

A STUDY ON
PUBLIC RESPONSE TO INITIAL PUBLIC OFFERING
IN NEPAL

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RECOMMENDATION

This is to certify that the thesis

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DECLARATION

I hereby declare that the work reported in this thesis entitled **A STUDY ON PUBLIC RESPONSE TO INITIAL PUBLIC OFFERING IN NEPAL** submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of requirement for Master's Degree of Business Study (MBS) under the supervision of **Prof. Snehalata Kafle**, lecturer of Shanker Dev Campus and **Mr Pitri Raj Adhikari**, Lecturer of Shanker Dev Campus.

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Moreover, it is needless to say that to error is human and I am also no exception, so I apologize for any errors and mistakes committed in this thesis work.

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ABBREVIATINS

AGM	Annual General Meeting
BOD	Board of Directors
CIT	Citizen Investment Trust
CRO	Company Registrar's Office
FY	Fiscal Year
GDP	Gross Domestic Product
IPO	Initial Public Offering
MOF	Ministry of Finance
MOU	Memorandum of Understanding
NCML	NIDC Capital Markets Limited
NEPSE	Nepal Stock Exchange Ltd.
NHL	National Hydropower Limited
NRB	Nepal Rastra Bank
NYSE	New York Stock Exchange
OHL	Oriental Hotels Limited
Rs.	Rupees (Nepalese currency unit)
RTS	Registrar to Share
SEBON	Securities Board, Nepal
SEC	Stock Exchange Center
SICL	Sagarmatha Insurance Company Limited
UICL	United Insurance Company Limited
CIT	Citizen Investment Trust
CDS	Central Depository System
NMBL	Nepal Merchant Banking & Finance Ltd. Co.
NCML	NIDC Capital Market Ltd

TABLE OF CONTENTS

Recommendation

Viva-Voce Sheet

Declaration

Acknowledgements

List of Tables

List of Figures

List of Abbreviations

Chapter – I

	Page No.
Introduction	
1.1 Background of the Study	1
1.2 Focus of the Study	5
1.3 Statement of the Problem	6
1.4 Objectives of the Study	7
1.5 Significance of the Study	7
1.6 Limitations of the Study	7
1.7 Organization of the Study	8

Chapter – II

Review of Literature

2.1 Conceptual Framework	10
2.1.1 Financial Market	10
2.1.2 Money Market	11
2.1.3 Capital Market	12
2.1.4 Primary Market vs. Secondary Market	13
2.1.4.1 Primary Market	13
2.1.4.2 Secondary Market	15
2.1.5 Investment consideration to the potential investors in the Primary Market	16
2.1.6 Investment consideration to the potential investors in the Secondary Market	16

2.1.7	Pricing Differences	17
2.1.8	IPO by Private Company to the Public	17
2.1.9	Risky Investment	17
2.1.10	The Underwriting Process	22
2.2	Review of Articles and Journals	24
2.3	Review of Previous Thesis	26
2.4	Research Gap	30

Chapter - III

Research Methodology

3.2	Research Design	31
3.3	Population and Sample	31
3.4	Sources of Data	32
3.5	Analysis Tools	32
	3.5.1 Statistical Tools	32
	3.5.1.1 Arithmetic Mean	32
3.6.1	Pie – diagram	33
3.6.2	Percentage	33

Chapter – IV

Data Presentation and Analysis

4.1	Approved and Issued by SEBON	34
4.1.1	Amount of Issue Approved	34
4.1.2	Number of Issue Approved	36
4.1.3	Right offering since 1993/94 to 2010/11	38
4.1.4	Over and Under Subscription of Securities	40
4.1.5	Year Wise Analysis of Different Securities with their Number and Amount	42
4.2	Public Response to Initial Public Offering	44
4.2.1	Public Response to Financial Sector	44
4.2.2	Public Response to Commercial Banks	45
4.2.3	Public Response to Development Banks	47

4.2.4	Public Response to Finance Companies	49
4.2.5	Public Response to Insurance Companies	51
4.2.6	Public Response to Non Financial Sector	53
4.3	Analysis of Primary Data	55
4.3.1	Knowledge about IPO	55
4.3.2	Sources of information about IPOs	56
4.3.3	Investing through IPO	57
4.3.4	Habit of reading Prospectus before investment.	58
4.3.5	Selection of company for investment.	59
4.3.6	Motivating factor for invest in IPO	60
4.3.7	Preferred Sector for Investment	61
4.3.8	Preferred Financial Sector for Investment	62
4.3.9	Preferred Non-Financial Sector for Investment	63
4.3.10	is the present condition of Nepal is suitable for investment?	65
4.3.11	Utilization of fund while investing in IPO	66
4.3.12	what type of IPO investor are you?	67
4.3.13	Reason that most of the firms do not like to go to public	68
4.3.14	Public thinking about Nepalese Capital Market	69
4.4	Major Findings of the study	70

Chapter-V

Summary, Conclusion and Recommendation

5.1	Summary	74
5.2	Conclusion	76
5.3	Recommendations	77

Bibliography

Appendix

Questionnaire

List of Table

Table 4.1	Amount of Issue Approved	35
Table 4.2	Number of Issue Approved since 1993/94 to 2010/11	37
Table 4.3	Right offering since 1993/94 to 2010/11	39
Table 4.4	Over and Under Subscription of Securities since 1993/94 to 2010/11	41
Table 4.5	Year wise analysis of different securities with their number and amount in million	42
Table 4.6	Public Response to Commercial Banks	45
Table 4.7	Public Response to Development Banks	47
Table 4.8	Public Response to Finance Companies	49
Table 4.9	Public Response to Insurance Company	51
Table 4.10	Public Response to Non Financial Sectors	53
Table 4.11	Showing response from the participants	56
Table 4.12	Showing sources of information about IPO	57
Table 4.13	Showing investing interest on IPO	58
Table 4.14	Showing habit of reading prospectus before investment.	59
Table 4.15	Showing selection of company for investment.	60
Table 4.16	Showing the motivating factor for invest in IPO.	61
Table 4.17	Showing preferred sector for investment.	62
Table 4.18	Showing the preferred financial sector for investment.	63
Table 4.19	Showing the preferred non- financial sector for investment	64
Table 4.20	Showing present condition of Nepal for investment.	65
Table 4.21	Showing utilization of fund while invest in IPO.	66
Table 4.22	Showing type of IPO investor	67
Table 4.23	Showing reason for not going to public	68
Table 4.24	Showing thinking of Nepalese Capital Market	69

List of Figure

Figure 4.1	Security Issue Amount (million)	36
Figure 4.2	Number of Issue Approved	38
Figure 4.3	Right offering	40
Figure 4.4	Year Wise Analysis of Securities	43
Figure 4.5	Public Response to Commercial Banks	46
Figure 4.6	Public Response to Development Bank IPO	48
Figure 4.7	Public Response to Finance Company IPO	50
Figure 4.8	Public Response to Insurance Company IPO	52
Figure 4.9	Public Response to Non Financial sector	54
Figure 4.10	Showing response from the participants	56
Figure 4.11	Showing sources of information about IPO	57
Figure 4.12	Showing investing interest on IPO	58
Figure 4.13	Showing habit of reading prospectus before investment.	59
Figure 4.14	Showing selection of company for investment	60
Figure 4.15	Showing selection of company for investment	61
Figure 4.16	Showing preferred sector for investment.	62
Figure 4.17	Showing the preferred financial sector for investment.	63
Figure 4.18	Showing the preferred non- financial sector for investment	64
Figure 4.19	Showing present condition of Nepal for investment.	65
Figure 4.20	Showing utilization of fund while invest in IPO.	66
Figure 4.21	Showing type of IPO investor	67
Figure 4.22	Showing reason for not going to public	68
Figure 4.23	Showing thinking of Nepalese Capital Market	69

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Investment has significant role for the well development of a country, which is the final result of the income, expenditure of the saving. Saving is impossible without earning, earning is impossible without investment and investment is completely depends upon the mobilization of savings either directly by the savers or indirectly through the financial intermediaries. Investment can be classified into two categories, real investment and financial investment. Real investment deals with investment in real assets such as land building or in fixed property whereas financial investment deals with the investment in financial assets such as securities. Financial markets are divided into money markets and capital markets. Money markets are the markets for debt security with maturities of less than one year. Money markets basically involve the trading of short-term securities.

The major concern of many countries of the world has been to accelerate their development process and their-by increase the welfare of their people. This can be done only through sound investment. This would require gearing up of savings, creating conducive and enabling investment atmosphere and developing efficient capital market to facilitate mobilization of saving through appropriate instruments. With the worldwide move towards open and market oriented economic system in the world economy, it has to have growth and expansion of banking and financial system too. However, banks and stock market are two competing mechanism to channel savings to investment. The stock markets exceed banks in allocation efficiency. It allocates savings to investment which have potential to yield higher return. Therefore well functioning stock markets promote economic development by fueling engine of growth through faster capital accumulation and by tuning it through better resource allocation (*Carporale, Howells and soliman, 2005*).

Money markets are sometimes classified as organized and unorganized markets. The organized or formal money market is an institutional mechanism for the transaction of short-term

securities and commercial banks, finance companies and other credit unions are the players in the money markets. Local merchants, indigenous bankers and relatives conic under the informal sector or unorganized sector. A survey conducted by Nepal Rastra Bank in 1992 revealed that the formal sector market provides only 20 percent of the total credit demand of the rural sector. This implies that the financial markets of the country are yet to develop. Capital markets are the markets for long term debt and corporate stock. Capital Markets are also classified as primary markets and secondary markets. Primary market is created when a company goes public. The place where issued securities are traded is known as secondary market. NEPSE is the only organized second market in Nepal, where issued securities are traded. Stock market is a mechanism through which corporate sectors collect funds to finance productive projects by issuing securities. Similarly, stock market provides the best investment oppertunity to the investors. It also provides liquidity to the securities holders. The nature and volume of capital needed in a productive process are directly related to the nature and volume of number of components. These components include use of land, capital equipment, labor, building up of stocks and miscellaneous expenses (Goldschmidt, 1956:54).

The business world today is more sophisticated than it was in the past. The changing lifestyle and increased demand for goods and services have always been a challenge as well as opportunity to business houses. The expansion of any kind of business is impossible if there is insufficient fund. The firms need finance for various purposes. The type of finance needed by a firm largely depends upon the type of the enterprises, and varies from one firm to other, depending on the firm's peculiarities. The need for long-term assets may be higher for some enterprises than the others and they may require higher amount of working capital, too. There are two sources; internal and external, of fulfilling financial needs of a firm. Internal sources of financing mainly consist of retained profits of the enterprises and the provision for depreciation. This self-financing was the only method of financing an enterprise in a rudimentary stage of the economy where every economic unit is self-sufficient.

With the development of money, finance and financial institutions, it is no longer necessary for an enterprise to finance from its internal sources alone and have a balanced budget. Furthermore, the innovation of corporate form of business organization with the principle of limited liability and efficient technique of acquiring capital through the issue of variety of

ownership and debt securities have enabled investors to satisfy their diverse asset preferences. This has made it possible for a corporate enterprise to attract the external funds from the public by issuing shares. On the other hand, promoters' equity fund may not be sufficient for its financial requirements whether it is newly establishing company or seeking to expand and modernize. They can get loans from the banks and financial institutions, which lend only a certain percentage of the company's equity base or asset which may not be sufficient for the company. At the same time, getting loan from bank and financial institutions is not easy because there is a lengthy process and legal requirements involved. Issuing of shares to the general public is made compulsory under Securities Exchange Act, 1983 AD in Nepal. Promoters will not receive permission from the government authority to establish a public limited company if they do not show desire to include general public in its equity base. Hence, the firm needs to sell part of its total equity to the general public to raise the required funds through public issue of shares. (Securities Exchange Act, 1983).

Looking back into the history of Nepalese securities market, it can be traced that the market started in the mid 1930s with the issuance of shares of some companies. However, the formal institutionalization began only after the establishment of Securities Exchange Center in 1976. The then Securities Exchange Center was responsible for undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other securities market services. Introduction of the Company Act in 1964, issuance of Government Bond in 1964 and introduction of Securities Act in 1983 were the most important past initiatives for the development of securities markets in Nepal. The development process accelerated with the liberalization policy of the Government during 1990s. During the period major initiatives were taken for the development of the securities market, the most important one being establishment of Securities Board of Nepal (SEBON) in 1993 as an apex regulator of securities markets. With the establishment of SEBON the then, Securities Exchange Center was converted into Nepal Stock Exchange Ltd. (NEPSE), which started secondary trading of securities with the introduction of stock brokers.

The major regulatory framework for the securities market is provided by Securities Act, 2006, which has given authority to the SEBON for the regulation of securities market. As per Act, the major objectives of SEBON are to regulate issue and trading of securities and market

intermediaries, promote the market and protect investors' rights. Besides, the duties and responsibilities of Securities Board are to register securities and approve prospectus of public companies, providing license to operate stock exchanges, provide license operate securities businesses, permit operation of collective investment schemes and investment funds, draft regulations, issue directives and guidelines and approve bylaws of stock exchanges, supervise and monitor stock exchanges and securities business activities, take enforcement measures to ensure market integrity, frame policies and programs relating to securities market and advise the government in this regard. Thus, the responsibility of developing and regulating the securities market in the country rests solely on SEBON. (Thapa, 2007:21).

Initial Public Offering (IPO), also referred to simply as a "public offering", is when a company issues common stock or shares to the public for the first time. They are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded. For the investors Initial Public offering (IPO) is also an option. An Initial Public Offering (IPO) occurs when a security is sold to the general public for the first time, with the expectation that a liquid market will develop. An IPO can be of any debt or equity security. In an IPO, the issuer may obtain the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), best offering price and time to bring it to market. IPO can be a risky investment. For the individual investors, it is tough to predict what the stock or share will do on its initial day of trading and in the near future since there is often little historical data with which to analyze the company. Also, most IPO are of companies going through a transitory growth period, and they are therefore subject to additional uncertainty regarding their future value (<http://en.wikipedia.org/wiki/IPO>).

Primary market of securities which originates new issues of stocks and bonds avails cash to the issuer which may be invested in the business. Generally companies start out their business by raising equity capital from the small number of investors, and with the increment of the business activities it needs additional equity capital and desires to "go public" by selling to the general public. This kind of public offering includes cost that may direct or indirect. The direct costs include legal, auditing, and underwriting fees. And the indirect costs include management of time and efforts as well as dilution of selling shares at below the price

prevailing in the market. These kinds of direct and indirect costs affect the cost of capital for firms going public.

The people or institutions responsible for finding out investors for the IPO of the securities sold in the primary market are called the investment bankers or issue managers. Investment bankers are also called underwriters; they purchase new issues from security issuers and arrange for their resale to the investing public. IPO generally involve one or more investment banks as "Underwriters". The company offering its shares called the "issuer" enters a contract with an underwriter to sell its shares to the public. The underwriter then approaches investors with offers to sell these shares. Capital Market is gaining business attention since last few years. The NEPSE index, which shows the stock price trend of all the listed securities in the stock market, has been increasing in the recent fiscal years. Hence, the general investors are very keen to make investment in the securities of the companies through both secondary and primary markets. In primary market, the investment is made through public issues of ordinary shares, preference shares, debentures and right shares as well as mutual fund and unit scheme.

To sum up, an initial Public Offering is the first sale of corporation's common shares to public investors. The main purpose of an IPO is to raise capital for the corporation. While IPO are effective at raising capital, they also impose heavy regulatory compliance and reporting requirements.

