

CHAPTER I

INTRODUCTION

1.1 General Background of the Study

Capital market plays a vital role in the developing nation's economy. The primary share market is the market for new issue of securities. It is the media through which new financial assets are issued or generated. This is the first issue market that attracts investors to invest in the shares of the issue companies. The success of the capital market depends on primary market and this ultimately provides a basis for multiple transactions in secondary market. After securities have been purchased from the primary market, they can be traded in the secondary market. The secondary market comprises the organized security exchanges and a specialist facilitates the transaction. The major of all capital market transaction occur in the secondary markets. The proceeds from sale of securities in the secondary markets do not go to the organizational issuer instead to the initial owners (sellers) of the securities. Nepal Stock Exchange Limited (NEPSE) is only the secondary market in Nepal.

An initial public offering (IPO) is a securities offering, in which an enterprise sells its stock publicly for the first time without having a prior price history. A milestone for any company is the issuance of publicly traded stock. While the motivations for an initial public offering are straightforward, the mechanism for doing so is complex. The first time a company issues stock for sale to the public is known as Initial Public Offering or IPO. The company is said to “going public” when this happens. The offering is highly regulated and often surrounded by a lot of media attention. Most of the company starts out raising equity capital from a small number of investors with no liquid market. If a company prospers and needs additional equity capital, at some point the firm generally finds it desirable to “go public” by selling stock to a large number of diversified investors, Once the stock is publicly traded, this enhanced liquidity allows the company to raise capital on more favorable terms than if it had to compensate investor s for the lack of liquidity associated with a privately held company. Through IPO, the founder simply wants to establish a value and liquidity for the stock. (*Van Horne, 2002:578*).

To make an IPO, shares are offered from the company (issuer) with the help of an underwriter who evaluates the company and determines their value, and then sells the shares to investors for a commission. A company becomes public for the purpose of obtaining capital without having to approach private investors and repay loans. Once public, the company can offer additional share on occasion to raise capital for the expansion without incurring debt.

IPOs can be a risky investment. For the individual investor, it is tough to predict what the stock or shares will do on its initial day of trading and in the near future since there is of the little historical data with which to analyze the company. Also, most IPOs are of the companies going through a transitory growth period, and they are therefore subject to additional uncertainty regarding their future value. An Initial Public Offering (IPO) occurs when a security is sold to the general public for the first time with the expectation that a liquid market will develop. Public Offering is security offering where all investors have the opportunity to acquire a portion of the financial claims being sold. (*Keown & Petty; 2002:471*).

In particular, there are certain ongoing costs associated with the need to supply information on a regular basis to investors and regulars for publicly traded firms. Furthermore, there are substantial one- time costs associated with initial public offering that does can be categorized as direct and indirect costs. The direct costs include the legal, auditing and underwriting fees. The indirect costs are the management time and effort devoted to conducting the offering, and the dilution associated with selling shares at an offering price that is, on average, below the price prevailing in the market shortly after the IPO. These direct and indirect costs affect the cost of capital for firms going public. Firms going public, especially young growth firms, face market that is subject to sharp swings in valuations. The facts that the issuing firm is subject to the whims of the market makes the IPO process a high-stress period for entrepreneurs. So issuing of share to the general public is easy to raise the fund for the company. This public issuing is made compulsory under Securities Exchange Act in Nepal. Promoters will receive permission from the government authority to establish a public limited company if they show desire to include general public in its equity base. Hence firm needs to sell part of its total equity to the general

public to raise the required fund through public issue of shares in primary market is called Initial Public Issue. It is also called Initial Public Offering (IPO).

Because Initial Public Offerings involves the sale of securities in closely held firms in which some of the existing shareholders may possess non-public information, some of the classic problems caused by asymmetric information may be present. In addition to the adverse selection problems that can arise when firms have a choice of when and if to go public, a further problem is that the underlying value of the firm is affected by the actions that the managers can undertake. This moral hazard problem must also be dealt with by the market. In addition, evidence is presented on three patterns associated with IPOs: (i) new issues under pricing, (ii) cycles in the extent of the under pricing, and (iii) long-run underperformance. Corporate finance activities, including the issuance of securities, provide significant revenues for investment banks (*Dunbar, 1999*).

Investing in the stock market should not be a "heart and gut" affair based on hunches, guesswork, hot tips, rumors or speculation. This is true for investments in securities of companies already listed on the stock exchange; it is also true for investments in securities of companies seeking listing for the first time. Seeking listing on a stock exchange is also called 'going public' or 'flotation'. The purpose of seeking listing is generally to raise funds for the company's business expansion or growth. (*Choudhary; 2005:102*)

The company seeking listing will therefore offer part of its securities to be subscribed by the public, as part of the listing exercise. This offer is called an Initial Public Offering (IPO). Currently, any company wishing to undertake an IPO would have to get the approval from the Securities Commission before the IPO can be carried out. The Securities Commission, in considering an IPO proposal, would take into account the overall suitability of the company undertaking the IPO. Once approved, the company is required to issue a prospectus that tells about the company, what it does, how it has fared and how it expects to perform in the future.

In Nepal the first public issue of ordinary shares took place more than 50 years back with the public issue of Biratnagar Jute Mills and Nepal Bank Ltd in 1937 A.D. But the development of capital market started in 1976 A.D after the establishment of

Security Exchange Centre with the objectives of facilitating and promoting the capital market in Nepal. It was the only capital market institution, which undertook the job of brokering, underwriting and managing public issue, market making for government bonds and other financial services. Security Exchange Centre dealt in the securities as a broker as well as regulatory body. The Centre used to take; buy and sale only on orders from interested investors and confirm them if a price and quantity matched. There was no time limit which a deal took place. It normally took one day to weeks. Due to this, general problems while buying selling shares. Security Exchange Centre was converted into Stock Exchange Limited in 1993, and under its support, the broker system of secondary market was established. Until 2011 A.D. Nepal Stock Exchange Limited is a non-profit organization it operates under Security Exchange Act 1983. The basic objectives of the Nepal Stock Exchange Limited are to impart free marketability and liquidity to the government bonds and corporate securities. With the establishment of fully fledged stock Exchange, the shares, which the public had held for decades, becomes liquid.

Basically, this study is based on the dealing process in the primary market. As well as the study concerned with the pace public offering and public response to IPO Nepal. As per the provision of Company Act of Nepal, privately held companies cannot issue their shares in public by themselves. The issue must be done through issue managers. Though the company can raise the capital to the extent of its company by initial public offering. The total amount paid by the promoters at the time of establishment or after time-to-time rising of funds by the company is the paid-up capital.

List of Issue Managers

Initial Public Offerings (IPO) involves raising of fund for government or corporation from the public through the issuance of various securities in the primary market. The effective functioning of public offerings requires various numbers of financial institutions. One of the most important institutions is investment bankers commonly called as issue manager. The firm who worked as intermediaries between the general public and corporation is known as issue manager. The company who offers public issue to the general public is known as Issuing Companies and the intermediary is known as Issue Manager who conducts the IPO process and worked as a mediator

between public and company. These activities are performed by Merchant Banker in India, Investment Bankers in U.S.

Merchant Banker stands for providing various services relating to capital market and finance to corporate sector. This includes not only the activities for the above purpose in the country but at times arranging funds from outside the country. The merchant bank also provide consultancy to the corporate sector on the issue like finance, capital structure and investment, mergers, takeover and amalgamations, establishing coordination between the government and corporate sector. In fact the merchant banker should be able to provide guideline to an entrepreneur on all matters from the stage of conception of a project in his mind till it goes into commercial production. A good merchant banker would be considered to be one who is expert, honest, have integrity as well as capacity to develop public relations. Whenever a business concern needs funds from the capital market it would usually approach the merchant banker rather than banks or financial institutions.

As per the Securities Exchange Act, 2006 issue managers are institutions holding licensed from Nepal Stock Exchange (NEPSE) to manage public offering issues. A Merchant Banker has been defined under Securities Businessperson Regulation 2006, Section 2 (2) as any approved securities businessperson who engaged in the securities issuance and issue manager, underwriting of public issue, providing share registration function and provide investment management function services to investors.

So far, NEPSE has authorized 16 finance companies to serve as issue managers. The issue manager who handled the public offering in Nepalese Capital Market is prescribed in the table.

Table: 1.1
Lists of Issue Managers of Nepal

S. N.	ISSUE MANAGER
1.	NSM Merchant Banking & Investment Ltd.
2.	Ace Capital Limited
3.	NCM Merchant Banking Limited
4.	NMB Bank Ltd
5.	Citizen Investment Trust
6.	Elite Capital Ltd
7.	Vibor Bikas Bank Ltd
8.	Civil Capital Markets Limited
9.	Investment Management Merchant Banker Limited
10.	Beed Invest Ltd.
11.	Growmore Merchant Banker Ltd.
12.	Nabil Investment Banking Ltd.
13.	Laxmi Capital Market Ltd.
14.	Araniko Capital Management Co. Ltd.*

(Source: SEBON Annual Report 2012/13)

SEBON has been monitoring and supervising the activities related to the issue managers for the past 15 years. Companies Act 1997, Securities Businesspersons Regulations, 2007, Securities Registration and Issue Approval Guidelines, 2000, Share Allotment Guidelines 1999 and Securities Issue & Issue Management guidelines 1997 provide the legal framework within which the issue companies and the issue managers perform their public issue and issue management activities.

1.2 Statement of the Problems

The issues in primary market are subject to the directives and regulatory framework of the concerned governing bodies. Hence, the study primarily deals with the process of managing the public issues by the issue managers. One most important feature of the Nepali IPO market is that most retail investors are speculators who bet their money on any kind of IPO without properly analyzing the offer documents. This is

partly due to the lack of diversity of stocks in the market which is dominated by the stocks of banks and financial institutions.

Most IPO subscribers in Nepal are short-term investors who are interested to sell the stocks as soon as they are listed in the stocks exchange. Therefore, most of the people view an IPO as a quick way to make money rather than a long-term investment. The problem towards which this study is directed is to identify the responses towards the IPO of financial as well as non-financial sector in Nepalese market, how is primary market growing in Nepal, how are the issue managers performing in IPO, generally what an investor expects from his or her investment, how to invest in IPO and how to manage fund for IPO etc.

Nepalese capital market is very small in comparison with other developed stock markets. There are a few numbers of brokers, limited number of listed companies, very few transactions and most importantly investors are unknown about the stock market. If there occur a single malpractice in the functioning of securities market, the whole capital market may damage the national economy badly and if once the investors' confidence were lost it would very difficult to bring it in original condition. Therefore, many problems are found in the field of public offering in Nepalese stock market rather than other developed countries. In the current situation single investor can apply hundreds of application showing dummy names. As a result they can capture large number of shares. When a single investor captures large number of share, he can influence the company management and stock price too.

There are various types of obstacles existing initial public offering stages in Nepal. In developing country like Nepal, Initial Public Offering is still new phenomenon. The study is concerned with following issues:

-) Why people invest their money in stock?
-) Why do most of the firm do not like to go to public?
-) What are the factors determining sound decision regarding the investment in stock?
-) To what extent do responses (over and under subscription) to IPO affect the stock prices?

Therefore, many problems are found in the field of public offering in Nepalese stock market rather than developed countries. Besides these, there are other factors, which slow down the pace of stock market growth in Nepal. They are unfavorable macroeconomics condition, political instability, unconfident investors, weak tax system & slow privatization process.

1.3 Focus of the Study

The focus of the study is on the general investors in Nepal, the volume and portfolio of their investment, and the deceive factors they consider while selecting companies for investment. But the study is also highly concentrated on investment in the stock market, how the investment opportunity on such companies is perceived and made by the general investors could have important impact on the capital market of the country. Those who own Industrial Units have also trading firms for export and import, and are also involved in various services including banking and finance. If such companies wants to “go public”, then the degrading image of their share in the market would definitely hinder the successful completion of public offering of their securities as the investors have declining confident on their performance.

Hence, the study is aimed at revealing those core factors which could be deceive from the investor’s view whether to invest or not in the particular company. Such information generated will help the issue manager to decide which factors should be evaluated to determine if the public offering of the manufacturing firm (issuing company) will be successful or not. The study helps us to find out legal provisions, possibilities, problems and prospects of Initial Public Offering in Nepal. It is also based on the dealing process of primary market. It also focuses on what investors want in IPO before they invest their sector performance, knowledge, ultimate goal for investment, sources of information etc.

1.4 Objectives of the Study

This study focuses on the public response to the primary issue of share in the perspective of Nepal. This study is being undertaken to evaluate the problem and prospect to Nepalese primary share market. The major objective of the study is to

focus on the public response to the initial offerings or primary issues of shares in Nepal. The specific objectives are:

-) To assess the growth of IPO in Nepal
-) To analyze the public response to IPO
-) To explore the problem of IPO in the market
-) To examine the performance of the investment bankers (issue manager) in the process of IPO.

1.5 Significance of the Study

Stock market reflects the situation of economy. When stock market is booming the economy is good and market is declining the economy is in recession. It represents also the countries policies towards industries. Policy is formulated of regularized by rules and regulation between different Act and Guideline (rules and regulation). This study is needed to find our problems and prospects in the near future. What policies can be formulated, what regulatory acts are needed and necessity of amendments regarding the rules and regulation to develop it and make the market perfect functioning.

It is also needed to find out the views of potential investors and other financial institutions about the related organizations. It will also help to find out the financial status of public going companies. From this study, policy makers will get the knowledge of practical existing rules and regulation. In Nepal, there is still lack of study about initial public offering. Therefore, this study is expected to helpful for the general investor and the organizations that directly or indirectly related in Public Offering.

1.6 Limitation of the Study

The study mainly focused to analyze certain aspects of primary market in Nepal. The result obtained from this study cannot be generalized. This study tries to explore primary market and its problems in Nepalese capital market. Both primary and secondary data are analyzed. However, this study has some limitations, which are listed as below:

-) This study is based on primary as well as secondary data. The secondary data are collected from NEPSE, SEBON, concerned organization and from different financial journals; therefore, the error may exist as they publish.
-) Primary data is based on the answer of the respondent. So, it is subjected to be different according to loyalty of the respondents.
-) This study covers past and present state of the stock market and investors in Nepal.
-) Only selected statistical and financial tools have been employed in this study.

1.7 Organization of the Study

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

Chapter 1: Introduction

This chapter already contains general background of the study, statement of the problems, focus of the study, objectives of the study and organization of the study.

Chapter 2: Review of Literature

This chapter is devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies.

Chapter 3: Research Methodology

This chapter describes the research methodology employed in the study. This deals with the nature and sources of data, list of the selected companies the model of analysis, meaning and definition of statistical tools.

Chapter 4: Data Presentation and Analysis

This chapter deals with the presentation and analysis of both primary and secondary data by using mathematical tools and it deals with major finding of the study.

Chapter 5: Summary, Conclusions and Recommendations

This chapter states summary, conclusion and recommendation of the study.

Recommendation sheet, Viva-voce sheet, Declaration, Acknowledgement, Table of contents, List of table, List of figure, Abbreviation has been included at the beginning of this report where as bibliography and appendices have been included at the end.

CHAPTER II

REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusion and deficiency may be known and further research can be conducted. It is an integral and mandatory process in research works. For this research study the literature survey will be done by consulting libraries, various journals, articles textbooks and other contemporary materials in this study. (*Joshi; 2011:74*).

Literature review is basically a “stock taking” of available literature survey, thus, provides us with the knowledge of the status of their field of research, therefore, this chapter has its own importance in the study. This chapter includes the review of previous studies, article and conceptual framework for the related studies. To present the real framework of the study, mere analysis is not enough and reviews of some related materials should be dealt with to give research a clear vision. Knowledge of past study provides foundations to the present study. This chapter is divided into two parts like conceptual framework and review of related studies.

2.1 Conceptual Framework

This chapter outlines the theoretical framework underpinning this study. Generally, theory serves as the conceptual architecture, sharpening the context of the study while situating the topic within a broader theoretical discussion. However, it bears mentioning that no one framework is able to capture all of the complexity related to IPO performance.

