

ACKNOWLEDGEMENTS

TABLE OF CONTENTS

Page No.

LIST OF TABLES

LIST OF FIGURE

ABBREVIATIONS

AGM: Annual General Meeting

AM: Arithmetic mean

BOD: Board of Director

CP: Corporate Profile

CR: Current Ratio

DER: Debt to Equity Ratio

EPS: Earnings Per Share

FP: Financial Position

FY: Fiscal Year

GW: Goodwill

IPO: Initial Public Offering

LOI: Lack of Other Investment

NEPSE: Nepal Stock Exchange

SE: Stock Exchange

SEBON: Security Exchange Board of Nepal

SOP: Share Offering Percentage

SP: Sector Performance

UP: Underpricing in IPO

ABSTRACT

This study investigate the determinants of initial public offering (IPO) underpricing in Nepal. The objectives of this study includes to examine the perception of investors towards IPO in Nepal, to analyze the relationship between different factors on underpricing in IPO and to examine the impact of different factors on underpricing in IPO. In this analysis, goodwill, corporate profile, financial position, lack of other investment and sector performance are the independent variables and underpricing in IPO (UP) is dependent variable. The study employ mean, standard deviation, correlation and multiple regression analysis were used to present data and draw conclusion. The major finding is that the descriptive statistics reveal that factors such as goodwill, corporate profile, financial position, and sector performance all play a critical role in determining the degree of underpricing in IPOs. In comparing the correlations, Corporate Profile (CP) shows the strongest relationship with Underpricing (UP), followed closely by Financial Position (FP) and Goodwill (GW). This suggests that firms with a stronger corporate image and financial health are more likely to engage in IPO underpricing, potentially as a strategic move to attract investors or oversubscribe the IPO. The high correlation between Financial Position (FP) and Sector Performance (SP) reflects the importance of industry conditions in determining a firm's financial health. In regression analysis, Sector Performance, Lack of Other Investment, Goodwill, Corporate Profile, and Financial Position, collectively have a significant effect on IPO underpricing. The regression model explains about 31.1percent of the variance in underpricing, which is statistically significant as evidenced by the high F-statistic and a p-value of 0.000. However, the relatively large residual sum of squares and mean square indicate that a considerable portion of the variance in IPO underpricing remains unexplained, suggesting the need for further exploration of additional factors or a more nuanced model to capture the complexity of IPO pricing dynamics in Nepal.

Keywords: Goodwill, Corporate profile, Financial Position, Lack of other Investment, Sector Performance and Underpricing in IPO.

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Initial Public Offering (IPO) Underpricing is a phenomenon where the offer price of a stock during its IPO is set lower than the market price upon listing. Investors who buy stocks at the offer price and sell them shortly after listing often experience significant gains, raising questions about the reasons behind IPO underpricing and its impact on financial markets. IPO underpricing has been widely studied in global markets, with its determinants differing based on economic, regulatory, and market-specific factors. In Nepal, the capital market has witnessed similar patterns, where IPOs are frequently underpriced, leading to substantial first-day returns. Understanding the factors driving this phenomenon is essential, as it affects not only investors and issuers but also the overall functioning and efficiency of the capital market.

Another critical determinant of IPO underpricing in Nepal is regulatory influence. The Securities Board of Nepal (SEBON), which regulates IPO pricing and approval, plays an important role in shaping the pricing dynamics of IPOs. SEBON's fixed pricing mechanism, which limits firms' ability to adjust IPO prices in real-time, has been identified as a factor contributing to underpricing. This regulatory constraint, combined with lengthy approval processes, often results in firms being unable to set offer prices that reflect current market conditions. As noted regulatory bottlenecks in emerging markets can exacerbate IPO underpricing, as issuers are forced to offer shares at a discount to ensure the success of the offering. In the Nepalese market, where regulatory processes are still developing, such inefficiencies contribute to the prevalence of underpricing (Aggarwal et al., 2023 and Ghosh, 2021).

Cultural factors also play a role in shaping investor behavior in Nepal. Nepalese investors tend to follow collective decision-making processes, relying heavily on word-of-mouth recommendations from family, friends, and social networks. Underpricing in the Nepalese market is primarily driven by high levels of demand for new issues and the limited availability of shares, resulting in substantial first-day returns (Shrestha, 2018). Similarly, concluded that market sentiment and investor over-optimism play a significant role in driving IPO

underpricing, with companies deliberately setting lower offer prices to ensure oversubscription (Poudel, 2020).

Market demand and supply factors also play a role in determining IPO underpricing. In Nepal, the relatively small size of the capital market, combined with a limited number of listed companies, leads to heightened demand for IPO shares. Studies conducted by indicate that the oversubscription of IPOs is a significant factor contributing to the underpricing in Nepal. When demand for shares exceeds supply, underwriters may set a lower offer price to accommodate a larger pool of investors, thus increasing the likelihood of underpricing. The constrained investment options available in Nepal, coupled with high liquidity in the banking system, further exacerbate this demand-supply imbalance, (Poudel, 2020 and Shrestha, 2018)

The regulatory environment also influences IPO underpricing. In Nepal, the Securities Board of Nepal (SEBON) plays a critical role in the oversight and regulation of the IPO process. SEBON has introduced various measures to ensure transparency and fairness in the IPO process, including guidelines for pricing and disclosure requirements. However, the effectiveness of these regulations has been questioned in multiple studies which argue that weak enforcement of disclosure norms, coupled with limited oversight, has allowed companies to underprice their IPOs without facing significant scrutiny (Joshi, 2019; Adhikari, 2017).

Future research should focus on examining the impact of corporate governance reforms and the role of institutional investors in mitigating IPO underpricing. Additionally, the development of financial literacy programs aimed at educating retail investors could help reduce the reliance on underpricing as a means of attracting investment. Ultimately, reducing IPO underpricing will require a coordinated effort from regulators, issuers, and market participants to address the structural and behavioral factors that drive this phenomenon. Investor interest in Nepal's equity market, namely in the shares made available through initial public offerings (IPOs), has grown. The present surge in interest has been attributed to an occurrence known as over-subscription, in which there is a greater demand than supply for recently issued securities (Upadhyay & Tripathi, 2016).

Financial economists and academics find it difficult to comprehend the variables affecting stock investments and returns. The complexities surrounding these events have led to a development in the study of portfolio theories and investment management. These theories

investigate the intricate interplay of several elements that influence the process of making investment decisions. The aforementioned components encompass a variety of attributes unique to every organization in addition to more general market variables. Together, these factors have an impact on how analysts and investors make decisions (Panda & Tripathy, 2021).

One of the most significant determinants of IPO underpricing in Nepal is market sentiment. Studies by (Derrien, 2023) and (Aggarwal, Leal, and Hernandez, 1993) highlight the role of investor demand and sentiment in driving underpricing. Nepal's stock market is heavily influenced by retail investors, many of whom are driven by short-term gains rather than long-term value. As documented by (Ghosh, 2021) in the context of the Indian market, such speculative behavior often leads to inflated demand for newly issued shares, resulting in higher first-day returns. Similarly, (Loughran and Ritter ,2018) argue that when market sentiment is positive, the level of underpricing increases, as investors are willing to pay a premium for shares on the first trading day. This trend is observable in Nepal, where retail investors dominate trading activity and tend to exhibit herd behavior, leading to a surge in demand for IPO shares and subsequent price increases post-listing (Bandgar, 2020).

Firm-specific characteristics also play a crucial role in determining the extent of IPO underpricing. Argue that firms with greater ex-ante uncertainty about their value are more likely to underprice their shares to compensate for the risks faced by investors. This finding is supported by empirical evidence from emerging markets, where companies with limited track records and less financial transparency exhibit higher levels of underpricing. In contrast, larger and more established firms with a solid financial background tend to exhibit lower underpricing, as they inspire greater confidence among investors (Loughran & Ritter, 2018).

IPO underpricing in Nepal is influenced by a range of factors, including information asymmetry, market sentiment, firm-specific characteristics, regulatory constraints, and macroeconomic conditions. The unique characteristics of Nepal's emerging capital market, particularly the dominance of retail investors and the evolving regulatory framework, contribute to the higher levels of underpricing observed compared to more developed markets. As Rock (1986) and Welch (1989) have shown, the role of information asymmetry and signaling is especially pronounced in markets like Nepal, where investors have limited access

to reliable information. Meanwhile, the influence of market sentiment, as outlined by plays a key role in driving demand for IPOs, resulting in significant first-day returns. Finally, regulatory factors, such as those imposed by SEBON, and broader macroeconomic conditions further shape the pricing dynamics of IPOs in Nepal. As Nepal's capital market continues to evolve, understanding these determinants will be critical for issuers, investors, and policymakers alike in minimizing inefficiencies and promoting a more robust market for IPOs, (Derrien, 2023 and Ghosh, 2021).

In conclusion, IPO underpricing in Nepal is a multifaceted phenomenon influenced by a combination of information asymmetry, market demand-supply dynamics, regulatory factors, and behavioral biases. The underdeveloped nature of Nepal's capital markets, coupled with the dominance of retail investors and limited access to reliable financial information, exacerbates these factors, leading to significant underpricing. While efforts by regulators such as SEBON to enhance transparency and disclosure are commendable, further reforms are necessary to address the underlying causes of underpricing and improve the overall efficiency of the capital market.

1.2 Problem Statement

Initial Public Offering (IPO) underpricing remains a significant area of research in financial markets, particularly in emerging economies like Nepal. IPO underpricing refers to the phenomenon where the offering price of a stock during an IPO is set below its market price on the first trading day. This discrepancy between the initial offering price and the subsequent market price creates a substantial first-day return for investors, making IPO underpricing a key concern for issuers, investors, and regulators. In the context of Nepal, IPO underpricing has been consistently observed in the securities market, raising questions about the factors driving this phenomenon and its implications for the efficiency of capital markets in the country.

One of the major determinants of IPO underpricing identified in global studies is information asymmetry. According to Rock's (1986) "Winner's Curse" hypothesis, investors face uncertainty regarding the true value of an IPO due to information gaps between the issuer and potential investors. In less developed capital markets like Nepal, this asymmetry is exacerbated due to a lack of comprehensive disclosures and transparency by firms going public. As a result, issuers tend to underprice their offerings to attract both informed and uninformed investors.

Similarly, Loughran and Ritter (2018) argue that underpricing is used as a tool to compensate for the risk borne by investors due to uncertainties surrounding the true value of the company and the volatility of the market.

In Nepal, another key determinant of IPO underpricing is market sentiment and investor demand. Several studies in emerging markets, such as that by Sherman (2005), highlight how investor sentiment during the time of issuance plays a significant role in the degree of underpricing. When market conditions are favorable, and there is high demand for shares, underpricing tends to be more pronounced. In Nepal, IPOs are often oversubscribed, reflecting a high demand from retail investors. This trend is driven by factors such as the lack of alternative investment opportunities and low financial literacy, where retail investors perceive IPOs as a guaranteed source of profit. Also notes that the phenomenon of oversubscription in the Nepalese stock market has contributed to the high levels of underpricing observed in many offerings, as issuers aim to attract a broad investor base by setting the offer price lower than the expected market value (Shrestha, 2018).

The determinants of Initial Public Offering (IPO) underpricing in Nepal face several issues that stem from both market inefficiencies and the regulatory environment. One key issue is the information asymmetry between issuers and investors. Companies often have more information about their value than investors, leading to underpricing as a way to attract investment by lowering perceived risk. This is exacerbated by the lack of robust financial reporting and transparency among Nepalese firms, making it difficult for investors to accurately assess the true value of the companies going public. Additionally, the relatively small and less developed nature of the Nepalese capital market creates volatility, which may further contribute to underpricing as companies seek to ensure their IPOs are fully subscribed.

Another issue is the regulatory framework surrounding IPOs in Nepal, which can be inconsistent or overly rigid. The Securities Board of Nepal (SEBON) imposes various guidelines, but these may not always keep pace with the dynamic nature of the market. Regulatory delays and bureaucratic hurdles can also affect the timing and pricing of IPOs, potentially leading to underpricing to offset the uncertainties that arise from these factors. Furthermore, the investor base in Nepal is often dominated by retail investors with limited

financial knowledge, which can skew demand and lead companies to price their shares conservatively to avoid the risk of failure in the public offering.

IPO underpricing in Nepal is a multifaceted phenomenon influenced by a combination of market characteristics, firm-specific factors, regulatory inefficiencies, underwriter expertise, and macroeconomic conditions. Understanding the determinants of IPO underpricing is crucial for improving market efficiency, ensuring fair pricing mechanisms, and fostering investor confidence in the Nepalese capital market. Future research must focus on addressing these determinants, with a specific emphasis on regulatory reforms and improving the transparency and competitiveness of the IPO process in Nepal. The main problems of this study:

i.   What is the perception of investors towards IPO in Nepal?
ii.   Is there any relationship between different factors (Goodwill, Corporate Profile, Financial Position, Lack of other investment and Sector performance) on underpricing in IPO?
iii. What are the impact of different factors (Goodwill, Corporate Profile, Financial Position, Lack of other investment and Sector performance) on underpricing in IPO?

1.3 Objectives of the Study

The purpose of this research is to identify the determinants of Initial Public Offering (IPO) underpricing in Nepal. The main objectives of the study are as follows:

i.   To examine the perception of investors towards IPO in Nepal.
ii.   To analyze the relationship between different factors on underpricing in IPO.
iii. To examine the impact of different factors on underpricing in IPO

1.4 Rationale of the Study

The rationale for studying the determinants of Initial Public Offering (IPO) underpricing in Nepal is driven by the unique characteristics of the Nepalese capital market, which is still in its developing phase. In such markets, IPO underpricing tends to be more prevalent due to a range of factors like market inefficiency, information asymmetry, and regulatory frameworks.

Understanding these factors is crucial as underpricing has significant implications for both the issuing firms and investors. For companies, underpricing may represent a cost, as they could potentially raise less capital than their true market value. For investors, it represents an opportunity for short-term gains, but it also adds volatility and unpredictability to the market. Thus, comprehensively studying these determinants provides insights into how the Nepalese market functions and how it compares to global capital markets.

A further rationale lies in the need to provide empirical evidence specific to the Nepalese context. Much of the existing research on IPO underpricing is based on data from developed markets, where capital markets are more mature, and the institutional environment is different. Nepal's market, by contrast, is characterized by less liquidity, fewer institutional investors, and lower levels of financial literacy among retail investors. As a result, theories and models developed in other markets may not fully explain the extent and causes of IPO underpricing in Nepal. By investigating the specific determinants in Nepal, the study aims to fill this gap in the literature and provide valuable insights that are more applicable to policymakers and market participants in the country.

Additionally, the study of IPO underpricing in Nepal is important for improving the efficiency of the capital market. Underpricing can distort the allocation of capital and undermine investor confidence, especially when it is excessive. By identifying the key determinants, this research can offer recommendations to policymakers and regulatory bodies such as the Securities Board of Nepal (SEBON) on how to reduce the extent of underpricing. This, in turn, would lead to a more efficient market where prices more accurately reflect the true value of companies, thus fostering greater investor confidence and encouraging more companies to go public.

Finally, the study is also relevant for improving the investment strategies of both institutional and retail investors. By understanding the causes of IPO underpricing, investors can better navigate the risks and opportunities associated with newly listed stocks. For retail investors in particular, who form a large portion of Nepal's market, such knowledge can help them make more informed decisions, reducing the speculative nature of their investments. For institutional investors, this understanding can lead to more strategic allocation of resources, thereby contributing to the overall stability and growth of Nepal's capital market.

1.5 Limitation of the Study

Every study has its own limitations, so it was also not be free from that. This study was conducted for the partial fulfilment of master Degree in Business (MBS), so it possesses some limitations of its own kind:

i.   Many factors affect the subject of initial public offering through it is not possible to study all factors, this study have limited to the study of some factors such as Goodwill, Corporate Profile, Financial Position, Lack of other investment and Sector performance.

ii.   Only Katmandu valley is considered for the study which may not represent the whole demographic territory of Nepal.

iii. Sample size of 350 has been used in collecting primary data to present the results.

iv.   Basically, data are taken only from primary sources through questionnaire, therefore reliability of data depends on the respondent.

v.   Statistical tools i.e. (descriptive statistics, correlation, ANOVA and multiple regression analysis only) were used to present data.

CHAPTER- II

LITERATURE REVIEW

A literature review is a critical assessment and synthesis of existing research on a particular topic. It involves systematically identifying, evaluating, and summarizing key studies, theories, and findings from relevant academic sources, such as books, journal articles, and dissertations. The purpose of a literature review is to provide a comprehensive overview of the current state of knowledge, highlight gaps or inconsistencies in the literature, and establish a foundation for new research by situating it within the broader academic context. It also helps to identify patterns, trends, and areas requiring further exploration while ensuring that the researcher's work is informed by and contributes to the existing body of knowledge.

2.1 Conceptual Review

Initial Public Offering (IPO) Underpricing is a phenomenon where the offer price of a stock during its IPO is set lower than the market price upon listing. It results in substantial gains for investors who purchase the stock at the offer price and sell it shortly after listing, raising questions about the rationale behind underpricing and its implications on financial markets. IPO underpricing has been extensively studied across global markets, and its determinants vary significantly depending on the economic, regulatory, and market-specific factors. In Nepal, capital market has seen similar trends, where IPOs are often underpriced, resulting in significant first-day returns. Understanding the determinants of this phenomenon is crucial, as it impacts not only the investors and issuers but also the overall efficiency of the capital market.

Market demand and supply factors also play a role in determining IPO underpricing. In Nepal, the relatively small size of the capital market, combined with a limited number of listed companies, leads to heightened demand for IPO shares. Studies conducted by indicate that the oversubscription of IPOs is a significant factor contributing to the underpricing in Nepal. When demand for shares exceeds supply, underwriters may set a lower offer price to accommodate a larger pool of investors, thus increasing the likelihood of underpricing. The constrained investment options available in Nepal, coupled with high liquidity in the banking system, further exacerbate this demand-supply imbalance (Poudel, 2020 and Shrestha, 2018).

Cultural factors also play a role in shaping investor behavior in Nepal. As noted by Nepalese investors tend to follow collective decision-making processes, relying heavily on word-of-mouth recommendations from family, friends, and social networks. Underpricing in the Nepalese market is primarily driven by high levels of demand for new issues and the limited availability of shares, resulting in substantial first-day returns. Similarly, concluded that market sentiment and investor over-optimism play a significant role in driving IPO underpricing, with companies deliberately setting lower offer prices to ensure oversubscription (Poudel, 2020).

The regulatory environment also influences IPO underpricing. In Nepal, the Securities Board of Nepal (SEBON) plays a critical role in the oversight and regulation of the IPO process. SEBON has introduced various measures to ensure transparency and fairness in the IPO process, including guidelines for pricing and disclosure requirements. However, the effectiveness of these regulations has been questioned in multiple studies, which argue that weak enforcement of disclosure norms, coupled with limited oversight, has allowed companies to underprice their IPOs without facing significant scrutiny (Joshi, 2019).

Future research should focus on examining the impact of corporate governance reforms and the role of institutional investors in mitigating IPO underpricing. Additionally, the development of financial literacy programs aimed at educating retail investors could help reduce the reliance on underpricing as a means of attracting investment. Ultimately, reducing IPO underpricing will require a coordinated effort from regulators, issuers, and market participants to address the structural and behavioral factors that drive this phenomenon. Investor interest in Nepal's equity market, namely in the shares made available through initial public offerings (IPOs), has grown. The present surge in interest has been attributed to an occurrence known as over-subscription, in which there is a greater demand than supply for recently issued securities (Upadhyay & Tripathi, 2016).