1.2 Focus of the Study

This study mainly focuses on the responses of individual investors towards Initial Public Offering. It also focuses on what they actually want in IPO before they actually invest their sector preference, their knowledge level, and performance of issue managers. It also focuses in the distribution process of IPO, restriction on margin lending as IPO funding via financial institutional loans is not a healthy practice as it does not reveal the true picture of the company. Single investors apply hundreds of application showing dummy names. As a result they can capture large number of shares and can influence the company management and stock price too. Public Response to primary market in Nepal is mainly considered as the primary market practices in Nepal. There are many securities issued in the primary market such as Bond,

Preferred stock and common stock. This study mainly considered common stock as a concern for study.

1.3 Statement of the Problem

In developing country like Nepal, IPO is still a new phenomenon. Majority of the Nepalese people are said to have been illiterate and even educated people too don't know much about the practice of stocks. Response to the IPO has always been so overwhelming, however even the aware people lack the confidence level. So it is unlikely that they invest in the securities logically. IPOs can be a risky investment. For the individual investor, it is tough to predict what the stock will do on its initial day of trading and in the near future because there is often little historical data with which to analyze the company. Also, most IPOs are of companies' going through a transitory growth period, which are subject to additional uncertainty regarding their future values. But the recent trend shows that the investors invest in the IPO many times more than the issue. The reason for this is that only limited investors are applying for the IPO by hoarding citizenship certificates of other people. In Nepalese context it is evident that people lack the knowledge and because of which people are giving their power of attorney to other for IPO, Which affect the financial system badly. These people are creating an artificial crisis, which in turn, increases share price more than their book value.

To control this activity, Security Board of Nepal (SEBON) is updating the criteria required for applying IPO, in order to make the IPO transparent. Among them, the latest updated criteria is that the investor should disclose the banking detail if he wants to apply for more the Rs 10,000 and the investor should be present while submitting the form along with the original citizenship certificate; the issuing company must give the interest for the applied money during the period between applying date and allotment date; the issue manager must give the account payee cheque while refunding the money for applying more than Rs 10000 and the issue manager must allot the share within 45 days. However, this study stated following problems:

-) Is directed to identify the investor's responses towards the IPO of financial as well as non-financial sectors in Nepalese market are effective?
-) How is primary market growing in Nepal?
-) How are the issue managers performing in IPO?

-) What an investor expects from his or her investment, how to invest in IPO and how to manage fund for IPO ?
-) What are the investors' responses to the Initial Public offering (IPO)?

1.4 Objectives of the Study

The overall objective of this study is to explore and examine the investor's response to the Initial offering or primary issue of shares in perspective of Nepal. The specific objectives of the study are as follows:-

-) To analyze the pattern of public response to the initial public offering of different sectors.
-) To assess the current situation of primary market issues.
-) To identify the performance of the investment bankers (issue managers) in the process of IPO.
-) To conduct an opinion survey regarding Investor Response.

1.5 Significance of the Study

This study might serve to be crucial information for these respective institutions taken as sample for the study in IPO procedure. This study will also be helpful to the prospective investors and the organization in the field of public Offering as there still lacks the study regarding IPO in Nepal. This study will assist in the formulation of policy and will also assist the policy makers to get the practical knowledge of existing rules and regulations.

From this study, investors will have more clear conception over their investment and they will be able to make a right choice. It will also be helpful to the students who want to make research in IPO. This study will be significant to analyze the legal provision, possibilities, problems and prospects of IPO in Nepal. It will also be helpful to know the investors response to IPO of different industries. The prospective offering company may also get significant knowledge from this study.

1.6 Limitations of the Study

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

-) This study is based mainly on secondary data. Primary analysis is also done and it is based on 100 sample size. For this, questionnaire is made, so the accuracy of research depends upon the reliability of the data.
-) The data are used only from fiscal year 1993/94 to 2010/11.
-) Out of listed sector wise companies only selected sample are drawn. Hence the results based on selected sample may not be accurate.

1.7. Organization of the Study.

The study has been organized into five chapters. They are as given below.

Chapter I: Introduction

This is the introductory chapter, which has covered background of the study, focus of the study, statement of the problem, objectives of the study, significance of the study etc.

Chapter II: Review of Literature

This chapter has included conceptual framework i.e. theoretical analysis and review of related different studies. In this chapter has been also considered that how this present studies are different from previous studies.

Chapter III: Research Methodology

This chapter has dealt with the research design, population and sample, sources of data, data collection techniques and data analysis tools (financial tools and statistical tools) and methods of analysis and presentations.

Chapter IV: Presentation and Analysis of Data

This chapter describes the research methodology employed in the study. It will include secondary data and primary data presentation, data analysis, interpretation and major finding.

Chapter V: Summary, Conclusion and Recommendations

The last chapter states the summaries, conclusion of the whole study and recommendations. This chapter deals with summary of public response to Initial Public offering (IPO) whether

the objectives are fulfilled or not conclusions are drawn and recommended on the basis of major findings. It also offers several avenues for future research. The exhibits bibliography and appendixes are incorporated at the end of the study. Similarly, recommendation, vivo-voce sheet, declaration, acknowledgement, table of contents, list of figures and abbreviation are presented at the beginning of the study.

CHAPTER – II

REVIEW OF LITERATURE

Review of literature is an essential part of scientific research, it is a way to discover what other research in the area of our problem has uncovered. A critical review of the literature helps the researcher to develop a thorough understanding and insight into previous research works that relates to the present study. It is also a way to avoid investigating problems that have already been definitely answered (Pant, 2005:39). So, the books and previous studies related to this field of study may provide the foundation for the study. By linking the present study with the past research studies, the continuity in research may be provided. This part has been divided into conceptual framework and review of past research works.

2.1 Conceptual Framework

2.1.1 Financial Market

Financial markets provide a forum in which suppliers of loans and investment can transact business directly. The loans and investment of institution are made without the direct knowledge of the suppliers of fund (savers), suppliers in the financial markets know where their funds are being lent or invested. The two key financial markets are the money market and the capital market. Transaction in short- term debt instruments or marketable securities take place in the money market. Long-term securities (bond and stocks) are traded in the capital market (Gitman, 1988:30).

All securities, whether in the money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from the issue-that is, the company actually receives the proceeds from the sale of securities. Once the securities begin to trade among individual, business, government or financial institution savers and investors, they become part of the secondary market. The primary market is where new securities are sold. The secondary market can be viewed as a “used” or “pre-owned” securities market. (Securities Board)

2.1.2 Money Market

The money market is created by a financial relationship between suppliers and demand market of short-term funds, which have maturities of one year or less. The money market is not as actual organization housed in some certain location, such as a stock market, although the majority of money market transactions are made in marketable securities, which are short-term debt instruments, such as treasury bills, commercial paper, and negotiable certificates of deposit issued by government, business, and financial institutions respectively. The money market exists because certain individuals, businesses, government, and financial institutions have temporarily idle funds that they wish to place in some type of liquid asset or short-term, interest-earning instrument. At the same, other individuals, businesses, governments, and financial institutions find themselves in need of seasonal or temporary financing. The money market thus brings together these suppliers and demand markets of short-term liquid funds. As far as Securities Market is concerned, it is an important constituent of capital market. It has a wide term embracing the buyers and sellers of securities and all the agencies and institutions that assist the sales and resale of corporate securities (Rough, 1966:50).

The development of a sound securities market with its constituent financial institution is one of the mechanisms which enable the efficient transformation of savings from the hands of surplus spending units to those of deficit spending ones who can use them more productivity and/ or have loss/ risk aversion (Rough, 1966:56). Market capitalization is the market value of listed share. In other words, it is the product of closing market price and the number of listed shares of a company or companies. (NEPSE) Relative market capitalization and the number of listed companies can measure stock market size. The market capitalization ratio is determined by dividing the value of all shares listed on a national exchange by the host country's gross domestic product (The World Bank, 1995).

Market liquidity or the ability to buy and sell securities easily is also indicated by two measures. One is the total value of shares traded on the stock exchange divided by GDP. The second measure of liquidity is the turnover ratio, the value of total shares traded divided by market capitalization. Thus, turnover, by capturing trading relative to the size of the stock market, complements the total value ratio, which compares trading to the size of the economy.

Market concentration is determined by computing the share of market capitalization for the ten largest stocks on the exchange.

2.1.3 Capital Market

Capital market refers to the links between lenders and borrowers of funds, arranging of funds-transfer process to seek each other's benefit (Philips, 1979:220). These lenders and borrowers coming together in the capital market play effective financial intermediaries to activate both primary and secondary market through the use of various long term capital market instruments like common stock, bonds, preferred stock, convertible issues and many more like that. The participants in the capital market are small businesses, large businesses and government. Funds flowing into the capital market are available by lenders for terms longer than those flowing in the money market.

Capital market consists of the various suppliers and users of long term finance. As it is differentiated from the money market which embraces short-term finance. The capital market serves as a link between suppliers and users of finance. It is a mechanism for the mobilization of public savings and channeling them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing of buyers and sellers of securities and all those agencies and institutions which assist the sale and resale of corporate securities (Gupta, 1978:88).

The capital market is a financial relationship created by a number of institutions and arrangements that allows the supplies and demanders of long term funds-funds with maturities of more than one year-to make transactions. Included among long-term funds are securities issue of business and government. The backbone of the capital market is formed by the various securities exchanges that provide a forum for debt and equity transactions. The smooth functioning of the capital market, which is enhanced through the activities of investment bankers, is important to the long-run growth of business (Gitman, 1988:170).

Some organizations and individuals have more money than they currently need, and are thus, often described as lenders. Others need many more than they have and are required to borrow from others, and are thus called as borrowers. It would be reasonable to suppose that surplus

units and deficit units would be aware of each other's existence and that the surplus unit would be willing to allow the deficit unit to use their surplus to their mutual advantages. To protect the interests of both, an exchange would take place with somewhat understanding. Such an exchange may be called direct external finance and internal finance. The indirect external finance involves a third unit, usually called financial intermediary that accepts money from surplus units and release to deficit units. The other type of finance is that where the financing is carried out within the same economic unit. Financial intermediaries are participants in the finance market, along with individual and commercial companies, individuals and of course, various agencies of government. The term finance market is used to refer to short-term, medium term and long term market for the funds. Thus bonds company debt and equity issues, short and medium term government debt etc.

Thus the capital market includes:

-) Activities relating to the organization distribution and trading in of securities
-) Organization which facilitates this activities
-) Individuals and institutions which buy and sell securities and
-) Rules, regulations, customs and practices that control the organization and conduct of business in the market.

The capital market may be studied under two headings i.e. Primary Market and Secondary Market

2.1.4 Primary Market vs. Secondary Market

2.1.4.1 Primary Market

Primary market is new issue market of securities. The primary market deals with those securities, which have been made available to the first time. "Primary Market is the market place where instead of goods and services securities are sold to mobilized the savings for the establishment and operation of the business" (Bhattarai, 2002:3).

Primary market is new issue market of securities. The primary market deals with those securities, which have been made available to the first time. The growth of primary market is encouraging since many public companies including joint venture banks have been successful to tap capital through the flotation of securities to the general people. According to Henderson, There are following important functions of primary market.

-) Organization
-) Undervaluing
-) Distribution

The new issues in primary market facilitate of raising long-term funds and these can be classified as “initial issues” and further this voice issues offered for the first raise issues, it is called further issues. The interplay of these functions helps to transfer resources from the sources from the sources of supply to demand. There are three ways in which a company may raise capital in the primary market.

Public Issue-

This involves sale of securities to the public. It is by far the most important mode of issuing securities.

Right Issue-

This is a method of raising further funds from existing shareholders by offering additional securities to them on a preemptive basis. It involves the offer of additional shares to existing shareholders. These are offered in proportion of existing shareholdings. Each existing shareholder receives one right for each share owned. The right states the terms of the option to purchase new shares, specifying the number of shares required to purchase each new share, the subscription price for new share, and the expiry date of the option.

Private placement

It involves selling securities privately to a single investor or to a small group of investors. In the United States private offerings are made under an exemption from SEC registration. Section 4(2) of the Securities Act of 1933 allows the unregistered sale of securities by an issue so long as it is not a public offering. In general, the provisions set forth in Section 4 (2) require that private placements be sold to a limited number of sophisticated investors who are buying for investment purposes. These right issue and private placement are primary issue but these are not public issue.

2.1.4.2 Secondary Market

Secondary market is that market value where there is trading of outstanding securities of private business organizations and government. Investors can purchase and sell outstanding securities of companies in secondary market. "Secondary market is the market place where secondhand securities are traded. It means securities once purchased through primary market are traded in secondary market" (Bhattarai, 2002:5).

In growth of primary market, there is also contribution of secondary market. Secondary market accelerates the liquidity of securities. Stock is traded in two different kinds of market: Stock exchange and OTC market. New York exchange (NYSE) and (NEPSE) are examples of organized and secondary market. Securities trading in primary and secondary market can be divided as follows:

Ordinary Shares

Ordinary share provides possession of company to shareholders. Common shares are mostly risky than both bonds and preference shares. Common shareholders have attraction in investing due to their voting right, enjoying large amount of dividend, to earn capital profit from stock price raise.

Preference Shares

Preference shares are those shares, which have fixed dividend and right of acquiring principal before ordinary shares at the time of liquidation. It is hybrid between the bond and common stock because preferred stock has fixed dividend, which similar to the bond and payment of principal after bonds that like ordinary shares.

Bond

Bonds are debt instruments and issued with coupon rate. Interest is paid at coupon rate semi annually or annually. Bonds are generally issued with some certain maturity period. Principal is returned at maturity period. There is different type of bonds due to variable terms, conditions and features of bond to each other's. Bond may be distinguished according to their repayment provisions, type and security pledged, time of maturity and technical factor.

2.1.5 Investment consideration to the potential investors in the Primary Market

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

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

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

2.1.6 Investment consideration to the potential investors in the Secondary Market

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

-) Keep information of the companies return to the shareholders in the form of cash dividends, stock dividends, bonus shares etc. they should also be informed about Earning per share (EPS), book value of share (BVS), price earnings ratio (P/E Ratio), future plan, growth expectancy of the company through the annual, quarterly and half-yearly performance reports, profit and loss account (P/L a/c), balance sheet (B/S) and annual reports.
-) Analyze the price related information provided by SEBON and NEPSE about the listed companies.
-) Study the trading statements and financial analysis of the listed companies published by NEPSE.
-) Study articles related to the trading of shares and economic matters published in different newspapers and magazines.
-) Study the annual report of SEBON.
-) Study the act and regulation concerning to the shareholder's right.

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

2.1.7 Pricing Differences

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

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

2.1.8 IPO by Private Company to the Public

IPOs are often issued by smaller, younger companies seeking capital to expand and also can be done by large privately owned companies looking to become publicly traded.

In an IPO, the issuer obtains the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), best offering price and time to bring it to market (<http://en.wikipedia.org/wiki/IPO>).