2.1.1 Capital Market in Nepal

Flotation of share by Biratnagar Jute Mills Ltd. in 1937 was the first public issue in Nepal. Nepal Bank Ltd. and many other companies also issued share to public during that period. The history of securities market thus goes back to almost seventy years, but the actual development of the market took momentum only after the restoration of multiparty democracy in the country in 1990. However, the introduction of the

Company Act in 1964 and the first issuance of Government Bond in 1964 were some steps taken towards developing securities market during 1960s. One of the significant developments relating to capital market was the establishment of Securities Exchange Centre Ltd. in 1976.

The main objectives of establishing Securities Exchange Centre was to promote and facilitate the growth of capital markets in Nepal. For about seventeen years, it was the only capital market institution undertaking the job of brokering, underwriting, managing public issues, market making for government bonds and other financial services.

2.2 Types of Market

2.2.1 Financial Market

Market in which long term as well as short loan is provided is called financial market. It provides forum in which supplier of funds and user of funds transaction in short term debt instruments or marketable securities take place in the money market. Long term securities (like bonds and stocks) are traded in the capital market. Capital market further can be divided into primary market and secondary market. A financial market can be defined as mechanism bringing together buyers, sellers and financial assets in order to facilitate trading. Financial market is a place, where securities are bought and sold, the facilities and people engaged in such transaction the demand for and availability of securities to be traded and the willingness of buyers and sellers to reach agreement on sales. Financial market plays as an active market where capita resources are transferred from savers to users, where savers let users to use their saving in expectation of multiplied returns from users in specified time period. Financial market consists of capital market and money market. Transactions in short term debt instruments or marketable securities takes place in the money market where long term securities (bonds and stocks) are traded in the capital market. (*Gitman, 2001:30*)

2.2.2 Capital Market

Capital market is the long term funds. Capital market can play vital role to invest on the corporate sectors by the means of securities. The capital market is a financial relationship created by a member of institutions and demands of long term funds (funds with maturities of more than one year) to make transactions. Included among long term funds are securities issue of business and government. The backbone of the capital market is formed by the various securities exchanges that provide a forum of debt and equity transactions. The smooth functioning of the capital market which is enhanced through the activities of investment bankers is important to the long-run growth of business (*Gitman, 1992:456*). The capital market is the trading center for the financial instruments. In capital market different types of financial securities such as ordinary share, preference share, treasury bills and debenture are traded. This market can be divided into two parts:

Non securities market

Non- securities market is a market where financial needs often borrower (demanders) are fulfilled for longer period of time without issuance of any securities like shares bonds and debentures. Financial transactions such as banks, business houses, saving institutions are individuals come under this non-securities market.

Securities Market

The security market is known as the market where all types of securities are traded. Security market is broad term embracing a number of markets in which securities bought and sold. Securities markets goes about the business of placing any order to buy or sell, how the order is executed, the process of setting the payment and transfer costs and one hopes the payment of federal personal income taxes and makes it easy for people to trade them. Securities market facilitates the sale and resale of transferable securities. The securities market can be defined as the mechanism for bringing together buyer and seller of financial assets to facilitate trading. Securities market is classified into two market in new securities are sold is called primary and the market in which existing securities are resold is called the secondary market. Secondary market are created by themselves actually buying and selling dealers set

price at which themselves are ready to buy and sell (bid and ask price respectively). Broker and dealer come together in organized market or in stock exchange (*Gitman, 1992:457*). The securities market may also be divided into two parts:

Primary Market

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

Secondary Market

Secondary market involves the purchase and sale of securities which are already issued to the general public and traded in the stock exchange. Secondary market is created by brokers, dealers and market makers. Brokers bring buyer and seller together with themselves actually buying or selling, dealers set price at which themselves are ready to buy and sell (bid and ask price respectively). Brokerage and dealer come together organized market or in the stock exchange (*Gitman, 1992:457*). Nepal Stock Exchange (NEPSE), New York Stock Exchange (NYSE) and Bombay Stock Exchange (BSE) are the example of organized stock exchange (secondary market and primary market) has been able to acquire securities on the secondary market.

2.2.3 Money Market

Money market is the market for the short term securities like bills, government bonds, certificates of deposits, bankers' acceptances and commercial paper or promissory notes. It includes both primary and secondary market activities. The money market exists because certain individuals, business, government and financial instruments have temporarily idle funds that they wish to place in some kind of liquid asset or short term interest earnings instruments like this other individuals, business, governments and financial institutions are in need of seasonal temporary financing. Thus, the money market provides the platform for the supplier (who have idle fund for some period) and demand makers of short term liquid funds.

In theory, we found money market is different from the capital. In practice, however in exist countries with efficient financial markets, where money and capital market is combined, the merchant banks are active in both. This is because negotiable market instruments for all practical purpose are simply a short term capital market instruments. Therefore, the techniques and facilities needed to operate money market are almost same as those needed to operate the capital market. (*Mayo; 2006:125*)

2.2.4 Why to go Public and why to Raise?

The decision to go public is one of the most important and least studied questions in corporate finance. The conventional wisdom is that going public is simply a stage in the growth of a company. The probability of an IPO is positively affected by the stock market valuation of firms in the same industry company's size is significantly correlated with the probability of listing what is more surprising is how a large company must be before it considers going public. In United States, many starts up companies go public to finance their expansion.

This leads to investment of the stock market to investment and growth companies appear to go public not to finance future investment and growth, but to rebalance their account after high investment and growth IPO's are also followed by lower cost of credit and increased turnover in control. Going public provides studies: It enables companies to borrow more cheaply. IPO's are followed by an abnormally high turnover in control. This occurs even though the controlling group always retains large controlling block after the IPO. Going public raise cash usually a lot of it being publicly traded also opens May financial door.

Because of the increased securities public company can usually get better rates when they issue debt so long as these market demanded, a public company can always issue more stock. Thus, mergers and acquisitions are easier to do because stock can be issued as part of the deal. Trading in the open markets means liquidity. This makes possible to implement thing like employee stock ownership plans, which helps to attract top talent. (*Pagano, Paretta & Zingles; 1998:112*).

2.2.5 What are Some Good Methods for Analyzing IPO's?

Initial public offering IPO is unique stocks because they are newly issued. The companies that issue: IPO have not been traded previously on an exchange and are less thoroughly analyzed than those companies that have been traded for long time. Some people performance provides a buying opportunity while others think that because IPO's have not yet been analyzed and scrutinized by the market, they are considerably riskier than stocks that have a history of being analyzed. A number of methods be used to analyze IPO's but demonstrated past performance analyzing them using conventional means becomes a bit trickier.

If we are lucky enough to have a good relationship with our broker, we may be able to purchase oversubscribed new issues before their clients. These tend to appreciate considerably in price as soon as they become available on the market because demand for these shares is higher than supply the price of oversubscribed IPO's tends to increase until supply and demand come into equilibrium (*www.investopedia.com*).

Here are some points that should be evaluated when looking at a new issue:-

-) Why the company elected to go public?
-) What will be the company doing with money raised in the IPO?
-) What is the competitive landscape in the market for the market for the business's product or services? What is the company's position in this landscape?
-) What are the company's growth prospects?
-) What is business or company's operating history of any?

IPO is first sale of stock by a company. Companies can be either private or public. Going public means a company is switching from privately ownership to public ownership. Going public raises cash and provides many benefits for the company. Many start-ups went public without any profits and little more than a business plan. For those getting in on a hot IPO is very difficult, if not impossible.

The process of underwriting involves raising money from investors by issuing new securities. Companies' hires investment banks to underwrite an IPO. It's hard to enough to analyze the stock of an establishment company. An IPO company is even

trickier to analyze since their will not be a lot of historical information. Look for the usual information and at the same time pay special attention to the management team and how they plan to use the funds generated from the IPO. At the same time we should analyze the underwriters as well. Successful IPO's are typically supported by the brokerages that have the ability to promote a new issue well. Be more of smaller investment banks because they may be willing to underwrite any company. (*Francis; 1992:214*).

I. Public Offerings

It is raising of long term funds for government or corporation from a fund sufficient public group in the primary market. The most important aspect of public offerings is its role as the single most effective means by which government and corporate entities can obtain long-term (debt or equity) on a permanent basis. It only permits them to broaden their sources of finance beyond the banking system but also the banking system is usually a short-term or medium-term floating rate lender. The securities market is often the only means of obtaining large sums of fixed rate, long- term funds.

a. Advantages of an IPO

As discussed above, the primary reasons for conducting an IPO are raise money and to create liquidity for investor, there are also important incident benefits to going public. Objectives benefits include (i) obtaining a readily ascertainable market value for the company's stock, (ii) the ability to make acquisition through the payment of securities rather than cash (iii) greater access to financing through commercial lending (iv) greater access to the financial markets for follow up offerings, and (v) heightened name recognition and prestige among customers and suppliers less objectives benefits are the sense of success and accomplishment that accompanies a successful IPO and becoming a publicly traded company.

b. Disadvantages of an IPO

The major disadvantages to becoming a publicly traded company may be compliance with the act reporting requirements. While registering under the act is quite simple, the periodic and event based reporting obligations under the act require a significant

amount of time and expense. In addition, the act obligations will compel disclosure of information that the issuer, its directors, management and controlling stockholders might otherwise want to keep to themselves. Financial and business information, executive compensation, transaction between the company and its directors, management and major stockholders and certain employee benefits must all be disclosed in reports filed with the SEC, mailed to the stockholders, and made available to the public upon request. Directors and officers, as well as major stockholders, also must file reports with the SEC disclosing most transactions in the company's securities. Also, the failure to accurately make such reports may result in civil or criminal penalties. The direct financial costs, including legal, accounting and printing fees of conducting an IPO and of being a publicly traded company are substantial are the indirect costs of the time required to be spent on these matters by management.

Also, the management and government of a publicly traded company are more difficult and less flexible. The solicitation of stockholders votes on any matter is strictly regulated under the act, and rules of the exchange on which the securities are listed require certain matter to be approved by stockholders vote even if not otherwise required by state law. Additionally, because of pressure to raise the price of the company's stock management may feel persuaded to adopt policies aimed at achieving short-term results rather than long-term goals. (*Francis; 1992:216*)

c. Timing of an Initial Public Offering

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

Especially in the case of technology based companies the determining factor in the success of an IPO may ultimately be the receptivity of the stock market to new issuers in a company's particular industry at the time that the IPO is undertaken. If the issuer belongs to a certain industry that is particularly attractive to investors at the time of the proposed IPO, it will have more leverage in choosing and negotiating with an underwriter. Conversely, if market conditions are unfavorable at the time of the offering, the issuer will have less flexibility in how the deal is structured and may have to postpone the IPO altogether. (*Van Horne; 2000:202*)

2.2.6 Primary Market Instrument

After the establishment of Securities Board of Nepal in 1993, the following instruments have been used by the Nepalese corporate bodies to raise capital from primary market.

Common Equity Stock

There are the offerings that entitle the holders or the buyers of the offering the stake on the equity of the issuing company. In addition that are entitled to:-

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

Preference Shares/ Preferred Stocks

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

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

-) The different types of preference share:
-) Cumulative preferred stocks
-) Non-cumulative preferred stocks.
-) Redeemable preferred stocks.
-) Non-redeemable preferred stocks.
-) Convertible preferred stocks.

2.2.7 Bonds/Debentures

Debenture includes debenture stock bonds and any other securities of a company, whether constituting a charge on the assets of the company or not. Debenture is a document that either creates a debt or acknowledges it, and any document, which fulfills either of these conditions, is debenture. The characteristics feature of a debenture is as follows:-

-) It is issued by the company and is in the form of a certificate of indebtedness.
-) It usually specifies the date of redemption. It also provides for the repayment of principal and interest at specified date or dates.
-) It generally creates charges on the undertaking of the company.

The different types of debenture are:-

-) Secured debenture.
-) Unsecured debenture.
-) Redeemable debenture.
-) Perpetual debenture.
-) Convertible debenture.

2.2.8 Warrants

The warrants gives a right to the holder to obtain equity shares specified in the warrant after the expiry of a certain period at a price not exceed the capital price specified in the warrants. The warrant is a tradable and negotiable instrument and is also listed on the stock exchange. It comes in different forms. Such as:

-) Bonds with warrants
-) Preferred stocks with warrants.

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

2.2.9 Primary Market and Initial Public Offering

The primary market itself can be subdivided into seasoned and unseasoned issues. A seasoned issue refers to the offering of an additional amount of already existing securities, whereas an unseasoned new issue involves the initial offering of a security to the public. This unseasoned new issue is often referred to as Initial Public Offering.

When a company wants to raise funds from the public, it issues securities at first time and announces to the public to exercise the offering and this announcement for the public to raise funds is called Initial Public Offering. It is the raising of long term funds for governments or corporations from a sufficient public group in the primary market. The most important aspect of public offerings is its role as the single most effective means by which government and corporate entities can obtain long-term sources of funds on a permanent basis. Public issue means raising of capital directly from the public. Issue of equity obviously creates a value for the company and no doubt it is the major source of capital. (*Van Horne; 2000:220*).

Thus IPO involves raising of funds for governments or corporations from the public through the issuance of various securities in the primary market and is often the only major source of obtaining large sums of fixed rate, long term funds.

2.2.10 Investment Considerable to the Potential Investor in the Primary Market

Rules and regulations alone would not be able to protect the interest of investors. They should be able to analyze and evaluate following their investment decision.

) Investor should select those companies whose shares are regarded as well operating and good future prospects, reliable management, beneficial sectors or higher growth. Investing in the shares of these companies is less risky than others. The investors who invest in stock, they must compare the price and the value of the share in the market and should select the share which has a lower market price in comparison to its value.

-) The investors should take information regarding company's promoters, management effort and efficiently, risk bearing capacity, size, growth, environment, and board directors. Financial status (net worth profit/loss situation etc.) and as well as budgeted statements which can be obtained from memo random, prospects. Article so of the concerned company.

2.2.11 Investment Consideration to the Investors in the Secondary Market

Investors should be informed about the following matters before investing in the secondary market.

-) Keep information of the companies return to the shareholders in the form for cash dividends, stock dividends, bonus share etc. They should also be informed about earning per share (EPS), book value per share (BVS), price earnings ratio (P/E Ratio), future plan, growth expectancy of the annually, quarterly and half yearly performance reports, profit and loss accounts(P/L A/C). Balance sheet (B/S) and annual reports.
-) Analyze the price related information provided by SEBON and NEPSE about the listed companies.
-) Study the trading statement and financial analysis of the listed companies published by NEPSE.
-) Study articles related to the trading of shares and economic matters published in different newspapers and magazines.
-) Study the annual report of SEBON.
-) Study the act and regulation concerning to the shareholder's right.
-) Once the investors think of, making investment, he approaches to the brokers to choose a firm that is suitable for his needs of investments and select a representatives of the firm with whom he can work. The representative should be able to furnish the investor, at all times on reasonable choice, information on any specific company's securities.

2.2.12 Initial Public Offering (IPO) Manual

Initial Public Offerings (IPO) manual is the detail procedure of handling Initial Public Offerings of the companies seeking "going public" for the first time. This manual

outlines all the activities and steps that have to be observed by all issuing companies and issue managers in respect to Initial Public Offerings (IPO). This manual has been prepared with a view to present a detailed, descriptive and step-by-step action sequences in the Initial Public Offerings, relevant to all the companies offering shares to the general public. But, it is subject to periodic amendments and supplements. The Public Offering is not an easy task. There are many organizations involves during this periods. They are:

Issuing Company

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

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

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

For other public companies such compliance to go into public offerings of equity holding are absent. For such companies, going into public signifies the need of funds for the company rather than the obligation. The provisions and conditions of Securities Registration and Issue Act, 2051 has set the guidelines that before going into public offerings, issuing company should take into consideration that (SEBON Annual Report, 2010:23).

a) If the issuing company is industrial institutions

-) The institution has bought the land or made other provisions in which necessary infrastructure like factory; office buildings, godowns etc. are already build in or made necessary arrangements for it.
-) Necessary technology has been selected for which spare parts of machineries needed have been bought. If not, LC has been opened to buy the necessary technologies.
-) Estimated budget has been proposed for the project to be implemented and for which if loans are required, such agreements are already made.
-) In the absence of long-term loan agreement, issue securities are underwritten.
-) Necessary approvals according to the existing Acts have been taken.

b) If the issuing company is financial institutions

-) According to the nature of the business, required infrastructures are installed.
-) Approval has been taken under the Company Act 2063.