In conclusion, IPO underpricing in Nepal is a multifaceted phenomenon influenced by a combination of information asymmetry, market demand-supply dynamics, regulatory factors, and behavioral biases. The underdeveloped nature of Nepal's capital markets, coupled with the dominance of retail investors and limited access to reliable financial information, exacerbates these factors, leading to significant underpricing. While efforts by regulators such as SEBON to enhance transparency and disclosure are commendable, further reforms are necessary to

address the underlying causes of underpricing and improve the overall efficiency of the capital market.

2.2 Theoretical Review

A theoretical review examines and evaluates the key theories, models, and frameworks that are relevant to a specific research topic. It focuses on analyzing how different theoretical perspectives have been developed, tested, and applied in various studies, highlighting their assumptions, strengths, and limitations. The goal of a theoretical review is to provide a deeper understanding of the conceptual foundations underlying a field of study, enabling researchers to identify the most appropriate theoretical approach for their own work. By comparing and contrasting various theories, the review helps to clarify which frameworks best explain certain phenomena and where gaps in the theoretical understanding still exist, paving the way for future theoretical developments or refinements.

2.2.1 Information Asymmetry Theory

Information Asymmetry Theory is one of the most widely studied explanations for the underpricing of Initial Public Offerings (IPOs). The theory is rooted in the concept of information imbalance between the different participants in the IPO process, particularly the issuing company, the underwriters, and the investors. The key premise is that the company and its insiders possess superior information about the firm's value, prospects, and risks compared to outside investors. Due to this imbalance, investors are uncertain about the true value of the firm, and underpricing serves as a mechanism to compensate for this uncertainty, encouraging them to participate in the IPO (Rock, 1986).

One of the seminal contributions to the Information Asymmetry Theory is by (Rock, 1986), who introduced the "winner's curse" hypothesis. According to Rock, IPO investors can be divided into two groups: informed and uninformed. Informed investors, such as institutional buyers, have access to better information about the company's prospects and are more likely to participate when the issue is underpriced. In contrast, uninformed investors lack such information and risk overpaying when informed investors avoid the issue due to overpricing. This "winner's curse" phenomenon leads uninformed investors to discount their willingness to participate, which compels issuers to underprice the IPO to attract them and ensure the issue

is fully subscribed (Beatty & Ritter, 1986). As a result, underpricing becomes a necessary tool to mitigate adverse selection, where the uninformed investors could be disproportionately burdened with overvalued stocks (Allen & Faulhaber, 1989).

Further, (Baron, 1982) adds another dimension to the Information Asymmetry Theory by highlighting the role of underwriters. Underwriters are often better informed than issuing firms regarding market demand and investor preferences. To reduce the information gap between the issuer and investors, the issuer delegates pricing and placement responsibilities to underwriters. However, to manage the risk of not fully subscribing the IPO and to maintain their reputation, underwriters tend to underprice the stock, ensuring that they can sell all the shares without facing a failed offering (Carter & Manaster, 1990).

The theory is also supported by (Ljungqvist, 2007), who emphasizes that underpricing serves as a signal to investors about the issuer's quality. Companies with superior prospects underprice their IPOs to compensate investors for the risks associated with asymmetric information and to signal long-term growth potential. This aligns with the Signaling Theory, which overlaps with the Information Asymmetry Theory in explaining that underpricing can be used to communicate favorable information about future value (Welch, 1989). When an IPO is underpriced, it generates immediate demand in the aftermarket, creating positive momentum and sending a signal that the company is likely to perform well in the future (Ibbotson, 1975).

In conclusion, the Information Asymmetry Theory provides a robust framework for understanding IPO underpricing, particularly in cases where investors are uncertain about the value of the firm. By compensating for this uncertainty, firms use underpricing as a tool to attract investors and ensure the success of the IPO. This theory highlights the role of information gaps between issuers and investors, the behavior of informed and uninformed investors, and the strategies adopted by underwriters to minimize the risk of failed offerings. However, despite its explanatory power, other factors such as market sentiment, regulatory conditions, and the actions of underwriters also contribute to underpricing, and these factors should be considered alongside information asymmetry to fully understand IPO pricing dynamics.

2.2.2 Signaling Theory

Signaling Theory is widely used to explain the phenomenon of IPO underpricing, positing that companies deliberately set their IPO price below market value to signal quality and long-term potential to investors. This theory is rooted in Spence's (1973) signaling framework, where one party (the company) conveys important information to another party (investors) through specific actions. In the context of IPOs, underpricing serves as a signal of the firm's confidence in its future growth prospects. Firms with superior future earnings potential are more likely to underprice their shares, expecting to recoup the short-term loss through subsequent stock offerings at a higher price or increased market valuation (Allen & Faulhaber, 1989).

A key reason for signaling through underpricing is the uncertainty and information asymmetry present during an IPO, where outside investors lack detailed knowledge about the firm's intrinsic value. Underpricing acts as a form of insurance for investors, reducing the perceived risk associated with investing in a company they know little about (Welch, 1989). This strategy is particularly relevant for younger firms or those in high-tech sectors, where the company's value is tied heavily to future performance rather than current earnings (Ibbotson, 1975). By signaling confidence through underpricing, firms distinguish themselves from lower-quality companies that may be unable to afford such a strategy (Grinblatt & Hwang, 1989). Underpricing is also seen as a tool for generating aftermarket interest. Positive initial trading performance creates market momentum and attracts further investor attention, contributing to long-term price appreciation (Jegadeesh, Weinstein, & Welch, 1993). In this way, underpricing can serve as both a direct and indirect signal of quality, enhancing the firm's reputation and establishing trust in the market (Chemmanur, 1993).

However, critics argue that the signaling effect may not fully account for all cases of underpricing. Loughran and Ritter (2002) contend that factors such as market conditions and investor sentiment may also play a role, and that not all firms engage in underpricing for signaling purposes. Despite these limitations, signaling remains a fundamental aspect of IPO pricing behavior, particularly for firms seeking to build long-term credibility in the capital markets.

2.2.3 Market Demand and Investor Sentiment

Market Demand and Investor Sentiment theory suggests that IPO underpricing can be significantly influenced by prevailing market conditions and investor sentiment at the time of the offering. This theory posits that issuers and underwriters deliberately underprice IPOs to create excess demand, often referred to as a "pop" in the stock price on the first trading day, which signals success and drives investor enthusiasm (Ritter & Welch, 2002). When investor sentiment is high, especially in "hot" markets where demand for new issues is strong, underpricing serves as a tool to stimulate even greater demand, resulting in oversubscription and rapid aftermarket price increases. This creates a perception of success, benefiting both the issuer's reputation and the underwriter's future business (Ljungqvist, Nanda, & Singh, 2006).

Loughran and Ritter (2002) explain that investor sentiment, especially retail investor enthusiasm, plays a crucial role in IPO pricing. In periods of optimistic market sentiment, IPOs tend to be more underpriced as issuers and underwriters capitalize on bullish investor behavior. When markets are overheated, underpricing is used to exploit the excessive optimism, encouraging greater participation from investors who anticipate quick short-term profits. (Derrien, 2005) emphasizes that in such environments, the IPO price may be set lower than the true value of the firm, not solely to mitigate information asymmetry but to align with investor psychology and create excitement around the offering.

Underpricing in this context can also be explained by the prospect theory of (Loughran and Ritter, 2002), which suggests that issuers may not mind "leaving money on the table" if their personal wealth increases due to strong demand and a rising post-IPO share price. Moreover, underwriters may prefer to price conservatively, especially in times of strong investor sentiment, to ensure smooth trading and minimize the risk of a price drop post-IPO (Benveniste & Spindt, 1989).

Empirical studies confirm the importance of investor sentiment in IPO pricing. Cornelli, Goldreich, and Ljungqvist (2006) find that in periods of high investor optimism, IPOs tend to exhibit greater underpricing. Additionally, (Derrien, 2005) points out that investor sentiment may amplify the effect of underpricing, leading to larger first-day returns in bull markets. In contrast, when market sentiment is negative, underpricing is less pronounced as issuers struggle to generate demand. This demonstrates that market demand and investor sentiment

are crucial factors influencing IPO underpricing, with pricing strategies tailored to capitalize on or mitigate the effects of investor psychology.

2.2.4 Ownership Dispersion Theory

Ownership Dispersion Theory offers a distinct perspective on IPO underpricing, suggesting that companies may deliberately underprice their shares to ensure a broad distribution of ownership after going public. According to this theory, underpricing serves as a strategic tool for issuers to attract a large number of investors, which helps achieve two key objectives: enhancing liquidity in the secondary market and reducing the risk of concentrated ownership (Brennan & Franks, 1997). A widely dispersed ownership structure improves the stock's liquidity, making it easier to trade shares and maintaining price stability. This, in turn, can enhance the firm's reputation in capital markets and foster long-term growth opportunities (Booth & Chua, 1996).

Underpricing creates excess demand for the shares, which leads to oversubscription of the IPO. In such cases, underwriters allocate the shares more broadly among investors, preventing any one party from accumulating a significant controlling interest in the firm. By doing so, the issuer mitigates the risks associated with concentrated ownership, such as the possibility of hostile takeovers or control by a small group of shareholders with divergent interests from the broader investor base (Brennan & Franks, 1997). This is especially important for firms that wish to maintain managerial control or avoid the undue influence of large, institutional investors. Broad ownership also diffuses the voting power of individual shareholders, giving management more flexibility in strategic decision-making without the immediate pressure of a concentrated ownership group (Stoughton & Zechner, 1998). In addition to governance considerations, the Ownership Dispersion Theory posits that underpricing enhances the liquidity of a firm's stock, which is crucial for long-term shareholder value. Liquidity is defined as the ease with which shares can be bought or sold in the market without significantly affecting the stock price. By ensuring a wide distribution of shares, underpricing creates a more active market for the company's stock, increasing trading volumes and making it easier for shareholders to enter and exit positions (Booth & Chua, 1996). This liquidity premium can lead to higher valuations in the long run as investors are typically willing to pay more for stocks that are easier to trade (Amihud & Mendelson, 1986).

Furthermore, (Stoughton and Zechner, 1998) suggest that ownership dispersion can prevent block holders from exerting control, which may help management pursue long-term strategies without being disrupted by short-term demands from large shareholders. This aligns with the interests of both the management and smaller, individual shareholders, fostering a stable and cooperative governance environment. By reducing the influence of block holders, underpricing also lowers the likelihood of future conflicts between management and shareholders regarding key corporate decisions, such as mergers, acquisitions, or restructuring efforts (Brennan & Franks, 1997).

Empirical studies provide support for the Ownership Dispersion Theory. (Brennan and Franks, 1997) conducted an extensive analysis of UK IPOs and found that firms engaging in significant underpricing experienced broader post-IPO ownership structures compared to those that were less underpriced. Their study also revealed that these firms were less likely to face hostile takeover attempts, supporting the idea that dispersed ownership helps protect management from the pressures of concentrated shareholder interests. Additionally, (Booth and Chua, 1996)argue that ownership dispersion leads to greater liquidity, making the stock more attractive to institutional investors over time, even if these institutions initially avoid participating in the IPO. However, some critics of the theory argue that underpricing solely to achieve ownership dispersion may not always be in the best interest of the firm. (Ljungqvist, 2007) points out that excessive underpricing can leave too much money "on the table," which dilutes the firm's capital-raising potential. Moreover, while ownership dispersion reduces takeover risks, it may also weaken shareholder oversight, leading to agency problems where management pursues personal goals at the expense of shareholder value (Jensen & Meckling, 1976). Thus, the benefits of ownership dispersion need to be carefully balanced against the costs of underpricing and potential governance issues.

In conclusion, the Ownership Dispersion Theory offers a compelling explanation for IPO underpricing by highlighting the benefits of a widely distributed shareholder base. By underpricing their shares, firms can foster liquidity, enhance price stability, and reduce the risks associated with concentrated ownership. This strategy not only facilitates smoother corporate governance but also positions the firm for long-term growth by creating a more dynamic and active secondary market. Despite some critiques, the theory underscores the

strategic role underpricing plays in shaping the post-IPO ownership structure and its broader implications for corporate control and market performance.

2.2.5 Litigation Risk Theory

Litigation Risk Theory suggests that firms may deliberately underprice their initial public offerings (IPOs) to mitigate the risk of future legal liabilities. This theory is rooted in the idea that IPOs, especially in litigious environments like the United States, can expose companies to lawsuits from disgruntled investors who believe they were misled about the firm's prospects or that the stock was overpriced. By underpricing, firms reduce the likelihood of such claims since investors are less likely to sue when they are profiting from a rise in the stock's value immediately after the IPO (Tinic, 1988). Essentially, underpricing acts as a form of insurance against costly litigation, as it leaves investors with fewer reasons to allege misrepresentation or fraud (Hughes & Thakor, 1992).

The Securities Act of 1933, which governs IPO disclosures in the United States, holds firms liable for material misstatements or omissions in their registration statements. If the stock price declines after the IPO, investors may claim that the company failed to provide adequate information about its risks, leading to significant legal costs and reputational damage (Lowry & Shu, 2002). By underpricing their shares, companies create an immediate profit for initial investors, reducing their incentive to file lawsuits. Furthermore, the larger the price "pop" on the first trading day, the less likely investors are to claim that they were misled, as their post-IPO gains make litigation unattractive (Ibbotson, Sindelar, & Ritter, 1988). In this sense, underpricing serves as a defensive mechanism, shielding firms from both the direct costs of litigation and the indirect costs associated with negative publicity and diminished investor confidence. The extent to which litigation risk influences IPO pricing can vary by jurisdiction. In countries with strong shareholder protection laws and active securities litigation markets, such as the U.S., underpricing is often more pronounced as firms seek to minimize their exposure to legal challenges (Hughes & Thakor, 1992). In contrast, in markets with weaker investor protection and fewer legal repercussions for issuers, firms may underprice less, as the threat of litigation is not as severe (Lowry & Shu, 2002). This geographical variation supports the argument that litigation risk is a significant driver of IPO underpricing, especially in highly regulated environments. (Tinic, 1988) was among the first to empirically demonstrate the

connection between litigation risk and IPO underpricing. In his study of U.S. IPOs, he found that firms underpriced their offerings more in periods when securities regulations were strictly enforced and when the frequency of investor lawsuits increased. The study also noted that firms in industries with high volatility or complex business models, which are more susceptible to claims of inaccurate disclosure, tended to underprice more heavily as a precautionary measure. These findings are supported by (Hughes and Thakor, 1992), who developed a theoretical model demonstrating that firms with greater litigation exposure are likely to offer larger price discounts to reduce their legal risk. This model explains why underpricing is particularly common in sectors like technology and biotechnology, where future earnings are uncertain and the risk of stock price volatility is high.

Moreover, (Lowry and Shu, 2002) argue that the fear of legal action also influences underwriter behavior. Underwriters, who play a crucial role in setting the IPO price, may encourage firms to underprice their shares to avoid potential lawsuits, which could harm their reputation and lead to financial penalties. Underwriters are often named as co-defendants in securities class action lawsuits, and they have a vested interest in minimizing this risk by ensuring that IPOs are priced conservatively (Field & Lowry, 2009). As a result, underpricing can be seen as a mutually beneficial strategy for both the issuing firm and the underwriter, providing a safeguard against future legal action.

However, critics of the Litigation Risk Theory argue that underpricing to avoid lawsuits may be an inefficient strategy in the long term. (Ritter, 1998) suggests that the costs associated with underpricing, such as leaving substantial capital on the table, may outweigh the potential benefits of reducing litigation risk. While underpricing may prevent some lawsuits, it also dilutes the firm's ability to raise capital effectively, which can hinder future growth and investment opportunities. Additionally, (Hanley and Hoberg 2010) note that not all lawsuits are avoided by underpricing, as investors can still file claims if they believe there were significant omissions in the company's disclosures, regardless of initial profits.

In conclusion, the Litigation Risk Theory provides a compelling explanation for why firms underprice their IPOs, particularly in highly litigious environments like the U.S. By offering shares at a discount, companies aim to reduce the likelihood of costly lawsuits, thereby protecting themselves from both financial and reputational harm. This strategy is particularly

relevant for firms operating in volatile industries or regions with strict securities laws. Despite some criticisms, the theory underscores the complex trade-offs firms face when determining their IPO pricing strategy, balancing the need to raise capital with the risk of future legal challenges.

2.2.6 Underwriter Reputation Theory

Underwriter Reputation Theory posits that the reputation of underwriters plays a crucial role in determining the pricing and success of Initial Public Offerings (IPOs). Underwriters, typically investment banks, are responsible for helping firms set the IPO price, market the offering, and ensure its successful completion. According to this theory, underwriters with a strong reputation are more likely to underprice IPOs to protect their own credibility and maintain long-term relationships with both issuing firms and investors (Carter & Manaster, 1990). By underpricing, these reputable underwriters ensure that the IPO performs well on its first day of trading, with a positive price "pop" that satisfies initial investors, reduces aftermarket volatility, and enhances their reputation for bringing successful offerings to market (Loughran & Ritter, 2004).

Underwriters with high reputations are generally associated with better access to high-quality information, which helps them accurately assess the fair value of a firm's shares before the IPO. As a result, these underwriters are less likely to overprice IPOs, which could lead to negative first-day returns and damage their reputation (Beatty & Welch, 1996). The Certification Hypothesis also ties into this theory, suggesting that underwriters serve as a certifying entity for the quality of the IPO, reducing the information asymmetry between the firm and the market (Booth & Smith, 1986). This certification is more valuable when it comes from a reputable underwriter, as it signals the market that the offering has been thoroughly vetted and is less risky for investors. Empirical research supports the Underwriter Reputation Theory. (Carter and Manaster, 1990) found that IPOs underwritten by more reputable firms experience greater underpricing compared to those handled by less reputable underwriters, suggesting that well-established underwriters prioritize protecting their reputation over maximizing the immediate proceeds from the offering. Furthermore, Megginson and Weiss (1991) demonstrated that reputable underwriters consistently bring higher-quality companies

to market, which further enhances their market standing and allows them to charge higher fees for their services.

However, there are criticisms of the theory, particularly regarding the costs of excessive underpricing. (Ritter and Welch, 2002) argue that while underpricing benefits underwriters by ensuring the success of an IPO, it often comes at the expense of the issuing firm, which leaves money "on the table" by selling shares below their market value. As a result, there is a trade-off between maintaining underwriter reputation and maximizing the capital raised for the issuer. Nevertheless, the Underwriter Reputation Theory remains a valuable framework for understanding how the reputational incentives of underwriters influence IPO pricing and market dynamics.

2.3 Empirical Review

An empirical review involves a detailed examination of existing research that relies on empirical data, typically collected through observations, surveys, experiments, or other direct measurement methods, to validate hypotheses or theories. In such reviews, the focus is on summarizing, comparing, and analyzing studies that have employed quantitative or qualitative methodologies to test specific relationships or outcomes within a research domain. For instance, an empirical review on IPO underpricing might examine numerous studies that have investigated the factors contributing to underpricing, such as firm size, underwriter reputation, market conditions, or regulatory environments. The goal is to identify consistent patterns, disparities, and gaps in the findings, offering insights into how various determinants influence IPO pricing decisions across different contexts.

2.3.1 Summary and Empirical Review of International Articles

Leila & Farshid (2014) examined the factors affecting the Initial Public Offering (IPO) price of the shares on the Tehran Stock Exchange. The main objective of the researcher was to examine whether pricing the initial offering exchange in Tehran Stock Exchange is less than actual and to study the factors that affect pricing of initial share on stock exchange. The researcher for the purpose of the study included 115 stock exchange companies from 2006 to 2012.The researcher concluded that P/E variable has significant relation with price changes on initial offerings and had highest impact on price of initial offerings.

