

# **CHAPTER - I**

## **INTRODUCTION**

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

A place where long term lending and borrowing takes place is known as capital market. Therefore the capital market is the market for long-term borrowing and lending. The primary instruments of the capital market are stocks and bonds (equity and debts). Therefore it includes both the new issue market and old market. Capital market is concerned with long term finance. It is concerned with that private saving, individual as well as corporate. It can turn into investment through new capital market. Capital market has grown in the as an important base for the collection, allocation, mobilization and utilization of needed funds for the listed companies.

A securities market can be defined as place for bringing together buyers and sellers of financial assets in order to facilitate trading .Securities market is the place where people buy and sale financial instrument. These financial instruments may be in the form of ordinary shares preference shares, government bond corporate bond and debentures etc. The parties involved in security market are investors, intermediaries and specialists. Security prices are more stable in the security market. Securities market is the mechanism where securities are traded. The capital market including securities market and non securities market helps economic development by mobilizing long term capital and needed for productive sector for the growth and prosperity of national economy since it provides the channel through which funds can be collected.

In general term, market means where a certain buying and selling of goods and services are held. These buying and selling activities are performed directly through the creation of demand and supply, price cost and volume.

A security market is a market where financial assets are traded to generate sufficient liquidity and the profit through efficient allocation of financial assets with supporting conditions to encourage transaction among the participants with minimum cost (Frank, Modiglia and Ferri, 2002).

Security market in functional perspective is a rational system of collecting saving and allocating them efficiently to the ultimate users for investment in productive assets or current consumptions (Kidwell and Peterson, 1981).

“Transferable of resources from those with idle resources to others who have a productive need for them is perhaps most efficiently achieved through the securities markets” (Securities Market in India, 2003).

Stock market is an organization established for buying and selling financial securities that are continuous. The stock market is the trade center, which have specific trading floor, where the stocks of those companies are traded that is listed by satisfying certain specific requirement.

Security market is an organized and regulated secondary market. Where trading in stock exchange occurs in a specific geographical location. Security market are the organized security exchange that provide fixed place for trading and is voluntary association that endeavor to maintain a smoothly operation of market. It is an auction market where price is set by larger number of buyers and sellers with certain number of transactions held, under a predetermined rules and regulation. The major stock market can be illustrated below.

### **New York Stock Exchange (NYSE)**

New York Stock Exchange (NYSE) is based in New York City, established in 1817, which is regarded as a largest market for stock trading in the world. By the end of 2000, more than 3000 companies have been listed, valued above \$ 17 trillion. Before 1960's, the average daily volume of transactions were less than 3 million shares. But as per current data, the volume of transactions has been averaged to more than 1.3 billion shares. In today's date NYSE is regarded as the biggest board for listing leading companies than of other stock exchange in USA. It is so, because by the end of this decade NYSE has traded 85% of total share available in U.S. listed exchanges. Whereas, approximately 5% for American Stock Exchange and 10% for other regional exchange center in aggregate.

### **American Stock Exchange (AMEX)**

The American Stock Exchange (AMEX) is the second largest organized U.S. security exchange in terms of the number of listed companies, but in terms of dollar volume of trading, the American Stock Exchange (AMEX) is actually smaller than the two largest regional exchanges – The Midwest and The Pacific. There are about 700 companies listed in American Stock Exchange (AMEX) and the market value is above \$ 100 billion. American Stock Exchange (AMEX) has approximately 660 seats out of which 325 are listed bonds. Its organization and procedure are quite similar to those of the New York Stock Exchange (NYSE), except that its listing requirements are not as those of the New York Stock Exchange (NYSE).

### **List of Organized Exchanges in the United States**

New York City Exchanges	Regional Exchanges
New York Stock Exchange (NYSE)	Midwest Stock Exchange
American Stock Exchange (AMEX)	Pacific Stock Exchange
	Philadelphia Stock Exchange
	Boston Stock Exchange
	Cincinnati Stock Exchange

### **NASDAQ Stock Market**

The full form of NASDAQ is National Association of Security Dealers Automated Quotation System. NASDAQ is the largest U.S. electronic stock market. With approximately 3,300 companies, it lists more companies and, on average, trades more share per day than any other U.S. market. It is home to category- defining companies that are leaders across all areas of business including technology, retail, communications, financial services, transportation, media and biotechnology. NASDAQ is the primary market for trading NASDAQ- listed stocks. Approximately 54% of NASDAQ – listed shares traded is reported to NASDAQ systems. The National Association of Security Dealers Automated Quotation System (NASDAQ) is the largest Over- The – Counter (OTC) market. It is the computer – linked network for the trading of Over- The – Counter (OTC) securities. It was initiated in 1971. It provides immediate information on a computer linked system of bid/asked prices for stocks offered by various dealers. The bid price is that at which a dealer is willing to

purchase a security and asked price is that at which the dealer is willing to sell a security.

NASDAQ stock market is divided into two sectors: NASDAQ national and NASDAQ small cap market. Share volume is higher than on the NYSE but dollar volume is slightly less than that on the NYSE; Microsoft, Intel are listed in the NASDAQ.

### **Foreign Stock Exchange**

In addition to the domestic stock exchange there are a number of foreign stock exchanges. In Canada, the Toronto Stock Exchange and the Montreal Stock Exchange are the dominant exchanges. On the world wide basis the Tokyo Stock Exchange and the London Stock Exchange are first and third in dollar volume respectively; the New York Stock Exchange is second. Other important foreign exchanges include the Zurich Stock Exchange (Switzerland), Sydney Stock Exchange (Australia), Paris Stock Exchange (France), Frankfurt Stock Exchange (West Germany), Hong Kong Stock Exchange ((China) and South African Exchange. The foreign exchanges are organized in a fashion similar to those in the United States and create a marketplace in which the securities of companies based in the given country are traded. Often these companies are foreign subsidiaries of American companies.

### **London Stock Exchanges (LSE)**

London Stock Exchange is established on 1801, located in London, U.K. It is one of the largest stock exchanges in the world that is well known for listing many overseas as well as U.K. companies.

The former stock exchange tower based in Thread needle street/old Broad Street was opened by Queen Elizabeth II in 1972 and housed the trading floor where trades would traditionally meet to conduct business. This become largely redundant with the advent of the 'Big Bang' on 27 th October 1986, which deregulated many of the stock exchanged activities. It eliminated fixed commissions on security trades and allowed securities firms to act as brokers and dealers. It also enabled an increased use of computerized system that allowed dealing rooms to take precedence over face to face trading. Beyond 2004, London Stock Exchange (LSE) broken down into the 'Main Market and Alternative Investment Market.'

In July the London Stock Exchange moved from Thread needle Street to Paternoster Square (EC4) close to St. Paul Cathedral, still within the “Square Mile” (the city of London). It was officially opened by Queen Elizabeth II once again, accompanied by The Duke of Edinburgh, on 27 July 2004. The new building contains a specially commissioned dynamic sculpture called “The Source “by artists Grey world.

### **Bombay Stock Exchange (BSE)**

In Asia, Bombay Stock Exchange is one of the eldest stock exchange markets. Bombay Stock Exchange (BSE) was formally established in 1875 A.D. locating in Dalal Street, Mumbai. Around 3500 companies with in a country are listed in a Bombay Stock Exchange (BSE). As per July 2005, the market capitalization of Bombay Stock Exchange (BSE) was above Rs. 20 trillion. The Bombay Stock Exchange (BSE) ‘Sensex’ is a widely used market index for the Bombay Stock Exchange (BSE). Bombay Stock Exchange (BSE) is rated in 5 biggest stock exchanges in the world.

### **Tokyo Stock Exchange (TSE)**

Tokyo Stock Exchange (TSE) is the second stock exchange in Asia. The stock exchange headquartered in Tokyo, Japan. Tokyo Stock Exchange (TSE) was established on May 15, 1878 and trading began there on June 1 of the same year. It was shut down during World War II; after reorganization, trading resumed in May 16, 1949.

The Tokyo Stock Exchange (TSE) dominates its country’s market much as the New York Stock Exchange (NYSE) does the United States. Specifically, about 87 % of trades in volume and 83 % of value occur on the Tokyo Stock Exchange (TSE). The trading mechanism is a price for stocks. At the end of 1999, there were about 1,700 companies listed with a total market value of 300.2 trillion yen. Both domestic and foreign stocks are listed on the Tokyo Exchange.

### **Nepal Stock Exchange (NEPSE)**

Nepal Stock Exchange (NEPSE) was historically formed in 1976, as Security Market Center by the government of Nepal. Nepal Stock Exchange (NEPSE) started listing and trading corporate securities from November 1984 only. The security Market

center was transformed into Nepal Stock Exchange (NEPSE) in 1994 under security exchange act 2040 (1983 A.D.). The basic objective of NEPSE was to arrange market ability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries.

Nepal Government, Nepal Rastra Bank, Nepal Industrial Development Corporation (NIDC) and the members of the exchange own NEPSE. The authorized capital of the exchange is Government of Nepal, Nepal Industrial Development Corporation (NIDC) and the members of Nepal Stock Exchange (NEPSE) subscribed 34.91 million. Government of Nepal had contributed 58.67 %; Nepal Rastra Bank(NRB), Contributes 34.60 %, Nepal Industrial Development Corporation (NIDC) 6.13 % and 0.60% by the members of Nepal Stock Exchange (NEPSE). Presently, Nepal Stock Exchange (NEPSE) has 24 brokers and 9 issue managers and 2 portfolio managers i.e. dealer secondary market.

Securities market facilitates the sale and resale of transferable securities. It is a mechanism for bringing together buyer and seller for financial trading. Securities market is classified into two categories .First, the market in which new securities is called primary data and the market in which existing securities are resold is called the secondary market. Brokers and market makers create secondary data.

The other significant development relating to capital markets were the introduction of the company act in 1964, the first issuance of government bond in 1964, and the establishment of Securities Exchange Center (SEC) in 1976. Securities Exchange Center (SEC) was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets intuition undertaking the job of brokering ,underwriting ,managing public issue , market making for government bonds and other financial services. It has been operating securities transaction in its trading floor since 13<sup>th</sup> January 1994, through its listed members. In the fiscal year 2004/05,135 companies are listed in NEPSE.

Nepal Government has a program under initiated to reform capital markets converted Securities Exchange Center (SEC) into Nepal Stock Exchange (NEPSE) in 1993.

Nepal Stock Exchange (NEPSE) is a non-profit organization. It is operating under Security Exchange Act 1983, Securities Exchange Regulation 1993 and Securities Listing by Laws 1996.

### **Introduction to Nepal Stock Exchange (NEPSE)**

Nepal Stock Exchange is a non-profit organization operating under Securities Exchange Act, 2040 B.S. The former Securities Exchange Center was converted into Nepal Stock Exchange (NEPSE) under the program initiated to reform the capital market.

The history of capital market in Nepal dates back to the year of Rana Prime Minister Juddha Shams her when Gunaman Singh, the first secretary at Nepalese Embassy in England returned back to Kathmandu and set up the “Industrial Council.” The council drafted company act and Nepal Bank Act then the securities market in Nepal start from 1937 when Biratnagar Jute Mill and Nepal Bank Limited floated their shares in the market .The company Act was introduced in 1964. Government Bonds were issued for the first time in 1964. And the Securities Exchange Center Limited was established in 1976 to facilitate and promote the growth of capital markets, with the initiative of the government of Nepal and Nepal Rastra Bank. It was the only capital market institution that undertook the responsibilities of brokering, underwriting, managing public issue, creating markets for government bonds and other securities. It was converted into Nepal Stock Exchange (NEPSE), under a program to reform capital markets in 1993. The only secondary capital market in Nepal, Nepal Stock Exchange (NEPSE) operates under Securities Act 2006.

Nepal Stock Exchange (NEPSE) had brought about a number of changes in order to upgrade itself and provide efficient and reliable services in August 2007, it automated its trading system .Initially a not for profit organization, Nepal Stock Exchange (NEPSE) has turn in a profit seeking organization.

But the history and securities market began with the flotation of shares by Biratnagar Jute Mills Limited and Nepal Bank Limited. Under the company act in 1951, the first issue of government bond in 1964. In 1976 the Securities Exchange Centre was established for the development in capital markets. Securities Exchange centre was

established in 1976 with the objective of facilitating and promoting the growth of capital markets. Securities Exchange centre (SEC) was established under the companies act with the joint of Nepal Rastra Bank and Nepal Industrial Development Corporation.

The basic objective of Nepal Stock Exchange (NEPSE) is to arrange marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries such as brokers and others. The shareholders of the NEPSE are Government of Nepal, Nepal Rastra Bank (NRB) the central bank and Nepal Industrial Development Corporations (NIDC) etc...

### **Historical Background of Securities Exchange in the World**

The stock exchange of the oldest in the world is Amsterdam Berusl, London which established in 1585 A.D. It has started its transactions in 1675 A.D. Likewise Toronto Stock Exchange 1801 A.D., New York Stock Exchange 1810 A.D., America, Brussels Stock Exchange 1858 A.D., Tokyo Stock Exchange 1878 A.D., Melbourne Stock Exchange, 1884 A.D. has started their transactions.

### **Board of Directors**

The boards of directors of Nepal Stock Exchange (NEPSE) have nine directors with securities act, 1983. Six directors are nominated by Government of Nepal. Two are from licensed members and one is from the general manager from the NEPSE are formed for the board of directors.

### **Capital Structure**

Nepal Stock Exchange (NEPSE) has increased its authorized capital from Rs.50 million to Rs.160 million in May 2008 to meet the requirement of the securities Market Operation Rule, 2064. The changed capital structure is as follows.

Capital	Amount
Authorized Capital	Rs.16, 00, 00,000
Issued Capital	Rs5, 00, 00,000
Subscribed Capital /Paid – Up Capital	Rs3, 49, 15,000

### **Ownership Structure**

The Nepal Government holds the most number of Nepal Stock Exchange (NEPSE) shares (58.66) percent. The Nepal Rastra Bank, Nepal Industrial Development Corporation and members hold the second, third and fourth largest shares.

### **Ownership Structure**

S.N	Owners	No. of Shares	%
1	Nepal Government	204820	58.60
2	Nepal Rastra Bank	120805	34.60
3	Nepal Industrial Development Corporation	21375	6.12
4	Members	2150	0.62

### **Structure of the Board of Directors**

The Board of Directors (BOD), which will govern Nepal Stock Exchange (NEPSE), constitutes of members representing different sectors. As per a recent revision the Board of Directors (BOD) comprises seven members: two including the chairman from the Nepal Government, two from Nepal Rastra Bank (NRB), one from Nepal Industrial Development Corporation and the other one to be nominated by the Board of Directors (BOD), will be expert in the capital market. General Manager of Nepal Stock Exchange (NEPSE) will serve as director.

### **Members**

Members of Nepal Stock Exchange (NEPSE) are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present there are altogether 23 brokers and 2 are market makers. They operate the trading the floor as per the securities exchange act 1983 on the basis of rules and laws.

### **Listing**

Listing, which is one of the major functions of Nepal Stock Exchange (NEPSE) , is a process of admitting different types of securities to be traded on the floor of the stock exchange. Listing is the first step towards the secondary market which provides liquidity and marketability to the scrip's issued to the general public at the primary market. In 1994, Nepal Stock Exchange (NEPSE) started its trading with 62 listed companies. From 2005 onwards government bonds are being listed on Nepal Stock Exchange (NEPSE). At present there are 146 companies listed on Nepal Stock

Exchange (NEPSE). Until now 47 companies which didn't comply with the legal requirement have been de – listed from Nepal Stock Exchange (NEPSE). While listing the companies the listing fee and the annual fee have to pay on the basis of the issued capital of the company to the NEPSE.

### **Trading**

The trading can be done either from Nepal Stock Exchange (NEPSE) trading floor or from broker's own offices. Nepal Stock Exchange (NEPSE) uses sophisticated technology through which brokers can be traded directly from their offices based in Kathmandu valley. Nepal Stock Exchange (NEPSE) is introduced fully automated trading system from 24<sup>th</sup> august 2007. The Nepal Stock Exchange (NEPSE) trading system is called 'Nepal Stock Exchange (NEPSE) Automated Trading System' (NATS) is a fully automated screen based trading system which adopts the principle of an order driven market.

In order to adopt the Automated Trading System (ATS), Nepal Stock Exchange (NEPSE) made an agreement with the British Company Comdaq Limited in November 2006 Under the Asian Development Bank (ADB) loan assistance project, corporate and Financial Governance (CFG), at the cost of 300 thousand US Dollar. Now with the introduction of the Automated Trading System (ATS), the trading on Nepal Stock Exchange (NEPSE) has been fully modernized.

### **Securities Available for Trading**

Currently Nepal Stock Exchange (NEPSE) facilities trading in the following instruments.

- A. Share
  - i. Equity share
  - ii. Preference share
- B. Debentures
- C. Government bonds
- D. Mutual funds

### **Market Timings**

Trading on equities takes place on all days of the week (except Friday, Saturday, government holiday and holidays declared by Nepal Stock Exchange NEPSE in advance). On Friday the odd – lot trading of ordinary shares is done.

### **The market trading hours of board – lot – equities timings of the NEPSE are:**

Market open: - 12:00 hours

Market close: - 15:00 hours

### **Trading hours for odd – lot trading**

Market open: - 12:00 hours

Market close: - 13:00 hours

The Nepal Stock Exchange (NEPSE) however may close the market on weekdays and open the market on days originally declared as holidays. The stock exchange may also extend, advance or reduce trading hours depending on necessity.

