

THE STUDY ON MERCHANT BANKING IN NEPAL
IN CONTEX OF
NIDC CAPITAL MARKET LTD, NMB BANK LTD & ACE DEVELOPMENT BANK

Submitted to:
Pashupati Multiple Campus
Faculty of Management
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In partial fulfillment of the requirements for the Degree of
Master of Business Studies (MBS)

2011

RECOMMENDATION

This is to certify that the thesis

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Entitled:

THE STUDY ON MERCHANT BANKING IN NEPAL

IN CONTEX OF

NIDC CAPITAL MARKET LTD, NMB BANK LTD & ACE DEVELOPMENT BANK

Has been prepared as approved by this department in the prescribed format of

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DECLARATION

I, hereby declare that the work reported in this research report entitled "The Study on Merchant Banking in Nepal" In context of NIDC Capital Market, NMB Bank Ltd. and Ace Development Bank Ltd. submitted to Office of the Dean, Faculty Of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement of the Master's Degree of Business Studies (MBS) under the supervision of Mr. Gyan Bahadur Tamang lecturer of Pashupati Multiple Campus, Tribhuvan University.

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2011

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This Thesis entitled "The Study on Merchant Banking in Nepal" in the context of NIDC Capital Market, NMB Bank Ltd and Ace Development bank Ltd. is specially prepared for the partial fulfillment of M.B.S Degree under the faculty of Management, Tribhuvan University. This thesis is related to the Merchant Banking, which is the part of banking functions, helps to capital generation. Well organized merchant banking services represent the well being of capital market because merchant banking principally involves providing financial services and advice for individual and corporation. This thesis has come in shape not by my sole effort. The contribution of many individuals and the instructors has to be appreciated.

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VIVA-VOCE SHEET

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IN CONTEXT OF

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LTD

*And found the thesis to be the original work of the student and written
according to the prescribed format. We recommend the thesis to
be accepted as partial fulfillment of the requirement for the degree of*

Master of Business Studies (M.B.S.)

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ABBREVIATIONS

ACE	Ace Development Bank Ltd.
Amt	Amount
CDS	Central Depository System
CIT	Citizen Investment Trust
CV	Coefficient of Variation
DCM	Dictionary of Business and Management
FIDC	Federal Deposit Insurance Corporation
i.e.	That is
IB	Investment Bankers
IPO	Initial Public Offering
MB	Merchant Bankers
NCML	NIDC Capital Market Ltd
NEPSE	Nepal Stock Exchange Ltd
NGO	Non Government Organization
NMB	NMB Bank Ltd
NRB	Nepal Rastra Bank
NSM	Nepal Share Market
OTC	Over The Counter Market
PM	Portfolio Management
SEBI	Securities Board of India
SEBON	Securities Board of Nepal
SEC	Securities Exchange Commission
UK	United Kingdom
US	United State
σ	Standard Deviation
Σ	Summation
\bar{X}	Mean

CHAPTER I

INTRODUCTION

1.1 Background of the Study

According to the US Federal Deposit Insurance Corporation (FDIC) the term "Merchant Banking" is generally understood to mean negotiated private equity investment by financial institutions in the unregistered securities of either privately or publically held companies. Both commercial banks and investment banks may engage in merchant banking activities. Historically Merchant banks original purpose was to facilitate and or finance production and trade of commodities hence the name 'merchant' few banks today restrict their activities to such narrow scope. Merchant Banking is a form of banking where the bank arranges credit financing, but does not hold the loans in its investment portfolio to maturity. A merchant bank invests its own capital in leveraged buyouts, corporate acquisitions, and other structured finance transactions. Merchant banking is a fee based business, where the bank assumes market risk but no long-term credit risk. Merchant banking principally involves providing financial services and advice for individuals and corporations.

Merchant banking operations consists of providing clients with a variety of financing options to sustain long term growth. Merchant banking operations focus on commercial international finance, stock underwriting, and long-term company loans. These banks work with financial institutions with their primary function being stock underwriting. They also work in the area of private equity where the securities of a company are not available for public trading. (FIDC banking review, 2010)

Known as "accepting and issuing houses" in the UK and "investment banks" in the US modern merchant banks offer a wide range of activities including portfolio management, credit syndication, acceptance credit, counsel on mergers and acquisitions, insurance etc. Merchant banking operations provide the support, knowledge, and resources to effectively assist clients and corporations with improving, expanding, and sustaining their business and business investments. (Wikipedia, 2011)

Merchant banking business can support, knowledge and resources to effectively assist customers and companies to improve, expand and sustain their businesses and business

investment, objectives of the banking and investment channels in areas that experience has proven to work. So a Merchant Bank is financial institution which provides capital to companies in the form of share ownership instead of loans. A Merchant banks also provides advisory on corporate matters to the firms they lend to.

The primary goal of least developed countries, like Nepal, need rapid economic growth to promote the welfare of the people and the nation as well. The process of economic growth of the least develop country is depends upon capital formation and proper utilization of the financial resources. The increase in capital has been a sort of prime mover in the process of material growth and the rate of capital formation has been the principal variable in setting the overall pace of economy. In this regard, the network of well organized financial system of the country has great bear and it collects scattered financial resources from the masses and invests them among those engaged in economic and commercial activities of the country. The financial system of the country plays vital role in transferring resources from net savers to the deficit units of the economy. The development of the financial system is important in economic growth and efficient financial system fosters the efficient mobilization of domestic saving and allocates resources to their optimum uses. The financial system contributes to greater accumulation of productive capital by increased mobilization of financial resources and sustained high investment levels. From this the main economic function of the financial market are price discovery, provision of liquidity and the minimization of trading costs or transaction costs.

Financial institutions and financial markets perform their function by channeling the nation's saving into best uses by bringing together those who have surplus funds to lend and those who wish to borrow to finance their expenditures. Financial institutions and financial markets compete as ways of providing borrower with access to capital and providing liquidity to investors. There are many ways to classify the financial markets. One way is by the type of financial claim, such as debt markets and equity markets. Debt market is market in which financial instruments (mainly bonds) dealing in outstanding debts are bought and sold. Another is equity market in which financial instruments (mainly equity) dealing in outstanding equity are bought and sold.

Another is by the maturity of the claim for example Money Market and Capital Market. Money markets are the markets for the short term debt securities. Thus, money market comprises the securities that have short maturity period, easily marketable, liquid and even

low risk in comparison to other securities. Examples of money market securities are Treasury bills, Bankers acceptance, commercial papers and negotiable certificate of deposit issued by the government, business and financial institutions. These instruments are very liquid and considered extraordinary safe. Because they are extremely conservative, money market securities offer significantly lower return than other securities. Capital Market is the market for long-term loans and equity capital. It is also an organized market for effective and efficient mobilization of capital or investable funds from the numerous investing classes to finance their business either in the private sector or public sector of the economy. The capital market is further divided into two parts i.e. Securities market and Non securities market. Securities market refers to that market where financial assets like shares, debentures, bonds etc are traded under prescribed rules and regulations. Securities market is further divided into Primary market and Secondary market. The market where new securities are offered to the investing public for the first time through Initial Public Offerings is known as Primary market. The people or institutions responsible for finding out investors for the IPO of securities in the primary market are called Issue manager. NIDC Capital Market Ltd, Nepal Merchant Banking & Finance Ltd, Citizen Investment Trust etc are some Issue managers in Nepal. The market in which existing outstanding securities are traded among investors is known as Secondary market. Secondary market, where the existing and pre-developed securities are bought and sold, provides liquidity to the purchaser of the securities. High liquidity of the secondary market encourages the investors to invest in the primary market as well. Secondary market can be regarded as the center to convert stocks, bonds and other securities into cash immediately. NEPSE is the only secondary market in Nepal. Non securities market represents the market where financial transactions are carried out between lender and borrower for a longer period without issuing any securities in the form of shares, debentures in the market.

The Capital market provides important funds for the development of industries, commerce and the economy. The main function of the capital market is the collection of saving and their distribution for industrial investment. So, capital fund is the blood of any organization. Capital structure is the composition of long term debt, common stocks and preference stocks. The role of capital market became significant when there is a high demand of funds. In such situation, merchant bankers fill a huge gap between demand for funds by the institution and supply of untapped public savings. They mobilized funds from savers to investors through various channels assuring promising return on investments. Thus the development of

merchant banking service is crucial for the growth of capital market. "With the development of liberalized and market oriented economy, the banking and the financial system is also expanding gradually, resulting with the introduction innovative financial services and instruments. As a result the financial system has been experiencing and there is though competition among the players of the financial system. Thus the Merchant Banking activities includes all activities where merchant banker provides services for those institutions or individuals who need information on trading, industrial and other professional activities such as information of different financial resources, required procedure to achieve these resources or any other required managerial work for such activities." (Aryal, 2060)

The research is mainly focused on the activities of financial institutions, which are involved in Merchant Banking activities. Those Financial institutions, even merchant bankers, are found to be performing other financial services as their major function leaving merchant banking function only as a part of their subsidiary function. It will be focused only in the merchant banking activities performed by those financial activities. It studies and analysis the performance of merchant banking activities performed by those financial institutions i.e. Merchant banks in Nepal.

1.2 Statement of Problem

More capital is needed for developing countries to develop the nation. Development of agriculture, industries, trade and tourism are impossible unless the financial system of the country becomes strong. Financial system is strengthened through developed financial market i.e. money market & capital market. The strength of capital market is dependent upon developed merchant banking system. The development of merchant banking services is closely linked with worldwide move towards open and market oriented economic system. In Nepal, financial systems are being slowed down due to insufficient capital, technical and financial support. Merchant banks encourage the investors by its versatile services like project counseling, Brokerage services, corporate counseling, Portfolio management, Issue management, venture capital etc. In spite of the importance of merchant banking services, many of them are still poor and only few merchant banking are in practice in our country which are not sufficient for the development of financial institutions.

Although Merchant Banking has emerged in developing countries long before, we are not having a long history of merchant banking in Nepal. As a result most of the Nepalese are unknown about meaning of Merchant Banking services and different between the merchant banking and commercial banking.

The "Finance Company Act 2042" is repealed by the "Bank and Financial Institutions Act 2063", which permits finance companies to sell and purchase the bonds issued by the Government or securities issued by the companies or the institutions, underwrite them and to form syndicate for such purpose or to participate in such syndicates and to act as broker under the "Securities Exchange Act 2063. Under the provision of Securities Act 2007 and Securities Business Persons (Merchant Banker) Regulation 2007 gives some vision towards the Merchant Banking System. However, Nepal is still lacking of specific rules, regulations and guidelines regarding Merchant Banking. Although we have Securities Exchange Act, Bank and Financial Institutions Act none of them gives clear meaning of merchant banking. So the question arises whether the merchant banking activities are regulated or controlled by Securities Exchange Act or Bank and Financial Institutions Act.

Meanwhile the more specific research problems of the study are especially concerned about the finding out the answer of the following questions.

- a) What is the role of Merchant banking in Nepal?
- b) How does a merchant banking service help in developing securities market in Nepal?
- c) What is the current position of Merchant Banking in Nepal?
- d) Is Merchant Banker's performance is satisfactory in term of service provide?

1.3 Objective of the Study

Financial activities grow with the improvement of economic conditions. As the financial activities grow, the need of merchant banking activities will be necessary. Merchant banking activities is the major supporting instrument for any ongoing business organization. Merchant banks are emerged in Nepal for the purpose of developing of capital market. Merchant banking services help in business sustain, well develop, and prosper and so on. The objectives of the study are as follows;

- a) To study and examine the significance of Merchant Banking towards the development of securities market in Nepal.
- b) To analyze the current status of Merchant Banking in Nepal.
- c) To evaluate the performance of Merchant Bankers in Nepal.

1.4 Significance of the Study

Merchant Banking is emerging field in Nepal. There is lack of availability of research work, journals and articles on "Merchant Banking in Nepal". So this research will be useful for conducting new research, study and awareness programs regarding Merchant Banking also it is useful to the professionals to have better understanding on the impact of merchant banking activities in the securities industries and also it may help the academicians and the researchers who study in these areas. The study will serve as a source of literature in the field of merchant banking.

1.5 Scope of the Study

This study will attempt to cover the Merchant banking system in Nepal. It aims to find out the effectiveness of Merchant Banking in Nepal. However the major areas of the study will be as follows.

1. Nepalese Banking system.
2. Role of Merchant Bank in Nepal.
3. Existing position of Merchant Bankers in Nepal.

1.6 Limitation of the Study

The study will be one man study which would be lack of appropriate and effective information for the research. Time constraints, constraints of financial resources, lack of research materials and lack of fact information are some limitations which may create barriers in conducting proper research in this study. This study has some limitations that could be pointed out as mentioned below.

- a) Although there are a lot of financial institutions in Nepal, the study is focused only on leading merchant banker's activities i.e. NIDC Capital Market Ltd. Nepal Merchant Bank Ltd. and Ace Development bank Ltd.
- b) The study is based on primary and secondary data which are provided by the merchant bankers.
- c) The study is based on reports provided by listed financial institutions and responses made through questionnaires.
- d) The study is conducted under the limit time.

- e) The daily, weekly, monthly and yearly data are used as per the availability of the study.

1.7 Organization of the Study

This study will be divided into five broad chapters which are as follows;

CHAPTER 1: Introduction

The first chapter deals with the introduction framework of the study that includes background, statement of problem, objectives of the study, significance of the study, limitation of the study and organization of the study.

CHAPTER 2: Review of Literature

This chapter deals with the review of the literature. It includes a discussion on the conceptual framework and major relevant studies. Review of literature refers to review research studies or other relevant propositions in the related area of the study so that all past studies, their conclusions and deficiencies may be known and further research can be conducted.

CHAPTER 3: Research Methodology

This chapter explains the research methodology used in the study which includes research design, sources of data, population and sampling size, data processing procedure and statistical tools used for the analysis of data. The research methodology considers the logic behind the methods that used in the context of research study and explain why particular method or technique is used.

CHAPTER 4: Presentation and Data Analysis

This is the important chapter of the study which deals with presentation and analysis of data. Data presentation and analysis refers to data processing comprise of editing, coding, categorization and tabulation of the data collected.

CHAPTER 5: Summary, Conclusion and Recommendation

This chapter contains findings in aggregate, conclusion drawn through the findings and the recommendations .Besides these Bibliography and Appendices will be attached at the end of the study.

CHAPTER II

REVIEW OF LITERATURE

For the development of the framework of thesis we review the documents containing the information relating to research problem. In order to clarify the research problem periodical documents, abstracts, books, magazines, acts, articles, review of text books, old thesis and research reports are reviewed. Enough materials and research performed in this topic Merchant Banking in Nepal are not found in Nepal. However, efforts have been made to gather information from all available arenas as possible.

2.1 Conceptual Review

2.1.1 Meaning of Merchant Banking

The meaning of the term Merchant Banking in dictionary refers to an organization that underwrites corporate securities and advises such clients on issues like corporate mergers etc involved on the ownership of commercial ventures. This organization may be a bank, corporate body, firm or proprietary concern. A Merchant Bank deals with the commercial banking needs of international finance, long-term company loans, and stock underwriting. This type of bank does not have retail offices where a customer can go and open a savings or checking account. A merchant bank is sometimes said to be a wholesale bank, or in the business of wholesale banking. This is because merchant banks tend to deal primarily with other merchant banks and other large financial institutions.

The most familiar role of the merchant bank is stock underwriting. A large company that wishes to raise money from investors through the stock market can hire a merchant bank to implement and underwrite the process. The merchant bank determines the number of stocks to be issued, the price at which the stock will be issued, and the timing of the release of this new stock. The bank then files all the paperwork required with the various market authorities, and is also frequently responsible for marketing the new stock, though this may be a joint effort with the company and managed by the merchant bank. For very large stock offerings, several merchant banks may work together, with one being the lead underwriter. (The world book Encyclopedia, 2011)

By limiting their scope of needs of large companies, merchant banks can focus their knowledge and be of specific use to such clients. Some merchant banks specialize in a single area, such as underwriting or international finance.

Many of the largest banks have both a retail division and a merchant bank division. The divisions are generally very separate entities, as there is little similarity between retail banking and what goes on in a merchant bank. Although the lives of most people are probably affected every day in some way by decisions made in a merchant bank, many people are unlikely ever to visit or deal directly with one. Merchant banks usually operate behind the scenes and away from the spotlight. (Valentine, 2001)

A bank that formerly specialized in financing foreign trade and activity that often grew out of its own merchant business. This led them into accepting bills of exchange and functioning as accepting houses. More recently they have tended to diversify into the field of hire-purchase finance, the granting of long-term loans (especially to companies), providing venture capital, advising companies on flotation and takeover bids, underwriting new issues, and managing investment portfolios and unit trusts. Many of them are old-established and some offer a limited banking service. Their knowledge of international trade makes them specialists in dealing with the large multinational companies. They are most common in Europe, but some merchant banks have begun to operate in the USA; the US equivalent in terms of current activity is known as an investment bank. Several UK merchant banks were taken over in the 1990s either by the commercial banks or by large overseas banks. (DCM, 2006)

Merchant banking has been a very productive-and risky-attempt for the small number of bank holding companies and banks that have engaged in it under existing law. Recent legislation has expanded the merchant-banking activity that is permissible to commercial banks and is therefore likely to spur interest in this lucrative specialty on the part of a greater number of such institutions. Although for much of the past half-century commercial banks have been permitted (subject to certain restrictions) to engage in merchant-banking activities, the term merchant banking itself is undefined in U.S. banking and securities laws and its exact meaning is not always clearly understood. (The world book Encyclopedia, 2011)

In Indian context, Merchant Bank in India starts with management of public issues and loan syndication and has been slowly and gradually covering activities like project counseling, portfolio management, investment counseling and mergers and amalgamation of corporate firms. although merchant banking organization present a long list of services they contemplate to render their clients but the main services as far being rendered by them are those as authorized by the securities and exchange board of India under categories I, II, III and IV. A "Merchant Banker " has been defined under the Securities Exchange Board of India (Merchant Bankers) Rules 1992 as " any a person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to

securities as manager, consultant, advisor or rendering corporate advisory service in relation to such issue management.

"Merchant banking stands for providing various services relation to capital market and finance to corporate sector. This includes not only the activities of the above purpose in the country but at times arranging funds from outside the country. The merchant banker also provides consultancy to the corporate sector on the issue like finance, capital structure and investment, mergers, takeover and amalgamations, establishing the coordination between the government and corporate sector. In fact the merchant bankers should be able to provide guidance to an entrepreneur on all matters from the stage of conception of project in his mind till its goes in to commercial production. A good merchant banker would be consider to be one who is expert, honest, have integrity and capacity to develop public relations. Whenever a business concern needs funds from the capital market it would usually approach the Merchant Banker rather the banks of financial institutions." (Toor, 2002)

"Investment Banker also called merchant banks, purchase newly issue stock and bonds from corporation and government. They then resell the securities to investor in small quantities. As investment bank makes a profit by selling securities at a higher price than its pays for them. The first merchant banks were formed by British merchants in 1800's. From the 1930's to the 1980's the U.S. Government prohibited any institution that from engaging in investment banking. Since then, however, government has permitted large commercial banks to buy and sell securities within limits." (World Book Millennium, 2000)

"Investment Bankers market new stock and bond offering to individual and institutional investors around the world." (Edimister, 1999)

2.1.2 Merchant Banking History

Although not defined in U.S. federal banking and securities laws, the term merchant banking is generally understood to mean negotiated private equity investment by financial institutions in the unregistered securities of either privately or publicly held companies. Both investment banks and commercial banks engage in merchant banking, and the type of security in which they most commonly invest is common stock. They also invest in securities with an equity participation feature; these may be convertible preferred stock or subordinated debt with conversion privileges or warrants. Other investment bank services-raising capital from

outside sources, advising on mergers and acquisitions, and providing bridge loans while bond financing is being raised in a leveraged buyout are also typically offered by financial institutions engaged in merchant banking. (Investopedia, 2011)

Merchant banks first arose in the Italian states in the middle Ages, when Italian merchant houses-generally small, family-owned import-export and commodity trading businesses-began to use their excess capital to finance foreign trade in return for a share of the profits. This trade generally consisted of lengthy sea voyages. Thus, the investments were very high risk: war, bad weather, and piracy were constant threats, and by their nature the voyages were long-term and illiquid.

Later, the center for merchant banking shifted from the Italian states to Amsterdam and then, in the eighteenth century, to London, where immigrants from Prussia, France, Ireland, Russia, and the Italian states formed the core of early British merchant banking. Like the Italian and Dutch houses before them, these British houses were generally small, family-owned partnerships, and most of them continued both to trade for their own businesses and to finance the trading by others. By the end of the eighteenth century, however, the British merchant houses had increased in size and sophistication and began specializing in trade, marketing, or finance. As the nineteenth century opened, virtually no mercantile houses remained focused on both trade and finance. (Craig, 2002)

Merchant banking came in to scene in USA in the early 19th century after the introduction of Blue sky laws to protect investors from fraudulent promoters and security salesman. In India through merchant banking activities organized before independence they got systematized from only after restoration of independence. As a result of recommendation of Banking Commission in 1972, the Indian bank should starts merchant banking service as part of their multiple services they could offer their clients; State Bank of India started the Merchant Banking Division in 1972.