Chawla and Joshi (2014) analyzed the retail investor's perception for factors affecting primary market and effect of demographic profile of investors on the perception and the problem faced by retail investors during investment in IPOs. Primary data was collected through questionnaire from 175 retail investors from Surat city during 20130-2014. The study was descriptive and convenience sampling technique was used. The study revealed that the most important factors investors consider while investing in primary market are company goodwill, current financial position of company, whereas demographic factors did not influence the investment decision. The study also revealed the major difficulties faced by the investor in IPOs: refund related problems, delay in allotment of share and lack of transparency while applying in primary market.

Sarwar & Darwin (2016) conducted the study on investor's attitude towards the stock market: A study in Dhaka city, Bangladesh to find out investors' attitude towards 18 stock market. The study found that there was an association between educational qualification of investors and their attitudes. But in case of other selected demographic and socioeconomic variables (age, gender, income level and investment level) there was no association between these variables and investors' attitude. Furthermore, investors have used different sources for their investment decisions, where study reveals that investors give most importance to FM radio and least importance to television talk show as source of information. In this study six demographic and socio-economic variables have been used to find out the association with investors' attitude.

Vakil (2018) examined the investors' perception towards risk-return of investment, satisfaction level after investment in Indian capital market. This study evaluates the post-issue performance of IPOs and their success rate, while also exploring the factors that influence investors when selecting a company's IPO. The research utilized a sample size of 150 respondents and employed both descriptive and analytical research designs for data analysis. The findings indicate that investors tend to assess IPOs based on the company's fundamentals, such as its history and risk-return relationship. Most investors are motivated by the potential for higher returns, the company's profile, and its future growth prospects in terms of dividends, earnings per share, and price trends. Investors generally prefer long-term investments in IPOs, as they offer better returns over time, while speculators might engage in intra-day trading. The primary

goal for most investors is long-term capital growth, which is more achievable through sustained investment rather than short-term speculation.

D.M & S (2019) analyzed the various factors influencing towards equity investment. This study relies on secondary sources, including journals, books, research articles on equity investors, paper presentations, and various websites. The focus is on analyzing investors' attitudes toward making investment decisions in the equity market and their risk tolerance, considering factors such as gender, age, income, education, and occupation. The study classifies investors into three categories based on their risk preferences: conservative, moderate, and aggressive. Conservative investors tend to avoid risk, moderate investors have a medium level of risk tolerance, and aggressive investors are willing to take on higher risks in their investments.

Gulzar, Khan & Rafiq (2020) investigated to examine economic This study investigates the factors influencing IPO underpricing in the stock market of Pakistan, analyzing data from 98 listed companies over the period of 2013-2018. The regression analysis reveals that asset returns, equities, earnings per share, and profit margin are significant determinants of IPO underpricing, as they provide economic returns to investors. However, the effect of the earnings-price ratio on IPO underpricing is found to be insignificant. The descriptive analysis indicates that the selected variables show maturity and that there is no multicollinearity between them. The study concludes that understanding the liquidity level of IPO underpricing in the market can assist financial investors in developing strategies for speculation through trading components.

Setya et al. (2020) investigated the factors affecting the share's underpricing in service companies of the Initial Public Offering (IPO) on the Indonesia Stock Exchange (IDX) covering the period from 2011 to 2017. This study offers an empirical comparison between Islamic and non-Islamic shares, analyzing 22 underpricing samples from 44 IPOs in Islamic service shares and 21 underpricing samples from 32 IPOs in non-Islamic service shares. The research utilizes multiple linear regression analysis and an independent sample t-test. The findings reveal that both the underwriter's reputation and the auditor's reputation significantly impact the underpricing of IPOs on the IDX, affecting both Islamic and non-Islamic service companies. The t-test results show that Islamic service companies exhibit better financial

performance than their non-Islamic counterparts. Based on these findings, the study suggests that Shariah-compliant companies may better anticipate IPO underpricing, as Shariah principles align with lower levels of underpricing.

Mehmood et al. (2021) examined the empirical evidence of high initial return from Initial Public Offerings (IPO) phenomena known as underpricing. Over the past three decades, IPO underpricing has remained a persistent issue in financial markets globally. This review examines IPO underpricing research across developed, developing, and emerging markets. The findings indicate that emerging markets experience higher IPO underpricing compared to developed and developing markets. In emerging markets, issuers often use underpricing as a signal of the quality of their IPOs, with information asymmetry being a significant factor. The review identifies key factors that influence initial returns, noting that the extent of underpricing varies across countries depending on these factors. Various theories and propositions have been developed to explain this phenomenon in different market contexts. The study suggests that several factors, including country-specific environments, micro and macroeconomic conditions, the quality of legal frameworks, socio-political factors, and IPO marketing, are likely to be primary determinants of IPO underpricing in future research.

Astuti and Djamaluddin (2021) analyzed the underpricing determinants on the public offering of primary shares (IPO) in Indonesia Stock Exchange 2015-2019. This study seeks to provide empirical evidence on the impact of factors such as Underwriter's Reputation, Return on Assets, Company Age, Company Size, and Debt to Equity Ratio on IPO underpricing. The independent variables in this research include Underwriter's Reputation, Return on Assets, Company Age, Company Size, and Debt to Equity Ratio, while the dependent variable, underpricing, is measured by initial returns. The research was conducted on companies that launched IPOs between 2015 and 2019 on the Indonesia Stock Exchange. Using purposive sampling, 114 companies were selected as the sample. The findings indicate that Underwriter's Reputation and Debt to Equity Ratio significantly affect IPO underpricing, while Return on Assets, Company Age, and Company Size do not have a notable impact. A strong reputation of the underwriter can help reduce underpricing, preventing potential losses in capital raised. Additionally, a higher Debt to Equity Ratio leads to greater underpricing, as companies with high DER are perceived to have higher risk, influencing investors' decisions.

Rudianto et al. (2022) analyzed the determinants of the underpricing rate of stocks (study on companies conducting IPO on the IDX). This study examines the factors influencing the level of underpricing in property and real estate sub-sector companies that conducted Initial Public Offerings (IPOs) on the Indonesia Stock Exchange from 2015 to 2019. The study considers both financial and non-financial variables, including financial factors such as Current Ratio (CR) for liquidity, Debt to Equity Ratio (DER) for leverage, Return on Assets (ROA) for profitability, and Earnings per Share (EPS) for earnings performance. Non-financial factors include Underwriter Reputation (UR) and Share Offering Percentage (SOP). The findings reveal that both financial and non-financial factors significantly affect the level of underpricing, with a strong overall impact. When examined individually, CR, ROA, UR, and SOP are found to significantly influence underpricing. The study concludes that financial and non-financial factors equally contribute to determining the level of IPO underpricing.

Roy and Gupta (2022) examined the IPO-underpricing of the book-built IPOs getting listed at the Bombay Stock Exchange (BSE) over the period 2015-2020. The sample for this study includes a diverse set of industry sectors, with 19 companies from the BFSI sector, 12 from electronics and information technology, along with several others. The findings suggest that IPO underpricing has decreased over time compared to previous studies, with an average underpricing rate of 11.195% during the study period. The multiple regression analysis identifies the oversubscription ratio, offer size, market conditions, and underwriter reputation as key determinants of IPO underpricing. The results suggest that the reduction in underpricing could lead to a higher opportunity cost for investors, while also fostering greater confidence in the Indian primary market. The study implies that market regulators should implement regulations aimed at protecting investors in IPOs over a longer-term horizon.

Oliveira (2023) analyzed that there will be different share price valuations by professionals, due to market flaws, meaning information asymmetry among investorsFor shareholders who were previously part of the company's corporate structure, an IPO presents opportunities for immediate profits, as they can purchase shares at prices lower than those set by the structuring agent. However, underpricing represents an indirect cost for the company, as it results in the loss of potential funds from the offer. Identifying the determinants of IPO underpricing is crucial, as this information can help set the most appropriate share price. Therefore, this study

conducts a bibliometric analysis using Zipf's, Bradford's, and Lotka's Laws, followed by a systematic review of relevant literature on the topic. The analysis employs VOSviewer and Biblioshiny software tools. The findings confirm that informational asymmetry is the primary theory explaining IPO underpricing. Key determinants include the reputation of the underwriter and share issuer, the presence of corporate governance mechanisms, and the size of the offering.

Heriyanto et al. (2023) investigated the impact of various factors such as firm size, underwriter reputation, firm age (as an indicator of asymmetric information), board ownership, institutional ownership (reflecting ownership structure), industry sector (financial vs. non-financial), and ownership status (state-owned vs. non-state-owned) on IPO underpricing, measured by the initial return. The research focuses on companies that went public between 2010 and 2019. Using purposive sampling, 261 firms were selected for analysis. Data were analyzed through a multiple linear regression model, with SPSS used as the analysis tool. The results reveal that firm size, underwriter reputation, and institutional ownership significantly influence the level of underpricing. However, no significant effects were found for factors such as company age, board ownership, industry sector, or ownership status. These findings emphasize the importance of asymmetric information in explaining IPO underpricing, while industry type and ownership structure appear to have no substantial impact. This study contributes to the existing literature on IPO underpricing in Indonesia by covering a longer time period and incorporating governance-related variables, such as board and institutional ownership, alongside traditional measures of asymmetric information.

Steven et al. (2023) examined the underpricing and performance of IPOs over a six-month period using the underpricing model. A total of 67 samples were selected from a population of 120 IPOs listed between 2014/15 and November 2020/21, utilizing judgmental sampling and excluding outliers. The independent variables considered in the analysis include firm size, subscription rate, issue size, firm age, issue manager reputation, and market conditions. The results show that Nepalese investors predominantly favor investing in the microfinance sector, which tends to be underpriced for a longer duration due to high demand for shares. The data were categorized based on the mean values of each predictive variable and the NEPSE index. Significant differences in initial and monthly returns were found between categories based on

subscription rate (high vs. low) and firm age (mature vs. young). A strong positive and significant correlation was observed between issue size and firm size, indicating that larger firms tend to issue larger IPOs, while a negative significant correlation was found between issue size and subscription rate, suggesting that smaller issue sizes attract higher demand. The study also highlighted a significant relationship between subscription rate and firm age for the initial and first-month returns, with subscription rate remaining significant from the second to the sixth month. The study concludes that the subscription rate is a key determinant of IPO underpricing in the Nepalese stock market.

Table 1

Summary of Empirical Review of International Context

S.N	Authors	Objectives	Research Methodology	Findings
1.	Leila & Farshid (2014)	To examine the factors influencing the share prices of Initial Public Offerings (IPOs) on the Tehran Stock Exchange.	Correlation and regression analysis were used to present data.	The researcher determined that the P/E variable exhibits a significant relationship with price fluctuations during initial offerings and has the greatest influence on the pricing of such offerings.
2.	Chawla and joshi (2014)	To analyze the retail investors' perceptions of the factors influencing the primary market and the impact of their demographic profiles.	Descriptive statistics, correlation and regression analysis were used to present data.	The study found that the key factors investors prioritize when investing in the primary market are the company's goodwill and its current financial position, while demographic factors had no impact on investment decisions.
3.	Sarwar & Darwin (2016)	To carry out a study on investors' attitudes toward the stock market.	Regression analysis was used to present data.	The study revealed a correlation between investors' educational qualifications and their attitudes. However, no such correlation was observed between other selected demographic factors and investors' attitudes.
4.	Vakil (2018)	To analyze investors' perceptions of risk and return on investments and their satisfaction levels following investments in the Indian capital market.	Descriptive statistics, correlation and regression analysis were used to present data.	The study revealed that company fundamentals are accessible to investors, allowing them to understand a company's history and make informed investment decisions. Investors tend to focus on evaluating IPOs based on the risk-return relationship.

5.	D.M & S (2019)	To analyze the various factors influencing equity investments.	Correlation and regression analysis were used to present data.	The study focuses on investors' attitudes toward equity market investment decisions and their risk tolerance, considering factors such as gender, age, income, education, and occupation.
6.	Gulzar, Khan & Rafiq (2020)	To analyze and evaluate the economic impact of factors influencing IPO underpricing in the Pakistani stock market.	Descriptive analysis and correlation were used to present data.	The results of the regression analysis reveal that return on assets, equity, earnings per share, and profit margin are key determinants of IPO underpricing, as they significantly influence the economic returns for investors.
7.	Setya et al. (2020)	To examine the factors influencing the underpricing of shares in service companies during Initial Public Offerings (IPOs) on the Indonesia Stock Exchange (IDX).	Multiple linear regression and t-test were used to present data.	The analysis indicates that the reputation of underwriters and auditors significantly impacts IPO underpricing on the Indonesia Stock Exchange (IDX) in both Islamic and non-Islamic service companies.
8.	Mehmood et al. (2021)	To analyze empirical evidence of the high initial returns associated with Initial Public Offerings (IPOs), a phenomenon commonly referred to as underpricing.	Regression analysis was used to present data.	The findings reveal that IPO underpricing is more pronounced in emerging markets compared to developing and developed markets, as issuers in emerging markets often use underpricing as a signal of the quality of their IPOs.
9.	Astuti and Djamaluddin (2021)	To investigate the determinants of underpricing in the initial public offering (IPO) of primary shares on the Indonesia Stock Exchange.	Descriptive statistics, correlation and multiple regression analysis were used to present data.	The study's findings reveal that the variables Underwriter's Reputation and Debt-to-Equity Ratio influence underpricing. However, Return on Assets, Company Age, and Company Size show no significant impact on underpricing.
10.	Rudianto et al. (2022)	To examine the factors influencing the rate of underpricing in stocks, focusing on companies undergoing IPOs on the Indonesia Stock Exchange (IDX).	Correlation and regression analysis were used to present data.	The findings indicate that both financial and non-financial factors collectively have a significant and highly influential impact on the degree of underpricing.

11.	Roy and Gupta (2022)	To analyze IPO underpricing in book-built IPOs listed on the Bombay Stock Exchange (BSE).	Multiple regression was used to present data.	The study's results suggest that a reduction in the level of underpricing is likely to increase opportunity costs for investors while boosting confidence in the Indian primary market.
12.	Oliveira (2023)	To examine how market imperfections, such as information asymmetry among investors, lead to varying share price valuations by professionals.	Descriptive, correlation and regression analysis were used to present data.	Consequently, information asymmetry is identified as the primary theory explaining the underpricing phenomenon. Key determinants include the reputations of the underwriter and issuer, the presence of corporate governance mechanisms, and the size of the offering.
13.	Heriyanto et al. (2023)	To examine the influence of various variables on the initial return, which acts as an idicator of the underpricing level.	Multiple linear regression model and SPSS were used to present data.	The results indicate that firm size, underwriter reputation, and institutional ownership have a significant impact on the level of underpricing. However, no evidence was found to suggest that factors such as company age, board ownership, industry sector, or ownership status influence the underpricing level.
14.	Steven et al. (2023)	To analyze the underpricing and performance of IPOs over a six-month period using an underpricing model.	Correlation and regression analysis were used to present data.	A strong positive and significant correlation between issue size and firm size indicates that larger firms tend to issue larger IPOs. In contrast, a significant negative correlation between issue size and subscription rate suggests that when the issue size is smaller, there is higher demand for shares.
15.	Ahmed et al. (2024)	To investigate the factors influencing IPO initial returns and assess the level of underpricing in the Colombo Stock Exchange (CSE).	Multiple regression was used to present data.	The key findings of the study indicate that the ASPI return and over-subscription rate are positively influenced by the market-adjusted initial return (MAIR), while the offer price has a negative impact.

2.3.2 Summary and Empirical Review of Nepalese Articles

Singh & Yadav (2016) examined the factors influencing investor's decision in investing in equity shares in Jaipur and Moradabad with Special Reference to Gender to identity factors that influencing and motivates the investors to invest in shares. The research is empirical, based

on a sample of 100 individual investors selected through convenience sampling. Data was gathered using a questionnaire, incorporating both primary and secondary sources. The study's findings indicate that both male and female investors consider past dividends paid by companies when making investment decisions in equity shares. Male investors tend to focus on financial ratios such as the P/E ratio, D/P ratio, the company's current financial position, daily reports from stock exchanges, past bonuses paid, the structure of the Board of Directors (BOD), and recommendations. In contrast, female investors, who are less familiar with financial data due to lower financial literacy, rely more on advice from friends and relatives. They prioritize the security of their investments, tend to invest cautiously, and are influenced by the success of others in share investments. Additionally, female investors also pay attention to the company's bonus history and the structure of the BOD.

Adhikari (2017) examined the factor influencing individual investor's behavior during initial public offering (IPO) in Nepal. The primary objective of this study is to analyze and evaluate investors' perceptions and the factors that influence individual investor behavior during IPOs in Nepal. The study employs an exploratory and descriptive research design. Primary data was collected using convenience sampling from 100 respondents through a questionnaire. The findings reveal that capital appreciation, demographic trends of investors, preferred sources of information, and industry specialization are the key factors influencing IPO investment decisions. The study also suggests that the adoption of interest-based strategies, social media, mobile marketing, and awareness programs can significantly improve public knowledge about IPOs and investment opportunities in the stock exchange.

Bajo & Raimondo (2017) analyzed the media sentiment and IPO underpricing. This study analyzed 2,814 U.S. IPOs between 1995 and 2013 using textual analysis to assess the sentiment (tone) in nearly 30,000 articles from around 500 newspapers. The findings reveal a significant positive correlation between positive newspaper tones and first-day returns. This effect is both statistically significant and economically substantial, with a one standard deviation increase in tone leading to a roughly 2.5% rise in IPO underpricing. The analysis indicates that positive tones in news coverage are linked to greater IPO underpricing, with the impact being more pronounced when the news is published closer to the IPO date or by more reputable newspapers.

Khatri (2017) examined the factors influencing investor's investment in initial public offering with the main objective to study The aim of this study is to explore the purpose of investing in IPOs, identify the factors influencing investors' decisions to participate in IPOs, and examine the challenges investors face when investing in IPOs. Primary data was gathered through a structured questionnaire to collect relevant information. The data was analyzed using both descriptive and inferential statistics. The findings indicate that most investors seek advice from brokers when investing in IPOs. The analysis also shows that a majority of respondents find the IPO process to be complex. The main issues identified by investors include delays in refunds and a lack of clarity in the allotment process. Factor analysis was conducted to determine the key factors influencing IPO investments, with a KMO value of 0.783, indicating that a sufficient number of factors can be extracted. The analysis explained 62.03% of the variance, with the most significant factors being the company's philosophy, future predictions and projections, news related to the company's IPO, and its financial performance.

Srinivas & Rao (2017) examined the factors influencing investment decision in IPO among retail individual investors. The study highlights that capital appreciation and investment safety are the primary drivers for investors in IPOs. The potential for higher annual returns also encourages investment in IPOs. A significant number of respondents are making investments for short periods, typically less than three months. They subscribe to shares in the primary market through IPOs and sell them in the secondary market to capitalize on higher returns. Although short-term investments can yield quicker profits, long-term investments are recommended to reduce risk and increase returns. Additionally, the financial fundamentals of the organization play a crucial role in investment decisions, with more than half of the respondents focusing on these factors. Investing in companies with strong fundamentals tends to offer more stable and reliable returns. Investors tend to sell their shares when the market reaches new highs and prefer to buy stocks when they anticipate a rise in market prices. As mentioned earlier, many investors hold onto their shares for short periods, selling them once they achieve their desired return.

Pokharel (2018) examined the survey of investor's preference on stock market: A case of Nepal stock exchange. This study employed a survey research design and utilized a structured questionnaire to collect data from randomly selected respondents, gathering their opinions,

attitudes, and behaviors. The target population for this research consisted of approximately 1 million investors from the Nepal Stock Exchange (NEPSE). The findings indicated that investors show a strong interest in the secondary market. The primary reasons for selecting shares were liquidity and high earning potential. Investors' perceptions regarding the factors influencing their investment decisions in the secondary market of NEPSE were shaped largely by the advice of brokers and market index movements. News from daily newspapers and general market sentiment were considered less significant in influencing their investment choices. The most motivating factors for investment, as ranked by respondents, were capital gains, followed by liquidity, dividends, safety, and bonus shares. On the other hand, factors such as tax benefits and rights shares were given lower priority by the investors.

