

CHAPTER – ONE

Introduction

1.1 Introduction

Initial Public Offering (IPO) is a part of primary market mechanism. When institution raises capital from public through issuance of its securities for the first time, then its issues to the public are termed as initial public offering. The securities offered can be ordinary shares, debenture, preference share and mutual fund units. IPO is important and often the only major source of obtaining large of fixed rates long-term funds. 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.

Business entities need capital and place from which that secure needed capital is capital market. Even though, Money market also do provide needed fund but business entities are often in need of long term funds which can only be available from capital market. Capital market is the place from which business Entities including others secure long term fund through the use of wide variety of long term financial instruments. From security market perspective, capital market is divided as primary market and secondary market.

Primary market indicates the market for the new issue of securities where is secondary market refers to the market where existing and already outstanding securities are being traded.

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

IPO can be a risky investment. For the individual investor, it is tough to predict what the stock or shares will do on its initial day of trading and in the near future since there is often little historical data with which it is difficult to analyze the company.

An initial Public Offering (IPO) occurs when a security is sold to the general public for the first time, with the expectation that a liquid market will develop. An IPO can be of any debt or equity security.

In particular, there are certain ongoing costs associated with the need to supply information on regular basis to the investors and regulations for publicly traded firms. Furthermore, there are substantial onetime costs associated with initial public offering that can be categorized as direct and indirect costs. The direct costs include the legal auditing and underwriting for. The indirect costs are management time and effort devoted to conduct the offering, and the dilution associated with selling shares at an offering price that is on average below the price prevailing in market shortly after the IPO. These direct and indirect costs affects the cost of capital for firms going to public firms going especially to young growth firms, face market that is subject to sharp swings in valuations. The facts that the issuing firm is subject to the whims of the market makes the IPO process a high-stress period for entrepreneurs. This public issuing is made compulsory under securities exchange Act in Nepal. Promontories will receive permission from the government authority to establish a public limited company of they show desire to include general public in its equity base. Hence firm needs to sell parts of it total equity to the general public to raise the required fund through public issue of shares in primary market as called Initial public issue. It is also called Initial Public Offering (IPO).

In Nepal the first public issue of ordinary shares took place more than 50 years back with the public issue of Birantnagar jute mills and Nepal Bank Ltd. in 1973 A.D. But the development of capital market started in 1976 A.D. after the establishment of security exchange centre with the objective of facilitating and promoting the capital market in Nepal. It was only capital market institution, which under took the job of brokering underwriting and managing the public issue, market making for government bonds and other financial services. Securities exchange centre dealt in the securities as a brokers as well as regulatory body. The centre used to take y and sale only on orders from interested investors and confirm if a price and quantity matched. There was no time limit with in which deal took place; it normally took one day to three weeks, due to, this general public faced problems while buying and selling shares. The securities exchange centre issued 62 companies from the year of its inception to 1999 A.D. Among these 23 companies were under subscribed including Nepal Med. Ltd., Banswari Leather and shoes factory Ltd., Nepal Awas Bikash Bitta Company Ltd., Yati Finance Co. Ltd. Although the secondary market was non-functional and public were not fully aware of on

the working of the capital market. The public response to the new issue of shares of selected companies like bank and finance companies were over whelming.

Security exchange centre was converted into stock exchange limited in 1993 and under its support, the broker system e.g. secondary market was established until today out of 32 brokerage firm 28 firms are doing their job regularly. Nepal stock exchange limited is a nonprofit organization. It operates under security exchange Act 1983.

The basic objective of Nepal stock exchange limited is to import free marketability and liquidity to the government bonds and corporate securities. With the establishment of full fledged stock exchange, the shares, which the public had held for decades, become liquid.

Capital market is gaining business attention since last few years. The NEPSE index which shows the stock price trend of all the listed securities in the stock market has increasing in the recent fiscal years. Hence the general investors are very keen to make investment in the securities of the companies, through both primary and secondary market. In primary market, the investment is made through public issue of ordinary shares, preference shares, debentures and right shares as well as mutual fund and unit scheme.

This study is based on the dealing process in the primary market. As well as the study concerned with the pace public offering and public response to IPO in Nepal.

As per the provision of company Act of Nepal privately held companies cannot issue there shares in public by themselves. The issue must be done through issue managers. Though the company can raise the capital to the extent of its authorized capital, it generally issues stocks as per the need of its company. The amount of the share capital of the issued share is called issued capital of the company. The total amount paid by promoters at the time of establishment or after time to time rising of funds by the company is the paid up capital.

1.2 Focus of the study

Capital market through its ability to mobilize resources from fund surplus group to fund deficit group does play an important role in economic development of a country. In this context, IPO an important capital market mechanism enables not only business

entities but also government at occasions to raise long term fund at convenient terms. At one hand through IPO issuing party gain access to needed funds while on the other hand it provides investment opportunity to the investors or general public. This ensures that there exists equilibrium between fund surplus group and fund deficit group. In Nepal SEBON is the authorized institution which provides approval to the securities being offered through IPO where as NEPSE is the only stock exchange, where such issues should get listed for legal trading. Therefore, the study has focused to examine and identify the IPO practiced in Nepal, to analyze the subscription pattern of IPO and capitalization and suggest and recommend about IPO on the basis of major findings.

Further more, the study is aimed at revealing those core factors which could be decisive from the investors view whether to invest or not in the particular company. Such information generated will help the issue manger to decide which factors should be evaluated to determine if the public offering of the manufacturing firms will be successful or not. This study helps us to find out legal provisions, possibilities, problems and prospects of Initial Public Offering in Nepal.

1.3 Statement of Problem

The issues in primary market are subject to the directives and regularity framework of the concerned governing bodies. Hence, the study primarily deals with the process of managing the public issues by the issue managers.

Investment in the primary market instruments has gaining the interest of the general and corporate investors. Most of the initial public offerings have been successfully made since the investors have considerable concern and willingness for investment. However, due to the upgrading performance of the banks and financial institutions, the market price of shares of such firms is raising, whereas those of other industries, particularly, manufacturing and processing companies are performing poorly in the stock market (SEBON) Annual Report, 2011/12)

There is not any provision to present citizenship at the time of submitting their share application firm. So, single investor can apply hundreds of application showing dummy names. As a result they can capture large number of shares when a single investor captures large number of share, he can influence the company management and stock price too. There are various types of obstacle existing in initial public offering stages in

Nepal. In developed country, generally people are aware from public offering. However in developing country like Nepal initial public offering is still new phenomenon. This study is concerned with following issues.

1. What are the trends of initial public offering in Nepal?
2. What is the response of public in initial public offering in Nepal?
3. What are the problems and growth regarding primary issue of share in Nepal?

1.4 Objective of the Study

This study focuses on the public response issues of shares in the perspective of Nepal. The main objectives of the study are as follows:

- a) To assess the trends of initial public offering i.e. pace of stock market in Nepal.
- b) To examine the public response to Initial Public Offering in Nepal.
- c) To identify the problems and growth regarding primary issue of share in Nepal.

1.5 Significance of the Study

The significance of the study are:

- a) This study is helpful to the prospective investors and the organization in the field e.g. Public offering as there is still lack of study regarding primary issue of share in Nepal. The study will assist in the formulation of policy and will assist the policy makers to get the practical knowledge of existing rules and regulation.
- b) From this study investors will have more clear conception over their investment and they will be able to make a right financial status of the company which wants to go the public.

- c) This study will be significant to analyze the legal provision, possibilities, problem and prospects of primary issue of share in Nepal. It will also be helpful to know the public response to primary issue of shares in Nepal. It will also be helpful to know the public response to primary issue of shares of different industries. The prospective offering company may also get significant knowledge from this study.
- d) From this research, the investor might have the clear conception over their investment. They will be able to distinct over the right investment.

1. 6 Limitation of the Study

This research is made for the partial fulfillment of the requirements for the degree of Master of Business Studies (M.B.S.) and not comprehensive study. The other limitations are:

- a) Basically, data are taken from both primary as well as secondary sources. Therefore the accuracy of research depends upon its reliability.
- b) The study is based on secondary data of 10 years from fiscal year 2002/2003 to 2011/2012.
- c) This study is done from student's limited resources.
This study is not a final study on the subject.

1.7 Organization of the study

The study is organization into five chapters, each chapters devoted to some aspect of the study of initial public offering in Nepal followed by financial institution in Nepal. The field of each of these chapters are as follows:

Chapter I

This chapter contains the introductory part of the study, focus of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

Chapter II

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

Chapter III

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

Chapter IV

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

Chapter V

This chapter states summary, conclusion and recommendation of the study. The bibliography and annexes are incorporated at the end of the study.

CHAPTER – TWO

Review of Literature

2. Introduction

Literature review is an essential part of all studies. It is a way to discover what other researchers have covered and left in the area. A critical review of the literatures helps the researcher to develop through understanding and insight into previous research works that relates to the present studies. It is also a way to avoid investigations problems that have already been definitely answered. Thus a literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of the student interest. The purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remains to do. The primary purpose of literature review is to learn not to accumulate. It enables the researcher to know (Wolff and Oanta, 2005:40).

- What researcher has been done in the subject?
- What other has been done in the study?
- What other has been advanced?
- The approach taken by the other researchers.
- Area of agreement or disagreement.
- Whether there are gaps that can fell through the purpose research.

This section of study review the related research works. It is divided into two sections; conceptual review and review of related studies. Conceptual review indentifies the components and ingredients that formed the foundation of the study where as review of related studies draws excerpts from the number of research work carried abroad and within the country, illustrating various facts of the subject matter.

2.1 Conceptual Framework

2.1.1 Financial Market

Financial market is an organ of financial system. The financial system consists of financial institutions, financial market and financial instruments (Pandey, 2011). Financial market denotes the place or mechanism where financial instruments are traded. Market in which long term as well as short term loan is provided is called financial market (Adhikari, 2010). The primary function of financial market is to bring together for

exchange those parties with saving and those needing money (Bhattarai, 2009). It provides forum in which supplier of fund and user of fund transact. Transaction in short term debt instruments or marketable securities take place in the money market (Mishra, 2010). Long term securities (like bond and stocks) are traded in the capital market. Capital market further can be divided into primary market and secondary market (Kishore, 2012).

All securities of the money or capital market are initially issued in the primary market (Kishore, 2012). This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from the resale of securities (Chandauna, 2011). Once the securities began to trade among individuals, business, government, financial institutions, savers and investors, they become part of secondary market (Mishra, 2010). The primary market is where "new securities are sold" and the secondary market be viewed as a "used" or "pre-owned securities market" (Bhattarai, 2008).

In short we can divide financial market into money market and capital market; there market can be further divided into primary and secondary market.

2.1.2 Money Market

Money market is a market which trades in short term highly liquid negotiable debt instruments of one year or less than in maturity (Gitman, 2009). Money market is the market for the short term securities like treasury-bills, government bonds, certificates of deposits, banker acceptances and commercial paper or promissory notes. It includes both primary and secondary market activities (Baral, 2004). The money market exists because certain individuals, business, government and financial institutions have temporarily idle fund that they wish to place in some kind of liquid assets or short term interest earning instruments (Kishore, 2011). Like this other individuals, business, governments and financial institutions are in need of seasonal or temporary financing (Shrestha, 2009). Thus the money market provides the platform for the supplier (who have idle funds for some period) and demand maker of short term liquid funds (Bhattarai, 2008).

In theory, we found money market is different from the capital market. In practice, however in most countries with efficient financial market, where money and capital market is combined, the merchant banks are active in both (Baral, 2004). This is because

negotiable money market instrument for all practical purposes is simply a short term capital instrument (Pradhan, 2007). Therefore, the techniques and facilities needed to separate money market are almost same as those needed to operate the capital market (Pradhan, 2007).

2.1.3 Capital Market

The market where the transaction of long term finance is made is called capital market (Thapa, 2010). The funds collected in this market are made available for long-term investment (Thapa, 2010). Hence capital market is a long term credit market. Capital market is the market for long-term funds (Reilly, 1995). Capital market can play vital role to mobilize the market follows capital to invest on the corporate sectors by the means of securities (Vanhorene, 1976)

The capital market is a financial relationship created by a number of institutions and arrangements that allows the suppliers and demanders of long term funds (funds with maturities of more than one year) to make transactions (Donald and Ronald, 2000). Included among long term funds are securities issue and business and government. The backbone of the capital market is formed by the various securities exchange that provides a forum of debt and equity transactions (Cheney and Moses, 1992). The smooth functioning of the capital market which is enhanced through the activities of investment bankers is important to the long run growth of business (Bhole, 2003). The capital market is the trading center for the financial instrument (Bhole, 2003). In the capital market different types of financial securities such as ordinary share, pre-reference share, treasury bills and debenture and traded (Francis, 1995). This market be further be divided into two parts (Francis, 1995).

- i. Non-securities market
- ii. Securities Market

2.1.3.1 Non-Securities Market

Non-securities market is a market where financial needs of the borrower (demanders) are fulfilled for a longer period of time without issuance of any securities like share, bonds and debentures (Bhattarai, 2010). Financial transactions between the lending institutions such as banks, business house, saving institutions or individuals come under this non-securities market (Gitman 1992:457).

2.1.3.2 Securities Market

The securities market is known as the market where all types of securities are traded (Vanhorine, 1976). Security market is a broad term embracing a number of market in which securities are bought and sold (Thapa, 2010). Securities market includes how an individual investor goes about the business of placing any order to buy or sell, how the order is executed, the process of setting the payment and transfer costs and one hopes the payment of federal personal incomes taxes on the profits from the transaction (Reilly, 1990).

Securities market sets a price for the securities it trades and makes it easy for people the sale and resale of transferable securities (Baral, 2009). The security market can be defined as the mechanism for bringing together buyer and seller of financial assets to facilitates trading of securities market is classified into two the market in new securities are sold is called primary market and the market in which existing securities are resold is called the secondary market (Bhattarai, 2008). Secondary market is created by brokers, dealers and market makers. Brokers bring buyer and seller together which themselves actually buying and selling; dealer set price at which they themselves are ready to buy and sell (bid and ask price respectively). Broker and dealer come together in organized market or in stock exchange (Gitman, 1992:457)

The securities market may also be divided into two parts:

- **Primary Market**
- **Secondary Market**

2.1.3.3 Primary Market

The primary market is that part of the capital market that deals with the issuance of new securities (Thapa, 2011). Companies, governments or public sector institutions can obtain funding through the sale of new stock or bond. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors is called underwriting (Pradhan, 2006). In the case of a new stock the sale, is a primary issue of share, though it can be found in the prospectus (Bhattarai, 2008).

Features of Primary Market:

- Market for new long term capital.
- The securities are sold for the first time.

- The securities are issued by the company directly to investors.
- Used by the companies for the purpose of setting up new business or for expanding or modernizing the existing business.
- Facilitates capital formation in the economy.

2.1.3.4 Secondary Market

In the secondary market the share once issued in the primary market are traded (Gautam and Thapa, 2011). So, the secondary market liquidates the shares and provides the opportunity between the investors and seller of the securities (Francis, 1995). The company must list the securities in the security market for the transaction purpose. Secondary market provides no capital to the original issuer (Donald & Ronald, 2000).

In the secondary market existing securities are traded and thus enabling disposal of their securities whenever the owners wish (Bodie, Alex & Alan, 2000). An active secondary market is therefore necessary condition for an effective primary market, as no investor wants to feel 'locked' in to an investment (Baral, 1999:29).

2.1.4 Investment in the Primary Market

Rules and regulations alone would not be able to protect the interest of investors. They should be able to analyze and evaluate following aspects of the company before taking their investment decision (Baral, 2006).

Investors should select those companies share which are regarded as well operating and good future prospects, reliable management, beneficial sectors or higher growth (Vanhorine, 1976). Investing in the shares of these companies is risky than others. The investors who invest in stock, they must compare the price and the value of the share in the market and should select the share which has lower market price in comparison to its value (Bhattarai, 2008).

The investors should take information regarding company's promoters, size, growth, environment, board of directors, past statements, as well as budgeted statement which can be obtained from memorandum, prospectus, articles of the concern company (Avandhani, 1993).

2.1.5 Types of Securities Offered in the Primary Market

The different types of securities offered in the primary market are common equity/stock offering, preference shares/preferred stock offering and warrants.

2.1.6 Initial Public Offering (IPO) manual

Initial Public Offering (IPO) manual is the detail procedure of handling initial public offering of the company seeking "going public" for the first time (Baral, 2009). This manual outlines all the activities and style that have to be observed by all issuing companies and issue managers in respect to initial public offerings (IPO) (Bhattacharai, 2008). This manual has been prepared with a view to present a detailed, descriptive and step by step action sequences in the Initial Public Offerings, relevant to all the companies offering shares to the general public. But, it is subject to periodic amendments and supplements (Bhattacharai, 2008).

The public offering is not a easy task. There are many organizations involves during this periods. They are:

2.1.6.1 Issuing Company

Issuing company is the company raising funds from the general public through the process of public offering (Thapa, 2011). The propose of public offering is for the collection of funds of funds from general public, a fund sufficient group, by the company as per its requirement of business expansion (Bhattacharai, 2008). The company seeking for public offerings could be a completely new company (initial public offerings), a new company set by the existing company (initial public offerings) or by existing listed company (successive public offerings) (Pradhan, 2007).

As per the company Act, only public companies are liable to go for public offerings. The act specially states that private companies are not allowed to sell their shares and debentures in the free market (Gitman, 1988). For public company issuing debentures, the reasons for such issue, project to be financed and its estimated budget along with the information about secured or naked nature of the debentures, needs to be approved form the governing bodies (Ross, 2000).

NRB has made mandatory that financial institutions must go for common stock public offerings within specified time of operation commencement NRB has also set forth different minimum percentage of equal holdings to be offered to the public shareholders (Thapa, Bhattarai & Basnet, 2009). For commercial banks, minimum shares to be held by public is 30%, for finance companies it is 40% for development bank it is minimum 30% and maximum of 50%. In the case of foreign participation, their equity holding would be arranged from the percentage allocated for the public. For finance companies, in the event of foreign participation, the minimum percentage to be allocated to the general public is 25% of paid up capital (NEPSE, 2011).

2.16.2 Merchant Bankers

Merchant bankers are intermediaries in which they work as mediators in the fund mobilization from the general public to the business group. The funds are raised from the hypothetical market that comprises widely spread fund surplus groups, mainly the business groups. Funds are raised under different tools name that have long term and short term maturing period. According to such maturity period of the tools traded, market is identified as capital market for long term and money market for short terms tools to be traded.

