

A STUDY ON STATUS AND SUBSCRIPTION PATTERN OF NEPALESE INITIAL PUBLIC OFFERINGS

A Thesis

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DECLARATION

I hereby declare that the work reported in this thesis entitled **A Study on Status and Subscription Pattern of Nepalese Initial Public Offerings** submitted to Shanker Dev campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfilment of the requirements of the Master's Degree in Business Studies (MBS) under the supervision of my thesis supervisor Asso. Prof. Achyut Raj Bhattarai of Shanker Dev Campus, Tribhuvan University.

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LIST OF ABBREVIATIONS

CV	: Coefficient of Variation.
DPS	: Dividend Per Share
EPS	: Earning per Share
FY	: Fiscal Year
IPO	: Initial Public Offerings
NASDAO	: National Association of Securities Dealers Automated Quotation
NBL	: Nepal Bank Limited
NEPSE	: Nepal Stock Exchange
NIDC	: Nepal Industrial Development Corporation
NMS	: Normal Market Size
OTC	: Over the Counter
P/E	: Price /Earning Ratio
r	: Correlation of Coefficient
ROE	: Return on Investment
SD	: Standard Deviation
SEAQ	: Stock Exchange Automated Quotation International
SEBO/N	: Securities Board Nepal
SEC	: Securities Exchange Center

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

The business world today is more sophisticated than of the past. The changing lifestyle and increased demand for goods and services have always been a challenge as well as opportunity to business houses. The expansion of any kind of business is impossible if there is insufficient fund. The firms need finance for various purposes. The type of finance needed by a firm largely depends upon the type of the enterprises, and varies from one firm to other, depending on the firm's peculiarities. The need for long-term assets may be higher for some enterprises than the others and they may require higher amount of working capital too.

The nature and volume of capital needed in a productive process are directly related to the nature and volume of number of components. These components include use of land, capital equipment, labour, building up of stocks and miscellaneous expenses (Goldschmidt, 1956:56).

There are two sources; internal and external, of fulfilling financial needs of a firm. Internal sources of financing mainly consist of retained profits of the enterprises and the provision for depreciation. This self-financing was the only method of financing an enterprise in a rudimentary stage of the economy where every economic unit is self-sufficient.

With the development of money, finance and financial institutions, it is no longer necessary for an enterprise to finance from its internal sources alone and have a balanced budget. Furthermore, the innovation of corporate form of business organization with the principle of limited liability and efficient technique of acquiring capital through the issue of variety of ownership and debt securities have enabled investors to satisfy their diverse asset preferences. This has made it possible for a corporate enterprise to attract the external funds from the public by issuing shares. On the other hand, promoters' equity

fund may not be sufficient for its financial requirements whether it is newly establishing company or seeking to expand and modernize. They can get loan from the bank and financial institutions will lend only a certain percentage of the company's equity base or asset which may not be sufficient for the company. Also getting loan from bank and financial institutions is not easy because there may be a lengthy process and legal requirements involved. Issuing of shares to the general public is made compulsory under Securities Exchange Act, 1983 AD in Nepal. Promoters will not receive permission from the government authority to establish a public limited company if they do not show desire to include general public in its equity base. Hence, the firm needs to sell part of its total equity to the general public to raise the required funds through public issue of shares.

In Nepal, the first public issue of ordinary shares took place more than 73 years back with the public issue of Biratnagar Jute Mills and Nepal Bank Ltd. in 1937 AD. But the development of capital market started in 1976 AD, after the establishment of Securities Exchange center with the objective of facilitating and promoting the capital market in Nepal. It was the only capital market institution, which undertook the job of brokering underwriting, and managing public issue, market making for government bonds and other financial services. Securities Exchange center dealt in the securities as a broker as well as a regulatory body. This center used to take buy and sale only on orders from interested investors and confirm then if and when the price and quantity matched. There was no time limit within which a deal took place. It normally took one day to three weeks. Due to this, general public faced problems while buying and selling shares. The securities Exchange center issued shares of 62 companies from the year of its inception to 1999 AD. Among these, 23 companies were undersubscribed including Nepal Med Ltd. Nimrod Pharmaceuticals Ltd. Harisiddhi Brick and Tile Ltd, Himgiri Textile Ltd, Bansbari leather shoe factory Ltd. Nepal Aawas Bikash Bitta Company Ltd., and Yeti Finance Company Ltd, etc. Although the secondary market was non-functional and public were not fully aware of on the working of the capital market. The public response to the new issue of shares of selected companies like banks and finance companies were overwhelming.

In 1993, Securities Exchange Center was converted in to full-fledged Stock Exchange and under its support; the broker system of secondary market was established. Nepal Stock exchange is a non-profit organization and operated under securities exchange Act, 1983. The basic objective of Nepal Stock Exchange is to impart free marketability and liquidity to the government bonds and corporate securities by facilitating transaction in its trading floor through market intermediaries. With the establishment of full-fledged stock exchange, the shares, which the public had held for decades, became liquid. Due to this the public response to new issue, which was 'luk warm' at best, except for new companies like Gridlays Banks and Himalayan Banks, turned into a buying rangy.

1.2 Focus of the Study

Public Response to primary market in Nepal is mainly considered as the primary market practices in Nepal. There are many securities issued in the primary market such as Bond, Preferred stock and Common stock. Here considering mainly for the common stock and summaries form of preferred stock and bond issue practices in the primary market. It is only focus for the oversubscription and uder subscription of the above securities in the primary market.

1.3 Statement of the Problem

The growth of the primary market is encouraging in recent years. The commercial banks, finance companies, manufacturing companies, trading etc. have been able to raise capital through the flotation of different types of securities like debentures, preferred stocks, common stocks to the public with very good response. Most of the companies' issues have been oversubscribed and a few are undersubscribed.

But there have been a lot of fluctuations in the response by public to different companies. In the insurance sector, United Insurance Company Ltd. was able to collect Rs 528.18 million for public floatation of 24 million (22 times over subscription) but Alliance Insurance just collected 6.25 million for the required amount of 20 million.

Similarly, Taragaun Regency Hotel and Nepal Industrial and commercial bank were able to raise substantial capital with very good response from the public Taragaun Regency Hotel collected Rs 151.57 million for Rs 120 million and NIC collected Rs 1220 million for floatation of 175 million in a very short period of time. But the responses to Universal finance & Capital Markets which collected Rs 7.2 million for Rs 3.26 million, Pokhara Finance company Ltd. collected Rs 10.63 million for Rs 8 million requirements, which was not as expected. Likewise, Siddhartha Bank Ltd. collected 18 times oversubscription in its recent issue.

Similarly in 2005/06, Shikhar Insurance Co. Ltd. were able to collect 43.76 times greater than the issued amount of Rs 25 million. Likewise, Business Development Financial Institution Ltd. collected 21.88 times than the issued amount of Rs 12 Million. But in the case of Prudential Bittiya Sanstha Ltd., were able to collect only 1.13 times than the issued amount.. Likewise Patan Finance Ltd. which was able to collect only 1.16 times than the issued amount.

Similarly in 2006/07, Himchuli Bikas Bank Ltd. were able to collect 133.62 times than issued amount which was Rs 12 million . Likewise Gorkha Development Bank (Nepal) Ltd, were able to collect 108.32 times than issued amount which was 96 million. But in the case of issue of preference share by Everest Bank Ltd and debenture by NIBL. They were able to collect only the issued amount.

Similar in 2007/08, Infrastructure Development Bank were able to collect 24 million which was 93.55 times than the issued amount. Similarly Prabhu Finance Co. Ltd. were able to collect 48 million amount which was 77.30 time greater than issued amount. But in the case of Merchant Finance Co. Ltd. & Agriculture Development Bank Ltd. they were able to collect only the issued amount.

The responses of the general public to different companies are varied and the market is flourishing with banks, finance companies, insurance companies. The new issue of other sectors than above stated is very a few.

Hence, it is felt to find out the behavior of the primary market issue of the different sectors and the responses of the investors in different securities like common stocks, preferred stocks and bonds and debentures. It is also felt a comparative analysis of the public responses of different sectors like insurance, finance, banks, manufacturing etc.

The major problem of the study can be mentioned as;

-) What is the pace of Nepalese IPO?
-) Are there any problem regarding issuing of security in Nepalese primary market?
-) Which instrument is highly subscribed in Nepalese IPO?
-) Who are the beneficiaries of IPO?
-) What is the main cause of oversubscription and under subscription in IPO?
-) In which subscription pattern is high?
-) Is under pricing exit in Nepalese IPO?
-) Are there any relationship in between degree of subscription pattern and amount of public offering?

1.4 Objective of the Study

This study is being to evaluate the public response of the Initial Public offering or primary issue of shares in the context of Nepal.

-) To assess the growth of Initial Public Offering
-) To see subscription pattern and initial return of IPO.
-) To examine the cause of most oversubscribed and most undersubscribed issue of IPO.
-) To examine the degree of underpricing in Nepalese IPO.

1.5 Importance of the Study

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

This study helps us to find out legal provisions, possibilities, problems and prospects of Primary market in Nepal.

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

- In Nepal, there is still lack of study about primary market. Therefore, this study is expected to helpful for the general investor and the organizations that directly or indirectly related in primary market.
- This study will assist to formulate of policy makers. They will able to know the reasons for nonconstant fluctuation Initial Public Offering in Nepal. It will also help to find out the financial status of publicly going companies. From this research, policy makers will get the knowledge of practical existing rules and regulation.
- From this research, the investor might have the clear conception over their investment. They will be able to distinct over the right investment. Thus, the decision for investment might be in right place, right time decision is right or wrong.

1.6 Limitation of the Study

The research is made for the partial fulfillment of the requirements for the Degree of Master of Business Studies (MBS) and not a comprehensive study. The following are the limitations of this research:

1. Basically, data are taken from secondary Sources. Therefore, the accuracy of research depends upon its reliability.
2. The study is not covered recent changes because the data are used up to 2007/08.
3. Many Securities are issued in the securities market but here only considered common stock for analysis.

1.7 Organization of the Study

This study has been organized onto five Chapters:

Chapter I [Introduction]

Chapter I will introduce the major issues related to the Initial Public offering (IPO) of Nepal, general background, statement of the problems, objectives, significance limitations of the study and the plan of the work.

Chapter II [Literature Review]

This Chapter will give a brief review of literature related to this study. It will include a discussion on the conceptual framework and review of major studies. It will give as overview of the related literature done in the past related to this study.

Chapter III [Research Methodology]

This Chapter will describe the different methodologies employed in this study. Sources of data will be mentioned and described in this chapter.

Chapter IV [Presentation and Analysis of Date]

This Chapter will presentation and analysis of the data obtained during the study. Different tools and techniques of date analysis will be undertaken for the purpose to analysis of data.

Chapter V [Summary, Conclusion and Recommendations]

This Chapter will include the summary, conclusion and recommendations of the study. The findings will be included in this chapter along with the suggestions and their recommendation.

CHAPTER – II

REVIEW OF LITERATURE

2. Introduction

Research is a continuous process and hence the procedures and the findings may change due to continuous research. So, for getting the power or ability of analysis and interpretation of data a researcher must review the literature about his field of study. Then only some new contributions can be made and some ideas can be received for development of a research design. So, the books and previous studies related to this field of study may provide the foundation for the study. By linking the present study with the past research studies, the continuity in research may be provided.

Nepalese Primary market is still in emerging state so there are not sufficient materials, which provide the basic guideline for this study. But there are sufficient books written by foreign writers.

2.1 Conceptual Framework

2.1.1 Financial Markets

Financial markets provide a forum in which suppliers of loans and investment can transact business directly. The loans and investment of institution are made without the direct knowledge of the suppliers of fund (savers), suppliers in the financial markets know where their funds are being lent or invested. The two key financial markets are the money market and the capital market. Transaction in short- term debt instruments or marketable securities take place in the money market. Long-term securities (bond and stocks) are traded in the capital market (Gitman, 1988:645).

All securities, whether in the money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from the issue-that is, the company actually receives the proceeds from the sale of securities. Once the securities begin to trade among

individual, business, government or financial institution savers and investors, they become part of the secondary market. The primary market is where new securities are sold where secondary market can be viewed as a “used” or “pre-owned” securities market. (Securities Board : 2006)

2.1.2 The Money Market vs. Capital Market

2.1.2.1 Money Market

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

The money market exists because certain individuals, businesses, government, and financial institutions have temporarily idle funds that they wish to place in some type of liquid asset or short- term, interest-earning instrument. At the same, other individuals, businesses, governments, and financial institutions find themselves in need of seasonal or temporary financing. The money market thus brings together these suppliers and demand markets of short-term liquid funds.

Securities Market is concerned; it is an important constituent of capital market. It has a wide term embracing the buyers and sellers of securities and all the agencies and institutions that assist the sales and resale of corporate securities (Rough, 1966:345).

The development of a sound securities market with its constituent financial institution is one of the mechanisms which enable the efficient transformation of savings from the hands of surplus spending units to those of deficit spending ones who can use them more productivity and/ or have loss/ risk aversion (Rough, 1966:347).

Market capitalization is the market value of listed share. In other words, it is the product of closing market price and the number of listed share of a company or companies.

Relative market capitalization and the number of listed companies can measure stock market size. The market capitalization ratio is determined by dividing the value of all shares listed on a national exchange by the host country's gross domestic product (World Bank Report, 1995:46).

Market liquidity or the ability to buy and sell securities easily- also is indicated by two measures. One is the total value of shares traded on the stock exchange divided by GDP. The second measure of liquidity is the turnover ratio, the value of total shares traded divided by market capitalization. Thus, turnover, by capturing trading relative to the size of the stock market, complements the total value ratio, which compares trading to the size of the economy (World Bank Report, 1995:47).

Market concentration is determined by computing the share of market capitalization for the ten largest stocks on the exchange.

Gross Domestic product (GDP) is the value of all goods and services produced in one year.

2.1.2.2 Capital Market

Capital market refers to the links between lenders and borrowers of funds, arranging of funds-transfer process to seek each other's benefit (Philips, 1979:220). These lenders and borrowers coming together in the capital market play effective financial intermediary role to activate capital market play effective financial intermediary role to activate both primary and secondary market through the use of various long term capital market instruments like common stock, bonds, preferred stock, convertible issues and many more like that. The participants in the capital market are small business, large business and government. Funds flowing into the capital market are available by lenders for terms longer than those flowing in the money market.

Capital market consists of the various suppliers and users of long term finance. As it is differentiated from the money market which embraces short-term finance. The capital market serves as a link between suppliers and users of finance. It is a mechanism for the mobilization of public savings and channeling them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and the sellers of securities and all those agencies and institutions which assist the sale and resale of corporate securities (Gupta, 1978:642).

Primary markets are absolutely vital to capitalistic economies if they are to function properly, since they serve to channel funds from savers to borrowers. Furthermore, they provide an important allocative function by channeling the funds to those who can make the best use of them-presumably, the most productive. In fact, the primary function of a capital market is to allocate resources optimally. A securities market with the lowest possible prices for transactions services (Jones, 1988:226-228).

The capital market is a financial relationship created by a number of institutions and arrangements that allows the supplies and demanders 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 for debt and equity transactions. The smooth functioning of the capital market, which is enhanced through the activities of investment bankers, is important to the long-run growth of business (Gitman, 1988:652-653).

Some organizations and individuals have more money than they currently need, and are thus, often described as lenders. Others need many more than they have and are required to borrow from others, and are thus called as borrowers. It would be reasonable to suppose that surplus units and deficit units would be aware of each other's existence and that the surplus unit would be willing to allow the deficit unit to use their surplus to their mutual advantages. To protect the interests of both, an exchange would take place with somewhat understanding. Such an exchange may be called direct external finance and

internal finance. The indirect external finance involves a third unit, usually called financial intermediary that accepts money from surplus units and release to deficit units. The other type of finance is that where the financing is carried out within the same economic unit.

Financial intermediaries are participants in the finance market, along with individual and commercial companies, individuals and of course, various agencies of government. The term finance market is used to refer to short-term, medium term and long term market for the funds. Thus bonds company debt and equity issues, short and medium term government debt etc.

Thus the capital market includes:

- Activities relating to the organization distribution and trading in of securities
- Organization which facilitates this activities
- Individuals and institutions which buy and sell securities and
- Rules, regulations, customs and practices that control the organization and conduct of business in the market.

The capital market may be studied under two headings i.e. Primary Market and Secondary Market

2.1.3 Primary Market vs. Secondary Market

2.1.3.1 Primary Market

The Primary market is concerned with the floatation of shares and distribution of shares to the general public. It consists of companies issuing securities to the buyer of new securities and various intermediaries that help in the disposal of new securities. Issue managers, underwriters, stock brokers, stock exchange etc. are the important constituents of the new issue market. Stock exchange provides facilities of trading in listed securities. It is the market where various securities are brought and sold for investment or speculative purchase. So that is concerns with the sale of new issued securities in the market. But it is one of the most integral parts of the new issue market and the change of one certainly affects the others (Bhattarai, 2063BS:22)

The Primary market is the initial market, because it is concerned with the creation of new financial claims. It provides an organization, which may be used by deficit units to raise funds from surplus units. In Nepal, it is controlled by the stock exchange authorities and is closely related to the secondary market. And the secondary market is less likely to be effective if there is no primary market to feed it.

There are three ways in which a company may raise capital in the primary market.

I. Public Issue-

This involves sale of securities to the public. It is by far the most important mode of issuing securities.

II. Right Issue-

This is a method of raising further funds from existing shareholders by offering additional securities to them on a preemptive basis. It involves the offer of additional shares to existing shareholders. These are offered in proportion of existing shareholdings. Each existing shareholder receives one right for each share owned. The right states the terms of the option to purchase new shares, specifying the number of shares required to purchase each new share, the subscription price for new share, and the expiry date of the option (Bhattarai, 2063BS:25)

III. Private placement

It involves selling securities privately to a single investor or to a small group of investors. In the United States private offerings are made under an exemption from SEC registration. Section 4(2) of the Securities Act of 1933 allows the unregistered sale of securities by an issue so long as it is not a public offering. In general, the provisions set forth in Section 4 (2) require that private placements be sold to a limited number of sophisticated investors who are buying for investment purposes (Securities Exchange Act, 2063)

These right issue and private placement are primary issue but these are not public issue.

2.1.3.2 Secondary Market

2.1.3.2.1 Stock Exchange

Stock Exchange also called stock Market, or Bourse (in continental Europe), is an organized market for the sale and purchase of securities such as shares, stocks, and bonds. In developed capitalist countries, the stock exchange has important functions: as a ready market for securities, it ensures their liquidity and thus encourages people to channel savings into corporate investment; and as a pricing mechanism, it allocates capital among firms by determining prices that reflect the true investment value of a company's stock (the present worth of the stream of expected income per share).

Trading is done in various ways. It may occur on a continuous auction basis, it may involve brokers buying from and selling to dealers in certain types of stock or it may be conducted through specialists in a particular stock. Membership requirements of the exchanges of different countries vary mainly with respect to the number of members, the degree of bank participation, and the rigour of the eligibility requirements. They also differ in the degree to which government participates in their management. The London stock exchange, for example, functions as an independent institution, free from government legislation. In the United states, stock exchanges, although not subject to direct government participation in their operation, are subject to rather specific legislative regulation. In Europe, it is quite common for the members of the exchanges to be appointed by a government official and to have semi governmental status.

Market for the sale and purchase of securities of corporations and municipalities and in some cases of certificates representing commodities of trade.

Originally, stock exchanges were free to anyone who wished to buy or sell: it was probably with this function in view that some of the older exchanges notably the Paris Bourse were established in buildings erected at public expenses. It was quickly discovered however, that in order to enforce bargains some formal organization was necessary. Membership in stock exchanges therefore came to be limited on the general

basis used by clubs or other association. The stock exchange plays an important role in the capitalistic economy. Investment bankers make the initial sales of corporate securities. Thereafter, stock exchange provides markets for the securities, enabling the original investor to sell their securities as the need arises and thus encouraging original investment (Gitman, 1994:396).