Singh et al. (2019) examined the IPO underpricing and predictive power of board related corporate governance mechanisms: This study focused on the Indian IPO market and utilized descriptive sample statistics along with logistic regression to analyze the objectives. The findings indicate that having a female director on the board increases the likelihood of IPO underpricing. In contrast, the presence of an independent director as the board chairperson reduces the likelihood of underpricing. However, the number of non-executive directors, used as a measure of board independence, has a statistically insignificant negative effect on the occurrence of IPO underpricing. In conclusion, the study suggests that board-related corporate governance factors, such as gender diversity and the nature of board leadership, can be significant predictors of IPO underpricing.

Gnawali and Niroula (2021) examined the perception of investors towards initial public offering (IPO), This study aimed to analyze the relationship between various factors—such as quality management, company goodwill, company performance, industry sector, and market information—and investment decisions in IPOs. Primary data was collected from 290 respondents affiliated with five different brokerage firms in the Kathmandu district. The research employed inferential analysis using SPSS, applying statistical tools like correlation and regression analysis to explore the relationships between variables and assess the impact of these factors on investment decisions. The findings indicated that quality management, company goodwill, company performance, industry sector, and market information are critical factors influencing investment decisions in IPOs.

Tamang (2022) analyzed the investment decision behavior of Nepalese investors in Initial Public Offerings (IPOs). This qualitative study used semi-structured interviews to gain insights into the investment decisions of six young Nepalese investors. The research employed interpretative phenomenological analysis to understand how individuals in specific contexts make sense of their experiences. The findings revealed that the investors were not swayed by psychological biases, as they did not engage in herd behavior; instead, they exhibited overconfidence bias, often overestimating their abilities when making investment decisions. Additionally, the study focused solely on the primary market, specifically IPOs. Future qualitative research could explore the secondary market to better understand investor behavior in more volatile and risky financial environments.

Kandel (2022) examine the factors that affect the investors' perception of IPO investment. The researcher employed the descriptive exploratory research design to reach the ontology of the issue. The study involved 110 participants from Khairahani Municipality, Chitwan, selected using a purposive convenience sampling method. Data was gathered through face-to-face interviews and self-administered questionnaires from respondents who had applied for at least 10 units of IPO. The findings indicated that the company's performance and the performance of its sector were the primary factors shaping investors' perceptions. Most investors preferred the microfinance sector due to its satisfactory returns. Additionally, a majority expressed interest in holding their IPO-allotted stocks for more than a year. Investors had a favorable view of allocating 10 units in the IPO but were neutral regarding their interest in the Book Building System. The study suggests that awareness programs by the Securities Board of Nepal (SEBON) prior to the introduction of the Book Building Pricing Method could help increase public interest in this system.

Subedi and Dangal (2022) examined the initial return (first day returns) of 133 initial public offerings (IPOs) of Nepalese companies during a 15-year period (2005/06-20019/20). The study develops a comprehensive model based on observations of the short-term price performance of new offerings, drawing on existing literature on IPO underpricing. It finds that the average underpricing is 3003 percent. Additionally, the study estimates the regression of initial IPO returns against various explanatory variables, including issue size, firm age, firm size, market return, and subscription rate. The results show that the subscription rate is the

most significant predictor of IPO returns in the Nepalese primary market, suggesting that companies with higher subscription rates tend to experience higher initial returns. Moreover, the study identifies a significant negative impact of market return on initial IPO returns.

Budhathoki et al. (2023) investigated the factors that influence investor awareness of online trading within the Nepal Stock Exchange. The study examines online stock market participants, focusing on the factors that contribute to better online trading (dependent variable) and the ease of online trading and investors' investment intentions (independent variables) within the context of Nepal's online trading environment. A non-probability convenience sampling method was used, with 403 online investors selected for the study. Three main data collection methods were utilized: expert opinions, structured questionnaires for surveys, and observational data. The findings indicate that a significant majority of investors (83.4%) in Nepal have a strong understanding of online trading. Brokers were identified as the primary source of this knowledge, accounting for 58% of the information shared with investors.

Dhungana et al. (2023) examined the factors affecting investors' decisions on initial public offerings with reference to Pokhara, Nepal. The study includes five key predictive factors: management quality, company goodwill, company performance, industry, and market information. Primary data was gathered through a field survey using a structured questionnaire, with responses from 223 participants. Descriptive statistics (for demographic and perception-related data) and inferential statistics (correlation analysis) were applied in the study. The results indicate that factors such as company goodwill, performance, industry, management quality, and market information play a significant role in shaping investors' IPO decisions. Additionally, the legitimacy of the company, the profiles of key shareholders, the founder and CEO, the prestige of the board members, the company's financial health, historical background, return on equity, earnings per share, capital gains, and market share also influence investor choices. Most investors tend to focus on IPOs from the finance, microfinance, and insurance sectors. These insights are valuable for both companies and regulators in understanding investor demand and guiding information disclosure.

Niroula (2024) analyzed a comparative analysis of Initial Public Offerings (IPOs) in Finland and Nepal, focusing on sector distribution, size, and regulatory frameworks. By thoroughly analyzing both primary and secondary data sources, such as IPO prospectuses and regulatory

documents from SEBON and FIN-FSA, the study highlights that Finland has a more varied IPO sector and larger average IPO sizes compared to Nepal. The regulatory environment in Finland is marked by its strength and transparency, while Nepal's regulatory framework shows notable gaps. The study underscores the importance of effective regulatory systems in creating a supportive environment for IPOs and advancing the capital market, providing useful insights for policymakers and stakeholders in both nations.

Karki et al. (2024) examined the complex dynamics governing IPO investment decisions and the over-subscription perceptions among Nepalese investors. This study uses a quantitative research design and surveys 150 respondents with a structured questionnaire. It incorporates a theoretical framework that considers both firm-specific and general factors, in line with the research perspective. The findings reveal that several factors, including the corporate profile, financial health, IPO size, short-term returns, market rumors, goodwill, and sector performance, significantly influence IPO investment decisions among investors in Nepal. The results highlight the crucial role of a company's financial stability in ensuring both short-term and long-term investment success. Investors prioritize factors such as corporate profile, financial position, and short-term returns when selecting IPO investments. This research aids in making more informed investment choices, helps companies enhance their appeal to investors, and offers guidance to regulatory authorities in promoting transparency in financial disclosures. The study's significance lies in its ability to improve IPO investment decisions, benefiting investors, companies, and regulatory bodies within the Nepalese stock market.

Table 2

Summary of Empirical Review of Nepalese Context

S.N	Authors	Objectives	Research Methodology	Findings
1.	Singh & yadav (2016)	To investigate the factors that influence investors' decisions to invest in equity shares in Jaipur.	Descriptive, correlation and regression analysis were used to present data.	The study's findings reveal that both male and female investors consider past dividends paid by companies when investing in equity shares. Male investors, in particular, focus on financial ratios such as the P/E ratio, D/P ratio, and the company's current financial position.
2.	Adhikari (2017)	To analyze the factors that	Descriptive statistics was	The study found that capital appreciation, investor demographic

		influence individual investors' behavior during Initial Public Offerings (IPOs) in Nepal.	used to present data.	trends, preferred sources of information, and industry specialization are the key factors influencing investment decisions in IPOs.
3.	Bajo & Raimondo (2017)	To examine the relationship between media sentiment and IPO underpricing.	Correlation and regression analysis were used to present data.	The study shows that positive tones in newspaper coverage are strongly linked to higher first-day returns. This effect is both statistically significant and economically meaningful, with a one standard deviation increase in tone corresponding to approximately a 2.5% rise in the level of underpricing.
4.	Khatri (2017)	To analyze the factors that influence investors' decisions to invest in Initial Public Offerings.	Descriptive and inferential statistics were used to present data.	Factor analysis was conducted to identify the key factors influencing investors' decisions to invest in IPOs. The KMO value of 0.783 indicates that an adequate number of factors can be extracted.
5.	Srinivas & Rao (2017)	To investigate the factors that affect retail individual investors' decisions to invest in IPOs.	Regression analysis was used to present data.	Investing in companies with strong fundamentals provides higher and more consistent returns. Investors often sell their shares when the market hits new peaks.
6.	Pokharel (2018)	To analyze a survey on investors' preferences in the stock market: A case study of the Nepal Stock Exchange.	Descriptive statistics, correlation and regression analysis were used to present data.	The results revealed that investors showed interest in the secondary market, with liquidity and high earnings potential being the primary reasons for selecting shares. Additionally, the study highlighted investors' perceptions of the key factors influencing their investment decisions in the secondary market of NEPSE.
7.	Singh et al. (2019)	To analyze IPO underpricing and the predictive influence of board-related corporate governance mechanisms.	Correlation analysis was used.	The findings indicate that having a female director on the board increases the likelihood of IPO underpricing. In contrast, the presence of an independent director as the board chairperson reduces the likelihood of IPO underpricing.
8.	Gnawali and Niroula (2021)	To explore investors' perceptions of Initial Public Offerings (IPOs).	Correlation and regression analysis were used to present data	The study found that key factors influencing investment decisions in IPOs include quality management, company reputation, performance, sector, and market information.

9.	Tamang (2022)	To investigate the investment decision-making behavior of Nepalese investors in Initial Public Offerings (IPOs).	Descriptive statistics, correlation analysis were used to present data.	The findings suggest that investors are not swayed by psychological biases such as herd behavior; instead, they are affected by overconfidence bias, as they tend to overestimate their abilities when making investment decisions.
10.	Kandel (2022)	To analyze the factors that influence investors' perceptions of IPO investments.	Descriptive statistics, correlation and regression analysis were used to present data.	The findings showed that the company's performance and the sector's performance were key factors shaping investors' perceptions. Most investors preferred the microfinance industry due to its satisfactory returns.
11.	Subedi and Danga (2022)	To analyze the initial returns (first-day returns) of 133 Initial Public Offerings (IPOs) from Nepalese companies.	Regression analysis was used to present data.	The study highlights the subscription rate as the most important predictor of IPO returns in the Nepalese primary market, suggesting that companies with higher subscription rates tend to experience higher initial returns.
12.	Budhathoki et al. (2023)	To explore the factors that affect investor awareness of online trading in the Nepal Stock Exchange.	Regression analysis was used to present data.	The study's results indicate that a large majority of investors in Nepal (83.4%) have a thorough understanding of online trading. Interestingly, brokers are the main source of this awareness, responsible for 58% of the information shared with investors.
13.	Dhungana et al. (2023)	To investigate the factors influencing investors' decisions on Initial Public Offerings in Pokhara, Nepal.	Descriptive and correlation analysis were used to present data.	The study reveals that factors such as company reputation, performance, industry, management quality, and market information influence investors' decisions on IPOs. Additionally, the company's legitimacy, key shareholder profiles, and the background of the founder and CEO also play a role.
14.	Niroula (2024)	To analyze the comparative analysis of Initial Public Offerings (IPOs) in Finland and Nepal.	Multiple linear regression analysis was used to present data.	The study indicates that Finland has a more diversified IPO sector and larger average IPO sizes compared to Nepal. Additionally, Finland's regulatory frameworks are robust and transparent, whereas Nepal's regulatory environment shows some gaps.
15.	Karki et al. (2024)	To investigate the complex factors	Correlation and regression	The findings show that factors such as the corporate profile, financial

influencing IPO investment decisions and the perceptions of over-subscription among Nepalese investors.	analysis were used to present data.	position, IPO size, short-term returns, market rumors, goodwill, and sector performance play a significant role in shaping IPO investment decisions among Nepalese investors.

2.4 Research Gap

Previous studies on the determinants of initial public offering (IPO) underpricing have largely followed a conventional approach, focusing on commonly recognized indicators. A review of earlier theses shows that only a few studies have examined the specific sample companies included in this research. Moreover, there remains a noticeable gap in the literature during the periods under review. This study aims to address that gap by focusing on first-class commercial banks, which are likely to exhibit notable stock price fluctuations. The research explores the factors influencing IPO underpricing in Nepal, with share brokers, market analysts, and individual investors serving as the primary sources of information.

Research on the determinants of initial public offering (IPO) underpricing in the Nepal Stock Exchange (NEPSE) has been limited, especially in the context of Nepal. This study seeks to address this research gap by examining the stock price dynamics of six selected insurance companies, with an emphasis on their diverse founding periods. Data collection will rely on primary methods, which may influence the accuracy of findings in the Kathmandu Valley. The main goal is to evaluate the risk factors and relationships among goodwill, corporate profile, financial position, lack of alternative investments, and sector performance as they relate to underpricing in Nepal. Most existing studies have primarily focused on technical and statistical methods, including regression analysis, correlation coefficients, and trends in NEPSE. However, only a few have utilized fundamental analysis tools that emphasize financial indicators such as goodwill, corporate profile, financial position, lack of other investments, and sector performance elements recognized as critical influencing factors.

The research gap regarding IPO underpricing in Nepal arises mainly from the narrow focus on certain industries and the reliance on traditional analytical techniques. Although past studies have utilized methods like regression analysis, correlation coefficients, and NEPSE market

trends, they have seldom explored key fundamental factors such as goodwill, corporate profile, financial position, and sector performance in depth.

New trends in the financial markets, including the evolving behavior of retail investors, technological advancements in stock trading, and the growing influence of institutional investors, call for fresh perspectives in research. By integrating these modern aspects into research, a more comprehensive understanding of IPO underpricing in Nepal can be achieved.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology refers to the systematic approach used to solve a research problem, encompassing the tools, techniques, and processes applied during the study. It outlines the procedures for data collection, analysis, and interpretation to ensure the research is rigorous, reliable, and valid. The methodology typically includes the research design (qualitative, quantitative, or mixed methods), the sampling techniques (probability or non-probability), and the data collection instruments (surveys, interviews, experiments, etc.). It also addresses ethical considerations, limitations, and how the results are analyzed, providing transparency and allowing the study to be replicated or validated.

3.1 Research Design

This study adopts both descriptive and causal-comparative research designs, utilizing a quantitative approach with a questionnaire to collect data on employee organizational commitment. The descriptive design is employed to analyze the respondents' profiles, present the data, and outline the characteristics of the respondents. This approach is suitable as it is non-experimental, focusing on examining relationships between variables without manipulating them. The data were analyzed using SPSS, covering various aspects of initial public offering (IPO) underpricing determinants in the Nepalese market. The study aims to understand public reactions to IPOs, assess the performance of investment bankers (issue managers), and identify the sources of information influencing these reactions. Furthermore, it explores the connections between different IPO-related factors and public responses to underpricing, as well as the motivations behind investors' decisions, their investment objectives, and responses based on industry sectors.

3.2 Population and Sampling Design

The population refers to the complete set of individuals, events, or objects that a researcher aims to examine. In this study, the total population consists of all clients who have directly benefited from IPO underpricing in Nepal. Only Katmandu valley is considered for the study which may not represent the whole demographic territory of Nepal. Given the nature of the research, conducting a full census of the population is not feasible, so a sample was selected.

The sample size for this study comprises 350 respondents because it is a sufficient to representation of the target population, allowing for reliable and statistically significant results. This size also helps to minimize sampling error and enhance the accuracy of the findings, providing a more comprehensive view of the studied population. The population for this research includes all companies listed up to the fiscal year 2022/23, with 244 companies listed as of August 4, 2024. The study uses purposive sampling, selecting companies clients based on specific characteristics or knowledge relevant to the research questions.

3.3 Nature and Sources of Data

This research primarily relies on data collected through a structured questionnaire, which is based on a conceptual framework provided by the respondents. The data was gathered by distributing the questionnaire through both physical printed copies and instant messaging platforms. The questionnaire was designed using "Google Forms" to facilitate easy data collection.

3.4 Data Collection Instruments

The questionnaire was divided into two main sections. The first section aimed to collect demographic data from respondents, including details such as gender, age, family structure, marital status, and education level. The second section focused on exploring factors related to the determinants of IPO underpricing in Nepal. Respondents were asked to indicate their level of agreement with various statements using a five-point Likert scale, where 1 represented "strongly disagree," 2 "disagree," 3 "neutral," 4 "agree," and 5 "strongly agree."

3.5 Methods of Analysis

The collected data were analyzed using statistical tools with the assistance of the Statistical Package for Social Sciences (SPSS). Descriptive analysis techniques, including frequency, percentage, mean, and standard deviation, were applied to summarize and interpret the data. Additionally, inferential analysis methods, such as the simple correlation coefficient, were employed to examine the relationships between independent and dependent variables. Regression analysis, ANOVA tests, and reliability testing using Cronbach's alpha were also conducted to ensure the consistency and validity of the data.

3.6 Research Framework and Definition of Variables

The research framework focuses on identifying the determinants of Initial Public Offering (IPO) underpricing in Nepal. Key variables include company size, offering size, age of the firm, market sentiment, and ownership structure. Company size represents the scale and resources of the firm going public, while offering size reflects the total capital raised during the IPO. The firm's age indicates its market experience and stability, and market sentiment captures the prevailing investor confidence during the IPO. Ownership structure, including concentration and promoter holdings, influences investor perceptions and demand. These variables are analyzed to understand their impact on the degree of IPO underpricing in the Nepalese context.

Independent Variables   **Dependent Variable**

| Goodwill (GW) |

| Corporate Profile (CP) |

| Financial Position (FP) |

| Lack of other Investment (LOI) |

| Sector Performance (SP) |

| Underpricing in IPO (UP) |
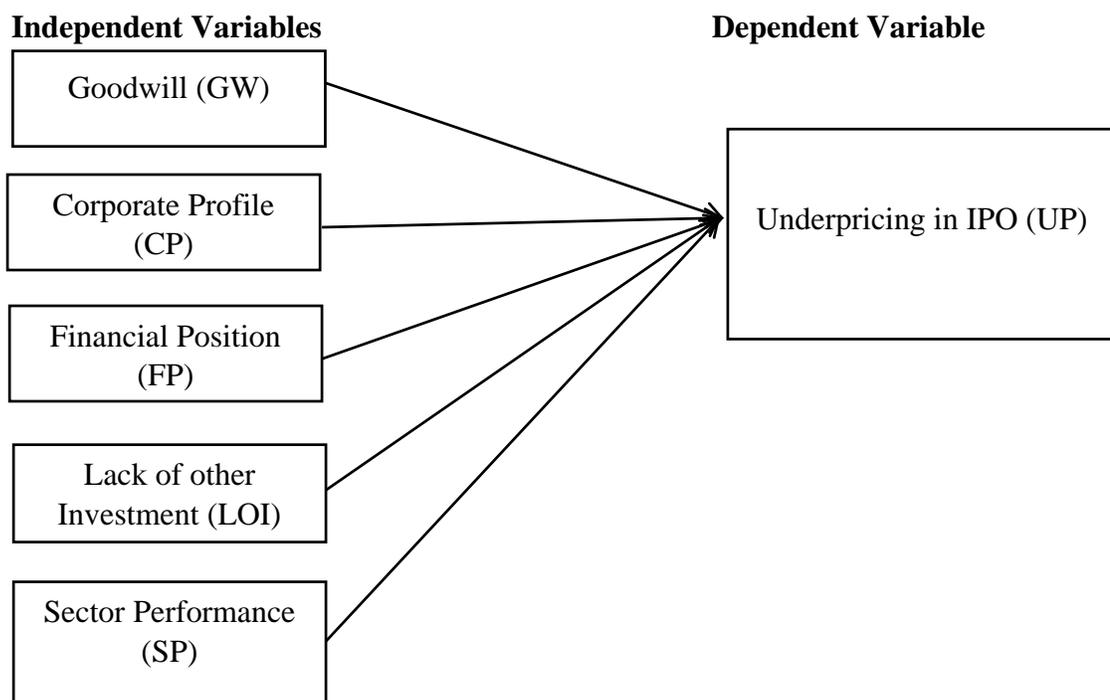
Figure: The Theoretical Framework

Source: Karki et al. (2024)

3.6.1 Definition of Variables

a. Goodwill

Goodwill, an intangible asset representing a firm's brand reputation, customer loyalty, and market presence, is a critical factor influencing Initial Public Offering (IPO) underpricing. Firms with strong goodwill are perceived as less risky and more attractive to investors, which often results in higher demand for their shares during the IPO process. This demand can lead to greater underpricing, where the IPO is initially offered at a price lower than its true market value to encourage participation and ensure the offering's success. Studies have shown that companies with significant goodwill are likely to experience more substantial underpricing as they tend to attract higher initial investor interest due to their established market credibility (Ibbotson, 1975). In essence, goodwill lowers perceived risk, making the shares more appealing, which can result in higher initial price jumps post-IPO.

