

**PERFORMANCE OF INITIAL PUBLIC OFFERING
PRACTICES IN NEPAL**

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RECOMMENDATION

This is to certify that the thesis

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PERFORMANCE OF INITIAL PUBLIC OFFERING PRACTICES IN NEPAL

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According to the prescribed format. We recommend the thesis to be
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DECLARATION

I hereby declare that the work reported in this thesis entitled " **Performance of Initial Public Offering Practices in Nepal**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of Keshav Chand of Shanker Dev Campus, T.U.

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Manish Maharjan
Researcher

TABLE OF CONTENTS

Recommendation	ii
Viva-Voce Sheet	iii
Declaration.....	iv
Acknowledgement	v
Table of Contents.....	vi
List of Tables	ix
List of Figures	x
Abbreviations.....	xi
CHAPTER- I.....	1
INTRODUCTION	1
1.1 Background of the Study.....	1
1.2 Statement of the Problem	6
1.3 Objectives of the Study	7
1.5 Limitations of the Study	7
1.6 Organization of the Study	7
CHAPTER- II	9
LITERATURE REVIEW	9
2.1 Theoretical Review	9
2.1.1 Efficient Market Theories	9
2.1.2 Fundamental Analysis Theory	14
2.1.3 Technical analysis theory	17
2.1.4 Random Walk Theory	19
2.2 Conceptual Review	20
2.2.1 Concept of IPO.....	21
2.2.2 Reasons of Going IPO.....	22
2.2.3 Advantages and Disadvantages of IPO	22
2.2.4 Capital Market and IPO.....	23
2.2.4.1 IPO, Subset of Primary Market	24
2.2.5 Securities Offered in IPO	27
2.2.5.1 Ordinary Shares	27

2.2.5.2 Preference Shares	27
2.2.5.3 Debentures and Bonds	28
2.2.6 Theoretical Aspects of IPO	28
2.2.6.1 Underpricing of IPO.....	28
2.2.6.2 IPO's Long Run Underperformance.....	30
2.2.7 Institutions Involved in IPOs of Nepal.....	31
2.2.7.1 Issuing Companies.....	31
2.2.7.2 Issue Managers	32
2.2.7.3 Merchant Bankers.....	32
2.2.7.4 Underwriters	32
2.2.7.5 Bankers to Issue.....	33
2.2.7.6 Collection Centers	33
2.2.7.7 Others.....	33
2.2.8 Procedural Aspects of IPOs in Nepal: Legal Aspects and Process	33
2.3 Review of Related Studies	34
2.3.1 Review of International Journals and Dissertations	35
2.3.2 Review of Nepalese Journals and Dissertations.....	44
2.4 Research Gap.....	52
CHAPTER- III.....	54
RESEARCH METHODOLOGY.....	54
3.1 Research Design.....	54
3.2 Population and Sample.....	55
3.3 Sources and Nature of Data.....	55
3.4 Data Collection Technique.....	56
3.5 Data Processing.....	56
3.6 Data Analysis Tools	56
3.6.1 Mean.....	56
3.6.2 Standard Deviation.....	57
3.6.3 Coefficient of Variation	57
3.6.4 Model for Measuring Underpricing	57
3.6.5 Model for Measuring Growth Rates.....	58
CHAPTER- IV.....	59
PRESENTATION AND ANALYSIS OF DATA	59

4.1 Data Presentation and Analysis.....	59
4.1.1 Analysis of Public Offerings	59
4.1.2 Analysis of Subscription Pattern of Issues	69
4.1.3 Analysis of Underpricing of IPOs in Nepal	74
4.1.4 Analysis of Price Change on Offered Price on 1 st , 2 nd and 3 rd Day of Trading	81
4.2 Major Findings of the Study	83
CHAPTER- V	86
SUMMARY, CONCLUSIONS AND IMPLICATIONS	86
5.1 Summary	86
5.2 Conclusions	88
5.3 Implications	90
5.3.1 Implications to the Government and Regulatory Authorities	90
5.3.2 Implications to the Firms of Non-financial Sector.....	90
5.3.3 Implications to the Investors	91
REFERENCE.....	92

LIST OF TABLES

Table 4.1:	Amount of Public Issues	60
Table 4.2:	No. of Public Issues Offered and Average Size of Issues	62
Table 4.3:	Sector-wise Public Offerings	64
Table 4.4:	Instrument-Wise Public Issue	65
Table 4.5:	Public Issues from Financial and Non Financial Sector	68
Table 4.6:	Subscription Pattern of Issues	70
Table 4.7:	Sector-wise Subscription Pattern (Amount)	72
Table 4.8:	First Day's Closing Price and Initial Return	75
Table 4.9:	Sector-wise Return and Risk	77
Table 4.10:	Sector-wise Subscription Pattern	80
Table 4.11:	Price on First, Second and Third Day of Trading	82

LIST OF FIGURES

Figure 4.1:	Amount of Issues (in Billion Rs)	61
Figure 4.2:	No. of Issues in Different Years	63
Figure 4.3:	Sector-wise Paidup Value	64
Figure 4.4:	Instrument-wise Public Issue	66
Figure 4.5:	Amount of Issue from Financial and Non Financial Sector	69
Figure 4.6:	Subscription Patterns	71

ABBREVIATIONS

AGM	Annual General Meeting
BOD	Board of Directors
CAPM	Capital Asset Pricing Model
CEO	Chief Executive Officers
CRO	Company Registrars Office
CIT	Citizen Investment Trust
CRO	Company Registrar's Office
EMH	Efficient Market Hypothesis
FY	Fiscal Year
GDP	Gross Domestic Product
HML	High Minus Low Factor
IPO	Initial Public Offering
MOU	Memorandum of Understanding
NATS	NEPSE Automated Trading System
NEPSE	Nepal Stock Exchange Ltd.
NIDC	Nepal Industrial Development Corporation
NRB	Nepal Rastra Bank
NYSE	New York Stock Exchange
ROA	Return on Assets
Rs.	Rupees (Nepalese currency unit)
RTS	Registrar to Share
SEBON	Securities Board of Nepal
SEC	Stock Exchange Center
SML	Small Minus Low Factor
Vol.	Volume

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

An Initial Public Offering, or IPO, is when a business offers its shares for sale to the general public for the first time. When this occurs, the corporation is considered to be "going public." The product is heavily regulated and frequently garners a lot of media interest. The capital market plays a vital role in the economic advancement of any nation. It facilitates the deficit sector to mobilize funds from the surplus sector of the economy. Though secondary market's major function is to provide liquidity to the investors and the stock issuing company does not get any funds but primary market provides mechanism for the smaller and younger firm to raise the much needed capital for growth. A going public method or initial public offering allows the company to collect funds from diversified investors in exchange of its securities. But the success of every IPO depends on the adequacy of the planning and timing. Securities issuing company attempt to time the bullish market and good historical financial performance of the company (Szyszka, 2014).

The majority of businesses begin by obtaining equity money from a limited number of investors since there isn't a liquid market for these investors' shares to be sold. A company will eventually find it desirable to "go public" by selling shares to a wide number of diverse investors if it is successful and requires more equity money. The firm may obtain cash on more advantageous terms after the stock is publicly listed because of the increased liquidity as opposed to having to make up for the lack of liquidity that comes with a privately owned company. The creator only wishes to establish the stock's worth and liquidity through the IPO (Horne, 2002).

When a security is sold to the public for the first time with the hope that a liquid market would emerge, this is known as an initial public offering, or IPO. A public offering is a security in which all investors can purchase shares of the financial claims that are being offered for sale. Any debt or equity security may be part of an IPO (Keown & Petty, 2002).

An additional option available to investors is an initial public offering (IPO). The first selling of securities (usually stock) in a corporation under the rules regulating a public firm is called an initial public offering, or IPO. A private company issues securities to the public in order to generate funds for the first time; this process is known as an initial public offering (IPO). Ordinary shares are the most common type of securities given, but preference shares, debentures, and mutual fund schemes are also issued. Mainly the companies that are small and fast-growing and require more capital to their expansion, they go for public with prospectus. On the other hand, an IPO renders investors an opportunity to share in the rewards of the growth of the company. Among various alternatives, investment in common stock is considered as one of the options with high risk-return. It is an opportunity for risk-seeking investors for their investment wishing to take greater risk for higher return. Moreover, Zingales (1995) argues that an IPO is a first step in the owner's exit strategy and liquidity to the investors. The risk-averse investors on the other hand would seek to invest on securities like debentures and preference shares issued by companies and bonds by government which would provide fixed return over a period of time with very little on their investment. However, initial public offerings are almost always remain quite risky (Ibbotson, Sindelar & Ritter, 1988).

The primary securities market, which gives rise to new stock and bond issuance, provides cash to the issuer, which they may use to fund their business. Companies often raise equity money from a limited group of investors when they first start out. As their operations grow, they require more equity capital and want to "go public" by selling to the broader public. There may be direct or indirect costs associated with this type of public offering. Underwriting, auditing, and legal expenses are included in the direct costs. In addition, the indirect expenses consist of time and effort management and share dilution at a price lower than market value. These costs, both direct and indirect, have an impact on a company's cost of capital. Studies showed that the firm size is the main determinant of the IPO returns. They explained that since larger firms are perceived as more stable that tends to reduce the amount of risk investors are exposed to (Fowler & Naughton, 2008).

Investment bankers or issue managers are the individuals or organizations in charge of locating investors for the initial public offering (IPO) of securities sold in the main market. Underwriters, another name for investment bankers, are those who buy new

securities from issuers and arrange for the general public to buy them. One or more investment banks act as "Underwriters" in initial public offerings (IPOs). An underwriter is hired by the corporation (referred to as the "issuer") to sell the shares to the general public. The underwriter then makes proposals to sell these shares to investors.

Businesses that pursue initial public offerings (IPOs) are often startup businesses in need of substantial funding. An organization may only offer its shares to the public once, at its initial public offering (IPO). A business is considered to be public after an initial public offering (IPO). A publicly traded firm may decide to issue more shares in the future if it requires more funding for ongoing business development or expansion. And it's referred to as a subsequent, follow-up, or offering. The first selling of a company's securities to the general public on the main market is known as an initial public offering (IPO). The primary market is the one where the initial public offering (IPO) occurs. As a result, the main market is crucial to the growth of the economy in any nation (Myers and Brealey, 2003).

IPOs are a significant way to raise substantial funds over the long run. Recent years have seen a significant increase in capital raised by companies that went public and were able to generate source of fund. But not every business is suited for going public. An IPO candidate typically has to be in an industry that is receiving media attention and have a proven track record of increasing sales and profitability over time. A corporation may go public if it possesses many of these traits. An initial public offering (IPO) is likely the most costly method of raising capital in terms of the sums you must pay out in full. It also entails stringent conditions such as operating in a rapidly expanding industry, having outside directors appointed, and having audited financial records for the previous many years.

IPOs aren't always a secure method to make money. An individual investor finds it difficult to predict the performance of the stock or shares on the first day of trade and in the near future since there is no historical data available to research the business. To further compound the uncertainties around their possible future value, the bulk of initial public offerings (IPOs) include companies that are in a short-term expansion phase. An initial public offering, or IPO, is the process of selling a securities to the general public for the first time with the expectation that a liquid market will develop. A public offering

is a security in which all investors can purchase shares of the financial claims that are being offered for sale (Keown & Petty, 2002).

Over time, the volume of initial public offerings (IPOs) has experienced substantial growth, not only in industrialized economies like the United States and the European Union, but also in growing and developing economies like South East Asia, Latin America, and Africa. The size of the domestic stock market has increased significantly as a result of some of the biggest initial public offerings (IPOs) in China in recent years. The increase in IPO volume has also been attributed to the privatization of state-owned firms. An essential part of the capital market, initial public offerings (IPOs) are impacted by the size and stage of the market's development. Furthermore, the capital market in Nepal is still in its infancy and has a short history of development, making future advancements essential. The deeper the under pricing, the higher will be the initial returns resulting into the better performance of IPOs for the investors. However, as underpricing is a portion of the costs associated with a firm going public, the deeper the underpricing, the lower the net proceeds for the issuing businesses, resulting in a loss of wealth for the business (Welch, 1989).

The issuance of government bonds in 1964 and the 1937 flotation of common shares by Biratnagar Jute Mill and Nepal Bank Limited were encouraging signs of the country's developing capital market. The actual first move toward the development of Nepal's capital market was the establishment of the Security Exchange Center (SEC) in 1976. The purpose of the SEC's establishment was to facilitate and encourage the expansion of the capital markets. Prior to its conversion, it was the only capital markets organization handling public issue management, market making, brokering, underwriting, and other financial services related to government bonds. The 1990s saw the government implement policies of economic liberalization and privatization, which gave rise to Nepal's capital market. SEC was split into the Security Board of Nepal (SEBON) and the Nepal Stock Exchange (NEPSE) at that time.

SEBON was founded on June 7, 1993, with the purpose of managing and regulating the securities market, in accordance with the Securities Exchange Act of 1983. Under the Securities Exchange Act of 2006, SEBON has regulated the market since its founding. SEBON has been focusing its efforts on enhancing the legislative and regulatory structure

necessary for the growth of the capital market. As the top securities market regulator, SEBON has been in operation.

Stock market investing shouldn't be a "heart and gut" decision made on the basis of assumptions, conjecture, hot tips, gossip, or speculation. This is valid for investments made in stocks of firms that have previously been listed on the stock market as well as for investments made in stocks of companies that are looking to list for the first time. Going public, also known as flotation is the process of applying for a listing on a stock market. Usually, the goal of going public is to obtain capital for the company's expansion or growth (Choudhary, 2005).

1.1 Focus of the Study

The market for long-term borrowing and lending is known as the capital market. It is essential to mobilizing funds and directing them toward profitable investments for the nation's overall growth. One of the most significant functions of the capital market is its aid in capital production, which in fact plays a key role in the nation's economic expansion. Furthermore, it hasn't been able to support Nepal's economic expansion. It hasn't reached its peak and there are still a ton of opportunities for progress, which is essential for any capital market to become established.

The capital market is crucial to the economic growth of a nation because of its capacity to transfer resources from fund surplus groups to finance deficit groups. In this context, initial public offerings (IPOs) serve as a crucial capital market vehicle that allows governments and commercial organizations to raise long-term funds on favorable conditions. Through an initial public offering (IPO), an issuer can raise the necessary capital while simultaneously giving the general public and investor's access to investment opportunities. This guarantees that the deficit fund group and the surplus fund group are in balance.

The primary emphasis of the study is how individual investors responded to initial public offerings. Thus, it also focuses on their expertise level, preferred industry, issue managers' performance, and what they truly want from an IPO before they actually participate. It also focuses on limiting margin lending throughout the IPO distribution process since financing an IPO with loans from financial institutions is not a good idea because it hides

the real state of the business. Individual investors submit hundreds of applications using fictitious names. They can thus acquire a sizable number of shares and have an impact on the management of the firm as well as the stock price.

The sole recognized body in Nepal that certifies securities made through initial public offerings (IPOs) is SEBON, whereas NEPSE is the only stock exchange where these issues are listed for permitted trade. As a result, the study has concentrated on analyzing the current status of initial public offerings (IPOs) in Nepal, IPO underpricing, subscription patterns, and whether or not the IPO's initial return is sustained on the second and third day of trading. Moreover, the research's exclusive emphasis is on initial public offerings (IPOs) of common stock made by NEPSE-listed businesses throughout the study period.

1.2 Statement of the Problem

The Nepalese stock market offers extremely few products, and those that do are subject to stringent government regulations. The Nepalese stock market has remained essentially static, with reasons including unpredictable political circumstances, a dearth of sane investors, inadequate information transparency, and subpar company governance. The capital market in Nepal is quite small when compared to other developed stock exchanges. Few brokers exist, there aren't many listed businesses, there aren't many transactions, and most significantly, investors don't recognize the advantages and disadvantages of the stock market. In Nepal, there are many different kinds of barriers facing the initial public offering phase. Nonetheless, initial public offerings are still relatively recent phenomena in developing nations like Nepal. The majority of literate individuals are unaware of the existence of stocks. They have no idea what the securities signify. Consequently, compared to other industrialized nations, Nepal's stock market has more issues with public offerings.

In light of the current state of the stock market, the researcher was inspired to pose some study questions:

- What is the current status of IPOs in Nepal?
- What is the subscription Pattern for IPOs?
- Does underpricing in Nepalese IPOs exist?
- What is the pattern of share price return on 1st, 2nd and 3rd day of trading?

1.3 Objectives of the Study

The Nepal capital market is still in its infancy, with few IPOs and other activities. Analyzing Nepalese practices for initial public offerings is the study's main goal. More precisely, the study's goals are:

- To assess the current status of IPOs in Nepal.
- To identify the subscription pattern of Nepalese IPOs.
- To analyze the underpricing of IPOs in Nepal.
- To examine the pattern of share price return of the 1st, 2nd and 3rd day of trading.

1.5 Limitations of the Study

This thesis work must be completed and turned in within a certain amount of time, and this research serves as a partial fulfillment of the MBS degree requirements.

There will also be limitations to this study due to the following:

- Since the study also makes use of secondary data, the validity of the data will determine how accurate the research is.
- The study's foundation is 17 years' worth of secondary data, from the fiscal years 2006–07 to 2022–23.
- The Initial Public Offering Process is affected by Numerous Factors This research will just look at a few aspects, such the issuing firm, issue managers, governmental bodies, and relevant legislative rules, even if it is impossible to look into every component.
- Other limitations are time constraints, resource constraints and lack of research experience.

1.6 Organization of the Study

The entire study is divided into five chapters to make it easier to understand, as well as to align with the goals of the inquiry and the methodologies used. Each of these chapters has the following fields:

Chapter-I

First chapter contains the background, study focus, problem statement, research aim, study significance, study limitations, and study organization.

Chapter-II

This chapter is devoted to theoretical review, a review of empirical works, a discussion of the conceptual framework, and a review of Nepalese research are included in the second chapter's literature review. This chapter's assessment of related literature and associated conceptual considerations offer a framework that has helped this investigation be completed. This chapter mostly reviews the material that is currently accessible, which includes books, bulletins, journals, and annual reports from relevant organizations.

Chapter-III

This chapter describes research design, population and sample, data type and sources, data analysis technique, enterprise selection, and analysis method.

Chapter-IV

This chapter deals with data pertaining to several IPO features, data presentation and analysis along with an examination of the data using a variety of statistical methods. The chapter concludes with the study's key findings.

Chapter-V

Lastly, a summary of the whole study, conclusions based on key results, and suggestions are included in the fifth chapter, summary, conclusions, and recommendations. Lastly, appendices and a bibliography are provided.

CHAPTER- II

LITERATURE REVIEW

One of the most crucial sections of any thesis is the review of the literature. Expert recommendations, newspapers, periodicals, dissertations, and previous thesis are all reviewed in a literature review. To be more specific, this chapter looks at significant research on the state of IPOs today, their underpricing, their subscription patterns, the link between these factors, and how share prices rebound on the first, second, and third trading days.

This chapter is organized into two sections: a conceptual overview and a review of relevant works, to facilitate the study. A conceptual review pinpoints the elements and constituents that served as the basis for the investigation, while a review of related studies extracts passages from the numerous related studies that have been conducted to illustrate different aspects of the topic.

2.1 Theoretical Review

Theories of stock price Behavior

In terms of stock price behaviors, there are three hypotheses. Share price fluctuations in the stock market are explained by these hypotheses. These theories are:

- Efficient market theories
- Fundamental analysis theory
- Technical analysis theory
- Random walk theory

2.1.1 Efficient Market Theories

If shares are constantly priced accurately and it is impossible to regularly exceed the market, then the market is considered efficient. Put otherwise, security prices, in a well-functioning market, accurately represent the information that is available.

In a well-functioning market, fresh information is a crucial factor in influencing stock prices. Only price adjustments resulting from fresh knowledge would be possible in such a market. Hence, the efficient market, which reflects the perfect competitive market with

free flow of information and no transaction costs or taxes for logical investors, sets the price of stocks. If a securities market satisfies the following basic requirements, it can be deemed efficient. (Valla, 1983).

- Prices need to be reasonable in order for investors to be willing to provide capital to a company (i.e., purchase its stock) and for new ideas and improved goods to raise the value of the company's shares.
- All investors must be able to respond to new information by having open and prompt discussions on information across the country.
- Transaction costs are disregarded, such as securities sales commissions.
- It is believed that taxes have no discernible impact on investment strategy.
- Lending and borrowing are permitted to all investors at the same rate.
- To desire to put money where it is most needed—that is, in assets with relatively high returns—investors must be logical and able to identify efficient assets.