The leading stock exchanges in the world are the New York stock exchange, the London stock exchange and the Tokyo stock exchange. A further important exchange of a much less regulated sort is the National Association of Securities Dealers Automated Quotation (NASDAQ) system. This is a computerized market linking dealers throughout the United States and to some extent Europe. NASDAQ is the second largest and fastest growing US stock exchange and facilitates the trading of over the counter (OTC) securities-as well as the shares of large companies. The example of NASDAQ illustrate a general trend towards increased competition and the use of computerized trading system to replace the traditional stock exchange floor where dealers and brokers meet and trade in open outcry. The London stock exchange has been entirely computer-based since the reorganization or Big Bang in 1987, with dealers able to see all prices on screen instantaneously. In contrast, the New York stock exchange from new computerized trading floor. There has also been increased competition for the traditional nation exchange from new computerized trading systems produced by commercial companies. With the arrival of high-speed computers and advance in information technology, the cost of providing a centralized market for shares via computer screens has reduced dramatically.

By using alternative trading system it is sometimes possible to reduce transaction costs and also avoid some of the regulation that formal stock exchange inevitably impose. Similarly there is lot of competition in between the stock exchange of different countries. For example, it is possible to buy and sell French shares on the London market, using the stock exchange automated quotation international (SEAQ international) system. SEAQ international has been dramatically successful in capturing market share from the domestic stock exchange of many countries to the extent that for some countries a larger proportion of trades take place in London than on their own exchanges.

As competition between exchanges has developed, the trading system of stock exchange has divided into two broad categories. First some leading exchange for example London use the market maker system. Under this system market makers continuously quote the prices at which they are prepared to buy and sell each share. Investor are able to see these prices and the stock exchange rules specify that all trades should take place at the best prices for investor (that is, the highest price if you are selling and the lowest price if you are buying). All the prices are visible on computer screen and market makers are committed to honoring their prices for trades up to a certain size (the normal market size or NMS). For trades above the NMS market makers prices are indicative only and negotiation with the market makers will finalize the prices. The perceived advantages of the system are immediate execution of orders and price certainty at any point in time (Gitman, 1994:398).

The second type of trading is the auction system, whereby all buy and sell orders from investor are collected together and matched against each other, with the price being set to attempt to clear the market. A leading example of auction-based system is the Paris bourse. Auction can be continuous, usually operated, by computer or batch auction, which occur once or twice a day. The advantages of such a system is cheapness (as no one have to pay for the service provided by market makers), although it may not be possible to trade immediately or at a known price.

Stock exchange around the globe are developing rapidly and facing competition both from each other and from new high-tech entrants. It seems likely that there will be a continued trend towards concentration of share trading in a few leading centers, with domestic stock exchange in some countries becoming increasingly irrelevant. Within Europe for example there have been moves to develop a pan European stock exchange, although to some extent this already exists in the form of SEAQ international. Individual countries seem loath to give up their domestic stock exchange although as financial markets are now so liberalized and as information technology develops further

there is nothing to stop individual investor using whichever stock exchange system is the cheapest or most efficient.

2.2 Role of Stock Exchange

Stock exchange is the market where second hand securities are bought and sold for investment or speculative purposes. It provides facilities of trading in listed securities. In the recent years, the authorities are increasingly recognizing the role of the stock exchange (Shrestha, 1980:40). Stock exchange is not and has at no time been the private concern of a few individuals. Nor have their activities been limited to the cyclical booms and slumps, which attracted so much popular attention. The stock exchanges as the market for securities gives everybody access to a number of different opportunities for capital investment. The function of the stock exchange is to provide equal opportunities for as many buyers and sellers of securities as possible. From a general economic point of view the stock exchange constitutes the core of the capital market. It has put its finger on the pulse of the economy and gives its diagnoses to the public in the form of quotation (Franfurter, 1972: 243).

Investment is the lifeblood of economic development. It is evident that stock exchange will continue to fulfill their vital functions in the national economy. So long as private enterprises exist. We know that the stock exchange is the place where stocks and shares are bought and sold.

The substantial competition in innumerable buyers and sellers determines the prices with a measure of precision that cannot be obtained in other unorganized market such as the property market where activity is of a spasmodic nature.

The stock exchange is intricately interwoven in the fabric of the nation's economic life. W.T. C. says- "Without the stock exchange, the savings of the community the sinews of economic progress and productive efficiency would be used much less completely and much more wastefully than they are now". The task of mobilizing and distribution of savings could be attempted in the old days by a much less specialized institution than the

stock exchange. But as business and industry expanded and the economy assumed a more complex nature the need for a permanent finance sector arose. Investors wanted liquidity the facility to convert their investments into cash at any given time. The answer was a market for investments and thus was how the stock exchange centre came into existence (Ritter, 1991:45)

This institution plays a notable part in the economic life of the country acting as a free market for securities, where prices are determined by demand and supply. The function of a stock exchange is not only to provide a market for securities but also assist in the raising of funds for government and industry. Thus, free and active markets in stock and shares have become a prerequisite for the mobilization and distribution of a nation's savings as to support modern business (Stock Exchange bulletin).

In this way, we can say that the stock exchange has a vital role to play in helping industries to raise necessary finance. They have a supremacy importance function to perform in developing a stock capital and to enable government to raise loans. Their servicing is indispensable in the operations by the authority for the regulation of the country's credit play. It is generally thought that a stock exchange serves only to those who have money to invest and securities to sell. This is an understatement for a stock exchange benefits the whole community in a variety of ways. By enabling procedures to raise capacity it indirectly gives employment to millions of people and helps consumers to get goods needed by them.

2.3 Historical Background of Nepalese Primary Market

The record of historical growth in Nepal provides merely primary stage of capital markets. The vanshavalies and chronicles have very little to say regarding how government of that time look on the relationship between economic development and capital market. The political negligence and fundamental economic domination can be said to be responsible for having no historical base for the growth of capital market.

During the Rana regime, which is said to be most dark ages in the history of Nepal, the irresponsible habit of promoting self-interest in disregard to larger interest of the society as a whole created total bankruptcy in nation's financial resources? The ideas of promoting investment, technological innovation and industrial development were not given priorities. As a result of the exploitative mentality, the capital markets were not developed (NBL Year Book, 2061:14).

During the Rana regime no effort was made for change or development. They had a closed economy. Thus, through there was some development. They had a closed economy. Thus, through there was some development it was not due to the will of the rulers but only because of the time. But during the period of Juddha Samsher, an idea to develop capital market in the interest of Rana family was managed through a part of potential Indian investors. Company act was promulgated and numbers of public limited companies were formed under the sole monopoly of Rana family. Anyhow capital market got signals of development under the permit of Ranas share concentration investment policy. At the same time, Tejarath was found to facilitate loans to government employees. The time of booms in the growth of joint stock companies simply bought only bubble companies stimulated under abnormal situations of war and host of privileges and facilities provided by the then Rana Government. But, after a war, number of these industries collapsed one after another in such a way that there was a serious set back on the growth of capital markets. Some new hopes came under the new era of elected government but it was soon put into dustbin through political changes of inefficiency (NBL Year Book, 2061:14-15).

Afterwards, the Panchayat government came to further economic development by various slogans of people's participation, regionalism, basic needs, industrial development, trade promotion, resource mobilization etc. There were so many proposals to develop capital market. But Securities Marketing center was found only during 1970 AD to start the capital market development. Immediately after that, Securities Exchange Act was passed by Rastriya Panchayat to facilitate securities transactions. The name of the center has been changed to Securities Exchange Center.

For the first time in 1937 AD Nepal Bank Ltd as a commercial bank was established by the initiative of Udyog Parishad. The main objective of this institution was to rate habit of savings and turns these into investment. It has been helping a lot in promoting of industries and commercial development of the country. Later on another commercial bank named Rastriya Banijya Bank was established in 1964 AD. After the adoption of liberalized economy in the country these financial institutions are responsible for mobilizing the public deposits to business enterprises by offering attractive interest rates and by providing better and reliable services to the depositors.

In the context of the development of capital market, Nepal Industrial Development Corporation (NIDC) has also played a vital role. To rate an industrial environment, this corporation was established in 1961 AD. The main objective was to develop industries in modern way to provide necessary financial and technical help, to provide loan and facilities to the industrialization in the private sector. Since its establishment, the fixed capital needs of the companies have been met by NIDC and provides up to 85 percent of the fixed capital needs of industrial organization. Besides granting direct long-term loans it also participates in the equity shares of industrial enterprises. Also it gives guarantees on industrial loan provided by commercial banks (NBL Year Book, 2061:18).

The immense activities done by NIDC can be great to help foster the capital market in Nepal. One thing essential for the rapid growth of capital market is to persuade business firms to convert themselves into public limited companies. Companies requiring large amount of funds should be asked to raise at least a part of their financial needs by issuing shares in the market.

The commercial facto faced by the economy is the lack of public confidence in enterprises. The confidence of investors in business can be enhanced if NIDC and commercial bands & other financial institutions underwrite the shares issued by public companies.

Employee's Provident Fund, which was established in 1962 AD, also cannot be neglected as it has contributed a lot in the growth of capital market. It has been mobilizing the employee's savings to commercial banks, from where the funds find their way to business enterprises investment in the government's development bond and at the same time providing loan to various corporations are some other activities undertaken.

Securities Exchange Center (SEC) was established in Nepal in 1976 AD, to promote the public savings and to mobilize capital funds for industrial investments. In a real sense, the establishment of this center has made possible the development of capital market in Nepal because prior to this there was no special institution in Nepal dealing with securities. This center managed to issue public shares and debentures of 23 corporate bodies for raising about Rs. 500 million from Public (Dahal, 2007:52).

New issue managed by the Securities Exchange Centre of Rastriya Beema Sansthan, Nepal Bayapur Company (Narayani) Ltd; Nepal Industrial Development Corporation. Himal Cement Company Ltd. Seti Cigarette Factory Ltd. is under subscribed and others are over subscribed.

In 1993 AD, remarkable development took place in the capital market. Under a program initiated to reform the capital market the Securities Exchange Center was converted into the Nepal Stock Exchange in order to increase marketability to government bonds and corporate securities. Nepal stock Exchange opened its trading floor in 13th January, 1994 providing membership to 5 market makers and 25 brokers. The members are permitted to act as intermediaries in buying and selling of shares of listed companies. At present, there are 24 brokers. The number of listed companies increased from 63 in 1992/93 to 99 in 1994/95 and the market value from 4,000 millions to 12,963 millions respectively. After opening the trading floor to brokers and market makers the total annual turnover rose from 70 million in 1992/93 to 1,052 million in 1994/95 (SEBO/N:2006).

The earliest records of securities dealing in Nepal are meager and obscure. In those days there was no remarkable movement or industrial development. Still it is on the

rudimentary stage. No attempts were made to mobilize private savings and use them to productive sector. There were no media or market mechanism that facilitated the transfer of funds from surplus spending. Units (the units whose current income is less than current expenditure) became obvious. Except for a brief period starting from 1963 AD until the end of the Second World War, no attempt was made to collect funds for the industries through the floatation of securities. It is specially the stocks in the market. In the absence of the development of corporate security market, the securities floated in the market are the government securities. Through them the government assembles the funds directly from the surplus spending units via the financial intermediaries. So far the government has the virtual monopoly over the security market. The resort to security market by the government has been in the form of borrowing. It is through the insurance of mainly the development bonds to meet the budgetary expenses. The first series of development bond was floated on Feb 12, 1964. It carried 6% rate of interest and had the maturity period of 5 years. Since then the government has been floating the development bonds each year. Till now it has floated 26 issues of such bonds. The interest rate was ranging from 5% to 15.5% and with the maturity period varying the fiscal year 1965/66 amounted to Rs. 7.5 million. In 1970-71 it was equivalent to Rs. 3 million and it reached Rs. 300 million in 1976-77. From the very beginning of SMC, over the counter market for government bond was started. Despite resistance due to the level of awareness about financial assets from investors, it was able to carry transactions of government bond with turnover of Rs. 787 million in 1992-93 as against Rs. 372 million in 1980-81.

Securities Board Nepal acronym SEBO/N was established on May 26, 1993 after the first amendment in the Securities Exchange Act became effective. The same Act mandated SEBO/N to act as a securities market regulator and developer. Accordingly, Securities Exchange Centre (SEC), a government enterprise previously acting as a socio market operator and regulator, was restructured into present form of Nepal Stock Exchange. Another major event of restructuring was the creation of the SEBO/N as a separate government regulator.

The securities market witnessed interesting ups and downs from its establishment to date. SEBO/N's regulatory interventions were targeted to discipline the market and consolidate its position and central securities market regulator. The developmental initiatives particularly undertaken through educational and research activities were targeted to nurture the existing market (SEBO/N:2006).

2.4 Guidelines in Issue of Shares

2.4.1 Principle steps in Public Issue

There is not any rule of thumb regarding the steps in public issue. But the company, which desire to offer its shares to the public should receive permission from the concerned authorities.

The major steps that have been followed to issue securities in Nepal are:

I. Appointment of the issue Manager

Appointment of the issue manager is the first step for the public issue. When the company needs and wants to go to the public then they should draft its prospectus as a legal requirement. In this prospectus company should mention the brokerage of shares and new issue manager.

II. Drafting Prospectus

The issue managers or company itself may draft prospectus. It contains:

Full personal details of directors of the company and the sponsors auditors, bankers and brokerage of shares and also of the managing agent if any.

Date of incorporation of the company information about capital structure including authorized and issued capital, voting rights, loan, capital, mortgages in force and other borrowings.

Objective of the company, summary of principal, provisions of the company's articles of association with particular reference to the voting power of directors.

Extensive commentary on company's operations including minimum three years financial positions and list of subsidiaries and their business etc. if the company is already in operation.

Qualification share required for the board of directors and sales or remuneration applicable to them and shares or cash received as remuneration by the promoters of the company.

Total number of directors in the board and the member of directors to be elected form among the general public shareholders.

The number of shares offered to the public for subscription provision for reserving the shares for the employees or any shares and minimum number of shares which must be subscribed prior to the allotment and the advance payment to be made on each share along with the application.

The assets purchased with the proceeds of the sales of shares the name of persons selling them and particulars of arrangement where payment is in the form of shares or debenture in lieu of cash and the loans raised through the sale of debenture.

Estimation of the income and expenditure of the company at least for the three years of operation and highlights of the balance sheet and profit and loss account for the previous years.

Information about the application for shares place of application submission and the banker for money deposit.

Shares or cash received or to be received as remuneration by promoters of the company and whether any funds of a promoters or a directors are involved in the purchase or intended purchase of assets by the company and whether any promoters or directors are involved in the purchase or intended purchase of assets by the company and whether any

promoter or director is a partner in any firm or is connected with any other company, and other necessary details (Upreti, 2008:48).

III. Filling of the prospectus with the Registrar of Companies:

The prospectus contains information about the company and the proposed security issue to the investing public. The draft prospectus signed by the investing public. The draft prospectus signed by the directors and application form along with the article and memorandum of association must be forwarded to the company Registrar, along with required documents by the company act.

IV. Application for the public issue to the Securities Board of Nepal

Once the office of the company registrar approves the prospectus, it should be submitted to the Securities Board of Nepal along with issue fees to get approval for new issue.

V. Appointment of under writer:

As underwriter agrees to subscribe to a given number of shares in the event the public do not subscribe to them. The underwriter, in essence, stand as a guarantee for public subscription in consideration for the underwriting commission. The principal underwriters are the banks finance companies insurance companies etc. The most common practice now is to go to for consortium under writing, they underwrite an arrangement whereby the public issue. Underwriting of shares is optional for the company. Normal practical of Nepal is that a few company show desire to underwrite its share because it increases issue cost.

VI. Appointment of the banker:

The banker to the issue collects money on behalf of the company along with the application form and it manages the primary market of initial offering.

VII. Printing of Prospectus and application form and dispatch.

After completion of all the activities to take approvals the next step of new issue is printing of prospectus and application form. The quantity of the prospectus and

application form depends upon the issue size and the nature of the company. But it should be sufficient to distribute.

VIII. Promotion

Although, the promotional campaign typically commences with the filing of the prospectus to the concerned authorities but when the company release announcement of the issue it actually started. Public brochure investment forum broker forum can be held and advertisement may also release in newspapers and periodicals to generate interest among potential investors. The announcement of the issue must be made at least 15 days before the opening of subscription list.

The announcement of the issue will specify when the subscription would open and when it would close and the application collection center. During the period the subscription is kept open the collection center will collect the application form from the investors. When the issue is over subscribed the issue will be closed. But subscription must be made open for minimum of seven working days and maximum of 30 days for once.

IX. Allotment of shares

If the issue is under-subscribed or just fully subscribed the company may allot the shares applied for by the applicants after securing the formal approvals from the concerned authorities. If the issue is over subscribed the frequency distribution of applications of different size categories is prepared and on the basis of this an alternative patterns of allotment are prepared and allotted. The guiding principal is that the allotment should be titled in favor of the smaller application.

When the allotment is completed company will distribute allotment letters and then after share certificates (Allotment Guidelines).

2.4.2 Investing in Primary Market

Primary market provides opportunities for picking up shares at relatively low price to the general public. Newly formed companies offer their shares for subscription at par values,

whereas existing companies may price their new issue with a little premium. But the premium will certainly be less than the market price of the shares.

This is the main reason why price issue is so popular with the investors. But investing in public issue is also risky investment. If the selection for subscription is wrong, the company will be collapsed and investor will loose the investment.

Public issues are generally given widespread, nation wide publicity through advertisement in newspaper and magazines well before the date fixed for opening of the issue. These advertisements, along with the other highlights of the issue and risk factors as perceived by the management, give the name of issue manger and application collection centre.

The subscription list is required to be kept for minimum period of seven days and maximum of 30 days. Since most of the public issues are oversubscribed, the subscription list is usually closed immediately after seven days. Any individuals interested to invest should submit their application form and the stipulated application money to any one-collection center or to issue manger. Application sent by post with the bank draft should reach to the issue manager before the allotments of the share but the bank draft should be drawn within the period during which the subscription remains open.

2.4.3 Analyzing a company before subscribing

Rules and regulations alone would not be able to protect the interest of investors. Investors themselves should be able to analyze and evaluate on following aspects of the company.

Management

A company can be only as good or bad, as it management. It is management that provides the main driving force behind corporate performance. So investor should evaluate the company's management. Companies run by traditional management and some foreign companies with so-called professional management's have poor record of performance.

But companies run by professional management are good whether this is national or foreign management. Full personnel details of the promoters and directors of the company will be on prospectus. On the basis of these investors can evaluate the management of the company.

Size of the company

Large companies generally offer better investment opportunities than the smaller one. This is so because large companies can use of economies of scale, which smaller companies cannot. The former are thus able to reduce costs, and establish a clear competitive edge over smaller companies. Large companies, by virtue of their higher productions, generally occupy a stronger and more dominant position in the market. Since large companies normally generate larger surplus. As a result, investment in large companies is generally safer and more stable than in smaller companies. This does not mean smaller companies would not able to have good performance. There is not any rule-of-thumb to identify small and large companies but equity capital may be the good basis of calculating large and small companies (Habibullah, 1999:142).

Growth of the company

Growing companies provide excellent investment opportunities. As a company grows and expands its profit also grow.

Growth does not come by accident; companies have to plan for growth. They have to identify growth product and areas and prepare detailed plans for implementation of expansion cum diversification projects.

Company's Environment

Companies are inextricably linked to their industrial, commercial and economic environments. Each and every company can't keep themselves all for from these environmental influences. In an advanced environment, even the most profitable and well-managed companies' find the going rough, where as a favorable environment usually gives a boost to even the most sluggish and mismanaged companies.

Inflation being a persistent and nation wide problem affects the working and performance of all companies. However, the nature and extend of its impact on each company varies considerably. Some companies are adversely affected by it, whereas others are not able to cope with it effectively but actually thrive on it (Habibullah, 1999:144).

Retained Profit and Reserve

After deduction of all expenses including taxes, the net profits of the company are split into two parts-divided and retained profits. Dividend is that portion of the profits which is distributed to shareholders, whereas retained earning is the portion that is retained by the company and added to its reserves. The figures for retained profit and reserves of any company can be obtained by a cursory glance at its balance sheet and profit and loss account.