In the context of the Nepalese IPO market, goodwill becomes particularly significant because the market is driven by both investor sentiment and trust in the issuing firm. Investors in developing markets, where access to reliable company data might be limited, often rely on brand recognition and reputation as proxies for financial health. This reliance on intangible factors like goodwill increases the likelihood of IPO underpricing, as firms with strong market reputations are more likely to generate oversubscription (Ritter, 1991). Therefore, goodwill serves not only as a determinant of investor demand but also plays a pivotal role in shaping market expectations and the eventual pricing dynamics of IPOs in Nepal.

b. Corporate Profile

Corporate profile goodwill, which encompasses a company's reputation, brand strength, and customer loyalty, plays a critical role in determining the level of IPO underpricing. Firms with strong goodwill tend to be perceived as more reliable and less risky, which increases investor confidence during the IPO process. This higher confidence often results in heightened demand for the company's shares, contributing to IPO underpricing. By offering shares at a lower initial price, companies can leverage their goodwill to attract more investors and ensure the success of their IPO. Research suggests that firms with established goodwill tend to experience greater

underpricing because of the oversubscription of shares driven by positive market sentiment (Ibbotson, 1975).

In markets like Nepal, where investor decisions are strongly influenced by trust and the reputation of the company, corporate goodwill becomes a significant determinant of IPO underpricing. Firms with well-known brands or long-standing market presence are more likely to see their IPO underpriced, as investors view goodwill as a proxy for future performance and reduced investment risk. As a result, companies with strong goodwill can strategically use underpricing to enhance their market entry and maximize long-term capital gains (Ritter, 1991).

c. Financial Position

A company's financial position, which includes its overall financial health, profitability, liquidity, and leverage, is a key determinant of Initial Public Offering (IPO) underpricing. Firms with strong financial fundamentals tend to be viewed as more stable and less risky by investors, which can influence the level of demand for their shares during an IPO. A company with robust profitability and low debt signals lower risk and future growth potential, encouraging higher investor interest. Research shows that companies with stronger financial positions tend to exhibit less aggressive underpricing compared to firms with weaker financials (Beatty & Ritter, 1986).

In the context of Nepal's developing market, a firm's financial position is even more critical, as investors may have limited access to reliable financial data. Therefore, companies with strong financial standing can use underpricing as a strategy to build trust and encourage participation in their IPOs. In such markets, IPO underpricing serves as a means to reduce perceived risks and draw in more investors, even for firms with favorable financial positions (Carter, Dark, & Singh, 1998).

d. Lack of other Investment

The lack of alternative investment opportunities in a market can significantly contribute to IPO underpricing. When investors have limited options to allocate their capital, IPOs become a more attractive avenue for investment, driving up demand for newly issued shares. In such cases, companies may strategically underprice their shares to capitalize on the excess demand,

ensuring the full subscription of their IPO. The scarcity of alternative investments also heightens the appeal of IPOs, as investors are often eager to participate in the initial offering to secure potential gains from first-day price increases. Studies suggest that markets with fewer investment options tend to experience higher levels of IPO underpricing due to increased investor competition for limited opportunities (Ljungqvist, 2007). In Nepal, where financial markets are relatively less developed and investment options outside of traditional assets like real estate or savings are limited, IPOs serve as a significant channel for capital allocation. The lack of diverse investment alternatives amplifies the demand for IPO shares, leading to greater underpricing as companies seek to maximize participation and liquidity. This dynamic highlights how market constraints on investment diversity can be a key determinant of IPO underpricing in emerging markets like Nepal (Ritter & Welch, 2002).

e. Sector Performance

Sector performance plays a pivotal role in determining the level of IPO underpricing, as investors tend to base their decisions on the broader trends and outlook of the sector in which the issuing company operates. When a sector is experiencing robust growth or positive sentiment, companies in that industry are likely to generate higher investor demand during their IPOs, contributing to underpricing. Research highlights that sector-specific factors, such as recent performance and future prospects, are crucial in shaping the degree of IPO underpricing (Benveniste & Spindt, 1989). In Nepal, sector performance is particularly influential given the varying development levels across industries like banking, hydropower, and manufacturing. Investors closely watch sectorial trends, and firms in high-performing or strategically important sectors may see their IPOs heavily underpriced to leverage investor enthusiasm. Sectors with strong historical returns, such as banking or hydropower, often experience heightened IPO demand, making sector performance a key determinant of IPO underpricing in the Nepalese context (Aggarwal, 2000).

f. Underpricing in IPO

Underpricing in Initial Public Offerings (IPOs) refers to the phenomenon where a company's shares are initially offered to the public at a price below their true market value. This results in a first-day price jump when trading begins, benefiting early investors but often leaving capital on the table for the issuing firm. One of the primary determinants of IPO underpricing is

information asymmetry between the issuing firm and potential investors. Issuers tend to underprice to mitigate the perceived risk and attract a broad base of investors. Underpricing also acts as an incentive for institutional investors and underwriters to participate, ensuring the success of the IPO by increasing demand (Rock, 1986). In the context of Nepal, IPO underpricing is influenced by market conditions, investor sentiment, and regulatory factors. Additionally, underpricing helps companies navigate the less liquid market by ensuring that shares are fully subscribed, which is crucial in smaller, emerging economies (Ritter, 1991).

3.7 Reliability Test

To determine if the questions in this questionnaire accurately measure the variables being studied, a Cronbach's Alpha (α) analysis was conducted on a sample of 161 items. The quality and consistency of the survey were evaluated using Cronbach's Alpha. This statistical measure is commonly employed to assess the reliability of a set of survey items regarding their internal consistency.

Table 3

Reliability test

Variables	No of Items	Cronbach's Alpha
GW	7	0.912
CP	7	0.910
FP	7	0.892
LOI	7	0.776
SP	7	0.697
UP	7	0.705
Average		0.815

Source: SPSS

Table 3 presents the overall Cronbach's alpha coefficient for both the independent and dependent variables, which is 0.815. A Cronbach's alpha value of 0.7 or higher is typically required for reliability. Since the Cronbach's alpha for both the dependent and independent variables exceeds 0.70, it indicates that the instruments used in this study are considered reliable (Hair et al., 2013).

CHAPTER – IV

RESULTS AND DISCUSSION

In the results and discussion section, the findings of the study are presented and analyzed in relation to the research objectives. Key trends and patterns identified through statistical analysis or data examination are highlighted, providing evidence to support the hypotheses or address the research questions. The results are then discussed in the context of existing literature, identifying similarities, differences, or new insights. Implications for theory, practice, or policy may also be suggested, while potential limitations or areas for further research are acknowledged to ensure a comprehensive understanding of the study's outcomes.

4.1.1 Analysis of Demographic Variables

The analysis of demographic variables provides a detailed understanding of the sample population in terms of key characteristics such as age, gender, education level, marital status, and family structure and current position. These variables help to segment the participants, offering insights into how different demographic groups may influence or respond to the research topic. For instance, variations in age or income may affect purchasing behaviors or decision-making processes. By examining the distribution and frequency of these demographic factors, the analysis helps to ensure that the study is representative and any observed patterns can be linked to specific segments within the population. This understanding is essential for drawing relevant conclusions and recommendations from the research findings.

The analysis of demographic variables plays a crucial role in understanding the composition of the study's participants and how these characteristics might influence the research outcomes. For example, factors such as age distribution can reveal generational differences in attitudes or behaviors, while gender may show distinct patterns in preferences or decision-making. Education level helps to gauge the respondents' knowledge or awareness of the subject, which may correlate with their responses, Furthermore, marital status, location, or family size can also offer important context for analyzing social behaviors or financial decisions.

Table 4

Analysis of Demographic Factors

Particular	Frequency	Percentage
Gender		
Male	187	53.43
Female	163	46.57
Total	350	100.00
Age		
Below 30 Years	103	29.43
30-40 Years	142	40.57
40-50 Years	74	21.14
Above 40 Years	31	8.86
Total	350	100.00
Family Structure		
Nuclear	204	58.23
Joint	146	41.77
Total	350	100.00
Marital Status		
Unmarried	197	56.29
Married	153	43.71
Total	350	100.00
Education		
Higher Secondary Level	53	15.10
Bachelors	70	20.00
Master Level	91	26.00
Others	136	38.90
Total	350	100.00
Current Position		
Junior Level	64	18.30
Officer Level	160	45.70
Managerial Level	50	14.30
Exceptional Level	76	21.70
Total	**350**	**100.00**

Field Survey: 2023/24

Table 4 provides a detailed analysis of the demographic factors of the participants involved in the study. It captures key variables such as gender, age, family structure, marital status,

education, and current position, allowing for a comprehensive understanding of the population under investigation. The table shows that the gender distribution is relatively balanced, with 53.43 percent of the respondents being male (187 individuals), and 46.57percent being female (163 individuals). This nearly equal representation ensures that the views and behaviors of both genders are adequately reflected in the analysis, contributing to the reliability of the findings.

When analyzing the age distribution, the largest group of respondents (40.57 percent) falls in the 30-40 years age bracket, with 142 individuals in this category. This is followed by 103 participants (29.43 percent) who are below 30 years, indicating that a substantial portion of the sample is relatively young. Meanwhile, 21.14 percent of respondents (74 individuals) are between the ages of 40-50 years, and only 8.86 percent (31 individuals) are above 50 years. This distribution suggests that the study predominantly includes working-age individuals who may be at various stages of career development, providing insights into how age affects perspectives or behaviors.

Regarding family structure, the data reveals that a majority of the respondents (58.23 percent) come from nuclear families, while 41.77 percent belong to joint families. This distribution highlights that nuclear families are more common among the participants, which could influence factors such as financial decision-making, household dynamics, or lifestyle choices. Understanding family structure is crucial as it may play a role in shaping the social and economic attitudes of the respondents.

In terms of marital status, the study reveals that 56.29 percent of the respondents (197 individuals) are unmarried, while the remaining 43.71 percent (153 individuals) are married. This shows a higher proportion of unmarried individuals, which could have implications on consumption patterns, saving behaviors, or lifestyle choices. Marital status often influences how people prioritize their financial and personal decisions, and this variable helps to segment the population for further analysis.

Education level is another important demographic factor represented in the table. The largest group of respondents (38.90 percent) falls into the "Others" category, which may include individuals with specialized or vocational training, certifications, or other forms of education. This is followed by 26.00 percent of respondents who have achieved a Master's level education, indicating a well-educated population. Additionally, 20.00 percent have attained a

Bachelor's degree, and 15.10 percent have completed their higher secondary education. The diversity in education levels provides a robust perspective on how different educational backgrounds may impact views, knowledge, or behaviors regarding the study topic.

Finally, the table provides insights into the current position of the respondents within their respective organizations. The largest group (45.70 percent) consists of individuals in officer-level positions, followed by 21.70 percent who hold exceptional-level positions, which could include senior management or specialized roles. Meanwhile, 18.30 percent of the participants are in junior-level positions, and 14.30 percent occupy managerial roles. This distribution reflects a range of experiences and responsibilities within the workforce, contributing to a broader understanding of how professional rank or career stage may influence attitudes, job satisfaction, or decision-making processes.

Overall, the demographic analysis in Table 4 provides a comprehensive view of the study's participants, covering a range of important variables. The balanced gender representation, age distribution focused on working-age individuals, predominance of nuclear families, and diverse educational backgrounds all contribute to the richness of the data. Additionally, the variation in current positions within the workforce offers insights into how hierarchical standing may affect the respondents' perspectives. This demographic analysis sets the foundation for understanding the broader behavioral and attitudinal trends that may emerge in the study's findings.

4.1.2 Descriptive Statistics

The descriptive statistics related to the determinants of IPO underpricing in Nepal examine key variables such as Goodwill (GW), Corporate Profile (CP), Financial Position (FP), Lack of Other Investment (LOC), Sector Performance (SP), and Underpricing (UP). These variables provide insights into how a company's reputation, financial health, and industry conditions influence the pricing of its IPO. For instance, firms with higher goodwill or a strong corporate profile may experience less underpricing, while poor financial positions or a lack of alternative investment options (LOC) could lead to higher underpricing. Sector performance (SP) also plays a critical role, as well-performing sectors are likely to see reduced underpricing. The overall descriptive statistics offer a snapshot of how these factors combine to affect IPO pricing dynamics in Nepal.

Table 5

Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
GW	7.00	24.00	13.3857	3.42372
CP	5.00	25.00	13.1629	3.68809
FP	5.00	22.00	12.8366	3.20498
LOI	5.00	22.00	12.6857	2.94607
SP	5.00	26.57	12.8624	3.25028
UP	5.17	32.00	16.9838	4.18357

Valid N (listwise) 350

Table 5 provides a comprehensive overview of the descriptive statistics for six key variables related to the determinants of Initial Public Offering (IPO) underpricing in Nepal: Goodwill (GW), Corporate Profile (CP), Financial Position (FP), Lack of Other Investment (LOI), Sector Performance (SP), and Underpricing (UP). The statistics present the minimum, maximum, mean, and standard deviation for each variable, offering insights into their distribution and variability among the sampled IPOs.

The variable Goodwill (GW), which reflects the perceived intangible value or reputation of a company, has a minimum value of 7.00 and a maximum value of 24.00, with a mean of 13.3857. The standard deviation for GW is 3.42372, indicating a moderate level of variability in the goodwill of the firms. This spread suggests that while some firms enjoy high levels of goodwill, others possess lower reputational value, possibly affecting investor confidence and IPO pricing. The mean value of approximately 13.39 suggests that the average firm in the sample has a moderate level of goodwill, which may influence the level of underpricing to some extent.

Corporate Profile (CP) measures the strength and reputation of a firm's corporate identity, ranging from a minimum of 5.00 to a maximum of 25.00, with a mean value of 13.1629. The standard deviation of 3.68809 is slightly higher than that of goodwill, indicating a broader spread in corporate profile values. This suggests that there is a greater variation in how investors perceive the corporate image of the firms in the sample, which may lead to diverse impacts on IPO underpricing. A firm with a stronger corporate profile is likely to experience

less underpricing due to increased investor trust, while firms with weaker profiles may be subject to greater underpricing.

The Financial Position (FP) of a company, as reflected in the table, has a minimum value of 5.00 and a maximum value of 22.00, with an average of 12.8366 and a standard deviation of 3.20498. The relatively close mean and median values suggest a somewhat symmetric distribution of financial positions across the firms, though the standard deviation indicates moderate variability. Firms with stronger financial positions are expected to have more stable and predictable outcomes in the IPO market, potentially reducing the extent of underpricing. In contrast, firms with weaker financial positions might face increased underpricing due to perceived risks among investors.

Lack of Other Investment (LOI), representing the scarcity of alternative investment options for investors, has a minimum value of 5.00 and a maximum of 22.00, with a mean of 12.6857 and a standard deviation of 2.94607. The relatively low variation, as evidenced by the smaller standard deviation, suggests that the perceived lack of other investment opportunities is somewhat consistent across firms. A higher LOI may lead to lower underpricing, as investors are more likely to invest in IPOs when fewer alternative opportunities exist. Conversely, when alternative investment options are abundant, IPO underpricing may increase as firms compete for investor interest.

Sector Performance (SP), which reflects the overall performance of the industry or sector in which a firm operates, ranges from a minimum of 5.00 to a maximum of 26.57, with a mean of 12.8624. The standard deviation of 3.25028 indicates moderate variability in sector performance among the sampled firms. Firms operating in high-performing sectors are likely to experience lower underpricing, as investors tend to view these sectors as more stable and lucrative. Conversely, firms in underperforming sectors may face increased underpricing due to higher perceived risks. The mean value suggests that the overall sector performance for the sampled firms is moderate, which may play a critical role in determining the final IPO pricing.

The variable Underpricing (UP), which directly measures the degree to which IPOs are underpriced, has a minimum value of 5.17 and a maximum value of 32.00, with a mean of 16.9838 and a standard deviation of 4.18357. This relatively high standard deviation indicates significant variability in the extent of underpricing across the sampled firms. The wide range

of underpricing values suggests that some firms experience minimal underpricing, while others are heavily underpriced. The average underpricing value of approximately 16.98 indicates that, on average, IPOs in Nepal are undervalued by a significant margin, which could be influenced by factors such as goodwill, corporate profile, financial position, lack of other investment options, and sector performance.

In comparing the six variables, Goodwill (GW) and Corporate Profile (CP) exhibit similar mean values (13.39 and 13.16, respectively) and standard deviations, indicating that these two factors may have a comparable influence on IPO underpricing. Both variables relate to the reputation and image of the firm, and firms with higher values for GW and CP are likely to experience lower underpricing, as investor confidence is typically higher for companies with strong goodwill and corporate profiles. Financial Position (FP) and Lack of Other Investment (LOI) also show similar mean values (12.84 and 12.69, respectively), with both variables displaying relatively low variability compared to the others. A stronger financial position generally indicates a more stable company, reducing the likelihood of underpricing, while a lack of other investment opportunities may increase investor demand for IPOs, thus lowering underpricing.

Sector Performance (SP) has a slightly higher mean (12.86) than FP and LOI, but its standard deviation (3.25) indicates that sector performance is more variable across firms. Sector performance can significantly impact underpricing, as firms in high-performing sectors are perceived as safer investments, thus experiencing less underpricing. Finally, Underpricing (UP) has the highest mean value (16.98) and a relatively high standard deviation (4.18), reflecting the broad range of underpricing levels across the firms in the sample. The significant variability in underpricing suggests that while certain firms are only minimally underpriced, others are subject to more substantial underpricing, likely influenced by the other variables in the model.

In conclusion, the descriptive statistics reveal that factors such as goodwill, corporate profile, financial position, and sector performance all play a critical role in determining the degree of underpricing in IPOs. Firms with stronger goodwill, better corporate profiles, and operating in high-performing sectors tend to experience less underpricing. Additionally, a lack of alternative investment opportunities appears to lower underpricing, as investors are more

inclined to invest in IPOs when fewer options are available. The high standard deviation in underpricing highlights the varying levels of underpricing among firms, influenced by the combined effect of these determinants.

4.2 Correlation Analysis

Correlation analysis examines the strength and direction of relationships between key variables in the study, such as Goodwill (GW), Corporate Profile (CP), Financial Position (FP), Lack of Other Investment (LOI), Sector Performance (SP), and Underpricing (UP). The analysis provides insights into how these variables interact with each other, indicating whether changes in one variable are associated with changes in another. For example, a strong negative correlation between Goodwill and Underpricing would suggest that firms with higher goodwill experience less underpricing, while a positive correlation between Sector Performance and Financial Position might indicate that firms in well-performing sectors tend to have stronger financial positions. The correlation values range from -1 to 1, with values closer to 1 or -1 indicating stronger relationships, and values near 0 suggesting weak or no association. By identifying significant correlations, the analysis helps to understand the key drivers behind IPO underpricing and how various factors contribute to this phenomenon.