Efficient Market Hypothesis

It is crucial to address the Efficient Market Hypothesis (EMH) prior to beginning a review of the literature on the profitability of technical analysis. The Efficient Market Hypothesis (EMH) is a widely used concept in the field of finance, particularly in the analysis of stock price behavior. Eugene Fama's Ph.D. dissertation served as the foundation for the Efficient Market Hypothesis throughout the 1960s. Fama's (1970) textbook definition of an efficient market is "one in which prices always fully reflect available information." This definition may be used to understand the EMH's assumption that markets are efficient. Another eminent scholar, Jensen (1978), goes into further depth on the idea of efficient markets: In the context of an information set, a market is considered efficient if trading based only on the information set does not result in financial gains. The EMH is then divided into three categories by Jensen. A stock's current price reflects all of its previous prices, according to the weak form efficiency. This suggests that identifying cheap and overpriced companies can only be done through fundamental examination. Thus, financial statements—rather than technical analysis—are the main source of information that investors need to find successful firms. All available information is assumed to be included in a security's current price according to the semi-strong form efficiency. This implies that it is impossible to generate extraordinary gains from technical or fundamental analysis. Lastly, the strongest type of market efficiency,

known as strong-form efficiency, asserts that the price of a security reflects all available information, whether it is public or private. This suggests that not only are technical and basic analyses worthless, but insider knowledge also turns out to be unproductive.

Generally speaking, the EMH hypothesis asks whether prices at any one time accurately represent all available information (Fama, 1970). The hypothesis states that since knowledge would have already been priced in, trading on any information would not result in extra profits (Jensen 1978). Technical and fundamental analysis are therefore rendered outdated. This notion may have begun to take shape because of Fama. Nonetheless, it was first developed by (Fama, 1970) through a review of earlier empirical research, including Samuelson's seminal paper, "Proof that properly anticipated prices fluctuate randomly," in which he contended that no information set can be used to predict future price changes, and the statistically concluded conclusion that price changes in the financial market are random. Following his evaluation (Fama, 1970) came to the conclusion that the evidence supporting EMH was strong and the evidence supporting its opposite was weak. In addition, he proposed the three types of efficient markets, which include:

Weak form efficiency - All past prices in this market are included into the present values. Therefore, there is no predictability or benefit from technical analysis. Previous tests conducted in these markets before the 1970s mostly examined whether past prices could be used to forecast future prices; however, more recent research in this field has examined the predictive power of interest rates and financial ratios (Fama, 1991).

Semi Strong Efficiency – At this point, the stock prices have appropriately taken into account all previously disclosed information. Fama saw that price fluctuations in response to fresh information happened instantly in this market. This behavior renders technical and fundamental analysis ineffective in this market. Fama claims that this type of market is reflected in the present stock market.

Strong Form efficiency – This market's fundamental tenet is that no individual possesses greater skill than the market, making it unlikely for an investor to outperform the market in any manner. The primary focus of the test is to determine if the stock prices have taken into account all information that is confidential to both private and public entities. In this

market, a number of studies have examined whether particular organizations with monopolies over information might use that information to their advantage in order to generate excess profits (Elton, et al., 2007). Fama claims that this theory's position undermines the foundation of equities analysts, mutual fund managers, and portfolio managers.

According to the weak form of efficient- market hypothesis and the random walk theory:

- The current price of a stock is reflective of historic data. Thus it is futile to study historic data since its effects are already embedded in the current price of a stock at any point time.
- The distribution of a stock is the same and independent of any information.

Based on this, we developed the hypothesis that the returns produced by the MACD should equal the returns produced by the passive strategy (unconditional returns, or the daily returns of our portfolio) if the random walk theory and the weak form of market efficiency are correct. The Random Walk hypothesis and the weak form of market efficiency are refuted by the claim that MACD is relevant if the returns produced are distinct and it may forecast price movements, i.e., it captures scenarios or trends. The EMH and the Random Walk Hypothesis (RWH) are closely connected. The RWH was initially introduced by Bachelier (1900) in his book *Théory de la Spéculation*, where he claimed that a random walk model could account for price swings in stocks. Even though his work was not generally known, it was made famous by later research by a number of writers, including Alexander (1961) and Osborne (1959). The definition of the Random Walk model is:

$$x_t - x_{t-1} = \epsilon_t$$

The variable created by the random-walk process, which is a series of random and independent values for time T, is described on the left side of the equation. The variation is proportionate to the time gap between the succeeding periods, and the subsequent price changes between the two periods are independent and have a zero mean. This suggests that, assuming a year with 250 trading days, the yearly volatility is 250 times the variance of the daily fluctuations.

The EMH and RWH have received harsh criticism over the past 20 years from practitioners who claim that the two related theories are not useful in real-world

situations. Soros (1994), a renowned trader who gained notoriety for his lucrative trades throughout the UK currency crisis of 1992, offers insights on the concept of efficient markets. This encourages investors to use technical analysis, fundamental research, or a mix of the two as suggested by Bettman (2009) in an attempt to beat the market. While beating the market is the common goal of all investing strategies, their approaches to asset selection are different.

Many empirical studies have explored the idea of efficient markets; nevertheless, detractors have pointed out that historical return series show indications of predictability in stock returns (Chopra, Lakonishok & Ritter 1992, Fama & French 1986). The Capital Asset Pricing Model (CAPM) study is one of the most often used to evaluate the theory of efficient markets. Since its initial development by Sharpe (1964), Lintner (1965), and Black (1974), this asset pricing model has become a typical equilibrium model in the language of contemporary finance. The following formula summarizes the CAPM:

$$r_i = r_f + \beta(r_m - r_f)$$

Where r_i is the market return, β is beta, r_f is risk-free rate, and r_m is projected rate of return? According to the CAPM, market risk and expected returns on stock prices are positively linearly connected. By calculating the covariance of the asset and the market with the overall variance of the market, this market risk is known as beta. A high beta indicates a high level of volatility relative to the market. Thus, volatility is the primary risk factor that the CAPM uses to explain changes in stock price movements. Fama and French (1993) added two more explanatory factors to the CAPM to create the three-factor model. The first element is the size factor, commonly referred to as the Small Minus Low factor (SML), which reflects the trend of small company companies doing better than large market equities. The value factor, which deals with the Price-to-Earnings anomaly, is the second component in this three-factor approach. Value stocks, or firms with a low price to earnings, typically beat growth stocks, or those with a high price to earnings. The High Minus Low factor (HML) is the name given to this component. In summary the three-factor model can be described as:

$$r_i = r_f + \beta_1(r_m - r_f) + \beta_2(SMB) + \beta_3(HML) + \alpha$$

Regression analysis is used to determine the appropriate coefficients, or betas, once the factors SMB and HML have been specified. On the other hand, the CAPM is predicated on several hypotheses on the volatility and return distribution of stock prices. The CAPM presupposes that stock price returns are normally distributed, with the variance being constant over time. This assumption may conflict with the nature of this theory. A thorough analysis of speculative markets' return distributions by Lukac & Brorsen (1990) reveals that these markets contain time-varying variance and are not normally distributed.

Market premiums were discovered to be positive using the conditional CAPM method. The average market premium is negative and not statistically significant when unconditional betas are included, though. Using the unconditional betas, Morelli also discovered that certain individual years exhibit a positive statistically significant risk premium. The fact that these specific years seem to match up with times when the stock market was quite turbulent suggests that the model is useful when things are somewhat volatile.

Additional research that challenges the idea of efficient markets includes Lo and MacKinlay's (1988) widely reported empirical study disproving the Random Walk Hypothesis for weekly U.S. stock indexes and demonstrating that past prices can, to some extent, predict future returns—a fact that all technical analysts take for granted. Corresponding research reveals that because of the time-varying risk premiums, a number of economic factors, including inflation (Fama & Schwert, 1977) and term structure (Campbell, 1987), can predict stock returns. The distribution of stock values exhibits continuous short-run momentum, a finding that economists such as Shiller (2000) believe to be implausible according to the random walk hypothesis. According to Shiller, psychological contagion was the cause of the late 1990s surge in US stock markets. These results are consistent with those of behavioral economists, including the Prospect Theory's creators, Kahneman & Tversky (1981).

2.1.2 Fundamental Analysis Theory

The first method of security analysis, known as fundamental analysis, looks for a financial asset's actual or true worth. Any type of financial asset's true worth is determined by projecting its future cash flow's present value, which is then multiplied by a suitable discount rate to determine the quantity and timing of those cash flows. To

determine if the security is overpriced or underpriced, the true value is computed and then compared to the current market price per share. If current market price is greater than real value (price) then the stock is said to be overpriced or overvalued and if current market price less than real value (price) then the stock is said to be underpriced or undervalued.

In the future, these exceptional instances of mispricing will be fixed. An overpriced security's price decreases to reflect its true worth, whereas the price of an underpriced security rises to reflect its true value. The practitioner of this method is known as a fundamental analyst or fundamentalist.

The following presumptions are necessary for fundamental analysis:

- A business has an intrinsic value.
- Intrinsic value can be determined by analyzing company- generated information.
- Intrinsic value may go unrecognized by the market in the short term.
- The market will eventually recognize the intrinsic value in the long run.

Evaluation include projections of fundamental factors that influence security values, including earnings for businesses, costs, and future sales. In order to determine the intrinsic worth of a company's stocks, this method investigates various actions, financial statements, etc. The intrinsic value of stocks is ascertained by fundamental analysts, sometimes known as fundamentalists, based on basic data. "Fundamental analyst forecast, among other things future levels of the economy's gross domestic product, future sales and earnings for a number of industries and future sales and earnings for an even larger number of firms". Fundamentalists' foundation is mostly economic industry and corporate statistics. The primary deciding factor ultimately takes the shape of value and earnings within a risk-return framework that takes the economy and earning potential into account. Fundamental analysts examine a company's profitability, management, economic prospects, market circumstances of its competitors, and several other aspects.

Determining a security's intrinsic worth is the goal of basic security analysis. "The fundamentalists maintain that every stock has an intrinsic value at any given time which should, in principle, be equal to the present value of the future stream of income from that stock discounted at an appropriate risk related rate of interest. This is the actual economic worth of a financial asset." Thus, a suitable interest rate on the future revenue stream

establishes the real price of the asset. Price is subject to change in anticipation, which is subject to change according to fresh information. To put it another way, when fresh information on the price of securities is released, the intrinsic values of such assets will also alter.

Fundamental analysis determines appropriate stock prices by evaluating the firm's risk, profits, and dividend prospects, as well as future interest rate forecasts. "The present value of all future income that the share owner will get is the only determination of the value of common stock. In the end, it's an effort to calculate the current discounted worth of all the dividends that investors will get on each piece of stock. As a result, fundamentalists analyze every aspect of the business in great depth in order to determine its inherent worth. "The study would involve examining its sales, earnings, profit margins, dividends, management proficiency, industrial and business outlook, labor competence and factor that would have a bearing in its performance in the future."

An analysis of profits and a review of the balance sheets of the companies are often the first steps in a fundamental analysis. Future in-depth economic analyses, which often include an assessment of the equity of the company's management, are added to this report. Fundamentalists forecast a company's future earnings and earning capability with a decent degree of accuracy based on the firm's place within its industry and the prospects for the industry as a whole. This information helps them determine what the price of a company's share should be. We refer to this projected cost as intrinsic value. Fundamentalists will purchase shares if the intrinsic value is higher than the market value because this discrepancy gives them the chance to profit; conversely, if the intrinsic value is lower than the market value, the share is overpriced and should be sold, according to the fundamentalists. Thus, the fundamentalists contend that the intrinsic worth of a share plays a crucial part in any common stock market when compared to the current market price and used to determine whether to sell or make an acceptable investment.

A sequential top-down forecasting approach is used by some investment organizations that use financial analysis. In this approach, financial analysts forecast the economy first, then industries, and lastly companies. Other investment organizations start with estimates of the prospects for the economy. Inconsistent assumptions may be unintentionally

included in such bottom-up forecasting. Thus, fundamental analysis employs a variety of analytical procedures in order to arrive at investing decisions.

2.1.3 Technical analysis theory

Examining market prices in an effort to forecast future price movements is known as technical analysis of securities prices. It is a different hypothesis that uses supply and demand to forecast share prices in the stock market. Rather than the fundamental worth of a share, the share price is determined by the behavior of the market, particularly the previous market. Technicians or technical analysts are those who use historical security movement data to forecast future share prices.

The majority of a technical analyst's attention is directed toward price charts for securities and associated summary data regarding security transactions. For this reason, chartists refer to technical analysts. To anticipate security prices, most technical analysts compile and examine charts of numerous financial indicators. Technical analysis makes of 10% logical and 90% psychological components. This indicates that 90% of the time, investor psychology drives the market, while 10% of the time, logical elements influence the market. Based on the idea that history repeats itself, it is predicated on the idea that traded volume and price patterns recur over time. Price and volume patterns repeating themselves can be used to anticipate near-term price fluctuations (Khatri, 2006).

The technician makes predictions about the future by analyzing historical data. The technician thinks that trade volume and price trends represent the forces of supply and demand. He makes predictions about whether and by how much prices will move by looking at these trends. Consequently, the foundation of technical analysis is historical price behavior. The main focus of this study is trend analysis of previous prices to ascertain if prices would likely climb or decline. The mistake of technologists is to look backward. In order to offer recommendations on the timing of purchases and sells of individual stocks, groupings of companies (such as industries), or stocks in general, the technician typically makes an attempt to forecast short-term price changes. It's been suggested that technical analysis is meant to answer "When?" and fundamental analysis is meant to answer "What?" (Sharpe and others, 2001).

The core tenet of technical analysis is that historical stock market behavior may replicate itself in future periods. On the basis of historical data, technicians suggest short-term investments that provide profits. Technical analysis is the general examination of information from stock exchanges. "The term 'technical' denotes an examination of the market itself, rather than external factors that impact it. Relevant factors, regardless of their nature, can be boiled down to the volume of stock exchange transactions and share prices, or, in a broader sense, to the total statistical data generated by the market" (Rosenfield, 1975).

According to technical analysts, the current price of a share is determined by the equilibrium reached by buyers and sellers at a certain moment in time. Shifts in the forces of purchasing and selling produce price swings. Numerous internal and external factors—such as profit, the political climate, forecasts, and the like—are to blame for this. When there is balance between buyers and sellers, the price stabilizes.

Since the whole theory is predicated on the idea that history repeats itself, they contend that a record of price movements over time reflects the actions and behaviors of investors (both buyers and sellers) over time in the past. Because human nature is inherently repetitive and man is likely to repeat his past behavior patterns in the future, it is thought that this history of past movements will recur in the future.

Technical analysts are more adept at estimating stock prices than value. The underlying realities of the stock market, including as risk and profits growth rates, were completely disregarded by technicians. Technical analysis is concerned with supply and demand, and it bases its prediction of future prices on this behavior. "Technical analysis is based on the premise that historical patterns in the stock market tend to repeat themselves. One can infer a substantial possibility of the same outcome whenever a particular pattern of activity emerges in the future if it has historically generated specific results nine times out of ten (Palat, 1991).

Basic Assumptions of Technical Analysis

According to Edwards and Magee (1958), the fundamental presumptions that underpin technical analysis are as follows.

- Only supply and demand interact to establish market value.

- A wide range of both rational and irrational variables influence supply and demand.
- Share prices often follow patterns that last for a reasonable amount of time, ignoring little variations in the stock market.
- Changes in supply and demand lead to a change in trend.
- Changes in supply and demand, regardless of their cause, may eventually be identified in market activity charts.
- Certain patterns on charts have a tendency to recur.

Finally, technical analysis incorporates short-term projections of security price movements based on historical patterns of price and trading volumes. In essence, technical analysis believes that previous behavior of the stock market will recur in future and can thus be utilized for predictive purposes.

2.1.4 Random Walk Theory

The random walk theory, also called the random walk hypothesis, is a theory applied to stock prices. It suggests that stock prices move randomly and are not influenced by their past performance. In other words, past trends or up-and-down swings in a stock's price cannot be used to predict its future movement.

Here are some key points about the theory:

- **Unpredictable Movements:** Random walk theory suggests that stock price movements are essentially random and cannot be consistently predicted. This is because the market incorporates all available information into the current stock price, leaving no room for past trends to repeat or future trends to be foreseen.
- **Challenge to Technical and Fundamental Analysis:** This theory goes against traditional investment approaches like technical analysis (studying historical charts for patterns) and fundamental analysis (evaluating a company's financials). Random walk theory argues that since the market is efficient, all relevant information is already reflected in the price, making these analyses irrelevant for future predictions.
- **Focus on Diversification:** Proponents of random walk theory believe that trying to outperform the market by picking individual stocks is futile. Instead, they recommend investing in a diversified portfolio, such as index funds, that track the

overall market. This strategy, according to the theory, provides the most reliable and profitable returns in the long run.

While the random walk theory is influential, it has its critics who argue that it oversimplifies market behavior. Some investors successfully employ technical or fundamental analysis, suggesting that the market might not be entirely random.

2.2 Conceptual Review

A market is an area or system where goods and services are purchased and sold either directly or via an intermediary. A financial market is characterized as a platform that facilitates trade by connecting buyers and sellers of financial assets. It is a marketplace for the purchase and sale of securities. Capital resources are moved from savers to consumers in the active financial market. The transfer is carried out with the hope that users would return within the allotted time. The money market and the capital market make up the financial market.

For short-term financial requirements, the money market offers both primary and secondary markets. These products include commercial paper, promissory notes, treasury bills, banker acceptances, certificates of deposit, and short-term loans. The money market, to put it briefly, deals with short-term securities. The purpose of the money market is to ease the exchange of financial assets by bringing together buyers and sellers of securities. The money market connects the providers and consumers of short-term liquid funds. It is the kind of market designed for highly liquid debt instruments with a short duration. Financial assets having a one-year life cycle or less are typically active in the money market. Money market instruments include securities that are low-risk, liquid, and short-term marketable. Sometimes, money market products are referred to as cash equivalents or just cash.

The market for long-term borrowing and lending is known as the capital market. According to its definition, the capital market is where businesses go to obtain money for a variety of reasons, including long-term functioning needs, modernization, growth plans, and new initiatives. The capital market is used by both the government and large corporations to raise money for long-term investments. The primary market, bond market, and stock market are the three main capital markets. Individuals' savings are mobilized by the capital market and invested in shares, debentures, mutual fund units, and other

comparable financial instruments, which are then used for beneficial purposes across the economy. The capital market serves as the intermediary between lenders and borrowers. The primary market, where new securities are issued, and the secondary market, where already issued securities are traded, make up the capital market. This research mostly uses primary market data.

Corporations and the government issue new securities on the primary market in order to raise capital for actual investments. All securities, whether they be long-term or short-term, are first offered on the primary market. This is the sole market where the government or businesses may raise new funds through the sale of securities.

Instead of buying securities or other assets directly from issuing firms, investors buy them on the secondary market. One crucial component of the capital market is the secondary market. Securities holders might feel more confident knowing that there is a structured secondary market. In the primary market, investors buy assets with the idea that they may easily convert those securities into cash at any time. Securities from the secondary market are available to investors who are unable to purchase securities from the main market. Because of this, there are now additional investing options thanks to the secondary market.

This study presents an excerpt on the theoretical concept of initial public offerings (IPOs), IPO as a capital market mechanism, IPO and its theoretical aspects, pricing and procedural aspects of IPO practices in Nepal. This is because it is crucial to understand the general concepts of IPOs and other related matters before delving into the main subject matter of the various aspects of IPOs.

2.2.1 Concept of IPO

In the primary market, securities are sold to the general public through an IPO (Initial Public Offering). This is the first time a business has made stock available to the general public. IPOs are a common route used by smaller or younger businesses looking to raise funds to expand. Another name for it is a public offering.

Fund seeker groups, like corporate organizations, receive the necessary funds from willing fund surplus groups, like investors, through the initial public offering (IPO)

procedure. Securities such as bonds, preference shares, shares, debentures, and even commercial papers may be issued in an initial public offering (IPO). Nonetheless, the term "IPO" in this study refers to the first public offering of common shares. Therefore, an initial public offering (IPO) may also be viewed as a means of converting privately owned companies into publicly traded companies. A public offering is a security transaction in which all investors are able to purchase shares of the financial claims that are being offered for sale (Kewon and Others 2004, 471). The general public can purchase financial instruments through initial public offerings (IPOs), giving investors a stake in the issuing firm.

2.2.2 Reasons of Going IPO

The primary goal of an initial public offering (IPO) is to raise money for the business, although this is not the only one. There are several other important reasons for a business to go public besides just generating capital. When a private company does well, its owners typically desire to go public by selling stocks to third parties. The founders' only goals with an IPO are to determine the worth and marketability of their shares (Van Horne 2002).

Companies choose to go public not just to raise more money but also to build equity and a liquid market for their shares. In a similar vein, one advantage of going public is that a company with significant investment plans and high debt may now access funding sources other than banks. According to Rajan (1992), lower cost companies are interested in going public in order to decrease debt and boost investment. IPOs are a sensible option for corporations, especially those that are cost-conscious, when borrowing rates are high.

2.2.3 Advantages and Disadvantages of IPO

An IPO is a company's initial stock sale. An IPO is a common strategy used by small businesses seeking to develop further to get the money they need to expand. Going public has its own set of benefits and drawbacks, even though the firm stands to gain more from its expansion. There are several benefits for a business that goes public. The most obvious benefit is the financial one, which comes from obtaining funds, as was previously mentioned. An additional benefit is a rise in public knowledge of the business since initial public offerings (IPOs) sometimes result in publicity by introducing their products to a new target market.