2.1.9 Risky Investment

Investing in IPO is often seen as an easy way of investing, but it is highly risky and many investment advisers advise against it unless you are particularly experienced and knowledgeable. IPO is considered risky because of the unpredictability in nature. No past track record of the company adds further to the dilemma of the shareholders as to whether to invest in the IPO or not. With no past track record, it becomes a difficult choice for the investors to decide whether to invest in a particular IPO or not, as there is no basis to decide whether the investment will be profitable or not. For the individual investor, it is thus tough to predict what the stock will do on its initial day of trading and in the near future since there is often little historical data with which to analyze the company. Returns from investing in IPO are not

guaranteed. The Stock Market is highly volatile. Stock Market fluctuations widely affect not only the individuals and household, but the economy as a whole. The volatility of the stock market makes it difficult to predict how the shares will perform over a period of time as the profit and risk potential of the IPO depends upon the state of the stock market at that particular time. (Guleria, 2009:15)

Pricing

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

The danger of over pricing is also an important consideration. If a stock is offered to the public at a higher price than what the market will pay, the underwriters may have trouble meeting their commitments to sell shares. Even if they sell all of the issued shares, if the stock falls in value on the first day of trading, it may lose its marketability and hence even more of its value. Investment banks therefore take many factors into consideration when pricing an IPO, and attempt to reach an offering price that is low enough to stimulate interest in the stock, but high enough to raise adequate amount of capital for the company. The process of determining an optimal price usually involves the underwriters ("syndicate") arranging share purchase commitments from lead institutional investors.

Why Go Public?

Before deciding whether one should complete an IPO, it is important to consider the positive and negative effects that going public may have on their mind. Typically, companies go public to raise and to provide liquidity for their shareholders. But there can be other benefits. Going public raises cash and usually a lot of it. Being publicly traded also opens many financial doors:

-) As long as there is market demand, a public company can always issue more stock. Thus, mergers and acquisitions are easier to do because stock can be issued as part of the deal.

- J Trading in the open markets means liquidity. This makes it possible to implement things like employee stock ownership plans, which help to attract top talent.
- J Going public can also boost a company's reputation which in turn, can help the company to expand in the marketplace.(Guleria,2009:11)

Signification of IPO

Investing in IPO has its own set of advantages and disadvantages. Where on one hand, high element of risk is involved, if successful, it can even result in a higher rate of return. The rule is: higher the risk, higher the return. The company issues an IPO with its own set of management objectives and the investor looks for investment keeping in mind his own objectives. Both have a lot of risk involved. But then investment also comes with an advantage for both the company and the investors. The significance of investing in IPO can be studied from 2 viewpoints – for the *company* and for the *investors*. This is discussed in detail as follows:

Significance to the company

When a privately held corporation needs additional capital, it can borrow cash or sell stock to raise needed funds. Or else, it may decide to “go public”. "Going Public" is the best choice for a growing business for the following reasons:

- J The costs of an initial public offering are small as compared to the costs of borrowing large sums of money for ten years or more,
- J The capital raised never has to be repaid.
- J When a company sells its stock publicly, there is also the possibility for appreciation of the share price due to market factors not directly related to the company.
- J It allows a company to tap a wide pool of investors to provide it with large volumes of capital for future growth. .(Guleria,2009:12)

Significance to the shareholders

The investors often see IPO as an easy way to make money. One of the most attractive features of an IPO is that the shares offered are usually priced very low and the company's stock prices can increase significantly during the day the shares are offered. This is seen as a good opportunity by ‘speculative investors’ looking to notch out some short-term profit. The

‘speculative investors’ are interested only in the short-term potential rather than long-term gains. (Guleria, 2009:13)

How does an IPO get valued?

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

What are some good methods for analyzing IPO’s?

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

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

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

-) Why has the company elected to go public?
-) What will be the company doing with the money raised in the IPO?

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

The first public offering of equity shares or convertible securities by a company, which is followed by the listing of a company's shares on a stock exchange, is known as an 'Initial Public Offering'. In other words, it refers to the first sale of a company's common shares to investors on a public stock exchange, with an intention to raise new capital. Going public means a company is switching from private ownership to public ownership. Going public raises cash and provides many benefits for the company. Many startups went public without any profits and little more than a business plan. For those getting in on a hot IPO is very difficult, if not impossible. The most important objective of an IPO is to *raise capital* for the company. It helps a company to tap a wide range of investors who would provide large volumes of capital to the company for future growth and development. A company going for an IPO stands to make a lot of money from the sale of its shares which it tries to anticipate how to use for further expansion and development. The company is not required to repay the capital and the new shareholders get a right to future profits distributed by the company. (Guleria, 2009:10)

The process of underwriting involves raising money from investors by issuing new securities. Companies hire investment banks to underwrite an IPO.

It's hard enough to analyze the stock of an established company. An IPO company is even trickier to analyze since there will not be a lot of historical information. Look for the usual information, and at the same time pay special attention to the management team and how they

plan to use the funds generated from the IPO. At the same time we should analyze the underwriters as well. Successful IPO's are typically supported by the brokerages that have the ability to promote a new issue well.

2.1.10 The Underwriting Process

When shares are bought in an IPO it is termed primary market. The primary market does not involve the stock exchanges. A company that plans an IPO contacts an investment banker who will in turn called on securities dealers to help sell the new stock issue. This process of selling the new stock issues to prospective investors in the primary market is underwriting (Guleria, 2009:13).

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

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

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

Once all sides agree to a deal, the investment bank puts together a registration statement to be filed with the SEC. The document contains information about the offering as well as company info such as financial statements, management background, any legal problems, where the money is to be used and insider holdings. The SEC then requires a cooling off period, in which they investigate and make sure all material information has been disclosed. Once the SEC approves the offering, a date (the effective date) is set when the stock will be offered to the public.

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

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

2.2 Review of Articles and Journals

Pradhan (2008) studied the “*Market Behavior in Nepal*” and concluded that large stocks have large PE ratios; large ratios of the market value to book of equity and smaller dividends. PE ratios and dividend ratio are more variable for smaller stocks where as market value to book value of equity is more variable for the large stocks. Large stocks also have lower liquidity, higher leverage, lower profitability, and lower assets turnover interest coverage stocks. Smaller dividends, lower profitability, lower assets turnover, and lower interest coverage for large stock may be attributed to the fact that most of the large stocks are at their initial stage of operation. Stocks with larger market value to book value of equity, large PE ratios and lower dividends. Stock with large ratios large PE has large market value to book value of equity and smaller dividends ratios. However, their ratios of market value to book value of equity, and dividends are more variable for smaller stocks than for large stocks. Stocks with large PE ratios have lower liquidity, higher leverage, lower profitability, lower assets turnover, and lower interest coverage. However, liquidity, leverage, earning turnover, and interest coverage are all more variable for stocks with smaller PE ratios as compared to large ones. Stocks paying higher dividends have higher liquidity, lower leverage, higher earnings and higher turnover and higher interest coverage. However, liquidity and leverage ratios are more variable for the stocks paying lower dividends while earnings, assets turnover and interest coverage is more variable for the stocks higher dividends (*Pradhan;2008:36 SEBON Journal*).

Shrestha (2009) in his article “*Does IPO affect health of Companies*” published in the New Business Age. IPOs are also supposed to signal the health of companies making the IPO’s. There are two ways in which IPOs, after being announced, provide important signals about the company; one when they are announced and the other at the start of trading. Oversubscription of IPO’s after announcement signals a reasonably good health of the company and underpricing of shares as more and more investors try and take benefit of IPO. However, due to availability of loans from financial institutions, the true picture of the company may no longer prevail. This could be due to asymmetric information as even those who know little about stock valuation(primarily speculators rather than rational investors) may approach financial institutions from loans so that they could enjoy more from a short run performance of IPO’s. Shrestha further opines that there are data problems in Nepal to conduct a research not only in the capital market but in other fields too. This study found problems regarding the availability

of data according to the occupation. Opinion survey questionnaire, interview method would be instrumental in his research work. To understand the public response to market, the analysis should have incorporated both qualitative and quantitative approach of research. That is why; quantitative analysis of the public response has made the study utterly biased. He has mentioned that the secondary market of securities will play a significant role in boosting the primary market. Since the secondary market is the purview of his study, his way of justifying the condition of the secondary market is not as well as expected. No market price of shares has been analytically presented in the study. Nor does the study include dividend distribution of the companies. In absence of these characters, the failures of the primary market cannot solely be attributed to the secondary market. This study has been conducted devoid of the secondary market analysis.

Besides, more shares being allotted to bigger players in the market, informal buy sell deals happen even before the start of trading (because they could not win allotment during IPO), the price generally paid by the investors is more and the start of the trading day, we could well observe that the share prices are more than the normally expected and unrealistic (New Business Age, March 2006:49).

Robert and Nardin (2010) wrote in the journal of Financial Economics, entitled *Commonality in the Determinants of Expected Stock Returns*", they presented with evidence that the determinants of the cross section of expected stock return were stable in their identify and influence from period to period and from country. The determinants were related to risk, liquidity, price level, growth potential and stock price history. Out Of sample predications of expected returns, using moving average values for the pay-offs to these firm characteristics were strongly and consistently accurate. Two findings, however, distinguished their paper form others in the contemporary literature. First, the stock with higher expected and realized rate of return was unambiguously of lower risk than the stocks with lower returns. Second, they found that the important determinants of-expected stock returns were strikingly common to the major equity markets of the world. Given the nature of the texts, it was highly unlikely that those results may be attributed to bias or data snooping. Consequently, the result seems to reveal a major failure in the efficient market hypothesis.

Shrestha (2011) wrote an article entitled "*NRB Monetary Policy and Stock Market Impact*". According to him monetary policy directly affects stock prices. Taking all example of monetary policy announcement in 2004/05, he writes "NRB Monetary Policy had an impact on the performance of stock market as investors were lured into buying shares of commercial banks at higher market price with the expectation that banks would issues bonus shares to increase its capital base to Rs. 100 million. As a result, there had been tremendous demand for shares of commercial banks in every day transaction raising stock market index to unexpected highs."

Dangol (2012) wrote an article about "*Unanticipated Political Events and Stock Returns*". According to him Nepalese capital market is consistent with information content hypothesis, i.e. market reflects all political events concerned with capital market. Concluding the study he writes, "File study has provided the evidence that the good-news leads to the positive average prediction error. Similarly, the bad-news drills the negative prediction error on the post announcement period. Finally the data present important evidence on the speed of adjustment of market prices to new political information, i.e. in as many as 2 to 3 days from the announcement date. Thus the Nepalese stock market may be inferred to inefficient, but there is strong linkage between political uncertainty and common stock returns generation."(*Dangol; 2012: 42 The Republica Daily*)

2.3 Review of Previous Thesis

The review of previous thesis is as follows:

Pandey (2007), conducted a research on, "*Public response to Primary Issue of Shares in Nepal,*" has made followings objective and major findings:

Objectives:

-) To identify the problems of primary share issue market.
-) To assess the growth of primary issue market,
-) To analyze the pattern of public response to shares and find the reasons of variation.

Major findings:

-) Public response in primary market is high due to lack of opportunities for investment in other fields.
-) No proper investment analysis is been made. Despite this, public are attracted towards shares than other sectors, basically to increase their value of investment, be it dividend capital gain or bonus shares.
-) Public response to primary issues on Banking and Financial sectors is normally higher than that of the manufacturing and services sector.
-) Major causes for poor response in the period 1995-1998 were; interest rates were higher as compared to dividend yield, the public companies were not performing well and people did not know about the importance of investing securities.
-) Average interest rates have gone down, more can be obtained from investment in stock.

Pant (2008), who has done research on "*Public Response to IPO in Nepal*" with the following objectives and major findings:

Objectives:

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

The researcher used primary and secondary data both.

Major findings:

-) General investors in Nepal do not have sufficient information regarding the primary market and in spite of this they are interested in investing money in the primary market. They are more interested in financial sector than non-financial sector.
-) Initial public offering in Nepal seems to be irregular.
-) The organization's process of public offering is quite long, the service provided to the investors seems to be satisfactory.
-) Public response in stock market is high due to lack of opportunities for investment in other sector. Despite this, public are attracted towards shares to increase their value of investment.

Ojha (2009) conducted a research on '*Determinants of Stock Price in Nepal*' has made followings objectives and major findings:

Objectives:

-) To find out the major determinants of stock price fluctuation in Nepal.
-) To find out the volume of stock traded.
-) To explore the investor's awareness on stock market.
-) To analyze the pace of IPO and analyze the public response to the IPO.

The researcher used primary and secondary data both.

Major findings:

-) The trend of volume of stock traded was in fluctuating manner.
-) Signalling factors played major role while determining stock price.
-) Investor's awareness on stock market was weak.
-) Dividend and earning played the important role to fluctuate the share price.

Poudel (2010) conducted a research on "*A study on share price movements of Joint Venture Commercial Banks in Nepal*" by using financial and statistical tools following objectives and major findings are made.

Objectives:

-) To find out the major determinants of stock price fluctuation in Nepal.
-) To find out the behavior of risk averter and risk seeker.
-) To find the share price movements of Nepalese joint venture commercial banks.

The researcher used primary and secondary data both.

Major findings:

-) The market value per share does not accommodate all the available historical information.
-) The beta coefficient, which measures the riskiness of individual security in relative term, suggests that none of the shares of eight sampled banks are risky. Therefore, even a risk averter can go for making an investment in shares of these banks.

Timilsina (2011) conducted study on "*Dividends and stock prices*" taking 16 enterprises as sample from 1998 through 2010 has made followings objectives and major findings:

Objectives:

-) To find out the relationship between dividend per share and stock price.
-) To find out whether change in dividend policy affect the market price share or not.

Major findings:

-) The relationship between dividend per share and stock prices is positive in the sample companies.
-) Dividend per share affects the share prices variedly in different sectors.
-) Changing the dividend policy or dividend per share might help to increase the market price of shares.

The relationship between stock prices and lagged earnings price ratio is negative

Shrestha (2012) conducted on *The Public Response to Primary Issue of Shares in Nepal* has made followings objectives and major findings:

Objectives:

-) To identify the scope of primary marketing.
-) To find the growth of the primary market.
-) To analyze the public response to the IPO.

Major findings:

-) The scope of primary market is recent days in burgeoning by leaps and bounds.
-) Even the general investors are boisterously pumping up their savings in the new issue of shares causing over subscription to a great deal.
-) The growth of the primary market is encouraging since many public limited companies including joint venture Banks have been successful in tapping capital through the floatation of shares to the companies is a direct manifestation of the growing public confidence in the primary market.

-) Each and every company that came into the market has been successful in tapping the capital from the market and the issue closed within the minimum stipulated time of seven days with huge over subscriptions.
-) Issues of some foreign collaboration banks were oversubscribed to an extent of 19 times and this became simply overwhelming to the company concerned as well as to the issue managers which lead to delays in allotment of shares, refunding and distribution of share certificates to the allotted public.

2.4 Research Gap

Though there are many research studies relating to public response to IPO in Nepal, they failed to analyze the basis for distribution of shares, performance analysis of Issue Managers in the process of IPO and response for the margin lending restriction. For the primary data analysis this research has tried to involve more and more people from various sectors like bank, university, business. As in Nepal maximum investors are risk averters, this study also analyzed whether people prefer personal fund or loan for investment. Today's practice is that most investors apply with many names so that they could get more and more shares in IPO, so this research also takes individual investors responses whether they would prefer pro-rata basis for distribution or lucky-draw, which is also missing in other related researches to IPO.

CHAPTER - III

RESEARCH METHODOLOGY

This research being the opinion survey of the initial public offering, so the search is heavily dependent upon primary data. Based on that, the research is focused on the design as below.

3.2 Research Design

The research design adopted in this study is historical com descriptive. Therefore both primary as well as secondary data has been used for analysis. For the purpose finding the current status of the primary market the historical research methodology has been used and for knowing the response and the opinion of the primary market the descriptive search design will be used. Similarly as per the need of the research statistical and financial measures will be used for this purpose.