Table 6

Correlation Analysis

	UP	GW	CP	FP	LOI	SP
UP	1					
GW	$.363^{**}$	1				
CP	$.438^{**}$	$.383^{**}$	1			
FP	$.382^{**}$	$.422^{**}$	$.235^{**}$	1		
LOI	$.306^{**}$	$.222^{**}$	$.225^{**}$	$.218^{**}$	1	
SP	$.296^{**}$	$.270^{**}$	$.281^{**}$	$.581^{**}$	$.238^{**}$	1

**. Correlation is significant at the 0.01 level (2-tailed).

Table 6 presents the correlation analysis between the key variables influencing Initial Public Offering (IPO) underpricing (UP) in Nepal, including Goodwill (GW), Corporate Profile (CP), Financial Position (FP), Lack of Other Investment (LOI), and Sector Performance (SP). The correlation coefficients are shown alongside their significance levels, indicating the strength and direction of the relationships between these variables. All correlations in this analysis are significant at the 0.01 level (2-tailed), suggesting robust associations among the variables.

The first notable observation from the table is the correlation between Underpricing (UP) and the other five variables. The strongest positive correlation is between UP and Corporate Profile (CP), with a correlation coefficient of 0.438**. This indicates a positive significant relationship that firms with a higher corporate profile tend to experience more underpricing. The relationship may reflect that while firms with strong reputations attract more attention, they may still underprice their IPOs to ensure investor demand and a successful offering.

Next, Goodwill (GW) shows a positive correlation with Underpricing at 0.363**, which is also moderately strong. This suggests that firms with higher goodwill tend to experience more underpricing. A possible explanation is that firms with higher goodwill might underprice their shares to maintain a favorable market perception and ensure long-term investor interest. However, this is somewhat counterintuitive, as one might expect firms with strong reputations to need less underpricing, suggesting a strategic use of underpricing even by firms with good reputations. Financial Position (FP) also shows a significant positive correlation with Underpricing, with a coefficient of 0.382**. This indicates that firms with stronger financial positions may still underprice their IPOs to attract investors. The positive relationship might reflect the broader trend in which even financially sound companies choose underpricing as a tool to boost market demand and achieve long-term market stability.

Additionally, Lack of Other Investment (LOI) has a positive correlation with Underpricing, with a coefficient of 0.306**. This suggests that when there are fewer alternative investment options available, firms might engage in underpricing to attract a broader range of investors. Underpricing in a market with fewer opportunities can help draw attention to the firm, ensuring that the IPO is well-subscribed. Lastly, Sector Performance (SP) also positively correlates with Underpricing at 0.296**, though this is the weakest correlation among the variables related to UP. This indicates that firms in better-performing sectors may still engage in underpricing,

potentially to capitalize on positive market sentiment and attract even more investors, which could lead to an oversubscribed IPO.

In addition to the correlations between Underpricing and the other variables, Table 6 provides insights into the interrelationships among the determinants of IPO underpricing. Goodwill (GW) is positively correlated with Corporate Profile (CP) (0.383**) and Financial Position (FP) (0.422**). This suggests that firms with high goodwill are more likely to have strong corporate profiles and solid financial positions. A high goodwill value often reflects a firm's strong reputation and consistent performance, which contributes to a better corporate image and financial stability. This relationship supports the idea that firms with higher goodwill not only perform better financially but also have more favorable public perceptions.

Corporate Profile (CP) is positively correlated with *Financial Position (FP) (0.235**), indicating that firms with stronger corporate profiles tend to have healthier financial standings. This relationship is relatively moderate but significant, underscoring the notion that firms with positive public perceptions often maintain better financial health. Additionally, CP is positively correlated with Sector Performance (SP) (0.281**), showing that firms with strong corporate profiles are often associated with high-performing sectors. A firm's profile can be enhanced by its sector's overall performance, as being part of a successful sector boosts the company's market standing. Financial Position (FP) shows a notably strong correlation with Sector Performance (SP) (0.581**), the highest correlation in the table. This suggests that a firm's financial position is heavily influenced by the performance of the sector it operates in. Firms in well-performing sectors are likely to have better financial results due to favorable market conditions, which can enhance profitability and stability.

Lack of Other Investment (LOI) is positively correlated with all other variables but shows the weakest correlations overall. It is most strongly correlated with Sector Performance (SP) (0.238**) and Goodwill (GW) (0.222**). This suggests that while the scarcity of other investment opportunities affects firm behavior, its influence is less pronounced compared to other factors such as financial position or corporate profile.

In comparing the correlations, Corporate Profile (CP) shows the strongest relationship with Underpricing (UP), followed closely by Financial Position (FP) and Goodwill (GW). This suggests that firms with a stronger corporate image and financial health are more likely to engage in IPO underpricing, potentially as a strategic move to attract investors or oversubscribe the IPO. The positive correlation between goodwill and underpricing might seem counterintuitive but can be explained by the firm's desire to maintain a favorable long-term relationship with investors, even if it means underpricing the IPO initially. The high correlation between Financial Position (FP) and Sector Performance (SP) reflects the importance of industry conditions in determining a firm's financial health. Firms in well-performing sectors are more likely to have solid financials, which in turn affects their IPO pricing strategies. Even though firms in strong sectors and with strong financials might not need to underprice, they often still choose to do so to ensure a successful offering and attract investor interest. The relatively weaker correlations between Lack of Other Investment (LOI) and the other variables suggest that while the scarcity of investment alternatives impacts IPO pricing, it plays a more peripheral role compared to factors such as corporate profile and sector performance.

In conclusion, the correlation analysis reveals that corporate profile, financial position, and goodwill are the key determinants of IPO underpricing in Nepal, with firms in stronger financial and sector positions still choosing to underprice their IPOs to maximize investor demand. The findings suggest that while underpricing is influenced by multiple factors, firms with stronger reputations and financial health strategically underprice to achieve better market outcomes, even in favorable market conditions.

4.3 Regression Analysis

Regression analysis provides insights into the relationship between the dependent variable, Underpricing (UP), and the independent variables, such as Goodwill (GW), Corporate Profile (CP), Financial Position (FP), Lack of Other Investment (LOI), and Sector Performance (SP). The analysis helps determine the extent to which each independent variable influences IPO underpricing. A positive coefficient for variables like Corporate Profile or Financial Position suggests that an increase in these factors is associated with higher underpricing. The regression model also assesses the overall fit of the data, usually through the R-squared value, indicating how much of the variation in underpricing is explained by the independent variables. The

results highlight which factors significantly contribute to IPO underpricing and provide a better understanding of the key determinants that affect IPO pricing in Nepal.

4.3.1 Regression Analysis of Model I

The regression of Underpricing (UP) i.e. Goodwill (GW), Corporate Profile (CP), Financial Position (FP), Lack of Other Investment (LOI), and Sector Performance (SP) impact has been analyzed by defining the UP changes in terms of determinants of initial public offering (IPO) Underpricing in Nepal. The regression of UP on initial public offering (IPO) as indicated in the table:

Table 7

Model Summary of Underpricing in IPO

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.558	0.311	0.301	3.49766

a. Predictors: (Constant), SP, LOI, GW, CP, FP

b. Dependent Variable: UP

Table 7 presents the model summary of the regression analysis for IPO underpricing (UP), with the key predictors being Sector Performance (SP), Lack of Other Investment (LOI), Goodwill (GW), Corporate Profile (CP), and Financial Position (FP). The table shows the R, R Square, Adjusted R Square, and the Standard Error of the Estimate, which provide insights into the overall fit and explanatory power of the model.

The R value represents the correlation between the observed and predicted values of Underpricing (UP). With an R value of 0.558, there is a moderate positive relationship between the predictors and the dependent variable. This suggests that the independent variables collectively explain a significant portion of the variation in IPO underpricing.

R Square indicates the proportion of the variance in the dependent variable (Underpricing) that is explained by the independent variables (SP, LOI, GW, CP, FP). In this model, the R Square value of 0.311 means that approximately 31.1percent of the variation in IPO underpricing is explained by the combined effect of these five predictors. Although this shows that the model explains a meaningful portion of the variance, it also suggests that around 68.9 percent of the

variance is still unexplained by the model, implying that other factors may also play a role in determining IPO underpricing.

The Adjusted R Square takes into account the number of predictors in the model and adjusts the R Square value accordingly. In this case, the adjusted R Square of 0.301 is slightly lower than the R Square, reflecting a small adjustment for the number of variables included. This indicates that the model still explains approximately 30.1% of the variance in underpricing after accounting for the complexity of the model. The minimal difference between R Square and Adjusted R Square suggests that the inclusion of the five independent variables is appropriate and does not over fit the model.

The standard error represents the average distance that the observed values fall from the regression line. A smaller value would indicate a better fit. In this case, a standard error of 3.49766 shows that the predictions of the model are generally off by about 3.5 units of underpricing on average, indicating moderate precision in the model's estimates.

When comparing these metrics, it is clear that the model has moderate explanatory power. The R value of 0.558 indicates a moderate positive relationship between the predictors and IPO underpricing, while the R Square value of 0.311 shows that these variables account for about 31.1 percent of the variation in underpricing. The adjusted R Square of 0.301 confirms that this explanatory power holds even after accounting for the number of predictors, indicating that the model is not over fitting. The standard error of 3.49766 suggests that while the model does provide useful estimates of IPO underpricing, there is still substantial room for improvement in terms of prediction accuracy. The relatively large standard error compared to the range of underpricing values highlights the need to consider other variables or factors that might further enhance the model's predictive power.

In conclusion, the regression model in Table 7 provides a moderate explanation of IPO underpricing based on factors such as Sector Performance, Goodwill, Corporate Profile, Financial Position, and Lack of Other Investment. While these variables collectively explain about 31.1 percent of the variation in underpricing, a significant portion of the variance remains unexplained, suggesting that other factors may also influence IPO pricing decisions in Nepal. The moderate standard error also implies that the model's predictions are not highly precise,

highlighting the need for further refinement or inclusion of additional variables to improve accuracy.

Table 8

Analysis of Variance of Underpricing in IPO

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1899.916	5	379.983	31.061	0.000
	Residual	4208.368	344	12.234		
	Total	6108.284	349			

a. Dependent Variable: UP

b. (Constant), SP, LOI, GW, CP, FP

Table 8 presents the results of the Analysis of Variance (ANOVA) for the regression model examining the determinants of IPO underpricing (UP) in Nepal. This table provides a breakdown of the variance in underpricing into two components: the variance explained by the regression model (Regression Sum of Squares) and the variance unexplained by the model (Residual Sum of Squares). The key metrics presented in the table include the Sum of Squares, degrees of freedom (df), Mean Square, F-statistic (F), and the significance level (Sig.).

This value represents the total variation in IPO underpricing that is explained by the regression model, which includes the independent variables Sector Performance (SP), Lack of Other Investment (LOI), Goodwill (GW), Corporate Profile (CP), and Financial Position (FP). A higher regression sum of squares indicates that the model explains a significant portion of the variation in the dependent variable. The residual sum of squares captures the variation in underpricing that remains unexplained by the model. In this case, the residual sum of squares is higher than the regression sum of squares, indicating that a larger portion of the variance in IPO underpricing is still unaccounted for by the independent variables in the model.

The total sum of squares represents the overall variation in underpricing across all observations. It is the sum of the regression sum of squares and the residual sum of squares. This value provides a baseline against which the performance of the regression model can be assessed. The fact that the regression sum of squares is about 31.1percent of the total sum of squares aligns with the R-Squared value from the model summary (as shown in Table 7),

confirming that approximately 31.1percent of the variation in underpricing is explained by the independent variables.

The degrees of freedom for the regression component is 5, representing the number of independent variables (SP, LOI, GW, CP, and FP) included in the model. The degrees of freedom for the residual is 344, which corresponds to the number of observations minus the number of estimated parameters. The total degrees of freedom is 349, which matches the sample size.

The mean square is calculated by dividing the sum of squares by the corresponding degrees of freedom. The mean square for the regression is 379.983, which represents the average amount of variation in underpricing explained by each predictor in the model. The mean square for the residual is 12.234, which represents the average amount of unexplained variation. A lower residual mean square indicates a more accurate model, though here the residual mean square is still relatively large compared to the regression mean square. The F-statistic measures the overall significance of the regression model. A higher F-statistic indicates that the model explains a significant amount of the variation in the dependent variable relative to the residuals. In this case, the F-statistic of 31.061 is quite large, demonstrating that the regression model is statistically significant. This value compares the variance explained by the model to the variance left unexplained, and a high value indicates that the independent variables together have a meaningful impact on IPO underpricing.

The significance level (Sig.) indicates the probability that the observed F-statistic could occur by chance. Here, the p-value is 0.000, which is well below the conventional threshold of 0.05. This shows that the regression model is statistically significant, meaning the likelihood that the independent variables (SP, LOI, GW, CP, and FP) collectively have no effect on underpricing is extremely low. Therefore, we can confidently reject the null hypothesis that the independent variables have no impact on IPO underpricing.

The ANOVA table provides key insights into the effectiveness of the regression model. The relatively high regression sum of squares compared to the residual sum of squares indicates that while the model explains a substantial portion of the variation in underpricing, there remains a significant amount of unexplained variance. The high F-statistic and the corresponding significance level confirm that the model as a whole is statistically significant,

meaning that the independent variables collectively influence IPO underpricing in a meaningful way. However, it is important to note that while the model is significant, the residual sum of squares is still quite large, suggesting that there may be other factors influencing IPO underpricing that are not captured by the current model. The unexplained variance (residuals) could be reduced by including additional predictors or refining the model to account for other important determinants of IPO underpricing in Nepal.

In conclusion, the ANOVA results in Table 8 provide strong evidence that the independent variables, including Sector Performance, Lack of Other Investment, Goodwill, Corporate Profile, and Financial Position, collectively have a significant effect on IPO underpricing. The regression model explains about 31.1percent of the variance in underpricing, which is statistically significant as evidenced by the high F-statistic and a p-value of 0.000. However, the relatively large residual sum of squares and mean square indicate that a considerable portion of the variance in IPO underpricing remains unexplained, suggesting the need for further exploration of additional factors or a more nuanced model to capture the complexity of IPO pricing dynamics in Nepal.

Table 9

Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t-value	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.780	1.143		3.306	0.001
	GW	0.141	0.064	0.115	2.198	0.029
	CP	0.342	0.057	0.302	6.049	0.000
	FP	0.286	0.076	0.219	3.742	0.000
	LOI	0.229	0.067	0.161	3.415	0.001
	SP	0.019	0.072	0.015	0.267	0.790

Dependent Variable: UP

Table 9 provides the regression coefficients of the determinants of IPO underpricing (UP) in Nepal, focusing on the impact of the independent variables Goodwill (GW), Corporate Profile (CP), Financial Position (FP), Lack of Other Investment (LOI), and Sector Performance (SP). The table includes both unstandardized and standardized coefficients, along with the t-values

and significance levels (Sig.) for each predictor. The analysis helps to understand the relative contribution of each factor to IPO underpricing and whether these contributions are statistically significant.

The constant term represents the predicted value of IPO underpricing when all the independent variables are zero. In this case, the constant is 3.780, meaning that even if none of the independent variables (GW, CP, FP, LOI, and SP) have an effect, the model predicts a baseline level of underpricing of 3.780 units. The significance level (Sig. = 0.001) indicates that the constant is statistically significant, confirming that underpricing would still exist even in the absence of the other variables.

The unstandardized coefficient for Goodwill is 0.141, which means that for every one-unit increase in Goodwill, IPO underpricing increases by 0.141 units, holding all other variables constant. The positive significant relationship with IPO underpricing i.e. the t-value of 2.198 and significance level of 0.029 indicate that Goodwill has a statistically significant impact on underpricing at the 5% level.

The unstandardized coefficient for Corporate Profile is 0.342, indicating that a one-unit increase in CP results in a 0.342-unit increase in IPO underpricing, all else being equal. This is one of the strongest predictors in the model, as reflected by the high t-value of 6.049 and a very low p-value (0.000), demonstrating that Corporate Profile has a highly significant positive effect on underpricing. The standardized coefficient (Beta = 0.302) further confirms that CP has one of the largest relative impacts on the dependent variable.

The coefficient for Financial Position is 0.286, meaning that a one-unit increase in FP is associated with a 0.286-unit increase in underpricing. The t-value of 3.742 and significance level of 0.000 indicate that this variable is also highly significant. The standardized coefficient (Beta = 0.219) suggests that Financial Position plays an important role, though its effect is somewhat smaller compared to Corporate Profile. Overall, firms with stronger financial positions tend to experience higher levels of underpricing.

The coefficient for Lack of Other Investment is 0.229, suggesting that a one-unit increase in LOI is associated with a 0.229-unit increase in IPO underpricing. This positive relationship implies that when there are fewer alternative investment opportunities available, IPO

underpricing tends to rise. The t-value of 3.415 and significance level of 0.001 show that LOI is a statistically significant predictor, although its effect is smaller than that of Corporate Profile and Financial Position. Unlike the other variables, Sector Performance has an unstandardized coefficient of 0.019, which is close to zero. This suggests that Sector Performance has very little influence on IPO underpricing. The t-value of 0.267 and p-value of 0.790 indicate that SP is not a statistically significant predictor of underpricing in this model. Therefore, while other variables like Goodwill, Corporate Profile, Financial Position, and Lack of Other Investment have meaningful impacts on underpricing, Sector Performance does not appear to play a significant role.

When comparing the effects of the different independent variables, it is evident that Corporate Profile (CP) has the largest impact on IPO underpricing, with the highest unstandardized coefficient (B = 0.342) and the largest standardized coefficient (Beta = 0.302). This suggests that firms with stronger corporate profiles are more likely to experience higher levels of underpricing. Financial Position (FP) and Lack of Other Investment (LOI) also have significant positive effects on underpricing, though their impacts are slightly smaller than that of Corporate Profile. Goodwill (GW) also plays a significant role in explaining IPO underpricing, but its effect is relatively weaker compared to Corporate Profile and Financial Position. This indicates that while a company's reputation or brand strength influences underpricing, it is less important than the firm's overall financial strength or profile. On the other hand, Sector Performance (SP) shows no significant impact on IPO underpricing. This could suggest that the overall performance of the sector in which a firm operates does not strongly affect how much an IPO is underpriced. Investors might place more importance on firm-specific factors like financial position and corporate reputation rather than broader sector trends when determining IPO pricing.

In conclusion, the regression coefficient analysis reveals that certain firm-specific factors, such as Corporate Profile, Financial Position, and Goodwill, significantly influence IPO underpricing in Nepal. Among these, Corporate Profile has the strongest effect, followed by Financial Position and Lack of Other Investment. Goodwill also contributes meaningfully to underpricing but to a lesser extent. Meanwhile, Sector Performance is found to have an

insignificant impact, suggesting that investors may not weigh sector-wide performance heavily when assessing IPO pricing.

These findings highlight the importance of firm-level characteristics in determining IPO underpricing. Firms that present a strong financial position, maintain a robust corporate profile, and have high goodwill are more likely to see higher levels of IPO underpricing. Additionally, when alternative investment opportunities are scarce, IPO underpricing tends to increase. Thus, companies looking to manage underpricing should focus on enhancing their corporate reputation, financial health, and ensuring a favorable investment environment to reduce the gap between IPO offer prices and market prices.

4.4 Discussion

The determinants of Initial Public Offering (IPO) underpricing in Nepal are influenced by various factors, both internal and external to the issuing companies. Goodwill (GW) plays a significant role, as companies with higher market reputation and trust tend to experience lower underpricing, as investors are more confident in their performance. Corporate Profile (CP), including the firm's size, age, and visibility, also impacts underpricing, with larger or well-established firms generally facing less underpricing due to their perceived stability. Moreover, the Financial Position (FP) of a company, such as its profitability, liquidity, and capital structure, influences investor confidence and affects the pricing during IPOs.

