

**A STUDY OF INITIAL PUBLIC OFFERING FROM GENERAL
INVESTORS PERSPECTIVE**

A THESIS

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RECOMMENDATION

This is to certify that the thesis

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DECLARATION

I hereby declare that the work reported in this thesis entitled "*A Study of Initial Public Offering from General Investors Perspective*" submitted to ShankerDev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of requirement for the Master's Degree in Business Studies (M.B.S) under the supervision of Asso. Prof. Ruchila Pandey, of Shanker Dev Campus.

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TABLE OF CONTENTS

PAGE NO.

Recommendation

Viva-Voce Sheet

Declaration

Acknowledgement

Table of Contents

List of Table

List of Figures

Abbreviations

CHAPTER-I: INTRODUCTION 1-10

1.1	Background of the Study	1
1.2	Focus of the Study	5
1.3	Statement of the Problem	5
1.4	Objectives of the Study	8
1.5	Significance of the Study	8
1.6	Limitations of the Study	9
1.7	Organization of the Study	10

CHAPTER – II: REVIEW OF LITERATURE 11-44

2.1	Conceptual Framework	11
2.1.1	Financial Market	11
2.1.1.1	Money Market	12
2.1.1.2	Capital Market	13
2.1.2	Historical Background of Security Market in Nepal	16

2.1.2.1	Money Market in Nepal	16
2.1.2.2	Capital Market in Nepal	18
2.1.3	Public Offerings	19
2.1.4	Nepalese IPO Market	20
2.1.5	Timing of an Initial Public Offering	21
2.1.6	Primary Market Instrument	24
2.1.6.1	Common Stock	24
2.1.6.2	Preferred Stocks	24
2.1.6.3	Bonds / Debentures	25
2.1.6.4	Warrants	26
2.1.7	Initial Public Offering (IPO) Manual	26
2.1.7.1	Issuing Company	26
2.1.7.2	Merchant Bankers	28
2.1.7.3	Issue Manager	30
2.1.7.4	Securities Board	30
2.1.7.5	Offices of the Registrar of Companies (ROC)	32
2.1.7.6	Stock Exchange Market	32
2.1.7.7	Security Board of Nepal (SEBON)	33
2.1.7.8	Financial Institutions	33
2.1.7.9	Nepal Rastra Bank (NRB)	33
2.1.8	Securities Issue Procedure in Primary Market (Legal Rules, Regulations)	34
2.1.9	Investment Consideration to the Potential Investors in the Primary Market	36
2.1.10	Investment Consideration to the Potential Investors in the Secondary Market	38
2.1.11	Pricing Differences	38
2.1.12	IPO by Private Company to the Public	39
2.1.13	Risky Investment	39
2.1.14	Pricing	39
2.1.15	The Underwriting Process	40
2.2	Review of Journal and Articles	42
2.3	Review of Previous Research Studies	44

CHAPTER – III: RESEARCH METHODOLOGY	50-55
3.1 Research Design	50
3.2 Population and the Sample of Study	51
3.3 Nature and Sources of Data	53
3.3.1 Primary Data	53
3.3.2 Secondary Data	53
3.4 Data Presentation and Analysis Method	53
3.5 Necessary Tools and Techniques	54
3.5.1 Non Parametric Statistical Tools	54
3.5.2 Financial and other Statistical Tools	54
3.5.3 Bar Diagrams and Line Chart	55
3.5.4 Pie – diagram	55
3.5.5 Percentage	55

CHAPTER –IV: DATA PRESENTATION AND ANALYSIS	57-95
4.1 Secondary Data Analysis	57
4.1.1 Growth of Initial Public Offering	57
4.1.1.1 Amount of Issue Approved	57
4.1.1.2 Number of Issue Approved	59
4.1.2 Over and Under Subscription of Securities	60
4.1.3 Over and Under Subscription of Ordinary Shares	62
4.1.4 Performance of the Issue Managers	63
4.1.5 Investor Response to IPO	65
4.1.5.1 Financial Sector	65

4.1.5.1.1	Investor Response to Commercial Banks	65
4.1.5.1.2	Investor Response to Development Bank	67
4.1.5.1.3	Investor Response to Finance Companies	68
4.1.5.1.4	Investor Response to Insurance Companies	70
4.1.5.2	Non-Financial Sector	72
4.2	Primary Data Analysis	73
4.2.1	Knowledge about IPO	73
4.2.2	Source of Information about IPO	75
4.2.3	Preference of Market	77
4.2.4	Willingness to Invest in IPO	78
4.2.5	Choosing IPO Instead of Secondary Market	80
4.2.6	Number of Companies Invested	81
4.2.7	Motives behind Investing in IPO	82
4.2.8	Choices for Investment	84
4.2.9	Evaluation Factor for Investing	86
4.2.10	Bases of Decision for Investment	88
4.2.11	Responsible Sector for Promotion of IPO	89
4.2.12	Major Problems of Primary Market	91
4.2.13	Role of Whim and Rumor in Investing Decision	92
4.3	Major Findings of the Study	94
4.3.1	Major Findings from Primary Data	94
4.3.2	Major Findings from Secondary Data	95

CHAPTER – V: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1	Summary	96
5.2	Conclusion	100
5.3	Recommendations	101

BIBLIOGRAPHY

LIST OF TABLE

	PAGE NO.	
Table 2.1	Registration Fee on Issue	35
Table 2.2	The Allotment Period of Securities	36
Table 3.1	Population and Sample of the Study	52
Table 4.1	Amount of Issue Approved	57
Table 4.2	Number of Issue Approved	59
Table 4.3	Over and Under Subscription of Securities	61
Table 4.4	Over And Under Subscription of Ordinary Shares	62
Table 4.5	Number and Amount of Issue Managed by Issue Managers	63
Table 4.6	Investor Response to Commercial Banks	65
Table 4.7	Investor Response to Development Bank	67
Table 4.8	Investor Response to Finance Companies	69
Table 4.9	Investor Response to Insurance Companies	70
Table 4.10	Investor Response to Non-financial Sector	72
Table 4.11	Knowledge about IPO	74
Table 4.12	Source of Information about IPO	75
Table 4.13	Preference of Market	77
Table 4.14	Willingness to Invest in IPO	78
Table 4.15	Choosing IPO instead of Secondary Market	80
Table 4.16	Number of Companies Invested	81
Table 4.17	Motives behind Investing in IPO	82
Table 4.18	Choices for Investment	84
Table 4.19	Evaluating Factors of Investors	86
Table 4.20	Bases of Decision for Investment	88
Table 4.21	Responsible Sector for Promotion of IPO	90
Table 4.22	Major Problems of Primary Market	91
Table 4.23	Influenced by Whim and Rumor	92

LIST OF FIGURES

		PAGE NO.
Figure 4.1	Amount of Issue Approved	58
Figure 4.2	Number of Issue Approved	60
Figure 4.3	Number of Issue Managed	64
Figure 4.4	Amount of Issue Managed	64
Figure 4.5	Investor Response to Commercial Banks	66
Figure 4.6	Investor Response to Development Bank	68
Figure 4.7	Investor Response to Finance Companies	70
Figure 4.8	Investor Response to Insurance Companies	71
Figure 4.9	Investor Response to Non-financial Companies	73
Figure 4.10	Knowledge about IPO	74
Figure 4.11	Source of Information about IPO	76
Figure 4.12	Preference of Market	77
Figure 4.13	Willingness to Invest in IPO	79
Figure 4.14	Choosing IPO instead of Secondary Market	80
Figure 4.15	Number of Companies Invested	82
Figure 4.16	Motives behind Investing in IPO	83
Figure 4.17	Choices for Investment	85
Figure 4.18	Evaluating Factors of Investors	87
Figure 4.19	Bases of Decision for Investment	88
Figure 4.20	Responsible Sector for Promotion of IPO	90
Figure 4.21	Major Problems of Primary Market	92
Figure 4.22	Influenced by Whim and Rumor	93

ABBREVIATIONS

ABBL	Annapurna Bikas Bank Ltd
ADB	Agricultural Development Bank
ADBL	Ace Development Bank Ltd.
AFL	Api Finance Ltd.
AGM	Annual General Meeting
AVHCL	Arun Valley Hydropower Co. Ltd.
B/S	Balance Sheet
BDFIL	Business Development Financial Institution Ltd.
BIL	Beed Invest Ltd.
BPPNL	Brikuti Pulp & Paper Nepal Ltd
BSL	Birat Shoe Ltd
BTIL	Balaju Textile Industries Ltd.
BVS	Book Value per Share
CBIL	Citizens Bank International Ltd.
CCML	Civil Capital Markets Ltd.
CEDBL	Clean Energy Development Bank Ltd.
CFL	Crystal Finance Ltd.
CHCL	Chilime Hydro Power Co. Ltd
CIT	Citizen Investment Trust
CMBFL	Capital Merchant Banking & Finance Ltd.
CMFIL	Civil Merchant Financial Institution Ltd.
DCBL	Development Credit Bank Ltd.
EBL	Everest Bank Ltd.
ECL	Elite Capital Ltd.
EFI	Emperial Financial Institution
EICL	Everest Insurance Co.Ltd
EPS	Earning Per Share
FY	Fiscal Year
GBL	Global Bank Ltd
GDBL	Gorkha Development Bank (Nepal) Ltd.
GDP	Gross Domestic Production
HBBL	Himchuli Bikas Bank Ltd

HDL	Himalayan Distillery Ltd
HGICL	Himalayan General Insurance Co. Ltd.
HTIL	Himgiri Textile Industries Ltd
ICFC-FI	ICFC Financial Institution
IDBL	Infrastructure Development Bank Ltd.
IME-FI IME	Financial Institution Ltd.
IPO	Initial Public Offering
KFL	Kaski Finance Ltd.
LBL	Laxmi Bank Ltd
LGICL	Lumbini General Insurance Co. Ltd.
LTD.	Limited
LUBL	Lumbini Bank Ltd
MBBL	Malika Bikash Bank Ltd.
MBL	Machhapuchhre Bank Ltd
MDBL	Manakamana Development Bank Ltd.
NBICL	NB Insurance Co. Ltd
NCML	NIDC Capital Market Ltd
NEFINSCO	Nepal Finance Co. Ltd.
NEFL	Nepal Express Finance Ltd
NEPSE	Nepal Stock Exchange
NFCL	National Finance Co. Ltd.
NHCL	National Hydropower Co. Ltd
NICBL	Nepal Industrial and Commercial Bank Ltd
NLICL	Nepal Life Insurance Co. Ltd
NMBBL	NMB Bank Ltd.
NSBIBL	Nepal SBI Bank Ltd.
NSMBL	Nepal Sri Lanka Merchant Bank Ltd.
NSMCL	Nepal Share Markets Co. Ltd.
OHL	Oriental Hotels Ltd
P/E Ratio	Price Earning Ratio
P/L A/C	Profit And Loss Account
PBBL	Pashupati Bikas Bank Ltd.
PFL	Prabhu Finance Ltd
PICL	Prudential Insurance Co. Ltd

PLICL	Prime Life Insurance Co.Ltd
RMBFL	Royal Merchant Banking & Finance Ltd
SABBL	Sahayogi Bikas Bank Ltd
SBB	Swabalamban Bikas Bank
SBBL	Sanima Bikas Bank Ltd
SBL	Siddhartha Bank Ltd
SEBON	Security Board of Nepal
SEC	Security Exchange Centre
SICL	Sagarmatha Insurance Co. Ltd.
SICL	Shikar Insurance Co. Ltd
SSML	Shreeram Sugar Mills Ltd
T.U.	Tribhuvan University
TRHL	Taragaon Regency Hotels Ltd
UFL	United Finance Ltd.
VBBL	Vivor Bikas Bank Ltd.
ZFL	Zenith Finance Co. Ltd.

CHAPTER-I

INTRODUCTION

1.8 Background of the Study

A number of variables play important role in the success and overall development of a business entity. However, among these variables money has been identified as the single most influencing variables. Money in financial vocabulary implies Capital or Fund. Capital is needed by business entities at various stages of their performances. Some need capital at initial stages as seed money to establish their business, others need it to run their current activities smoothly while yet another groups may need it for diversification and to achieve ambitious expansion plan.

Whatever be the reason it is true that business entities need capital and the place from which that secure needed capital is Capital Market. Even though, Money Market also do provide needed funds 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 funds through the use of a 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 whereas a Secondary Market refers to the market where existing and already outstanding securities are being traded.

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

The major function of the stock market is to provide steady and continuous market purchase and sale of securities at a competitive price by importing marketability and liquidity. It is also a medium through which scattered saving and scarce resources are transferred into productive areas that ultimately help to the economic development and industrialization of the country.

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

Initial Public Offering (IPO) is a part of primary market mechanism. When an 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. Initial Public Offering (IPO), also referred to simply as a "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 sum of fixed rates long-term funds. IPO, being an important component of Capital Market, is bound to be influenced by the size and level of development of capital market.

An IPO can be of any debt or equity security. Most companies start out by raising equity capital from a small number of investors, with no liquid market existing if these investors wish to sell their stock. If a company prospers and needs additional equity capital, at some point the firm generally finds it desirable to "go public" by selling stock to a large number of diversified investors.

IPOs 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. A company that is thinking about going public should start acting like a public company as much as two years in advance of the desired IPO. Several steps experts recommend include preparing detailed financial results on a regular basis and developing a business plan. Once a company decides to go public, it needs to pick its IPO team, consisting of the lead investment bank, an accountant and a law firm.

An 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 to analyze the company. Also, most IPOs are of companies going through a transitory growth period, and they are therefore subject to additional uncertainty regarding their future value. (www.wikipedia.com.)

A company that is thinking about going public should start preparing detailed financial results on a regular basis, and developing a business plan if they do not already have one, as much as two years in advance of the desired IPO. Soon thereafter, it needs to put its IPO team together, consisting of the lead investment bank, an accountant, and a law firm.

The IPO process officially begins with what is typically called an “all -hands” meeting. At this meeting, which usually takes place six to eight weeks before a company officially registers with the Securities & Exchange Commission, all the members of the IPO team plan a timetable for going public and assign certain duties to each member.

The people or institutions responsible for finding out investors for the IPO of the securities sold in the primary market are called the investment bankers or issue mangers. Investment bankers are also called underwriters; they purchase new issues from security issuers and arrange for their resale to the investing public. IPO generally involve one or more investment banks as "Underwriters". The company offering its shares called the "issuer" enters a contract with an underwriter to sell its shares to the public. The underwriter then approaches investors with offers to sell these shares.

In this context, Nepal does not have long history of capital market development. In Nepal the first public issue of ordinary shares took place more than 50 years back with the public issue of Biratnagar Jute Mills and Nepal Bank Limited. in 1937 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 the only capital market institution,

which undertook the job of brokering, underwriting and managing public issue, market making for government bonds and other financial services. Securities Exchange Centre dealt in the securities as a broker as a broker as well as a regulatory body. The Centre used to take; buy and sale only on orders from interested investors and confirm them if a price and quantity matched. There was no time limit within which a deal took place. It normally took one day to three weeks. Due to this, general public faced problems while buying selling shares.

The Security Exchange Centre issued 62 companies' shares from the year of its inception to 1999 A D. Among these 23 companies were undersubscribed including Nepal Med. Ltd., Nirmod Pharmaceuticals Ltd, Harisiddi Brick and Tile Ltd., Himgiri Textile Ltd, Banswari Leather and Shoes Factory Ltd., Nepal Awas Bikash Bitta Company Ltd., and Yeti Finance Co. Ltd. etc. Although the secondary market was non-functional and public were not fully aware of on the working of the capital market. The public response to the new issue of shares of selected companies like bank and finance companies were overwhelming.

Security Exchange Centre was converted into Stock Exchange Limited in 1994, and under its support, the broker system of secondary market was established. Until December 2009, out of 32 brokerage firms, 23 firms are doing their job regularly. Nepal Stock Exchange Limited is a non-profit organization. It operates under Security Exchange Act 1983. The basic objective of the Nepal Stock Exchange Limited is to impart 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 been 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 markets. In primary market, the investment is made through public issues of ordinary shares, preference shares, debentures and right shares as well as mutual fund and units scheme.

1.9 Focus of the Study

In the investment environment, obviously there are a lot of investment alternatives, some want to invest on real assets, some on different ventures, some start their own company, and so on. The study focuses on the IPO only, those which are available for the Nepalese investors, and it tries to find out the responses towards IPO. It also focuses on what they actually want in IPO before they actually invest their sector preference, their knowledge level, their attitude toward various aspects of investment, and performance of issue managers. It also focuses in the distribution process of IPO, restriction on margin lending as IPO funding via financial institutional loans is not a healthy practice as it does not reveal the true picture of the company, pricing of IPO at par value of Rs. 100 rather than premium, IPO as a quick way to make money rather than long term investment and the Nepalese IPO market is heavily influenced by whim and rumor. Single IPO applicant may be placing several applications using the identification documents of many other individuals. As a result they can capture large number of shares and can influence the company management and stock market.

1.10 Statement of the Problem

Nepalese capital market is very small in comparison with other developed stock markets. There are a few numbers of brokers, limited number of listed companies, very few transactions and most importantly investors are unknown about the pros and cons of the stock market. If there occur a single malpractice in the functioning of securities market, the whole capital market may damage the national economy badly and if once the investors' confidence were lost it would very difficult to bring it in original condition.

There are various types of obstacles existing 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. More than 50 percent people are still uneducated. They do not know what public offering is. Why should they invest their money in Stock?

Still more than half of Nepalese Citizens are under the line of literacy. And among the literate ones as well maximum do know nothing about the practice of stocks. They do not know what the securities mean at all. How can we expect them to invest in the securities? And even among the

aware people there is still lack of confidence level. They do not want to take risk. In developing country like Nepal, IPO is still new phenomenon.

One most important feature of the Nepali IPO market is that most retail investors are speculators who bet their money on any kind of IPO without properly analyzing the offer documents. This is partly due to the lack of diversity of stocks in the market which is dominated by the stocks of banks and financial institutions. Most IPOs are from this sector. Most IPO subscribers in Nepal are short-term investors who are interested to sell the stocks as soon as they are listed in the stocks exchange. Therefore, most of the people view an IPO as a quick way to make money rather than a long-term investment.

Transparency and governance is another problem in the IPO market of Nepal. In recent trend, the investor investing in the IPO many times more than the issue. The control mechanism is weak and there is rampant misuse of personal identification document. One IPO applicant may be placing several applications using the identification documents of many other individuals. These people are creating an artificial crisis, which in turn, the share price is more than their book value.

To control this, Security Board of Nepal (SEBON) recently introduced a new set of rules, in order to make the IPO transparent. Now it is compulsory for each retail investor to have a bank account and to furnish attested copies of citizenship certificate. Also the issue managers are required to part the application money in an account with the Nepal Rastra Bank for three days after the IPO has been closed. This is mean to discourage the practice of collecting applications not backed by application money. If an applicant does not get the stock allotted on his /her name, the money is returned to him/her by issuing a check payable in the bank account mentioned in the application form. Also the issuing company must give the interest for the applied money during the period between applying date and allotment date.

To control the excessive over subscription in the IPOs, the Nepal Rastra Bank has issued directives to banks and financial institutions restricting them from extending easy loan to invest in IOPs. For example, it has restricted banks loan to invest in IPO. Since most IPOs are open only for 5-7 days as during that period they are oversubscribed, this rule practically stops banks from providing loan to a

client to invest in IPO. However, this has not stopped retail investors from availing loans from co-operatives and through other personal sources.

The study is meant to know the perception and perfection of the general investors regarding the investment in the securities through primary Market. The focus of the study is on the status of the general investor, the volume and portfolio of their investment and the decisive factors they consider while opting companies for investment. But the study is also equally concentrated on investment in the manufacturing and processing companies in the non-financial sector. The study aimed at those factors which could be decisive from the investors view whether to invest or not in particular company.

There are various types of obstacles existing initial public offering stages in Nepal. In developed country, generally people are aware from public offering. Therefore, many problems are found in the field of public offering in Nepalese stock market rather than other developed countries.

To sum up, this study deals with following issues:

- What is the trend and growth of IPO in Nepal?
- What is the pattern of subscription of public offering in Nepal?
- How the Nepalese issue managers are performing?
- Which sectors securities are preferred by the general investors?
- Are the general investors interested to invest in IPO and what do they know about practices of public offerings?
- Which sector securities do they choose to invest and what are the motives behind it and what are their bases of decision?
- Is the primary market of Nepal is rumor based or knowledge based?

1.11 Objectives of the Study

The overriding objective of the study is to study about the initial offering or primary issue of shares in perspective of Nepal and find out the investors' responses and preference. To be more specific, this study keeps the following objectives.

- To conduct the analysis of issue approved by SEBON over the years.
- To analyze the subscription pattern of public offerings in Nepal.
- To make the comparative study of issue manager regarding number and amount of issue managed.
- To study about the response of general investors towards IPO of different sector in Nepal.
- To conduct a survey of general investors knowledge and interest about primary market.
- To conduct an opinion survey regarding investors preferences and their motives and bases for investing in IPO.

1.12 Significance of the Study

This study is being undertaken to evaluate the problem and prospect to Nepalese primary share market. This study seems to be helpful to the prospective investors and the organization in the field of public Offering as there is still lack of study regarding IPO in Nepal. This study will assist in the formulation of policy and will assist the policy makers to get the practical knowledge of existing rules and regulations.

From this study, investors will have more clear conception over their investment and they will be able to make a right choice. It will also be helpful to the students who want to make research in IPO.

This study will be significant to analyze the legal provision, possibilities, problems and prospects of IPO in Nepal. It will also be helpful to know the investors response to IPO of different industries. The prospective offering company may also get significant knowledge from this study. It may able to know the reasons for inconstant fluctuation Initial Public Offering in Nepal. It also helps to find out the financial status of publicly going companies. This research will be significant in the following way:

- This study is expected to helpful for the general investor and the organizations that directly and indirectly related in IPO.
- This study will help investors to have more clear conception over their investment and they will be able to make a right choice at the right time.
- The prospective offering company may also get significant knowledge from this study.
- This study will help general public to get knowledge about IPO.

1.13 Limitations of the Study

The study is carried out for the partial fulfillment of Master in Business Studies program of Tribhuvan University. It focuses to analyze certain aspects of primary share market in Nepal. Studies and references are limited in the perspective of Nepalese capital market. Time and resources are also constrained during the study.

This study of public response regarding IPO has some limitations as well. They are: -

- This study has analyzed and evaluated the data from limited sources and data.
- The data are used only up to 2009/10.
- The accuracy of research depends upon the reliability of the published data.
- The study has not covered recent changes because of limitation of data.
- Variations of data in itself are also found when comparing with different sources.
- The information regarding the same questionnaire is different from different sources. Many factors affect the Initial Public Offering process though it is not possible to study all factors, this study will be limited to the study of only following factors:
 - Issuing Company
 - Government body and
 - Legal provisions are analyzed.
 - Issue managers

1.14 Organization of the Study

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

Chapter – I: Introduction

This chapter contains introductory part. It describes the general background 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: Review of Literature

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

Chapter – III: Research Methodology

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

Chapter – IV: Data Presentation and Analysis

This chapter deals with the presentation and analysis of both primary and secondary data by using different statistical tools.

Chapter - V: Summary, Conclusion and Recommendations

This chapter states summary, conclusion, and major findings of the study. And finally depending upon the summary and conclusion, recommendations have been given. The Bibliography and annexes are incorporated at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

Literature review is basically a “Stock Taking” of available literature in one’s field of research. The literature survey, thus, provides us with the knowledge of the status of their field of research.