Retained profit is important because it not only increases the reserves of a company, but also provides the company with funds required for growth and expansion. All growth companies maintain a high level of retained profit. So if you are looking for all growth company to invest in, you should examine its retained profit figures. Companies that have no intention of expanding are not likely to retain large portion of their profits.

Reserves constitute the accumulated retained profits of a company. It is important to compare the size of a company's reserves with the size of its equity capital. This will indicate whether the company is in position to issue bonus shares. As a rule, a company whose reserves are double the amount of its equity capital should be in a position to make a liberal bonus issue.

Retained profits also belong to the shareholders. This is why reserves are often referred to as Shareholders fund. There fore, any additional to the reserves of a company will normally lead to a corresponding increase in the price of the share. The higher the reserves, the greater will be the value of share. Retained profits may not come to you in the form of as, but they benefit you by pushing up the price of your shares.

Book value per share

Book value per share indicates what each share of a company is worth according to the books of accounts of the company. The company's books of account maintain a record of what the company owns (assets), and what it owes to its creditors (liabilities). If the total liabilities of a company subtract from its total assets then what is left belongs to the shareholders, called the shareholders funds. If you divide shareholders funds by the total number of equity shares issued by the company the figure that you get will be the book value per share.

Book Value per Share = Shareholders Fund/Total number of equity shares issued.

The figure for shareholders funds can be obtained by adding the equity capital and reserves of the company.

Shareholders Funds = Equity Capital + Reserves.

Book value is historical records based on the original prices at which assets of the company were first purchased. It doesn't reflect the current market value of the assets of the company. Therefore, book value per share has limited usage as a guide for evaluating the market value of price of a company's shares. It can at best give you a rough idea of what your shares should be worth.

The market price of shares are generally much higher than what their ratio book value per share can prove useful to you while assessing whether a particular share is over-priced or under priced (Gitman, 1994:435).

Earnings per share

That is well-known and widely used investment ratio. It is calculated as under:

Earnings per Share (EPS) = Profit after tax/Total number of equity shares issued.

This ratio gives the earnings of a company on a per share basis. EPS is the true indicator of the returns on the share investments. Therefore, irrespective of what price you buy a particular company's shares at. Its EPS will provide you with an invaluable tool for calculating the returns on your investment.

Price / Earning Ratio

The price/earning ratio, (P/E), expresses the relationship between the markets price of a company and its earnings per share.

Price/Earning Ratio (P/E) = Price of the share/Earnings per share

This ratio indicates the extent to which earnings of a share are covered by its price.

This ratio is a reflection of the market's opinion of the earning capacity and future business prospects of a share. Company which enjoy the confidence of investors and have a higher market standing usually command high PE ratios.

On the face of it, it would seem that companies with low P/E ratios would offer the most attractive investment opportunities. This is not always true. Companies with high current earnings but dim future prospects often have low P/E ratios. This does not make them good investments. As an investor your primary concern is in which the future prospects of a company and not its present performance. This is the main reason why companies with command high P/E ratios are preferred. The present price of a share, to a great extent, discounts its future earnings (Gitman, 1994:4358).

2.5 Review of Past Research Work and Previous Studies

Security market is an integral part of the capital market and the economy as well. The effective use of idle and surplus resources can be brought into use only through the effective use of the market mechanism. The securities market upholds the attempts particularly concerned with the collection and mobilization of savings. Savings

meticulously diverted towards regeneration, in essence of financial and industrial activities will result in repercussions favorable to the economy as a whole.

Review of International Journal and Articles

Habibullah (1999) studied as a topic "Financial Markets in Least Development Countries", and which evidences that in some Asian countries including Nepal economic development reflected in economic growth leads the financial development measured in the ratio of broad money to gross national product (M2/GNP). This implies that economic development has preceded the financial market development in the case of Nepal. But several other studies conducted in other LDCs reveal that the financial development has preceded the economic development. The stock market development measured by market liquidity, market capitalization and total turnover is correlated with current and future economic growth, capital accumulation, and productivity growth, as evidenced by Levine and Zervos (1996). The efficient money, foreign exchange and capital markets increase investment to the most productive sector of the economy and thereby increase output through saving mobilization. Such markets also price the risk associated with any investment accurately.

Kviback (2001) conducted a survey on, "Nepal Survey: Issues in Local Bond Market Development". Major finding of his studies were: The financial market in Nepal is relatively undeveloped. The government market is more developed, but prices are not market oriented. The state of development of equity markets indicates how well versed issuers, investors, and intermediaries are in dealing with securities at the primary and secondary market levels. Nepal's overall market is still in its infancy, however. The Nepal Stock Exchange (NEPSE) is a late development, founded only in 1993. It is owned by the government and is a not-for-profit making institution.

The equity market of Nepal is relatively small from the international standards. With only 129 companies being listed in about 12 years of establishment of NEPSE, the equity market in Nepal requires more effort and contribution from the privately held companies

as well as the investors. The status of Nepalese equity market is being elaborated in the following extraction of a report.

Corwin and Schultz (2005), examined syndicates for 1638 IPO's from January 1997 through June 2002. Contrary to popular belief that the larger syndicate yields benefits, they discussed several factors that may limit syndicate size. They mainly examined how syndicate structure affects the likelihood and magnitude of offer price revisions in response to information revealed during the filling period. As a proxy for information, they used the total return from the midpoint of the filling price range to the closing price of the first day of trading. For the purpose, they collected an initial sample of 2146 IPO's issued from the Securities Data Company's (SDC) Global new issues Database. They found strong evidence of information production by syndicates members in IPO's under-written by large syndicates and particularly by syndicates with a lot of co-manager, the offer price is more likely to be revised away from the midpoint of the filling price in respond to information. For large IPO's, they found underwriter who can provide coverage by a top-ranked analyst are more likely to be include in the syndicate. Smartly, even though the issuers benefit from increasing the number of syndicate members and especially the number of co-managers who underwrite their IPO, syndicate size is very much dependent upon the preference of book manager rather than issuers. Finally, they concluded that although the IPO proceeds increase from 1997-2002, syndicates grew smaller.

Goergen and Others (2006) carried out a study on, "The Strategy of Going Public: How UK Firms Choose Their Listing contracts." The study carried tow objectives: The first objective was to derive potential factors that may influence the choice of IPO listing contracts from the few theoretical papers and empirical studies in the fields. The second objectives were to test how well those factors explain the choice of the listing contract for the case of UK IPO's. The study was focused on 240 flotation, which were listing on the

official list of London Stock Exchange during the period of 1991-1995. They used a binomial profit model to measure the impact of the variables on the contract choice. As the study proposed that three types of factors essentially influence the choices of contract; ex-ante uncertainty, certification and the visibility of the issue, they found that the higher the firms choose a placing contract. They also found strong evidence that the sponsor and creditors screening signals the quality of the IPO's firm. Hence, the firms, which use highly reputable sponsors and those with high debt to assets ratios usually, choose public offer contracts. They also found that firm that make small issues find it cheaper to use placing contracts. Finally, they concluded that in general the decision to choose a placing rather than an offer or vice -versa is taken by the firm within the framework of rational behavior.

Derrien and Kecskes (2007) observe there is a "two stage mechanism" prevalent in the UK in which under pricing has been found to be reduced by 10% to 30% in comparison to the traditional under pricing in which IPO's are made at first and then the share are listed in the secondary market. First time public financing through equity is proceeded in two stages i.e. a firm lists and lets a public market develop in the firm's existing shares in the first stage, and sells new shares to the public in the second stage.

REVIEW OF NEPALESE JOURNALS, ARTICLES AND DISSERTATIONS

Lohani (1994) conducted a study on "*shareholder's Right in Nepal.*" which can have umpteenth instances of inconsistencies with research patterns. Here, the conceptually misinterpreted term is privatization, for which Lohani maintains that it is the time of privatization and that private investors are regarded as foundation of industrialization for successful privatization. So far, almost a dozen governments owned enterprises have been privatized. Thus, the shareholders right does not merely encompass the right of the

shareholder of already privatized (government owned) enterprises. Privatization, on the coinage of recently developed open market policy in Nepalese market reflects the transfer of government ownership to the private hands. Secondly, industrialization is not a measuring instrument of successful privatization. Of course, a number of government industrial concerns hit the list of privatization in the past years, yet there are other non-industrial enterprises owned by government which are being privatized. Thus, the analysis should increasingly be based on generalization of public limited companies not solely on the privatized government conglomerates.

Secondly, Lohani sets out objectives of his study particularly to focus on three propositions:

- To provide conceptual glimpse on shareholders right
- To analyze various variables that effect shareholders right.
- To provide package of suggestion framework to overcome various
- Issues and gaps of share holders' right based on finding and analysis.

On theoretical grounds, Lohani's assertive presentation of the rights enjoyed by the shareholders would have ostensibly held a sense but it down not seemingly manifest the abusive atrocities of company promoters or company management, disregarding the shareholders' voices. No legal defects and other auxiliary instances have been brought forth to justify the conceptual pattern o the part of shareholders' right in the Nepalese contest.

As for the analysis, Lohani intends to bring on the surface the variables effective shareholders' right. But variables are not only qualitative variables but are also affected by quantitative variables. Listing variables do not serve the purpose of the study; it requires justifiable instances so as to prove that the rights of the shareholders have been abused indiscriminately. But in practice, his study deals with the quantitative phenomena equally homogenizing the impact of ROE, Divided, projected and actual performance of enterprises on shareholder rights.

While figuring out the performance of Nepal Bank Limited, he argues that the year-to-year comparison of ROE gives fluctuating results. The company average of 134.525% is not maintained in the year 1986/87, 87/88, and 88/89 (043/044, 045/046 and 046/047 BS), but it is above of company average of in the year 1985/86, 90/91 (042/042 and 047/048 BS). Return on equity is, of course, a financial tool to test the performance of a company but it does not manifest that at the low percentage of ROE, the right of the shareholder has been overlooked. For instance if the company's cash outflow is substantial in a particular year in terms of loan, but no returns at all is achieved yet, this lending strategy may help maximize the wealth of present incentive. This means, ROE is only a financial tool adopted to diagnose the financial strength of the company. Here, Lohani fails to point out what were the specific claims of shareholders that the company would not have succeeded to cope with.

Lohani has cited various aspects of quantitative approach. Of them, he has worked out an example of Nepal Bank Limited stating that the trend analysis of EPS deals with the fluctuations result ranging from Rs. 39.4 to Rs. 278.42 in the year 045/046 and 047/048 respectively, which is not satisfactory as per the share basis. Likewise, he maintains that the trend analysis of DPS (Divided per share) shows a decreasing trend of Nepal Bank Limited. The maximum DPS of Rs. 30 in 042/043 and Rs. 20 in 043/044 and 047/048. If the company's performance is poor due to various external and internal reasons, does it give them the right to point at the management for not having maximum rate of return on investment? Particularly for the banking sector, the collection of distributed capital in terms of deposits and their productive mobilization into the lucrative ventures determines the profitability of investment. The policies undertaken by the central bank is also a determining factor. Besides these, government fiscal policy, foreign investment and investment outlets etc. are also decisive in determining 'Return on Investment'. This is why exactly this financial analysis does not utterly depot the true picture of shareholders interest. It should analyze the shareholders interest. It should be analyzed from the viewpoint of the legal framework, government policy and managerial commitment to the well being of shareholders etc. Period coverage of the study includes 3-5 years by applying investment tools as ROE (Return On Equity), RONW (Return On Net Worth,

DPS (Dividend Per Share), EPS (Earning Per Share) and DPR (Dividend Payout Ratio), and statistical tools as trend analysis and cross section analysis. Basically, it does exist in the case of declaring dividend, amendment of memorandum and articles of association, appointment of auditor, approval of accounts amalgamation and liquidation of a company etc. Furthermore as the statement of problems he has presented a perfunctory list of groundless accusations. Lohani expresses concern that the protection of Share holder's interest is not properly mentioned in the Company Act. Security Exchange Act and Security Exchange Board have not reviewed the violation of shareholders right. Annual General Meetings have not been arranged timely and the voices raised by shareholders in annual general meeting are rarely followed in practice. However these are accepted facts in general the concerned level authorities or the company management has been misleading the general shareholder by turning deaf ears to their voices. But Lohani does not say anything deaf ears to their voices. But Lohani does not say anything as to the justification of these problems. He has no evidence at all to substantiate the problems he has experienced.

In order to deal with the financial performance of the companies, he randomly sorts out eight companies i.e. two from each group (Banking, Finance, Manufacturing and services and Trading). But a question arises. Do these companies represent the matter of the other companies as well? In 1994, there were 78 companies listed in the stock exchange. If the above companies were taken only from the listed companies then the number of selected comprises only and approximate of 10% of the companies. If it is not taken from the listed companies, then this percentage further goes down, It has also been observed that there is no similarity in the objective and major finding of the study, Lohani concludes that the return on shareholder equity of various companies in case of linkage between how well the companies have utilized the resources of the owners and what investors expect from their investment shows the absence of actual trade off between the ROE achieved by the companies in different years. Out of 8 companies, 4 companies have been positively evaluated. Likewise, Dividends paid by companies are preposterous. One company is paying higher regular dividends than the average. If the company's financial

position does not allow the declaration of higher rate of dividends, then how can we justify that the shareholders rights have been undermined?

To recap the study conducted by Lohani incorporates only the dividend, ROE, EPS etc to come to the conclusion. Since the study deals with the shareholders right in the Nepalese context it has nothing to do with market analysis. Now the securities market specializes by taking over the features of the primary and secondary market. Thus, the existence of two market ingredients of securities has made an unavoidable branch of study while conducting research on securities market.

With respect to distribution of price changes, from the investor point of view, the sole interest is in the shape of the distribution that is the only information he needs to make meaningful investment decisions concerns probability of gains and losses greater than given invested amount. In a market, which is inherently more risky where, the probability of large losses is greater. There exists frequent persistent than reaction in the general stock market climate because of investors irrational behavior which causes to the rational movement to price series.

Shrestha (1996) conducted a study on “*public response to primary issue of shares in Nepal*” reveals the fact that the scope of primary market is recent days in burgeoning by leaps and bounds. Even the general investors are boisterously pumping up their savings in the new issue of shares causing over subscription to a great deal. Shrestha here asserts that the growth of the primary market is encouraging since many public limited companies including joint venture Banks have been successful in tapping capital through the floatation of shares to the companies is a direct manifestation of the growing public confidence in the primary market.

The general public simply taps everything that comes on their way, regardless of the promoter’s background and company feasibility. Each and every company that came into the market has been successful in tapping the capital from the market and the issue closed within the minimum stipulated time of seven days with huge over subscriptions. Issues of

some foreign collaboration banks were oversubscribed to an extent of 19 times and this became simply overwhelming to the company concerned as well as to the issue managers which lead to delays in allotment of shares, refunding and distribution of share certificates to the allotted public. In empirical terms, the shares of 27 companies were placed in the market after the establishment of full-fledged stock exchange. The issue amount is Rs. 533.81m where as 442,841 applicants applied for the shares but only 132,815 were allotted its shares. While giving details of statement of problems Shrestha presents a rosy picture of the primary market. It is because he is solely dealing with the public response to the primary market. Though issue managers delay in refunding share subscription and allotting shares, he has not cited any such examples through out his thesis; He further adds that the public response varies from one business sector to another business sector. During his study period, companies were facing problems in issuing their share to general public. The companies, which have issued shares to the general public, had predicted higher dividend and earning per share but unfortunately most of them have failed to deliver. Even the performance of the issue manager is also not as good as expected. The mismanagement that follows when the subscription list is open and the subsequent delay in the allotment of shares tend to under mine the confidence of the investor's there by hindering the future growth of the primary market. Here, Shrestha attributes the sluggish development of the primary market to the crash of stock prices and its speculation, exaggeratedly projected dividend and ROI through prospectus, and issue managers unscrupulousness in making decision for the allotment for the shares and refunding capital. If all these are detrimental to the primary market, then he has to justify the extent to which the primary market has been detracted from these malpractices. On the contrary, there exist other uncontrollable forces, which hinder the smooth functioning of the primary market. Economic policy, capital formation, investor's attitude, alternative investment opportunities, legal provisions and foreign investment policy belong to this category.

Evaluating the primary market, analyzing the pattern of public response to the new issues, identifying the problems of primary market and presenting remedial measures for the primary market are the objectives set out in the study. Evaluation of primary market

does not merely include the number of share issued and sold in the market. As a part of the capital market, it should be reviewed from different angles, like the legal provision, the ratio of shares held by the promoters if not accepted in the share subscription etc. The study keeps mum in all these multivariate aspects of the primary market. SO far as the patterns of the public response to new issue are concerned it has been stratified presumably from the view point of geographical distributions of places. Most importantly to know whether the people are consciously aware of the primary market to say the least of the securities market then it is likely that the investor's status plays a vital role in the analysis of primary market. No doubt urban population is generally responsive of any sorts of economic trend population is generally responsive of any sorts of economic trend but the question arises: What sorts of social sector are more reactive? These are the indispensable phenomena of the study.

The overall analysis of public response to primary market comprises of two prime ingredients:

- Geographical response and
- Subscription status

In this regard, research hypothesis test here correctly assumes support of the study. Although he has selected 12 companies from different sectors and assures that they will represent the remaining one with a view to important information. But he has not stated on what basis they were picked up for the research work. Thus here Shrestha has ignored the statistical concept of selecting companies from the population.

Shrestha further opines that there are data problems in Nepal to conduct a research not only in the capital market but in other fields too. This study found problems regarding the availability of data according to the occupation. Shrestha confirms his failure in the analysis of public response as per the occupational division of applications. Similarly, he points at the wrong design of share application form on the part of the issue managers. Opinion survey questionnaire, interview method would be instrumental in his research work. To understand the public response to market, the analysis should have incorporated

both qualitative and quantitative approach of research. That is why; quantitative analysis of the public response has made the study utterly biased.

With regard to the subscription status of the companies, he has found that all the companies are oversubscribed so much so that some are oversubscribed 19 times. To this effect, Shrestha delimits his study maintaining that all the companies, which floated their share to the public before 1933, have not been included because of the unavailability of data. Contrary to his version, the Harisiddhi Bricks and Tiles Factory that issued share during Shrestha's study period had been under subscribed.

Moreover, public response should be dwelling on other factors. For this sake, shrestha assumes that due to the prevailing unfavorable condition of the secondary market, the primary market has been suffering as well. As the investors confidence I at an all times low, selling of shares in the secondary market has been difficult and hence companies issuing shares are having a hard time in collecting even the issued amount. Shrestha has mentioned that the secondary market of securities will play a significant role in boosting the primary market. Since the secondary market is the purview of his study, his way of justifying the condition of the secondary market is not as well as expected. No market price of shares has been analytically presented in the study. Nor does the study include dividend distribution of the companies. In absence of these characters, the failures of the primary market cannot solely be attributed to the secondary market. This study has been conducted devoid of the secondary market analysis.

Above all, Shrestha concludes that a subscription is affected by issue size: the smaller the issues size the greater the times of subscription. This shows that big issue in the future may face problem in collecting issued amount as the fall in the secondary market is bound to affect the primary market. But as we can see from our past experiences, Taragaun Regency Hotel Ltd. And Nepal Industrial and commercial bank were able to collect a huge amount of funds within a very short period of time. Shrestha's rhetoric signifies that share subscription will go up if the issues size is big. It means company will face difficulties in the future while collecting funds. In this connection, Shrestha presents

contradictory views in term of issue size and subscription. If the secondary Market has any impact on the primary market then this should be dealt with an investigative study on both the markets.

In order to overcome the differences of past works and to fill up the research gap, the following points will be justifiable to the study conducted on the securities investment in Nepal.

Study of the primary and the secondary market cannot be isolated. In absence of one, the study conducted on the other does not present a true picture of the securities market. To study the primary market calls for an idea of the working of the secondary market.