3.3 Population and Sample

The population for this study is the Initial Public Offering made by various organizations up to FY 2010/11. There are 210 Companies listed in Nepal Stock Exchange Limited till the September, 2012. To find out the public response to the Initial Public Offering, this study has divided in sector wise issue especially Financial Institutions and Insurance Sector and Non Financial Sector. The samples are properly selected, the characteristics of the sample will reflect that the population. Due to unavailability of reliable data this study has completed upon the base of selected sample from each sectors. It is More clear from the below table:

Population and Sample

Particulars	Listed No.	Sample Size	Percentage
Commercial Banks	24	7	29.16
Development Banks	61	27	44.26
Insurance Companies	21	9	42.86
Finance Companies	71	13	18.31
Non Financial Sector	24	11	45.83

(Source: www.nepalstock.com)

3.4 Sources of Data

For the requirement of the research a questionnaire was designed having 15 questions for the primary data collection. Hundred respondents (students, bankers, brokers, and others) were asked to fill the questionnaire. For the secondary data collection data from NIDC Capital Market, Citizen Investment Trust (CIT), and NMB Bank have been approached. At the same time, data from Annual Report of Security Board of Nepal from Fiscal Year 1993/94 to 2010/2011 has been taken.

3.5 Analysis Tools

Data obtained from various sources have no meaning unless they will be arranged and presented in a systematic way. The data has been collected from primary sources (questionnaires) and different secondary sources in raw forms, which are verified, simplified, classified and tabulated form for the purpose of analysis. Different statistical tools and technique are used while analyzing the data.

3.5.1 Statistical Tools

Statistical tools are the mathematical techniques used to facilitate the analysis and interpretation of the collected data. It is an essential tool to measure the relationship of two or more variables. "Statistical analysis is one particular language, which describes the data and makes possible to talk about the relations and the difference of the variables." (Gupta S.P., 1997:21). The main statistical tools which will be used to analyze the data are as follows:

3.5.1.1 Arithmetic Mean

Arithmetic mean is the average return over periods. Arithmetic mean of a given set of observation is their sum divided by the number of observations. To illustrate it, let's suppose that $X_1, X_2, X_3, \dots, X_n$ denote return of given 'n' number of respondents and \bar{X} is the arithmetic mean of the given observation. It is calculated by,

$$\bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{n}$$

$$\text{or } \bar{X} = \frac{\sum_{t=1}^n X_t}{n}$$

Where,

\bar{X} = Arithmetic mean

$X_1 + X_2 + X_3 + \dots + X_n$ = Set of observations

ϕX = Sum of all the values of the variable X

n = Number of observations

Multiple Bar- diagrams and Graphs

Diagrams and graphs are visual aids which give a bird's eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than two sets of data. Diagrams are in different types. Out of these various types of diagram one of the most important form of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristics of the same set of data have to be presented and compared.

3.6.1 Pie - diagram

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

3.6.2 Percentage

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

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

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

4.1 Approved and Issued by SEBON

4.1.1 Amount of Issue Approved

The Securities Exchange Act, 1963 has made mandatory that the issuing company should register the securities in Security Board of Nepal (SEBON) and get approval before going to public. For registration the company must submit its memorandum and prospectus with other securities related documents within prescribed format. After registering the securities the company must inform about any allotment or sale within seven days of allotment or sale. If the company is going to sell securities to more than 50 persons at once, it must publish this information for public purpose. The provisions regarding application period price and allotment are as per specification made by SEBON. The issuing company must publish its prospectus after approval of SEBON at any easily assessable media for public purpose. The prospectus should consist of general information of company, capital, its product, and services, legal provisions, economic conditions of issuing authority, management, information regarding its promoters.

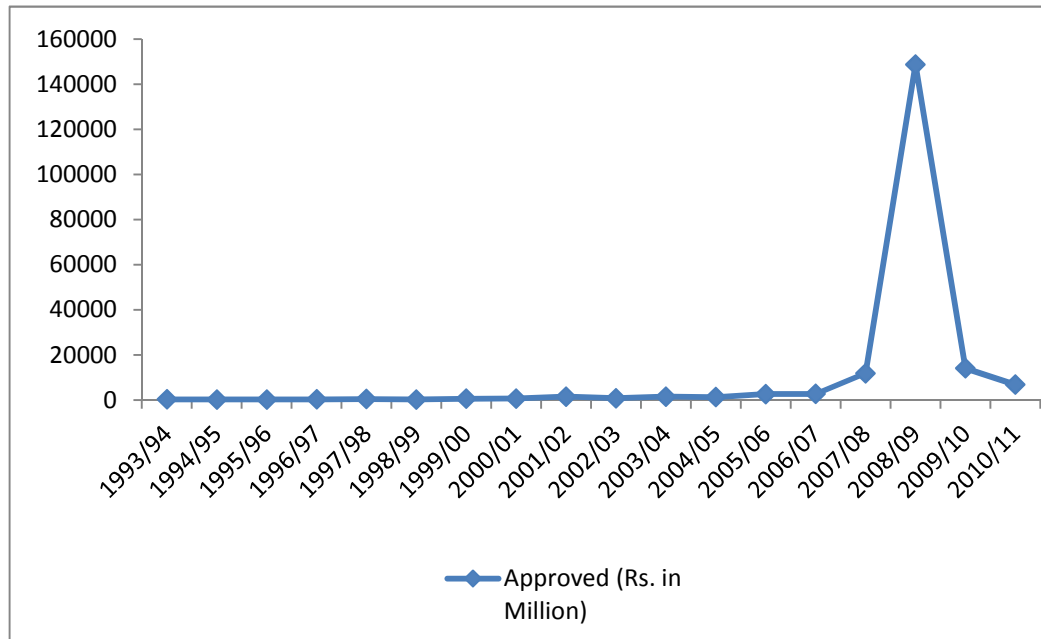
From the fiscal year 1993/94 to 2010/11 SEBON has approved 451 issues of securities amounting to Rs. 195595.99 million. The detail situation of issue approved in different year is presented in the table 4.1

Table: 4.1
Amount of Issue Approved

Year	Approved (Rs. in Millions)	% of Issue Approved
1993/94	344.4	0.182446081
1994/95	254.2	0.134662583
1995/96	293.7	0.155587729
1996/97	332.2	0.175983124
1997/98	462.4	0.244956643
1998/99	258	0.136675635
1999/00	630.3	0.333901756
2000/01	717.2	0.379937076
2001/02	1555.1	0.823815041
2002/03	853.6	0.452195048
2003/04	1547.2	0.819630012
2004/05	1315.8	0.69704574
2005/06	2692.1	1.426141387
2006/07	2757.6	1.460840047
2007/08	11895.6	6.30170034
2008/09	148751.2	78.80102623
2009/10	14107.45	7.473429038
2010/11	6827.8	3.617030632
Total	195595.99	

Source: SEBON Annual Report

Figure: 4.1
Security Issue Amount (million)



The table 4.1 and figure 4.1 shows the securities issue amount approved by SEBO/N vary during the period. The highest amount of issue approved was Rs.148751.2 million in the fiscal year 2008/09, which is 78.80 percentage of total issue till date. This is mainly because of IPOs and Right issues made by financial sector. They have been issuing shares to fulfill capital requirement obligations enforced by central bank. During last five years approved amount are in growing trend despite is fiscal year 2009/10, which indicates that companies are now fulfilled their capital through public offering of securities and right issues. Before the year 2001/02 issue amount is quite consistent and hovering around 150 million to 400 million. During this period Nepalese capital market was not so popular among investors. Only few investors of Kathmandu valley were trading. But, after 2002/03 more and more people entered in market. Specially, people who have been hard hit by Maoist people’s war found capital market as a good shelter for their money. Likewise, in the FY 2010/11 the amount of issue approved was Rs.6827.1 which is decreasing trend.

4.1.2 Number of Issue Approved

The number of issue approved is the total number of issue approved by the Security Board of Nepal. Before issuing securities, the issuing company must make approval from Security Board of Nepal (SEBON). For issue approval and registration, the company must submit

requited information within prescribed format otherwise SEBON may reject it. After registration and issue approval, the company must open issue within three month of issue approval. In case if the issue couldn't be made, then after another date should be fixed consulting with SEBO. The advertisement for application should be published in national daily news paper, the advertisement should consist all actual and real information. The advertisement should be able to identify application collection centre and its duration. The number of issue approved during the period of 1993/94 to 2010/11 varies differently which is presented in the table 4.2

Table: 4.2
Number of Issue Approved since 1993/94 to 2010/11

Year	No. of issue approved	% of issue approved
1993/94	16	3.54767184
1994/95	10	2.2172949
1995/96	12	2.66075388
1996/97	5	1.10864745
1997/98	12	2.66075388
1998/99	5	1.10864745
1999/00	6	1.33037694
2000/01	9	1.99556541
2001/02	12	2.66075388
2002/03	18	3.99113082
2003/04	14	3.10421286
2004/05	14	3.10421286
2005/06	29	6.430155211
2006/07	34	7.538802661
2007/08	72	15.96452328
2008/09	63	13.96895787
2009/10	72	15.96452328
2010/11	48	10.64301552
Total	451	100

Source: SEBON Annual Report

Figure: 4.2
Number of Issue Approved

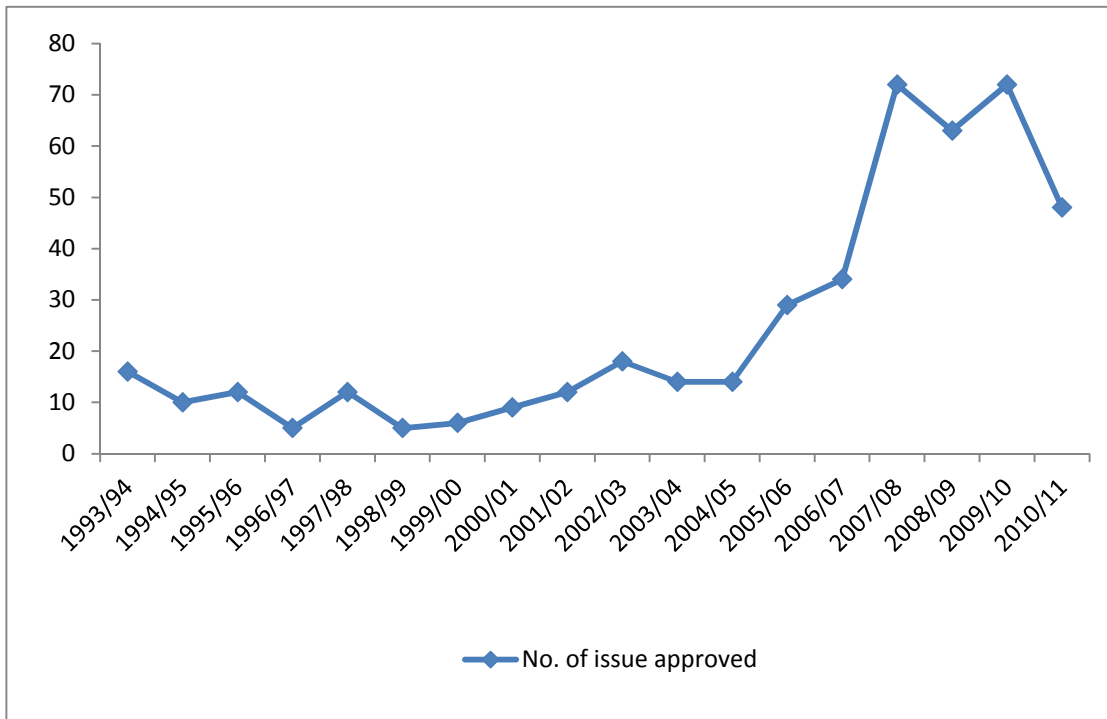


Table 4.2 and Figure 4.2 depict number of issues approved. The numbers of issues approved were 16 in fiscal year 1993/94 but at the end of fiscal year 2010/11 the total number of approved issue was reached to the point of 451 issues. The highest number of issue approved till date is 72 that is almost twice of previous year figure. Over the five years period number of issues has increased significantly. This is because of establishment of new financial institution. Before FY 2003/04 numbers of issues are varying every year showing inconsistency. In the FY 2009/10 there were highest no. of public issues approved i.e. 72.

4.1.3 Right offering since 1993/94 to 2010/11

The number of right offering during the period of 1993/94 to 2009/10 varies differently which is presented in the table below.

Table-4.3
Right offering since 1993/94 to 2010/11

Fiscal year	No of Issue	Issue Approved	Percentage of
	Approved	(Rs. in Millions)	Total Approval
1993/94	-	-	0
1994/95	-	-	0
1995/96	2	69	0.188422708
1996/97	3	275.2	0.751506221
1997/98	3	249.96	0.682581741
1998/99	1	30	0.081922917
1999/00	3	124.6	0.34025318
2000/01	2	131.79	0.359887372
2001/02	5	621.87	1.698180137
2002/03	4	162.24	0.443039133
2003/04	3	70	0.191153472
2004/05	6	949.34	2.592423386
2005/06	11	1013.45	2.767492659
2006/07	17	1265.3	3.455235543
2007/08	43	6793.4	18.55117137
2008/09	50	11615.4	31.71891483
2009/10	33	8173.04	22.31864246
2010/11	31	5075.2	13.85917287

Source: SEBON Annual Report

Figure: 4.3
Right offering

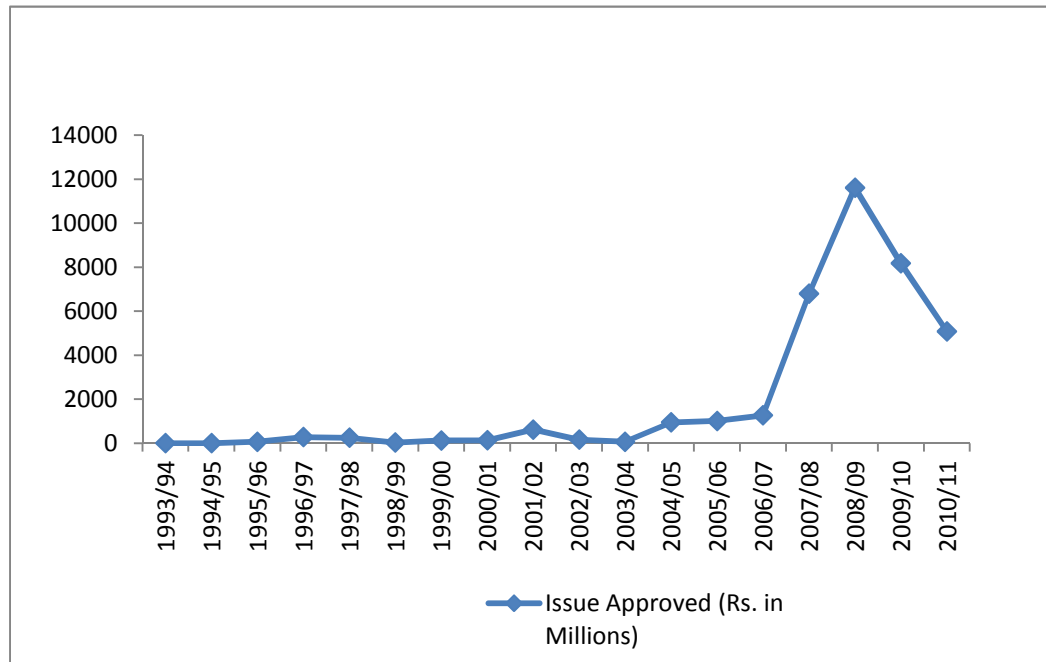


Table 4.3 and figure 4.3 shows the right offering of different companies during 1993/94 to 2010/11. In the year 1993/94 and 1994/95 there were no any right offering. The year 2008/09 has the highest offering at that time 50 companies comprising 8 commercial Bank, 11 developments Banks, 20 finance companies and 3 insurance companies issued right shares amounting to Rs.11615.4 million. The year 1998/99 has the lowest right offering (i.e. 30 million). In other periods the issued amount is moderate or fluctuating.

