

**A STUDY ON INVESTORS RESPONSE
TO
INITIAL PUBLIC OFFERING IN NEPAL**

A Thesis

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Tribhuvan University

*In partial fulfillment of the requirements for the
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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

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Entitled:

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TO
INITIAL PUBLIC OFFERING IN NEPAL**

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

Master's Degree of Business Studies (M.B.S.)

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RECOMMENDATION

This is to certify that the Thesis

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INITIAL PUBLIC OFFERING IN NEPAL**

*has been prepared as approved by this Department in the prescribed format of the
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DECLARATION

I hereby declare that the work reported in this thesis entitled "*A Study On Investors Response to Initial Public Offering in Nepal*" submitted to Nepal Commerce Campus, faculty of management, T.U, is my original work in the form of partial fulfillment of the requirements for the Master's Degree of Business Studies (MBS) under the supervision of Dilip Gautam and Jeetendra Upadhaya of Nepal Commerce Campus.

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Needless to say, to error is human being. I am not exception from it. So I am responsible for some deficiencies that may have remained in this work.

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ABBREVIATIONS

B/S	Balance Sheet
BOK	Bank of Kathmandu
BVS	Book Value per Share
EBL	Everest Bank Ltd
EPS	Earning Per Share
FY	Fiscal Year
GDP	Gross Domestic Production
IPO	Initial Public Offering
LBL	Laxmi Bank Ltd
LTD.	Limited
N	Number of Observations
NCML	NIDC Capital Market Ltd
NIBL	Nepal Investment Bank Ltd
NSMCL	Nepal Share Markets Co. Ltd.
P/E	Price Earning Per Share
P/L A/C	Profit And Loss Account
SBI	State Bank of India
SBL	Siddhartha Bank Limited
SBL	Siddhartha Bank Ltd
SEBON	Security Board of Nepal
SEC	Security Exchange Centre
T.U.	Tribhuvan University

CHAPTER – ONE

INTRODUCTION

1.1 Background of the Study

Initial Public Offering (IPO) is a part of primary market mechanism. IPO is the process of selling stock to the public at large by a closely held corporation or its principal stockholder. Initial Public Offering is the first time issuance of securities to the public. The securities offered can be ordinary share, debenture, preference share etc. It provides all the investors an opportunity to acquire a portion of the financial claims. An initial public offering (IPO) occurs when a security is sold to the general public for the first time with the expectation that a liquid market will develop. Public Offering is a security offering where all investors have the opportunity to acquire a portion of the financial claims being sold (Keown and Petty, 2002: 471). An IPO can be any debt or equity security.

An Initial Public Offering, IPO, occurs when a firm chose to go public. The initial public offering is the issuing firm's first offer to sell stock to the public (Jenkinson & Ljungqvist, 2001). Firms have interest of going public out of many reasons, and some of the most common are that they want to increase the liquidity of the firm, and therefore they want to raise more equity capital, which is referred to as the primary market. To increase capital in the firm is beneficial, of course for the firm itself, but also for the founders and other stakeholders. Since, in the future, they might convert their contribution for their own winning as profit or return on stock. Another reason is tied to the secondary market, which is referred to the ability of further stock trading (Jenkinson and Ljungqvist, 2001). Of course, these are not the only reasons why a firm chose to go public. The decision is individual and depends on in which situation the company is. However, Ellingsen and Rydqvist (1997) states the four most common reasons to be; raise capital, boost the company image, increase publicity, and also use it to motivate the employees.

Through IPO, the founder simply wants to establish a value and liquidity for the stock (Van Horne, 2002:578). Existing shareholders can sell their share in open-market transactions. There are certain ongoing costs associated with the need to supply information on regular basis to investors and regulators for publicly traded firms. Furthermore, there are substantial one-time costs associated with initial public offering that can be categorized as direct & indirect costs. The direct costs include the legal, auditing and underwriting fees. The indirect costs are management time and effort devoted to conducting the offering, and the dilution associated with selling shares at an offering price that is, on average, below the price prevailing in market shortly after the IPO. These direct and indirect costs affect the cost of capital for firms going public. Firms going public, especially young growth firms, face market that is subject to sharp swings in valuations.

In Nepal, the first public issue of ordinary shares takes place more than fifty years back with public issue of Biratnagar Jute Mills and Nepal Bank Limited. But the development of the capital market started in 1976 AD after establishment of Securities Exchange Center Ltd. with the objective of facilitating and promoting the capital market in Nepal. It was the only capital market institution which undertook the job of brokering, underwriting and managing public issue, market making for government bonds and other financial services. Securities Exchange Center Ltd. dealt in the securities as a broker as well as a regulatory body. The Centre used to take, buy and sell only on orders from interested investors and confirm them if a price and quantity matched. There was no time limit within which deal took place. It normally takes place one to three weeks. Due to this, general public faced problems while buying or selling securities.

Securities Exchange Center was converted into Nepal Stock Exchange Limited (NEPSE) in 1993, and under its support, the brokerage system of secondary market was established. Nepal Stock Exchange Limited is a non profit organization. It operates under

Security Exchange Act 1983. The basic objective of NEPSE is imparted 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, becomes liquid.

Security Board of Nepal (SEBON), regulator of Nepalese Security market, was established on June, 1993, under the provision of the Security Exchange Act, 1983. The major objective of SEBON is to regulate the securities market and protect investor's interests, sale and distribution of securities and purchase, sale and exchange of securities, to supervise, look after and monitor the activities of the stock exchange and the other related firms on securities business, and to provide contribution to the development of the capital market by making securities transactions fair, healthy, efficient and responsible.

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

1.2 Statement of the Problems

There exist various types of problems in IPO. In this respect, there is the tendency, limitation of ownership and control of the enterprises within the close circle. On the other hand, there were no financial or other incentives for the firms to the public. Further more the existing strong barriers of socio-economics infrastructure and historical reasons made the successful flotation difficult.

The stock price reflects little or no information about the company, which is a requisite for a smooth and efficient functioning of the capital market system. We are still following the open outcry system that has been replaced in most of the countries around the world. This system makes the physical presence of brokers on the stock floor compulsory to take

undertake any transaction. Although few brokers provide services to their out-of-valley investors via consulting firms operating at regional levels, the transaction cost to be borne by such investors is very high.

Dealing in public issues of the primary market securities is subject to the directives and regulatory framework of the concerned governing bodies. Hence, the study is primarily deals with the process of managing the process of the public issues by the issue managers. Besides, Investment in the primary market instrument has gaining the interest of the general and corporate investors. Most of the public offerings have been successfully made since the investors have considerable concern and willingness for investment in these securities

There is not any provision to present citizenship at the time of submitting their share application form. So, single investor can apply hundred of applications, showing dummy names. As a result they can capture large number of shares. When single investor captures large number of share, he can influence the company management and stock price also.

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 highly concentrated on investment in the manufacturing and processing companies. The study aimed at those factors which could be decisive from the investors view whether to invest or not in particular company.

Hence, study required to find out why there has been such variation in the responses by the public. The causes for this response must be analyzed so that new companies who would like to issue new shares can benefit from the conclusion drawn from this research.

1.3 Objectives of the Study

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

1. To analyze the soundness of Initial Public Offerings (IPO) in Nepal.
2. To analyze and evaluate the procedure and mechanism of IPO by Public Companies in Nepal.
3. To analyze and growth the pattern of IPO in Nepal.
4. To identify the problems and prospects of IPO in Nepalese Capital market.

1.4 Significance of the Study

IPO is one of the crucial factors for general investors and public company. This study might serve to be crucial information for these respective institutions taken as sample for the study in IPO procedure. This research will be significant for the following way:

1. This is expected to helpful for the general investor and the organizations that directly and indirectly related in IPO.
2. This will get the knowledge of practical exist in rules and regulation for policy maker and help them to make policy about IPO.
3. This guided investor to get right decision for investment on right place at right time.

1.5 Limitation of the Study

Although public response might be seen on other type of shares, however response in primary share issue is considered and other aspects have been neglected, as they are difficult to measure. Some companies have not disclosed the information despite the legal provisions of obtaining information regarding their financial position.

1. The mainly based on Kathmandu valley only
2. This is mostly based on secondary data as well as primary Data.
3. Only a few companies are considered for research.
4. The study is not covered recent changes because of limitation of data.

1.6 Organization of the Study

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 contains brief review of past research works and studies. It describes the conceptual framework of the subject matter as well.

Chapter III- Research Methodology

This chapter explains about the methods to collect the data, the sample size used and about the methods used to analyze the data.

Chapter IV-Data Presentation and Analysis

This chapter presents the collected data in tabular form and in different pictures, so that it could be easy to analyze them.

Chapter V-Summary, Conclusions and Recommendations

This chapter finally summarizes the study in few paragraphs and tries to conclude the whole study; that is the result of the research. And finally make recommendations based on the conclusions.

CHAPTER - TWO

REVIEW OF LITERATURE

This chapter is devoted to the conceptual framework and review of past studies on the initial public offering. Review of literature means that the study of relevant topic in the related field of research or reviewing related research studies and findings such that all past studies, their conclusion and deficiencies may be known and further research can be done. In cause of research review of existing literature would help to check the chances of duplication in present study. This one can find what studies have been conducted and what remains to go with.

2.1 Conceptual Review

A market is the means by which product and services are bought and sold directly or thought 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 brining 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 takes place in the money market where long term securities (bonds and stocks) are traded in the capital market (Gitman, 2001:30).

2.1.1 Primary Market

The term “Primary Market” is used to denote the market for original sale of securities by issuer to the Public. The primary market is the place where corporations and Government Issue new securities at first time to generate the money for real investment. All the securities, whether it is for short term or long term, are initially issued in the primary market. This is the only market in which the company or government bodies are involved in the transaction and receives direct benefits from issue that is the company actually receives the proceeds from the sale of securities (Bhattarai, 2005: 7).

The primary market itself can be subdivided into seasoned and unseasoned issues. A seasoned new 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.

In primary market the principal sources of funds is the domestic savings of individual and business, other supplies include foreign investors and governments. The ultimate supplies of funds are those sectors with a surplus of current incomes over expenditures (savings) and these funds flow to ultimate users, economic use securities to finance a surplus of expenditure over their current incomes.

2.1.2 Secondary Market

Secondary market involves the purchase and sale of securities which are already issued to the general public and traded in the stock exchange. Secondary market is created by brokers, dealers and market makers. Brokers bring buyer and seller together with themselves actually buying or selling, dealers set price at which themselves are ready to buy and sell (bid and ask price respectively). Brokerage and dealer come together organized market or in stock exchange (Gitman, 1992: 457). Nepal Stock Exchange (NEPSE), New York Stock Exchange (NYSE) and Bombay Stock Exchange (BSE) are the example of organized stock exchange (secondary market).

The secondary market is a very important element of the securities market. The existence of an organized secondary market can provide this level of confidence to holder of securities so that they can purchase securities in the primary market readily convert these securities to cash whenever they wish to do so. The benefit of secondary market is that it increases the investment opportunities. Person who may not have been able to acquire securities on the primary market have been able to acquire securities on the secondary market.

2.1.3 Primary Market and Initial Public Offering

The primary market itself can be subdivided into seasoned and 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).

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.

Thus Initial Public Offering involves rising of funds for governments or corporations from the public through the only issuance of various securities in the primary market and is often the only major source of obtaining large sum of fixed rate, long term fund.

2.1.3.1 Common Equity/Stock Offering

Common equity represents the ownership position in a company. The holders of common stocks, called shareholders or stockholders are the legal owners of the company. They are entitled for dividends for the capital contributed by shareholders by purchasing common shares. The capital represented by common stock is called share capital.

Equities convey ownership of the corporation and are basically valued in line with expected future earnings. To date they have been relatively little affected by financial innovation (Gutam & Thapa, 2006:17).

Many companies have only one class of stock, often called common stock or ordinary shares. This class of stock carries residual ownership of the company, entitling the holder to unlimited interest in the earnings and assets of company after limited claims are paid. Dividends paid on stocks are usually unstable because they tend to vary with earnings and also less than earnings. The market price of common stock is often subject to wide fluctuations, because it depends largely upon investors expectations of future earnings.

Following are the most significant feature of equity shares.

1. Risk: -

Equity shareholders run the risk of receiving nothing if earnings are insufficient to cover all obligations.

2. Control: -

Every equity shareholder has the right to vote on every resolution placed before the company and his voting right on a pool is in proportion to this share of paid-up capital of the company.

3. Rights:-

The equity shareholder has the right of Voting, to transfer shares in the proceeds upon the liquidation of company, share in the profits when distributed as dividends etc.

4 Pre-emptive Right

The Company is under legal compulsion to offer new issues to the equity stockholders before placing them in the market for subscription. Such a right of equity stockholders to purchase newly issued equity stock is termed as 'preemptive right' or 'right offering'.

5. Maturity

There is no stated maturity at which capital must be returned to the equity shareholders. So, equity shares provided permanent capital to the company.

2.1.3.2 Preference Shares

Preferred stock is a fixed income security and it is also the alternative sources of long term funds for the company. Preferred stock is similar to bonds in same respects and to common stocks in other ways preferred stock represents equity of a corporation but it has different from common stock because it has preferences over common stock in payment of dividends and in the assets of the corporation in the event of liquidation (Ross, Jaffe and Westerfield, 1993:402).

The preferred stock, though not a popular with investors as bonds and common stock, offers unique features that make it attractive under certain circumstances. First, it is hybrid security because it has characteristics of two types of securities: debt and common stock. Second, it is essentially a fixed income security. Preferred stock investors typically receive fixed dividends (Cheney & Moses, 1992: 404-405).

Preferred stock has a number of features, major features includes:

- It has priority of claim over common stockholders with regards to income. They are paid dividend at a fixed rate specified in the agreement.
- Preferred stockholder claims on assets are superior to equity Stockholder during the time of liquidation of company.
- Normally preferred stockholder do not have direct right to participate in the management through voting from directors and other matters.
- Unlike common stockholder, preferred stock always has a Par value.

- At their option preferred stockholders may be allowed (if mentioned in the corporation's charter) to switch over to equity stock.
- A call provision gives the issuing corporation the right to call in the preferred stock for redemption.
- Today, however most new preferred stock has a sinking fund and thus an effective maturity date.

2.1.3.3 Bonds/Debenture

Debenture as a debt security is the alternative sources of long-term fund for the company and given different names in different countries. In the United Kingdom, Nepal and India the term 'debenture' is popular, but in the US the term 'bond' is common. A debenture is an unsecured corporate debt, whereas a bond is secured by a mortgage on the corporate property. A debenture is an acknowledgement of a debt under the sale of a company and containing a contract for the repayment of the principal sum at a specified date and for the payment of interest at a fixed rate percentage. A bond is a type of fixed-income security by a borrowing entity in which the amount to be paid to the investor is specified in the investment contract or indenture. Debentures have some important features such as interest rate, maturity date, redemption, indenture, security, converted ability, yield and claims on assets & incomes (Pandey, 1994:820).

In short, debenture is a formal evidence of debt and termed as the senior securities of a company. Certain distinguishing features of debentures are as follows:

- The debenture or bond has fixed maturity date. That means, the principal amount of bond must be repaid at the time of maturity.
- Debenture holder has priority on claim to income over preferred stockholder and common stockholder.
- Bondholders also have priority over stockholder in respect of their claims on assets.
- Debenture holders do not have controlling power through the vote for the election of directors but indirectly influence managerial decision through protective covenants in indenture.

2.1.3.4 Options

An option is probably the most popular derivative security in the world of investment. It is a contract between two people wherein one person grants the other person the right, but not obligation, to buy or sell a specified asset at a pre-determined price on or before a set expiration date. It is derivative security because it derives its value from an underlying security (Security for which the option has been written) such as a stock, a bond etc. In the securities industry, options are marketable security and can be bought and sold in the stock exchanges. So the option owner has the right to sell the option and any other investors can invest on it. An option buyer pays an option writer a premium for granting the option. After options have been created, they can be traded at determined premiums (or Prices) that fluctuate continuously (Gutam &Thapa, 2006: 7-1). Option is not in exercise up to now in Nepal.

The option is divided into two types i.e. Put and Call Option. Option to sell certain shares at predetermined price within or a certain later date called Put Option where as an option to buy certain share at a predetermined price with in or on certain future date is called call option (Bhattarai, 2006: 291).

Option has certain features which are given below.

- 1. Exercising Date:** - The fixed price stated in the option contract at which the underlying asset may be purchased or sold is the exercise price. it is also called strike price and denoted by E.
- 2. Expiration Date:** - The option has a certain maturity period. The option expires after its maturity period and the maturity date is the expiration date.
- 3. Exercising an option:** - The act of buying or selling the underlying asset through an option contract is called exercising an option.

2.1.3.5 Warrants

A warrant is along-term option that gives the holder the right to purchase a stated number of shares of the company stock at a specified price within stipulated period of time.

Generally, warrants are distributed with debt and preferred stock, and they are used to induce investors to buy long-term debt and preferred stock with a lower coupon rate than would otherwise be required. Warrants are long-term call options that have value because holders can buy the firm's common stock at the exercise price regardless of how high the market price increase. Warrants are usually used by growing firms as sweeteners to reduce the cost of fund. Warrants may be detachable or non-detachable. Detachable warrants can be sold or purchased without selling or purchasing the security to which it is attached so that after the warrants have been exercised, the bond remains outstanding and total capital increases. Warrants are not in exercises in Nepal till date.

2.1.3.6 Convertible

Convertible are bonds or preferred stock that can be exchanged for stated number of common stock at the option of the holder within stipulated period of time. A bond can be converted into preferred stock or common stock while the preferred stock can be converted into common stock only. Conversion feature increases the marketability of the security. Unlike the exercise of warrants, the debt and preferred stock is simply replaced by common stock but does not provided additional capital (Gautam & Thapa, 2006: 64).

Convertible Securities may have the following features;

- 1. Conversion Ratio:** - It is the ratio at which a convertible security can be exchanged for a common stock. It explains the number of shares into which a convertible can be converted.
- 2. Conversion Price:** - It is the price per share that is effectively paid after the conversion of the convertible into common stocks. It is determined by dividing the par value of convertibles by the conversion ratio.
- 3. Conversion Value:** - Conversion value is the value of the convertible measured in terms of the market price of the common stock into which it can be converted. Conversion value can be found simply by multiplying the conversion ratio by current market price of the firm's common stock.

2.1.4 Initial Public Offering (IPO) Manual

Initial Public Offering (IPO) manual is the details procedure of handling initial public offering of the companies seeking 'go public' for the first time. This manual outlines all the activities and steps that to be observed by all issuing companies and issue manager in respect to initial public Offering (IPO). This manual has been prepared with a view to present, descriptive and step-by-step action sequences in the Initial Public Offering, relevant to all the companies 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:

2.1.4.1 Issuing Company

Issuing company is the company that raising funds as the from of Debenture, Preference Share, Equity Share etc, from the general public through the process of public offering as per requirement of business activity. The company seeking for public offerings could be a new company or new company set by the existing company or by existing listed company. As per company Act, only public companies are liable to go for public offerings but not for private companies on it. NRB has made mandatory that financial institutions must go for common stock public offerings within specified time of operation commencement.

2.1.4.2 Merchant Bankers

Merchant bankers are the financial intermediary that specializes in selling new security issues and advising firms with regard to major financial transaction (Gitman, 2003: 316). The role of merchant bankers is to help create and expand securities underwriting and advising corporations and managing investment portfolio for the needing groups. They charge service charge to their client for intermediary and advisory role. The role of merchant banking in managing the public offerings comes under the heading of securities

underwriting. For the working of merchant banking function in Nepal, Nepal Rastra Bank has set forth the working guidelines.