In addition to the many advantages of a public offering, public enterprises also frequently have to deal with a number of drawbacks. The management's reduced ability to make choices as freely as they formerly could and the requirement for increased information disclosure for investors are two of the most significant ones. Moreover, initial public offerings (IPOs) incur significant one-time expenses, which may be direct or indirect. Legal, auditing, and underwriting fees make up the majority of direct expenses, but management time and effort spent on the offering and money left on the table make up the majority of indirect costs. The amount of money left over after the issuing firm underpriced their product is known as "money left on the table."

Businesses must weigh all of the potential benefits and drawbacks before choosing whether or not to go public. This often occurs during the underwriting phase, when the business consults with an investment banker to assess if going public is in the company's best interests.

2.2.4 Capital Market and IPO

The capital market is a securities market where governments and businesses may raise long-term capital. Securities having maturities greater than a year are traded on this market. The bond market (debt) and the stock market (equity) are two aspects of the capital market. Among their many responsibilities, financial regulators keep an eye on the capital markets in the territories they have been assigned, making ensuring that investors are safe from fraud. The capital market facilitates the exchange of different securities between long-term fund providers and seekers. The two main capital market instruments are ordinary and preferred stock (equity) and bonds (debt). While stocks constitute a share of ownership in a firm, bonds are long-term debt instruments used by businesses and the government to raise substantial sums of money, usually from a wide group of lenders.

One of the components of the capital market is the securities market. It covers a broad range of activities, including the purchasing and selling of securities as well as all organizations and agencies that deal with the selling and resale of corporate securities. A stock market is a venue for the public trading of derivatives and company shares at a predetermined price; these can be either privately traded or listed on a stock exchange (Rough, 1996).

A certificate relating to a unit savings plan or group saving plan issued by any corporate body in accordance with the laws in effect, or negotiable certificates of deposit or treasury bonds issued by the Government of Nepal are all considered securities under the Securities Exchange Act of 1983. It also includes securities issued under the full guarantee of the Government of Nepal by a notification published in the Nepal Gazette, receipts related to deposits of securities, and rights and interests related to securities.

The capital market is essential to the country's economy. It serves as an example for promoting the nation's economic activity. In order to gather and mobilize institutional and private savings, a variety of securities are created and exchanged in this structured organization. Additionally, the capital market enables investors to adjust their liquidity positions, potential portfolio risks, and marketability of assets in reaction to information availability. Through investments in a variety of financial instruments, including as common stock, debentures, mutual funds, etc., the capital market also assists in the mobilization of individual savings, which are then used for beneficial purposes across the economy. It serves as a hub for the government, corporations, and other organizations to issue intermediate and long-term securities in order to obtain funds as needed.

Different securities exchanges, which offer a level playing field for different debt and equity transactions, make up the backbone of the capital market. In this regard, the securities market may be seen as a crucial component of the capital market. The capital market is divided into main and secondary markets based on the transactions that are completed. Investors can purchase newly issued stocks and bonds on the main market. The secondary market is the over-the-counter sale and purchase of existing assets by traders or investors from one to another, typically on a securities exchange. NEPSE is currently the sole securities exchange hub in Nepal. It offers a market where investors in newly issued securities may conveniently sell their assets when needed.

2.2.4.1 IPO, Subset of Primary Market

The primary market is where businesses obtain fresh funding. The entire issues in the main market can be classified as either the original public offering or the consecutive public offerings, depending on whether the securities are being issued for the first time or in succession.

One factor that has a direct bearing on the number of initial public offerings (IPOs) in the market is the state of the market. The number of businesses selling common stock through initial public offerings (IPOs) rises amid expanding markets or positive trends. When the market is falling or the trend is negative, IPO issues decline. The quantity of new issues provided to the public increases in rising markets and decreases in declining markets (Cheney and Moses, 1992). The developed markets of the United States, Japan, and other countries have ample documentation of this. During the late 1990s dotcom bubble in the United States, several venture capital-backed businesses began trying to profit from the bull market. Those businesses formerly had rapid IPO offerings. Their acts were typically justified since as soon as they went public, their stock price skyrocketed. A similar incident also happened in Japan. A few businesses followed a similar model, with the IPO serving as their sole objective. Every study demonstrates that the quantity of initial public offerings (IPOs) made each year is mostly determined by the status of the market.

However, in the Nepalese context, initial public offerings (IPOs) have been a requirement, particularly for financial institutions that fall under Nepal Rastra Bank's (NRB) regulatory purview. The issuing business has two choices when it comes to issuing securities through an IPO. The issuing business has two options for selling securities: directly through a private placement or publicly through investment bankers.

In a private placement, the firm may offer the whole issue to one institutional investor, or to a small number of them, as opposed to issuing shares to the general public. Here, the underwriter's role is superseded as the corporation negotiates the terms of the offering directly with the investor. One or a small number of major institutional investors are directly sold the whole issuance. Since smaller businesses borrow from banks and larger businesses borrow on the public bond market, most private placements are of a middle size (Carey 1993).

Issues are offered through investment bankers in public sales, and these bankers are frequently referred to as underwriters. Investment bankers act as a bridge between investors and the issuing corporation. An IPO is typically managed by a group of underwriters. One underwriter in this group serves as the head underwriter, and the others

function as the selling group. Underwriters offer the issuing business a variety of services after being engaged by it. Initially, they assist the firm issuing the securities in determining the price range at which the securities are to be issued as well as the quantity of shares to be sold. In addition, the underwriter's reputation helps persuade potential investors that the shares are worth the price being offered. Secondly, they additionally handle the securities sales work. They offer the issued securities for sale to both institutional and individual buyers. To guarantee that investors have confidence, some underwriters even retain analysts to track stock values after they are released.

Underwriters often operate on a best-effort basis or underwrite the full issuance. Under the best effort basis, the underwriter will make every attempt to sell the issue; nevertheless, it cannot promise that the company's whole issue will be sold. But because the investment banker actually purchases the entire issue from the firm and resells it to the public, the corporation receives a guarantee that the full issue will be sold upon underwriting. The majority of underwriting agreements also have a "green shoe" clause. Underwriters may purchase extra shares at the offer price in order to cover any potential over allotments, according to this clause. However, the underwriter would not be motivated to purchase at the higher offer price because the price in the immediate aftermarket for a seasonal issue may indicate negative anomalous returns (Weston and Copeland, 1992).

An IPO requires a certain process to be followed in order to sell issues. Before going public, the company needs first get the go-ahead from its current shareholders. And choosing underwriters is the first and most important step to take when the company decides to go public.

Investment banking companies that serve as a new issue's financial midwives are known as underwriters. Investment bankers are middlemen in the financial industry who focus on assisting businesses on significant financial transactions and marketing new security problems. The underwriter of the securities, or merchant bankers, are in charge of advertising and arranging the sale of the firms' initial public offerings (IPOs) (Brearley, et al., 2004).

The corporation must register any shares with an appropriate authority, such as the SEC in the USA or SEBON in Nepal, prior to it being sold to the general public. The

registration statement includes details on the firm's background, current operations, and future goals in addition to the proposed funding. Public access to the preliminary prospectus, which is the first section of the registration statement, is provided. The prospectus outlines the essential elements of the issuer's offering, including its financial status and management.

In Nepal, the prospectus and registration statement are examined by the SEBON to ensure that all necessary information is included and that it is not deceptive. The firm can only release a final prospectus and offer securities after SEBON has approved the registration.

2.2.5 Securities Offered in IPO

An IPO just doesn't happen; instead, other securities must be made available. While ordinary shares are the main emphasis of this section of the research, we also need to briefly review the other securities and instruments of the IPO. Common shares, preference shares, bonds, debentures, warrants, convertibles, and options are the main instruments of the first public offerings (IPOs).

2.2.5.1 Ordinary Shares

The primary instrument of an initial public offering (IPO) is the ordinary share, sometimes referred to as common or equity shares. An ordinary share is a symbol for a company's ownership status. There is no maturation period for this security. Its returns are not prepaid. By using their voting rights, owners of common shares can influence the business. It is the riskiest security out of all of the ones that are offered since common shareholders have the final say over claims to assets and profits in the event that the firm files for bankruptcy.

2.2.5.2 Preference Shares

Preference shares, sometimes referred to as preferred stock, are a fixed income instrument that serves as a backup source of long-term funding for the business. Bonds and ordinary stocks are comparable to preferred stock in several aspects. The equity of a business is represented by preferred stock, which differs from common stock in that preference owners have a claim before ordinary stockholders in the event of a corporate liquidation and have preferences over common stock in dividend payments.

Even while preferred stock isn't as well-liked as bonds and regular stock, it has certain qualities that might make it appealing in some situations. Since it combines certain features of common stock and other features of debt, it is a hybrid security. In essence, it's a fixed income instrument. Dividends on preferred shares are usually predetermined.

2.2.5.3 Debentures and Bonds

Debentures, a kind of financial security, are an extra source of long-term capital for the company. The amount to be paid to the investor in bonds—a type of fixed income instrument issued by a borrowing company—is specified in an investment contract called an indenture. A debenture is an unsecured corporate obligation, whereas a bond is protected by a mortgage on the corporate property. A debenture is a legal document that acknowledges a debt resulting from the sale of a business and provides for the principle amount to be returned together with interest at a certain percentage within a specified time frame.

The term "debenture" is widely used in the UK, Nepal, India, and many other nations, whereas "bond" is more frequently used in the US. A few of the key characteristics of debentures are interest rate, maturity date, redemption, security, convertibility, yield, and rights to capital and income.

2.2.6 Theoretical Aspects of IPO

Numerous research on initial public offerings (IPOs) have been carried out globally. Two trends that are connected to IPO difficulties have been regularly shown by these investigations. These are the two patterns of IPO underpricing and long-term underperformance.

2.2.6.1 Underpricing of IPO

When the offer price of IPO is lower than the price of the first trade, the stock is considered to be underpriced. Usually a stock is underpriced temporarily because the laws of supply and demand will eventually drive it toward its intrinsic value. It is believed that IPOs are often underpriced because of concerns relating to liquidity and uncertainty about the level at which the stock will trade. The less liquid and less predictable the shares are, more underpriced they will be. This takes place to make up for the risk that investors are taking. In order to get investors to participate in the IPO, the firm must undervalue its

stock, as the issuer typically has greater knowledge of the value of the shares than the investor.

For an investment banker, the most challenging task is figuring out the best offer price for an initial public offering (IPO). This task is made considerably more challenging when dealing with startups or young enterprises. The issuing firm and its current investors won't be happy to leave a sizable amount of money on the table if the issues are priced too low, but if they are priced too high, there may be undersubscription or perhaps the offer may be withdrawn. This is a critical component as it negatively impacts both the investment banker's or underwriter's reputation and the financial element. Underwriters therefore have a motivation to undervalue the issue.

J.R. Ritter's 1998 study has determined that underpricing occurs in all markets, although the degree of underpricing differs among nations. According to the report, there were 33 nations with IPO underpricing ranging from the lowest at 4.2% to the worst at 388%. Numerous additional research conducted in a variety of emerging markets also produced findings that were comparable. As a result, initial IPO underpricing appears to be a global phenomena, with variations in IPO underpricing severity among markets and nations.

The phenomenon of IPO underpricing has been explained by a number of hypotheses. A highly plausible theory is that underwriters purposefully undervalue first public offerings (IPOs). In order to guarantee the success of the issuance, underwriters undervalue it. It's also a simple method for them to thank their devoted customers. In a similar vein, the issuing business also want to undervalue the issue, but not by a significant amount because an expected price increase will pique investors' interest and might be advantageous for subsequent offerings. They also don't lose a lot of money and don't give out a lot of shares to the public.

The winners curse theory is another strong theory. It is predicated on the idea that there are two types of investors: knowledgeable investors and ignorant investors. Typically, knowledgeable investors avoid the winner's curse and end up with the majority of the most desired and alluring new problems, whereas ignorant investors end up with the majority of the least attractive and unappealing issues. As a result, IPOs are sufficiently discounted to make up for the prejudice in the distribution of new issues.

IPOs are underpriced to reflect the quality of the company, according to yet another set of academics. In a similar vein, the bandwagon hypothesis states that the bandwagon effect may arise when investors purchase new issues after observing that other investors are doing the same and refrain from purchasing if others are not. In order to avoid it, the issuing business can try to undervalue the issue in order to entice early buyers to purchase and create a buying frenzy that will entice all other buyers in the future.

All of these ideas have been attacked for a variety of reasons, including their radical assumptions, yet the truth remains that there is some truth to each of them. Above all, they do aid in our comprehension of the IPO's underpricing.

2.2.6.2 IPO's Long Run Underperformance

Another pattern associated with IPO is poor performance of stock price of IPOs in the long run. It means even though IPOs do provide higher initial return but their long term return over subsequent 3 to 5 years are below average.

Lorun underperformance as, IPO, even though risky; typically underperform the indices for the first few years after offering. This can be explained by high divergence of opinion raising the initial market price, and by this divergence of opinion declining over time. With time, the valuation of the price setting marginal investor comes closer to the average investor's valuation. This theory also explains why the firms with the greatest underperformance are those with a short operating history, low sales, low prestige underwriters, low institutional ownership, high volatility, high underpricing at the time of issuance, listing on regional exchanges, and those in certain industries (Miller, 1998).

Some of the long run underperformance found in previous work is likely the result of wrong measurement. However, three factor asset pricing model shows that the underpricing is largely found in the small nonventure backed firms and underperformance is not an IPO effect. It concludes that IPO underperformance is not an issuing firm effect. It is a small, low-book-to-market effect (Fama and French's, 1993).

A study revealed that the companies which went public during 1970 to 1993 produced an average return of just 7.9% per year for five years after the offering using the first trading day's closing price as the purchase price. However, the control group of non-issuing firms

matched by market capitalization produced average initial return of 13.1%. Thus, the study concluded that on average IPOs underperformed by 5.2% per year in the 5th year after going public. Whatever may be the reasons; all these statements do indicate that IPOs do underperform in long run (Ritter, 1998).

2.2.7 Institutions Involved in IPOs of Nepal

Several financial institutions are needed in order for the financial markets to grow. Additionally, the effective operation of the financial markets is facilitated by the seamless operation of these institutions. An example of one kind of financial institution is an investment banking business. Underwriters, another name for investment banking companies, serve as intermediaries and assist in distributing new securities to the general market. Purchasing securities from the issuing firm and reselling them to investors is the primary role of investment banks.

Since companies don't often offer securities to the public, the issuing firms lack experience in securities distribution. They are ignorant of the current state of the capital market. However, investment banking companies are knowledgeable. In addition to their experience, they can sell the securities since they have connections and organizations. Bonds and common stock are issued to the public by a multitude of corporations.

Corporate public security products have grown significantly in Nepal during the past year. Due to its complexity and length, initial public offerings (IPOs) sometimes require the involvement of many authorities. The organizations or agencies that are participating in Nepal's IPO procedure are included in this reference below.

2.2.7.1 Issuing Companies

The term "issuing company" refers to the business that is using an IPO to raise extra funds. The Company Act of 2006 states that only publicly traded corporations are eligible to conduct an initial public offering (IPO). The private firms are absolutely prohibited under the legislation from issuing any shares or debentures to the general public. The private firm must re-register as a public company in the firm Registrar's office if it wishes to offer shares or debentures to the general public.

Similarly, Banks and Finance Companies are required by NRB Directives to proceed with an IPO within a specific timeframe. In addition, banks and finance businesses are required under the Banks and Financial Institutions Act, 2006, to set aside a minimum of thirty percent of their issued capital for public allocation. Nonetheless, their staff may receive 5% of these shares.

2.2.7.2 Issue Managers

A company known as an issue manager is in charge of overseeing first public offerings (IPOs). Issue managers are organizations licensed by the SEBON to oversee public offering issues, according to the Securities Act of 2006. 21 businesses are approved by SEBON to act as issue managers. In exchange for their services, issue managers get issue commission from the issuing corporation. Commission decisions in these cases are reached by discussion, notwithstanding the legal cap.

2.2.7.3 Merchant Bankers

The financial middlemen that specialize in pitching new security problems and counseling businesses on significant financial transactions are known as merchant bankers. Merchant bankers assist in the creation and growth of securities, provide corporate advice, and manage investment portfolios for charitable organizations. They charge their customer a service fee for acting as a middleman and advisor. Securities underwriting include merchant banking's involvement in handling initial public offerings. (Gitman, 2003).

2.2.7.4 Underwriters

An underwriter is a company that is permitted to take on liability for certain risks and to insure securities produced during an initial public offering (IPO). In Nepal, underwriting requirements for manufacturing, processing, and banking firms are still in place, but for financing companies, these requirements have been loosened. Additionally, unsold issues must be dispersed to underwriters pro rata to the amount of their commitment in the event that the public does not completely subscribe for the issued shares. As per the legal regulations in Nepal, underwriters are permitted to charge a maximum of 3% of the insured amount as their service charge.

2.2.7.5 Bankers to Issue

Typically, commercial banks serve as the issue's bankers, with their main responsibility being to provide custodial services to the issuing company. They can get investor applications, in which case they will document the information in application schedules and provide acknowledgements for the same. They could also be involved in the process of realizing the issue proceeds through checks or drafts in order to provide final certifications to the issue manager for the number of applications received and the amount collected.

2.2.7.6 Collection Centers

These are the permitted organizations to receive investor applications, acknowledge such applications, and distribute money via checks or drafts. Additionally, they provide the issue manager with final certifications detailing the quantity and number of applications received. For their services, they are paid collection fees, which are normally negotiated and depend on the volume of applications processed and money collected. In most cases, banks, financial businesses, and brokerage houses serve as collection centers.

2.2.7.7 Others

Numerous other organizations, including as SEBON, NEPSE, and the Company Registrar's Office (CRO), also have an impact on initial public offerings (IPOs) in one way or another. Issuing businesses are required by the Securities Act of 2006 to get SEBON issue permission. The CRO should grant the firms issue permission as well. The NRB must also approve the IPO for issuing businesses if they are financial institutions. In a same vein, trading securities that are not listed on NEPSE is forbidden.

2.2.8 Procedural Aspects of IPOs in Nepal: Legal Aspects and Process

Every organization considering an IPO must follow by a number of laws, statutes, and rules. In general, IPO operations were previously governed by the Securities Exchange Act of 1983 and the Company Act of 2063. The Securities Exchange Act of 2006 and the Company Act of 2006, respectively, have superseded these legislation. Thus, going forward, businesses must adhere to the aforementioned legislation and their regulations. To guarantee that the IPO process becomes more open and organized, additional rules and regulations such as the Security Listing Bylaws 1996, Securities Allotment Guidelines 1994, and Security Registration and Approval Guidelines 2000 are in place.

Choosing an authorized investment banker or issue manager (approved by NEPSE) to handle the entire process in accordance with the guidelines of the Securities Registration and Issue Approval Guidelines 2000 is the first and most important stage in the initial public offering (IPO) process. After being selected, the issue manager looks into the issuing company's financial situation, plans, management, and other general issues that are included in the proposal for the public issue via a due diligence examination. Once satisfied, the issue manager is ready to submit the prospectus and detail document to the CRO. After receiving such a prospectus, CRO examines all of its contents in cooperation with SEBON, and only then does it approve the release. After receiving issue approval from CRO, the issue managers further need to register the prospectus along with other necessary documents in SEBON and obtain issue approval as per the Securities Exchange Act 2006.

The prospectus need to provide comprehensive details about the business, including its name, address, purpose for being established, share capital value, possible dangers, and other information that will help investors make informed decisions. Financial institutions must also obtain NRB permission before they may issue any.

SEBON evaluates the veracity of the data in the prospectus and other papers before approving the offering. Such analyses frequently start with the problem manager's Due Diligence Report. The issue manager is now legally able to make an issue public on behalf of the issuing firm after obtaining issue approval from both CRO and SEBON. In fact, the issuing company should open its issue to public within two months from the date of approval by SEBON. Additionally, the matter need to fall within the Securities and Registration and Issue Approval Guidelines 2000 guidelines.

2.3 Review of Related Studies

This component of the research includes quotes from master's dissertations, including theses, papers, studies, essays, and articles from Nepalese and worldwide magazines. Numerous websites, like www.blackwell-synergy.com and www.emeraldinsight.com, have made international journals accessible. Similarly, the Shanker Dev Campus library and the TU Central Library provide access to Nepalese journals and master's dissertations.

2.3.1 Review of International Journals and Dissertations

Around the world, several research have been conducted to clarify the procedures around initial public offerings in Nepal. While some research studies are pertinent to our investigation, some are not. The studies listed below have only been accessed and are thought to be pertinent to this investigation.