-) For commencing other activities, authority and approval from governing bodies based on existing Acts has been taken.

Merchant Bankers

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

market is identified as capital market for long-term and money market for short-term tools to be traded.

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

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

-) Securities underwriting
-) The secondary market for securities
-) The money market
-) Corporate advisory services
-) Investment portfolio management services, and also
-) Venture capital
-) Leasing / hire purchase
-) Other services (insurance, real estate etc.)

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

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

Fund-based activities identified for the merchant banking are:

-) Bridging finance

-) Underwriting
-) Project finance
-) Venture capital
-) Acquisition and merger

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

-) Share issue management
-) Mutual fund
-) Portfolio management
-) Corporate counselling
-) Project counselling
-) Debenture trusteeship
-) Arranging international finance
-) Investment advisor
-) Advising corporate mergers

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

In Nepal, there are 18 merchant banks are already established. They are providing issue manager, lead underwriter, register, transfer of shares etc. services to other institutions.

Securities Board

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

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

-) **Fairness:** The markets must promote integrity in dealings, high standards of conduct and good business practice.
-) **Efficiency:** The markets should with professionals and be well informed, offering high standards of service at reasonable cost.
-) **Confidence:** The market must inspire confidence in both investors and issuers to actively participate in and rely more on the securities markets.
-) **Flexibility:** The markets should be resilient, innovative and be continuously responsive to the needs of all market participants.

Role of Securities Board in Issue of Securities

In its approach to manage public issues of securities, the Board will bear in mind

- a. Protection of rights and interests of the investor, especially,
 - The right to adequate, true and fair information
 - Ñ The need for liquidity
 - Prompt, fair and equitable allotment
 - Ñ Easy and efficient service in allotments and transfers
- b. The need to encourage corporate entities to tap the securities markets for their diverse resources needs.

The Board would Endeavour to evolve market and institutional structure, a set of instruments and methods of public offerings to cater the above objectives.

The legislative provisions relating to public issues of securities may be classified under:

- a. Capital control, governing issue of securities and the terms of their issues:
 -) To regulate terms of issues of securities from the viewpoint of investor protection, issuers needs and overall development of the securities market; and
 -) To promote sound capital structure of companies.
- b. Prospectus provisions, governing the disclosure of information at the time of issue of any security;
- c. Obligations of regular disclosure of financial and other information on entities making public issues;
- d. Listing requirements governing traded securities;
- e. Provisions governing allotment and transfer of securities:

-) Ensuring fair and equitable allotment; and
-) Promoting speedier and more efficient service in matters of allotment and transfer.

Financial Institutions

They are financial intermediaries like commercial banks, finance companies (merchant bankers), and development banks and cooperatives institutions. These institutions are established under the Company Act and Nepal Rastra Bank Directives. These financial institutions perform the role of intermediaries in the securities issue as per the authority received from the Securities Exchange Board. Financial Institutions are involved in securities issue process as:

-) Issue managers
-) Underwriters

Issue Manager

Issue manager in the primary market carry out all the function related to public issuance of securities on behalf of the issuing company. Presently there are 18 issue managers in the market. Which are:

Underwriters

Generally all commercial banks, finance companies and other financial institution can provide underwriting services and providing such services accordingly. But the public issue getting underwritten has become Herculean task. Almost banks, finance companies and financial institutions reluctant to underwrite the public issue of shares because they feel underwriting are risky business. This type of reluctant has been strengthened more by some development cases. On the other hands, these exit some anomaly in underwriting concept between New Company Act and securities exchange regulation. Company Act defines issue manager as underwriters a well. Secondly no acts and regulations clearly spells about the qualification to be an underwriter that who can underwrite the public issue and who can not or whether banks finance companies and financial institution other that member of Nepal Stock Exchange can provide the underwriting services that there is always deficient fund / resources to

meet the demand of underwriting. Thirdly, because of the insufficient resources and despite of the reluctance of commercial banks (who have enormous resources), issue manager are somehow managing the consortium of underwriting. (Shrestha, 2006:59)

2.3 Nepal Rastra Bank (NRB) Directives

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

2.3.1 Terms Involved in the Process of Initial Public Offerings of Common Stocks

i. Initial Public Offering (IPO)

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

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

ii. Issue Manager

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

iii. Prospectus

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

The Company Act 2063 has made mandatory that any public institution going into public offerings must issue the prospectus before issuing the securities to the public. According to the Act, before publishing for the public, the prospectus signed by the board of directors should be sent to and get approval from the Office of Registrar of the Companies and Securities Board. The requirement is made to make sure that the information provided to the public is as per requirement and is not manipulated to mislead the public. The prospectus published for the public should state in the publication the approval from the Office of Registrar of the Companies.

The Company Act 2063 has stated that matters referred in the prospectus are the liability and responsibility of company publishing it. Board of Directors signing the documents is answerable to the matters stated in the prospectus. In the event that, company has knowingly published false statement in the prospectus and believing on which if securities has been purchased and loss incurred, such loss coverage would be the personal liability of the directors signing the prospectus.

In short, prospectus is a legal document containing important features of Article of Association, Memorandum of Association, and important decision taken by the board of the company affecting the future of the company and important conditions to be obeyed by the general applicants. The main purpose of the publishing prospectus is to inform public about the company and the issue. (Shrestha, 2006:62).

2.3.2 Securities Registration and Issue Approval Guidelines, 2000

In order to make the process of registration and issue approval simple, fairness and transparent SEBON provided these guidelines under the securities Act 1983

-) The company should at least one year and audited balance sheet and profit and loss account should be published during that period.

-) With Regards manufacturing companies, the land for factory, office building and storage should purchased, reliable and important equipments should purchased, reliable and important equipments should be purchased, information of term loan and approval of the company from the respective organization should be completed.
-) With regards to banks, finance companies, insurance company, business enterprises and other services oriented company, the companies should completed the important infrastructure and should be approved by the respective organization for the issuance of securities.
-) The issuer company should carry out general meeting with new shareholders. The company must listen to complain regarding to the issuing securities and should be solved them as soon as possible. The company should obey all the rules, and guidelines issued by Government and SEBON.
-) The risk of financial, managerial inflation legal process, globalization, change in government acts and regulations and other important information should be available easily.
-) Once the application for the public issue is approved by the SEBON, the IPOs have to make within two months. IPOs should be offered at fixed price as approved by the SEBON for public subscription s that should be opened at least for 5 working days.
-) If the company desires to issuer right shares, ordinary shares should be completely issued and should be registered in the stock exchange market. If the company desires to issue at premium, the company must be profitable for two years and the net worth per share must be greater than net capital. And if the company desires to issue debenture, the objectives taken from amount, time frame of interest, duration, place and process should be clearly mentioned. Moreover the company's property should be audited by specialist and should be approved from NRB.
-) The issuing securities should be registered in Stock Exchange Market for the transaction within 45 days from the date of share allotment.

2.3.3 Securities Issue and Issue Management Guidelines

According to Securities Exchange Act 1983, Section 35(A), SEBON issued this guideline to manage the process of issuance of securities and to make fairness of the issue managers working pattern.

The major points of the guidelines are as follows:

-) The respective securities issuance and issue manager should be registered with SEBON under Section 19, Securities Act 1983.
-) The issue manager should keep in account whether the issuing securities may register in Stock Market and Securities Exchange Act, 1983.
-) The issue managers should have a detail about the company's organization structure, financial status, objectives of issuance of securities and service provided by the company before preparing prospectus.
-) Issue manager should kept all the photocopy of approved and registration of securities by SEBON, agreements and all submitted information to SEBON for the easily available information for investors and securities businesspersons.
-) The issue managers should listen complains about the issued securities and should be solved as soon as possible.
-) The information regarding company, its establishment date, total number of share issue, share price, issue date, number of application, subscription number, share allotment, capital collected etc should be submitted to SEBON after 90 days of closure of securities distribution.

2.3.4 Share Allotment Guidelines

To make allotment fairness and transparent of public issued securities, SEBON issued this guideline. The main points described in this guideline are briefly explained below.

-) Share allotment should be made under management describe on Company Act 1997.
-) The application number should be collected from the collection center that application should be separated according to qualification, uncompleted

information, unsigned application, and amount not deposited according to the application and having double signatures.

-) The filtered application should be classified according to the total number of application and application per share.
-) Share should be allotted to all applicants and provisional allotment should make after construction categories
-) The information of the share allotment must be published in different newspaper within 3 days of share allotment completed.
-) The approval of NEPSE is needed therefore the general practices is to attend the allotment meeting and to approve the allotment module. Besides, the representatives of NEPSE attend the allotment meeting providing guarantee that the allotment is fair.
-) If there arise any problem while share allotment, the solution should be made according to the decision of SEBON.

2.3.5 Theoretical Aspects of IPO

A large volume of studies conducted in different part of the world covering different period have consistently indicates two patterns associated with IPO issues: IPO Under-pricing and IPOs Long run Underperformance.

Underpriced IPO are those IPO where the IPO issued price is lower than the actual market price. Determining the optimum offer price of IPO issues is the most difficult for investment banking or the Underwriter. If the issued are priced low then there is a chance of oversubscription and if the price are too high then it might lead to under-subscription. As a result in withdrawal of issue, this is detrimental for the financial aspect as well as reputation of the underwriter. Therefore, the underwriter does have some incentive to under price the issue. Under pricing exist in every market but extent of under pricing may vary among different countries. We reveled in the study that among 33 countries the IPO under pricing ranged from m lowest of 4.2% to the highest of 38.8%. Number of market study also shows the same result. For example, an initial under pricing of 83% in Malaysia, 31.4% in Singapore, 15.9% in Hong Kong, 35.3% in India. Thus, initial under pricing of IPOs seemed to worldwide

phenomena even though the extent of IPO under pricing may vary from one country to another (*Ritter; 1998:124*).

Various theories have explained about IPO. One of the most important theories is that IPO are deliberately under-priced by underwriters. Underwriters will under price the issue to ensure the success of issue. It is one of the easiest methods for them to reward their loyal clients. In the same way the issuing company also wants to underpriced the issue's the typical run up in price will create excitement among investors and might prove beneficial for their future issues.

According to Band Wagon Hypothesis, when the investors buy the new issues after seeing that other investors are also buying then Bond Wagon effects may develop. To prevent it the issuing company may want to under-price the issue to induce few early investors to buy and induce a Bond Wagon in which all the other subsequently investors will want to buy. Another theory is Winner-Curse Hypothesis. It assumes that there exist two groups of investors: informed investors and uninformed investors. Although these theories have been criticized on the ground of extreme assumptions and have various other reasons but the fact remains that each of them does possess a limit of truth in them. Most importantly, they do help to understand under pricing.

2.3.6 Key Provision Related to Issue Manager

Section 4, Securities Issue and Issue Management Guidelines, 1997 stated that the related securities issuance and issue manager should be registered on SEBON in accordance to Securities Exchange Act, 1983 under 19.

) Section 6.4, Securities Issue and Issue Management, 2000 states that while submitting application In SEBO for issue approval, issue manager should take into account whether the issuing securities are qualified to be listed or not under regulation of securities Exchange market listing and securities Exchange Act 1983.

) Section 6.6, Securities Issue and Issue Management Guidelines, 2000 states that while submitting application in SEBO for issue approval, issue manager should take into account whether the issuer company's managerial, technical, economical aspects and future prospects as well as other information presented justify the public issue.

-) Companies Act 1997, states that issuer companies are required to take the services of issue manager for the sale and allotment of securities and refunding.
-) Section 9, of the Securities Registration and Issue Approval Guidelines, 2000 states that the issue should be opened within 2 months of the issue approval. If the issue is not opened within the given period, Section 9(3), require issue manager to incorporate the changes, if any, relating to technical, financial, economical and managerial aspects in the prospectus and take issue permission for the same from SEBON.

2.3.7 Duties, Responsibilities and Authorities to Issue Managers

Issue manager should obey and make obey to issuing companies as per Company Act, 1997 and Securities Act, 2005.

-) While submitting application for securities registration, issue manager should take in account the points explained in the Securities Issue and Issue Management Guidelines, 1997 with regards issuance of ordinary shares, right shares and debentures.
-) While submitting application in SEBON for issue approval, issue manager should take account whether the issuer companies, managerial, technical, economical aspects and future prospects as well as other information presented justify the public issues.
-) Issue manager should make agreements with the following authorities: A Whether issuer companies taking services of other issue managers. The submitted information of issuer companies are completely fair and transparent related to all auditing information, loan related information and other legal information. It should make agreement about the fair advertisement and marketing program should be implied prescribed by issue manager. While publishing information without the agreement and instruction of issue manager may not be answerable. Agreement should be made about the fair advertisement and marketing program should be implied prescribed by issue manager.
-) In case of oversubscription of public issue, issue manager should submit the criteria and report of allotment to SEBON within 7 days of allotment.

Similarly issue manager should submit the report relating the issue within 90 days of closure of issue.

-) The management of Banker to the Issue to collect the application and amounts from the applicants is the prime responsibilities of issue manager.
-) The registration and approval of securities by SEBON before public issuance is the duty of issue manager.
-) The public manager should inform the issue companies about the number of application, number of securities applied and collected amounts within 45 days of closure of application.
-) The major duties of issue manager are hearing of complaints and solving of those complaints relating issued securities from the related persons.
-) The issue manger should obey different code of morality provided by SEBON.

2.4 Review of Related Studies

Several studies are focused in the subject related to initial public offering and capital market. Some of related research article are reviewed in this study, which are discussed as follows.

2.4.1 Review of journal and article

Dahal (2008) has published an article "*The performance of Nepalese IPOs*". It was based on 107 IPOs from the FY 1993-2006. The study mainly focused on subscription times of securities on IPO and IPOs return. After the completion of study, he asserted that Nepalese IPOs had been heavily oversubscribed. The study showed that the investors have very high degree of attraction to the IPOs. It was noticed that Nepalese IPOs in terms of issue and subscription had been bumpy during the study period. It also noticed that the investors make 53.25% market adjusted return leading to conclusion that Nepalese IPOs has highly under priced. On other hand, it showed that due to higher under pricing, higher wealth loosed by the promoter. On the study it is found that IPOs return had been affected mainly by the subscription times of issue and general returns of stock market. The study also revealed that the firm size expressed as the size of total assets affects the subscription times of issued positively and the debt equity ratio affects the same negatively.

Bhattarai (2010) has published an article "*Capital Market in Nepal*". The investment environment is changing and capital market itself is changing with the pace of time. In this changing market the investors must be able to change their investment attitude and habits. Development of National economy demands the development of the capital market. But capital market consists of different components such as primary market and secondary market and different institutions involved and participating there on. Therefore the development of capital market cannot be done within a short span of time. But in present era, the era of capital market is growing rapidly due to the technology advancement. The traditional open out system is substituted by computerized or electronic system. In the same way, the compulsion to carry share certificate has been abolished due to the establishment of Central Depository System. It is the system, which is dematerialized the existing share certificates and issues balance certificates. But we are still working traditional system. Our growth rate is very minimal.

2.4.2 Review of Previous Thesis

In titled to *Public Response to Initial Public Offering*, so many master researches have been carried out in Nepalese context as well as in the international market. It makes sense go through these past researches to access the trends of overall IPO and pace of stock in Nepalese market.

Poudel (2007) has conducted a research on "*Public response to initial public offering in Nepal*". The objectives of the study are:

-) To identify the dealing process of IPO
-) To analyze the pace of IPO
-) To analyze the public response to the IPO

The major findings of the study are:

-) General investors in Nepal do not have sufficient information regarding the primary market.
-) They are interested in financial sector than non-financial sector.
-) Pace of initial public offering in Nepal seems to be irregular. Even though the organizations process of public offering is quite long, the service provided to

the investors seems to be satisfactory public response in stock market is high due to lack of opportunities for investment in other sector.

) Public are attracted towards shares to increase their value of investment.