2.1.4.3 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 14 companies to serve as issue manager given below.

Table 2.1
Name of Issue Manager in Nepal

S. N.	Name of Issue Manager
1	Ace Development Bank Ltd.
2	NCM Merchant Banking Ltd.
3	NMB Capital Ltd.
4	Citizen Investment Trust
5	Elite Capital Ltd.
6	Vibor Capital Ltd.
7	NSM Merchant Banking Ltd.
8	Civil Capital Markets Ltd.
9	Investment Management Merchant Banker Ltd.
10	Beed Invest Ltd.
11	Growmore Merchant Banker Ltd.
12	Nabil Investment Banking Ltd.
13	Laxmi Capital Market Ltd.
14	Arniko Capital Management Company Ltd.

Sources: Annual Report of SEBON

2.1.4.4 Underwriter and Underwriting

The underwriters are investing-banking firms that act as financial midwives to a new issue (Brearley, 2004: 370). In general, there are group of underwriters who handle an IPO. Among such group of underwriters one act as a lead underwriter and rest as selling group. The underwriters enable the issuing company to determine the range of price at which the securities are to be offered along with the numbers of shares to be sold. Underwriters sell the issued shares to the retail as well as institutional investors. These underwriters either work on best effort basis or underwriter the entire issue. In the best effort basis, the underwriter does not guarantee that the entire issue of company will be sold but it will just put forth its best effort to sell the issue.

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

2.1.4.5 Bankers to the Issue

Bankers to the issue are normally commercial banks and their main responsibility is to provide custodian service to the issuing company. They may or may not receive applications from the investors, issue acknowledgements for the same and enter application details in application schedules. They may also be involved in the process of realizing the proceeds of issue through cheques /drafts and release final certificates to the issue manager for the number of applications and amount collected.

2.1.4.6 Collection Centers

These are the authorized institution to collect application from the investors issue acknowledgement for the same proceed of issue through cheques/drafts. They also issue final certificates to the issue manager for the number of applications and amount

collected. They are provided collection charges for their services, which are usually determined through negotiation and are based on number of applications handled and amount collected. Banks, finance companies or brokerage house mostly performs such roles.

2.1.4.7 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).

2.1.4.8 Nepal Stock Exchange Limited (NEPSE)

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 cry system in past but now adopted Computer system for transaction of securities.

The history of securities markets began with the flotation of share by Biratnagar Jute Mills and Nepal Bank Ltd. in 1937. Under the Industrial Policy Security Market Centre was established in 1974 which is converted into Securities Exchange Centre (SEC) with the objective of facilitating and promoting the growth of capital market (Adhikari 2004, 75). Later when Securities Exchange Act was regulated in 1983, it started to operate under this act. Under a programmed initiated to reform capital market, Securities Exchange Centre (SEC) converted into Nepal Stock Exchange (NEPSE). The basic objective of NEPSE is to import free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as brokers and market makers. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and its member is the shareholder of

NEPSE. Member of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and corporate securities.

2.1.4.9 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 regulation set forth by the existing Company Act or not.

As per the Company ordinance 2062, 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. 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.

2.1.4.10 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 bank and 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 bank and financial institutions approval to be involved with different role in the issue process. If the issuing companies are financial institutions then they need to obtain approval from Nepal Rastra Bank as well, prior issuing their shares to public. Also for different fund based activities of merchant banking, approval needs to be taken from Nepal Rastra Bank.

2.1.5 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:

1. The issuing company should have to select the issue manager or underwriter to manager or underwrite the issue.
2. 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.
3. 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).
4. 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 copy of prospectus to the SEBON, Nepal Rastra Bank (NRB) and Insurance Board in case of insurance company for the review of the prospectus.
5. The SEBON, Nepal Rastra bank (NRB) and Insurance Board will send the prospectus after the review.
6. 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.
7. 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.
8. After the approval of issuing company the prospectus should have to send to the ROC for the approval.
9. 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 2.2
Registration Fee on Issue

Amount of issue	Commission
Up to Rs 50,000	1%
Rs 50,000 to Rs 5,00,000	0.9%
Rs 5,00,000 to Rs 10,00,000	0.8%
Above Rs 10,00,000	0.7%

10. The SEBON will provide the approval for issue after the discussion of BOD of SEBON.
11. The issue manager should have to issue the securities within the 2 months of receiving the approval.
12. The issue manager should have to prepare the share issue announcement on the basis of the approved prospectus by ROC.
13. The announcement should have to publish in the National daily newspaper.
14. 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.
15. 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.
16. 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.
17. The issue manager should have to close the sale of share by providing per notice.
18. This issue manager collects the fund from the collection counter day by day.
19. The company has to allot the share according to the allotment guidelines of SEBON.

Table 2.3

The Allotment Period of Securities

Number of Securities	Time Period (in days)
Up to 100000	40
100001 to 200000	50
200001 to 300000	60
Above 300001	70

Sources: SEBON

20. The distribution of share certificate should have to commence within the 40 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.

2.1.6 Issue Approval Guidelines

According to the Securities Transaction Act, 2003 the company willing to issue the securities should have to register the securities registration and issue guidelines, 2000 has provide various clauses for making the issuance more systematic, ease and procedural. The main provision of these guidelines is

1. The company, which has operated for at least a year, is only allowed for the public issue.
2. The company can sell the share in premium price.
3. The prospectus of the issuing company should have to be prepared by the professionals and they will be liable for the prospectus.
4. The companies relate with tourism, trade, transport, and manufacturing should have to underwrite their securities from the recognize institutions for the issue.
5. The promoters are only allowed to sell his securities only after the 3 years of the publication of prospectus and operation of the company.

2.1.7 Bank and Financial Institution Act 2003

2.1.7.1 Provisions regarding incorporation of Bank & Financial Institution (BFI) and its securities

Any person desirous to promote Bank and Financial Institutions(BFI) should incorporate public limited company and apply for NRB approval under section 4 together with MOA, AOA, feasibility study report, promoter's CV, promoter's agreement, if any, promoter's tax clearance certificate, and other documents as prescribed by NRB

NRB is to provide approval within 120 days and may reject if,

1. Already registered similar name
2. Name/activity against the public interest, religion, and tribes
3. Objective against the law
4. Technically not viable
5. NRB is of the view that the transaction will not be healthy and competitive
6. MOA and AOA not agreed to subscribe at least 1 pc share
7. Has not complied with other matters prescribed by NRB

2.1.7.2 Allotment of Shares

Minimum 30 percent for public of which maximum 5 percent for employees

Joint venture banks as prescribed by NBR

Call money percent at the time of issue

2.1.7.3 Ban on Transfer/Mortgage of Shares and Debentures

1. A promoter cannot transfer his shares up to 5 years of commencement of banking business.
2. After 5 years as per the terms and conditions approved by NRB
3. In case of BFI already in operation up to 5 years from the date of public issue,
4. BFI should not buy back its own share or disburse any loan on against guarantee of own share (section 10). However, can buy back own shares if following conditions are met?

2.1.7.4 Buy back is approved from NRB

1. Shares are fully paid up and listed with SEBO
2. Authorized by AOA and special resolution has been passed in this regard
3. Debt equity ratio is not more than 2:1 after buy back
4. Buy back should not exceed 20 percent of paid up capital and GR

2.1.7.5 Ban on Security Transaction

The following persons cannot buy, mortgage, transact in their own name or in the name of their family of firm/company controlled by them:

1. Director/CEO/Auditor/CS
2. Person engaged directly on management/accounting
3. Prohibition shall continue up to 1 year from the date of vacation from their position

2.1.8 Company Act 2063

The provision made under this act is especially relevant to the securities markets are provisions regarding the issuance and publication of the prospectus, which is necessary for public issue of security. As per the provision, the details of the content of the prospectus are prescribed and the prospectus are to be approved by the Company's Registrar's Office. Other legal provisions regarding the prospectus in the Company Ordinance are as follows:

2.1.8.1 Prospectus to be published

Every public company shall have to publish its prospectus before issuing its securities.

1. Prior to publishing the prospectus pursuant to sub-section (1), the Directors shall have to submit a copy thereof duly signed by them to the Office. In case of any important matter has been omitted in such prospectus or if contains unnecessary matters, the CRO may cause such prospectus to be amended or altered as required, and grant approval for its application.
2. The matter that the Office has approved the prospectus shall be clearly mentioned while publishing such prospectus.

2.1.8.2 Particulars to be stated in Prospectus

The following particulars shall have to be set out in the prospectus:

The objective of the company and other main particulars set forth in the Memorandum and Articles can be obtained.

Minimum number of shares required to be subscribed to become the director, and the salaries or directors of the company.

Description of cash received or to be received as remuneration or reward by the promoters of directors of the company.

1. Provision on bonus shares.
2. Provisions, if any, regarding reservation of shares for any shareholders, employee or other person.
3. Identification of Directors.
4. If the shares are to be sold publicly by adding premium, reasons for and justification of, the addition premium.
5. Provisions on the representation of the shareholders subscribing the shares to be sold publicly in the Board of Directors.
6. The minimum number of shares required to be subscribed and the amount of advance required to be furnished along with the application.
7. While issuing the debentures, reasons therefore, and the number of the paid upon debentures and the total amount of outstanding loans have raised the loan.
8. Assets purchased from the proceeds of the sale of shares, the name of the seller of such assets and arrangement if any made for the exchange of shares or debentures instead of cash.
9. Brokerage on shares and debentures.
10. Estimates of expenditures required for the business of the company and that of its income for at least the next three years.
11. Possible financial risks involved in the business to be carried on by the company.
12. Financial arrangements of the company and net worth remaining after the shifting of all liabilities.
13. Names and addresses of auditors, and if an audit report is available, description of such a report.
14. Particulars as to whether any fund of a Promoter or a Director is involved in the assets purchased or intended to be purchased by the company and whether any Promoter or Director is involved in any other firm or partnership or company.
15. The time when the notice of allotment of the shares is to be published.

16. Details of preliminary expenses in the incorporation of the company, in case of a new company, and the real picture of the latest balance sheet in regard to a company already operation.
17. Breakage payable to any trust for being a trustee in regard to securities exchange.
18. The balance sheet and profit and loss account of the company.
19. Details of the underwriting of shares, if any and commission for underwriting shares.
20. Names and address of organization carrying on security exchange.
21. Name of shareholders having subscribed the shares in excess of five percent of the issued capital.
22. Privileges and restrictions of the preferential shareholders.

2.1.8.3 Other necessary matters

1. The format of the prospectus shall be as pre-scribed.
2. If the published prospectus contains a false statement made deliberately or with a mollified intension, the said Directors shall personally be liable to pay compensation to any person for any real loss or damage, if any, he has sustained by purchasing securities on the faith of the prospectus.
3. Provided that, a promoter who resigns before the decision made by the company to publish such prospectus, or who after having come to know about any false statement contained therein publishes a notice to that effect for the information of the general public prior to the sale or allotment of securities or who proves that he was ignorant of the false hood of statement set forth in the prospectus shall not be liable to such compensation.

2.1.9 Duties and Liabilities of the Company

It shall be the duty and liability of any company to abide by the matters set forth in the prospectus.

2.1.9.1 Responsibility for Particulars Contained in the Prospectus

The Directors signing the prospectus shall be held responsible for the matters contained in the prospectus.

2.1.9.2 Share Certificate

A share certificate in the prescribed format shall be issued to every shareholder in respect of each purchased by him, within 3 months of the allotment of the shares, and it shall bear the company signature of at least any two among any directors or administrative chief of the company or Company secretary, in the case of the public company. While issuing the share certificate in respect of any share held jointly by two or more persons, it may be issued by any one of them, by mentioning their names therein.

2.1.9.3 Face Value of Shares and Application

The face value of share of the company shall be of hundred rupees per share. In inviting application by a public company for the subscription of its shares, no amount exceeding 50 percent of the face value of each share shall be demanded with the application.

2.1.9.4 Allotment of Shares

1. Shares shall be so allocated within a maximum period of three months of the date of invitation made by a public company to the general public for the subscription of the shares that all the applicants may get shares, to the extent possible, and a notice to that effect shall there upon be sent to the shareholders, in the format as prescribed.
2. If the company submits an application explaining the reason for non-allotment of shares within the time limit set forth, in the said sub - section (1) owing to the reason mentioned in the proviso to sub-section within seven days after the expiry of that time limit, the CRO shall extend the time limit up to three months for the allotment of shares.
3. If the allotment of shares cannot be made even within the time limit set forth in subsection (1) or (2), the amount received after the expiry of such time limit as well as an interest thereon as prescribed up to the day of the refund of such amount shall be refunded.

2.1.9.5 Particulars of Shares to be submitted to CRO

Particulars of no. of shares allotted shares, the total value thereof, the names and addresses of shareholders, and the amount paid for as well as the amount due on, each share and where the shares of the company have been sold or distributed in any manner other than in cash, the duly issued copy of the agreement made in that connection shall be forwarded to the CRO with in 30 days of allotment of shares.

2.1.9.6 Transactions in Securities

While issuing the securities by a company to the general public, it shall deal with the securities only through an organization recognized to do security transaction including all such acts as the sale, allotment and recovery of the sum of such securities.

2.1.9.7 Registration Book of Shareholders and Debenture Holders

Each Company shall have to establish a registration book of shareholders or debenture holders in the format as prescribed and maintain it at its registered office of the Company.

2.2 Review of Related Studies

This section of the study draws excerpts from International articles, Nepalese journal articles along with Masters Degree Thesis. International journals have been accessed through the different websites and newspapers. Similarly, Nepalese journals and Masters Degree thesis have been accessed from Library of Nepal Commerce Campus, Tribhuvan University Central Library and SEBON Library.

2.2.1 Review of International Journals

Large number of research work has been carried out elucidating different aspects of IPO's throughout the globe. However, only those works, which were accessible and considered relevant to this study have been included and excerpted below:

Lowry and Schuvert (2002), carried out a study on, "IPO Market Cycles: Bubbles or Sequential Learning?" The study emphasized that both IPO volume and average initial returns are highly correlated. Furthermore, companies tend to go public following periods of high initial returns.

The study revealed that there exist significant positive relation between average initial returns and subsequent IPO volumes. They concluded with the result, which showed that the dynamic behavior of initial returns and IPO issued is a complicated function of many factors. There are significant biases in IPO offer prices and arise from underwriters not fully incorporating all avoidable information when they set offer prices. These biases affect both the serial correlation in initial returns and the lead-lag relation between initial

returns and IPO volumes. They also found that the serial correlation in initial returns is predominantly driven by information learned during the registration periods of recent IPO's but only partially incorporated into the registration periods of recent IPO's but only partially incorporated into the offer price. Furthermore, they found that its information learned during the registration period that is positively related to further IPO volumes. Investment bankers learning processes throughout this registration period causes monthly aggregate initial returns to be auto correlated and to be positively related to future levels of IPO actively.

Kviback (2001), done a study on, “Nepal survey: Issues in Local bond market Development.” Major finding of his studies were: The financial market in Nepal is relatively underdeveloped. The government market is more developed, but prices are not market oriented. This state of development of equity markets indicates how well versed issuers, investors and intermediaries are in dealing with securities at the primary and secondary market levels. Nepal's overall market is still in its infancy, however. The Nepal Stock Exchange (NEPSE) is a late development, founded only in 1993. It is owned by the government and is a not-for-profit institution. The equity market of Nepal is relatively small from the international standards. With only 114 companies being listed in about 11 years of establishment of NEPSE, the equity market in Nepal requires more effort and contribution from the privately held companies as well as the investors. The status of Nepalese equity market is being elaborated in the following extraction of a report.

Kaserer and Kraft (2003) study on “How Issue Size, Risk and Complexity are Influencing External Financing Costs: German Initial Public Offering (IPO) analyzed from an Economics of scale perspective.” The study is focused on the cost of raising capital in Germany. The study included a cross-sectional analysis of flotation cost data for 117 Initial Public Offering (IPO) over the years 1993-1998. The research mainly focused on two questions: how can the Initial Public Offering (IPO) flotation cost function be defined within the economies of scale view in order to capture the import of a

set of economically relevant variables? In addition, what statistical methods will provide the most powerful estimation and does this function reveals economies of scale on the level of a single issue?

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

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

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

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

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

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

Goergen & Others (2006), carried out a study on, “The Strategy of Going Public: How UK Firms Choose Their Listing Contracts.” The study carried two objectives: The first objective was to derive potential factors that may influence the choice of IPO listing contracts from the few theoretical papers and empirical studies in the fields. The second object was to test how well those factors explain the choice of the listing contract for the case of UK IPO’s. The study focused on 240 flotations, which were listing on the official list of London Stock Exchange (LSE) during the period of 1991 to 1995. They used a binomial profit model to measure the impact of the variables on the contract choice. As the study proposed that three types of factors essentially influence the choice of contract; ex-ante uncertainty, certification and the visibility/exposure of the issue, they found that the higher the firms choose a placing contract. They also found strong evidence that the sponsor and creditors screening signals the quality of the IPO firm. Hence, firms, which use highly reputable sponsors and those with high debt to assets ratios usually, choose public offer contracts. They also found that firm that make small issues find it cheaper to use placing contracts. Finally, they concluded that in general the decision to choose a placing rather than an offer or vice-versa is taken by the firm within the framework of rational behavior.

Baru & Fawcett (2006), performed a study on, “Initial Public Offerings; An Analysis of Theory and Practice.” The study intended to extend the IPO literature by analyzing unique data from surveys of Chief Financial Officers (CFO’s) to compare CFO perspectives to prevailing academic theory. Specifically, they examined the following seven issues; motivations for going public, timing of the IPO’s, underwriter selection under-pricing, signaling IPO process issues and the decision to stay private. In this regard, they surveyed three sub samples of firms, namely those that successfully

completed an IPO, those that began the process but chose to withdraw the issue and those that are large enough to go public, but have not attempted an IPO. They surveyed 330 CFO's and their survey process followed Dill Man's (1978) total design method, which is a standard for conducting academic surveys. Their findings are summarized as:

The most important motivation for going public is to create public shares for use in future acquisitions. Insiders are opportunistic especially at VC-backed firms. They seek to go public at a time that portends a high stock price. The underwriter selection process is driven by a very small set of selection criteria namely underwriter reputation and IPO process expertise. CFO attributes most under pricing to market uncertainty and the need to reward investors for taking the risk of IPO. The most important positive signal is past historical earnings, this may promote window dressing. CFO's strongly prefer firm – commitment underwriting. Companies remain private to preserve decision-making control ownership.

2.2.1 Review of Dissertations

Prior this, quite a few research has been carried out by various scholars covering different aspects of capital market. Yet there is dearth of research study in the area of IPO. However, few research studies that are considered relevant and accessible during study period have been excerpted below:

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

The study conclude that public response to the issue of shares of banks, finance and insurance companies were better than that of manufacturing and processing, trading,

hotel and other groups of companies. The success of response to the public issues largely depends on the response from within Kathmandu valley and to some extent, the issues of shares seem to attract from outside the valley.