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

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

- 1) Securities underwriting
- 2) The secondary market for securities
- 3) The money market
- 4) Corporate advisory services
- 5) Investment portfolio management services

- 6) Venture capital
- 7) Leasing/Hire purchase
- 8) Other services (insurance, real estate)

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

For the working of merchant banking function in Nepal, Nepal Rastra Bank (NRB) has set forth the working guidelines. Guidelines have identified working of merchant banking into two sets of functions. The first set is the non fund-based functions and the second set is fund-based functions (Adhikari, 2004).

Fund-based activities identified for the merchant banking are:

- a) Building finance
- b) Underwriting
- c) Project finance
- d) Venture capital
- e) Acquisition and merger

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

1. Share issue management
2. Mutual fund
3. Portfolio counseling
4. Corporate counseling
5. Project counseling
6. Debenture Trusteeship
7. Arranging International Finance
8. Investment Advisor
9. Advising corporate merger

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

Under the NRB directives of per client loan advancement and limit provision such loan and facility can be provided to a client up to:

1. In maximum of 25% of primary capital in fund based activities.
2. In maximum of 50% of primary capital in non-fund based activities.

In Nepal there are 7 merchant banks are already established. They are providing issue manager, load underwriting, transfer of shares etc services to other institutions (NEPSE, 2011).

2.16.3 Securities Board

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

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

1) Fairness

The markets must promote integrity in dealing, high standards of conduct and good business practice.

2) Efficiency

The markets should with professional and be well informed, offering high standards of service at reasonable cost.

3) Confidence

The market must inspire confidence in both investors and issuers to actively participate in and rely more on the securities markets.

4) Flexibility

The markets should be resilient, innovative and be continuously responsive to the need of all market participants.

With the objective of providing this to the market, in accordance with the Act the securities exchange by law 2054 has defined the work, responsibility and the authority of the board as:

- 1) To work in safeguarding the interest of investors and help to develop capital market.
- 2) To advice Nepal Government in formulating policies for the development of the capital market.
- 3) To implement the policies set forth by Nepal Government regarding securities exchange.
- 4) To supervise the work forces management and working procedure of those involved in securities exchange to make issue management of securities regular and well managed.
- 5) To approve registration of securities and issue of securities.
- 6) To register the name of securities issue dealers and give them approval letter.
- 7) To interrogate and supervise the working of securities exchange dealers.
- 8) To formulate clauses to be followed by the securities exchange market and the dealers in security exchange market.
- 9) To supervise, interrogate the working of securities market, securities dealers and the listed companies and when necessary make needed directions or undertake necessary action.
- 10) To develop and implement directives for proper management of securities market and for regular and well managed securities exchange.
- 11) To approve securities market sub-directives.
- 12) To collect notices, data and prospectus from the listed companies and companies with securities registered make above available information to be interested investors.
- 13) To work for the healthy competitive regular and managed operation of capital market with the objective of safe guarding the interest of the investors for continuous growth of the market.

This by law is the amendment of securities exchange Act, 2006.

Role of Securities Board in Issue of Securities:

In its approach to manage public issue of securities, the board will bear in mind:

- Protection of rights and interest of the investors; especially.
- The right to adequate, true and fair information.
- The need for liquidity.
- Prompt fair equitable allotment.
- Essay and efficient service in allotment and transfers (Securities exchange act, 2006)

2.1.6.4 Office of the Registrar of Companies (ROC)

Registrar of companies (ROC) is the governing body of any institution registered under company Act. In its governing role, it observes and regulates any company going into public examining whether the process of going public is in accordance with the rules and regulation set forth by the existing company Act or not.

As per the company ordinance 2006, public companies need to publish their prospectus before issuing securities to the public. Before publishing prospectus, one copy of the prospectus needs to be submitted to ROC. In this process, ROC approves the prospectus to be published. While approving the prospectus, ROC makes sure that important information is not missed out and unnecessary information is not mentioned. In the presence of such changes, ROC sends it back to the company for necessary change. Upon satisfactory changes ROC grant approval to issuing company to issue the prospectus. A part from approving the prospectus to be published by the issuing company before going to public, ROC does not play other major role (Company Act, 2006).

2.1.6.5 Stock Exchange

Stock exchange has been defined as anybody of individual, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling of or dealing in securities. The stock exchange therefore is the most important institution in the secondary market. In the primary market, it comes into play during primary share allotment, during issuing share in premium and when securities board asks securities exchange market for its opinion.

Securities exchange ordinance 2006 has stated that for the operation of the stock exchange market, approval needs to be taken from the securities exchange board. Any

registered institution expect private companies willing to do or allow others to do security transaction should get approval for securities exchange market from the securities board.

After the issue of securities to the public, the act requires that companies be listed in the security exchange market before the floated shares can be traded in the market. Nepal stock exchange limited (NEPSE) is the only stock exchange market in the country (Securities exchange Act 2006).

2.1.6.6 Financial Institutions

They are financial intermediaries like commercial banks, finance companies (merchant banker) and development banks and co-operatives institutions. These institutions are established under the company Act and Nepal Rastra Bank Directives. These financial institutions perform the role of intermediaries in the securities issue as per the authority received from the securities exchange board. Financial institutions are involved in securities issue process as:

- i. Issue manager
- ii. Underwriters
- iii. Collection centers
- iv. Bankers to the issue

The role of financial institutions is to manage the issue process and be intermediaries in the process of transfer of funds from the investors to the issuing company. The financial institutions may also play a role of creditors to the issuing company by providing bridge finance (Bhattarai, 2008:3).

Securities issue by laws has specified required capital for intermediaries in the securities issue and transaction as,

Table 2.1

Issue and Transaction

Transaction Type	Authorize Capital ('000')	Paid up capital ('000')
Issue registration and issue management, issue underwriters	NPR 20,000.00	NPR 10,000.00
Dealer in Securities Market	NPR 10,000.00	NPR 5,000.00
Market makers in Securities market	NPR 10,000.00	NPR 5,000.00
Brokers in securities Market	NPR. 400.00	NPR 200.00
Intermediaries in Security transfer Registration etc.	NPR 400.00	NPR 200.00

Source: SEBON Annual Report

2.1.6.7 Nepal Rastra Bank (NRB)

Nepal Rastra Bank is the central banking authority in Nepal. It is the governing authority in setting guidelines to all the financial institution regarding its area of operation. But, in because of public offerings its involvement is very minimal. Its role in the issue process is only to grant financial institutions approval to be involved with different role in the issue process. Also for different fund based activities of merchant banking, approval needs to be taken from Nepal Rastra Bank (NEPSE, 2011).

2.1.7 Terms involved in the Mechanisms of Initial Public offerings of common stocks.

2.1.7.1 Initial Public Offering (IPO)

IPO is the first time issuance of securities to the public. It is the process through which fund seeker groups such as business entities obtain required fund from the willing fund surplus group such as investors. The securities offered in IPO may include bonds, debentures, preference shares and common shares. However, in the case of this study, IPO is used in the sense of issuing common shares to the public for the first time. Thus, IPO can also be perceived as a medium through which privately held Corporation are turned into public company. Public offering is a securities offering where all investors have the opportunity to acquire a portion of the financial claims being sold (Keown at al.

2004:471). Hence through IPO, Public at large are able to buy the financial instruments that allow them to have some claim on the issuing company.

2.1.7.2 Reason to go for IPO

Of course obtaining required capital from public is the innermost reason to go for IPO but often it is not the only one. If the private firm is successful, usually the owners will want to take the company public with a sale of securities to outsiders. Through IPO, the founder simply wants to establish a value and liquidity for the stock (Van Horne 2002:578). Thus firm go for IPO not only to generate capital but also to establish value and develop liquid market for its stock.

Similarly, firm with major investment plans and high leverage gaining access to a non bank source of finance is a benefit of going public. In this regard, Poudel (1992) asserted that, to reduce debt and increase investment with, lower cost firms are interested to go public. Hence, when interest rates are high, companies particularly those concerned by cost find it reasonable to go for IPO.

In addition, if diversification were important motive in the IPO decision than riskier companies would be more likely to go to public. Thus IPO incidence may vary by industry. At the same time, firms recognizing that listed companies in their industry are overvalued have an incentive to go public (Ritter, 1984). Hence, sharing risk inherent in the business and cashing on overvalued issue could also be the reason to go for IPO.

2.1.7.4 Advantages and Disadvantages of IPOs

Like any other financial components of capital market, IPO also have some advantages and some draw backs as well.

The major benefit of IPO is that it provides enhanced liquidity and allows the company to raise capital on more favorable terms than if it had to compensate investors for the lack of liquidity associated with a privately held company. Besides, in emerging markets it heightens the prestige recognition of the company among suppliers and prospective customers.

Along with these advantages, some disadvantages also come along with IPOs. The major disadvantages are the fact that management no longer can take decisions are freely

as they used to take. There will be on going costs associated with the need to supply information on a regular basis to the investors and regulators for publicly traded firms. Furthermore, there are substantial onetime costs associated with initial public offering that can be categorized as direct and indirect cost. The direct costs mainly include legal, auditing and underwriting fees while indirect costs mainly include legal, auditing and underwriting fees while indirect cost includes management time and effort devoted to conduct the offering and money left on the table. Money left on the table is the amount left by the issuing company because of under pricing of their issues (Adhikari, 2004).

2.1.8 Parties involved in IPO's in Nepal

IPO being complex and time-consuming process often needs the participation of a number of entities. In these references, generally those parties or institution, which do play some role during the process of IPO's in Nepal are discussed here under.

2.1.8.1 Issuing Company

It refers to the company Act, which is committing IPO to raise capital from public. As provision of company Act 2006, only public limited companies are allowed to go for IPO. The act has specifically stated that the private companies should not issue their shares or debentures to the public. Similarly as per NRB Directives Banks and Finance company had to go for IPO within certain stipulated time. Furthermore, as per provisions of Bank and Financial Institution Act, 2006 banks and finance companies should set aside minimum of 30% of their issued capital, to be allocated to the public. However 5% of such shares could be allocated to their employees.

2.1.8.2 Issue Manager

Issue manager is an institution who is solely responsible to manage initial public offerings of any issuing company. As per securities Act, 2006 issue manager are institutions holding license from the NEPSE to manager public offering issues. So far, NEPSE has authorized 11 finance companies to serve as issue manager. Issue manager receive issue commission from issuing company in return of their services. Such issue commissions are decided through negotiation although, securities Issue Bylaws 1997 have stipulated maximum limit for it.

2.1.8.3 Lead Manager

In the event of more than one issue manager, managing the issue of securities of any company, the term lead manager is used to identify the individual issue managers. The existing Act and Directives have not clearly identified the maximum number of lead managers managing securities issue of any company at the same time (Naughton, 1999).

2.1.8.4 Underwriting

Underwriting is an agreement between the issuing company and a financial institution like bank, merchant banker, broker or other person, providing for their taking up the shares or debentures to the extent specified in the agreement between them, if it is not subscribed by the public. The underwriting agreements ensure that the public issue is fully subscribed. The commission paid to the underwriters as consideration for the underwriting agreement is known as underwriting commission (Ross, Westerfield and Jaffe, 1993).

2.1.8.5 Lead Underwriter

Lead underwriter is the one that arranges the whole underwriting process for the issuing company with the help for other sub-underwriters. The issuing companies and intermediaries should not that underwriting is a serious contractual agreement having financial implications on the issue and the underwriter. The business of underwriting, therefore presupposes inherent financial strength on the parts of the underwriters. In the process of identifying underwriters, therefore, issue manager must satisfy himself about the net worth of the underwriters and their outstanding commitments and disclose (Shrestha, 1997).

2.1.8.6 Underwriting or Sub-underwriters

They are the smaller institution agreeing to underwrite fewer number shares. Underwriter and sub-underwriters work under the management of the lead underwriter. Their financial responsibility remains within the total amount of shares agreed by them to undertake (Shrestha, 1997).

2.1.8.7 Bankers to the Issue

Bankers to the issue are 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 acknowledgements for the same and enter the application details in application schedules. They may also be involved in the process of realizing the proceeds of issue through cheques/draft and release final certificates to the issue manager for the number of applications and amount collected (Pandey, 2003).

2.1.8.8 Collection Centers

These are the authorized institutions to collect application from the investors issue acknowledgement for the same and the proceed of issue through cheques/draft. 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 collected. Banks, finance companies or brokerage house mostly perform such roles (Tiwari, 1999).

2.1.8.9 Bridge Financing

It is a short term lending provided to the issuing company till the date of share allotment backed by the collection from public issue. The company is to make the payment after receiving allocated shares money from public offering. Normally financial institutions provide bridge loans to companies against their underwriting commitments. The said loans are adjusted against allotment of shares/debentures. The bridge finance is issued when;

- i. Companies require to meets their immediate requirement of funds.
- ii. If there is a substantial lead-time between making a public issue and commencement of commercial production.
- iii. If issues is to be differed to the most opportune time.

(Kerlingue, 1986)

2.1.8.10 Memorandum of Understanding

In the process of issuing securities to the public, besides issuing company, different intermediaries are involved. Memorandum of understanding is the legal agreement made between issuing company and different intermediaries. This agreement

states the terms and conditions in respect to the function and authority of the involved parties. Securities issue and issue manger directives 1997 (7) has provided guidelines while going into agreements.

Different MOU to be signed in the process of issue offering are:

MOU between issuing company and the issue manager/lead managers: this is required as the company act requires securities issue process of any public company is to be done through the registered issue manager. This legal agreement between issuing company and issue manager specifies terms and conditions responsibilities and the authorities of involved party.

MOU between issue managers and the underwriters: except for the finance companies and manufacturing industries all other public institutions, as per their respective directives, underwriting is mandatory.

MOU between issue manger and the bankers to the issue.

MOU between issue manger and the collection centers.

Except for the MOU between issuing company and the issue manager, other MOU is to be signed by issue manager on behalf of issuing company with the notification and the consent of the issuing company.

In the case of MOU signed between issuing company and the issue manager, company Act 2006 requires that the copy of such agreement needs to be submitted to office of registrar of companies within 7 days of such agreements made (Company Act 2006).

2.1.8.11 Issue Commission

It is the commission charged by the issue manager to the issuing company for the service it has provided. Issue commission is paid for issue management process. The responsibility of issue manger in the issue process and for which issue commission is to be charges is to be demarcated in the agreement itself. The commissions are normally set as per the negotiation. The issue commission of share is based on the basis of the issued capital. It is given below'

Table 2.2
Securities Issue Commission

Capital	Issue Commission
Up to Rs. 10 million	2.5%
Above Rs. 10 million to Rs. 50 million	2.0%
Above Rs.50 million to Rs.100 million	1.5%
Above Rs.100 million	As per the decision of NEPSE with the pre-approval of SEBON

Source: Securities Exchange Act, 1997

2.1.8.12 Listing in the Nepal Stock Exchange Limited

The securities registration and issue approval provision and directives 2051 has stated that securities issued publicly or procedurally should be listed in the registered securities exchange market or provision to be listed within 3 months of closure of the issue. For listing securities in the market, the issuing company should comply by the clauses as,

- a) Percentage of public issue stated by the securities exchange market.
- b) Required number of public shareholders.
- c) Easy transfer of ownership of issued securities.
- d) Other stated directive for the listing of the securities in the market.

Since, the securities listing is mandatory for the securities issued, SEB requires that the issue process by approved from the securities exchange market before approving for the public offerings. Securities exchange market gives approval based on its criteria for approval (Securities exchange Act 1997).

2.1.8.13 Pricing and Effectiveness

Promptly after the road show is concluded and the registration statement declared effective by the SEC (Usually the same day), but prior to signing the underwriting agreement, the company and the underwriters will meet to negotiate the price of the share. The company will be represented by a pricing committee, which will have been appointed by the board e.g. directors and certain members of the underwriting syndicate may participate as well. As discussed above, the underwriters and the company will have generally agreed to a range of prices as early as the kick-off meeting, so the final price should not come as a surprise to anyone. Generally, the underwriters will push for a lower

price than the company's pricing committee, as they will want a good reception and a strong immediate after market for the shares. Except for when the market is particularly favorable, the underwriters generally prevail in this negotiation.

The night after the pricing, members of the working group will then visit the printer once again to add the pricing information to the final prospectus. The final prospectus is then filed with the SEC and printed in quantity for distribution by the underwriting to the purchasers (Securities exchange Act, 1997).

2.1.8.14 Closing

As soon as the final prospectus has been disseminated, orders for the shares are accepted by the underwriters. Trading begins on the morning following effectiveness of the registration statement in anticipation of the closing, the closing date on which payment is made for the shares. The SEC requires the statements of the IPO within three business days of the pricing.

A variety of closing delivers are required under the underwriting agreement, including counsel opinions and accountant comfort letters. The day before the closing, company counsel and underwriters counsel will generally meet for a "pre closing" where they will review the closing documents. The closing generally occurs in the morning by conference call between company counsel, underwriters counsel and the companies new transfer agent. The company counsel will confirm that it, as received a cheque or wire transfer from the underwriters for the offering price less discount and that it considers all of the conditions to closing to have been met. Underwriters counsel will confirm that it too considers all of the conditions to closing to have been met. The transfer agent will then declare the IPO closed and release the stock certificates as per the instructions of the underwriters. If the underwriters has elected to exercise the green shoe option, the over allotment shares will be included at this closing, otherwise, they will be purchased at a subsequent closing (Securities exchange Act, 1997).

2.2 Review of Past Research Work

The investment consideration begins from the selection of the broker to assist the trading in the securities market. Most investors have access to investment information in the form of oral and written from their brokers. Brokers subscribe to well known investment information sources that can be used by the customers. Brokers are most

active trading agents of capital market. Stockholders are backbone of stock market growth and its smooth functioning.

Shrestha (1996), has conducted a research study on, "Public Response to primary issue of shares in Nepal." The main objective of the study was to evaluate the primary market of share, 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 Jan 1993 to Jan 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 issue largely depends on the response from within Kathmandu valley and to some extent, the issues of shares seem to attract from outside the valley.

Ojha (2001) in his research paper, "*Financial Performance and Common Stock Pricing*" concludes that: An investment in common stock is very sensitive on the ground of the risk. Dividend to common stockholders is paid only if the firm makes an operating profit after tax and preference dividend. The company can return the principle in case of its liquidation only to extent of the residual asset after satisfying to all of its creditors and preferential shareholders. Besides this, investor has to sacrifice the return on their investment in common stock, which could be earned.

Study is focused on the financial performance where financial activities involve decision regarding:

1. Forecasting and planning of financial requirement.
2. Investment decision.
3. Financial decision.

Further, Ojha added that the stock price in Nepal is determined more by other factors rather than the financial performance of the concerned company.

Adhikari (2005), has conducted a research on "An analysis of Determinants of IPO under pricing in Nepal." The basic objective of the study was to analyze the under pricing of IPOs in the context of Nepal, besides 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 period of 4 years from fiscal year 1999/00 to 2003/04 were used.