Chatterjee, et al., (2024), carried out a study on, “Studies on Indian IPO: systematic review and future research agenda”. Reviewing, analyzing, and summarizing the literature on the Indian initial public offering (IPO) market is the goal of this article. Resolving more general corporate finance queries may be aided by knowledge of the Indian IPO market. This study is crucial because of the rising number of initial public offerings (IPOs) in the Indian context and the growing significance of the Indian economy in the international market. A total of 111 publications published between 2002 and 2021 were reviewed using the systematic literature review approach. Throughout the review procedure, the authors followed the Preferred Reporting Items for Systematic Reviews and Meta-Analyses methodology. In addition, the writers analyze the pattern and trajectory of research in this field of interest using a bibliometric review approach. In addition, the writers do a critical analysis and synthesis of the top 20 works according to citation counts. In order to pinpoint important study subjects, the authors additionally employ a manual content analysis technique and a co-citation network. Finding the main research themes in this field of study is made easier by this review. The bulk of research, according to the authors, has been on IPO success, but post-IPO performance also requires careful consideration. Based on their debate, the authors create a thorough framework and future research plan. This review study provides a thorough analysis of the Indian initial public offering (IPO) market that may be useful to researchers from other countries as well. The economy of India is drawing more and more attention from across the world. Hence, the future research objectives as illustrated in the study can be of interest for the global scholarship also.

Liu (2024), performed a research study on, “External Governance Oversight and the IPO Process: Empirical Evidence from China”. This study looks at how different facets of the Chinese IPO process are affected by political connections as an external governance factor. In China, political ties are seen as an important external governance issue that may impact both the IPO procedure and the market. Making use of a unique dataset that

includes IPO data from 1856 Chinese companies that were active between 2014 and 2021, the main goal of this study is to show that firms with political ties are more likely to be underpricing and to draw in retail investors. Furthermore, in spite of having to pay higher underwriting fees and floating expenses, these businesses tend to draw in more underwriter subscriptions and famous underwriters. Finally, the analysis shows that, in times of market turbulence like the current epidemic, political ties are particularly advantageous for businesses. Political ties serve as watchdogs, minimizing information asymmetry and informing investors of the companies' advantages. The study uses a number of robustness tests, such as PSM and subsample analysis, to support the primary results. All things considered, the study contributes to the body of knowledge about the critical role that political ties play in encouraging initial public offerings (IPOs) and mitigating information asymmetry through support and oversight.

Wang and Liu (2024), carried out a study on, “Board chair gender, glass ceiling, and IPO underpricing: Evidence from China”. This study investigates, from a glass ceiling viewpoint, the connection between IPO underpricing and the gender of the board chair. Using a sizable sample of Chinese initial public offerings (IPOs), we discover that companies with female board chairs (FBCs) experience less underpricing than companies with male board chairs (MBCs). This suggests that investors view FBCs as signs of a promising IPO. This link remains true even after propensity score matched sample tests and instrumental variable regressions are used to resolve any endogeneity issues. Subsequent research reveals that this association is stronger for companies that have higher levels of risk-taking, internal gender discrimination, and CEO-chair duality. Furthermore, we discover that companies led by FBCs perform better operationally throughout the post-IPO phase, but there is no proof that these companies present their financial information in a more cautious manner. According to the findings, the glass ceiling could produce more capable female executives, and investors who place a bid on FBC-led companies stand to gain from improved operating performance following their IPO. This study adds to the body of knowledge about the causes of IPO underpricing, the effects of gender discrimination in corporate leadership, and the optimization of top management's gender structure in relation to IPO pricing efficiency.

Jamaani and Alidarous (2024), performed a research study on, “The impact of prestigious attorneys on IPO”. This study aims to determine whether the involvement of prestigious

attorneys in issuing companies affects withdrawals in the initial public offering (IPO) market. There is little evidence on how the involvement of famous lawyers affects IPO withdrawal. The study considers a large dataset consisting of 24,312 IPOs that were either successful or withdrawn from 22 distinct IPO marketplaces between January 1995 and December 2019. We find that IPO issuers may benefit from engaging with reputed attorneys by leveraging exceptional legal or negotiating abilities as quality certification signals to reduce IPO investors' ex-ante uncertainty. Here, the objective is to protect their IPOs from withdrawal of at least by 22%. Multiple robustness tests validate the reliability of the results of this study. These findings have significant implications for researchers, legislators, investors, and issuers.

Abrahamson (2024), carried out a study on, "Offer Price and Post-IPO Ownership Structure". By adjusting the number of shares offered in an initial public offering (IPO), a company can determine the offer price of its shares based on the company's valuation. This study examines the offer prices, the underpricing of IPO shares (measured as the initial return, or IR), and the link with the post-IPO ownership structure using stock ownership records and manually gathered IPO data. The article specifically addresses individual IPO investors. The findings demonstrate that the IR is much higher priced IPOs for the lowest priced IPOs. Additionally, there is a negative correlation between offer price and ownership breadth for the low-cost initial public offerings. This suggests that equities that are cheaper might draw in more investors than those that have higher asking prices. Nonetheless, the correlation is positive for expensive initial public offerings (IPOs), indicating that more investors are drawn to the IPOs with the highest price. Overall, this research indicates that an IPO firm's offer price may have a minor impact on the ownership structure that results from the IPO.

Kato, et al., (2024), performed a research survey title "Who is willing to be rich and king? Founder-CEOs' IPO and M&A intentions". Although there are a variety of reasons why founder-chief executive officers (founder-CEOs) launch enterprises, they frequently find it difficult to seek company control and shareholder wealth. We study the objectives of founder-CEOs about M&A and IPOs by surveying start-up companies in Japan that are in the manufacturing and information services industries. We assess the factors influencing founder-CEOs' intentions for M&A and initial public offerings (IPOs) and offer an analytical method from the perspectives of shareholder wealth and firm control. Our data

suggests that start-up companies are more likely to pursue initial public offerings (IPOs) if they have resources for innovation, such as new goods and services and intellectual property. Furthermore, growth-oriented businesses and founder-CEOs with a track record of success in entrepreneurship are more inclined to pursue M&A and IPOs. Furthermore, M&A and IPOs are more common among younger founder-CEOs. Furthermore, by highlighting the parallels and discrepancies between the factors influencing M&A and IPO ambitions, this study pinpoints the wealthy and dominant roles of founder-CEOs.

Priyesh and Jijo (2024), carried out a study on, “Do retail and institutional investors react differently to earnings management? Evidence from Indian IPOs”. This study looks at how investor demand in the Indian IPO market is affected by pre-IPO earnings management. Additionally, it looks at the understudied subject of issuer business earnings management and how it impacts initial public offering (IPO) pricing. 310 Indian initial public offerings (IPOs) from 2000 to 2021 are the study's source of data. We investigate the relationship between pre-IPO earnings management and investor demand and value using cross-sectional ordinary least squares regression models with robust standard errors that account for heteroscedasticity. The study concludes that retail investor demand, as shown by their over-subscription multiple, is influenced by the extent of pre-IPO earnings management. Institutional investor bidding has nothing to do with pre-IPO earnings management. Furthermore, there is no evidence in this article linking IPO pricing to pre-IPO earnings management. Subsequent research endeavors may delve into diverse types of earnings management and its influence on investor demand and valuation. The study's conclusions will aid regulators and investors in comprehending how IPO businesses manage their profitability and how IPO demand and value are connected. By demonstrating that issuer businesses use earnings management to affect investor demand, particularly retail investor demand, this study adds to the body of knowledge already available on IPO-earnings management and investor demand. Contrary to popular belief in the literature, analysis of IPO value shows that earnings management is mostly irrelevant to IPO valuation.

Wang, et al., (2024), carried out a study on, “A Review of Research on Factors Influencing IPO Premiums”. Recent years have seen a rise in interest in the IPO (Initial Public Offering) market, and the IPO issue premium is a crucial indicator for corporations and investors alike. Examining the factors that affect the IPO offering premium is the goal of this study. This article's analysis and organization of linked articles led to the

discovery of several important aspects. First, a significant factor in figuring out the IPO issue premium is the registration system, including its development history. Second, the IPO issue premium is influenced by the state of the market, including factors like market maturity and volatility. Furthermore, the IPO issue premium is heavily influenced by investor sentiment. Lastly, IPO issuance premiums are influenced by the renown and expertise of underwriting firms. Through the collection of pertinent data and the use of suitable statistical approaches, this study confirms the influence of the previously described determinants on IPO issuance premiums and produces some intriguing findings. By better understanding the mechanism of IPO issuance premium growth, investors and corporations may make more informed investment decisions with a better understanding of these elements.

Lefebvre (2023), performed a research survey title, “The growth process of IPO firms”. This study explores initial public offering (IPO) firms’ growth processes. Building on the idea that going public relaxes financial constraints and thus facilitates growth, this study uses an international sample of European IPO firms matched with comparable non-IPO firms to investigate whether and in which dimensions IPO firms grow faster than non-IPO firms do. Consistent with the Penrosean theory of growth, the results show that IPO firms grow first by acquiring fixed assets immediately after the listing and then by acquiring an additional workforce, corresponding to the resource acquisition stage of growth. The performance-enhancing stage of growth, during which IPO firms grow in sales, occurs later and culminates three years after an IPO. In addition, IPO firms are more likely to experience high-growth episodes in sales, but not in employment, than non-IPO firms. Overall, this study highlights the role of financing decisions in growth processes.

Abbas (2023), performed a research survey title, “Community and environment disclosures and IPO long-run share price performance”. This study attempts to investigate the connection between the long-term share price performance of Malaysian initial public offering (IPO) firms and their disclosures on the community and environment. The content analysis of the annual reports and DataStream of 115 representative initial public offerings (IPOs) listed on Bursa Malaysia between 2007 and 2015 provided secondary data for this study. Weighted least squares and quantile least squares were used in this study to assess the connection between IPO success and community and environmental disclosures. The amount and quality of community disclosures have a positive and

substantial link with IPO success, according to the data; on the other hand, there is a negative and positive relationship, respectively, between IPO performance and the extent and quality of environmental disclosures. These findings imply that community and environmental initiatives might be seen as a means of improving Malaysian initial public offerings. The aforementioned findings indicate that Malaysian initial public offerings (IPOs) ought to engage in regular corporate social responsibility disclosure, which includes community and environmental initiatives, given their notable influence on the success of these offerings. The results of this study have the potential to assist financial institutions and regulatory bodies in pressuring firms to disclose information more responsibly for the environment and community.

Irawan and Nasution (2023), carried out a study on, “Identification of Underpricing Factors Initial Public Offering (IPO) Manufacturing Sector on The Indonesia Stock Exchange”. This research attempts to demonstrate and examine the impact of Return on Assets (ROA), Earnings Per Share (EPS), Inflation Rate, and Debt to Asset Ratio (DAR) on Underpricing of Stocks in Manufacturing Firms During Their IPOs on the Indonesian Stock Exchange in the Years 2017–2021. This study uses an associative methodology and a quantitative research design. 53 manufacturing businesses that satisfied specific criteria during the study period were utilized as samples, while the population of this study consisted of all manufacturing companies that experienced stock underpricing in 2017–2021. Purposive sampling was employed in the sampling process. Multiple linear regression analysis is the method utilized to analyze the data. The results of this study indicate that Earning per Share (EPS) has a significant negative effect on underpricing and the Inflation Rate has a significant positive effect on underpricing, while Return On Assets (ROA) and Debt to Asset Ratio (DAR) have no effect on underpricing. The high or low value of Return on Assets and debt to asset ratio does not significantly affect stock underpricing during the initial public offering. The value of earnings per share and inflation greatly affects the underpricing of shares in manufacturing companies during the initial public offering.

Liu, et al., (2023), carried out a study on, “How Different Institutional Logics Affect the Female CEO Gender Effect on IPO Underpricing in China”. Female entrepreneurs and CEOs generally face greater challenges in securing funding to exploit entrepreneurial opportunities, yet contextual factors under which such challenges are more likely to arise

are less understood. We find that female-led initial public offerings (IPOs) incur greater IPO underpricing, but this effect is moderated by their ownership structure, reflecting different institutional logics in which these firms operate. Specifically, the positive relationship between female CEOs and IPO underpricing is attenuated by venture capitalist ownership, whereas such a relationship is exacerbated by state ownership. Based on a sample of 958 IPOs in China between 2009 and 2015, this study corroborates these findings.

Lim and Lobo (2023), performed a research survey titled, “Financial Literacy and IPO Underpricing”. The study finds substantial evidence that financial literacy is adversely linked with IPO underpricing using two country-level financial literacy measures and an international sample of IPO businesses. The study's cross-sectional analyses reveal that when the information environment is less open, financial literacy has a stronger impact on IPO underpricing reduction. Using route analysis, we show that the mechanisms mediating this association include stock market participation, corporate transparency, and information friction. The study adds to and broadens the body of research by presenting compelling evidence that IPO underpricing is significantly and consistently influenced by citizens' financial literacy.

Xia, et al., (2022), performed a research study on, “Cross-influence of information and risk effects on the IPO market: exploring risk disclosure with a machine learning approach”. The purpose of the study is to determine whether the cross-section of first-day returns in a sample of Chinese initial public offerings can be better understood by looking at the way risk factors are disclosed in IPO prospectuses. Using an unsupervised machine learning approach, the semantics and content of risk disclosure are analyzed in this research. This research investigates the relative roles played by the information impact and risk effect of risk disclosure from both long-term and short-term perspectives. According to the findings, risk disclosure has a larger information impact at the risk content level and a bigger risk effect at the semantic novelty level. The use of text analysis (semantic novelty and content richness) to describe the risk factor disclosure's structure is a novel feature of the work. The study demonstrates that there is a negative correlation between semantic innovation and content richness and early IPO returns. We demonstrate how the same stock plate's character affects the interplay between risk and

information effects on risk disclosure. Semantic novelty and content richness have a greater influence on the IPO market when business information openness is poor.

Carabone, et al., (2022), performed a research survey title, “IPO in family business: A systematic review and directions for future research”. Due to the governance, strategic, and financial obstacles and reforms that organizations must undertake in order to get favorable valuations from stock markets, the process of going public, also known as an initial public offering or IPO, has drawn scholarly interest. Family business researchers are becoming more interested in the topic as a result of this, as it is particularly true for family businesses. This study evaluates the state of the art in this area and thoroughly studies the literature on initial public offerings (IPOs) in family companies. It detects research streams on the subject and looks at academic papers that were published in peer-reviewed academic publications between 1995 and 2020. The information on IPOs in family businesses is then organized using an input-process-output model that shares conceptual similarities with the stages of an IPO. As a result, the articles that are being examined are arranged into four levels of analysis: firm, family, individual, and contextual. By offering a helpful theoretically driven model to direct future research efforts on initial public offerings (IPOs) in family businesses and by proposing particular legislative measures to facilitate the listing process of family enterprises, the paper makes a valuable contribution to both research and practice.

Gupta, et al., (2022), performed a research survey title, “The impact of media sentiments on IPO underpricing”. The media is essential to initial public offers (IPOs) because it provides information to investors, who typically lack the knowledge necessary to comprehend the material included in the prospectus. As a result, the performance of the IPO and investor decisions might be influenced by media coverage. The fact that the IPO is usually covered by the media prior to listing raises the possibility that it will be crucial in explaining the starting price as opposed to the closing price on the day of listing. Therefore, the purpose of this study is to compare the effects of media emotions on conventional and disaggregated IPO underpricing, as well as to separate traditional IPO underpricing into three categories: voluntary, pre-market, and post-market. The disaggregated IPO underpricing research provided by the authors will help investors formulate a winning investment plan based on the attitudes expressed in the media. The study used the "robust-regression" strategy to examine attitudes on a sample of 222 Indian

IPOs between 2009 and 2018, and it also utilizes the bags of $n(2)$ grams approach to gauge feelings on 2,891 media stories. According to the study, there is no significant correlation between the sentiment score and post-market underpricing, but there is a positive relationship between the sentiment score and traditional underpricing; additionally, the number of media articles has no bearing on the explanation of IPO underpricing. The results demonstrate that the Indian IPO market exhibits a semi-strong kind of efficiency.

Zaluki and Badru (2021), carried out a study on, “Intended use of IPO proceeds and initial returns”. The purpose of this study is to look at how IPO first returns are affected by the use of proceeds that is declared in the prospectus for initial public offerings (IPOs). We utilize an IPO sample that was listed on Bursa Malaysia between 2005 and 2015. The three categories of expected uses for IPO proceeds are operating capital, debt reduction, and expansion potential. The study uses the quantile regression technique, which is a more advanced and reliable method than the simple least squares regression. The findings indicate that, although debt repayment is negatively related with IPO early returns, the anticipated use of IPO proceeds for working capital and expansion possibilities is positively associated with such returns. Research and development (R&D) and capital expenditure (CAPEX) are two additional areas where the intended use of IPO proceeds for growth opportunities is further expanded. R&D is negatively associated with IPO initial returns, while CAPEX is positively associated with IPO initial returns. These results imply that the planned use of IPO proceeds offers helpful details regarding IPO early returns, which investors may utilize as a guide to help them make defensible selections. Furthermore, as the amount allotted to each planned use of IPO proceeds may be crucial to a company's and the economy's performance, regulatory bodies should closely monitor this.

Rashid, et al., (2020), performed a research survey title, “Do institutional investors drive the IPO valuation?”. This study aimed to investigate the effect of institutional ownership on initial public offering (IPO) valuation and also to examine the indirect role played by the pricing mechanism on the relationship. Cross-sectional multiple regressions was used to analyze the relationship between institutional ownership and IPO valuation based on the sample of 450 IPOs listed on Bursa Malaysia between January 2000 and December 2018. The results show that institutional ownership had a positive association with IPO

valuation. The signaling role of institutional investors attempted to convey information on firms' qualities which in turn had approximately fair IPO valuations. Further, this study found that book-built IPOs with higher institutional ownership were priced more closely to the firms' intrinsic values. The results have implications for underwriters and issuers in signalling firms' qualities through incorporating book-building in IPOs and allocating a higher number of shares to institutional investors.

2.3.2 Review of Nepalese Journals and Dissertations

Very few researches had been carried out by various scholars covering Initial Public Offering practices in Nepal. Yet, research work related to IPO still lacks in context of Nepal. However, few researches that are relevant to and accessible during the study period have been excerpted below.

Niroula (2024), has conducted a research study on, “Analysis of IPOs in Developed and Emerging Markets: comparative study of Finland and Nepal”. This thesis conducts a comparative analysis of Initial Public Offerings (IPOs) in Finland and Nepal, focusing on sector distribution, size, and regulatory frameworks. Through a meticulous examination of primary and secondary data sources, including IPO prospectuses and regulatory documents from SEBON and FIN-FSA, the study reveals that Finland exhibits a more diversified IPO sector distribution and larger average IPO size compared to Nepal. The regulatory frameworks in Finland are characterized by robustness and transparency, while gaps exist in Nepal's regulatory environment. The study emphasizes the significance of well-designed regulatory frameworks in fostering a conducive environment for IPOs and overall capital market development, offering valuable insights for policymakers and market participants in both countries.

Karki, et al., (2024), has conducted a research study on, “Investment Decisions in Initial Public Offerings and Oversubscription Perceptions Among Investors”. This research endeavors to tackle the crucial problem of insufficient research policies amongst the increasing fascination with initial public offers (IPOs). Its main goal is to investigate how Nepalese investors perceive over-subscription and the intricate factors influencing IPO investment decisions. It makes use of a quantitative research approach and 150 respondents who complete a questionnaire. It takes a theoretical approach that is consistent with the viewpoint of Velmurugan et al. (2015) and incorporates both general

and firm-specific elements. The results show that IPO investment decisions among Nepalese investors are heavily influenced by many aspects such as the business profile, financial situation, IPO size, short-term returns, market rumors, goodwill, and sector success. These results highlight how crucial a company's financial standing is to achieving long-term and short-term investment advantages (Ferdous et al., 2021). When choosing which IPO investments to make, investors give priority to the business profile, financial standing, and short-term rewards. This study helps investors make more informed decisions, helps IPO-issuing firms become more appealing, and provides regulatory agencies with recommendations on how to maintain financial information openness. The importance of this study rests in its ability to enhance IPO investment choices, which benefits firms, investors, and regulatory agencies in the context of the Nepalese stock market.

Dhungana, et al., (2023), has conducted a research study on, “Factors Affecting Investor Decisions on Initial Public Offering in Nepal”. The study looks at the variables influencing investors' choices about initial public offerings using Pokhara, Nepal, as a case study. The study includes the five predictive variables: market information, firm industry, company performance, management quality, and corporate goodwill. Using a structured questionnaire and a field survey with 223 respondents, the core data was gathered. The analysis included two types of statistics: inferential (correlation) and descriptive (connected to perception and demographic data). We discover that the IPO decisions of investors are influenced by a number of factors, including industry, market knowledge, management caliber, business performance, and goodwill. The company's legitimacy, the profiles of its major shareholders, its founder and CEO, the standing of its board members, its financial standing and past performance, return on equity, profits per share, capital gains, and its current market share all influence investors' judgments when it comes to an initial public offering. The majority of investors choose to concentrate their investments in insurance, microfinance, and finance company IPOs. These results give businesses and regulators crucial information they may use to evaluate investor demand and information disclosure.