Pandey (2001), who has done research on, “Public Response to Primary Issue of Shares in Nepal,” with the object of: identify the problems of primary share issue market, assess the growth of primary issue market, analyze the pattern of public response to shares & find the reasons of variations. Mr. Pandey has summarized his find as: public response in primary market is high due to lack of opportunities for investment in other fields. No proper investment analysis is been made. Despite this, public are attracted towards shares than other sectors, basically to increase their value of investment, be it dividend capital gain or bonus shares. it can be seen that public response to primary issues on banking and Financial sectors is normally higher than that of the manufacturing and services sector. Major causes for proper response in the period 1995-1998 were; interest rates were higher as compared to dividend yield, the public companies were not performing well and people did not know about the importance of investing securities

Adhikari (2005), has conducted a research on “An Analysis of Determinants of IPO Under pricing in Nepal.” The basic objective of the study was to analyze the under pricing of IPO’s in the context of Nepal. Beside the study also examined the trends of Public offering market and process of going public in Nepal. For propose of study data of the periods of 4 years from 1999/00 to 2003/04 were used.

The researcher concluded that under-pricing does not occur among Nepalese firms. The researcher also added that the result is not consistent with theory and different finding of empirical studies conducted in different countries. IPO’s market in Nepal does not enjoy any right to set the price of their issue. The price setting process is totally controlled by the regulatory body. Because of this reasons, Nepalese merchant banker could not play any role to influence the offer price of IPO’s.

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

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

Dangol (2007) entitled “A Study on Investors’ Perception in Nepalese Stock Market”.

The main objective of his research is to “examine the impact on the stock market as per the change of investors’ perception and to examine whether investors perception leads to growth of the stock market”.

His study contributes to the importance of the investors’ perception and shows the change of investors’ perception impacts on the stock market and how the perception on investors leads to growth of the stock market. It shows that there is a negative impacted on the Nepalese stock market as per the changes of investors’ perception because there has been a negative effect on the perception on investors. This is also a main cause of the negative growth of the stock market.

Gautam (2008) has made study on the topic of "Analysis of Share Price Movement Attributed to Rights Offering Announcement".

The main objectives of his study were

- a) To find the effect of rights offering on the share price movement.
- b) To find out, if there is any problem in the primary issue of securities
- c) To analyze the adequacy of the contents of the company act 2053 in regard to section 21, that emphasis about that matter to be disclosed in the issue prospectus.

The major findings of his study were:

- a) Change in share price due to rights offering cannot be generalized.
- b) There is lack of legal provision in company act regarding the issue of right share.
- c) There is lack of investors protection act.
- d) Nepalese security market has failed to use various capital market instruments such as warrants, convertible, option etc.
- e) Security board has failed to establish one window policy to support the primary issue of shares.

To conduct the study, he had used correlation analysis between share price movement and NEPSE index, i.e. general market movement and t-statistics between share prices before and after rights issue announcement. T-statistics was used to test if there was significant change in share price before and after the issue of rights. But he did not consider the value of rights, which is very important in share price determination after the issue of rights share. Further, his analysis only covers the data from FY 2052 to FY 2056. The result may not represent the present economic scenario. He had taken only three companies as sample to complete his study but here the researcher has taken three commercial banks issuing rights share and two finance co. till FY 2061/62 as sample to accomplish the study.

Shrestha (2009) on the “Public Response to primary Issue of Shares in Nepal” reveals that the scope of primary market in recent days is burgeoning by leaps and bounds. Even the general investors are boisterously pumping up their saving in the new issue of shares

causing over subscription to a great deal. He found that capital market is encouraging since many public limited companies including joint venture banks have been successful in taping capital through the flotation of shares to the general public. The positive response of investors to the companies is a direct manifestation of the growing public confidence in the primary market.

Paudel (2010), who has done research on "Public Response to IPOs in Nepal", with the objective of: identify the dealing process of IPOs, analyze the pace of IPOs and analyze the public response to the IPOs.

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

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

2.3 Research Gap

Even though numerous studies have been carried out in different part of the world covering different aspects of securities market, stock trading mechanism and stock pricing behaviors etc. including public response in primary issue of different securities. But there is still lack of research in the field of Initial Public Offering to the stock investment Few studies have analyzed existing state of IPO's in Nepal. However, none of the studies has been able to portray the complete picture of IPO's and their practices in

Nepal. 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.

This study will be helpful to public companies (new and existing), issue manager, underwriter, investor, government organizations, general public, researcher and other parties related to IPO (Primary issue of different securities).

CHAPTER - THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research means to search or study about a phenomenon. The word research is composed by 're' and 'search' where re means repeatedly or again and again, and search means to investigate or find. Thus to search again and again is research. Generally, research is an

effort to search new fact, knowledge, and principle in scientific manner. Any systematic research study requires a proper methodology to achieve the set objectives. Research is a careful investigates or inquiry into any subject matter, which is an attempt to discover to find out proposed information or relationship that would be useful for further application. Research methodology is a systematic way of finding solution to a research problem i.e. systematic collection, recollection, recording, analysis, interpretation, and reporting of information. 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.

3.2 Research Design

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

the investors to invest, what is their goal behind investment and their response sector wise.

3.3 Population and Sample

Number of companies listed in Nepal Stock Exchange (NEPSE) by the end of FY 2009/10 has reached 214 and these companies are divided into eight sectors which include commercial banks, development banks, finance companies, trading companies, hotels and others (SEBON, Annual Report 2009/10). However, the research is focused on only those companies which have gone for IPO during the period of FY 1993/94 to 2009/10. To find out the public response to the Initial Public Offering, this research has been divided into two sectors as Financial Institutions and Insurance Sector and Non Financial Sector. Due to unavailability of reliable data this research has completed upon the base of selected sample from each sectors. The sample have selected at random from each sector.

Table 3.1
Population and Sample for Study

S.N.	Institutions	Population
1	Commercial Banks	25
2	Development Banks	65
3	Finance Companies	72
4	Insurance Companies	21
Total(A)		183
1	Manufacturing	18
2	Trading Companies	4
3	Hotels	4
4	Hydropower	4
5	Others	2
Total(B)		32
Grand Total(A+B)		215

3.4 Sources of Data

The present study is based on primary as well as secondary data as per the objective and requirement of the study. For the characteristic of the study, the secondary data is collected from Nepal's leading Issue managers NMB, CIT and NIDC Capital Markets. Similarly, the other sources of secondary data have been acquired from different libraries and journal as well as annual report and websites of SEBON/NEPSE. The primary data have been collected through structured interview and asked to the related staffs of SEBON and other general public who are investing their money in primary issue.

3.5 Data Presentation and Analysis

For the sake of effectiveness, the data collected from various sources have been presented in the form of table, chart and bar graph as per the need of the research. The result obtained from the analysis has been clearly interpreted so as to depict the exact finding of the research. Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic. The empirical results have been extracted in this study by using annual data of listed companies from 1994/95 to 2009/10.

3.6 Tools for Analysis

To attain above mention objective on the basis of primary data collected from questionnaires and informal discussion with investors. The statistical tools are used as required by the study.

3.6.1 Statistical Tools

The appropriate statistical tools are used where ever required to extract the result from the data collected. The different tools are as follows;

3.6.1.1 Multiple Bar-Diagrams and Graphs

Diagrams and graphs help to shows the general trend of the rations in respect to the time periods of the analysis year. Out of various types of diagrams one of the most important from of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristic of the same set of data have to be presented and compared.

3.6.1.2 Pie-diagram

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

3.6.1.3 Percentage Analysis

The percentage analysis is done to compare two or more data for general information. It is used to find out the portion of sample in favor of different choices.

3.6.1.4 Simple Arithmetic Mean

Simple arithmetic mean indicates the measure of the Middle of the data set and denoted by μ or \bar{X} . In other words it is just the sum of all the observations divided by the number

of observations. During analysis, Mean or Average has been used by synonymous to equal weighted mean.

It is calculated by:

$$\text{Mean} = \frac{\text{Sum of total values}}{\text{Number of values}}, \bar{X} = \frac{\sum x}{N}$$

3.6.1.5 T- Test

Deal with the small sample for testing of hypothesis concerning population means difference between to population means and observed sample correlation coefficient etc. T- test based on exact sample test is used. The t-test for difference between to means is used to test whether two independent samples have been drawn from to normal populations having the same means and equal population variance or there is significant difference between population means from which the samples of drawn.

The following formula is uses to test an observed sample correlation coefficient:

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S_p^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$\text{Similarly, } S_p^2 = \frac{1}{n_1 + n_2 - 2} \left\{ \sum X_1^2 - \frac{(\sum X_1)^2}{n_1} + \sum X_2^2 - \frac{(\sum X_2)^2}{n_2} \right\}$$

Where, \bar{X}_1 = Mean of first Sample

\bar{X}_2 = Mean of second Sample

S_p^2 = an unbiased estimate of the common variance and its value is computed

n_1 = Number of first sample

n_2 = Number of second sample

CHAPTER - FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

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.

Data presentation is the interpretation of the study. Data analysis summarizes the collected data and its interpretation presents the major findings of the study. Analysis is not complete without interpretation and interpretation cannot proceed without analysis. In this course of analysis, data gathered from various sources have been inserted in the tabular form and shown in diagram form. The data have been 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. The primary data are used to analyze the investor awareness, response, expectation, choice for investment etc. The secondary data are use to analyze the investor response to the initial investor offering per year and sector wise along with under subscription and oversubscription, growth of public offering and the behavior of general investors.

Collected data have been analyzed in percentage, simple average.

4.2 Pace of Initial Public Offering

4.2.1 Amount of Public Issues Approved

As per the provision of Securities Exchange Act, 2063 and regulation and guidelines made there under, the company must get issue approval from SEBON prior to make their offer to public. From the FY 1993/94 to 2009/10 has approved 324 issues of securities amounting to Rs. 39389.90m. The situation of issue approved in different year is presented in Table 4.1.

Table-4.1 shows the amount of issues approved by SEBON vary during the period. The highest amount of issue approved was Rs.16828.51m (33.68 %) in the fiscal year 2008/09 and was followed by Rs.10828.51m (21.66%) in fiscal year 2009/10, Rs10668.2 m (21.35%) in fiscal year 2007/08, Rs.2443.28m (4.89%) in fiscal year 2005/06, Rs2295.5m (4.59%) in fiscal year 2006/07. Similarly, the amount of approved was Rs. 1027.5 m (2.06%) in 2003/04, Rs556.54 m (1.11 %) in 2002/03, Rs 1441.33 m (2.88 %) in year 2001/02, Rs 410.49 m (0.82%) in year 2000/01, Rs.326.86 (0.65%) in year 1999/00, Rs.462.36 (0.93%) in year 1997/98, Rs.332.2 m (0.66%) in year 1996/97 and Rs.293.74 (0.59%) in 1995/96 . The issue least for the period was Rs 173.96 m (0.44 %) in fiscal year 1994/95.

Table 4.1
Amount of Issue Approved

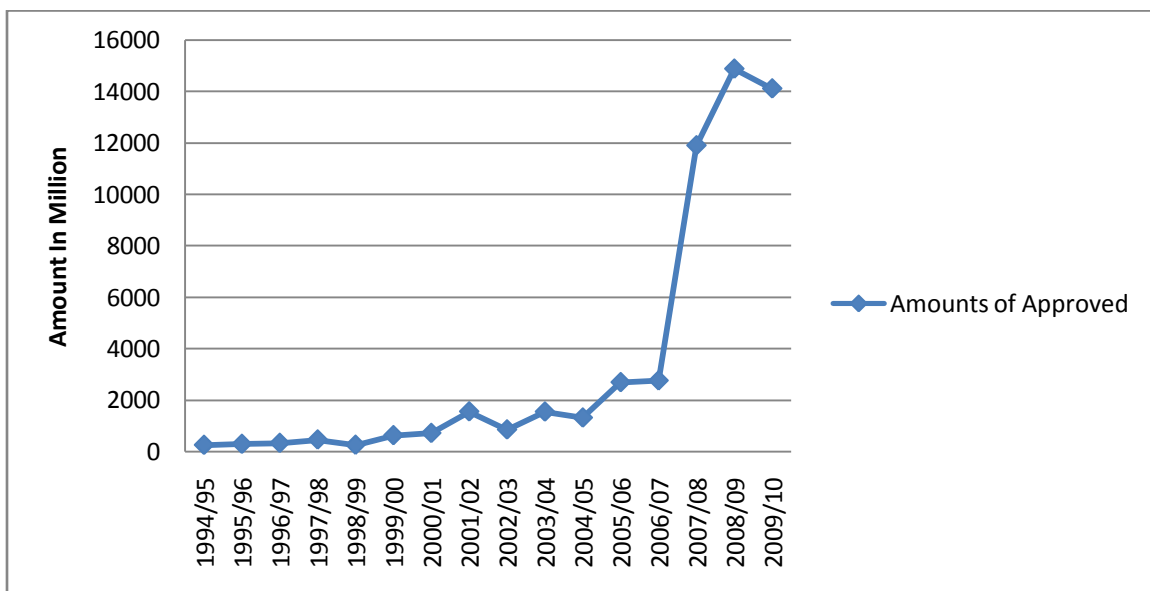
Year	Amount of Approved (Rs in million)	% of Issue Approved
1994/95	254.2	0.47
1995/96	293.7	0.54
1996/97	332.2	0.61
1997/98	462.4	0.85
1998/99	258	0.47
1999/00	630.3	1.16
2000/01	717.2	1.31
2001/02	1555.1	2.85
2002/03	853.6	1.56
2003/04	1547.2	2.84
2004/05	1315.8	2.41
2005/06	2692.1	4.94
2006/07	2757.6	5.06
2007/08	11895.6	21.81

2008/09	14875.2	27.27
2009/10	14107.45	25.86
Total	54547.65	100

Source: SEBON Annual, Report 2009/10

The figure 4.1 shows the fluctuations of amount of issued approved by SEBON during the period. It is shown that, in the past few years the amount of approved was in increasing trend.

Figure 4.1
Amount of Issue Approved



4.2.2 Number of Issued Approved

The number of issue approved during the period of 1993/94 to 2009/10 varies differently which is presented in below at table 4.2.

Likewise, the amount of public issue approved, the number of issues approved in a fiscal year also had not shown any consistent trend over the study period. Total number of issue approve by SEBON during the period of FY 1993/94 to 2009/10 is 385. During the entire study period the lowest number of issue approved in a year were 5 (1 %) on two fiscal years, FY 1996/97 and FY 1998/99 where the second lowest number of issue approved in a year is 6 (1.85 %) on fiscal year 1999/00. The highest number of issues approved was

64 (16.62 %) in the FY 2007/08 and FY 2008/09. The second highest number of issue approved was 34(10.49 %) in FY 2006/07 over the study period.

Table 4.2
Number of Issue Approved

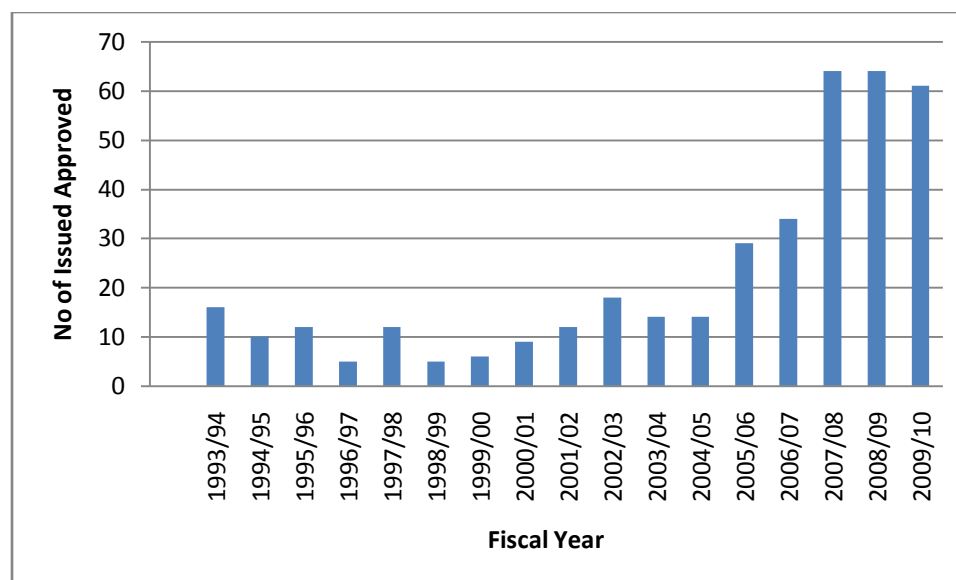
Year	No. of Issued Approved	Issue Approved (Rs. In million)	Average Size (Rs. in million)	% of Issue Approved
1993/94	16	244.4	15.28	4.16
1994/95	10	173.96	17.40	2.60
1995/96	12	293.74	24.48	3.12
1996/97	5	332.2	66.44	1.30
1997/98	12	462.36	38.53	3.12
1998/99	5	258	51.60	1.30
1999/00	6	326.86	54.48	1.56
2000/01	9	410.49	45.61	2.34
2001/02	12	1441.33	120.11	3.12
2002/03	18	556.54	30.92	4.68
2003/04	14	1027.5	73.39	3.64
2004/05	14	1626.82	116.20	3.64
2005/06	29	2443.28	84.25	7.53
2006/07	34	2295.5	67.51	8.83
2007/08	64	10668.2	166.69	16.62
2008/09	64	16828.51	262.95	16.62
2009/10	61	10822.4	177.42	15.84
Total	385	50212.10	130.42	100.00

Source: SEBON Annual, Report 2009/10

It is shown that the number of issue approved during the study period had not consistent. In the first year (1993/94), the number of issue approved was 16 but in second (1994/95) and third year (1995/96) it was decrease to 10 & 12 respectively which is followed to only 5 in fiscal year (1996/97). There is not so much variation between the FY 1999/00 to FY 2004/05. But is last four fiscal years number of issued approved was increased speedily.

The average number of issue approved in each fiscal year has also been in fluctuating trend. Average size of issue offered was Rs.15.28 m the FY 1993/94 which is smallest and Rs. 262.95m in the FY 2008/09 which is largest size over the study period.

Figure 4.2
Number of Issued Approved



4.2.3 Sector wise Issue Approved

SEBON approved different types of securities of different sectors for public issue since FY 1993/94 to FY 2009/10. The total amount of issued approved is Rs.50212 M during this period. The most intriguing aspect of this approved amount is the contribution from financial sector that includes commercial banks, development banks, finance companies and insurance companies then the non-financial sectors (Manufacturing and processing, trading, hotels and others companies) as revealed from Table 4.3.

The table shows that SEBON accepted the various sector's issued for going to public. The highest issue approved by SEBON was 62 issues (35.23 %) of Insurance Sector and it was followed by 40 issues (22.73 %) of Finance Sector, 23 issues (13.07 %) of Commercial Bank Sector and 19 issues (10.80 %) of Development sector during study period (FY 1993/94 to FY 2009/10). Similarly, the least issues approved during the period are 4 issues (2.27 %) of Manufacturing & Processing and Hotel Sector.