2.1.3 Merchant Banking in International Sector

(A) Merchant Banks in the United Kingdom

In the United Kingdom Merchant bankers came on the scene in the late eighteenth century and early nineteenth century. The origins of merchant banks go back to the early nineteenth century when a number of trading houses largely of non-British background and ownership

were founded in the City of London to trade, and facilitate the trade, with the Empire in the East and with the North and South American continent. From trading it was only a short step to financing the trade at both ends of the line, the exporter from the United Kingdom and the importer in the developing country. The importer tended to be a government or semi-governmental body which apart from a requirement for the more sophisticated goods of the Old World required financing of infrastructure projects such as railways, roads and dams, as well as what might today be called balance of payment financing. This was difficult and adventurous (or entrepreneurial) financing which suited particularly the merchant banks of the time. The risks were perceived by others to be great, but so were the rewards to the merchant banks. The merchant banks who engaged in this business were singularly well placed in the City of London to benefit from the outpourings of goods and energy and the prestige of Britain and would undoubtedly not have been able to develop as they did had they been located, as their founding families were, in say Hamburg, Bremen, Frankfurt, Copenhagen or Paris. They were at the centre of things and the financial centre at that time was and indeed even now is London.

The term Merchant Bank is used in United Kingdom to denote Banks that are not merchants sometimes for merchants who are not bankers and sometimes for business houses that are neither merchant nor banks. The confusion has arisen because modern Merchant Banks have a wide range of activities. Merchant Banks in United Kingdom mainly (a) finance foreign trade, (b) issue capital, (c) undertake foreign securities business; (d) manage individual funds and (e) foreign loan business. They also used to finance sovereign government through grant of long term loans. British banks have set-up division or subsidiaries to offer their customers Merchant Banking services.

(B) Merchant Banks in the USA

European and English Merchant Banks played a prominent role in the USA until indigenous Investment Bankers emerged on the scene in 1880. Given its history, merchant banking is often thought of as a European, and especially British, financial specialty, and British institutions continue to maintain a major presence in this area. Since the 1800s and even earlier, however, U.S. firms (such as J.P. Morgan) also have been active in merchant banking. However, although both investment banks and commercial banks, as well as other types of

businesses, have been authorized to engage in private equity investment in the United States, financial institutions have not been major providers of private equity.

Until the 1950s, U.S. investors in private equity were primarily wealthy individuals and families. In the 1960s and 1970s, corporations and financial institutions joined them in this type of investment. (In the 1960s, commercial banks were the major providers of one kind of private equity investing, venture-capital financing.) Through the late 1970s, wealthy families, industrial corporations, and financial institutions, for the most part investing directly in the issuing firms, constituted the bulk of private equity investors.

In the late 1970s, changes in the Employee Retirement Income Security Act regulations, in tax laws, and in securities laws brought new investors into private equity. In particular, the Department of Labor's revised interpretation of the "prudent man rule" spurred pension fund investment in private equity capital. Currently, the major investors in private equity in the United States are pension funds, endowments and foundations, corporations, and wealthy investors; financial institutions both commercial banks and investment banks-represent approximately 20 percent of total private equity capital, divided approximately equally between the two. The U.S. Department of the Treasury estimates that at year-end 1999, commercial banks accounted for approximately \$35 billion to \$40 billion and investment banks for approximately another \$40 billion, of the \$400 billion total investment in the private equity market.

At \$400 billion as of yearend 1999, the private equity market is approximately one-quarter the size of the commercial and industrial bank-loan market and the commercial-paper market. In recent years, funds raised through private equity have approximately equaled and sometimes exceeded funds raised through initial public offerings and public high-yield corporate bond issuance. The market also has grown dramatically in recent years, increasing from approximately \$4.7 billion in 1980 to its 1999 figure. Despite this tremendous growth, the private equity market is extremely small compared with the public equity market, which was approximately \$17 trillion at year-end 1999(Craig' 2002).

Regulation of Investment Banking in USA

Investment Banking in USA as compared to Merchant Banking in UK is subject to following regulation.

1. The Security Exchange Commission (SEC) exercise advisory and regulatory role in Investment Bankers.
2. Investment bankers were restricted from undertaking reorganization of public corporations under the Chandler Act. The task was assigned to distinguished trustees.
3. Association of trustee with either the issue or its Investment Banker was prohibited under the Trustee Indenture Act 1939. To protect the interest of security holders the trust indenture had to fill with SEC.
4. The Investment and portfolio activities became subject to SEC supervision.

Investment Trust was covered by Investment company act 1940 which sought to regulate them and Investment advisors are required to register under the Investment Advisors Act 1940. SEC was designated the supervisory and enforcement authority. Its powers were further strengthen in 1960 by authorizing it to inspect the records and accounts of the firms engaged in the business. The increased regulation and control of domestic operations gave a fillip to large US banks to markets. The US Investment banks have extended their operation to the international level. They are largely responsible and globalization of capital markets. They have prominent presence in London and other European financial centers. Investment Banks have today a strong parent, a strong balance sheet and a strong international network to pay a global role. (Laskshmana, & Naik, 2002)

(C) Merchant Banking In Hong Kong

In the proliferation of merchant banks Hong Kong has been very much in the lead. Its geographic position, financial and entrepreneurial acumen, lack of red tape, tremendous economic expansion and fairly well-developed economic infrastructure as well as and for the nurturing of merchant banks most importantly no particular dislike of things or inventions British, have provided fertile soil for the development of merchant banks.

Indeed the trading companies, or 'hongs,' themselves are larger forms of the original merchant banks who like the hongs, started as traders. It is not surprising therefore that merchant banking should have become so readily accepted in Hong Kong.

The originators of merchant banking in Hong Kong were London merchant banks who were followed by local imitators and, following the stock market crash in 1973 and a suitable interval for recovery, by the new style merchant banking subsidiaries of the multi-national

banks, particularly American banks. More recently the Japanese and the continental European banks, too, have found Hong Kong an enticing place for setting up merchant banks - or deposit-taking companies as they have to be called in Hong Kong where institutions which engage in banking cannot call themselves a 'bank' without having a banking license.

Merchant banking in Hong Kong has undoubtedly been a growth industry. However, there are drawbacks.

Firstly if the returns look good, new entrants will come in by the dozens. This has already happened.

Secondly a large number of institutions calling themselves merchant banks, and merchant banks not already established in Hong Kong feel that they simply have to be in Hong Kong, and are less concerned with the profitability of their operations initially at least than having a presence and being able to service their clients through Hong Kong, or providing a point of contact from here for the rest of South East Asia and to follow their clients to the acclaimed Pacific Basin with its enormous growth prospects and to the great hope of mainland China.

Thirdly it must not be forgotten that the cost structure of any merchant banking operation, being so very largely based on skills developed over a long period of time, is high. This is because up to now an unduly large proportion of the executive staff is expatriate with all that this entails in terms of cost. While it is possible to train local executives it will be some time yet before even a 50:50 relationship exists between expatriate executives and local executives engaged in the fee business. Apart from any lack of experience which can be overcome with the passage of time, there is no doubt that at present the client still looks for international expertise acquired in London and New York and this can only be provided by executives with a familiarity of and long training in those markets.

(D) Development of Merchant Banking in South East Asia

Merchant banking outside Japan came to South East Asia in the late sixties, starting in Singapore and moving on very rapidly to Hong Kong and from there spreading to Malaysia, the Philippines and South Korea. Merchant banking originally was promoted by the British and it is conducted in English. Thus it has found it easiest to implant itself outside England in Anglo Saxon countries; indeed outside countries with some English-speaking background merchant banks are not well known. Partly this is of course due to legislation, as in the United States, or the fact that merchant banking functions are already carried out by universal, one stop banks, as in continental Europe. Now most countries in South East Asia

have a merchant banking industry, no longer carried out exclusively by companies or individuals from the City of London but by a polyglot of nationalities and backgrounds. It has become one of the smart things to do, and even the largest and most impeccable sesames in retail banking have suddenly felt the urge to have their own merchant bank or a stake in a merchant banking operation. From being very much under pressure the concept of merchant banking is very much alive although merchant banking institutions are under attack by the multinational retail banking battalions. Just as the multi-national banks have felt the need to provide in house the specialized and individual type of service of a merchant bank, so have the indigenous banks in South East Asia joined the bandwagon in the belief that their clientele too would not wish to do without the services of a merchant bank. Thus there has been a proliferation of the, species and like all good things when overdone the quality has suffered. It would be difficult to hazard a guess at how many true merchant banks there are in South East Asia out of the hundreds calling themselves by that name; I would be surprised if there were more than a dozen or so. The others are either nothing of the sort or simply wholesale extensions of retail banks with no well-defined niche in which to operate or market in which to offer their services, but imitation is the sincerest form of flattery.

(E) Merchant Banking In India

Merchant Banking activities was formally Initiated in to the Indian capital markets when Grindlays Bank receive the license from Reserve Bank in 1967. The Grindlays Bank was engaged in capital issue management and it provided diverse financial services to the emerging section of entrepreneurs, especially those belonging to the small and medium enterprise sector.

Citibank started the merchant banking services in 1970 and the State Bank of India followed the same in 1972. After few years, the national merchant banks started collaborating with their counterparts in different countries to start their merchant banking divisions abroad.

According to the Securities and exchanges Board of India, four categories of the merchant banking organizations exist in the India.

- a) Institutional based merchant banking organizations operate as subsidiaries of private financial institutions or those recognized by the state or central governments.

- b) Banker based organizations are those that operate as divisions or subsidiaries of the nationalized commercial banks or the foreign banks functioning in the country.
- c) The third category consists of qualified brokers who provide skilled merchant banking services like portfolio management.
- d) The private merchant banking organizations work as sole proprietorships, private limited, public limited or partnership companies.

Registration with SEBI is mandatory to carry out the business of merchant banking in India.

An applicant should comply with the following norms:

- (a) The applicant should be a body corporate.
- (b) The applicant should not carry on any business other than those connected with the securities market.
- (c) The applicant should have necessary infrastructure like office space, equipment, manpower etc.
- (d) The applicant must have at least two employees with prior experience in merchant banking.
- (e) Any associate company, group company, subsidiary or interconnected company of the applicant should not have been a registered merchant banker.
- (f) The applicant should not have been involved in any securities scam or proved guilty for any offence.
- (g) The applicant should have a minimum net worth of Rs.5 crores.

2.1.4 History of Merchant Banking in Nepal

After the establishment of Nepal Bank Limited in 1990 B.S, Merchant Bank was exist in a crude form. After the restoration of Democracy in 2046 B.S, the Government announced the economic liberalization policy then private sector investors are attracted to invest in different organized commercial ventures. As a result numerous new private and public limited companies were established in a very short span of time to reap the benefit of economic liberalization policy of the nation. The development activities through the country had created excess demand for the sources of funds by the ever-expanding industries and trade, which could not be met all by the local banks and financial institutions. In these circumstances, the corporate sectors enterprises had the only alternative to avail themselves of the capital market services for meeting long term funds requirements through issue of

shares and debentures. The growing demand for funds from capital market has encouraged many organizations to enter into the field of merchant banking for managing the public issues.

The "Finance Company Act 2042" is repealed by the "Bank and Financial Institutions Act 2063", which permits finance companies to sell and purchase the bonds issued by the Government or securities issued by the companies or the institutions, underwrite them and to form syndicate for such purpose or to participate in such syndicates and to act as broker under the "Securities Exchange Act 2063. Citizen Investment Trust is the pioneer Merchant Banker in Nepal. NIDC Capital Market Ltd, Nepal Finance Co., Nepal Share Market, Nepal Merchant Bank Limited, Royal Merchant Banking And Finance Co., etc are few financial institutions who are involved in merchant banking activities. Recently Nabil Bank is also involved in merchant banking activities. Out of wide range of various services provided by Merchant Bankers, Nepalese Merchant Bankers provides very few of them like issue management, underwriting, underwriting syndication, registrar to shares etc.

In Nepal, Merchant Banks operate in the form of Division of Bank & Financial Institution. Prior to the Securities Businessperson (Merchant Banker) Regulation, 2008, the merchant banking activities were limited to financial institutions. But such companies operated only as issue managers. Thus the other merchant banking activities were yet to be explored. Subsequent to the new regulation, the licensing authority shifted from Nepal Rastra Bank to SEBON, and SEBON has issued merchant banking license (which allows also Portfolio Management Service) to a number of companies. However, only one, i.e. Beed Invest has started the service of Portfolio Management.

According to Securities Businessperson (Merchant Banker) Regulations, 2008, the Securities Board of Nepal has divided Merchant Bankers into different categories i.e. Issue manager, Share Registration, Share Underwriting, Investment Management, Portfolio Manager regarding their nature and range of activities and their responsibility. The license is provided by the SEBON to carry out securities business as Merchant Banker. The minimum net worth and initial fees depend on the category.

With an objective of bringing the merchant banking business only under the sole regulatory periphery of the Board and to make the provisions of banks and financial institutions to perform merchant banking business through subsidiary company in pursuant to the Securities Act, 2007, the notice provisioning the banks and financial institution to perform merchant

banking business through subsidiary company was published on the Nepal Gazette on August 17, 2009 by Government of Nepal with the recommendation from SEBON. According to the notice, it was provisioned that the bank and financial institutions established in pursuant to prevailing laws were allowed to perform the business of Issue Manager, Securities Businesspersons, Market Maker, Share Registrar, Investment Management and Underwriter through separate subsidiary company with the approval from SEBON. Therefore, the Board has made correspondence to the concerned companies for making necessary arrangements. After the enforcement of such provision, among 10 banks and financial institutions working as merchant bankers, only the following companies have established their subsidiary companies and have initiated the process of obtaining the license

Table No. 2.1
Subsidiary Companies in the Process for Obtaining the License of
Merchant Bankers

S. N.	Subsidiary Companies	Main Company
1	Vivor Capital Ltd.	Vivor Bikas Ltd.
2	Ace Capital Ltd.	Ace Development bank Ltd.
3	NMB Capital Ltd.	NMB Bank Ltd.
4	NSM Merchant Banking & Investment Ltd.	Nepal Share Markets And Finance Ltd

(Source SEBON, Annual Report 2009/10)

2.1.5 The Modern Merchant Banking

The definition of merchant banking has changed greatly since the days of the Rothschild. The great merchant banking families dealt in everything from underwriting bonds to originating foreign loans. The modern merchant banks, however, tend to advice corporations and wealthy individuals on how to use their money. Today there are many different classes of merchant banks. Even though these companies call themselves Merchant banks, they have few if any of the characteristics of former Merchant banks.

A more traditional form of Merchant bank is not as widely used. This genre of merchant banking is seen in companies such as Blackstone Group, LCF Rothschild Group, China vest

and Goldman Sachs. Though these organizations are holding companies, their operations are essentially those of the original Merchant banks.

During the 20th century, however, European merchant banks expanded their services. They became increasingly involved in the actual running of the business for which the transaction was conducted. Today, merchant banks actually own and run businesses for their own account, and that of others. Since the 18th century, the term merchant banker has, therefore, been considerably broadened to include a composite of modern day skills. These skills include those inherent in an entrepreneur, a management advisor, a commercial and/or investment banker plus that of a transaction broker. Today a merchant banker is who has the ability to merchandise that is, creating or expands a need and fulfills capital requirements. The modern European merchant bank, in many ways, reflects the early activities and breadth of services of the colonial trading companies.

2.1.6 Services Provided By Merchant Banker

In banking, a merchant bank is a financial institution that primarily invests its own capital in a client's company. Merchant banks provide fee based corporate advisory services for mergers and acquisitions, as well as other financial services. Merchant banking operations focus on commercial international finance, stock underwriting, and long-term company loans. These banks work with financial institutions with their primary function being stock underwriting. They also work in the area of private equity where the securities of a company are not available for public trading.

The ranges of services offered by Merchant Bankers to the corporate sectors and investors who want to place their savings in appropriate investment are as follows:

- I. Corporate Counseling:** Corporate counseling function is the counsel services given to corporate client to ensure better corporate performance. The merchant banker has to find out the problems of enterprises and suggest ways and means to solve the problems in achieving organization effectiveness. It suggests suitable locations, technical consultancy, and collaboration etc to the investors.
- II. Project Planning:** The preparation of feasibility report covering market aspect of the product. Technical, financial and economic aspects of the enterprises. Project report specifies the cost of project and advises the financial pattern to finance. This is another area of services rendered by the merchant bankers.

- III. Issue management:** The management relating to subscribe the share capital through the public in general is another area of service rendered by Merchant Banker. Under this MB does all functions relating to public issue announcement, collecting applications, allotment of shares, refund of excess money distribution of shares certificates and listing of shares on stock exchange.
- IV. Underwriting and Bridge Loan Financing:** Underwriting is the commitment of guarantee to take up all shares/debentures which will not be subscribed by the public in general and it eliminates the risk arising from uncertainty of public response to new issues. The bridge loan is the short term loan against the issues itself. Such type of facilities is also provided by the merchant bankers.
- V. Portfolio Management Scheme:** MB renders the services of Portfolio management of their clients. MB accepts the funds on behalf of the clients or to play in the financial game on capital market with an aim to earn target return. Effective investment planning and constant review of portfolio are the two basic principles for effective portfolio management.
- VI. Mutual Fund/Unit Trust Scheme:** Another area of merchant banking is to arrange the unit trust scheme. Mutual Fund is a group saving scheme whereby it collects the idle money of the various sectors of society and invests in different areas especially on blue chip companies shares and bonds on the principle of diversification. Merchant Banker acts as trustee for the investor on such trusts.
- VII. Venture Capital:** Venture Capital means providing long term start up funds for high risk ventures, promoted by unknown technologies/ entrepreneurs, which suffer from capital deficiencies but have a profit potential through ultimate capital gains rather than through a steady dividend or interest yield. The merchant bankers do finance on this for investment too.
- VIII. Lease Finance:** Leasing could be defined as an activity where the owner of an asset gives the asset to another party for his use for a specified period of time for a financial consideration. Merchant bank facilitates the customers in acquiring equipments through the leasing finance.
- IX. Factoring:** Factoring is a specialized financing scheme where the financing company known as a factor buys its clients' receivables of trade credits or invoices outright. In order to provide the client with an additional source of capital, MB also renders the factoring services.

- X. Brokerage Services:** MB is the agent of Money & Capital Markets. They can play the role as broker in the stock exchange. In addition they can also play active role on money market.
- XI. Merger & Acquisition:** MB deals on negotiating and valuation of merger, amalgamation and takeover of the firm. Similarly the assets/shares valuation assets securitization functions are also done by MB. In this line they also arrange for the foreign collaboration of the project.
- XII. Management Consultancies:** MB may help to do the management audit of the companies to ascertain existing performance levels and to formulate plan for future growth. They conduct market research for both consumer and industrial products, develop and implement system design and production management and at the same time Operation Research functions are also done for effective and optimum uses of the resources. Thus, the coverage of the MB is enormous and vast. The area of MB's functions is unlimited. Therefore MBs are of great help to entrepreneur customers who can't afford a permanent staff of financial specialists. (Shrestha, 2051)

2.1.7 Role of Merchant Banking

The merchant banks operate as intermediaries in the short-term money market and capital market and provide a wide range of specialized financial services. The major source of funds for the merchant banks is the acceptance of call money and short-term deposits from the commercial banks, finance companies and insurance companies. The merchant banks have been allowed to accept fixed deposits from the corporate sector as well. Loan operations of the merchant banks range from provision of bridging finance to long-term project loans. The merchant banks also provide refinancing facilities, mainly in the form of block discounting of hire purchase papers, engage in the financing of domestic trade bills and arrange and participate of consortium loans with other financial institutions.

Merchant banks also provide services for the management of investment portfolios of provident and pension funds, corporations and individuals. These funds are invested mainly in stocks and shares and Government securities. Other services provided by the merchant banks include the underwriting of public share issues, conducting feasibility studies and related advisory services. Of late, the provision of corporate finance services (including advice on, and financing of, acquisitions, company restructuring and capital raising) is beginning to assume increasing importance.

2.1.8 Important of Merchant Banking

The need of merchant banking services arises from the fact that high level industrialization is taking place in the country. So, there is need for skilled professionals who can take care of various finance-related needs of the advanced industrial sectors. These specialist services are also of great importance for the small and medium sized enterprises to help them operate smoothly.

Most of the rural areas still lack industrial advancement and the main reasons for this include lack of funds and information. The merchant banking services help the entrepreneurs to come up with industrial setups in these areas. Besides, the merchant banks help the entrepreneurs to explore the joint venture opportunities in the foreign markets.

Important reason for the growth of Merchant Banking has been the development activity throughout the country, exerting excess demand on the sources of funds forever expanding industries and trade, thus, leaving widening gap unabridged between the supply and demand of investible funds. In the corporate sector had the capital market services for meeting their long term financial requirements through capital issues of equity and debentures with the growing demand for funds there was pressure on capital market that enthused the commercial banks, share brokers and financial consultancy firms to enter into the field of merchant banking and share the growing capital market. The need of Merchant banking institutions are felt in the wake of huge public saving lying still untapped Merchant Banks can play highly significant role in mobilizing funds of savers to investible channels assuring promising return on investment and thus can help in meeting the widening demand for investible funds for economic activity with the growth of merchant banking profession corporate enterprises in both public and private sectors would be able to raise required amount of funds annually from the capital market to meet the growing requirements for funds for establishing new enterprises, undertaking expansion/modernization/diversification of the existing need for a vigorous role to be played by merchant banks.

Merchant Bankers, with their skills, updated information and knowledge provide the services to the corporate units and advise them on such requirements to be complied with for raising funds from the capital market under different enactments viz. Company Act, Income Act, Foreign Exchange Regulation Act, Securities Regulation Act, and various other corporate laws and regulations. MB advise the investors of the incentives in the form of tax relief other

statutory relaxations, good return of investment and capital appreciation in such investment to motivate them to invest their saving in securities of the corporate sector. Thus, the merchant bankers help industry and trade to raise funds and the investors to invest their saved money in confidence, safety and expectation for higher yield.