The research concluded that under pricing does not occur among Nepalese firms. The researcher also added that the result is not consistent with theory and different

findings of empirical studies conducted in different countries. IPOs market in Nepal does not enjoy any right to set the price of their in issue. The price setting process is totally controlled by the regulatory body. Because of this reason, Nepalese merchant Banker could not play any role to influence the offer price of IPOs.

Bhatta (2007), in this paper "*Assessment of the Performance of Listed Companies in Nepal*" concludes that: A highly significant positive correlation-ship has been addressed between risk and return character of the company. Investors expect higher returns fro those stocks, which associates higher risk. Nepalese capital market is not efficient one. So the stock are nor the member of stock exchange tries to disseminate the information. So the market return and risk both may not show high priced stocks.

In addition, Mr. Bhatta further addressed that "*Investors of Nepal*" have not yet practiced to invest in portfolio of securities. An analysis of the two securities portfolio shows that the risk can be totally minimizes if the correlation is perfectly negative. In this situation, the risk can totally be diversified, but when there is perfectly positive correlation-ship between the return of the tow securities, the risk is not diversified.

To some extend Mr. Bhatta focused in the analysis of risk and return common stock investment? But due to the many other aspect of analysis investor cannot easily assess the result. Indeed, the study did not focus the viewpoint of investors rather it concentrates the companies and stock market. However, this study also explores some dimension for further research in topic.

Bhattarai (2008), has performed a study on "Public Response to initial public offering in Nepal" with the basic objective of assessing public response to the initial public offering. However, the study also focused on the dealing process and pace of the IPO. The study has used both primary and secondary data. Primary data were mainly collected through direct questionnaire provided to the generally investors while secondary data were collected from the various publications of SEBON, NEPSE and various other institutions.

Pandey (2010), who has done research on "Public Response to IPO in Nepal", with the objective of: identifying the problems of primary share issue market, assess the growth of primary issue market, analyze the pattern of public response to share and find the reasons for variation. He has the following findings from his research;

- i. Public response in primary market is high due to lack of opportunities for investment in other fields.
- ii. Number of public are attracted towards shares than other securities basically increase their value of investments, be it dividend gain or bonus shares.

iii. It can be seen that public response to primary issues on Banking and financial sectors is normally higher than that of the manufacturing and service sector. There was poor response in the period 1995-1998 because interest rates were higher as compared to dividend yield, the public companies were not performing well and people were unaware about the important of investing in securities. Now the response is highly positive because people were aware, money flow in the market is higher, people have seen that most of the companies are distributing dividends, share prices are increasing for most companies and a lack of better alternatives for investment. Now that the average interest rates have gone down more can be obtained from investment in stock.

Poudel (2012), who has done research on "public response to IPO in Nepal" with the objective of identifying the dealing process of IPOs, analyze the pace of IPOs and analyze the public response to the IPOs.

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

He has also summarized that pace of initial public offering in Nepal seems to be irregular. Even though the organization's process of public offering is quite long, the service provided to the investors seems to be satisfactory. Public response in stock market is high due to lack of opportunities for investment in other sector. Despite this, public are attracted towards share to increase their value of investment.

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

2.2.1 Review of Journals

Baru & Fawcent (2006), performed a study on "Initial Public Offering; An Analysis of Theory and Practice". The study intended to extent the IPO literate by analyzing unique data from surveys of Chief Financial Officers (CFO's) to compare CFO to prevailing academic theory. Specifically they examined the following seven issues; motivations for going public, timing of IPO's underwriter selection under-pricing, signaling 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 IPO, those that began the process but choose to withdraw the issue and those that are large enough to go public, but have not attempted an IPO. They surveyed 330 CFO's 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 acquisition-backed firms. They seek to ties especially at VC-backed firms. They seek to go public at a time that portends a high stock price. The underwriter selection process is driven by a very small set of selection criteria namely underwriter reputation and IPO process expertise. CFO attributes most under pricing to market uncertainty and the need to reward investors for taking the risk of IPO. The most important positive signal is past historical earning, this may promote window dressing. CFO's strongly prefer firm-commitment underwriting. Companies remain private to preserve decision making control ownership.

2.3 Research Gap

However there are many research related to initial public offering in Nepal, they do not have analyzed the basis of distribution of shares, performance analysis of issue managers in the process of initial public offerings and response for the margin lending restriction. For the primary data analysis this research has tried to involve more and more people from various sectors like banks, university and business. As in Nepal maximum investors are risk averters, this thesis also analyze whether people prefer personal fund or loan for investors apply with many names so that they could get more and more shares in primary issue so this research also takes individual investors responses whether they would prefer pro-rata basis for distribution or lucky-draw, which is also missing in other related researches to primary issue.

CHAPTER – THREE

Research Methodology

Introduction

Research means to study or to research about a phenomenon. Generally, research is an effort to search new fact, knowledge and principle in scientific manner (Kothari, 1990). Research is a careful investigation or inquiry into any subject matters, which is an attempt to discover to find out proposed information or relationship that would be useful for further applications.

3.1 Research Design

The research is based on the secondary as well as primary data and information. Hence, the explanatory or descriptive as well as analytical research design has been used. The variables related with the performance of the company, market information and relevant subjects are included in the study.

3.2 Population and Sample

The large group about which the generalization is made is called the population under study. Because of the large group size it is fairly difficult to collect detail information from each member of population from each number. The small portion is chosen as representation of the population is called sample. The population for this study is the Initial public offering made by various organizations up to fiscal year 2011/12. There are 176 companies listed in Nepal stock exchange limited. To find out the public response to the initial public offering, this study has divided in two sectors as financial institution and Insurance sector and Non-financial sector. The population is shown clearly in the following table.

Table 3.1
Financial institution and Insurance sector

S.N.	Listed Institutions	No.
1	Commercial Banks	23
2	Development Banks	40
3	Finance companies	62
4	Insurance companies	19
	Total (a)	144

Non-Financial Sector

1	Manufacturing & Processing Co.	18
2	Trading Companies	4
3	Hotel	4
4	Others	6
	Total (b)	32
	Grand Total (a+b)	176

Source: SEBON, Annual Report

If the sample are properly selected, the characteristics of the sample will reflect that the population. Due to unavailability of reliable data this study has completed upon the base of selected sample from each sectors. The sample have selected at random so that each and every units of the population may have an equal and independent chance of being selected. The sample size of financial institutions and insurance sector is 32. It covers approximately 22.22% of population. Similarly, 9 companies have been chosen randomly, as sample from non-financial sector, out of them 4 from manufacturing and processing companies, 2 from trading companies, 1 from hotels, 1 from hydropower, 2 from others. It covers approximately 28.13% of population. The selected samples are shown in the following table.

Table 3.2
Sample selected from the population

Financial Institutions & Insurance sectors;

S.N.	Institutions	Population	Sample size	Sample approximately
1	Commercial Banks	23	6	26.1%
2	Development Banks	40	10	25%
3	Finance Companies	62	10	16.13%
4	Insurance Companies	19	6	31.58%
	Total (a)	144	32	22.22%
Non-Financial sectors				
5	Manufacturing & Processing	18	4	22.2%
6	Trading companies	4	2	50%
7	Hotels	4	1	25%
8	Others	6	2	33.33%
	Total (B)	32	9	28.13%
	Grand Total (a+b)	176	41	

Source: SEBON, Annual Report

3.3 Sample characteristics

Sampling method use in this research is random sampling. Among the 150 respondents for the primary data collection, 20%(30) are students, 40% (60) are business man, 16.67%(25) are bankers, 3.33%(5) are teachers and rest 20% (30) are others.

3.4 Source and Nature of Data

As per the nature of the study, the study is based on primary and secondary data as well. The primary data have been collected by using structured questionnaire and asked to the general public who are investing their money in the primary market.

The major sources of secondary data are;

- a) Annual reports of SEBON covering different fiscal year, to analyze existing state of IPOs in Nepal.
- b) Nepal's three leading issue managers, NMB, CIT and NIDC capital market are the main source of the required secondary data for the study.
- c) Similarly, the data have also been acquired from different libraries and journals published by NEPSE/SEBON etc.
- d) Newspaper especially the Kathmandu post daily, The Rising Nepal daily and Arthik Abhiyan Daily covering different period of time is also the source of secondary data.
- e) Acts and Regulations governing security market and IPO issues that mainly included security Act, 2006 company Act, 2006; security Registration and Issue Approval guidelines, 2000.

3.5 Data collection Procedure

As per the requirement of the research, a structured questionnaire was designed for the primary data collection, and then that was distributed to 150 respondents (students, businessman, bakers, teachers and others) for their responses. For the secondary data collection data from Nepal Merchant Bank & Finance Ltd. NIDC capital market, citizen investment trust, have been approached. At the same time data from annual report of security Board Nepal has also been taken.

3.6 Analysis of Data

Analysis is the careful study of available facts so that one can understand and draw conclusion for them on the basis of established principles and sound logic (cattle metal; 1988, 29). After the collection of data, analysis of data and the interpretation of the results are necessary because data collected from various might be in raw form. So, they cannot be used directly. Further, they need to be verified and simplified for the purpose of analysis. The obtained data should be classified and tabulated in the required format according to the nature of data requirement of the study. Data analysis helps to make the reader more clear about the research and helps to draw conclusion. This part contains several statistical tools.

3.7 Statistical Tools

Different statistical tools like Bar-diagrams, line charts and pie-charts have been used to analyze the data. These tools are used to show the relation between different variables and public response. Some of the statistical tools which we used to implicit the comparative results are as follows:

3.7.1 Simple Arithmetic Mean:

Generally, Mean indicates the measure of the middle of the data set and denoted by \bar{X} . In other words, it is just the sum of all the observation $\sum X$ divided by the number of observations (N).

Symbolically;

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N} \quad (\text{Levin R.I. \& Rubin, D.S.1999})$$

3.7.2 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 word, the fraction with 100 as its denominator is known as percentage and the numerator of this fraction is known as rate of percent (Levin R.I & Rubin, D.S. 1999).

3.7.3 Pie-diagram

A pie-diagram is a widely used aid that is generally used for diagrammatic presentation of the values differing widely in magnitude. In this method all the given data are converted into 360 degree as the angle of a circle is 360 degree and all components of the data are presented in terms of angles that total 360 degree for one set of data (Levin R.I& Rubin, D.S. 1999).

3.7.4 Multiple Bar-diagrams and Graphs

Diagrams and graphs are visual aids which give a bird's eye view of a set of numerical data which shows the information in a way that enables us to make comparison between two or more than two sets of data. Diagrams are in different types. Out of these various types of diagrams one of the most important form of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristics of the same set of data have presented and compared (Levin R.I & Rubin, D.S. 1999).

3.8 Reliability and validity of the Data

The data and information were collected from the primary source to meet the specific objectives of the study. It makes the research work more valid, reliability and objective. The major portion of reliability and validity of data depend upon the interest level, professionalism, intension, nature, age and the capacity of the respondents. In order to get the correct information, the researcher had met the respondent personally for discussion, observation and survey.

CHAPTER – FOUR

DATA PRESENTATION AND ANALYSIS

This chapter deals with data presentation analysis and interpretation following the research methodology presented in the third chapter. Data presentation and analysis are the central steps of the study. The main purpose of this chapter is to analyze the collected data to achieve the objectives of the study following the conversion of unprocessed data to understandable presentation. This chapter deals with the main body of the study.

Data presentation is the interpretation of the study. The data analysis summarizes the collected data and its interpretation presents the major findings of the study. Analysis is not complete without interpretation and interpretation cannot proceed without analysis. In this course of analysis data gathered from various sources have been inserted in the tabulate form the shown in diagram form. The data have been analyzed by using financial and statistical tools. The results of the computation have been summarized in appropriated tables. The sample of computation of each model has been included in annexes. This chapter includes presentation of data and analysis of data to reach at a conclusion. The primary data are use to analyze the investor awareness, response expectation, choice for investment etc. The secondary data are used to analyze the investor response to the initial investor offering per year and sector wise along with under subscription and over subscription growth of public offering and the behavior or general investors.

Collected data have been analyzed in percentage, simple average and so on.

4.1 Trend of Initial public offering

4.1.1 Amount of issue approved

As per the provision of the securities exchange act, 1983 and regulation and guidelines made there under the issuing company should register the securities in SEBON and get issue approval before going to public. From the fiscal year 2002/03 to 2011/12 SEBON has approved 319 issues of securities amounting to Rs.47420.7 million. The detail situation of issue approved in different year is presented in table 4.1.

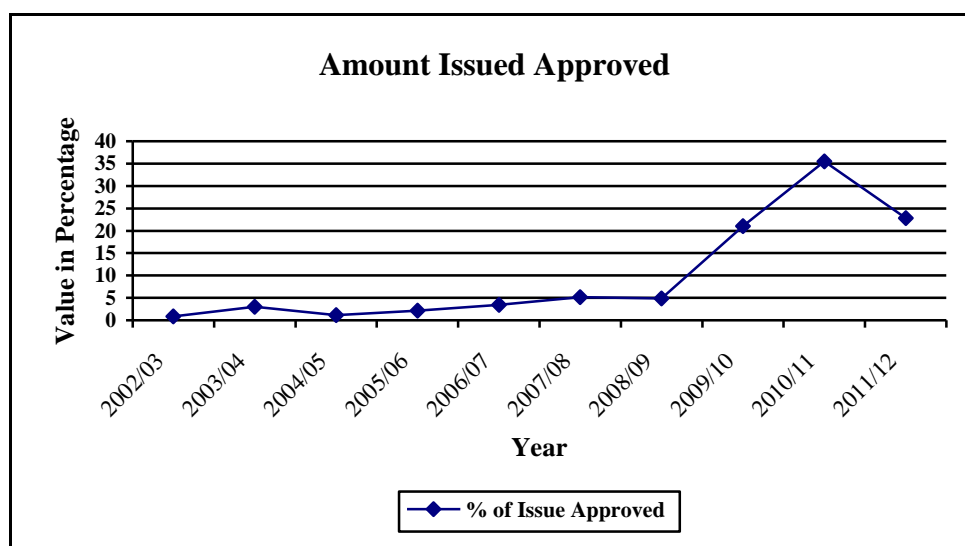
Table No. : 4.1
Amount of Issue approved

	Amount of Approved	% of issue Approved
2002/03	410.5	0.865
2003/04	1441.3	3.039
2004/05	556.3	1.173
2005/06	1027.5	2.167
2006/07	1626.8	3.431
2007/08	2443.3	5.152
2008/09	2296	4.842
2009/10	9968	21.020
2010/11	16829	35.489
2011/12	10822	22.821
Total	47420.7	100%

Source: SEBON Annual Report

Table 4.1 shows that amount of issues approved by SEBON vary during the period. The highest amount of issue approved was 16829 million (35.489%) in the fiscal year 2010/11 and it was followed by Rs.10822 million (22.821%) in fiscal year 2011/12 Rs 9968 million (21.020%) in fiscal year 2009/10. Similarly the least issue approved for the period was 410.5 million (0.865%) in fiscal year 2002/03 and it was followed by Rs 556.3 in fiscal year 2004/05, Rs 1027.5 in the fiscal year 2006/07.

Figure No. : 4.1



4.1.2 Number of Issue Approved

The number of issue approved during the period 2002/03 to 2003/04 varies differently which is presented in below.

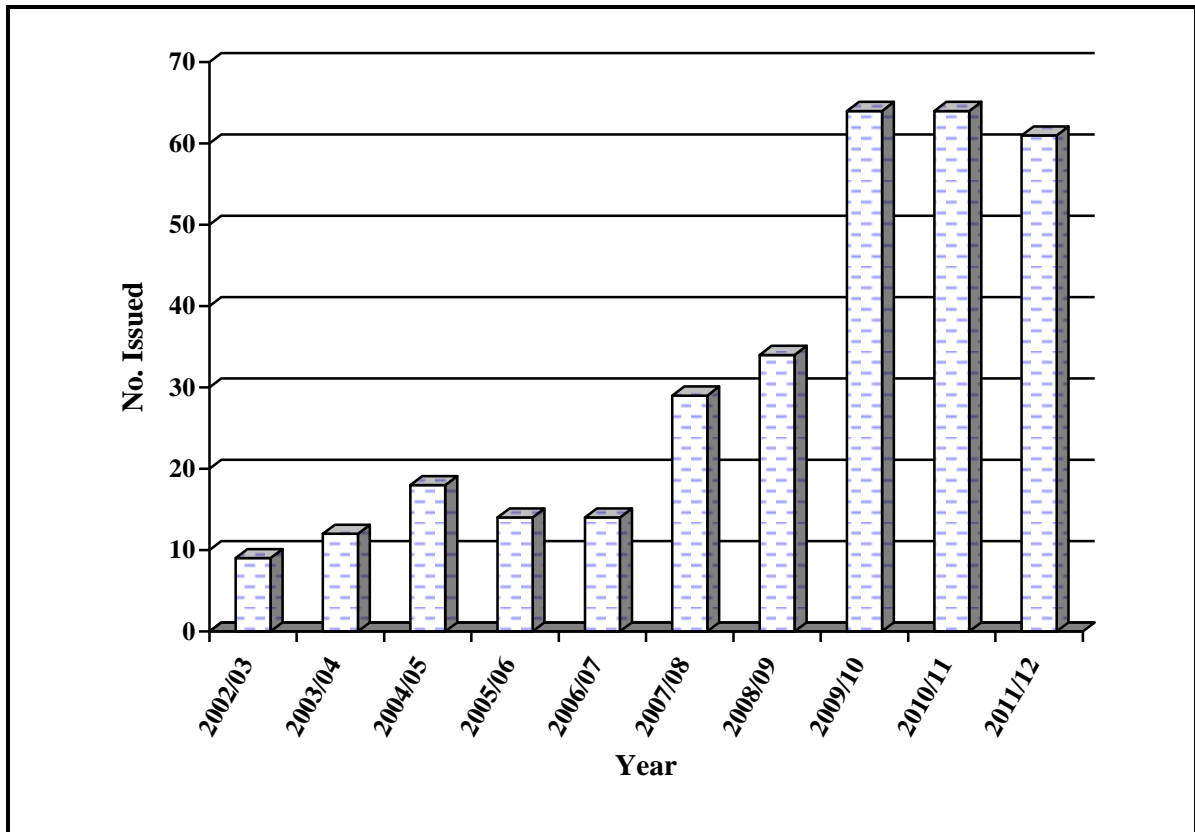
Table No. : 4.2
Number of Issued Approved

	Number of issue Approved	% of issue Approved
2002/03	9	2.82
2003/04	12	3.76
2004/05	18	5.64
2005/06	14	4.39
2006/07	14	4.39
2007/08	29	9.09
2008/09	34	10.66
2009/10	64	20.06
2010/11	64	20.06
2011/12	61	19.12
Total	319	100%

Source: SEBON Annual Report

Table 4.2 shows that SEBON approved the issue of various types of securities in various volume at various time. The number of issue approved was 9 in initial fiscal year 2002/03 but at the end of fiscal year 2011/12 the total number of issue approved was reached to the point 319 issues. The highest number of issue approved was 64 (20.06%) in fiscal year 2009/10 and 2010/11. The second highest issue approved was 61 issue (19.12%) in the fiscal year 2011/12 in fiscal year 2008/09 was followed by the third highest issue approved 34 issues (10.66%). Similarly, the least three issue approved during the period were 9 issues (2.82%) in fiscal year 2002/03, 2003/04 12 issues (3.76%) in fiscal year 2005/06 and 2006/07 was 14 issue (4.39%) and in fiscal year 2004/05 and 2007/08 is 18 and 29 issue respectively. Out of the least three issue 9 issue (2.82%) in fiscal year 2002/03 is the least issue approved.