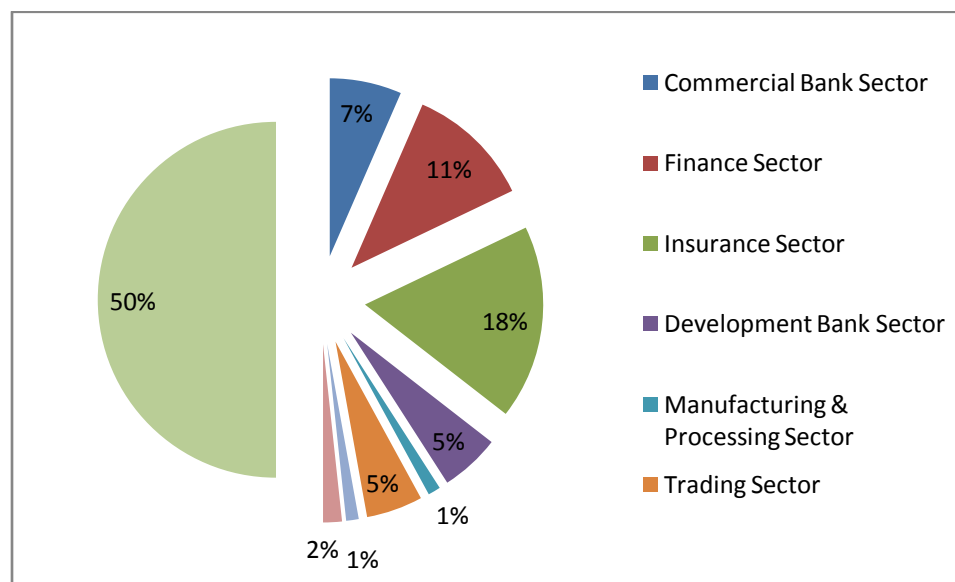
Table 4.3
Sector wise Issued Approved

Sector	No. of Issued Approved	% of Issued Approved
Commercial Bank Sector	23	13.07
Finance Sector	40	22.73
Insurance Sector	62	35.23
Development Bank Sector	19	10.80
Manufacturing & Processing Sector	4	2.27
Trading Sector	18	10.23
Hotel Sector	4	2.27
Other Sector	6	3.41
Total	176	100

Source: SEBON Annual, Report 2009/10

Above data is also presented in to the Figure 4.3 which is shown below.

Figure 4.3
Sector wise issue Approved



4.2.4 Publicly Issued Companies

As per required of NEPSE, issuing companies should list their issues in NEPSE for allowing such issues to be traded on its trading floor. Since opening of NEPSE in FY 1993/94, 159 companies have already been listed where out of these, 12 companies had

de-listed from Trading Floor of NEPSE. So at the end of FY 2006/07, there are 135 companies listed in NEPSE. Total paid up value these listed securities by the end of fiscal year 2008/09 reached Rs. 61140.39 m which was Rs. 29465.8 m in last fiscal year (2009/10). The most intriguing aspect of this total paid up capital is the contribution from financial sector that includes commercial banks, development banks, finance companies and insurance companies as revealed from tables 4.4.

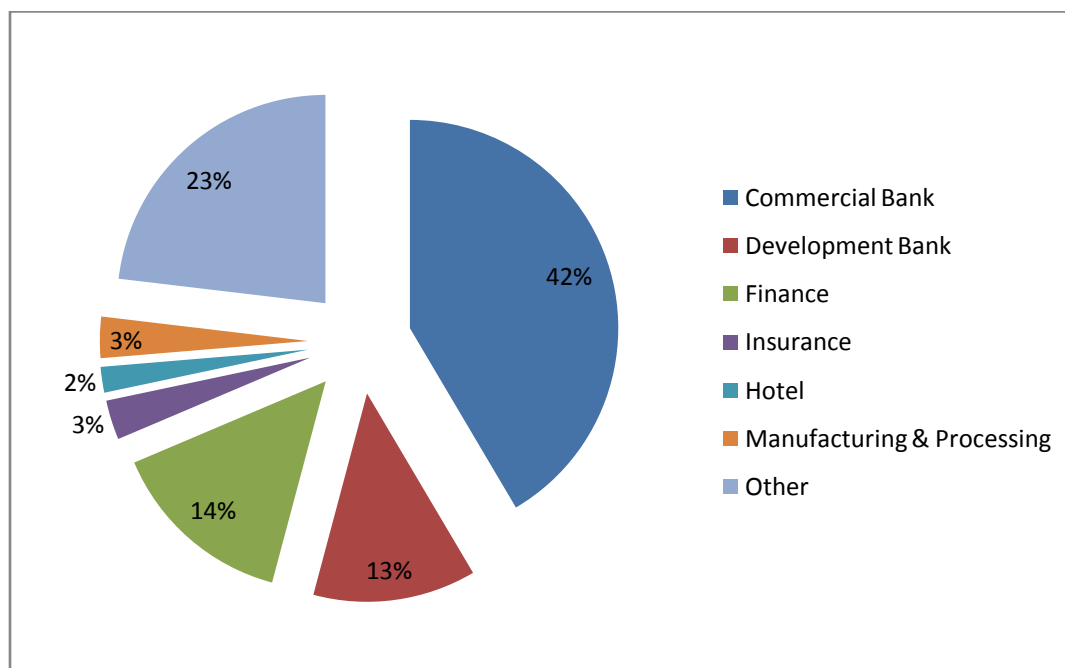
Table 4.4
Publicly Issued Companies

S.N	Sector	No of Public Issue	Paid of Value (Rs in million)	Percent
1	Commercial Bank	15	32900.64	41.50
2	Development Bank	20	10027.14	12.65
3	Finance	43	11466.39	14.46
4	Insurance	11	2432.94	3.07
5	Hotel	1	1580.71	1.99
6	Manufacturing & Processing	1	2539.74	3.20
8	Other	3	18326.98	23.13
	Total	94	79356.73	100 %

Source: SEBON Annual, Report 2009/10

As shown in Table 4.4, out of 94 listed companies, 43 companies belong to financial sector. From paid-up value perspective commercial banks occupies 44.50 % (15) development bank have 12.65% (20), finance companies accounts for 14.46% (43) and insurance companies have 3.07% (11). On other hand manufacturing and processing, trading, hotel and others account for 3.20%, 1.99% and 23.13 of the total paid of value respectively.

Figure 4.4
Publicly Issued Companies



4.2.5 Public Issues from Finance and Non-Finance Sector

Listed companies can be divided into Finance sector and Non-finance sector companies. Finance sector mainly includes companies from commercial banks, development banks, finance companies and insurance while non-finance sector companies includes the companies from manufacturing and processing companies, trading companies, hotels and others .

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

Table 4.5
Public Issues from Finance and Non-finance Sector

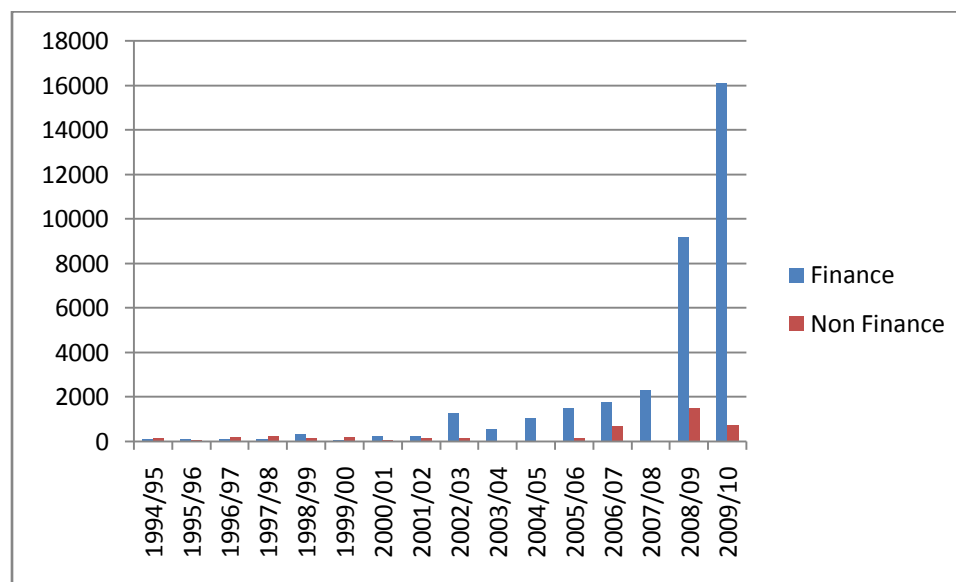
Sector Year	Finance			Non-finance			Total	
	No. of Issue	Amount (Rs in million)	Annual Growth (%)	No. of Issue	Amount (Rs in million)	Annual Growth (%)	No of Issue	Amount
1994/95	7	109.7	-	9	134.7	-	16	244.4
1995/96	6	120	9.39	4	53.96	(59.94)	10	173.96
1996/97	8	95.14	(20.72)	4	198.6	268.05	12	293.74
1997/98	4	107	12.49	1	225.2	13.39	5	332.2
1998/99	8	312.45	196.01	4	149.91	(33.43)	12	462.4
1999/00	3	58	(81.44)	2	200	33.41	5	258
2000/01	5	237.26	309.07	1	89.6	(55.20)	6	326.86
2001/02	8	260.49	9.79	1	150	67.41	9	410.49
2002/03	11	1267.87	386.73	1	173.46	15.64	12	1441.33
2003/04	18	556.54	(56.10)	0	0	(100)	18	556.54
2004/05	14	1027.5	84.62	0	0	-	14	1027.5
2005/06	13	1486.82	44.70	1	140	-	14	1626.82
2006/07	27	1759.42	18.33	2	683.86	388.47	27	2443.28
2007/08	34	2295.50	30.47	0	0	(100)	34	2295.50
2008/09	63	9168.2	299.38	1	1500	-	64	10668.2
2009/10	62	16082.07	75.41	2	746.44	(50.24)	64	16828.51
Total	291	34944.20		33	4445.70		324	39389.90

Source: SEBON Annual, Report 2009/10

From Table 4.5 revealed that total of 324 public issues was made from finance and non-financial sector during the study period. Out of this, total of 291 (89.81%) offers came from financial sector whereas rest 33 (10.19%) from non-financial sector. During the study period total of Rs. 39389.90 m issued to public. Out of it Rs. 34944.20 m (88.71%) came from financial sector. Similarly, contribution from non-financial sector is Rs. 4445.7 m which is 11.29 % of total.

Figure 4.5

Public Issues from Finance and Non-finance Sector



These figures clearly show that the financial sector is dominant force of Nepalese IPO market and often calls the shot in the field. This might be the reason why government has promulgated an array of rules and regulations bring in more transparency and disciplines into the sector.

To test where the index between Finance and Non-finance Sector are differing or not T-test is performed. Since there are Finance and Non-finance sector and yearly data between 16 years are taken as the number of observation. The overall results of this calculation are given in the following table.

Table 4.6

Result of T-Test

Total no. of Observation	Calculated T-value	Degree of Freedom	Tabulated T-value	Result	Decision
16	4.972	30	2.750	Tab-T < Cal-T	H0 is rejected

Source: Appendix-3

Note: (i) The significance level is 1 %.

(ii) Tabulated T-value at 30 Degree of Freedom is 2.750.

T-statistics is highly significant at 1 % level of significance. This implies that Finance sector and Non-financial sector are significantly different and it is noted that primary market is concentrated to financial sector then Non-financial sector.

4.2.6 Instrument-wise Public Issues

Likewise many other emerging markets Nepalese market also provides limited variety of investment instruments which mainly includes common stock, preferences shares, right shares, debenture and few issues from collective investment schemes like mutual fund but in this study the collective investment schemes are not includes. Over a period of time Nepalese stock market has been relying on few financial instruments such as common stock and right shares, which can not be considered good sign regarding overall development of Nepalese stock market.

Table 4.7

Fis. Year	Ord. Share		Pref. Share		Right Share		Debenture		Total	
	No of Issue	Amt. (in m)	No Of Issue	Amt.	No of Issue	Amt. (in m)	No Of Issue	Amt(in m)	No of issue	Amt (in m)
1994/95	14	227.9	2	16.5	-	-	-	-	16	244.40
1995/96	10	173.96	-	-	-	-	-	-	10	173.96
1996/97	10	224.74	-	-	2	69	-	-	12	293.74
1997/98	2	57.	-	-	3	275.2	-	-	5	332.20
1998/99	8	119.4	-	-	3	249.96	1	93	12	462.36
1999/00	3	148	1	80	1	30	-	-	5	258
2000/01	3	202.26	-	-	3	124.6	-	-	6	326.86
2001/02	7	278.7	-	-	2	131.79	-	-	9	410.49
2002/03	5	319.46	1	140	5	621.87	1	360	12	1441.33
2003/04	14	394.3	-	-	4	162.24	-	-	18	556.54
2004/05	10	657.50	-	-	3	70	1	300	14	1027.50
2005/06	7	377.48	-	-	6	949.34	1	300	14	1626.82
2006/07	14	579.83	-	-	11	1013.45	4	850	29	2443.28
2007/08	15	380.3	1	400	17	1265.3	1	250	34	2295.50
2008/09	16	924.80	-	-	43	6793.4	5	2950	64	10668.20
2009/10	12	1816.32	-	-	50	14262.19	2	750	64	16828.51
Total	150	6881.95	5	636.5	153	26018.24	16	5853	324	39389.90

%	46.3	17.47	1.54	1.62	47.22	66.05	4.94	14.86	Instru
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ment-wise Public Issues

Sources: SEBON Annual Report

As shown in Table 4.7, out of 324 offers during the sample period, 150 issues were ordinary shares, which is 46.30% of the total issue offered during the period. Similarly, 153 issues were right shares, which is 47.22% of total issue. Also 16 issues were debentures (4.94%). Hence from number of issues offered perspective, Right share was the most preferred instrument for issuing company, followed by Ordinary share, debenture and preference share respectively.

From issued amount perspective right share emerges as most used financial instrument with 66.05% of total issued amount. Second most used instrument was ordinary share occupying 17.47% of total amount followed by debenture 14.9%, and preferred stock (1.62%) respectively

Figure 4.6

Instrument-wise (On the basis of No. of issue) Public Issue Approved

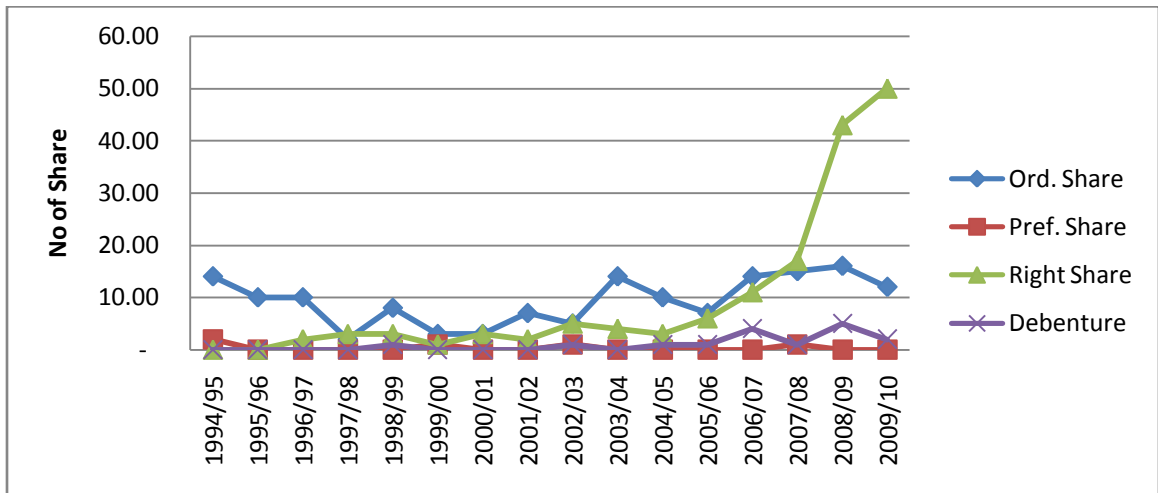
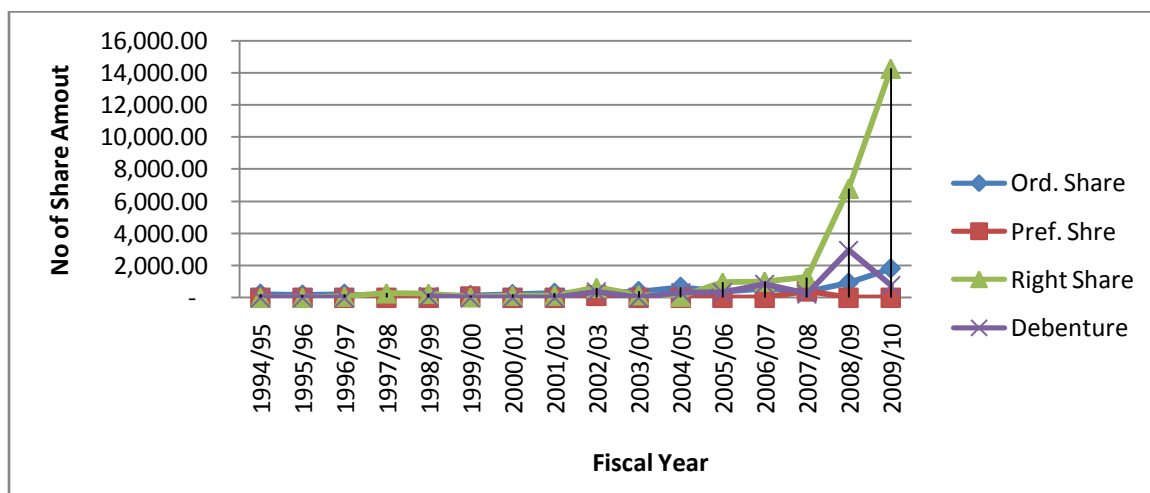


Figure 4.7

Instrument-wise (On the basis of Total Amount) Public Issue Approve



The most striking aspect of the analysis has been the fact that preferences shares were issued only 5 times and debenture 16 times during the entire study period which covered 16 fiscal years. This clearly shows that Nepalese stock market is overly dependent on few financial instruments likely ordinary share and right share. This over dependency, on one hand limits the boundary of investment opportunities to the public and on other hand, limits the overall development prospect of Nepalese stock market. At the same time this may also justify the selection of ordinary share as subject of this study.

4.2.7 Subscription (Over and Under) Pattern of Securities

When a company offers its issues to public, the demand received from public is bound to vary. When demanded number of securities is higher than the offered number of securities, it is called over-subscription and when the demanded number of securities is lower than the number of securities offered, it is called under-subscription. Similarly when the offered number of securities and demanded number of securities are equal it is case of full subscription. More information regarding it has been presented in Table 4.8.

As revealed from Table 4.8, total of 324 different companies issued different securities (only Ordinary Shares, Right Share, Preference Share and Debenture) to the public during the study period of FY 1994/95 to FY 2009/10.

Table 4.8
Over and Under Subscription of Securities

Fiscal Year	Total no. of Issued	Over Subscription		Under Subscription		Fully Subscribed		Unknown	
		No	%	No	%	No	%	No	%
1994/95	16	15	93.75	-	-	-	-	1	6.25
1995/96	10	7	70	1	10	2	20	-	-
1996/97	12	5	41.67	6	50	-	-	1	8.33
1997/98	5	2	40	1	20	-	-	2	40
1998/99	12	5	41.67	5	41.67	1	8.33	1	8.33
1999/00	5	3	60	1	20	-	-	1	20
2000/01	6	4	66.66	1	16.67	1	16.67	-	-
2001/02	9	8	88.89	1	11.11	-	-	-	-
2002/03	12	5	41.67	4	33.33	2	16.67	1	8.33
2003/04	18	14	77.78	3	16.67	-	-	1	5.33
2004/05	14	12	85.71	2	14.29	-	-	-	-
2005/06	14	6	42.86	7	50	1	7.14	-	-
2006/07	29	17	58.62	10	34.48	2	6.9	-	-
2007/08	34	16	47.06	14	41.18	3	8.82	1	2.94
2008/09	64	19	29.69	32	50	3	4.69	10	15.63
2009/10	64	10	15.63	-	-	-	-	54	84.38
Total	324	148	45.68	88	27.16	15	4.63	73	22.53

Source: Annual Report of SEBON

Hence, from the total of 324 issues, 148 issues representing 45.68% of total issues were oversubscription, 88 issues accounting 27.16% were under subscribed and 15 issues (4.63%) were fully subscribed where there was unknown about subscription pattern of 73 issues representing 22.53% of total no. of issue. On instrument wise basis, the ordinary share was oversubscribed most of the time in comparison to other securities where as in case of fully subscribed; right share and debenture capture about 2/3 part of the total

number but right share under subscribed most of time. That fact may hint out why most companies prefer common shares to raise capital from general public rather than other securities.