2.1.9 Nature of Merchant Banker

The services of a merchant banker could cover project counseling and pre-investment activities, feasibility studies, project reports, design of capital structure, issue management and underwriting, loan syndication, mobilization of funds from foreign currency finance, mergers, amalgamations and takeovers, venture capital, and public deposits.

Merchant banking is a skill based activity and involves servicing every financial need of the client. It requires a focused skill based to provide for the requirements of a client. SEBI has made the quality of manpower as one of the criteria for renewal of merchant banking registration. These skills should not be concentrated in issue management and underwriting alone, which may have an adverse impact on business as witness in 1995. Merchant Bankers can turn to any of the activities mentioned above, depending on resources, such as capital, foreign tie-ups for overseas activities and skills. They can provide the entire game of services or develop niche business. The depth and sophistication in merchant banking business are improving since the avenues for raising funds are widening and demand for funds in increasing. (Marchiraju, 2001)

2.1.10 Quality of Good Merchant Bankers

Following are the Qualities that good merchant bankers should possess:

- **Aggressiveness action:** Aggressiveness is a personality trait of a good leader but in merchant banking it has a wider connection. Aggressive merchant bankers are always looking for new business. A good merchant banker is the one who does not allow his client to think anything outside except what he has been advised. Therefore, promptness in grasping the clients' problems and providing better choice amongst alternative solutions evidence aggressive approach in the profession to hold the client's interest in entirely for the present as well as for the future.
- **Attitude towards problem solving:** The most important personality trail of a merchant banker is his attitude towards problem solving. Every client coming to him has got to return fully satisfied having consulted a merchant banker. Positive approach to understand the view points of other, their difficulties and their advise circumstance

is possible only when a person is skilled in human relations communication and proper feedback are the pre-requisites for creating a positive attitude towards problem solving which could be gained partly through learning process and partly as in born quality.

- **Leadership:** Merchant Banker should possess all relevant skills, updated knowledge to interact with clients and effectively communicate. Leadership is synonymous with followers who follow the one who leads.
- **Co-operation and friendliness:** No doubt, these two characteristics are the symbols of good leadership but it hardly needs to be stressed. Co-operation and friendliness coupled with persuasiveness are the main instrument with which a merchant banker mixes with the clients. Business of an honest merchant banker spreads with geometrical propagation when he shares the thoughts of his clients with sympathetic gestures and offers pragmatic suggestions without grebes or favors. These are the vices unbecoming of a merchant banker to win over the trust of the clients like a doctor or lawyer who retain their clients permanently.
- **Contacts:** Success of a merchant banker depends upon his sociable nature and the reaches of wider contacts. A merchant banker is supposed to be acquainted deeply with all the constituents of merchant banking. Merchant Bankers should widen contacts and references and continue to maintain the relationship with goodness, honor and humor by meeting people in person through writing and in special gatherings.
- **Inquisitiveness for acquiring new skill, information and knowledge:** Merchant Bankers live on their wits they earn by giving information to needy clients. Therefore, they should keep abreast with latest information in the area of the service product market. This is possible if merchant banker possesses the quality of curiosity. (Verma, 2004)

2.1.11 Merchant Bank and Investment Bank

Merchant banks and investment banks, in their purest forms, are different kinds of financial institutions that perform different services. In practice, the fine lines that separate the functions of merchant banks and investment banks tend to blur. Traditional merchant banks often expand into the field of securities underwriting, while many investment banks participate in trade financing activities. In theory, investment banks and merchant banks perform different functions.

Pure investment banks raise funds for businesses and some governments by registering and issuing debt or equity and selling it on a market. Traditionally, investment banks only participated in underwriting and selling securities in large blocks. Investment banks facilitate mergers and acquisitions through share sales and provide research and financial consulting to companies. Traditionally, investment banks did not deal with the general public. Traditional merchant banks primarily perform international financing activities such as foreign corporate investing, foreign real estate investment, trade finance and international transaction facilitation. Some of the activities that a pure merchant bank is involved in may include issuing letters of credit, transferring funds internationally, trade consulting and co investment in projects involving trade of one form or another.

The current offering of investment banks and merchant banks varies by the institution offering the services, but there are a few characteristics that most companies that offer both investment and merchant banking share. As a general rule, investment banks focus on initial public offerings and large public and private share offerings. Merchant banks tend to operate on small-scale companies and offer creative equity financing, bridge financing, mezzanine financing and a number of corporate credit products. While investment banks tend to focus on larger companies, merchant banks offer their services to companies that are too big for venture capital firms to serve properly, but are still too small to make a compelling public share offering on a large exchange. In order to bridge the gap between venture capital and a public offering, larger merchant banks tend to privately place equity with other financial institutions, often taking on large portions of ownership in companies that are believed to have strong growth potential. Merchant banks still offer trade financing products to their clients. Investment banks rarely offer trade financing because most investment banking clients have already outgrown the need for trade financing and the various credit products linked to it.

2.1.12 Difference between Merchant Bank & Commercial Bank

The world of banking and finance is one of many intricacies. Many types of financial institutions exist, including commercial banking and merchant banking. The difference between commercial banking and merchant banking lies mainly in the services they provide, and to whom they are provided. Commercial banking is generally accessible to anyone for basic banking needs, whereas merchant banks serve mainly large companies and very wealthy individuals.

Commercial banks are what people typically refer to as “banks.” A commercial bank can provide loans to individuals and small businesses. It raises funds by collecting deposits from these same groups of people, as well as from interest charged on loans. It also purchases bonds from governments and corporate entities.

The banks described above are the most common definition of commercial banks. Commercial banking is also sometimes defined as the provision of banking services such as checking and loans to large businesses, as distinguished from individual citizens. In this case, banking provided to individuals is referred to as retail banking to differentiate it from the second definition of commercial banking.

Commercial banking and merchant banking both involve the provision of financial services and advice. Merchant banking, however, often focuses on investing a depositor’s assets in a finance portfolio and managing these investments. Merchant banks are commonly called investment banks in the United States. Apart from investing and managing the assets of wealthy clients, merchant banks also offer counsel and advice to large corporations. This advice is particularly useful when a corporation is considering getting involved in a merger with, or acquisition of, another corporation. Both commercial banking and merchant banking have roots that go back hundreds of years, if not more. Merchant banks were actually the original banks, and were invented in the middle Ages by Italian grain merchants. These merchants, as well as Jewish traders fleeing persecution in Spain, used merchant banking to finance long trading journeys as well as the production of grain.

The use of commercial banks by the average citizen is a relatively new phenomenon, historically speaking, but moneylenders have engaged in basic banking practices since the time of ancient Roman Empire. Primitive banking, though, mainly consisted of changing foreign currency to that of the Empire, rather than investment as we see today. Today's commercial banks are so common that more people work in the commercial banking sector than in any other part of the financial services industry. (Adam, 2009)

2.2 Review of Act, Article and Text Book

2.2.1 Act Review

Under this review the provisions made by government in context of Merchant banking related activities are reviewed. Securities Act 2063, Securities Regulation 2064, Merchant Bankers Regulation 2064, Securities Issue Guidelines 2008 and Securities Registration and Issuance Regulation 2008 are examined here. The Securities Businessperson (Merchant Banker) Regulation 2064 issued under Securities Exchange Act 2063 is the regulation for merchant banking activities including the portfolio management services in Nepal. Though the Securities Act 2063, Securities Regulation 2064 and Merchant Bankers Regulation 2064 have already been published, the detailed guidelines stipulating the agreement terms, fees and other operational directives for operation of portfolio management service are still being prepared. The Nepali regulations have clubbed portfolio management and merchant banking together though the two activities have so many differences. In India, Securities Exchange Board of India has brought out two distinct regulations for these services, namely Portfolio Managers Regulations, 1993 and Merchant Banker Regulation 1992. SEBON too should consider preparing separate regulations. Apart from the regulations and guidelines, a Code of Ethical Practices is also required along with a professional certification for portfolio managers. Also required are internet based trading system and the Central Depository System to expand the customer base of the PM service providers and improve the transaction efficiency of the market. The regulation for the CDS system is expected to be introduced soon as the fourth draft of the regulation has been completed by the SEBON's CDS Committee and is currently at the stage of legal review.

2.2.1.1 Securities Act, 2063 (2007)

Definitions: Unless the subject or the context otherwise requires, in this Act,-

- a) "Chairperson" means the chairperson of the Board appointed under Section 7.
- b) "License" means the license issued by the Board under this Act to operate the stock exchange or securities business.
- c) "Company" means a company incorporated under the company laws in force.
- d) "Depository" means a bank or financial institution that makes agreement with the scheme manager and thereby undertakes the responsibility of providing custodial services such as safely holding and operating the assets of any collective investment scheme.

- e) "Prescribed" or "as prescribed" means prescribed or as prescribed in the Rules framed under this Act.
- f) "Securities" means any shares, stocks, bonds, debentures, debenture stocks or collective investment scheme certificate issued by a body corporate or treasury bonds, saving bonds or bonds issued by the Government of Nepal or by a body corporate against the guarantee of the Government of Nepal, and this term also includes such other securities as may be specified by the Board to be transacted or transferable through the stock exchange or the instrument to purchase, sell or exchange such securities.
- g) "Securities transactions" means the issue, purchase, sale or exchange of securities and other acts pertaining thereto;
- h) "Registration of securities" means the registration of securities by a body corporate with the Board pursuant to Section 27.
- i) "Stock exchange" means a market, place or facility performing the purchase, sale or exchange of securities on regular basis by taking together the purchasers and sellers of securities.
- j) "Securities business" means transactions in securities to be carried on by any company or body licensed to carry on the securities business under this Act.
- k) "Securities business person" means a company or body licensed under Section 58 to carry on securities business.
- l) "Issuance" means an offer made by a body corporate to raise capital and acts related thereto, and this term also includes the issuance of securities to promoters.
- m) "Private placement" means an act to make an offer by a letter, dispatch or any electronic communication media for the sale of securities to a maximum of fifty investors.
- n) "Board" means the Nepal Securities Board established under Section 3.
- o) "Exchange" means an act concerning purchase, sale or transfer of securities already issued pursuant to this Act.
- p) "Prospectus" means a prospectus required to be published by a body corporate pursuant to Section 30 prior to the public issue of securities.
- q) "Scheme manager" means a body corporate managing a collective investment scheme of participants with an object to provide an efficient investment service pursuant to this Act.
- r) "Investment fund" means a fund created out of amounts deposited by participants in a collective investment scheme in accordance with a contract as has been taken in its custody by a scheme manager with object to provide an efficient investment service or assets related with such a fund, and this term also includes a fund which the scheme manager has taken in

its responsibility in accordance with this Act or additional assets created from management of investment of assets and amount accumulated by way of consideration.

s) "Participant" means a person or body that makes investment in a collective investment scheme operated by a scheme manager pursuant to this Act.

t) "Member" means a member of the Board, and this term also includes the chairperson.

u) "Body corporate" means a body corporate established under the laws in force as to be competent to make public issue of securities. Provided that, it shall not include a private limited company or a corporation.

v) "Public issue" means an offer made by a body corporate before the general public for the subscription of its securities by publishing a prospectus.

w) "Collective investment scheme" means such an investment fund, unit trust or similar other participatory fund management program as specified by the Board, from time to time as may be operated by a scheme manager in accordance with this Act in order to distribute returns, to the participants of the concerned program proportionately, accrued from the efficient investment service on saving investment amount which has been undertaken in custody of the manager and so mobilized that various persons or bodies that have participation in it.

x) "Enlisting" means the enlisting of securities on a stock exchange for the purposes of purchasing, selling or exchanging securities through the stock exchange;

y) "Right issue" means an offer made to the existing shareholder or any person nominated by such shareholder for the subscription of any securities issued by a body corporate.

2.2.1.1.1 Provisions Regarding Operation of Securities Business (Merchant Banker)

Business standards

Securities business person shall, in carrying on the securities business, observe the following business principles:-

- (a) To maintain the operation of securities business fair and of high standards,
- (b) To carry on the securities business with proper skills, care and hard working,
- (c) To keep on the higher standard of stock exchanges,
- (d) To obtain information from customers as to their objective to make investment and provide services accordingly,

- (e) To provide such information and advice as may be required for customers to make decision on investment in securities,
- (f) To avoid conflicts of own interests with the interests of customers and, in the event of the existence of such situation, to disclose that matter to customers and carry on the securities business having regard to the interest of customers,
- (g) To make such provisions as may be necessary to fulfill commitments made in relation to the securities business,
- (h) To properly maintain records relating to the securities business,
- (i) To provide for necessary training to employees in order to prepare skilled human resources for the operation of the securities business,
- (j) To observe such other principle as prescribed in relation to the operation of the securities business.

License to be obtained to carry on securities business

- (1) A company or body desirous of carrying on securities business has to obtain a license to carry on securities business from the Board pursuant to this Act.
- (2) No one shall carry on securities business without obtaining a license to carry on securities business from the Board pursuant to this Act.

Validity and renewal of a license to carry on securities business

- (1) The license issued to a securities business person to carry on securities business under this Act shall remain valid only until the end of that fiscal year in which it has been issued.
- (2) The securities business shall have to get such a license renewed by paying the annual fees as prescribed to the Board within three months from the date of expiry of each fiscal year.
- (3) In the event of failure to get a license renewed by paying the annual fees within the time-limit referred to in subsection (2), such license may be got renewed by paying a fine of twenty-five percent of the annual fees up to three months from the date of expiry of that time limit.

(4) The Board shall revoke the license of a securities business person who has failed to get such a license renewed even within the time-limit referred to in Sub-section (3), and publish a notice thereof for information to the general public.

Rights of securities business person

(1) No license to carry on securities business obtained by a securities business person shall be suspended or revoked without providing such a securities business person with a reasonable opportunity of hearing.

(2) In suspending or revoking a license to carry on securities business, information thereof shall be given in writing to the concerned securities business person, and such a notice shall indicate the reasons for such suspension or revocation, date of entry into force of such suspension or revocation and the period of suspension, in the case of suspension.

(3) A securities business person who is dissatisfied with the decision made to suspend or revoke a license obtained by such a securities business person to carry on securities business person may make an appeal to the concerned Appellate Court within thirty five days from the date of such decision.

Minimum capital and financial source of securities business person

(1) A securities business person shall, in carrying on the securities business, maintain the minimum capital and financial source as prescribed.

(2) If a securities business person fails to maintain the minimum capital and financial sources required to be maintained pursuant to Sub-section (1), information thereof shall be given to the Board immediately.

(3) If the Board receives the information referred to in Sub-section (2), it may immediately order such a securities business person to maintain the minimum capital and financial source as prescribed or give other necessary directives in that regard.

Provisions relating to identification of investors, purchase and sale order, contract note and payment of money

(1) Provisions relating to obtaining the identification of the concerned investor, opening a customer account, making transaction of money and concluding an agreement relating to

transactions by any securities business person prior to carrying on the securities business shall be as prescribed.

(2) Any securities business person shall, upon making a contract on the purchase, sale or exchange of securities, make a contract note before the closing of market on the following day, and where the securities business person has made such a contract as an agent, the original copy of the contract note shall be delivered to the concerned customer and where such person has made such a contract for himself, such a person shall mention that matter in the contract note and retain the note with him.

(3) The contract note referred to in Sub-section (2) shall contain, *inter alia*, the following matters:-

- (a) Type of securities business and place where such business is operated,
- (b) Where the securities business person him/herself has acted as the principal, details thereof,
- (c) Name and address of the person to whom the contract note is given,
- (d) Date of the contract and date on which the contract note is prepared,
- (e) Description and quantity of securities,
- (f) Per unit value of securities,
- (g) Description relating to consideration payable under the contract,
- (h) Amount or rate of commission payable under the contract,
- (i) If any fee is chargeable, the rate of such fee and description pertaining thereto,
- (j) Day on which account is settled or cleared r, e
- (k) Such other matters as prescribed.

Accounts to be maintained by securities business person

(1) A securities business person shall, maintain accounts and records in such manner as to adequately support the transactions in securities and clearly reflect the financial condition of the transactions done by him/her. While preparing the balance sheet and profit and loss account, it shall be prepared in such manner as to reflect the actual affairs.

(2) The accounts and records maintained by a securities business person pursuant to Sub-section (1) shall clearly and distinctly reflect the moneys paid by his/her customers wishing to purchase securities for the purchase of securities and distinctly reflect the accounts of securities and records, as prescribed.

(3) A securities business person shall prepare and maintain the accounts and records maintained pursuant to Sub-section (1) or (2) and relevant financial statements and reports in such manner as prescribed.

(4) A securities business person shall maintain the accounts and records to be maintained pursuant to this Section in such manner so that such accounts and records can subsequently be examined or inspected easily by the Board or the inspector appointed by the Board or the auditor or the concerned stock exchange if the Board or such inspector or auditor or stock exchange desires to make such an examination or inspection.

Submission of accounts and statements

(1) A securities business person shall submit the audited profit and loss account, balance sheet and cash flow statement and other necessary financial statements clearly reflecting the operational affairs of securities business carried on in the preceding financial year to the Board and the concerned stock exchange within three months from the date on which such a fiscal year is expired.

(2) If a securities business person fails to submit the accounts and statements pursuant to Sub-section (1) and makes an application, accompanied by the reasonable grounds for such failure, to the Board for the extension of time limit, the Board may extend the time limit for a period not exceeding three months. In the event of failure to submit such accounts and statements even within the period of time limit so extended, the Board may fine such securities business person with a sum of five thousand to twenty five thousand rupees.

(3) Notwithstanding anything contained in Sub-section (1) or (2), a securities business person who is not able to submit accounts and statements by the reason of not having them audited within the time limit may submit unaudited accounts and statements on the condition of submission of actual accounts and statements audited subsequently.

Report to be made by enlisted auditor to Board

If an enlisted auditor, in auditing the accounts of a securities business person, finds that such securities business person has violated the financial Bye-laws, the auditor shall prepare a separate report thereof and submit it to the Board.

2.2.1.2 Main Feature of Merchant Banking Regulation 2008

- License will be provided by SEBON as per the rule.
- Adequate infrastructure is required to operate Merchant Banking Institution.
- Merchant Bank can perform the following functions:
 - To issue securities on the behalf of their client.
 - To underwrite securities.
 - To work as register on behalf of their client
 - To work as portfolio manager for investor
- Types of Merchant Bankers
 - Issue Manager
 - Share Registrar
 - Securities Underwriter
 - Portfolio Manager

2.2.1.2.1 Functions of the Merchant Banker

Merchant Banker having obtained the license may carry out one or more than one of the following functions:-

- (a) All the functions related to issue and sales management of securities including drafting of prospectus, offer documents and other related documents,
- (b) Underwriting by entering into agreement with body corporate and undertake to purchase the unsubscribed portion of securities offered by body corporate,
- (c) Provide share registration related services such as maintaining register of ownership of securities and execute name transfer on behalf of the body corporate,
- (d) Provide portfolio management services to the clients by entering into an agreement.

Note:

1. A Merchant Banker obtaining license under these regulations shall not carry out functions other than Merchant Banking Business, Provided that such restriction shall not be applicable to banks and financial institutions.
2. Notwithstanding anything contained in this regulation Merchant Banker may carry out other securities business pursuant to Section 63 of the Act after obtaining the license.

2.2.1.2.2 Responsibility of Merchant Banker

a) Responsibility of Issue Manager:

The Issue Manager shall have responsibility for all the issue related activities inclusive of Information and disclosures, opening of the subscription list and collecting money, allotment of securities, refund and distribution of certificates.

b) Responsibility of Share Registrar:

Share Registrar shall have responsibility to execute transfer of securities received after completion of required transfer procedures, verify ownership of securities, maintain the record of the holders of securities and carry out other activities related to share registration.

c) Responsibility of Securities Underwriter:

Securities Underwriter shall have responsibility inclusive of its obligation to subscribe for the unsold portion of the securities it agreed to underwrite and make payment for the security.

d) Responsibility of the Portfolio Manager:

The responsibility of portfolio manager shall be inclusive of entering into agreement with the clients for portfolio management, opening client's accounts, buying and selling securities on behalf of the clients as per the terms of agreement make payment and provide other portfolio related services.

2.2.1.3 Securities Registration & Issuance Regulation, 2008

In exercise of the power conferred by section 116 of the Securities Related Act, 2007, the Securities Board of Nepal, upon the approval of the Government of Nepal, hereby makes the Securities Registration and Issuance Regulation, 2008 since November 12, 2008.

Features of Securities Registration and Issuance Regulation, 2008

- Provisions for registering securities in SEBON including promoters' shares proposed to issue to public by the public limited companies.
- Incorporated more advance provisions for the process of public issue, issue by circular and rights issue.
- Offering of Shares by the Shareholders in the Groups other than Public

- Incorporated the provisions requiring SEBON approval of offer for sale (offer documents) before issuing securities to public held by other groups than the securities held by promoters and public by using tender offer or at any other agreed upon price.
- Incorporated the provision for prescribing the format of the prospectus by SEBON required to be published for issuing securities and provision requiring SEBON approval of prospectus before publishing. I.e. Issue Management to be done through the Licensed Securities Businessperson.
- Incorporated the provisions of accountability of the directors of issuer companies, issue manager and the professional preparing prospectus to the authenticity of the contents of the prospectus, and relating to the aspects of making more credible and transparent prospectus.
- Provisions for seeking comments of stock exchange on prospectus and other related documents for rights issue, and documents of offer for sale submitted in SEBON for approval and registering the prospectus in stock exchange after SEBON approval.
- Provisions for submitting annual report, trimester report and price sensitive information to SEBON in the prescribed format by the issuer companies not yet listed and listed.