To present the real framework of the study, mere analysis is not enough and review of some related materials is necessary to give the research a clear vision. Knowledge of past study provides foundation to the present study. This chapter is mainly divided into three parts like conceptual framework, review of article and journals and review of thesis.

2.1 Conceptual Framework

A market is the means by which product and services are bought and sold directly or through an agent. A market should provide accurate information on the price and volume of past transactions, and current supply and demand.

“A Financial Market can be defined as a mechanism which brings together buyers and sellers of financial assets in order to facilitate trading. Alternatively, Financial market is a place, where securities are bought and sold, the facilities and people engaged in such transactions, the demand for and availability of securities to be traded, and the willingness of buyers and sellers to reach agreement on sales. Financial Market plays as an active market where capital resources are transferred from savers to users, where savers let user to use their saving in expectation of multiplied returns from users in specified time period. Financial market consists of money market and capital market. Transactions in short term debt instruments, or marketable securities take place in the money market where long term securities (bonds and stocks) are traded in the capital market.” (*Gitman; 2001:30*).

2.1.3 Financial Market

“Financial Markets provide a forum in which suppliers of loans and investments can transact business directly. The loans and investments of institutions are made without the direct knowledge of the suppliers of funds (savers), suppliers in the financial markets know where their funds are being lent or invested. The two keys of financial markets are the money and the capital market. Transactions in short term debt instruments, or marketable securities, take place in the money market. Long term securities (bonds and stocks) are traded in the capital market.” (*Gitman; 1988:30*).

All securities, whether in the money or capital market are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from the resale of securities. Once the securities began to trade among individuals, business, government, or financial institutions, savers and investors, they become part of the secondary market. The primary market is where "new securities are sold" and the secondary market can be viewed as a "used" or "preowned" securities market.

This study is only concerned with initial public offerings so, it deals with the process and activities incurred in rising of funds from the primary market. The operation of the secondary market, though is an important operation scope of the merchant banking, is not covered in this manual. Primary market and the secondary market are present in both the capital market and the money market.

2.1.3.1 Money Market

Money market activities include primary and secondary market activities in short -term negotiable instruments such as Treasury Bills, Government Bonds, Certificates of Deposit, Banker's Acceptances and Commercial Paper or Promissory Notes. Merchant bankers are usually users and market-makers (dealers), rather than brokers in these types of paper. In theory, the money market is different from the capital market. In practice, however, in most countries with efficient financial markets (that is, the money market and the capital market combined), the merchant banks are active in both. This is a simple function of the fact that a negotiable money market instrument for all practical purposes is simply a shorter-term capital market instrument. Therefore, the techniques and facilities needed to

operate in the money market are essentially the same as those needed to operate in the capital market.

2.1.3.2 Capital Market

The capital market is defined as a place where finance is raised by companies for meeting their requirement of funds for new projects, modernization and expansion programs, long –term working capital needs and for various other purposes. The capital market mobilizes savings of individuals as investment in shares, debentures, Units of mutual funds and other like financial instruments, which are ultimately deployed for productive purposes in various sectors of the economy.

A place where long term lending and borrowing takes place is known as capital market. The capital market is the market for long-term loans and equity capital. Companies and the government can raise funds for long-term investments via the capital market. The capital market includes the stock market, the bond market, and the primary market. Securities trading on organized capital markets are monitored by the government; new issues are approved by authorities of financial supervision and monitored by participating banks. Capital market refers to the links between lenders and borrowers of funds, arranging of funds -transfer process to seek each other's benefit.

“The capital market is the market for long-term securities and funds. Securities that mature in more than a year are known as long-term securities. Such type of securities or financial assets with a term to maturity of typically more than one year are mostly traded in the capital market. The example of long-term financial instruments are Common stocks, Bonds, Debentures, Preference shares, Treasury bills and Long-term bonds and securities of the governments etc. Capital market can play vital role to mobilize the market that follows capital to invest on the corporate sectors by the means of securities.” (Shrestha; et al. 2003:19)

“The capital market is a financial relationship created by a number of institutions and arrangements that allows the supplier and demanders of long term funds to make transactions. The backbone of the capital market is formed by the various securities exchanges that provide a forum of debt and equity transactions. The smooth functioning of the capital market, which is enhanced through the activities of investment bankers, is important to the long-run growth of business.”(Gitman; 1992:456).

This market can be further divided into two parts:

i) Non-securities market

ii) Securities market

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 shares, bonds and debenture. Financial transactions between the lending institutions such as banks, business houses, saving institutions or individuals come under this non-securities market. *(MS Encarta Encyclopedia 2010)*

Securities Market

The securities market is known as the market where all types of securities are traded. Security market is a broad term embracing a number of markets in which securities are bought and sold. Securities markets 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 income taxes on the profits from the transaction. *(MS Encarta Encyclopedia 2010)*

“Security market sets a price for the securities it trades and makes it easy for people to trade them. Securities market is classified into two, the market in which new securities are sold is called primary market and the market in which existing securities are resold is called the secondary market. Secondary markets are created by brokers, dealers and market makers. Brokers bring buyer and seller together with themselves actually buying and selling; dealers 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 security market may be classified into primary and secondary market on the basis of the economic function.

i) Primary Market

The primary market is that part of the capital market that deals with the issuance of new securities. 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. In the case of a new stock, the sale is an initial public offering (IPO), though it can be found in the prospectus.

A primary market is the place where corporations and government issue new securities. All securities, whether in money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefits from an issue- that is the company actually receives the proceeds from sale of securities. Once the securities begin to trade among individuals, business, governments, or financial institutions, savers and investors, they become a part of the secondary market.

Features of Primary market:

- The new securities are traded in primary market.
- Primary market makes the financial capital available to make new investments in building equipment and stock of necessary goods.
- 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.
- Buying security in primary market is less risky

ii) Secondary Market

In the secondary market the share once issued in the primary market are traded. So, the secondary market liquidates the shares and provides the opportunity between the investor and seller of the securities. The company must list the securities in the security market for the transaction purpose. Secondary market provides no capital to the original issuer.

In the secondary market existing securities are traded and thus enabling disposal of these securities whenever the owners wish. An active secondary market is therefore a necessary condition for an effective primary market, as no investor wants to feel 'locked in' to an investment.

2.1.4 Historical Background of Security Market in Nepal

Flotation of share by Biratnagar Jute Mills Ltd. in 1937 was the first public issue in Nepal. Nepal Bank Ltd. and many other companies also issued share to public during that period. The history of securities market thus goes back to almost seventy years, but the actual development of the market took momentum only after the restoration of multiparty democracy in the country in 1990. However, the introduction of the Company Act in 1964 and the first issuance of Government Bond in 1964 were some steps taken towards developing securities market during 1960s. One of the significant developments relating to capital market was the establishment of Securities Exchange Centre Ltd. in 1976. (*Security Board Nepal; 1999:13*)

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

2.1.4.1 Money Market in Nepal

The money market is founded on the large amounts of funds, which companies, banks and other financial institutions wish to hold in highly liquid form to meet short-term fluctuations in their finance. Generally, the money market is divisible under two sectors- organized and unorganized. The organized market comprises Nepal Rastra Bank (the central bank of Nepal) and commercial banks. It is called organized because the activities of commercial banks are systematically coordinated by the central bank. The unorganized market is largely made of indigenous bankers and moneylenders. It is unorganized because Nepal Rastra Bank does not systematically coordinate the activities of these indigenous bankers and money lenders.

Nepalese money market is not well developed in terms of securities dealt with and institutions involved in the market. Institutions that deal completely on money market instruments are absent. Similarly, many of the instruments which are popular in developed money market like commercial

paper, and bankers acceptances, have not yet entered the Nepalese money market. Therefore, the institutions that operate in the money market are basically Nepal Rastra Bank and commercial banks and instruments dealt are treasury bills, commercial bills and short-term bank loan.

Treasury bill market is a major component of money market in Nepal, started in the year 1961-62. Since then, it has been an important source of short-term fund for the government except for few years taking from 1968 to 1974. But, because of low yield and absence of active secondary market with brokers, it remained mostly at the hand of the central bank. The holding of Treasury bill by commercial banks, though it was counted for the purpose of statutory liquid ratio, was uneven in the past particularly because of low yield. The interest rate was five percent until mid-November 1988. Since then the rate is determined through auction in the market. The weighted average (annualized) ratio on 91-day Treasury Bill increased from 5.2 percent in 1988/89 to 10.93 percent in 1995/96 and again declined to 2.33 percent in 1998/99. It then slightly increased to 4.96 percent in 2000/01. Treasury bills are being held mostly by commercial banks. The role of other institutions is still insignificant in Treasury bill market. (*Security Board of Nepal*)

Commercial banks are major borrowers and lenders in the short-term money market. Although, commercial banks have been dealing with commercial bills since long, the bill market has its position as underdeveloped in Nepal. Only a small amount of commercial banks' lending is against export and domestic bills and larger amount is invested in import bills and letters of credits and purchase of export bills. For examples, commercial banks lending in bill finance including letter of credit were Rs. 544 million in mid-July 1980, which increased to Rs. 1,406 million in 1990 to Rs. 11,802 million in 2001. It accounted 19.62, 11.92 percent and 10.46 percent of the total loan and advances made by commercial banks in the respective years. The development of genuine bill market is beneficial both to borrowers and to lenders in a number of ways. For example, bills are normally self-liquidating and therefore offer greater liquidity to the holders. To the banks and financial institutions, it provides higher return than in treasury bills, and for borrowers, it costs less than under cash-credit system. A well-developed bill market also helps in generating liquidity throughout the financial system. But Nepal has long way to go to realize the full advantage of bill market because it still lacks institutions like 'discount houses' and 'acceptance house' and traders prefer cash credit form of short-term financing.

Besides treasury and commercial bills, short -term credit by commercial banks also forms another important part of money market in Nepal. Though short -term credit has not fully developed to encourage growth of money market in Nepal, even then it has been the convenient vehicle for lending and borrowings. This type of finance was largely the monopoly of commercial banks in the past but in recent years, NIDC and other development banks also provide such finance. . *(Security Board of Nepal)*

In Nepal, money market is in initial phase. It is underdeveloped in terms of securities dealt with and institutions involved in the market. Many money market instruments and institutions are still absent in Nepal. Treasury bill market and short -term credit by commercial banks form important components of money market. The Commercial bill market is evolving steadily and slowly.

2.1.4.2 Capital Market in Nepal

The history of capital market in Nepal dates back to the era of Rana Prime Minister Juddha Shamsheer when Gunjaman Singh, the first secretary of Nepalese Embassy in England returned back to Kathmandu and set up the "Industrial Council." Nepal Bank Ltd. issued the shares in the securities market in 1937. The first issued of government bond in 1964 was important developments relating to capital market. The government first established Securities Exchange Centre (SEC) in 1976. After the establishment of SEC under Company Act, institutional development of securities market in Nepal was started. It started secondary market for the corporate securities in 1984.

Securities Board of Nepal (SEBON) was established on 26 May 1993 after the first amendment in the Securities Exchange Act 1983. On 16 May 1993, after eighteen years of incorporation, the government converted Security Exchange Centre into Nepal Stock Exchange (NEPSE). After the conversion of SEC into NEPSE, 25 brokers and 5 market makers were appointed. It started 'open cry out system' of trading through broker and market maker on 13th January 1994. Presently, NEPSE has 23 brokers and 16 issue managers. There are 176 listed companies. . *(Security Board of Nepal)*

Although, the growth of stock market is highly relative to the growth of economy, the contribution of corporate sector in the economy is still low due to negligible size of corporate sector. There should be automation for the efficient trading of the Securities in the security market. Nepal Stock Exchange should also go towards automation.

2.3.3 Public Offerings

It is the raising of long-term funds for governments or corporation from a fund sufficient public group in the primary market. The most important aspect of public offerings is its role as the single most effective means by which government and corporate entities can obtain long-term (debt or equity) on a permanent basis. It not only permits them to broaden their sources of finance beyond the banking system but also the banking system is usually a short-term or medium-term floating rate lender. The securities market is often the only means of obtaining large sums of fixed rate, long-term funds.

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

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

IPO is first sale of stock by a company. Broadly speaking, companies are either private or public. Going public means a company is switching from private ownership to public ownership. Going

public raises cash and provides many benefits for the company. Many startups went public without any profits and little more than a business plan. For those getting in on a hot IPO is very difficult, if not impossible. (www.wikipedia.com)

IPO's can be risky investment. For the individual investor, it is tough to predict what the stock will do on its initial day of trading and in the near future since there is often little historical data with which to analyze the company. Also, most IPO's are of companies going through a transitory growth period, and they are therefore subject to additional uncertainty regarding their future value. (www.wikipedia.com)

2.3.4 Nepalese IPO Market

The performance of Nepalese IPO market has made it an attractive market for the investors. Whenever the public limited companies issue new shares, the stock market gets busy with crowds of share applicants. It is evident by the heavy oversubscription and very good initial market returns in the Nepal Stock Exchange Ltd. (NEPSE), the only organized stock exchange for the listing and trading of outstanding shares¹. The Nepalese IPO market gives issuers and their underwriters a choice of either to issue the ordinary share at par or at premium incase the annual general meeting (AGM) of the company decides to do so. However, only those companies having higher net worth than the total liabilities profit record and distribution of dividends for the last three subsequent years can issue shares at premium. ² Companies can issue their shares at discount only when a special resolution is passed by the general meeting to do as per the provision under the circumstances specified in the Company Act 2063. The face value of a share shall be Rs. 50 or any amount above it that is divisible by Rs10 for any public companies. The application money should not exceed 50 percent of the face value of share for the companies other than the banks and finance companies as well as those companies whose audited financial statements of three subsequent years have been published. The allotment of shares has to be done within three months from the last day of the subscription of shares. (*SEBON Journal 2007, Vol. III*)

The issuing company appoints the issue manager as the mandatory provision by law in order to apply to the Securities Board of Nepal (SEBON) for the approval of public issue. The issue manager submits the due diligence certificate regarding the proposed issue along with the prospectus and

necessary documents. IPOs may be underwritten by the issue manager or any other financial institutions. However, underwriting of IPOs is compulsory only for manufacturing companies. Once the application for the public issue is approved by the SEBON, the IPOs have to be made within two months. Otherwise the company has to obtain approval again from SEBON for public issue. IPOs are offered at a fixed price as approved by the SEBON for public subscriptions should be open for at least for five working days. (*SEBON Journal 2007, Vol. III*)

The share allotment, refund, and distribution of share certificate have to be completed from 45 days to 90 days as per the share allotment guidelines of SEBON.

The companies apply to NEPSE for the listing. Generally, listing has to be done within 45 days from the date of the allotment. Although there is no legal barrier for the companies to opt for the over-the-counter (OTC) market, the OTC market is still non-existent in Nepal.

2.3.5 Timing of an Initial Public Offering

Obviously, not all companies that would like to go public are in a position to do so. Factors relevant to a company's ability to successfully close an IPO include (i) its past financial performance, its financial projections for the future, and its ability to generate consistent increases in revenues and earnings, all of which are crucial for a public company to survive in the market place, (ii) the experience and depth of the company's management team, (iii) a solid product position in the market with growth potential, (iv) a focused mission set forth in a well written business plan to present to prospective underwriters, and (v) attorneys, accountants and public relations firms experienced in working with the SEC. Especially in the case of technology-based companies, the determining factor in the success of an IPO may ultimately be the receptivity of the stock market to new issuances in a Company's particular industry at the time that the IPO is undertaken.

The company will have to satisfy the underwriters that all of the above criteria are met, and even then the underwriter may insist on changes to the company's capital structure as a condition to its engagement. For example, the underwriters might require the company to affect a reverse stock split prior to the closing of the IPO in order to price the shares being offered in a typical IPO price

range. If the underwriters do not feel that the company is offering a sufficient number of shares to ensure an acceptable "float" of publicly traded shares, they might require that certain stockholders participate in the offering by selling some of their own shares (a "secondary offering"). The underwriters might also insist on fundamental changes in the company's means of conducting its business as a condition to its engagement, such as the cessation of insider transactions and perceived conflicts of interest and the appointment of outside directors. Companies which are not willing to make such changes may not be able to attract an underwriter willing to manage the IPO.

If the issuer belongs to a certain industry that is particularly attractive to investors at the time of the proposed IPO, it will have more leverage in choosing and negotiating with an underwriter. Conversely, if market conditions are unfavorable at the time of the offering, the issuer will have less flexibility in how the deal is structured and may have to postpone the IPO altogether.

Why Go Public?

Going public raises cash and usually a lot of it. Being publicly traded also opens many financial doors. Because of the increased scrutiny; public companies can usually get better rates when they issue debt. So long as there is market demand, a public company can always issue more stock. Thus mergers and acquisitions are easier to do because stock can be issued as part of the deal. Trading in the open markets means liquidity. This makes possible to implement things like employee stock ownership plans, which helps to attract top talent. (www.investopedia.com)

How does an IPO get valued?

The price of a financial asset traded on the market is set by the force of supply and demand. Newly issued stocks are no exception to this rule - they sell for whatever price a person is willing to pay for them. The best analysts are experts at evaluating stocks. They figure out what a stock is worth, and if the stock is trading at a discount from what they believe it is worth, they will buy the stock and hold it until they can sell it for a price that is close to or above, what they believe is a fair price for the stock. Conversely, if a goal analyst finds a stock trading for more than he or she believes it is worth, he or she moves on to analyzing another company, or short sells the overpriced stock, anticipating market correction in the share price. (www.investopedia.com)

What are some good methods for analyzing IPO's?

Initial public offerings (IPO) are unique stocks because they are newly issued. The companies that issues IPO's have not been traded previously on an exchange and are less thoroughly analyzed than those companies that have been traded from long time. Some people believe that the lack of historical share price performance provides a buying opportunity, while others think that because IPO's have not yet been analyzed and scrutinized by the market, they are considerably riskier than stocks that have a history of being analyzed. A number of methods can be used to analyze IPO's, but because these stocks do not have a demonstrated past performance, analyzing them using conventional means becomes a bit trickier.

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

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

- Why has the company elected to go public?
- What will be the company doing with the money raised in the IPO?
- What is the competitive landscape in the market for the business's products or services?
- What is the company's position in this landscape?
- What are the company's growth prospects?
- What level of profitability does the company expect to achieve?
- What is the management like? Do the people involved have previous experience running a public-trading company? Do they have a history of success in business ventures? Do they have sufficient business experience and qualifications to run the company? Does the management itself own any shares in the business?
- What is the business or company's operating history, if any?

www.investopedia.com

2.3.6 Primary Market Instrument

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

2.3.6.1 Common Stock

These are the offerings that entitle the holders or the buyers of the offerings the stake on the equity of the issuing company. In addition, they are entitled to:

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

2.3.6.2 Preferred Stocks

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

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

The different types of preference shares are:

Cumulative Preferred stocks

Non-cumulative Preferred stocks

Redeemable Preferred stocks

Non-redeemable Preferred stocks

Convertible Preferred stocks

2.3.6.3 Bonds / Debentures

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

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

The different types of debentures are:

Secured debentures

Unsecured debentures

Redeemable debentures

Perpetual debentures

Convertible debentures

2.3.6.4 Warrants

The warrant gives a right to the holder to obtain equity shares specified in the warrant after the expiry of a certain period at a price not exceeding the cap price specified in the warrant. The warrant is a tradable and negotiable instrument and is also listed on the stock exchanges. It comes in different forms, mostly:

- Bonds with warrants
- Preferred stocks with warrants

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

2.3.7 Initial Public Offering (IPO) Manual

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

The Public Offering is not an easy task. There are many organizations involves during this periods. They are:

2.3.7.1 Issuing Company

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

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

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

For other public companies such compliance to go into public offerings of equity holding are absent. For such companies, going into public signifies the need of funds for the company rather than the obligation.

The provisions and conditions of Securities Registration and Issue Act, 2051 has set the guidelines that before going into public offerings, issuing company should take into consideration that

a) If the issuing company is industrial institutions

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

b) If the issuing company is financial institutions

- According to the nature of the business, required infrastructures are installed.

- Approval has been taken under the Company Act 2063.
- For commencing other activities, authority and approval from governing bodies based on existing Acts has been taken.

2.3.7.2 Merchant Bankers

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

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

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

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

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

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

Fund-based activities identified for the merchant banking are:

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

Non fund-based activities identified for the merchant Banking are: Share issue management Mutual fund Portfolio management corporate counseling Project counseling Debenture trusteeship arranging international finance Investment advisor Advising corporate mergers

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

In Nepal, there are 7 merchant banks are already established. They are providing issue manager, lead underwriter, register, transfer of shares etc. services to other institutions.

2.3.7.3 Issue Manager

Issue manager is an institution who is solely responsible to manage initial public offering. Financial institutions with the merchant banking operations, manage the overall issue process of any public company termed as issue manager. Issue managers are institutions holding license from Nepal Stock Exchange to manage public offering issues (Securities Exchange Act, 2063). Issue manager work as manager to the issue and underwriting for public issue of securities (SEBON, 2006 September 22). Issue managers receive issue commission from issuing company for their services through the negotiation. NEPSE has authorized 16 institutions to serve as issue manager.

2.3.7.4 Securities Board

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

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

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

Role of Securities Board in Issue of Securities

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

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

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

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

- Capital control, governing issue of securities and the terms of their issues:
- To regulate terms of issues of securities from the viewpoint of investor protection, issuers needs and overall development of the securities market; and
- To promote sound capital structure of companies.
- Prospectus provisions, governing the disclosure of information at the time of issue of any security;
- Obligations of regular disclosure of financial and other information on entities making public issues;
- Listing requirements governing traded securities;
- Provisions governing allotment and transfer of securities:
- Ensuring fair and equitable allotment and
- Promoting speedier and more efficient service in matters of allotment and transfer.

2.3.7.5 Offices of the Registrar of Companies (ROC)

Registrar of Companies (ROC) is the governing body for 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 regulations set forth by the existing Company Act or not.

As per the Company Act 2063, 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 changes. Upon satisfactory changes ROC grants approval to issuing company to issue the prospectus. Apart from approving the prospectus to be published by the issuing company before going into public, ROC does not play other major role.

2.3.7.6 Stock Exchange Market

Stock exchange has been defined as anybody of individuals, 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 Act 2063 has stated that for the operation of the stock exchange market, approval needs to be taken from the Securities Exchange Board. Any registered institution except 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. Nepal stock Exchange (NEPSE) is a non-profit organization and sole institutions to facilitate secondary market transactions established under Securities Exchange Act, 1983. It commenced its regular operations on January 13, 1994 and had adopted "Open-Cry System" in past but now adopted computer system for transaction of securities i.e. "NEPSE Automated Trading System".

2.3.7.7 Security Board of Nepal (SEBON)

Security Board of Nepal was established in June 7, 1993 under the provision of securities Exchange Act, 1983 (first amendment) and is now functioning as an apex regulator of securities market. Since its establishment, SEBO has been concentrating its effort on improving the legal and statutory frameworks which are the bases for the healthy development of the capital market (Bhattarai, 2006, 38). As per Securities Act, 2006, the major objectives of SEBON are to regulate issue and trading of securities and market intermediaries, promote market development and investors right. (*SEBON; 2006 Sept. 22*).

2.3.7.8 Financial Institutions

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

- Issue managers
- Underwriters

2.3.7.9 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 the case of public offerings, its involvement is very minimal. Its role in the issue process is only to grant financial institutions approval to be involved with different role in the issue process. Also for different fund based activities of merchant banking, approval needs to be taken from Nepal Rastra Bank.