Among other things, legal provisions and the development process of securities market are the essential phenomena for successful analysis of the securities market. The conclusion drawn by ignoring these aspects may not help reveal the facts the securities market.

The current interest rates on bank deposits, subscription of shares, and nature of the company are the variables that cannot be overlooked while conducting a study in this regard, and there are the variables that heavily depend on the public response to shares.

The market mechanism of securities, although carried out by the Stock Exchange Centre till 1993, has been distinctively split into two independent institutional bases. On the one hand, is issue managers functioning in the primary market, on other hand is the Nepal stock exchange performing in the secondary market. Thus, the study should be based on the outstanding features of both markets.

Securities return should be compared with market return. In absence of the financial and money market, the security market cannot function. Thus, comparative study is needed to justify the profitability of these markets.

Problems of primary issue market of shares should be identified and make the issue process easy and time saving.

Assessing the recent growth of primary issue market and analyze the pattern of public response to shares, which has not been done lately.

Pandey (2001) conducted a research on, "*Public response to Primary Issue of Shares in Nepal*" with the objective of: identify the problems of primary share issue market, assess the growth of primary issue market, analyze the pattern of public response to shares & find the reasons of variation. Mr. Pandey has summarized his find as: 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 were; interest rates were higher as compared to dividend yield, the public companies were not performing well and people did not know about the importance of investing securities. Now the response is highly positive because people are aware, money flow in the market is higher, people have seen that most companies are distributing dividends, share prices are increasing for most companies and a lack of better alternatives for investment. Now that the average interest rates have gone down, more can be obtained from investment in stock.

Paudel (2006) who has done research on "*Public Response to IPO in Nepal*", with the objective of: identify the dealing process of IPO, analyze the pace of IPO and analyze the public response to the IPO.

He has concluded that general investors in Nepal do not have sufficient information regarding the primary market and in spite of this they are interested in investing money in the primary market. They are more interested in financial sector than non-financial sector.

He has also summarized that pace of initial public offering in Nepal seems to be irregular. Even though the organization's 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. Despite this, public are attracted towards shares to increase their value of investment

Bhattari (2006) has performed a study on, "*Public Response to Initial Public Offering in Nepal*" with the basic objective of assessing public response to the initial public offering. However, the study also focused on the dealing process and pace of the IPO. The study has used both primary and secondary data. Primary data collected through direct questionnaires provided to the general investor while secondary data were collected from various publications of SEBON, NEPSE and other institutions.

The study concluded that most of the general investors in Nepal do not have significant information regarding the primary market but still they are very much interested to invest money in the primary market. It also found that almost each sector was getting good response from public. Specially, financial institutions and insurance companies were becoming more preferable for public than the other non-financial sectors.

Dahal (2007) carried out a research study on "*The performance of Nepalese IPOs.*" The study 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.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

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

"Research Methodology is the research method used through the entire study", (Kothari, 1992:39). The main objective of the study is based on primary and secondary data. The basic objective of primary data analysis is to survey different investors attitude toward the IPOs. Secondary data were used on analyze the subscription pattern of corporate securities in primary market and reasons behind the highly oversubscription and undersubscription of corporate securities. The methodology consists of Research Design, The Selection of Sample, Source of Data, and Coverage of the Data, Data Analysis Tolls, and Others Statistical Tools.

3.2 Research Design

Research design is a plan, structure and strategy of investigation concerned so as to obtain answer to researcher question and to control variance (Kothari, 2000:47). This research is based on the analytical and descriptive design as well. For the analytical purpose, the annual reports published by SEBO/N, NEPSE and other concerned companies were collected for the year 1995/96 to 2007/08. Primary data are also collected from questionnaire method for analysis purpose.

3.3 Population and Sample

The population for this study is the Initial Public Offering made by various organizations up to FY 2007/08. There are 142 companies listed in Nepal Stock Exchange Limited. To find out subscription pattern in the Initial Public Offering, this study has divided in two

sectors as Financial Institutions and Insurance Sector and Non Financial Sector. The population is shown clearly in the following table.

Table 3.1
Population of the Study

S.N.	Listed Institutions	No.
Financial Institutions & Insurance Sector		
1	Commercial Banks	17
2	Development Banks	23
3	Finance Companies	55
4	Insurance Companies	17
Total (a)		112
Non Financial Sector		
1	Manufacturing & Processing Co.	18
2	Trading Companies	4
3	Hotels	4
4	Others	4
Total(b)		30
Grand Total (a+b)		142

If the samples are properly selected, the characteristics of the sample will reflect that the population. Due to unavailability of reliable data this study has completed upon the base of selected sample from each sectors. The sample have selected at random so that each and every Units of the population may have an equal and independent chance of being selected. In this method, the selection of the Units will totally depend upon the chance but not on the discretion of anybody else. Five companies have chosen randomly as sample from banking sector, six companies from development bank sector, fifteen companies from finance company sector. The sample size of financial institutions and insurance sector is 31. Similarly, five companies have chosen randomly as sample from

non manufacturing and processing sector but no company is selected from hotel, trading and others sectors. The selected samples are shown in the following table.

Table 3.2

Sample selected from the population

S.N.	Institutions	Population	Sample Size	Sample % (Approximately)
1	Commercial Banks	17	5	30
2	Development Banks	23	6	26
3	Finance Companies	55	15	27
4	Insurance Companies	17	5	30
5.	Manufacturing and Processing	18	4	22
Total		130	35	27

3.4 Sources of Data

This study is mostly based on secondary data. Primary data has also taken to some extent. So, qualitative and quantitative data are taken for study. They are as follows:

a) Primary Source

Primary sources include the responsive of the questionnaires, personal interviews with managers of issuing companies, listed stockholders and resourceful persons in the regulatory offices.

b) Secondary Source

Secondary sources of data includes annual report of Security Board of Nepal, Statistical year book of Nepal, various publication of Nepal Stock Exchange, Income statement, Profits and loss account, Balance sheet of concerned companies, Dissertation, Previous Studies, Articles and Daily Newspapers. Some other important information has been collected from Internet of the related website.

3.4.1 Nature and Sources of Data

The require data for the study are collected from the primary and secondary sources. Securities Board Nepal is the main institution which provides most of the data required for the study. The web site of SEBO/N is <http://www.sebo@ntc.net.np> and its annual reports are the major sources of secondary data. Besides, necessary data are also collected from the annual reports of the selected companies, concerned issue managers, and annual

report of Nepal Stock Exchange.

3.5 Data Presentation and Analysis

Primary data collected from individual, first of all raw information have been received after the collection of raw information the processing has been done. Then after all collected data has been grouped according to their nature, tabular and chart from selecting relevant data.

Data collected from secondary source were analyzed by using statistical tools like, bar diagrams, pie charts, arithmetic mean, standard deviation, coefficient of variation etc.

The analysis tools used for the analysis and presentation of data are as follows:

Multiple Bar- diagrams and graphs

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

Pie- diagram

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

Percentage

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

Simple Arithmetic Mean

Sample arithmetic mean is the sum of the values of all the elements in the sample (ΣX) and divides by the number of elements in the sample.

$$A. M. = \frac{\Sigma X}{n}$$

Standard Deviation

The Measurement of the scatteries about an average is known as dispersion. The S.D. means a high degree of uniformity of the observations as well as homogeneity of the series. A large S.D means a high degree of uniformity of the observations as well as homogeneity of the series. A large S.D of different ratios are calculated. It is computed as:-

$$\text{Standard Deviation (SD)} = \sqrt{\frac{\Sigma x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2}$$

Co-efficient of Variation (CV)

The co-efficient of variation is the relative measure of dispersion comparable across distribution which is defies to the mean expresses in percent. It is

Calculated as:

$$CV = \frac{S.D}{Mean} \times 100$$

Co-efficient of Correlation (r)

It is a Statistical tool for measuring the intensity of the magnitude of linear relationship between two series. Karl Pearson's correlation coefficient measures the degree of linear association between two variables. Let X and Y are two variables. Karl Pearson's Correlation coefficient between X and y is generally Denoted by r_{xy} or simply r only. It is also called Product Moment Correlation Coefficient or Simple Correlation Coefficient or simply a Correlation. It is defined as Follows:

$$r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter includes the presentation and analysis of data. Analysis is based on both primary and secondary data. The primary data are used to analyze the public awareness, response and their attitude towards the subscription of corporate securities in IPO. The secondary data are used to analyze subscription pattern of IPO offered and amount of issue approved and finally presents comparison on Initial return to price changes on offered price on second and third day trading. All the analysis is based on simple statistical calculation.

4.1.1 Amount of Public Issue Offered

Securities Exchange Act provisioned that any company which goes for IPO must get issue approved from security board of Nepal prior to make their offer to public. Since first year of SEBON operation, FY 1993/94, it has given issue approval to 259 issues amounting Rs.21855.05 million till FY 2007/08. As Securities Regulation provisioned, the company which got issue approval may commit their offer any time within two months from the date of issue approval. The amount of issue approved and the actual amount issued in a fiscal year may vary. Hence, for better result the study is focused on actual amount of issued in the fiscal year rather than the amount approved by the SEBON in that fiscal year. Amount of public issues offered during the study period along with its growing rates have been given in Table 4.1

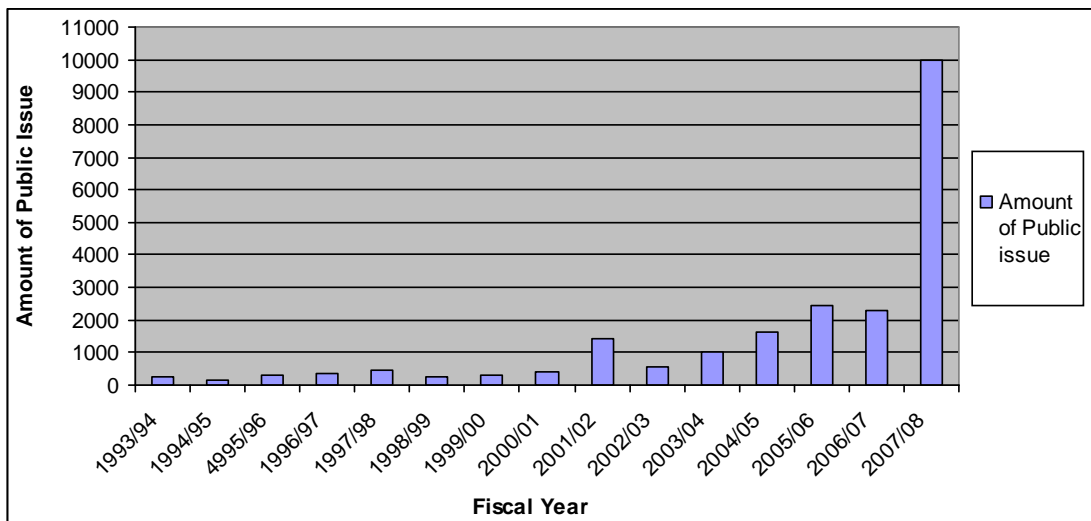
Table 4.1
Amount of Public Issues

Rs. In million

Fiscal Year	Amount of Public issue(Rs.)	Annual Growth Rates (%)
1993/94	244.4	-
1994/95	173.96	(28.82)
1995/96	293.74	68.85
1996/97	332.20	13.09
1997/98	462.36	39.18
1998/99	258.00	(44.2)
1999/00	326.86	26.7
2000/01	410.49	25.58
2001/02	1441.33	251.24
2002/03	556.54	(61.39)
2003/04	1027.50	84.62
2004/05	1626.82	58.52
2005/06	2443.28	50.19
2006/07	2295.50	(6.01)
2007/08	9961.85	333.97
Total	21855.05	

Source: SEBON Annual Report 2007/08

Figure 4.1
Amount of public issue



From table 4.1, since first year of SEBON operation the amount of public issue have been fluctuating trend. In FY 1993/94 issue worth Rs.244.40 million were offered to the public. The amount decreased to Rs.173.96 million in FY 1994/95. After that the amount of public issue showed rising trend although only for few years. It rose to Rs.293.74 million in FY 1995/96, Rs.332.20 million in 1996/97, and Rs462.36 in FY 1997/98. It again dropped to Rs.258 million in FY 1998/99 only to rise again in FY 1999/00 to reach 326.86 million. It continued to rise in two subsequent years i.e. FY 2000/01 and FY 2001/02 and reached Rs.410.49 and Rs.1441.33 million respectively. However, it dropped substantially in the following year i.e. FY 2002/03 and marked just Rs.556.54 million. But the year proved to be the end of falling trend, as the amount of issue offered showed continuously rising trend in the subsequent fiscal years. The amount of public issues was recorded Rs.1027.50 million in FY 2003/04, Rs.1626.82 million in FY 2004/05, Rs.2443.28 million in FY 2005/06, Rs.2295.5 million in FY 2006/07 and Rs.9961.85 million in FY 2007/08. While the lowest amount of public issue was Rs.173.96 million in FY 1994/95 and the total public issue during the study period was Rs.21855.05 million.

As shown in the figure 4.1, it is seen that the amount of public issue offered has been in rising trend during study period.

4.1.2 Number of Public Issues Offered

The number of public Offerings another to identify the exact number of offers made by various listed companies to the general public in each fiscal years.

Table 4.2

Number of Public Issues

Fiscal Year	Amount of Issue	No. of issue	Rs. In million	
			Average size (Rs. in million)	Annual growth rate (%)
1993/94	244.4	16	15.28	0
1994/95	173.96	10	17.4	13.87
4995/96	293.74	12	24.48	40.69
1996/97	332.2	5	66.44	171.4
1997/98	462.36	12	38.53	(42.01)
1998/99	258	5	51.6	33.92
1999/00	326.86	6	54.48	5.58
2000/01	410.49	9	45.16	(17.11)
2001/02	1441.33	12	120.12	165.99
2002/03	556.54	18	30.92	74.26
2003/04	1027.5	14	73.39	137.35
2004/05	1626.82	14	116.2	58.33
2005/06	2443.28	29	84.25	(27.5)
2006/07	2295.5	34	67.51	(19.87)
2007/08	9961.85	63	158.12	134.21
Total	21855.05	259	84.38	

Source: SEBON Annual Report 2007/08

Figure 4.2

No. of Public Issue

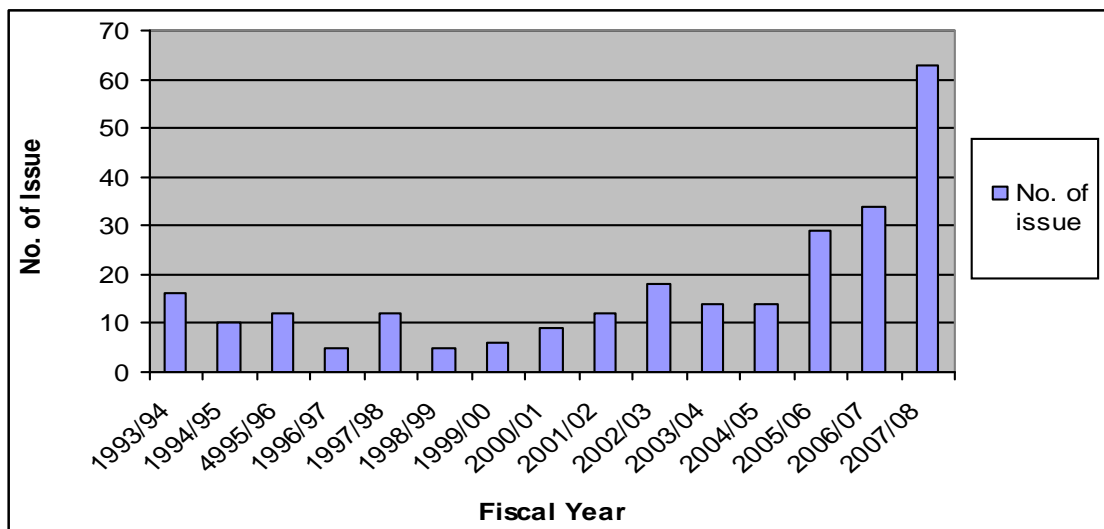


Table 4.2 revealed the no. of issues offered in each FY during the study period. Likewise the amount of public issue, the no. of issue offered in a FY also had not any consistent trend on the study period. During the entire study period the lowest no. of issue offered in a Year were 5 in two fiscal years, FY 1996/97 and FY 1998/99. The highest no. of issues offered in fiscal year was in the last fiscal year of the study period, FY 2007/08. The average size of issue offered in each FY has also been in fluctuating trend. Average size of issue offered was smallest in FY 1993/94 and largest in FY 2007/08.

The above figure shows that the number of public issue offered during the study period has been fluctuating during various fiscal years but has been in increasing trend.

4.1.3 Publicly Issued Company

As per required NEPSE, issuing company should list their issues in NEPSE for allowing such issues to be traded on its trading floor. Since opening of NEPSE in FY 1993/94, 159 companies have already been listed where, out of these, 17 companies had de-listed from trading floor of NEPSE. So at the end of FY 2007/08, there were 142 companies listed in NEPSE. Total paid up value of these listed securities by the end of fiscal year 2006/07 reached Rs.29845.80 million which was Rs.21798.80 million in last fiscal year (2006/07). The most intriguing aspect of this total paid up capital the contribution from financial sector that includes commercial banks, development banks, finance companies and insurance companies is very high.

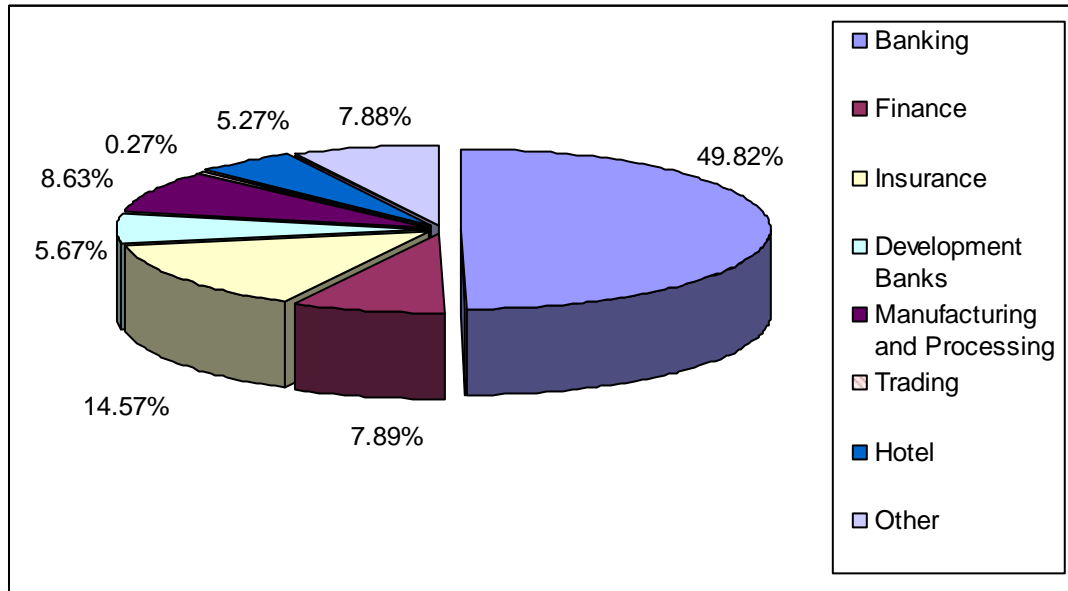
Table 4.3
Publicly Issued Companies

S.N.	Sector	No of Public Issue	Paid up Value (in million)	Percentage of paid up value
1	Banking	17	14667.3	49.78
2	Finance	55	2322.7	7.88
3	Insurance	17	4317.3	14.56
4	Development Banks	23	1669.7	5.67
5	Manufacturing and Processing	18	2539.7	8.62
6	Trading	4	78.4	0.27
7	Hotel	4	1552.9	5.27
8	Other	4	2337.8	7.87

Total		142	29845.80	100
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Source: SEBON Annual Report 2007/08

Figure 4.3
Sector wise Public Issue



From the table 4.3, out of 142 listed companies, 112 companies belong to financial sector. From paid-up value perspective commercial banks occupies 49.78% (17) Development bank have 5.67% (23), Finance companies accounts for 7.88% (55) and insurance companies have 14.56% (17), altogether financial sector they accounting for 77.89%.