### **Sensitive Index and Float Index Introduced**

In order to provide market performance of ‘A ‘ graded listed companies the Sensitive Index has been published since the beginning of 2007. Similarly, the Nepal Stock Exchange (NEPSE) float index and sensitive float index have been published, on the basis of shares floated to Initial Public Offerings (IPO).

Security board of Nepal (SEBON) was established on June 7, 1993 as a regulator of securities market in Nepal. Since its establishment, SEBON has been concentrating its effort on the legal and statutory frameworks for the healthy competition for the development of capital market. SEBON is the supreme body is to regulate the Nepalese securities market. The main objective of SEBON is to promote and protect the interest of investors by regulating the securities market to monitor and control the entire capital market, sale and distribution of securities and purchase, sale or exchange of securities. It functions to regulating the issue and trading of securities and market intermediaries, promote the market and protect investor’s rights. It’s prospective of issuing companies more information and reliable.

Security board of Nepal (SEBON) monitors and supervises the adequacy of disclosure norms regarding the primary market activities during the initial public offering. In fact, SEBON monitors the primary issues related to status of disclosure provided in prospectus, the proper timing of public issue, the timing of allotment of public issue, listing of securities and reporting of issue management activities. In secondary market, SEBON has monitored the status of the corporate disclosure focusing in listed companies publishing annual reports, holding annual general meeting timely, dividend declaration etc.

Security board of Nepal (SEBON) was established with the objective to render contribution to the development of capital markets by making securities transactions fair, healthy, efficient and responsible. Its main function is to provide licenses to stock exchange and securities business person and to monitor the activities carried by NEPSE to know if they are in accordance with the law or not.

Despite this, Nepalese stock market is still underdeveloped. The basic objectives of SEBON are to regulate issue and trading of securities and market intermediaries, promote the market and protect investor rights. It comprises of 7 members representing various government and private sector.

### Licensed Broker Members of Nepal Stock Exchange (NEPSE)

S.N	Firm Name	Code	Tel.No.	Address
1	Kumari Securities Pvt. Limited	1	01-4418036	Dilli Bazar, Kathmandu
2	Arun Securities Pvt. Limited	3	01-6916470	Putalisadak, Kathmandu
3	Opal Securities Investment Pvt. Limited	4	01-4421648	Ramshah Path, KTM
4	Market Securities Company Pvt. Limited	5	01-4248973	Kiccha Pokhari, KTM
5	Agrawal Securities Pvt. Limited	6	01-4229739	Putalisadak, Kathmandu
6	J.F. Securities Company Pvt. Limited	7	01-4223089	Putalisadak, Kathmandu
7	Ashutosh Brokerage & Securities Pvt. Ltd.	8	01-4220276	Kiccha Pokhari, KTM
8	Pragyan Securities Pvt. Limited	10	01-4498234	Putalisadak, Kathmandu
9	Malla & Malla Stock Brokering C. Pvt. Ltd.	11	01-4414263	Dilli Bazar, Kathmandu
10	Annapurna Securities Service Pvt. Limited	13	01-4419051	Putalisadak, Kathmandu
11	Nepal Stock House Pvt. Limited	14	01-4255732	Anamnagar, Kathmandu
12	Prima Securities Pvt. Limited	16	01-4239214	Putalisadak, Kathmandu
13	Khandelwal Stock Brokering C. Pvt. Ltd.	17	01-4230787	Indra Chowk, KTM.
14	Sagarmatha Securities Pvt. Limited	18	01-4242548	Putalisadak, Kathmandu
15	Nepal Inv. & Securities Trading Pvt. Ltd.	19	01-4495450	Old Baneshwor,
16	Sipla Securities Pvt. Limited	20	01-4255782	New Road, Kathmandu
17	Midas Stock Brokering Company Pvt. Ltd.	21	01-4416050	Dilli Bazar, Kathmandu
18	Sprabi Securities Pvt. Limited	22	01-5530701	Kupondol, Lalitpur
19	Sweta Securities Pvt. Limited	25	01-4444791	Putalisadak, Kathmandu
20	Asian Securities Pvt. Limited	26	01-4240609	Viharmarga, Kathmandu
21	Shree Krishna Securities Pvt. Limited	28	01-4224262	New Road, Kathmandu
22	Trishul Securities Pvt. Limited	29	01-4440709	Putalisadak, Kathmandu
23	Premier Securities Pvt. Limited	32	01-4231339	Putalisadak, Kathmandu

#### **Issue Manager in Nepalese Market**

In other countries investment bankers also provide brokerage services but in Nepal the issue managers only manage Initial Public Offering (IPO) and provide financial services. The efficient functioning of a financial market requires a number of financial intuitions. One of these intuitions is an investment banking firm. The firm acts as a middleman in the distribution of new securities to the public and creates a primary market. Therefore, the people or intuitions responsible for finding out the investors for the Initial Public Offering (IPO) of securities sold in the primary market are called investment bankers.

The Principal function of the bank is to buy the securities from the issuing company and then resell them to investors. For acting the role of a mediator, the investment

bankers receive the difference or spread between the price they pay for the securities and the price at which the securities are resold to the public.

This process of issuing securities to the public is called underwriting and in this sense, the investment bank is also called an underwriter. The group of underwriters is called an underwriting syndicate. The underwriting takes place in two ways. The first is typical underwriting. In this arrangement, the investment banker purchases the securities from the company and resale them to the public. The other type of arrangement is best effort underwriting. In this arrangement, the investment banker sells the securities in the best effort basis, instead of underwriting the securities issued by the company. Under this arrangement, the investment banker agrees only to sell as many securities. They have no responsibility for securities that are unsold. They bear no risk.

1. Nepal Merchant Banking and Finance Ltd.
2. National Finance Co. Ltd.
3. Ace Development Bank Ltd.
4. Nepal Share Market Co. Ltd.
5. United Finance Ltd.
6. Nepal Sri Lanka Merchant Bank Ltd.
7. Citizen Investment Trust
8. NIDC Capital Market Ltd.
9. Nepal Finance and Saving Co. Ltd.

### **Functions of the Investment Banker**

An investment banker performs many other functions rather than only underwriting the securities. These functions are as follows.

1. Advisory Functions
2. Administrative Functions
3. Distribution Functions

### **Objectives**

The major objective of NEPSE is to impart free marketability and liquidity the government and corporate securities by facilitating transactions in its trading flow, market intermediaries such as broker, market maker etc

Background of the study but the history and securities market began with the flotation of shares by Biratnagar Jute Mills Limited and Nepal Bank Limited. Under the company act in 1951, the first issue of government bond in 1964. In 1976 the Securities Exchange Centre was established for the development in capital markets. Securities Exchange centre was established in 1976 with the objective of facilitating and promoting the growth of capital markets. Securities Exchange centre (SEC) was established under the companies act with the joint of Nepal Rastra Bank and Nepal Industrial Development Corporation

## **1.2 Focus of the Study**

The market price of the stock found or moves daily in the Nepalese securities market as a secondary market. Stock price is determined by the demand and supply of the stock in the secondary market. Through Securities market help to mobilize resources from the fund of surplus to deficit fund. These funds play an important role in economic development for the country. The study has focused on analysis of existing state of Initial Public Offering (IPO) in Nepal. In this context, Initial Public Offering (IPO) play important role in economic situation of the country. It helps the government to raise the long term fund. In Nepal Securities Board of Nepal (SEBON) is the authorized institution which provides approval to the institution or company. While issuing the Initial Public Offering (IPO) share the institutions/ companies should maintain profit at least 3 years, giving bonus to the employees or the Net worth is higher than Rs100. Further more the study has focused only on Initial Public Offering (IPO) share.

By the help of Initial Public Offering (IPO) share transfers the funds from savers to investors throughout the primary market. Hence, the transactions of the market securities issued for the first time take place in this market. Simply Initial Public Offering (IPO) where companies sell securities for first time or market for newly issued securities is primary market. The main function of the primary market is to make the financial capital available for new project and capital investment. It is risky from investor, point of view. Through Initial Public Offering (IPO) share issuing party gain access to needed funds. It provides to investment opportunity to the investors or general public. It is the combination of Initial Public Offering (IPO) fund of surplus and deficit.

In other words Initial Public Offering (IPO) share is also known as the primary market. A primary market is the place where corporations, companies and governments issue new securities. Primary is the market for new securities are called primary market. The term primary market is used to denote the market for the original sale of securities by an issuer to the public. The issuer receives cash which may be invested in productive assets. Primary market offers new securities to investing public issuing company for new projects. Primary market operates in order to collect market primary capital as well as additional capital. The basic feature of primary market is that the proceed collected fund are directly flowed to issues of share.

A corporate may raise capital in the primary market by way of an initial public offer, rights issue or private placement. An Initial Public Offering (IPO) is the selling of securities to the public in the primary market for the first time. It is the largest source of funds with indefinite maturity for the company. Right Issue is the offering of additional shares to the existing shareholders of the company to raise the additional capital.

The first time a company sells stock to the public. An Initial Public Offering (IPO) is a type of a primary offering, which occurs whenever a company sells new stock, and differs from a secondary offering, which is the public sale of previously issued securities, usually held by insiders. Some people say: - **IPO stands for "Immediate Profit Opportunities"**, if the market is favorable by the overall economic situation.

**Initial Public Offering (IPO)**, also referred to simply as a "public offering", is when a company issues common stock or shares to the public for the first time. They are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded.

In an Initial Public Offering (IPO), the issuer may obtain the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), best offering price and time to bring it to market.

Public offerings are primarily sold to institutional investors, but some shares are also allocated to the underwriters' retail investors. The client pays no commission to

purchase the shares of a public offering; the purchase price simply includes cash. The issuer usually allows the underwriters an option to increase the size of the offering by up to 30% under certain circumstance known as the allotment option.

Initial Public Offering (IPO) is a part of primary market mechanism. When an intuition raises capital from public through issuance of its securities for the first time, then its issue to the public is termed as Initial Public Offering (IPO). The securities offered can be ordinary share, debenture, preference share and mutual fund schemes. Initial Public Offering (IPO) role plays an important and often the only major source of obtaining large sum of fixed rate and long term funds. Initial Public Offering (IPO) can either be underwritten or sold to general public or to be sold to the company's existing investors through a preemptive right offering. To reduce the offering costs of the shares, the old companies (those which have already issued shares) issue them through right offering. And the procedure of issuing the securities through right offering is the same as that of registering the non- right issue.

Initial Public Offering (IPO) being an important component of capital market is bound to be influenced by the size and level of development of capital market. But, Nepal doesn't have long history of capital market.

### **1.3 Statement of the Problem**

In many countries stock exchange has a long history of more than one century. For example Indian stock market has a history more than 130 years. The stock exchange of Nepal has not so long history, though has faced many up and downs during this short history. Establishment of NEPSE has given an opportunity to investors to invest in the enterprise sector and participate in the secondary market. The company used different rules and regulation in stock market development. The stock market in Nepal is operating in immature stage. The market has inseparable part of liberal economy, existing imbalances, political instability and ineffective implementation of liberal economic policy. Therefore this study is carried out to analyze the market share prices of the Nepalese stock market in relation to banking sector and to recommend for the improvement.

In 15 years history of the stock exchange has improved gradually due to the low priority in financial sector. In 15 years many problems has arise in the market like unstable political situation, lack of rational behaviors, lack of information to investors , poor corporate governance, handle by large investors in the stock market and whim wrong information to investors. Although the Nepalese stock market is still in its infant stage and contribution to GDP is still nominal. But the Initial Public Offering (IPO) plays an important role in the stock market.

Under this study it has focused Initial Public Offering (IPO) role in the stock market.

- )] What is the existing state of Initial Public Offering (IPO) in Nepal?
- )] What is the growth position of the primary market?
- )] What is the stock price behavior of commercial banks in Nepalese stock market?
- )] What is the condition of the share in the stock market?
- )] What is the position of number of transaction in Initial Public Offering (IPO)?
- )] What is the existing state of Initial Public Offering (IPO) in Nepal?

#### **1.4 Objectives of the Study**

The main objective of this study is to identify the growth situation of the Nepalese securities market .The capital market of Nepal is still in its early days. In this regard the basic objective of the study is to analyze different aspects of Initial Public Offering (IPO) in Nepal.

The specific objectives of this research are as follows.

- )] To examine the position of primary market growth in Nepal
- )] To analyze the existing state of Initial Public Offering (IPO)
- )] To examine the stock price behavior at secondary market.
- )] To analyze the investor's views regarding the decision on stock investment.
- )] To evaluate the factors that affect the stock price with the help of NEPSE index.

#### **1.5 Significance of the Study**

This study is very beneficial to all parties involved in the stock market. Because every investors will not have well knowledge about the real financial strength and weakness of the companies. Therefore, this study focuses on the disclosure and performance of

the listed companies in Nepal. The market is dominated by individual investors and most of them are not making informed investment decisions rather driven by market rumors.

The capital market of Initial Public Offering (IPO) is practices are very limited in Nepal. This study will be helpful to government, organizations, shareholders, investors, researcher, and students and to the general public. In a market mechanism of capital market, Initial Public Offering (IPO) and its practices are very limited in Nepal.

The significance of this study is as follows:

- ) To contribute literature to further researcher in this area.
- ) To useful for university students who are curious to know about the stock price behavior.
- ) To draw attention from every corner of investors and also other interested parties. For all researchers and parties can be benefited.

### **1.6 Limitation of the Study**

The limitation of the existing state of Initial Public Offering (IPO) of ordinary share in Nepal is solely based on secondary data. Initial Public Offering (IPO) of share has taken these companies which are listed in Nepal Stock Exchange (NEPSE) during the period of FY 1993/94 to 2009/10 .This study has been conducted with certain limitations which are follows.

- ) The stock market of Nepal is limited.
- ) Research is based on the data of NEPSE official records and the data are not verified.
- ) The data is used from the secondary data from the period FY 1993/94-2006/07.
- ) IPO's can be a risky investment

### **1.7 Organization of the Study**

The present study will be divided in the following steps:

Introduction

Review of Literature

Research Methodology  
Presentation and Analysis of Data  
Summary, Conclusion & Recommendation

### **Chapter – I Introduction**

The first chapter would complete the introduction being studied, the statement of problem, and objective of study, need of study and limitation of study. This chapter would serve to present the topic within the general area of interest and would be used to provide a preliminary focus upon the topic with a wider scope.

This chapter consist background of the study, statement of the problem, objective of the study, significance of the study and the limitation of the study.

### **Chapter – II Review of Literature**

This chapter would include the reviews of previous writings and studies relevant to the problem being explored and writhen the framework of the theory structure.

This chapter deals with review of different literature of the study field. Therefore this includes the review of major books, journals, research work and thesis etc along with conceptual framework.

### **Chapter – III Research Methodology**

The third chapter research methodology would include research design, sampling procedure, sources of data, data gathering process, variable and measurement and tools used for documentation

This chapter elaborates the research methodology and it includes research design, population and sample, source and technique of data collection, data analysis tools.

### **Chapter – IV Presentation and Analysis of Data**

This chapter comprises research design, sources of data, method of analysis and its descriptive presentation. This chapter adopted the methodology of research. It analysis of current system and theoretical framework of the project work.

This chapter includes analysis and interpretation of the data using financial and statistical tools .This also include the major findings of the study.

#### **Chapter –V Summary, Conclusion &Recommendations**

This chapter includes summary of the study, conclusion and recommendations with bibliography.

The fifth and final chapter is concerned with the suggestive framework that consists with the summary, conclusion and recommendation

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

Review of Literature is an essential part of all studies .It studies reviews of the related research works. This chapter deals with the literature of previous studies and conceptual framework for the related studies on information. It has been done to clarify the concept of the topic as well as to examine the previous studies made by researchers. After selecting the topics of the researcher should studied different magazines, journals and newspaper to collect the information about their subject matter. The process of study in different materials, which are concerned with the selected topics of the research, is known as review of literature. Thus, this chapter is broadly discussed under sections.

#### **2.1 Conceptual Review**

It explains the Financial Market, Capital Market, Securities Market, Primary Market, Secondary Market, Stock Brokers, Price and Trading Procedures, Stock Exchange and Securities Board, Nepal.

The Theoretical concept of Initial Public Offering (IPO), Initial Public Offering (IPO) as a capital market mechanism, Initial Public Offering (IPO) and its theoretical aspects, historical background of capital market development in Nepal and procedural aspects of Initial Public Offering (IPO) practices in Nepal.

##### **2.1.1 Financial Market**

Financial Markets play a fundamental role in the economic development of a country. It plays the intermediary link in facilitating the flow of funds from savers to investors. Commercial Banks plays financial intermediaries between borrowers and savers. By the help of financial institution mobilizing domestic savings and efficiently through utilized the productive investment to accelerate economic growth of the country.

### **2.1.2 Capital Market and IPO**

Capital market can be identified as the place where long term lending and borrowing takes place. It is the market where financial instruments having maturity period of more than one year are being traded. It mobilizes savings of individuals through investment in various financial instruments like common shares, debentures and mutual funds which are useful to utilize for productive purposes in different sectors of the economy. It is the center of the government, business firms and various other intuitions to raise the capital as per their need through the issue of intermediate and long-term securities.

On behalf of securities transactions, capital market can be divided into parts: primary market and secondary market. Primary market indicates that market where the securities issued for the first time are being traded whereas secondary market is the market where already issued securities are being traded. As per need of the study, only primary market will be discussed.

## **2.2 Securities Market**

Securities are traded in a market is called securities market. Security market exist in order to bring together buyers and sellers of securities. There are many ways in which securities market can be distinguished: one way is primary market and secondary market. The securities market is the place where a large number of financial securities such as shares, debentures, mutual fund and bonds. Thus, securities market plays a pivotal role in mobilizing savings and channeling them in productive purposes and many more like providing liquidity on securities so that one can minimize the risk and maximize the returns.