Tamang (2022), has conducted a research study on, “Investment Decision Behaviour of Nepalese Investors in Initial Public Offerings”. The main objective of this study is to explore the investment decision behaviour of Nepalese investors in Initial Public

Offerings (IPOs). The study is qualitative in nature where semi-structured interviews are adopted to solicit an understanding of six young Nepalese investors on their investment decision. An understanding of how a specific individual in a specific setting makes meaning of a specific experience has been gained through the application of interpretative phenomenological analysis. The findings indicate investors are not influenced by psychological biases because they do not ‘herd’ on the information; rather it was found that they are influenced by overconfidence bias as investors overestimate their skills when investing. Moreover, this study has solely focused on IPO only, i.e., primary market, further qualitative research can be conducted on the secondary market to understand the financial setting and gain knowledge on how investors behave when investing in a riskier and more volatile market.

Subedi and Dangal (2022), has conducted a research study on, “The Short Run Return of Initial Public Offerings (IPOs) in Nepal”. The study examines the initial return (first day returns) of 133 initial public offerings (IPOs) of Nepalese companies during a 15-year period (2005/06-2019/20). The study develops a comprehensive model based on the set of observations of the short-run price performance of new offerings in the light of existing literature of IPO underpricing. The study reveals that the average underpricing is 3003 percent. The study also estimates the regression of initial IPO return on explanatory variables, such as issue size, age of the firm, firm size, market return and subscription rate. The study reveals the subscription rate as the most significant predictor of IPO returns in Nepalese primary market indicating that firms with high subscription rate have higher initial returns. Further, the study also finds that market return has significant negative impact on initial return.

Gurung (2021), has conducted a research study on, “Market Readiness for Book Building Pricing in Nepal”. This study examines the market readiness for book-building pricing in the context of Nepalese IPOs. Sectoral heads of merchant banker along with CEOs, CEOs of stock brokerage houses, one each of EPF and CIT executives, capital market experts and retail investors located at Kathmandu valley were approached and data was collected. A purposive sampling technique was used in selecting the respondents. Multiple regression analysis was employed to examine the impact of intermediary capacity, regulatory capacity, potentials of institutional investors, general investors’ sentiment, and issuers’ concerns on market readiness for book-building pricing and to test the

hypotheses. The results show that the mean score of market readiness is below the average indicating that the primary market is not ready to adopt book building pricing. The study also reveals that market readiness is significantly influenced by regulatory capacity followed by intermediary capacity. However, there is a negative and significant relationship between issuers' concerns and market readiness for book-building pricing. No support is found for the potentials of institutional investors and general investors' sentiment in measuring market readiness. Overall, the findings indicate that stock markets in Nepal is yet to be ready for book-building pricing.

Gnawali and Niroula (2021), has conducted a research study on, "The Perception of Investors Towards Initial Public Offering: Evidence of Nepal". The main aim of this study is to examine the perception of investors towards initial public offering (IPO), to analyze the relationship between different factors (quality management, company goodwill, company performance, company sector, and market information) and investment decision to examine the factors that impact in IPO to making an investment decision. This research used primary data. The data was collected from 290 respondents which were related to five different brokerage firms at Kathmandu district. The inferential analysis was preferred in SPSS by using statistical tools such as correlation and regression analysis to analyze the relationship between variables and the impact of different factors on investment decisions. The study revealed that quality management, company goodwill, company performance, company sector, and market information are the highly considerable factors before making investment decisions in IPO.

Chalise (2020), has conducted a research study on, "Growth of Capital Market in Nepal: Impact on Capitalization, GDP and NEPSE Index". The capital market is a vital component of every economy because it gives investors the chance to mobilize and direct resources. The capital market in Nepal is currently expanding and getting better. This study aims to evaluate the current state of the capital market with respect to the types of capital markets that make up the market, as well as to investigate the contribution of the capital market to GDP and financial resources, as well as the effect of capital mobilization on GDP. Additionally, the research looks at share transactions on the Nepal Stock Exchange (NEPSE) and how they affect the NEPSE Index. For research reasons, the years 2000/01 through 2018/19 have been used. The capital market development track from 2000/01 to the current state has been reported using a descriptive research design.

Regression and other descriptive statistics are used to examine secondary data in order to transform the information into data. The outcome shows that market capitalization in the secondary market and common shares in the primary capital market have a major impact on Nepal's capital market. The study also shows that capital mobilization has a major and favorable effect on GDP and the quantity of share transactions on the NEPSE Index in the Nepalese capital market. As a result, the capital market significantly contributes to Nepal's GDP and the mobilization of financial resources.

Chalise (2020), has conducted a research study on, “Secondary Capital Market of Nepal: Assessing the Relationship Between Share Transaction and NEPSE Index”. Capital Market plays a significant role in financial mobilization and provide an effective way of procuring long-term funds at same. In an addition it provide an investment opportunity for individuals and institutions. Nepalese capital market is growing and improving phase. The objective of this study is to assess the existing status of secondary capital market and to examine the relation between the share transaction amount and NEPSE Index. The period 2009/10 to 2018/19 has been used for study purpose. The trends of capital market development track after 2009/10 to present status has been identified using descriptive analytical research design. Applying secondary data, the results found that there has significant contribution of secondary capital market for financial resources mobilization in Nepal. In addition, there exist significant positive impact of share transactions on NEPSE Index in Nepalese secondary capital market. The study recommends more effort form related sector for the modernization and systematization of share market.

Gnawali (2020), has conducted a research on "Perception of Investors towards Initial Public Offering (IPO) in Nepal: With Reference to Kathmandu District". This study investigates investor sentiment towards IPOs in Kathmandu, Nepal. The study employs a survey methodology to gather data from 290 investors. This study contributes to the existing literature on IPOs by exploring investor perceptions in an under-researched market (Nepal). It identifies factors influencing investor decisions in this specific context, potentially informing future research on IPOs in emerging economies. The study's findings can be compared with similar research conducted in developed markets to identify potential variations in investor behavior across different economic contexts. The research design employed in this study (survey methodology) could be adapted for further investigations into investor sentiment towards IPOs in Nepal or other emerging

economies. The key findings of the study is investors prioritize factors such as management quality, company reputation, past performance, industry sector, and access to clear market information when making IPO investment decisions. The study's generalizability might be limited due to the sample being restricted to Kathmandu investors. By incorporating the findings and limitations highlighted above into your literature review, you can effectively position this research within the broader scholarship on IPOs and investor behavior.

Subedi, (2019), has conducted a research study on, “Development of Securities Market In Nepal”. The study article's main focus is on the growth of the Nepali securities market, with the intention of analyzing such growth. In order to achieve the goals, the necessary information was mostly acquired from secondary sources, such as the Security Board Nepal's annual report, various library books, journals, newspaper clippings, corporate publications, etc. The analysis reveals that, notwithstanding a decline in growth, the number of listed firms has nearly always been rising. This suggests that the majority of the institutions may have been included in the NEPSE, which explains the modest development in listing. It is reasonable to suppose that NEPSE should keep an eye on the market barriers that are there given that the firm traded to listed ratios. An increase in the yearly turnover of the securities market is vital for the country's economic prosperity. Even though finance companies have a significant amount of the listed companies in NEPSE, their market capitalization is the strongest and they contribute the most to turnover. Other institutions' market capitalization includes hydropower, promoter shares, mutual funds, preference shares, and other assets.

Pantha (2019), has conducted a research study on, “Ownership structure, risk and performance in Nepalese banking sector”. The impact of ownership structure on the risk and performance of commercial banks in Nepal is investigated in this study. The dependent variables are credit risk, net interest margin, and return on equity. Foreign ownership, government ownership, private ownership, leverage, liquidity, bank size, bank age, and deposit are the independent variables. A number of Banking and Financial Statistics publications, the Quarterly Economic Bulletin and Bank Supervision Report issued by Nepal Rastra Bank, as well as the annual reports of certain commercial banks, are the primary sources of data. The study's foundation is five years' worth of secondary data, from 2010–11 to 2014–15. Data are gathered for 24 commercial banks in Nepal,

resulting in 120 observations overall. Regression models are employed to investigate the impact of ownership structure on the risk and performance of the banking industry in Nepal. According to the study, the return on equity and net interest margin of Nepalese commercial banks are positively correlated with foreign ownership, the liquidity ratio, bank size, and bank age. It suggests that the return on equity and net interest margin would be higher the higher the foreign ownership, liquidity ratio, bank size, and bank age. In a similar vein, foreign and government ownership has a positive correlation with credit risk. It suggests that the credit risk would increase with increasing levels of foreign and government ownership. Government ownership also has a negative relationship with net interest margin and return on capital. It indicates that Nepal's net interest margin and return on equity will decrease with increasing government ownership.

Sthapit, et al., (2018), has conducted a research study on, “Macroeconomic Factors and Their Influences on Initial Public Offering (IPO) in Nepal”. This paper examines the effect of macroeconomic factors such as interest rate, stock market index and remittance on the market share of initial public offerings (IPOs) in Nepal between 1993/94-2015/16. The factors such as stock market index and remittance have more significant relationship with the IPOs, whereas the interest rate had less significant effect. Also the issuance of larger amount of IPOs was related to growing secondary stock market activity, higher inflow of remittance in the economy and a falling interest rate in the market.

Pokharel (2018), has conducted a research study on, “A Survey of Investors Preference on Stock Market: A Case of Nepal Stock Exchange”. This paper shows investors preference on stock market of Nepal Stock Exchange (NEPSE). The study is based on survey method using structured questionnaire. The results demonstrated that investors were found to have investment interest in secondary market. The reasons for selecting shares are mostly liquidity and high rate of earning. The investors' perception regarding the influencing factors for the investment decision in secondary market of NEPSE is the advice of brokers and then movement of indices. The news in daily newspaper and market sentiments are viewed as least influencing factors for investment decision. Most motivating factors prioritized by respondents were capital gains, then liquidity and then dividend, safety and bonus shares. The motivating factors like tax benefits and rights shares were under least preference by the respondents.

Pradhan (2016), has conducted a research study on, “Performance of the Initial Public Offering (IPO) in the Nepalese Stock Market”. This study looks at the outcomes and influencing factors of initial public offerings (IPOs) in the Nepalese stock market. The IPO parameters that have been chosen include the subscription rate, issue size, firm size, issue manager reputa, and market conditions. These are the independent variables. The dependent variable is the first return. The performance of the initial public offerings in the Nepalese stock market is evaluated using the data from the secondary source. The research is predicated on 61 companies from 2005 to 2011. The relevance and importance of the first return in the Nepalese stock market are tested using estimated regression models. The outcome demonstrates that the first return is positively impacted by the following IPO factors: market conditions, business size, issue management reputation, and subscription rate. It suggests that the first return would be higher the larger the business. In a similar vein, the initial return would be higher the better the problem manager's reputation. Similarly, a higher subscription rate results in a higher initial return. The outcome shows that the initial return would be higher in a better market. Additionally, the study shows a negative correlation between issue size and first return, meaning that a larger issue size would result in a lower initial return. While the beta coefficient is negative and significant for issue size and initial return, it is positive and significant for company size, issue manager reputation, subscription rate, market conditions, and initial return.

Dahal (2007), carried out a research on “The performance of Nepalese IPOs”. Based on 107 IPOs from FY 1993 to FY 2006, the analysis was conducted. The study's primary focus was on the securities' IPO subscription periods and their subsequent returns. As to the analysis, there was a significant oversubscription for Nepalese initial public offerings. According to the survey, investors are highly drawn to initial public offerings (IPOs). During the research periods, it was noted that there had been some difficulties with subscriptions to Nepalese initial public offerings (IPOs). Observing that investors receive a 53.25% market adjusted return leads one to conclude that Nepalese initial public offerings (IPOs) are significantly undervalued. Conversely, it demonstrated that promoters lose more income as a result of high underpricing. The research also discovered that the overall stock market returns and the subscription periods during which IPOs were issued had a major impact on their results. The study also showed that the

debt-to-equity ratio has a negative impact on subscription times for issues, while the firm's size—measured in terms of total assets—had a favorable impact.

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. The study also examined the IPO's speed and trading procedure. Primary and secondary data have both been employed in the research. While secondary data were gathered from a variety of publications published by SEBON, NEPSE, and other organizations, primary data were gathered through direct surveys given to the general investor. According to the study's findings, the majority of Nepal's general investors are very interested in making investments in the primary market even if they lack substantial knowledge about it. It was also discovered that the public was responding favorably to nearly every industry. In particular, the public was starting to favor financial firms and insurance corporations above other non-financial industries.

Adhikari (2005), has conducted a research on “An Analysis of Determinants of IPO Underpricing in Nepal”. The study's main goal was to examine how undervalued IPOs are in relation to Nepal. In addition, the study looked at Nepal's public offering market trends and the public offering procedure. Data from the four-year period between 1999/00 and 2003/04 were used for the study proposal. The study came to the conclusion that Nepalese businesses do not engage in underpricing. The outcome is inconsistent with theory and differs from the findings of actual investigations carried out in many nations, the researcher continued. The Nepali IPO market is not granted the authority to determine the offering price. The regulatory authority has complete control over the process of fixing prices. Due to these factors, Nepalese merchant bankers were unable to participate.

2.4 Research Gap

Numerous studies have been conducted on how investors view initial public offerings (IPOs) in Nepal, but none have examined the criteria used to distribute shares, evaluated the issue managers' performance during the IPO process, or addressed the limitations on margin lending. Studies on various elements of initial public offerings (IPOs) have been conducted around the globe, including two empirically verified theories—IPO underpricing and long-term underperformance of IPOs—but there are none on the Nepalese context. Only one study attempted to determine if IPO underpricing occurs in

Nepal; few other studies have examined the current situation of IPOs in the country. Nevertheless, no study has been able to provide a comprehensive picture of initial public offerings (IPOs) and their operations in Nepal. In this regard, the study looks at the current situation of initial public offerings (IPOs) in Nepal, underpricing in IPOs there, the subscription pattern for IPO issues, and whether or not an IPO's better return is sustained on the second and third day of trading. Therefore, this study will be beneficial to all interested parties, individuals, academics, professors, students, traders, investors and capital markets who are related to IPO directly or indirectly. This research will be useful to others in a relevant subject in the future.

CHAPTER- III

RESEARCH METHODOLOGY

Research Methodology is the systematic approach and framework used by researchers to plan, conduct, and evaluates a study. It encompasses the methods, techniques, and procedures employed to gather and analyze data in order to answer research questions. The research methods section describes procedures that are used to identify and analyze information regarding a specific research problem. It is a set of procedures that is used to identify, select, process and analyze information about a topic to evaluate the study's overall reliability and validity. This section of the research paper aims to justify the methods used for the study based on the research objectives of the study. This section of the research paper answers how the data was collected and how it was analyzed. It consists of eight different sections. The first section includes description of research design. The second section is about the population and sample of the study and the third section is about the nature and sources of data collection. The fourth section is about methods of analysis. The fifth section is about processing the data. Sixth section explains the data analysis tools, the seventh sections describes about the research framework and eight section deals with limitation of methodology. This section explains the data collection procedure and methodology used by researcher for analyzing the given data.

3.1 Research Design

The conceptual framework that the study is carried out inside is known as the research design. It serves as the guide for gathering, calculating, and analyzing data. As a result, the design comprises a schedule outlining the researcher's steps, from formulating the hypothesis to considering its practical ramifications to doing the final data analysis. The goal of research design is to gain answers to research questions and manage variation through the development of an investigation's plan, structure, and strategy. The research's main design or program is called the plan. The structure of the research design problem and the investigation method utilized to gather data or understand the relationships between the difficulties are both expressed in a research design. (Kerlinger, 1980).

This study is based on descriptive research design. The data is collected from annual reports published by SEBON, NEPSE and from other concerned related companies.

Furthermore, the study deals to analyze status of IPO subscription pattern, i.e. undersubscription or oversubscription in Nepal. Similarly, mean, standard deviation, correlation, etc. are used to analyze the data, facts and figures.

3.2 Population and Sample

The only platform available in Nepal for executing trade between various firms is NEPSE. As of May 2024, there were 248 companies listed on the NEPSE. These companies are categorized into 13 major sectors, which include mutual funds, commercial banks, development banks, finance companies, microfinance companies, insurance companies (both life and non-life), manufacturing and processing companies, hotels, hydropower companies, trading companies, and others. Additionally, the study only includes data from firms that went public during the fiscal years of 2006–07 and 2022–2023 and spans 17 years.

Furthermore, only six industries are included in the analysis. Commercial banks, development banks, hydropower companies, insurance companies (both life and non-life), microfinance firms, and manufacturing and processing enterprises are among the industries covered. Because of this, the study's population consists of 13 sectors that correspond to 6 distinct NEPSE sectors. The six sectors were selected based on their strong trading trend after being listed on the NEPSE, public engagement in the problem, and top sectoral preference.

3.3 Sources and Nature of Data

Given the nature of the research, secondary data serves as the primary basis for the study. Primary data sources for the study include:

- SEBON's website and annual reports, which span several fiscal years and examine the current status of initial public offerings (IPOs) in Nepal.
- Daily newspapers covering various time periods to expose share price information needed during analysis of underpricing;
- Trading reports and the websites of NEPSE and Sharesansar to reveal share price information during underpricing study.

3.4 Data Collection Technique

We gathered SEBON's annual reports from its website and head office, which covered several fiscal years. Likewise, NEPSE's trade reports may be obtained via its website. Acts and regulatory information were collected from legal firms, the official website of SEBON and NEPSE, and daily publications such as The Kathmandu Post, The Himalayan Times, The Republica, Kantipur, Nagarik, Aarthik Aabhiyaan, Karobar, etc.

3.5 Data Processing

First, pertinent information is gathered from the sources listed above and entered into the master sheet. With the use of many computer programs, the data are subsequently input into the spreadsheet and presented as the relevant tables and figures. The current situation of initial public offerings (IPOs) and their underpricing in Nepal are analyzed using Microsoft Excel. Growth rates of the amount issued, the average size of the issue offered, and the number of issues offered from the financial and non-financial sectors are also obtained.

3.6 Data Analysis Tools

Several models and statistical techniques were employed in the study to evaluate the data and provide significant findings. The descriptions of these instruments and models follow.

3.6.1 Mean

Typically, the mean, represented by μ , represents the midpoint of the data collection. Stated differently, it may be expressed as the total number of observations divided by the total number of observations. Mean and average have been used interchangeably for equal weighted mean throughout the investigation.

Symbolically,

$$\mu = \Sigma X / N$$

Where,

μ = the population mean of variable X

ΣX = sum of all the observed value of variable X N = the total number of observations

3.6.2 Standard Deviation

The precise measure of dispersion is the standard deviation, denoted by σ . It shows how much the values of the observations during the data gathering varied from one another. In general, higher standard deviations are associated with higher levels of variance and risk. This study has used the standard deviation to illustrate the degree to which the initial return levels from different firms varied during the course of the inquiry.

Symbolically,

$$\sigma = \sqrt{\sum (X - \mu)^2 / N}$$

Where,

σ = standard deviation

X = Variable

μ = population mean

3.6.3 Coefficient of Variation

It is the relative measure of dispersion and is frequently denoted by its acronym, CV. It is a dimensionless variable that allows variance between populations with significantly different mean values to be compared. It is usually given as a percentage. In general, when $CV > 1$ and $CV < 1$, a distribution is said to have high variance and low variation, respectively. It is the relative measure of variance in the degree of underpricing among different companies.

Symbolically,

$$CV = \frac{\sigma}{\mu}$$

Where,

σ = Standard deviation of the population

μ = Population mean

3.6.4 Model for Measuring Underpricing

The magnitude of underpricing or the degree of initial return has been calculated using Jay R. Ritter's 1984 methodology. The notion states that underpricing is calculated by dividing the offer price by the closing price on the first day less the initial offer price. The underlying assumption of the model is that the opening market price accurately reflects

the closing market price on the first day. Consequently, there is no difference in the results when the opening or closing market price is used.

Symbolically,

$$UP_i = \frac{P_{i1} - P_{i0}}{P_{i0}} \times 100$$

Where,

UP_i = level of underpricing

P_{i0} = Offered Price of common stock i

P_{i1} = Closing Price of common stock i at 1st day of trading

3.6.5 Model for Measuring Growth Rates

The research period's growth rates for the quantity of issues given, their average size, and the proportion of issues offered from the financial and non-financial sectors were all determined using the log-linear model, a type of semi-log model.

As per the model

$$\ln Y_i = \alpha_1 + \alpha_2 X_i + u_i$$

Where,

$\ln$ = natural log

Y_i = dependent variable

α_1 = intercept

α_2 = slope coefficient (it gives the instantaneous growth rate)

u_i = disturbance error of the variable

The anti-log of the slope coefficient is used to compute compound growth. It is then subtracted by one and multiplied by 100. While compound growth rate shows the growth rate over time, instantaneous growth rate shows the growth at a certain moment in time.