External factors, such as the Sector Performance (SP), further contribute to IPO underpricing. Industries with robust growth trends or positive investor sentiment often witness less underpricing. In contrast, in sectors with volatile performance or uncertainty, IPO underpricing tends to be higher. The Lack of Other Investment Choices (LOC) in the market also drives underpricing, as limited alternatives may increase demand for new IPOs, reducing the discount. Collectively, these factors highlight the dynamic interaction between company-specific attributes and broader market conditions in determining IPO underpricing in Nepal.

The result showed positive significant impact of GW on UP in IPO. The result is consistent with Steven et al. (2023), Heriyanto et al. (2023), Dhungana et al. (2023), Karki et al. (2024) and the result contradict with Rudianto et al. (2022), Oliveira (2023), Niroula (2024) , The findings demonstrate that factors, including the corporate profile, financial position, IPO size,

short-term returns, market rumors, goodwill, and sector performance, significantly influence IPO investment decisions among Nepalese investors. These findings emphasize the pivotal role of a company's financial health for both short-term and long-term investment gains. Investors prioritize corporate profile, financial position, and short-term returns when making IPO investment decisions.

The result showed positive significant impact of CP on UP in IPO. The result is consistent with Gnawali and Niroula (2021), Heriyanto et al. (2023), Dhungana et al. (2023), Steven et al. (2023), Karki et al. (2024) and the result contradict with Pokharel (2018), Singh et al. (2019), Subedi and Danga (2022), Budhathoki et al. (2023), the study revealed that quality management, company goodwill, company performance, company sector, and market information are the highly considerable factors before making investment decisions in IPO.

The result showed positive significant impact of FP on UP in IPO. The result is consistent with Gnawali and Niroula (2021), Heriyanto et al. (2023), Karki et al. (2024) and the result contradict with Singh et al. (2019), Subedi and Danga (2022), Budhathoki et al. (2023), the study revealed that quality management, company goodwill, company performance, company sector, and market information are the highly considerable factors before making investment decisions in IPO.

The result showed positive significant impact of LOI on UP in IPO. The result is consistent with Gnawali and Niroula (2021), Steven et al. (2023), Heriyanto et al. (2023), Dhungana et al. (2023), Karki et al. (2024) and the result contradict with Rudianto et al. (2022), Oliveira (2023), Niroula (2024) , The findings demonstrate that factors, including the corporate profile, financial position, IPO size, short-term returns, market rumors, goodwill, and sector performance, significantly influence IPO investment decisions among Nepalese investors.

The result showed insignificant impact of SP on UP in IPO. The result is consistent with Heriyanto et al. (2023), Dhungana et al. (2023), Karki et al. (2024) and the result contradict with Pokharel (2018), Singh et al. (2019), Subedi and Danga (2022), Budhathoki et al. (2023), this study's relevance lies in its contribution to improving IPO investment decisions, thereby benefiting investors, companies, and regulatory bodies in the context of the Nepalese stock market.

The analysis of the determinants of Initial Public Offering (IPO) underpricing in Nepal reveals several significant factors that contribute to the gap between the offer price and the market price on the first trading day. Key firm-specific variables such as Corporate Profile (CP), Financial Position (FP), Goodwill (GW), and Lack of Other Investment (LOI) play a critical role in influencing underpricing levels. Among these, Corporate Profile emerges as the most impactful determinant, indicating that firms with stronger corporate reputations are more likely to experience higher IPO underpricing. Similarly, a firm's Financial Position significantly affects underpricing, suggesting that investors tend to reward financially stable firms by underpricing their shares more. Goodwill also contributes positively, although to a lesser extent, implying that companies with a strong brand image or reputation tend to see higher levels of underpricing. Furthermore, the scarcity of alternative investment opportunities, as captured by Lack of Other Investment, drives higher underpricing, as investors flock toward IPOs in the absence of other viable investment avenues.

The determinants of Initial Public Offering (IPO) underpricing in Nepal reflect a complex interaction of firm-specific characteristics and market dynamics. Among the critical variables, the Corporate Profile (CP) emerges as the most influential factor, highlighting that firms with a strong reputation and solid corporate image tend to experience higher levels of underpricing. Similarly, the Financial Position (FP) of a company plays a significant role, with financially stable firms being rewarded with increased demand during IPOs. Additionally, Goodwill (GW) contributes positively to underpricing, although its impact is less pronounced compared to CP and FP. A strong brand image or favorable reputation enhances investor sentiment, further increasing demand during the IPO process. The Lack of Other Investment (LOI) opportunities also significantly affects underpricing levels. In a market like Nepal, where alternative investment options are relatively scarce, IPOs become a preferred choice for investors seeking higher returns, intensifying the demand-supply imbalance and leading to higher underpricing. These findings underline the importance of both firm-specific factors, such as corporate reputation and financial health, and broader market conditions, such as investment scarcity, in shaping IPO outcomes. Understanding these determinants can provide valuable insights for companies, investors, and policymakers aiming to navigate and optimize Nepal's IPO market.

CHAPTER–V

SUMMARY AND CONCLUSION

This chapter provides a concise summary of the findings and conclusions derived from the data analysis presented in the previous chapter. It also interprets these findings to form generalizations. Based on the results, several recommendations and suggestions for future research are offered. The chapter is organized into three sections: the first section presents a summary of the findings, the second section discusses the conclusions of the study, and the third section offers implications and suggestions for further research.

5.1 Summary

This study has been conducted with the aim of identifying the determinants of initial public offering (IPO) underpricing in Nepal. The main objectives of this study are to examine the perception of investors towards IPO in Nepal, to analyze the relationship between different factors on underpricing in IPO and to examine the impacts of different factors on underpricing in IPO. The limitation of this study are this research is concentrated in Kathmandu valley is considered for the study which may not represent the whole demographic territory of Nepal. Many factors affect the subject of initial public offering through it is not possible to study all factors, this study have limited to the study of some factors such as Goodwill, Corporate Profile, Financial Position, Lack of other investment and Sector performance. This research is based on descriptive and casual-comparative research design. Sample size of 350 has been used in collecting primary data to present the results the population for this research includes all companies listed up to the fiscal year 2022/23, with 244 companies listed as of August 4, 2024, basically, data are taken only from primary sources through questionnaire, and therefore reliability of data depends on the respondent. Statistical tools i.e. (descriptive statistics, correlation, ANOVA and multiple regression analysis only) were used to present data. Goodwill (GW), Corporate Profile (CP), Financial Position (FP), Lack of other Investment (LOI) and Sector Performance (SP) are the independent variables whereas underpricing in IPO (UP) is dependent variable in this study.

The correlation analysis Corporate Profile (CP) shows the strongest relationship with Underpricing (UP), followed closely by Financial Position (FP) and Goodwill (GW). This

suggests that firms with a stronger corporate image and financial health are more likely to engage in IPO underpricing, potentially as a strategic move to attract investors or oversubscribe the IPO. The positive correlation between goodwill and underpricing might seem counterintuitive but can be explained by the firm's desire to maintain a favorable long-term relationship with investors, even if it means underpricing the IPO initially. The high correlation between Financial Position (FP) and Sector Performance (SP) reflects the importance of industry conditions in determining a firm's financial health. Firms in well-performing sectors are more likely to have solid financials, which in turn affects their IPO pricing strategies.

The study on the determinants of Initial Public Offering (IPO) underpricing in Nepal identifies several key factors that significantly influence the degree of underpricing. The analysis reveals that firm-specific characteristics, such as Corporate Profile (CP), Financial Position (FP), Goodwill (GW), and Lack of Other Investment (LOI), play a crucial role in determining the extent of underpricing. Corporate Profile emerges as the strongest predictor, with firms possessing a robust reputation experiencing higher underpricing levels. Similarly, Financial Position and Goodwill positively impact underpricing, highlighting the importance of a firm's financial health and brand image. The scarcity of alternative investment opportunities, reflected by LOI, also leads to increased underpricing. However, Sector Performance (SP) does not show a significant effect, suggesting that investors prioritize firm-specific over sector-wide factors when evaluating IPOs in Nepal. These findings underscore the critical influence of a company's internal attributes on IPO underpricing in the Nepalese market.

5.2 Conclusion

The conclusion of the study on the determinants of Initial Public Offering (IPO) underpricing in Nepal highlights that firm-specific factors, such as Corporate Profile (CP), Financial Position (FP), Goodwill (GW), and Lack of Other Investment (LOI), are the primary drivers of IPO underpricing in the Nepalese market. Among these, Corporate Profile has the most significant impact, followed by Financial Position, emphasizing the importance of a firm's reputation and financial strength in influencing investor behavior and market pricing. Goodwill and the availability of alternative investment options also contribute to underpricing, though to a lesser extent. In contrast, Sector Performance (SP) is not a significant determinant, indicating that investors are more focused on company-specific characteristics than on broader

sector trends when pricing IPOs in Nepal. These findings suggest that companies aiming to reduce underpricing should enhance their corporate image and financial stability.

The descriptive statistics reveal that factors such as goodwill, corporate profile, financial position, and sector performance all play a critical role in determining the degree of underpricing in IPOs. Firms with stronger goodwill, better corporate profiles, and operating in high-performing sectors tend to experience less underpricing. Additionally, a lack of alternative investment opportunities appears to lower underpricing, as investors are more inclined to invest in IPOs when fewer options are available. The high standard deviation in underpricing highlights the varying levels of underpricing among firms, influenced by the combined effect of these determinants.

The correlation analysis reveals that, Corporate Profile (CP) shows the strongest relationship with Underpricing (UP), followed closely by Financial Position (FP) and Goodwill (GW). This suggests that firms with a stronger corporate image and financial health are more likely to engage in IPO underpricing, potentially as a strategic move to attract investors or oversubscribe the IPO. The positive correlation between goodwill and underpricing might seem counterintuitive but can be explained by the firm's desire to maintain a favorable long-term relationship with investors, even if it means underpricing the IPO initially. The high correlation between Financial Position (FP) and Sector Performance (SP) reflects the importance of industry conditions in determining a firm's financial health. Firms in well-performing sectors are more likely to have solid financials, which in turn affects their IPO pricing strategies.

The regression coefficient analysis reveals that certain firm-specific factors, such as Corporate Profile, Financial Position, and Goodwill, significantly influence IPO underpricing in Nepal. Among these, Corporate Profile has the strongest effect, followed by Financial Position and Lack of Other Investment. Goodwill also contributes meaningfully to underpricing but to a lesser extent. Meanwhile, Sector Performance is found to have an insignificant impact, suggesting that investors may not weigh sector-wide performance heavily when assessing IPO pricing. These findings highlight the importance of firm-level characteristics in determining IPO underpricing. Firms that present a strong financial position, maintain a robust corporate profile, and have high goodwill are more likely to see higher levels of IPO underpricing.

The study concludes that IPO underpricing in Nepal is significantly influenced by factors such as a company's goodwill, corporate profile, financial position, the scarcity of alternative investment opportunities, and the overall sector performance. These determinants collectively impact investor perception, leading to the consistent underpricing of IPOs in the Nepalese market. The findings suggest that companies with stronger financials and positive sector outlooks tend to experience less underpricing. The research also highlights the need for greater transparency and market efficiency to reduce underpricing levels, benefiting both investors and issuing companies. This study bridges a research gap and offers a foundation for future analysis of IPO dynamics in emerging markets like Nepal.

5.3 Implications

The study of the determinants of Initial Public Offering (IPO) underpricing in Nepal provides valuable insights for investors, regulators, and companies planning to go public. It highlights the key factors, such as goodwill, corporate profile, financial position, lack of other investment opportunities, and sector performance, that contribute to the degree of underpricing in the Nepalese market. Understanding these determinants helps in predicting stock price behavior post-IPO, enabling investors to make informed decisions and potentially capitalize on underpriced stocks. For companies, it informs strategies to minimize underpricing, improving capital raising efficiency.

The correlation analysis reveals that, Corporate Profile (CP) shows the strongest relationship with Underpricing (UP), followed closely by Financial Position (FP) and Goodwill (GW). This suggests that firms with a stronger corporate image and financial health are more likely to engage in IPO underpricing, potentially as a strategic move to attract investors or oversubscribe the IPO. The positive correlation between goodwill and underpricing might seem counterintuitive but can be explained by the firm's desire to maintain a favorable long-term relationship with investors, even if it means underpricing the IPO initially. The high correlation between Financial Position (FP) and Sector Performance (SP) reflects the importance of industry conditions in determining a firm's financial health.

The regression coefficient analysis reveals that certain firm-specific factors, such as Corporate Profile, Financial Position, and Goodwill, significantly influence IPO underpricing in Nepal. Among these, Corporate Profile has the strongest effect, followed by Financial Position and

Lack of Other Investment. Goodwill also contributes meaningfully to underpricing but to a lesser extent. Meanwhile, Sector Performance is found to have an insignificant impact, suggesting that investors may not weigh sector-wide performance heavily when assessing IPO pricing. These findings highlight the importance of firm-level characteristics in determining IPO underpricing.

The implications of the study on the determinants of Initial Public Offering (IPO) underpricing in Nepal suggest that firms looking to minimize underpricing should focus on strengthening key internal factors, such as their Corporate Profile and Financial Position. Given the significant influence of these variables on underpricing, companies can enhance their reputation and financial stability to attract better market valuation during IPOs. Additionally, the role of Goodwill and the availability of alternative investments (Lack of Other Investment) highlights the importance of brand strength and the broader investment landscape. Policymakers and market regulators may also consider these findings to improve market transparency and help firms better prepare for IPOs.

Recommendations for the future research are as follows;

- This study is conducted for an academic purpose. Thus, the sample size has taken in small size to draw effective conclusion. So, further researchers can surge the large sample size to reduce the errors and have more accurate results and using larges sampling other development banks, commercial banks, microfinance, manufacturing companies and other institutions too.

- This research is conducted with reference to determinants of initial public offering (IPO) underpricing in Kathmandu valley. This study does not include the determinants of initial public offering (IPO) underpricing all over the Nepal. The clients who are involved in the initial public offering are considered for the study. In future, the study can be conducted from other district and provinces too.

- This study was conducted on quantitative approach. Others approaches such as qualitative, mixed approach can be used by further researchers.

- The analysis of the study was done through correlation, regression and ANOVA analysis. Others statistical methods such as Structural Equation Modeling, Factors Analysis etc. can be used for further research.

REFERENCES

Adhikari, G. (2017). Perception of investors towards Initial Public Offering (IPO) in Nepal: With reference to Kathmandu district. *International Journal of Innovation Scientific Research and Review*, *2*(6), 244-249.

Adhikari, H. C. (2017). Factor influencing individual investors' behavior during Initial Public Offering (IPO) in Nepal. *An unpublished master degree thesis, Central Department of Management, Tribhuvan University*, 1-57.

Aggarwal, R. (2000). Stabilization Activities by Underwriters after Initial Public Offerings. *Journal of Finance, 55*(3), 1075-1103.

Aggarwal, R., Leal, R., & Hernandez, L. (1993). The aftermarket performance of initial public offerings in Latin America. *Financial Management, 22*(1), 42-53.

Agrawal, A. (2023). IPO performance anomaly: evidence from new aged ventures and loss-making listings in India. *Journal of Advances in Management Research*.9 ((1), 12-21.

Ahmed, A. A., Fathy, B. A. G., & Samak, N. A. A. (2024). The determinants of IPO initial returns in emerging markets: a quantile regression. *International Journal of Emerging Markets*, *19*(1), 211-230.

Allen, F., & Faulhaber, G. R. (1989). Signaling by underpricing in the IPO market. *Journal of Financial Economics, 23*(2), 303-323.

Amihud, Y., & Mendelson, H. (1986). Asset pricing and the bid-ask spread. *Journal of Financial Economics, 17*(2), 223-249.

Astuti, D. K., & Djamaluddin, S. (2021). Underpricing Determinants on the Public Offering of Primary Shares (IPO) in Indonesia Stock Exchange 2015-2019. *Dinasti International Journal of Economics, Finance & Accounting*, *2*(1), 28-45.

Bajo, E., & Raimondo, C. (2017). Media sentiment and IPO underpricing. *Journal of Corporate Finance*, *4(6)*, 139-153.

Baron, D. P. (1982). A model of the demand for investment banking advising and distribution services for new issues. *The Journal of Finance, 37*(4), 955-976.

Beatty, R. P., & Welch, I. (1996). Issuer Expenses and Legal Liability in Initial Public Offerings. *Journal of Law and Economics, 39*(2), 545-602.

Beatty, R.P., & Ritter, J.R. (1986). Investment Banking, Reputation, and the Underpricing of Initial Public Offerings. *Journal of Financial Economics, 15*(1-2), 213-232.

Benveniste, L. M., & Spindt, P. A. (1989). How investment bankers determine the offer price and allocation of new issues. *Journal of Financial Economics, 24*(2), 343-361.

Booth, J. R., & Chua, L. (1996). Ownership dispersion, costly information, and IPO underpricing. *Journal of Financial Economics, 41*(2), 291-310.

Booth, J. R., & Smith, R. L. (1986). Capital raising, underwriting and the certification hypothesis. *Journal of Financial Economics, 15*(1-2), 261-281.

Brennan, M. J., & Franks, J. (1997). Underpricing, ownership, and control in initial public offerings of equity securities in the UK. *Journal of Financial Economics, 45*(3), 391-413.

Budhathoki, A., Devkota, N., Mahapatra, S., Panta, B. P., Paudel, U. R., Khanal, G., & Dhanusk, K. (2023). Determinants of Investors' Awareness of Online Trading in the Nepal Stock Market: An Empirical Assessment Using Binary Logit Model. *Quest Journal of Management and Social Sciences*, *5*(2), 244-257.

Carter, R., & Manaster, S. (1990). Initial public offerings and underwriter reputation. *The Journal of Finance, 45*(4), 1045-1067.

Carter, R.B., Dark, F.H., & Singh, A.K. (1998). Underwriter Reputation, Initial Returns, and the Long-Run Performance of IPO Stocks. *Journal of Finance, 53*(1), 285-311.

Chemmanur, T. J. (1993). The pricing of initial public offerings: A dynamic model with information production. *The Journal of Finance, 48*(1), 285-304.

Cornelli, F., Goldreich, D., & Ljungqvist, A. P. (2006). Investor sentiment and pre-IPO markets. *Journal of Finance, 61*(3), 1187-1216.

Derrien, F. (2023). IPO pricing in "hot" market conditions: Who leaves money on the table? *The Journal of Finance, 60*(1), 487-521.

Dhungana, B. R., Kunwar, S., Ojha, D., Lamichane, K., & Acharya, S. (2023). Factors Affecting Investor Decisions on Initial Public Offering in Nepal.

Diouf, M., Hebb, T., & S (2019). Exploring factors that influence social retail investors' decisions: Evidence from Desjardins fund. *Journal of Business Ethics*, *13(4)*, 45-67.

Field, L. C., & Lowry, M. (2009). Institutional versus individual investment in IPOs: The importance of firm fundamentals. *Journal of Financial and Quantitative Analysis, 44*(3), 489-516.

Ghosh, S. (2021). Underpricing of initial public offerings: The Indian experience over the last decade. *Emerging Markets Review, 6*(1), 15-32.

Gnawali, A., & Niroula, B. (2021). The perception of investors towards initial public offering: Evidence of Nepal. *Jurnal Manajemen Terapan dan Keuangan*, *10*(1), 76-86.

Grinblatt, M., & Hwang, C. Y. (1989). Signalling and the pricing of new issues. *The Journal of Finance, 44*(2), 393-420.

Gulzar, A., Khan, A. J., & Rafiq, S. (2020). Economic Analysis of Initial Public Offering Underpricing in Stock Market of Pakistan. *International Journal of Economics and Financial Issues*, *10*(4), 198-105.