### **2.2.1 Primary Market**

The primary market is the market where securities such as shares, debentures, mutual fund and bonds etc of a company are traded for the very first time. The prices of the securities are usually sold at par in the primary market.

### **2.2.2 Secondary Market**

The secondary markets are the markets where the financial transactions are traded from the old owners to new owners. The secondary market provides liquidity for financial assets making them more attractive. So secondary market is a place where the securities once sold are purchased and repurchased to provide liquidity to the securities. Secondary markets are markets for existing assets, which are currently traded between investors. The advantage of secondary market is to provide liquidity or cash to investors. The trading of government securities in secondary market is very small because of limited distributors of the securities.

### **2.3 Stock Exchange**

The stock exchange is an organized open market for buying and selling financial commodities is known as securities such as stocks, debentures, mutual fund and bonds. It is also known as the stock market. The stock exchange is also an authority to supervise and regulate the trading. In the stock exchange, the buyers and sellers do not participate directly in the transactions through the stock brokers.

The basic objective of stock exchange is to provide liquidity to government bonds and corporate securities by facilitating transactions through intermediaries such as broker's market makers etc. The other important objectives of stock exchange are to protect investor's rights and develop a secondary market as prescribed at Article of Memorandum (MOA) and Article of Association (AOA) of stock exchange.

It provides a trading floor for the listed securities as well as supervises and regulates its members. It has the role act as a front line regulator for member and giving information timely. It provides clearing and settlement facilities to traded securities.

### **2.4 Historical Background of Capital Market Development in Nepal**

The history of the securities market in Nepal dates back to 1936 A.D, when Biratnagar Jute Mill floated its shares in the capital market and Nepal Bank Limited floated its shares in the capital market. The Company Act was introduced in 1964A.D. Government Bonds were issued for the first time in 1964 A.D. And the Securities Exchange Center Limited was established in 1976 A.D. to facilitate and promote the growth of capital markets, with the initiative of the government of Nepal and Nepal Rastra Bank. It was only capital market intuition that undertook the responsibilities of

brokering, underwriting, managing public issue, creating markets for government bonds and other securities. It was converted into Nepal Stock Exchange (NEPSE), under a program to reform capital markets in 1993 A.D.

The only secondary capital market in Nepal, NEPSE operates under Securities Act, 2006 A.D. NEPSE had brought about a number of changes in order to upgrade itself and provide efficient and reliable services. In August 2007 A.D. it automated its trading system. Initially a not for profit organization. NEPSE has turned itself in a profit seeking organization in May 2008 A.D.

Nepal Stock Exchange (NEPSE) is a non- profit organization and sole intuition to facilitate secondary market transactions. It runs under Securities Exchange Act, 1983 A.D. It starts its regular operations on January 13, 1994 A.D. and has adopted Open – Out Cry system. The basic objective of NEPSE is to import free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as brokers and market makers. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and its members are the shareholders of NEPSE. Member of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. It has twenty- three licensed broker members of NEPSE.

In other countries investment bankers also provide brokerage services but in Nepal the issue manager only manage initial public offering and provide financial services. It has also given membership to nine issue manager. Issue and sales manager works as manager to the issue and underwriter for public issue of securities whereas securities dealer works as individual portfolio manager.

## **2.5 Introduction Concept of Initial Public Offering (IPO)**

Initial Public Offering (IPO) is the first time issuing of securities to the public. When the securities are sold to the general public for the first time, with the expectation that a liquid market will develop, it is called an Initial Public Offering (IPO). If company needs additional fund, the company goes to the issuing the share of Initial Public Offering (IPO). Initial Public Offering (IPO) is used in the sense of issuing common shares to the public for the first time.

The first time a company sells stock to the public. An IPO is a type of a primary offering, which occurs whenever a company sells new stock, and differs from a secondary offering, which is the public sale of previously issued securities, usually held by insiders. Initial public offering (IPO), also referred to simply as a "public offering", is when a company issues common stock or shares to the public for the first time. They are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded. It issue additional new shares in order to raise extra capital.

### **2.6 Advantages and Disadvantages of Initial Public Offering (IPO)**

The major benefit of Initial Public Offering (IPO) is that, it provides enhanced liquidity and allows the company to raise capital on more favorable terms than if it had to compensate the investor when there is a lack of liquidity. Besides in emerging markets it heightens the prestige and recognition of the company among suppliers and prospective customers. Small amount is needed to invest it. If the company became loss the investor bears nominal loss. When the investor get company Initial Public Offering (IPO) for par value may sell it on the market value. At that the investors get high return.

Along the advantages, some disadvantages also come along with Initial Public Offering (IPO). The major disadvantages are the fact that management no longer can take decisions freely as they used to take. If the company became collapse the investor investment may loss. The management exploited the shareholders as well as they didn't give good return to the shareholder. They have not give authority to give the decisions. It might have the monopoly to the customers as well as staff.

### **2.7 Parties Involved in Initial Public Offering (IPO) in Nepal**

Initial Public Offering (IPO) is being complex and time consuming process often needs the participation of a number of entities. In this reference, generally those parties or intuitions which play role during the process of Initial Public Offering (IPO) in Nepal are discussed as follows.

### **2.7.1 Issuing Company**

It refers to the company, which is committing Initial Public Offering (IPO) to raise capital from public. As provision of Company Act, 2063 B.S. only public limited companies are allowed to go for Initial Public Offering (IPO). The Act has specifically stated that the private companies should not issue their shares or debentures to the public. Similarly, as per NRB rules and regulations banks and finance companies had to go for Initial Public Offering (IPO) within the certain time. Furthermore, as per provisions of Banks and Financial Institutions Act, 2006 A.D. banks and finance companies should set a side minimum of 30% of their issued capital to be allocated to the public. However, 5% of such shares could be allocated to their employees.

### **2.7.2 Issue Manager**

Issue Manager is an institution who is solely responsible to manage Initial Public Offering (IPO). As per Securities Act, 2062 A.D. issue managers are institution holding license from the Nepal Stock Exchange to manage public offering issues. So far, NEPSE has authorized nine companies to serve as an issue manager. Issue Managers receive issue commission from issuing company in return of their services. Such issue commissions are decided through negotiation although, Securities Issue by laws, 2054 B.S have the conditions maximum limit for it.

### **2.7.3 Underwriting and Underwriter**

Underwriter is an institution authorized to render insurance to the securities issued during Initial Public Offering (IPO) and to accept liability for specified risk. As far as practices in Nepal are concerned issue form manufacturing and processing and banks have to be underwritten, but such provisions have been relaxed for finance companies. Furthermore, in the event that the issued shares are not fully subscribed by public, the unsold issues have to be distributed among the underwriters on pro-rata basis to the extent of their commitment. They can receive maximum 3% underwritten amount as their service charge as per provision Securities Listing by laws, 2054 B.S.

### **2.7.4 Bankers to the Issue**

Banker to the Issue is normally commercial banks and their main responsibility is to provide custodian service to the issuing company. They may or may not receive applications from the investors, issue acknowledgement for the same and enter the application detail in application schedules. They may also be involved in the process of realizing the proceeds of issue manager for the number of applications and amount collected.

### **2.7.5 Collection Centers**

The authorized intuition to collect application from the investors issue acknowledgement for the same and the proceed of issue through cash, cheque/ drafts. They also issue final certificates to the issue manager for the number of applications and amount collected. They are provided collection charges for their services, which are usually determined through negotiation and are based on number of applications handled and amount is collected from banks, finance, companies or brokerage house mostly performs for such roles.

### **2.7.6 Others**

Various Other intuitions like Securities Board of Nepal (SEBO/N), Nepal Stock Exchange (NEPSE), Nepal Rastra Bank (NRB) and Company Registrar's Office (CRO) also do play same role influencing Initial Public Offering (IPO). As per provisions of Securities Act, 2063 B.S. issuing companies should get issue approval from Securities Board of Nepal (SEBO/N). The companies should also get issue approval from Company Registrar's Office (CRO). If the issuing companies are financial intuitions then they need to obtain approval from Nepal Rastra Bank (NRB) as well for prior issuing their shares to the public. Trading of securities is considered illegal, if they are not listed in Nepal Stock Exchange (NEPSE).

## **2.8 Procedural Aspects of Initial Public Offering (IPO) in Nepal: Legal Aspects and Process**

Any institution that goes for Initial Public Offering (IPO) needs to work as a guideline by various laws, acts and regulations. Generally Company Act, 2053 B.S. and Securities Exchange Act, 1983 A.D. used to guide Initial Public Offering (IPO) activities in the past. However these acts have been replaced by Company Act, 2063 B.S. and Securities Act, 2063 B.S. respectively. So, the companies need to consider

the guidelines mentioned acts and their provisions. As well as their also exist other legislation and guidelines such as Security Registrations and Approval Guidelines,2000 A.D., Securities Allotment Guideline 1994 A.D., Securities Listing by laws,1996 A.D. to ensure that Initial Public Offering (IPO) process become transparent and disciplined.

The first and foremost step in the process of Initial Public Offering (IPO) is to get an authorized investment banker or issue manager i.e. authorized from Nepal Stock Exchange(NEPSE) to handle the whole process as per provision of Securities Registration and Issue Approval Guidelines,2000 A.D. After appointing, the issue manager conducts through investigation of the issuing company that is mentioned in the proposal for the public issue like nature of business, its financial position, plans, management and strengthens position. If the proposal is satisfied, the issue manager prepare detail document along with the prospectus to be submitted into the Company Registrar's Office (CRO).

Company Registrar's Office (CRO) receiving such prospectus, it analyses its various aspects in consultation with Securities Board of Nepal (SEBO/N) and only after being satisfied grants issue approval . After receiving the issue approval from Company Registrar's Office (CRO), the issue manager further need to register the prospectus along with other necessary documents in Securities Board of Nepal (SEBO/N) and to obtain the issue approval as per provisions of Securities Act 2063 B.S. The prospectus should contain detailed information regarding name of the company, its address, and objective of its establishment, share capital value, potential risk involved, and name of the promoters, the chief executive officer introduction and various other information which will enable investors to make rational decision. In the case of financial intuitions they need to get issue approval from Nepal Rastra Bank (NRB).

Priority will give to issue approval Securities Board of Nepal (SEBO/N) analyses the validity of the information presented in the prospectus and the other documents. Due Diligence Report submitted by the issue manager often becomes basis for such analysis. After receiving issue approval from both Company Registrar's Office (CRO)/Securities Board of Nepal (SEBO/N), the issue manager on behalf of issuing company is now legally authorized to make public issue. The issuing company should

open its issue to public within two months from the date of approval by Securities Board of Nepal (SEBO/N) Securities Registration and Issue Approval Guidelines, 2000 A.D.

## **2.9 Review Related Studies in Nepal**

It is studied from the excerpts international journal articles, daily newspaper, Nepalese journal/articles, books along with Masters Dissertations.

Large volumes of research have been included in this thesis of Initial Public Offering (IPO). However, only those works, which was accessible and relevant to consider to this study have been included.

Ritter (1998) research survey on “Initial Public Offering (IPO)” is based on the survey the market of Initial Public Offering (IPO). It surveys the valuation of Initial Public Offering (IPO), book- building, price stabilization and the costs of going public. It has also analyzed short-run under pricing, hot issue markets and long-run performance.

Ritter and Welch (2002) reviewed theory and evidence on IPO activity: why firms go public, why they reward first day investors with considerable under pricing and IPO’s perform in the long run. The study confined to the US based IPO firms. It focused mainly on three areas of current research on IPO’s, reason for going public, the pricing and the allocation of shares and long run performance. The study has discussed the market conditions are the most important factor in the decision to go public .

Lowry and Schuvert (2002) study on “IPO market cycles: Bubbles or sequential Learning?” This study has emphasized on the IPO volume and average initial returns are highly correlated. This study has a significant positive relation between average initial relations and subsequent IPO volumes. They concluded with the result, which showed that the dynamic behavior of initial returns and IPO issued a complicated function. Furthermore, they found that its information learned during the registration period that is positively related to future volumes.

Agrawal (2002) study on “Analysis in Intuitional allocation in Initial Public Offering (IPO)”. It analysis a new data set of US Offerings between intuitional allocation and Initial Public Offering (IPO) returns. The study identified Initial Public Offering

(IPO) offered between May 1997 and June 1998 from the Securities Data Company's. New issue database excluding American Depository receipts, Unit Offerings, Closed-end funds and Real Estate Investments Trusts. The information needed for study was requested from investment banks for all issues in which they were lead manger.

In both sides they found that there is a positive relationship between intuitional allocation and under pricing. It analysis why institutional allocation is greater in under priced issues. Finally, they concluded that how that one can gain in Initial Public Offering (IPO) is allocated between intuitional and retail investors. The question of whether Initial Public Offering (IPO) allocations practices systemically favor institutions over retail investors is also a subject of much and ongoing regulatory investigations.

Gasbarro (2003) study on "Under Pricing and After Market Performance of Initial Public Offering (IPO) firms in Mauritius. It studies focused on measuring the financial strength and identifying its relation to Initial Public Offering (IPO) under pricing and aftermarket performance. They used pre Initial Public Offering (IPO) prospectus information, annual reports and market data to create the financial strength. It measures the financial strength groups.

It concludes that this under pricing is related to Pre- Initial Public Offering (IPO) financial variables collect form each firm's prospectus. As previous researches suggested that under pricing reflects financial strength that they found that cash flow and sales are positively related to under pricing.

**Ljungqvist and Wihelm Jr.** (2003) research study on "Initial Public Offering (IPO) pricing in the dot-com Bubble" with the objective of establishing that the regime shift in initial returns and other elements of pricing behaviors can be at least partially accounted by market changes in Pre- Initial Public Offering (IPO) ownership structure and selling over the period which reduced key decision makers incentives to control under pricing. In this regard they included firms completing an Initial Public Offering (IPO) between January 1996 and December 2000 as enlisted in Thomson Financial Securities Data Company's (SDC) database.

During the study, they found that initial returns are larger when insider ownership stakes are smaller and more fragmented and when insiders sell fewer shares at the offer price. Similarly, when Chief Executive Officer and venture capitalists sell few shares in the Initial Public Offering (IPO). Price revisions which interpret as a measure of information acquired during the selling effort are less aggressive. Thus their results indicates the pricing of the dot- com bubble and changes in ownership structure and insider selling behaviors. Finally it concluded directed share programs, which provided for purchase of shares at the discounted offer price.

**Corwin and Schultz** (2005) examined Initial Public Offering (IPO) January 1997 through June 2002. Contrary to the popular belief that the larger syndicate yields benefits. It has discussed several factors that may limit syndicate size. It examined how syndicate structure affects the magnitude of offer price revisions in response to information revealed during the filing period. The total return from the midpoint of the filing price range to the closing price of the first day of trading. For this study purpose, it collects an initial sample of 21460 Initial Public Offering (IPO) issued between January 1997 and June 2002 Securities Data Company's (SDC) global new issues database.

The strong evidence of information production by syndicate members in Initial Public Offering (IPO) under – written by large syndicates and particularly by syndicates with a lot of co- managers the offer price is more likely to be revised away from the midpoint of the filling price range in respond to information. They also found that adding co- mangers to an Initial Public Offering (IPO) - syndicate increases by the number of analysis issuing reports in the after the market.

For the large Initial Public Offering (IPO) they found that underwriters who can provide coverage by a top- ranked analyst to be included in the syndicate. Similarly, even though the issuers benefit from increasing the number of syndicate members and especially the number of co- managers who underwrite their Initial Public Offering (IPO) , syndicate members and especially the number of co- managers who underwrite their Initial Public Offering (IPO) , syndicate size is very much dependent upon the preference of book manager than issuers.

Finally it concludes that although the Initial Public Offering (IPO) proceeds increased from 1997 to 2002, syndicates grew smaller. At the same time, the number of company managers increased. This change in syndicate structure over time provided an interesting area for future research.

**Derrien** (2005) study on “Initial Public Offering (IPO) pricing in Hot Market Condition: who leaves money on the Table?” The researcher has assumed that Millers (1977) model holds for Initial Public Offering (IPO) and developed a model of Initial Public Offering (IPO) pricing in favorable market conditions. The model relies on the assumption that aftermarket price support is costly for the underwriter. The prediction of the model was tested using a sample of 62 Initial Public Offering (IPO) completed on the French Stock Exchange between 1999 and 2001. A sample of latest French offerings with a fraction of the shares reserved for individual investors supported the predictions of the model. It mainly analyzed the impact of favorable investor sentiment on the pricing initial return and long- term performance of Initial Public Offering (IPO) stocks.

It concluded that if noise traders bullish, they are ready to buy Initial Public Offering (IPO) shares at high prices. In this framework, Initial Public Offering (IPO) prices reflect the private information noise trader sentiment known at the time of offering. Initial Public Offering (IPO) is being over- priced in the positive initial returns. Hence, the companies going public in hot markets are not upset about leaving money on the table as they know that their shares are overpriced at the time of offering.

**Goergen** (2006) study on “The strategy of Going Public: How UK firms choose their listing contracts”. It studied carried two objectives; the first objective was to derive potential factors that may influence the choice of Initial Public Offering (IPO) listing contracts from the few theoretical papers and empirical studies in the field. The second objective was to set how well those factors explain the choice of the listing contract for the case of UK Initial Public Offering (IPO). The study has focused on 240 flotation which were listed on the official list of London Stock Exchange during the period of 1991 to 1995. They used a binomial profit model to measure the impact of the variables on the contract choice. It is also found strong evidence that sponsor and creditor screening signals the quality of the Initial Public Offering (IPO) firm. Hence, firms which use highly reputable sponsors and those with high debt to assets

ratios usually, choose public offer contracts. They also found that firm makes small issues find it cheaper to use placing contracts. Finally, they concluded that in general the decision to choose a placing rather than an offer or vice versa is taken by the firm within the framework of rational behavior.