2.2.1.4 Securities Issue Guidelines, 2009

To safeguard rights and interests of the investors by making securities issue fair, credible and transparent, SEBON has enacted Securities Issue Guidelines since March 22, 2009 in pursuant to section 118 of Securities Related Act, 2006.

Features of Securities Issue Guidelines, 2009

- Clear definition of various terminologies related to securities issue.
- Provisions to be underwritten at least 50 % of the issuing shares by the public company.
- Incorporated clear provisions for the process of preference share, Rights share and Debenture issue.
- Incorporated the clear process for further public issue and securities issue on premium.
- Incorporated clear provisions about the allotment of shares within minimum time span of 40 days to maximum 70 days on the basis of applications numbers after the closure date of securities issue.

- Provisions to refund amount within five days after allotment.
- Incorporated clear provisions to allot 2% to 5% shares to its employees depending upon the number of employees of the issuing companies out of total issue of shares.

2.2.2 Review of Text Book

U.S. federal banking and securities laws, the term merchant banking is generally understood to mean negotiated private equity investment by financial institutions in the unregistered securities of either privately or publicly held companies. Both investment banks and commercial banks engage in merchant banking, and the type of security in which they most commonly invest is common stock. They also invest in securities with an equity participation feature; these may be convertible preferred stock or subordinated debt with conversion privileges or warrants. Other investment bank services-raising capital from outside sources, advising on mergers and acquisitions, and providing bridge loans while bond financing is being raised in a leveraged buyout are also typically offered by financial institutions engaged in merchant banking.

Craig had mention that Merchant banking has been a very lucrative-and risky-endeavor for the small number of bank holding companies and banks that have engaged in it under existing law. Recent legislation has expanded the merchant-banking activity that is permissible to commercial banks and is therefore likely to spur interest in this lucrative specialty on the part of a greater number of such institutions. Although for much of the past half-century commercial banks have been permitted (subject to certain restrictions) to engage in merchant-banking activities, the term merchant banking itself is undefined in U.S. banking and securities laws and its exact meaning is not always clearly understood. (Craig, 2002)

Merchant banks first arose in the Italian states in the middle ages, when Italian merchant houses generally small, family owned import-export and commodity trading businesses-began to use their excess capital to finance foreign trade in return for a share of the profits. This trade generally consisted of lengthy sea voyages. Thus, the investments were very high risk: war, bad weather, and piracy were constant threats, and by their nature the voyages were long-term and illiquid.

Later, the center for merchant banking shifted from the Italian states to Amsterdam and then, in the eighteenth century, to London, where immigrants from Prussia, France, Ireland, Russia, and the Italian states formed the core of early British merchant banking. Like the Italian and

Dutch houses before them, these British houses were generally small, family-owned partnerships, and most of them continued both to trade for their own businesses and to finance the trading by others. By the end of the eighteenth century, however, the British merchant houses had increased in size and sophistication and began specializing in trade, marketing, or finance. As the nineteenth century opened, virtually no mercantile houses remained focused on both trade and finance.

Bischoff had mention that in these days of increasing and sizeable banking transactions the question is often asked, even by those in the profession, whether the role of the merchant bank is still relevant. In attempting to answer this question it is perhaps useful to trace the origin of the typical merchant bank and to examine its role in the past and how, in adapting to the present financial environment in South East Asia and elsewhere, it continues to create a need for the expert services it provides.

Merchant banking outside Japan came to South East Asia in the late sixties, starting in Singapore and moving on very rapidly to Hong Kong and from there spreading to Malaysia, the Philippines and South Korea. Merchant banking originally was promoted by the British and it is conducted in English. (Bischoff, 1979)

The services developed over a period of time into financial advisory services to corporations, governments and semi-governmental bodies, the raising of finance through all varieties of instruments both equity, semi-equity and debt as well as the provision of investment services to those of their clients who had accumulated sufficient wealth to wish to safeguard what they had got rather than to multiply it manifold through their own efforts. In this way the merchant the Banking Ordinance, banks started their investment management activities which have continued to this day, the only major change being that there are very few individual or family fortunes remaining to be managed (other than perhaps in the Middle East, South East Asia and South America where there are transfer difficulties) and the emphasis now is on corporate funds with pension and retirement schemes forming the bulk of these funds.

2.2.3 Review of Articles

Articles are not full research framework for giving complete direction to the concerned authorities however it gives co-operation to the researcher. So it is taken into the account for the Literature Review that how many persons have written article in favor of the Merchant Bank in Nepal is reviewed here.

The study conducted by Mr. Madhuban L, Shrestha(2051) in his article "Merchant Banking an Outlook" in Nepal Bank patrika has thrown light of merchant banking in Nepalese prespective. Shrestha indicates that Merchant Banking in its crude form exist in Nepal from the advent of modern banking system with the establishment of Nepal Bank Limited. Modern and innovative services on banking sector were introduced by the establishment of joint venture banks in the country. The Finance Company Act 2042 give birth a new dimension to the merchant banking service. After the restoration of democracy, the country lunched financial labialization and privation programs. As a result maximum participation from the public took place and the country entered in the new industrialization process through rapid development on capital market. Consequently there is calling for the different services of the economy.

In the article "An Overview of Merchant Banking" in Prashichhin, Mr K. B. Kayal (2059) writes challenges ahead to Merchant Bankers. According to Kayal, MBs have to tap the opportunities lying ahead with the developing pace of the economy. These opportunities arise in the form of challenges before the MB to test their skills, expertise and efforts to attune their activities with the program of economic development of the country, adopt new instruments and innovative means of financing to meet the growing financial requirements of the corporate clients. Some of the areas of challenges which have been explored on the basis of research are classified as under;

1. MB will have to conduct management of capital issues in a different fashion then what is being done at present. If small industries are to be provided the full benefit of their services of corporate counseling project counseling and loan syndication then besides distribution of their securities to the public and arranging long term institutional or banking finance, it would be necessary for MB to make outright purchase of capital issues in total and to retain the purchased equity of the company till the implementation of the project commencement of production and profitable working of the company when the issue may be treated as good for marketing to the general public may be on premium so as to make capital gains, on that. This course of action will benefit the small industries in many ways, firstly they will have the quick liquidity and secondly their project will be implemented under the skilled supervision and expert guidance of the MB. Besides the investing public will be willing to purchase the issue at premium, have foreseen the dividend paying capacity of the only course, if adopted would reduce cost of the issue to negligible extent.

2. If the planned objective of economic decentralization and rapid development of rural economy is to be achieved, MB will have to make experts efforts in the interest of the national economy by mobilizing the savings from the rural sector and creating avenues for its investment in rural areas in industry, trade and commerce in different shapes and different magnitude encouraging the local people to espouse entrepreneurship in industrial undertakings in higher degree so as to reduce their dependence on land farming or other means of rural avocations. Alternatively, this possess a big challenge for MB to manage the surplus money available with the villagers by holding portfolio on their behalf or by channelizing it directly to industry in the shape of fixed deposits, etc.
3. Increasing number of sick industries is the ever growing threat for the industrial economy of the country. MBs have to find out ways and means for rehabilitating the sick industries and also devise the manner by which the running industry might be saved from going sick. They should so closely associate with the units so as to small developing weakness in the management of the enterprises and suggest timely leading to sickness of the industrial unit "Management buy-out" is one of the techniques which has been successfully tried in European countries as well as in USA, to check sickness in Industry. This device encourages the executive staff of the company to purchase the shareholdings of the proprietors and promoters and run the factory on professional basis. A venture capital fund contributes substantially in this area of finance.
4. The millions of small savers of small saves are unable to manage savings in Nepal in both rural and urban areas. These are mainly the people from the middle class and lower middle class. MB must devise ways and means to provide services for portfolio management to these citizens. This may be by taking recourse to encouraging the "mutual funds".
5. Public and private sector institutions engaged in trade, commerce and industry have many times surplus funds lying with them awaiting opportunity outside. These funds should be tapped by the MB from time to time by mobilizing them to deficit areas in profitable return basis playing the interest rate games as is done in SWAP deals in international finance.
6. In the international field where public and private enterprises are entering to raise foreign currency resources, Nepalese counterparts have to depend upon that assistance of foreign MBs. Nepalese MBs therefore will have to sharpen their skills and attain the requisite expertise in the field of internal merchant banking.

7. Attention is required to be gathered to the point that the banks and the financial institutions which are running the MB division can think in terms of taking up activity of providing acceptance credit and rediscounting facility to certain number of their clients on experimental basis on the lines of the traditional activity of European MBs. This will help for creation of secondary market for commercial papers as well.
8. To tap the latest technology available internationally and procure the transfer of tours of foreign countries, organize meeting and conference with the Chamber of Commerce and Industry and other commercial, industrial and financial organization so as to enthuse the foreigners to take interest in investment activities in Nepal Merchant Bankers, therefore, have to foreign countries and apprise the foreigners with the facilities and relaxations in various rules and regulations of the Govt. and the policy framework available for their benefit in case they chose to invest in Nepal or lend their technological expertise to Nepalese's entrepreneur and/or to collaborator in any other useful manner.

An article published in New Business Age, June 2009 on a topic **“Portfolio Management Services of Listed Securities in Nepal”** has written the Nepal’s Portfolio Management Service performance.

A portfolio is a collection of investment securities. As per Morgan Stanley, one of the top investment management companies in the world, you have a portfolio if you own more than one security. The portfolio can be further developed by buying additional securities and selling your holdings. By using the right investment tools and techniques, portfolio management can help you achieve attractive returns and to minimize your given risk. Managing a portfolio is a goal-driven process to increase the portfolio value by investing and divesting in securities in a timely manner. It yields optimal return by minimizing the risk level of the portfolio. Selection of securities is made by studying their historical trends and performance, while the risk level is mitigated by diversifying the portfolio holdings. Portfolio management requires continuous vigilance as high market risks exist which can be exacerbated by speculation, particularly in relation to the investments in the equity market.

Portfolio Management is the professional management service of a collective holding of various securities to meet the specified investment goals of investors who may be public or private institutions or individuals. Portfolio management entails certain scientific and mathematical steps and methods in order to create an optimal collection of stock holdings. To begin with, fundamental and technical analyses of stocks are conducted using sophisticated software. Stocks are then allocated to the portfolio holdings that would most likely match the

returns expected by the investor and beat the market return. It is very essential to assess how the portfolio risk level compares with the market risk during the portfolio construction process. A sound portfolio normally bears lesser risk than the market. This is because of optimal allocation of stocks and diversification of the stocks (portfolio diversification). After a portfolio is constructed and the money is invested in it, it is monitored closely by expert portfolio managers using various scientific tools. According to the performance of the portfolio, portfolio managers will modify the portfolio periodically and make timely divestment decisions to ensure that their clients receive the expected returns. By seeking the service of portfolio managers, the following are the benefits that will be garnered by the investors:

- a. Portfolio managers make all the investment decisions that are subject to professional rationality and scientific tools, on behalf of the client. Thus, every decision made will be to ensure the generation of adequate returns.
- b. Since portfolio managers are transacting volumes for large number of clients, stock purchase and sale get preferential treatment from the brokers, thus receiving better prices through-out.
- c. The investors or clients are free from the hassles of carrying out investment-related activities as portfolio managers will carry out all such activities on behalf of the clients.
- d. Regular market updates, monthly reports and verbal inquiries are additional services that are generally offered under Portfolio Management Services. These additional services will create awareness/ knowledge among customers and keep them well informed about their investments and market scenario.

Simply put, Portfolio Management Services are sought by those investors who believe that making or selecting investments requires expert knowledge. Thus, you hand over your money to these experts to minimize your risks and generate returns for you minus all the hassles.

In Nepal, the capital market is made up of the stock market and the bond market, and it comprises of two segments--the primary market and the secondary market. Both these segments complement and contend each other. The governing body of the capital market in Nepal is the Securities Board of Nepal which has so far granted permission to 159 companies (as on June 10, 2009) to issue shares to the general people. The secondary capital market of Nepal is the Nepal Stock Exchange which is the trading platform for the listed companies' securities.

The Nepal Stock Exchange was established in 1993. Since then, NEPSE has made significant advancements in all respects - the number of market participants, the trading volume, and the market capitalization. Currently, there are 23 stock brokerage firms and NEPSE has plans to increase this number to 50. NEPSE has recently announced its decision to transform itself into a profit making institution which would make the organization more competitive as three other stock exchanges promoted by private investors are in the pipeline. A bullish market deludes people into believing that they are experts.

As reforms have been made in the financial industry and the capital market in Nepal has witnessed major growth, new products and services must be introduced to better manage and facilitate the flow of money in the capital market. The primary market has already received a high level of attention and many Nepali investors are already active in this segment (as the IPOs are generally oversubscribed by huge multiples). The secondary market, however, is still in an emerging stage and a lot is yet to be done here. Lately, SEBON has devised various regulations to strengthen and grow the secondary market, among which is the enactment of the Securities Act three years ago.

The term 'portfolio management service' legally came into effect after the introduction of Securities Businessperson (Merchant Banker) Regulation 2064. However, the portfolio management activities so far are being carried out mainly in an informal fashion by amateur portfolio managers who collect funds from their close friends or relatives. Though the informal players did make considerable returns for their clients, it does not sufficiently prove their expertise because the market was bullish anyway. The true test lies in whether the manager can beat the market returns and whether he can generate returns even when the market isn't bullish. After the market index slipped from a record high of 1175 to about 600 in the last seven/eight months, many investors who had opted for these informal portfolio managers, have different opinions about them now.

The article on " Stock market development and economic growth: a case of Nepal" by Lok Raj Joshi published on SEBON journal June 2010. This paper empirically evaluates the relationship between stock market development and economic growth in Nepal. In the first stage of stock market development, the results are to be statistically insignificant. In second stage, both measures of stock market development- market size and liquidity are positively related with economic growth. In aggregate, there is positive relationship between stock market development and economic growth in Nepal. The finding is consistent with Pardy

(1992), Shahbaz et al. (2008), Brasoveanu et al. (2008), Oskooe (2010). The finding suggests that stock market activities have positive effect on economic growth of Nepal. However the lack of information, annual data and limited observation could question the validity of the finding for a quarterly data and large number of observation.

In the context of the development of security market in the article "Nepalese stock market: development impediments and challenges" by Dr. Surbir Poudyal in 2010 conclude that Stock market contributes for the short term economic growth and long term economic development as well. Since Indian stock market is the leading stock market in the south Asian region, Nepal can learn from Indian stock market in many aspects primarily functional independency of the regulator. Evidenced from the experiences of the other countries the state, without fail, should have a supportive role to ensure the functional autonomy coupled with overall institutional strengthening of the regulator for the development of stock market. So, the fortune of future Nepalese stock market partly depends on the positive role of the government in supporting the efforts of SEBON for regulatory and institutional strengthening and partly on the will-power and ability of SEBON leadership to translate the dreams into proactive plan and policies and their effective implementation.

2.3 Review of the Previous Thesis

In this review, various Master's degree thesis prepared by various researcher are reviewed here for analysis of Literature among them researches, research which are concerned about the Merchant Bank in Nepal are reviewed for analysis of Literature.

Lama (2000) had conducted research on the topic "Regulatory System in Nepalese Capital Market" and has studied the provisions in Securities Exchange Act as well as other Regulations in order to systematize and regularize the present capital market of Nepal.

Findings of the study were as follows

1. Inadequacy of various provisions in the legislation relevant to the capital market.
2. Lack of supervision and control over market intermediaries and participants.
3. Properly unstructured regulatory framework with appropriate provisions.
4. Lack of timely AGM and discloser of information by the companies as well as weak confidence of investors toward Nepalese Capital Market.

Paneru (2003) has conducted research on the topic "Stock Market and Economic Growth" and has studied the role of stock market in capital mobilization and to assess the significance

of the stock market in the corporate expansion, capital stock growth and employment generation.

Findings of the study were as follows

1. When the size of the primary stock market is compared to the economic growth variable, the positive result comes. Over the year saving investments, capital stock growth and GDP are in increasing trend and so is the size of the primary stock market. This certainly tells that the positive relationship between financial market and real activities in the economy. Only productivity growth in the Nepalese economy is more fluctuated.
2. Increasing issues of equity by the firms indicate that the investors are willing to take part in the investment process and thus drive the economic forces.
3. The relationship between market capitalizations with various economic growth related variables shows quite significant and positive relationship.
4. The relation of stock market variables are positive as theorized with the capital stock growth, but the relation is not significant. The relationship of market capitalization, value traded, turnover and volatility is positive, even if it is insignificant which tells that stock market may also have positive effect on the capital stock growth.

Pradhan (2003) conducted research on the topic "Merchant Banking in Nepal" In that thesis data used from fiscal year 2050 to 2059, and had studied the performance of NIDC Capital Market, CIT and NMB Bank.

The study of the study was to evaluate the performance of MB on Nepal and the growth of MB in Nepal.

Findings of the study were;

1. Public issue of the securities is in increasing trend which indicates the importance of Merchant Bankers and Merchant Banking activities for capital market development and growth of securities market.
2. Most of the issuing companies are financial institution rather than other non financial institutions.
3. MB activities are concerned on floating the public issue of securities. The underwriting, sales of government securities, registrar to the share are secondary choice for most of the firms and other merchant banking activities like consultancy, portfolio management etc are being performed rarely.
4. Most of the income of major MB is from public issue management.
5. MB has come to emergence in Nepal from few years before so most of found to be unknown about MB and their functions.

Subedi (2005) conducted research on the topic "Merchant Banking Practice of Financial Institution" using data from fiscal year 2050 to 2059 and had studied the MB performance of NIDC Capital Market, CIT And NMB Bank.

The objective of the study was to analyze the existing problem of MB in Nepal and to study the relationship of MB towards the development of securities industries in Nepal.

Findings of the study were;

1. NIDC Capital Market is not only found to be performing public issue management but also functions of underwriter and syndicate underwriting of public issue from 2050/51.
2. CIT is providing service such as market maker of corporate and government securities and consulting service for designing capital structure, pricing of securities etc.
3. MB income of NIDC Capital Market and CIT is in increasing very steady.

Baniya (2007) had conducted research on the topic "Pre Issue and Post Issue performance of Issuer Companies in Nepal" using the data from the fiscal year 2003 to 2007 and has studied the performance of various finance companies including NMB.

The study has been conducted to present the hidden implications of the finance companies with regard to financial performance and to identify their contributions to the national economy before and after their IPO.

Findings of the study were as follows

1. The loan and advances to total deposit ratio and total revenue to total asset ratio of financial sector are found to be decrease after IPO where as investment to total deposit ratio is found to be increased.
2. NMB has the highest average return on asset before and after IPO. NMB has the highest average net profit to total deposit ratio before and after IPO.
3. The earnings per share of the financial sector is found to be decreased after the IPO where as dividend per share and net worth per share are found to be increased after the IPO.
4. Capital Merchant Banking and Finance Ltd. has been found with the highest average cash and bank balance to current assets ratio before IPO among the sample institutions. NMB has maintained highest average ratio after the IPO among the sample taken.

Shrestha (2008) conducted research on the topic "Merchant Banking in Nepal" In that thesis data used from fiscal year 2058 to 2063, and had studied the performance of NIDC Capital Market, CIT and NMB Bank.

Findings of the study were as follows;

1. Finance Companies are in the first position in issuing securities while common stock is most preferred instrument.
2. Because of insufficient information and propaganda MB is still unknown to most of the public resulting to low demand of MB services.
3. Regulations related to MB though Finance Co. Act, NIDC Act and Commercial Bank Act etc permits to perform MB activities but none of them has given clear act, rules and regulations.
4. In spite of the importance of MB services, many of the MB services in our country is still poor. Nepalese MBs are still lagging behind and current political instability is also creating a question mark for the sustainability of MB sector including industries, trading as well as other business activities rather growth.
5. The performance analysis of three leading MBs like CIT, NCML and NMB are found to be operating in limited areas of MB services like share issue management, underwriting, registrar to share issue management, sale of government bonds while their involvement in other MB services like portfolio management, corporate counseling, project planning is very rare and the services like venture capital, factoring, merger and acquisition etc are not yet introduced.

Shakya (2010) has conducted research on the topic "Merchant Banks in Nepal" and he has studied on the development and growth of Merchant Banks in Nepal. The findings of the study are as follows.

1. A capital market is an organized market for effective and efficient mobilization of capital or investable funds from the numerous investing classes to finance their business either in the private sector or public sector of the economy.
2. Merchant banking operations provide the support, knowledge, and resources to effectively assist clients and corporations with improving, expanding, and sustaining their business and business investments
3. The need for a sustained profit plan and long term growth strategy has become essential for both individuals and corporations. Merchant banking operations consists of providing clients with a variety of financing options to sustain long term growth. So the importance of the merchant banking is increasing in the Nepalese capital market.
4. The "Finance Company Act 2042" is repeal by the "Bank and Financial Institutions Act 2063", which permits finance companies to sell and purchase the bonds issued by the Government or securities issued by the companies or the institutions, underwrite them and to

form syndicate for such purpose or to participate in such syndicates and to act as broker under the "Securities Exchange Act 2063.

5. Because of insufficient information and propaganda merchant banking is still unknown to most of the general public as a result merchant banking services is not flourishing in the capital market.

6. Nepalese merchant banks are still lagging behind and current political instability is also creating a question mark for the sustainability of merchant banking sector.