On other hand manufacturing and processing sector despite being third largest sector (in term of listed companies) account for only 8.62%. Similarly, trading, hotel and other sector account for 0.29%, 5.27% and 7.87% of total paid up value respectively. Together as non-financial sector they account for 22.21% of total paid up value.

4.1.4 Public Issue from Financial and Non-financial Sector

Listed companies of NEPSE can be divided into Finance sector and Non-finance sector Finance sector mainly includes companies from commercial banks, development banks, finance companies and insurance while non-finance companies includes the companies from manufacturing and processing companies, trading companies, hotels and others (SEBON, 2006 Sept. 26).

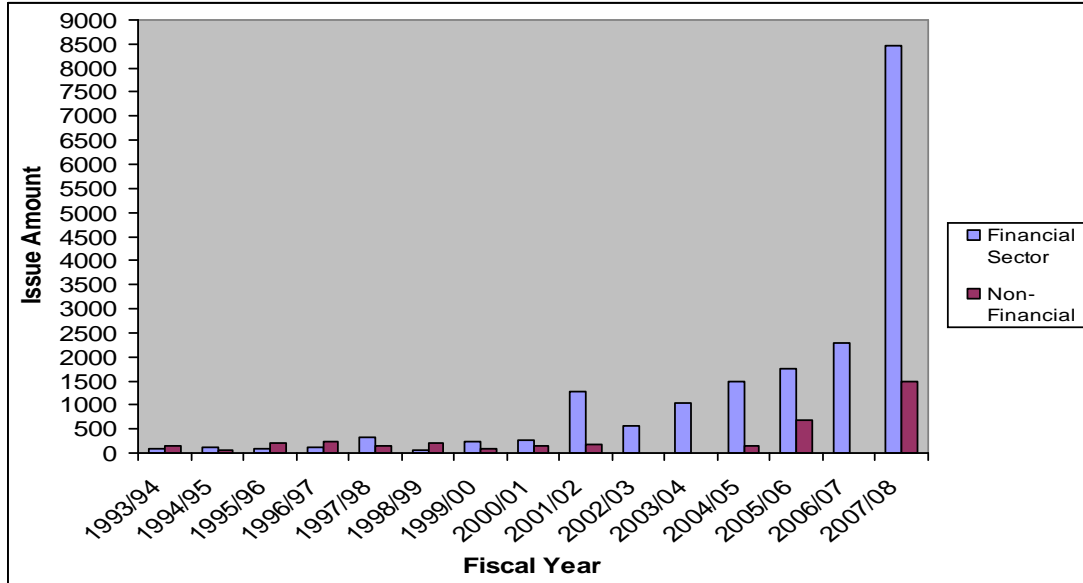
Table 4.5 reveals the public issues from finance and non-finance sector during the Study period.

Table 4.4
Public Issue from Finance and Non-finance Sector

Sector Year	Finance			Non-finance			Total	
	No. of Issue	Amount (Rs. in million)	Annual Growth (%)	No. of Issue	Amount (Rs. in million)	Annual Growth (%)	No. of Issue	Amount (Rs. in million)
1993/94	6	87.8	-	10	156.6	-	16	244.4
1994/95	6	120	36.67	4	54	-65.52	10	173.96
1995/96	8	95.1	-20.75	4	198.6	267.78	12	293.74
1996/97	4	107	12.51	1	225.2	13.39	5	332.2
1997/98	9	315.5	194.85	3	146.9	-34.77	12	462.36
1998/99	3	58	-81.62	2	200	36.15	5	258
1999/00	5	237.3	309.14	1	89.6	-55.20	6	326.86
2000/01	8	260.5	9.73	1	150	67.41	9	410.49
2001/02	11	1267.9	386.72	1	173.5	15.67	12	1441.33
2002/03	18	556.5	-56.11	0	0	-100	18	556.54
2003/04	14	1027.5	84.64	0	0	0	14	1027.5
2004/05	13	1486.8	44.7	1	140	0	14	1626.82
2005/06	27	1759.4	18.33	2	683.9	388.50	29	2443.28
2006/07	34	2295.50	28.42	0	0	-100	34	2295.5
2007/08	62	8461.85	268.60	1	1500	0	63	9961.85
Total	228	18136.65		31	3718.03		259	21855.05

Source: SEBON Annual Report 07/08

Figure 4.4
Public Issues from Finance and Non-finance Sector



From Table 4.5 revealed that total of 259 public issues was made from finance and non-financial sector during the period. Out of this, total of 228 (88.03%) offers came from financial sector whereas rest 31 (11.79%) from non-financial sector. It means 88.03% public offers are from financial sector and rest 11.79% from non-financial sector. During the study period total of Rs. 21855.05 m issued to public. Out of it Rs.18136.65 m (82.98%) came from financial sector. Similarly, contribution from non-financial sector is Rs. 3718.03 m which is 17.02 % of total.

On an average, there are approx. 15 offers from financial sector on each Fiscal Year, while approx Just 2 from non-financial sector. Similarly, on an average public issue of Rs.1209.11 m came from financial sector while Rs.247.88 m from non-financial sector. These figures clearly show that the financial sector is dominant force of Nepalese IPO market. From the table it is clearly seen that financial sector were growing at 35.60% per year during the study period while non-financial sector were growing only at 16.26% per year.

4.1.5 Instrument-Wise Public Issues

Likewise many other emerging markets Nepalese market also provides limited variety of investment instruments which mainly includes common stock, preferences shares, right shares, debenture . Over a period of time Nepalese stock market has been relying on few financial instruments such as common stock and right shares, which can not be considered good sign regarding overall development of Nepalese stock market.

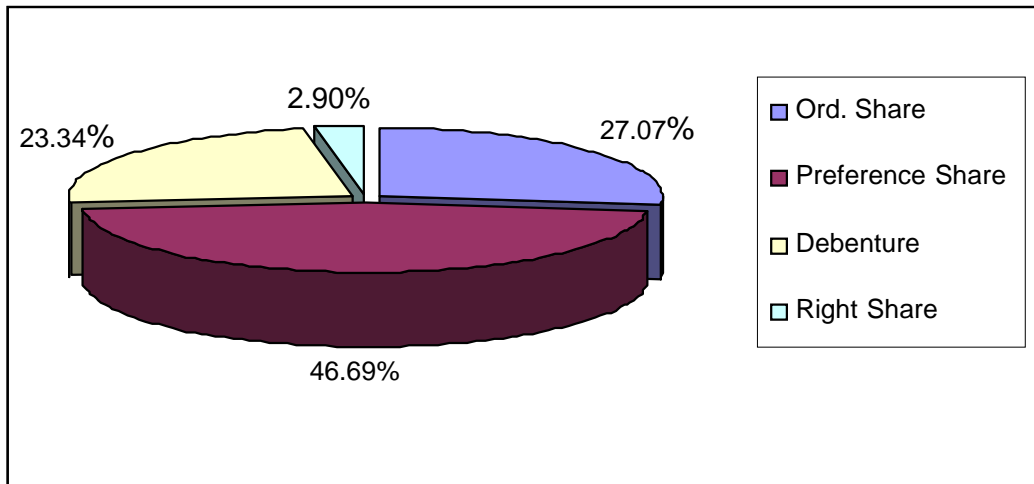
Table 4.5
Instrument wise Issue

Fiscal Year	Ord. Share		Right Share		Debenture		Preference Share		Total	
	No of issue	Amt (in m)	No of issue	Amt (in m)	No of issue	Amt (in m)	No of issue	Amt (in m)	No of issue	Amt (in m)
1993/94	14	227.9	-	-	-	-	2	16.5	16	244.4
1994/95	10	173.96	-	-	-	-	-	-	10	173.96
1995/96	10	224.74	2	69	-	-	-	-	12	293.74
1996/97	2	57	3	275.2	-	-	-	-	5	332.20
1997/98	8	119.4	3	259.96	1	93	-	-	12	462.36
1998/99	3	148	1	30	-	-	1	80	5	258.00
1999/00	3	202.3	3	124.6	-	-	-	-	6	326.90
2000/01	7	278.7	2	131.8	-	-	-	-	9	410.50
2001/02	5	319.5	5	621.9	1	360	1	140	12	1441.40
2002/03	14	394.3	4	162.2	-	-	-	-	18	556.50
2003/04	10	657.5	3	70	1	300	-	-	14	1027.5
2004/05	7	1231.78	6	94.93	1	300	-	-	14	1626.71
2005/06	14	579.8	11	1013.5	4	850	-	-	29	2443.30
2006/07	15	380.3	17	1265.3	1	250	1	400	34	2295.6
2007/08	16	924.8	42	6087.1	5	2950	-	-	63	9961.90
Total	138	5919.98	102	10205.49	14	5103	5	636.5	259	21854.97
Percentage	53.27	27.08	39.38	46.70	5.41	23.34	1.93	2.90	100	100

Source: SEBON Annual Report 2007/08

Figure 4.5

Instrument Wise Public Issue (On the basis of Total Amount)



As shown in Table 4.7, out of 259 offers during the sample period, 238 issues were ordinary shares, which is 53.27% of the total issue offered during the period. Similarly, 102 issues were right shares, which is 39.38% of total issue. Also 14 issues were debentures (5.41%) and 5 issues were preference share (1.93%). Hence from number of issues offered perspective, ordinary share was the most preferred instrument for issuing company, followed by right share, debenture and preference share respectively.

From issued amount perspective right share emerges as most used financial instrument with 46.70% of total issued amount. Second most used instrument was ordinary share occupying 27.08% of total amount followed by debenture 23.34% and preferred stock (2.90%) respectively.

The most striking aspect of the analysis has been the fact that preferences shares were issued only 5 times and debenture 14 times during the entire study period which covered 15 fiscal years. This study clearly showed that NEPSE Stock Market is highly dependent on few financial instrument likely ordinary share and right share. This over dependency, on one hand limits the boundary of investment opportunities to the public and on other hand, limits the overall development prospect of Nepalese stock market. At the same time this may also justify the selection of ordinary share as subject of this study.

4.1.6 Subscription Pattern (Over and Under) of Securities

When a company offers its issues to public, the demand received from public is bound to vary. When demanded number of shares is higher than the offered number of shares, it is called over-subscription and when the demanded number of shares is lower than the number of shares offered, it is called under-subscription. Similarly when the offered number of shares and demanded number of shares are equal it is the case of full subscription. More information regarding it has been presented in table 4.6.

Table 4.6**Subscription Pattern of Securities**

Fiscal Year	Total no. of Issue	Over Subscription		Under subscription		Fully Subscription		unknown	
		Co.	%	Co.	%	Co.	%	Co.	%
1993/94	16	15	93.75	-	-	-	-	1	6.25
1994/95	10	7	70	1	10	2	20	-	-
1995/96	12	5	41.67	6	50	-	-	1	8.33
1996/97	5	2	40	1	20	-	-	2	40
1997/98	12	5	41.67	5	41.67	1	8.33	1	8.33
1998/99	5	3	60	1	20	-	-	1	20
1999/00	6	5	83.33	1	16.67	-	-	-	-
2000/01	9	8	88.89	1	11.11	-	-	-	-
2001/02	12	5	41.67	4	33.33	2	16.67	1	8.33
2002/03	18	14	77.78	3	16.67	-	-	1	5.33
2003/04	14	12	85.71	2	14.29	-	-	-	-
2004/05	14	6	42.86	7	50	1	7.14	-	-
2005/06	29	17	58.62	10	34.48	2	6.9	-	-
2006/07	34	16	47.06	14	41.18	3	8.82	1	2.94
2007/08	63	19	30.16	32	50.80	3	4.67	9	14.28
Total	259	139	53.66	88	33.97	14	5.40	18	6.94

Source: Annual Reports of SEBO

As revealed from Table 4.7, total of 259 different companies issued different securities (Ordinary Shares, Right Share, Preference Share and Debenture) to the public during the study period of FY 1993/94 to FY 2006/07.

In the FY 1993/94 total of 14 companies issued their ordinary shares through IPO and all of them were oversubscribed and 2 companies issued Preference share (one oversubscribed, other had no information). In subsequent year, FY 1994/95, 10 companies went for IPO (Ordinary Share only), out of which 7 companies issue were oversubscribed, 2 of the issues were fully subscribed while remaining 1 issue was undersubscribed. Similarly, in FY 1995/96 out of 12 issues, 5 issues were

oversubscribed, 6 issues were undersubscribed and remaining 1 was unknown. FY 1996/97 saw 5 companies issuing their securities through IPO and out of these, 2 companies experienced oversubscription, one has under-subscription and 2 has unknown. In FY 1997/98, out of 12 issues; issues of 5 companies experienced oversubscription, 5 issues experienced under subscription, one has fully subscription while remaining 1 issue was unknown. Similarly, in FY 1998/99 out of 5 issues, 3 were oversubscribed and 1 was undersubscribed where remaining 1 was unknown. In FY 1999/00, out of 6 issues; 5 issues were oversubscription while remaining 1 issue was under-subscription. This pattern was in FY 2000/01, out of 9 issues; 8 companies experienced and remaining one has under subscribed.

The table 4.8 further shows that during the period of Fiscal Year 2001/02 out of 12 issues, 5 issues were oversubscribed, 4 issues were under-subscribed, 2 were fully subscribed and remaining one was unknown. Similarly, in FY 2002/03 out of 18 issues, 14 issues were oversubscribed, 3 issues were undersubscribed and remaining 1 was unknown. However in FY 2003/04 total of 14 companies issued their securities through IPO and out of them 12 were oversubscribed and rest 2 was under-subscribed. In FY 2004/05 out of 14 issues; issues of 6 companies experienced oversubscription, 7 issues experienced under subscription and one has fully subscription. Similarly, in FY 2005/06 out of 29 issues, 17 were oversubscribed and 10 was undersubscribed where remaining 2 was fully subscription. Again in the FY 2006/07 total of 34 companies issued their securities and out of them 16 were oversubscribed, 14 was under-subscribed, 3 was fully subscribed and rest one is unknown. At the last FY year of the study period i.e. FY 2007/08, out of 63 issues, 19 issues were oversubscribed, 32 issues were under-subscribed, 3 issues were fully subscribed and 9 issues were unknown.

Hence, from the total of 259 issues, 139 issues representing 53.66% of total issues were oversubscription, 88 issues accounting 33.97% were under subscribed and 14 issues

(5.40%) were fully subscribed where there was unknown about subscription pattern of 18 issues representing 6.94% of total no. of issue. On instrument wise basis, the ordinary share was oversubscribed most of the time in comparison to other securities. Where as in case of fully subscribed; right share and debenture capture about 2/3 part of the total number but right share under subscribed most of time. The total no of preference share issues there oversubscribed but there was no information about one issue and no of issue was small. These figures illustrate that most of the companies, which issued their ordinary shares through IPO during the study period experienced oversubscription of their issues. That fact may hint out why most companies prefer common shares to raise capital from general public rather than other securities.

4.1.7 Sector wise Analysis of Subscription Pattern

NEPSE has divided all the listed companies into eight different sectors: Commercial Banks, Development Banks, Finance Companies, Insurance Companies, Manufacturing and Processing Companies, Trading Companies, Hotel and Others. However Table 4.7 depicts subscription state of issue from various institutions belonging to commercial banks, development banks, finance companies, insurance companies and manufacturing and processing companies only, rest of the sectors are excluded as the number of companies within these sectors became small after considering the time frame of the study.

Table 4.7
Subscription Pattern of Securities from Different Sector

S N	Sector	List of Companies	Issue Amt. (Rs. m)	Demand %	Subscrip- tion Times	Result
1	Commercial Banks	Bank of Kathmandu Ltd	45	536.33	5.36	Oversub
		Kumari Bank Ltd	150	811.35	8.11	Oversub
		Lumbini Bank Ltd	150	721.24	7.21	Oversub
		NCC Bank Ltd	210	122.10	1.22	Oversub
		Siddhartha Bank Ltd.	150	165.33	18.65	Oversub
2	Development Banks	Nirdhan Uthan Dev. Bank	3.30	388.12	3.88	Oversub
		Deprox Dev. Bank Ltd.	3.48	259.34	2.59	Oversub
		Gandaki Dev. Bank Ltd	15	397.51	3.98	Oversub
		Gorkha Dev. Bank Ltd.	96	10832	108.32	Oversub
		Annapurna Dev. Bank Ltd	29.40	2194	21.94	Oversub
		Himchuli Bikas Bank Ltd	12	13362	133.62	Oversub
3	Finance Companies	Annapurna Fin. Co. Ltd	2.00	2803.95	28.04	Oversub
		Yeti Finance Co. Ltd.	8	106.09	1.06	Oversub
		Samjhana Fin. Co. Ltd.	10.12	88.93	0.89	Undersub
		Nepal Housing Dev. Fin. Co. Ltd.	20	94.93	0.94	Undersub
		Lalitpur Finance Co. Ltd	9.5	146.75	1.47	Oversub
		Paschimanchal Fin. Co. Ltd.	8	171.80	1.72	Oversub
		Siddhartha Finance Co. Ltd.	8	1771.88	17.78	Oversub
		Alpic Everest Finance Ltd	5	4217.62	42.17	Oversub
		International Leasing & Fin. Co. Ltd	30	2170.67	21.70	Oversub
		United Finance Ltd.	24	1055.73	10.55	Oversub
		Standard Finance Ltd	24	362.54	3.63	Oversub
		Fewa Finance Ltd.	8	2355.00	23.55	Oversub
		Kist Merchant Banking	20	179.60	1.80	Oversub
		Birgunj Finance Ltd	24	704.48	7.05	Oversub
		Prudential Bittiya Sasthan Ltd.	24.50	113.34	1.13	Oversub
ICFC Financial Institution Ltd	24.40	3506.00	35.06	Oversub		
4	Insurance Companies	Neco Insurance Co. Ltd	20	121.05	1.21	Oversub
		Sagarmatha Insurance Co. Ltd	10.20	3322.17	33.22	Oversub
		Nepal Life Insurance Co. Ltd.	50	756.08	7.56	Oversub
		Prudential Insurance Co. Ltd	20	956.08	9.57	Oversub
		Siddhartha Insurance Co. Ltd.	25	6063.00	60.63	Oversub
5	Manufacturing and Processing	Unilever Nepal Ltd.	13.8	653.51	6.54	Oversub
		Birat Shoe Ltd.	5.00	394.30	3.94	Oversub
		Shreeram Sugar Mills	46.5	52.90	0.53	Undersub
		Leatherage Bansbari Tennery	15	71.15	0.710	Undersub
		Himalayan Distillery Ltd.	173.46	10.57	0.106	Undersub

Source: Annual Reports of SEBON

As revealed from Table 4.7, 6 sampled commercial banks the IPO of Siddhartha Bank got the highest demand with subscription times of 18.65 and IPO of NCC Bank experienced lowest demand with just 1.22 Times. Yet all the sampled firms had subscription times more than one indicating all the issues were oversubscribed.

Similarly 6 sampled companies from development bank sector had subscription times more than 3 suggesting IPO of development banks were also oversubscribed. The subscription time of Himchuli Bikas Bank is very high of 133.62 times. It is the highly demanded company during study period.

In case of finance company sector, among 16 sampled companies only 2 Companies: Nepal Housing Dev. Fin. Co. (0.94) and Samjhana Finance Co (0.89) had subscription times less than 1, indicating that IPO of the company was undersubscribed. All other companies' issues had subscription times of greater than one; hence all of those issues marked as high as 42.17 Times (Alpic Everest Finance) and as low as 1.06 times (Yeti Finance).

As far as insurance companies are concerned, out of 5 sampled companies, Neco Insurance Company had lowest subscription times of 1.21 while the Siddhartha Insurance Company had the highest subscription times of 60.63. However, all the sampled issues had subscription times of greater than one, so all the IPOs from insurance company sector were also oversubscribed.

But in the case of manufacturing and processing sector only 2 out of 5 sampled issues, Unilever Nepal Ltd (6.54) and Birat Shoe (3.94) had experienced oversubscription.