Shrestha (2008) in her thesis "*Capital Market Development in Nepal*" focus on the identification of the problems associated with Nepalese stock market. The study also had attempted to identify the area that provides the potential for the growth of the market. Looking at her study, the data were collected from both primary as well as secondary data. Primary data are collected through questionnaire distributed to number of persons including SEBON, NEPSE, students, businessman, Brokers and investors. Similarly secondary data are collected through annual report of SEBON, newspaper, books magazines etc. Following are the major findings of the study:

-) There is no liquidity in the stock market for shares except that of banking and some finance and insurance sectors.
-) Lack of coordination between the performance of stock market and the Nepalese economy the performance of manufacturing sector in NEPSE is quite dismal.
-) NEPSE is only institution that helps to regulate and control the financial system of the country. The government should launch the program that overcomes the problem faced by Nepalese stock market and take in the long-term growth for economic development.
-) Investor's confidence in Nepalese stock market is low because of stock market volatility, low return in investment, inadequate information, lack of financial markets etc.
-) The stock market has good prospects for the resource mobilization to finance the productive enterprises in Nepalese economy.
-) The size of the market in terms of market capitalization and number of issue is relatively small.

Pandey (2009) has conducted a research on the topic of "*Public response to Primary Issue of Shares in Nepal.*" The objectives of the study are:

-) To identify the problems of primary share issue market
-) To assess the growth of primary issue market
-) To analyze the pattern of public response to shares.

Major findings of the study are:

-) Public response in primary market is high due to lack of opportunities for investment in other fields. No proper investment analysis is been made. Despite this, public are attracted towards shares than other sectors, basically to increase their value of investment, be it dividend capital gain or bonus shares.
-) It can be seen that public response to primary issues on Banking and Financial sectors is normally higher than that of the manufacturing and services sector.
-) Major causes for poor response in the period 1995-1998 is that the interest rates were higher as compared to dividend yield, the public companies were not performing well and people did not know about the importance of investing securities.
-) Now the response is highly positive because people are aware, money flow in the market is higher, people have seen that most companies are distributing dividends, share prices are increasing for most companies and a lack of better alternatives for investment. Now that the average interest rates have gone down, more can be obtained from investment in stock.

Ojha (2010) has conducted a study on “*Public response to IPO in Nepal*” focuses on IPO, response to IPO, problems and growth of primary market in Nepal, role of investment bankers, and the pace for IPO. Following are the major findings of the study are:

-) Most of the investor in Nepal does not know about IPO.
-) They do not want to take risk at all.
-) Loans for financial institution for IPO funding is breaking the healthy practice as single man applies from different names and captures large number of shares which ultimately influence company management and stock price too.
-) High investors are interested in financial sector than non-financial sector.

Bhandari (2011) has conducted a research on “*Structure and Efficiency of Securities Market Intermediation Service in Nepal*”. In Nepalese context very few studies have been done by the individual researcher in this topic. He tried to find out the efficiency of securities market intermediation service in Nepalese Securities Market. Major finding of his study are as follows:

-) With the elapse of time, there are a lot of changes in structure of intermediaries. The total number of intermediaries is in decreasing trend over his study period and the mixture of market intermediaries are often changing.
-) Number of listed companies, traded companies, paid-up capital, market capital and NEPSE index are increasing during his study periods, besides some exception. These indicators show the increasing efficiency in comparison with the earlier year.
-) Number of permitted brokers during the study periods was decreasing. Some of the brokers hold license only but not submitted financial and transaction reports to NEPSE on time.
-) Other sector of Nepalese economy have not moving except capital market in the later days, there is abnormal development in capital market only.
-) The high proportion of the investor was not satisfied with issue manager/under writing service available.
-) The main reason for the failure of the markets was the inability of the market makers to acquire a sufficient buffer stock of shares initially required by them for market making and introduced very initial stage of the security market.
-) Nepalese Security market is small in quantity and poor in quality as compared to other develop stock market.

Wagley (2012) has conducted a study on "A study on impact of SEBON guidelines on IPO" mainly based on secondary data. The main objective of the study is to find out the relationship between SEBON and IPO making institutions. The specific objectives of the study will be pointed out as follows:

-) To examine the existing rules, regulations and guidelines related to primary market.
-) To examine the effectiveness of these rules, regulations and guidelines.
-) To examine the roles duties and responsibilities of the issue manager.
-) To study the number of issued approved.
-) To study the primary share issue of Nepal.

Major Findings of the study are:

-) The study found that most of investors like to invest in banking sector. Investors were found to believe that the share price of banking sector always rises and can earn dividend more compare to others.
-) Most of the people prefer pro-rata basis for allotment not the lucky-draw as pro-rata basis assure the investor about getting the share.
-) Still most of the people lack information regarding stock so limited numbers of people are investing in primary market..
-) The study found that the Nepalese investors preferred IPO as quick way to make money rather than long term investment.
-) Nepalese investors are risk averter so of the do not like to invest from credit/loan.
-) The study finds capital gain and right share are the most impressive factor to investor for investment. Some investors preferred liquidity and social status as the objectives of the stock investment.

2.5 Research Gap

Even though numerous studies have been carried out in different part of the world covering different aspects of securities market, stocks trading mechanism and stock pricing behaviors etc. including public response in primary issue of different securities. As Nepalese commercial banking sector occupies the largest share in capital or securities market transaction wise this study intends to be specific about listed commercial banks IPO. In Nepalese context, very few studies regarding IPO have been made. However none of the studies been able to reflect the complete picture of IPO's of listed commercial banks, their performance public response and the prospectus in Nepal. This study also tries to understand the pace of initial public offering, investor response, procedures, rules, regulations and provisions as well as public awareness about it. So this study will be fruitful to those interested person, scholars, students, teachers, civil society, businessmen and government for academically as well as policy perspectives.

CHAPTER- III

RESEARCH METHODOLOGY

Research methodology is a path from which we can solve research dilemma systematically to accomplish the basic objective of the study. It consists of a brief explanation of research design, nature and sources of data, method of data collection and methods of tools used for analyzing data.

3.1 Research Design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variance. The research design refers to the entire process of planning and carrying out a research study. Current research applies both descriptive and analytical techniques to determine the determinants of stock price. It is analytical in the sense that it uses different analytical tools to analyze the investor's preferences toward factor affecting stock price. Similarly it is descriptive in the sense that it clarifies different aspects of investor's preferences. As per the nature of the research primary as well as secondary data have been extensively used.

3.2 Population and Sample

Number of companies listed in Nepal Stock Exchange (NEPSE) by the end of F/Y 2012/13 has reached 207 which include commercial banks, development banks, finance companies, insurance companies, manufacturing and processing companies, trading companies, hotels and others. So, population for this study is the total number of listed companies and sample for this study is given in the following table:

Table: 3.1
Population and Sample of the Study

Sector	Population of study	Sample of study
Financial Sector		
Commercial Bank	30	7
Development bank	87	10
Finance companies	79	12
Insurance companies	27	6
Total	237	35

Source: nepalstock.com

For the primary data collection students, brokers, investors, bankers, officials of the companies and experts are taken. Response to questionnaire is received from total of 16 persons and compositions of the respondents are as below:

Table: 3.2

Profession	Number of respondents	Percentage
Students	4	25%
Investors	8	50%
Bankers	2	12.5%
Brokers	2	12.5%
Total	16	100.00%

3.3 Sources and Nature of Data

A. Primary Data

Primary data gives real shape to the work. Discussion and interviews with existing investors, staff members of NEPSE and SEBON, brokers and other concerned parties have been conducted to collect the primary data. As per the requirement of the research a questionnaire was designed for the primary data collection. And then those eleven questions are asked to 16 persons

B. Secondary Data

To accomplish the above mentioned objectives, this research is based upon the secondary data for the historical performance assessment and the primary data for the qualitative assessment of information. As input for the study, the secondary data that re collected through various published and unpublished documentary type sources. The sources are relied secondary data are as:

-) Annual Report – NEPSE, SEBON
-) Nepal Merchant Bank & Finance company Ltd.
-) NIDC Capital Market
-) Citizen Investment Trust
-) Quarterly Economic Bulletins, NRB
-) Websites
-) News papers

Previous Research studies; Dissertation and Articles on the subject

3.4 Data Collection Techniques

Annual report covering different fiscal years of SEBON are collected from its head office at Gaushala. Similarly, trading reports of NEPSE are retrieved from its head office at Singhadarbar. Daily newspapers like The Kathmandu Post, Republica and Rising Nepal are access from library and weekly newspaper Arthik Abhiyan and business plus are bought myself. Acts and regulatory information are obtained from law as well as official website of SEBON.

3.5 Data Processing

At first data are extracted from above mentioned sources and recorded in the master sheet. The data are often then entered into the spreadsheet to present them into appropriate tables and figures with aid of computer programmers like Microsoft word, Microsoft excel is run to analyze data revealing existing state of IPO's in Nepal pricing while sophisticated computer program like spas was run to obtain the growth rate of issued amount, average size of issue offered and amount of issue offered from financial and non-financial sector.

3.6 Data Analysis Tools

In the study, different statistical tools and various models have been used to analyze the data and reach the meaningful results, which are described below:

3.6.1 Multiple Bar-Diagrams and Graphs

Diagrams and graphs are visual aids which give a bird's eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than two sets of data. Diagrams are in different type. Out of these various types of diagram one of the most important form of diagram presentation of data is multiple bar diagrams which is used in cause where multiple characteristics of the same of data have to be presented and compared.

3.6.2 Pie-Diagram

A pie-diagram is a widely used aid that is generally used for diagrammatic presentation of the values differing widely in magnitude. In these methods all the given data are converted into 360 degree and all components of the data are presented in terms of angles that total 360 degree for one set of data.

3.6.3 Percentage

Percentage is one of the most useful tools for the companies of two qualities or variables. Simply, the word percentage means per hundred. In other, the fraction with 100 as its denominator is known as a percentage and the numerator of these fractions is rate percent.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

This chapter includes presentation of data and analysis of data to reach at a conclusion. The primary data are used to analyze the public awareness, response, expectation, choice for investment etc. The secondary data are used to analyze the public response to the initial public offering per year and sector wise along with under subscription and oversubscription, growth of public offering and the behavior of general investors.

To meet the objectives of study about the responses of investors, the study is made with questionnaire survey. The study is based on the investors who are willing to invest in IPO and are already involved in financial market. The theme of the study is- what types of company do investors prefer most? The banking and financial sectors take over the very high place but other sectors are not-why? What react can be overcome from the investors, if the companies issued the IPO?

In this course of analysis, the collected data have been presented in the tables, figures and diagrams and then analyzed by using financial and statistical tools. The results of the computation have also been summarized in appropriated tables. The samples of computation of each model have been included in annexes.

4.1 Analysis of Secondary Data

4.1.1 Publicly Issued Companies

As per requirement of NEPSE, issuing companies should list their issues in NEPSE. For following, such issues to be traded on its trading floor. Since opening of NEPSE in 1993/94, 207 companies have already been listed till the end of 2012/13. The total paid up capital of these companies amounted to Rs. 100238.85 million. The most instigating aspect of this total paid up capital is the contribution from financial sector that includes commercial bank, shown in table.

Table 0.1
Publicly Issued Companies

(Rs. in millions)

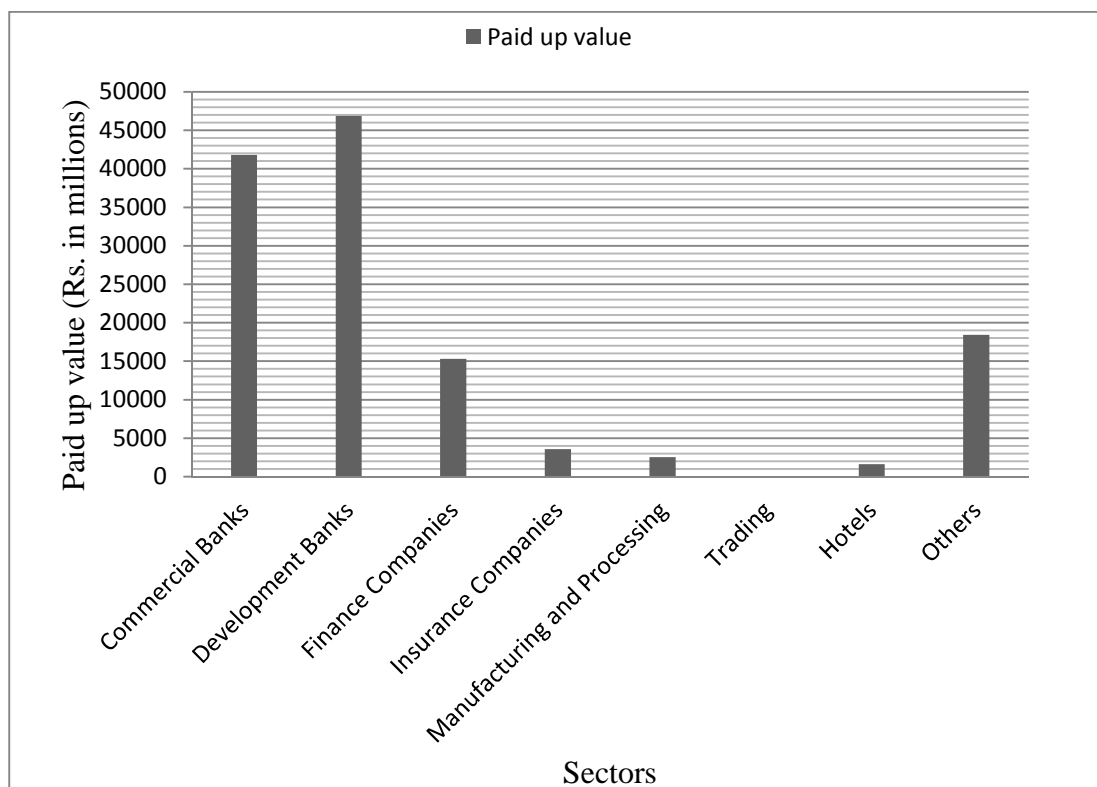
S.N.	Sector	Companies	%	Paid up value	%
1	Commercial Banks	24	11.00	41806.19	41.71
2	Development Banks	68	29.67	16864.69	16.82
3	Finance Companies	71	33.97	15301.08	15.26
4	Insurance Companies	21	10.05	3585.29	3.58
5	Manufacturing Co.	18	8.61	2539.74	2.53
6	Trading	4	1.91	83.42	0.08
7	Hotels	4	1.91	1615.15	1.61
8	Others	6	2.87	18443.29	18.40
	Total	216	100	100238.85	100

Source: SEBON Annual Report

As shown in table 4.1 out of 216 listed companies 175 companies belong to financial sector (i.e. commercial banks, development banks, finance companies and insurance companies), which is about 84.54% of the total listed companies in NEPSE. Similarly, from paid-up value perspective commercial banks occupies 41.71%, development banks have 16.82%, finance companies accounts for 15.26% and insurance companies have 3.58% of the total paid-up value. Together as financial sector, they account for 78.98% of the total paid-up value.

Whereas, 31 companies belong to non financial sector (i.e. manufacturing and processing, trading, hotels and others), which is about 15.46% of the total listed companies. Manufacturing and processing sector accounts for only 2.53%. Similarly, trading, hotel and others account for 0.08%, 1.61% and 18.40% of the total paid-up value respectively.

Figure 4.1
Trend of Paid up value



4.1.2 Analysis of Annual Turnover

Annual turnover constitutes an important indicator for measuring the nation's economic activities. It also reflects stock market liquidity as the higher amount of trading of stock market size; the greater is the stock market liquidity. The total amount of securities traded in the FY 2012/13 is Rs. 6665.18 million.