**Kaserer and Kraft** (2003) study on “How Issue Size, Risk and Complexity are Influencing External Financing Costs: German Initial Public Offering (IPO) analyzed from an Economics of scale perspective.” The study is focused on the cost of raising capital in Germany. The study included a cross-sectional analysis of flotation cost data for 117 Initial Public Offering (IPO) over the years 1993-1998. The research mainly focused on two questions: how can the Initial Public Offering (IPO) flotation cost function be defined within the economies of scale view in order to capture the import of a set of economically relevant variables? In addition, what statistical methods will provide the most powerful estimation and does this function reveals economies of scale on the level of a single issue?

After the completion of study, they declared that there is no strong support for economies of scale in Initial Public Offering (IPO) financing activities. They also found these spreads to be higher for more risky and more complex offerings. Their major finding was that the fixed costs are negligible as far as the underwriting fees are concerned. In fact the accounts on average underwriting cost 5-9%. Significantly, they also did not find evidence in support of the presumption that Initial Public Offering (IPO) spreads are clustered, which is in stark contrast to recent findings related to the U.S. market.

**Fields** (2003) study on “A comparison of Underwriting Costs of Initial Public Offering (IPO) by Investment and Commercial Banks.” The study mainly examined the difference in underwriting costs between commercial bank sections 20 – underwritten Initial Public Offering (IPO) and investment bank underwritten Initial Public Offering (IPO).

In the study, they used a sample of section- 20 commercial banks and investment banks underwritten Initial Public Offering (IPO) from 1991 to 1997. They identified 4566 Initial Public Offering (IPO) during the period using Securities Data

Corporation (SDC) initial offering database. They examined gross margin and under pricing separately and combined to assess whether the costs of Initial Public Offering (IPO) underwriting differ for commercial and investment banks. They also provided sensitivity test to address potential biasness.

The analysis found that underwriting costs for Initial Public Offering (IPO) are lower for commercial banks underwritten issues than for investment bank underwritten issues. Total underwriting costs are significantly lower for commercial bank underwritten issues both statistically and economically. The lower total underwriting costs for commercial bank underwritten issues reflects lower under pricing costs rather than any differences in gross margin. Finally, it concludes that longer term studies would be needed to determine whether the findings on the study persist in future, as section-20 subsidiaries become more established in the Initial Public Offering (IPO) underwriting market.

**Brau and Fawcett** (2006) study on “Initial Public Offerings (IPO); an analysis of theory and practice.” The study intended to extend the Initial Public Offering (IPO) literature by analyzing unique data from surveys of Chief Financial Officers (CFOs) to compare Chief Financial Officers (CFOs) perspective to prevailing academic theory. Specifically, they examined the following seven issues; motivation for going public, timing of the Initial Public Offering (IPO), underwriter selection, under pricing, signaling Initial Public Offering (IPO) process issues and the decision to stay private . In this regard, they surveyed three sub samples of firms, namely those that successfully completed an Initial Public Offering (IPO), those that began the process but chose to withdraw the issue and those that are large enough to go public, but have not attempted an Initial Public Offering (IPO). They surveyed 330 Chief Financial Officers (CFOs) and their survey process followed Dill Man’s (1978) total design method, which is a standard for conducting academic surveys. Their findings are summarized as:

The most important motivation for going public is to create public shares for use in future acquisitions. Chief Financial Officers (CFOs) are well informed regarding expected under pricing. They attribute most under pricing to market uncertainty and the need to reward investors for taking the risk of Initial Public Offering (IPO). Chief

Financial Officers (CFOs) strongly prefer firm-commitment underwriting. Companies remain private to preserve decision making control ownership.

Finally, it concluded that Chief Financial Officers (CFOs) survey responses indicate that academic theory regarding the Initial Public Offering (IPO) process. However, the Chief Financial Officers (CFOs) perspectives suggest a need to revisit and refine several ideas that are commonly held in the Initial Public Offering (IPO) literature.

## **2.10 Review of Thesis**

Different researchers have studied on different aspects of capital market. While researching the study in the area of Initial Public Offering (IPO) there is lack of thesis in Initial Public Offering (IPO). However, there are a few research studies in considered, relevant and accessible during the study time. Here are some thesis related with this topics is reviewed are as follows.

**Shrestha** (1996) has conducted research on “*Public Response to Primary Issue of Shares in Nepal*” The main objective of the study was to evaluate the primary market of shares, analyze the pattern of public response to the shares and to identify the problems of primary market in Nepal. He has used both primary and secondary data from 12 selected companies for the period of 3 years from January 1993 to January 1996. He has employed simple average, chi – square test and correlation coefficient for deduction.

The study concluded that the public response to the issue of shares of banks, finance and insurance companies were better than that of manufacturing and processing, trading, hotel and other groups of companies. The success of response to the public issues largely depends on the response from within Kathmandu valley and to some extent, the issues of shares seem to attract from outside the valley.

**Bhattari** (2006) has performed a study on “*Public Response to Initial Public Offering in Nepal*” with the basic objective of asserting public response to the Initial Public Offering (IPO). However, the study has focused on the dealing process and pace of the Initial Public Offering (IPO). The study has used both primary and secondary data. Primary data were mainly collected through direct questionnaire provided to the

general investors while secondary data were collected from various publications like NEPSE, SEBON etc...

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

**Adhikari** (2005) has studied a research survey on “*An analysis of Determinants of Initial Public Offering (IPO) under pricing in Nepal.*” The basic objective of the study also examined the trends of public offering market and process of going public in Nepal. For the purpose of study data of the periods of 4 years from Fiscal Year 1999/00 to 2003/04 were used.

The researcher concluded that under- pricing does not occur among Nepalese Firms. The price setting process is totally controlled by the regulatory body. Nepalese Merchant Banker could not play any role to influence the offer price of Initial Public Offering (IPO).

At last, from the numerous studies have been carried out in different part of the world covering different aspects of Initial Public Offering (IPO) including two empirically tested theories: Initial Public Offering (IPO) under pricing and long run underperformances of Initial Public Offering (IPO) which are not available in Nepalese context. Few studies have analyzed existing state of Initial Public Offering (IPO) in Nepal. However, none of the studies has been able to portray the complete picture of Initial Public Offering (IPO) and their practices in Nepal. In this context, this study attempts to analyze existing state of Initial Public Offering (IPO) in Nepal.

## **2.11 Research Gap**

Even though several studies have been carried out in different parts of the world covering different aspects of Initial Public Offering (IPO), there is still lack of research in the growth of Initial Public Offering (IPO) in the Nepalese context. But

this study covers the period from 1993/94 to 2008/09. This study has analyzed the current situation of primary market, exist the situation of Initial Public Offering (IPO) in Nepal and the trend of the Initial Public Offering (IPO).

## **CHAPTER – III**

### **RESEARCH METHODOLOGY**

This chapter of the study contains the procedure and techniques adopted during the study. Research Methodology is the systematic method of finding solution to a problem i.e. systematic collection, recording, analysis, interpretation and reporting of information about various facts of a phenomenon under study. It includes the research design, population and sample, nature and sources of data, methods of data collection, data processing, data analysis tools and limitation of the methodology. This chapter describes research design, population & sampling, sources of data and analysis of the data.

#### **3.1 Research Design**

The research is concentrated on the particular subject of Initial Public Offering (IPO) so it falls in the category of case study research. This research is based mainly on secondary data and information. The research design is descriptive and analytical.

#### **3.2 Population and Sampling**

For data collection, sample of historical data were collected and analyzed. The required data have been collected from the various sources like Securities Board of Nepal (SEBON), Nepal Stock Exchange (NEPSE) and different websites. However, the study is focused on those companies which have gone for Initial Public Offering (IPO) during the period of Fiscal Year 1993/94 to 2009/10. Also analyzing the existing state of Initial Public Offering (IPO) in Nepal.

#### **3.3 Nature and Sources of Data**

The data were collected through direct communication, observation, informal and unstructured interview and historical data. The require data for the study are collected from the secondary sources. Securities Board of Nepal (SEBON) is the main institution which provides most of the data for the study.

The major sources of data used in this study are as follows:

- J Annual reports of Securities Board of Nepal (SEBON) of Initial Public Offering (IPO)
- J Different journal Securities Board of Nepal (SEBON)
- J Various economic website in Nepal Like
- J [www.sebonp.com](http://www.sebonp.com)
- J [www.nepalstock.com](http://www.nepalstock.com)
- J [www.arthaexpress.com](http://www.arthaexpress.com)
- J [www.sct.com.np](http://www.sct.com.np)
- J [www.nrb.org.np](http://www.nrb.org.np)
- J [www.nepalsharemarket.com](http://www.nepalsharemarket.com)
- J [www.nefinsco.com](http://www.nefinsco.com)
- J [www.ncml.com.np](http://www.ncml.com.np)
- J [www.nmb.com.np](http://www.nmb.com.np)
- J [www.ace.com.np](http://www.ace.com.np)
- J Daily newspaper as well as economic newspaper
- J Acts and regulation government policy in security market and Initial Public Offering (IPO) issues that mainly Security Act 2063, Security Registration and Issue Approval Guidelines 2000.

### **3.3.1 Primary Data**

The study was conducted on the basis of primary data, which was collected mainly through direct communication and observation to person or department who may concern. Research did not use any structured questionnaire in order to get opinion about the systems, its problems and advice for improvements in existing system.

### **3.3.2 Secondary Data**

Secondary data is used in supplements to primary data wherever it seems necessary. These data were divided into two parts. In first part, the internal secondary data were collected from materials like booklets, bulletins and various other reports of the company. Similarly in second part the secondary data were collected from essentials

books, articles and magazines related to Initial Public Offering (IPO) through various sources like libraries, internet.

### **3.4 Data Analysis Tools**

As the nature of research is case study, it will be based on the primary data and information. All data and information are collected from observation, questionnaire and other sources. Data analysis is studied on the basis of the available facts. This study is mostly based on the analysis of secondary data with the help of different statistical tools like trend analysis; percentage; tabulation and diagrammatic presentation etc. The study has been collecting the data of Initial Public Offering (IPO) from the Securities Board of Nepal (SEBON) 1993/94 to 2009/10.

### **3.5 Statistical Tools**

To draw the conclusion by analyzing the collected data simple statistical tools like multiple bar diagram, trend analysis, percentage etc. are used and tabulation is made to compare the results.

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

Diagram and graph view of a set of numerical data which shows the information to make the comparison between two or more than two sets of data. Diagrams are shown in different types. Different types of diagram have presented a diagrammatic presentation of data is multiple bar diagram which is used in multiple characteristics of data have to be presented and compared.

#### **3.5.2 Percentage**

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

#### **3.5.3 Standard Deviation**

Standard Deviation is the most popular and the most useful measure of dispersion and gives uniform, correct and stable results. A standard deviation is the positive square root of average sum of squares of deviations of observations from arithmetic mean of the distribution.

### **3.5.4 Variance**

The square root of standard is called variance. The variance is measured of dispersions in which the units are expressed in term of squared from viz.  $\text{cm}^2.\text{kg}^2$

### **3.5.5 Coefficient of Variance**

The percentage measure of coefficient of standard deviation is called coefficient of coefficient of variance (C.V.). It is used for comparing the homogeneity, uniformity and variability of two or more distributions.

## **CHAPTER – IV**

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

This chapter is basically focused upon the analysis of data collected from different secondary sources. This chapter has been divided into two parts; the first part of the chapter deals with the presentation and analysis of theoretical data and the second part are concerned with the presentation and analysis of numerical data. This chapter is the main body of the thesis writing .The ‘presentation and analysis of data ‘is an important part of the study important suggestions and guidelines for fulfillment of existing problems of Initial Public Offering (IPO).It deals with the presentation ,analysis and interpretation of data collected through secondary sources. The whole research is heavily based on the analysis and interpretation of collected data from secondary sources. It consists of presentation and analysis of secondary data related with different variables using different tools.

#### **4.1 Presentation and Analysis of Theoretical Data**

##### **4.1.1 Present Status of Nepalese Stock Market**

The shares of companies with better prospects of dividend, capital increment and growth have normally higher prices in the stock market. In 1993, Securities Board of Nepal (SEBON) was established with the objective to regulate, supervise and monitor the security market. Similarly, the Securities Exchange Centre was converted into Nepal Stock Exchange Limited (NEPSE) with the objectives to provide secondary market for securities transaction, where the investors are allowed to deal in securities only through licensed brokers.

Altogether there are one central bank, 25 commercial banks, 78 finance companies, 24 development banks, 19 insurance companies, 4 hotels 18 manufacturing and processing company and 4 trading company are operative in the financial intuition in Nepal as of January 2008. In addition, there is one Employee Provident Fund and Citizens Investment Trust. During the 16 years the stock market of Nepal has gradually increasing trend. The stock market activities grow with the development as well as the reform in the financial sector. Despite these progresses of stock market in

Nepal is still at a developing stage and has to make visible impacts on the economic growth of the country.

#### **4.1.2 Policies and Programs of the Government of Nepal**

After adopting liberalization economic policy the Government of Nepal has been initiating different programs for the organized development of stock market. During the Eight Five Year Plan (1992-1997) some infrastructure as well as policy has been made for the market regulation. In the Ninth Five Year Plan (1997-2002) efforts have been made to develop an organized and credible market. While implementing the programs of Ninth Five Year plan, Government of Nepal through the budget speech of 2000/01, announced the programs to amend Securities Exchange Act, initiate necessary steps to bring wider participation in the stock exchange and make its operation more transparent. Similarly, the budget speech has also included the program to take legal action against those listed companies, not publishing and submitting their audited financial statements of last two years. There are 25 companies were de-listed for not publishing their financial statements and not paying annual listing fees to Nepal Stock Exchange (NEPSE). However, other programs like amendment of Securities Exchange Act, Standardizing Stock Exchange etc. which are more important for the development of stock exchange.

In the fiscal year 2001/02 Government of Nepal tenth Five Year Plan (2002-07) which includes various programs for stock market development. The objective of the stock market development program is to increase public ownership in the development projects operated by private sector and promote industries by supplying financial resources through the capital market.

It has taken the policy of modernizing the stock exchange. It has taken the objectives of strengthening the regulatory system of the stock market, widening the participation of the stock exchange and making it dynamic, transparent, credible and investor friendly and developing the stock market as an important source of long- term financial growth by increasing its depth and breadth. It has incorporated the programs of making public issue effective, enhancing regulatory capability of Security Board of Nepal (SEBON), making the stock trading process standard and credible, creating a state of transferring ownership immediately after transaction, diversifying security

market instruments, attracting intuitional investors, protecting investors interest, expanding the stock market services nationwide and improving the compliance and integrity of the stock market.

#### **4.1.3 Regulation of Stock Market**

Under the Securities Exchange Regulation 2050 have been formulated for the membership of stock exchange. Recently the regulation and laws have been amended to suit the environment of the stock market. Companies Act, 2021 have been replaced by new companies act, 2053 with a view to make transparency and accurate in information, operation and administration of the companies. Various formats related with the articles, memorandum of association, prospectus, and application form for purchase of shares, balance sheet and profit & loss account have been prescribed. Securities Investment Trust Act, 2053 have been formulated and enforced for the operation of trusts fund such as mutual fund etc...

#### **4.2 Major Regulating Agencies**

The government agencies Security Board of Nepal (SEBON), Nepal Rastra Bank (NRB) and Company Registrar's Office (CRO) are involved in approving and registration of public issues. Through Security Board of Nepal (SEBON) is the only regulatory body in stock market to supervise and regulate the overall functioning of the market. Hence, all these three agencies work in approving and registering the public issue are elaborated.

##### **4.2.1 Security Board of Nepal (SEBON)**

Security Board of Nepal (SEBON) is empowered by Securities Exchange Act, 2040 for the development of capital market, protection of investor's interest, approval of stock exchanges, regulation of market intermediaries, primary market, secondary market, mutual funds and conducting investment awareness programs for various interests groups. When prospectus is submitted for the registration purpose, the securities boards watch the disclosures in the prospectus are found the adequate in the board registers the securities to be issued in the public and grants permission on it.

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

Nepal Rastra Bank (NRB) is the central bank which approves the prospectus when banks and finance companies propose the public issue. It also gives permission to issue debentures in the public along with the approval on interest rate on debenture and bond. Under Nepal Rastra Bank (NRB) directive bank and finance companies are required to issue shares equivalent to at least 30 and 40 percent in both situation if they have foreign joint venture stake. But while in debentures and bonds issue Nepal Rastra Bank (NRB) must be assured the prospectus about the size of the issue interest rate, collateral and repayment of the loan.

#### **4.2.3 Company Registrar's Office (CRO)**

Company Registrar's Office (CRO) is only agency where companies are registered and monitors the operations of the companies and makes arrangements for winding up of the companies when required. Approval on prospectus is granted by Company Registrar's Office (CRO) only. Before granting approval it obtains advises/ option from Security Board of Nepal (SEBON) and for banking and finance companies advises/option on prospectus is taken from Nepal Rastra Bank (NRB).

#### **4.2.4 Nepal Stock Exchange (NEPSE)**

While issuing Initial Public Offering (IPO) to the general public permission should be taken from Nepal Stock Exchange (NEPSE). For issuing companies and issue managers are required to submit the prospectus. In the meantime before concluding agreement along with the 5% of commission amount should be forwarded to the Nepal Stock Exchange (NEPSE). This is applicable for underwriting arrangements too.