Hanley, K. W., & Hoberg, G. (2010). The information content of IPO prospectuses. *Review of Financial Studies, 23*(7), 2821-2864.

Heriyanto, H., Chen, M., & Lyani, E. (2023). What are the determinants of underpricing in Initial Public Offerings? Evidence from Indonesia. *Journal of Enterprise and Development (JED)*, *5*(Special-Issue-1), 182-200.

How, J. C. Y., & Low, S. W. (2011). Signaling through underpricing: A study of pre-IPO information in an emerging market. *Pacific-Basin Finance Journal, 19*(1), 1-18.

Hughes, P. J., & Thakor, A. V. (1992). Litigation risk, IPO underpricing, and innovation. *The Review of Financial Studies, 5*(4), 709-742.

Ibbotson, R. G. (1975). Price performance of common stock new issues. *Journal of Financial Economics, 2*(3), 235-272.

Ibbotson, R. G., Sindelar, J. L., & Ritter, J. R. (1988). Initial public offerings. *Journal of Applied Corporate Finance, 1*(2), 37-45.

Ibbotson, R.G. (1975). Price Performance of Common Stock New Issues. *Journal of Financial Economics, 2*(3), 235-272.

Jegadeesh, N., Weinstein, M., & Welch, I. (1993). An empirical investigation of IPO returns and subsequent equity offerings. *Journal of Financial Economics, 34*(2), 153-175.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3(4)*, 305-360.

Joshi, M. (2019). Driving Venture Capital Interest: The Influence of the Big 4 Audit Firms on IPOs. *Journal of Risk and Financial Management*, *17*(7), 292-303.

Kandel, B. (2022). Investors' Perception towards IPO in Khairahani Municipality, Chitwan. *Journal of Bhuwanishankar*, *1*(1), 54-68.

Karki, D., Bhattarai, G., Dahal, R. K., & Sanjel, N. (2024). Investment Decisions in Initial Public Offerings and Over-Subscription Perceptions among Investors. *Corporate Governance and Organizational Behavior Review*, *8*(1), 105-114.

Khatri, N. N. (2017). Factors influencing investors' investment in initial public offering. *International Journal of Management and Applied Science*, *3*(7), 41-49.

Leila, B., & Farshid, A. (2014). Study of factors affecting the initial public offering (IPO) price of the shares on the Tehran Stock Exchange. *Research in World Economy*, *5*(2), 68-77.

Ljungqvist, A., Nanda, V., & Singh, R. (2006). Hot markets, investor sentiment, and IPO pricing. *Journal of Business, 79*(4), 1667-1702.

Ljungqvist, A.P. (2007). IPO Underpricing. Handbook of Corporate Finance: *Empirical Corporate Finance*, 1, 375-422.

Loughran, T., & Ritter, J. R. (2002). Why don't issuers get upset about leaving money on the table in IPOs? *The Review of Financial Studies, 15*(2), 413-444.

Loughran, T., & Ritter, J. R. (2018). Why has IPO underpricing changed over time? *Financial Management, 33*(3), 5-37.

Lowry, M., & Schwert, G. W. (2002). IPO Market Cycles: Bubbles or Sequential Learning? *Journal of Finance, 57*(3), 1171-1200.

Lowry, M., & Shu, S. (2002). Litigation risk and IPO underpricing. *Journal of Financial Economics, 65*(3), 309-335.

Megginson, W. L., & Weiss, K. A. (1991). Venture capitalist certification in initial public offerings. *The Journal of Finance, 46*(3), 879-903.

Mehmood, W., Rashid, R. M., & Tajuddin, A. H. (2021). A review of IPO underpricing: Evidences from developed, developing and emerging markets. *Journal of Contemporary Issues and Thought*, *11*, 1-19.

Niroula, A. (2024). Analysis of IPOs in Developed and Emerging Markets: *Comparative study of Finland and Nepal.*

Oliveira, C. H. F., Rodrigues, C. L., & Jucá, M. N. (2023). Determinants of IPO´ s Underpricing: A Systematic Review. *Contemporary Economics, 17*(3), 57-63.

Panda, S., & Tripathy, S. K. (2021). Exchange rate forecasting using ensemble modeling for better policy implications. *Journal of Time Series Econometrics*, *13*(1), 43-71.

Pandey, P., & Adhikari, S. (2021). Impact of Regulatory Framework on IPO Underpricing in Nepal. *Journal of Financial Studies, 9*(1), 77-89.

Paudel, R., & Shrestha, N. (2020). Determinants of IPO Underpricing: Evidence from Nepal. *Journal of Business and Social Sciences, 6*(2), 45-58.

Pokharel, P. R. (2018). A Survey of Investors preference on stock market: A case of Nepal Stock Exchange. *Saptagandaki Journal*, *9*, 53-61.

Poudel,. N. (2020). Investment Decisions in Initial Public Offerings and Over-Subscription Perceptions among Investors. *Corporate Governance and Organizational Behavior Review*, *8*(1), 105-114.

Ritter, J. R. (1998). Initial public offerings. In P. Newman (Ed*.). The New Palgrave Dictionary of Economics and the Law*, 9(5), 539-542.

Ritter, J. R., & Welch, I. (2002). A review of IPO activity, pricing, and allocations*. The Journal of Finance, 57*(4), 1795-1828.

Ritter, J.R. (1991). The Long-Run Performance of Initial Public Offerings. *Journal of Finance, 46*(1), 3-27.

Ritter, J.R., & Welch, I. (2002). A Review of IPO Activity, Pricing, and Allocations. *Journal of Finance, 57*(4), 1795-1828.

Rock, K. (1986). Why New Issues Are Underpriced. *Journal of Financial Economics, 15*(1-2), 187-212.

Roy, P., & Gupta, A. (2022). A study into determinants of underpricing of initial public offerings in India during 2015-2020. *International Journal of Economics and Accounting*, *11*(3), 271-292.

Rudianto, D., Ratnawati, R. A., Susanto, B., & Susilo, T. P. (2022). Determinants of the underpricing rate of stocks (study on companies conducting IPO on the IDX).

Sarwar, M. S., & Darwin, C. (2016). Investors Attitude towards the Stock Market: A Study in Dhaka City, Bangladesh. *Int. J. of Multidisciplinary and Current research*, *4*(3), 52-56.

Setya, V. A., Supriani, I., & Fianto, B. A. (2020). Determinants of underpricing in Islamic and non-Islamic shares on IPO. *Shirkah: Journal of Economics and Business*, *5*(1), 70-100.

Sherman, A. E. (2005). Global Trends in IPO Methods: Book Building versus Auctions with Endogenous Entry. *Journal of Financial Economics, 78*(3), 615-649.

Shrestha, B. (2018). IPO Underpricing in Nepalese Capital Market. *Nepalese Journal of Management, 5*(1), 123-139.

Shrestha. R. (2018). Short run performance of initial public offerings in Nepal. *Journal of Nepalese Management Academia*, *1*(1), 63-72.

Singh, A. K., Maurya, S., & Mohapatra, A. K. (2019). IPO underpricing and predictive power of board related corporate governance mechanisms: A study of Indian IPO market. *Theoretical Economics Letters*, *9*(6), 2002-2018.

Singh, J., & Yadav, P. (2016). A study on the factors influencing investor's decision in investing in equity shares in Jaipur and Moradabad with special reference to gender. *Amity Journal of Finance*, *1*(1), 117-130.

Spence, M. (1973). Job market signaling. *The Quarterly Journal of Economics, 87*(3), 355-374.

Srinivas, K., & Rao, C. S. (2017). Factors influencing investment decision in IPO among retail individual investors. *Journal of Investment 13*(4), 80-94.

Steven, S., Syahbandi, S., Malini, H., Giriati, G., & Karsim, K. (2023). The Underpricing Phenomenon in Initial Public Offerings (IPOS) Through Financial Performance as a Moderating Variable in Companies Listed on The Indonesia Stock Exchange. *Journal Ekonomi*, *12*(04), 1963-1975.

Stoughton, N. M., & Zechner, J. (1998). IPO mechanisms, monitoring, and ownership structure. *Journal of Financial Economics, 49*(1), 45-77.

SUBEDI, P. P., & DANGAL, S. The Short Run Return of Initial Public Offerings (IPOs) in Nepal.

Subedi, R. (2022). Role of Underwriters in Nepalese IPO Market. *International Journal of Economics and Finance, 10*(3), 178-192.

Tamang, P. (2022). Investment Decision Behaviour of Nepalese Investors in Initial Public Offerings. *Journal of Business and Social Sciences Research, 3(1), 34-41.*

Tinic, S. M. (1988). Anatomy of initial public offerings of common stock. *The Journal of Finance, 43*(4), 789-822.

Upadhyay, G & Tripathi, N. (2016). Investment Decisions in Initial Public Offerings and Over-Subscription Perceptions among Investors. *Corporate Governance and Organizational Behavior Review*, *8*(1), 105-114.

Vakil, S. (2018). A study of investor‟s perception about IPO and IPO‟s performance in stock market. *Asia Pacific Journal of Research (APJR), 1(82)*, 92-96.

Welch, I. (1989). Seasoned offerings, imitation costs, and the underpricing of initial public offerings. *The Journal of Finance, 44*(2), 421-449.

APPENDIX

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 30 Years	103	29.43	29.43	29.43
	30-40 Years	142	40.57	40.57	70.00
	40-50 Years	74	21.14	21.14	91.14
	Above 40 Years	31	8.86	8.86	100.0
	Total	350	100.0	100.0	

Gender of the Respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	187	53.43	53.43	53.43
	Female	163	46.57	46.57	100.00
	Total	350	100.00	100.00	

Family Structure of the Respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Nuclear	204	58.23	58.23	58.23
	Joint	146	41.77	41.77	100.00
	Total	350	100.00	100.00	

Marital Status of the Respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Unmarried	197	56.29	56.29	56.29
	Married	153	43.71	43.71	100.00
	Total	350	100.00	100.00	

Current Position of The Respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Junior Level	64	18.3	18.3	18.3
	Officer Level	160	45.7	45.7	64.0
	Managerial Level	50	14.3	14.3	78.3
	Exceptional Level	76	21.7	21.7	100.0
	Total	350	100.0	100.0	

Education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Higher Secondary Level	53	15.1	15.1	15.1
	Bachelors	70	20.0	20.0	35.1
	Master Level	91	26.0	26.0	61.1
	Others	136	38.9	38.9	100.0
	Total	350	100.0	100.0	

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
GW	350	7.00	24.00	13.3857	3.42372
CP	350	5.00	25.00	13.1629	3.68809
FP	350	5.00	22.00	12.8366	3.20498
LOI	350	5.00	22.00	12.6857	2.94607
SP	350	5.00	26.57	12.8624	3.25028
UP	350	5.17	32.00	16.9838	4.18357
Valid N (listwise)	350				

Correlations

		UP	GW	CP	FP	LOI	SP
UP	Pearson Correlation	1	.363**	.438**	.382**	.306**	.296**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	350	350	350	350	350	350
GW	Pearson Correlation	.363**	1	.383**	.422**	.222**	.270**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	350	350	350	350	350	350
CP	Pearson Correlation	.438**	.383**	1	.235**	.225**	.281**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	350	350	350	350	350	350
FP	Pearson Correlation	.382**	.422**	.235**	1	.218**	.581**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	350	350	350	350	350	350
LOI	Pearson Correlation	.306**	.222**	.225**	.218**	1	.238**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	350	350	350	350	350	350
SP	Pearson Correlation	.296**	.270**	.281**	.581**	.238**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	350	350	350	350	350	350

**. Correlation is significant at the 0.01 level (2-tailed).

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.558[a]	.311	.301	3.49766

a. Predictors: (Constant), SP, LOI, GW, CP, FP

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1899.916	5	379.983	31.061	.000[b]
	Residual	4208.368	344	12.234		
	Total	6108.284	349			

a. Dependent Variable: UP

b. Predictors: (Constant), SP, LOI, GW, CP, FP

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.780	1.143		3.306	.001
	GW	.141	.064	.115	2.198	.029
	CP	.342	.057	.302	6.049	.000
	FP	.286	.076	.219	3.742	.000
	LOI	.229	.067	.161	3.415	.001
	SP	.019	.072	.015	.267	.790

a. Dependent Variable: UP

QUESTIONNAIRE

Dear Respondents

Namaskar,

I am Rishi Ram Parajuli, an MBS student of Shanker Dev Campus, Tribhuwan University. I kindly request you to be participant in the survey by filling this questionnaire. I am collecting data for my MBS Thesis entitled **"Determinants of Initial Public Offering (IPO) Underpricing in Nepal"** to meet the requirement for the Master of Business Studies. I have designed the following questionnaire for the study of Determinants of Initial Public Offering (IPO) Underpricing in Nepal. I appreciate your time and effort for filling up this survey form. I assure you that your information will be kept confidential and used for academic purpose only. I look forward to your support and co-ordination to enable me for the successful completion of my research.

Thank you in advance for managing your valuable time to answer these questions.

SECTION A: GENERAL INFORMATION

This section tends to identify the Demographic Information.

*Gender

☐ Male

☐ Female

☐ Prefer not to say

*Age

☐ Below 30 years

☐ 30-40 years

☐ 40-50 years

☐ Above 50 years

*Family Structure

☐ Nuclear

☐ Joint

*Marital Status

☐Unmarried

☐Married

*Current position

☐Junior Level

☐Officer Level

☐Managerial Level

☐ Exceptive Level

*Education

☐Higher Secondary Level

☐Bachelors

☐Master Level

☐Others

SECTION B

This section intends to identify your opinions regarding the determinants of Initial Public Offering (IPO) Underpricing in Nepal in a scale of 1-5. The scale contains 5-point Likert scale representing (5= Strongly Disagree, 4=Disagree, 3= Neutral, 2= Agree, 1= Strongly Agree). Please tick in the appropriate box.

*Goodwill

Questions	5	4	3	2	1
	SD	D	N	A	SA
Goodwill generated by the company prior to the IPO significantly influences investor perception and impacts the level of underpricing.					
Companies with high brand recognition and strong goodwill are likely to experience less IPO underpricing compared to those with lower goodwill.					
The perceived goodwill of a company plays a critical role in attracting institutional investors, reducing the extent of underpricing during the IPO.					

Strong corporate goodwill leads to increased investor confidence, thereby reducing the discount at which shares are offered in an IPO.					
A company's goodwill, reflected in its public reputation, can positively correlate with better post-IPO performance, influencing IPO pricing strategies.					
Goodwill accumulated through corporate social responsibility (CSR) initiatives helps mitigate IPO underpricing by enhancing the company's public image.					
Firms with a strong goodwill value tend to attract a wider base of retail investors, which can contribute to a higher IPO offer price, reducing the need for underpricing.					

*Corporate Profile

Questions	1 SD	2 D	3 N	4 A	5 SA
The size and financial strength of a company's corporate profile significantly influence the level of IPO underpricing.					
Companies with a well-established corporate profile are less likely to experience high levels of IPO underpricing.					
The corporate profile, including the company's age and market experience, plays a critical role in determining investor confidence and the extent of underpricing during an IPO.					
A company's industry reputation, as reflected in its corporate profile, reduces the risk perception among investors and can lead to lower IPO underpricing.					
The diversity and expertise of the company's management team, as part of its corporate profile, have a direct impact on reducing IPO underpricing.					
Corporate profiles that reflect strong governance and transparency are associated with lower levels of IPO underpricing.					
The presence of international partnerships or affiliations in a company's corporate profile helps mitigate IPO underpricing by enhancing investor trust.					

*Financial Position

Questions	1 SD	2 D	3 N	4 A	5 SA
A company's strong financial position, indicated by profitability and liquidity ratios, reduces the likelihood of IPO underpricing.					
Firms with a stable financial position are perceived as less risky by investors, leading to lower levels of underpricing during an IPO.					
A company's high debt-to-equity ratio as part of its financial position increases the chances of IPO underpricing due to higher perceived financial risk.					
The financial position, including the company's earnings history, directly affects investor confidence and thus the degree of IPO underpricing.					
Companies with strong balance sheets and positive cash flows tend to face less IPO underpricing as they appear more financially sound to potential investors.					
A company's financial position, reflected in its asset base and capital structure, significantly influences the pricing strategy during an IPO, impacting underpricing levels.					
The quality of financial disclosures and transparency about a company's financial position plays a crucial role in minimizing IPO underpricing.					

*Lack of Other Investment

Questions	1 SD	2 D	3 N	4 A	5 SA
The lack of alternative investment opportunities in the market increases demand for IPOs, potentially leading to lower levels of underpricing.					
In an environment with limited investment options, investors are more likely to accept higher IPO prices, reducing the need for underpricing.					
The scarcity of other attractive investment avenues drives up the demand for IPO shares, minimizing the extent of IPO underpricing.					

A lack of diverse investment options in Nepal's financial market contributes to increased interest in IPOs, impacting the level of underpricing.					
Limited investment alternatives encourage greater participation in IPOs, reducing the pressure on firms to significantly underprice their shares.					
The absence of competitive investment opportunities influences investor behavior, leading to lower IPO underpricing as demand for new listings rises.					
In markets where alternative investments are scarce, companies can afford to offer IPO shares at higher prices, reducing the occurrence of underpricing.					

*Sector Performance

Questions	1 SD	2 D	3 N	4 A	5 SA
Strong performance of the sector in which a company operates reduces the likelihood of IPO underpricing as investor confidence increases.					
Companies from sectors that are perceived as high-growth are less likely to experience significant IPO underpricing due to increased demand for their shares.					
Poor sector performance increases the perceived risk of investing in an IPO, leading to higher levels of underpricing.					
The historical performance of a company's sector plays a crucial role in influencing the extent of IPO underpricing, with booming sectors typically seeing less underpricing.					
IPO underpricing tends to be lower in sectors that have consistently demonstrated resilience and stability, as they attract more investor trust.					
The cyclical nature of a sector can affect IPO underpricing, with companies in volatile sectors more likely to underprice their shares to attract investors.					
The overall market sentiment toward a particular sector at the time of an IPO significantly impacts underpricing, with strong-performing sectors facing less need for discounts.					

*Underpricing in IPO

Questions	1 SD	2 D	3 N	4 A	5 SA
IPO underpricing is a common phenomenon in the Nepalese market due to investor demand exceeding supply during new listings.					
The level of IPO underpricing is influenced by the company's efforts to attract institutional investors, often leading to initial lower prices.					
Underpricing in IPOs serves as a strategy for companies to ensure successful subscription and enhance post-listing liquidity.					
High levels of IPO underpricing in Nepal can be attributed to the lack of sufficient information available to retail investors about the issuing company.					
The extent of underpricing in an IPO is affected by the market's overall sentiment and economic conditions at the time of the public offering.					
Regulatory requirements and guidelines in Nepal's stock market impact the degree of IPO underpricing experienced by companies.					
The reputation of the underwriter plays a significant role in determining the level of IPO underpricing, with more reputable underwriters leading to lower underpricing.					

DETERMINANTS OF INITIAL PUBLIC OFFERING (IPO) U...

By: Rishi Ram Parajuli

Similarity Index

7%

Mode: Summary Report ⌄

---

paper text:

ABSTRACT This study investigate the determinants of initial public offering (IPO) underpricing in Nepal. The objectives of this study includes to examine the perception of investors towards IPO in Nepal, to analyze the relationship between different factors on underpricing in IPO

and to examine the impact of different **factors on** underpricing **in IPO**

. In this analysis, goodwill, corporate profile, financial position, lack of other investment and sector performance are the independent variables and underpricing in IPO (UP) is dependent variable. The study employ

mean, standard deviation, correlation and multiple regression analysis were used to present data and draw conclusion. **The major finding**

is that the descriptive statistics reveal that factors such as goodwill, corporate profile, financial position, and sector performance all play a critical role in determining the degree of underpricing in IPOs. In comparing the correlations, Corporate