4.1.4 Over and Under Subscription of Securities

At the time of issue the demand for securities may be greater or lesser than the issuing amount. When the demand of securities is higher than issued securities, the situation is called the case of oversubscription but if the demand of securities is lower than issued securities that situation is called under subscription of securities. Below table 4.4 shows the oversubscription & under subscription of different companies from year 1993/94 to 2010/11, while issuing their Ordinary share to general public.

Table: 4.4
Over and Under Subscription of Securities since 1993/94 to 2010/11

Year	No. of issued Co.	Oversubscribed Co.		Under Subscribed Co.		Constant	
		No.	percentage	No.	%	No.	%
1993/94	14	14	100%	0	0	0	0
1994/95	10	8	80%	0	0	2	20%
1995/96	10	5	50%	5	50%	0	0
1996/97	2	2	100%	0	0	0	0
1997/98	8	6	75%	1	12.50%	1	12.50%
1998/99	3	3	100%	0	0	0	0
1999/00	3	3	100%	0	0	0	0
2000/01	7	7	100%	0	0	0	0
2001/02	5	4	80%	1	20%	0	0
2002/03	14	14	100%	0	0	0	0
2003/04	10	10	100%	0	0	0	0
2004/05	7	6	85.71%	1	14.29%	0	0
2005/06	14	14	100%	0	0	0	0
2006/07	15	15	100%	0	0	0	0
2007/08	16	16	100%	0	0	0	0
2008/09	12	12	100%	0	0	0	0
2009/10	28	28	100%	0	0	0	0
2010/11	47	47	100%	0	0	0	0
Total	225	214	95.11%	8	3.55%	3	1.33%

Source: SEBON Annual Report

The table 4.4 shows that during the period of Fiscal Year 1993/94 to 2010/11 out of the total listed companies only 225 companies issued their common stock for public and among them 214 companies (95.11%) have been oversubscribed and 8 companies (3.55%) have been undersubscribed and remaining 3 companies (1.33%) issue have been fully subscribed. Furthermore, those companies who issued shares to public in fiscal year 1994/95, 1995/96, 1997/98, 2001/02, 2004/05 were under subscribed. In these years issues of both financial and

non-financial sectors were undersubscribed due to different reasons i.e. lack of information, limited number of investors etc. Similarly, all those companies who issued their common stock in Fiscal Year 1993/94, 1996/97, 1998/99, 1999/00, 2000/01, 2002/03, 2003/04, 2005/06, 2006/07, 2007/08, have been oversubscribed. In 2008/09 there were 12 public issues, all of them were oversubscribed. Similarly all the issue of 2010/11 were also oversubscribed.

4.1.5 Year Wise Analysis of Different Securities with their Number and Amount

The year wise analysis of different securities issued from the fiscal year 1993/94 to the fiscal year 2010/11 is shown in the table 4.5 below.

Table: 4.5

Year wise analysis of different securities with their number and amount in million

Year	Ordinary Share		Right Share		Preference Share		Debenture	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1993/94	14	227.9	-	-	2	16.5	-	-
1994/95	10	173.93	-	-	-	-	-	-
1995/96	10	224.74	2	69	-	-	-	-
1996/97	2	57	3	275.2	-	-	-	-
1997/98	8	119.4	3	249.96	-	-	1	93
1998/99	3	148	1	30	1	80	-	-
1999/00	3	202.26	3	124.6	-	-	-	-
2000/01	7	278.7	2	131.79	-	-	-	-
2001/02	5	319.46	5	621.87	1	140	1	360
2002/03	14	394.3	4	162.24	-	-	-	-
2003/04	10	657.5	3	70	-	-	1	300
2004/05	7	377.48	6	949.34	-	-	1	300
2005/06	14	579.83	11	1013.45	-	-	4	850
2006/07	15	380.3	17	1265.3	1	400	1	250
2007/08	16	924.8	43	6793.4	-	-	5	2950
2008/09	12	1815.7	50	14262.8	-	-	2	750
2009/10	28	2659.37	33	8173.04	-	-	-	-
2010/11	16	1728.83	31	5075.2	-	-	1	50
Total	194	11269.5	217	39267.2	5	636.5	17	5903

Source: Annual Report of SEBON

Figure: 4.4
Year Wise Analysis of Securities

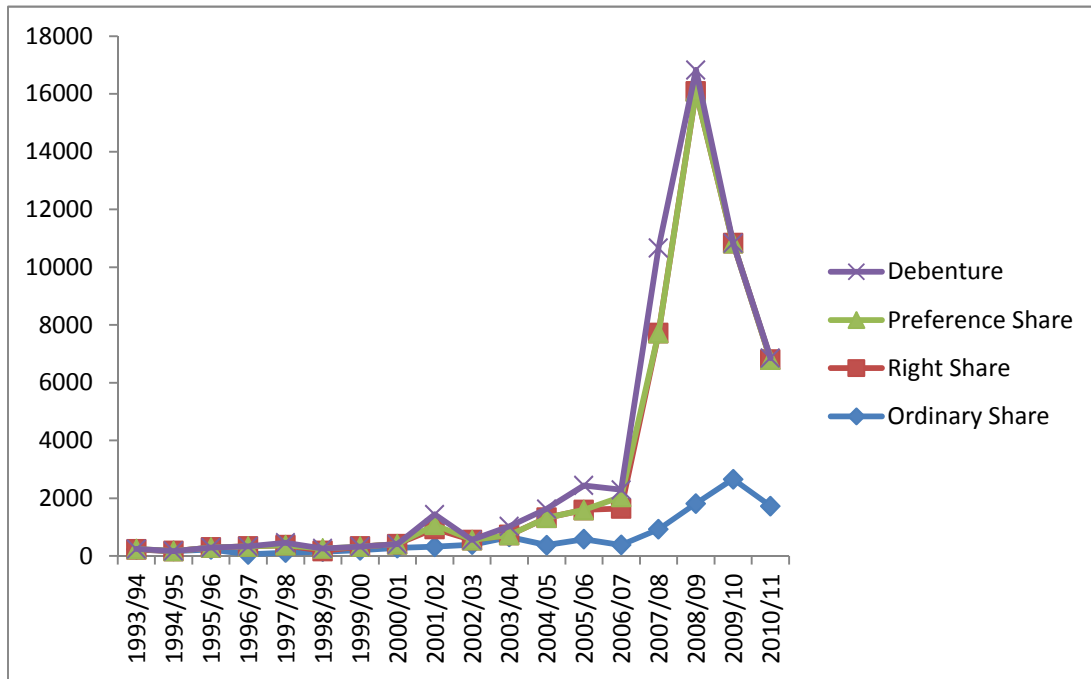


Table 4.5 and figure 4.4 show year wise analysis of different securities with their number and amount since 1993/94 to 2010/11. In fiscal year 1993/94 out of 16 different issues, 14 issues were ordinary shares of total amount of Rs.227.9 and 2 issues were preference shares of total amount of Rs.16.50 million. In the fiscal year 1994/95 out of 10 different issues, all 10 issues were ordinary shares total amount of Rs.173.96 million. In the fiscal year 1995/96 out of different 12 issues, 10 issues were ordinary shares of the total amount of Rs.224.74 and 2 issues were right shares of the total amount of Rs.69 million. In the fiscal year 1996/97 out of different 5 issues, 2 issues were ordinary shares of the total amount of Rs.57 million and 3 issues were right shares of the total amount of Rs.275.20 million. In the fiscal 1997/98 out of different 12 issues 8 issues were ordinary shares of the total amount of Rs.119.4 million, 3 issues were right shares of the total amount of Rs.249.96 million and 1 issue was debenture of the total amount of Rs.93 million. In the fiscal year 1998/99 out of different 5 issues 3 issues were ordinary shares of the total amount of Rs.148 million, 1 issue was preference shares of the total amount of Rs.80 million and 1 issue was right shares of the total amount of Rs.30 million, in the fiscal year 1999/2000 out of different 6 issues 3 issues were ordinary shares of the total amount of Rs.202.26 million and 3 issues were right shares of Rs.124.6million. Similarly in fiscal year 2000/01 out of 9 issues 7 issues were ordinary shares of Rs278.7

million and 2 issues were right shares of Rs131.79million. In the fiscal year 2001/02 out of 12 issues 5 issues were ordinary shares, 1 issue was preference shares, 5 issues were right shares, and 1 issue has issued debenture of Rs.319.46million, Rs.621.87million, Rs140 million, Rs360million respectively. Likewise, in the fiscal year 2002/03 out of 18 issues 14 issues were ordinary shares of Rs.394.3million and 4 issues has issued right shares of Rs.162.24 million. In fiscal year 2003/04 out of 14 issues 10 issues were ordinary shares, 3 issues were right shares and 1 issue was debenture of Rs.657.5million, Rs.70million, and Rs.300million respectively. In the fiscal year 2004/05 out of 14 issues 7 issues were ordinary shares of Rs377.48 million, 6 issues were right shares of Rs.949.34million and 1 issue was debenture of Rs.300million. In fiscal year 2005/06 out of 29 issues 14 issues were ordinary shares, 11 issues were right shares and 4 issues were debenture of Rs.579.89million, Rs1013.45million and Rs.850 million respectively. In the fiscal year 2006/07 out of 34 issues, 15 issues were ordinary shares, 17 were right shares, 1 was preference share, and another 1 was debenture of Rs.380.3million, Rs.1265.3million, Rs.400million, and Rs.250million respectively. And in the year 2007/08, out of 64 issues 16 were ordinary shares of Rs.924.8million, 43 issues were right shares of Rs.6793.4million and 5 issues debenture of Rs.2950million. There is huge increase in the share issue in 2008/2009 because of the big amount of right issue. Similarly there is an increase in the ordinary issue but due to fulfillment of capital to the FI's, the right issue is in decreasing trend. The total ordinary share issued is 194 amounting Rs. 11269.5 million from FY 1993/94 to 2010/11.

4.2 Public Response to Initial Public Offering

The total listed companies are divided into eight sectors by Nepal Stock Exchange Limited. which are Commercial Banks, Finance Companies, Development Banks, Insurance Companies, Manufacturing & Processing Companies, Trading Companies, Hotels and Others sector. Investors have to decide in which sector they want to made investment. As per objective, this study only concerned with the investors priority and response for the Initial Public Offering.

4.2.1 Public Response to Financial Sector

Financial Sector includes commercial banks, development banks, finance companies, insurance companies. Responses to the financial sector are presented below.

4.2.2 Public Response to Commercial Banks

According to the SEBON Annual Report 2010/11, there are 32 commercial banks but listed only 24 commercial Banks which are listed in Stock Exchange. All of these had issued their Share to public. Nepal Arab Bank Limited (NABIL Bank) is the first commercial bank to issue Share to public. Public issues of commercial bank are highly appreciated by public. Investors give high priority and response to the public issue. 7 samples of commercial banks for public response are as follows:

Table 4.6
Public Response to Commercial Banks

S.N.	Name of Companies	Issued Year	No. of Shares	Shares Applied	Sub. Times	Result
1	Bank of Katmandu.	1996	450000	2413485	5.3633	Over Subscribed
2	Everest Bank.	1995	360000	1851660	5.1435	Over Subscribed
3	Kumari Bank	2003	1500000	12170250	8.1135	Over Subscribed
4	Siddhartha Bank	2005	1500000	27979950	18.6533	Over Subscribed
5	Global Bank	2008	3000000	102750000	34.25	Over Subscribed
6	Sunrise Bank	2010	3750000	4753125	26.75	Over Subscribed
7	Agricultural Dev. Bank	2011	30375000	308306250	10.15	Over Subscribed

Source: Issue manager

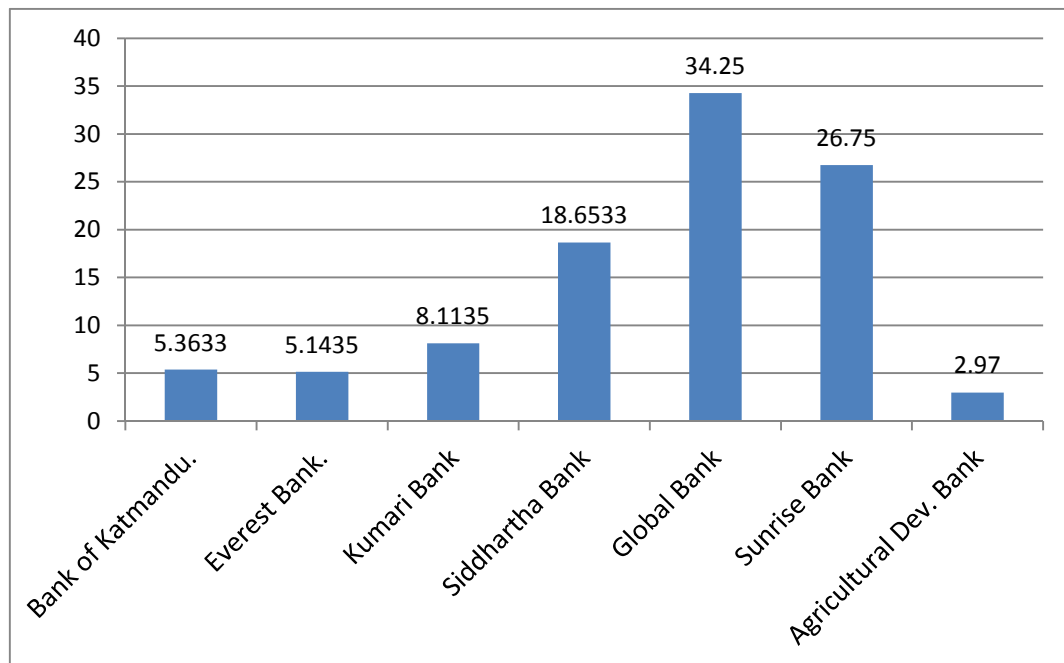
The above table 4.6 shows the information of seven different commercial banks with their number of shares issued and number of applications applied by the general public to the company. The public response to these companies is also shown. Bank of Kathmandu Limited had issued 450,000 units Share to the public. The investors applied for 2,413,485 Units Share. Subscription was approximately 5.36 times. This shows the medium response of the investors to the company. Similarly, Everest Bank issued 360,000 Units Share to the public. Public

applied for 1,851,660 Units Share. Subscription was approximately 5.14 times. Public response to this bank was also medium.

Like the way Siddhartha Bank and Kumari Bank both issued 15,00,000 units of shares. The investor applied for 27,979,950 units and 12,170,250 units for Siddhartha Bank and Kumari Bank respectively. Subscription was approximately 18.65 times and 8.11 times for Siddhartha Bank and Kumari Bank respectively. Similarly, Global Bank Limited issued 3,000,000 Units Shares for public. The applied Units were 102,750,000 which very above the issue size. Subscription was about 34.25 times. Public response to this company can be considered to be Very High. In the year 2010, there was a public issue of Sunrise bank Ltd. which was oversubscribed by 26.75 times. In the year 2011 the public issue of Agricultural development bank with 30375000 shares is oversubscribed by 10.15 times.

Table 4.6 also shows that investors are more interested to purchase the shares of commercial banks. Banking sectors of Nepal seems to be more successful to attract the investors. The above information is also shown in the figure 4.5.