7. The role of the SEBON, NRB and NEPSE are still confusing because SEBON gives license to perform the merchant banking function and NRB formulate the laws and regulation to control the merchant banks while NEPSE appoints the securities businesspersons.

2.4 Research Gap

By reviewing previous thesis mostly researcher conducted on the meaning of Merchant Banking, their functions and growth in the Nepalese context. But my study focuses on the current status of Merchant Banking in Nepal and its performance towards securities markets. Furthermore analysis of IPO by NIDC capital market ltd., NMB bank ltd. and Ace Development bank ltd. are performed here.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Primary and secondary data are used for the research problem. For the analysis of this data percentage analysis, bar diagrammed, arithmetic mean, standard deviation and coefficient of variation are used.

3.2 Research Design

Everyone has to make a plan or design of his or her work before starting the particular work. Thus, the researcher has also to make plan of his or her study before doing research work. The systematic plan of the study is called research design. By research design, we mean an overall framework or plan for the activities to be undertaken during the course of research study. The research design serves as a framework for the study, guiding the collection and analysis of the data, the research instruments to be utilized, and the sampling plan to be followed. It is a strategy for conducting research. It is the main part of any research work. This research is based on recent historical data. It deals with the Merchant Banking activities of the companies taken as a case study on the basis of available information. This research is more quantitative or analytical based as well as descriptive and historic.

3.3 Population and Sample

Banks, finance companies, co-operatives, insurance companies etc. are the lots of financial institutions in our country. Out of these entire companies, some acts like Bank and Financial Institutions Acts, Securities Acts, Merchant Banking Regulation, NIDC Act, CIT Act etc permit them to perform Merchant Banking activities. There has been a significant growth in the number of banks and financial institutions in the review period. During the last two and half decades the Nepalese Financial System has grown significantly. At the beginning of 1980s, there were only two commercial banks and two development banks in the country. After the adoption of economic liberalization policy, particularly the financial sector liberalization that paved the way for establishment of new banks and non-bank financial institutions in the country. Consequently, by the end of Mid – January 2010, altogether 254 banks and non- bank financial institutions licensed by NRB are in operation. Out of them, 26

are “A” class commercial banks, 73 “B” class development banks, 78 “C” class finance companies, 17 “D” class micro-finance development banks, 16 saving and credit co-operatives and 45 NGOs as shown in annex ii;

Although Merchant Banking Services was existed from the establishment of Nepal Bank Limited in 1990 B.S, its existence was in a crude form. The concept of merchant banking is still new and only very few financial institutions are found to be performing specific merchant banking activities in Nepal. In fiscal year 2009/10 there are 14 different financial institutions are operating the merchant banking services in Nepal. Thus out of all those financial institutions three leading companies actively involved in merchant banking functions are taken as sample to conduct their research. They are:

- a) NIDC Capital Market Limited
- b) Nepal Merchant Banking Limited
- c) Ace Development Bank Limited

3.4 Nature and Source of Data

Collection of data is most important for any statistical investigation; any study without data analysis is impossible. This study is based on secondary data as well as primary data. Basically, it is mainly based on secondary data. Secondary data are collected from annual report of NMB Bank Ltd, NIDC Capital Market Ltd. and Ace Development Bank Limited also their respective website of the banks.

3.5 Data Collection Procedure

For the purpose of the study, as secondary data, various related books, magazine, journals, newspapers, websites and the dissertation made in this field have been referred. As far as primary data is concerned, it is collected through questionnaires distributed to shareholders of different banks and financial institutions.

a. Primary Data:

Logical aspect of the study I explored mainly through primary data which is collected using questionnaire and observation survey. For this purpose a set of scheduled

questionnaire is developed and distributed to various groups like executives and officers. Similarly observation of MB activities of few institutions is conducted as far as possible. Formal and informal interviews with the concerned authorized were also helpful to ascertain reliable and accurate information regarding Merchant Banking.

b. Secondary Data:

The secondary data are those which have already been collected by someone else and already been passed through the statistical process (Kothri: 1994).

The secondary data has been collected from published materials of different organizations such as Nepal Rastra Bank, Securities Exchange Board of Nepal(SEBON), Annual Reports of respective banks etc. likewise various data and information are collected from the economic journals, periodicals, bulletins, magazines, other published and unpublished reports and documents from various sources.

In the process of collecting primary data, the methods like telephone enquiry, formal and informal interview and questionnaire analysis are adopted wherever necessary. The formal as well as informal interviews are conducted with high level personnel of various fields. As far as a questionnaire method is concerned, a set of questionnaire is developed to meet the objective of the study. A number of questions were put up by means of three types namely yes/no questions, multiple choice questions and free opinion questions. The questionnaires included seven tick mark questions and three open end questions and are distributed to the executives of various professions and fields.

On other hand, secondary data are collected using methods like frequent visit of various libraries, organizations and websites. Library of Tribhuvan University, SEBON, Indian Library, library of Shanker Dev campus, library of Minbhawan campus, TIO library, British Library and NRB helped as sources for various books, journals, magazines and other published and unpublished reports.

Data are collected through annual reports, minutes, memorandum of association of several organizations and direct visit to NRB, SEBON, NIDC, NMB Bank and Ace Development Bank. Concept paper amide by few organizations, newsletters, leaflet, bulletin and broacher also helped in collection of data for the study. Similarly methods like surfing in websites.

3.6 Statistical Procedure of Analyzing Data

Data collection from secondary sources were analyzed by using various statistical tools like percentage analysis, ratio analysis, bar diagram, arithmetic mean, standard deviation, coefficient of variation etc. Similarly data collected from questionnaires were in raw form. They were classified and tabulated in the required form and analyzed through tool using percentage. Major findings were based on the analysis and interpretation of data. The major data analysis tools used of the analysis and presentations of data are percentage analysis, bar diagram, arithmetic mean, standard deviation and coefficient of variation.

CHAPTER IV

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

The presentation of the data is the basic organization and classification, which are then used for analysis purpose. After data collection is completed, the data will be in raw form, which is to be arranged in the proper way. This study consists of both primary as well as secondary data. Secondary data has been collected particularly from annual report of Merchant Bankers, Securities Exchange Board of Nepal, websites and newsletter prepared by the concerned companies. Similarly data collected from primary sources (interview and questionnaire method) have been analyzed to gather information on problems and remedies form Merchant Banking.

4.2 Presentation and Analysis of Secondary Data

Most of the Merchant Banking activities in Nepal are performed by Finance Companies and Development Banks rather than Commercial Banks so this study starts from analysis of selected finance company and commercial bank, which are actively participated in merchant banking activities. NCML, NMB and Ace Development Bank which represent the finance company, commercial bank and development bank respectively, are actively performing as leading merchant bankers in Nepal. This section provides interpretation and analysis of secondary data. Thus, this section is exclusively devoted for the analysis of activity performance of leading merchant bankers in Nepal.

4.2.1 Public Issue in Nepal

The main function of the merchant banking in our country Nepal is regard as issue management although the function of Merchant Banking includes a lot of activities. Thus, the analysis starts from the analysis of public issue of securities. Public issue of securities helps to develop capital market, which provides an important base for the development of industry, commerce and the economy. As the public issue goes on increasing the role and importance of Merchant Banks also increases for the reason that Merchant Bankers manage public issues in professional and systematic way. Tabular as well as graphical presentations of public issues in different fiscal years are presented in Table no 4.1 and Figure no 4.1 & 4.2 as follows.

Table No.4.1
Public Issue of Securities (Rs. in Millions)

Securities Market Indicators	2005/06	2006/07	2007/08	2008/09	2009/10
Total No. of Issue Approved	34	31	72	74	70
Total Amt. of Issue Approved (Rs.)	2692.1	2757.6	11895.6	14595.6	12576.4
Total No. of Public Issue	29	34	64	64	61
Total Amt. of Public Issue (Rs.)	2443.3	2295.56	10668.2	16828.51	10822.41

(Source: Economic Surveys, Annual Reports of SEBON and NEPSE Trading Reports)

There have been 252 securities of different companies amounting Rs. 43057.98 million are issued in between the fiscal year 2005/06 to 2009/10. The trend of issue is increased until the fiscal year 2008/09 but it is decreased in 2009/10.

Figure No 4.1

Number of Public Issues

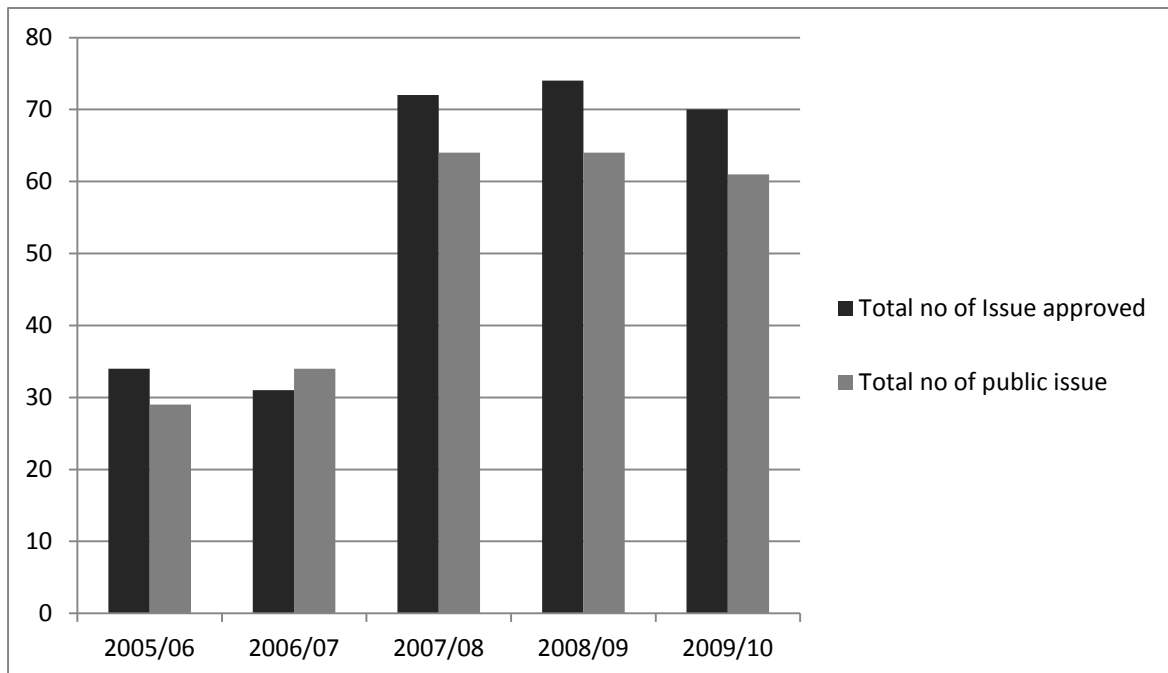
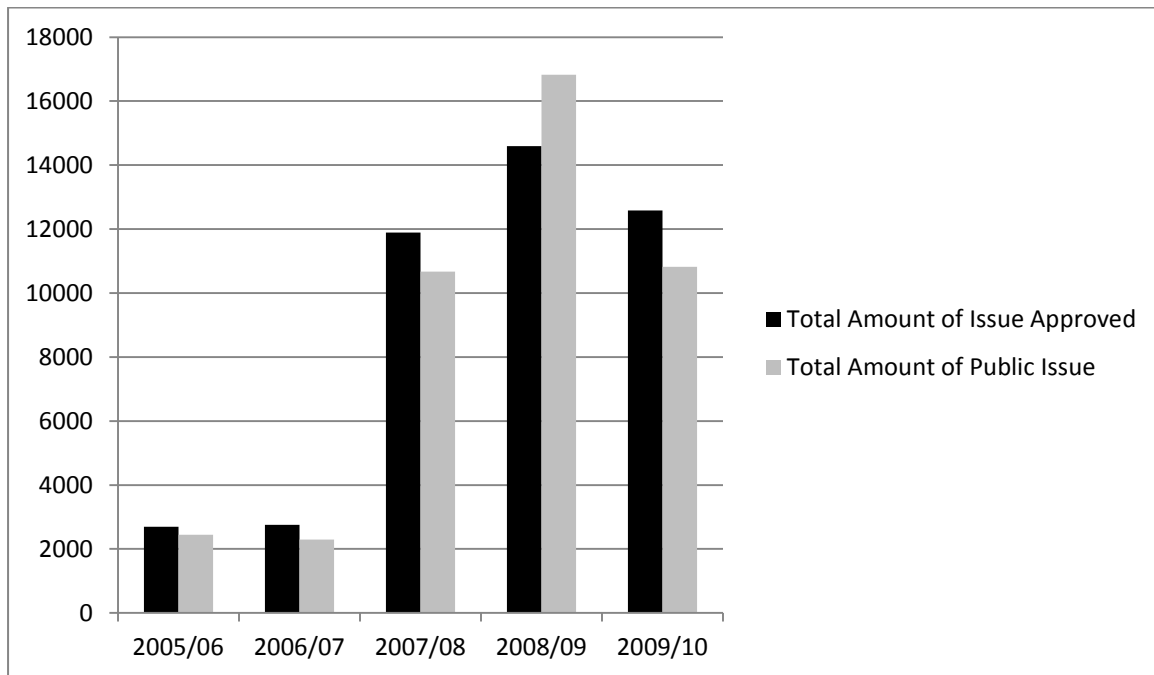


Figure No. 4.2

Amount of Public Issues



Although the issued number of securities were increased, the total amount of public issued earned were not satisfactory because the issued amount earned were less than the amount of issued proposed or approved in those fiscal years.

According to the Securities Exchange Act 2063(2007), the issuing companies should register the securities in SEBON and get issue approval before going to the public. During this process SEBON reviews the prospects and other relevant documents to fulfill the criteria prescribed by the existing rules and regulations. SEBON has also been taking the experts as and when it seems necessary.

4.2.2 Public Issue: Sector wise

In the fiscal year 2009/10, with the listing of 18 new companies, the total no of listed companies reach to be 177 but with the merge of of National Finance Ltd and Narayani Finance Ltd. to be Narayani National Finance Ltd, the total number of listed companies remained to be 176 while it was 159 in the fiscal year 2008/09. The detail of listed companies in the fiscal year 2009/10 is presented in table below.

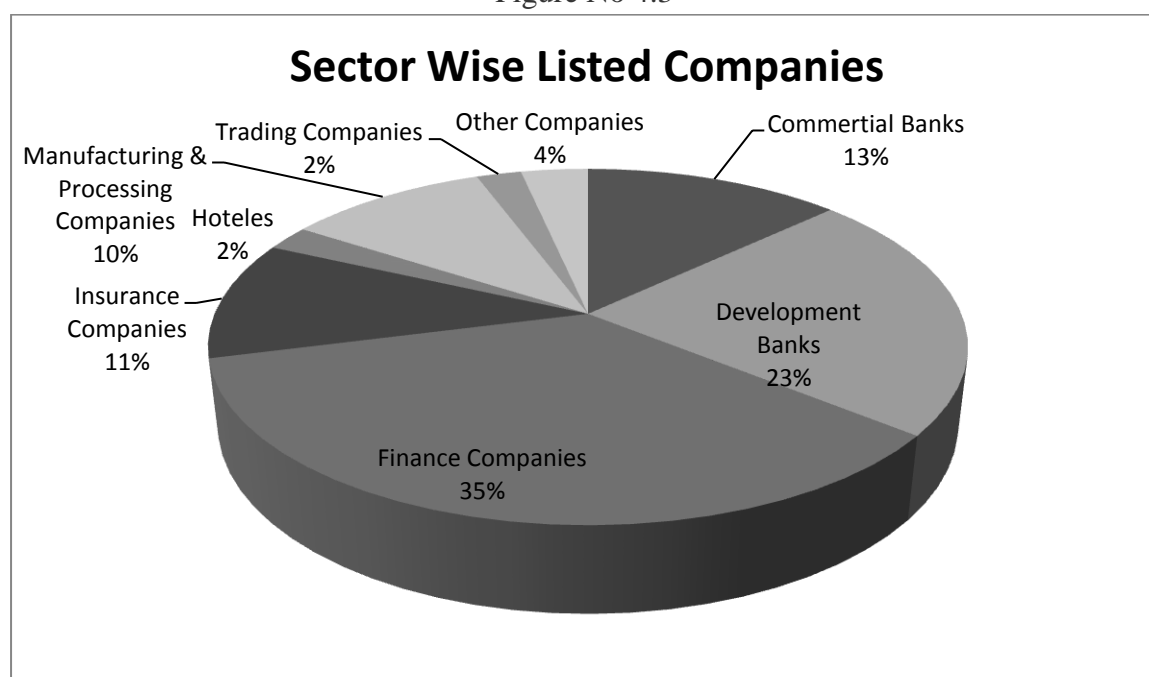
Table No 4.2
Sector Wise Listed Companies

S. N.	Sector	No. of Listed Companies	Percentage
1	Commercial Banks	23	13.07
2	Development Banks	40	22.74
3	Finance Companies	62	35.22
4	Insurance Companies	19	10.79
5	Hotels	4	2.27
6	Manufacturing & Processing Companies	18	10.22
7	Trading Companies	4	2.27
8	Other Companies	6	3.41
Total		176	100

(Source: SEBON Annual Report 2009/10)

Above table 4.2 and figure 4.3 shows that the sector wise public issue of fiscal year 2009/10. Table no 4.2 shows that that most of the public issues during the period are of finance companies i.e. 35.22% while the commercial banks have issued only 13.07% and that of development bank is 22.74%. The public issues of insurance companies and manufacturing sectors are 10.79% and 10.22% respectively.

Figure No 4.3



4.2.3 Public Issue: Instrument Wise

In the fiscal year 2009/10, 28 companies comprising two commercial banks, 17 development banks, six finance companies and three insurance companies issued ordinary shares

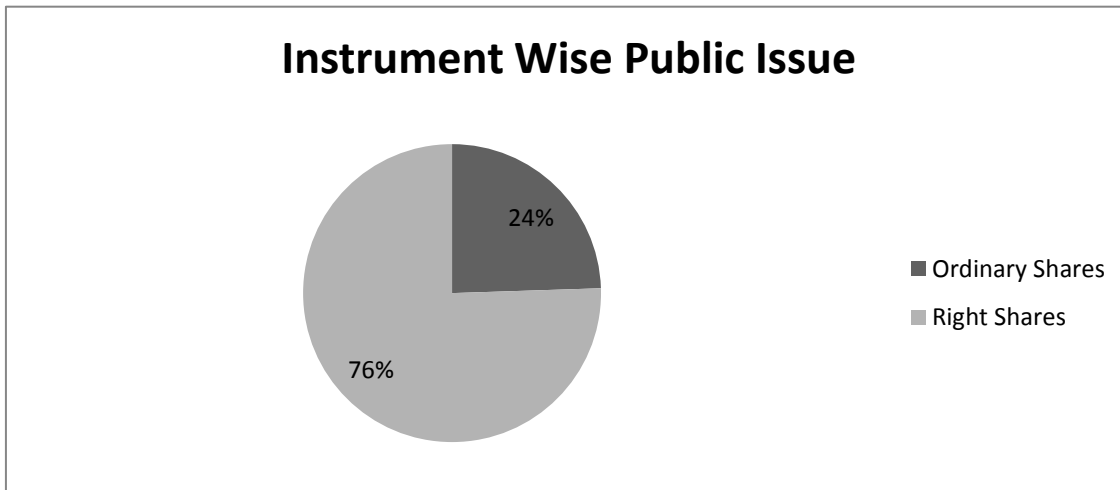
amounting to Rs. 2649.37 million to the public. Also in the fiscal year 2009/10, 33 companies comprising six commercial banks, eight development banks, 17 finance companies and two insurance companies issued rights share amounting to Rs. 8173.04.

Table No 4.3
Public Issue: Instrument Wise (Rs. in Millions)

S.N	Instrument	No. of Issue	Amt. of Public Issues	Percent (%)
1	Ordinary Shares	28	2649.37	24.48
2	Right Shares	33	8173.04	75.52
Total		61	10822.41	100

(Source: Annual Report of SEBON)

Figure No 4.4



Public issue analysis, Sector wise listed companies and Instrument wise public issue shows the importance of merchant banker towards the development of the capital market. Instrument wise public issue refers to the sources of funds that are raised by the issue manager through the public issues of different sectors. Sector wise listed companies are those whose securities are issued by the merchant bankers. The sector wise listed companies shows the size of the capital marker while the instrument wise public issues shows the volume of funds of the capital market. In the fiscal year 2009/10, there were issued of 61 institutions' securities amount Rs 10822.41 millions in the securities market for IPO. In NEPSE the total number of listed companies remained to be 176 while it was 159 in the fiscal year 2008/09 that means the involvement of institutions is increasing which is good sign for economic

development of the country as well as the availability of merchant banks for the development of the capital market.

4.3 Performance Activity of Merchant Bankers

A. NIDC Capital Market Ltd

NIDC Capital Markets Ltd was established under the Finance Company's Act 2042 under the initiative of Nepal Industrial Development Corporation along with the participation of other institutions such as National Life & General Insurance, National Productivity, Rastriya Beema Sansthan, Rastriya Banijaya Bank, Nabil Bank, and Nepal Red Cross & Provident Fund. It was registered with the Company Registrar office on 1-10-2049 & commenced its operation from 28-10-2049. NCML is the first Company to undertake merchant banking activity in Nepal. It has played an instrumental role in introducing various companies to the general public through initial public offerings. By providing services such as Registrar to shares, issuance of securities and underwriting, NCML is “the pioneer” in strengthening the transactions of the stock exchange by way of efficient transfer of title of shares. At present, NCML has diversified its operations to include banking services such as deposits, loans and cash advances, money transfer in addition to merchant banking.