2.3.8 Securities Issue Procedure in Primary Market (Legal Rules, Regulations)

The securities issue in Nepal should have to make by abiding the securities Transaction Act 1983, Issue management guidelines, 1997 Securities registration and issue approval guidelines 2000. According to the provision mentioned in this legal framework, the procedure of securities issue in Nepal is as follows:

- The issuing company should have to select the issue manager or underwriter to manager or underwrite the issue.
- After the selection of the issue manager, the issue manager should have to prepare the prospectus of the issuing company as per the format designed by the company registration office and ministry of commerce and industry.
- After the preparation of the prospectus, the issue manager should have to send the prospectus to the issuing company for getting an approval from the Board of Director (BOD).
- After the approval from the BOD of issuing company, the prospectus should have to be sent to the company registrar for the approval. The registrar of Company (ROC) will send a company of prospectus to the SEBON, Nepal Rastra Bank (NRB) and Insurance Board in case of insurance company for the review of the prospectus.
- The SEBON, Nepal Rastra bank (NRB) and Insurance Board will send the prospectus after the review.
- The ROC will again make a correction to the prospectus with reference to the feedback received from the SEBON, Nepal Rastra Bank (NRB) and Insurance Board.
- The ROC will send the corrected prospectus to the issue manager and the issue manager again sends the corrected prospectus back to the issuing company for the approval.
- After the approval of issuing company the prospectus should have to send to the ROC for the approval.
- After the approval of prospectus from ROC, the issue manager should have to register the security in the SEBO for issue after paying certain fee.

Table 2.1

Registration Fee on Issue

Amount of issue	Commission
Up to Rs 50,00,000	0.25%
Rs 50,00,000 to Rs 100,00,000	0.2%
Above Rs 100,00,000	15%

Sources: SEBON

- The SEBON will provide the approval for issue after the discussion of BOD of SEBON.
- The issue manager should have to issue the securities within the 2 months of receiving the approval.
- The issue manager should have to prepare the share issue announcement on the basis of the approved prospectus by ROC.
- The announcement should have to publish in the National daily newspaper.
- The issue of securities should have to open within a maximum of 15 days and minimum of 7 days of the announcement of the public issue.
- The share should have to be issued for minimum of 5 days if the share is issued from minimum of 10 collection counters that will cover all 5 development region. If the above provision is not possible, the share should have to open for 7 days.
- If the targeted amount is not collected within 7 days the company can extend the issue for next 30 days. After that if company thinks to open issue further, the company can extend for another 15 days after getting an approval from SEBON.
- The issue manager should have to close the sale of share by providing per notice.
- This issue manager collects the fund from the collection counter day by day.
- The company has to allot the share according to the allotment guidelines of SEBON.

Table 2.2

The Allotment Period of Securities

Number of Securities	Time Period (in days)
Up to 15000	45
15000 to 60000	60
60000 to 100000	70
Above 100000	90

Sources: SEBON

- The distribution of share certificate should have to commence within the 45 days to the allotment after completing the allotment of 50% of shares The Company also has to list the securities in the stock exchange within this period. Similarly, if the

company has to refund it has to be made within this period. (*Security Board of Nepal*)

2.3.9 Investment Consideration to the Potential Investors 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.

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

The investors should take information regarding company's promoters, size, growth, environment, board of directors, past statements and as well as budgeted statements, which can be obtained from memorandum, prospectus, articles of the concerned company. Investors should be aware about the following terms:

Red Herring

This is an initial prospectus containing all the information about the company except for the offer price and the date of issue because these two are unknown at the time of publishing this document. (www.wikipedia.com)

In Nepal, Red Herrings are usually printed in the daily news papers along with the notice of the Initial Public Offering. This is one way that companies generate the hype about the issue. This is also the first source of information for the investors.

Lock-Up Period

There is an agreement between the underwriter and the insiders of the company (usually employees and board members) prohibiting both parties from selling stocks for a specific period of time. Such time is called the lock -up period. It usually ranges from 24 months to a number of years. For example, in the IPO of Nepal Telecom Company, the employees were offered shares at a discounted price with a lock -up period of three years from the listing of the shares on NEPSE.

Flipping

Flipping is reselling hot IPOs during the first few days of trading in exchange for a quick profit.

(www.investopedia.com)

Quiet Period

Quiet period is the time between the submission of all registry documents to the regulatory board and the approval. During this period, the company including its board members, employees and analysts, are legally bound not to discuss or promoter the IPO. Similarly, another round of quiet period is enforced after the security has been listed in the company insiders and the underwriters involved the issuance process are restricted from issuing any earnings forecast or publishing any report on the company. *(www.investopedia.com)*

2.3.10 Investment Consideration to the Potential Investors in the Secondary Market

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

- Keep information of the companies return to the shareholders in the form of cash dividends, stock dividends, bonus shares etc. they should also be informed about Earning per share (EPS), book value of share (BVS), price earning ratio (P/E Ratio), future plan, growth expectancy of the company through the annual, quarterly and half –yearly performance reports, profit and loss account (P/L a/c), balance sheet (B/S) and annual reports.
- Analyze the price related information provided by SEBON and NEPSE about the listed companies.

- Study the trading statements and financial analysis of the listed companies published by NEPSE.
- Study articles related to the trading of shares and economic matters published in different newspapers and magazines.
- Study the annual report of SEBON.
- Study the act and regulation concerning to the shareholder's right.

Once the investors think of making investment, he approaches to the broker to choose a firm that is suitable for his needs of investments and to select a representative of the firm with whom he can work. The representative should be able to furnish the investor at all times, on reasonable choice, information on any specific company's securities.

www.sebonp.com/education1.htm

2.3.11 Pricing Differences

We may have found that there can be large differences between the price of an Initial Public offering (IPO) and the price when the IPO shares start trading in the secondary market.

The pricing disparities occur most often when an IPO is "hot" or appeals to many investors. When an IPO is "Hot", the demand for the securities far exceeds the supply of shares. The excess demand can only be satisfied once trading in the IPO shares begins. This imbalance between supply and demand generally causes the price of each share to rise dramatically in the first hours or days of trading. Many times the price falls after this initial flurry of trading subsidies. (www.sec.gov/answers/ipo_pricing.htm)

2.3.12 IPO by Private Company to the Public

IPO's are often issued by smaller, younger companies seeking capital to expand and also can be done by large privately owned companies looking to become publicly traded. In an IPO, the issuer obtains the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), best offering price and time to bring it to market. (www.wikipedia.com)

2.3.13 Risky Investment

IPOs can be risky investment. For the individual investor, it is tough to predict what the stock will do on its initial day of trading and in the near future since there is often little historical data with which to analyze the company. Also, most IPO's are of companies going through a transitory growth period, and they are therefore subject to additional uncertainty regarding their future value. (www.investopedia.com)

2.3.14 Pricing

Initially, IPOs have been under-priced. The effect of under-pricing an IPO is to generate additional interest in the stock when it first becomes publicly traded. This can led to significant gains for investors who have been allocated shares of the IPO at the offering price. However, under-pricing an IPO results in "money left in the table ", lost capital that could have been raised for the company had the stock been offered at a higher price.

The danger of over pricing is also an important consideration. If a stock is offered to the public at a higher price than what the market will pay, the underwriters may have trouble meeting their commitments to sell shares. Even if they sell all of the issued shares, if the stock falls in value on the first day of trading, it may lose its marketability and hence even more of its value.

Investment banks therefore take many factors into consideration when pricing an IPO, and attempt to reach an offering price that is low enough to stimulate interest in the stock, but high enough to raise adequate amount of capital for the company. The process of determining an optimal price usually involves the underwriters ("syndicate") arranging share purchase commitments from lead institutional investors.

(www.en.wikipedia.org/wiki/Initial_publicoffering)

2.3.15 The Underwriting Process

Underwriting is an agreement between the issuing company and financial institution like bank, merchant banks, broker or other person, providing for their taking up the shares or debentures to t

the extent specified in the agreement. Getting a piece of hot IPO is very difficult, if not impossible. To understand why, we need to know how an IPO is done, a process known as underwriting.

When a company wants to go public, the first thing it does is hire an Investment Bank. A company could theoretically sell its shares on its own, but realistically, an investing bank is required. Underwriting is the process of raising money by either debt or equity. We can think of underwriters as middlemen between companies and the investing public. The biggest underwriters in our Nepal are Nepal Merchant Banking & Finance Ltd. Co. (NMBL), Citizen Investment Trust (CIT), NIDC Capital Market Ltd. (NCML), etc.

The company and the investment bank will first meet to negotiate the deal. Items usually discussed include the amount of money a company will raise, the type of securities to be issued and all the details in the underwriting agreement. The deal can be structured in a variety of ways. For example, in a firm commitment, the underwriter guarantees that a certain amount will be raised by buying the entire offer and then reselling to the public. In a best efforts agreement, however, the underwriter sells securities for the company but does not guarantee the amount raised. Also, investment bank does not bear all the risk of offering. Instead, they form a syndicate of underwriters. One underwriter leads the syndicate and the others sell a part of the issue. Only a limited number of broker-dealers are invited into the syndicates as underwriters and some of them do not have individual investors as clients. Moreover, syndicate members themselves do not receive equal allocation of securities for sale to their clients.

The underwriters in consultation with the company decide on the basic terms and structure of offering well before trading starts, including the percentage of shares going to institutions and to individual investors. Most underwriters target institutional investors as wealthy investors in IPO distributions. Underwriters believe that institutional and wealthy investors are better able to buy large blocks of IPO shares, assume the financial risk, and hold the investment for the long term.

Once all sides agree to a deal, the investment bank puts together a registration statement to be filed with the SEC. The document contains information about the offering as well as company info such as financial statements, management background, any legal problems, where the money is to be used

and insider holdings. The SEC then requires a cooling off period, in which they investigate and make sure all material information has been disclosed. Once the SEC approves the offering, a date (the effective date) is set when the stock will be offered to the public.

During the cooling off period the underwriter puts together what is known as the Red -herring. This is an initial prospectus containing all the information about the company except for the offer-price and the effective date, which are not known at the time. The company act has made mandatory that any institution going into public offering must issue the prospectus before issuing the securities to the public. With the Red -herring in hand, the underwriter and company attempt to hype and build up interest for the issue. They go on a road-show, also known as the "dog and pony show"- where the big institutional investors are courted.

As the effective date approaches, the underwriter and the company sit down and decide on the price. This is not an easy decision: it depends on the company, the success of the road-show and, most importantly, current market conditions. Of course, it's in both parties interest to get as much as possible. Finally, the securities are sold on the stock market and the money is collected from investors.

2.4 Review of Journal and Articles

These days internet has become the most easily accessible medium to gain information in any subject matter. In the study period, different articles and journals have been consulted.

Ghimire (2001), published an article entitled "*Nepali Share Market an Investor's Perspective*" to analyze the Nepali share market that all the components of this market are lame and weak and perhaps work for vested interest. The Securities Board, the supreme body of this market, gave the permission to Taragaon Regency Hotel to increase the number of shares issued from 8 million to 12 million units after the public oversubscribed the initial offer, despite the advice from experts not to do so. To repeat the same mistake, the board gave almost same permission to Hotel Radisson and now public investors are again cheated. The board has thus repeatedly supported companies to their activities that lead to cheating investors.

Therefore, general investors should be alert and aware to these situations. They must receive the financial information before they make investment and act rationally. This will avoid the typical crashes the market experienced in the past which were largely created by unnatural activities of the institutions and individuals concerned.

Bhattarai (2003), published an article entitled *“How to Increase Investor Participation in Stock Market”*. He states that one serious weakness facing Nepal’s stock market is the low participation of investors in securities transaction. Majority of investors participating in the exchange are from Kathmandu valley. Since there is only one stock exchange in the capital, and there is no other alternative available, participation of the investors from outside the valley is very low.

In his view for the investors who want to invest through primary market, it is not so great a problem even if they are living far away from the stock exchange as they can easily apply for the shares through different financial institutions which have their offices scattered around the country. Those who get shares from the primary market must have the opportunity to sell them in the secondary market. Similarly also those who want to invest through the secondary market must have easy access to the market. But as the only stock exchange of the nation is located in the capital, only those investors living in its surrounding areas have easy access to it. All the investors from outside Kathmandu valley who want to involve in the transactions must come to the capital physically. There is no other way for them to participate in the secondary market.

In addition capital market is suffering from the low participation due to the absence of awareness about the securities market. Even after ten years of the establishment of the stock exchange, the investors of Kathmandu valley itself have not become so much aware about the securities market. Thus number of participation is not as desired. Then it is anybody’s guess how the government can achieve the objective of the out-side-the-valley investor participating in the transaction and ownership of the securities of organized sector enterprises. This indicates to the need for launching many investor awareness programs in different parts of the country particularly the rural areas, where the potential small investors live.

Bhattarai (2006), published an article entitled *“Bear Economy, Bull Market”*. The article explored that the move of king from the country since February 2005, the country’s economy is in decreasing trend. However the stock market is showing a bullish trend even since king’s move on Feb 2005. He has concluded the six reasons for bullish stock market as follows.

- 90% of the market is dominated by the banks, finance companies and insurance companies and the financial performance of these companies is continuously improving.
- The stock market is totally concentrated in the Kathmandu Valley and the people feel safer in this area. So, the people feel safer to invest in the stock market.
- The Nepali stock market has no impact from the situation out of the Valley. If there is some effect, the people who had their investment in the assets outside the valley have diverted if to the stock market in the valley.
- The buying and selling pressure in the market is totally dependent on the valley’s limited investors.
- There is diversion of the investment from gold to the stock market.
- The opportunities to invest in other sectors are limiting, the people are increasing investing in the stock market.

Dahal (2007), in his article *“The Performance of Nepalese IPOs”* published in the SEBON journal, assesses the performance of Nepalese IPOs and relates them to potential factors. He concluded that Nepalese IPOs have been found to be heavily oversubscribed. It shows that the investors have a very high degree of attraction to the IPOs. The study shows that growth of Nepalese IPOs in terms of issues and subscription has been bumpy during the study period. The study shows that the IPOs investors make 53.25% market adjusted returns leading to the conclusion that Nepalese IPOs are highly underpriced. In one hand, the investors do make money from Nepalese IPOs. On the other hands, the higher the underpricing, the higher will be the wealth loss of promoters. This might have prevented the potential issuers from going public. Such companies which refrain from going public might not have made appropriate level of investment. As a result, the society and nation at large might have lost the potential gains from the increased investment and productivity of those companies.

2.5 Review of Previous Research Studies

The role of the Primary market has been increasing now -a-days. Any corporation can raise its required fund through Primary market and its process. It may canalize such savings into investments in productive sectors. It definitely leads to the economic growth. So the primary market is playing a role for the development of national economy.

Pandey (2001), has presented a dissertation entitled "*Public Response to Primary Issue of Shares in Nepal*" had been conducted. But his objectives of the study are different than Shrestha's study.

Main Objectives of the study were:

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

Major findings of the study were:

- Public response in primary market is high due to lack of opportunities for investment in other fields.
- No proper investment analysis is been made.
- The dynamism of the stock market has been greatly reduced by the domination of the long term shareholders, who prefer holding the shares with the hope of increasing their wealth.

Paudel (2002), has conducted a study related to "*Investing in shares of Commercial Banks in Nepal*".

Main Objectives of the study were:

- To analyze the primary market of commercial banks.

- To assess the risk and return elements of investment in shares of commercial banks in Nepal.

Major findings of the study were:

- The shares of commercial banks in Nepal are heavily traded in the stock market and, therefore, these shares play a key role in the determination stock exchange indicators.
- The average mean return on market portfolio, as measured by percent changes in the NEPSE index, is 5.51 percent over the sample period.
- All the shares produced higher rates of return than the return on market portfolio. However, the risk-return characteristics do not seem to be the same for all the shares reviewed.
- The shares with larger standard deviations seem to be able to produce higher rates of return. The portion of unsystematic risk is very high with the shares having negative beta coefficient. The risk per units of return, as measured by the coefficient of variation, is less than that of the market as a whole for all the individual shares.
- Most of the shares fall under the category of defensive stocks, (having beta coefficients less than 1), except the shares of Bank of Kathmandu Limited. Return on the shares of Nepal Arab Bank Limited is negatively correlated with the return on market portfolio and, therefore, it has negative beta coefficient.

Sharma (2002), has conducted the study on *“Problems and Prospects of Primary and Secondary Market in Nepal”*.

Main Objectives of the study were:

- To analyze the problems and prospects of Nepalese stock market.
- To analyze the status of primary and secondary market.

Major findings of the study were:

- The existing problems could be resolved only when general people understand how market works.

- Investors need to understand that keeping the shares may not be the best alternative. They need more information that what factors to be considered before investing the money in shares.

Paudel (2006), has made the study on the topic of *“Public response to initial public offering in Nepal”*.

Main Objectives of the study were:

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

Major findings of the study were:

- Organization’s process of public offering is quite long.
- The pace of initial public offering in Nepal seems to be irregular.
- 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.
- Nepalese investors are more interested in financial sector than non-financial sector.

Pandey (2008), has conducted a research on *“Initial Public Offering (IPO) practices in Nepal”*

Main Objectives of the study were:

- To assess the current situation of primary market issues.
- To examine the sectorial growth of Primary market.
- To analyze initial public offering practices of securities of different sectors.

Major findings of the study were:

- The securities market development in Nepal is in early stage of growth. But, public response to the financial institutions and insurance sectors is higher than non financial sectors.
- These days, people are getting aware to primary market to choose the right sector for investment, flow of money in the market is higher, people have realized the importance of the investment in shares.
- Pace of initial public offering and Issue approval sector wise in Nepal seems to be irregular.

Dahal (2009), has done research on *“Subscription of Corporate Securities in Initial Public Offering in Nepal”*

Main Objectives of the study were:

- To examine sectorial growth of primary market in Nepalese capital market.
- To analyze the subscription pattern of securities, examining the most oversubscribed and most undersubscribed issue of IPO, the degree of under pricing.
- To examine the relationship between subscription pattern and initial return in Nepalese IPO.

Major findings of the study were:

- Both the amount and number of issues being offered have revealed that Nepalese IPO sector have grown during the study period. Similarly, sector-wise analysis of public issue revealed that financial sectors’ IPO has been dominating Nepalese IPO market.
- The analysis also revealed that most of the issues offered during the study period were oversubscribed. Last few year’s experience shows that there are limited non financial sectors available in the country that satisfied the investors.
- The IPOs of financial sector were oversubscribed in most of the cases and that of Manufacturing and Trading sectors were undersubscribed and the first day trading of such IPOs were more profitable than following days.

Paudel (2010), has conducted the study on *“Investor’s Response to IPO of Financial and Non-financial Sector in Nepal”*

Main Objectives of the study were:

- To assess the growth of IPO.
- To analyze the pattern of public response to IPO as a whole.
- To analyze the investor's response towards IPO of financial and non-financial sector.

Major findings of the study were:

- Growth of IPO in Nepal can be considered to be good. The amount of issued approved has increased over the years.
- Investor's response in primary market is high due to lack of opportunities for investment in other fields.

Research Gap

Nepali investors have developed an increasing interest in the primary market, especially the primary market, has been fast growing. The majority of Initial Public Offerings (IPOs) are highly oversubscribed. However, though investing in IPOs often guarantees return, there also are risks in such investments. The investor should be aware of these risks and returns.

However there are many researches related to public response to IPO in Nepal, but no one has given focus on pricing of IPO, objective of investors as long term investment or quick way to make money, and the role of whim and rumor to investing decision of investors while investing which affects the share market significantly. Furthermore previous studies had not tested the hypothesis on investors' response. This study tries to understand the pace of initial public offering, investor response, procedures, rules, regulations and provisions as well as public awareness about it.

Thus with this several of research gap found in previous studies, the research has been conducted to analyze the investors' response, performance of issue managers in the process of IPO, preference over investment sector, investors' preference on the performance of the company or market information, 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 bank, university, business. As in Nepal maximum investors are risk averters, this thesis also analyze whether people prefer personal fund or loan for investment. Also this research has tried to analyze the influencing factors for investment in IPO and the role of whim and rumor to investing decision of investors while investing on IPO. Today's practice is that most investors apply with many names so that they could get more and more shares in IPO, so this research also takes individual investors responses whether they would prefer pro-rata basis for distribution or lucky-draw. Nepalese investors have been influence with whim and rumors as well as they are not well informed and aware of features of different securities.

CHAPTER – III

RESEARCH METHODOLOGY

This chapter deals with the research methodology by which the collected data are analyzed to get the results. In other words it describes the methods and processes applied in the entire aspect of the study. This chapter provides the methodology followed to achieve the objectives stated in this research work. Detail research methods are described in the following headings. It refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the method and process to be followed during the research work.

Certain methods and processes are applied in the entire study of this research. The study follows sequential steps. A focus is given to research design, sample selection and size, data collection procedure, data processing, definition of variables, meaning and definition of statistical tools used.

This chapter has been divided into five sections. Section 1 presents the research design of the study while the section 2 deals with the population and sample section 3 consists of the selection of source of data whereas section 4 explains the methods of analysis as data collection procedures for the study. Similarly, data analysis tool is defined in section 5 respectively.

3.6 Research Design

“Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variance.” (*Kerlinger; 1986, 275*). “The research design refers to the entire process of planning and carrying out a research study” (*Wolff and pant; 2000, 53*).

Generally, research design means definite procedure and technique which guides to study and provide ways for research viability. It is arrangements for collection and analysis of data. To achieve

the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate the investors' response and preference in Nepal.

This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspect and logical aspect. This research study attempts to analyze the public response to IPO, performance of investment bankers (issue managers) in IPO, source of relating information on the public response to IPO. Thus descriptive as well as analytical research design has been used. This study attempts to analyze the relation between different variables relating to IPO and public responses. It also tries to analyze what factors actually motivate the investors to invest, what is their goal behind investment, their response sector wise.

3.7 Population and the Sample of Study

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. Rather than collecting detail information from each number, the small portion is chosen as representation of the population is called the sample. Population for this research is the total number of listed companies up to fiscal year 2009/2010. There are 176 listed companies as per below table:-

Table 3.1

Population and Sample of the Study

Sector	Population of the Study	Sample of the Study	Percentage (%)
Financial Sector			
Commercial Bank	23	8	34.78 %
Development Bank	40	9	22.50 %
Finance Companies	62	10	16.12 %
Insurance Companies	19	8	42.10 %
Total	144	35	
Non-Financial Sector			
Mfg. and Pro. Co	18	4	22.22 %
Trading Co.	4	1	25 %
Hotels	4	1	25 %
Others	6	3	50 %
Total	32	9	
Grand Total	176	44	

Source: SEBON Annual Report 2009/10

Table 3.1 Shows that from among the 23 listed commercial bank, only 8 (i.e. 34.78 %) are taken as sample. In the case of development bank and finance companies 9 (i.e. 22.50 %) and 10 (i.e. 16.12%) samples are taken from population of 40 and 62 respectively. From 19 Insurance companies 8

(i.e.42.10%) are taken as sample. From non -financial sector altogether 9 companies are taken as sample from 32 companies (i.e. 28.125%).

For the primary data collection 50 respondents from bank, business, university, and brokerage firm have been taken as sample. Among the 50 respondents for the primary data collection, 10 are students, 20 are businessman, 15 are bankers and 5 are brokers.

3.8 Nature and Sources of Data

Both the primary data and secondary data have been used in order to complete the objective of the study.