4.3 Public Response to Initial Public Offering

Nepal Stock Exchange Limited has divided the total listed companies into eight sectors. They are Commercial Banks, Finance Companies, Development Banks, Insurance Companies, Manufacturing & Processing Companies, Trading Companies, Hotels and others. Investors have to decide in which sector they want to made investment. As per objective, this study only concerned with the investors priority and response for the IPO so whole study are divided into Financial sector (Commercial Bank, development bank, Finance companies and Insurance companies) and Non-financial Sector (Manufacturing & Processing companies, Hotels, Trading companies and others).

4.3.1 Public Response to Commercial Bank

25 Commercial Bank had issued their public in FY 2008/09. NABIL Bank Limited (Nepal Arab Bank Limited) was the first commercial bank and last time Bank of Asia Nepal Ltd issue share to public.

To analyze the public response to commercial banks, seven commercial banks (Nepal SBI Bank Ltd., Everest Bank Ltd., Nepal Industrial and Commercial Bank Ltd. or NIC Bank Ltd., Bank of Kathmandu Ltd., Nepal Investment Bank Ltd., Laxmi Bank Ltd. and Siddhartha Bank Ltd.) are chosen as samples which are shown in the following table.

The Table 4.9 shows the information of 7 different commercial banks with number of shares issued, number of applications applied by general public to the company and Subscription Times which shows the public response to these companies.

Table 4.9
Public Response to Commercial Banks

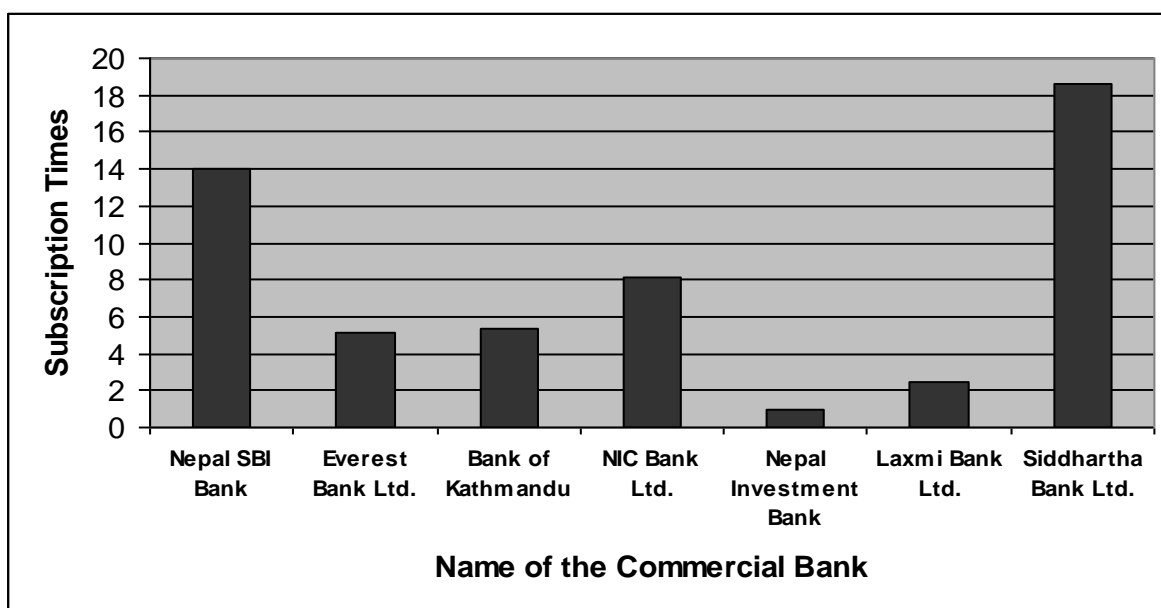
S.N	Name of Commercial Banks	Issued Years	No of Shares Issued	Shares Applied	Subscripti on Time	Result
1.	Nepal SBI Bank	1993	360000	5204160	14.05	Over Subscribed
2.	Everest Bank Ltd.	1995	360000	1850400	5.14	Over Subscribed
3.	Bank of Kathmandu	1996	450000	2413485	5.36	Over Subscribed
4.	NIC Bank Ltd.	1999	175000	1427860	8.16	Over Subscribed
5.	Nepal Investment Bank	2002	572400	557632	0.97	Under Subscribed
6.	Laxmi Bank Ltd.	2003	192500	483849	2.51	Over Subscribed
7.	Siddhartha Bank Ltd.	2005	150000	279795	18.65	Over Subscribed

Sources: NMB, NIDC Capital Market, CIT and Annual Report of SEBON

As revealed from table 4.9 out of 7 sampled commercial banks, the IPO of Siddhartha Bank Ltd. (ordinary share) gets the highest demand with subscription times of 18.65. It means investors gave high response to this company. Similarly, Nepal SBI Bank had issued 360000 units of ordinary share but investor applied for 5204160 units and subscription was 14.05 times more than issue size. That means investors gave more response to this bank also. It was followed by NIC Bank Ltd, Bank of Kathmandu Ltd., Everest Bank Ltd. and Laxmi Bank Ltd. that the subscription times were 8.16, 5.36, 5.14 and 2.51 shows the public response was in decreasing order in each bank respectively. But in case of Nepal Investment Bank the public response was just opposite. This bank had issued 572400 units Share (Right Share) but demand was only 557639 (Subscription is only 0.97 times) and result was under subscribed. That means investors gave less response to this bank than the other bank.

In the above table, it is shown that among 7 banks, 6 banks had oversubscribed and 1 had under subscribed which indicates that IPO of this sector were highly appreciated and demanded by general public. Investors give high priority and response to the public issues of commercial banks.

**Figure 4.8
Public Response to Commercial Banks**



4.3.2 Public Response to Development Bank

29 Development banks had issued their public and some other are in the process of issue of securities to public and get the approval for issue of the Ordinary Share at the end of FY 2009/10. Nepal Development Bank Limited was the first Development bank and last time Pashupati Development bank ltd issue share to the public.

To analyze the public response to Development banks, seven Development Banks ;Nepal Development Bank Ltd (NDBL), Chhimek Development Bank Ltd (CDBL), Deprosc Development Bank Ltd (DDBL), Sanima Development Bank Ltd (SDBL), Himchuli Development Bank Ltd (HDBL) and Siddhartha Development Bank Ltd (SDBL) are chosen as samples which are shown in the following table:

The Table 4.10 shows the information of 6 different Development banks with number of shares issued, number of applications applied by general public to the company and Subscription Times which shows the public response to these companies.

Table 4.10
Public Response to Development Banks

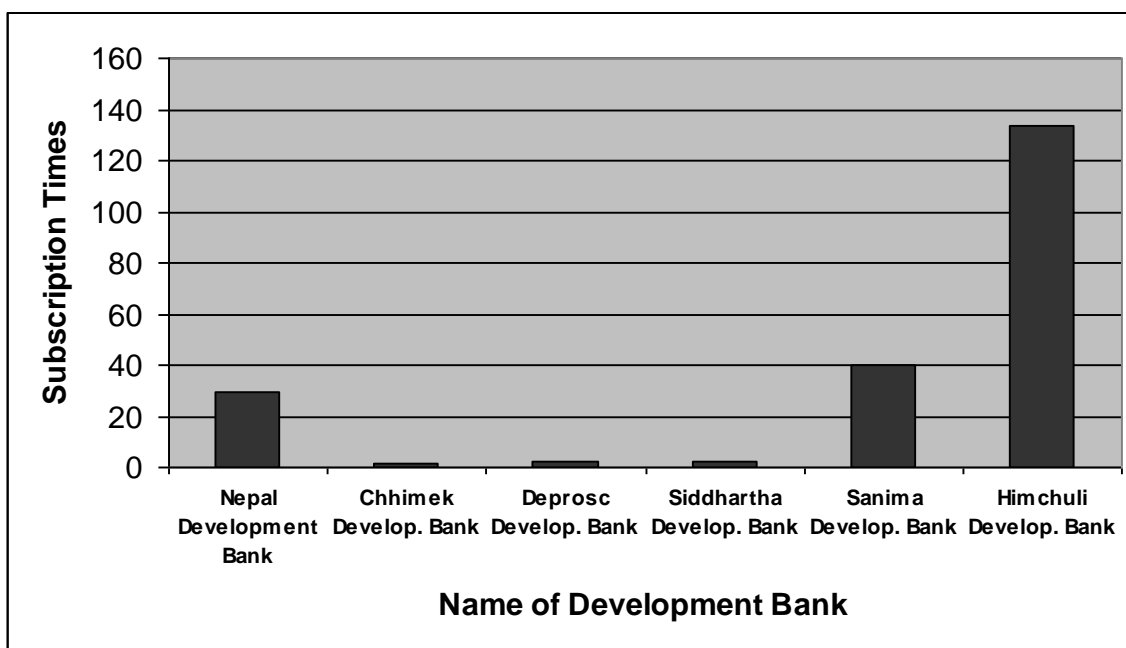
S.N.	Name of Development Bank	Issued Years	No of Shares Issued	Shares Applied	Subscription Time	Result
1.	Nepal Development Bank	2001	480000	13950480	29.06	Over Subscribed
2.	Chhimek Develop. Bank	2004	30000	41781	1.39	Over Subscribed
3.	Deprosc Develop. Bank	2005	34800	90250	2.59	Over Subscribed
4.	Siddhartha Develop. Bank	2006	200000	444860	2.22	Over Subscribed
5	Sanima Develop. Bank	2006	960000	38697600	40.31	Over Subscribed
6	Himchuli Develop. Bank	2007	120000	16034400	133.62	Over Subscribed

Sources: NMB, NIDC Capital Market, CIT and Annual Report of SEBON

As revealed from table 4.10 out of 6 sampled Development banks, the IPO of Himchuli Development Bank Ltd (ordinary share) gets the highest demand and subscription was 133.62 times more than issued sized which set a new records in the history of Primary issue in Nepal. That means investors gave high response to this company then the other company (not only Development Banking Sector but also all of the companies to go public for IPO up to now in Nepal). Similarly, Sanima Development Bank had issued 960000 units of ordinary share but investor applied for 38697600 units and subscription was 40.31 times more than issue size. This shows the response of the investors to this bank was also very high. It was followed by Chhimek Development Bank Ltd, Deprosc Development Bank Ltd, Siddhartha Development Bank subscription were 1.39, 2.52 and 2.22 times shows the public response was very low (but over subscribed) each bank respectively. That means investors gave less response to these bank than the other.

From the table, it is shown that among six Development banks three banks had very high public response and rest three had low public response but not under subscribed all of the above company.

Figure 4.9
Public Response to Development Banks



4.3.3 Public Response to Finance Companies

Finance Companies are the major attraction of the investor to purchase the shares. There are 61 Finance Companies had issued their public and some other are in the process of issue of securities to public and get the approval for issue of the Ordinary Share at the end of FY 2009/10. IPO from finance companies received good response from general public leading to oversubscription of the issues during the study period.

To simply the study of public response to finance companies, 7 Finance companies: Annapurna Finance Co, Samjhana Finance Co., Lumbani Finance & Leasing Co., Premier Finance Co, Everest Finance Co, IME Financial Institution Ltd and ICFC Financial Institution Co Ltd are chosen as samples which are shown in the following table:

Table 4.11

Public Response to Finance Companies

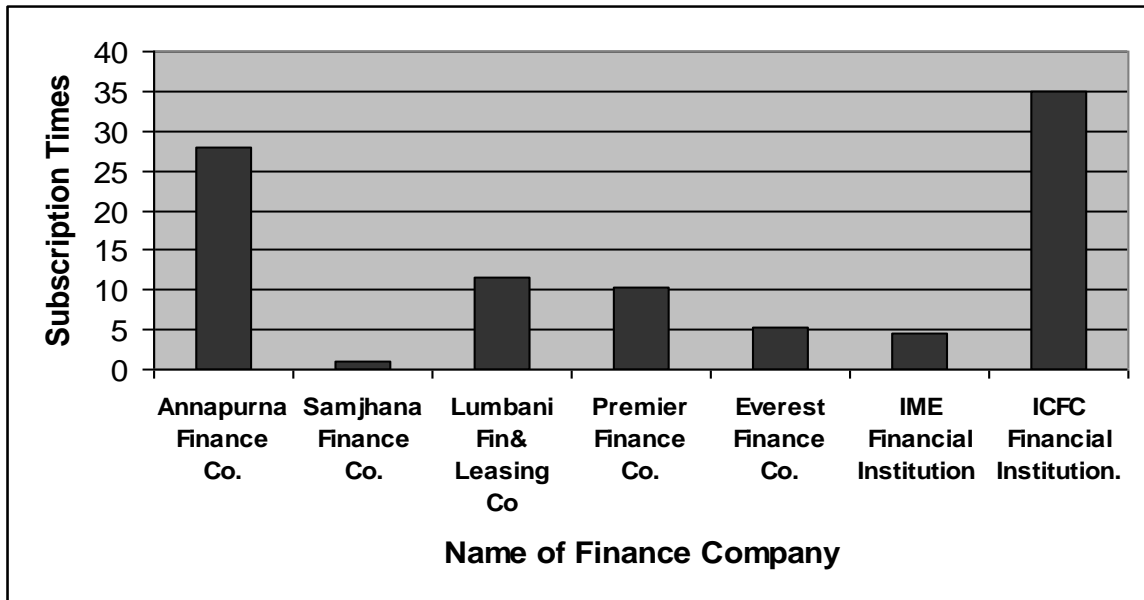
S.N	Name of Finance Company	Issued Years	No of Shares Issued	Shares Applied	Subscription Time	Result
1.	Annapurna Finance Co.	1994	20000	560790	28.03	Over Subscribed
2.	Samjhana Finance Co.	1996	112000	99602	0.89	Under- Subscribed
3.	Lumbani Fin& Leasing Co	2000	240000	2775096	11.56	Over Subscribed
4.	Premier Finance Co.	2003	80000	821088	10.26	Over Subscribed
5.	Everest Finance Co.	2005	80000	432000	5.40	Over Subscribed
6.	IME Financial Institution	2006	175000	802305	4.58	Over Subscribed
7.	ICFC Financial Institution.	2007	244000	16034400	35.06	Over Subscribed

Sources: NMB, NIDC Capital Market, CIT and Annual Report of SEBON

The Table 4.11 shows the information of 7 different Finance Companies with number of shares issued, number of applications applied by general public to the company and Subscription Times which shows the public response to these companies.

As revealed from table 4.11 out of 7 sampled Finance Companies, the IPO of ICFC Financial Institution Ltd gets the highest demand and subscription was 35.06 times more than issued sized that means investors gave high response to this company then the other. Similarly, Annapurna Finance Co. had issued 20000 units of ordinary share but investor applied for 560790 units and subscription was 28.03 times more than issue size. This marked that the response of the company was also very high. But Lumbani Finance & Leasing Co., Premier Finance Co, Everest Finance Co and IME Financial Institution received medium response from the public with subscription of 11.56 times, 10.26 times, 5.40 times and 4.58 times in each companies respectively. In case of Samjhana Finance Co the public response was just opposite. This bank had issued 112000 units Share but demand was only 99602 (Subscription is only 0.89 times) and result was under subscribed. That means investors gave less response to this company than the other.

Figure 4.10
Public Response to Finance Companies



From the above table, it is shown that among 7 Finance, 6 had oversubscribed and 1 had undersubscribed which indicates that IPO of this sector were highly appreciated and demanded by general public. Finance Companies are also getting successful to attract investors.

4.3.4 Public Response to Insurance Companies

Insurance Companies are also parts of financial institution and play major role in the development of economy and security market. Insurance company is divided into Life and Non-life Company. There are 17 insurance Companies had issued their public and some other are in the process of issue of securities to public at the end of FY 2008/09. Himalayan General Insurance Limited was the first Insurance Company and last time Siddhartha Insurance Company Limited issue share to the public.

To analyze the public response to Insurance Companies, 5 Insurance Company (3 from non life and 2 from Life Insurance Company); Himalayan General Insurance Company Ltd (HGIL), Sagarmatha General Insurance Company Ltd (SGIL), Nepal Life Insurance Company Ltd (NLIC), Life Insurance Corporation (Nepal) Ltd (LICN) and Shikhar Insurance Company Ltd (SICL) are chosen as samples which are shown in the table.

Table 4.12
Public Response to Insurance Companies

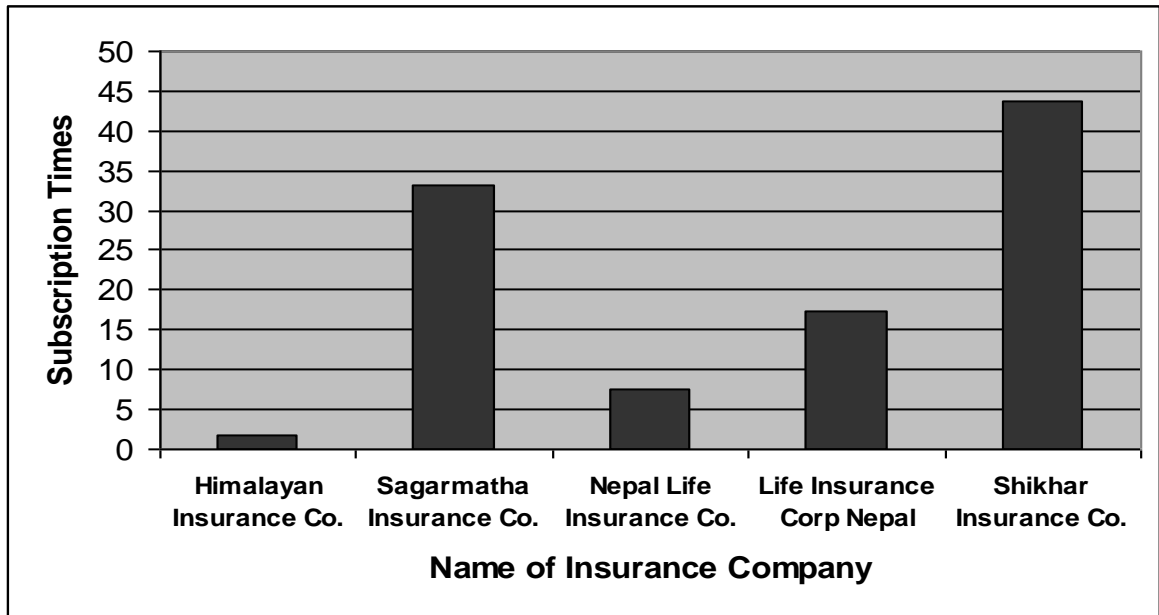
S.N.	Name of Insurance Company	Issued Years	No of Shares Issued	Shares Applied	Subscription Time	Result
1.	Himalayan Insurance Co.	1993	120000	225756	1.88	Over Subscribed
2.	Sagarmatha Insurance Co.	2000	102000	3388613	33.22	Over Subscribed
3.	Nepal Life Insurance Co.	2002	500000	3780400	7.56	Over Subscribed
4.	Life Insurance Corp Nepal	2002	500000	8715000	17.43	Over Subscribed
5.	Shikhar Insurance Co.	2006	250000	1093965 0	43.76	Over Subscribed

Sources: NMB, NIDC Capital Market, CIT and Annual Report of SEBON

The above table shows the public response to the three non-life insurance and two life insurance companies with issued and applied number of shares as well as subscription times.