NCML was the first merchant bank in Nepal and its sole and primary objective was to solidify the capital market in the country by mobilizing internal resources. It also aimed to develop the investment opportunities in the prevalent industries and other business sectors of the country in order to achieve rapid economic development. As a pioneer in Merchant Banking, NCML has successfully handled the activities as a Market Maker, Issue Manager and Registrar to the Issue. NCML has always been proactive in introducing new instruments in the market. NCML introduced Registrar to the Share Services, Portfolio Management, and Mutual Fund Scheme etc. However, due to the very infant stage of capital market in the country, NCML is continuing its effort as a market leader in merchant banking to contribute in the development of capital market in the country.

1. Public Issue Management

NCML ranks no 1 in terms of the numbers of issues & handled. NCML has handled the most issues ranging from IPO/ Right shares/ promoter shares and crossholdings. NCML experience is extensive and service is unmatched. NCML has handled over 70 issues in total till date. These companies range from Banks & Financial Companies to Hotels, Insurance Companies,

and Manufacturing Companies. The brief detail of public issue handled by NCML is shown in the table no 4.4.

Table no 4. 4
Public issue Managed by NCML
From 2005/06 to 2009/10 (Rs. in millions)

Fiscal year	NCML		Total issue		Percentage (%)
	No of Issue	Amount of issue	No of issues	Amount of issues	
2005/06	15	1148.87	29	2443.3	47.02
2006/07	11	729.3	34	2295.5	31.77
2007/08	21	2799.5	64	9968	28.08
2008/09	17	3761.64	64	16828.5	22.35
2009/10	16	3028.75	61	10822.41	27.98
Total	80	11468.06	252	42157.71	27.20

(Source: Annual Report of SEBON)

Note: 2 Issues were made jointly with NMB in 2005/06

2 Issue was made jointly with NMB in 2006/07

1 Issue was made jointly with NMB in 2007/08

1 Issue was made jointly with NFC in 2008/09

From the table no 4.4, it is clear that NCML has handled 80 public issues of different companies amounting Rs 11468.06 million, which is 27.20% of total issues. NCML has managed public issues of 17 companies in the fiscal year 2008/09, which is comparatively high till the current year. Although in the fiscal year 2009/10 NCML has managed only 16 public issues, in that year NCML has collected the amount of public issues Rs 3028.75 millions.

Figure no 4.5

Public Issue Managed by NCML

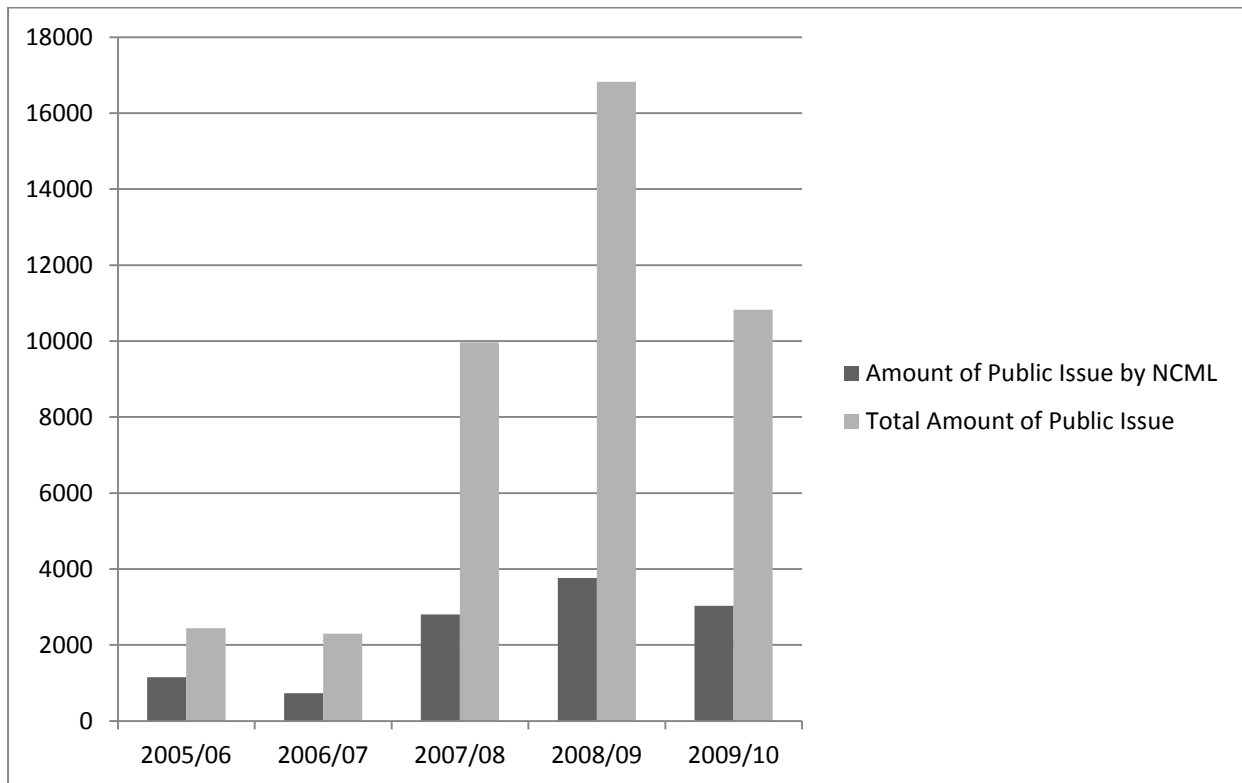


Figure no 4.5 shows the graphical representation of the public issue managed by NCML compare to the total public issued in various fiscal years.

2. Mutual fund

NIDC provides mutual fund schemes to the public in Nepal, in line with objectives of providing investment opportunities for sound economic development. With Mutual Funds investment is diversified by spreading the investment across the wide range of stocks, bonds and other securities. Risks are minimized and returns assured. NCML Mutual Fund 2002 was lunched with the objective of providing investors opportunity for a secure investment. It has 10,000,000 units of Rs. 10 each. Investors can buy or sell mutual funds units in Nepal Stock Exchange like any other shares. Investors are guaranteed the minimum of 5% yearly dividend. Furthermore the net asset value is calculated on the monthly basis there by providing the investors opportunity for capital gain in the long run. The goal of mutual fund is to provide an effective way for an individual to invest by minimizing the risk through diversification of the investment among a wide range of stocks, bonds and securities.

In the fiscal year 2009/10, under the NCML Mutual Fund, 2002 total investment reached to Rs.142.26 million and the net asset value (NAV) reached to Rs.391.70. In the fiscal year 2008/09, the total investment and the NAV were Rs.151.53 million and Rs.536.85

respectively. Total number of unit holders of the fund by the end of the fiscal year 2009/10 was 2951 comprising 2931 individuals and 20 institutions. As per the information submitted by NIDC Capital Markets Ltd., per unit net assets value and per unit market price of the Fund are Rs.39.17 and Rs.32 respectively by the end of the fiscal year 2009/10. The detail performance trend of the Fund is presented in table 4.5.

Table no 4.5
Performance of NCML Mutual Fund (Rs In millions)

S.N.	Particulars	Fiscal Year				
		2005/06	2006/07	2007/08	2008/09	2009/10
1	Investment	210.71	198.30	194.78	151.53	142.26
	(a) Share/Debenture	183.53	86.0	88.95	90.80	97.95
	(b) Government Bond	10.00	10.0	10.00	10.00	10.00
	(c) Bank Deposit	13.68	93.3	81.93	16.34	2.64
2	Net Income	13.89	23.1	47.68	34.25	13.98
	(a) Dividend in Share	2.82	3.4	3.30	3.85	4.29
	(b) Interest in Govt. Bond/ Debenture	0.81	0.8	0.8	3.49	2.08
	(c) Bank Interest	0.54	3.9	10.67	0.72	0.85
	(d) Income from Sale of Shares	9.71	14.9	32.89	26.17	6.74
3	Net Assets Value	189.14	314.0	488.88	536.85	391.70
4	Outstanding Unit (In thousands)	10,000	10000	10000	10000	10000
5	Net Asset Value per unit (Rs.)	18.91	31.40	48.89	53.69	39.17
6	Per unit Market Price (Rs.)	11	-	24	24	-
7	Number of Unit holder	2481	2417	2950	2951	2951
	(a) Institutional	20	20	20	20	20
	(b) Individual	2397	2461	2930	2931	2931
8	Dividend (%)	8	5	15	15	-

(Source: Annual Report of SEBON)

3. Registrar to Shares

Besides carrying out pre-issue and post-issue management of shares, NCML also performs the function of registrar to share. This is a function where the records of all the shareholders are kept and any future verification and transfer of shares are carried out. NCML also carries out all logistic arrangement for the conduction of AGM.

Table No. 4.6

Register to Shares by NCML

S.N.	Name of Companies	S.N.	Name of Companies
1	Om Finance Ltd	13	NCM Mutual Fund 2059
2	Nerude	14	Srijana Finance Ltd.(Bittiya Sanstha)
3	Sunrise bank ltd	15	Brikuti Bikas Bank Ltd.(Bittiya Sanstha)
4	Valley Finance	16	Brikuti Pulp and Paper Ltd.
5	NIDC Capital Markets Ltd	17	Business Development Financial Institution Ltd.
6	NIC Bank Ltd.	18	Chileme Hydropower Ltd
7	Kumari Bank Ltd.	19	City Homes Limited
8	Paschimanchal Developmant Bank Ltd	20	Rajdhani Investment Fund
9	Unilever Nepal Ltd.	21	Sahayogi Bikash Bank Ltd.
10	Nepal Film Development Co. Ltd.	22	Butwal Power Company Ltd.
11	Oriental hotels Limited(Radisson)	23	Him chuli Bikash Bank Ltd.
12	Biratlaxmi Development Bank Ltd.	24	Nepali Express Financial Institution Ltd

(Source: NIDC Capital Market)

4. Portfolio Management

NCML had managed portfolio of its customers with an objective to provide attractive returns from the deposited amount by buying and selling of securities in fiscal year 2051/52 but it had to leave in next fiscal year due to some problems.

5. Research and Development

NCML has improved this service by analyzing in depth the economic situation of listed companies and has also started to prepare macroeconomic sector analysis, whereby sectors of investment possibilities are researched. These sectors include textile with analysis on the area of cotton thread, garments and knitwear as well as tourism.

B. NMB Bank Limited

NMB Bank Ltd was established and promoted by a group of prominent businessmen, bankers and a dynamic team has built a reputation as Nepal's foremost financial institution from its foundation since 1996 and successfully transformed from a financial company to a full-fledged commercial bank in May 2008. NMB is a licensed primary market dealer and is involved in both primary and secondary markets. NMB is also actively involved in the management of public offering of securities (IPO & Right Issues). It underwrites equity and debenture issues and provides trusteeship services at the time of issuance of bonds/debentures. It also provides Registrar to Shares, Debentures & Bonds Services to its clientele and is also a dealer of T-Bills and Government Bonds both in the primary and the secondary market. The scope of activities of IB Unit also includes managing the portfolio of clients, valuation of securities, operation of mutual funds, management of private placement of equity and providing investment advisory services.

A corporate may raise capital in the primary market by way of an initial public offer, rights issue or private placement. An Initial Public Offer is the selling of securities to the public in the primary market for the first time. The right issue of securities deals with the offering of securities to the shareholders of the company as of the book closure date defined for the purpose, at certain ratio, at par or at premium. It is the largest source of funds with long or indefinite maturity for the company.

1. Public Issue Management

NMB has distinguished track record of executing the successful IPO and Right Issue of various companies over the years. NMB has handled 70 public issues of different companies during 6 fiscal years. The brief detail of public issue handled by NMB is shown in the table no 4.7.

Table No 4.7
Public Issues managed by NMB
From 2005/06 to 2009/10 (Rs in millions)

Fiscal year	NMB		Total issue		Percentage (%)
	No of Issue	Amount of issue	No of issues	Amount of issues	
2005/06	12	818.5	29	2443.3	33.49
2006/07	10	338	34	2295.5	14.72
2007/08	19	4297.3	64	9968	43.1

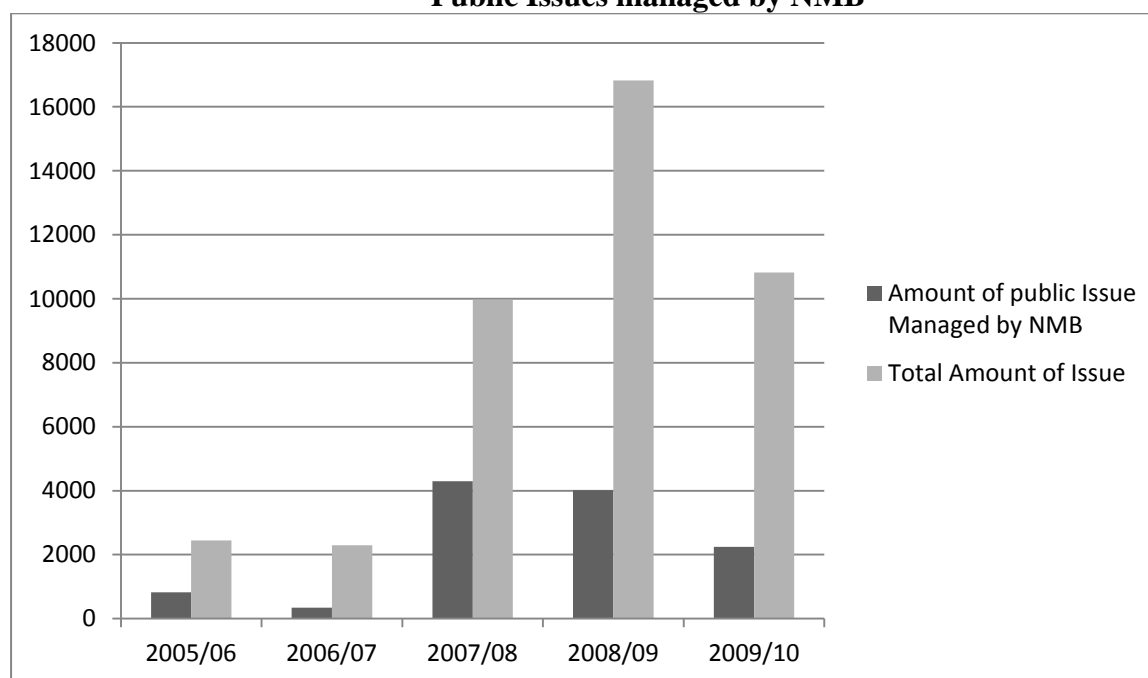
2008/09	17	4012.59	64	16828.5	23.84
2009/10	12	2248.09	61	10822.41	20.77
Total	70	11714.48	252	42157.71	27.78

(Source: Annual Report of SEBON)

Note: 2 Public issues and 1 Public issue were made jointly with NCML in the fiscal years 2005/06, 2006/07 and 2007/08 respectively. The graphical representation of above table is as shown below.

Figure No 4.6

Public Issues managed by NMB



The table no 4.7 and figure no 4.6 clear that NMB has handled 70 Public issues amounting Rs 11714.48 million till the fiscal year 2009/10, total issues by NMB is about 27.78% of total issue. NMB has managed public issues of 19 companies in the fiscal year 2007/08, which is comparatively high till the current year.

2. Underwriting of Public Issue

NMB underwrites debt instruments, equity and equity-linked offerings across domestic market. By leveraging our extensive knowledge of local market and resources, NMB has delivered innovative and customized solutions to its clients.

3. Registrar to the Shares/Debentures/Bonds Services

NMB has been providing Registrar services to esteemed clientele including NABIL Bank, Siddhartha Bank etc. NMB has the reputation for professional services among client institutions, Stock Exchange, Brokers, Individual/Institutional Investors as well as other authorities.

4. Market Maker for Government Securities

NMB is an accredited primary dealer with the Nepal Rastra Bank and a trader in the Fixed Income market comprising of Government Securities. NMB maintain a leadership position in the secondary market and as a primary dealer, NMB regularly quote bid / offer rates in respective counter.

C. Ace Development Bank Limited

Ace Development Bank Limited has been a leading player in the financial market of Nepal. It was founded in august 1995 as a Ace Finance Company Ltd. and was upgraded to Ace Development Bank Ltd., a fully fledged category "B" development bank in 2007. Over the years, this bank has developed financial products and innovations. Also its diversified risk asset portfolio has served the economy in every sector. Its wholesale banking initiatives have assigned numerous commercial banks and private enterprises with risk management concern such as debenture and rights.

Ace Development Bank having the license to perform merchant banking activities such as issuemanager, share registration, underwriting and investment management. As a development bank, ace has provided all the facilities combined with Merchant Banking activities to provide its clientele with the best service under one umbrella. Its aggressive growth in Merchant Banking has enabled to be the largest manager of issues that were brought to the market. it undertook 20 issues on the fiscal year 2007/08 having worth Rs. 2838.7 million. It also regular financial activities like loan distribution, cash collection, e-banking, and others. Ace Development Bank Ltd. underwrites equity and debenture issues. It also provides register to shares, debentures and bonds service to its clientele and also in primary and secondary markets.

1. Public Issue Management

Ace Development Bank has performed in IPO and Right Issue of various companies over the years Ace has handled 46 public issues of different companies during 3 fiscal years. The brief detail of public issue handled by Ace is shown in the table no 4.7.

Table No 4.7
Public Issues managed by Ace development bank
From 2007/08 to 2009/10 (Rs in millions)

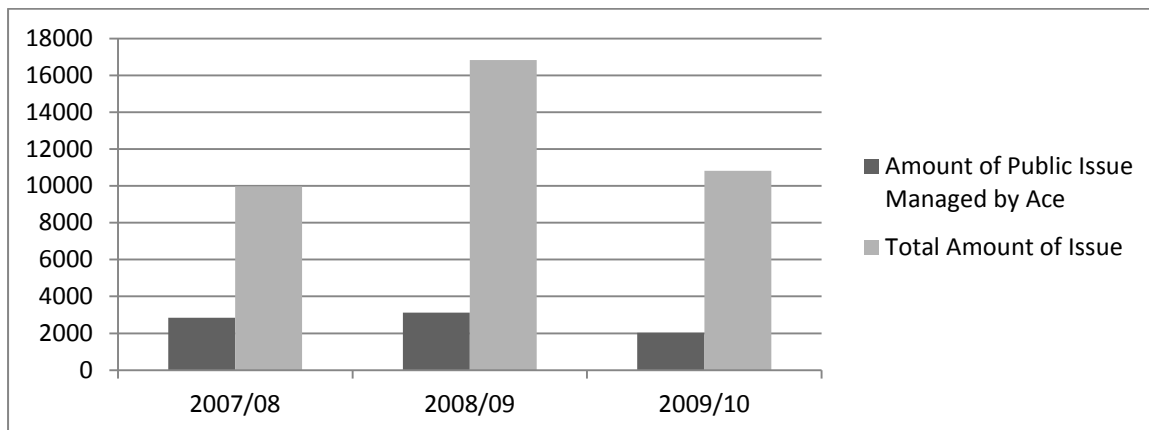
Fiscal year	Ace Development Bank		Total issue		Percentage (%)
	No of Issue	Amount of issue	No of issues	Amount of issues	
2007/08	20	2838.7	64	9968	28.48
2008/09	14	3120.45	64	16828.5	18.54
2009/10	12	2028.47	61	10822.41	18.74
Total	46	7987.62	189	37618.91	21.23

(Source: Annual Report of SEBON)

The graphical representation of this table is as follows.

Table No 4.7

Public Issue Managed by Ace Development Bank Ltd.



The table no 4.8 and figure no. 4.7 shows that the Ace has started the merchant banking activities through fiscal year 2007/08. In the year 2008/09 this Development Ltd. has managed the 20 public issues which is the highest public issue till now.

2. Registrar to Shares

Ace has also performs the function of registrar to share. This is a function where the records of all the shareholders are kept and any future verification and transfer of shares are carried out. Ace also carries out all logistic arrangement for the conduction of AGM.

Table No 4.9

S.N	Name of Companies	S.N	Name of Companies
1	Ace Development Bank Ltd.	10	Siddhartha Bank Ltd.
2	Shikhar Bittiya Sanstha Limited.	11	Swastik Merchant Finance Ltd.
3	Diyalo Bikash Bank Limited.	12	Triveni Bikas Bank Ltd.
4	Gaurishankar Development Bank limited.	13	Narayani National Finance Limited.
5	Garima Dev Bank.	14	Merchant Finance Limited.
6	Lumbini General Insurance Company Ltd.	15	Mahakali Bikas Bank Ltd.
7	Jyoti bikas Bank.	16	City Development Bank Ltd.
8	Everest Finance Ltd.	17	Agricultural Development Bank Ltd.
9	Subhechha Bikas Bank Ltd.		

4.4 Analysis of Income from Merchant Banking

Income is the main source or backbone for survival and growth of any company, so income from each and every activity affects the performance of the company. Thus, in this section, it has been tried to analyzed and find out the income from Merchant Banking activities of the merchant bankers. Here income refers to that income i.e. commission gain from the issue management, underwriting of share, registrar to the share and portfolio management.