Table 4.2
Sector-Wise Annual Turnover

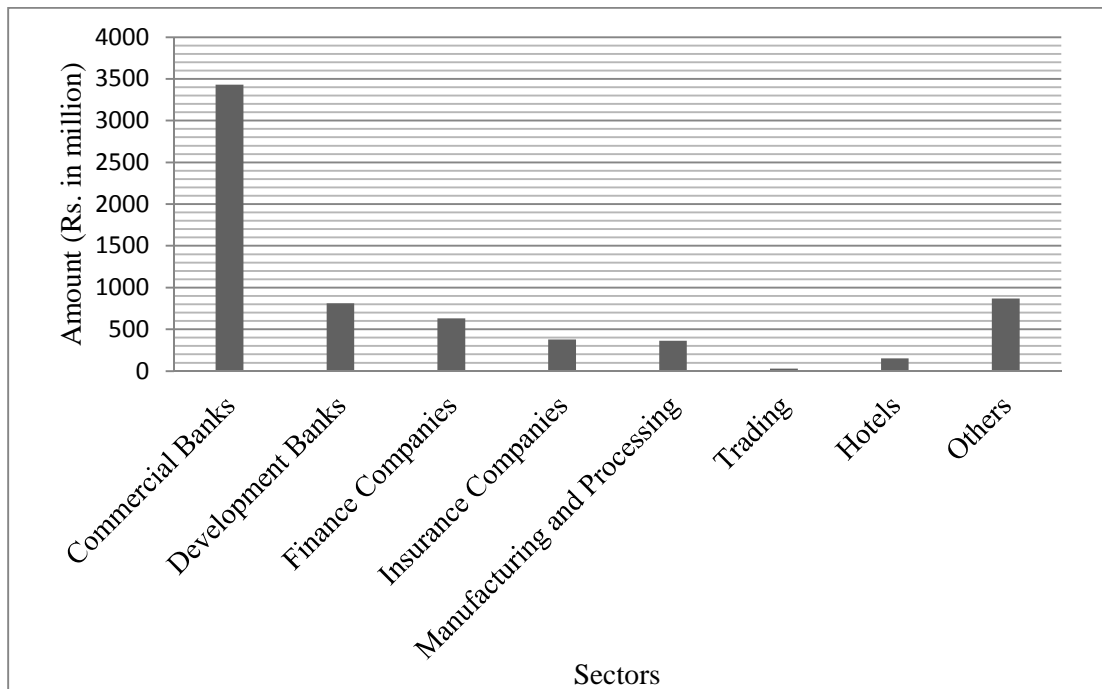
(Rs. in millions)

SN	Sector	Amount	(%)
1	Commercial Bank	3431.82	51.49
2	Development Bank	813.24	12.20
3	Finance Companies	630.74	9.46
4	Insurance Companies	377.15	5.66
5	Manufacturing and Processing	363.06	5.48
6	Trading	27.53	0.41
7	Hotels	151.92	2.28
8	Others	869.76	13.05
	Total	6665.18	100

Source: SEBON Annual Report

As shown in table 4.2, among 8 sectors, the contribution from financial sector is about 78.80% that includes commercial banks, development banks, finance companies and insurance companies. On the other hand, contribution from non-financial sector is about 21.20% which includes manufacturing and processing, trading, hotels and other companies. Among 8 sectors, commercial banks have highest i.e. 51.49% contribution and trading have lowest i.e. 0.41% contribution. The figure 4.2 demonstrates that trading amount of financial sector companies is much higher than that of non-financial sectors. And also shows that commercial banks contribute highest and trade contribute lowest among all these sectors.

Figure 4.2
Trend of Sector-wise Annual Turnover



4.1.3 Analysis of Market Capitalization

By the end of the FY 2011/12, the percentage contribution of market capitalization on nominal GDP is estimated to be Rs. 24.02%. The market capitalization in the FY 2012/13 is Rs. 241513.95 million and is presented below in table 4.3. By analyzing the sector wise market capitalization, banking sector is highest among all sectors. Commercial banks capture 46.35%, development banks 5.47%, finance companies 5.70% and insurance company 4.12%. Similarly, manufacturing and processing 3.90%, trading 0.57%., hotels 1.26% and others companies captures 32.57%.

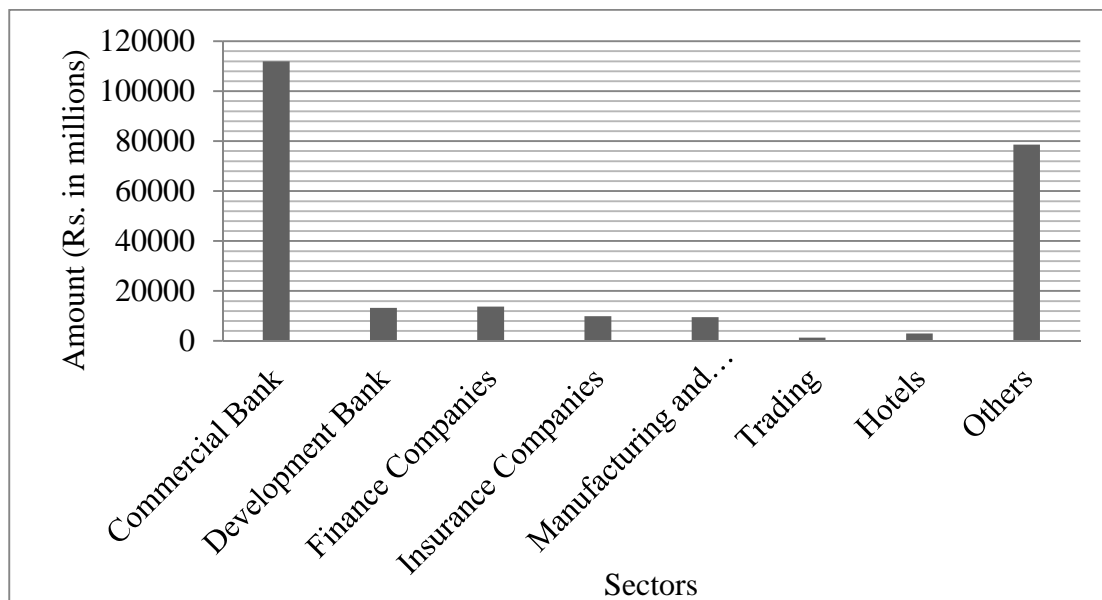
Table 4.3
Sectors-wise Market Capitalization

(Rs. in millions)

SN	Sector	Amount	Percent
1	Commercial Bank	111938.05	46.35
2	Development Bank	13210.54	5.47
3	Finance Companies	13756.06	5.70
4	Insurance Companies	9937.18	4.12
5	Manufacturing and Processing	9577.84	3.97
6	Trading	1380.74	0.57
7	Hotels	3040.64	1.26
8	Others	78672.90	32.57
	Total	241513.95	100

Source: SEBON Annual Report

Figure 4.3
Trend of Sectors-wise Market Capitalization



The figure 4.3 proves that most of the market capitalization is on the financial sector, mainly on the commercial banks and rest remains with non-financial sector, mainly on others.

4.2 Investor Response to IPO

4.2.1 Investor Response to Commercial Banks

There are 31 commercial banks among which only 28 are listed in the stock exchange. Nepal Arab Bank Limited (NABIL Bank) is the first commercial bank to issue Share to public. Public issues of commercial bank are highly appreciated by public. Investors give high priority and response to the public issue. From the population of all total of 28 only 7 are taken as sample.

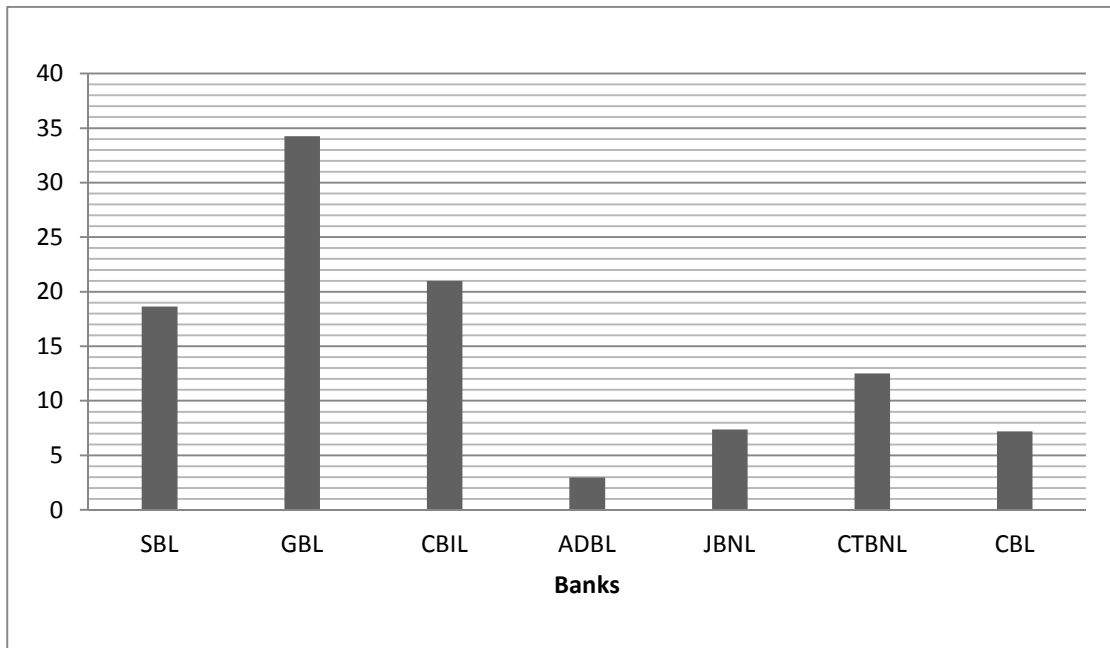
Table 4.4
Investor Response to Commercial Banks

S. No.	Name of Company	Share Issued	Applied	Year	Subscription times	Result
1.	SBL	1500000	27979950	2005	18.65	Over Subs.
2.	GBL	3000000	102899626	2008	34.25	Over Subs.
3.	CBIL	3000000	62990520	2009	20.98	Over Subs.
4.	ADBL	9600000	28510303	2010	2.97	Over Subs.
5.	JBNL	6000000	102899626	2011	7.38	Over Subs.
6.	CTBNL	3000000	369000000	2012	12.5	Over Subs.
7.	CBL	3000000	21600000	2012	7.2	Over Subs.

Source: SEBON, Annual Report

The table 4.4 and figure shows the information of 7 different commercial banks with shares issued date, issued amount, and Subscription Times which shows the public response to these companies.

Figure 4.4
Trend of Investor response to Commercial Banks



The figure 4.4 shows that highest subscription is in the case of GBL with highest bar while the lowest bar shows that ADBL is least subscribed.

4.2.2 Investor Response to Development Bank

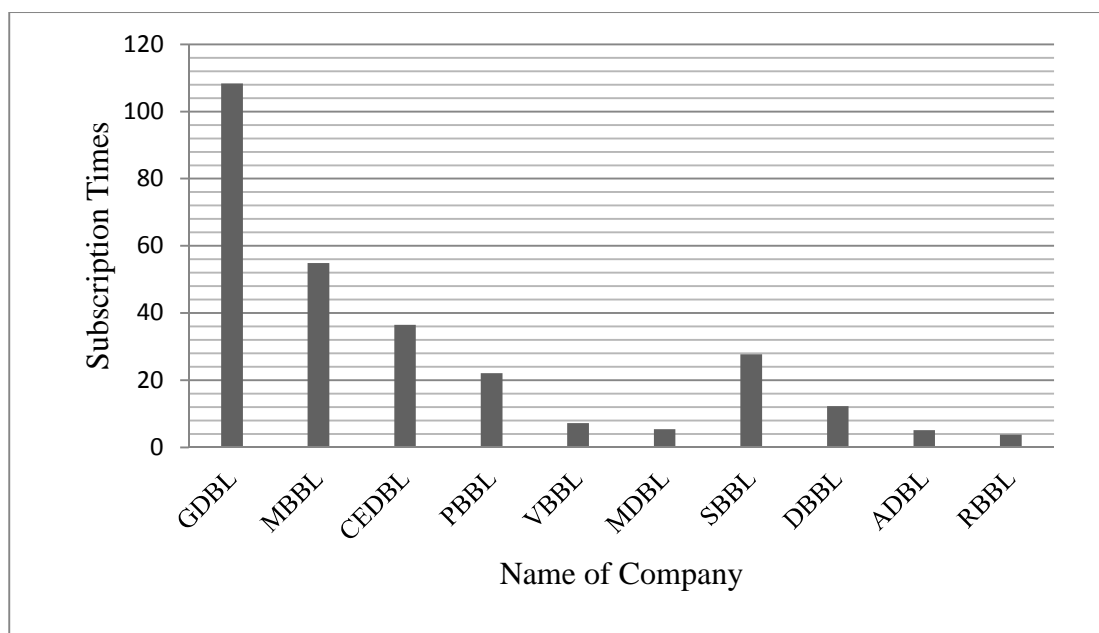
There are 68 development banks listed in the stock exchange. From the population of 68 only 10 are taken as sample. The table 4.5 shows that Gorkha Development bank limited has highest subscription (i.e.108.32 times) than others sample development banks but all the issues are oversubscribed. Whereas Malika Bikash bank has 54.84, Clean Energy development bank ltd. has 36.46, Pashupati Bikash bank has 22.07, Vibor bikash bank has 7.18, Manakamana Development bank has 5.42, Sewa Bikash bank has 27.68, Diyalo Bikash bank has 12.31, Arniko Development bank has 5.10 and Rara Bikash bank has 3.75 subscription times.

Table 4.5
Investor Response to Development Bank

S.No.	Name of Bank	Shares Issued	Shares Applied	Issued Year	Subscription times	Result
1.	GDBL	960000	103987200	2006	108.32	Oversubs.
2.	MDBL	150000	8226900	2007	54.84	Oversubs.
3.	CEDBL	960000	35003040	2008	36.46	Oversubs.
4.	PBBL	800000	17657840	2009	22.07	Oversubs.
5.	VBBL	2652000	19042951	2009	7.18	Oversubs.
6.	MDBL	3000000	16260000	2010	5.42	Oversubs.
7.	SBBL	400000	11072000	2010	27.68	Oversubs.
8.	DBBL	350000	4308500	2010	12.31	Oversubs.
9.	ADBL	980000	4998000	2011	5.10	Oversubs.
10.	RBBL	660300	2476125	2011	3.75	Oversubs.

Source NCML, NMB, NFC, NEFINSCO, SEBON

Figure 4.5
Trend of Investor Response to Development Bank



The figure 4.5 shows that among sample development banks highest subscription is in the case of Gorkha Development Bank limited with highest bar and lowest in the case

of Rara Bikash Bank limited with lowest bar. The NEPSE is going on increase up to fiscal 2009, so the banks which issues on this period have highest subscription rate.

4.2.3 Investor Response to Finance Companies

There are altogether 71 listed finance companies from which 12 are taken for research investor response.

Table 4.6
Investor Response to Finance Companies

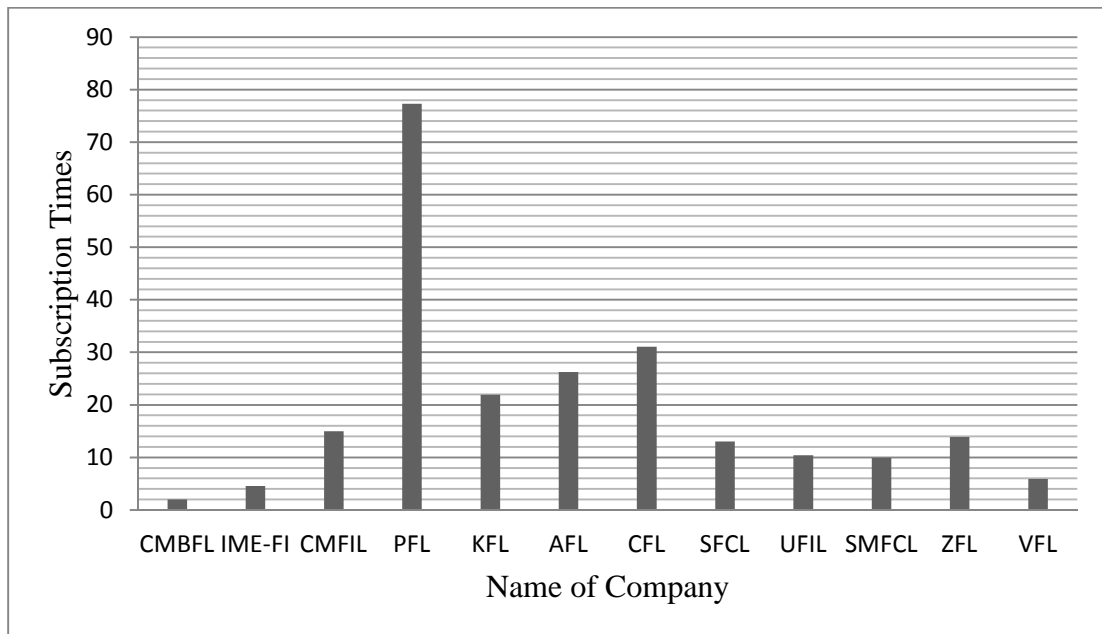
S.No.	Name of Company	Shares Issued	Shares Applied	Issued Year	Subscription times	Result
1.	CMBFL	280000	565881	2005	2.02	Oversubs.
2.	IME-FI	175000	801552	2006	4.58	Oversubs.
3.	CMFIL	200000	3000000	2007	15.00	Oversubs.
4.	PFL	480000	37107840	2007	77.30	Oversubs.
5.	KFL	200000	4387000	2008	21.93	Oversubs.
6.	AFL	180000	4723740	2009	26.24	Oversubs.
7.	CFL	210000	6522810	2009	31.06	Oversubs.
8.	SFCL	400000	5216005	2010	13.04	Oversubs.
9.	UFIL	400000	4168105	2010	10.42	Oversubs.
10.	SMFCL	300000	2979005	2010	9.93	Oversubs.
11.	ZFL	420000	5833800	2010	13.89	Oversubs.
12.	VFL	1280000	7590400	2011	5.93	Oversubs.