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

The data gathered from secondary sources is presented and analyzed in this chapter. It gives a comparison of the first return on offered price on the second and third trading days after revealing the current status of initial public offerings (IPOs) in Nepal, analyzing IPO underpricing, and examining the subscription pattern of IPOs offered. These studies are all predicated on straightforward statistical computations.

4.1 Data Presentation and Analysis

Putting data into tables and figures is called data presentation. Data analysis condenses the gathered information, and its interpretation looks for the significance and implications of the analysis's findings. Without interpretation, analysis is incomplete, and without analysis, interpretation cannot move further. Data collected from several sources were entered into a tabular format and displayed on a diagram during this analytical process. After that, the data are examined using the proper statistical and financial instruments.

4.1.1 Analysis of Public Offerings

The Securities Act of 2063 stipulated that before making an offer to the public, a firm seeking to go public must obtain clearance from the Security Board of Nepal. The amount of an issue that is approved and the actual amount issued in a fiscal year can differ because the Securities Regulation stipulates that the company that receives issue approval can offer the issue at any time within two months of the date of issue approval (Security Registration and Issue Approval Guideline, 2002). Therefore, in order to get better results, the research is centered on the actual amount released throughout the fiscal year as opposed to the amount that the SEBON approved.

Public Offerings Based on Amounts

Amounts of public issues offered during the study period along with its growth rates are presented in the table 4.1.

Table 4.1*Amount of Public Issues (in Billion Rs)*

Year	Amount of issue	Growth rate (%)
2006/07	2.29	-
2007/08	10.67	365.94
2008/09	16.83	57.73
2009/10	10.82	-35.71
2010/11	7.08	-34.57
2011/12	2.95	-58.33
2012/13	10.69	262.37
2013/14	7.27	-31.99
2014/15	14.43	98.49
2015/16	18.99	31.60
2016/17	59.39	212.74
2017/18	53.3	-10.25
2018/19	49.76	-6.64
2019/20	33.65	-32.38
2020/21	108.74	223.15
2021/22	50.63	-53.44
2022/23	96.04	89.69
Total	553.53	

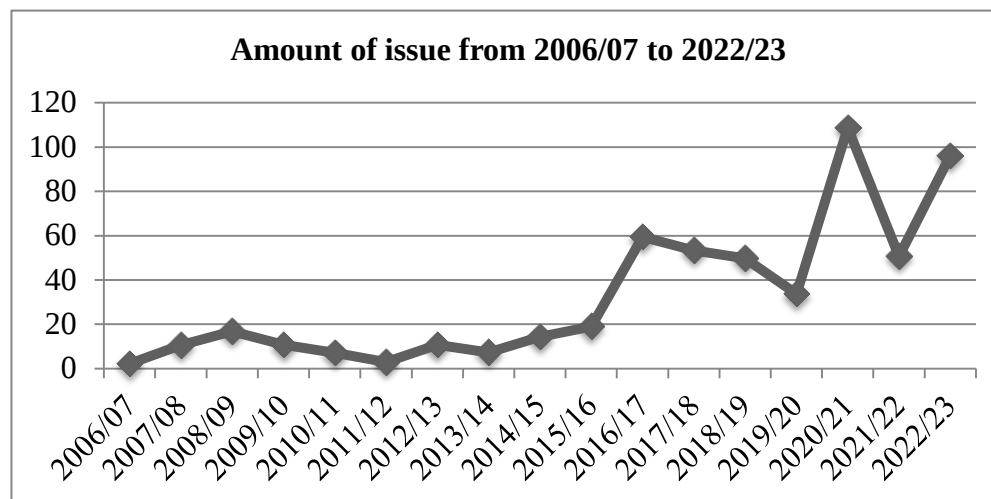
Source: SEBON Annual Reports 2006/07 to 2022/23

From table 4.1 it is clear that since the inception of SEBON, amount of public issue have never been consistent. In the year 2006/07, the issue was Rs. 2.29 billion and in the year 2007/08, the issue increased to Rs. 10.67 billion. After 2008/09, it was in the decreasing trend with few exceptions in the year 2012/13. However, the amount has been increased substantially to Rs. 59.39 billion in 2016/17 from 7.27 billion in 2013/14. During the entire study period the highest amount of public issues was Rs. 108.74 billion in the year 2020/21 while the lowest amount of public issue was Rs. 2.29 billion in the year 2006/07. The total amount of public issue during the study period was Rs. 553.53 billion. The data show that there is average growth rate of 67.4% per year in the issue amount. The same data also show that the issue amount experienced a compound growth rate of

25.25% per year. This proves that the issued amount has been growing during the study period.

Figure 4.1

Amount of issues (in Billion Rs)



From the figure 4.1, it is clear that the amount of public issue offered was in the rising trend during the study although the growth rate is steady in certain period in initial year.

Public Offerings Based on Number

The number of public offerings enables to identify the exact number of offers made by various listed companies to the general public in each fiscal year. Table 4.2 reveal the number of issues offered in each fiscal year during the study period.

Table 4.2*No. of Public Issues Offered and Average Size of Issues*

Year	Amount of issue (billion Rs.)	No of Issues	Average Size of issue(billion Rs)	Annual Growth Rate (%)
2006/07	2.29	34	0.07	88.24
2007/08	10.67	64	0.17	142.86
2008/09	16.83	64	0.26	52.94
2009/10	10.82	61	0.18	-30.77
2010/11	7.08	47	0.15	-16.67
2011/12	2.95	22	0.13	-13.33
2012/13	10.69	34	0.31	138.46
2013/14	7.27	45	0.16	-48.39
2014/15	14.43	48	0.30	87.50
2015/16	18.99	55	0.35	16.67
2016/17	59.39	101	0.59	68.57
2017/18	53.3	87	0.61	3.39
2018/19	49.76	65	0.77	26.23
2019/20	33.65	34	0.99	28.57
2020/21	108.74	61	1.78	79.80
2021/22	50.63	56	0.90	-49.44
2022/23	96.04	82	1.17	30.00
Total	558.4	960		

Source: SEBON Annual Reports 2006/07 to 2022/23

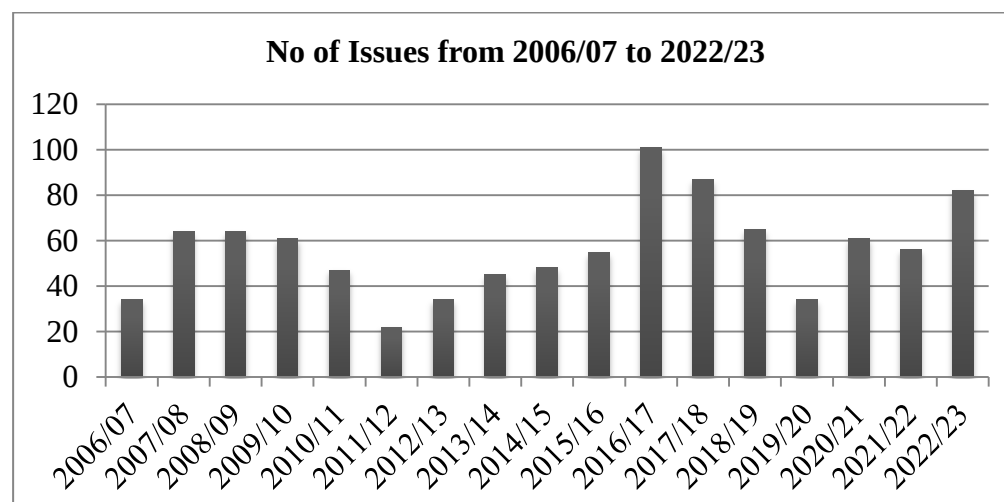
Likewise the amount of public issues, the number of issues offered in a fiscal year also did not show any consistent trend over the study period. During the entire study period, the lowest number of issue offered in a year was 22 on fiscal year 2011/12. The highest number of issues offered was 101 in 2016/17.

The average size of issue offered in each fiscal year has also been in fluctuating trend. Average size of issue offered was smallest in the year 2006/07 and largest in the year 2020/21. However, instantaneous growth rate of 12.49% per year suggests that the

average size of issue offered has been growing. And the compound growth rate for the study period is 13.31%.

Figure 4.2

No. of Issues in Different Years



Trend in the above figure suggests that the number of public issues offered during the study period has been growing although it has slightly constant in the recent year.

Public Offerings Based on Sector

As per the requirement of NEPSE, issuing companies should list their issues in NEPSE for allowing such issues to be traded on its trading floor. Number of companies listed in NEPSE as of May, 2024 are 248. Total paid up capital of these companies amounted to Rs. 813.68 billion. The major portion of this total paid up capital is contributed from financial sector which includes commercial banks, and by hydropower companies followed by development banks, finance companies and insurance companies as presented in table 4.3.

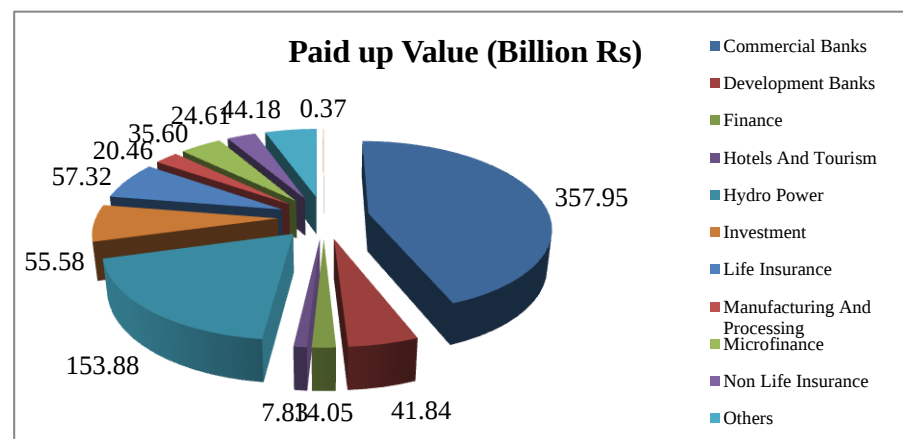
Table 4.3
Sector-wise Public Offerings

SN	Sectors	No of Listed Co.	Percent Paid up (No)	Value (Billion Rs)	Percent (Paid up Value)
1	Commercial Banks	19	7.66	357.95	43.99
2	Development Banks	16	6.45	41.84	5.14
3	Finance	15	6.05	14.05	1.73
4	Hotels And Tourism	6	2.42	7.83	0.96
5	Hydro Power	91	36.69	153.88	18.91
6	Investment	7	2.82	55.58	6.83
7	Life Insurance	12	4.84	57.32	7.05
8	Manufacturing And Processing	9	3.63	20.46	2.51
9	Microfinance	53	21.37	35.60	4.38
10	Non Life Insurance	12	4.84	24.61	3.02
11	Others	6	2.42	44.18	5.43
12	Tradings	2	0.81	0.37	0.05
Total		248	100.00	813.68	100.00

Source: www.nepalstock.com.np/listedcompanies.php

As shown in table 4.3, out of 248 companies listed, 103 companies are from financial sector, which is 41.53% of the total listed companies in NEPSE. Whereas hydropower sector covers 36.69% of the total listed companies in NEPSE and other non-financial sector account for 21.78% of the total listed companies.

Figure 4.3
Sector-Wise Paid Up Value



Similarly, from paid up value perspective commercial banks cover 43.99%, development banks cover 5.14%, finance companies cover 1.73% and insurance companies cover 10.07% of the total paid up capital. On the other hand, manufacturing and processing companies account for only 2.51% of paid up value. Similarly, trading, hotel and others account for 0.05%, 0.96% and 5.43% of the paid up capital respectively.

Public Offerings Based on Types of Instruments

Similar to several other developing financial markets, the Nepalese financial market offers a restricted range of investment options, mostly consisting of common shares, preferred shares, debentures, and a few issues from mutual fund and other collective investment schemes. The Nepalese stock market has been dependent on a small number of financial instruments throughout time, and this is not indicative of the market's overall health. This excessive reliance restricts the public's access to investment options while also impeding the financial market's potential for overall growth in Nepal. Additionally, this might support the choice of the ordinary share as the study's topic.

Table 4.4

Instrument-wise Public Issue

(in Billion Rs)

Year	Ordinary Shares		Right Shares		Preference Shares		Debentures	
	No	Amount	No.	Amount	No.	Amount	No.	Amount
2006/07	16	0.38	16	1.26	1	0.4	1	0.25
2007/08	17	0.79	42	6.93	0	0	5	2.95
2008/09	12	1.82	50	14.26	0	0	2	0.75
2009/10	28	2.65	33	8.17	0	0	0	0
2010/11	15	1.9728	31	5.0572	0	0	1	0.05
2011/12	14	1.53	5	0.4	0	0	3	1.02
2012/13	22	3.19	5	3.95	0	0	7	3.55
2013/14	16	1.58	26	4.24	0	0	3	1.45
2014/15	21	9.22	22	2.31	0	0	5	2.9
2015/16	18	9.59	37	9.4	0	0	0	0
2016/17	25	13.76	76	45.63	0	0	0	0
2017/18	31	24.6	55	25.7	0	0	1	3
2018/19	34	13.88	19	5.88	0	0	12	30
2019/20	11	5.79	11	4.41	0	0	12	23.45
2020/21	31	25.09	7	14.05	0	0	23	69.6
2021/22	35	14.64	11	4.79	0	0	10	31.2
2022/23	63	49.06	7	15.98	0	0	12	31
Total	409	179.5428	453	172.4172	1	0.4	97	201.17

Source: SEBON Annual Reports 2006/07 to 2022/23

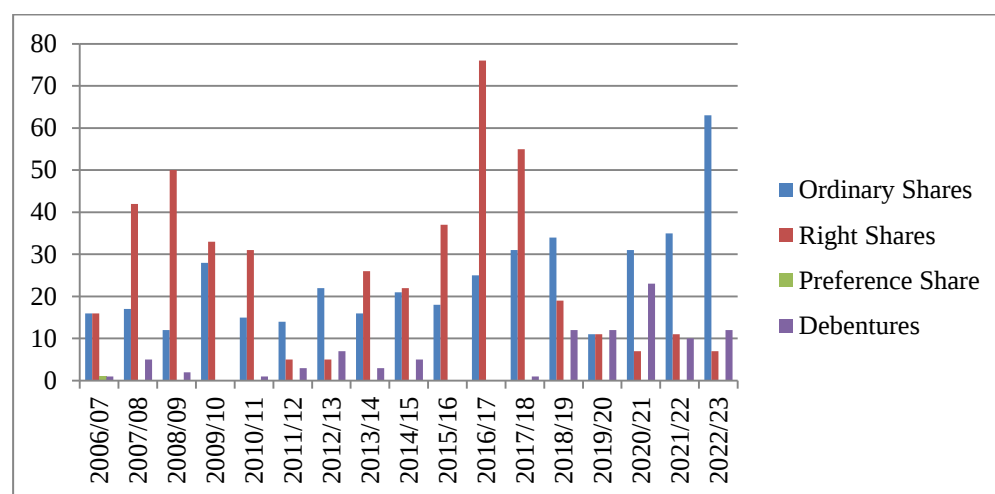
Figure 4.4*Instrument-wise Public Issue*

Table 4.4 and figure 4.4 show year wise analysis of different securities with their number and amount since 2006/07 to 2022/23. In fiscal year 2006/07 out of 34 different issues, 16 issues were ordinary shares of total amount of Rs.0.38 billion and 1 issue were preference shares of total amount of Rs.0.4 billion and also 1 debenture amount of Rs0.25 billion. In the fiscal year 2007/08 out of 64 different issues, 17 issues were ordinary shares total amount of Rs.0.79 billion, 42 were right shares total amount of Rs 6.93 billion and 5 were debentures total amount of Rs2.95 billion. In the fiscal year 2008/09 out of different 64 issues, 12 issues were ordinary shares of the total amount of Rs.1.82 billion, 50 issues were right shares of the total amount of Rs.14.26 billion and 2 were debentures of the total amount of Rs 0.75 billion. In the fiscal year 2009/10 out of different 61 issues, 28 issues were ordinary shares of the total amount of Rs.2.65 billion and 33 issues were right shares of the total amount of Rs.8.17 billion. In the fiscal 2010/11 out of different 47 issues 15 issues were ordinary shares of the total amount of Rs.1.97 billion, 31 issues were right shares of the total amount of Rs.5.06 billion and 1 issue was debenture of the total amount of Rs.0.05 billion. In the fiscal year 2011/12 out of different 22 issues 14 issues were ordinary shares of the total amount of Rs.1.53 billion, 5 issue were right shares of the total amount of Rs.0.4 billion and 3 issue were debentures of the total amount of Rs.1.02 billion. In the fiscal year 2012/2013 out of different 34 issues 22 issues were ordinary shares of the total amount of Rs.3.19 billion and 5 issues were right shares of Rs.3.95 billion and 7 issues were debentures of 3.55 billion. Similarly in fiscal year 2013/14 out of 45 issues 16 issues were ordinary shares of Rs1.58 billion and 26 issues were right shares of Rs4.24 billion and 3 were debentures of 1.45 billion. In the

fiscal year 2014/15 out of 48 issues 21 issues were ordinary shares, 22 issue were right shares, 5 issues were debentures of Rs.9.22 billion, Rs.2.31 billion and Rs2.9 billion respectively. Likewise, in the fiscal year 2015/16 out of 55 issues 18 issues were ordinary shares of Rs.9.59 billion and 37 issues has issued right shares of Rs.9.40 million. In fiscal year 2016/17 out of 101 issues 25 issues were ordinary shares and 76 issues were right shares of Rs.13.76 billion and Rs.45.63 billion respectively. In the fiscal year 2017/18 out of 87 issues 31 issues were ordinary shares of Rs24.6 billion, 55 issues were right shares of Rs.25.7 billion and 1 issue was debenture of Rs.3 billion. In fiscal year 2018/19 out of 65 issues 34 issues were ordinary shares, 19 issues were right shares and 12 issues were debenture of Rs.13.88 billion, Rs5.88 billion and Rs.30 billion respectively. In the fiscal year 2019/20 out of 34 issues, 11 issues were ordinary shares, 11 were right shares, 12 were debenture of Rs.5.79 billion, Rs.4.41 billion and Rs.23.45 billion respectively. In fiscal year 2020/21, out of 61 issues 31 were ordinary shares of Rs.25.09 billion, 7 issues were right shares of Rs.14.05 billion and 23 issues debenture of Rs.69.6 billion. In fiscal year 2021/22, out of 56 issues 35 were ordinary shares of Rs. 14.64 billion, 11 issues were right shares of Rs. 4.79 billion and 10 issues debenture of Rs. 31.2 billion. In fiscal the year 2022/23, out of 82 issues 63 were ordinary shares of Rs. 49.06 billion, 7 issues were right shares of Rs. 15.98 billion and 12 issues debenture of Rs. 31 billion.

Public Offerings from Financial and Nonfinancial Sector

There are two categories of companies listed on NEPSE: financial sector and nonfinancial sector. Commercial banks, development banks, insurance companies, and finance corporations make up the majority of the finance sector; manufacturing and trading firms, lodging, hydropower, and other businesses fall within the non-financial sector. The public concerns from the financial and nonfinancial sectors throughout the study period are shown in Table 4.5.

Table 4.5*Public Issues from Financial and Non Financial Sector**(Amount in Billion Rs.)*

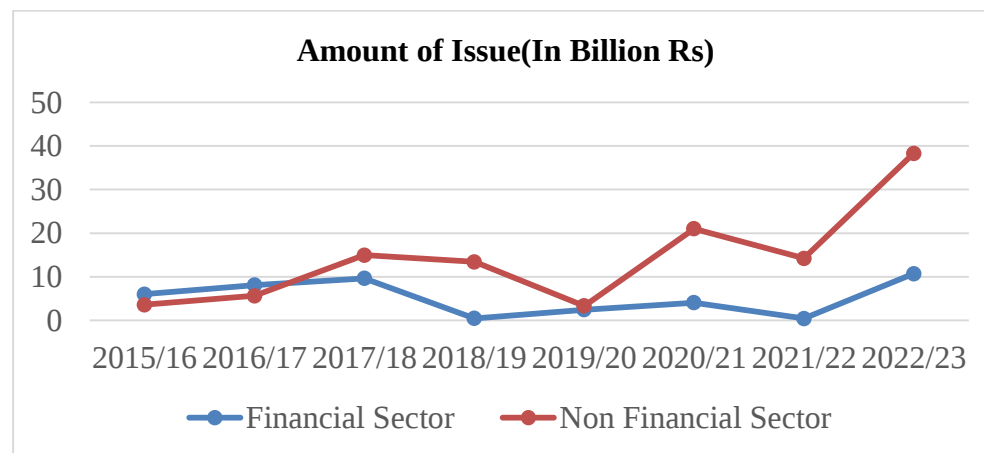
Sector		Financial		Non Financial		Total	
Year	No of Issues	Annual		No of Issues	Annual	No of Issues	Annual
		Amount (Rs)	growth rate %				
2015/16	8	6.02	34.72	10	3.57	18	9.59
2016/17	8	8.11	18.74	17	5.65	25	13.76
2017/18	11	9.63	-95.12	20	14.97	31	24.6
2018/19	12	0.47	421.28	22	13.43	34	13.88
2019/20	4	2.45	65.71	7	3.34	11	5.79
2020/21	12	4.06	-89.66	19	21.02	31	25.09
2021/22	8	0.42	2452.38	27	14.23	35	14.64
2022/23	8	10.72	34.72	55	38.3	63	49.06
Total	71	41.88		177	114.51	248	156.41

Source: SEBON Annual Reports 2015/16 to 2022/23

From table 4.5, it is revealed that total of 248 public issues were made during the period 2015/16 to 2022/23 from financial and nonfinancial sector during the study period. Out of 248 offers, 71 offers (28.62%) were from financial sector whereas rest 177 (71.37%) from non-financial sector.