A. Merchant Banking Income of NCML:

NCML is registered as finance company so this financial institution can perform every financial transaction which is permitted to Finance Company. NCML is finance company having license to perform Merchant Banking activities so the income source of this firm is Merchant Banking activities as well as income from regular financial activities like loan distribution, cash collection and other. But in this section only those incomes are analyzed which are generated from the merchant banking activities like share issue and underwriting of

share. Share issue and underwriting of share depend upon the capital market so the income from the merchant banking is not found to be constant, it varies according to the share issued in the capital market and underwriting of the share. The analysis of merchant banking income of NCML in various fiscal years is shown in the table no 4.8

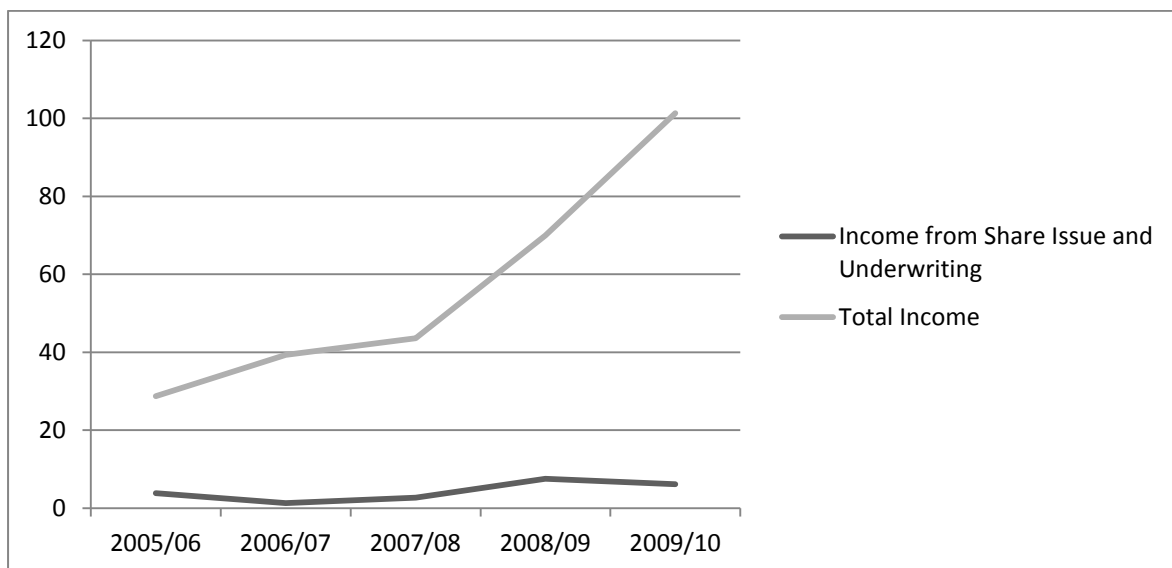
Table no 4.10
Income of NCML (Rs in millions)

Fiscal Year	Income from Share Issue and Underwriting	Total Income	% of Income from Share issue and underwriting to Total Income
2005/06	3.821	28.709	13.30
2006/07	1.282	39.310	3.26
2007/08	2.677	43.593	6.14
2008/09	7.537	69.911	10.76
2009/10	6.105	101.282	6.02

(Source: Annual Report of NCML)

From the table no 4.8 and figure no 4.7 show that the total income from the merchant banking is not constant for the NCML.

Figure no 4.8



The total income of the NCML seems increasing trend i.e. the total income in the fiscal year 2008/09 is Rs 69.911 millions and that in the fiscal year 20003/04 to 2007/08 were Rs 19.458 millions, Rs 22.281 millions, Rs 28.709 millions, Rs 39.310 millions and Rs 43.593millions respectively. Although overall income has been in increasing trend, the income from the merchant banking activities is not in increasing trend. The commission for the merchant banker is already declared in the contract made with the firm whose shares are going to be issued before the share issued for the public that's why income for the merchant banker varies in each merchant banking activities. The contribution from the merchant banking activities in income by 1.88%, 0.34%, 13.31%, 3.26%, 6.14% and 10.78% in the fiscal years 2003/04 to 2008/09 respectively. The table shows that the income of NCML is not being able to increasing simultaneously with the increase in the total income.

B. Merchant Banking Income of NMB:

NMB is the first commercial bank that performs commercial banking activities as well as the merchant banking activities. The performance of the NMB in merchant banking activities is satisfactory. Income from Merchant Banking activities refers to the commission of share issue, underwriting of share, registrar to share issued, consultancy, sales of government bonds etc. But only the income from the share issue and underwriting of share are taken for the study. Merchant banking income of NMB from the fiscal year 2003/04 to 2008/09 is presented in the table no 4.11.

Table No. 4.11
Income of NMB (Rs in millions)

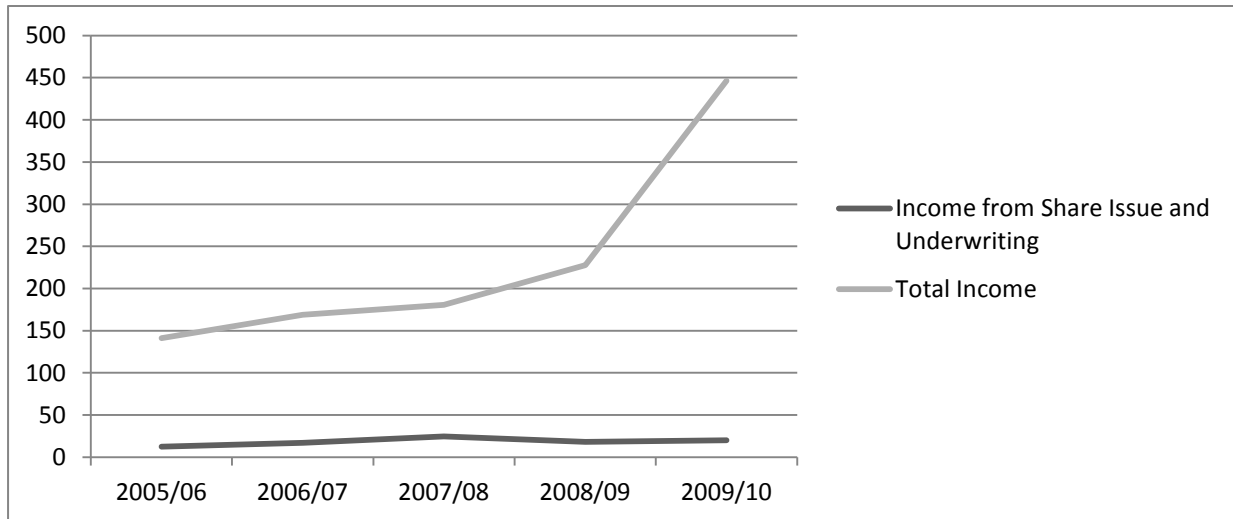
Fiscal Year	Income from Share Issue and Underwriting	Total Income	% of Income from Share issue and underwriting to Total Income
2005/06	12.485	141.343	8.83
2006/07	17.198	169.001	10.18
2007/08	24.499	180.65	13.56
2008/09	18.123	227.841	7.95
2009/10	20.196	446.122	4.53

(Source: Annual Report of NMB)

The table no 4.9 and the figure no 4.8 shoe the income of the NMB from the fiscal year 2005/06 to 2009/10 and define the trend of the income. The total income of the NMB is in increasing trend and satisfactory. Although the income from the merchant banking activities

increases from the fiscal year 2005/06 to 2007/08, the income become decrease in the fiscal year 2008/09 i.e. Rs 18.123 millions. Again the merchant activities income increased to Rs. 20.196 million in the fiscal year 2009/10. It shows the merchant banking income of the company is not constant but it is slightly different in different year.

Figure No 4.9



C. Merchant Banking Income of Ace Development Bank

Ace Development bank Ltd is the first and also large issue manager among the development banks. The merchant banking activities i.e. issue management started from the fiscal year 2007/08. But other merchant banking activities are started from previous year. It is also one of the leading companies among the field of merchant banking activities i.e. issue manager, share registration, share underwriting and portfolio management. From the beginning of its merchant banking activities, it gives the great performance towards other companies. Income from merchant banking activities only refers the income from share issue and underwriting are taken for the study. The merchant banking income of Ace development bank from the fiscal year 2006/07 to 2009/10 is presented in the table no. 4.12.

Table no 4.12

Income of Ace Development bank Ltd.

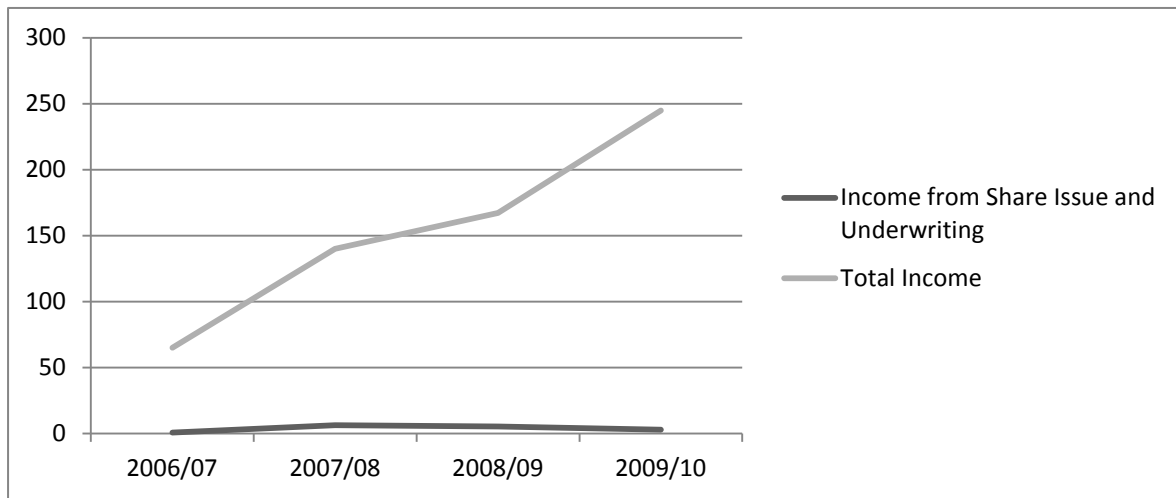
Fiscal Year	Income from Share Issue and Underwriting	Total Income	% of Income from Share issue and underwriting to Total Income
2005/06	~15	~140	~10.7%
2006/07	~20	~170	~11.8%
2007/08	~25	~180	~13.9%
2008/09	~20	~230	~8.7%
2009/10	~20	~450	~4.4%

2006/07	0.619	64.982	0.96
2007/08	6.194	140.020	4.42
2008/09	5.357	167.188	3.20
2009/10	2.861	244.787	1.17

(Source: Annual Report of Ace Development Bank)

In above table no 4.12 and figure no 4.10 shows the increasing trend in total income of Ace Development Bank from fiscal year 2006/07 to fiscal year 2009/10. But the merchant banking income is decreasing slowly. The highest income from share issue and underwriting is Rs. 6.194 millions in fiscal year 2007/08 and in 2009/10 is Rs. 2.861 millions.

Figure No. 4.10



4.5 Comparative Study of Income from Merchant Banking

In this section, the income generated by the NMCL, NMB and ACE performing the merchant banking activities are studied comparatively. The comparative table as well as chart of the merchant banking income is as follow;

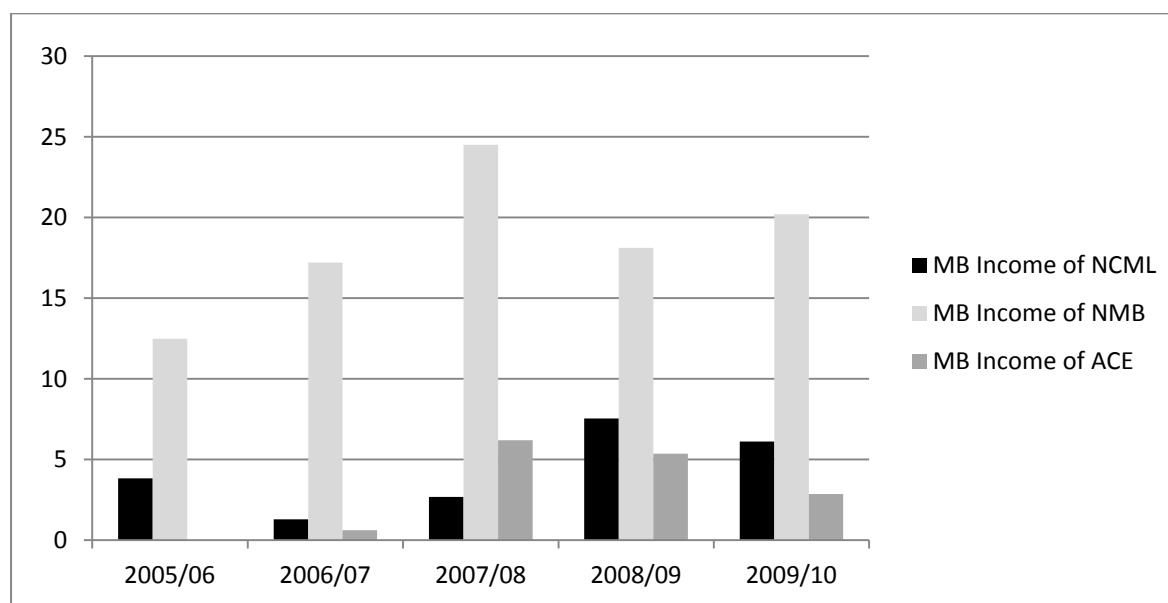
Table no 4.13

Merchant Banking Income of NCML, NMB and ACE (Rs in millions)

Fiscal Year	MB Income of NCML	MB Income of NMB	MB Income of ACE
2005/06	3.821	12.485	-
2006/07	1.282	17.198	0.619
2007/08	2.677	24.499	6.194
2008/09	7.537	18.123	5.357
2009/10	6.105	20.196	2.861

(Source: Annual Report of NCML & NMB)

Figure no 4.11

Merchant Banking Income of NCML, NMB and ACE

From the analysis of above table and figure, it is clear that merchant banking incomes are not consistent of these financial institutions. The merchant banking activities is directly affected by the demand in the capital market. The comparative analysis of profit shows that NMB is much successful in the race of merchant banking activities in comparison to the NCML. The

income for the NMB is consistently increasing while the income for the NCML shows variation.

4.6 Testing of Stability of Merchant Banking Income

At this testing all the three merchant banking income in various fiscal years consistency are tested. The consistency of income shows the stability or position of the institution in the competitive market. The consistency of merchant banking income is measured by using the statistical tools like mean (\bar{X}), standard deviation (σ) and co-efficient of variation (C.V). The result of the analysis obtained using the statistical tools mean, standard deviation and co-efficient of variation are shown in the table no 4.11.

Table no 4.14
Stability of Merchant Banking Income

STATISTICAL TOOLS	NCML	NMB	ACE
Mean(\bar{X})	Rs 4.28 millions	Rs 18.50 million	Rs 3.65 millions
Standard Deviation(σ)	2.27%	3.92%	2.35%
Co-efficient of variation(C.V)	0.53	0.21	0.63

Standard deviation is a representation of the risk associated with a given security (stocks, bonds etc.), or the risk of a portfolio of securities. The average income from the merchant banking service for the NCML is Rs 4.28 millions, NMB is Rs 18.50 million while that for the ACE is Rs 3.65 millions. This information shows that NMB is much success in the field of merchant banking.

The distribution having smaller C.V. is said to be more uniform (stable or consistent or homogeneous) than the other distribution having larger C.V. is said to be more variable than the other distribution having smaller C.V. The coefficient of variation allows investors to determine how much volatility (risk) they are assuming in comparison to the amount of return they can expect from their investment. Regarding the merchant banking income, the income of NMB is more consistent than other. And the income of ACE is more variable i.e. more inconsistent among other companies taken for the study.

4.7 Primary Data Analysis and Presentation

The data which are collected by the investigator from primary sources i.e. with the help of questionnaire is presented and analysis in this section. A set of questionnaire, which contains 10 questions, was distributed to the related parties to take their opinion about Merchant Banking in Nepal as primary data analysis for completion of this research. Details of questionnaire are in appendix 1. Only 35 questionnaires were distributed to the people of different sectors. The questionnaires so collected are related to find out on merchant banking. The responses from the respondents have been analyzed as follows:

4.7.1 Participation of Institutions in Merchant Banking Function

This question tries to identify the institutions i.e. Commercial Banks, Development Banks, Finance Companies or other sector which are actively involved in Merchant Banking function. The table no 4.15 gives clear information about this question.

Table no. 4.15

Active Participation in Merchant Banking Function

S.N.	Research Variable	No of Viewers	% of Viewers
A	Commercial Bank	2	5.71
B	Development Bank	12	34.28
C	Finance Companies	15	42.86
D	Others	6	17.15
Total		35	100

From the survey, it has been identified that the institutions actively involved in merchant banking activities are finance companies as 42.86% of respondents, 34.28% answered development banks, 5.71% answered commercial banks and 17.15% answered all finance institutions.

4.7.2 Regulatory Body for Merchant Banking Activities

This question had been asked to find out the regulatory body responsible for Merchant Banking activities. The detail of the respondents as follows in the table no. 4.16

Table no. 4.16

Regulating Body of Merchant Banking

S.no	Research Variable	No of Viewers	% of Viewers
A	Nepal Rastra Bank	8	22.86
B	SEBON	9	25.71
C	Both A & B	15	42.86
D	Not specified yet	3	8.57
Total		35	100

Among the 35 respondents, different persons answer different for this question. According to them about 22.86% said NRB regulate the Merchant Banking activity. 25.71% of respondents answered SEBON while 42.86% answered NRB & SEBON both are responsible for Merchant Banking activities. 8.57% of respondents said not specified yet.

4.7.3 Role Player for Development Of Merchant Banking

This question tries to find out which sector or regulatory body is more responsible for the development of Merchant banking activities. The details of the responses are shown in the table no. 4.17.

Table no. 4.17

Role Player for Development of Merchant Banking

S.no	Research Variable	No of Viewers	% of Viewers
A	NRB	9	25.71
B	NEPSE	6	17.14
C	SEBON	13	37.15
D	Above all	7	20.00
Total		35	100

According to the respondents, 25.71% answered NRB, 17.14% said NEPSE, 37.15% of respondents answered SEBON and 20% of respondents said not a single body but all the parties should play their own role for the development of Merchant banking activities.

4.7.4 Sufficiency Of Merchant Banking Guidelines

Securities Businessperson Regulation, Securities Exchange Act, Banks & Financing Institution Act, Mutual Fund Act, etc are the guidelines and regulations for the effectiveness of the merchant banking functions. This question had been asked to find out whether these acts are sufficient or not for the merchant banking functions. The response from the respondents is as follows.

Table no. 4.18

Sufficiency of Merchant Banking Regulations

S.no	Research Variable	No of Viewers	% of Viewers
A	Very Sufficient	8	22.86
B	Sufficient	14	40.00
C	Insufficient	9	25.71
D	Can't say	4	11.43
Total		35	100

About 22.86% of the respondents said these acts are sufficient for the merchant banking functions. But 34.29% of the respondents said these acts are very sufficient and 31.42% of the respondents said only these acts are insufficient for the effectiveness of the merchant banking functions. The remaining 11.43% of the respondents were unaware about the acts.

4.7.5 Merchant Bankers Contribution

The development of capital market is highly affected by the condition of merchant banking activities. So these two sectors are interrelated with each other. Thus, this question had been asked to find out the opinion of the respondents toward the contribution of merchant bankers in generation of capital fund in the Nepalese capital market. The details of the responses are presented in the table no. 4.19.

Table no 4.19

Contribution in Capital Market by Merchant Bankers

S.no.	Research Variable	No of Viewers	% of Viewers
A	Yes	26	74.28
B	No	9	25.72
Total		35	100

According to 74.28% of respondents, merchant bankers really help in the capital formation in Nepalese capital market. While 25.52% of respondents said that merchant bankers are not responsible for the development of capital market.

4.7.6 Position of Merchant Banking

For the economic growth of the nation the Merchant bankers plays the vital role. In this the position of the development of merchant Banking in Nepal is asked for the respondents.

Table no. 4.20

Position of Merchant Banking in Nepal

S.no	Research Variable	No of Viewers	% of Viewers
A	Fully developed	2	5.72
B	Developed	8	22.86
C	Moderate	18	51.42
D	Under developed	7	20
Total		35	100

4.7.7 Problems in the Performance of Merchant Banking

Merchant banking operations provide the financial support, knowledge, and resources to effectively assist clients and corporations with improving, expanding, and sustaining their business and business investments i.e. MB provides financial support to the economy. So the knowledge of the problems that occurred during performing Merchant Banking activities is essential. That's why this question had been asked to find out the major problems in the performance of merchant banking activities as it had been realized the lack of specific merchant bankers and sufficient merchant banking activities in Nepal. The various responses have been obtained through various respondents and the brief description of that response is as follow;

The unclear policies and lack of proper regulatory frame work also create the problem in merchant banking activities. There is also lack of coordination between the regulatory bodies like NRM, SEBON and NEPSE.

The problem point out by the respondents is lack of professionalism and competition. There is no any institution that gives training about the merchant banking function and activities.

Another is underdeveloped capital market that generates low level of business opportunities and capital fund to the investors and merchant bankers due to the slow economic growth.

Nepalese economy is getting sluggish as a result of slow economic development, volatile politics, unstable policy, immoral and unethical practices of some leaders, business people, bureaucrats, flagrant injustices and poor management process of getting things done in government and so forth.

4.7.8 Availability of few Merchant Banking services practice in Nepal

According to the respondents the reasons for availability of few Merchant banking services are due to the problem in the performance of merchant banking services. According to them merchant banking is in the introductory stage in Nepal. So there is a lack of knowledge among the corporate or individuals about the MB services.