Figure No.4.2
No. of Issue Approved



4.1.3 Public Issued Company

There are 176 listed companies in the Nepal. The total paid-up capital these companies are 79357 million. It is itself a huge amount. Among them 23 commercial banks had issued share for general public. The paid-up value of these commercial banks is Rs 32900.64 million. The contribution of commercial bank in security market is approximately 41.46% of total paid-up capital. Similarly, 40 development bank issued shares. The paid-up capital of development bank is Rs.10027.14 million. It covers near about 12.64% of total paid-up value of the security market. There are 62 listed finance companies is Rs 11466.39. There are 53 listed finance companies in the Nepal stock exchange limited.

Similarly, there are 19 insurance companies in the market who offered shares from public. The paid-up capital of the insurance company is Rs. 2432.94 which covers 3.07% of the total paid-up capital.

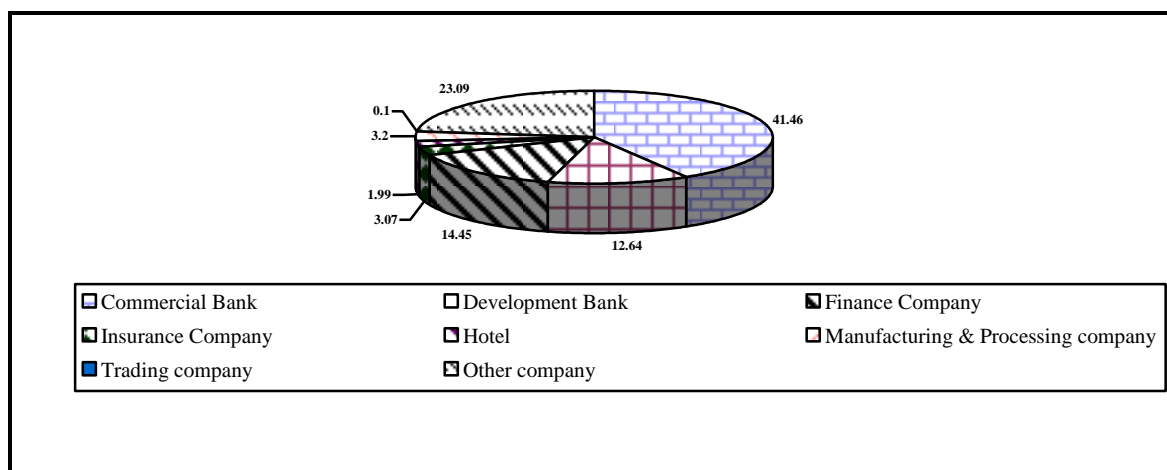
There are 18 manufacturing and processing companies with paid-up capital of Rs.2539.74 million which covers 3.2% of total paid-up value. There are only 4 trading companies which issued their share to the public. The paid-up capital of these companies is approximately 82.18 million. It covers only 0.10% of total paid-up value. 4 hotels offered shares to the public. Total paid-up capital of this sector is Rs.1580.71 million, which occupied 1.99% of total paid-up value. Without above sector there are 6 others public offered companies. The paid-up value of this sector is Rs.18326.98 million, 23.09% of total paid-up value.

Table No. : 4.3
Public issued companies (Rs. In Millions)

S.N.	Public issued companies	No. of public issue	Paid-up value	Percent
1	Commercial Bank	23	32900.64	41.46
2	Development Bank	40	10027.14	12.64
3	Finance Company	62	11466.39	14.45
4	Insurance company	19	2432.94	3.07
5	Hotel	4	1580.71	1.99
6	Manufacturing & Processing company	18	2539.74	3.20
7	Trading company	4	82.18	0.10
8	Other company	6	18326.98	23.09
	Total	176	79356.73	100

Source: SEBON Annual Report 2011/12

Figure No. : 4.3
Sector wise Paid-Up Value



4.1.4 Over and under subscription of securities

When the demand of securities is higher than issued securities, the situation is called the case of over subscription but if the demand of securities is lower than issued securities that situation is called under subscription of securities.

Table No. : 4.4
Over and under subscription of securities

Year	No. of Issue	Over subscribed		Under subscribed		Constant	
		No.	%	No.	%	No.	%
2002/03	9	8	88.89	1	11.11	-	-
2003/04	12	5	41.67	4	33.33	3	25.00
2004/05	18	14	77.78	3	77.78	1	5.56
2005/06	14	12	85.71	2	14.29	0	-
2006/07	14	6	42.86	7	50.00	1	7.14
2007/08	29	17	58.62	10	34.48	2	6.89
2008/09	34	16	47.05	14	41.18	4	11.76
2009/10	64	40	62.50	20	31.25	4	6.25
2010/11	64	44	68.75	15	23.44	5	7.81
2011/12	61	50	81.97	10	16.39	1	1.63
Total	319	212	66.46%	86	26.96%	21	6.58%

Source: SEBON Annual Report: 2002/03-2011/12

Table 4.4 shows that during the period of fiscal year 2002/03 to 2011/12 out of the total listed companies only 319 companies issued their common stock for subscription and among them common stock issue of 212 (66.46%) have been oversubscribed, common stock issue of 86 companies (26.96%) have been under subscribed and remaining 21 companies (6.58%) issue have been fully subscribed.

4.1.5 Instrument – wise Public Issue

Likewise many other emerging markets Nepalese market also provides limited variety of investment instruments which mainly includes common shares, preference shares, light shares, debentures and few issues from collective investment schemes like mutual fund but in this study the collective investment scheme is not included. Over a period of time Nepalese stock market has been relying on new financial instruments such

as common shares and right shares, which cannot be considered good sign regarding overall development of Nepalese stock market.

Table No.4.5
Instrument-wise Public Issue till F/Y 2011/12

Fiscal Year	Ordinary Share		Right Share		Debenture		Preference share		Total	
	No. of issue	Amt. (RS)	No. of issue	Amt. (RS)	No. of issue	Amt. (RS)	No. of issue	Amt. (RS)	No. of issue	Amt. (RS)
2002/03	7	278.7	2	131.79	-	-	-	-	9	410.49
2003/04	5	319.46	5	621.87	1	360	1	140	12	1441.3
2004/05	14	394.3	4	162.2	-	-	-	-	18	3
2005/06	10	657.5	3	70	1	300	-	-	14	556.5
2006/07	7	377.48	6	949.3	1	300	-	-	14	1027.5
2007/08	14	579.8	11	1013.5	4	850	-	-	29	1626.8
2008/09	15	380.3	17	1265.3	1	250	1	400	34	2443.3
2009/10	16	924.8	43	6793.4	5	2950	-	-	64	2295.6
2010/11	12	1815.7	50	14262.8	2	750	-	-	64	10668.
2011/12	28	2649.37	33	1	-	-	-	-	61	2
				8173.4						16828.
										51
										10822.
										4
Total	128	8386.41	174	33443.2	15	5760	2	540	319	48129.
										6
Percentage	40.13	17.42	54.5	69.49	4.7	11.9	0.6	1.12	100	100
			5			7				

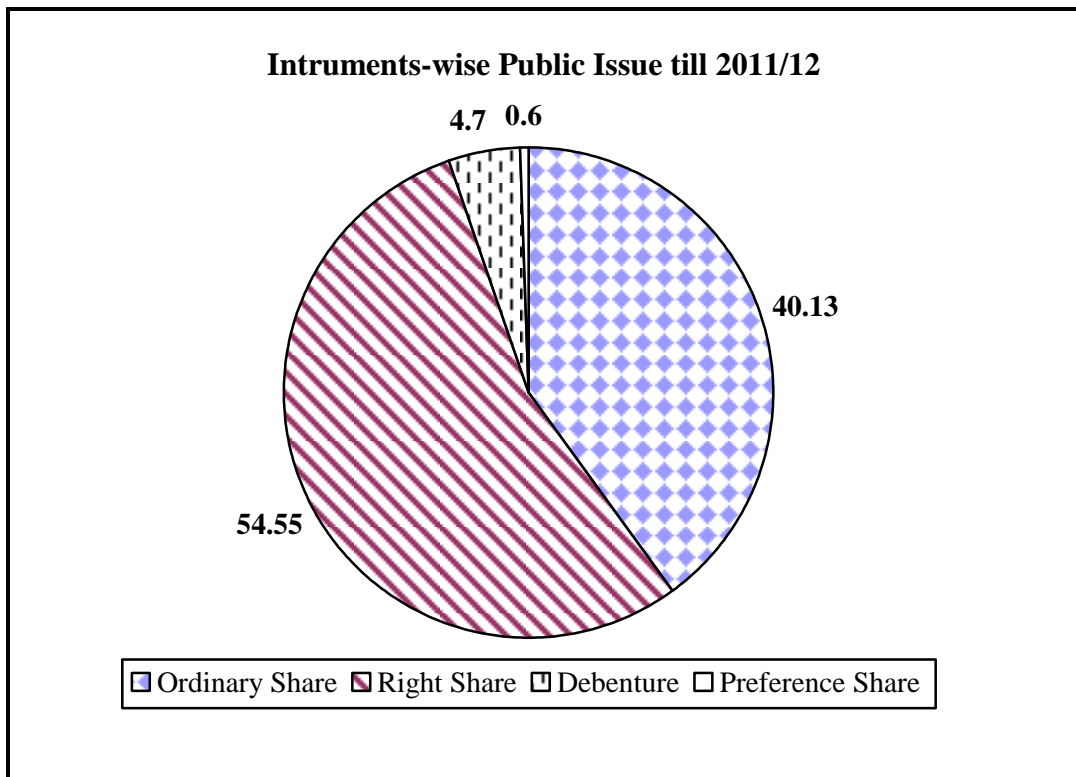
Source: www.sebon.gov.np

As shown in the table 4.5, out of 319 offers during the sample period, 128 issues were ordinary shares, which is 40.13% of the total issue offered during the period. Similarly, 174 issue were right shares, which is 54.55% of total issue. Also 15 issues were

debenture which is 4.7% of total issue. Hence, from number of issues offered perspective, right share was the most preferred instrument for issuing company, followed by ordinary share, debenture and preference share respectively. Similarly, from issued amount perspective right share emerges as most used financial instrument with 69.49% of total issued amount. Second most used instrument was ordinary share occupying 17.42% of total amount followed by debenture (11.97%) and preference share (1.12%) respectively.

The most striking aspect of the analysis has been the fact that preference shares were issued only twice and debentures only 15 times during the entire study period. This clearly shows that Nepalese stock market is overly dependent on few financial instruments like right share and ordinary share. This over dependency on one hand limits the boundary of investment opportunities to the public and on the other hand, limits the overall development prospect of Nepalese stock market.

Figure No.:4.4



4.2 Secondary Data Analysis

Nepal stock exchange limited has divided the total listed companies into eight sectors. They are commercial banks, finance companies, development bank and insurance

company, manufacturing and processing company, trading company hotel and other. Investor has to decide in which sector they want to make investment. As per objective, this study only concerned with the investors priority and response for the initial public offering.

4.2.1 Public response to commercial bank

There are 23 commercial bank listed in the Nepal stock exchange. Nepal Arab bank limited (NABIL BANK) was the first commercial bank to issue share to the public.

Generally public issues of commercial bank are highly appreciated by public. Investors give high priority and response to the public issue. To analyze the public response to commercial bank, eight companies are chosen as sample, which is shown on the following table.

Table No.:4.6
Public Response to commercial Banks

S.N.	Name of companies	Issued year	No. of issued share	Share applied	Subscription times	Results
1	Machhapuchhre Bank	2003	1650000	3272775	1.9835	Over subs.
2	Laxmi Bank Ltd.	2003	1925000	4838488	2.5135	Over subs.
3	Lumbini Bank Ltd.	2004	1500000	10818600	7.2124	Over subs.
4	Siddhartha Bank	2005	1500000	2797995	18.6533	Over subs.
5	Nepal Credit and commerce Bank Ltd.	2004	2100000	2564100	1.221	Over subs.
6	Nepal Srilanka Merchant Bank	2002	400000	2461640	6.1541	Over subs.

Source: SEBON Annual Report

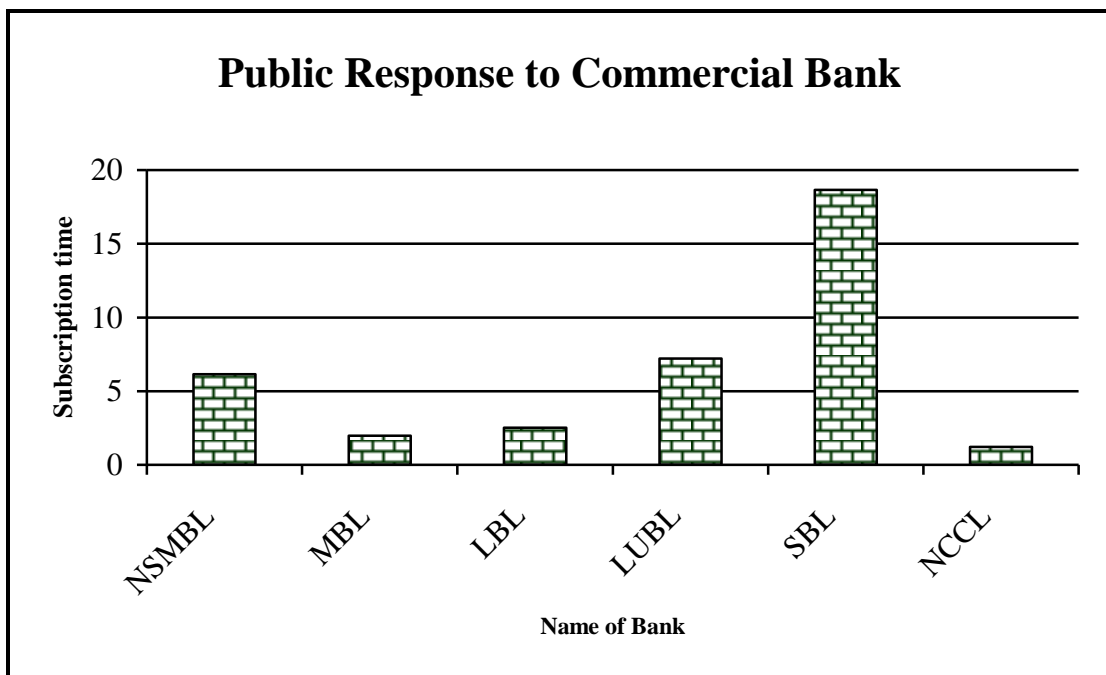
In the above table, show the information of six different commercial bank with their number of shares issued and number of applications applied by the general public to the company. The public response to these companies is also shown in the table.

Nepal Srilanka Merchant Bank Ltd. has issued 400000 units share to the public. But the demand of the share of this company was 2461640 units. Subscription was

approximately 6 times more than issue size. It means investors gave high response to this company. Machhapuchare Bank Ltd. has issued 1650000 number of share to the public. The investors applied for 3272775 unit share. Subscription was approximately 2 times. This shows the medium response of the investor to the company. Similarly, Laxmi Bank Ltd. issued 1925000 units shares to the public. Public applied for 4838488 units share. Subscription was approximately 2.5 times. Public response to this bank was also medium. Likewise Lumbini Bank Ltd. issued 1500000 shares to the public. Public applied for 10818600 units share. Public response to this bank is high. Nepal credit and commerce bank Ltd. issued 2100000 shares to the general public. The investors applied 2564100 shares. Subscription was applied approximately 1.2 times. Public response to this bank is medium. Finally, Siddhartha Bank Ltd. issued 1500000 shares. The investors applied for 2797995 unit shares. The public response to this bank is very high. The public gave high priority to Siddhartha Bank Ltd.

From the above table it is clear that commercial banks share issues are getting good response from investors. Public found to be interested in shares of commercial bank.

Figure No.:4.5



Source: SEBON Annual Report

4.2.2 Response to Development Bank

Public issues of development banks yet good response from the public to analyze the public response to development banks 10 companies are chosen as samples which are shown in the following table.

Table No. : 4.7

Public Response to Development Bank

S. N.	Name of the company	Issued Year	No. of issued share	Share applied	Subscriptions	
					Times	Result
1	Development credit bank Ltd.	2002	480000	6766608	14.0971	Over Subs.
2	Deprosc Development Bank	2004	34800	90250	2.5934	Over Subs.
3	Pacchimanchal Dev. Bank Ltd.	2004	60000	1213968	202328	Over Subs.
4	Chhimek Biaks Bank Ltd.	2004	30000	41781	1.3927	Over Subs.
5	Bhirkuti Dev. Bank	2006	64200	137658	2.1442	Over Subs.
6	Siddhartha Bikash Bank Ltd.	2006	200000	444860	2.2243	Over Subs.
7	Narayani Bikash Bank Ltd.	2006	60000	368400	6.14	Over Subs.
8	Sanima Bikash Bank	2006	960000	38697600	40.31	Over Subs.
9	Bageswori Bikas Bank Ltd.	2006	90000	403200	4.48	Over Subs.
10	Sahayogi Bikash Bank Ltd.	2006	60000	1150200	19.17	Over Subs.

Source: www.sebon.gov.np

The information of 10 different development banks regarding the number of shares issued by the company and number of application applied by the general public to the company is shown in the table 4.7.