However rest 3 sampled issues Viz. Issues from Bansbari Tannery and shoe, Sri Ram Sugar Mills and Himalayan Distillery had subscription times less than 1, indicating IPO

of these companies were undersubscribed. The subscription times for these companies were 0.71, 0.53 and 0.106 times respectively.

Hence in aggregate, all IPOs of commercial banks, development banks and insurance company sector were oversubscribed, indicating that IPO of these sectors were highly appreciated and demanded by general public. Similarly, in the case of finance company sector, only 2 issues were undersubscribed rest of the issue is oversubscribed. Implicating that the IPOs from this sector also received good response from public. Finance company sector is in large frame as compare to other four sector, so it could be asserted that in general, IPO from financial sector received good response from general public leading to oversubscription of the issues although few companies issue were undersubscribed during the study period. In contradiction, manufacturing and processing sector is the only sector representing Non-financial sector had disappointing response from the public to its issues. Most of the IPO were highly undersubscribed.

Although the number of sampled issues representing various sectors may be small, yet might just be good enough to render hint on why the number of IOPs are increasing from financial sector while it is exactly opposite for non-financial Sector.

4.1.8 Analyzing Underpricing of IPOs in Nepal

A large number of researches conducted in different part of the world over a different period of time have established that underprice does exist in IPO market, in this context, the study's concern is to see whether underpricing exist in Nepalese IPO or not. For the purpose of identifying the level of underpricing or initial return of the issues, J.R. Ritter's (1984) model has been used. In the model, initial return or level of underpricing is calculated by subtracting offered price from first trading day's closing price of the issue and then dividing it by the offered price.

Table 4.8**Underpricing of IPO in Nepal**

S.N.	Listing Date	Company Name	Offer Price	First Day's Closing Price	Initial Return %
1	09/22/1994	Ann. Finance Ltd	100	366	266
2	09/22/1994	Unilever Nepal Ltd.	100	485	385
3	01/23/1997	Yeti Finance Ltd	100	75	-25
4	04/10/1997	Universal Finance Ltd.	100	50	-50
5	07/17/1997	Bank of Kathmandu Ltd.	100	171	71
6	03/30/1998	NECO Insurance	100	99	-1
7	04/01/1998	Leatharage Bansbari	100	100	0
8	10/08/1998	Lalitpur Finance Co. Ltd	100	112	12
9	04/18/1999	Sri Ram Sugar Mills	100	50	-50
10	05/20/1999	Pashchimanchal Finance Co.	100	110	10
11	03/15/2001	Sagarmatha Insurance Ltd.	100	300	200
12	06/20/2001	Siddhartha Finance	100	220	120
13	12/10/2002	Alpic Everest Finance Ltd.	100	264	164
14	26/11/2002	International Leasing & Fin.	100	126	26
15	26/11/2002	United Finance Ltd.	100	123	23
16	01/22/2003	Nepal Life Insurance Co. Ltd	100	145	45
17	03/21/2003	Himalayan Distillery	100	231	131
18	04/24/2003	Nirdhan Utthan Bank Ltd	100	100	0
19	03/02/2004	Std. Finance Ltd	100	122	22
20	07/29/2004	Kumari Bank Ltd.	100	235	135
21	10/11/2004	Lumbini Bank Ltd.	100	134	34
22	10/11/2004	Prudential Insurance Co. Ltd.	100	150	50
23	28/12/2004	Kist Merchant Bank	100	100	0
24	03/20/2005	NCC Bank Ltd.	100	110	10
25	03/31/2005	Birgunj Finance Ltd.	100	103	3
26	05/29/2005	Diprox Dev. Bank Ltd.	100	120	20
27	02/23/2006	Prudential Bittiya Sasthan	100	125	307
28	02/24/2006	Siddhartha Bank Ltd.	100	307	115
29	06/26/2006	Gandaki Dev. Bank Ltd.	100	115	125
30	06/06/2007	Gorkha Dev Bank Ltd.	100	450	350
31	08/01/2007	Annapurna Dev. Bank Ltd.	100	150	50
32	09/18/2007	Himchuli Dev. Bank Ltd.	100	500	400
33	04/24/2008	ICFC Financial Institution	100	350	250
34	03/11/2008	Siddhartha Insurance Co. Ltd.	100	300	200
Average Equally Weight Mean Return					87.56

source: Annual Reports of SEBON

As seen in table 4.8, all the sampled companies had offered their issue at face value of ordinary share i.e. Rs.100, although there is provision to issue at premium (if condition meet). Neither of the companies had done so. As shown in table 4.9, most of the issues end of first day of trading at price higher than their offered price indicating that they were underpriced at the time of their issue.

Out of sampled 34 issues, 4 of the issues at the end of their first day trading at the price lower than their offer price suggesting that they were overpriced at the time of IPO. Similarly, 3 issues have their first trading day's closing price equal to their offered price so they are correctly priced at the time of IPO if we consider first day closing price and rest of 27 sampled issues have first trading day's closing price higher than their offered price indicating underpricing. among these underpriced issues, issue from Himchuli Development Bank has the highest initial return of 400% (highest underpricing issue) while issue Birgunj Finance Co. Ltd. has the lowest initial return of 3% (lowest underpriced issue). Hence, average initial return (equally weighted issue) for Nepalese stand for 87.56%. Looking at the underpricing of IPO in other markets, Gasbarro (2003) found that average first day underpricing of 10.6% Mauritius. Similarly, J. R. Ritter (1998) revealed that Singapore had average initial return of 31.4%, India of 35.3%, Taiwan 45% and Thailand of 58.1%. All these figures suggest that average first day return of IOP in Nepal has higher initial return than other Asian countries' initial return. However, the fluctuation in first day stock price return of Nepalese IPOs seemed to be quite higher indicating that the IPO first day returns of issue from Nepalese companies are more variable.

4.1.9 Sector wise Analysis of IPO Underpricing in Nepal

Table 4.9 depicts information reflecting different aspects of IPO underpricing of five sectors viz: commercial banks, development banks, finance companies, insurance companies and manufacturing and processing companies.

Table 4.9
Sector-wise Analysis of IPO Underpricing

S N	Sector	List of Companies	First Day Initial Return (%)	Average Initial Return (%)	S. D. (%)	C.V. (%)
1	Commercial Banks	Bank of Kathmandu Ltd Kumari Bank Ltd Lumbini Bank Ltd NCC Bank Ltd Siddhartha Bank Ltd.	71 135 34 10 207	91.4	71.55	78.28
2	Development Banks	Nirdhan Uthan Dev. Bank Deprox Dev. Bank Ltd. Gandaki Dev. Bank Ltd Gorkha Dev. Bank Ltd. Annapurna Dev. Bank Ltd Himchuli Bikas Bank Ltd	0 20 15 350 50 400	139.16	168.03	120.7
3	Finance Companies	Annapurna Fin. Yeti Finance. Nepal Housing Dev Lalitpur Finance Paschimanchal Fin. Siddhartha Finance Alpic Everest Finance International Leasing United Finance. Standard Finance Fewa Finance Kist Merchant Banking Birgunj Finance Prudential Bittiya Sasthan ICFC Financial Institution	266 (4) (50) (25) (12) 120 164 26 23 22 65 0 3 25 250	58.2	94.37	162
4	Insurance Companies	Neco Insurance Co. Ltd Sagarmatha Insurance Nepal Life Insurance Prudential Insurance Siddhartha Insurance	(1) 200 45 50 200	98.8	84.52	85.5
5	Mnf. and Processing Companies	Unilever Nepal Shreeram Sugar Mills Leatherage Bansbari Himalayan Distillery	385 (50) 0 131	116.5	168.52	144.65

Source: Appendix 2

Table 4.9 revealed that, among five sampled companies from commercial bank sector the highest initial return was 207% for IPO of Siddhartha Bank Ltd. and the lowest initial return was 10% of NCC Bank Ltd. The average initial return (equally weighted issue) for the sector was 91.4% and standard deviation was 71.55%.

Similarly, out of 6 sampled issues from development bank sector one company did not provide any return while the others yielded some initial returns at the time of IPO. Among the sampled companies IPO of Himchuli Bikas Bank provide highest initial return of 400%.The average initial return (equally weighted issue) for the sector was 139.17% and standard deviation was 168.03.

As far as finance companies are concerned, 4 issues out 15 issues had negative return. The initial return of sampled issues varied from 3% to 266%. The average initial return (equally weighted issue) for the sector was 58.2% and standard deviation 94.37%.

In the case of insurance company sector among 5 sampled companies, Neco Insurance Company Ltd. had negative return of 1%. All other remaining companies had positive initial return. The average initial return (equally weighted issue) for this sector was 98.8% and standard deviation 84.52%.

Finally, from manufacturing and processing sector's perspective, the initial return of its sampled issues ranged from -50% to 385%. The average initial return for the sector was 116.5%. This sector was highest standard deviation among five sectors. The standard deviation for this sector was 168.52%.

Now from the coefficient of variation's (CV) perspective, the lowest C.V. is of the commercial bank sector which was 78.28%, followed by insurance company sector with C.V. 85.5%, finance company with C.V. 162%, manufacturing and processing sector with C.V. 144.65% and finally, development bank sector with C.V. of 162% respectively. This indicates that initial return for the IPO from commercial banking sector has the lowest degree of variation and lowest risk as compare to other remaining sectors. On other hand average return from development banking sector has highest degree of variation and highest degree of risk. Thus it can be summarized that from C.V. perspective commercial banking sector carries lowest risk in its average initial return while development bank sector's initial return carries the highest risk among all five sectors.

4.1.10 IPO Underpricing and Subscription Pattern

Despite the fact that security regulation have made provision allowing issuing companies to offer their IPOs at premium (if condition meet), al the sampled companies were found

to issue at face value of Rs100. Issue price is not field where merchant bankers could play in Nepalese IPO market. Considering all these facts, it is worth analyzing where there exists any relation between IPO underpricing and subscription pattern in Nepalese IPO.

Table: 4.10
IPO Underpricing and Subscription Pattern of Securities

S N	Sector	List of Companies	Subscription Times	Subscription Pattern	First Day Initial Return (%)
1	Commercial Banks	Bank of Kathmandu	5.36	Oversub	71
		Kumari Bank	8.11	Oversub	135
		Lumbini Bank	7.21	Oversub	34
		NCC Bank	1.22	Oversub	10
		Siddhartha Bank.	18.65	Oversub	207
2	Development Banks	Nirdhan Uthan Dev. Bank	3.88	Oversub	0
		Deprox Dev. Bank	2.59	Oversub	20
		Gandaki Dev. Bank	3.98	Oversub	15
		Gorkha Dev. Bank	108.32	Oversub	350
		Annapurna Dev. Bank Ltd	21.94	Oversub	50
		Himchuli Bikas Bank	133.62	Oversub	400
3	Finance Companies	Annapurna Fin. Co.	28.04	Oversub	266
		Yeti Finance Co.	1.06	Oversub	(4)
		Nepal Housing Dev. Fin.	0.94	Undersub	(50)
		Lalitpur Finance Co.	1.47	Oversub	(25)
		Paschimanchal Fin. Co.	1.72	Oversub	(12)
		Siddhartha Finance Co.	17.78	Oversub	120
		Alpic Everest Finance	42.17	Oversub	164
		International Leasing	21.70	Oversub	26
		United Finance	10.55	Oversub	23
		Standard Finance	3.63	Oversub	22
		Fewa Finance	23.55	Oversub	65
		Kist Merchant Banking	1.80	Oversub	0
		Birgunj Finance	7.05	Oversub	3
Prudential Bittiya Sasthan	1.13	Oversub	25		
ICFC Financial Institution	35.06	Oversub	250		
4	Insurance Companies	Neco Insurance Co.	1.21	Oversub	(1)
		Sagarmatha Insurance Co.	33.22	Oversub	200
		Nepal Life Insurance Co.	7.56	Oversub	45
		Prudential Insurance Co.	9.57	Oversub	50
		Siddhartha Insurance Co.	60.63	Oversub	200
5	Manufacturin g and Processing	Unilever Nepal	6.54	Oversub	385
		Shreeram Sugar Mills	0.53	Undersub	(50)
		Leatherage Bansbari	0.710	Undersub	0
		Himalayan Distillery	0.106	Undersub	131

Source: Appendix 3

From table 4.10, in case of commercial banking sector, all 5 sampled companies issues were oversubscribed with subscription times 1.22 (NCC Bank), 5.36 (Bank of Kathmandu), 7.21 (Lumbini Bank), 8.11 (Kumari Bank) and 18.65 (Siddhartha Bank) respectively. Noticeable factor of this sector is that the NCC Bank received lowest subscription times and issue yield lowest initial return. Similarly, Issue from Siddhartha Bank received highest subscription times and highest initial return.

Similarly, all the sampled issue of development bank sector received oversubscription. Himchuli Development Bank had highest subscription times of 133.62 and it had also highest initial return of 400%. Although, Nirdhan Uthan Dev. Bank had subscription times 3.88, Its initial return is 0% i. e. it was correctly priced at the time of IPO. The remaining 4 companies: Gandaki Dev. Fin. Co., Gorkha Dev. Bank, Annapurna Dev. Bank and Deprox Dev. Bank received the subscription times 3.98, 108.32, 21.94 and 2.59 with initial return of 15%, 35%, 50% and 20% respectively.

As for the finance companies sector, Annapurna Finance, Alpica Everest, Fewa Finance, Siddhartha Finance and ICFC Financial Ins. received phenomenal response to their IPO with subscription times 28.04, 42.17, 23.55, 17.78 and 35 respectively. These issues were the highest subscription times of finance companies sector. These issues were produced high first day return of 266%, 164%, 65%, 120% and 250% respectively. Out of 15 sampled companies, only one issue from Nepal Housing and Development Finance Company was undersubscribed and it yielded negative initial return. Moreover, 3 of the oversubscribed issues also yielded negative initial return. Other remaining 7 companies issues were just marginally oversubscribed and initial return of these companies were in the range of 3% to 26% by comparing with first day closing price.

In case of Insurance companies sector, although all 5 sampled issues were oversubscribed, one of the issues yielded negative initial return. However, the issue that produces negative return was very marginal and also did receive very lowest oversubscription with just 1.21 times. Similarly Sagarmatha Insurance and Siddhartha Insurance issues were highly oversubscribed with subscription times of 33.32 and 30.63 and yielded high initial return of 200% each. Other 2 remaining companies Nepal Life Insurance and Prudential Insurance had moderate subscription times of 7.56 and 9.57 with initial return of 45% and 50% respectively.

Finally, in case of manufacturing and processing company sector, out of 4 sampled companies only one company Unilever Nepal Ltd IPO was oversubscribed with high initial return of 385% but rest 3 companies' IPO were undersubscribed. Although the Himalayan Distillery's IPO was highly undersubscribed with subscription time 0.1, Its First day initial return was 131%. The initial return of Sri Ram Sugar Mills was negative of 50% and the initial return of Bansbari latherage and Tannery was of 0% i.e. it was correctly priced at the time of IPO by comparing with first day closing price.

All these analyze indicate that the IPO for those companies whose issue were oversubscribed tend to have at least some positive initial return even though few sampled issues may contradict it. Similarly the companies whose IPOs were oversubscribed tends to have negative or no initial return at all but in the most of the cases it is seen that the subscription pattern and initial return were highly positively correlated by 0.74.

4.1.11 Analysis of Price Change on Offered price on First, Second and Third Day of Trading.

On earlier part it has been seen that investors normally gain, if they prefer to sell their IPO share on first day of trading owing to underpricing.

However, in this section it has been attempted to analyze where investors would have to gained or lost if they would have decided to sell their IPO shares on first day of trading instead to sell them on second day or third day of trading.

Table 4.11
Price Changes on Offered Price on 1st, 2nd and 3rd Day of Trading

S N	List of Companies	Offered Price (Rs.)	Changes in Offered Priced on 1st Day trading (%)	Changes in Offered Priced on 2nd Day trading (%)	Changes in Offered Priced on 3rd Day trading (%)
1	Bank of Kathmandu	100	71	67	60
2	Kumari Bank	100	135	134	142
3	Lumbini Bank	100	34	29	25
4	NCC Bank	100	10	15	27
5	Siddhartha Bank	100	207	185	183
6	Nirdhan Uthan Dev	100	0	0	0
7	Deprox Dev. Bank	100	15	15	15
8	Gandaki Dev. Bank	100	350	345	345
9	Himchuli Bikas Bank	100	50	53	56
10	Gorkha Dev. Bank	100	400	410	411
11	Annapurna Dev. Bank	100	20	18	20
12	Annapurna Fin. Co	100	266	214	190
13	Yeti Finance Co	100	(4)	(9)	(7)
14	Nepal Housing Dev. Fin.	100	(50)	(49)	(45)
15	Lalitpur Finance Co.	100	(25)	(32)	(35)
16	Paschimanchal Fin. Co.	100	12	12	11
17	Siddhartha Finance Co.	100	120	131	142
18	Alpic Everest Finance	100	164	155	162
19	International Leasing	100	26	27	27
20	United Finance	100	23	25	22
21	Standard Finance	100	22	14	9
22	Fewa Finance	100	65	60	68
23	Kist Merchant Banking	100	0	5	7
24	Birgunj Finance Ltd	100	3	3	8
25	Prudential Bittiya Sasthan	100	25	60	52
26	ICFC Financial Institution	100	250	257	264
27	Neco Insurance Co.	100	(1)	5	6
28	Sagarmatha Insurance Co.	100	125	110	89
29	Nepal Life Insurance Co.	100	45	38	28
30	Prudential Insurance Co.	100	50	52	53
31	Siddhartha Insurance Co.	100	200	206	225
32	Unilever Nepal	100	365	300	278
33	Shreeram Sugar Mills	100	(50)	(50)	(55)
34	Himalayan Distillery	100	231	110	105
	Average Changes		92.73	83.28	82.51

Source: Appendix 3

As seen from table 4.11, out of 34 sampled companies' IPO, 16 companies had shown declination on the share price from first day of trading as against third day of trading. It means those shareholders who would have preferred to sell their IPO shares on third day of trading would have lost some share price comparison to those shareholder's who would have sold their share on the first day of trading.

Similarly, 3 out of 34 issues had shown no change in their share price on that day of trading. It means it would not have made any differences to shareholders whether they would have sold their share on either first day or third day of trading. Also issue from 15 sampled companies has shown inclination on their share price on third day of trading as compared to their first day of trading. It means those investors who would have sold their IPO share on third day of trading would have been better rather than selling them on first day of trading if share price are concerned.

The most intriguing aspect of the study has been the sharp decline in share price on IPO of three of the sampled companies which had provided high return on first day of trading Viz: Annapurna Finance, Unilever Nepal and Himalayan Distillery; These companies yielded high return of 266%, 385% and 131% respectively on their first day of trading. However these companies third day closing price were sharply declined to 190%, 278% and 5% respectively. It means those shareholders who would have sold their IPO shares on third day of trading would have lost considerably as against those who would have sold their IPO share on first day of trading.

Table 4.11 also reveals that as far as changes on share price on first, second, and third day of trading are concerned, its decline continuously. It is seen that average share price (equally weighted) decreased from 92.73% (first day return) to 83.28% second day return. It further decreased to 82.51% on third day of trading. The analysis renders the tentative view that investors are better off with selling their IPO share at first day of trading rather than selling them on second day or third day of trading. It means Nepalese

IPO in short run (at least third day of trading) does under perform as far as their share price return are concerned.