Figure: 4.5
Public Response to Commercial Banks



4.2.3 Public Response to Development Banks

To analyze the public response to development banks, 27 companies are chosen as sample, which are shown in the following table below.

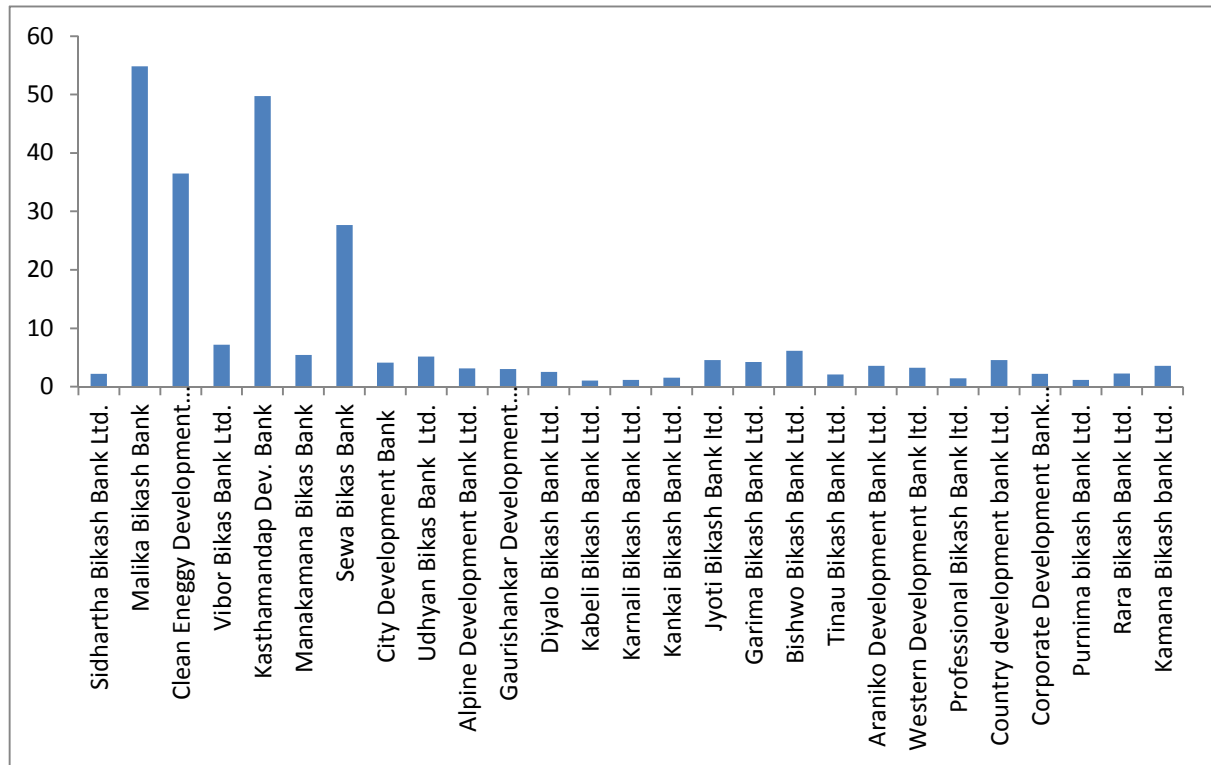
Table: 4.7
Public Response to Development Banks

S.N .	Name of the Company	Issued Year	No of Shares	Shares Applied	Sub. Times	Result
4	Sidhartha Bikash Bank Ltd.	2006	200000	444860	2.2243	Over Subscribed
5	Malika Bikash Bank	2007	150000	8,226,000	54.84	Over Subscribed
6	Clean Eneegy Development Bank	2008	960000	3,500,160	36.46	Over Subscribed
7	Vibor Bikas Bank Ltd.	2009	2652000	2,842,678.8	7.19	Over Subscribed
5	Kasthamandap Dev. Bank	2009	960000	47721600.0	49.71	Over Subscribed
6	Manakamana Bikas Bank	2010	3000000	16260000.0	5.42	Over Subscribed
7	Sewa Bikas Bank	2010	400000	11072000.0	27.68	Over Subscribed
8	City Development Bank	2010	2000000	8300000	4.15	Over Subscribed
9	Udhyan Bikas Bank Ltd.	2010	500000	2585000	5.17	Over Subscribed
10	Alpine Development Bank Ltd.	2010	1000000	3150000	3.15	Over Subscribed
11	Gaurishankar Development Bank Ltd.	2010	2000000	6080000	3.04	Over Subscribed
12	Diyalo Bikash Bank Ltd.	2010	1000000	2540000	2.54	Over Subscribed
13	Kabeli Bikash Bank Ltd.	2011	200000	210000	1.05	Over Subscribed
14	Karnali Bikash Bank Ltd.	2010	800000	920000	1.15	Over Subscribed
15	Kankai Bikash Bank Ltd.	2010	400000	628000	1.57	Over Subscribed
16	Jyoti Bikash Bank Ltd.	2010	7400000	3374400	4.56	Over Subscribed
17	Garima Bikash Bank Ltd.	2010	2000000	8500000	4.25	Over Subscribed
18	Bishwo Bikash Bank Ltd.	2010	2400000	14760000	6.15	Over Subscribed
19	Tinau Bikash Bank Ltd.	2011	1000000	2120000	2.12	Over Subscribed
20	Araniko Development Bank Ltd.	2011	2000000	7140000	3.57	Over Subscribed
21	Western Development Bank Ltd.	2011	500000	1630000	3.26	Over Subscribed
22	Professional Bikash Bank Ltd.	2010	1000000	1450000	1.45	Over Subscribed
23	Country development bank Ltd.	2011	3200000	14624000	4.57	Over Subscribed
24	Corporate Development Bank Ltd.	2011	2000000	4420000	2.21	Over Subscribed
25	Purnima bikash Bank Ltd.	2011	1000000	1150000	1.15	Over Subscribed
26	Rara Bikash Bank Ltd.	2011	2001000	4502250	2.25	Over Subscribed
27	Kamana Bikash bank Ltd.	2011	2000000	7180000	3.59	Over Subscribed

Source: Issue manager

Figure: 4.6

Public Response to Development Bank IPO



All the public issue of development banks we found over subscription all the time. That means public are also interested in development banks shares. Among them Malika Bikash Bank was highly subscribed in 2007, the subscription time was 54.84. Sidhartha bikash Bank issued 200,000 units of shares but the demand was 444,860 units. Subscription was approximately 2.2243 times. Similarly in year 2008 Clean Energy Development Bank issued 960,000 units of shares but the demand was approximately 36.46 times more. That is public applied for 3,500,160 units of shares. This also shows a very high level of subscription like Malika Bikash Bank in 2007.

In the year 2009, there was an IPO issue of Vibor Bank Ltd. which was oversubscribed by 7.19 times. In the year 2009 & 2010 the IPO of Kasthmandap Development Bank, Manakamana Bikas Bank and Sewa Bikas Bank were oversubscribed by 49.71, 5.42 & 27.68 times respectively. In the year 2011, there was an IPO issue of Tinau Bikash Bank Ltd.. which was oversubscribed by 2.12 Likewise, there was an IPO issue of Western Development Bank ltd, Country development bank Ltd, Corporate Development Bank Ltd , Purnima bikash Bank

Ltd, Rara Bikash Bank Ltd and Kamana Bikash bank Ltd oversubscribed by 3.26, 4.57, 2.21, 1.15, 2.25 and 3.59 respectively.

4.2.4 Public Response to Finance Companies

There are 71 Finance companies which had issued share to the public and listed in the Nepal Stock Exchange Limited. Almost of these companies received good response from general public. Among 71 Finance Companies 13 are taken for public response.

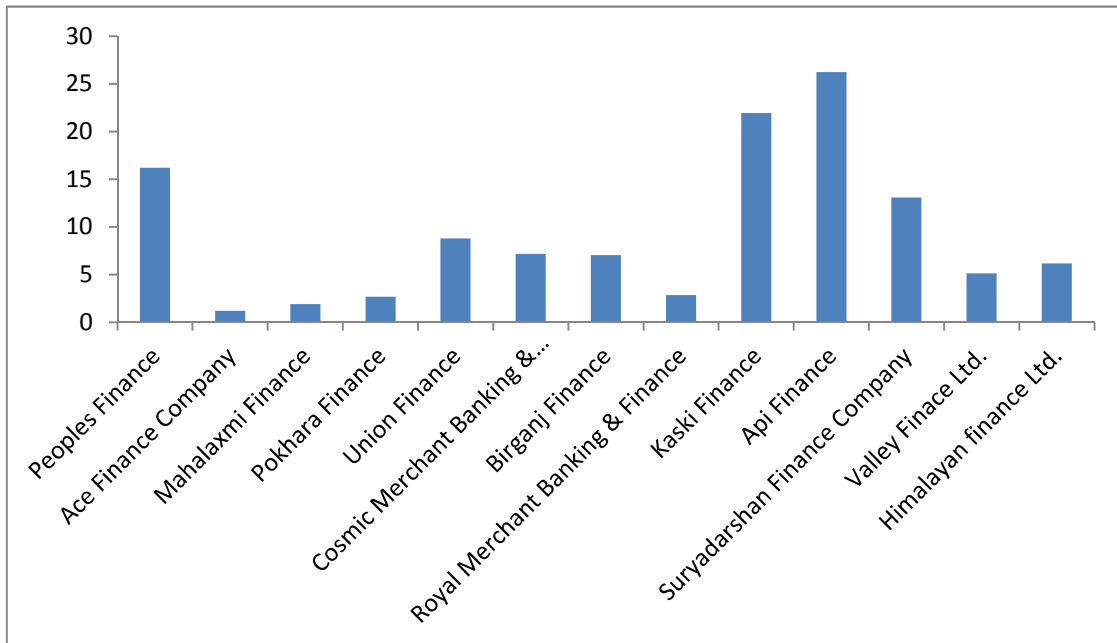
Table 4.8
Public Response to Finance Companies

S.N.	Name of Companies	Issued Year	No of Shares	Shares Applied	Subs. Times	Result
1	Peoples Finance	1994	98000	1588276	16.2069	Over Subscribed
2	Ace Finance Company	1996	120000	144876	1.2073	Over Subscribed
3	Mahalaxmi Finance	1998	100000	188520	1.8852	Over Subscribed
5	Pokhara Finance	1999	80000	212600	2.6575	Over Subscribed
6	Union Finance	2002	240000	2108136	8.7839	Over Subscribed
7	Cosmic Merchant Banking & Finance	2003	240000	1722792	7.1783	Over Subscribed
8	Birganj Finance	2004	240000	1690752	7.0448	Over Subscribed
9	Royal Merchant Banking & Finance	2006	175000	495775	2.8330	Over Subscribed
10	Kaski Finance	2008	200000	4386000	21.93	Over Subscribed
11	Api Finance	2009	180000	227214	26.23	Over Subscribed
11	Suryadarshan Finance Company	2010	400000	5216000	13.07	Over Subscribed
12	Valley Finace Ltd.	2011	1280000	6553600	5.12	Over Subscribed
13	Himalayan finance Ltd.	2011	1400000	8610000	6.15	Over Subscribed

Source: Issue manager

Figure: 4.7

Public Response to Finance Company IPO



The above table 4.8 and bar figure 4.7 show the status of IPO of different finance company over the same period. All the IPO's presented in the table are oversubscribed that shows the popularity of IPO made by finance companies. Among these companies People's Finance Company's IPO was oversubscribed by 16 times. PFL issued 90,000 shares while KFL issues 200,000 shares. Out of the 10 IPO's ACE's IPO received lowest attention from public, although it was oversubscribed by 1.21 times. Ace issued 180,000 shares but received applications for 144,876 shares. In 2009, there were two IPO's of finance companies – Crystal finance and Api finance. Among these two the IPO of Api finance was oversubscribed by 26.23 times. In the year 2010 the IPO of Suryadarshan finance co. was oversubscribed by 13.07 times. In the year 2011 the IPO of valley Finance and Himalayan Finance Ltd. was oversubscribed by 5.12 and 6.15 respectively.

Among these 11 finance company IPO, two IPOs were highly oversubscribed (22 & 16 times), whereas three had medium public response (7 to 9 times) and five IPO's have lower oversubscription rate (more than one to 3 times). This shows that investors are more interested to purchase the shares of finance companies. Finance companies are also getting successful to attract investors.

4.2.5 Public Response to Insurance Companies

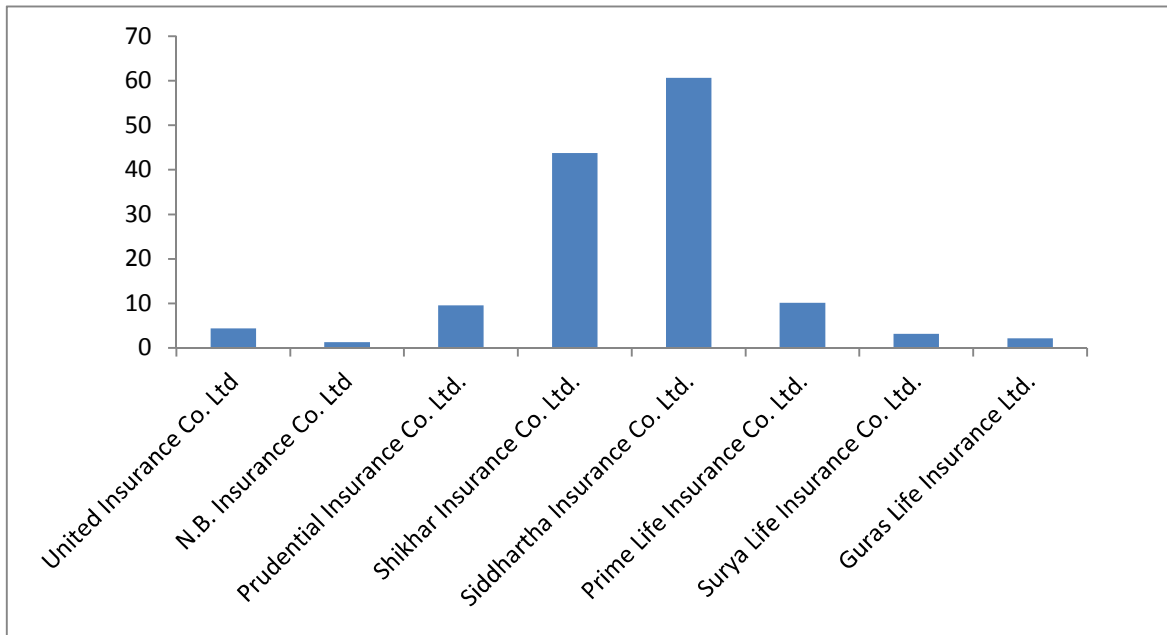
Out of 21 insurance companies, 9 were taken for research. Which are shown in the following table 4.9

Table 4.9
Public Response to Insurance Company

S.N.	Name of Companies	Issued Year	No of Issued Shares	Shares Applied	Subs. Times	Public Response
1	United Insurance Co. Ltd	1994	240000	1056360	4.4015	Over Subscribed
3	N.B. Insurance Co. Ltd	2003	200000	265380	1.3269	Over Subscribed
4	Prudential Insurance Co. Ltd.	2004	200000	1913620	9.5681	Over Subscribed
5	Shikhar Insurance Co. Ltd.	2006	250000	10939650	43.7586	Over Subscribed
6.	Siddhartha Insurance Co. Ltd.	2007	250000	15157500	60.63	Over Subscribed
7.	Prime Life Insurance Co. Ltd.	2010	1080000	10983600	10.17	Over Subscribed
8.	Surya Life Insurance Co. Ltd.	2010	3600000	11412000	3.17	Over Subscribed
9.	Guras Life Insurance Ltd.	2011	3600000	7740000	2.15	Over Subscribed

Source: Issue manager

Figure: 4.8
Public Response to Insurance Company IPO



The above table 4.9 and figure 4.8 shows the public response to six different insurance companies with issued and applied number of shares. According to the table all six IPOs were oversubscribed. Table shows that among six insurance companies three had medium public response (4.4, 9.57, and 10.85 times), one had low level (1.33 times) oversubscription rate and two have high oversubscription rate (43.76 and 60.63 times). This shows that investors are more interested to purchase the shares of insurance companies. SHICL and SICL both received flood of application when they floated 250,000 shares in the year 2006 and year 2007 respectively. SHICL received applications for 10,939,650 shares which were 43.76 times of its issues. Similarly, SICL received application for 15,157,500 shares in response of 350, 000; 60.63 times more than that issued shares. The main factor behind this oversubscription was management and BOD of the companies and market sentiment. Well-known personalities of financial sector were involved in these companies and the stock market was in boom at that time. Contrary to these issues, NBICL received 265,380 shares for its 200,000 issue, just 1.33 times more than its size. Because of the promoters bad reputation in market it received few applications. UICL received 4.40 times more application. UICL floated shares in 1994, at that time Nepalese security market was in its initial stage. Many people were not aware of IPO's and shares but these issues were acclaimed by investor that is because of the promoters and management team. These two issues made quite easy for PICL to raise capital through IPO. In

the year 2010 the IPO of Prime Life Insurance Co. was also oversubscribed. Likewise, in the year 2011 the IPO of Guras Life Insurance Ltd. was also oversubscribed by 2.15 times.