Figure 4.5

Amount of Issue from Financial and Non Financial Sector



A total of Rs. 156.41 billion in issues were made to the public during this time. 41.88 billion rupees came from the banking sector. The nonfinancial sector contributed Rs. 114.51 billion. Every year, on average, there are 88 bids from the nonfinancial sector and about 8 offers from the financial sector. These numbers unequivocally demonstrate that the non-financial sector has recently had significant influence in the Nepalese IPO market.

4.1.2 Analysis of Subscription Pattern of Issues

Demand from the public is always going to differ when a corporation releases its issues to the general public. It is referred to as over subscription when the number of shares required exceeds the number of shares offered, and under subscription when the number of shares demanded falls short of the number of shares offered. Similarly, complete subscription occurs when the number of shares desired and provided equals one another.

From table 4.6 it is clear that in total 403 companies issued their common shares to the public during the study period of fiscal year 2006/07 to 2022/23. In the fiscal year 2006/07, total of 16 companies issued their ordinary shares through IPO and all of them were oversubscribed. In the subsequent year, 17 companies went for IPO and all issues were oversubscribed. Similarly, in year 2009/10, 28 issues out of 28 were oversubscribed. In year 2018/19, there were issues from 34 companies and 33 issues were oversubscribed and 1 issue were undersubscribed. In 2019/20, there were 11 issues;

out of that all 11 issues were oversubscribed. Similarly, in year 2022/23 out of 63 issues all 63 were oversubscribed.

Table 4.6

Subscription Pattern of Issues

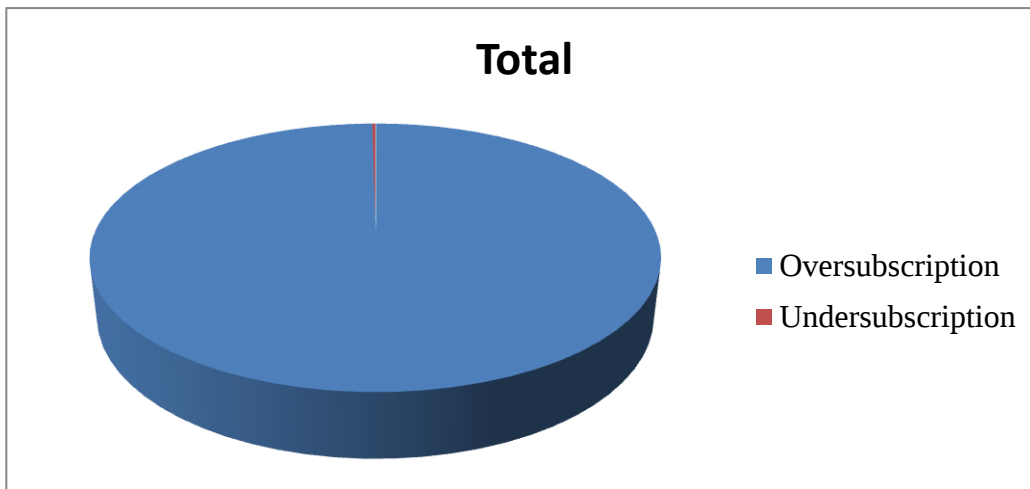
Year	Total no of issues	Oversubscription		Undersubscription	
		No	%	No	%
2006/07	16	16	100	-	-
2007/08	17	17	100	-	-
2008/09	12	12	100	-	-
2009/10	28	28	100	-	-
2010/11	15	15	100	-	-
2011/12	14	14	100	-	-
2012/13	21	21	100	-	-
2013/14	16	16	100	-	-
2014/15	21	21	100	-	-
2015/16	18	18	100	-	-
2016/17	25	25	100	-	-
2017/18	26	26	100	-	-
2018/19	34	33	72.62	1	27.38
2019/20	11	11	100	-	-
2020/21	31	31	100	-	-
2021/22	35	35	100	-	-
2022/23	63	63	100	-	-
Total	403	402		1	

Source: SEBON Annual Reports 2006/07 to 2022/23

In 2006/07 all the companies issues i.e. 16 out of 16 issues were oversubscribed. The pattern was repeated in year 2007/08 when all the 17 issues were oversubscribed. In year 2018/19, out of 34 issues 33 issues were oversubscribed while the remaining 1 was undersubscribed. Once again the trend of 100% oversubscription repeated in year 2019/20 and 2020/21. All 11 issues of 2019/20 and 31 issues of 2020/21 were oversubscribed, however, in the next year the trend continues. In 2021/22 out of 35 issues all 35 issues were oversubscribed. Likewise in the years 2022/23, all the IPOs 63 were oversubscribed.

Figure 4.6

Subscription Patterns



Therefore, out of the 403 issues, 402 issues (or 99.75%) were oversubscribed, while 1 issue (or 0.24%) was undersubscribed. These numbers show that throughout the study period of fiscal years 2006/07 to 2022/23, the majority of the firms that sold their common shares through initial public offerings (IPOs) had oversubscription of their issues. This information may help explain why the majority of businesses choose to obtain money through the public offering of common shares.

Sector-wise Analysis of Subscription Pattern

All of the listed firms have been split up into twelve distinct categories by SEBON, including development banks, financing companies, hydropower companies, commercial banks, manufacturing and processing companies, trade companies, hotels, mutual funds, and other businesses. Table 4.8 shows the subscription status of issues from different organizations that are affiliated with finance businesses, insurance companies, manufacturing and processing firms, development banks, and commercial banks.

Trading companies, hydro companies, hotels and others are excluded as the number of companies within these sectors is considered very small as compared to the time frame of the study.

Table 4.7
Sector-wise Subscription Pattern

(Amount in Billion Rs.)

SN	Sector	Issuing Company	Amount	Sub Times	Subscription
1	Commercial Banks	Janata Bank Nepal Limited	0.6	2.33	Over
		Mega Bank Limited	0.699	21.82	Over
2		Metro Development Bank Limited	0.03	4.25	Over
		Green Development Bank	0.045	51	Over
		Excel Development Bank	0.06	18.97	Over
	Development Banks	Infrastructure Development Bank Ltd	24	9.36	Over
3		Sahas Urja Ltd	0.7	5.35	Over
		Ru Ru Jalbidhyut Pariyojana Ltd.	0.041	61.68	Over
		Singati Hydro Energy Ltd.	0.29	9.16	Over
		Api Power Company Limited	0.3	30.43	Over
	Hydropower Companies	Sanima Mai Hydropower Limited	0.21	30	Over
		Shiva Shree Hydropower Limited	0.34	(0.27)	Under
		Barun Hydropower Company Limited	0.048	100	Over
		Ngadi Group Power Limited	0.097	65.52	Over
		Khanikhola Hydropower Company Limited	0.009	37.06	Over
		Arun Kabeli Power Limited	0.3	43	Over
		Himalayan Power Partner Limited	0.21	19.13	Over
4		Jyoti Life Insurance Company Limited	0.66	6.4	Over
		Sanima Life Insurance Limited	0.6	6.84	Over
		Prabhu Life Insurance Limited	0.6	5.14	Over
	Insurance Companies	Shivam Cement	0.41	1.26	Over
5		Sona Minerals and Oil Limited	0.97	1.20	Over
		Ghorahi Cement Industry Limited	0.69	3.68	Over
		Samaj Laghubitta Bittiya Sanstha Limited	0.008	148.56	Over
		NIC Asia Laghubitta Bittiya Sanstha	0.47	5.16	Over
	Microfinance Companies	Infinity Laghubitta Bittiya Sanstha	0.067	10.65	Over
6		Jeevan Bikas Laghubitta Bittiya Sanstha Limited	0.19	16.95	Over
		RSDC Laghubitta Bittiya Sanstha	0.04	222.84	Over
		Manakamana Smart Laghubitta Bittiya Sanstha Limited	0.039	73	Over

Source: SEBON Annual Reports 2006/07 to 2022/23 and Sharesansar

(The data is based on IPO issue to Public quota only)

According to table 4.7, of the two commercial banks that were tested, Mega Bank Ltd.'s IPO had the most demand with a subscription time of 21.82, while Janata Bank Nepal Ltd.'s IPO saw the lowest demand with a subscription time of just 2.33 times. However, subscription times greater than one for every sampled business indicated that all issues were oversubscribed.

In a similar vein, four of the examined development bank firms had subscription times of about nine, indicating that development bank IPOs are likewise oversubscribed. Regarding hydropower firms, out of the 11 analyzed companies, only one experienced an undersubscription, or subscription times less than 1, or -0.27. Every single one of those ten issues was oversubscribed for all the other firms, which all had subscription times longer than 1. For Ngadi Group Power Limited, the oversubscription time was recorded as high as 65.52 times, while for Sahas Urja Ltd., it was as low as 5.35 times.

Regarding insurance firms, Sanima Life Insurance Co. Ltd. had the greatest subscription (6.84 times) among the three examined businesses. All of the selected insurance firms' initial public offerings, however, were oversubscribed since all of the sampled issues had subscription times larger than 1.

Sector 3 of the sampled issue, which deals with manufacturing and processing, had subscription times of 1.26, 1.2, and 3.68, which are larger than 1. Thus, oversubscription occurred for the first public offerings (IPOs) of Shivam Cement, Sona Minerals and Oils Ltd., and Ghorahi Cement Industry Ltd. All of the first public offerings (IPOs) of commercial banks, development banks, hydropower companies, and insurance firms were, overall, oversubscribed, a sign that the public greatly valued and desired these industries. Comparably, all issues pertaining to manufacturing businesses were oversubscribed, suggesting that the public responded favorably to these companies' first public offerings. Since the financial sector is represented by commercial banks, development banks, finance businesses, and insurance firms, it is possible to argue that, generally speaking, the public responded favorably to initial public offerings (IPOs) from the financial sector, which resulted in an oversupply of the issues throughout the research period.

In contrast, the general public responded favorably to the concern raised by hydropower

and the manufacturing and processing industry, which represents the nonfinancial sector. While the sample size of issues from different sectors may be modest, it may be sufficient to provide insight into the reasons for the rise in initial public offerings (IPOs) in the financial sector, while the converse is true for nonfinancial industries such as manufacturing and processing.

4.1.3 Analysis of Underpricing of IPOs in Nepal

Numerous investigations carried out over varying time periods in various parts of the world have confirmed the existence of underpricing in the initial public offering (IPO) market. The question of underpricing in Nepalese initial public offerings (IPOs) is the focus of this study. J.R. Ritter's methodology has been applied to determine the degree of underpricing or initial return of the concerns. The offered price is subtracted from the issue's closing price on the first trading day, and the result is divided by the offered price to determine the initial return or degree of underpricing in the model.

Table 4.9 illustrates that, of the 29 selected firms, 25 have provided their issues at face value of Rs. 100 apiece, while the remaining 4 have sold their issues at a premium price, with the remaining companies being allowed to issue ordinary shares at a premium under current security rules and regulations. The data clearly shows that the majority of the issues were underpriced when they were originally issued because their first trading day price was greater than the stated price.

Only two of the 29 studied issues had their first trading day price fall short of the offer price, suggesting that IPO overpricing occurs sometimes in the Nepalese market. In a similar vein, underpricing is shown by the closing price of 27 selected issues on the first trading day being greater than their quoted price. The Excel Development Bank Ltd. issue has the highest initial return of 470% among these underpriced issues, while the Samaj Laghubitta Bittiya Sanstha Ltd. issue has the lowest initial return of -36.89%. For Nepalese IPOs, the average first return is around 138.36%.

Table 4.8*First Day's Closing Price and Initial Return (2006/07 to 2022/23)*

SN	Listing Date	Listed Companies	Offer Price	1st Day's Close	Initial Return
1	2021-10-28	Sahas Urja Ltd	100	445.8	345.8
2	2021-05-02	Ru Ru Jalbidhyut Pariyojana Ltd.	120	317.36	197.36
3	2021-04-27	Singati Hydro Energy Ltd.	100	215	115
4	2021-04-06	Jyoti Life Insurance Company Limited	100	352.73	252.73
5	2019-03-19	Shivam Cement	300	365.86	65.86
6	2020-09-24	Samaj Laghubitta Bittiya Sanstha	100	63.11	-36.89
7	2019-09-03	Infinity Laghubitta Bittiya Sanstha Ltd.	100	178.21	78.21
8	2021-08-01	Manakamana Smart Laghubitta Bittiya	100	242.09	142.09
9	2021-07-23	Jeevan Bikas Laghubitta Bittiya Sanstha	100	446.58	346.58
10	2021-11-09	Api Power Company Limited	100	120.4	20.4
11	2014-01-14	Sanima Mai Hydropower Limited	100	131.64	31.64
12	2020-10-22	Shiva Shree Hydropower Limited	100	132	32
13	2016-11-16	Green Development Bank	100	121.03	21.03
14	2012-07-08	Janata Bank Nepal Limited	100	187	87
15	2013-09-07	Mega Bank Limited	100	181	81
16	2012-10-16	Metro Development Bank Limited	100	163	63
17	2007-12-04	Excel Development Bank	100	570	470
18	2011-03-23	Infrastructure Development Bank Ltd	100	134	34
19	2015-10-14	Barun Hydropower Company Limited	100	304	204
20	2016-09-06	Ngadi Group Power Limited	100	277	177
21	2017-01-11	Khanikhola Hydropower Company	100	353	253
22	2017-04-15	Arun Kabeli Power Limited	100	326	226
23	2017-08-19	Himalayan Power Partner Limited	100	330	230
24	2019-09-01	Sanima Life Insurance Limited	100	339.9	239.9
25	2021-01-02	Prabhu Life Insurance Limited	100	141	41
26	2023-10-28	Sona Minerals and Oil Limited	237.58	315	77.42
27	2023-08-12	Ghorahi Cement Industry Limited	435	442.61	7.61
28	2020-07-08	NIC Asia Laghubitta Bittiya Sanstha	100	330.58	230.58
29	2017-02-07	RSDC Laghubitta Bittiya Sanstha	100	79.19	-20.81

Source: www.nepalstock.com.np

Gasbarro (2003) examined the average first-day underpricing in comparable developing markets and discovered that Mauritius had an average underpricing of 10.6%. Paudyel (1998) found that 62% of Malaysians initially underpriced their products. Singapore's average first return was 31.4%, India's was 35.3%, Taiwan's was 45%, and Thailand's was 58.1%, according to J.R. Ritter (1998).

Based on all of these data, it appears that Nepal's average first-day return on investment (IPO) is comparable to emerging markets globally. For the Nepalese IPO, the first return on stock price had an average standard deviation of 40.12%. Nonetheless, Gasbarro (2003) found that Mauritius had a standard deviation of 11.47%. According to Gasbarro and others, the first-day stock price return of Nepalese IPOs fluctuated quite a bit in this context, suggesting that the first-day return of IPOs from Nepalese businesses is more erratic than that of Mauritius.

Sector-wise Analysis of Underpricing of IPOs in Nepal

Table 4.9 reveals information reflecting different aspects of IPO underpricing of six different sectors: commercial banks, development banks, finance companies, hydropower companies, insurance companies and manufacturing and processing companies.

Table 4.10 revealed that among 2 sampled companies from commercial bank sector the initial return was 46.5% for both Janata Bank Nepal Ltd. and Mega Bank Ltd. The average initial return for the sector was 84% and standard deviation was 3%. As far as initial return is concerned, the sector's average initial return is marginally lower than that of NEPSE's average initial return of 67.4% but the standard deviation of NEPSE is 30.24% while it is 25.09% for sampled companies. It indicates that initial return for the issues from commercial bank is more homogeneous or less variable than those from overall companies of NEPSE.

Similarly, out of 4 sampled issues from development bank sector, the average initial return of the sector is 233.75%. The standard deviation for the sector is 226.42%. Looking at NEPSE's average initial return 42.54% and standard deviation 30.24%, the sector's performance is very good in comparison to average initial return but from standard deviation's point of view the issues do not seem to have better consistency than that of overall issues from NEPSE.

Table 4.9*Sector-Wise Return and Risk*

SN	Sector	Issuing Company	Initial Return	Av. Return	Std Dev	CV
1	Commercial Banks	Janata Bank Nepal Limited	87	84	3	3.57
		Mega Bank Limited	81			
2	Development Banks	Metro Development Bank Limited	63	147	187.09	127.27
		Green Development Bank	21.03			
		Excel Development Bank	470			
		Infrastructure Development Bank Ltd	34			
3	Hydropower Companies	Sahas Urja Ltd	345.8	166.56	99.97	60.02
		Ru Ru Jalbidhyut Pariyojana Ltd.	197.36			
		Singati Hydro Energy Ltd.	115			
		Api Power Company Limited	20.4			
		Sanima Mai Hydropower Limited	31.64			
		Shiva Shree Hydropower Limited	32			
		Barun Hydropower Company Limited	204			
		Ngadi Group Power Limited	177			
		Khanikhola Hydropower Company Limited	253			
		Arun Kabeli Power Limited	226			
		Himalayan Power Partner Limited	230			
4	Insurance Companies	Jyoti Life Insurance Company Limited	252.73	177.87	83.94	47.19
		Sanima Life Insurance Limited	239.9			
		Prabhu Life Insurance Limited	41			
		Shivam Cement	65.86	50.29	26.46	52.60
5	Processing Companies	Sona Minerals and Oil Limited	77.42			
		Ghorahi Cement Industry Limited	7.61			
6	Microfinance Companies	Samaj Laghubitta Bittiya Sanstha Limited	-36.89	123.93	125.45	101.76
		NIC Asia Laghubitta Bittiya Sanstha	230.58			
		Infinity Laghubitta Bittiya Sanstha	78.21			
		Jeevan Bikas Laghubitta Bittiya San	346.58			
		RSDC Laghubitta Bittiya Sanstha	-20.81			
		Manakamana Smart Laghubitta Bittiya Sanstha Limited	142.09			

Source: www.nepalstock.com.np

As far as hydropower companies are concerned, 4 of the issues had low initial return and in case of microfinance companies, 1 of the issues had negative initial return. Among other, the initial return of sampled issues varied from as low as 7.61% to as high as 346.58%. The average initial return for the sector was 124.94% and the standard deviation of 97.65%. Average initial return and standard deviation for the sector is higher than that of NEPSE which suggests that the issues were more variable to that of overall issues of NEPSE.

In the case of insurance companies, among the sampled 3 companies, 1 company's IPO had low initial return while the other 2 had average initial return of 252.73% and 239.9% resulting in sector's average initial return of 177.87% and the standard deviation for the sector is 83.94%. This sector too had initial return and standard deviation is higher than that of NEPSE's. Higher standard deviation of the sector in comparison to NEPSE suggests that the variation in the average initial return of its issues was much higher than that of NEPSE.

Finally from manufacturing and processing sector's perspective, the initial return of 50.29 of its sampled issues ranged from 7.61 to 77.42. The average initial return for the sector was 50.29% and the standard deviation of 26.26%. The sector's average initial return and standard deviation as compared to that of NEPSE's is much lower. In fact, the degree of fluctuation, standard deviation of the sector is highest among all the other sectors. This indicates that the average initial return of IPO of manufacturing and processing sector varies more than that of IPO from any other sector.

From the coefficient of variation's (CV) perspective, the lowest CV is of commercial banks sector which is 3.57% followed by insurance companies with CV of 47.19%, development banks with 127.27%, hydropower companies with 60.02% and finally the manufacturing and processing sector with the 52.6%. This indicates that the average initial return for the IPOs from commercial banking sector has the lowest degree of variation and lowest risk as compared to other remaining sector. On the other hand, average return of the IPOs from the manufacturing and processing sector has the highest degree of variation and highest degree of risk. Thus it can be summarized that from CV's perspective, commercial banks carry the lowest risk in their average initial return while

the manufacturing and processing companies' initial returns carry the highest risk among the sectors studied.

IPO Underpricing and Subscription Pattern

Despite the fact that security regulations have made provisions allowing issuing companies to offer their IPOs at premium, 4 sampled companies were issued at premium price and other sampled companies were found to issue their issues at their face value of Rs. 100. As far as Nepalese IPO market is concerned, pricing issues is not the field where the merchant bankers can play a vital role. Considering all these facts it is worth analyzing whether there exists any relation between IPO underpricing and subscription pattern of IPOs in Nepal.