#### **4.2.5 Insurance Board**

When an insurance company makes a public issue, insurance boards also perform watching carefully the prospectus as it is done by Nepal Rastra Bank (NRB).

#### **4.2.6 Concerned Ministries of the Government of Nepal**

The companies which are incorporated by special acts are required to get approved the prospectus from concerned ministers. For example, companies such as Nepal Industrial Development Corporation, Citizen Investment Trust and Rastriya Beema

Sansthan are under the preview of Minister of Industry and Minister of Finance. The prospectus of three companies needs to be approved from Ministry of Industry and Ministry of Finance instead of Company Registrar's Office (CRO).

### 4.3 Presentation and Analysis of Data

This part of the chapter will reveal the development of Nepalese Stock market in terms of market turnover, paid – up capital, market capitalization, issued approved, Nepal Stock Exchange (NEPSE) index, number of transactions, market per day per year, number of listed companies, number of share traded, number of trading companies and number of listed securities etc with different years.

#### 4.3.1 Growth Trend of Stock Market Indicator

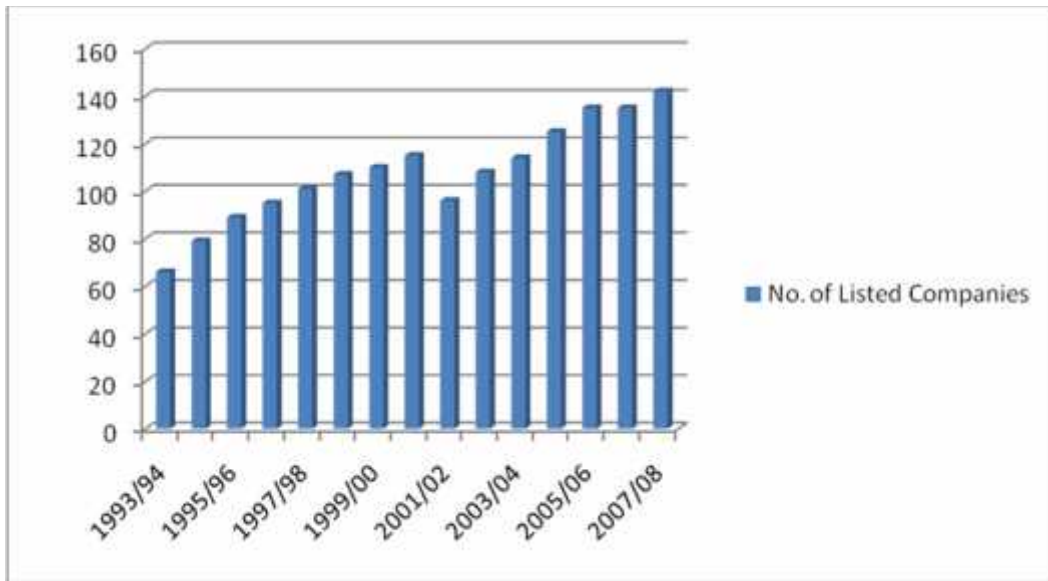
The Position of number of listed companies, number of traded company and number of share traded are some important indicators of the stock market growth. The growth trends of such variables are presented

**Table 4.1**  
**Growth trend**

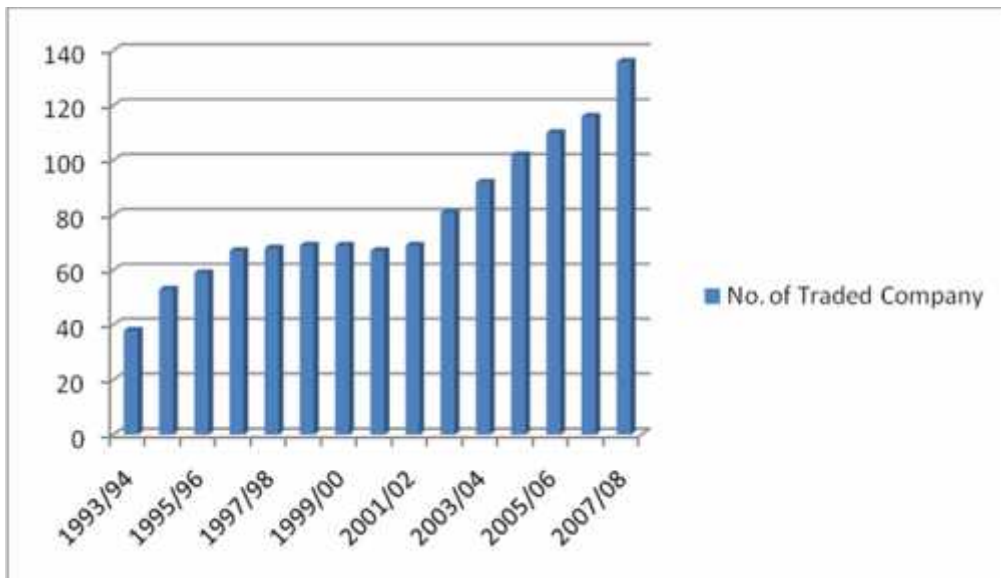
Fiscal year	No. of Listed Companies	% of growth	No. of Traded Company	% of growth	No. of Share Traded'000'	% of growth
1993/94	66	-	38	-	993	-
1994/95	79	19.7	53	39.47	3901	292.85
1995/96	89	12.66	59	11.32	2954	-24.28
1996/97	95	6.74	67	13.56	9443	219.67
1997/98	101	6.32	68	1.49	1195	-87.35
1998/99	107	5.94	69	1.47	4857	306.44
1999/00	110	2.8	69	0	7674	58
2000/01	115	4.55	67	-2.9	4989	-34.99
2001/02	96	-16.52	69	3	6005	20.36
2002/03	108	12.5	81	17.39	2428	-59.57
2003/04	114	5.56	92	15	6468	166.39
2004/05	125	9.65	102	10.87	18433.55	184.99
2005/06	135	8	110	7.84	12221.93	-33.7
2006/07	135	0	116	5.46	18147.25	48.48
2007/08	142	5.19	136	17.24	28599.7	57.60

Source: Annual Report, SEBON, 1993/94 -2007/08

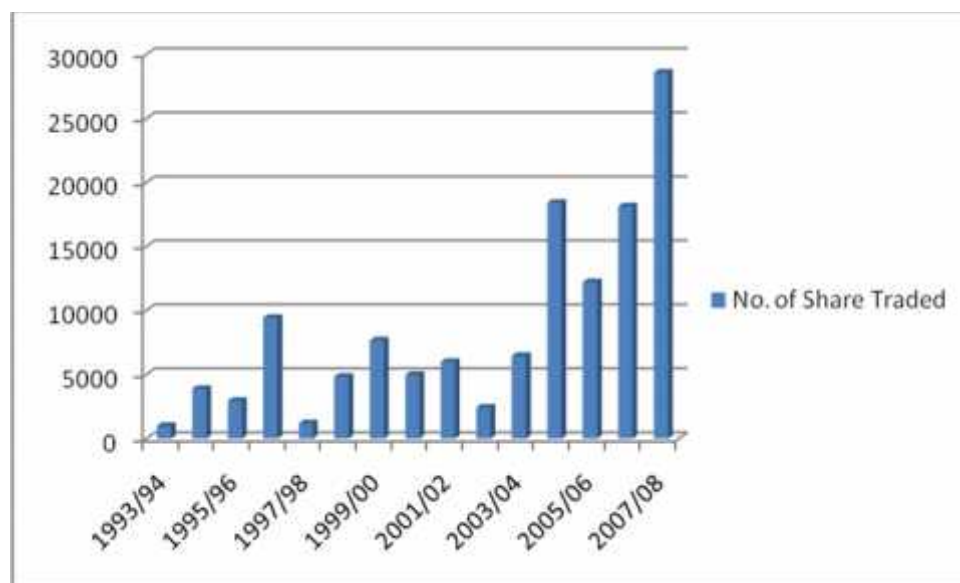
**Figure 4.1**  
**No. of Listed Companies**



**Figure 4.2**  
**No. of Traded Company**



**Figure 4.3**  
**No. of Share Traded**



In the fiscal year 2007/08, the total number of listed companies is 142 which is increased in 5.19 percent. In the fiscal year 2006/07, the total number of listed companies remained 135 as equal to 135 listed companies in the fiscal year 2005/06 due to the listing of additional 12 companies and delisting of 12 listed companies. The number of listed companies was 66 in the base year 1993/94 and 135 in year 2006/07. The growth rate of listed companies is positive in all these years except in the year 2001/02 with the negative growth rate of 16.52. In that year, Nepal Stock Exchange (NEPSE) had delisting some companies from its list because off non- disclosure of necessary information correctly and timely.

According to Stock Exchange Act 1983, there is a provision for delisting the companies which are not able to disclose the documents regarding annual general meeting, audit report, unable to pay the annual fees of listing in Nepal Stock Exchange (NEPSE) for up to two years can be delisting from Nepal Stock Exchange (NEPSE). Thus, Nepal Stock Exchange (NEPSE) delisted 25 companies after it was empowered by the second amendment in the ‘Securities Listing by- Law 1996’ on July 2, 2002. In the fiscal year 2003/04 Nepal Stock Exchange (NEPSE) delisted Nepal Bank Limited. The growth rate was highest in 1994/95 and lowest in 2001/02 with -16.52%

The number of traded companies was 38 in the base year 1993/94 and 136 in the year 2007/08. Through, only 38 companies were traded floor in base year, it rose up to 136 in the year 2007/08. The number of traded companies' decreased in year 2000/01 with the negative growth rate of -2.90 percent. However, the numbers of trading companies are in increasing position in all other years.

The analysis of the number of shares traded in different years indicates that it was very much fluctuating in past. The impact on growth rate is also affected. The number of shares traded in the year 1993/94 was only 9, 93,000 whereas it was 39, 01,000 in the year 1994/95 with the growth rate of 292.85 percent. Again, in the year 1995/96 it was declined and came to 29, 54,000 with the negative growth rate of 24.28 percent. This negative trend of growth rate was continued in the year 1997/98, 2000/01, 2002/03, and 2004/05 the growth -87.35,-34.99,-59.57and -33.70 respectively. But in the year 2003/04 and 2004/05 the growth rate was significantly increased and became 184.99 % with the shares traded 1, 84, 33,550 in year 2004/05. The highest number of share traded in the fiscal year 2007/08 is 28599.7 which denotes increased in 57.66 percent.

#### **4.3.2 Number of Transactions and Listed Securities in Nepal Stock Exchange (NEPSE)**

The number of transactions and number of listed securities in various years are presented below.

**Table 4.2****Number of Transactions and Listed Securities in Nepal Stock Exchange**

Fiscal year	No. of Transaction	% of growth	No. of Listed Securities	% of growth
1993/94	9357		43424	
1994/95	21472	129.48	58247	34.14
1995/96	17943	-16.44	65880	13.1
1996/97	12428	-30.74	85193	29.32
1997/98	15483	24.58	90107	5.77
1998/99	15814	2.14	105632	17.23
1999/00	29136	84.24	114057	7.98
2000/01	46095	58.21	124971	9.57
2001/02	48028	4.19	134150	7.34
2002/03	69163	44	159958	19.24
2003/04	85533	23.67	161141	0.74
2004/05	106246	24.22	194673	20.81
2005/06	97374	-8.35	226540	16.37
2006/07	120510	23.76	243504	7.49
2007/08	150800	25.13	321131	776.27

*Source: Annual Report, SEBON, 1993/94 -2007/08*

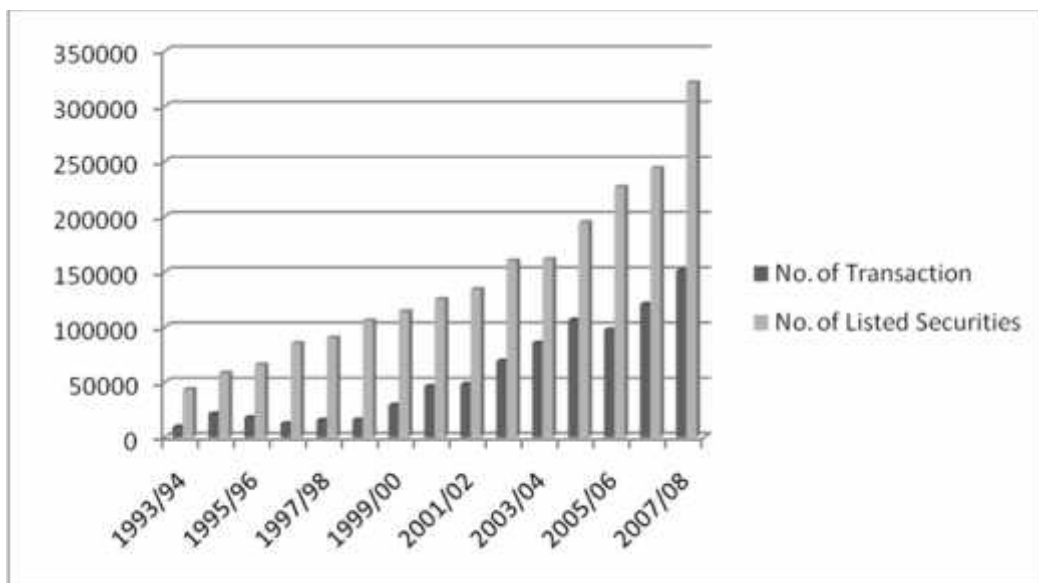
The above table shows that number of transactions is very much varied comparing with different years. In the year 1993/94, the number of transactions is 9357 while in 1994/95 it rose up by 129.48 percent with transactions of 21472. There was a negative growth rate in transaction in the year 1995/96 by -16.44 percent and it was continued by -30.74 percent in the year 1996/97. Again in the year 2005/06, there was a negative growth rate in transaction by – 8.35 percent.

The significant growth rate can be traded in the year 1999/00 by 84.24 percent as compared to the growth rate of 2.14 percent of 1998/99. The growth rate in number of transactions in 2002/03 was by 44 percent as compared to the growth rate of 4.13 percent of 2001/02. The growth rate in 2003/04 was increased by 23.67 percent and it was increased by 24.22 percent in 2004/05 with 106,246 numbers of transactions and 23.76 percent in 2006/07 with 120,510 number of transactions. Lastly in 2007/08 the transaction is 150800 which increased by 25.13 percent. It has the highest transactions volume of 150800.

The percent system is that the securities issued to the public should be listed in stock exchange within 45 days after the allotment date. The growth rates of number of listed securities are all positive. The number of listed securities is highest in year 2007/08 with 321131 numbers of listed securities. The number of listed securities is second highest in year 2006/07 with 243504 number of listed securities and lowest in year 1993/94 with 43424 number of listed securities. The highest growth rate is in year 2007/08 by 776.27 percent and the lowest growth rate is 0.74 percent in year 1997/98.

**Figure 4.4**

**No. of Transaction and No. of Listed Securities**



**Table 4.3****Number of Securities Issue and Amount of Securities Issue**

Fiscal year	Number of Securities Issue	Issue amount (Rs. In Million)	% Increased in Issue amount
1993/94	16	244.4	
1994/95	10	173.96	-28.82
1995/96	12	293.74	68.86
1996/97	5	332.2	13.09
1997/98	12	462.36	39.18
1998/99	5	258	-44.2
1999/00	6	326.86	26.69
2000/01	9	410.49	25.59
2001/02	12	1441.33	251.12
2002/03	18	556.54	-61.39
2003/04	14	1027.5	84.62
2004/05	14	1626.82	58.33
2005/06	29	2443.28	50.19
2006/07	34	2295.5	-6.05
2007/08	16	92.48	-95.97
Total	196	11892.28	477.21

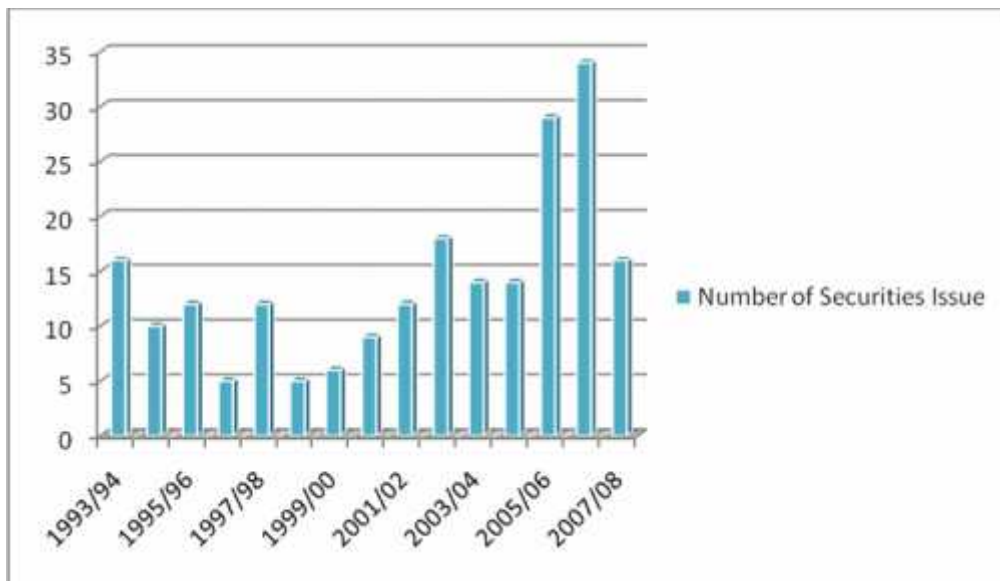
*Source: Annual Report, SEBON, 1993/94 -2007/08*

The number of securities issue, issue amount and percentage increase in issue amount are presented in below the table.