4.2.6 Public Response to Non Financial Sector

In Nepalese context, non financial sector does not seem to be performing well in the market in comparison to financial sector. Many such companies are not able to make profit. Some companies, like Necon Air Limited, were already dissolved. Non-Financial Sector includes manufacturing and processing companies, trading companies, hotels and others (which also include hydropower sector). Up to the fiscal year 2010/11 end, there are 36 non financial Sector companies listed. Among them 11 are taken for research.

Table 4.10
Public Response to Non Financial Sectors

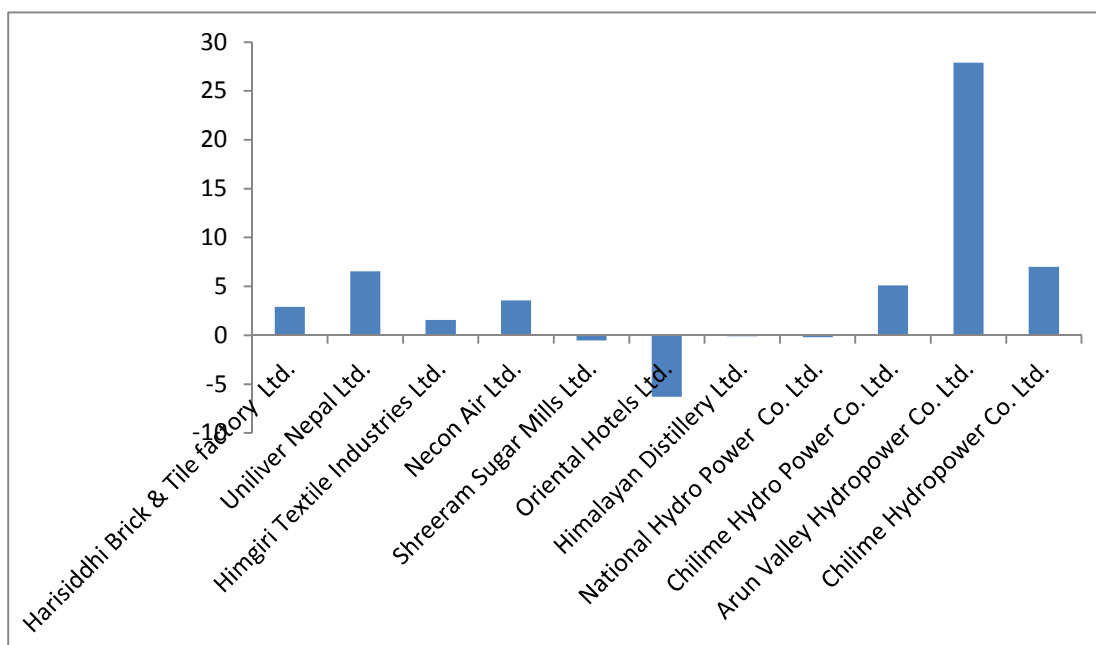
S.N	Name of Companies	Issued Year	Issued No of Shares	Shares Applied	Subs. Times	Public Response
1	Harisiddhi Brick & Tile factory Ltd.	1993	532,000	1,541,896	2.8983	Over Subscribed
2	Uniliver Nepal Ltd.	1994	138,000	901,844	6.5351	Over Subscribed
3	Himgiri Textile Industries Ltd.	1994	192,000	301,152	1.5685	Over Subscribed
4	Necon Air Ltd.	1994	165,000	588,407	3.5661	Over Subscribed
5	Shreeram Sugar Mills Ltd.	1997	465,000	245,985	-0.5290	Under Subscribed
6	Oriental Hotels Ltd.	2000	1,500,000	9,429,000	-6.2860	Under Subscribed
7	Himalayan Distillery Ltd.	2001	1,734,600	183,347	-0.1057	Under Subscribed

8	National Hydro Power Co. Ltd.	2004	1,400,000	301,700	-0.2155	Under Subscribed
9	Chilime Hydro Power Co. Ltd.	2005	2,374,100	12,104,111	5.0984	Over Subscribed
10	Arun Valley Hydropower Co. Ltd.	2009	5,150,000	6,586,335	27.89	Over Subscribed
11.	Chilime Hydropower Co. Ltd.	2010	2,370,000	16,590,000	7.00	Over Subscribed

Source: Issue manager

Figure: 4.9

Public Response to Non Financial sector



The above table 4.10 and figure 4.9 shows that the subscription of three companies are under subscribed and rest 6 companies are over-subscribed. Harisiddhi Brick & Tile Factory Ltd. had issued 532,000 unit shares and had received application for 1,541,896 unit shares. The public response to this company was medium with 2.8983 times subscription. Uniliver Nepal Ltd. and Himgiri Textile Industries Ltd. issued 138,000 units and 192000 units shares, had received application for 901,844 units & 301,152 shares. The response to these companies was also medium with 6.5351 & 1.5685 times respectively. Necon Air Limited issued 165,000 unit

shares for which application was received for 588,407 unit shares. This shows the subscription times to be 3.5661 and hence the public response was medium. Likewise, the public response was medium to the Oriental Hotels with subscription of 6.2860 times. This company had issued 1,500,000 unit shares and had received application for 9,429,000 unit shares. Shreeram Sugar Mills Ltd. had issued 465,000 unit shares and had received application for 245,985 unit shares. The public response to this company was too low with 0.5290 times subscription. Similarly Himalayan Distilary Ltd. and National Hydropower Company Ltd. issued 1,734,600 units & 1,400,000 units shares and had received application for 183,347 units & 301,700 shares. The responses to these companies were too low with 0.1057 & 0.2155 times respectively. In 2009 there was an IPO of Arun Valley Hydropower Co. the IPO of which was highly oversubscribed by 27.89 times. Chilime Hydropower Company Ltd. had issued 2,370,000 unit shares and had received application for 16,590,000 unit shares. The public response to this company was medium with 7 times subscription.

4.3 Analysis of Primary Data

To make the study more realistic primary data has been taken for analysis. For this purpose a questionnaire (see appendix) was designed. Questionnaire was distributed to 100 respondents' students, businessmen, bankers, brokers and regulator for their responses. out of 100 respondents for the primary data collection, 20% (20) are students, 25% (25) are businessman, 15% (15) are bankers, 30% (30) are brokers and rest 10% (10) are regulators. Investors have mixed feelings on the primary market in Nepal. For the primary data collection 100 respondents from bank, business, university student and brokerage firm and investors have been taken as sample.

4.3.1 Knowledge about IPO

The survey reveals that majority of respondents knows about IPO. They are asked either they have knowledge of IPO or not? The finding is presented below in the table and pie chart.

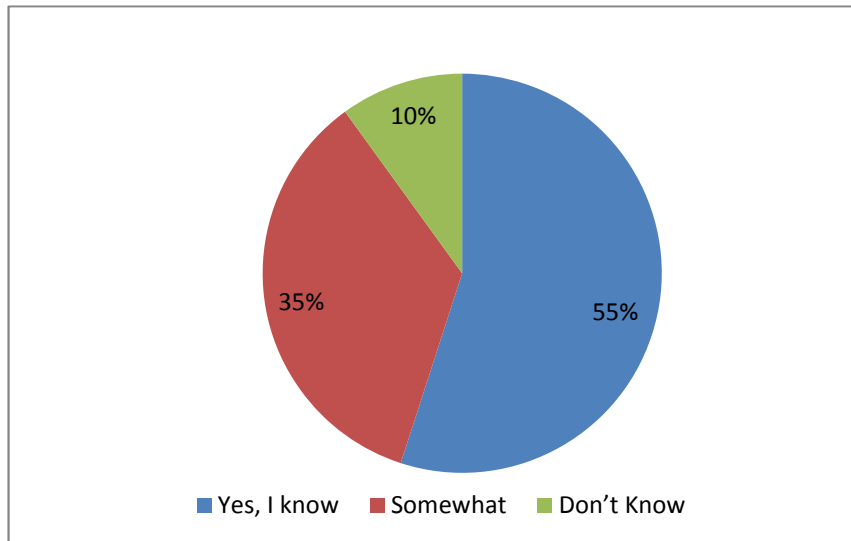
Table 4.11

Showing response from the participants

S.N	Response	Numbers	Percentage
1.	Yes, I know	55	55
2.	Somewhat	35	35
3.	Don't Know	10	10
Total		100	100

Figure 4.10

Showing response from the participants



These figures show that most of the people (55 percent) of the respondents have knowledge about IPO and 35 percent of respondent have little bit knowledge. Similarly, 10 percent of the respondents are completely unaware of IPO. A chunk of University student and bank staffs were familiar with IPO. But, minority of them responded with negative answer. Similarly Investors labeled their knowledge as 'somewhat' and 'yes'.

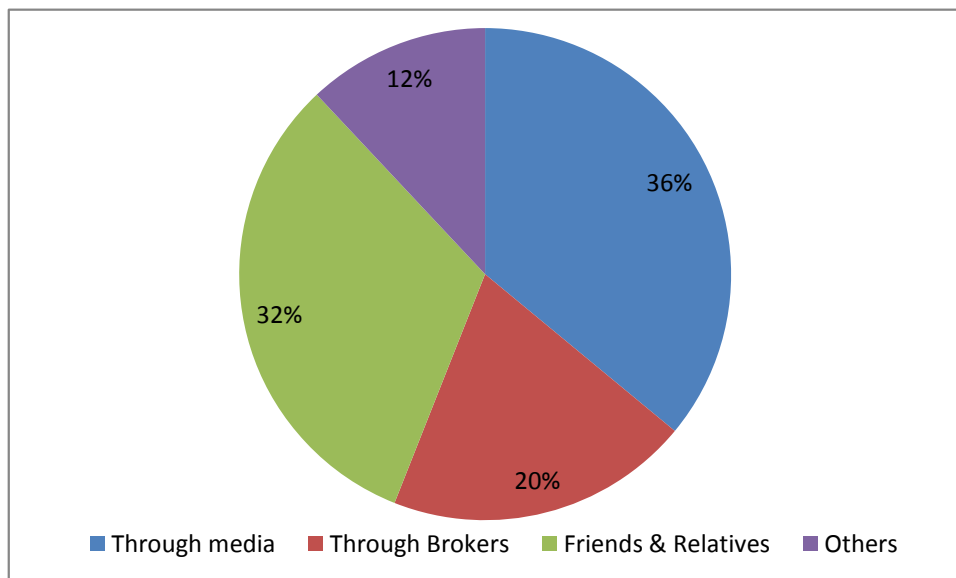
4.3.2 Sources of information about IPOs

Out of 100 respondent most of the respondents 36%, gets information through media.32% through friends & relative and 20% and 12% through brokers & others sources respectively. This is more clear from the following table and figure.

Table 4.12
Showing sources of information about IPO

S.N	Alternative	No of Response	%age
1	Through media	36	36.00
2	Through Brokers	20	20.00
3	Friends & Relatives	32	32.00
4	Others	12	12.00
Total		100	100

Figure 4.11
Showing sources of information about IPO



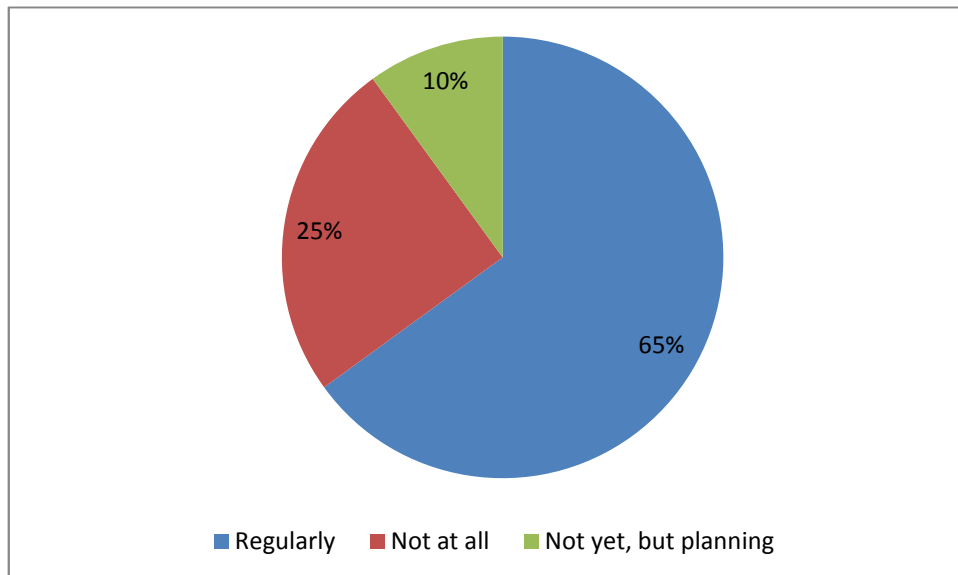
4.3.3 Investing through IPO

100 respondents were asked whether they are investing on IPO or not. The result shows, most of the respondents from different sector were investing in shares through IPO. The detail is shown in the table and figure below.

Table 4.13
Showing investing interest on IPO

S.N	Alternative	No of Response	%age
1	Regularly	65	65.00
2	Not at all	25	25.00
3	Not yet, but planning	10	10.00
Total		100	100

Figure 4.12
Showing investing interest on IPO



From the above table 4.13 and figure 4.11 shows the respondents interest on Nepalese capital market through IPO. Out of 100 respondents 65% are investing regularly. 25% are not investing in IPO and around 10% are planning for IPO.

4.3.4 Habit of reading Prospectus before investment.

While investing in shares issued by different companies everyone should have the habit of reading prospectus of that particular company. The prospectus gives lots of information about the company. To know the prospectus reading habit 100 respondents result through questionnaire are shown in the following table 4.14 and figure 4.12.