As seen from table 4.7, in the case of commercial banks, all the two sampled issues were oversubscribed with subscription times of 2.33 and 21.82 being the highest. Also, the first day return of 46.52% and 44.75% respectively. Here, the IPO of Janata Bank Nepal Ltd. received lowest subscription and at the same time it also yielded lowest initial return.

Similarly, all the sampled issues of development banks sector received oversubscription with subscription times almost being 6.2 for each and among the 4 issues, one yielded initial return of 17.38%, the other didn't yield any initial return at all and the other three yielded 38.65%, 82.46 and 25.37%.

As for the hydropower companies, eleven hydropower companies received phenomenal response to their IPOs with subscription of 5.35 times respectively. These figures are almost the highest subscription times as far as subscription time of the sector is concerned. These issues also produced very high first day return of 77.57%, 62.19%, 53.49%, 16.94%, 24.04%, 24.24%, 67.11%, 63.90%, 71.67%, 69.33% and 69.70% respectively for each of the companies.

In the case of insurance companies, all the sampled 3 companies were oversubscribed. However, 1 of the issues Prabhu Life Co. Ltd. yielded low initial return. The issue that produced low initial return also did receive very modest oversubscription with just 5.14 times of subscription. Rests of the issues were highly oversubscribed with subscription of 6.4 and 6.84 times and they also yielded high initial return of 29.08%, 70.58% and staggering 71.65%.

Table 4.10*Sector-wise Subscription Pattern*

SN	Sector	Issuing Company	SubTimes	Subscription	1 st day
1	Commercial Development Banks	Janata Bank Nepal Limited	2.33	Over	87
		Mega Bank Limited	21.82	Over	81
2		Metro Development Bank Limited	4.25	Over	63
		Green Development Bank	51	Over	21.03
		Excel Development Bank	18.97	Over	470
		Infrastructure Development Bank Ltd	9.36	Over	34
3		Sahas Urja Ltd	5.35	Over	345.8
		Ru Ru Jalbidhyut Pariyojana Ltd.	61.68	Over	197.36
		Singati Hydro Energy Ltd.	9.16	Over	115
		Api Power Company Limited	30.43	Over	20.4
		Sanima Mai Hydropower Limited	30	Over	31.64
		Shiva Shree Hydropower Limited	(0.27)	Under	32
		Barun Hydropower Company Limited	100	Over	204
		Ngadi Group Power Limited	65.52	Over	177
		Khanikhola Hydropower Company Limited	37.06	Over	253
		Arun Kabeli Power Limited	43	Over	226
		Himalayan Power Partner Limited	19.13	Over	230
4	Insurance	Jyoti Life Insurance Company Limited	6.4	Over	252.73
		Sanima Life Insurance Limited	6.84	Over	239.9
		Prabhu Life Insurance Limited	5.14	Over	41
		Shivam Cement	1.26	Over	65.86
5	Processing	Sona Minerals and Oil Limited	1.20	Over	77.42
		Ghorahi Cement Industry Limited	3.68	Over	7.61
6	Microfinance Companies	Samaj Laghubitta Bittiya Sanstha Limited	148.56	Over	-36.89
		NIC Asia Laghubitta Bittiya Sanstha	5.16	Over	263.54
		Infinity Laghubitta Bittiya Sanstha Ltd.	10.65	Over	78.21
		Jeevan Bikas Laghubitta Bittiya Sanstha	16.95	Over	346.58
		RSDC Laghubitta Bittiya Sanstha Ltd	222.84	Over	-20.81
		Manakamana Smart Laghubitta Bittiya Sanstha Limited	73	Over	142.09

Source: SEBON Annual Reports 2006/07 to 2022/23

In conclusion, just one IPO out of the 11 firms in the hydropower industry was undersubscribed, and the other companies likewise produced relatively poor returns.

Although some sampled issues contradict it, all these numbers suggest that the IPO for firms whose issues were oversubscribed often had at least some positive early return. Companies with significantly oversubscribed initial public offerings (IPOs) typically get extremely high early returns, whereas those with significantly undersubscribed IPOs typically see negative or no initial returns at all.

4.1.4 Analysis of Price Change on Offered Price on 1st, 2nd and 3rd Day of Trading

The study's earlier findings indicate that, in most cases, investors profit when they choose to sell their shares on the first day of trade because of underpricing. This section aims to examine the potential gains or losses that investors would have experienced if they had chosen to keep their stock on the first trading day and sell it on the second or third day of trading.

Table 4.11 displays a decline in share price from the first day of trading to the third day of trading for 13 of the 29 examined businesses. Compared to shareholders who would have sold their issue on the first day of trading, those who would have decided to sell their stock on the third day of trade would have suffered a little loss.

In a similar vein, over those trading days, the share prices of 3 out of 29 issues had not changed. Regarding the gain from the share price, it would not have mattered to the shareholders if they had sold their shares on the first, second, or third day of trade. Thirteen of the firms in the sample had experienced a change in share price between the first and third trading days. In terms of profit from the share price, it would have been preferable for those investors to hang onto their shares until the third trading day rather than selling it on the first.

Table 4.11*Price on First, Second and Third Day of Trading*

SN	Listed Companies	Offer Price (Rs)	Change in Price in		
			Day 1	Day 2	Day 3
1	Sahas Urja Ltd	100	445.8	490.3	539.3
2	Ru Ru Jalbidhyut Pariyojana Ltd.	120	317.36	347.76	375.21
3	Singati Hydro Energy Ltd.	100	215	231.5	249.5
4	Jyoti Life Insurance Company Limited	100	352.73	387.27	425.45
5	Shivam Cement	300	365.86	329.98	297.59
6	Samaj Laghubitta Bittiya Sanstha Limited	100	63.11	64.33	64.33
7	Infinity Laghubitta Bittiya Sanstha Ltd.	100	178.21	195.76	214.97
8	Manakamana Smart Laghubitta Bittiya	100	242.09	242.09	242.09
9	Jeevan Bikas Laghubitta Bittiya Sanstha	100	446.58	491.23	511.01
10	Api Power Company Limited	100	120.4	124.55	130.26
11	Sanima Mai Hydropower Limited	100	131.64	141.57	146.85
12	Shiva Shree Hydropower Limited	100	132	145	159.01
13	Green Development Bank	100	121.03	125.67	129.01
14	Janata Bank Nepal Limited	100	187	169	154
15	Mega Bank Limited	100	181	181	181
16	Metro Development Bank Limited	100	163	148	139
17	Excel Development Bank	100	570	598	627
18	Infrastructure Development Bank Ltd	100	134	123	121
19	Barun Hydropower Company Limited	100	304	322	353
20	Ngadi Group Power Limited	100	277	304	316
21	Khanikhola Hydropower Company Limited	100	353	353	318
22	Arun Kabeli Power Limited	100	326	358	393
23	Himalayan Power Partner Limited	100	330	363	390
24	Sanima Life Insurance Limited	100	339.9	373.8	411.1
25	Prabhu Life Insurance Limited	100	141	145	158
26	Sona Minerals and Oil Limited	237.58	315	283.5	255.2
27	Ghorahi Cement Industry Limited	435	442.61	455.65	446.96
28	NIC Asia Laghubitta Bittiya Sanstha	100	330.58	399.49	439.44
29	RSDC Laghubitta Bittiya Sanstha Ltd	100	79.19	79.77	82.51
Average		123.88	262.24	274.93	285.16

Source: www.nepalstock.com.np

The dramatic drop in the IPO share price of one of the studied companies that had given the highest return on the first day of trading has been one of the study's most significant findings. On the first day of trading, Excel Development Bank and Jeevan Bikas

Laghubitta Bittiya Sanstha Limited produced remarkably large returns of 470% and 346.58%, respectively. Nevertheless, the share prices of these firms had changed by 511% and 627%, respectively, by the conclusion of their third trading day. Compared to investors who sold their shares on the first day of trade, those who sold on the third day would have suffered significant losses.

Table 4.11 further shows that share price movements on the first, second, and third trading days are all declining with time. This is seen by the average share price change, which falls from 90.45% on the first trading day to 87.17% on the second and 86.69% on the third.

The study supports the provisional opinion that it is preferable for investors to sell their initial public offering (IPO) stock on the first day of trade as opposed to the second or third day. This indicates that, in terms of share price return, the Nepalese initial public offerings (IPOs) underperformed in the near term, at least until the third trading day.

4.2 Major Findings of the Study

Analyzing Nepalese practices for initial public offerings was the study's primary goal. Following analysis of the data from secondary sources using various statistical methods and models, the following conclusions were reached:

- The amount of issues issued has grown about 403 times, from Rs. 2.29 billion in the fiscal year 2006/07 to Rs. 96.04 billion in the fiscal year 2022/23.
- The amount of issues offered throughout the study period has a very high positive coefficient of trend line. In the same time frame, there were 61 issues offered in 2022–2023 as opposed to 16 in 2006–07 years earlier.
- Likewise, the mean value of the issues that were put up rose from Rs. 10.20 billion to Rs. 64.50 billion. Its compound growth rate is found to be 13.31%, whilst its instantaneous growth rate is 12.49%.
- Of the six sectors, the commercial banking sector contributed 43.99% of the total paid-up capital, compared to the hydropower firms sector, which came in second with 18.91%. Once more, out of 248 offers, the financial sector—which includes commercial banks, development banks, finance companies, and insurance companies—has accounted for 127, while the non-financial sector, which includes

trading companies, hotels, and other establishments, has only accounted for 121. Comparably, in each fiscal year throughout the research period, the financial sector provided about two issues compared to only eleven offerings from the non-financial sector.

- In a similar vein, of 960 offers made in terms of instruments, 409 of them were for ordinary shares, 453 for right shares, 97 for debentures, and 1 for preference shares. Furthermore, when looking at the issued amount, right shares made up 47.18% of the total, followed by ordinary shares (42.60%), debentures (10.10%), and preference shares (0.24%).
- From 2006–07 to 2022–23, 403 firms made their common shares available to the public through initial public offerings (IPOs); of these, offers from 402 companies resulted in oversubscription in 99.75% of cases. Similarly, publications from one company have been obtained through subscription. Additionally, a subscription pattern study broken down by industry showed that all issues from insurance firms, development banks, and commercial banks had been completely subscribed. Additionally, there has been oversubscription for the majority of the manufacturing and processing industries' difficulties. However, most hydropower sector issues have had a small undersubscription.
- The average degree of underpricing (first day's return) is 87% with a standard deviation of 30.24%, according to J.R. Ritter's (1984) model. Similar findings were found when looking at the commercial banking sector, where the average initial return was 38.33% with a standard deviation of 25.09%; the average initial return for development banks was found to be 233.75% with a standard deviation of 226.42%; the average initial return for finance companies was 61.40% with a standard deviation of 102.99%; the average initial return for insurance companies was 66% with a standard deviation of 63.25%; and, lastly, the average initial return for manufacturing and processing companies was 96% with a standard deviation of 204.36%, indicating the degree of fluctuation. Similarly, CVs are 65.45%, 96.86%, 167.74%, 95.83%, and 212.88% for commercial banks, development banks, financing firms, insurance companies, and manufacturing and processing enterprises, respectively.

- Of the issues that were sampled, 29 were oversubscribed, and 28 of those issues had an initial result that was positive. The last edition, nevertheless, has received insufficient subscriptions.
- Regarding the variation in the offered price on the first, second, and third trading days, of the 29 firms that were tested, the share prices of 13 of them have dropped on the third day of trading compared to the first. On the second and third trading days compared to the first trading day, the share prices of only three firms remained unchanged. In addition, a trend in the share price of 13 of the examined firms was seen on the third day of trading in comparison to the first day. On the first trading day (the initial return), the average price change from the offered price was 87%. This dropped to 83.52% on the second trading day, and then to 83.03% on the third trading day.

CHAPTER- V

SUMMARY, CONCLUSIONS AND IMPLICATIONS

The three sections of the study are summarized, concluded, and recommended in this chapter. A summary of the whole study is covered in the first section, conclusions are shown in the second, and recommendations based on the study's findings are presented in the last section.

5.1 Summary

In the language of finance, money, or capital, is one of the most crucial requirements for every company. At different phases of their operations, business organizations require capital. Some would require it in order to launch their companies, while others could require it in order to expand their operations and realize their aspirational growth goals.

Generally speaking, there are two markets-the money market and the capital market-where companies may obtain funding. The money market provides cash for a maximum of one year, whereas the capital market provides long-term funding with conditions tailored to the requirements of commercial enterprises. The primary market is where fresh and unseasoned securities are sold, whereas the secondary market is where seasoned and older securities are sold. IPOs are the primary market's main method. Public offering (IPO) is the first public offering (IPO) of securities. Securities may be sold in the form of debt or equity. The technique and process of an initial public offering (IPO) involve several capital market components. Among them are investment bankers and underwriters. Investment bankers are people or organizations who offer a range of services to make sure businesses may achieve their goals of selling securities through initial public offerings (IPOs). Additionally, they guarantee that all procedures and stages of the IPO are carried out in compliance with current laws and regulations.

Regarding procedures, there are essentially two organizations in Nepal that direct and impact IPO procedures. SEBON and NEPSE are those. The regulatory agency that oversees all securities market transactions, including initial public offerings (IPOs), is SEBON. Similarly, NEPSE is the only stock exchange in Nepal that gives the securities it offers marketability and liquidity. There were 248 firms listed on NEPSE as of May 2024.

The Security Exchange Center (SEC) was established in 1976 AD, which set the groundwork for the methodical growth of Nepal's capital market, however even after 20 years, the country's capital market is still in its infancy. Its procedures and the securities it offers are still restricted and conventional. Furthermore, there is a dearth of study on several facets of Nepal's capital market. This study has been conducted in this context with the aim of elucidating the many facets of initial public offerings (IPOs) and their operations in Nepal.

The study's conceptual review addressed the idea of initial public offerings (IPOs), outlining its benefits and drawbacks, serving as a major market mechanism, providing historical context for IPOs in Nepal, and outlining the IPO process, which provided insight into how IPOs are carried out in that country. Comparably, a survey of similar studies has included a few dissertations on the issue as well as research projects conducted outside. International research was conducted in the form of journal articles, which primarily depicted two IPO-related patterns: underpricing and underwhelming long-term performance. The majority of these journals were obtained from internet resources like www.emeralinsight.com and www.blackwell-synergy.com. Dissertations also provide insight into Nepal's current situation of share concerns and capital market challenges.

Stratified random sampling together with an analytical and descriptive research methodology have been employed to accomplish the study's aims. 29 businesses that are listed on NEPSE and represent five distinct industries—commercial banks, development banks, finance firms, insurance companies, and manufacturing and processing enterprises—were chosen based on a 25% sample frame. Since the study mostly relies on secondary sources, the necessary data were obtained from newspapers, SEBON annual reports, NEPSE trade records, and a variety of statutes and laws.

Simple statistical tools like mean (μ), Standard Deviation (σ) and Correlation Coefficient(r) along with log linear model and J.R Ritter's (1984) model have been used to analyze the related data. The data have been analyzed manually as well as with the assistance of Microsoft Excel as per need.

The research of the quantity and variety of issues offered has shown that the Nepalese initial public offering (IPO) market has expanded during the course of the study. Similar to this, an examination of public issues by sector showed that the financial industry has been leading the Nepalese IPO market, and an examination of offered issues by instrument showed that ordinary shares are the most popular instrument. It has been established that underpricing occurs in Nepal, with an average initial return of 87%, using J.R. Ritter's (1984) model. The results align with comparable developing markets' typical first returns. Additionally, its standard deviation of 30.24% was significantly larger than that of other developing markets, such as Mauritius.

The data also showed that there was oversubscription for the majority of the issues provided throughout the study period. It was also shown that underpricing and subscription trends are related. Whereas the undersubscribed offerings yielded no positive return at all, the majority of the oversubscribed issues generated positive first returns.

Ultimately, the study section came to the conclusion that, on the second and third trading days, the initial return continues to decline in terms of percent change from the offered price on the first trading day. It implies that it is preferable for investors to sell their IPO shares on the first day of trade as opposed to the second.

5.2 Conclusions

From 2006/07 to 2022/2023, a compound annual growth rate of 25.02% has been observed in the number of issues offered. The coefficient of trend line's extremely high positive value suggests that the number of issues offered during the research period has been trending upward. Furthermore, during the study period, the average number of issues offered increased by 12.49% annually, and the total growth rate was discovered to be 13.31%. All of these data point to the Nepalese IPO market's growth during the research period.

The number of issues launched throughout the research period indicates that the financial sector, which includes commercial banks, development banks, hydropower, and insurance companies, has dominated the Nepalese initial public offering (IPO) market.

Regarding the instrument-wise issues that were made available throughout the research period, the right share was the most popular instrument, followed by the ordinary share, debenture, and preference share, in that order, both in terms of quantity and number of issues issued.

The public's enormous desire for the majority of the firms' issues resulted in an oversubscription of those issues. Moreover, all of the tested firms' offerings, which include development banks, insurance companies, and commercial banks, have experienced oversubscription. In a similar vein, the majority of hydropower company offerings have also shown oversubscription. Most issues from the manufacturing and processing sectors, as well as the sole sampled non-financial sector, are undersubscribed. This indicates that while issues from firms outside the financial industry are not received with as much zeal, the general public has a positive attitude toward initial public offerings (IPOs) made by financial sector corporations.

The average degree of underpricing (equally weighted mean) in the Nepalese capital market is 87%. The average degree of price undervaluation is comparable to that of other developing economies, such as Mauritius. The degree of variation is measured by the standard deviation, which is 30.24%, which is significantly greater than that in other emerging markets like Mauritius. It suggests that the degree of volatility in the underpricing of issues provided in the Nepalese initial public offering (IPO) market is higher. Additionally, according to C.V., the insurance industry has the lowest risk and the manufacturing and processing sector the highest risk.

While undersubscribed offerings have not produced any positive first return at all, oversubscribed issues have produced some. The study suggests that the issuing businesses, whose securities are highly desired by the public, are justified in their support based on the increased returns they saw on the first day of trade. The strong initial return on share price (return on first day of trading) has not been sustained on the second and third day of trading, as indicated by the % change in offering price on the first, second, and third day of trading. It actually continues getting worse. Therefore, it is preferable for investors to sell their IPO shares on the first day of trade as opposed to the second or third day.

5.3 Implications

This study provides following recommendations to the concerned parties

5.3.1 Implications to the Government and Regulatory Authorities

- 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 necessary steps to encourage public issues from other sectors like manufacturing and processing to increase more by providing additional facilities such as tax- concessions.
- Ordinary share and right share is found to be most used financial instruments 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, it is recommended that root cause beneath should be traced and tackled for overall development of Nepalese capital market.
- Even though most of the IPO issues were found to be underpriced, there were few issues, which were found to be overpriced. This could have been due to the fact that regulations in the past and existing regulations too have not fully authorized investment bankers to determine price of their issues. In this regard, it is recommended that regulatory body should allow IPO market to set their offer price. Free market can create competition among the issuing company forcing them to make their offer at lower price, which will attract more investors benefiting capital market in long term.

5.3.2 Implications to the Firms of Non-financial Sector

- Public has shown faith on IPOs from financial sector while they do not have shown much faith on IPOs from non-financial sector. This must have been due to the fact that non-financial companies have been performing poorly since last decade, while financial sector has been doing well. In this perspective, companies from non-financial sector are recommended to come up with schemes which will attract good companies belonging to non-financial sector to go for IPO.

5.3.3 Implications to the Investors

- Since underpricing exists in Nepalese IPO, investors are recommended to participate in the IPO to capitalize advantages.
- Buy and sell group of investors are recommended to sell their IPO shares at first day of trading rather than selling them on second or third day of trading.

The study shows that underpricing exists among Nepalese IPO, it has opened new avenue for upcoming researchers. Here, researchers are recommended to analyze underpricing in detail by taking larger sample size and three sectors which were excluded in this study. Furthermore, IPO underpricing could also be analyzed from year-wise perspective. Apart from that other empirically proven theory regarding IPO, long run underperformance could also be tested in Nepalese context. At the same time, interested researchers are also cautioned that obtaining reliable information needed to carry out such works will require some doing from them.

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paper text:

i CHAPTER- I INTRODUCTION 1.1 Background of the Study An Initial Public Offering, or IPO, is when a business offers its shares for sale to the general public for the first time. When this occurs, the corporation is considered to be "going public." The product is heavily regulated and frequently garners a lot of media interest. The capital market plays a vital role in the economic advancement of any nation. It facilitates the deficit sector to mobilize funds from the surplus sector of the economy. Though secondary market's major function is to provide liquidity to the investors and the stock issuing company does not get any funds but primary market provides mechanism for the smaller and younger firm to raise the much needed capital for growth. A going public method or initial public offering allows the company to collect funds from diversified investors in exchange of its securities. But the success of every IPO