4.2 Primary Data Analysis

Along with secondary data, primary data are taken to justify the study on the topic. Questionnaire method was implemented for this purpose. In questionnaire method, eleven questions were put up by means of copies of questionnaire. Categorically, the questions raised multiple choice questions and open ended question. The responses of public have analyzed as follows:

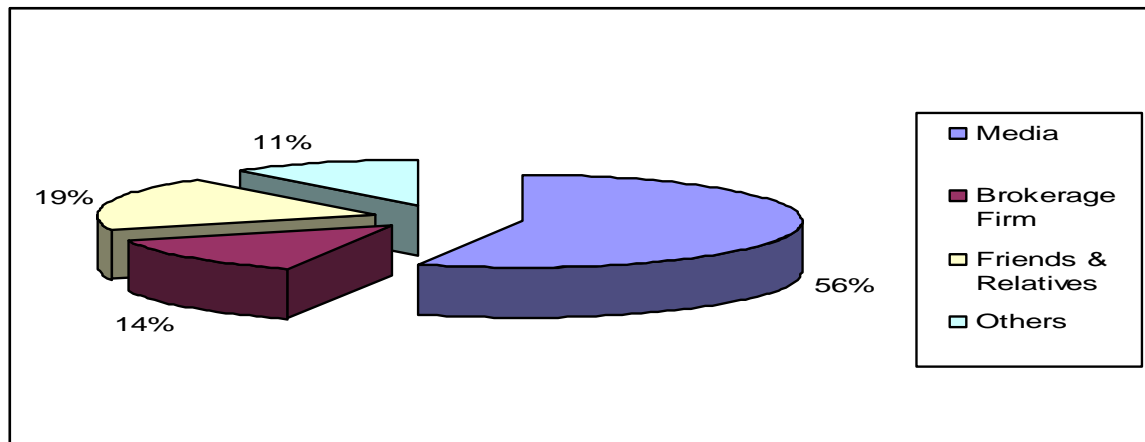
Sources of Idea/Information about Primary Issue of Securities

With respect the idea/information about primary issue securities, the questionnaires was asked to the general public among them majorities of respondents (56%) replied that they get information through media, 19% of them know through friends and relatives, 14 of them through issue brokerage firm and rest 11% know through other sources like stock brokerage firm, senior employee of the office and market.

Table 4.12
Sources of Information about Primary Issue of Securities

Query	Description		Number	Percentage
Sources of Information about Primary Issue of Securities (Related to general investors)	a.	Media	50	56
	b.	Brokerage firm	13	14
	c.	Friends and relatives	17	19
	d.	Others	10	11
Total			90	100

Figure 4.6
Sources of Idea/Information about Primary Issue of Securities



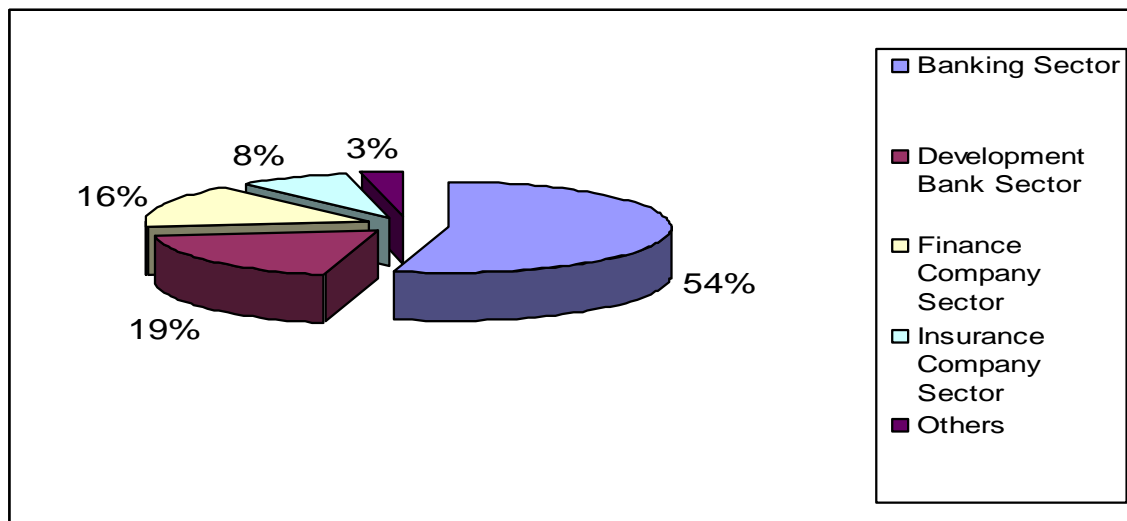
Preferred Sector for Investment in Initial Public Offerings

In relation to the preferred sector for investment, data was collected from general investors, most of respondents (54%) were interested in banking sector, 19% were interested in development bank sector, 16% were interested in finance company sector, 8% were interested in insurance companies sector and rest 3% were interested in others like manufacturing and processing, trading company sector.

Table 4.13
Preferred Sector by Public at the time of IPO

Query	Description	Number	Percentage
Preferred sector by public (Related to general investors)	a. Banking Sector	49	54
	b. Development Bank Sector	17	19
	c. Finance Company Sector	14	16
	d. Insurance Company Sector	7	8
	e. Others	3	3
Total		90	100

Figure 4.7
Preferred Sector for Investment in IPO



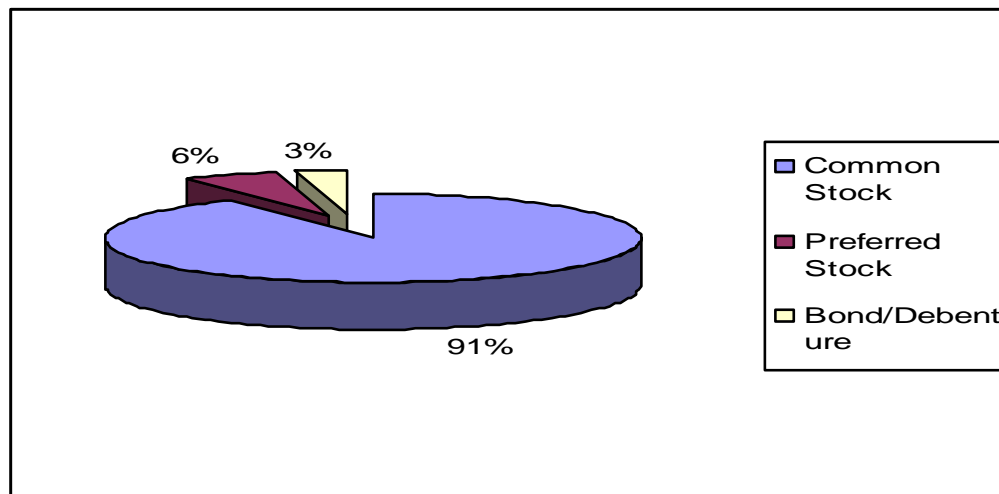
Preferred Securities for Investment in IPO

In relation to the preferred Securities for investment, almost all general investors (91%) replied that they preferred common stock at the time of IPO, 6% said they prefer preference share and only 3% like to invest in corporate bond/debentures.

Table 4.14
Preferred Securities for Investment

Query	Description		Number	Percentage
Preferred Securities for investment (Related to general investors)	a.	Common Stock	82	91
	b.	Preferred Stock	5	6
	c.	Bond/Debenture	3	3
Total			90	100

Figure 4.8
Preferred Securities for Investment



Awareness about Performance of Issuing Company

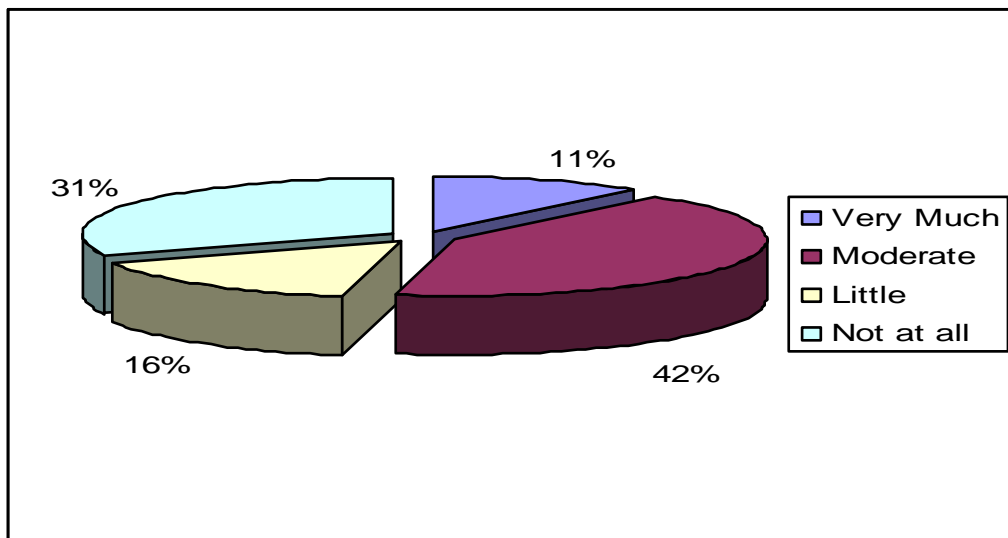
In context to the awareness about performance of issuing company, 42% of the general investors replied that they have moderate knowledge about the issuing company, 31% of the general investors replied that they have no knowledge about the performance of the issuing company. 16% of the general investors replied that they have little knowledge

about the performance of the issuing company and rest 11% of general investors replied that they have good knowledge about issuing company.

Table 4.15
Awareness about Performance of Issuing Company

Query	Description		Number	Percentage
4. Awareness about Performance of Issuing Company (related to general investors)	a.	Very Much	10	11
	b.	Moderate	38	42
	c.	Little	14	16
	d.	Not at all	28	31
Total			90	100

Figure 4.9
Awareness about Performance of Issuing Company



Beneficiaries of Initial Public Offerings

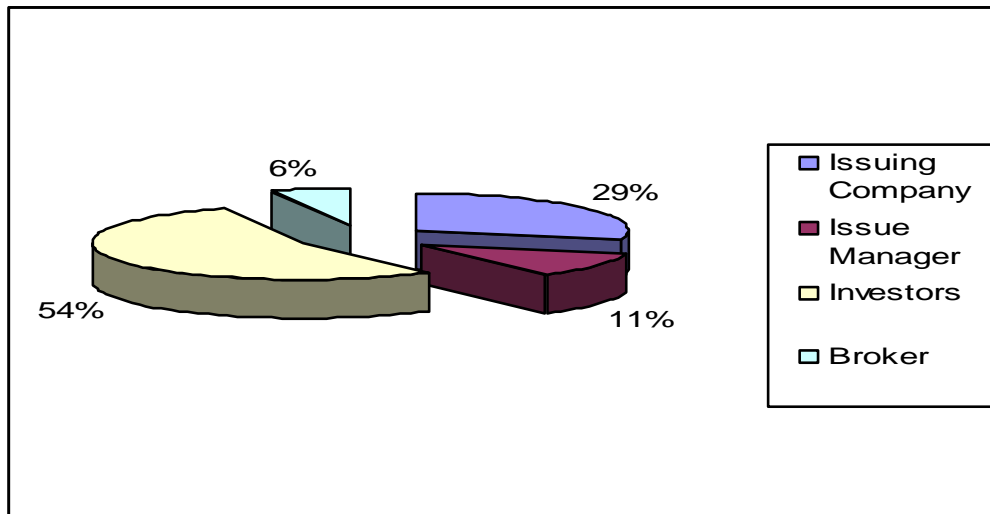
with respect to the beneficiaries of IPO, majorities of the respondents (54%) replied that beneficiaries of IPO are investors. 29% of respondents replied in favor of issuing companies, 11% of respondents replied that beneficiaries is non other than issue

companies, and in the remaining 6% respondent's view the beneficiaries of IPO is stock broker.

Table 4.16
Beneficiaries of initial public offerings

Query	Description		Number	Percentage
Beneficiaries of initial public offerings (related for all)	a.	Issuing Company	26	29
	b.	Issue Manager	10	11
	c.	Investors	49	54
	d.	Broker	5	6
Total			90	100

Figure 4.10
Beneficiaries of Initial Public Offerings



Characteristics that help to invest at the time of IPO

Regarding to the public view that what characteristics help to invest in IPO, most of respondents (40%) thought that main reason is price appreciation, 27% of the respondents' view was due to dividend (cash and stock), 24% respondents replied that the motivating factor is right share, and few respondents (9%) view is due to no brokerage commissions.

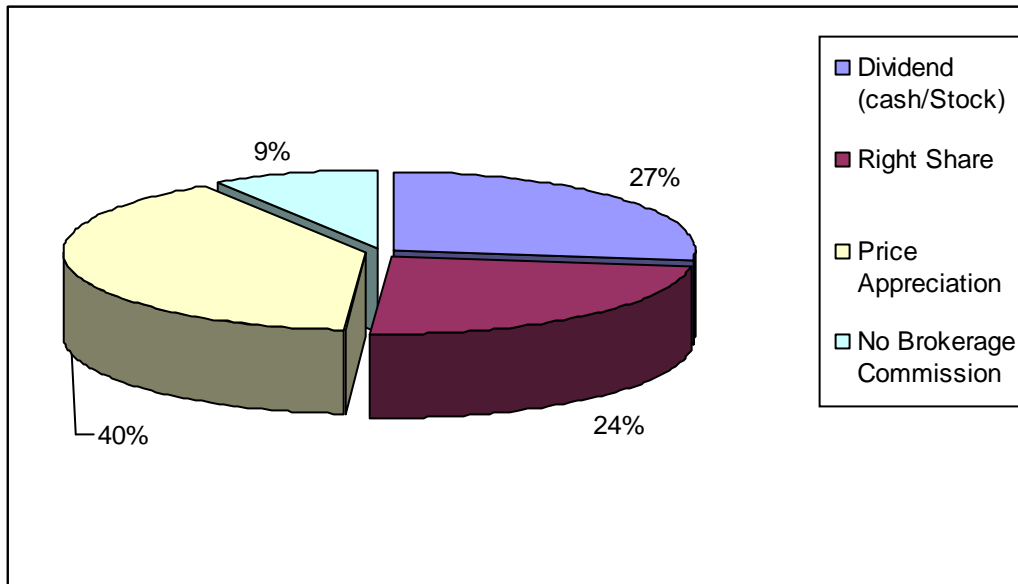
Table 4.17

Characteristics that help to invest at the time of IPO

Query	Description		Number	Percentage
Characteristics that help to increase subscription at the time of IPO (related to all)	a.	Dividend (cash/Stock)	24	27
	b.	Right Share	22	24
	c.	Price Appreciation	36	40
	d.	No Brokerage Commission	8	9
Total			90	100

Figure 4.11

Characteristics that help to invest in IPO



Bases of Decision for Investment

General investors were asked about the bases of decision for investment in IPO. majorities (50%) of respondents replied that decision for investment is based on friends and relative advices, 21% of the respondents preferred to take decision for investment on the basis of profitability of company, 16% of respondents used to run behind the market whim to take decision for investment and only 13% of the respondents' investment decision was based on market index.

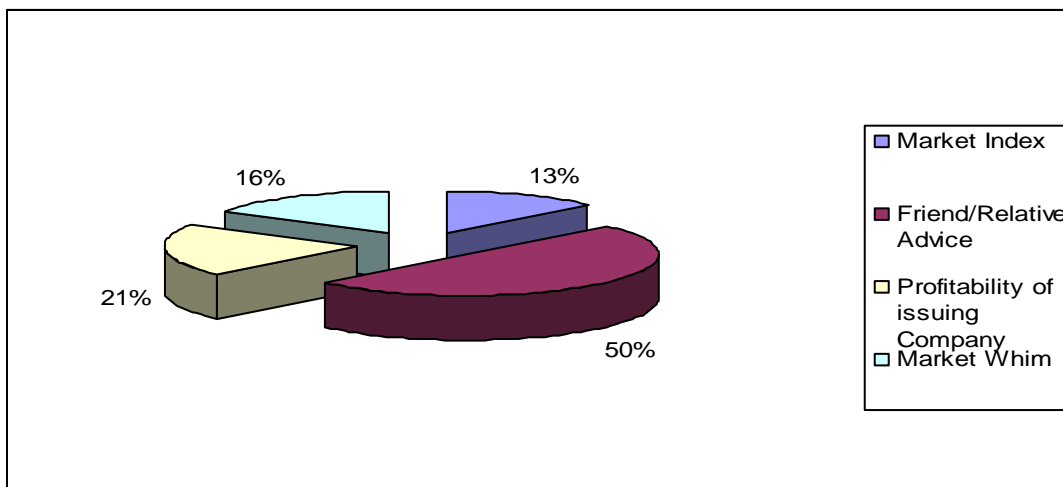
Table 4.18

Bases for decision for investment in IPO

Query	Description		Number	Percentage
Bases for decision for investment in IPO (Related to general investors)	a.	Market Index	12	13
	b.	Friend/Relative Advice	45	50
	c.	Profitability of issuing Company	19	21
	d.	Market Whim	14	16
Total			90	100

Figure 4.12

Bases of Decision for Investment



Reason for Most of the Companies not likes to go for IPO

The objective of this question is to know how the public think about the why the companies performing very well in the market do not like to go to public for this questionnaires was distributed to the officers of regulatory bodies related to IPO and officers of issue managers, 38% of the respondents think that most of the company do not like to go to issue their share to public because of sharing profit to public, 20% of the respondents think after issuing the share to the public management become complex, in 22% view the major cause is the enough fund and 18% of the respondents replied that companies do not like obligation from mass shareholders.

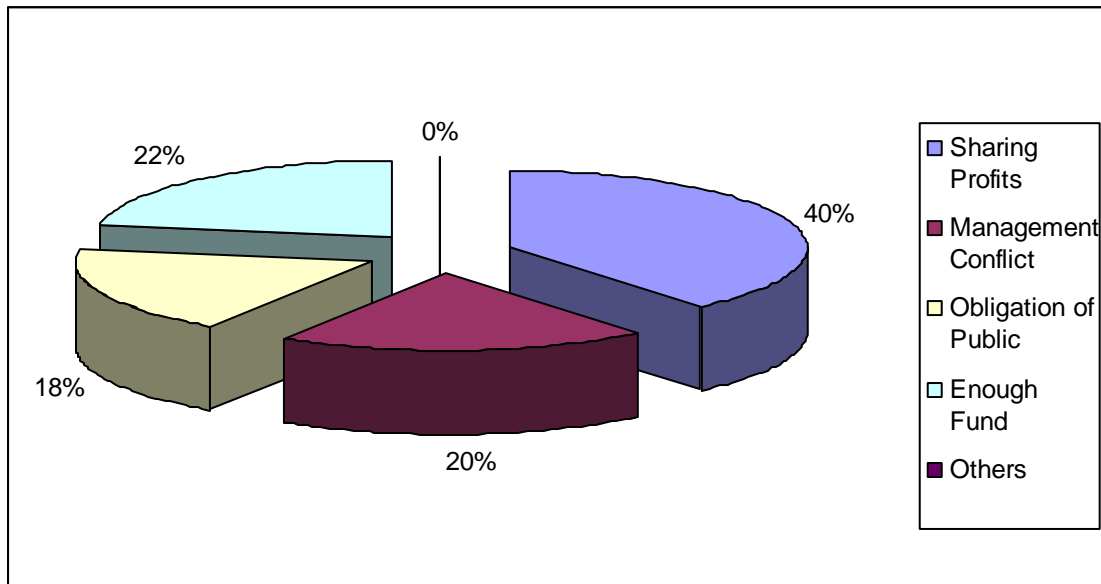
Table 4.19

Reason for most of the companies not likes to go for IPO

Query	Description		Number	Percentage
Reason for most of the companies not like to go for IPO (Related to company's officials)	a.	Sharing Profits	35	38
	b.	Management Conflict	18	20
	c.	Obligation of Public	17	18
	d.	Enough Fund	20	22
	e.	Others	0	0
Total			90	100

Figure 4.13

Reason for Most of the Companies not likes to go to IPO



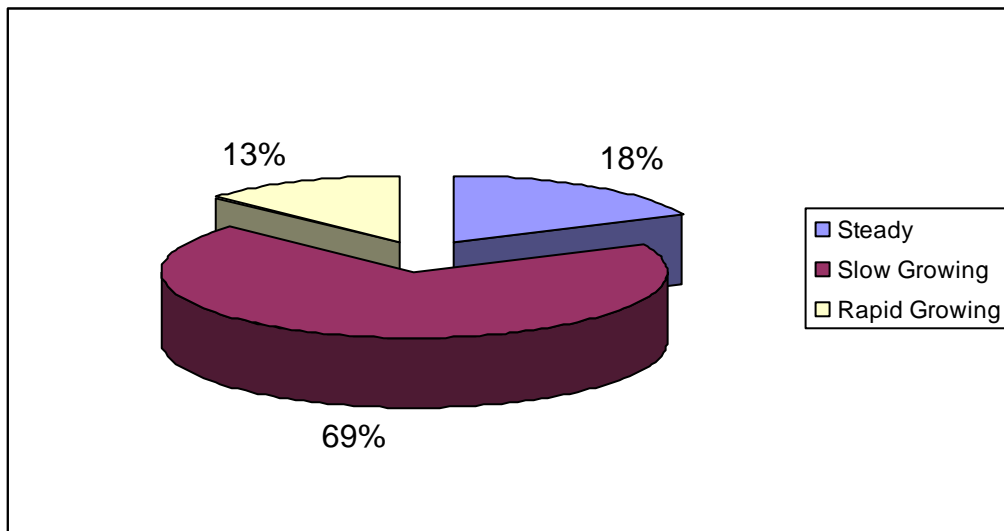
Condition of Nepalese Primary Market

Company's officials were asked about condition of Nepalese primary market Very large portion of respondents i.e. 69% replied that Nepalese primary market is slowly growing, 18% of the respondents replied that Nepalese primary market in steady stage i.e. it is constant and only 13% respondents replied that it is rapidly growing.