Source NCML, NMB, CIT, SEBON, NEFINSCO

The table 4.6 shows that in all the investor response to finance companies we found over Subscription all the time. That means investor is also interested in finance companies shares. Highest over Subscription of 77.30 times is in the case of Prabhu Finance Ltd (PFL), Where 37107840 shares are applied for only 480000 shares. There is 31.06 times in Crystal Finance Ltd (CFL), 26.24 times in Api Finance Ltd (AFL), 21.93 times in Kaski Finance Ltd (KFL), 4.58 times subscription in IME Financial Institution Ltd (IMI-FIL), 13.04 times subscription in Suryadarshan Finance Company Ltd. (SFCL), 10.42 times in Unique Financial Institution Ltd. (UFIL), 9.93 times in Swastik Merchant Finance Company Ltd. (SMFCL), 13.89 times in Zenith

Finance Ltd. (ZFL), 5.93 times in Valley Finance Ltd. (VFL) and the least subscribed but still over-subscribed is in the case of Capital Merchant Banking & Finance Ltd (CMBFL) by 2.02 times. This all shows those investors are interested in shares of finance companies.

Figure 4.6
Trend of Investor Response to Finance Companies



The figure 4.6 clearly shows that PFL is highly subscribed while CMBFL is least subscribed. However no company is under subscribed.

4.2.4 Investor Response to Insurance Companies

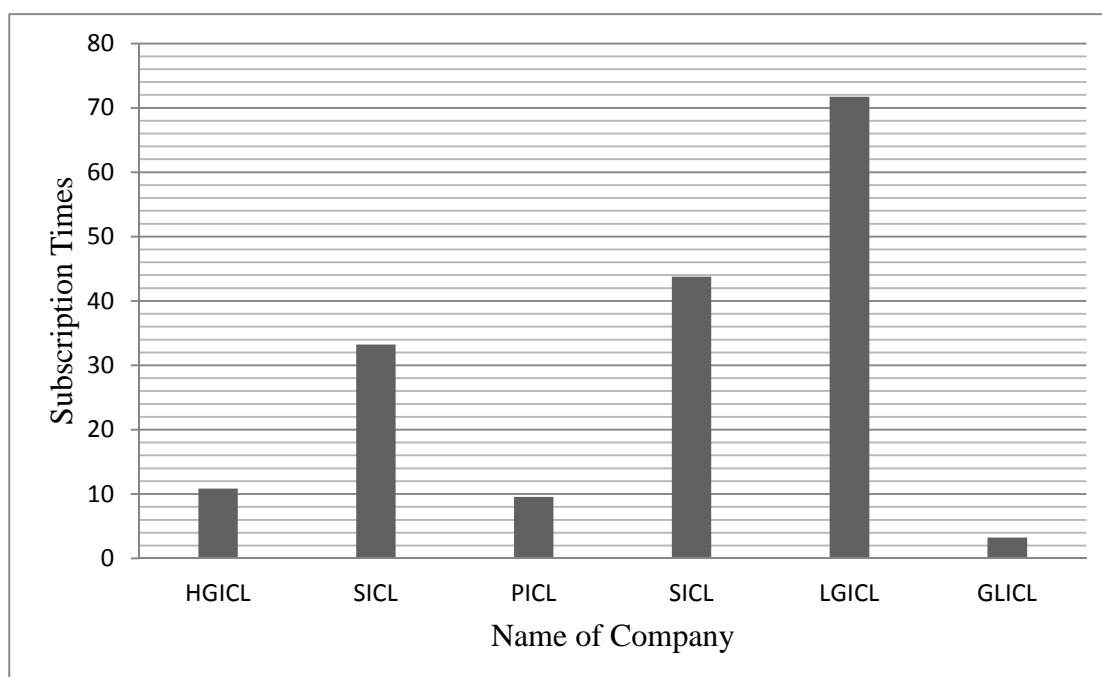
For the study only 7 companies are taken from the population of 28. The table 4.7 shows the investor response to insurance companies ranges from 71.73 Subscription times to 5.23 times. The highest subscription is 71.73 times for 250000 shares of Lumbini General Insurance Company Ltd (LGICL) and the lowest subscription is 3.23 times for 1080000 shares of Gurash Life Insurance Company Ltd. (GLICL). There are 10939650 shares applied for 250000 shares of Shikhar Insurance Company Ltd. (SICL) that is 43.76 times over subscription. In case of Sagaramatha Insurance Company Ltd. (SICL) 33.22 times oversubscribed. There is 10.85 times subscription for 120000 shares of Himalayan General Insurance Company Ltd. (HGICL).

Table 4.7
Investor Response to Insurance Companies

S No.	Name of Company	Shares Issued	Shares Applied	Issued Year	Subscripti on times	Result
1.	HGICL	120000	225756	1994	10.85	Oversubs.
2.	SICL	1020000	33886541	2003	33.22	Oversubs.
3.	PICL	200000	1913620	2004	9.57	Oversubs.
4.	SICL	250000	10939650	2006	43.76	Oversubs.
5.	LGICL	250000	17932751	2007	71.73	Oversubs.
6.	GLICL	1080000	3488405	2011	3.23	Oversubs.

Source: NCML, NMB, CIT, SEBON

Figure 4.7
Trend of Investor Response to Insurance Companies



The figure 4.7 shows that the Lumbini General Insurance Company Limited has highest subscription rate whereas Gurash Life Insurance Company Limited has lowest subscription rate among the sample insurance companies.

4.2.5 Non-Financial Sector

Non-Financial Sector includes Manufacturing & Processing Companies, Trading Companies, Hotels and others. Up to the fiscal year 2012/13 end, there are 32 non-financial sector companies listed. From those here 10 are taken as sample.

Table 4.8
Investor Response to Non-financial Sector

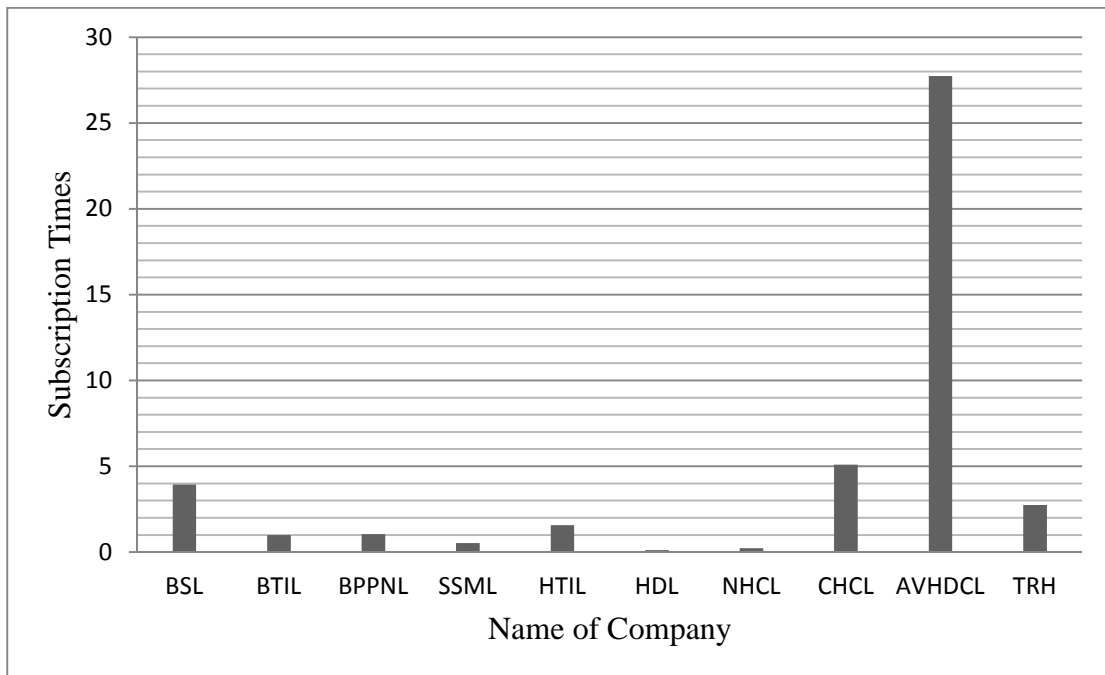
S. No.	Name of Company	Issued Shares	Applied Shares	Issued Year	Subscription times	Investor Response
1.	BSL	50000	197150	1994	3.94	Over subs.
2.	BTIL	75000	75000	1994	1.00	Constant
3.	BPPNL	1050000	1101135	1996	1.05	Over subs.
4.	SSML	465000	245985	1997	0.53	Under subs.
5.	HTIL	1200000	1884000	1999	1.57	Over subs.
6.	HDL	17344600	183347	2001	0.11	Under subs.
7.	NHCL	1400000	301700	2004	0.22	Under subs.
8.	CHCL	2374100	12104112	2005	5.10	Over subs.
9.	AVHDCL	515000	14287748	2009	27.74	Over subs.
10.	TRH	5859390	16113322	2010	2.75	Oversubs.

Source: NCML, NMB, CIT, NSML

From the table 4.8 it is found that the subscription of three companies to be under-subscribed, one company to be remains constant and the rest of 6 companies to be over-subscribed. Arun Valley Hydropower Development Company Limited has highest subscription i.e. 27.74 times. Shreeram Sugar Mills Ltd., Himalayan Distillery Ltd. & National Hydropower Co. Ltd., have the Subscription of 0.53, 0.11 and 0.22 times respectively. Oriental Hotels has high Subscription of 6.29 times. Birat Shoe Ltd., Himgiri Textile Industries Ltd., Brikuti Pulp & Paper Nepal Ltd., Taragaon Regency Hotels Ltd. and Chilime Hydro Power Co. Ltd. have Subscription of 3.94, 1.57, 1.05, 2.75 & 5.10 times respectively.

Figure 4.8

Trend of Investor Response to Non-financial Companies



The figure 4.8, it is clear that AVHDCL is highly subscribed with 27.74 times Subscription while Himalayan Distillery Ltd is least subscribed with 0.11 times among the non financial companies.

4.3 Primary Data Analysis

The questionnaire was either asked for yes/no response or asked for ranking of choice according to their preference. Their first choice is most important and last is least important. Weight is assigned according to number of alternatives to their choice for analysis purpose. The choice with highest score of preference is ranked as the most important choice and vice versa.

To meet the objectives of the study about the responses of investors, the study is made with questionnaire survey. The questions are responded from 40 respondents.

4.3.1 Response for Share Market

To know the view of respondents of share market a question was asked, “What do you think about the Share Market.” The responses found towards the question are tabulated as follows:

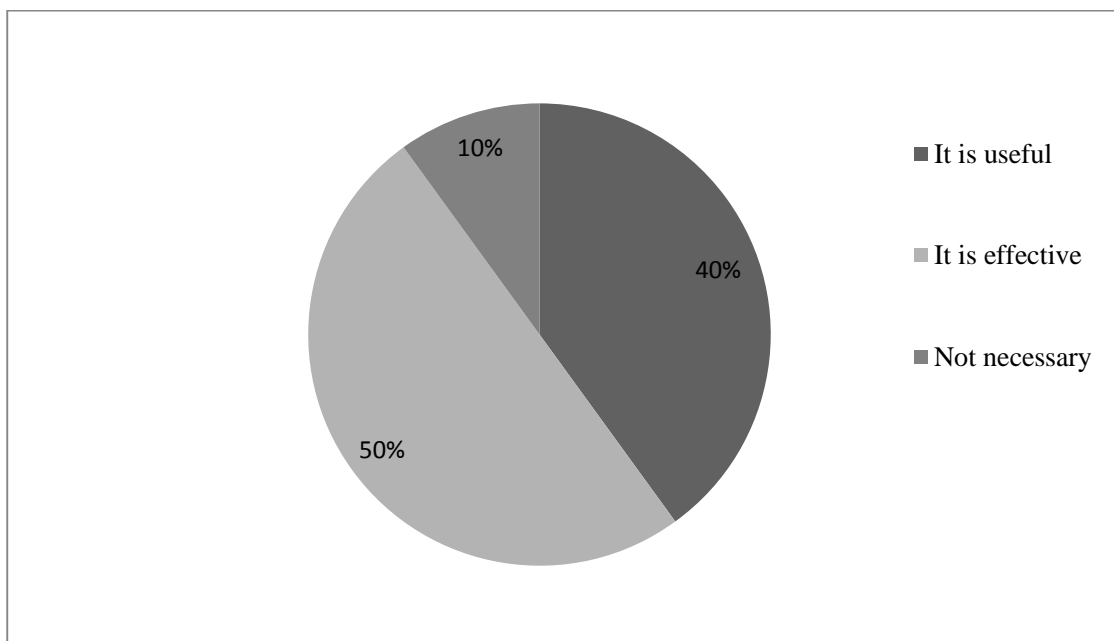
Table 4.9
Response for Share Market

Alternatives	No. of Respondents	Percentage (%)
It is useful	16	40
It is effective	20	50
Not necessary	4	10
Total	40	100

Source: Field Survey

The table 4.9 and figure shows that out of 40 respondents, 50% response that the share market is effective, 40% response that the share market is useful and remaining 10% reply that it is not necessary.