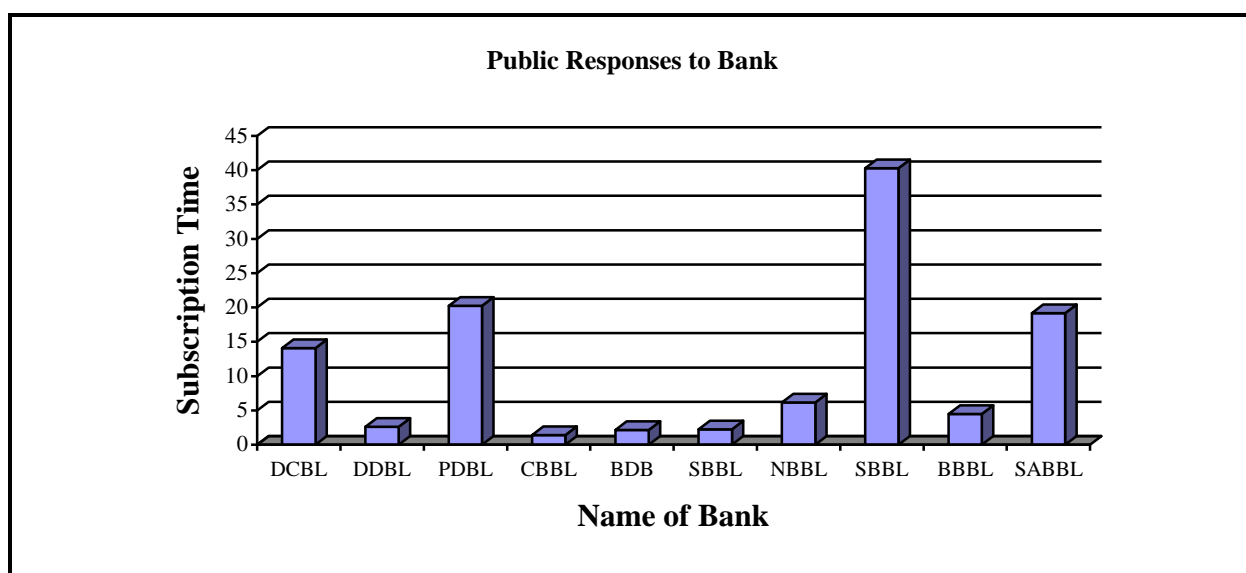
Development credit bank ltd. issued 480000 units shares to the public. But the demand of the share to this company was 6766608 units. Subscription was approximately 14.0971 times more than issue size. It means the investors gave high response to this company. Deprosc development bank ltd. has issued 34800 shares to the public. The applied for 90250 units share subscription was 2.5934 times. This also shows the response of the investors to the company was medium. Pachhimanchal development bank ltd. has issued 60000 shares and investors applied for 1213968 unit shares. Subscription was 20 times. This shows the response of the investors to the company was high. Chhimek Bikas Bank Ltd. has issued 30000 shares and investor applied for 41781 unit shares the response of the investors to this bank was medium.

Similarly the public response to Bhirkuti Development bank and Siddhartha Bikas Bank Ltd. was medium. Likewise, Narayani Bikash Bank Ltd. issued 60000 units shares and the investors applied for 368400 numbers of shares subscription was 6.1 times. Public response to this bank is high. Sanima Bikash Bank Ltd. issued 960000 shares to the public and investors applied for 38697600 shares. Subscription was approximately 40 times to this bank was high.

Bageswori Bikas Bank Ltd. issued 90000 shares to the public and the investors applied for 403200 numbers of shares. Subscription was approximately 4 times. This shows the response of the investor to the general public is high. Finally, Sahayogi Bikas Bank Ltd. issued 60000 shares to the general public and no. of share applied was 1150200 number shares. Subscription was approximately 19 times. This shows the response of the public to this bank is high.

In the above table, among 10 development bank, four development banks have medium response where as six development banks has high response. This shows the public response to the shares of developing bank is good which mean the investors are interested to purchase the shares of development banks.

Figure No. : 4.6



The above figure 4.6 shows that among development banks highest subscription was in the case of SBB with highest bar and lowest in the of CBBL with lowest bar.

4.2.3 Public response to insurance company

Insurance company also have provided good role in the Nepalese security market. To analyze the public response, six companies are chosen as sample which is shown in the following table.

Table No.:4.8

Public response to insurance companies

S.N	Name of the company	Issued Year	No. of issued share	Share applied	Subscriptions	
					Times	Result
1	Life insurance corporation (Nepal) Ltd.	2002	500000	8717200	17.4344	Over Subs.
2	N.B. insurance co. ltd.	2003	200000	265380	1.3269	Over Subs.
3	Prudential insurance co. ltd.	2004	200000	1913620	9.5681	Over Subs.
4	Shikhar insurance co. ltd.	2006	250000	10939650	43.7586	Over Subs.
5	Sagarmatha Insurance Co. ltd.	2004	102000	3388610	33.2217	Over Subs.
6	Premier insurance co. ltd.	2007	120000	2323737	19.36	Over Subs.

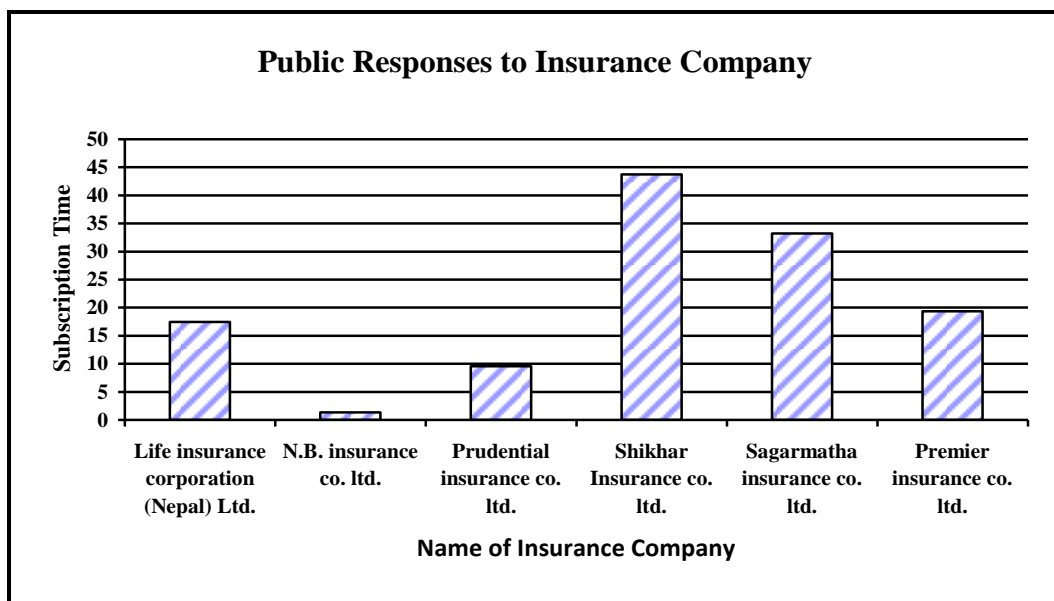
Source: www.sebon.gov.np

Premier insurance company ltd. issued 1200000 unit of shares for which application was received for 2323737 unit shares. This shows the subscription times to be 19 times and hence the public response to this company was very high. Likewise the public response was very high to the life insurance corporation (Nepal) ltd. with subscription of 17 times. This company has issued 500000 units shares and has received application for 8717200 unit shares.

Similarly, N.B. insurance co. ltd. issued 200000 units of shares for which application was received for 265380 units of shares. This shows the subscription times to be 1.33 times and hence the public response to this company was medium. Likewise Prudential insurance co. ltd. issued 200000 unit of shares for which the application was received for 1913620 unit shares. The public response to this company was high with 9.57 times of subscription

Shikhar insurance co. ltd. issued 250000 unit shares for which it had received 10939650 unit of application. This shows the subscription was very high with the 43.75 times. Likewise Sagarmatha insurance co. ltd. issued 102000 units of shares for which the application was received for 3388610. This shows the very high response of public to this company with the subscription of 33.22 times.

Figure No. : 4.7



4.2.4 Public Response to the Finance companies

Although the country is suffering from economic crisis, most of the finance companies are doing well in the market. Finance companies are the major attraction of the investor to purchase the shares. There are finance companies which had issued share to the public which are listed in Nepal stock exchange limited. Almost of these companies got good response from general public.

Table No.:4.9

S. N.	Name of the company	Issued Year	No. of issued share	Share applied	Subscriptions	
					Times	Result
1	International Leasing and Finance co. ltd.	2002	300000	6512010	21.7067	Over Subs.
2	Janaki Finance ltd.	2002	80000	1267112	15.8389	Over Subs.
3	Butwal Finance ltd.	2003	200000	1607480	8.0374	Over Subs.
4	Om finance co. ltd.	2003	80000	1310288	16.3783	Over Subs.
5	Standard finance ltd.	2003	240000	870096	3.6254	Over Subs.
6	Fewa finance co. ltd.	2004	80000	1884000	23.55	Over Subs.
7	Everest financé ltd.	2005	80000	432368	5.4046	Over Subs.
8	Srijana finance ltd.	2005	40000	48432	1.2108	Over Subs.
9	Patan finance ltd.	2011	200000	232120	1.1606	Over Subs.
10	Nepal express finance ltd.	2010	150000	1173000	7.82	Over Subs.

Source: www.sebon.gov.np

International Leasing and finance company limited issued 300000 shares for which application received by the company was 6512010 unit shares. The subscription was 21.71 times. This shows high response of the public to the company. Similarly, Janaki finance co. ltd. also receives high response from the public with subscription of approximately 16 times. It had issued 80000 unit shares and received application for 1267112 unit share.

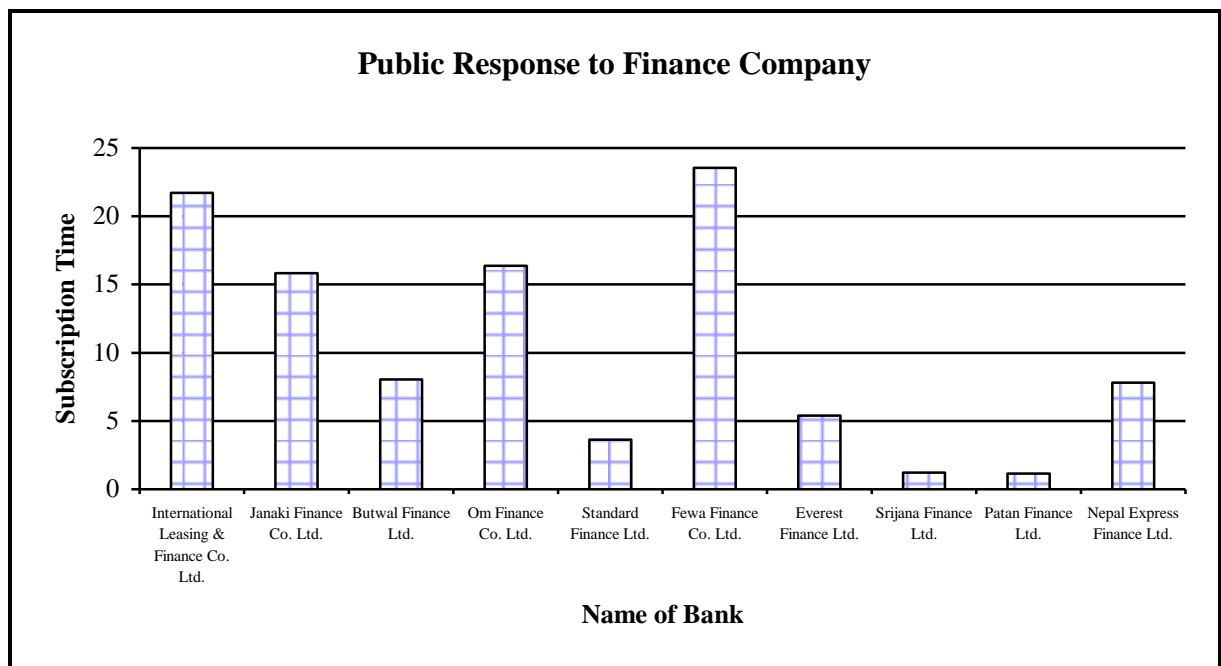
Butwal finance ltd. got application for 1607480 unit share while only 200000 unit shares are issued. The subscription time was approximately 8.04 times. This shows that the public response to this company was high.

Standard finance co. ltd got application for 870096 unit share while only 240000 unit share are issued. The subscription time was approximately 3.6 times. This shows that the public response to this company was medium. Similarly, Fewa Finance Company Limited issued 80000 unit of shares for which the application was received for 1884000. This shows the good public response to this company with the subscription of 23.55 times.

Likewise Everest finance co. ltd. issued 80000 unit shares with the application for 432368 unit shares. The public response to this company was high with subscription of 5.4 times. Similarly, Srijana finance company and Patan finance company ltd has medium response with a subscription of 1.21 and 1.16 times respectively.

Finally, Nepal express finance co. ltd issued 150000 shares with the application for 1173000 unit shares. The public response to this finance company is high with subscription of 7.8 times.

Figure No.:4.8



4.2.5 Public Response to Non-financial sector.

The Non-financial sector also play major role in the development of economy and security market. This sector includes the types of companies which are not directly involved to collect the money from public and invest it into different sector as a loan but provided necessary goods and service for the public. In this study non-financial sector is divided into manufacturing and processing companies, trading companies, hotels, hydropower and other companies. This sector does not perform well in the capital market in comparison to financial sector. Some of these companies are not able to make profit from long time where some of them were already gone to dissolve and liquidation like Nepal Battery company ltd, Nepal Med. Ltd etc. There are 32 non-financial companies which had issued there share to the public and some other are in the process of issue of securities to the public from this sector at the end of fiscal year 2011/12.

Table No : 4.10

Public Response to non-financial sector

S.N.	Name of the company	Issued Year	No of issued share	Share applied	Subscription	
					Times	Result
1.	Nepal Lever Ltd.	1994	138000	901844	6.5351	Over. Subs.
2.	Necon Air Ltd.	1994	165000	588407	3.5661	Over. Subs.
3.	Brikuti Pulp & Paper Nepal Ltd.	1996	1050000	1101135	1.0487	Over. Subs.
4.	Shreeram Sugar Mill Ltd.	1997	465000	245985	0.529	Over. Subs.
5.	Oriental Hotel Limited	2000	1500000	9429000	6.286	Over. Subs.
6.	Taragoan Regency Hotel	1999	1200000	2965440	2.4712	Over. Subs.
7.	Himalayan Distillery Ltd.	2001	1734600	183347	0.1057	Under. Subs.
8.	National Hydropower Ltd.	2004	1400000	301700	0.2155	Under. Subs.
9.	Chilime Hydropower Ltd.	2005	23741000	12104111	5.0984	Over. Subs.

Source: NMB, NIDC capital Market NCML, ACL and Annual Report of SEBON.

Due to lack of reliable sector-wise data this study is an aggregate study. To analyze the public response to non-financial companies, 10 company are chosen as sample which are shown in the above table. The table shows the public response to the 10 non-financial sector companies with issued and applied number of shares as well as subscription times.

The IPO of Nepal Lever Ltd get the highest demand and subscription was 6.5351 times more than issued sized that means investors gave high response to this company then the other. Similarly, oriental Hotel ltd had issued 1500000 units or ordinary shares but investor applied for 9429000 units and subscription was 6.286 times more that issued size. This marked that the response of the company was also very high.

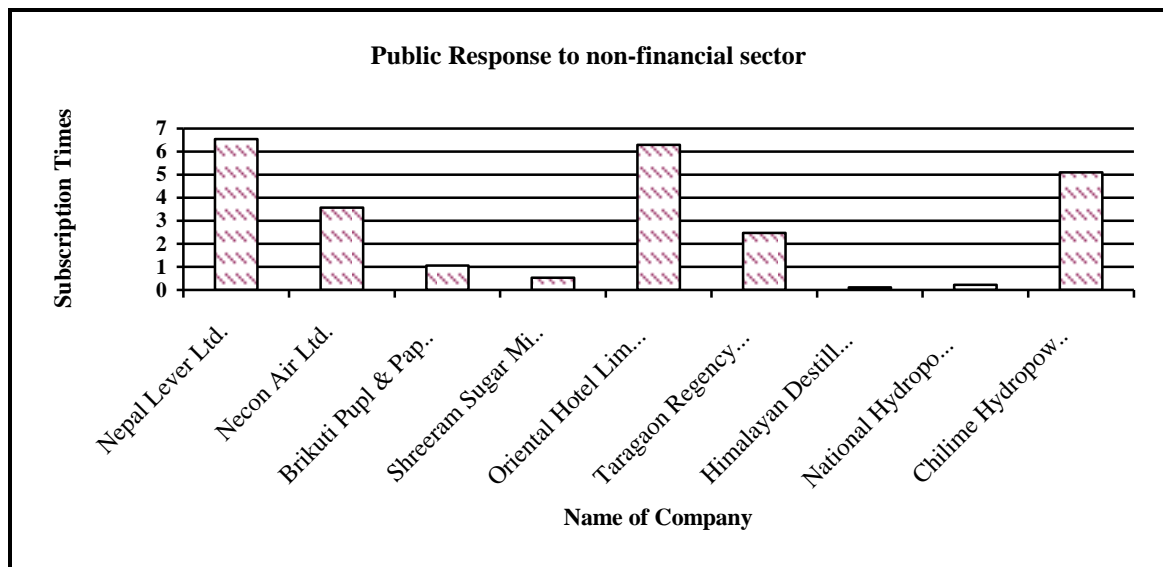
Himalayan Distillery Ltd. Received very low response from the public with subscription of 0.1057 times only and result was under subscribed. Shreeram Sugar Mill issued 465000 shares but investor applied for 245985 units and subscription was only 0.529 times. This means the investor gave poor response to this company also.

Similarly, National Hydropower co. Ltd received very low response from the public with subscription of 0.2155 times only and result was under subscribed. Necon Air Ltd. Issued 165000 unit of ordinary share to the public but the investors applied for 588407 units of shares and subscription was 3.5661 times more than issue size. This represents the good response of the investor to the company.

Likewise Chilime Hydropower co. Ltd. Issued 2374100 units shares but demand was 12104111(subscription is 5.10 times) and result was oversubscribed. Taragoan Regency Hotel issued 1200000 shares for which the investor applied for 2965440 unit share and subscription was 2.4712 times. This means the public gave the medium response to this company.

Finally, Brikuti Pulp & Paper Nepal ltd. Received medium response from the public with subscription of 1.0487 times only.