As revealed from table 4.12 out of 5 sampled insurance Companies, the IPO of Shikhar Insurance Co. gets the highest demand and subscription was 43.73 times more than issued sized that means investors gave high response to this company then the other. Similarly, Sagarmatha Insurance Co. had issued 102000 units of ordinary share but investor applied for 3388613 units and subscription was 33.22 times more than issue size. This marked that the response of the company was also very high. But Himalayan Insurance Co. received medium response from the public with subscription of 1.88 times only.

Figure 4.11
Public Response to Insurance Companies



In case of life insurance companies, only two companies go for public and public response was good. Life Insurance Corp Nepal had issued 500000 units share but demand was 8715000 (Subscription is 17.43 times) and result was over subscribed. That means investors gave good response to this company also. Similarly, Nepal Life Insurance Co. had issued 500000 units of ordinary share but investor applied for 3780400 units and subscription was 7.56 times more than issue size. Hence public response to this company was also high.

From the table, it is shown that among 5 sampled insurance companies, all had oversubscribed but out of these companies 2 had very high, 2 had medium and one has low public response. This shows that Investor are more interested to purchase the share of insurance companies (both life and non-life). Investors give high priority and response to the public issues of insurance companies.

4.3.5 Public Response to Non-Financial Sector

The Non-financial Sector also play major role in the development of economy and security market. This sector includes the that type of companies which are not directly involved to collect the money from public and invest it into different sector as a loan but provided necessary goods and services for the public. In this study, Non-financial sector is divided into Manufacturing & Processing companies, Trading companies, Hotels and Others companies. This sector does not perform well in the capital market in comparison to financial sector. Some of these companies are not able to make profit from long time where some of them were already gone to dissolve and liquidation like Nepal Battery Company Ltd., Nepal med Ltd. etc. There are 31 Companies had issued their public and some other are in the process of issue of securities to public from this sector at the end of FY 2009/10.

Table 4.13

Public Response to non-financial Sector

S.N	Name of Company	Issued Years	No of Shares Issued	Shares Applied	Subscription Time	Result
1.	Nepal Liver Limited	1994	138000	90184380	6.54	Over Subscribed
2.	Necon Air Limited	1994	165000	3388613	3.57	Over Subscribed
3.	Birat Shoes Ltd	1994	50000	197150	3.94	Over Subscribed
4.	Ace laboratories Nepal Ltd	1994	122600	8715000	1.00	Full Subscribed
5.	Bhrikuti Pulp & Paper Ltd	1996	1050000	1101135	1.05	Over Subscribed
6.	Agro Nepal Ltd.	1994	90000	773154	8.59	Over Subscribed
7.	Taragaon Reg. Hotel Ltd.	1999	1200000	2965440	2.47	Over Subscribed
8.	Oriental Hotels Ltd.	2000	1500000 0	9429000	6.29	Over Subscribed
9.	National Hydropower Co.	2004	1400000	301700	0.22	Under Subscribed
10	Chilime Hydropower Co.	2005	2374100	12104112	5.10	Over Subscribed

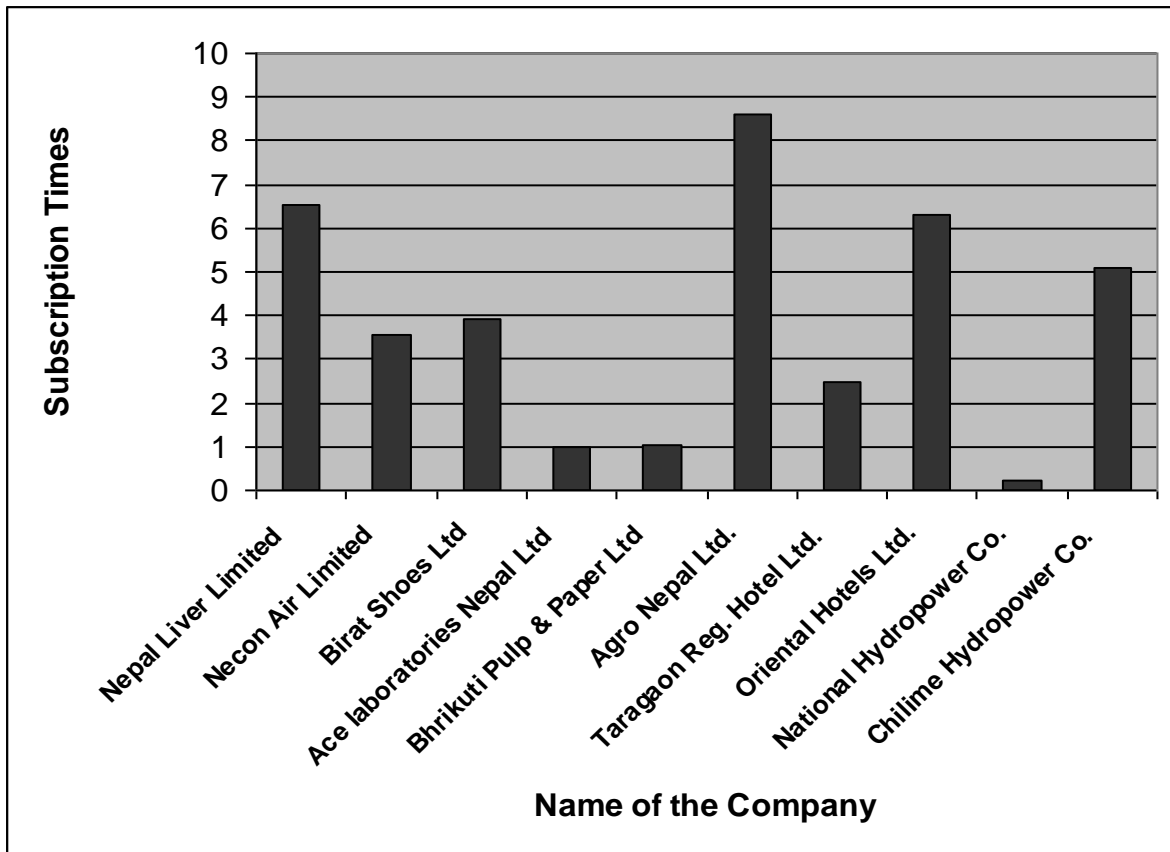
Sources: NMB, NIDC Capital Market, CIT and Annual Report of SEBON

Due to lack of reliable sector-wise data, this study is an aggregate study. To analyze the public response to Non- financial companies, 10 Company (5 from Manufacturing & Processing companies, 1 from trading Company, 2 from hotels and 2 from other companies) are chosen as samples which are shown in the above table:

The table shows the public response to the 10 Non-financial sector companies with issued and applied number of shares as well as subscription times.

As revealed from table 4.13 out of 10 sampled Companies, the IPO of Agro Nepal Ltd gets the highest demand and subscription was 8.59 times more than issued sized that means investors gave high response to this company then the other. Similarly, Nepal Liver Limited had issued 138000 units of ordinary share but investor applied for 90184380 units and subscription was 6.54 times more than issue size. This marked that the response of the company was also very high.

Figure 4.12
Public Response to Non-finance Sectors



The National Hydropower Co received very low response from the public with subscription of 0.22 times only and result was under subscribed. Chilime Hydropower Co had issued 2374100 units share but demand was 12104112 (Subscription is 5.10 times) and result was over subscribed. That means investors gave good response to this company also. It was followed by Birat Shoes Ltd, Necon Air Limited, Taragaon Reg. Hotel Ltd and Bhrikuti Pulp & Paper Ltd that the subscription times were 3.94, 3.57, 2.47 and 1.05 shows the public response was in decreasing order in each company respectively. In case of Ace Laboratories Nepal Ltd, the number of share issued and applied was equal results full-subscription. That means public response to this company was medium.

In the above table, it is shown that among 10 different non- financial companies 4 had high, another 4 had medium and rest 2 had low public response. This shows that investors are not much interested to purchase the shares of non-financial sectors. The above information is also presented in the diagram also (Fig. 4.12).

4.4 Analysis of Primary Data

Along with secondary data, primary data were taken to justify the study on the topic. Questionnaires method was implemented for this purpose.. In questionnaires method, number of questions was put up by means of copies of questionnaire. Categorically, the questions raised through this means were of three types, namely, Yes/No questions, Multiple Choice questions and Open end questions. The questionnaires were distributed to find out the first hand information from the investors of stock market. The investor has mixed feeling on the primary market and their responses have analyzed as follows:

4.4.1 Sources of Idea/Information about Investment

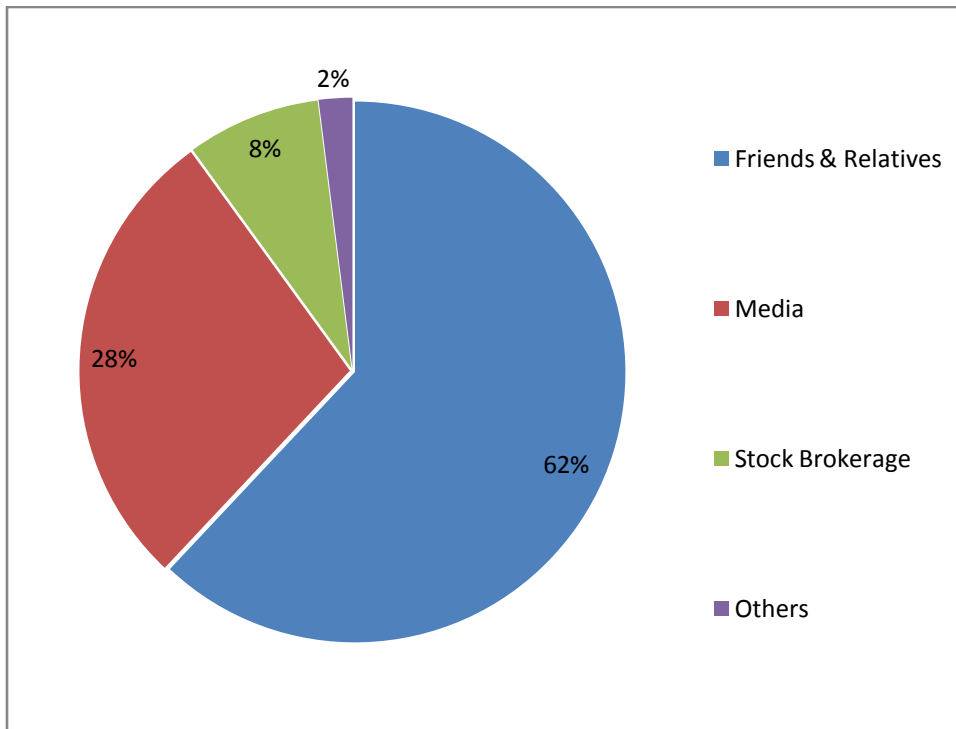
Regarding the Idea/information about investment to make investment into primary issue of securities, 62% of the respondents replied that they known through friends and family , 2% through media, 8% get information through Stock Brokerage rest 2% know through other sources like issue manager, issuing company and market.

Table 4.14
Sources of Information about Investment

Research Variable	No. of respondents	% of investors
Friends & Relatives	31	62
Media	14	28
Stock Brokerage	4	8
Others	1	2
Total	50	100

Source: Field Survey

Figure 4.13
Sources of Information/Idea



4.4.2 Preferred Sector of Investment

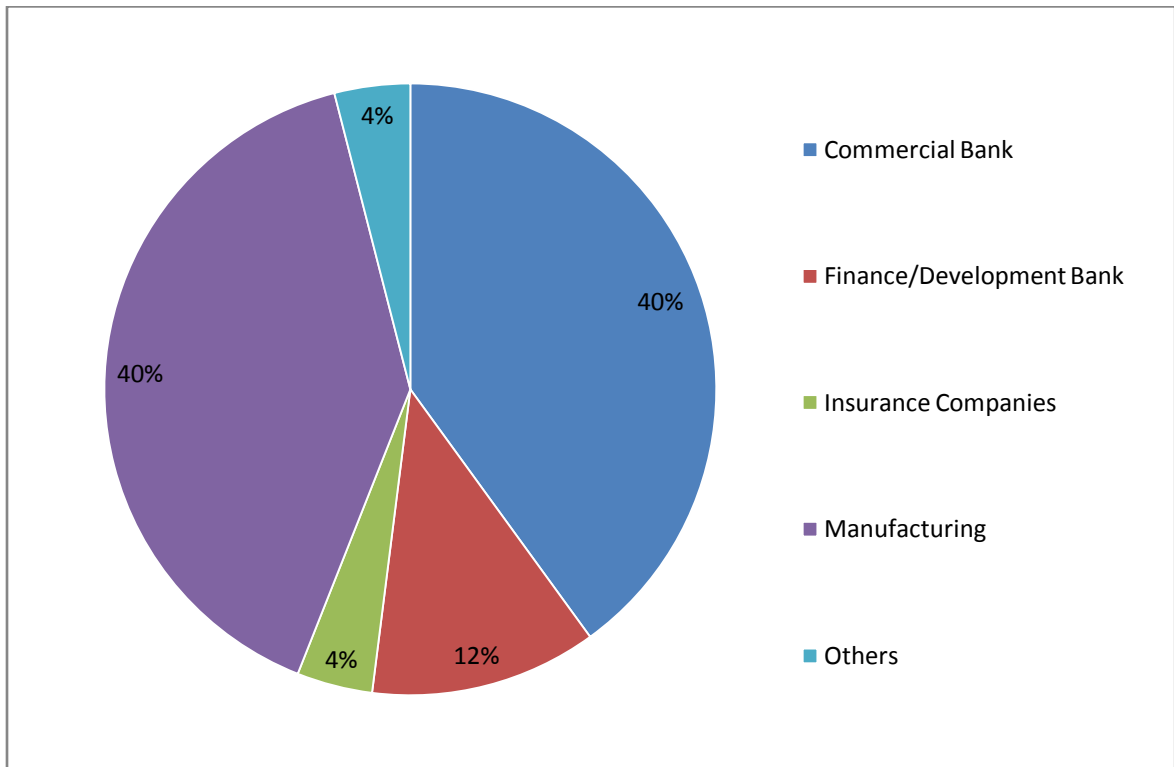
In the questions regarding their preferred sector of investment, 40% of investors are interested in Commercial bank sector, 12% were interested in Commercial/ Development Bank, 4 % in Insurance Companies, 40 % in manufacturing & processing companies and remaining 4% in other companies. From the table 4.15, it is clear that most of the investors.

Table 4.15
Sector-wise Preferences for Investment

S. N.	Research Variable	No. of respondents	% of investors
A	Commercial Bank	20	40
B	Finance/Development Bank	6	12
C	Insurance Companies	2	4
D	Manufacturing & Processing	20	40
E	Others	2	4
	Total	50	100

Source: Field Survey

Figure 4.14
Sector-wise Preference of Investor



4.4.3 Past Experience of Primary Issue

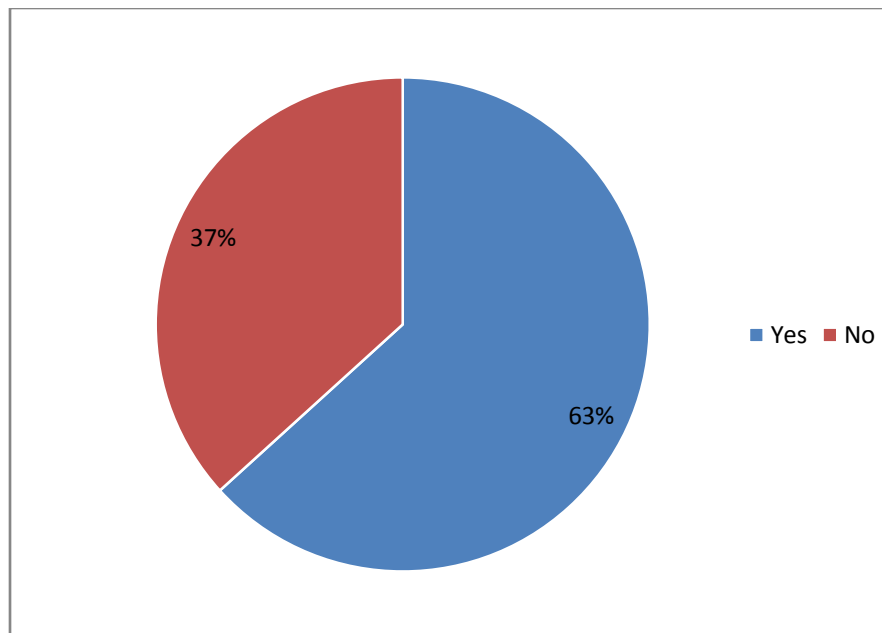
This objective of this question was to find out the investor past experience of investment in primary issue or primary market of them. With respect to the evaluation of experience, 63.27% investors have the past experience of primary market where rest of respondent has no past experience of primary issue. This is the good sign for the development of primary market that new investor are trying to invest their money in the primary issue (IPO).

Table 4.16
Past Experience of Primary Issue (IPO)

S. N.	Research Variable	No. of respondents	% of investors
A	Yes	31	63.27
B	No	18	36.73
	Total	50	100

Source: Field survey

Figure 4.15
Past experience of Primary Issue



4.4.4 Investors' Awareness

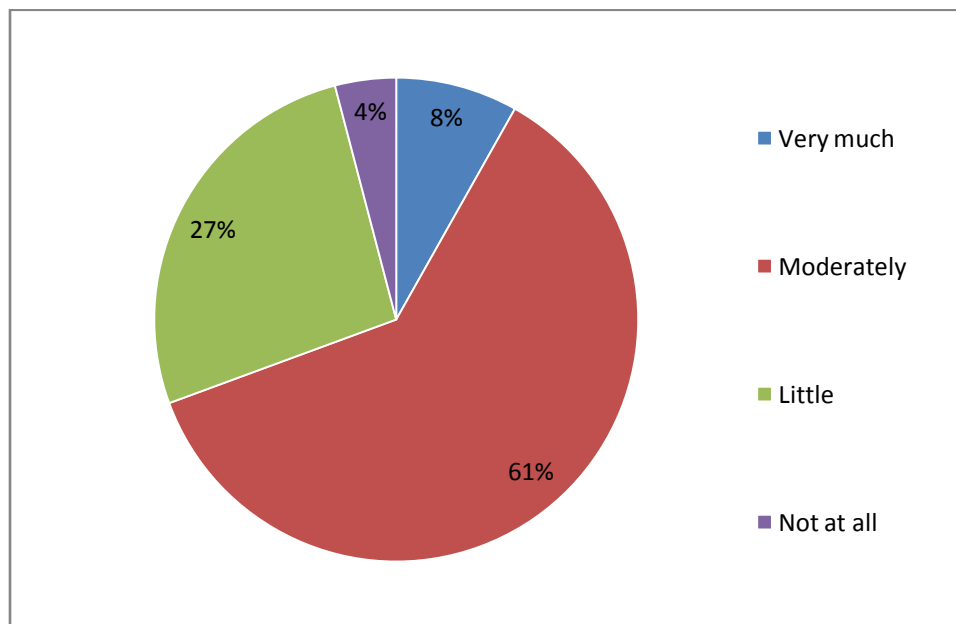
When investors were asked whether they are aware or not about the financial performances of companies, 61.22% replied that they are moderately known about the financial performances of the companies they have interested or planned to invest upon. 4.08% replied that they are not at all knowledgeable, 8.16% were very much known and rest 26.53% has little knowledge regarding their companies' performance.