3.8.1 Primary Data

Primary data gives real shape to the work. Discussion and informal interviews with existing investors, staff members of NEPSE and SEBON, bankers, brokers and other concerned parties have been conducted to collect the primary data. As per the requirement of the research a set of questionnaire was designed for the primary data collection. And then that was distributed to 50 respondents (students, businessman, bankers and brokers) for their responses.

3.8.2 Secondary Data

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

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

- Previous Research studies; Dissertation and Articles on the subject.

3.9 Data Presentation and Analysis Method

After the collection of data, an analysis of the data and the interpretation of the results are necessary because data collected from various sources 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 and requirement of the study. As both data primary as well as secondary has been used, analysis techniques for the both have been used. Data analysis helps to make the reader more clear about the research and helps to draw conclusions. This part contains several statistical tools.

3.10 Necessary Tools and Techniques

Different relevant statistical tools are used to find out the best appropriate result as per the designated objectives of the study. Several hypothesizes are also formulated during the course of the study and analysis. The study has used the different statistical tools, financial tools, different diagram table, chart as well as descriptive methods as per the requirements and their suitability.

The techniques that are applied in this study are:

3.10.1 Non Parametric Statistical Tools

Chi-square test (χ^2)

Chi-square is the one of the simplest and most widely used non -parametric test in statistical work. It has been used to check whether there is any association between two independent variables as well as to check the uniform distinction of the investor's response toward various options. Chi-square statistics help to test the association as well as uniformity.

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

Where;

χ^2 = Chi- square Statistics

O = Observed Frequencies

E = Expected Frequencies

3.10.2 Financial and other Statistical Tools

Suitable statistical tools are used to implicit the comparative results as required.

3.10.3 Bar Diagrams and Line Chart

Diagrams and line chart are visual aids which give a bird's eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than two sets of data. Diagrams are in different types.

3.10.4 Pie – diagram

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

3.10.5 Percentage

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

CHAPTER -IV

DATA PRESENTATION AND ANALYSIS

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

To meet the objectives of study about the responses of investors, the study is made with questionnaire survey. The questions are responded form 30 students, 60 businessmen, 25 bankers, 5 brokers and rest 30 are others included in this study as respondents. The study is based on the investors who are willing to invest in IPO and are already involved in financial market. The theme of the study is -what types of company do investors prefer most? The banking and financial sectors take over the very high place but other sectors are not -why? What react can be over come from the investors, if the companies issued the IPO?

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 and elucidate the collected data to achieve the objective of the study following the conversion of unprocessed data to an understandable presentation. The chapter deals with the main body of the study.

In this course of analysis, the collected data have been presented in the tables, figures and diagrams and then analyzed by using financial and statistical tools. The results of the computation have also been summarized in appropriated tables. The samples of computation of each model have been included in annexes. This chapter includes presentation of data and analysis of that data to reach at a conclusion. Collected data have been analyzed in percentage, simple average.

5.1 Secondary Data Analysis

4.3.3 Growth of Initial Public Offering

4.3.3.1 Amount of Issue Approved

Securities Exchange Act, 1983 has made mandatory that the issuing company should register the securities in SEBON and get approval before going to public. From the fiscal year 1993/94 to 2009/10 SEBON has approved 385 issues of securities amounting to Rs. 50212.10 million. The details are as follows:

Table 4.1

Amount of Issue Approved

(Rs. in million)

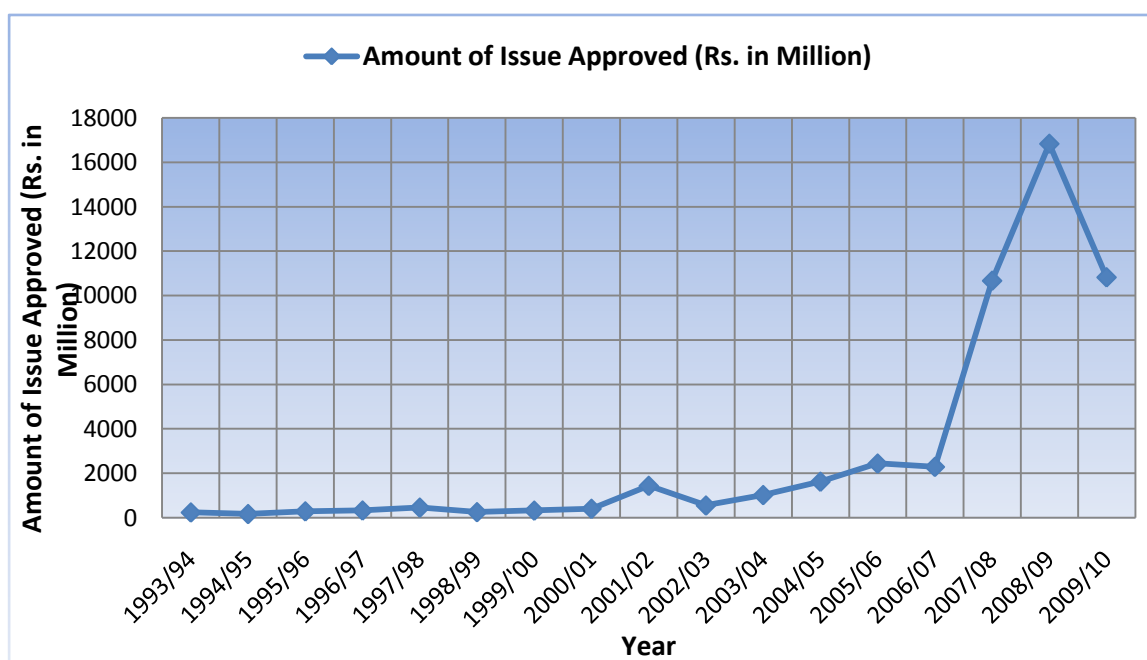
Year	Amount of Issue Approved	% of Issue Approved
1993/94	244.40	0.49
1994/95	173.96	0.35
1995/96	293.74	0.58
1996/97	332.20	0.66
1997/98	462.36	0.92
1998/99	258.00	0.51
1999/'00	326.86	0.65
2000/01	410.49	0.82
2001/02	1441.33	2.87
2002/03	556.54	1.11
2003/04	1027.50	2.05
2004/05	1626.82	3.24
2005/06	2443.28	4.87
2006/07	2295.5	4.57
2007/08	10668.20	21.25
2008/09	16828.51	33.51
2009/10	10822.41	21.55
Total	50212.1	100.00

Source: SEBON Annual Reports (1993/94 to 2009/10)

Table 4.1 shows the variation of issue amount approved during 1993/94 to 2009/10 period. The highest amount approved is Rs.16828.51 million (33.51%) in the fiscal year 2008/09 and the lowest amount approved is Rs.173.96 million (0.35%) in the fiscal year 1994/95. During the period issue amount approved reaches at a high point in 2001/02 then declines and again starts to rise then after.

Figure 4.1

Amount of Issue Approved



Source: SEBON Annual Reports (1993/94 to 2009/2010)

The given graph line illustrates the amount of issue approval of IPO from 1993/94 to 2009/10. The pick point is in the year 2008/09 which shows that the highest amount of issued approved that is 33.51% of total issue approved. And the lowest point is in the year 1994/95 which is 0.35% total issue approved. During the period Nepalese capital market was not so popular among investors. Only few investors of Kathmandu valley were trading. But, after 2002/03 more and more people entered in market. Specially, people who have been hard hit by Maoist people’s war found capital market as a good shelter for their money.

4.3.3.2 Number of Issue Approved

The number of issue approved is the total number of issue approved by the Security Board of Nepal. Before issuing securities, the issuing company must make approval from Security Board of Nepal (SEBON). For issue approval and registration, the company must submit required information within prescribed format otherwise SEBON may reject it. After registration and issue approval, the company must open issue within three month of issue approval. In case if the issue couldn't be made, then after another date should be fixed consulting with SEBO. The advertisement for application should be published in national daily news paper, the advertisement should consist all actual and real information. The advertisement should be able to identify application collection centre and its duration.

Table 4.2

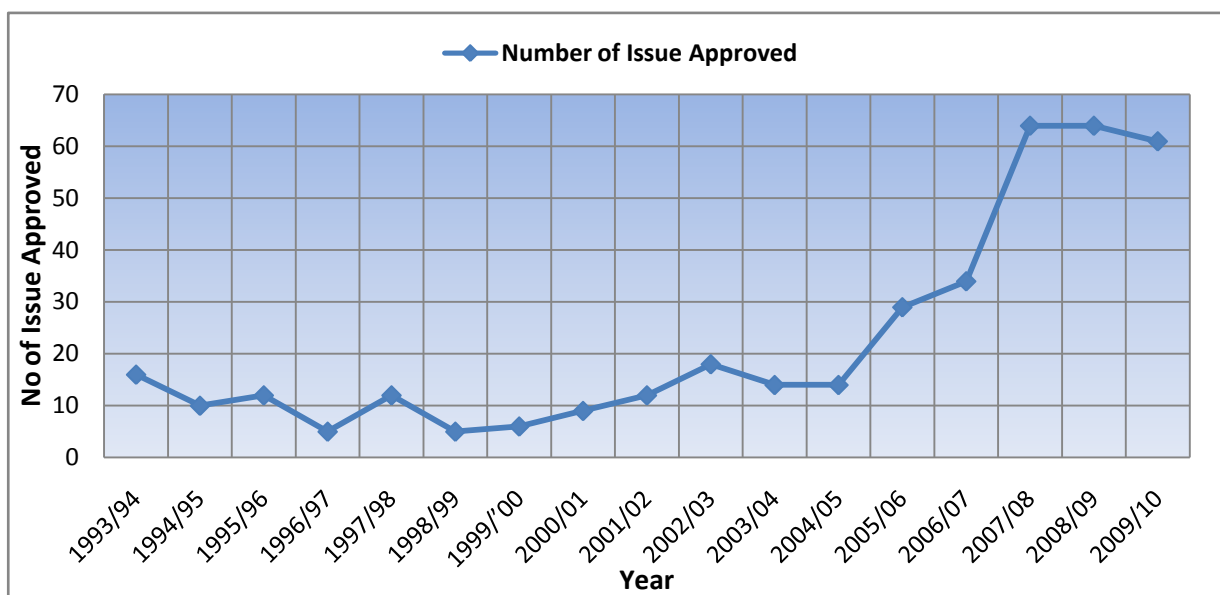
Number of Issue Approved

Year	Number of Issue Approved	% of Issue Approved
1993/94	16	4.16
1994/95	10	2.60
1995/96	12	3.12
1996/97	5	1.30
1997/98	12	3.12
1998/99	5	1.30
1999/'00	6	1.56
2000/01	9	2.34
2001/02	12	3.12
2002/03	18	4.68
2003/04	14	3.64
2004/05	14	3.64
2005/06	29	7.53
2006/07	34	8.83
2007/08	64	16.62
2008/09	64	16.62
2009/10	61	15.84
Total	385	100

Source: SEBON Annual Reports (1993/94 to 2009/10)

Table 4.2 shows that the number of issue approved from 1993/94 to 2009/10. SEBON has approved 385 issues in which highest number of issue approved has in the year 2007/0 8 and in the year 2008/09 and the lowest issue approved was in the year 1996/97 and 1998/99. Simultaneously 16 issues has approved in 1993/94, 10 issues in 1994/95, 12 issues in 1995/96 and in 1997/98, 6 issues in 1999/00, 9 issues in 200/01, 12 issues in 2001/02, 18 issues in 2002/03, 14 issues in 2003/04 and in 2004/05, 29 issues in 2005/06, 64 issues in 2007/08 and in 2008/09 and 61 issues in 2009/10.

Figure 4.2
Number of Issue Approved



The above diagram illustrates the number of issue approved from 1993/94 to 2009/10. In the year 2007/08 and 2008/09 highest number of issue approved is 64 and the lowest number of issue approved is only 5 in the year 1996/97 and 1998/99.

4.3.4 Over and Under Subscription of Securities

The demand for securities may be greater or lesser than the issuing amount. When the demand is greater that is over subscription and when lesser that is under subscription. At the time of issue the demand for securities may be greater or lesser than the issuing amount. When the demand of securities is higher than issued securities, the situation is called the case of oversubscription but if

the demand of securities is lower than issued securities that situation is called under subscription of securities.

Below table 4.3 shows the oversubscription & under subscription of different companies from year 1993/94 to 2009/10, while issuing their Ordinary share to general public.

Table 4.3
Over and Under Subscription of Securities

Year	No. of Issue	Over Subscribed		Under Subscribed		Constant	
		No.	%	No.	%	No.	%
1993/94	16	16	100	0	0	0	0
1994/95	10	7	70	1	10	2	20
1995/96	12	6	50	6	50	0	0
1996/97	5	2	40	0	0	3	60
1997/98	12	5	41.67	5	41.67	2	16.67
1998/99	5	3	60	1	20	1	20
1999/00	6	4	66.67	1	16.67	1	16.67
2000/01	9	8	88.89	1	11.11	0	0
2001/02	12	5	41.67	4	33.33	3	25
2002/03	18	14	77.78	3	16.67	1	5.55
2003/04	14	12	85.71	2	14.29	0	0
2004/05	14	6	42.86	7	50	1	7.14
2005/06	29	17	58.62	10	34.48	2	6.90
2006/07	34	16	47.05	14	41.17	4	8.82
2007/08	64	19	29.68	32	50.00	13	20.32
2008/09	64	12	18.75	0	0	52	81.25
2009/10	61	25	40.98	3	4.92	33	54.10
Total	385	177		90		118	

Source: SEBON Annual Reports (1993/94 to 2009/10)

The above table 4.3 gives the information about over and under subscription of securities from 1993/94 to 2009/10 where most of the issues are over subscribed i.e. 177, and only 90 issues are under subscribed and 118 issues are constant. In the year 1993/94 all issues are over-subscribed.

4.3.5 Over and Under Subscription of Ordinary Shares

Table 4.4

Over And Under Subscription of Ordinary Shares

Year	No. of Issue	Over Subscribed		Under Subscribed		Constant	
		No.	%	No.	%	No.	%
1993/94	14	14	100.00	0	0.00	0	0.00
1994/95	10	7	70.00	1	10.00	2	20.00
1995/96	10	6	60.00	4	40.00	0	0.00
1996/97	2	2	100.00	0	0.00	0	0.00
1997/98	8	5	62.50	2	25.00	1	12.50
1998/99	3	2	66.66	1	33.33	0	0.00
1999/00	3	3	100.00	0	0.00	0	0.00
2000/01	7	7	100.00	0	0.00	0	0.00
2001/02	5	4	80.00	1	20.00	0	0.00
2002/03	14	14	100.00	0	0.00	0	0.00
2003/04	10	10	100.00	0	0.00	0	0.00
2004/05	7	6	85.72	1	14.28	0	0.00
2005/06	14	14	100.00	0	0.00	0	0.00
2006/07	15	15	100.00	0	0.00	0	0.00
2007/08	16	14	87.50	0	0.00	2	12.50
2008/09	12	12	100.00	0	0.00	0	0.00
2009/10	28	25	89.29	3	10.71	0	0.00
Total	178	160		13		5	

Source: SEBON Annual Reports (1993/94 to 2009/10)

Table 4.4 gives the information about over and under subscription of ordinary shares from 1993/94 to 2009/10, where most of the issues are over subscribed, only 13 times under subscribed, and only 5 times constant subscribed. In the year 1993/94, 1996/97, 1999/00, 2000/01, 2002/03, 2003/04, 2005/06, 2006/07, 2008/09, it is over subscribed all the times (i.e. 100%).

4.3.6 Performance of the Issue Managers

Table 4.5

Number and Amount of Issue Managed by Issue Managers

S.N	Issue Managers	Issue Management (2009/10)			
		No. of Issue Managed	%	Amount of Issue Managed (Rs. in million)	%
1	NMBBL	5	15.15	245.50	3.77
2	ADBL	10	30.30	1612.70	24.79
3	NFCL	1	3.03	3593.08	55.25
4	NIDC	10	30.30	90.00*	1.38
5	CCML	3	9.10	88.80	1.36
6	ECL	3	9.10	798.00*	12.26
7	DCBL	1	3.03	77.00	1.18
TOTAL		33	100	5617.08	100

Source: SEBON Annual Report 2009/10

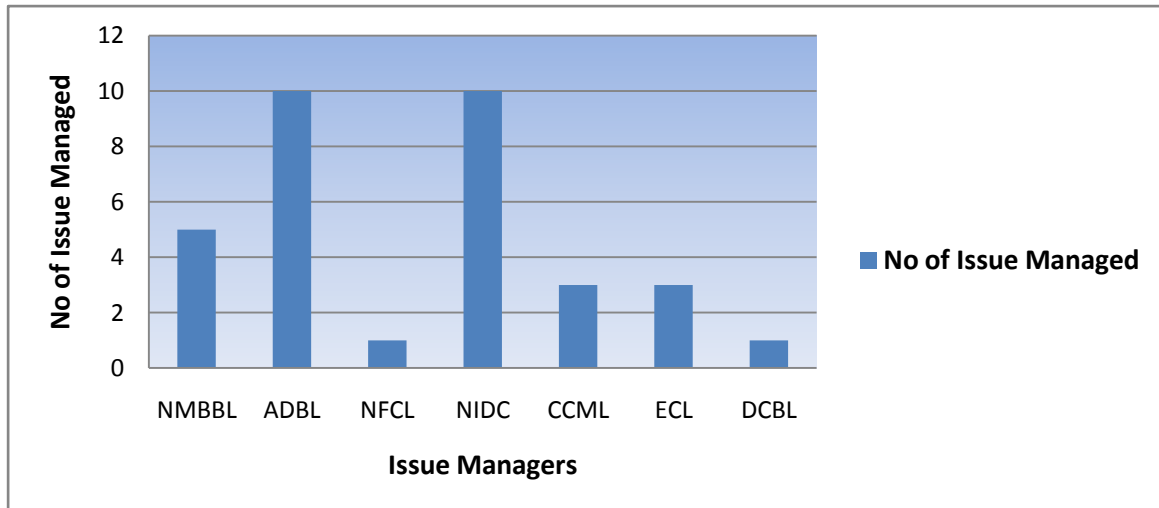
*Including two issue amounting to Rs. 60 Million jointly managed by Citizen Investment Trust and NIDC Capital Market Ltd.

The above table gives the information of number and amount of issue managed by the issue managers in 2009/10, where out of 16 issue managers only 9 are involved in the issue management activities however two issue managers (NSMCL & NHMFL) has not mentioned the no. of issue managed. And among 7 issue managers, highest number of issue managed is by ADBL and NIDC i.e. 10 issues each (30.30%) and second highest is by NMBBL i.e. 5 issues (15.15%). In terms of amount

of issue managed highest amount is issued by ADBL and NIDC. Number wise lowest issue is managed by DCBL & NFCL i.e. 1 issue (3.03%).

Figure 4.3

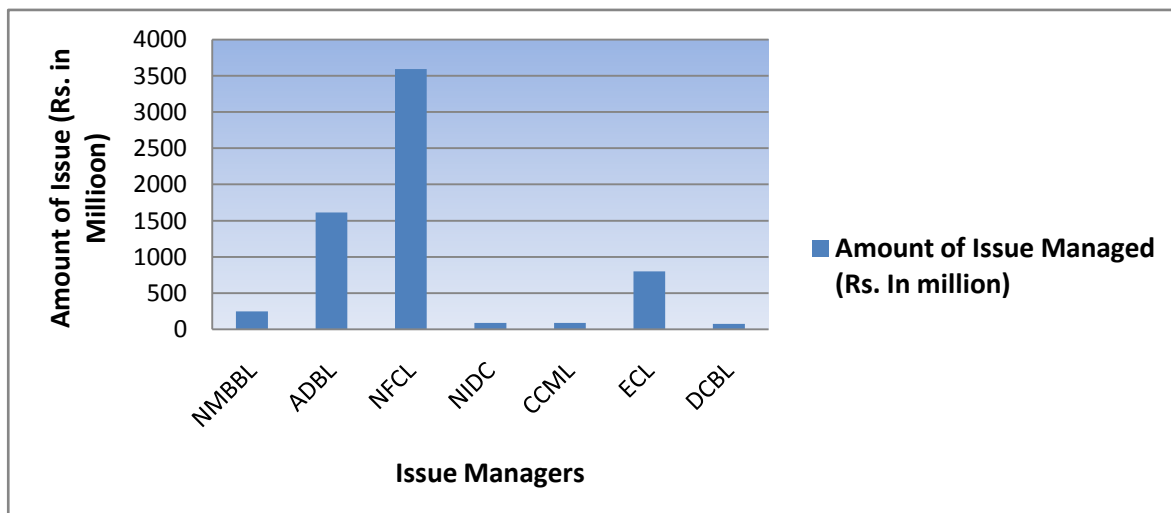
Number of Issue Managed



The above figure 4.3 shows the number of issue managed by the issue managers. The highest number of issues is managed by ADBL & NIDC and the lowest number of issue is managed by DCBL & NFCL, both has only one issue.

Figure 4.4

Amount of Issue Managed



The above figure 4.4 shows the amount of issue managed by the issue managers. The highest amount of issue is managed by ADBL & NIDC and lowest amount of issue is managed by NFCL & DCBL.

4.3.7 Investor Response to IPO

4.3.7.1 Financial Sector

Financial Sector includes commercial bank, development banks, finance companies & insurance companies.

4.3.7.1.1 Investor Response to Commercial Banks

There are 31 commercial banks among which only 23 are listed in the stock exchange. Nepal Arab Bank Limited (NABIL Bank) is the first commercial bank to issue Share to public. Public issues of commercial bank are highly appreciated by public. Investors give high priority and response to the public issue. From the population of all total of 23 only 8 are taken as sample.

Table 4.6

Investor Response to Commercial Banks

S.N.	Name of Company	Share Issued ('000)	Applied	Year	Subscription Times	Result
1.	NSBIBL	360	5,056,921	1994	14.04	Over Subs.
2.	EBL	360	18,515,663	1995	5.14	Over Subs.
3.	MBL	1650	3,272,775	2003	1.98	Over Subs.
4.	LBL	1925	4,838,488	2003	2.51	Over Subs.
5.	SBL	1500	27,979,950	2005	18.65	Over Subs.
6.	GBL	3000	102,899,626	2008	34.25	Over Subs.
7.	CBIL	3000	62,990,520	2009	20.98	Over Subs.
8.	ADB	9600	28,512,000	2010	2.97	Over Subs.