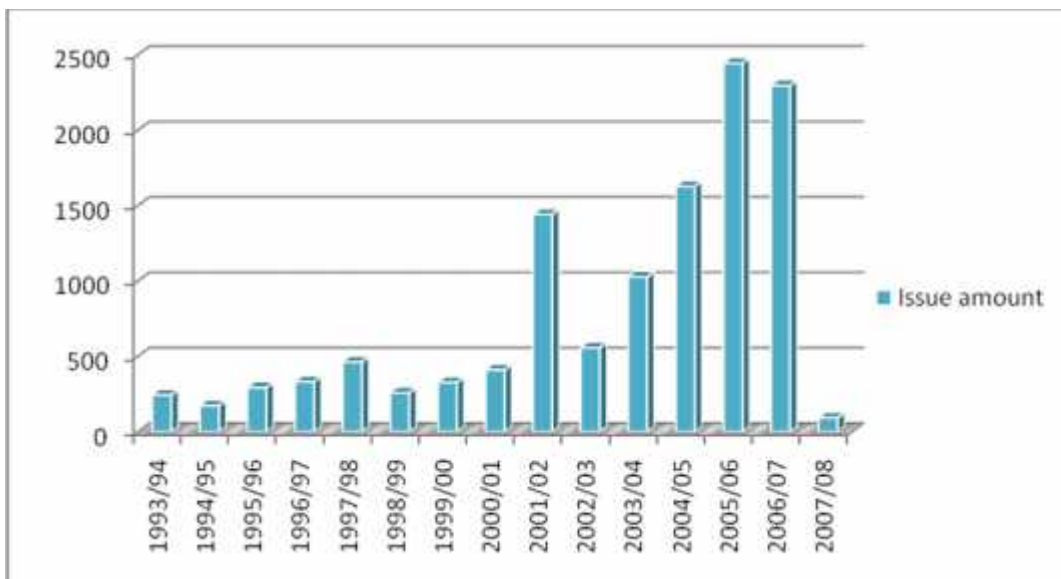
**4.3.3 Number of Issue Approved and Total Amount of Issue Approved**

The Securities Board of Nepal (SEBON) issued the securities of various types in various volumes at various time. The numbers of securities issued were 16 in initial fiscal year 1993/94 as well as in 2007/08 but at the end of fiscal year 2006/07; the total numbers of securities issued were 196. The highest number of securities issued was 34 in fiscal year 2006/07, the third highest security issued was 18 in fiscal year 2005/06, and the third highest security issued was 18 in fiscal year 2002/03. Similarly, the least three securities issued were 5 in fiscal year 1996/97 and 1998/99, 6 in fiscal year 1999/00 and 9 in fiscal year 2000/01. So, it can be conclude that the amounts of securities issued by SEBON varied during the Periods.

**Figure 4.6**  
**Number of Securities Issue**



**Figure 4.7**  
**Issue Amount**



The highest amount of securities issued was Rs. 2443.28 million in the fiscal year 2005/06, second highest is Rs. 2295.50 million in the fiscal year 2006/07 and third highest is Rs.1626.82 million in the fiscal year 2004/05. Similarly, the least securities issued were Rs.92.48 in the fiscal year 2007/08 and it was followed 173.96 million in the fiscal year 1994/95 and Rs. 244.4million in the fiscal year1993/94.The highest

growth rate in securities issued can be traced in the fiscal year 2001/02 which was 251.12 percent positive. There was a highest negative issued security in the fiscal year 2007/08 by -95.97.

#### 4.3.4 Market Capitalization in Nepal Stock Exchange (NEPSE)

The situation of market capitalization in Nepal Stock Exchange is presented in table.

**Table 4.4**

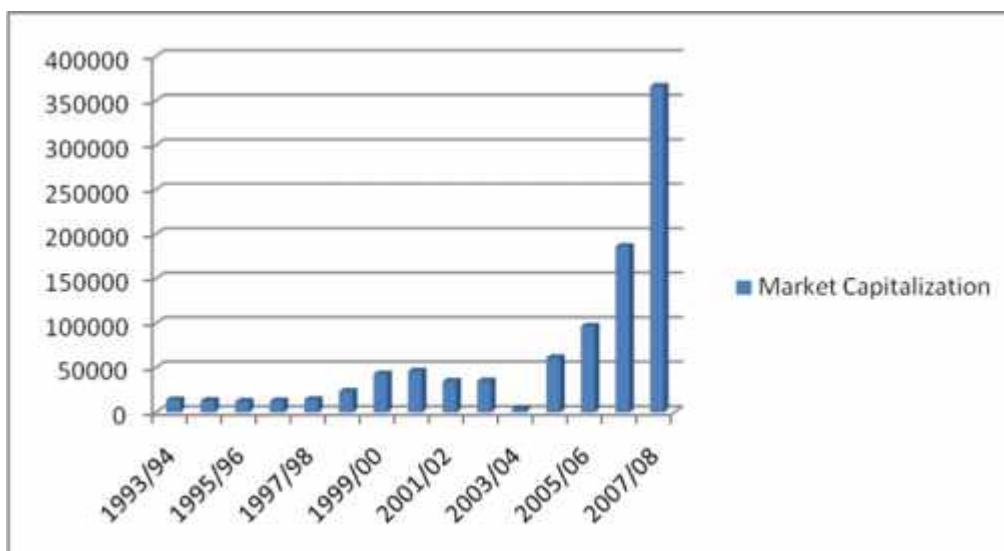
#### **Market Capitalization in Nepal Stock Exchange (NEPSE)**

<b>Fiscal Year</b>	<b>Market Capitalization (in Rs million)</b>	<b>% Increased in Market Capitalization</b>
1993/94	13872	
1994/95	12963	-6.55
1995/96	12295	-5.15
1996/97	12698	3.28
1997/98	14289	12.53
1998/99	23508	64.52
1999/00	43123.3	83.44
2000/01	46349.4	7.48
2001/02	34703.9	-25.13
2002/03	35240.4	1.55
2003/04	4124.77	17.55
2004/05	61365.9	48.14
2005/06	96763.7	57.68
2006/07	186301.3	92.53
2007/08	366247.56	96.59

*Source: Annual Report, SEBON, 1993/94 -2007/08*

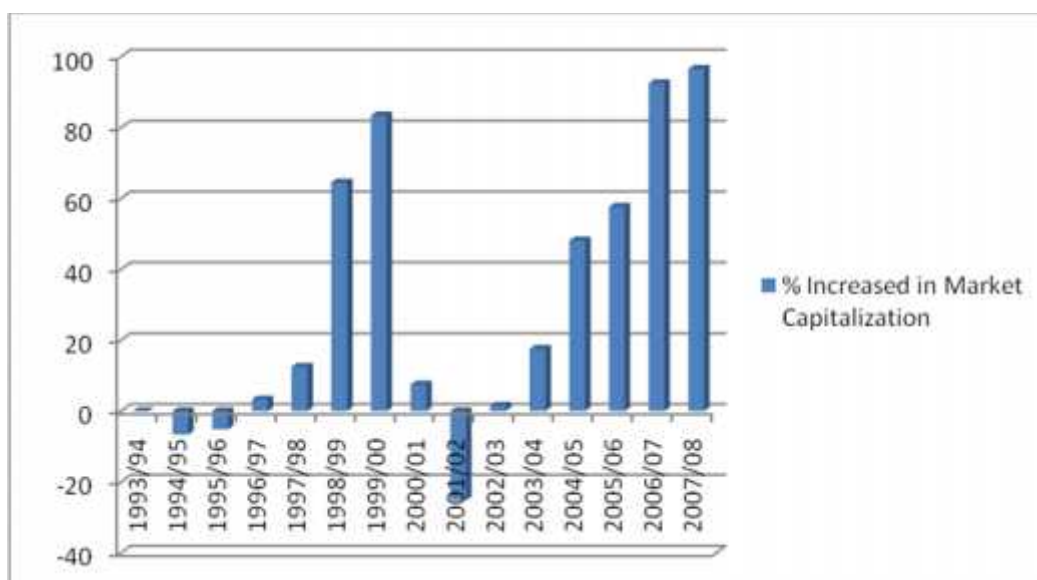
**Figure 4.8**

#### **Market Capitalization**



**Figure 4.9**

**% Increased in Market Capitalization**



The market capitalization of listed securities in the fiscal year 2007/08 is Rs.366247.56 million which has occupied 96.59 percent. In the fiscal year 2006/07 is Rs. 186301.30 million and it has increased by 92.53 percent as compared to the fiscal year 2005/06, which was Rs. 96963.7 million. The market capitalization was highest decreased in the fiscal year 2001/02 by -25.12 percent. It was due to the decrease in Nepal Stock Exchange (NEPSE) index by highest rate (-25.13%) in that during the 15 years of Nepal Stock Exchange (NEPSE). The reason for the negative market capitalization during that period was because of the stock market crash at that time. At that time the shares of all the companies dropped down drastically as a result of the

market crash. Also during the fiscal year 2001/02, Nepal Stock Exchange (NEPSE) delisted 25 companies.

The highest increase in market capitalization rate was 96.59 in the fiscal year 2007/08 and it was due to the highest increase in Nepal Stock Exchange (NEPSE) index by 40.85 percent in this year during the 15 years period of Nepal Stock Exchange (NEPSE).

#### 4.3.5 Trend of Initial Public Offering (IPO) in Nepalese Market

Table 4.5

##### Initial Public Offering (IPO) in Nepalese Market

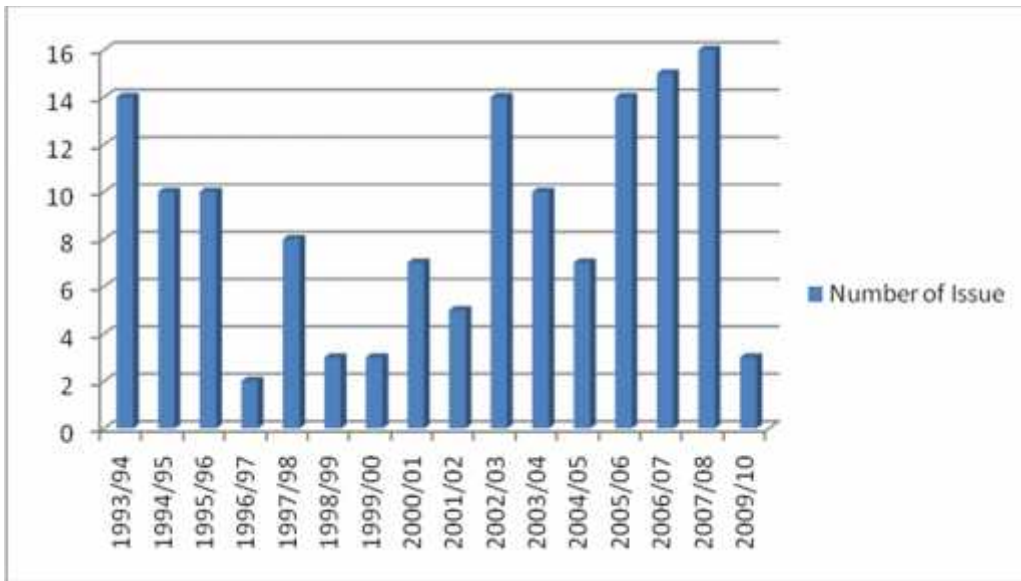
Fiscal Year	Number of Issue	Issue Amount
1993/94	14	227.9
1994/95	10	174.3
1995/96	10	130.24
1996/97	2	57
1997/98	8	149.9
1998/99	3	148
1999/00	3	278.7
2000/01	7	319.46
2001/02	5	657.5
2002/03	14	377.48
2003/04	10	599.83
2004/05	7	377.48
2005/06	14	599.83
2006/07	15	383.3
2007/08	16	92.48
2009/10	3	71.8

Source: Annual Report, SEBON, 1993/94 -2009/10

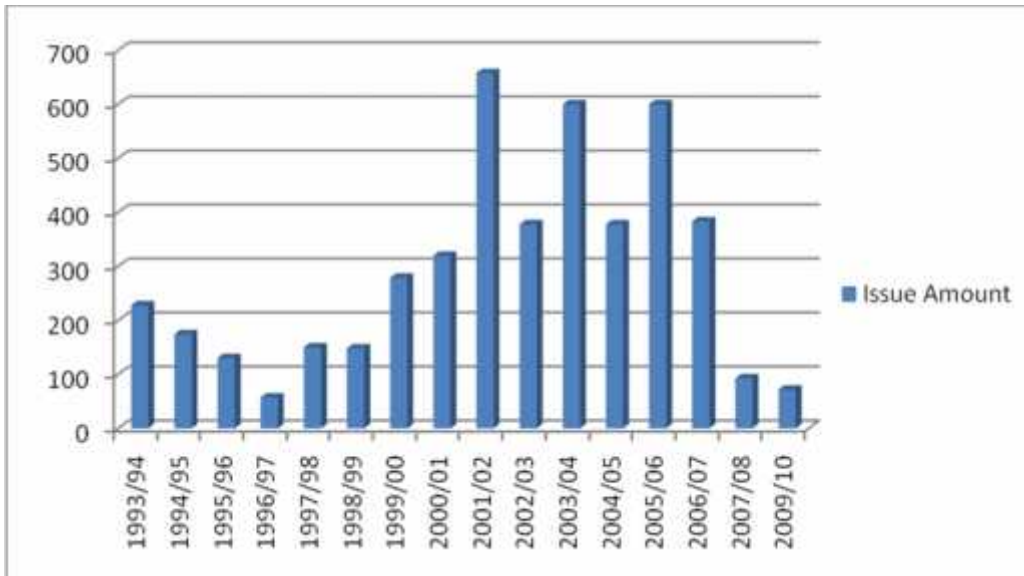
The Securities Board of Nepal (SEBON), Nepal Rastra Bank (NRB) and Company Registrar's Office (CRO) issued the securities of various types in various volumes at various time. The numbers of securities Initial Public Offering (IPO) issued were 14 in initial fiscal year 1993/94 but at the end of fiscal year 2009/10, the total number of securities Initial Public Offering (IPO) issued was 3. The issuing the Initial Public Offering (IPO) in fiscal year is fluctuated. Before the issuing of shares the company should maintain profit from three years or its book value must be greater than 100.

The highest amount of securities in Initial Public Offering (IPO) issued is Rs.657.5 in million in the fiscal year 2001/02. Second highest amount of issue is Rs. 599.83 in the fiscal year 2003/04 and 2005/06 is same. Similarly, the least securities issued amount is Rs57 in the fiscal year 1996/97. The issue amount of the securities in different fiscal year is fluctuation types. The reason of fluctuation may be different like economic conditions, economic policy, the companies' position etc.

**Figure 4.10**  
**Number of Issue**



**Figure 4.11**  
**Issue Amount**



### **Nepal Stock Exchange (NEPSE) INDEX**

Market Indexes are used to determine the relationship between historical price movements and economic variables and to determine the systematic risk for individual securities and portfolios. The index is taken as a measuring tool whether the performance of stock market is good or not. This clearly focuses on the price of stocks that is increasing or decreasing in the market. Because the prices of stocks go up and down in a particular period compared to the previous period as disclosed by index. The highest index suggests the increase in market price of the stocks and implies the better performance of companies and vice – versa. Thus the Nepal Stock Exchange (NEPSE) index shows the behavior of stock prices in the capital market. We have calculated the Market Return, Standard Deviation, Variance and Coefficient of Variance on the basis of Nepal Stock Exchange (NEPSE) index. The computation formula for price index is as follows:

**Table 4.6**  
**NEPSE Index**

<b>Fiscal year (t)</b>	<b>NEPSE Index</b>	<b>Market Return(Rm)</b>	<b>Rm - ERm</b>	<b>(Rm - Erm)<sup>2</sup></b>
1993/94	226.03		-2.06	4.24
1994/95	195.48	-0.14	-2.2	4.84
1995/96	185.61	-0.05	-2.11	4.45
1996/97	176.31	-0.05	-2.11	4.45
1997/98	163.35	-0.07	-2.13	4.53
1998/99	216.92	0.33	-1.73	2.99
1999/00	360.7	0.66	-1.4	1.96
2000/01	348.43	-0.03	-2.09	4.37
2001/02	227.54	-0.35	-2.41	5.81
2002/03	204.86	-0.1	-2.16	4.67
2003/04	222.04	0.08	-1.98	3.92
2004/05	286.67	29.11	27.05	731.70
2005/06	386.83	0.35	-1.71	2.92
2006/07	683.95	0.77	-1.29	1.66
2007/08	963.36	0.41	-1.65	2.72
<b>Total</b>		<b>30.92</b>		<b>785.23</b>

*Source: Annual Report, SEBON, 1993/94 -2007/08*

$$\text{Market Return (Rm)} = \frac{\text{NI}_t - \text{ZNI}(t-1)}{\text{NI}(t-1)}$$

Where,

NI<sub>t</sub> = NEPSE index of present year

NI (t-1) = NEPSE index of previous year

$$\begin{aligned} \text{Expected Return (E Rm)} &= \frac{\text{Sum of NI}}{\text{Total No of Years}} \\ &= \frac{30.92}{15} = 2.06 \end{aligned}$$