Figure 4.9
Response for Share Market



4.3.2 Sector's Share Desirable for the Investors

To know the view of respondents of Sector's Share Desirable for the Investors a question was asked, "Which sector's share is desirable for the investors" The responses found towards the question are tabulated as follows:

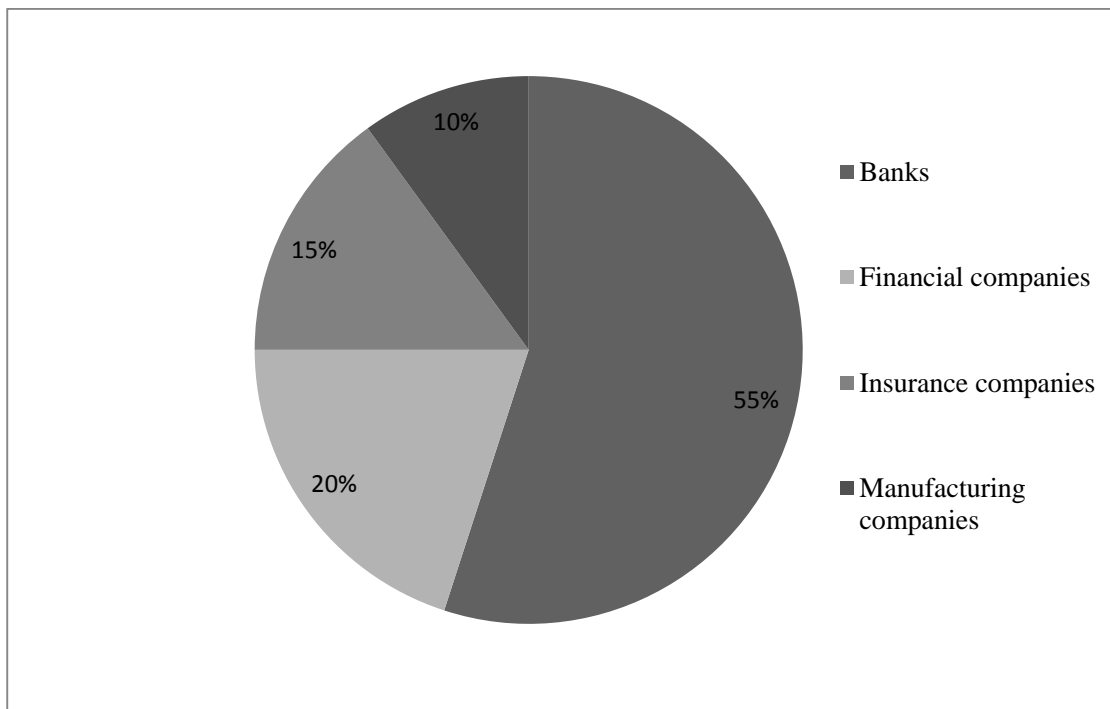
Table 4.10
Sector's Share Desirable for the Investors

Alternatives	No. of Respondents	Percentage (%)
Banks	22	55
Financial companies	8	20
Insurance companies	6	15
Manufacturing companies	4	10
Total	40	100

Source: Field Survey

The table 4.10 and figure shows that out of 40 respondents, 55% response that the banks sector's share is desirable by the investors. 20% respondents desire financial companies, 15% respondent's desire insurance companies and remaining 10% desire on manufacturing companies.

Figure 4.10
Sector's Share Desirable for the Investors



4.3.3 Response about Securities, Stock and Shares

Table 4.11

Response about Securities, Stock and Shares

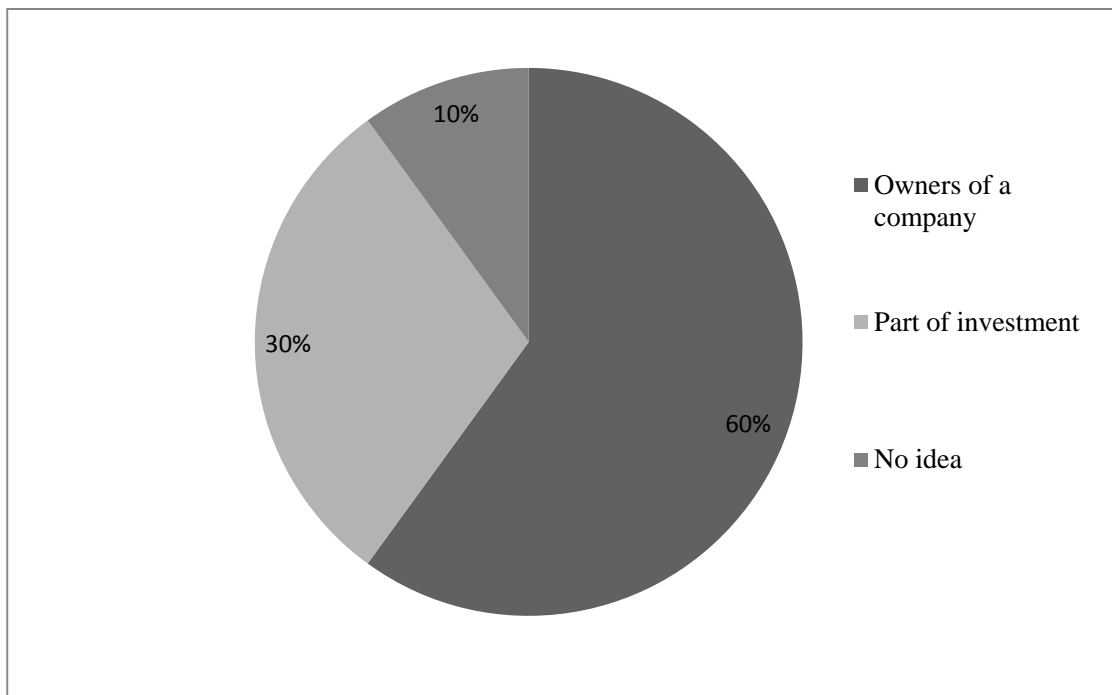
Alternatives	No. of Respondents	Percentage (%)
Owners of a company	24	60
Part of investment	12	30
No idea	4	10
Total	40	100

Source: Field Survey

The table 4.11 and figure shows that out of 40 respondents, 60% response that the securities, stock and shares are the owners of the company. 30% respondents reply that the part of investment and only 10% reply that they have no idea.

Figure 4.11

Response about Securities, Stock and Shares



4.3.4 Response for Findings the Information about IPO

To know the view of respondents of information about IPO a question was asked, “How did you get idea/Information to make investment into primary issue of securities” The responses found towards the question are tabulated as follows:

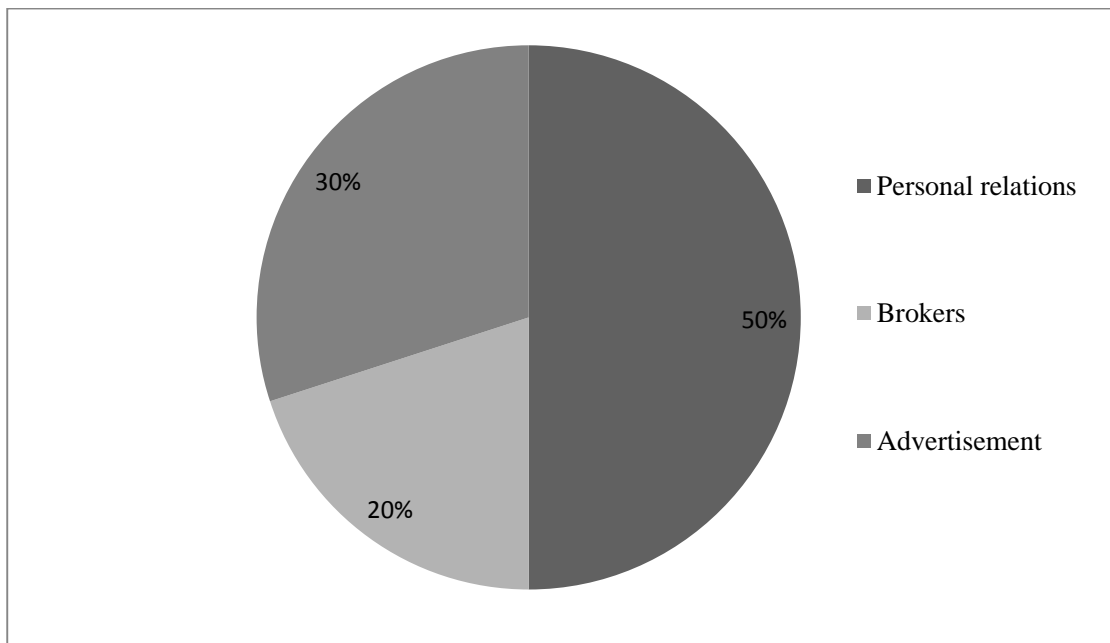
Table 4.12
Response for Findings the Information about IPO

Alternatives	No. of Respondents	Percentage (%)
Personal relations	20	50
Brokers	8	20
Advertisement	12	30
Total	40	100

Source: Field Survey

The table 4.12 and figure shows that out of 40 respondents, 50% response that they get the information about IPO by the personal relations, 20% respondents get the information about by brokers and remaining only 30% respondents get information about IPO by advertisement.

Figure 4.12
Response for Findings the Information about IPO



4.3.5 Reasons for Investing in Share

To know the view of respondents of information about reason for investment in share The responses found towards the question are tabulated as follows:

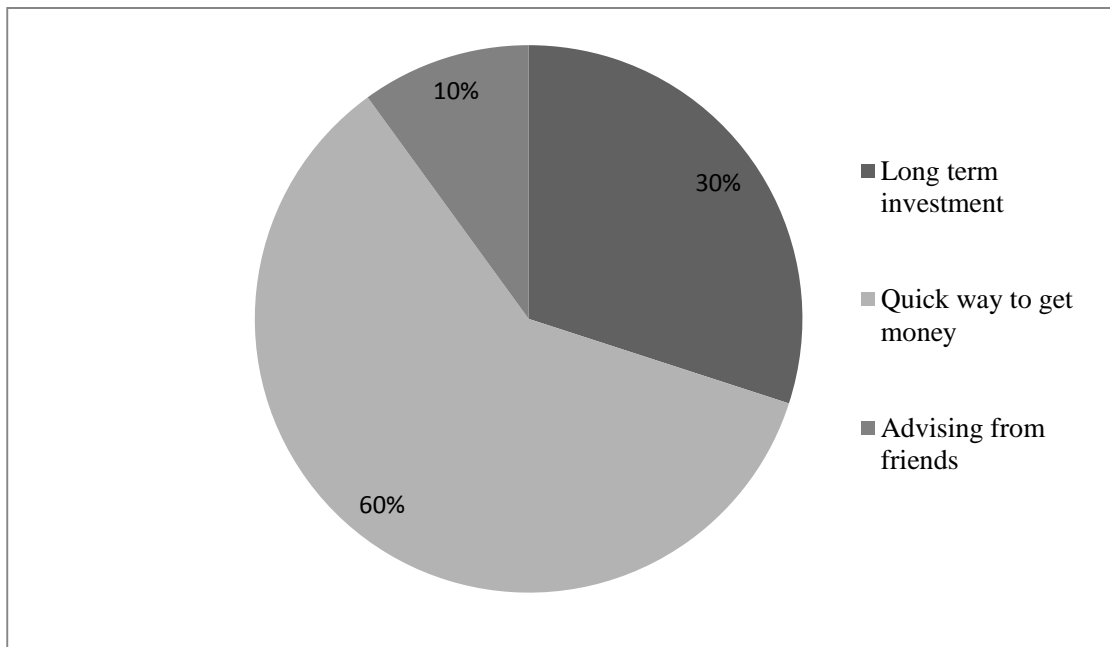
Table 4.13
Reasons for Investing in Share

Alternatives	No. of Respondents	Percentage (%)
Long term investment	12	30
Quick way to get money	24	60
Advising from friends	4	10
Total	40	100

Source: Field Survey

The table 4.13 and figure shows that out of 40 respondents, 60% response that the reasons for investing in share is the quick way to get money, 30% respondents reply the reason for investing in share is that it is long term investment and remaining only 10% choose by advertising from friends.

Figure 4.13
Reasons for Investing in Share



4.3.6 Influencing Factors for Investing in IPO

To know the view of respondents of influencing factor for investment of IPO a question was asked, “What are the influencing factors for investment in IPO” The responses found towards the question are tabulated as follows:

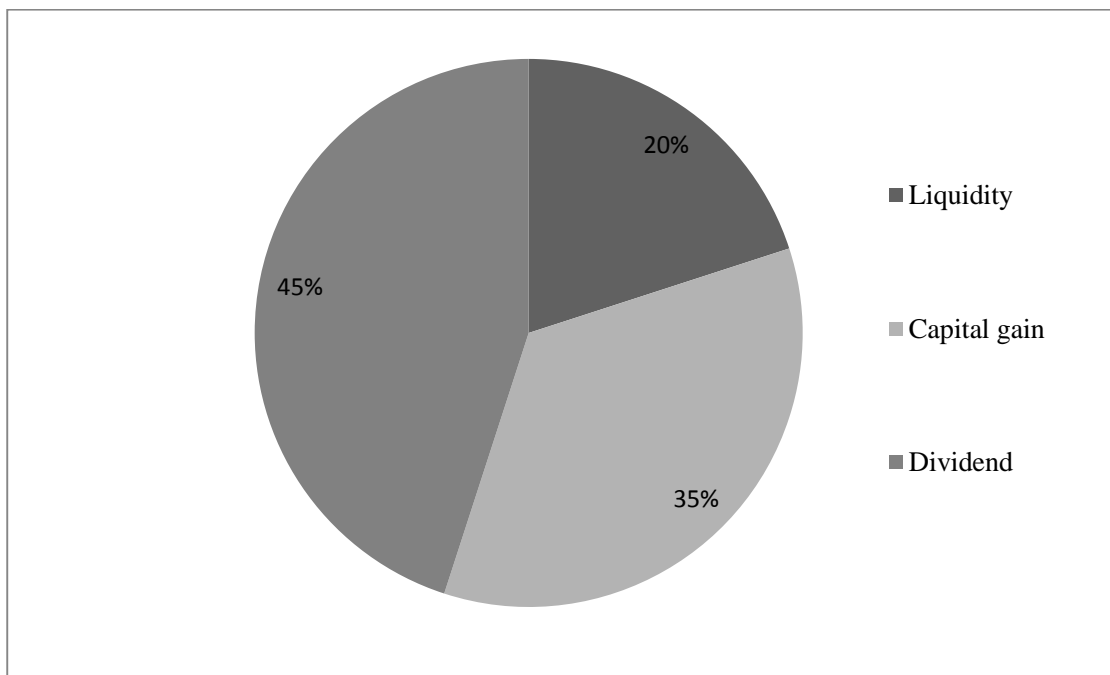
Table 4.14
Influencing Factors for Investing in IPO

Alternatives	No. of Respondents	Percentage (%)
Liquidity	8	20
Capital gain	14	35
Dividend	18	45
Total	40	100

Source: Field Survey

The table 4.14 and figure shows that out of 40 respondents, 20% respondents say that the influencing factors for investing in IPO is liquidity, 35% choose for capital gain and most of the respondents i.e. 45% say that the that the influencing factors for investing in IPO is dividend.

Figure 4.14
Influencing Factors for Investing in IPO



4.3.7 Response about the meaning of CDS

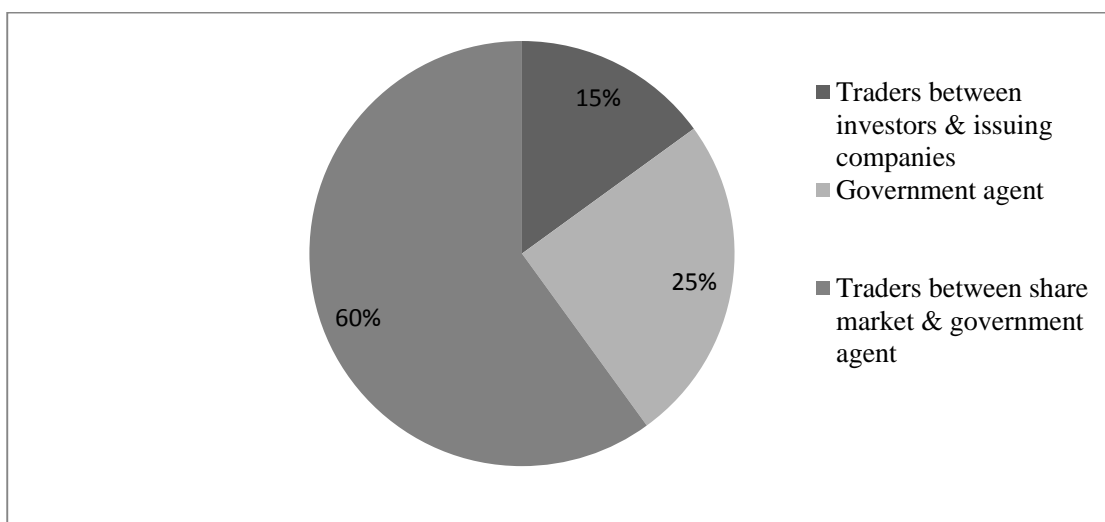
Table 4.15
Response about the meaning of CDS

Alternatives	No. of Respondents	Percentage (%)
Traders between investors & issuing companies	6	15
Government agent	10	25
Traders between share market & government agent	24	60
Total	40	100

Source: Field Survey

The table 4.15 and figure shows that out of 40 respondents, 60% response that the meaning of CDS is the traders between share market and government agent, 25% response that the meaning of CDS is the government agent and only 15% reply that the meaning of CDS is the traders between investors and issuing companies.