Figure No : 4.9



4.3 Primary data Analysis

Along with secondary data, primary data were taken to justify the study on the topic. One of the most important and logical method to analyze the primary data related to the topic is structured questionnaire method. One hundred fifty copies of questionnaires were distributed to express their views about IPO in Nepal to businessman, students, bankers, teachers and others. Categorically, the questions raise through this means were three types namely yes/no questions, multiple choice questions and open-end questions. The questionnaires were distributed to find out the first hand information from the investors of stock market. Cent percent of the questionnaire was collected during the study period. The investor has mixed feeling on the primary market and their responses have analyzed as follows:

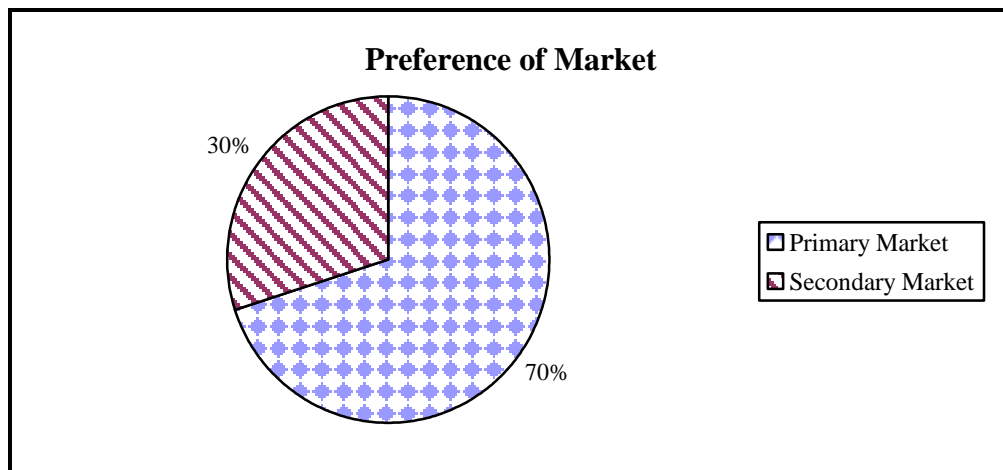
4.3.1 Preference of market for investment

Out of 150 investors 70% showed their preference to invest in the primary market and rest 30% in the secondary market. Most of the investors think that the share price of the companies in primary market is less than the secondary market and they able to gain more capital gain from it.

Table 4.11
Preference of market for investment

Research variable	No. of Respondents	% of investors
Primary Market	105	70
Secondary Market	45	30
Total	150	100

Figure No.:4.10



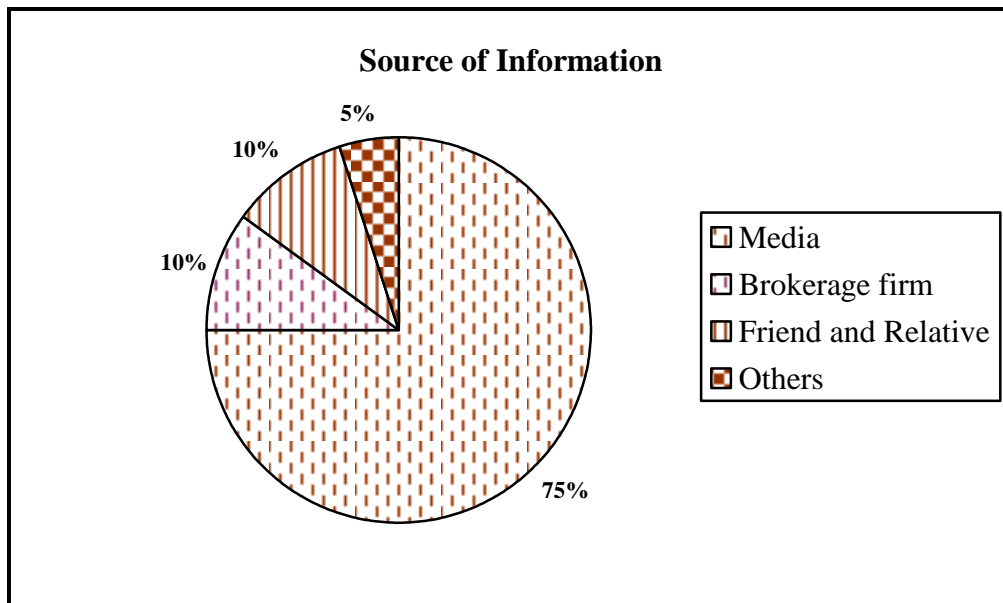
4.3.2 Source of Information about investment

The information about investment to make investment into primary issue of securities 70% of the respondents replied that they know through media, 10% through brokerage firm, 18% get information through friends and relatives and rest 5% know through other sources like issue manager, issuing company and market.

Table : 4.12
Source of Information about investment

Research Variable	No. of Respondents	% of investors
Media	113	75
Brokerage firm	15	10
Friend and Relative	14	10
Others	8	5
Total	150	100

Figure No.:4.11



4.3.3 Investors' Awareness

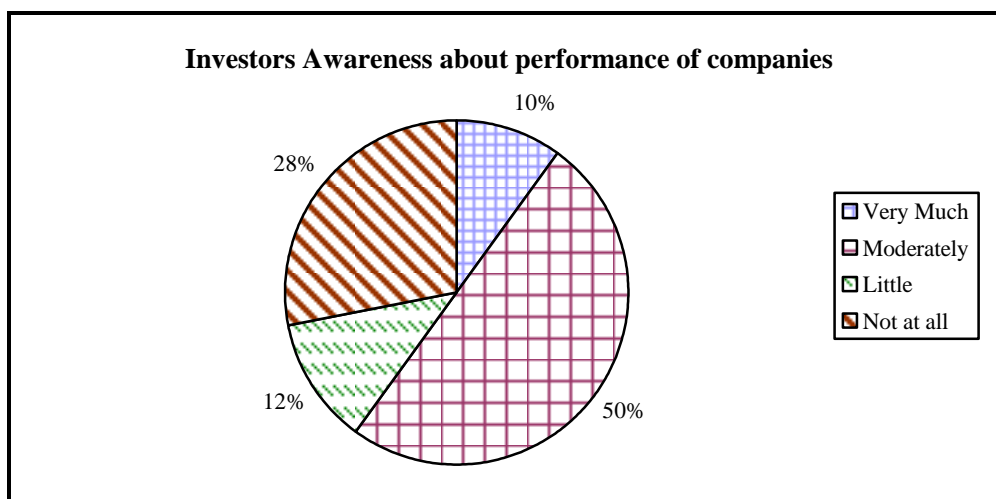
When investors were asked whether they are aware or not about the financial performance of the companies, 50% replied that they are moderately known about the financial performance of the companies. They have interested or planned to invest, 28% replied that they do not have knowledge, 10% are very much known and rest 12% has little knowledge regarding their company's performance.

Table : 4.13

Investors Awareness about performance of companies

Research Variable	No. of Respondents	% of investors
Very much	15	10
Moderately	75	50
Little	18	12
Not at all	42	28
Total	150	100

Figure No.:4.12



4.3.4 Past Experience

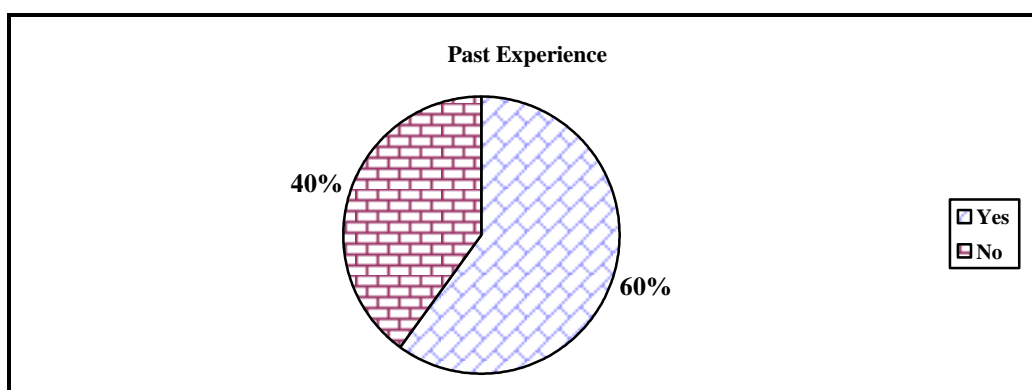
Out of 150 respondents, 60% general investor said that they do not have past experience of investment in primary market, 40% investor said that they have past experience. This indicates that new and inexperienced people are also trying to invest their money in the primary share market. This is the good sign for the development of primary market.

Table : 4.14

Past Experience

Research Variable	No. of Respondents	% of investors
Yes	90	60
No	60	40
Total	150	100

Figure No. : 4.13



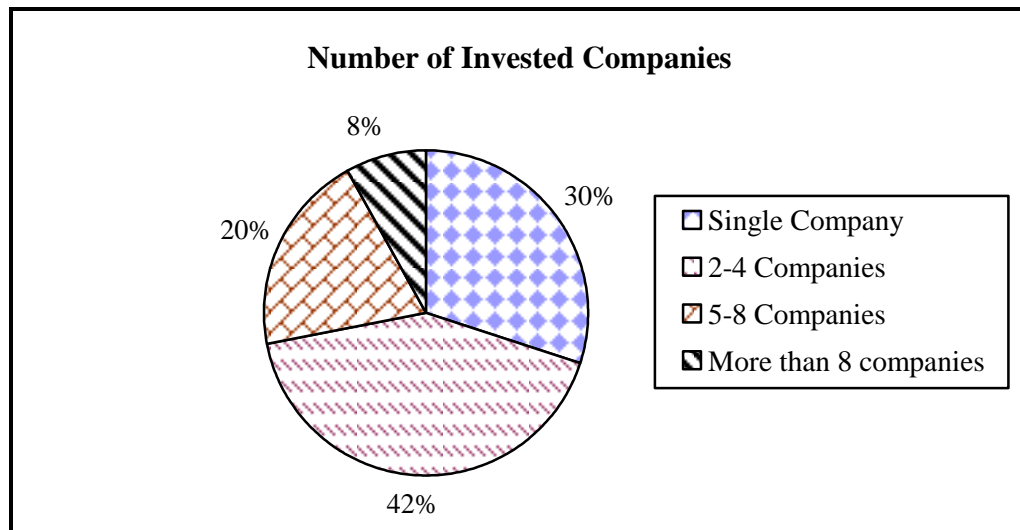
4.3.5 Number of Invested Companies

The next question was about knowing the frequency of the investment. Leading 42% investors have chosen 2 to 4 companies for investing their money in the primary market. Similarly, 30% people said that they invest their money only in a single company. They are called small investors. People investing in more than 5-8 companies are 20%, only 8% people are saying that they invest in more than 8 companies. They are generally the people who are the 'big investors' or 'whole time share trader' in the market.

Table : 4.15
Number of invested companies

Research Variable	No. of Respondents	% of investors
Single Company	45	30
2-4 companies	63	42
5-8 companies	30	20
More than 8 companies	12	8
Total	150	100

Figure No. : 4.14



4.3.6 Habit to read company's prospects before investment

Companies issue their prospects, to show their image in the market, while they go to the public. The investor has asked do they read prospects before the investment. The reply is quite satisfactory. 76% investors read the prospects before they invest their money. But 24% investors do not consider what is written in the prospects.

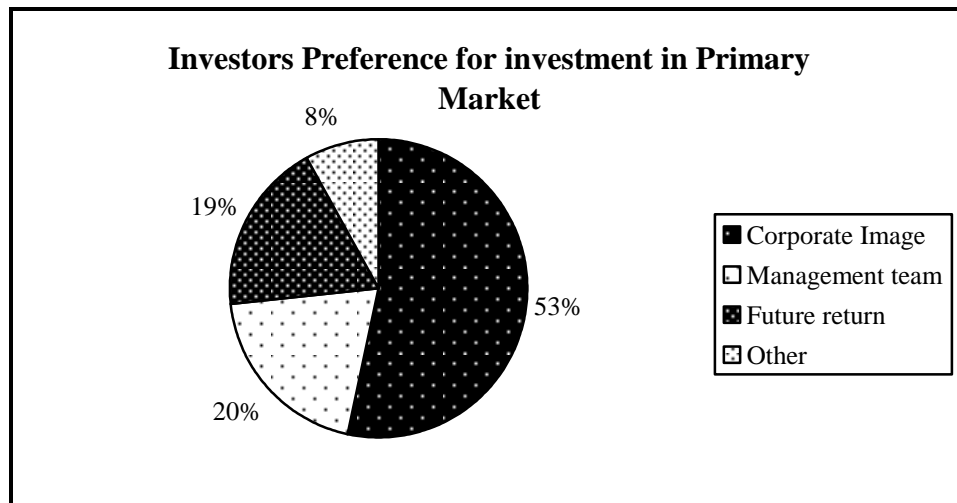
4.3.7 Investors preference for investment

The next query is about the things that investors look for to invest in primary market. Out of total 150 investors 53.33% investors look for corporate image as the prime factor. 8.67% investors invest their money for good return in future. 20% investors invest due to good management of the issuing company. Remaining 8% people see for other reason to invest in the primary market.

Table : 4.16
Investor's preference for investment

Research Variable	No. of Respondents	% of investors
Corporate image	80	53.33
Management team	30	20.00
Future return	28	18.67
Other	12	8.00
Total	150	100

Figure No. : 4.15



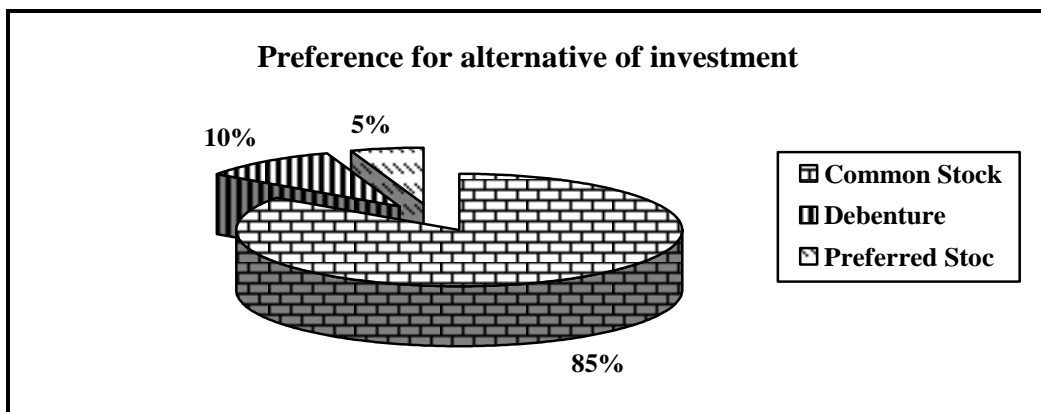
4.3.8 Preference for alternative for investment

Out of 150 investors, 85% showed their preference to invest in the common share, 10% in debenture and the rest in preferred stock. Those investors who are optimistic invest in common stock where as those who are pessimistic invest in debenture and preferred stock.

Table: 4.17
Preference for alternative of investment

Research Variable	No. of Respondents	% of investors
Common stock	127	85
Debenture	15	10
Preferred stock	8	5
Total	150	100

Figure No. : 4.16



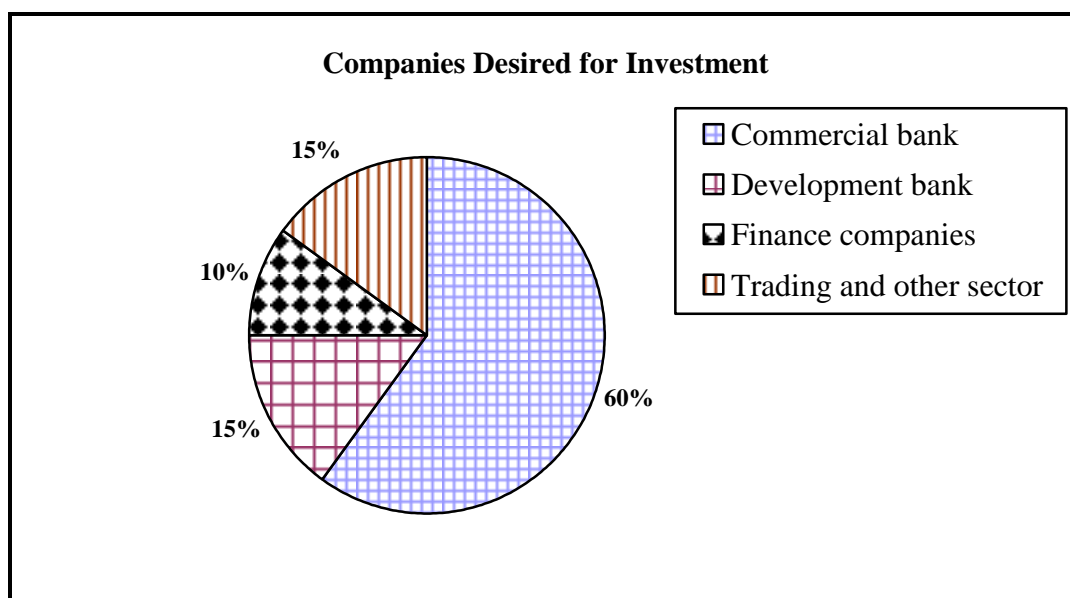
4.3.9 Companies desired for investment

Out of 150 respondents, more than 60% respondents respond to invest in commercial banks, 15% in development banks, 10% in finance companies and rest in trading and other sectors. Secondary market prices of these companies are high and they provide higher return to the investor as compared to trading and other sectors.

Table: 4.18
Companies desired for investment

Research Variable	No. of Respondents	% of investors
Commercial bank	90	60
Development Bank	22	15
Finance companies	15	10
Trading and other sector	23	15
Total	150	100

Figure No. : 4.17



4.3.10 Motivation factor of investment in primary market

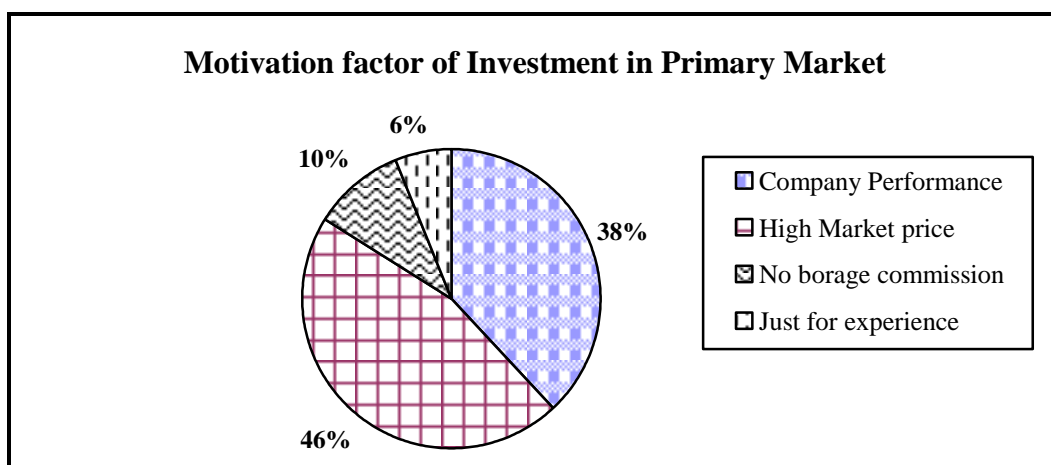
In the next query investors were asked about the motivation factor that they come to invest in primary market. More than 38% of the people preferred company performance while investing. 46% people think that the motive factor is high price of share in short run period. Only 10% people think there is no brokerage commission so they wish to invest in primary market. But unexpectedly 6% people invest in primary market only for experience.