Table 4.17
Investors Awareness about Performance of Companies

S. N.	Research Variable	No. of respondents	% of investors
A	Very much	4	8.16
B	Moderately	30	61.22
C	Little	13	26.53
D	Not at all	2	4.08
	Total	50	100

Source: Field Survey

Figure 4.16
Investors awareness about performance of Companies



4.4.5 Investors' Satisfaction

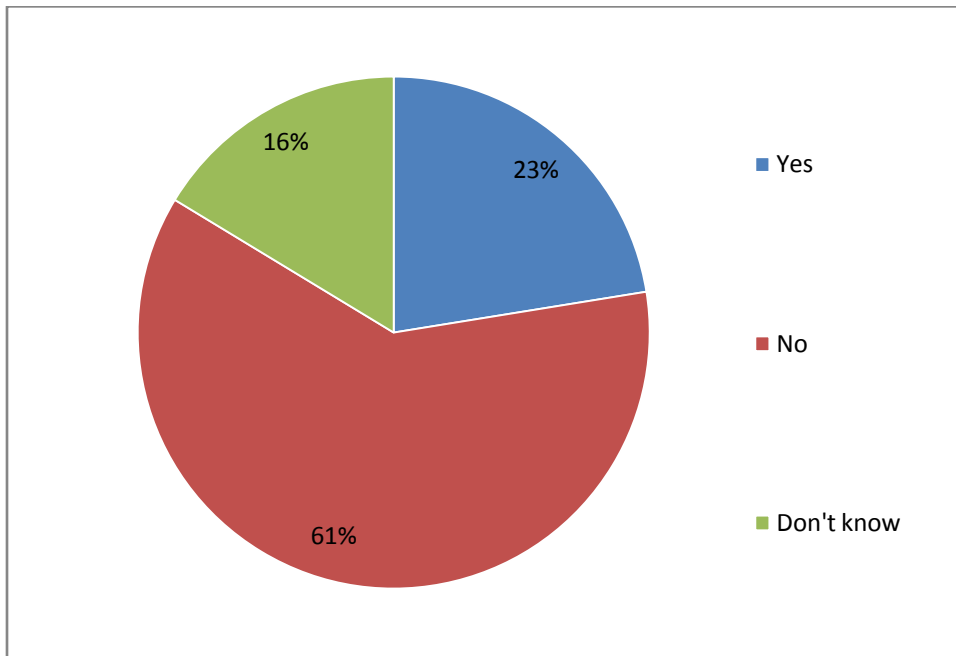
Regarding the satisfaction of the investors, 61.22% replied that they are not satisfied. Only 22.45% of the respondents are satisfied. Remaining 16.33% said that they are unknown about the fact. The table 4.18 gives the fact regarding investors' satisfaction:

Table 4.18
Investors Satisfaction on their Investment

S.N.	Research Variable	No. of respondents	% of investors
A	Yes	11	22.45
B	No	30	61.22
C	Don't Know	8	16.33
	Total	50	100

Source: Field survey

Figure 4.17
Investors Satisfaction from their Investment



4.4.6 Purpose for Investment in IPO

Investors were asked for their purpose or impressed to invest their money in Public offering that if they were interested with dividend, Right Share, capital appreciation, company performance, No brokerage commission. 42% said that they are more interested in dividend income, 34% replied in favor of right share, 4% in favor of capital appreciation, the purpose of 4% investor was no brokerage commission and remaining

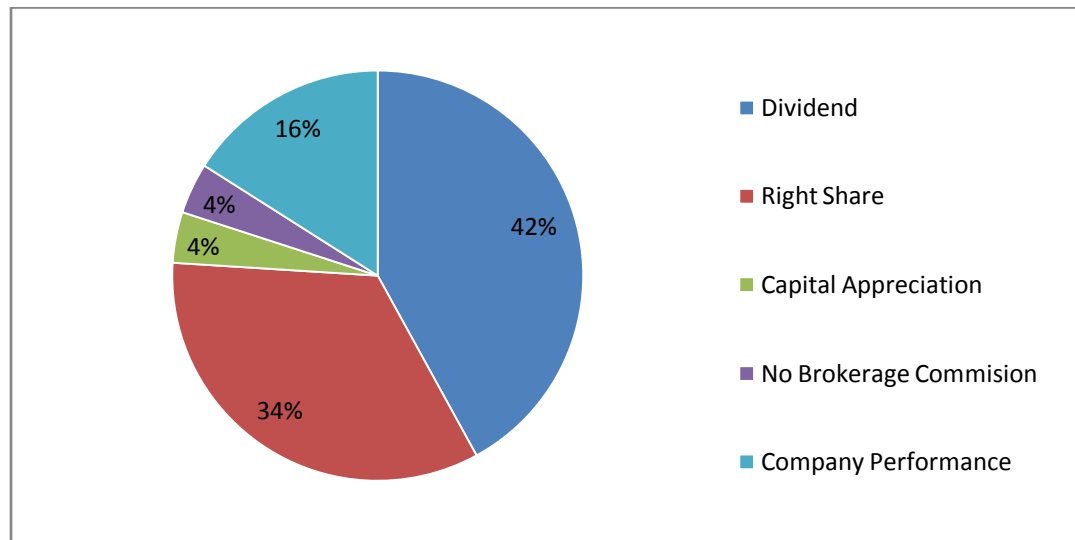
16% in favor of company performance. The following table describes their reasons behind owning the shares.

Table 4.19
Purpose to Invest in Public Offering

S. N.	Research Variable	No. of respondent	% of investor
A	Dividend	21	42
B	Right Share	17	34
C	Capital Appreciation	2	4
D	No brokerage commission	2	4
E	Company Performance	8	16
	Total	50	100

Source: Field Survey

Figure 4.18
Purpose for Investment in IPO



4.4.7 Habit of investor to read the prospects of the Company

When they were asked whether they read the prospects before investment in primary issue or not, 72% were read the prospects before they made investment remaining 28% replied that they have no idea regarding this (does not considered what is written in the prospects).

Table 4.20
Investors Habit to read the prospects of the Company

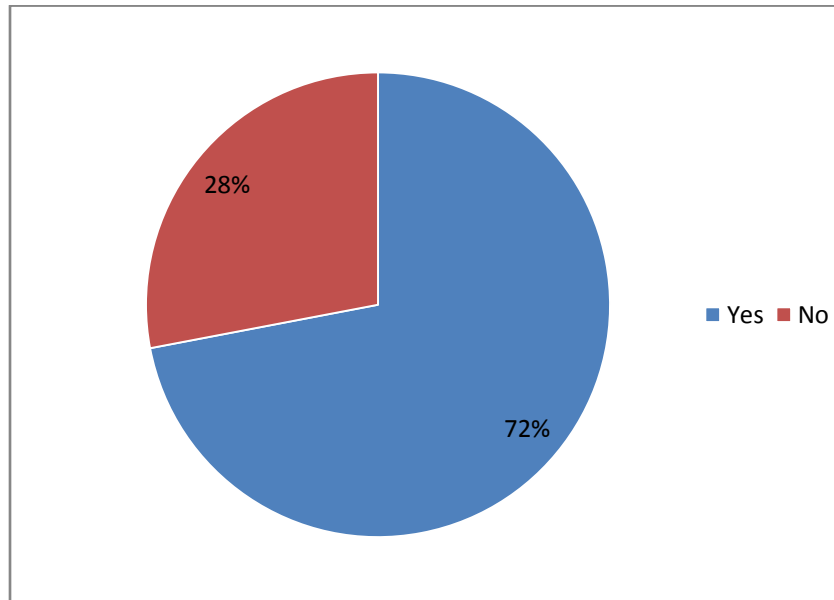
S.N.	Research Variable	No. of respondents	% of investors
A	Yes	36	72
B	No	14	28

Total	50	100
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Source: Field Survey

Figure 4.19

Investors Habit to read the prospects



4.4.8 Bases of Decision for Investment

Regarding the investment decision making procedures, 40% of the respondents replied that they made decision on the basis of market index, 50% replied that they made decision on the basis of company's profitability, 8% made on the basis of friends opinion and remaining 2% said that they made decision on the basis of market whim.

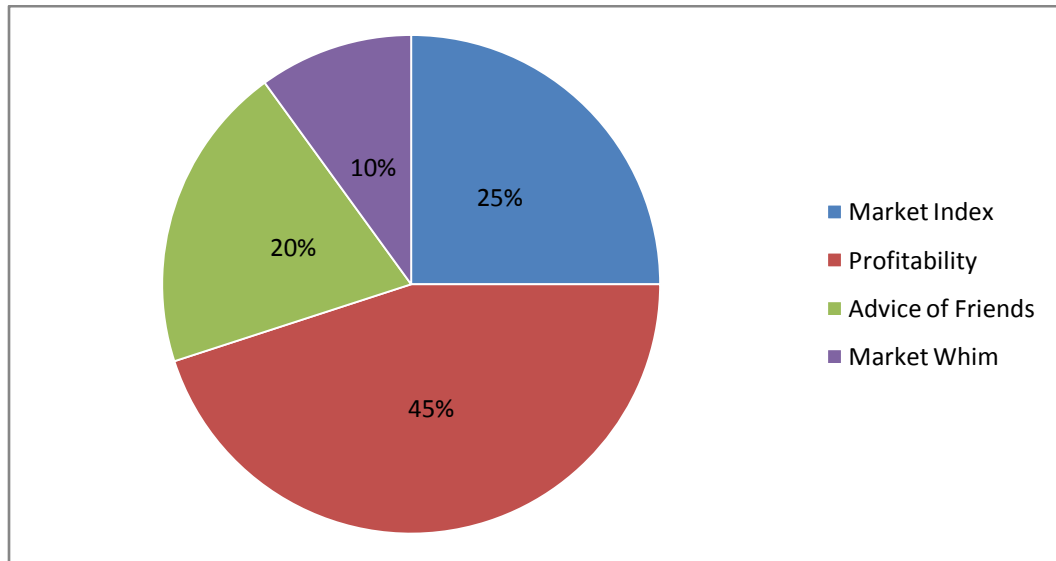
Table 4.21

Bases of Decision for Investment

S. N.	Research Variable	No. of respondents	% of investors
A	Market Index	20	40
B	Profitability	25	50
C	Friends Opinion	4	8
D	Market Whim	1	2
Total		50	100

Source: Field Survey

Figure 4.20
Bases of Decision for Investment



4.4.9 Sources of Funds to Invest in IPO

When Investors were asked for their sources of invest in Public offering is personal fund or loan/credit, most of them (87.76%) used their own personal fund for investment but 12.24% used fund from loan that collection from bank, financial institutions and relatives.

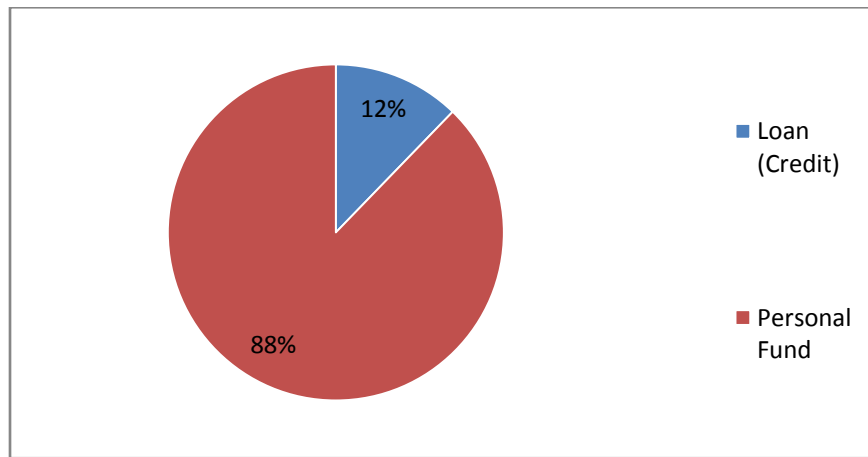
Table 4.22
Sources of Fund for Investment

S. N.	Research Variable	No. of respondents	% of investors
A	Loan (Credit)	6	12.24
B	Personal Fund	43	87.76

Total	50	100
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Source: Field Survey

Figure 4.21
Sources for Investment



4.4.10 Reason for most of the company not likes to go for IPO

To understand the view of the investors regarding the reason that the most of company not like to go for IPO, 38% of respondent thinking is due to sharing of profit for public, 26% think that the management becomes complex after public issue. The companies do not like to carry the obligations from public share holders is the thinking of another 18% respondent where 14 % investor thinking is the company already have enough money for investment so why they needs to issue share. Rest of respondents 4% thinks the other reasons rather than the specified reasons above.

Table 4.23

Reason for most of the company not like to go for IPO

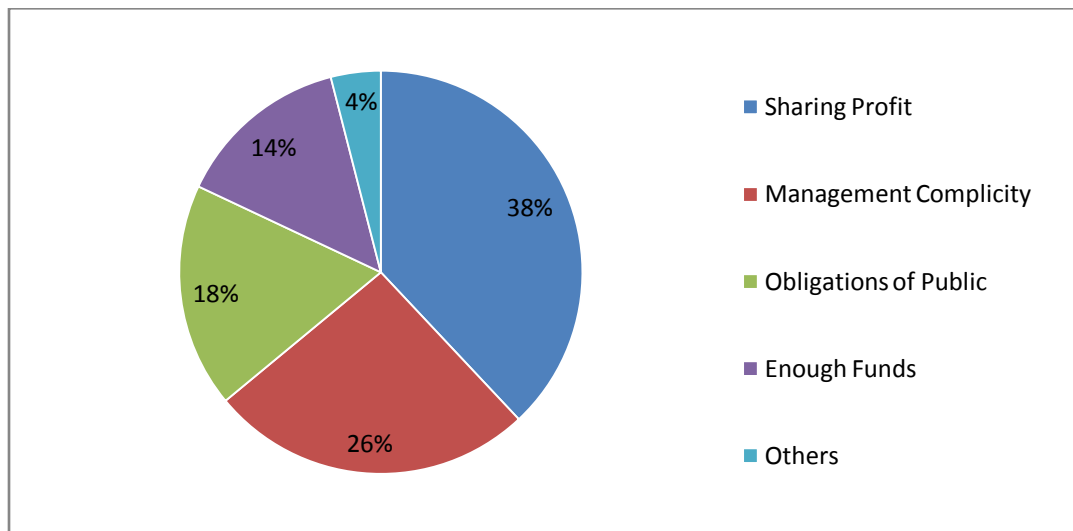
S. N.	Research Variable	No. of respondents	% of investors
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A	Sharing Profit	19	38
B	Management Complicity	13	26
C	Obligations of Public	9	18
D	Enough Fund	7	14
E	Other factor	2	4
Total		50	100

Source: Field Survey

Figure 4.22

Reason for most firms not like for IPO



4.4.11 Number of Company's Securities Invested

Regarding the respondent current investment condition, the majority of the respondents have invested their money into purchasing the securities more than one company. In this 42% of the respondents have invested 2-5 companies. Similarly, 30% respondents invest their money in only one company, while people investing 5-8 company is 20% and rest of 8% investor are hole time share trader (big investor) that they invest their money in more than 10 companies.

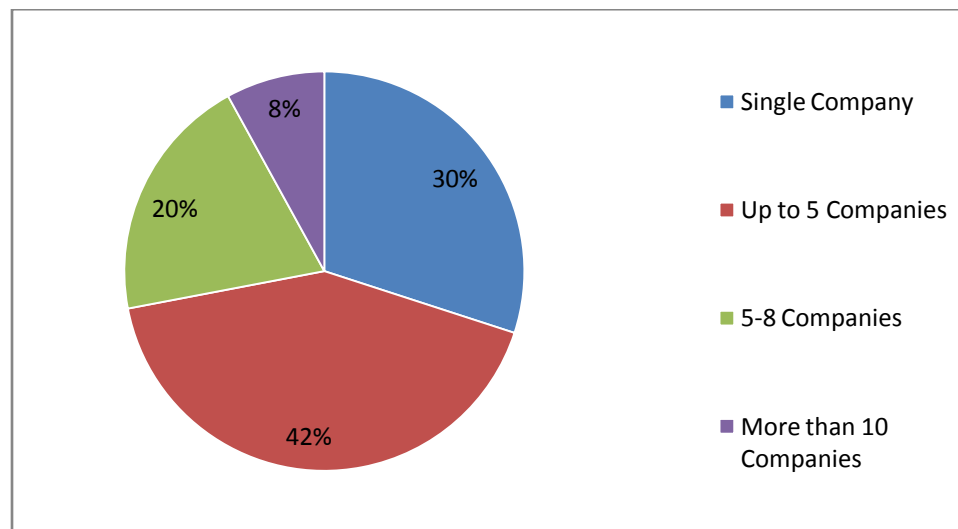
Table 4.24

Number of company's Invested

S. N.	Research Variable	No. of respondents	% of investors
A	Single Company	15	30
B	Up to 5 Companies	21	42
C	5-8 Companies	10	20
D	More than 10 Companies	4	8
Total		50	100

Source: Field Survey

Figure 4.23
Number of Company's Invested



4.4.12 Investor's Current Investment in Specific Instrument

The question was asked to the investor about their current investment in specific instrument i.e. common stock, Debenture/Bonds, Preferred stock and others. The objective of this question was to find the financial instrument in which the investor has actually invested now. In this connection, 72% respondent refers that the common stock is their existing invested financial instrument, out of the total 50 investor taken for sample. A little parts of the respondents were in favor of Debenture/Bond (16%),

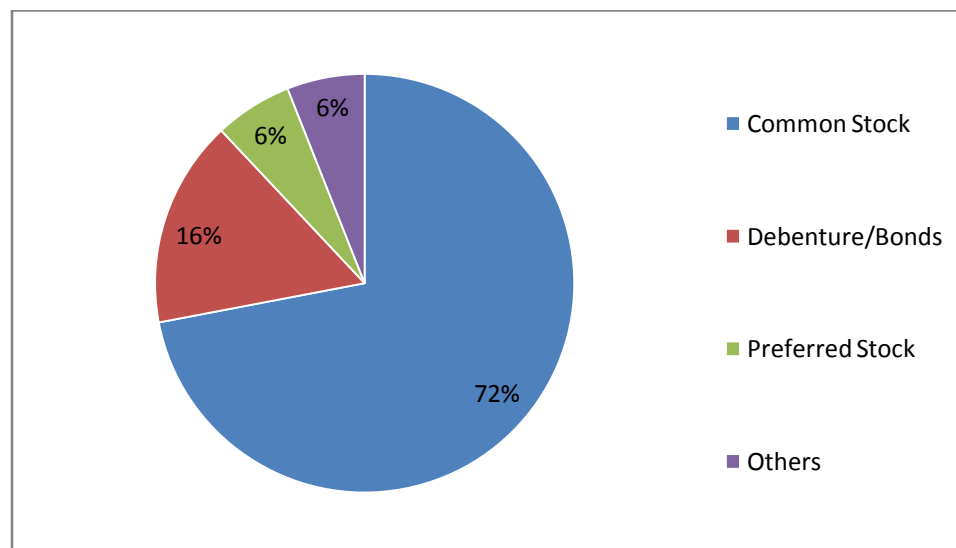
Preferred Stock (6%) and other 6% have invested their money in other financial instruments except stated above.