Table 4.20
Condition of Nepalese primary market.

Query	Description		Number	Percentage
Condition of Nepalese primary market (Related to all)	a.	Steady	16	18
	b.	Slow Growing	62	69
	c.	Rapid Growing	12	13
Total			90	100

Figure 4.14
Condition of Nepalese Primary Market



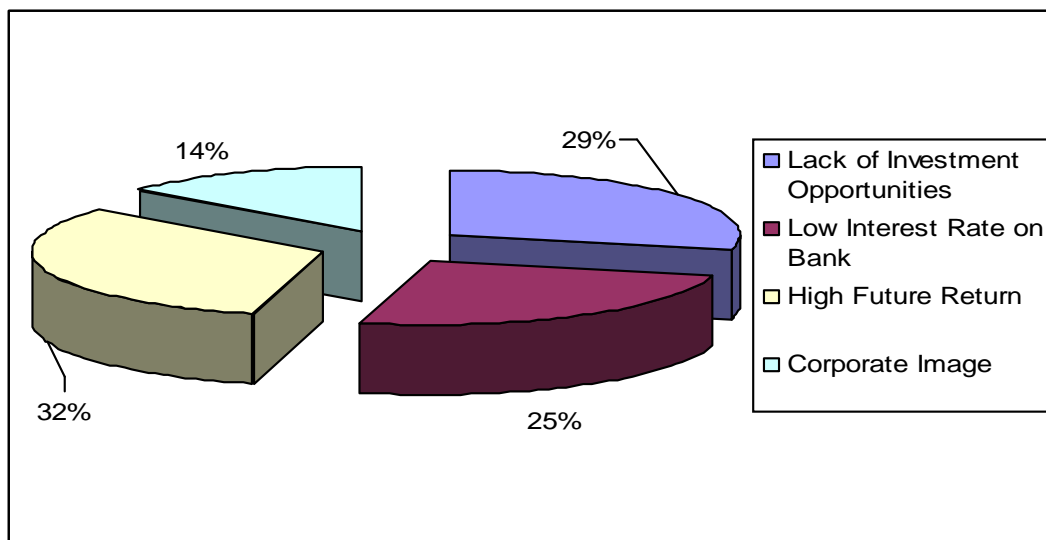
Cause of Oversubscription in IPO

In relation to the cause over application of primary issue of securities, 32% of respondents said that main reason of oversubscriptions his due to high future return form IPO, 29% of respondents stated that they have lack of investment opportunities in other sectors, 25% of respondents answer was low interest rate on bank deposit, and only 14% of public view towards oversubscription was due to corporate image.

Table 4.21
Cause of oversubscription in IPO

Query	Description		Number	Percentage
Cause of oversubscription in IPO (related to company's officials)	a.	Lack of Investment Opportunities	26	29
	b.	Low Interest Rate on Bank	22	25
	c.	High Future Return	29	32
	d.	Corporate Image	13	14
Total			90	100

Figure 4.15
Cause of Oversubscription in IPO



Problem of Nepalese Primary Market

With respect to the major problem of Nepalese primary market, majorities of the respondents (51%) replied that it is due to political instability, 17% of them replied that it was due to unconfident investors, 13% respondent think that it was due to lack of supervision from regularity bodies, 10% of respondent pointed the slow privatization process and 9% of the respondents replied that it is due to unfavorable microeconomics condition of the country.

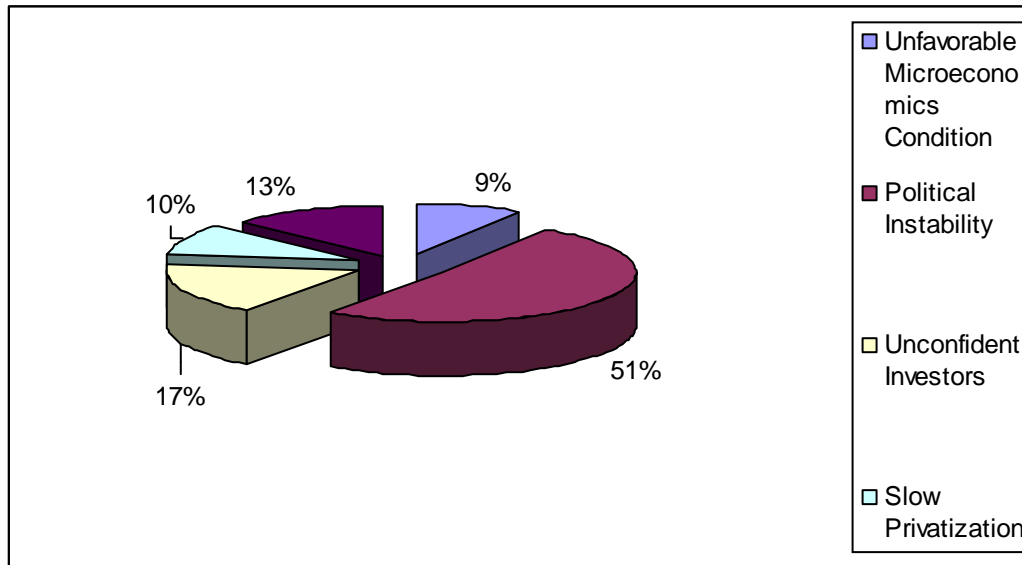
Table 4.22

Problem of Nepalese primary market

Query	Description		Number	Percentage
Problem of Nepalese primary market (for all)	a.	Unfavorable Microeconomics Condition	8	9
	b.	Political Instability	46	51
	c.	Unconfident Investors	15	17
	d.	Slow Privatization	9	10
	e.	Weak Supervision from Regulatory Bodies	12	13
Total			90	100

Figure 4.16

Problem of Nepalese Primary Market



4.3 Major Findings

The study was set out to analyze subscription of securities in IPO in Nepal. The data which were obtained through primary and secondary sources were analyzed using different statistical tools and models. The major findings are;

1. The amount of issues offered has increased from Rs.244.40 m in FY 1993/94 to Rs.9961.85 m in FY 2007/08. The compound growth rate of amount of issues offered is found to be 28.04%. During the period, the number of issues offered increased from 16 in FY 1993/04 to 63 in FY 2007/08. Similarly the average size of issues offered increased from Rs.15.28 m in FY 1993/94 to Rs.158.12 m in 2007/08. It has compound growth rate of 16.86%.
2. The highest amount of issues approved by SEBO/N for the public subscription during the FY 2007/08 of Rs.9961.85 m where lowest amount of issue approved for the public subscription is in FY 1994/95 of Rs.173.96 m. Similarly, the highest no. of issue approved by SEBO/N is 63 in FY 2007/08 and lowest no. of issue is 5 in FY 1996/97.
3. Among 8 sectors, commercial banking sector has accounted for 49.78% of total paid up capital while second highest contributor finance company sector has accounted for 14.65% of total paid up capital. Again, financial sectors that comprises commercial banks, development banks, finance companies and insurance companies has accounted for 228 offers (out of 259) while non-financial sector that comprises manufacturing and processing, trading companies, hotels and others has accounted for only 31 offers. Similarly, approximately 15 issues have been offered by financial sector as against only 2 offers from non-financial sector in each fiscal year during the study period.
4. As far as instrument-wise offer is concerned, out of 259 offers, 138 (53.27%) offers have been ordinary shares, while 102 offers (39.38%) from right share, 14 offers (5.41%) from debentures and 5 offers (1.93%) from preference share. Moreover, from issue amount perspective, ordinary share has accounted for 27.08% of total amount, right share has accounted for 46.70%, debenture has accounted for 23.34% and preference share has accounted for 2.90% of total amount.
5. During the study period 259 issues has offered their securities through IPO to public. Out of which 139 (53.66%) issues offered has received oversubscription. Similarly, 88 (33.97) Issue offered has received undersubscription while only 14 (5.40%) issue offered has received fully subscription and 18 (6.94%) issue offered has unknown. Furthermore, sector wise analysis of subscription pattern revealed

that an issue from commercial banks, development banks and insurance companies has been oversubscribed. Also, most of the issues from finance companies have been oversubscribed. But issues from manufacturing and processing sector have mostly been undersubscribed. Among the listed companies, Himchuli Bikas Bank's IPO is the most demanded by public in the history of capital market. Its subscription time was 133.64. Similarly, Himalayan Distillery's IPO is least demanded by public. Its subscription times was only 0.106.

6. By using J. R. Ritter's (1984) model, it has been found that average level of underpricing (1st day return) of Nepalese IPO is 87.56% (equally weighted issues). Among sampled issues, Himchuli Bikas Bank has high initial return of 400%. Where issue from Yati Finance and Sri Ram Sugar Mills has lowest initial return of negative 50% each.
7. Among 35 sampled issues, 31 issues have been oversubscribed and 26 of those oversubscribed issue have produced positive initial return. However, remaining 4 issues have been undersubscribed and 2 undersubscribed issues have produced negative initial return. But highest undersubscribed issue from Himalayan Distillery (0.106 times) has highly positively initial return of 131%. Similarly, 4 oversubscribed issues have negative initial return and one oversubscribed and one undersubscribed issue have zero initial return.
8. As far as the price changes on offered price on first, second and third day of trading is concerned, out of 34 sampled companies, share price of 16 companies have decreased in third day of trading as against first day of trading. Only 3 companies' share prices have shown no change on third day of trading as against the first day of trading. Furthermore, 15 sampled companies have shown inclination on their share price on third day of trading as compared to their first day of trading. The average price change from offered price on first day of trading (initial return) is 92.73%, which has decreased to 83.28% on second day of trading and further decreased to 82.51% on third day of trading.
9. The primary sources of data shows that the major source of information about IPO is media. Similarly people are more attracted towards common stock rather than other securities because of highest expected return.

10. Most of the people (42%) have moderate awareness about performance of company which going to offer securities and in 40% of people view, expected price appreciation increase the subscription times in IPO.
11. 50% of the people invest in primary market by taking advice with their friends and relatives. Furthermore, in 54% people view, beneficiaries of IPO are investors.
12. In 69% respondents view, Nepalese primary is slowly growing. 32% of people think that high future return is the main cause of oversubscription in IPO.
13. 38% respondents think that companies do not like to go to public because of reality of sharing profit with others. 51% people think that political instability is the major problem of Nepalese primary market.

CHAPTER V

SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Money or capital in financial vocabulary is one of the most important prerequisites for any business entity. Business entities need capital at various stage of their performance. Some may need to establish their business while other may need it to diversify their activities and achieve their ambitious growth plan. Generally there are two types of market for business entities to get secure capital. They are money market and capital market. In money market, funds are available only for short time, maximum of one year but in capital market funds are available for long term. Furthermore there are two types of capital market, primary market and secondary market. Primary market is the market for new and unseasoned whereas secondary market is the market for the existing and seasoned securities.

Initial Public Offering (IPO) is the key mechanism of primary market. IPO is the first time issue securities to the public by the companies. Securities may be debt or equity. Various components of capital market play important roles in practice and procedure of IPO. Investment bankers or underwrites are one among them. Investment bankers are individual or institutions who provide an array functions to ensure that companies are able to meet their objectives of issuing securities through IPO.

As far as practices in Nepal, Securities Board guide and influence IPO process. SEBON is the regulatory body of Nepalese stock market and Stock Exchange Limited is the trading body. Before going to public, the business entity must be approved from SEBON. After getting approval, issuing company must give its information to the Nepal Stock Exchange and Company Register's Office.

Issuing entity is free to choose one or more than one issue managers for the purpose of issuing securities. Issue manager has to publish a public notice in the national daily newspaper to offer public for investment. The notice must be published seven days

before the application form distribution date. The issue manager has to publish and distribute the prospectus. After studying prospectus, public will decide whether to invest in security or not. The application period must not more than one month. If issue managers think the require application have collected, they can close anytime agree one week to receive application. If over application is received, the distribution of share should be decided through allotment procedure. For this purpose additional 30-70 days can be taken. After allotment the issue manager has to refund the money of those whose application has not been accepted with interest. With in 30 days of refund period share certificate has to be distributed.

The basic objective of this study is to analyze subscription pattern of securities in initial public offering; this study also focuses on the dealing process and pace of the initial public offerings in Nepal.

Conceptual review of the study has covered concept of IPO, illustrating IPO along with its advantages and disadvantages. IPO as mechanism of primary market, IPO and its historical perspective in Nepal and process of IPO, which shed lights on how IPO is being practiced in Nepal. Similarly review of related studies has covered the research works carried out abroad along with dissertations relating to subject matter. Research work carried out in abroad in the form of journal-articles. Similarly dissertations were accessed from Central Library of T.U., Library of Shanker Dev Campus.

For the purpose of meeting the objectives of the study, it has use descriptive and analytical research design and stratified random sampling. The sampling frame of 35 companies' IPO representing 5 different sectors; commercial banks, development banks, finance companies, insurance companies and manufacturing and processing companies listed in SEBON has been selected.

The primary and secondary, both types of data are taken to analyze the objective of the study. Primary data are taken from direct questionnaire provided to the general investors.

Secondary data are taken from the publication of SEBON, NEPSE and various merchant bankers.

Similarly, simple statistical tools like mean, standard deviation, correlation of coefficient, coefficient of variation and t-test have been used to analyze related data.

The analysis of amount of issues being offered and no. of issue being offered have revealed that Nepalese IPO have grown during the study period. According to the Securities Board, 259 issues have approved for public issue until the fiscal year 2007/08. Currently there are 142 listed companies in Nepal Stock Exchange. In fiscal year 2007/08, 63 issues have approved by SEBON for the public issue. Public issue from financial sector is higher than that of non-financial sectors so it dominating Nepalese IPO market. On instrument wise analysis, it is identified that ordinary share is the most preferred instrument. The analysis also revealed that most of the issues offered during the study period were oversubscribed. By using J. R. Riter's (1984) model, it has been seen that underpricing does exist in Nepalese IPO market with average initial return of 87.56%. This finding is quite higher than average initial return of other emerging markets of Asia. It is also found that there exist relationship between subscription patterns and underpricing. Most of the oversubscribed issues produced positive return while most of the undersubscribed issue did not produce any positive return at all. From the analysis of percentage change from offer price at first day of trading, initial return goes on declining on second and third day of trading. It means investors are better off selling their IPO at first day of trading rather than selling its on second or third day of trading.

The primary source of data shows that the major sources of information of public offering media. These days' publics are getting aware to primary market to choose right sector for investment. They invest in primary sector with the main expectation of price appreciation in future. The main reason for oversubscription is due to lack of investment opportunities which attracts towards IPO for investment. Majority of people think that political instability is the major cause for slow growing of Nepalese primary market.

The subscription pattern in stock market is high due to lack of opportunities for investment in other sector. Despite this, public are attracted towards common stock to increase their value of investment.

5.2 Conclusion

On the basis of findings of the study we find that Nepalese capital market is in developing stage. Most of the public in Nepal do not have sufficient information regarding the primary market but still they have interest to invest their money in primary market so the most of the securities are issued in oversubscription. It is the good sign to the expansion primary market. Due to this, most of the companies are issued only common stock where bond, preference share and convertible are rarely in practice but option and warrants are still not in practice. This shows that the securities market is dominated by common stock.

As per the study financial sector which comprises commercial banks, development banks, finance companies and insurance companies has dominated Nepalese IPO market. As revealed by issue amount and number of issues, pace of IPO in Nepal seems to be irregular. As about issued securities, IPO from Himchuli Bikas Bank is the most oversubscribed issue with 133.62 times and IPO from Himalayan Distillery is the most undersubscribed issue with 0.106 times among the sample companies.

Underpricing does exist in Nepal and average level of underpricing (equally weighted mean) is much higher than other emerging market of Asia. It means Nepalese investors do make money from IPOs. On the other hand, higher the underpricing, the higher will be the wealth loss of promoters. This might have prevented the potential issuers from going public. Similarly, most of the oversubscription issues have yielded some initial return and most of the under-subscription issues have not yielded any initial return. It concludes that the issuing companies whose issues are overwhelmingly demanded by public, do justify their support through high initial return on first day of trading. As revealed from percentage change in offer price on first, second and third day of trading the high initial return on first day of trading has not been maintained on second and third day of trading rather it keeps on declining. So, investors are better off selling their IPO shares on first day of trading rather than selling them on second or third day of trading.

Though, the public offering is operated through different rules and regulations, there is still lacking clear provision in many important sectors such as underwriting provision, underwriters commission, process of issue etc. Nepalese investors have not more knowledge about primary market. The political instability is also effect the development of securities market by which the NEPSE index is fluctuating many times.

5.3 Recommendations

To developed and expand the Nepalese capital market more effective and efficient, the following recommendations has been recommended:

-) Nepalese primary market is largely dependent on financial sector which is not good sign for overall development of IPO market. In this regard, regulatory body and the government should take a step forward and encourage public issues from other sectors like manufacturing and processing by providing additional facilities such as tax concession.
-) Most of the public issues were from banking sector, development bank sector and finance company sector so the investment banker should take initiative step to promote their business form other sector too. They should be equally effortful in developing the public offering market as an avenue for cost effective financing.
-) Ordinary share is found to be most used financial instrument while other financial instruments like preference shares and debentures are rarely issued. The fact is that such ordinary shares carry maximum risk to investors. In this regard it is recommended that the root cause beneath should be traced and tackled for good.
-) The concerned authorities should conduct various research studies and disseminate the information relating to the share trading activities to increase the understanding of investors in using financial tools to estimate the intrinsic value of shares of a company before making investment decision.
-) Regional stock exchange centre should establish so that more people will be involved in investment activities on primary market as well as secondary market.
-) To make the investment more attractive and affordable to the small investors, the Nepalese company should introduce other types of securities such as option, warrants etc.

-) There should be an effective co-ordination among the primary market's regulators: CRO, SEBON, Insurance Board, NRB and Ministry of Finance. Each of them should be clear on their respective jurisdiction. Formulation of contradicting policies should be avoided.
-) To be successful in the stock market, investor should always be clear to his strength, weakness, requirements, wishes, risk taking capability and how to react on different and ever changing market conditions and they should not buy the shares of a company until they know details about it.
-) Even though most of the IPO issues were found to be under-priced, there were few issues, which were found to be overpriced. This could have been due to the fact that regulations in the past and existing regulations too have not fully authorized investment bankers to determine price of their issues. In this regard, it is recommended that regulatory body should allow IPO market to set their offer price. Free market can cause competition among the issuing company forcing them to make their offer at lower price which will attract more investors benefiting capital market in long term.
-) Buy and sell group of investor are recommended to sell their IPO share at first day of trading rather than selling them on second or third day of trading.
-) Independent rating agencies should be encouraged to establish so that the potential investors will have a confident picture of the financial health and future prospects of organizations.

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