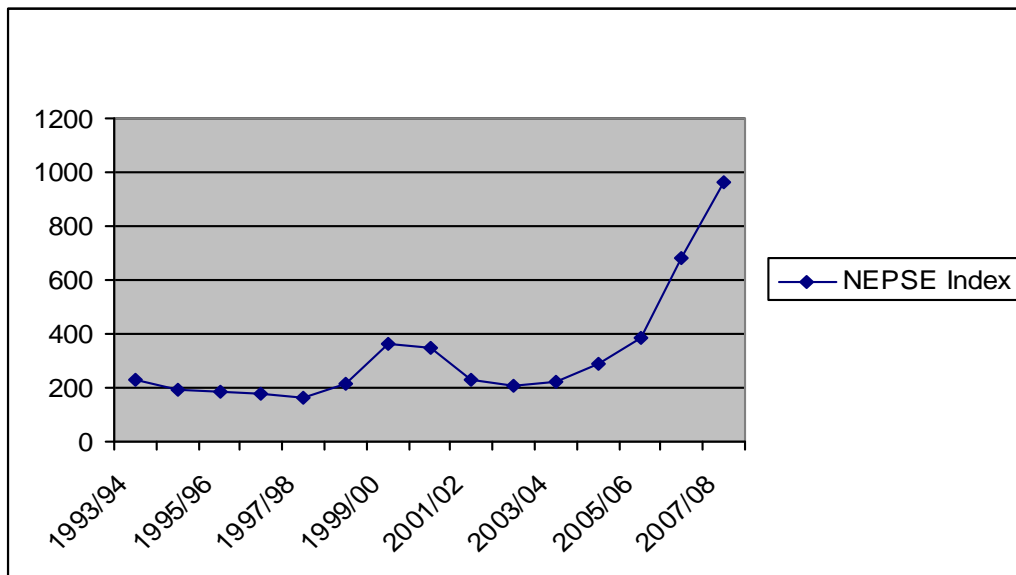
$$\begin{aligned} \text{Standard Deviation (†)} &= \frac{\text{Rm} - \text{ZERm}}{\text{M ZI}} \\ &= \frac{785.23}{15 \times 1} \\ &= 56.09 \end{aligned}$$

$$\text{Variance (†<sup>2</sup>)} = (56.09)^2$$

$$= 3145.85$$

$$\text{Coefficient of Variance (C.V.)} = \frac{\dagger}{ERm} = \frac{56.09}{2.06} \times 27.23$$

**Figure 4.12**  
**NEPSE Index**



The Nepal Stock Exchange (NEPSE) was highest in the year 2006/07 with 683.95 and it was lowest in the year 1997/98 by 163.35 points. There is fluctuation in the Nepal Stock Exchange (NEPSE) index as it has greatly increased in the fiscal years 1998/99, 1999/00 and 2000/01. During these years Nepal Stock Exchange (NEPSE) experienced a boom in the security market. Then after the index declined drastically in fiscal year 2001/02 to 2004/05 as Nepal Stock Exchange (NEPSE) delisted some companies since they could not submit the required financial documents within the stipulated time to the Nepal Stock Exchange (NEPSE). Again, Nepal Stock Exchange (NEPSE) index increased significantly in fiscal year 2005/06 and radically in fiscal year 2006/07. At last the end of the fiscal year 2007/08 the Nepal Stock Exchange (NEPSE) index is 963.36.

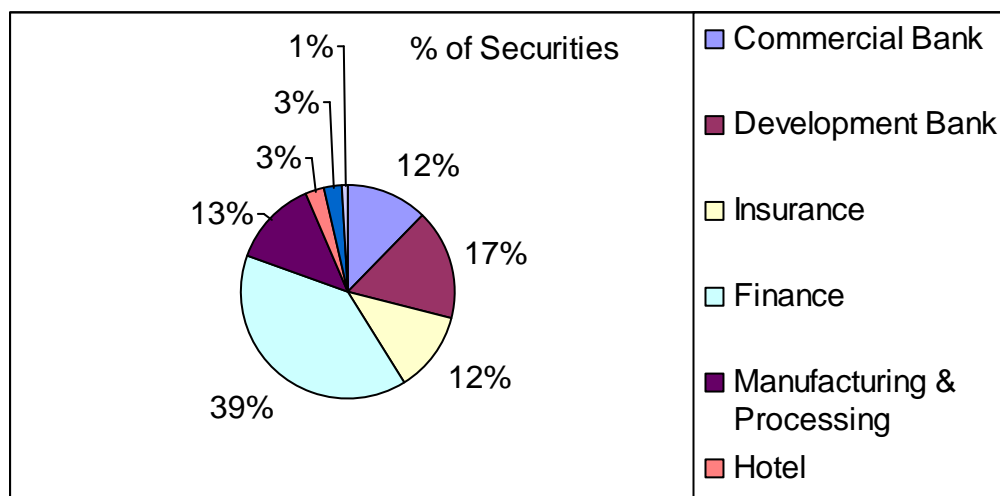
The mean expected return for 15 years is 2.06, the standard deviation is 56.09 and variance is 3145.85, whereas the coefficient of variance is 27.23. The statistical calculations show very high variations in the Nepal Stock Exchange (NEPSE) index and the market return.

**Table 4.7**  
**Types of Issue in Approved Sector wise Listed Companies**  
**(Fiscal Year 1993/94 to 2007/08)**

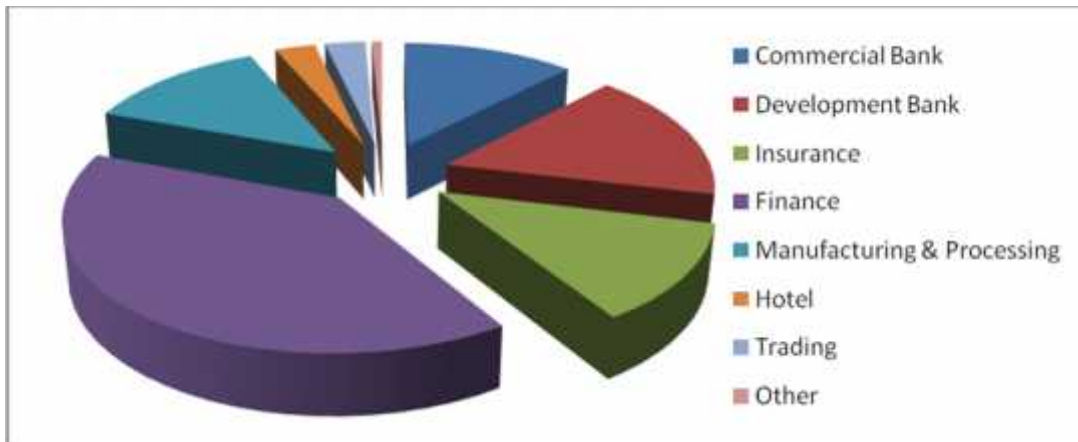
S.No.	Types of Securities	No. of Issue approved	% of Securities
1	Commercial Bank	17	12.23
2	Development Bank	23	16.55
3	Insurance	17	12.23
4	Finance	55	39.57
5	Manufacturing & Processing	18	12.93
6	Hotel	4	2.88
7	Trading	4	2.88
8	Other	1	0.73
	Total	139	100

According to the issuing the approved sector wise listed companies insurance has highest issued 55 which covers the 39.57 percent of securities. The second highest issue approved development bank is 23 which covers 16.55 percent and third one is cover by finance is 18 which covers 12.93 percent. The lowest issue by covers the other is one which covers the 0.73 percent and the second one is trading and hotel both issue is 4 and it covers 2.88 percent.

**Figure 4.13**  
**Types of Issue in Approved Sector wise Listed Companies**



**Figure 4.14**  
**No. of Issue Approved**



#### 4.4 Major Findings of the Study

On the basis of the data analysis, the following major findings have been drawn;

- ) The highest number of share traded in the fiscal year 2007/08 is 28599.7 which denotes increased in 57.66 percent.
- ) The number of listed securities highest growth rate is in year 2007/08 by 776.27 percent and the lowest growth rate is 0.74 percent in year 1997/98.
- ) The highest growth rate in securities issued can be traced in the fiscal year 2001/02 which was 251.12 percent positive. There was a highest negative issued security in the fiscal year 2007/08 by -95.97.
- ) The highest increase in market capitalization rate was 96.59 in the fiscal year 2007/08 and it was due to the highest increase in Nepal Stock Exchange (NEPSE) index by 40.85 percent in this year during the 15 years period of Nepal Stock Exchange (NEPSE).
- ) The highest amount of securities in Initial Public Offering (IPO) issued is Rs.657.5 in million in the fiscal year 2001/02. Second highest amount of issue is Rs. 599.83 in the fiscal year 2003/04 and 2005/06 is same. Similarly, the least securities issued amount is Rs57 in the fiscal year 1996/97.
- ) The mean expected return on stock price for 15 years is 2.06, the standard deviation is 56.09 and variance is 3145.85, whereas the coefficient of variance is 27.23.

) According to the issuing the approved sector wise listed companies insurance has highest issued 55 which covers the 39.57 percent of securities.

## **CHAPTER - V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This chapter included three parts of the study: Summary, Conclusion and Recommendation. The first part goes over with summarization of the whole study, the second part describe the way of solution the conclusion and the final part presents the recommendation in the light of its findings.

#### **5.1 Summary**

Money or Capital in financial vocabulary is one of the most important prerequisite for any business entity. Business entities need capital at various stages of their performance. Generally there exist two markets from where business entities secure capital viz: money market and capital market.

Money market avails funds for shorter period of time, maximum of one year whereas capital market avails long term funds with terms suiting the needs of business avails long term funds with terms suiting the needs of business entities. Primary market is the market for new and unseasoned securities whereas secondary market is the market for existing and seasoned securities.

Initial Public Offering (IPO) is the key mechanism of primary market. Initial Public Offering (IPO) is the first time issuance of securities to the public. Securities being offered can be debt or equity offering. Various components of capital market play important roles in practice and procedure of Initial Public Offering (IPO). Investment Bankers or Underwriters are one among them. Investment bankers are individuals or institutions who provide functions to ensure that business entities are able to meet their objectives of issuing securities through Initial Public Offering (IPO). Moreover, they ensure that during Initial Public Offering (IPO), all the steps and processes are followed in accordance to existing rules and guidelines.

As far as practices in Nepal are concerned basically there exist two institutions which guide and influence Initial Public Offering (IPO) processes. They are Security Board of Nepal (SEBON) and Nepal Stock Exchange (NEPSE). Security Board of Nepal

(SEBON) is the regulatory body which looks after all the securities market transaction including Initial Public Offering (IPO). Likewise, Nepal Stock Exchange (NEPSE) is the sole stock exchange of Nepal which provides liquidity and marketability to the securities being offered.

Even though the foundation of systematic capital market development was laid in 1976 A.D. with the establishment of Security Exchange Centre (SEC), Nepalese capital market after more than two decades is still in its infant stage. The securities being offered and its practices are still traditional and limited. Moreover, there is lack of research work covering different aspects of capital market in Nepal. In this context, this study has been carried out with the objective of various aspects Initial Public Offering (IPO) and their practices in Nepal.

Conceptual Review of the study has covered the concept of Initial Public Offering (IPO) with its advantages and disadvantages, Initial Public Offering (IPO) as a mechanism of primary market and its historical perspective and practice in Nepal. For the purpose of the objectives of the study, it has descriptive and analytical research is done.

Stock Market growth is one of the important issues in Nepalese Capital Market. Capital Market facilitates the exchange of financial assets by bringing together buyers and sellers of securities. Capital Market provides an effective way of raising money for commercial enterprises and at the same time provides an investment opportunity for individuals and intuitions. Thus, stock markets have both theoretical and practical perspectives.

The study mainly aims the trend Initial Public offering (IPO) in Nepalese market. The specific objective of this study is (a) to trace out the pace of primary market growth in Nepal, (b) to assess the current situation of primary market issues etc. Although the different issues of capital market are already conducted in Nepal, probably the study of stock market growth in Nepal.

All those companies whose issues were approved by Securities Board of Nepal (SEBON) for going to public are used to assess the situation of primary market

growth. The study covers almost all sectors (i.e. banking, finance, development bank, manufacturing, and processing, hotel, insurance, trading and other). All such companies are taken a data which are available from Securities Board of Nepal (SEBON) and Nepal Stock Exchange (NEPSE).

For the purpose this study, the necessary secondary data were collected for the period 1993/94 to 2006/07 from annual reports Securities Board of Nepal (SEBON), Securities Board of Nepal (SEBON) journal, the bulletin of Nepal Stock Exchange (NEPSE) different kinds of economic newspaper as well as daily newspapers. Likewise from different economic sources of the economic website in Nepal.

- ) [www.sebonp.com](http://www.sebonp.com)
- ) [www.nepalstock.com](http://www.nepalstock.com)
- ) [www.arthaexpress.com](http://www.arthaexpress.com)
- ) [www.sct.com.np](http://www.sct.com.np)
- ) [www.nrb.org.np](http://www.nrb.org.np)
- ) [www.nepalsharemarket.com](http://www.nepalsharemarket.com)
- ) [www.nefinsco.com](http://www.nefinsco.com)
- ) [www.ncml.com](http://www.ncml.com)
- ) [www.nmb.com.np](http://www.nmb.com.np)
- ) [www.ace.com.np](http://www.ace.com.np)

This research study is based on historical, financial and theoretical data analysis of the different companies and used as verity of statistical tools to accomplish its objectives. The multiple bar diagram, percentage, trend analysis, standard deviation etc. were accomplished, computed and compared to trace out the picture of stock market growth in Nepal.

## **5.2 Conclusion**

On the basis of the findings of the present study, it can be concluded that the concept of stock market in Nepal was begun with the flotation of shares of Biratnagar Jute Mills and Nepal Bank Limited made the environment to pressure the Nepal Government to develop the stock market establishing the Securities Exchange Center (SEC) in 1976 which was the first and most important attempt made by the

government to develop the stock market in Nepal. Securities Exchange Center (SEC) acts as an issue manager for corporate securities and started to list and provides market for the corporate stocks under the Securities Exchange Act, 1983 to promote the primary market as well as secondary market for government and corporate securities.

Although the shares of this sector the growth of the economy in the national economy is still very low due to the negligible size of the corporate sector. Similarly, the incorporation of the securities board and conversion of the Securities Exchange Center (SEC) into the Nepal Stock Exchange (NEPSE) has greatly contributed to the development of primary as well as secondary market for the corporate securities in Nepal. By the end of 2006/07, the stock market indicators like; total no. of listed companies had reached to 135 which were 66 in its initial fiscal year. These all indicate that there was significant development in various stock market indicators during the period of fiscal year 1993/94 to 2006/07.

Likewise the government of Nepal after adopting the liberalized economic policy has been initiating different programs for the organized development of securities market. Furthermore, in 10<sup>th</sup> Five Year Plan Government of Nepal also developed various objectives and programs for securities market development and to meet these objectives. It has taken the policy of modernizing stock exchange, strengthening the regulatory system of the securities market, widening the participation of the stock exchange and making it dynamic, transparent, credible and investor friendly capital market for developing the securities market as an important source of long- term financing.

The financial sector which comprises commercial banks, development banks, finance companies and insurance companies has dominated Nepalese market Initial Public Offering (IPO) by the number of issues offered during the study period.

During the study period the number of issues offered and the amount of issues offered both indicates that the ordinary share is most preferred instrument followed by right share, debenture and preference share respectively.

While issuing the Initial Public Offering (IPO) for public which shows that their has oversubscription of their issues. The issues of shares to commercial banks, development banks have been over scribed but manufacturing and processing sector are mostly under scribed in Nepalese market. Thus conclude that the general public has good faith on the Initial Public Offering (IPO) issues being offered by companies belonging to financial sector while issues from non- financial sector are not accepted with great enthusiasm.

### **5.3 Recommendation**

To develop and expand the Nepalese capital market more effective and efficient the following recommendations have been recommended are as follows:

The procedure for Initial Public Offering (IPO) should be simplified and rationalized. Nepalese capital market is largely dependent on financial sector, which is not good sign for overall development of Initial Public Offering (IPO) market and capital market as whole.

The regulatory body Securities Board of Nepal (SEBON), Nepal Rastra Bank (NRB), Company Registrar's Office (CRO) and the Nepal Government should take a step forward and encourage public issues from other sectors like manufacturing and processing companies by providing additional facilities such as tax – concessions, subsidy etc.

Initial Public Offering (IPO) market shows that the most interested by the general public is used financial instrument rather than preference shares, debentures, and mutual funds are rarely used. But the fact is that Initial Public Offering (IPO) market carries maximum risk to investors.

General Public has shown good faith on Initial Public Offering (IPO) from financial sector while they do not have shown much faith on Initial Public Offering (IPO) from non – financial sector. This must have been due to the non – financial sector like manufacturing and processing companies have not trust to the general public. So the companies from non – financial sector like manufacturing and processing companies are recommended that before going for Initial Public Offering (IPO), they should

inform public about their worthiness and different schemes should announce which will attract to non – financial sector while issuing the Initial Public Offering (IPO).

The law and policies regarding capital market are not very clear. So government should make clear and specific plans and policies to expand the capital market and should implement these.

Intermediaries play a vital part for capital market. They have the responsible for the trading of securities in the capital market. Intermediaries like brokers help in buying and selling of the securities of various companies. Hence these intermediaries should be trained and professionalized.

Several companies do not disclose their financial status before the public on time. It should be provided. Some companies may also be disclosing the information and financial statements. Nepal Stock Exchange (NEPSE) and the concerned bodies should ensure that all the companies disclose their information and financial statements properly and timely.

The procedures related to Initial Public Offering (IPO) are issued. The procedures for offering public issue should be simplified and rationalized. Otherwise this hamper the companies offering such securities and the investors who want to buy those stocks.

Initial Public Offering (IPO) should fill up by every people strictly according to the law. So the government and other body like Securities Board of Nepal (SEBON), Nepal Stock Exchange (NEPSE) and Nepal Rastra Bank (NRB) should monitor and supervisor while the issuing the Initial Public Offering (IPO) whether it obeys the rules and regulation or not.