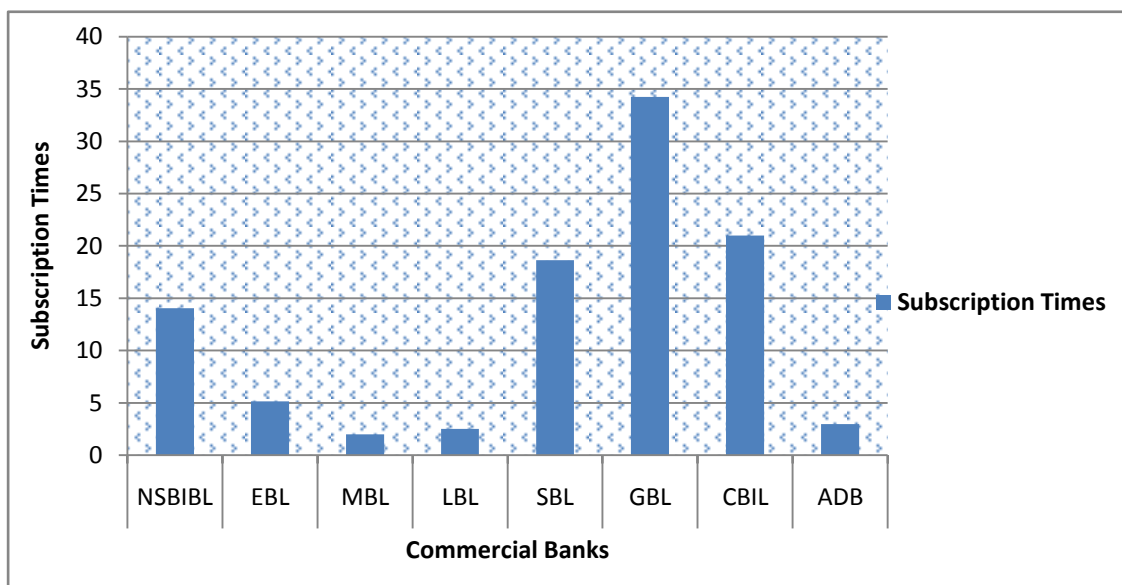
Source: NCML, CIT, NMB, ACE

The above Table 4.6 gives the information about issued shares and applied shares of commercial bank, where we have found applied number of shares is higher than the issued one, i.e. all the issues are over subscribed. Over subscription ranges between 34.25 to 1.98 times. For the 3000000 shares issued by Global Bank Ltd. 102899626 shares have been applied that means it was over subscribed 34.25 times. Similarly 20.98 times subscription in the case Citizen Bank International Ltd., 18.65 times in Siddhartha Bank Ltd., 14.04 times in Nepal SBI Bank Ltd., 5.14 times in Everest Bank Ltd., 2.51 times in Laxmi Bank Ltd., 1.98 times in Machhapuchhre Bank Ltd. and at last 2.97 times in case of Agricultural Development Bank Ltd. in 2010.

From above it is clear that commercial banks share issues are getting overwhelming response from Investor. Investor found to be interested in shares of Commercial Banks.

Figure 4.5

Investor Response to Commercial Banks



The above Figure 4.5 shows that highest subscription is in the case of GBL with highest bar while the lowest bar shows that MBL is least subscribed.

4.3.7.1.2 Investor Response to Development Bank

There are 40 development banks listed in the stock exchange. From the population of 40 only 9 are taken as sample.

Table 4.7
Investor Response to Development Bank

S. No	Name of Bank	Shares Issued	Shares Applied	Issued Year	Subscription Times	Result
1.	SBBL	960000	5773800	2006	40.31	Over Subs.
2.	GDBL	960000	103987200	2006	108.32	Over Subs.
3.	ABBL	294000	10307640	2007	21.94	Over Subs.
4.	MBBL	150000	8226900	2007	54.84	Over Subs.
5.	IDBL	240000	22463688	2007	93.55	Over Subs.
6.	CEDBL	960000	35003040	2008	36.46	Over Subs.
7.	PBBL	800000	17657840	2009	22.07	Over Subs.
8.	VBBL	2652000	19042951	2009	7.18	Over Subs.
9.	MBBL	3000000	16260000	2010	5.42	Over Subs.

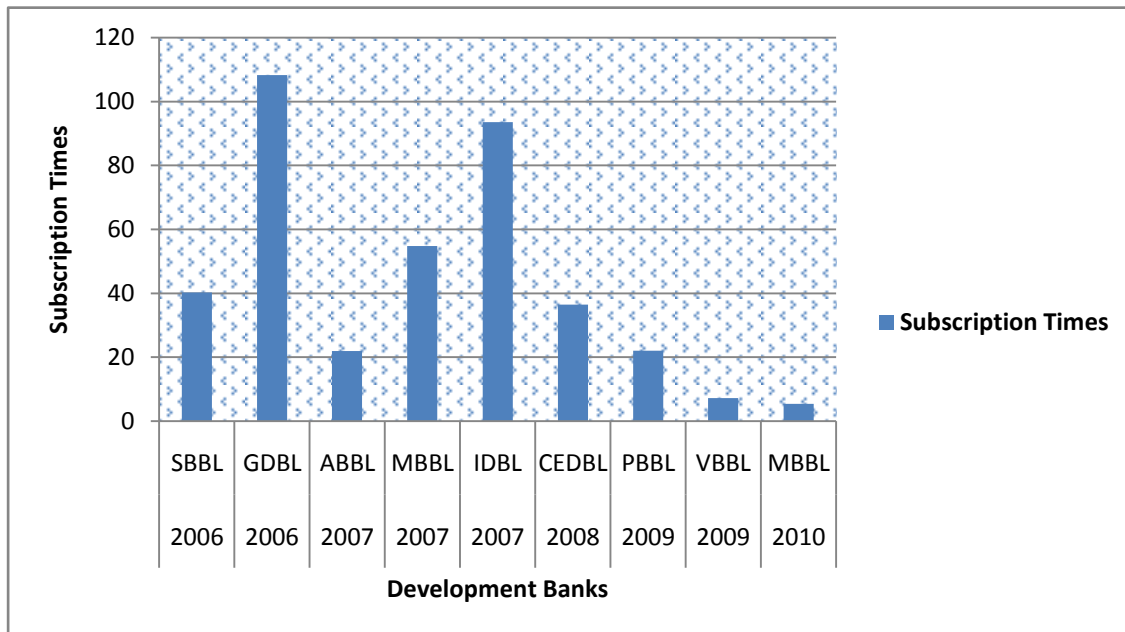
Source: NCML, NMB, NFC, NEFINSCO, SEBON

The above table 4.7 shows the information of issued shares and applied shares of development bank by investors, where all the issue is found to be over Subscribed. That means Investor is also interested in development banks shares. Among them Gorkha Development Bank Ltd (GDBL) was highly subscribed in 2006, the Subscription time was 108.32. For the share issued 960000, there was application for 103987200 shares. Similarly Infrastructure Development Bank Ltd (IDBL) was over-subscribed by 93.55 times, Malika Bikas Bank Ltd (MBBL) by 54.85times, Sanima Bikas Bank Ltd (SBBL) was over –subscribed by 40.31 times, Clean Energy Development Bank Ltd (CEDBL) was over-subscribed by 36.46 times, Pashupati Bikas Bank Ltd (PBBL) was over-subscribed by 22.07 times, Annapurna Bikas Bank Ltd (ABBL) was over – subscribed by 21.94 times, Vivor Bikas Bank Ltd (VBBL) was over –subscribed by 7.18 times. The average subscription time is 48.08 times and Manakamana

Development Bank Ltd. (MBBL) was over-subscribed by 5.42 times. The average subscription time is 43.34 times.

Figure 4.6

Investor Response to Development Bank



Source: NCML, NMB, NFC, NEFINSCO, SEBON

The Figure 4.6 shows that among development banks highest Subscription was in the case of GDBL with highest bar in 2006 and lowest in the case of MBBL with lowest bar in 2010.

4.3.7.1.3 Investor Response to Finance Companies

There are altogether 62 listed finance companies from which 10 are taken for research investor response.

Table 4.8**Investor Response to Finance Companies**

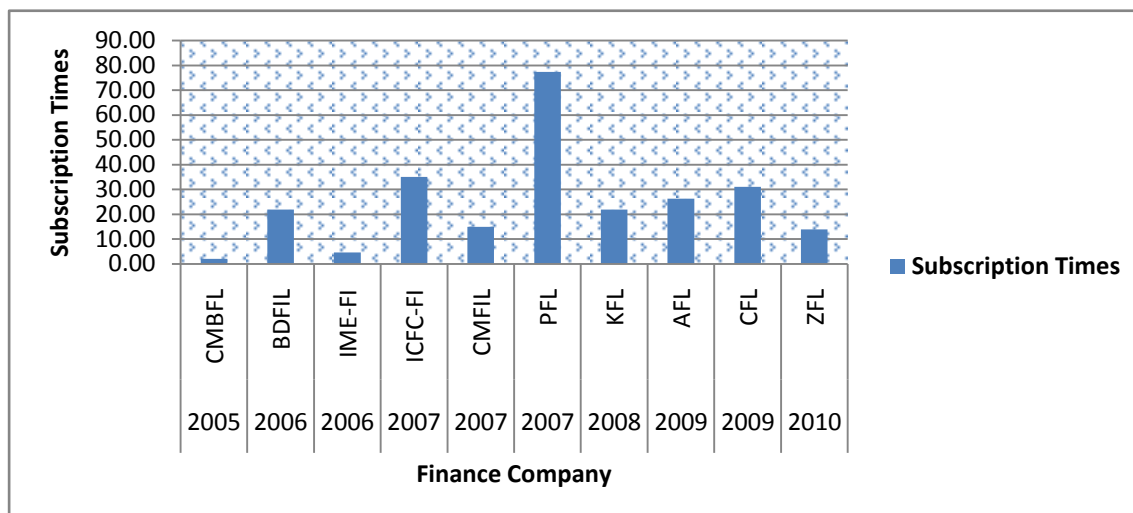
S. No.	Name of Company	Shares Issued	Shares Applied	Issued Year	Subscription Times	Result
1.	CMBFL	280000	565881	2005	2.02	Over Subs.
2.	BDFIL	120000	2626083	2006	21.88	Over Subs.
3.	IME-FI	175000	801552	2006	4.58	Over Subs.
4.	ICFC-FI	244000	8554640	2007	35.06	Over Subs.
5.	CMFIL	200000	3000000	2007	15.00	Over Subs.
6.	PFL	480000	37107840	2007	77.30	Over Subs.
7	KFL	200000	4387000	2008	21.93	Over Subs.
8	AFL	180000	4723740	2009	26.24	Over Subs.
9	CFL	210000	6522812	2009	31.06	Over Subs.
10	ZFL	420000	5833800	2010	13.89	Over Subs.

Source: NCML, NMB, CIT, SEBON, NEFINSCO

The above table shows that all the finance companies issues are over-subscribed. That means Investors are also interested in finance companies shares. Highest over Subscription of 77.30 times is in the case of Prabhu Finance Ltd (PFL), Where 37107840 shares are applied for only 480000 shares. There is 35.06 times subscription in case of ICFC Financial Institution Ltd (ICFC-FI), 31.06 times in Crystal Finance Ltd (CFL) 26.24 times in Api Finance Ltd (AFL), 21.93 times in Kaski Finance Ltd (KFL), 21.88 times in Business Development Financial Institution Ltd (BDFIL), 4.58 times subscription in IME Financial Institution Ltd (IMI –FI), 13.89 times in Zenith Finance Ltd. (ZFL) and the least subscribed but still over –subscribed was in the case of Capital Merchant Banking & Finance Ltd (CMBFL) by 2.01 times. The average subscription time is 24.89 times. This indicates that investors are interested in shares of finance companies.

Figure 4.7

Investor Response to Finance Companies



Source: NCML, NMB, CIT, SEBON, NEFINSCO

Figure 4.7 clearly shows that PFL was highly subscribed while CMBFL is least subscribed. However no company is under subscribed at all.

4.3.7.1.4 Investor Response to Insurance Companies

For the research only 8 companies are taken from the population of 19.

Table 4.9

Investor Response to Insurance Companies

S. No.	Name of Company	Shares Issued	Shares Applied	Issued Year	Subscription Times	Result
1.	HGICL	120000	225756	1994	10.85	Over Subs.
2.	EICL	120000	1301570	2002	7.56	Over Subs.
3.	SICL	102000	33886541	2003	1.33	Over Subs.
4.	PICL	200000	1913620	2004	9.57	Over Subs.
5.	SICL	250000	10939650	2006	43.76	Over Subs.
6.	LGICL	250000	17932751	2007	71.73	Over Subs.
7.	ALICL	1080000	16351200	2009	15.14	Over Subs.

8.	PLICL	1080000	10983600	2010	10.17	Over Subs.
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Source NCML, NMB, CIT, SEBON

Table 4.9 shows that the investor’s response to insurance companies ranges from 71.73 Subscription times to 1.88 times. The highest subscription is 71.73 times for 250000 shares of Lumbini General Insurance Company Ltd (LGICL) and the lowest subscription is 1.88 times for 120000 shares of Himalayan General Insurance Company Ltd. (HGICL). There are 10939650 shares applied for 250000 shares of Shikhar Insurance Company Ltd. (SICL) that is 43.76 times over subscription. In case of Sagaramatha Insurance Company Ltd. (SICL) 33.22 times over- subscribed. There is 10.45 times subscription for 120000 shares of Everest Insurance Company Ltd. (EICL). There is 15.14 times and 10.17 times subscription for Asian Life Insurance Co. Ltd. (ALICL) and Prime Life Insurance Co. Ltd. (PLICL) for 1080000 shares issued by both.

Figure 4.8

Investor Response to Insurance Companies

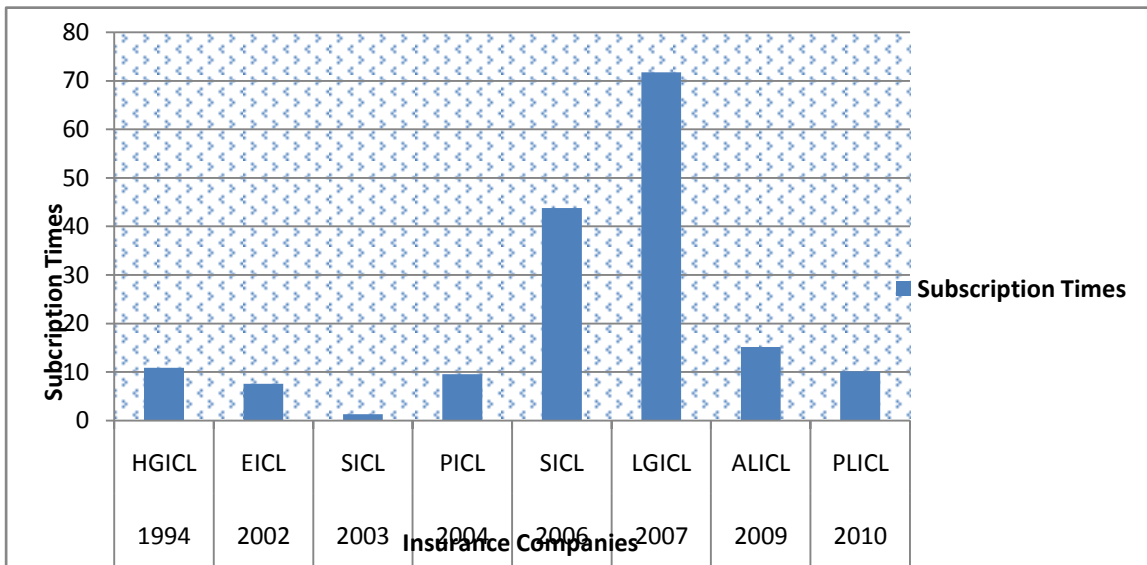


Figure 4.8 clearly shows that LGICL is highly subscribed while SICL is least subscribed one. However no company is under subscribed at all. This indicated that the investors are also interested towards the issues of insurance company as well.

4.3.7.2 Non-Financial Sector

Non-Financial Sector includes Manufacturing & Processing Companies, Trading Companies, Hotels and others. Up to the fiscal year 2009/10, there are 32 non -financial sector companies listed. From those here 9 are taken as sample.

Table 4.10

Investor Response to Non-financial Sector

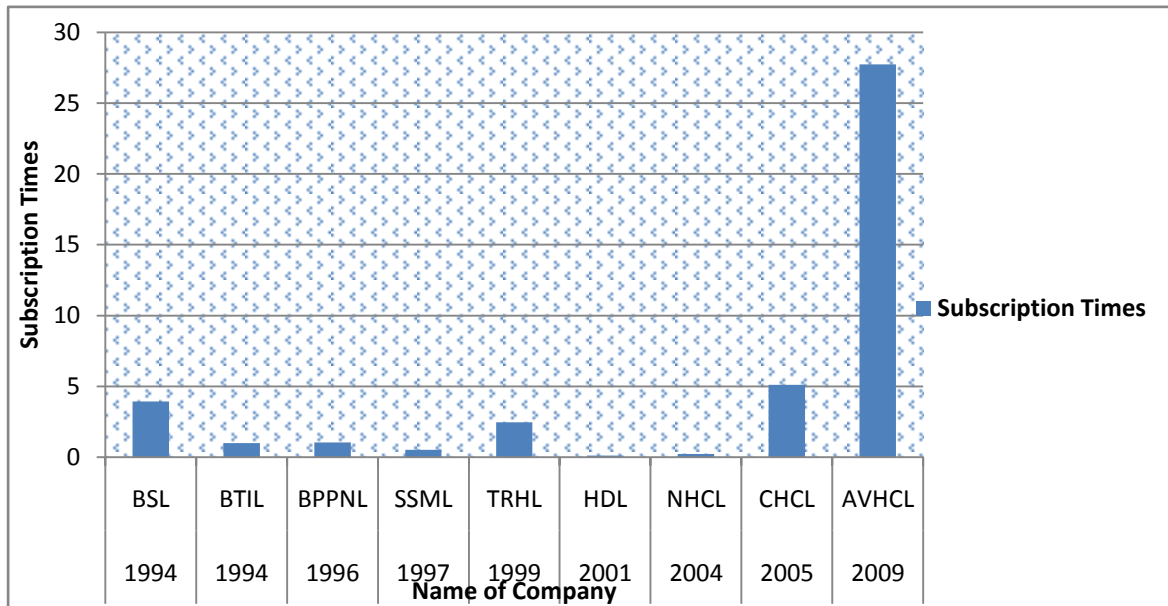
S. No.	Name of Company	Issued Shares	Applied Shares	Issued Year	Subscription Times	Investor Response
1.	BSL	50000	197150	1994	3.94	Over Subs.
2.	BTIL	75000	75000	1994	1.00	Constant
3.	BPPNL	1050000	1101135	1996	1.05	Over Subs.
4.	SSML	465000	245985	1997	0.53	Under Subs.
5.	TRHL	1200000	2965440	1999	2.47	Over Subs.
6.	HDL	17344600	183347	2001	0.11	Under Subs.
7.	NHCL	1400000	301700	2004	0.22	Under Subs.
8.	CHCL	2374100	12104112	2005	5.10	Over Subs.
9.	AVHCL	515000	14287748	2009	27.74	Over Subs.

Source: NCML, NMB, CIT, NSML, SEBON

From Table 4.10, the Subscription of three companies found to be under -subscribed, one company to be remained constant and the rest of 5 companies to be over -subscribed. And at the same time over-Subscription ranges from 1.05 to 27.74 only which is seen to be lower than other financial sectors response. Shreeram Sugar Mills Ltd., Himalayan Distillery Ltd. & National Hydropower Co. Ltd., have the Subscription of 0.53, 0.11 and 0.22 times respectively. Arun Valley Hydropower Co. Ltd. has the highest Subscription of 27.74 times. Birat Shoe Ltd., Balaju Textile Industries Ltd., Brikuti Pulp & Paper Nepal Ltd., Taragaon Regency Hotels Ltd. and Chilime Hydro Power Co. Ltd. have Subscription of 3.94, 1.00, 1.05, 2.47 & 5.10 times respectively.

Figure 4.9

Investor Response to Non-financial Companies



Source: NCML, NMB, CIT, NSML

From Figure 4.9 it is clear that AVHDCL was highly subscribed with 27.74 times subscription while Himalayan Distillery Ltd is least subscribed with 0.11 times among the non-financial companies.

4.4 Primary Data Analysis

Questionnaire method is used to get the primary data for the objectives of the study about the responses of investors. 50 respondents are taken for the collection of data. 50 sets of questionnaire are prepared and then distributed to respective 50 respondents.

The answers obtained from the respondents is presented below in tabular forms to calculate the percentage for each alternative and presented it with pie charts to further illustrate it.

4.4.1 Knowledge about IPO

While asking 50 respondents about their knowledge in IPO, 21 respondents stated that they are well known about IPO, 10 respondents have seen in papers & books about IPO, 11 stated that they have heard a little about it and rest 8 respondents stated that they have never heard about IPO.

Table 4.11

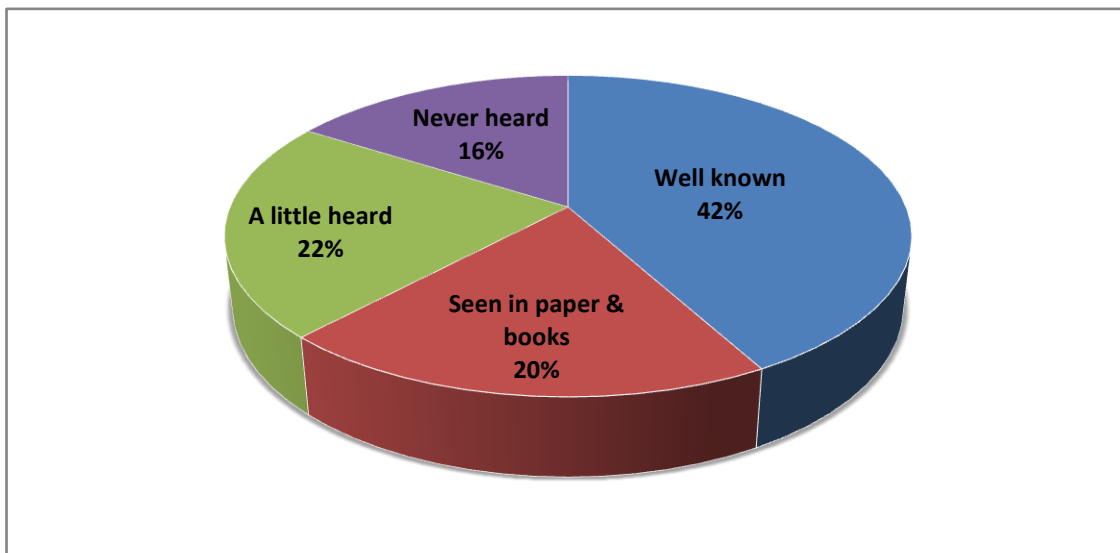
Knowledge about IPO

	Alternatives	No. of Respondents	Percentage (%)
a.	Well known	21	42
b.	Seen in paper & books	10	20
c.	A little heard	11	22
d.	Never heard	8	16
	Total	50	100

(Source: Questionnaire no.1)

Figure 4.10

Knowledge about IPO



Above figure 4.10 depicts that 42% of the people are well known about IPO but 16% have never heard about the IPO, and 20% have seen in papers and books about the IPO while 22% have heard very little about IPO.

Hypothesis testing

Whether there is significant difference between the opinions of different respondents or not, the hypothesis was tested using chi -square.

Null hypothesis H0 = There is no significant different between the opinion of the respondents.

Alternative hypothesis H1 = There is significant different between the opinion of the respondents.

Calculated χ^2 Chi-square test = 8.08 (Details in Annex -1)

The tabulated χ^2 at 5% level of significance for 3 *d. f.* is 7.82 that is $\chi^2_{0.05(3)} = 7.82$

Since calculated value is greater than tabulated value, it is highly significant and null hypothesis is rejected hence alternative hypothesis is accepted which means that there is significant difference between the opinion of respondents. That is most of the respondents are well known about IPO.

4.4.2 Source of Information about IPO

Out of 50 respondents, 13 stated that they get information about IPO from Media, majority of the people (i.e. 20) come to know it from friends and relatives. Only 5 respondents stated that they get information from brokerage firms. There are 12 people who find other way of getting information about it.