Table 4.25
Instrument-wise Investments

S. N.	Research Variable	No. of respondents	% of investors
A	Common Stock	36	72
B	Bond/Debenture	8	16
C	Preferred Stock	3	6
D	Other Instrument	3	6
Total		50	100

Source: Field Survey

Figure 4.24
Instrument-wise Investments



4.4.13 Main Cause of Over Application in IPO

This question was asked to the investor about their view in the over application pattern of primary issue of share. In other word what is the reason that demand of securities in public issue is very high then the issued securities. Out of total, 60 % respondent have stated they are lack of investment Opportunity in other sector, 12% respondents view is

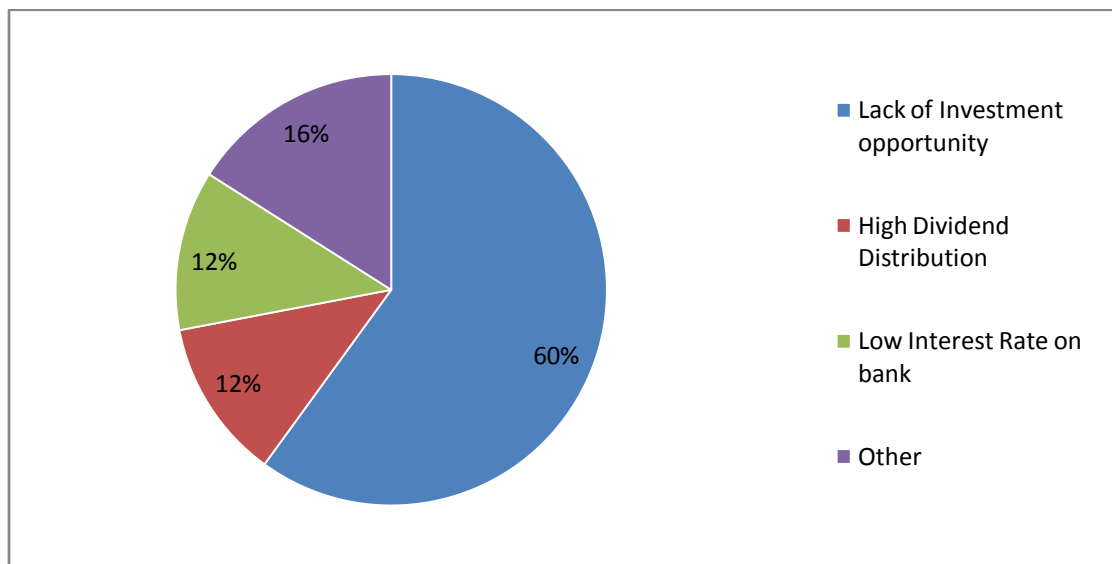
high dividend distribution where 12% investor said the main reason of over application is low bank interest rate and the remaining 16% respondent stated other different reason then above.

Table 4.26
Cause of Over Application

S. N.	Research Variable	No. of respondents	% of investor
A	Lack of Investment Opportunity	30	60
B	High Dividend Distribution	6	12
C	Low Bank Interest Rate	6	12
D	Other	8	16
Total		50	100

Source: Field Survey

Figure 4.25
Cause of Over Application



4.4.14 Best Investment Decision (Alternative)

The question was asked to the investor thinking about the best sector for investments i.e. own business, securities, Bank balance and others. In this connection, 66 % respondent refers that the own business is best for investment, out of the total 50 investor taken for

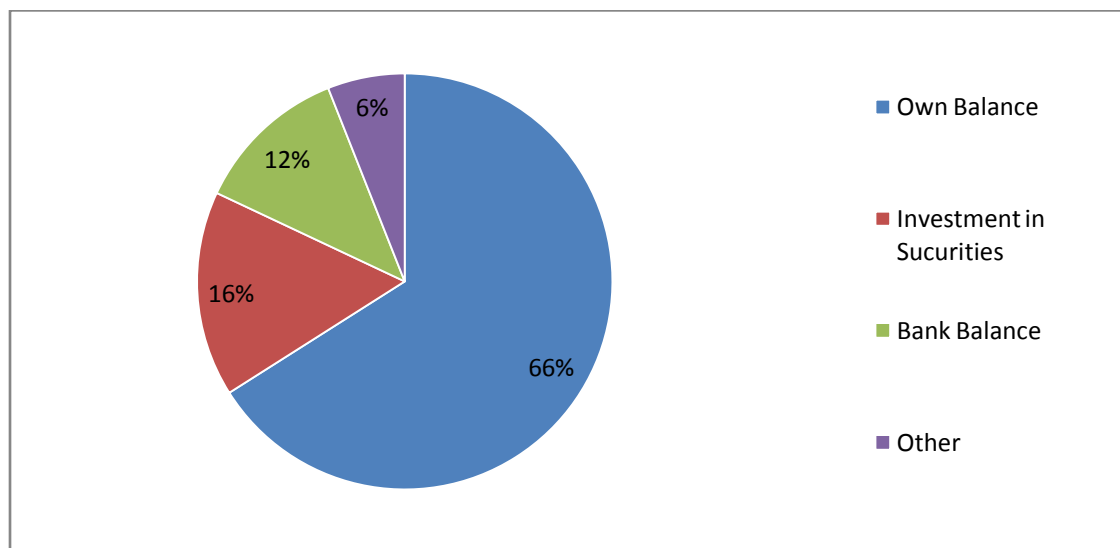
sample. 16% of the respondents were in favor of Securities, Bank balance (12%) and other 6% have invested their money in other sector except stated above.

Table 4.27
Investment Alternative Sector

S. N.	Research Variable	No. of respondents	% of investors
A	Own Business	33	66
B	Securities	8	16
C	Bank balance	6	12
D	Other sector	3	6
Total		50	100

Source: Field Survey

Figure 4.26
Investment Alternative Sectors



4.4.15 Causes that the Limited People invested in IPO

The objective of the question was to find out the view of people about the reason of only a few people investing in Primary issue. 22% people think that the main reason is lack of

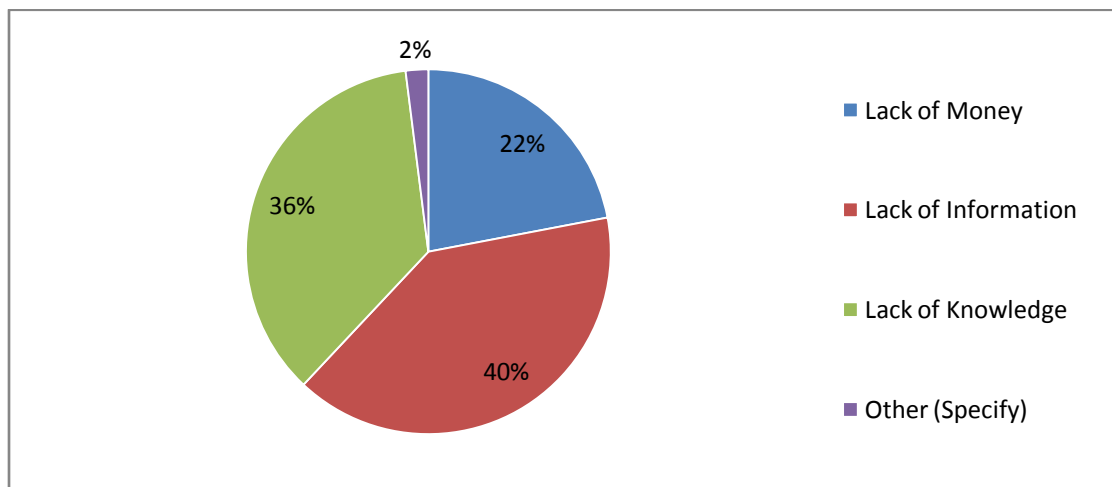
money where 18% people's view is less of knowledge about primary market. 40% peoples are towards the lack of information about IPO and remaining 2% are in favor to other reason than stated above.

Table 4.28
Causes for Limited People involved in IPO

S. N.	Research Variable	No. of respondents	% of investors
A	Lack of Money	11	22
B	Lack of Information	20	40
C	Lack of Knowledge	18	36
D	Other	1	2
Total		50	100

Source: Field Survey

Figure 4.27
Causes for limited people involved in IPO



4.5 Major Finding

The study was set out to analyze different aspects of IPO's in Nepal. The data, which were obtained through Primary and Secondary sources, were analyzed using different tools and models which resulted in following findings;

1. The trend of IPO of Nepalese companies is increasing. This indicates that the new companies are interested to collect the scattered surplus amount from the public for the proper investment. Pace of IPO in Nepal can be considered to be good. In the FY 2007/08 and 2008/09 the number of companies whose issue was approved by SEBON was 64 that is the highest number of companies issue approved in single year. In the FY 1996/97 and FY 1998/99 the lowest number of companies issue were approved by SEBON that is only 5.
2. The amount of issued approved has increased from Rs. 344.4 m in FY 1993/94 to Rs. 39389.90 in FY 2008/09. During the same period the number, the number of issued approved increased from 16 in FY 1993/94 to 64 in FY 2008/09.
3. Among eight sector finance sector (companies) has accounted for 45.07% of total issued approved while the lowest contributor, trading sector (companies) has accounted for only 0.98% of the total issued approved. Again, financial sector that includes commercial bank, finance company, development bank and insurance companies has accounting for 89.81% (291 Issued approved) of total issued amount Rs. 34944.20m while non-finance sector that comprises manufacturing and processing, trading companies, hotels and others has accounting for 10.29% (33 issued approved) of total issued amount Rs. 4445.7m. Where from the t-test we find that investors response are towards the financial sector then the non financial sector.
4. Similarly, as far as instrument-wise offer is concerned, out of 324 issued approved, 153 (47.2%) offers have been right shares, followed by ordinary shares 150 (46.30%), debentures 16 (4.94%), and preference shares 5 (1.54%) offers respectively and from the amount perspective, right shares has

accounting 66.05% of total amount, followed by ordinary shares (17.47%), debenture (14.86%), and preference shares (1.62%) respectively.

5. During the study period 324 companies have offered different type of securities through IPO to public. Out of which offers from 148 companies (45.68%) of total offers have received oversubscription. Similarly 88 companies (27.16%) issued have received under-subscription, only 15 companies (4.63%) have received fully subscribed where there was unknown about subscription pattern of 73 company (22.53%).
6. The Primary Analysis shows that the primary issue of securities is in increasing trends. This increasing trend of Primary Issue indicates the importance of Merchant Bankers and Merchant Banking of securities market.
7. Analysis of institution and instrument-wise public issue reveals that most of the issuing companies are banks and the issuing companies prefers to issue ordinary shares most of the times.
8. According to the most of the respondents, the rules and regulations about the security market development in the above-mentioned acts are insufficient.
9. The view of most of respondents that the main cause of over application in IPO is due to lack of investment opportunity and dividend distribution where as limited number of people involved in IPO is due to the lack of money, information and knowledge.
10. Most of the respondents said the main cause of firm not go for public is distribution of profit and management complicity.
11. According to most of respondents, the reason behind more public issue of share of bank and finance companies is due to the regulatory position that has made compulsory for banks and finance companies to go for public, lack of opportunity for investment and increase their value of their investment.
12. Studying the view of the respondents regarding the body that has to play the key role in the security market development, more than half respondents said that all bodies like NRB, SEBON, NEPSE and other related body has to play key roles for development of security market activities.

CHAPTER - FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This is the concluding chapter of this study. This chapter is divided into three sections: Summary, Conclusions and Recommendations. In this chapter summary of the study is provided in brief. It has been a concern from the first chapter to the end. Findings of calculations, which have been drawn using different tools and technique based on the data provided by the concerned companies, are concerned here in conclusions section. In the last section of this chapter some recommendations have been given, which are useful to stakeholders and to concerned companies as well. They can use these recommendations to take some corrective actions to draw decisions.

5.1 Summary

Primary issue of share is the selling of securities to the general public for the first time. Primary market which avails fund to the issuer provides opportunity to invest to the small investors as well. This kind of public offering includes different kinds of cost like legal fee, auditing fee, underwriting fee & time cost.

Companies going public involve one or more investment banks or issue managers as "underwriters". They enter into a contract for primary issue. As the underwriters and the company that issues control the Primary Issue process solely, we find problems in this underwriting.

This study focuses on policies and practices on primary issues, problems and growth of primary market in Nepal, role of investment bankers, the pace of IPO, impact of loans from financial institutions for Primary issue funding.

Money or Capital in financial vocabulary is one of the most important requirements for any business entity. Business entities need Capital at various stages of their performance.

Some may need it to establish their businesses while other way needs it to diversify their activities and achieve their ambitious growth plan. Generally there exist two markets from where business entities secure capital viz: money market and capital market. Money market avails funds for shorter period of time, maximum of one year whereas capital market avails long term funds with terms suiting the needs of business entities. Primary market is the market for new and unseasoned securities whereas secondary market is the market for existing and seasoned securities.

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

As far as practices in Nepal are concerned basically there exist two institutions which guide and influence IPO process. They are Security Board of Nepal (SEBON) and Nepal Stock Exchange (NEPSE). SEBON is the regulatory body which looks after all the securities market transaction including IPO. According to SEBON, 324 companies have got issue approval for public issue. Likewise, NEPSE is the sole stock exchange of Nepal which provides liquidity and marketability to the securities being offered. By the end of FY 2008/09 159 companies have been listed in NEPSE.

Before going to the public, the company must be approved from SEBON. After getting approval, issuing company must give its information to the NEPSE and Company Registers Office. Issuing company is free to choose one or more than one issue manager/s for the process of issuing the securities. Bankers to the issue also involved during this period. Issue manager must be publishing a public notice in the national daily newspapers

to offer public for investment seven days before the application forms distribute date. Issue manager has to publish and distributed the prospects also which make easy to the public to decide whether to invest their money or not. The application period must not more than one month. If issue managers think the required applications have 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 45 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.

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

Conceptual review of the study has covered concept of financial market, IPO, IPO as a mechanism of primary market, process of IPO, different aspect of IPO which shed light on how IPO is being practiced in Nepal. Similarly, review of related studies has covered the research works carried out along with few dissertations relating to subject matter. Research works carried were in the form of journal-articles which was mainly retrieved from online sources and newspaper. The dissertations shed light on capital market issues and existing state of securities issue in Nepal to certain extent which are accessed from Library of Nepal Commerce Campus, SEBON and TU Central Library Kritipur.

For the purpose of meeting the objectives of the study, it has used descriptive and analytical research design and stratified random sampling. As per sampling frame of 22% (approximately), 35 companies representing 8 different sectors: commercial banks,

development bank, finance companies, insurance companies, manufacturing & processing companies, trading companies, hotels and others listed in NEPSE, have been selected. As the study is based on Primary as well as secondary data have been retrieved from questionnaires to investor, annual report of SEBON, NEPSE, NRB directives, various Acts & regulations and newspaper.

The analysis of amount of issues being offered 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 and instrument-wise analysis of offered issues have identified ordinary shares as the most preferred instrument. 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 primary source of data shows that the major source of information of public offering is media. Majority investors are seemed to be new in the market. These days' people are getting aware to primary market to choose the right sector for investment and invest their money in more then one companies. The investors think that those companies who are performing well in the market will do better in the future and read prospects of the company before investing money. Majority of investors invest money in the primary market by lending from others and they think that the companies do not like to go to public because of reality of sharing profit with others. People think that due to the lack of knowledge, limited number of people invests in primary market and the present environment is not suitable for investment.

This study has found that Public response in security market is high due to lack of opportunities for investment and attracted towards shares to increase their value of investment. They are getting aware of stock market, and realized the importance of the investment in shares

5.2 Conclusion

- From the above, we find that the capital market of Nepal is still in developing stage. Most of the investor in primary market is involved from Kathmandu Valley due to the only one stock exchange located in here and do not have sufficient information regarding the investment but they are still interested to invest money in the primary market so the most of the securities are issued in over subscription. This is good sign to the expansion of the primary market. Due to this, most of the companies are issued only common stock where bond, preference and convertibles share are rarely practice but option and warrants are still not in practice. This shows that the securities markets are dominated by common stock.
- As per this study, almost every sector is getting good response from public. Specifically financial institutions and insurance sector is more preferable for public than non financial sector. Pace of IPO in Nepal seems to be irregular. The number of companies approved for public offering by SEBON in a single year varies from 64 to 5. The highest amount of issue approved by the SEBON was Rs. 16858.51 m in FY2008/09 while the lowest amount of issue was Rs. 173.96 m in FY 194/95. If we see on the basis of sector, SEBON had granted 89.81 % approval for financial sector and 10.19% approval for non financial sectors.
- Though, the public offering is operated through the away of laws, regulation and there is still lacking clear cut provision in many important sectors such as underwriting, provision of underwriting commission, process of issue etc. The investors have not more knowledge about the primary market. 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 fluctuating of political situation is also effect the development

of securities market by which the NEPSE index is fluctuating over and under many time.

5.3 Recommendation

In spite of the limitations under which the study has been carried out it has been able to meet the objective of the study. On the basis of the study made following recommendations are made.

- Nepalese capital market is largely dependent on financial sector which is not good sign for overall development of IPO market and capital market as a whole. In this regard the regulatory body and the government should take a step forward and encourage public issues from other sectors like manufacturing and processing by providing additional facilities like tax-concessions.
- Ordinary share is found to be the most used financial instrument while other financial instruments like preference shares and debentures are rarely issued. The fact that such ordinary shares carry maximum risk to investors on one hand and also cause dilution of ownership to issuing company, seemed to be forgotten. In this regard, its recommended that root cause beneath should be traced and tackled for good.
- Public have shown faith on IPO's from financial sector while they do not have shown much faith on IPO's from non-financial sector. So non-financial sector companies are recommended that before IPO, they should inform public about their worthiness and regulatory body. Similarly, government should to come up with schemes which will attract good companies from non-financial sector to go

for IPO.

- There is no clear legal provision about security market, underwriting and underwriting commission, which should be fulfilled for development of capital market. So, focus should be given for making and implementation of the existing acts, rules and provisions.
- There are 16 issue managers and a few are actively doing their job limited only in Kathmandu valley. So take some action to establish more issue managers in the different parts of the country and encourage them to be more active.
- Regional stock exchange centres should be established so that more people will be involved in the investment activities on primary as well as secondary markets.
- To make the investment more attractive and affordable to the small investors, the Nepalese companies should introduce other types of securities such as options, warrants etc.
- For increasing the public follow-up on primary as well as secondary markets, there should be provisions for Over the Counter Market, encourage the establishment of securities investment consultants, do more seminars, meetings, conferences that increase the knowledge about the investment opportunities for the people.
- To be successful in the stock market, investors should always be clear about their strengths, weaknesses, requirements, wishes, risk-taking capabilities and how to react on different and ever-changing market conditions and they should not buy the shares of a company until they know details about it.
- The issue manager should take an initiative step to promote their business from the non-financial sector also and should be equally effortful in developing the public offering market as an avenue for cost-effective financing.
- Issuing companies' post-issue compliance practice is found to be poor. The issuer companies should be made aware of complying with the post-issue legal provisions at the time of public issue. Issue managers should also take the responsibility to make the issuer companies aware of compliance issues.

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T-Test

To test where the index between Finance and Non-finance Sector are differing or not T-test is performed. Since there are Finance and Non-finance sector and yearly data between 16 years are taken as the number of observation. The overall results of this calculation are given in the following table.

Table 4.6 Result of T-Test

Total no. of Observation	Calculated T-value	Degree of Freedom	Tabulated T-value	Result	Decision
14	3.0169	26	2.779	Tab-T < Cal-T	H0 is rejected

Source: Appendix-6

Note: (i) The significance level is 1 %.

(ii) Tabulated T-value at 26 Degree of Freedom is 2.779.

T-statistics is highly significant at 1 % level of significance. This implies that Finance sector and Non-financial sector are significantly different and no relation between each sector. It is noted that primary market is concentrated to Financial sector then Non-financial sector.