Table: 4.19

Motivation factor of investment in primary market

Research Variable	No. of Respondents	% of investors
Company performance	57	38
High market price	69	46
No borage commission	15	10
Just for experience	9	6
Total	150	100

Figure No.: 4.18



4.3.11 Fund utilized in the Primary Market

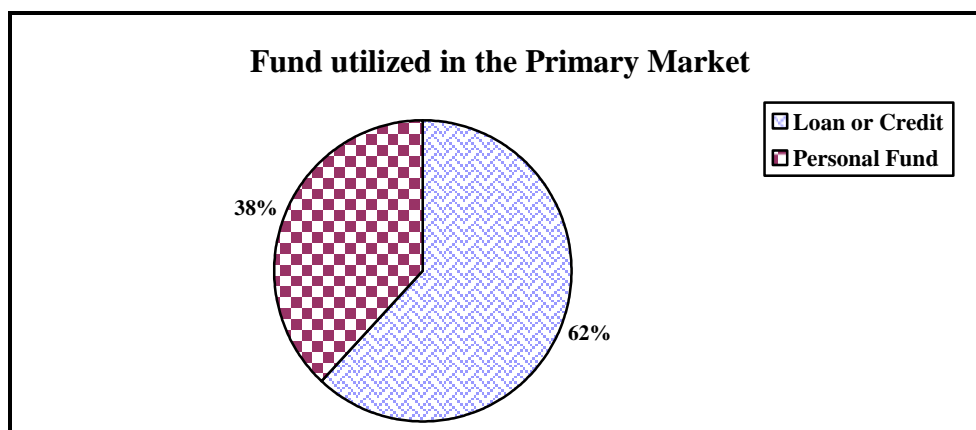
Out of 150 respondents, 62% of respondents said that the prime source of their fund to invest in primary market is loan or credit. It means that they think they can earn more from investing in shares than the cost of loan or credit. But 38% of people used their own personal fund for investment.

Table: 4.20

Fund utilized in the primary market

Research Variable	No. of Respondents	% of investors
Loan or credit	93	62
Personal fund	57	38
Total	150	100

Figure No.:4.19



4.3.12 Average Amount of Investment made in any single company

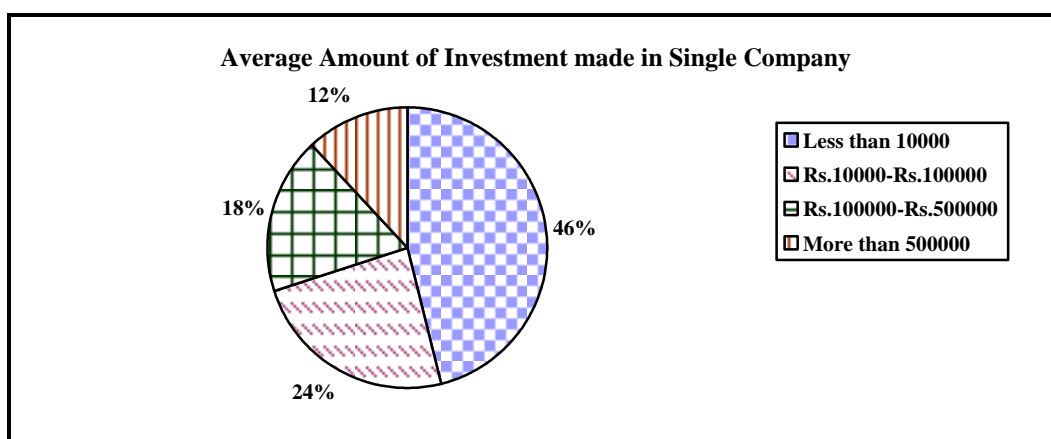
The amount of investment is also a crucial factor in the investment decision. In the next query, the volume of investment of investment made by investors while investing in any particular market investment was targeted to be known as per the earlier analysis, most of the people prefer to utilize their personal fund to invest in primary market and hence, the amount invested is less than Rs.10000 in the primary market. The investors making an investment of Rs.10000 or less accounted 46%. It indicates the majority of the investors are not aggressive enough to invest at professional level. Another major group which invests in the primary market has the investment of Rs.10000 – Rs 100000 are 24%. 18 investors invest their money in the range of Rs.100000-Rs.500000 they are known as middle range investors. The other fact concluded more than Rs.500000 accounted for 12% only. It indicates there are few 'bigger investors' in Nepal to have professional interest in the primary market. If such trend goes on increasing then the economic condition of country reached at boom and there by country gain currency of economic prosperity.

Table: 4.21

Average amount of investment made in the single company

Research Variable	No. of Respondents	% of investors
Less than 10000	69	46
Rs.10000-Rs.100000	36	24
Rs.100000-Rs.500000	27	18
More than Rs.500000	18	12
Total	150	100

Figure No.:4.20



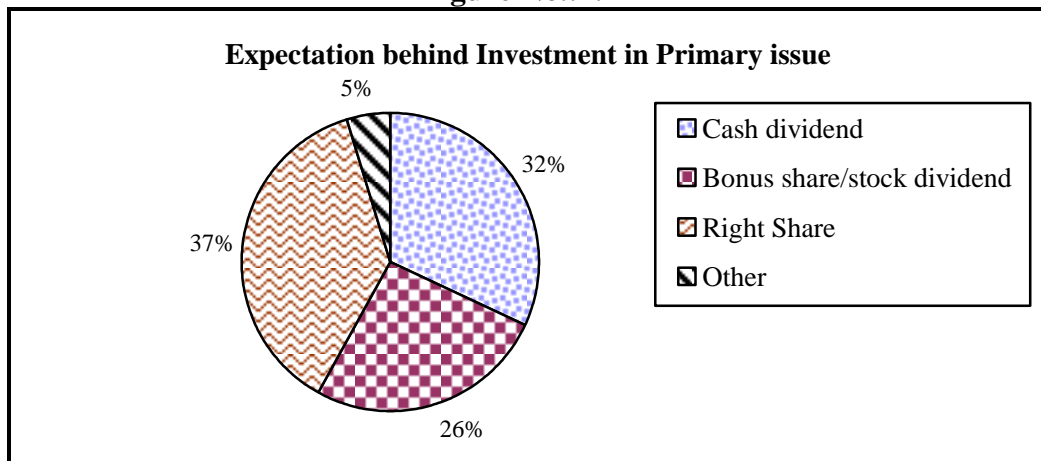
4.3.13 Expectation from investment

Out of 150 respondents, the expectation of the investors from the investment is different. About 26% of investor prefer bonus shares/stock dividend from the investment 32% investor prefers cash dividend, 37.33% investors prefers right share and 4.67% prefers others.

Table: 4.22
Expectation behind investment in Primary Market

Research Variable	No. of Respondents	% of investors
Cash dividend	48	32
Bonus share/stock dividend	39	26
Right share	56	37.33
Other	7	4.67
Total	150	100

Figure No.:4.21



4.3.14 Reason that most of firms do not like to go to public

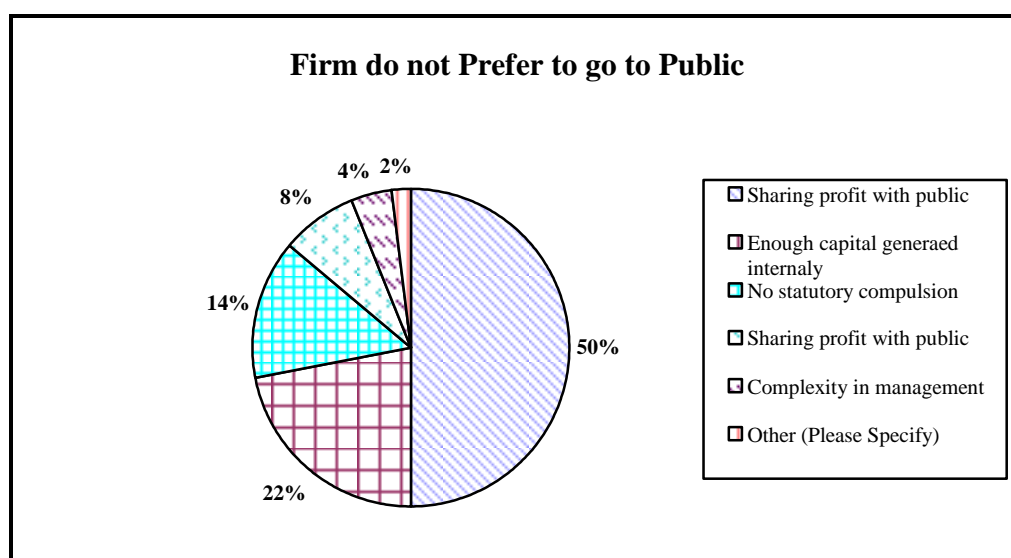
The prime objective of this question is to know how the investors think about the reason for why the companies performing very well in the market do not like to go to the public. Out of 150 respondents, 50% respondents said that most of the firms do not like to issue their share to the public because of sharing their profit with the public. 22% investors think that after issuing shares to the public the management becomes complex. 14% investors think that the companies do not like the obligation from mass shares holders. 8% people think them already to issue share. Similarly, 4% think major cause is

no statutory compulsion. Only 2% investors think other reasons rather than the above specified reasons.

Table: 4.23
Reason that most of the firms do not like to go to public

Research Variable	No. of Respondents	% of investors
Sharing profit with public	75	50
Enough capital generated internally	33	22
No statutory compulsion	21	14
Sharing profit with public	12	8
Complexity in management	6	4
Other (Please Specify)	3	2
Total	150	100

Figure No.:4.22



4.3.15 Nepal's Present Condition is suitable for Investment

After the constitutional relation the most of the investor are optimistic and they think that the Nepal's present condition is favorable for investment. 65% people think that Nepal's present condition is suitable to invest while 35% of people think that the present condition of Nepal is not suitable to invest.

4.3.16 Reason for limited people invest in the Primary market

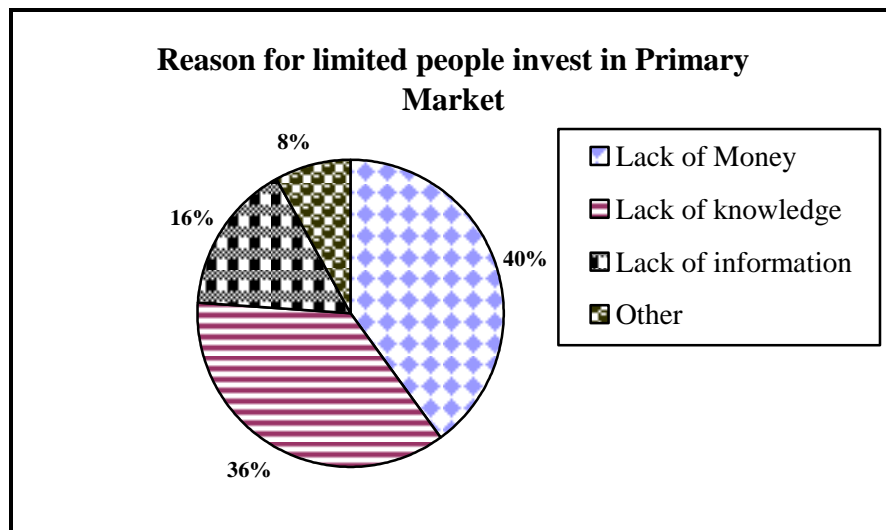
40% of people think that lack of money is the main reason for less number of people makes investment in the primary market, 36% people said that lack of knowledge to invest in primary markets. 16% people said that lack of information to invest in primary market and remaining 8% people feel that other reasons then mentioned above.

Table: 4.24

Reason for limited people invest in the primary market

Research Variable	No. of Respondents	% of investors
Lack of money	60	40
Lack of Knowledge	54	36
Lack of information	24	16
Other	12	8
Total	150	100

Figure No. : 4.23



4.3.17 Basis for distribution of shares

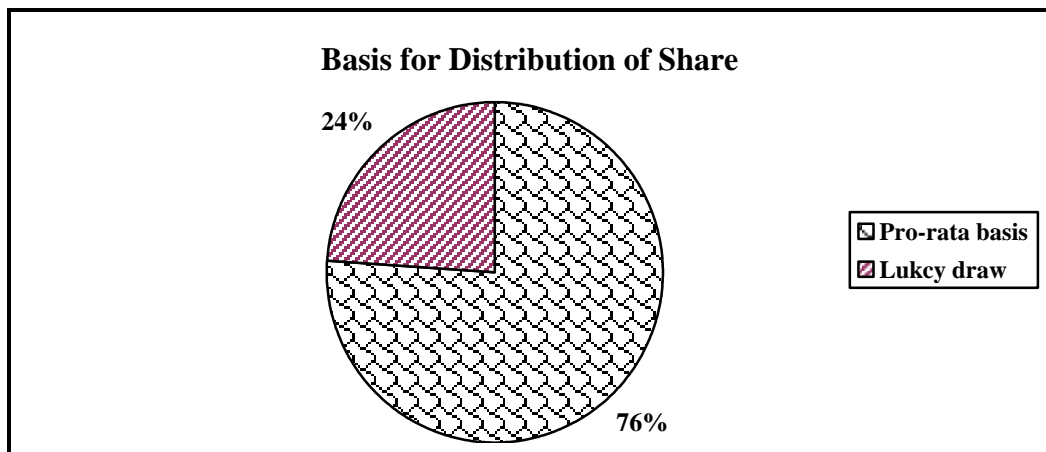
While questioning about the basis for distribution of shares to investor 76% (114 respondents) were found to be in favor of pro-rata basis and the rest 24% (36 respondents) were in favor of lucky draw.

Table: 4.25

Basis for Distribution of shares

Research Variable	No. of Respondents	% of investors
Pro-rata basis	114	76
Lucky draw	36	24
Total	150	100

Figure No : 4.24



4.3.18 Regulation of IPO

Most of the investors respondent that Nepalese IPO is not properly regulated. They argue that limited issue manager are available in the market and their performance are related to the primary market is very weak.

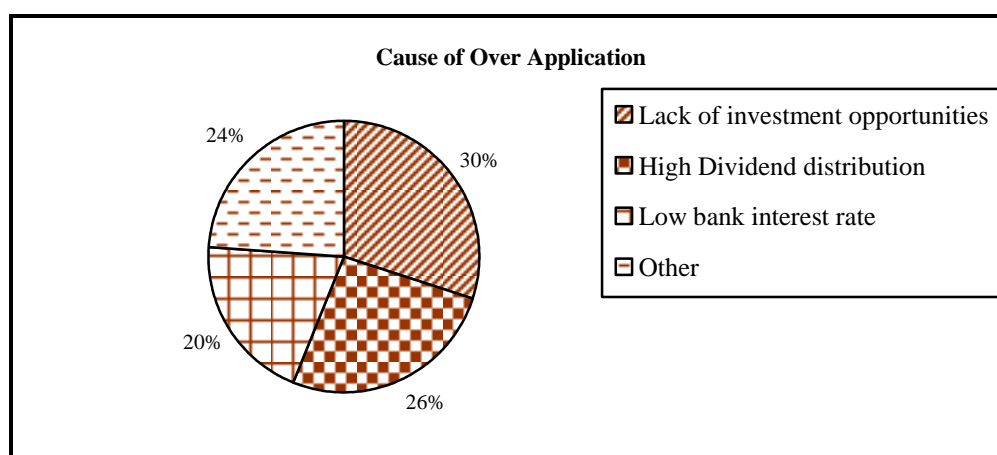
4.3.19 Main cause of over application in IPO

This question was asked to the investor about their view in the over application pattern of primary issue of share. In other word what is the reason that demand of securities in public is very high then the issued securities. Out of total respondents, 30% respondents have stated there is lack of investment opportunity in other sector, 26% respondents view is high dividend distribution, were 20% respondents said the main reason of over application is low bank interest rate and the remaining 24% respondents stated other reason than above mentioned.

Table: 4.26
Cause of Over Application

Research Variable	No. of Respondents	% of investors
Lack of investment opportunities	45	30
High Dividend Distribution	39	26
Low bank interest rate	30	20
Other	36	24
Total	150	100

Figure No : 4.25



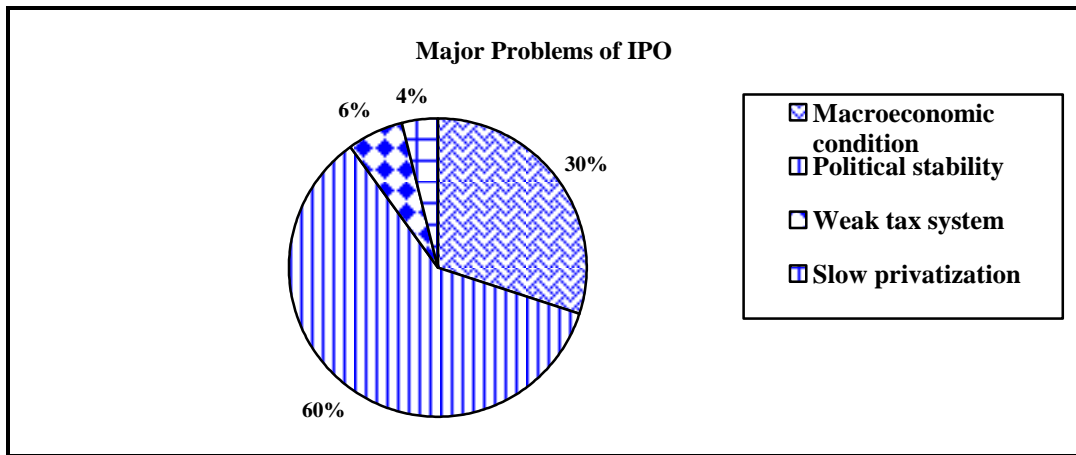
4.3.20 Major Problems of IPO

Out of 150 investors, 90% think that the major problem of IPO is unfavorable macro-economic condition and political instability of the country and rest of the investor think that the major problem of IPO is confident of the investors weak tax system and slow privatization process.