Table 4.12

Source of Information about IPO

	Alternatives	No. of Respondents	Percentage (%)
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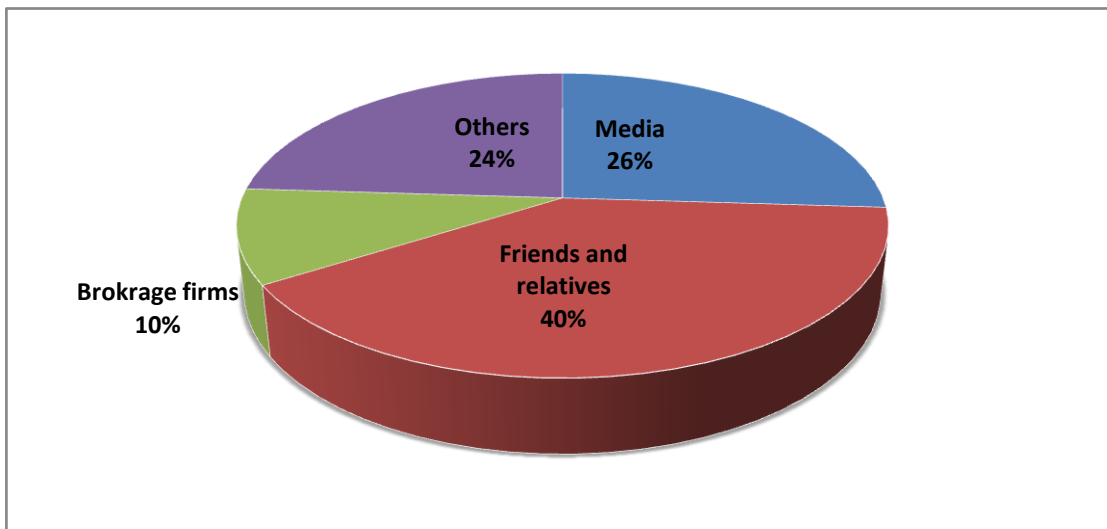
a.	Media	13	26
b.	Friends and relatives	20	40
c.	Brokerage firms	5	10
d.	Others	12	24
Total		50	100

(Source: Questionnaire no.2)

Above tabulated data in table 4.12 are illustrated below with a pie chart to make it more clear and precise.

Figure 4.11

Source of Information about IPO



In the Figure 4.11 highest pie is covered by friends and relatives regarding the response on source of information about IPO i.e.40% and only 10% are informed by the brokerage firms and 26% get information from the media and 24% get information from other sources.

Hypothesis testing

Whether there is significant difference between the opinions of different responding group or not, the hypothesis was tested using chi -square.

Null hypothesis H0 = There is no significant different between the opinion of the respondents.

Alternative hypothesis H1 = There is significant different between the opinion of the respondents.

Calculated χ^2 Chi-square test = 9.04 (Details in Annex -1)

The tabulated χ^2 at 5% level of significance for 3 *d.f.* is 7.82 that is $\chi^2_{0.05(3)} = 7.82$

Since calculated value is greater than tabulate value, it is highly significant and null hypothesis is rejected hence alternative hypothesis is accepted. So it is concluded that that there is significant difference between the opinion of respondents. That is most of the respondents get information about IPO from friends and relatives, average number of them get information from media and other sources and least respondents get information from brokerage firms.

4.4.3 Preference of Market

Out of 50 respondents, majority of people (i.e. 23) stated that they prefer to choose primary market for investment and 16 prefer secondary market. Similarly, only 11 respondents choose both markets for investing. 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 4.13

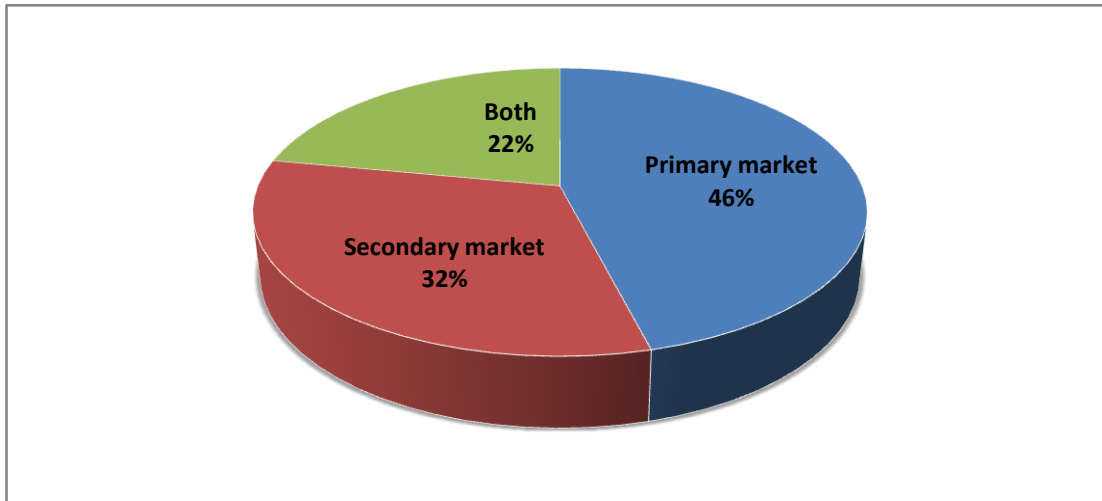
Preference of Market

	Alternatives	No. of Respondents	Percentage (%)
a.	Primary market	23	46
b.	Secondary market	15	32
c.	Both	12	22
Total		50	100

(Source: Questionnaire no.3)

Figure 4.12

Preference of Market



Above 4.12 shows that majority of investors (i.e. 46%) prefer to invest in primary market, 32% of the people prefer to invest in secondary market and 22% select both market for investing their money.

Hypothesis Testing

It was assumed that the investors will uniformly respond to all attributes.

Null hypothesis H₀ = the response toward those 3 attributes are completely uniform.

Alternative hypothesis H₁ = there is significant different in responses toward those 3 attributes.

Calculated χ^2 Chi-square test = 3.87 (Details in Annex -3)

The tabulated χ^2 at 5% level of significance for 2 *d. f* 5.99 that is $\chi^2_{0.05(2)} = 5.99$.

Since tabulated value is greater than calculated value, so alternative hypothesis is rejected and null hypothesis is accepted. Hence it is concluded that the response of investor towards those 3 attributes is uniformly distributed.

4.4.4 Willingness to Invest in IPO

Different four options were given to the 50 respondents to keep their view in regard with willingness to invest in IPO. Only 5 respondents (i.e. 10 %) do not want to take risk from investing in IPO. 22 % stated that they want to invest if had money (hard cash). 12 respondents (24%) stated that there interest to invest depends upon the sector. Rest 44 % stated that they are willing to invest in IPO even with the loan if not the hard cash.

Table 4.14

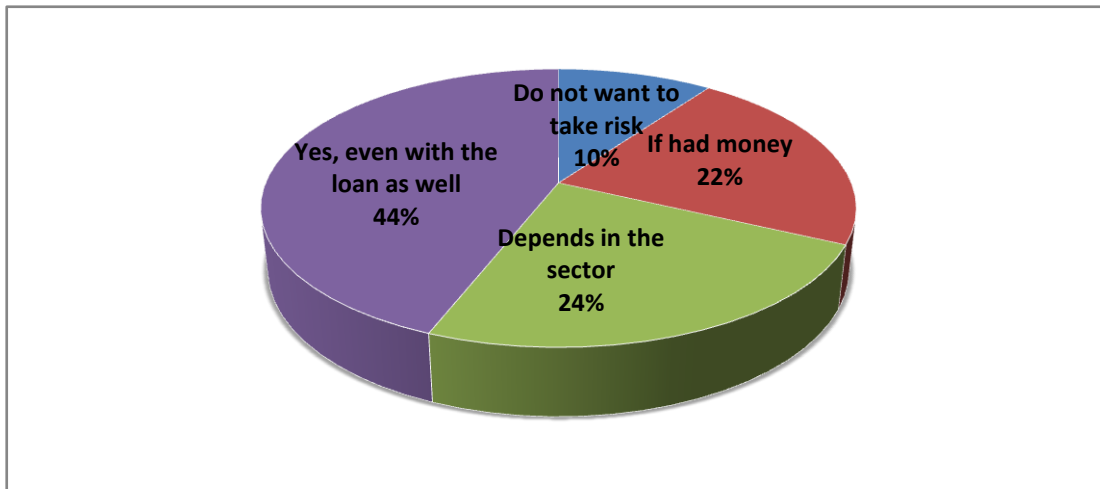
Willingness to Invest in IPO

	Alternatives	No. of Respondents	Percentage (%)
a.	Do not want to take risk	5	10
b.	If had money	11	22
c.	Depends in the sector	12	24
d.	Yes, even with the loan as well	22	44
Total		50	100

(Source: Questionnaire no.4)

Figure 4.13

Willingness to Invest in IPO



From Figure 4.11 it is clear more than 44% people are interested to invest in IPO even with the loan and 10% do not want to take risk. 22% of people expect to invest if they had money in hand and interest of 24% depend their decision on the sector for investment.

Hypothesis testing

Whether there is significant difference between the opinions of different respondents or not, the hypothesis was tested using chi -square.

Null hypothesis H0 = There is no significant different between the opinion of the respondents.

Alternative hypothesis H1 = There is significant different between the opinion of the respondents.

Calculated χ^2 Chi-square test = 11.92 (Details in Annex -4)

The tabulated χ^2 at 5% level of significance for 3 *d.f.* is 7.82 that is $\chi^2_{0.05(3)} = 7.82$.

Since calculated value is greater than tabulate value, it is highly significant and null hypothesis is rejected hence alternative hypothesis is accepted. So it is concluded that that there is significant difference between the opinion of respondents. That is most of the investors want to invest in IPO even with loan.

4.4.5 Choosing IPO Instead of Secondary Market

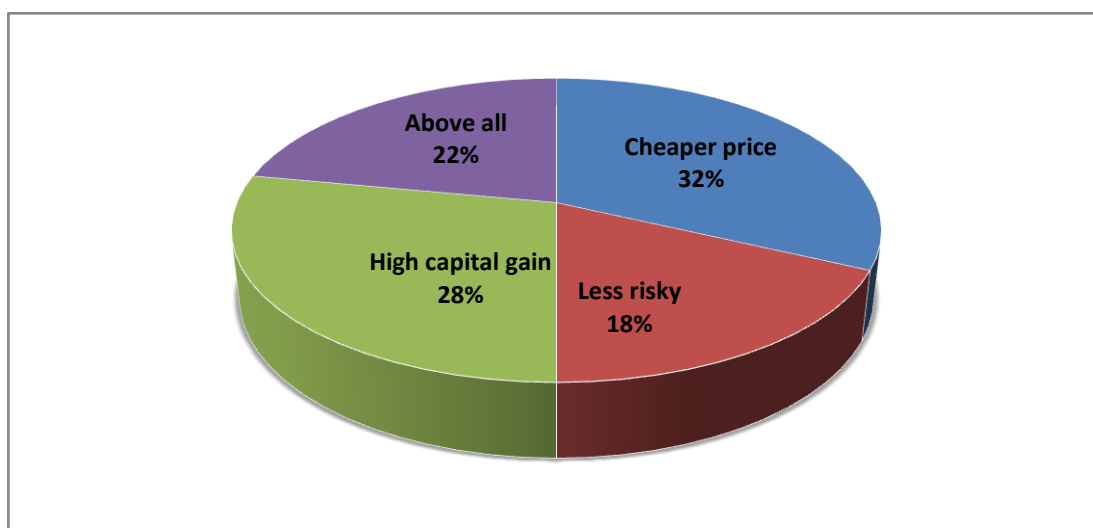
While asking the query about the reason for choosing IPO instead of secondary market, out of 50 respondents, 16 stated that they choose IPO because of cheaper price, 9 choose because IPO is less risky Similarly 14 stated that they choose IPO for high capital gain and 11 respondents choose IPO for investing rather than secondary market for the above all three reasons.

Table 4.15
Choosing IPO instead of Secondary Market

	Alternatives	No. of Respondents	Percentage (%)
a.	Cheaper price	16	32
b.	Less risky	9	18
c.	High capital gain	14	28
d.	Above all	11	22
Total		50	100

(Source: Questionnaire no.5)

Figure 4.14
Choosing IPO instead of Secondary Market



Above figure 4.14 depicts that, 28% choose IPO instead of secondary market because of high capital gain, 18% choose because they think it is less risky. Similarly, 32% choose IPO for the reason of cheap price and 22% prefer to choose IPO instead of secondary market for all the above three reasons.

Hypothesis testing

Whether there is significant difference between the opinions of different respondents or not, the hypothesis was tested using chi -square.

Null hypothesis H0 = There is no significant different between the opinion of the respondents.

Alternative hypothesis H1 = There is significant different between the opinion of the respondents.

Calculated χ^2 Chi-square test = 2.32 (Details in Annex -5)

The tabulated χ^2 at 5% level of significance for 3 *d.f.* is 7.82 that is $\chi^2_{0.05(3)} = 7.82$.

Since tabulated value is greater than calculated value, so alternative hypothesis is rejected and null hypothesis is accepted. Hence it is concluded that there is no significant difference between the opinions of respondents.

4.4.6 Number of Companies Invested

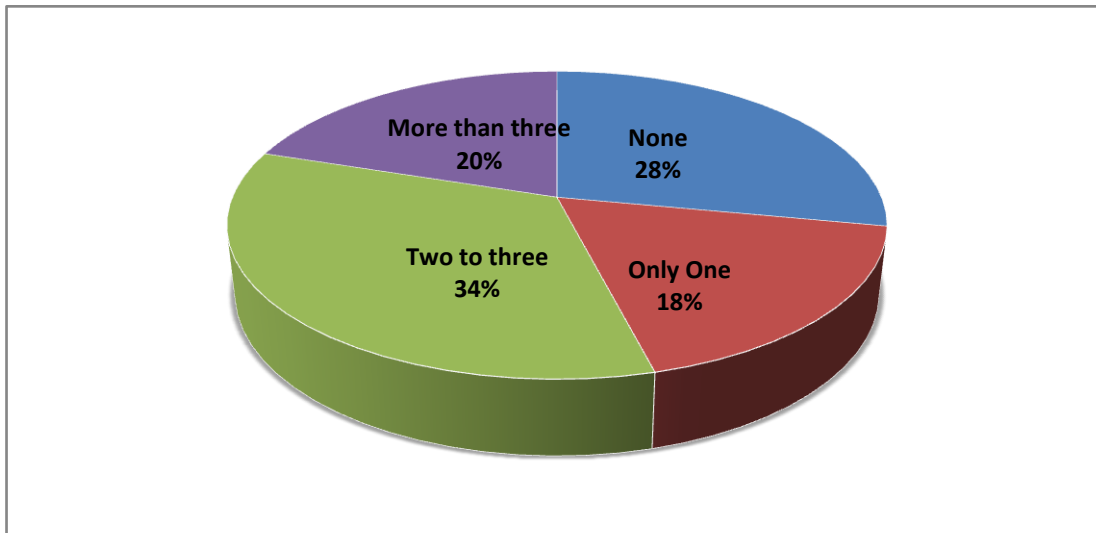
In the questions regarding the number of companies they have invested, out of 50 respondents, 14 have never invested in any company, 9 stated that they have invested in only one company, 17 have invested in two to three companies, and 10 stated that they have invested in more than three companies.

Table 4.16
Number of Companies Invested

	Alternatives	No. of Respondents	Percentage%
a.	None	14	28
b.	Only One	9	18
c.	Two to three	17	34
d.	More than three	10	20
Total		50	100

(Source: Questionnaire no.6)

Figure 4.15
Number of Companies Invested



Above table 4.16 & figure 4.15 depicts that 20% have invested in more than three companies. Most 34% have invested in two to three companies and 18% have invested in only one company and 28% have never invested in any company.

4.4.7 Motives behind Investing in IPO

In the response to the question about motives behind investing in IPO, out of 50 respondents, 18 stated that they invest in IPO because of high return, 11 invest for getting regular dividend. Only 8 persons stated that they invest for financial support for future and 13 invest in IPO thinking that it is the easy way to earn money.

Table 4.17

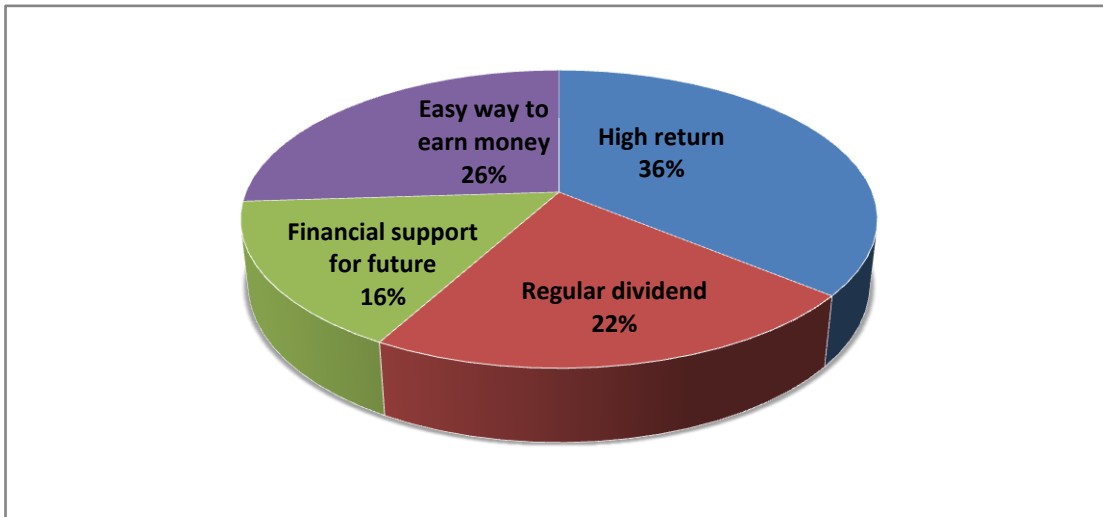
Motives behind Investing in IPO

	Alternatives	No. of Respondents	Percentage (%)
a.	High return	18	36
b.	Regular dividend	11	22
c.	Financial support for future	8	16
d.	Easy way to earn money	13	26
Total		50	100

(Source: Questionnaire no.7)

Figure 4.16

Motives behind Investing in IPO



The figure 4.16 also clears the motives which drive investor to invest in IPO, 36% invest due to high return, and 22% invest with expectation of regular dividend. Similarly, 16% invest for financial support for future and 26% invest because they think it is the easy way to earn money.

Hypothesis testing

Whether there is significant difference between the opinions of different respondents or not, the hypothesis was tested using chi -square.

Null hypothesis H0 = There is no significant different between the opinion of the respondents.

Alternative hypothesis H1 = There is significant different between the opinion of the respondents.

Calculated χ^2 Chi-square test = 4.24 (Details in Annex -6)

The tabulated χ^2 at 5% level of significance for 3 *d.f.* is 7.82 That is $\chi^2_{0.05(3)} = 7.82$

Since tabulated value is greater than calculated value, so alternative hypothesis is rejected and null hypothesis is accepted. Hence it is concluded that there is no significant difference between the opinions of respondents. So it can be said that there is no difference between responses of investors towards the four attributes.

4.4.8 Choices for Investment

Most of the retail investor of Nepalese IPO market is speculators who bet their money on any kind of IPO without properly analyzing the offer documents. This is partly due to the lack of diversity of stocks in the market which is dominated by the stocks of banks and financial institutions. Most of the IPOs are from this sector.

Table 4.18
Choices for Investment

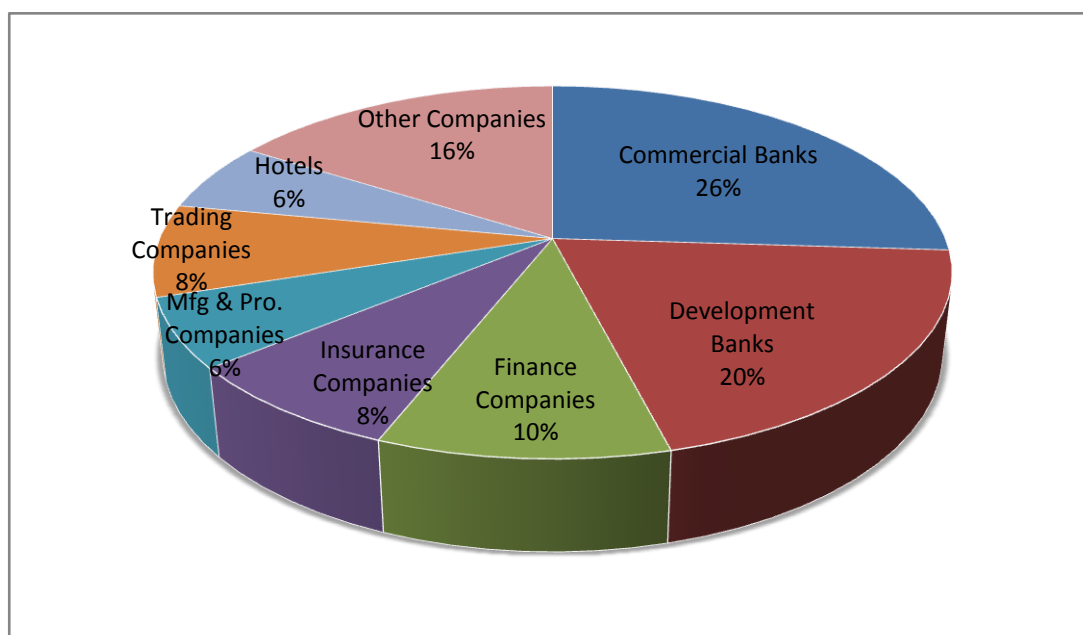
S.N	Investment Sector	No. of Respondents	Percentage (%)
	Financial Sector		
1	Commercial Banks	13	26
2	Development Banks	10	20
3	Finance Companies	5	10
4	Insurance Companies	4	8

	Non-Financial Sector		
5	Manufacturing & Processing Companies	3	6
6	Trading Companies	4	8
7	Hotels	3	6
8	Other Companies	8	16
	Total	50	100

(Source: Field survey, Questionnaire No. 8)

The table 4.18 shows among 50 respondents 26% prefer commercial banks, 20% prefer development banks, whereas 10% prefers finance company and insurance companies are selected by 8% of respondents. Other sectors like, manufacturing & processing companies and trading companies are preferred by 6% and 8% respectively. And 6% of respondents prefer hotels and remaining 16% prefer other companies which includes hydropower companies as well

Figure 4.17
Choices for Investment



The above figure shows investors preferred commercial bank most and development bank preferred in second position and hydropower companies in third position.

Hypothesis Test

To check the statistic at validity of the observation, chi -square test has been calculated. Here, we have made the assumption that each respondent prefer all sector equally. The hypothesis to be tested is that all sectors are equally preferred, against the alternative that at least one sector is preferred more than the other remaining sectors.

Null hypothesis H₀ = All eight sectors are equally preferred by the investors to make investment.

Alternative hypothesis H₁ = All eight sectors are not equally preferred by the investors to make investments.

Calculated χ^2 Chi-square test = 15.28 (Details in Annex -7)

The tabulated χ^2 at 5% level of significance for 7 *d.f.* is 14.07 That is $\chi^2_{0.05(7)} = 14.07$.

Since the calculated value of Chi-square is greater than the tabulated value. It means the Null hypothesis is rejected. That is, the investors do not prefer all sectors equally. In the other word the investors prefer as the observed data given in the table. Banking sector is the most preferred sector of investment for investors where as hotel, trading, insurance and manufacturing sectors are least preferred sectors.