Figure 4.15
Response about the meaning of CDS



4.3.8 Reasons for Establishing CDS by Government

Table 4.16

Reasons for Establishing CDS by Government

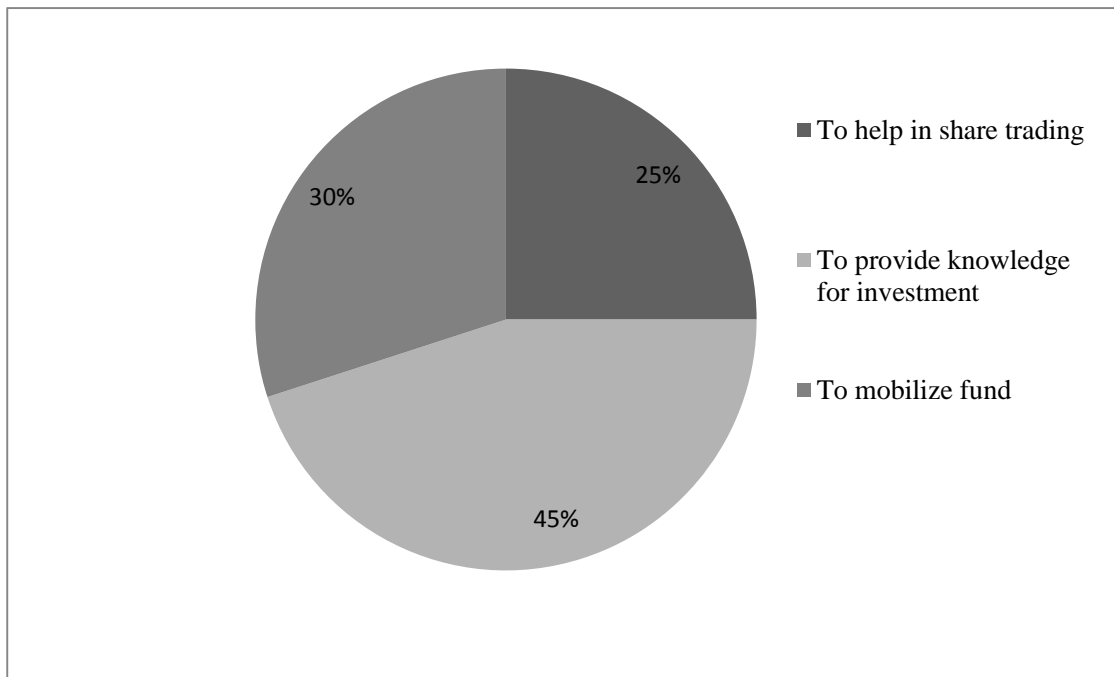
Alternatives	No. of Respondents	Percentage (%)
To help in share trading	10	25
To provide knowledge for investment	18	45
To mobilize fund	12	30
Total	40	100

Source: Field Survey

The table 4.16 and figure shows that out of 40 respondents, 25% say that that the reasons for establishing CDS by government is to help in share trading, 45% reply to provide knowledge for investment and remaining 30% say the reasons for establishing CDS is to mobilize fund.

Figure 4.16

Reasons for Establishing CDS by Government



4.3.9 Reasons for Some Company does not want to go to Public

Table 4.17

Reasons for Some Company does not Want to go to Public

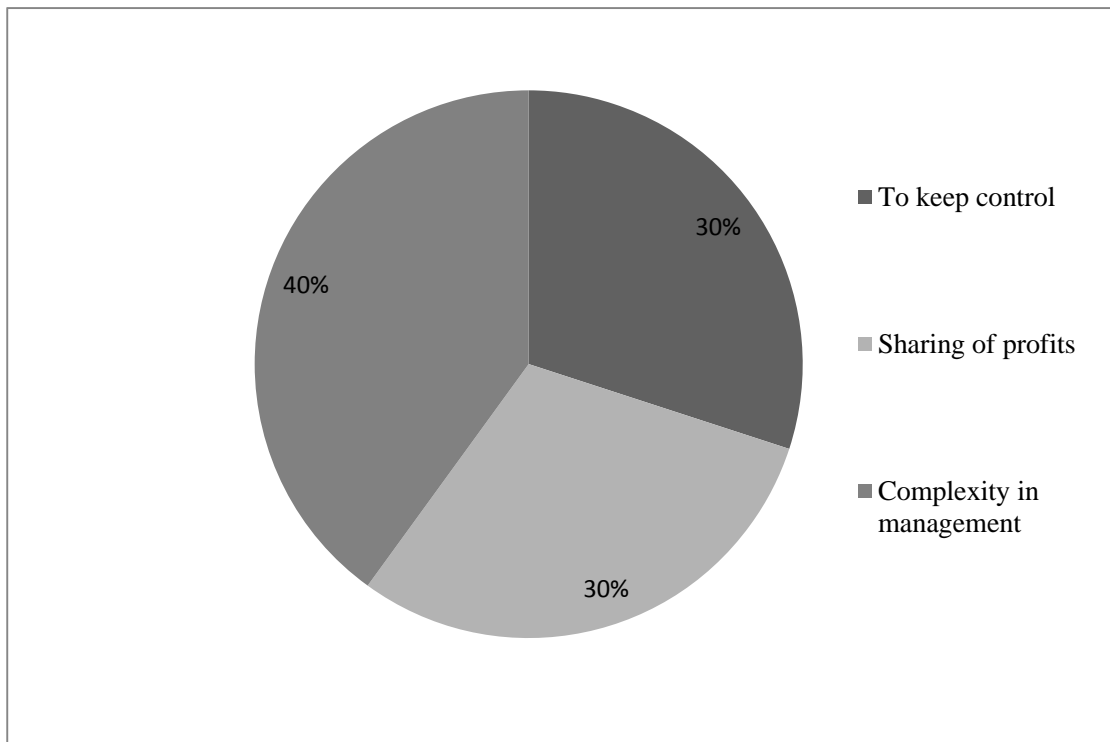
Alternatives	No. of Respondents	Percentage (%)
To keep control	12	30
Sharing of profits	12	30
Complexity in management	16	40
Total	40	100

Source: Field Survey

The table 4.17 and figure shows that out of 40 respondents, 30% respondents say that the reasons for some company does not want to go to public to keep control and also 30% say for sharing profits and remaining 40% reply that it is complexity in management.

Figure 4.17

Reasons for Some does not Want to go to Public



4.4 Major Findings of the Study

4.4.1 Major Findings from Primary Data

1. Most of the respondents' response that the meaning of CDS is the traders between share market and government agent.
2. Among the respondents, 25% say that that the reasons for establishing CDS by government is to help in share trading, 45% reply to provide knowledge for investment and remaining 30% say the reasons for establishing CDS is to mobilize fund. The study found that mainly the source of information about IPO is advertisements and persona relations.
3. Among the respondents 50% response that the share market is effective, 40% response that the share market is useful and remaining 10% reply that it is not necessary.
4. Mainly the respondents want to invest on Banks.
5. Among respondents, 60% response that the securities, stock and shares are the owners of the company. 30% respondents reply that the part of investment and only 10% reply that they have no idea.
6. A mainly personal relation is making aware to the respondents to get the information about IPO.
7. Most of the respondents response that the reasons for investing in share is the quick way to get money.
8. 20% respondents say that the influencing factors for investing in IPO is liquidity, 35% choose for capital gain and most of the respondents i.e. 45% say that the that the influencing factors for investing in IPO is dividend.
9. Among respondents, 30% respondents say that the reasons for some company does not want to go to public to keep control and also 30% say for sharing profits and remaining 40% reply that it is complexity in management.
10. Mostly respondents give reasons for only few people investing in IPO is the lack of knowledge,
11. Most of the respondents say that the reasons for decreasing the interest on investing on IPO these days is that the lowering market price.

4.4.2 Major Findings from Secondary Data

1. During the period of fiscal year 1993/94 to 2012/13 total 207 companies issued common stock for public subscription and among them common stock issue of 192 companies (92.75%) have been oversubscribed, issue of 10 companies (4.83%) have been undersubscribed and remaining 5 companies (2.42%) issue have been fully subscribed.
2. Out of 207 listed companies 175 companies belong to financial sector and 32 companies belong to non financial sector. Similarly, from paid-up value perspective commercial banks occupies highest percentage i.e. 41.71 and trading occupies lowest percentage i.e. 0.08.
3. By the end of the FY 2011/12, the percentage contribution of market capitalization on nominal GDP is estimated to be Rs. 24.02%. The market capitalization in the FY 2012/13 is Rs. 241513.95 million. By analyzing the sector wise market capitalization, banking sector is highest among all sectors.
4. Share applied is higher than share issues in all the sample of financial sector, so that sample financial sectors are oversubscribed but there is seen undersubscribed in sample non financial sectors.
5. Among the sample financial sectors Global bank has highest subscription rate in commercial banks, Gorkha development bank has highest subscription rate in development bank, Parbhu finance companies in finance companies and Lumbini General insurance companies in insurance companies. Whereas, Arun Valley Hydropower Development Company limited has highest subscription rate among non financial sectors.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

IPO is one of the mechanisms of primary market where the issuance of new securities takes place in the public. Securities offered in the first time may be debt or equity offering. Different financial intermediaries of capital market play an important role in the process and procedures in IPO of the capital market. IPO is a process of offering shares of a privately owned company to the public. In other word it is selling of securities to the general public for the first time. Primary market which avails fund to the issuer provides opportunity to invest to the small investors as well. This kind of public offering includes different king of cost like legal fee, auditing fee, underwriting fee & time cost. Companies go public for various reasons, mainly to raise funds for operations and to be publicly traded in the stock markets, or to meet regulatory requirements.

Companies go public often by appointing issue managers and underwriters, while issue managers assist in selecting suitable securities to issue and manage subscription process, underwriters appointed by the issue managers structure and issue the IPO create syndicates and allocate the shares to the public. This study focuses on investor response to IPO, problems and growth of primary market in Nepal. Even first public issue was in 1973 A.D., secondary market come into existence only in 1993, after the conversion of Security Exchange Center in Nepal Stock Exchange Ltd. With the enactment of Securities Ordinance 2005, all companies going public must be registered at the SEBON before issuance of securities and must publish prospectus after getting SEBON's approval.

Most of the investors in Nepal lack the knowledge about IPO and if even they know, they do not want to take risk at all. For this prevailing situation of the country can be another reason. Loans from financial institution for IPO funding is breaking the healthy practice as single man applies from different names and captures large number of shares which ultimately influence company management and stock price too. IPO can be a risky investment as historical data of the issuing company affects it.

As IPO's are generally under priced which attracts more investors. And if IPO's are overpriced, this may create problems to underwriters as they may not meet their commitment to issuing company. Nepali investors have developed an increasing interest in the capital market. Before 2/3 years i.e. up to fiscal year 2008/09 the primary market has been fast growing. The majority of initial Public Offerings (IPOs) are highly oversubscribed. However though investing in IPOs often guarantees returns; there also are risks in such investments. The investors should be aware of these risks and return.

From the primary data analyzes it is clear that Most of the respondents' response that the meaning of CDS is the traders between share market and government agent which is establish mainly to provide knowledge for investment. Among the respondents 50% response that the share market is effective, 40% response that the share market is useful and remaining 10% reply that it is not necessary. Mainly the respondents want to invest on Banks. Among respondents, 60% response that the securities, stock and shares are the owners of the company. A mainly personal relation is making aware to the respondents to get the information about IPO. Most of the respondents response that the reasons for investing in share is the quick way to get money. Among respondents, 30% respondents say that the reasons for some company does not want to go to public to keep control and also 30% say for sharing profits and remaining 40% reply that it is complexity in management. Most of the respondents say that the reasons for decreasing the interest on investing on IPO these days is that the lowering market price.

5.2 Conclusion

The development of capital market in Nepal cannot be considered as satisfactory. This is evident from the facts and figures available in the capital market performance with regards to IPO during last 18 years. The IPO condition in Nepal is not satisfactory due to the fluctuation pattern of issuance of securities. Major conclusions are as follows: The financial sectors comprises commercial banks, development banks, issuance companies, finance companies etc has been dominating the Nepalese IPO market as revealed by the number of issues and amount of issued offered the study period. There is lack of investment opportunities cause the IPO market is highly depends upon the

ordinary and right shares. The IPO of debentures and preference share is in underdeveloped situation in Nepal.

Most of the company's IPO received overpowering demand from the public which result the over-subscription of their issues. Furthermore, finance sectors have been oversubscribed and non- finance sector have been under-subscribed. Moreover, the IPO of ordinary shares are more preferred instrument by general public as a result most of the ordinary shares are oversubscribed. The year-wise IPO during the study period has been fluctuating. However investor's response to IPO is increasing heavily up to fiscal year 2008/09 and then somehow falls. SEBON is implementing different regulation related to primary and secondary market. Securities Board related Regulations, Stock Exchange Operation Regulations, Securities Businesspersons (Broker, Dealer and market maker) Regulation are implemented.

Various guidelines have been issued to regulate and make primary market transparent and fairness. Securities Regulation and Approval Guidelines, Securities Issue and Issue Management Guidelines, Share Allotment Guidelines are some of the guidelines to promote and regulate primary market in Nepal. Most people are in favor of regulation by NRB for IPO funding via financial institutions as it lessens the equal chance of getting allotment. Most of the shares go in part of big investors. This kind of mismanagement in allotment discourages the investors. Contract between the issue manager and the issuing company highly affects the whole IPO process. People are eager to know the promoter, company's performance before investment. IPO's handled by bigger brokerages are found to be more successful.

5.3 Recommendations

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

- Nepalese capital market is largely dependent on financial sector, which is not good signal for overall development of IPO market and market as a whole in this regard the regulatory body and the government should take a step forward and encourage public issue from other sectors like manufacturing and processing by providing additional facilities such as tax-concessions.

- Investing in shares is a gamble which involves huge amount of risk. To be successful in the stock market, investors should always be clear to his strengths, weakness, requirements, wishes, risk taking capabilities and how to react on different and even changing market conditions. They should not buy the shares of a company until they know details about it.
- The stock market lacks the existence of sophisticated investors. So it is recommended to the regulatory bodies to carry out programs using various media and spot programs to inform and attract the potential investors, both individual and institutional investing into shares.
- Ordinary and right share is found to be the most used financial instrument while other financial instruments like preference shares and debentures are rarely issued. The fact that such ordinary and right shares carry maximum risk to investors on one hand and also cause of ownership to issuing company seemed to be forgotten.
- As investment bankers play a vital role in the IPO process, they should try to give more transparent, fast, hassles free service so that more public involve in the IPO.
- Small investors are also the part of primary market, so IPO funding through financial institution should be strictly regulated to discourage the big investors who apply in names of relatives, friends etc.
- The information and financial statements of the companies should be disseminated properly and timely. The market intermediaries should be educated, trained and professionalized by conducting the various program like On Job training, Technical training etc. etc.
- Further studies can be conducted by increasing sample size, by increasing number of observations and by using other methodologies.

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APPENDICES

Appendix-I Questionnaires

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

Personal Information:

Name: Occupation:
Age/Sex: Education: Qualification.....
Address.....

Questions for the survey

1. Do you know about IPO?

- a. Yes
- b. No

2. How did you get idea/Information to make investment into primary issue of securities?

- a. From Friends and Relatives b. From media
- c. From Stock brokerage d. From others

3. Do you have experience of investment in IPO?

- a. Yes
- b. No

4. How many companies have you invested in?

- a. Single Company
- b. Up to 5 Companies
- c. 5-8 Companies

5. In which instrument (securities) do you make the investment?

- a. Common stock
- b. Debenture/Bonds
- c. Preferred stock
- d. Others

6. Are you aware about the financial performance of companies?

- a. Very much
- b. Moderately
- c. Little
- d. Not at all

7. What do you think about the Share Market?

- a. It is useful
- b. It is effective
- c. Not necessary

8. Which sector's share is desirable for the investors?

- a. Banks
- b. Financial companies
- c. Insurance companies
- d. Manufacturing companies

9. What are the influencing factors for investment in IPO?

- a. Liquidity
- b. Capital gain
- c. Dividend

10. Why some company does not want to go to public?

- a. To keep control
- b. Sharing of profit
- c. Complexity in management