Table: 4.27
Major Problems of IPO

Research Variable	No. of Respondents	% of investors
Macroeconomic condition	45	30
Political stability	90	60
Weak tax system	9	6
Slow privatization process	6	4
Total	150	100

Figure No. : 4.26



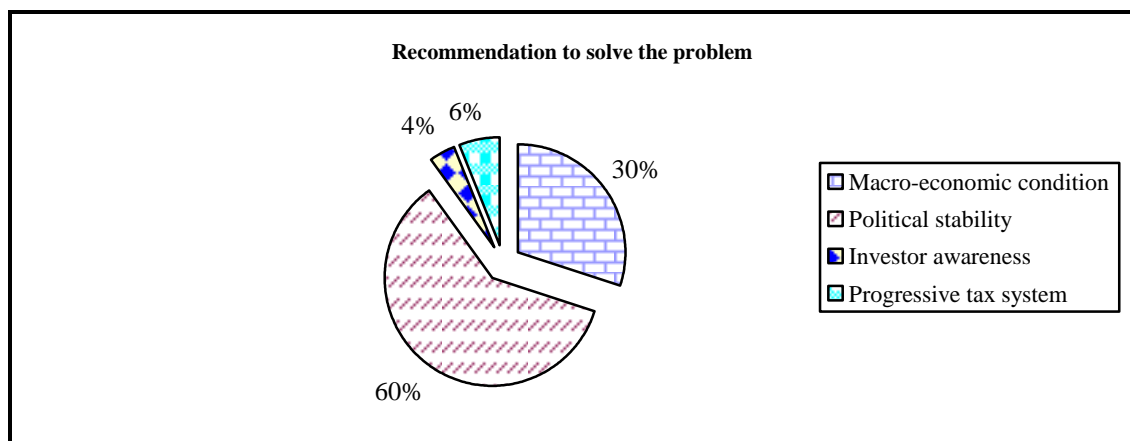
4.3.21 Recommendation to solve problem

Out of 150 investors, 90% think that the solution of the IPO problems is favorable macro-economic condition and political stability of the country where as rest of the investors think that awareness of the investors and progressive tax system is the solution of the problem.

Table : 4.28

Research Variable	No. of Respondents	% of investors
Macro-economic condition	45	30
Political stability	90	60
Investor awareness	6	4
Progressive tax system	9	6
Total	150	100

Figure No. 4.27



4.4 Major findings of the study

1. In the year 2009/10 and 2010/11 the number of companies whose issue was approved in single year was 64. This was the highest number of companies whose issue approved in a single year by the SEBON. The lowest number of issue approved was in the year 2002/03. In this year, only 9 company's issue were approved by the board.
2. Public response to the financial institutions and insurance sectors is higher than non-financial sectors.
3. In financial institutions and insurance sectors, the subscription of commercial banks was 6.3 times in average and of development banks was 11.28 times in average. This shows that public response to development banks was greater or more than commercial banks. Past data shows that average subscription of finance companies was 10.47 times where average subscription of the insurance company was 20.8 times which shows the most respondent sector was insurance sector.
4. In the non-financial institution the average subscription was 2.87 times. It shows non-financial sectors has also got medium response from the public.
5. The primary source of data shows the major source of information of public offering is media. Majority investors are seemed to be new in the market.
6. People are getting aware to primary market to choose the right sector for investment. Investors are making portfolio of their investment, 42% investors invest their money in two to four companies.
7. People read prospects of the company before investing their money in stocks.
8. Corporate image is the encouragement factor for investment. The investors think that those companies who are performing well in the market will do better in the future.
9. 62% investors invest money in the primary market by lending from others.
10. Majority of share holders invest less than Rs.10000 in share through the primary market. 26% people want bonus share/stock dividend as a return. 50% investors

think that the companies do not like to go to public because of the reality of sharing profit with public. 40% people regard less chance of business failure as their confidence factor to invest their money in stocks of particular company.

11. People think that the present environment is not suitable for investment. 36% people think due to the lack of knowledge, limited number of people invests in primary market.
12. This study has found that public response to the initial public offering is highly positive due to lack of opportunities for investment in other sector. Despite this, public are attracted towards share to increase their value of investment.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter embodies three parts of the study: summary, conclusion and Recommendation. The first part goes over with summarization of the whole study, the second part depicts the conclusions and final report presents recommendation in the light of its findings.

5.1 Summary

The securities market consists of new issue market and stock exchange. New securities are offered to the investors for the first time through initial public offering. Primary market allows issuance of new securities in order to help the issuing companies to raise funds for starting new enterprises or for expansion and diversification of the existing ones. The securities market development in Nepal is in early stage of growth.

The basic objective of this study is to assess a public response to the initial public offering.

The primary and secondary both types of data are taken to analyze the objectives of the study. Primary data are taken from the publication of SEBON, NEPSE and various merchant bankers.

The securities market plays a strong role in bringing into contact the firm and the individuals. So it can be said that the confidence of the public depends heavily on the functioning and the implementation of regulation of SEBON. Securities board of Nepal is regulatory body of Nepalese stock market. Stock Exchange limited is the trading body. Before going to the public, company must be approved from SEBON. After getting approval, issuing company must give its information to Nepal stock exchange limited and company registered office.

Issuing company is free to choose one or more than one issue managers for the process of issuing the share. Bankers to the issue also involve during this period. Issue manager has to publish a public notice in the national daily newspaper to offer public for investment. The notice must be published 7 days before the application form distribute date. The issue manager has to publish and distribute the prospects. Prospects make easy to the public to decide whether to invest their money in the share or not. The application period must not be more than one

month. If issue manager think the required application have been collected, they can close any time after one week, to receive application. If over application is received the distribution of share should be decided through allotment procedure. For this purpose additional 45 to 90 days can be taken. After allotment within next 15 days the issue manger has to refund the money of those public whose application has not been accepted. With in 30 days of refund period the certificate has to be distributed.

According to securities board, 319 companies have got issue approval for public issue. There are 176 companies listed in Nepal stock Exchange limited. In a year 2011/12, maximum, 61 companies has got approval from SEBON. Minimum companies have got approved from SEBON in each of the year 2002/03 to 2011/12. Public response to the financial institution and insurance sector is higher than non financial sector.

In financial institution and insurance sector, the subscription of commercial banks was 6.3 times in average and of development bank was 11.3 times in average. This shows the public response to development banks was greater or more than commercial banks. The average subscription of financial companies was 10.5 times while average subscription of insurance company was 20.78 times.

Similarly, of non financial institutions the average subscription was 2.89 times. It shows non financial sector has got not much response from the public. Last few years experience shows that there are limited non financial sectors available in the country that satisfied the investors.

The primary source of data shows that the major source of information of public offering is media. Majority investors are second to be new in the market.

42% investors invest their money in two or four companies. These days, people are getting aware to primary market to choose the right sector for investment. They read prospects of the company before investing their money in stocks. The corporate image is the encouragement factor for investment. The investor thinks that those companies who are performing well in the market will do better in the future. 62% investors invest money in the primary market by lending from others. Majority of share holders invest less than Rs.10,000 in share through the primary market. 37.33% people want right share as return. 50% investors think that the companies do not like to go to public because of the reality of sharing profit with others. 41.67% people regard less chance of business failure as their confidence factors to invest their money in stock of particular company.

People think that the present environment is not suitable for investment. 85% people prefer to invest their money in the financial institution and the insurance sector. 42% people think due to the lack of knowledge, limited number of people invests in primary market.

This study has found that public response to the primary market is highly positive because people are getting aware of stock market, flow of money in the market is higher, people have realize the importance of investment in shares, people have seen that most companies are distributing dividends, share price of most companies are increasing and lack of better alternatives for investment.

Public response in stock market is high due to lack of opportunity for investment in other sector. Despite this, public are attracted towards share to increase their values of investment.

5.2 Conclusion

Most of the general investors in Nepal do not have sufficient information regarding the primary market but still they are interested to invest money in the primary market. This is good sign to the expansion of the primary market.

As per this study, almost every sector is getting good response from general public. Specifically the financial institutions and insurance sector is more preferable for general public than non financial sector.

Pace of initial public offering in Nepal seems to be irregular. The highest amount of issue approved by the board was Rs. 16,829 million while to lowest amount of issue was 410.5 million. If we see on the basis of sector, SEBON had granted 70% approval for financial institution and insurance sector and 30% approval for non-financial sectors. Out of 79356.73 million, the financial and insurance sector paid-up capitals were 72% and that non-financial sector was 28%.

Even though the organizations process of public offering is quite long, the service provided to the investors seems to be satisfactory. If raising interest of the public in to primary market is one of the objectives, then the primary market of Nepal is one of the objectives, then the primary market of Nepal is fulfilling their role gradually.

Most people are in favour of regulation by NRB for primary issue founding via financial institution as it lessen the equal chance of getting allotment. Most of the shares go in part of big investors. This kind of miss-management in allotment discourages the investors. Contract

between the issue manger and issuing company highly affects the whole public offering process, so make this as the people need, it should also be regulated. People are eager to know the promoter, company's performance before investment. Primary issues hundred by bigger brokerage are found to be more successful.

Even though the whole primary issue process is very long Nepalese investors are interested to invest in this sector.

5.3 Recommendation

To take the IPO more efficient, effective and convenient, following suggestions are recommended.

- 1) Investing in shares is a gamble which invoices huge amount of risk. To be successful in the stock market, investors should always be clear to his strengths, weakness, requirements, wishes, risk taking capabilities and how to react on different and even changing market conditions. They should not buy the shares of company until they know details about it.
- 2) Most of the public issues were from banking and financial sector so issue manager should take initiative step to promote their business from other sectors too. They should be effortful in developing the public offering market as an avenue for cost effecting financing.
- 3) At present, there are seven issue managers in the market. Among them only three are actively doing their job, which may not be sufficient. They should be encouraged to involve more actively otherwise they should be panelised.
- 4) In Nepal, opportunity to invest in primary market is low. They have to wait a long period to invest. If they hurry to invest in any of the company, they may have to suffer from loss. So, to get opportunity to invest in profitable stock they should have patience on them.
- 5) The concerned authorities should conduct various research studies and disseminate the information relating to the share trading activities to increase the understanding of the investors in using financial tools to estimate the intrinsic value of shares of a company before making investment decision.
- 6) The government, concerned bodies and individual have to work hard to make the investment in the securities preferable to investors by implementing the rules,

regulations, policies and activities more strictly. The regulatory activities of the stock market should try to rise the trading of shares by regulating the activities and performance. Concern bodies such as broker and the listed companies frequently to create the efficient pricing of shares.

- 7) The stock market lacks the existence of sophisticated investors. So, it is recommended to the regulatory bodies to carry out programs using various media and spot program to inform and attract the potential investors, both individual and institutional in investing into shares.
- 8) Stock market is heading towards the right directions so it is developing and growing. It is utilizing the unused surplus resources in productive sectors.

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Appendix – I

Questionnaire

"Public Awareness and Response to Initial Public offering in Nepal"

Dear Respondent,

I have been conducting a research on 'An initial public offering (IPO) in Nepal. This questionnaire has been developed and presented as a part of this study. The issues raised in this questionnaire are the key problems identified by researchers related to topic during the course of study.

I humbly request you to fill it up at the best of your knowledge. Your co-operation in this regard will be immense value for me.

I shall be highly obliged for your prompt response as far as possible.

Thanking you.

Respondent's profile

Name

Occupation

Address

- 1) Which market do you prefer to invest?
 - a) Primary market
 - b) Secondary market
- 2) How do you get information for opportunity to invest in primary market?
 - a) Through media
 - b) Through brokers
 - c) Through issue manager/issuing company
 - d) Others
- 3) How many companies have you invested in?
 - a) Single company
 - b) 2-4 company
 - c) 5-8 company
 - d) More than 8 company

- 4) Do you aware or not about the financial performances of companies?
 - a) Very much
 - b) Moderately
 - c) Little
 - d) Not at all
- 5) Do you have any past experience to investment in public offering?
 - a) Yes
 - b) No
- 6) Do you read the prospect of the company before investment?
 - a) Yes
 - b) No
- 7) What is the thing that you look in to investment in primary market?
(Tick one or more if applicable)
 - a) Corporate image
 - b) Management team
 - c) Future return
 - d) Other (Please specify).....
- 8) Which of the following alternative you prefer to invest?
 - a) Common stock
 - b) Debenture
 - c) Preferred stock
- 9) What type of companies do you prefer to invest?
 - a) Commercial banks
 - b) Development banks
 - c) Finance companies
 - d) Insurance companies
 - e) Manufacturing and processing
 - f) Hotel sector
 - g) Trading sector
 - h) Others
- 10) What is the motivating factor that you come to investment in public offering?
 - a) The offering company is performing well in the market.
 - b) There is possibility to sell those shares in high price in short run of the period.
 - c) There no brokerage commission to pay in primary market.
 - d) Just of experiment.

- 11) What type of fund do you utilize for the primary market?
- Personal fund
 - Loan/credit
- 12) How much investment do you make for any single company in average through initial public offering?
- Less than Rs.10000
 - Rs.10000 - Rs.100000
 - Rs.100000 - Rs.500000
 - More than 500000
- 13) In what expectation do you prefer to invest?
- Stock dividend/Bonus shares
 - Cash dividend
 - Right share
 - Other (please specify).....
- 14) Due to which of the following reason you think the most of the firm do not like to go to in public?
- Obligation to mass shareholders
 - Enough capital generated internally
 - No statutory compulsion
 - Sharing profit with public
 - Complexity in management
 - Other (please specify).....
- 15) Do you think Nepal's present condition is suitable for investment?
- Yes
 - No
- 16) What do you think the reason that the limited number of people invest in the primary market?
- Lack of money
 - Lack of information
 - Lack of knowledge
 - Other (please specify)
- 17) Would you prefer pro-rata basis or lucky draw for the distribution of share?
- Pro-rata basis
 - Lucky draw

- 18) Do you think that the Nepalese primary market is properly regulated?
- a) Yes
 - b) No
- 19) What is the main cause of over application in IPO?
- a) Lack of investment opportunity
 - b) High dividend distribution
 - c) Low bank interest rate
 - d) Other reason (please specify).....
- 20) Major problems of primary market is:
- a) Unfavorable macro-economic condition.
 - b) Unconfident investor
 - c) Political instability
 - d) Weak tax system
 - e) Show privatization process
- 21) What do you think the best solution for the problems?
- a) Favorable macro-economic condition
 - b) Political stability
 - c) Progressive tax system.
 - d) Investors awareness

Appendix - II

Processing of Primary Data

Query	Description		Number	Percentage
Preference of market for investment	a)	Primary Market	105	70
	b)	Secondary Market	45	30
Total			150	100

Query	Description		Number	Percentage
Source of information about investment	a)	Media	113	75
	b)	Brokerage firm	15	10
	c)	Friend and Relatives	14	10
	d)	Others	8	5
Total			150	100

Query	Description		Number	Percentage
Investors Awareness about performance of companies	a)	Very much	15	10
	b)	Moderately	75	50
	c)	Little	18	12
	d)	Not at all	42	28
Total			150	100

Query	Description		Number	Percentage
Past Experience of investment	a)	Yes	90	60
	b)	No	60	40
Total			150	100

Query	Description		Number	Percentage
Number of invested companies	a)	Single company	45	30
	b)	2-4 companies	63	42
	c)	5-8 companies	30	20
	d)	More than 8 companies	12	8
Total			150	100

Query	Description		Number	Percentage
Habit to Read company's prospects before investment	a)	Yes	114	76
	b)	No	36	24
Total			150	100

Query	Description		Number	Percentage
Investors Preference for investment	a)	Corporate image	80	53.33
	b)	Management team	30	20.00
	c)	Future return	28	18.67
	d)	Other	12	8.00
Total			150	100

Query	Description		Number	Percentage
Preference for alternative of investment	a)	Common stock	127	85
	b)	Debenture	15	10
	c)	Preferred stock	8	5
Total			150	100

Query	Description		Number	Percentage
Companies desired for investment	a)	Commercial Bank	90	60
	b)	Development Bank	22	15
	c)	Finance Company	15	10
	d)	Trading and other sector	23	15
Total			150	100

Query	Description		Number	Percentage
Motivation factor of Investment in Primary market	a)	Company performance	57	38
	b)	High market price	69	46
	c)	No brokerage commission	15	10
	d)	Just for experience	9	6
Total			150	100

Query	Description		Number	Percentage
Fund utilized in the primary market	a)	Loan or credit	93	62
	b)	Personal	57	38
Total			150	100

Query	Description		Number	Percentage
Average amount of Investment made in any single company	a)	Less than 10000	69	46
	b)	Rs.10000-Rs.100000	36	24
	c)	Rs.100000-Rs.500000	27	18
	d)	More than Rs.500000	18	12
Total			150	100

Query	Description		Number	Percentage
Experience behind	a)	Cash dividend	48	32
Investment in Primary issue	b)	Bonus share	39	26
	c)	Right Share	56	37.33
	d)	Other	7	4.67
Total			150	100

Query	Description		Number	Percentage
Reason that most of the firms do not like to go to public	a)	Sharing profit with public	75	50
	b)	Enough capital generated internally	33	22
	c)	No statutory compulsion	21	14
	d)	Sharing profit with public	12	8
	e)	Complexity in management	6	4
	f)	Other	3	2
Total			150	100

Query	Description		Number	Percentage
Reason for limited people invest in the primary market	a)	Lack of money	60	40
	b)	Lack of knowledge	54	36
	c)	Lack of information	24	16
	d)	Other	12	8
Total			150	100

Query	Description		Number	Percentage
Basis of distribution of share	a)	Pro-rata basis	114	76
	b)	Lucky draw	36	24
Total			150	100

Query	Description		Number	Percentage
Cause of over application	a)	Lack of Investment opportunity	45	30
	b)	High Dividend Distribution	39	26
	c)	Low bank interest rate	30	20
	d)	Other	36	24
Total			150	100

Query	Description		Number	Percentage
Major Problem of IPO	a)	Macro-economic condition	45	30
	b)	Political stability	90	60
	c)	Weak tax system	9	6
	d)	Slow privatization process	6	4
Total			150	100

Query	Description		Number	Percentage
Recommendation to solve problem	a)	Macro-economic condition	45	30
	b)	Political stability	90	60
	c)	Investors awareness	6	4
	d)	Progressive tax system	9	6
Total			150	100

Bio – Data

Name : **Sandeep Shrestha**
Father's name : Durga Prasad Shrestha
Date of Birth : 2038/07/05
Sex : Male
Marital Status : Unmarried
Address : Butwal-3, Naya Sadak

Academic Qualification:

Class	Name of School	Percentage	Division
SLC	Kanti Boarding School	74%	1 st
10+2	Lumbini Banijya Campus	66%	1 st
BBS	Lumbini Banijya Campus	56%	2 nd
MBS	Lumbini Banijya Campus	First Year – 64% Second Year – 72%	1 st

Others:

- I) Computer training Microsoft words, excel, power-point.
- II) Accounting training from Rupandehi Udhyog Sangh.