4.4.9 Evaluation Factor for Investing

Regarding to the question about the evaluation factor for investment in IPO, out of 50 respondents, 11 (22%) stated that it is important to know about the promoters, 15 (30%) give preference to the performance of the company and 24 (48%) give emphasis on the market information for the evaluation before investing in IPO of any company.

Table 4.19

Evaluating Factors of Investors

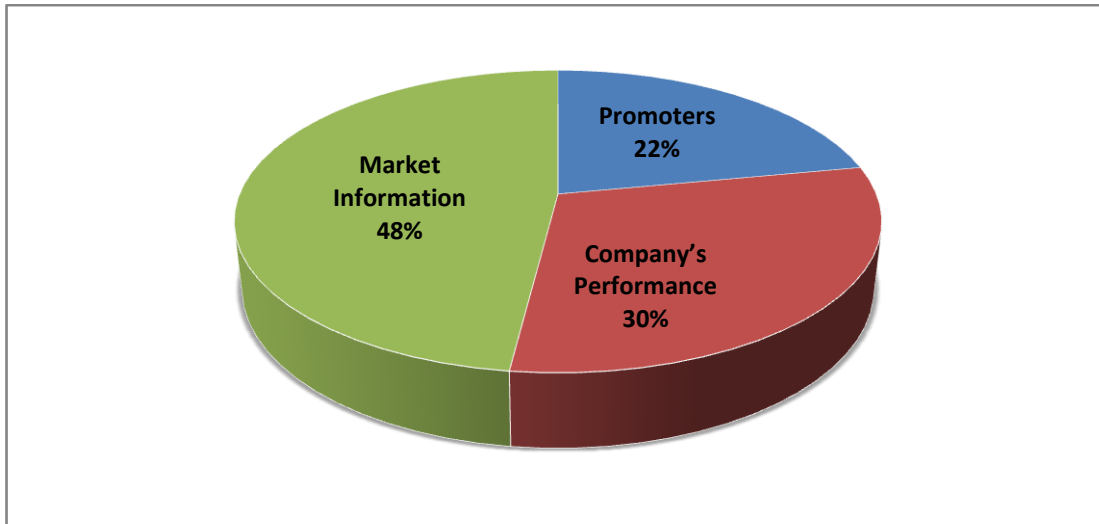
Attributes	Respondents	Percentage (%)
Promoters	11	22.00
Company's Performance	15	30.00
Market Information	24	48.00
Total	50	100

(Source: Field survey, Questionnaire No. 9)

The table 4.15 shows majority of individual investors invest based on the market information of the company and most of the investors said that company's performance is the most important factor which guide whether they made investment or not. Where as only 22.00% of investors look upon the promoters of the company.

Figure 4.18

Evaluating Factors of Investors



The figure also clears that the preference of investors over the companies' prestige or goodwill is important considerable factor which make investment to the investors. But rare investor says the types of company have to consider while making investment decision.

Hypothesis testing

Whether there is significant difference between the opinions of different responding group or not, the hypothesis was tested using chi -square.

Null hypothesis H₀ = There is no significant different between the opinion of the different respondents.

Alternative hypothesis H₁ = There is significant different between the opinion of the different respondents.

Calculated χ^2 Chi-square test = 5.31 (Details in Annex -8)

The tabulated χ^2 at 5% level of significance for 2 *d.f.* is 5.99 that is $\chi^2_{0.05(2)} = 5.99$.

Since tabulated value is greater than calculated value, so alternative hypothesis is rejected and null hypothesis is accepted. Hence it is concluded that there is no significant difference between the opinions of respondents. So it can be said that there is no difference between responses of investors towards the three attributes.

4.4.10 Bases of Decision for Investment

Regarding the investment decision making procedures, 14% of the respondents stated that they make decision on the basis of market index, 28% said that they make decision on the basis of company's profitability, 20% stated that they make on the basis of market price trend, 35% and remaining 38% do not consider the above three alternative for making decision, it shows that they are based on market whim.

Table 4.20

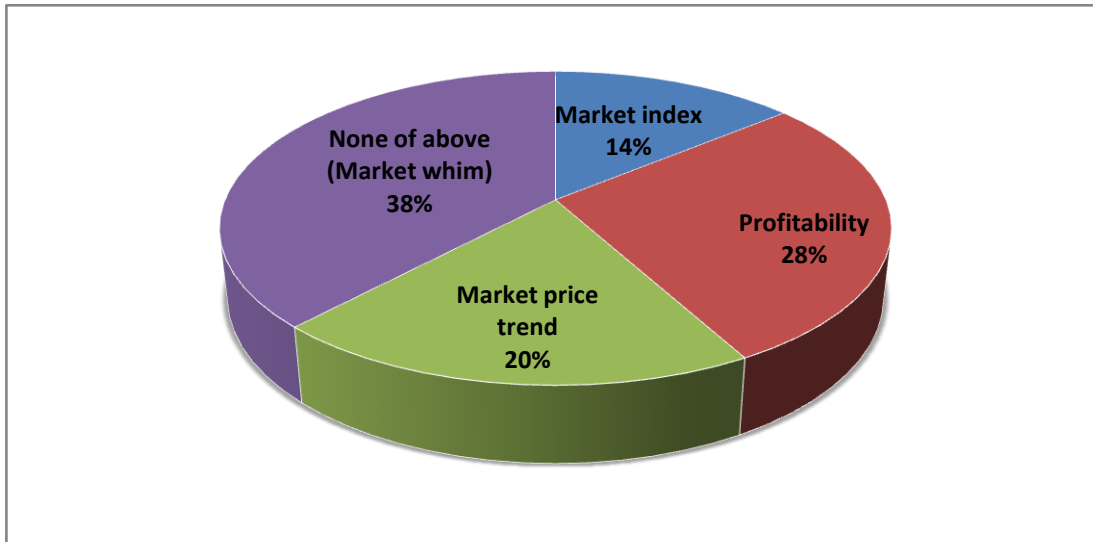
Bases of Decision for Investment

	Alternatives	No. of Respondents	Percentage (%)
a.	Market index	7	14
b.	Profitability	14	28
c.	Market price trend	10	20
d.	None of above (Market whim)	19	38
Total		50	100

(Source: Field survey, Questionnaire No. 10)

Figure 4.19

Bases of Decision for Investment



In the Figure 4.19, only 14% of investors make investment on the basis of market index, 28% on the basis of profitability of the company. Similarly, 20% consider market price trend for making investing decision and majority of investors (i.e. 38%) make investment decision based on the market whim.

Hypothesis Testing

It was assumed that the investors will uniformly respond to all attributes.

Null hypothesis H₀ = the response toward those 4 attributes are completely uniform.

Alternative hypothesis H₁ = there is significant different in responses toward those 4 attributes.

Calculated χ^2 Chi-square test = 6.48 (Details in Annex -9)

The tabulated χ^2 at 5% level of significance for 3 *d.f.* 7.82 that is $\chi^2_{0.05(3)} = 7.82$.

Since tabulated value is greater than calculated value, so alternative hypothesis is rejected and null hypothesis is accepted. Hence it is concluded that there is no significant difference between the opinions of respondents. That is, the investors make decision for investment equally based on the four factors.

4.4.11 Responsible Sector for Promotion of IPO

In the questions regarding the responsible sector for promotion of IPO market of Nepal, majority of the investors (i.e. 32%) think that government should be responsible, 26% think that SEBON and NEPSE is responsible. Similarly, 18% think that issue managers are responsible, 8% think that general investor is responsible and in the view of 16% of investors all the above four sector should have responsibility for the promotion of IPO market in Nepal.

Table 4.21

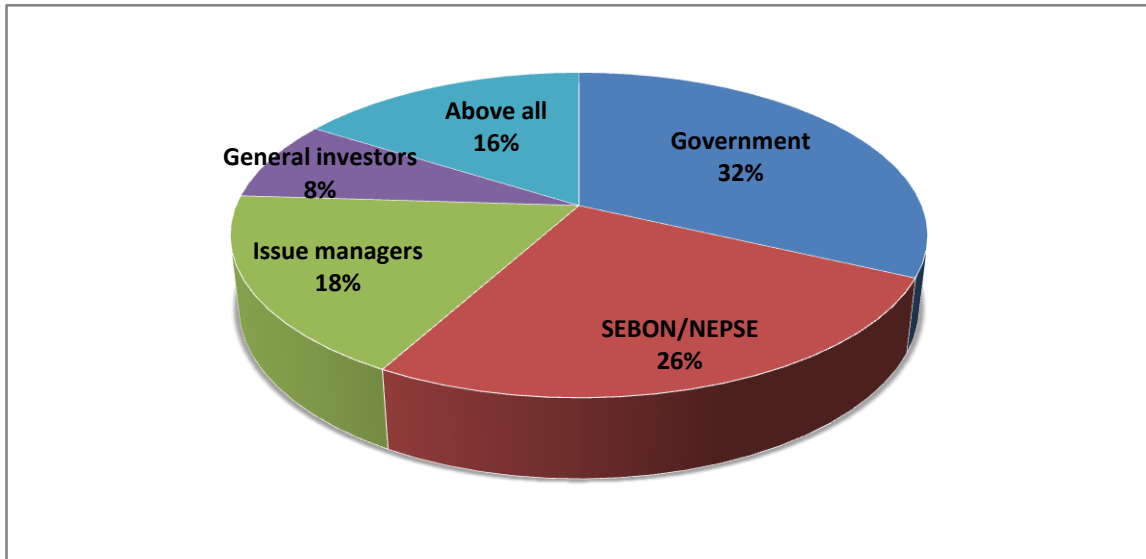
Responsible Sector for Promotion of IPO

	Alternatives	No. of Respondents	Percentage (%)
a.	Government	16	32
b.	SEBON/NEPSE	13	26
c.	Issue managers	9	18
d.	General investors	4	8
e.	Above all	8	16
	Total	50	100

(Source: Field survey, Questionnaire No. 11)

Figure 4.20

Responsible Sector for Promotion of IPO



Above figure 4.20 depicts that majority of investors (i.e. 32%) think that government is responsible for the promotion of IPO in Nepal, 26% think it is SEBON and NEPSE and 18% think issue managers to be responsible. Similarly, view of 8% investors is that general investor should be responsible for the promotion and 16% think all sectors are responsible for promotion from their areas of work.

Hypothesis Testing

It was assumed that the investors will uniformly respond to all attributes.

Null hypothesis H₀ = the response toward those 4 attributes are completely uniform.

Alternative hypothesis H₁ = there is significant different in responses toward those 4 attributes.

Calculated χ^2 Chi-square test = 8.60 (Details in Annex -10)

The tabulated χ^2 at 5% level of significance for 4 *d. f.* 9.49 that is $\chi^2_{0.05(4)} = 9.49$.

Since tabulated value is greater than calculated value, so alternative hypothesis is rejected and null hypothesis is accepted. Hence it is concluded that there is no significant difference between the opinions of respondents. So it can be said that there is no difference between responses of investors towards the three attributes.

4.4.12 Major Problems of Primary Market

Different four options were given to the 50 respondents to keep their view in regard with major problems of primary market. There were no similarities in their view, most of the respondents (i. e. 44%) respond that unstable political situation is the main problem, 28% respond that unfavorable economic condition is the cause. Similarly, 10% stated that it is due to unconfident investor, and rest blamed government policies to be the problem of primary market.

Table 4.22

Major Problems of Primary Market

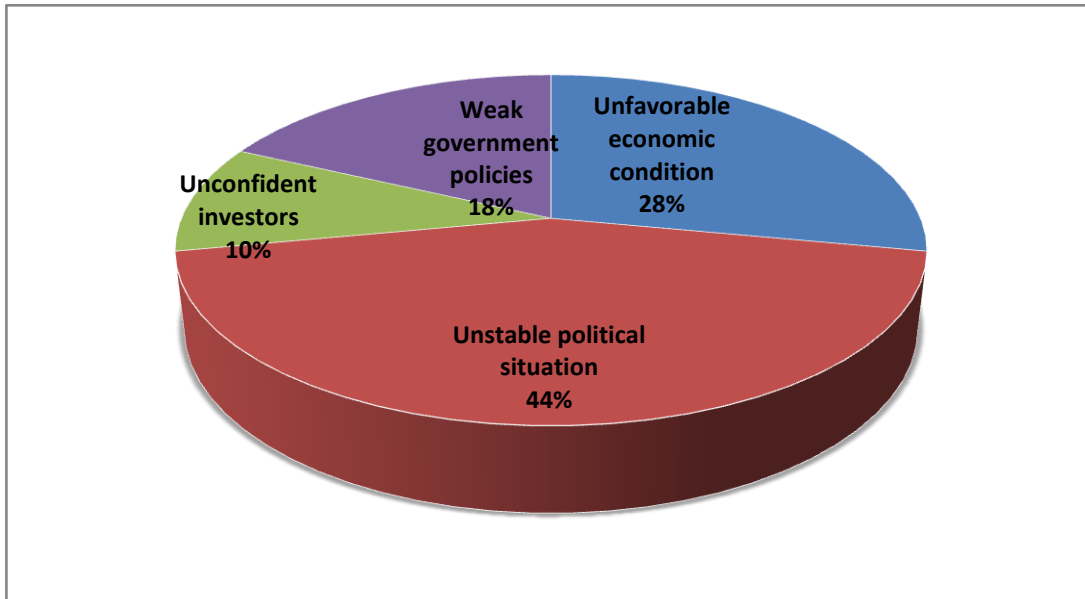
	Alternatives	No. of Respondents	Percentage (%)
a.	Unfavorable economic condition	14	28
b.	Unstable political situation	22	44
c.	Unconfident investors	5	10
d.	Weak government policies	9	18
Total		50	100

(Source: Field survey, Questionnaire No. 12)

Above tabulated data in table 4.22 are illustrated below with a pie chart to make it more clear and precise.

Figure 4.21

Major Problems of Primary Market



The figure also clears that the majority of investors stated that major problem of primary market in Nepal is unstable political situation.

4.4.13 Role of Whim and Rumor in Investing Decision

The question was asked to acquire the information about the influence of whim and rumor affect the decision to investing decision.

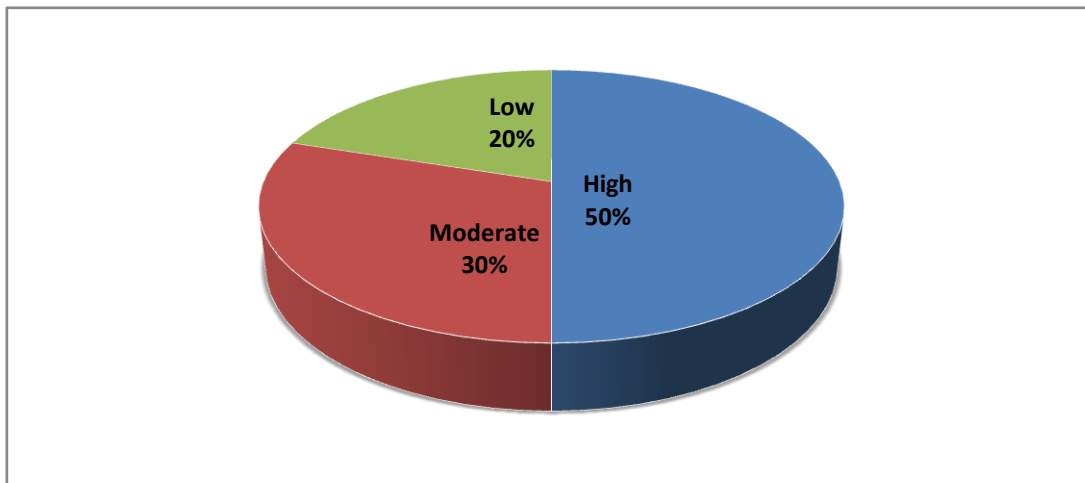
Table 4.23
Influenced by Whim and Rumor

Attribute	No.	%
High	25	50
Moderate	15	30
Low	10	20
Total	50	100

(Source: Field survey, Questionnaire no. 13)

The above 4.26 table shows that 50% of investors are influenced by whim and rumor. It means Nepalese investors are highly influenced by whim and rumor rather than their own knowledge and capacity.

Figure 4.22
Influenced by Whim and Rumor



The figure depicts that the investor are highly influenced by whims and rumors in the market while making decision for investment. In other words, Nepalese investors have been influence with whim and rumors as well as they are not well informed and aware of features of initial public offering. Much of them have become investors without knowing anything, just in a hunch, or by accident.

Hypothesis testing

It was assumed that the investors will uniformly respond to all attributes.

Null hypothesis H0 = the response toward those 3 attributes are completely uniform.

Alternative hypothesis H1 = there is significant different in responses toward those 3 attributes.

Calculated χ^2 Chi-square test = 7.02 (Details in Annex -11)

The tabulated χ^2 at 5% level of significance for 2 *d.f.* 5.99 that is $\chi^2_{0.05}(2) = 5.99$

Since the calculated value exceeds the tabulated value, the null hypothesis is rejected. So it is concluded that there is significant difference between the opinion of respondents. That is most of the investors are highly influenced by whims and rumors in the market.

4.5 Major Findings of the Study

4.5.1 Major Findings from Primary Data

- The study found that most of the investors are well known about IPO and most of them are interested to invest in IPO even with loan as well if they do not have hard cash.
- Among the total investors most of investors (i.e. 46%) choose primary market instead of secondary market and 32% choose it because of cheaper price, 18% choose because of less risk in primary market and 28% choose because of high capital gain.
- Most of the respondents have invested in IPO of different company; only 28% have not invested in IPO of any company.
- Among total investors, 36% invest due to high return, and 22% invest with expectation of regular dividend. Similarly, 16% invest for financial support for future and 26% invest because they think it is the easy way to earn money.
- Among total investor about 64% prefer to invest in financial sector and 34% prefer to invest in non-financial sector.
- Banking sector is the most preferred sector of investment for investors where as hotel, trading, insurance and manufacturing sectors are least preferred sectors.
- Among the financial sector people about 26% choose commercial banks and in non -financial sector only 6% choose manufacturing and processing company.
- Nepalese investors are highly influenced by market information that is 48% investor evaluate market information while investing on IPO and only 30% are interested in company's performance and only 22% investor go through evaluating promoters.
- Regarding the bases of decision making for investment, majority of investor (i.e. 38%) seem to be based on market whim, 20% are based on market price trend and 28% consider profitability of company for decision. Only 14% analyze market index for investment decision.
- Majority of investors (i.e. 32%) think that government is responsible for the promotion of IPO in Nepal, 26% think it is SEBON and NEPSE and 18% think issue managers to be responsible. Similarly, view of 8% investors is that general investor should be responsible for the promotion and 16% think all sectors are responsible for promotion from their areas of work.

- Among the total investors, 44% think that the major problem of primary market in Nepal is unstable political situation, 28% think it is because of unfavorable economic condition and 18% think that it is due to weak government policies. Similarly, 10% of them state that investors are unconfident.
- Majority individual investors highly affected by whim and rumor. The investors use to hold the decision of making investment on the basis of whim and rumor, investors realize themselves they also can't be detached from it.

4.5.2 Major Findings from Secondary Data

- Investor response to the financial institutions and insurance sectors is higher than non - financial sector. In case of financial sector among the 35 sample all are oversubscribed i.e. 100 % whereas in non-financial sector 3 are undersubscribed i.e. 33.33% among the 9 samples.
- Pace of public offering is also increasing as amount of issue approved continuously increase from 1993/94 (244.4 million) to 2001/2002 (1441.33 million) then decreased in 2002/03 and again started increasing and reached at 2443.28 million in 2005/2006 and again decreased to 2295.5 million in 2006/07 again started increasing and reached at 16828.51 million in 2008/09 and again it decreased in 2009/10 to 10822.41 million to the level of 2007/08.
- Among the 16 issues managers in the year 2009/10 only 9 have managed the issue. Among them two issue managers (NSMCL & NHMFL) has not mentioned the no. of issue managed. And among 7 issue managers, ADBL and NIDC are seems to be the dominant one as they both rank in first position in terms of highest number i.e. 10 issues each (30.30%). And in terms of amount of issue managed, highest amount of issue is managed by NFCL and ADBL with 55.25% and 24.79% of issue managed respectively.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.4 Summary

Primary market is the market for new securities. The key mechanism of primary market is initial public offering (IPO). The first time issuance of securities to the public is known as IPO. 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 enterprise 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 general investors perspective and response to the initial public offering; this study also focuses on the dealing process and pace of the initial public offerings. The primary and secondary, both types of data are taken to analyze the objective of the study. Primary data are taken from direct questionnaire provided to general investors. Secondary 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 regulations of SEBON. Securities Board Nepal is the regulatory body of Nepalese stock market. Stock Exchange Limited is the trading body. Before going to the public, the company must be approved from SEBON. After getting approval, issuing company must give its information to the Nepal stock Exchange Limited and Company Register's Office.

Issuing company is free to choose one or more than one issue manager/s for the process of issuing the shares. Bankers to the issue also involve during this period. Issue manager has to publish a public notice in the national daily newspapers to offer public for investment. The notice must be published seven 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 managers think the required applications have been collected, they can close, anytime 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 40 to 90 days can be taken. After allotment within next 15 days the issue manager has to refund the money of those public whose application has not been accepted. Within 30 days of refund period the certificates has to be distributed.

According to Securities Board, 385 issues approval of different companies for public issue. There are 176 companies listed in Nepal Stock Exchange Limited. In a year 2009/10, maximum, 72 companies have got approval from SEBON. Public response to the financial institutions and insurance sectors is higher than non-financial sectors.

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

IPO can be a risky investment as historical data of the issuing company affects it. As IPO's are generally under-priced so it attracts more investors. And if IPO's are overpriced, this may create problems to underwriters as they may not meet their commitment to issuing company.

Nepali investors have developed an increasing interest in the capital market. Although still at a nascent stage, the local capital market, especially the primary market, has been fast growing. The majority of Initial Public Offering (IPOs) are highly oversubscribed. However though investing in IPOs often guarantees returns, there is also risk in such investments. The investors should be aware of these risk and return.

From 1993/94 to 2009/2010 SEBON has approved 385 issues amounting Rs. 50212.10 million. The highest number of issues is in the year 2007/2008 and 2008/2009 which is 64 and the lowest is in 1996/1997 and in 1998/1999 which is 5 only. In the 385 issues 177 were oversubscribed, 90 were undersubscribed and 118 were constant.

While analyzing the Investor response in financial sector, in average 12.56 times subscription found in Commercial Bank. For the development bank Subscription time of 43.34 in average is found, for the Finance Companies average Subscription is 24.89 times. For the Insurance Companies average Subscription is 21.26 times. From all this it is clear that most desirable financial sector is development bank sector, 26.27 Times Subscription for the whole financial sector. Similarly, only 4.68 times Subscription was found in case of non -financial sector. It gives the clue that public are more attracted toward financial sector than non-financial sector.

ADBL and NIDC are seems to be the dominant one as they both rank first in terms of highest number of issue managed i. e. 30.30% and highest amount of issue is managed by NFCL and ADBL that is 55.25% and 24.79% respectively.

From the primary data analyzes it is clear that most of the public are aware about the IPO, only 16 % do not have heard about IPO. 46% IPO instead of secondary market and 44% want to invest in IPO even with the loan. Among the respondents 40% are informed about IPO from friends and relatives.