There is also the lack of proper regulation and specific body to develop capital market and merchant banking. Similarly the respondents pointed out towards the slackness of economic and business activities in the country, resulting the low volume of business and opportunities and lack of modern technology, R&D activities.

4.7.9 Improvements required for growth of Merchant Banking Business

Nepal is developing country so Nepalese economy needs more investment and supply of money in all aspects of social economic activities all over the places in the nation, but due to the higher possibility of investment loss, the financial companies facing large portion of bad debts, and vulnerability of business environment caused by business, political and financial risks, are not welcoming the investments. In today's diverse and unpredictable economy, the need for a sustained profit plan and long term growth strategy has become essential for both individuals and corporations. Merchant banking principally involves providing financial services and advice for individuals and corporations. So the merchant bankers are essential for the development of capital market and there must be favorable condition for the boost up of merchant banking. The respondents gave a lot of suggestions required for the boost up of the merchant banking activities in Nepal.

There must be clear vision about rules and regulation for the improvement of merchant banking activities and the role of the regulatory body and implementation strategies. These things create a favorable environment for the industrialization in the country which attracts various investors inside and outside of the country. MB also helps in bringing the fund of international companies to develop the nation.

The management should have clear vision about merchant banking business, financial discipline and good corporate culture. There should be provision of incentive to the investors and institutions to invest in the capital market and float their shares in the market. The

merchant bankers should maintain transparent account of their business to win public confidence so as to attract more public scripts for issue.

The Nepalese merchant bankers need to capitalize the idea of venture capital investment and provide such business skills to borrowers to make them capable of paying off the loan. The venture capitalist can develop new business and increase investment including those of small investors by having all managerial power and ensure the company's profitable situation. Merchant banking focusing venture capital investment would be a new vehicle that may drive financiers and investors to the right direction, support them in establishing new business and fulfill financial needs.

The different factors like political stability, public awareness programs to train public about the merchant banking activities, strategic planning of government towards securities business, etc play the vital role in the boost up of the merchant banking activities in Nepal.

4.7.10 Reasons for Unfamiliar About Merchant Banking Services in Nepal

The practices of banking in Nepal are rapidly growing not fully developed. Regarding the reasons for unfamiliar about Merchant Banking services in Nepal, various respondents gave different views. They are as follows:

According to the respondents, all three players (Merchant bankers, investors and government) are not properly working the things out for the economy. As a result most of small investors and small business owners lack knowledge of doing business by having a lucrative stable business strategy and policy, and financiers lack good business analysts and expertise to provide guidelines and suggestion to them

Merchant banks tend to have operations in a country allowing offer an extensive network distribution to help their clients explore opportunities with alternative finance options. Merchant banking operations provide the support, knowledge, and resources to effectively assist clients and corporations with improving, expanding, and sustaining their business and business investments. But, there is lack of knowledge among the corporate as well as individuals about the merchant banking services since merchant banking is in introductory stage in Nepal.

Most of the respondents focused on the government of the country. The government is major decision player in the financial market. It decides the proportion of the investment limits as well as the regulation and control.

And also some respondents said that "Technology Improvements" which is also helping market players redefine the way they have been operating in the market.

Major Findings of the study

Although there are several merchant banks involved in merchant banking activities in Nepal the three leading merchant bankers NCML, NMB and Ace development bank are taken for the study of "The Study on Merchant Banking in Nepal". The activities of merchant banking in Nepal focus mostly on the issue management and few on register to shares. Finally the findings of the study are as follows

Findings from the secondary data analysis

1. After the economic liberalization policy, private sector investors are started to invest in different organized commercial ventures. The Citizen Investment Trust (CIT), which aim is to expand investment opportunities encouraging general public to share capital and to bring the dynamism in the development of capital market. After the CIT has been established as a merchant banker various commercial banks, finance companies and development banks getting merchant banking license from SEBON. Today there are 14 licensed merchant Bankers in our country.
2. Among the various merchant bankers SEBON has given license to perform public issue management, register to shares, underwriting and portfolio management but merchant bankers are mostly concentrated on public issue management and some are on register to shares.
3. According to public issue analysis the issue of securities is increasing trend which shows the significance of merchant banking towards the development of securities market in Nepal.
4. Today only 14 companies performed merchant banking activities but the merchant banking services crossed two decades in Nepal. Which shows the growth of merchant banking is poor in Nepal.
5. In instrument wise public issue most of the issuing companies prefer to issue right shares as well as ordinary shares which show the importance of merchant banks.
6. In the five year period altogether 252 public issues are issued for general public. NCML has issued 80 public issues amounting 11468.06 million which is 27.20% of total issue and

NMB has issued 70 public issue amounting 11714.48 million which is 27.78% of total issue. But in the three year period Ace Development bank has issued 46 public issues amounting 7987.62 million which is 21.23% of total issue.

7. NMB is slightly ahead in public issue among three merchant banks on total amount. Also NMB has higher merchant banking income (i.e. NCML has 4.28 millions, NMB has 18.50 millions and Ace has 3.65 millions in average).

8. Higher the risk higher the gain, the standard deviation of NMB is more i.e, 3.92% among other where NCML has 2.27% and Ace has 2.35%. Which shows the higher income of NMB.

9. The coefficient of variation of NCML has 0.53, NMB has 0.21 and Ace has 0.63 which shows the income of NMB has more consistent while Ace has variation in income.

Findings from the primary data analysis

1. Regarding the opinion of the respondents, 42.86% said that finance companies are actively involved in merchant banking function while 34.287% said that development banks are actively involved in merchant banking function.

2. Nepal Rastra Bank and SEBON are the actively regulating body of merchant banking focused by 42.86% of respondents while 25.71% said that SEBON is the regulating body of the merchant banking. Also 40.00% respondents said that the merchant banking regulations are sufficient while 25.71% said that the regulations are insufficient.

3. According to survey 74.28% people said that merchant bankers contributes on the capital market while 25.72% said that the merchant banking has no role on capital market.

4. According to the respondents the current position of merchant banking in Nepal is moderate said by 51.042% people while 22.86% said that the merchant bank is developed.

5. The unclear policies, lack of proper regulatory framework, lack of professionalism, under developed capital market, slow economic development, unstable policies and unstable government are the problems in the performance of merchant banking.

6. There must be clear vision about rules and regulation, role of the regulatory body and implementation strategies the merchant banking activities are improved.

7. According to respondents merchant bankers, investors and government are not properly working for the economy which does not help to familiar about merchant banking in Nepal.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter shows the final report of the study which is divided in to three parts. The first part deals with the summary, the second with the conclusion of the study and the third chapter deals with the recommendations. The details of the chapter are presented below.

5.1 Summary

Merchant banking operations consists of providing clients with a variety of financing options to sustain long term growth. Merchant banks tend to have operations in a variety of countries throughout the world allowing them to offer an extensive network distribution to help their clients explore opportunities with alternative finance options. In banking, a merchant bank is a financial institution that primarily invests its own capital in a client's company. Merchant banks provide fee based corporate advisory services for mergers and acquisitions, as well as other financial services. Merchant banking operations focus on commercial international finance, stock underwriting, and long-term company loans. These banks work with financial institutions with their primary function being stock underwriting. They also work in the area of private equity where the securities of a company are not available for public trading.

The objective of the study is to study and examine the significance of Merchant Banking towards the development of Nepal, analyze the current status and evaluation of the performance of Merchant Bankers in Nepal.

Primary as well as secondary data had been used to meet the objective of the study. Secondary data were collected from the annual report of Ace Development bank, NCMA, NMB, SEBON, Nepal stock exchange etc. and also financial and statistic report of NRB as well as other articles from websites and magazine. The primary data was collected through the questionnaire with various respondents. So obtained data were tabulated and presented as per the requirement of the study. The obtained data are analyzed through public issue analysis, activity performance of merchant bankers, income analysis, analysis of responses of questionnaire etc. The institution wise and instrument wise public issue had been conducted with the viewpoint to find out the significance of merchant banking toward the development of securities market in Nepal. The performance of selected institutions in relation to the merchant banking activities has conducted on the basis of secondary data.

NCML is the first Company to undertake merchant banking activity in Nepal. It has played an instrumental role in introducing various companies to the general public through initial public offerings. By providing services such as Registrar to shares, issuance of securities and underwriting, NCML is “the pioneer” in strengthening the transactions of the stock exchange.

NMB is the first Commercial Bank of Nepal that has been able to upgrade from a Finance Company to a full-fledged Commercial Bank. NMB has built its capacity with regard to merchant banking over the years and has been able to establish itself as a leading Investment Banker in the country. NMB is a licensed primary market dealer and is involved in both primary and secondary markets. NMB is also actively involved in the management of public offering of securities (IPO & Right Issues). It underwrites equity and debenture issues and provides trusteeship services at the time of issuance of bonds/debentures. It also provides Registrar to Shares, Debentures & Bonds Services to its clientele and is also a dealer of T-Bills and Government Bonds both in the primary and the secondary market.

Ace Development Bank having the license to perform merchant banking activities such as issue manager, share registration, underwriting and investment management. As a development bank, ace has provided all the facilities combined with Merchant Banking activities to provide its clientele with the best service under one umbrella. Its aggressive growth in Merchant Banking has enabled to be the largest manager of issues that were brought to the market. it undertook 20 issues on the fiscal year 2007/08 having worth Rs. 2838.7 million. It also regular financial activities like loan distribution, cash collection, e-banking, and others. Ace Development Bank Ltd. underwrites equity and debenture issues. It also provides register to shares, debentures and bonds service to its clientele and also in primary and secondary markets.

Among all these three merchant banks all are actively participate in their merchant banking activities. In the fiscal year 2009/10, out of 61 public issues NCML has performed 16 public issues, NMB has 12 and ACE has also 12 public issues.

Income analysis of selected merchant banks shows that NMB is in first position in terms of earning income from the merchant banking activities. The analysis shows that the income from merchant banking of NMB is continuously increasing from the fiscal year 2003/04 to 2007/08 but the income become slightly decrease i.e. Rs 180123 millions in the fiscal year 2008/09. The income of NCML from the merchant banking is in inconsistency form. The

income earned from merchant banking services by NCML in the fiscal year 2008/09 is Rs 7.537 millions.

The test of consistency of merchant banking income shows that the average income from the merchant banking service for the NCML is Rs 2.63 million while that for the NMB is Rs 15.60 millions.

From the primary data analysis, the finance companies are actively participating in merchant banking activities. NRB and SEBON both regulate the merchant banking activities in Nepal. The major role for the development of merchant banking activities, the majority said the SEBON is responsible for motivation and creation for the favorable condition. Regarding the knowledge of acts related to merchant banking, there is still lack of publicity of merchant banking activities. The problems identified by the respondents regarding merchant banking activities are lack of professionalism and competition, underdeveloped capital market that generates low level of business opportunities and unclear policies and lack of proper regulatory frame work.

5.2 Conclusion

Merchant Banking operations consists of providing clients with a variety of financing options to sustain long term growth. Merchant Banking operations focus on the commercial international finance, stock underwriting and long term company loans. If any firms are planning to raise capital, acquire a business, or struggling in this market, then Merchant Banker will give them ready access to resources. Merchant Banker will also give them more credibility, will project strength to the market, and will make a clear statement that they are bullish on opportunities in the market. Thus the merchant bankers serve as the important intermediate to provide needed capital to corporations. Hence the study has been made to find out the position of merchant banks in Nepal. Finally some conclusion can be forwarded on the basis of whole study and the conclusions drawn under the support of data analysis are presented as follows:

- Merchant banking operations provide the support, knowledge, and resources to effectively assist clients and corporations with improving, expanding, and sustaining their business and business investments.

- Merchant banking operations consists of providing clients with a variety of financing options to sustain long term growth. So the importance of the merchant banking is increasing in the Nepalese capital market.
- The "Finance Company Act 2042" is repeal by the "Bank and Financial Institutions Act 2063", which permits finance companies to sell and purchase the bonds issued by the Government or securities issued by the companies or the institutions, underwrite them and to form syndicate for such purpose or to participate in such syndicates and to act as broker under the "Securities Exchange Act 2063.
- Citizen Investment Trust is the pioneer Merchant Banker in Nepal. NCML is the first finance company to introduce the merchant banking in Nepal while NMB is the first commercial bank who operates the merchant banking function and ACE is development bank who operates the merchant banking functions. In our country, merchant bankers are performing only four functions namely share issue management, registrar to the share, portfolio management and underwriting of shares.
- The institution wise analysis shows that the financial institutions are ranking first position then the manufacturing companies and then hotels and trading companies.
- NCML is ranked first among from these three institutions in the public issue management.
- Generation of income is the main goal for any institutions without which the institution cannot sustain. So the analysis of income from the merchant banking has been performed to study its growth. The profit analysis shows that NMB is performing best among the selected institutions.
- The coefficient of variation of NCML has 0.53, NMB has 0.21 and Ace has 0.63 which shows the income of NMB has more consistent while Ace has variation in income.
- Because of insufficient information and propaganda merchant banking is still unknown to most of the general public as a result merchant banking services is not flourishing in the capital market.
- The unclear policies, lack of proper regulatory farm work, lack of professionalism, under developed capital market, slow economic development, unstable policies and unstable government are the problems in the performance of merchant banking.
- There must be clear vision about rules and regulation, role of the regulatory body and implementation strategies the merchant banking activities are improved.

- The role of the SEBON, NRB and NEPSE are still confusing because SEBON gives license to perform the merchant banking function and NRB formulate the laws and regulation to control the merchant banks while NEPSE appoints the securities businesspersons.

5.3 Recommendations

The following recommendation has been presented as follows.

- In the context of Nepalese capital market, merchant bankers are concentrated in merchant banking activities as share issue management, registrar to share, underwriting of share and portfolio management. So merchant bankers should pay interest in venture capital, factoring, merger and acquisition function.
- Nepal is a early developing country its capital market is also in increasing stage so NRB plays the vital role to develop Merchant Banks which are helps in providing capital formation.
- NRB should conduct the training related to the merchant banking activities in associated with SEBON and NEPSE. Experts of the merchant banking activities should also be invited from the foreign countries to train the securities businesspersons.
- Today, there are various acts related to the merchant banking but most of the general public is still unknown to these acts. So, concerned authorities like government and SEBON should take a series of initiatives and encourage the general public.
- SEBON plays a crucial role in the development of merchant banking in Nepal. SEBON has to update and develop its website on time made user friendly and informative for the public. The information's provided by SEBON are not quite enough. So, public should be provided with investment guidelines from news, media and internet. Free information about securities market and merchant banking functions must be available so that people or investors would have willingness and curiosity to learn and understand about securities market and merchant banks in Nepal.
- Instrument wise public issue shows that most of the securities issued are ordinary share and right share. So the merchant banks should pay attention toward the issue of preference share and bonds.
- The sector wise public issue is mostly in financial sector but it should also diversified in another sector like tourism, manufacturing etc.

- ACE, NCML and NMB, all are not giving priority to portfolio management so both organizations should pay attention toward the portfolio management to raise the capital market.

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Appendix 1

Name:.....

Occupation.....

This questionnaire is concerned with a study on “The Study of Merchant Banking In Nepal” it would be very much appreciated if you could spare some of your valuable time for filling this questionnaire. It will be helpful my thesis writing. Your kind cooperation in this regard will highly appreciable.

1. Which institution actively participates in merchant banking Activities?
 - a) Commercial Banks
 - b) Development Banks
 - c) Finance Companies
 - d) Others
2. Which body plays the regulatory role in Merchant banking activities in Nepal?
 - a) Nepal Rastra Bank
 - b) Securities Exchange board
 - c) Both a and b
 - d) Not Specified yet
3. Which body has to play the measure role for the development of Merchant Banking in Nepal?
 - a) Nepal Rastra Bank
 - b) Securities Exchange board
 - c) Nepal Stock Exchange
 - d) Above all
4. Do you feel that the existing guidelines issued by security exchange board of Nepal sufficient for the healthy growth of Merchant Banking in Nepal?
 - a) Very sufficient
 - b) Sufficient
 - c) Insufficient
 - d) Can't say
5. Do you think that Merchant bank's activities are helping to generate capital in Nepalese capital market?
 - a) Yes
 - b) No
6. At which position do you think the development of Merchant Banking in Nepal?
 - a) Fully developed
 - b) Developed
 - c) Moderate
 - d) Under developed
7. What are the problems in the performance of Merchant Banking in Nepal?

8. What are the reasons for availability of few Merchant Banking services practice in Nepal?
9. What should be done to improve the Merchant Banking sector in Nepal?
10. What are the reasons that people are still unfamiliar about Merchant Banking services in Nepal?

Appendix 2

Licensed Merchant Bankers

Sn	Name	Address	Phone	Type of Business
1	Ace Development Bank Ltd.	Narayanchaur, Naxal, Ktm	4441110 4249369	Issue Manager, Share Registration, Underwriting and Investment Management
2	NCM Merchant Banking Ltd.	Kamalpokhari, Ktm	4423219 4423398	Issue Manager, Share Registration, Underwriting and Investment Management
3	NMB Capital Ltd.	Babbarmahal, Ktm	4253596	Issue Manager, Share Registration, Underwriting and Investment Management
4	Citizen Investment Trust	Putalisadak, Ktm	4228759 4240598	Issue Manager, Share Registration
5	Elite Capital Ltd.	Putalisadak, Ktm	4222460	Issue Manager, Share Registration
6	Vibor Capital Ltd.	Tripureshower, Ktm	4233368	Issue Manager, Share Registration, Underwriting and Investment Management
7	NSM Merchant Banking Ltd.	Putalisadak, Ktm	4223378	Issue Manager, Share Registration, Underwriting and Investment Management
8	Civil Capital Market Ltd.	Kamaladi, Ktm	4168654	Issue Manager, Share Registration
9	Investment Management Merchant Banker Ltd.	Kamaladi, Ktm	4440300	Issue Manager, Share Registration, Underwriting and Investment Management
10	Beed Invest Ltd.	Krishna galli, Lalitpur	5548400	Investment Management
11	Growmore Merchant Banker Ltd..	Durbar Marg, Ktm	4431385 4250366	Issue Manager, Share Registration, Underwriting and Investment Management
12	NABIL Investment Banking Ltd.	Chabahil, Ktm	4464470	Issue Manager, Share Registration, Underwriting and Investment Management
13	Laxmi Capital Market Ltd.	Pulchok, Lalitpur		Share Registration, Investment Management
14	Araniko Capital Management Company Ltd.	Mahabouddha, Ktm		Share Registration, Investment Management

(Source SEBON, Annual Report 2009/10)

Appendix 3

Calculation of Mean and Standard Deviation of income for NCML

Fiscal Year	Income from MB (X)	$(X - \bar{X})$	$(X - \bar{X})^2$
2005/06	3.821	-0.4634	0.2147
2006/07	1.282	-3.0024	9.0144
2007/08	2.677	-1.6074	2.5837
2008/09	7.537	3.2526	10.5794
2009/10	6.105	1.8206	3.3146
	21.422		25.7068

$$\text{Mean}(\bar{X}) = \frac{\sum X}{N} = \frac{21.422}{5} = 4.2844$$

$$\begin{aligned} \text{Standard deviation}(\sigma) &= \sqrt{\frac{1}{N} \sum (X - \bar{X})^2} \\ &= \sqrt{\frac{25.7068}{5}} = 2.267 \end{aligned}$$

$$\begin{aligned} \text{Coefficient of Variation (C. V.)} &= \frac{\sigma}{\bar{X}} \\ &= \frac{2.267}{4.2844} = 0.529 \end{aligned}$$

Appendix 4

Calculation of Mean and Standard Deviation of income for NMB

Fiscal Year	Income from MB (X)	$(X - \bar{X})$	$(X - \bar{X})^2$
2005/06	12.485	-6.0152	36.1830
2006/07	17.198	-1.3022	1.6960
2007/08	24.499	5.9988	35.9861
2008/09	18.123	-0.3772	0.1423
2009/10	20.196	1.6958	2.8757
	92.501		76.8826

$$\text{Mean}(\bar{X}) = \frac{\sum X}{N} = \frac{92.501}{5} = 18.5002$$

$$\begin{aligned} \text{Standard deviation}(\sigma) &= \sqrt{\frac{1}{N} \sum (X - \bar{X})^2} \\ &= \sqrt{\frac{76.8826}{5}} = 3.921 \end{aligned}$$

$$\begin{aligned} \text{Coefficient of Variation (C. V.)} &= \frac{\sigma}{\bar{X}} \\ &= \frac{3.921}{18.5002} = 0.2119 \end{aligned}$$

Appendix 5

Calculation of Mean and Standard Deviation of income for ACE

Fiscal Year	Income from MB (X)	(X - \bar{X})	(X - \bar{X}) ²
2006/07	0.619	-3.5888	12.8972
2007/08	6.194	2.4361	5.9653
2008/09	5.357	1.5992	2.5576
2009/10	2.861	-0.8967	0.8042
	15.031		22.176

$$\text{Mean}(\bar{X}) = \frac{\sum X}{N} = \frac{15.031}{4} = 3.7577$$

$$\begin{aligned}\text{Standard deviation}(\sigma) &= \sqrt{\frac{1}{N} \sum (X - \bar{X})^2} \\ &= \sqrt{\frac{22.176}{4}} = 2.3545\end{aligned}$$

$$\begin{aligned}\text{Coefficient of Variation (C. V.)} &= \frac{\sigma}{\bar{X}} \\ &= \frac{2.3545}{3.7577} = 0.6263\end{aligned}$$