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## APPENDIX

### The Number of Issue Amount in the Initial Public Offering

Securities Issue in the Initial Public Offering (IPO)

(Fiscal Year 1993/94 – 2007/08)

#### Fiscal Year 1993/94

(Rs. in Million)

S. N.	Issuer	Types of Securities	Issue Amt.	Issue Date	Subscription %	Issue Manager
1	Nepal Med Ltd	Ordinary Share	2.7	30/08/1993	111.47	CIT
2	Nepal Share Markets and Finance Ltd.	Ordinary Share	4	6/10/1993	495.3	NCML
3	Himalayan General Insurance Co. Ltd	Ordinary Share	12	9/12/1993	188.13	NCML
4	Nimrod Pharmaceuticals Ltd.	Ordinary Share	18	19/12/1993	188.31	CIT
5	Harisiddhi Brick & Tile Factory Ltd.	Ordinary Share	53.2	19/12/1993	289.83	NCML
6	Nepal Lever Ltd.	Ordinary Share	13.8	5/1/1994	653.51	NCML
7	Necon Air Ltd	Ordinary Share	16.5	20/01/1994	356.61	CIT
8	United Insurance Co.(Nepal) Ltd.	Ordinary Share	24	9/2/1994	440.15	NCML
9	Nepal SBI Bank Ltd.	Ordinary Share	36	3/3/1994	1404.15	CIT
10	Peoples Finance Ltd.	Ordinary Share	9.8	30/05/1994	1620.69	CIT
11	Annapurna Finance Ltd.	Ordinary Share	2	22/05/1994	2803.95	NSML
12	Nepal Film Development Co. Ltd.	Ordinary Share	21.9	19/06/1994	506.22	NCML
13	Agro Nepal Ltd.	Ordinary Share	9	26/06/1994	859.06	CIT
14	Birat Shoe Ltd.	Ordinary Share	5	3/7/1994	394.3	NCML

#### Fiscal Year 1994/95

(Rs. in Million)

S. N.	Issuer	Types of Securities	Issue Amt.	Issue Date	Subscription %	Issue Manager
1	Premier Insurance Co. Ltd.	Ordinary Share	12	30/08/1994	1936.45	NCML
2	Ace Laboratories (Nepal) Ltd.	Ordinary Share	12.6	14/09/1994	100	NFCL
3	Everest Insurance Co. Ltd.	Ordinary Share	12	18/10/1994	1084.64	NCML
4	Nepal BanglAdesh Bank Ltd.	Ordinary Share	36	26/10/1994	2219.62	NCML
5	Himgiri Textile Industries Ltd.	Ordinary Share	19.2	24/11/1994	156.85	CIT
6	Balaju Textile Industries Ltd.	Ordinary Share	7.5	4/12/1994	100	NSML
7	Kathmandu Finance Ltd.	Ordinary Share	8	10/2/1995	772.26	NCML
8	Leather Bansbari Tannery and shoe Factory Ltd.	Ordinary Share	15	27/03/1995	71.15	NCML
9	Citizen Investment trust	Ordinary Share	16	27/04/1995	331.13	NFCL
10	Everest Bank Ltd.	Ordinary Share	36	7/6/1995	514.35	NCML

**Fiscal Year 1995/96**

(Rs.In Million)

S. N.	Issuer	Types of Securities	Issue Amount	Issue Date	Subscription %	Issue Manager
1	Nepal Awas Bikash Bit. Co. Ltd.	Ordinary Share	20	29/08/1995	94.925	RBB
2	Naryani Finance Co. Ltd.	Ordinary Share	4	29/10/1995	220.25	NFCL
3	Brikuti Pulp & Paper Nepal Ltd.	Ordinary Share	105	21/02/1996	104.87	CIT
4	Color Scan Nepal Ltd.	Ordinary Share	14.34	11/4/1996	7.19	CIT
5	HISEF Finance Ltd.	Ordinary Share	24	14/04/1996	104.16	NCML
6	Yeti Finance Co. Ltd.	Ordinary Share	8	28/04/1996	106.09	NCML
7	Ace Finance Co. Ltd.	Ordinary Share	12	7/5/1996	120.73	NSML
8	Universal Finance & Capital Markets Ltd.	Ordinary Share	15	14/05/1996	44.96	CIT
9	Fluer Himalayn Co. Ltd.	Ordinary Share	12.28	14/05/1996	63.38	NCML
10	Samjhana Finance Co. Ltd.	Ordinary Share	10.12	11/7/1996	88.93	RBB

**Fiscal Year 1996/97**

(Rs. in Million)

S. N.	Issuer	Types of Securities	Issue Amount	Issue Date	Subscription %	Issue Manager
1	Nepal Housing & Merchant Finance Ltd.	Ordinary Share	12	22/09/1996	117.2	NSML
2	Bank Of Kathmandu Ltd.	Ordinary Share	45	17/11/1996	536.33	NCML

**Fiscal Year 1997/98**

(Rs. in Million)

S. N.	Issuer	Types of Securities	Issue Amount	Issue Date	Subscription %	Issue Manager
1	Nepal Bitumin & Barrel Udyog Ltd.	Ordinary Share	7.4	8/9/1997	99.4	NSML
2	General Finance Ltd.	Ordinary Share	8	16/09/1997	100	NSML
3	Shreeram Sugar Mills Ltd.	Ordinary Share	20	20/11/1997	52.9	NCML
4	Neco Insurance Ltd.	Ordinary Share	10	23/11/1997	121.05	CIT & RBB
5	Mahalaxmi Finance Ltd.	Ordinary Share	20	18/01/1998	188.52	NFCL
6	Paschimanchal Finance Ltd.	Ordinary Share	8	25/01/1998	171.8	NSML
7	Lalitpur Finance Ltd.	Ordinary Share	9.5	4/5/1998	146.75	NCML
8	Goodwill Finance & Investment Co. Ltd.	Ordinary Share	10	26/06/1998	116.06	NCML

**Fiscal Year 1998/99**

(Rs. in Million)

S. N.	Issuer	Types of Securities	Issue Amount	Issue Date	Subscription %	Issue Manager
1	Alliance Insurance Co. Ltd.	Ordinary Share	20	11/11/1998	62.63	CIT
2	Taragaon Regency Hotels Ltd.	Ordinary Share	120	31/01/1999	247.12	NCML & NMB
3	Pokhara Finance Ltd.	Ordinary Share	8	4/4/1999	265.75	CIT

### Fiscal Year 1999/20

(Rs. in Million)

S. N.	Issuer	Types of Securities	Issue Amount	Issue Date	Subscription %	Issue Manager
1	Universal Fin.& Capital Mkt. Ltd.	Ordinary Share	3.26	28/09/1999	451.84	CIT
2	Nepal Industrial & Commercial Bank Ltd.	Ordinary Share	175	2/12/1999	815.92	NCML & NMB
3	Lumbini Fin. & Leasing Co. Ltd.	Ordinary Share	24	30/04/2000	1156.29	CIT

### Fiscal Year 2000/01

(Rs. in Million)

S. N.	Issuer	Types of Securities	Issue Amount	Issue Date	Subscription %	Issue Manager
1	Oriental Hotels Ltd.	Ordinary Share	150	25/07/2000	628.6	NCML
2	Sagarmatha Insurance Co. Ltd.	Ordinary Share	10.2	17/08/2000	3322.17	NCML
3	Siddhartha Finance Ltd.	Ordinary Share	8	5/12/2000	1771.88	NMB
4	Nepal Merchant Banking & Finance Ltd.	Ordinary Share	50	15/01/2001	4705.09	NCML
5	Apic Everest Finance Ltd.	Ordinary Share	5	5/2/2001	4217.62	NEFINSCO
6	Nepal Bangladesh Finance and Leasing Co. Ltd.	Ordinary Share	7.5	14/03/2001	3257.12	NSML & NSMB
7	Nepal Development Bank Ltd.	Ordinary Share	48	3/7/2001	2906.35	NMB & CIT

### Fiscal Year 2001/02

(Rs. in Million)

S. N.	Issuer	Types of Securities	Issue Amount	Issue Date	Subscription %	Issue Manager
1	Himalayan Distillery Ltd.	Ordinary Share	173.46	13/09/2001	10.57	NCML
2	Union Finance Co. Ltd.	Ordinary Share	24	15/01/2002	878.39	NCML
3	Development Credit Bank Ltd.	Ordinary Share	48	23/02/2002	1409.71	NMB
4	United Finance Ltd.	Ordinary Share	24	30/05/2002	1055.73	NMB
5	Nepal Life Insurance Co. Ltd.	Ordinary Share	50	24/10/2002	756.08	NMB

### Fiscal Year 2002/03

(Rs. in Million)

S. N.	Issuer	Types of Securities	Issue Amount	Issue Date	Subscription %	Issue Manager
1	International Leasing & Finance Co.ltd.	Ordinary Share	30	29/07/2002	2170.67	NMB
2	Nirdhan Utthan Bank Ltd.	Ordinary Share	3.3	5/8/2002	388.12	CIT
3	Life Insurance Corporation (Nepal) Ltd.	Ordinary Share	50	5/8/2002	1743.44	NCML
4	Nepal Sri Lanka Merchant Bank Ltd.	Ordinary Share	40	28/08/2002	615.41	NCML
5	Shree Investment & Finance Co. Ltd.	Ordinary Share	16	2/9/2002	1868.89	CIT
6	Gorkha Finance Ltd.	Ordinary Share	10	15/09/2002	864.45	NSML
7	Janki Finance Co. Ltd.	Ordinary Share	8	21/09/2002	1583.89	NEFINSCO
8	Central Finance Co. Ltd.	Ordinary Share	8	15/11/2002	852.41	NCML
9	Navadurga Finance Co. Ltd.	Ordinary Share	8	19/12/2002	1451.55	NEFINSCO
10	Premier Finance Co. Ltd.	Ordinary Share	8	6/1/2003	1026.36	NCML
11	Machhapuchere Bank Ltd.	Ordinary Share	165	13/01/2003	198.35	NMB
12	N.B.Insurance Co. Ltd.	Ordinary Share	20	29/04/2003	132.69	CIT
13	Butwal Finance Ltd.	Ordinary Share	20	5/6/2003	803.74	NMB
14	Om Finance Ltd.	Ordinary Share	8	1/7/2003	1637.83	NEFINSCO

### Fiscal Year 2003/04

(Rs in Million)

S. N.	Issuer	Types of Securities	Issue Amount	Issue Date	Subscription %	Issue Manager
1	Laxmi Bank Ltd.	Ordinary Share	192.5	04/08/2003	251.35	CIT
2	Standard Finance Ltd.	Ordinary Share	24	7/8/2003	362.54	NMB
3	Cosmic Merchant Banking & Fin. Ltd.	Ordinary Share	24	11/11/2003	717.83	NMB
4	Kumari Bank Ltd.	Ordinary Share	150	18/12/2003	811.35	CIT & NSML
5	Fewa Finance Co. Ltd.	Ordinary Share	8	23/02/2004	2355	NMB
6	Nepal Credit & Commerce Bank Ltd.	Ordinary Share	210	31/03/2004	122.1	CIT & NSML
7	Prudential Indurance Co. Ltd.	Ordinary Share	20	14/04/2004	956.81	NMB
8	Chhimek Bikas Bank Ltd.	Ordinary Share	3	3/6/2004	139.27	NMB
9	Pachhimanchal Dev. Bank Ltd.	Ordinary Share	6	10/6/2004	2023.28	NCML
10	Kist Merchant Banking & Finance Ltd.	Ordinary Share	20	21/06/2004	179.6	NMB

### Fiscal Year 2004/05

(Rs. in Million)

S. N.	Issuer	Types of Securities	Issue Amount	Issue-Date	Subscription %	Issue Manager
1	Lumbini Bank Ltd.	Ordinary Share	150	26/07/2004	721.24	CIT
2	World Merchant Banking & Fin. Ltd.	Ordinary Share	24	3/9/2004	965.17	NMB
3	National Hydro Power Co. Ltd.	Ordinary Share	140	3/9/2004	21.55	NCML& NSML
4	Birgunj Finance Ltd.	Ordinary Share	24	23/11/2004	704.48	NMB
5	Deprosc Development Bank Ltd.	Ordinary Share	3.48	27/01/2005	259.34	NMB
6	Everest Finance Ltd.	Ordinary Share	8	17/05/2005	540.46	NMB
7	Capital Merchant Banking & Finance Ltd.	Ordinary Share	28	6/6/2005	202.49	CIT

### Fiscal Year 2005/06

(Rs. in Million)

S. N.	Issuer	Types of Securities	Issue Amount	Issue Date	Subscription %	Issue Manager
1	Chilme Hydro Power Co. Ltd.	Ordinary Share	237.41	28/08/2005	509.84	CIT
2	Prudential Bittiya Sanstha Ltd.	Ordinary Share	24.5	11/9/2005	113.34	NCML
3	Siddhartha Bank Ltd.	Ordinary Share	150	15/09/2005	1865.33	NMB & NCML
4	Srijana Finance Ltd.	Ordinary Share	4	22/09/2005	121.08	NCML
5	Gandaki Development Financial Institution Ltd.	Ordinary Share	15	13/01/2005	397.51	NMB
6	Business Development Financial Institution Ltd.	Ordinary Share	12	22/01/2006	2188.34	NCML
7	Royal Merchant Banking & Fin. Ltd.	Ordinary Share	17.5	27/02/2006	283.3	CIT
8	Bhajuratna Finance & Saving Co. Ltd.	Ordinary Share	10.5	26/03/2006	274.36	NCML
9	Guhewori Merchant Banking & Finance Ltd.	Ordinary Share	20	2/4/2006	213.54	NCML
10	Siddhartha Bikas Bank Ltd.	Ordinary Share	17.5	7/5/2006	222.43	NMB
11	IME Financial Institution Ltd.	Ordinary Share	25	16/05/2006	458.46	NMB
12	Shikhar Insurance Co. Ltd.	Ordinary Share	6.42	22/05/2006	4375.86	NMB & NCML
13	Bhrikuti Development Bank Ltd.	Ordinary Share	40	21/05/2006	214.42	NCML
14	Patan Finance Ltd.	Ordinary Share	20	3/7/2006	116.06	NEFINS CO

### Fiscal Year 2006/07

(Rs. In Million)

S.N	Issuer	Types of Securities	Issue Amount	Issue Date	Subscription %	Issue Manager
1	Narayani Industrial Bikas Bank Ltd.	Ordinary Share	6	27/07/2006	614	NEFINSCO
2	Sanima Bikas Bank	Ordinary Share	96	9/8/2006	4031	NMB
3	Bageswori Bikas Bank Ltd.	Ordinary Share	9	27/08/2006	448	NMB
4	Sahyogi Bikas Bank Ltd.	Ordinary Share	6	10/10/2006	1917	NCML
5	Gorkha Development Bank (Nepal) Ltd.	Ordinary Share	96	12/1/2006	10832	NMB & NCML
6	Emporial Financial Institution Ltd.	Ordinary Share	19.5	20/02/2007	2568	NMB
7	Swalamban Bikash Bank Ltd.	Ordinary Share	6	4/3/2007	9623	NMB
8	Himchuli Bikash Bank Ltd.	Ordinary Share	12	5/3/2007	13362	NCML
9	ICFC Financial Institution Ltd.	Ordinary Share	24.4	6/5/2007	3506	NMB
10	Annapurna Bikas Bank Ltd.	Ordinary Share	29.4	11/3/2007	2194	NEFINSCO
11	Civil Merchant Financial Institution Ltd.	Ordinary Share	20	26/04/2007	1500	NEFINSCO
12	Nepal Express Finance Ltd.	Ordinary Share	15	11/5/2007	782	NCML
13	Biratlaxmi Bikash Bank Ltd.	Ordinary Share	20	10/6/2007	1340	NCML
14	Malika Bikash Bank Ltd.	Ordinary Share	15	15/06/2007	5484	NMB
15	Excel Development Bank Ltd.	Ordinary Share	6	24/06/2007	1897	NMB

### Fiscal Year 2007/08

(Rs. in Million)

S.N	Issuer	Types of Securities	Issue Amount
1	Merchant Finance Co. Ltd.	Ordinary Share	1.2
2	Lumbini General Insurance Co. Ltd.	Ordinary Share	2.5
3	Siddhartha Insurance Ltd.	Ordinary Share	2.5
4	Infrastructure Development Bank Ltd.	Ordinary Share	2.4
5	Kuber Merchant Bittiya Sanstha Ltd.	Ordinary Share	2.25
6	Prabhu Finance Co. Ltd.	Ordinary Share	4.8
7	Agriculture Development Bank Ltd.	Ordinary Share	12.5
8	Nepal Development & Employment Bank Ltd.	Ordinary Share	12.8
9	Shikhar Bittiya Sanstha Ltd.	Ordinary Share	2
10	Clean Energy Development Bank Ltd.	Ordinary Share	9.6
11	Subekcha Development Bank Ltd.	Ordinary Share	1.2
12	Kaski Finance Ltd.	Ordinary Share	2
13	Lord Buddha Financial Institution Ltd.	Ordinary Share	2.48
14	Sagarmatha Merchant Banking & Finance Ltd.	Ordinary Share	2
15	Reliable Investment Financial Institution Ltd.	Ordinary Share	2.48
16	Global Bank Ltd.	Ordinary Share	30

**Fiscal Year 2009/10**

(Rs. in Million)

<b>S.N.</b>	<b>Issuer</b>	<b>Types of Securities</b>	<b>Issue Amount</b>
1	Citizen Bank International Ltd.	Ordinary Share	30
2	Bank of Asia Nepal Ltd.	Ordinary Share	30
3	Api Finance Co. Ltd.	Ordinary Share	1.8