Most of the respondents choose primary market rather than secondary market, 32% choose it because of cheaper price, 18% choose because of less risk in primary market and 28% choose because of high capital gain. Most of the respondents have invested in IPO of different company; only 28% have not invested in IPO of any company.

Among total investors, 36% invest due to high return, and 22% invest with expectation of regular dividend. Similarly, 16% invest for financial support for future and 26% invest because they think it is

the easy way to earn money. Among the investors 30% people give preference to company's performance before investment. 22% are interested in the promoter's recognition.

Among total investor about 64% prefer to invest in financial sector and 34% prefer to invest in non-financial sector. From among the financial sector 26% are interested in commercial banks, 20% in development banks, 10% in finance companies and only 8% in insurance companies and from non-financial sector 8% are interested in trading company and only 6% are interested in manufacturing and processing company. 6% are interested to invest in hotels and 16% are interested in other companies which includes hydropower sector.

Majority of investors (i.e. 32%) think that government is responsible for the promotion of IPO in Nepal. Among the total investors, 44% think that the major problem of primary market in Nepal is unstable political situation, 28% think it is because of unfavourable economic condition and 18% think that it is due to weak government policies.

More than half of the respondents are in the view, that the capital market is driven by whim and rumor. Most of the investor views an IPO as a quick way to make money rather than long term investment only few investors hold shares for long time that is they want short term benefit.

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 realized the importance of the investment in shares, people have seen that most companies are distributing dividends, share prices of most companies are increasing and a lack of better alternative for investment.

Public Response in stock market is high due to lack of opportunities for investment in other sector. Despite this, public are attracted towards shares to increase their value of investment.

5.5 Conclusion

Nepali Investors have developed an increasing interest in the capital Market. Although still at a developing stage the primary market has been fast growing. 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 form general public. Specifically 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 number of companies approved for public offering by SEBON in a single year varies from 5 to 18. The highest amount of issue approved by the board was Rs.16828.51 million while the lowest amount of issue was Rs.173.96 million. If we see on the basis of sector, SEBON had granted 80.5% approval for financial institutions and insurance sectors and 19.5% approval for non-financial sectors.

Even though the organization's 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 fulfilling this role gradually. The structure of both segments of the market primary/New and secondary/Stock exchange has witnessed significant change. Some of the important development in the primary market which deserve specific mention are the establishment of merchant banks, provision of speedy up allotment/refund, proportionate allotment of shares, allotment of financial institution, increase in minimum application amount of investment in primary issue such change have brought significant public response in new issue. The secondary market which presented an institutional mechanism that may be transparent, hardly regulate and rarely feared to investor's protection but not yet in practice. Among them are prescription of norms for intermediaries like broker in trading/settlement and the bound of stock exchange with participant from stock exchange members and investors. The exchange has made tremendous effect in the volume of transaction, share turnover, number of shareholders, public response and market Capitalization.

If raising interest of the public in to primary market is one of the objectives, then the primary market of Nepal is fulfilling this role gradually. The structure of both segments of the market primary/New and secondary/Stock exchange has witnessed significant change. Some of the important development in the primary market which deserve specific mention are the establishment of

merchant banks, Provision of speedy up allotment/refund, proportionate allotment of shares, allotment of Financial institution, increase in minimum application amount of investment in primary issue such change has brought significant public response in new issue.

IPO markets are always fruitful for companies to raise capital from the market. However, companies should make a good choice regarding the type of issues and understand the market sentiments to make their IPOs successful. Similarly, the regulatory body should inform and educate the market about IPOs, and advise the investors to base their decision not only on the information. With the capital market continuing to grow, the investors can expect more IPOs in the future. Also the regulations and processes will evolve and become better.

From the analysis it is concluded that if any reputed company tries to promote and provide awareness about IPO market, concerned body should give support to encourage the investors. Government is responsible for the promotion of primary market in Nepal, political situation of the country must be stable.

5.6 Recommendations

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

- Investing in shares is a gamble which involves huge amount of risk. To be successful in the stock market, investors should always be clear to his strengths, weakness, requirements, wishes, risk taking capabilities and how to react on different and ever changing market conditions. They should not buy the shares of a company until they know details about it.
- Most of the public issues are from banking and finance sector so issue -manager should take initiative step to promote their business from other sectors too. They should be equally effortful in developing the public offering market as an avenue for cost effecting financing.
- Investment bankers and Issue managers play a vital role in the IPO process, they should try to give more transparent, fast, hassle free service so that more public involve in the IPO.

- Nepali Merchant banks have upgraded their capabilities and started offering online application system for IPOs; the investors are still required to go through the traditional paper-based system because SEBON is yet to put in place the required system to make it fully functional. Online application should be start soon to facilitate the application procedure of IPO.
- Before investing in any company, all the investors must go through the company's financial details, prospectus, and other relevant information about the company rather than market whim and rumor.
- Issuing companies should make a good choice regarding the type of issues and understand the market sentiments to make their IPOs successful. Similarly the regulatory body should inform and educate the market about IPOs, and advise the investors to base their decision not only on the information provided in the offer documents but to seek more information.
- Small investors are also the part of primary market, so IPO funding through financial institution should be strictly regulated to discourage the big investors who place several applications using the identification documents of many other individuals.
- 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.
- The government, concerned bodies and individuals have to work hard to make the investment in securities preferable to investors by implementing the rules, regulations, policies and activities more strictly. The regulatory authorities of the stock market should try to rise the trading of shares by regulating the activities and performance concerned bodies such as brokers and the listed companies frequently to create the efficient pricing of shares.
- Most IPO subscribers in Nepal are short -term investors who are interested to sell the investors who are interested to sell the stocks as soon as they are listed in the stock exchange. Also they are not aware about the whole process of IPO. They are investing on IPO as a quick way to make money rather than a long -term investment.
- The issue managers are required to park the application money in an account with the Nepal Rastra Bank. This is meant to discourage the practice of collecting applications not backed by application money. If an applicant does not get the stock allotted on his/her

name, the money is returned to him/her by issuing a check payable in the bank account mentioned in the application form.

- Application from each corner of the country should be asked so that all interested candidates could apply on IPO. As it is found that most of the IPO's are concentrated in the valley only.
- Presently, intuitional players have not been able to play any noticeable role in the stock exchange. Limited market, allotment procedure and emphasis of small investors have not helped to enhance the role of the institutional players. Increased role of such players will make the market more competitive.
- While investing or trading in the primary or secondary market, the major consideration should be made that of the promoters, directors and managers in Nepal. Other considerations may be market prospect, professionalization of management and overall environment.

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APPENDIX-I
Research Questionnaire

Dear Respondent,

I have been conducting a research on “A Study of Initial Public Offering from General Investor’s Perspective”. Following are the questionnaire I’ve developed and presented as a part of the study.

I will be very grateful if you kindly fill-up this questionnaire which is the requirement of my Master level thesis.

Respondents Profile

Name:

Address:.....Occupation:..... Date:

.....Signature:

Questions for the Survey

1. Have you ever heard about the IPO?
 - a. Never Heard
 - b. Seen in the papers
 - c. A little
 - d. Well known

2. From which source you come to know about IPO?
 - a. Media
 - b. Friends and relatives
 - c. Brokerage Firms
 - d. Others

3. Which market do you prefer to invest your money?
 - a. Primary Market

- b. Secondary Market
 - c. Both
4. Would you like to invest in IPO?
- a. Do not want to take risk
 - b. If had money
 - c. Depends on the sector
 - d. Yes, even with loan as well
5. Why do you choose IPO/Primary Market instead of secondary market?
- a. Cheaper price
 - b. Less risky
 - c. High capital gain
 - d. Above all
6. In how much company do you have invested?
- a. None
 - b. Only One
 - c. Two to three
 - d. More than three
7. What are the motives behind decision of investing in IPO?
- a. High return
 - b. Regular dividend
 - c. Financial support for future
 - d. Easy way to earn money
8. In which sector's IPO, do you think have more opportunity for investment to the public?
- a. Commercial banks
 - b. Development banks
 - c. Finance Company
 - d. Insurance Company

- e. Manufacturing & Processing Company
 - f. Trading Company
 - g. Hotels
 - h. Other Company
9. What factor do you consider to evaluate while investing?
- a. Promoters
 - b. Company's Performance
 - c. Market information
10. What are the bases of decision for investment?
- a. Market index
 - b. Profitability
 - c. Market price trend
 - d. None of above (Market whim)
11. Which sector must play a leading role to promote IPO market of Nepal?
- a. Government
 - b. SEBON/NEPSE
 - c. Issue managers
 - d. General investors
 - e. Above all
12. What are the major problems of primary market?
- a. Unfavourable economic conditions
 - b. Unstable political situation
 - c. Unconfident investor
 - d. Weak government policies
13. Do you agree Nepalese investors are influence by whim and rumours?
- a. High
 - b. Moderate
 - c. Low

APPENDIX-II

Tabulation of Questionnaires

Knowledge about IPO	No	%
Well known	21	42
Seen in paper & books	10	20
A little heard	11	22
Never heard	8	16
Total	50	100

Source of Information	No	%
Media	13	26
Friends and relatives	20	40
Brokerage firms	5	10
Others	12	24
Total	50	100

Preference of Market	No	%
Primary market	23	46
Secondary market	15	32
Both	12	22
Total	50	100

Willingness to Invest in IPO	No	%
No risk at all	5	10
If had money	11	22
Depends in the sector	16	32
Yes, Even with the loan	18	36
Total	50	100

Choosing IPO instead of Secondary Market	No	%
Cheaper price	16	32
Less risky	9	18
High capital gain	14	28
Above all	11	22
Total	50	100

Number of Companies Invested	No	%
None	14	28

Only One	9	18
Two to three	17	34
More than three	10	20
Total	50	100

Motives behind Investing in IPO	No	%
High return	18	36
Regular dividend	11	22
Financial support for future	8	16
Easy way to earn money	13	26
Total	50	100

Choices for Investment	No	%
Commercial Banks	13	26
Development Banks	10	20
Finance Companies	5	10
Insurance Companies	4	8
Manufacturing & Processing Companies	3	6
Trading Companies	4	8
Hotels	3	6
Other Companies	8	16
Total	50	100

Evaluation Factor for Investors	NO	%
Promoters	11	22.00
Company's performance	15	30.00
Market Information	24	48.00
Total	50	100

Bases of Decision for Investment	NO	%
Market index	7	14
Profitability	14	28
Market price trend	10	20
None of above (Market whim)	19	38
Total	50	100

Responsible Sector for Promotion of IPO	No	%
Government	16	32
SEBON/NEPSE	13	26
Issue managers	9	18
General investors	4	8
Above all	8	16
Total	50	100

Major Problems Of Primary Market	No	%
Unfavourable economic condition	14	28
Unstable political situation	22	44
Unconfident investors	5	10
Weak government policies	9	18
Total	50	100

Influenced by Whim and Rumour	NO	%
High	23	46
Moderate	15	30
Low	12	24
Total	50	100

APPENDIX-III

ANNEX-1

Knowledge about IPO

Calculation of chi-square test

	O	E	O-E	(O-E)²	(O-E)²/E
Well known	21	12.5	8.5	72.25	5.78

Seen in paper & books	10	12.5	-2.5	6.25	0.5
A little heard	11	12.5	-1.5	2.25	0.18
Never heard	8	12.5	-4.5	20.25	1.62
					8.08

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 8.08$$

Degree of freedom = n-1 =4-1=3

$\alpha = 5\%$

Tabulated $\chi^2_{0.05} (3) = 7.82$

ANNEX: 2

Source of Information about IPO

Calculation of chi-square test

	O	E	O-E	(O-E) ²	(O-E) ² /E
Media	13	12.5	0.5	0.25	0.02
Friends and relatives	20	12.5	7.5	56.25	4.5
Brokerage firms	5	12.5	-7.5	56.25	4.5
Others	12	12.5	-0.5	0.25	0.02
					9.04

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 9.04$$

Degree of freedom = n-1 =4-1=3

$\alpha = 5\%$

Tabulated $\chi^2_{0.05} (3) = 7.82$

ANNEX: 3

Preference of Market

Calculation of chi-square test

	O	E	O-E	(O-E) ²	(O-E) ² /E
Primary market	23	16.67	6.33	40.07	2.40
Secondary market	15	16.67	-1.67	2.79	0.17
Both	12	16.67	-4.67	21.80	1.30
					3.87

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 3.87$$

Degree of freedom = n-1 = 3-1=2

$\alpha = 5\%$

Tabulated $\chi_{20.05}^2(2) = 5.99$

ANNEX: 4
Willingness to Invest in IPO

Calculation of chi-square test

	O	E	O-E	(O-E) ²	(O-E) ² /E
Do not want to take risk	5	12.5	-7.5	56.25	4.5
If had money	11	12.5	-1.5	2.25	0.18
Depends in the sector	12	12.5	-0.5	0.25	0.02
Yes, even with the loan as well	22	12.5	9.5	90.25	7.22
					11.92

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 11.92$$

Degree of freedom = n-1 = 4-1=3

$\alpha = 5\%$

Tabulated $\chi_{20.05}^2(3) = 7.82$

ANNEX: 5
Choosing IPO instead of Secondary Market

Calculation of chi-square test

	O	E	O-E	(O-E) ²	(O-E) ² /E
Cheaper price	16	12.5	3.5	12.25	0.98
Less risky	9	12.5	-3.5	12.25	0.98
High capital gain	14	12.5	1.5	2.25	0.18
Above all	11	12.5	-1.5	2.25	0.18
					2.32

$$\sum \frac{(O - E)^2}{E} = 2.32$$

Calculated $\chi^2 =$

Degree of freedom = $n-1 = 4-1=3$

$\alpha = 5\%$

Tabulated $\chi^2_{0.05 (3)} = 7.82$

ANNEX: 6

Motives behind Investing in IPO

Calculation of chi-square test

	O	E	O-E	(O-E) ²	(O-E) ² /E
High return	18	12.5	5.5	30.25	2.42
Regular dividend	11	12.5	-1.5	2.25	0.18
Financial support for future	8	12.5	-4.5	20.25	1.62
Easy way to earn money	13	12.5	0.5	0.25	0.02
					4.24

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 4.24$$

Degree of freedom = $n-1 = 4-1=3$

$\alpha = 5\%$

Tabulated $\chi^2_{0.05 (3)} = 7.82$

ANNEX: 7

Choices for Investment

Calculation of chi-square test

	O	E	O-E	(O-E) ²	(O-E) ² /E
Commercial Banks	13	6.25	6.75	45.56	7.29
Development Banks	10	6.25	3.75	14.06	2.25
Finance Companies	5	6.25	-1.25	1.56	0.25
Insurance Companies	4	6.25	-2.25	5.06	0.81
Manufacturing & Processing Companies	3	6.25	-3.25	10.56	1.69

Trading Companies	4	6.25	-2.25	5.06	0.81
Hotels	3	6.25	-3.25	10.56	1.69
Other Companies	8	6.25	1.75	3.06	0.49
					15.28

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 15.28$$

Degree of freedom = n-1 = 8-1=7

$\alpha = 5\%$

Tabulated $\chi^2_{0.05} (7) = 14.07$

ANNEX: 8

Evaluation Factor of Investment

Calculation of chi-square test

	O	E	O-E	(O-E) ²	(O-E) ² /E
Promoters	11	16.67	-5.67	32.15	1.92
Company's Performance	15	16.67	-1.67	2.79	0.17
Market Information	24	16.67	7.33	53.73	3.22
					5.31

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 5.31$$

Degree of freedom = n-1 = 3-1=2

$\alpha = 5\%$

Tabulated $\chi^2_{0.05} (2) = 5.99$

ANNEX: 9

Bases of Decision for Investment

Calculation of chi-square test

	O	E	O-E	(O-E)2	(O-E)2/E
Market index	7	12.5	-5.5	30.25	2.42
Profitability	14	12.5	1.5	2.25	0.18
Market price trend	10	12.5	-2.5	6.25	0.5
None of above (Market whim)	19	12.5	6.5	42.25	3.38
					6.48

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 6.48$$

Degree of freedom = n-1 =4-1=3

$\alpha = 5\%$

Tabulated $\chi^2_{0.05} (3) = 7.82$

ANNEX: 10

Responsible Sector for Promotion of IPO

Calculation of chi-square test

	O	E	O-E	(O-E)2	(O-E)2/E
Government	16	10	6	36	3.6
SEBON/NEPSE	13	10	3	9	0.9
Issue managers	9	10	-1	1	0.1
General investors	4	10	-6	36	3.6
Above all	8	10	-2	4	0.4
					8.60

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 8.60$$

Degree of freedom = n-1 =5-1=4

$\alpha = 5\%$

Tabulated $\chi^2_{0.05} (4) = 9.49$

ANNEX: 11
Influenced by Whim and Rumour

Calculation of chi-square test

	O	E	O-E	(O-E)2	(O-E)2/E
High	25	16.67	8.33	69.38	4.16
Moderate	15	16.67	-1.67	2.79	0.17
Low	10	16.67	-6.67	44.49	2.69
					7.02

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 7.02$$

Degree of freedom = n-1 = 3-1=2

$\alpha = 5\%$

Tabulated $\chi^2_{0.05} (2) = 5.99$

APPENDIX-IV

Trend Analysis of Amount of Issue Approved

Year (t)	Amount of Issue Approved (y)
1993/94	244.40
1994/95	173.96
1995/96	293.74
1996/97	332.20
1997/98	462.36
1998/99	258.00
1999/00	326.86
2000/01	410.49
2001/02	1441.33
2002/03	556.54
2003/04	1027.50
2004/05	1626.82
2005/06	2443.28
2006/07	2295.5
2007/08	10668.20
2008/09	16828.51
2009/10	10822.41

Total	50212.1
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Let the trend line be given by the equation

$$y = a + bx \dots\dots\dots(I)$$

Where,

$x = t - 2000/01$ i.e. origin is at 2000/01 and x units = 1 year and y is amount of issue approved (in million)

Computation of for straight line trend

Year (t)	Amount of Issue Approve (y)	X= t-2001/02	xy	x ²	Trend values (ye) = 2953.63+703.05x
1993/94	244.4	-8	-1955.2	64	-2670.77
1994/95	173.96	-7	-1217.72	49	-1967.72
1995/96	293.74	-6	-1762.44	36	-1264.67
1996/97	332.2	-5	-1661	25	-561.62
1997/98	462.36	-4	-1849.44	16	141.43
1998/99	258	-3	-774	9	844.48
1999/00	326.86	-2	-653.72	4	1547.53
2000/01	410.49	-1	-410.49	1	2250.58
2001/02	1441.33	0	0	0	2953.63
2002/03	556.54	1	556.54	1	3656.68
2003/04	1027.5	2	2055	4	4359.73
2004/05	1626.82	3	4880.46	9	5062.78
2005/06	2443.28	4	9773.12	16	5765.83
2006/07	2295.5	5	11477.5	25	6468.88

2007/08	10668.2	6	64009.2	36	7171.93
2008/09	16828.51	7	117799.57	49	7874.98
2009/10	10822.41	8	86579.28	64	8578.03
n = 17	Σy =50212.1	Σx = 0	Σxy=286846.66	Σx² = 408	

The normal equations for estimating a and b in equation (I) are given by:

$$\Sigma y = na + b\Sigma x \dots\dots\dots (II)$$

$$50212.1 = 17a + 0$$

$$a = 50212.1 / 17$$

$$a = 2953.63$$

again,

$$\Sigma xy = a\Sigma x + b\Sigma x^2$$

$$286846.66 = 0 + 408b$$

$$b = 286846.66 / 408$$

$$b = 703.05$$

Substituting in equation----- (I), the trend line is given by the equation:

$$y_e = 1504.07 + 375.1x \dots\dots\dots \text{equation (II)}$$

Substituting $x = -7, -6, -5, -4, -4, -2, 0, 1, 2, 3, 4, 5, 6, 7$ In equation... (II), we obtain the trend values for the year 1993/94 to 2009/10 respectively. The trend values are given in the last column of the above table.

The estimated amount of issue approved in the year 2010/11 is obtained by putting

$$x = t - 2001/02 = 2010/11 - 2001/02 = 9 \text{ in equation (II)}$$

Thus,

$$(y_e) 2009/10 = 2953.63 + 703.05 \times 9 = 9281.08 \text{ (in million)}$$

Likewise,

The estimated amount of issue approved in the year 2011/12 is obtained by putting.

$$x = t - 2000/01 = 2011/12 - 2001/02 = 10, \text{ in equation ... (II)}$$

Thus,

$$(ye) 2011/12 = 2953.63 + 703.05 \times 10 = 9984.13 \text{ million}$$

APPENDIX-V

Trend Analysis of Number of Issue Approved

Year (t)	Amount of Issue Approved (y)
1993/94	16
1994/95	10
1995/96	12
1996/97	5
1997/98	12
1998/99	5
1999/00	6
2000/01	9
2001/02	12
2002/03	18
2003/04	14
2004/05	14
2005/06	29
2006/07	34
2007/08	64
2008/09	64
2009/10	61
Total	385

Let the trend line be given by the equation

$$y = a + bx \dots\dots\dots(I)$$

Where,

$x = t - 2001/02$ i.e. origin is at 2001/02 and x units = 1 year and y is number of issue approved.

Computation of for straight line trend

Year (t)	Number of Issue Approved (y)	X= t- 2001/02	xy	x²	Trend values (ye) = 22.65 + 3.22 x
1993/94	16	-8	-128	64	-3.11
1994/95	10	-7	-70	49	0.11
1995/96	12	-6	-72	36	3.33
1996/97	5	-5	-25	25	6.55
1997/98	12	-4	-48	16	9.77
1998/99	5	-3	-15	9	12.99
1999/00	6	-2	-12	4	16.21
2000/01	9	-1	-9	1	19.43
2001/02	12	0	0	0	22.65
2002/03	18	1	18	1	25.87
2003/04	14	2	28	4	29.09
2004/05	14	3	42	9	32.31
2005/06	29	4	116	16	35.53
2006/07	34	5	170	25	38.75
2007/08	64	6	384	36	41.97
2008/09	64	7	448	49	45.19
2009/10	61	8	488	64	48.41
n = 17	Σy =385	Σx = 0	Σxy=1315	Σx² = 408	

The normal equations for estimating a and b in equation (I) are given by:

$$\Sigma y = na + b \Sigma x$$

$$385 = 17a + 0$$

$$a = 385 / 17$$

$$a = 22.65$$

Again,

$$\Sigma xy = a \Sigma x + b \Sigma x^2$$

$$1315 = 0 + 408 b$$

$$b = 1315 / 408$$

$$b = 3.22$$

Substituting in equation----- (I), the trend line is given by the equation:

$$y_e = 22.65 + 3.22 x \dots \dots \dots \text{equation (II)}$$

Substituting $x = -7, -6, -5, -4, -4, -2, 0, 1, 2, 3, 4, 5, 6, 7$ In equation...(II), we obtain the trend values for the year 1993/94 to 2009/10 respectively. The trend values are given in the last column of the above table.

The estimated number of issue approved in the year 2010/11 is obtained by putting

$$x = t - 2001/02 = 2010/11 - 2001/02 = 9 \text{ in equation (II)}$$

Thus,

$$(y_e) 2010/11 = 22.65 + 3.22 \times 9 = 51.63$$

Likewise,

The estimated number of issue approved in the year 2011/12 is obtained by putting.

$$x = t - 2001/02 = 2011/12 - 2001/02 = 10, \text{ in equation ... (II)}$$

Thus,

$$(y_e) 2011/12 = 22.65 + 3.22 \times 10 = 54.85$$