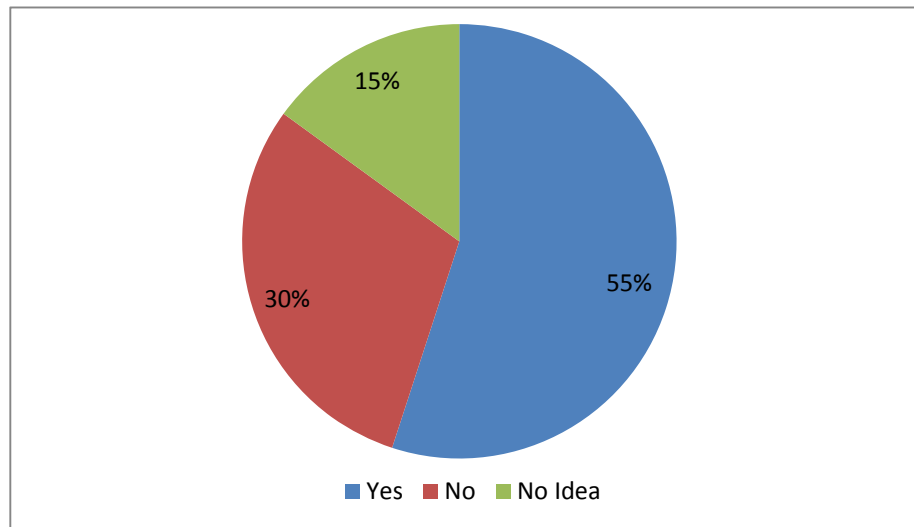
Table 4.14

Showing habit of reading prospectus before investment.

S.N	Alternative	No of Response	%age
1	Yes	55	55.00
2	No	30	30.00
3	No Idea	15	15.00
Total		100	100

Figure 4.13

Showing habit of reading prospectus before investment.



While going to public Companies issue their prospects, to show their image in the market. This question was related with this. The investor has asked do they read prospects before the investment. The reply is quite satisfactory. 55% investor read the prospects before they invest their money, 30% investor does not consider the prospects, while investing and 15% investors have no idea.

4.3.5 Selection of company for investment.

The question was asked to know why the investor chooses the particular company to investment. This question was asked with four alternatives. The result is shown in the table and figure below.

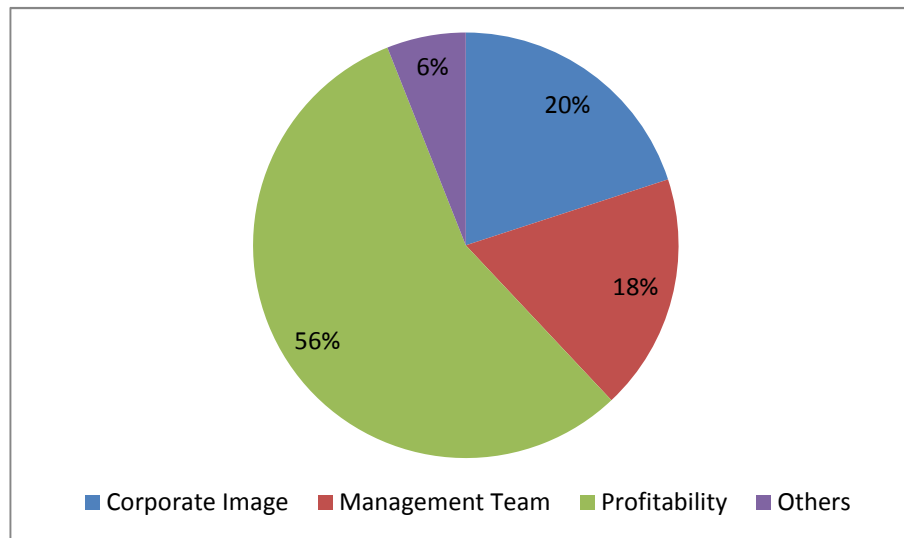
Table 4.15

Showing selection of company for investment.

S.N	Alternative	No of Response	%age
1	Corporate Image	20	20.00
2	Management Team	18	18.00
3	Profitability	56	56.00
4	Others	6	6.00
Total		100	100

Figure 4.14

Showing selection of company for investment



Out of 100 respondents most of them (56%) select the company for their profitability. Likewise, 20% choose their company for their corporate image, 18% choose for the management team of the company and 6% select the company for other reasons.

4.3.6 Motivating factor for invest in IPO

The question was designed to know the motivating factor for investment. Most of the respondents said as their motivating factor for investment was high profitability opportunity in short period of time.

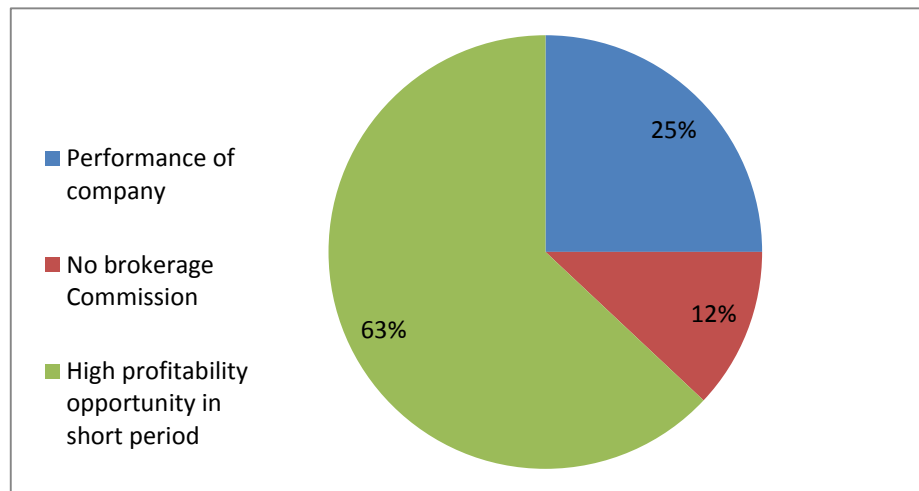
Table 4.16

Showing the motivating factor for invest in IPO.

S.N	Alternative	No of Response	%age
1	Performance of company	25	25.00
2	No brokerage Commission	12	12.00
3	High profitability opportunity in short period	63	63.00
Total		100	100

Figure 4.15

Showing selection of company for investment



While investing, the motivating factor plays a vital role. What factors really motivate the investor to invest in shares? Out of 100 respondents most of them, around 63.00% invest in IPO for high profitability in a very short period of time with a very low risk. 12.00% invest in IPO as there is no brokerage commission and 25% invest for the performance of the company.

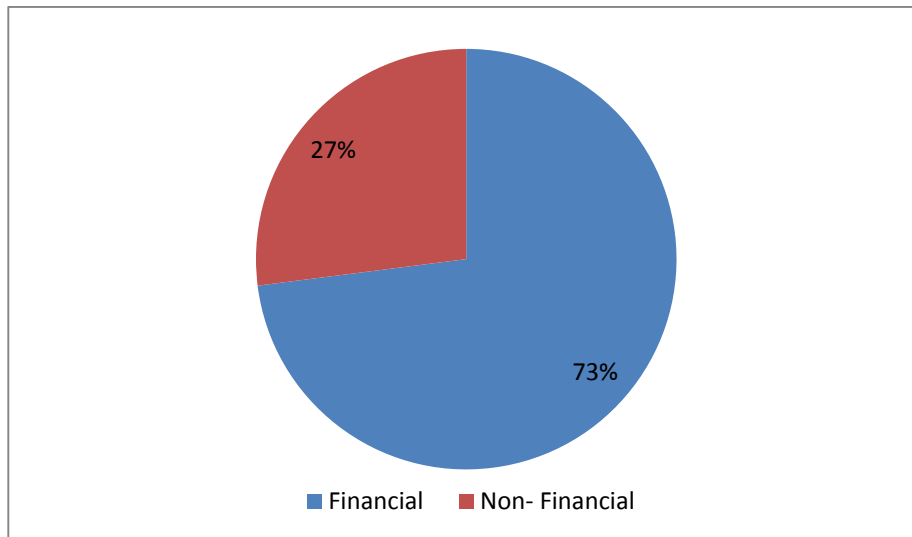
4.3.7 Preferred Sector for Investment

100 respondents from different sector were asked which sector they prefer to invest in, the result is shown in the figure below.

Table 4.17
Showing preferred sector for investment.

S.N	Alternative	No of Response	%age
1	Financial	73	73.00
2	Non- Financial	27	27.00
Total		100	100

Figure 4.16
Showing preferred sector for investment.



Most of the investors prefer to invest in the financial sectors rather than in non financial sectors. Among 100, 73% said that they prefer financial sectors while 27% said they prefer non financial sectors.

4.3.8 Preferred Financial Sector for Investment

Among the 100 respondents, 48% prefer commercial bank, 25% prefer development bank, 15% prefer finance company and only 12 prefer Insurance company for investment in financial sector.

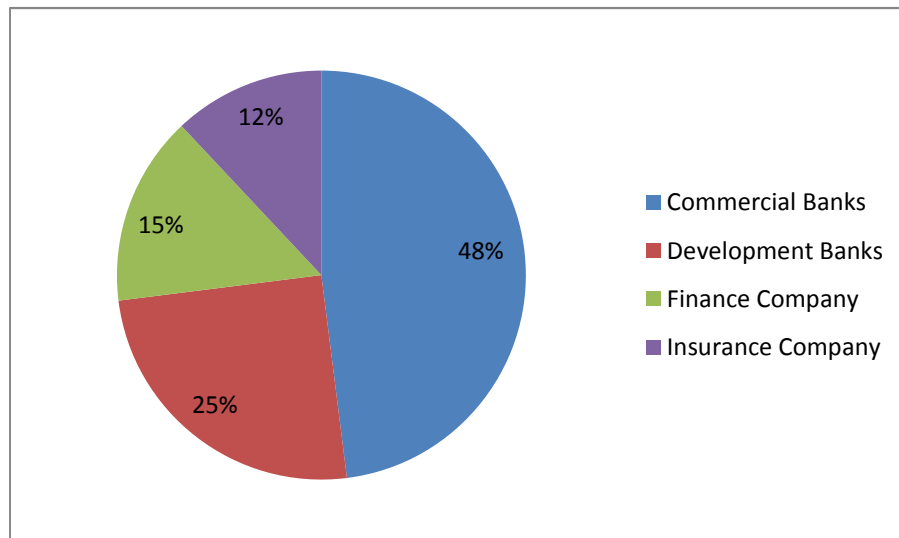
Table 4.18

Showing the preferred financial sector for investment.

S.N	Alternative	No of Response	%age
1	Commercial Banks	48	48.00
2	Development Banks	25	25.00
3	Finance Company	15	15.00
4	Insurance Company	12	12.00
Total		100	100

Figure 4.17

Showing the preferred financial sector for investment.



Most of the investors, 48%, said that they prefer to invest in Commercial Banks. 25% people said they prefer to invest in Development Banks. Investors preferring to invest in finance companies and insurance companies are 15% and 12% respectively.

4.3.9 Preferred Non-Financial Sector for Investment.

Among the 100 respondents for the question which non- financial would you prefer to invest in, the responses are as follows:

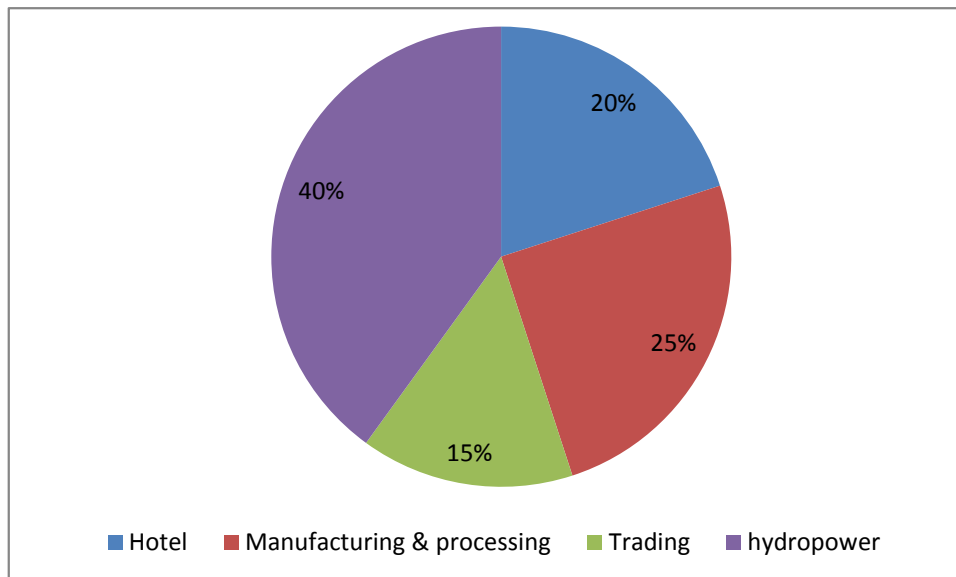
Table 4.19

Showing the preferred non- financial sector for investment

S.N	Alternative	No of Response	%age
1	Hotel	20	20.00
2	Manufacturing & processing	25	25.00
3	Trading	15	15.00
4	hydropower	40	40.00
Total		100	100

Figure 4.18

Showing the preferred non- financial sector for investment



Among non financial sectors, Others sector which include hydropower sector too were in investor's preference. Survey done among 100 investors 20% said they prefer to invest in hotel. 25% said they prefer to invest in manufacturing and processing companies. 15% prefer to invest in trading and only 40% preferred for hydropower sector.

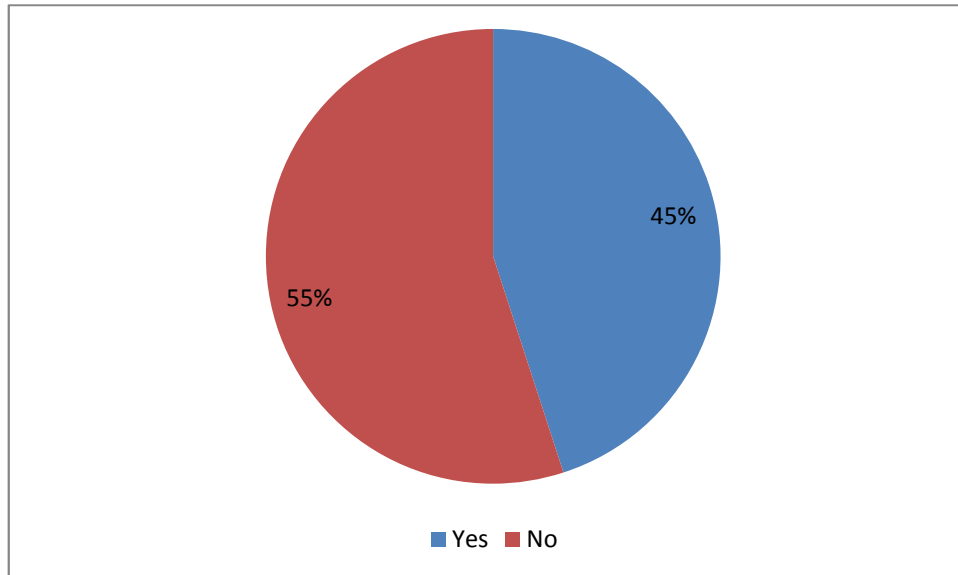
4.3.10 is the present condition of Nepal is suitable for investment?

This question was designed to know the investors response for investment in the current situation. The result is shown in the figure below.

Table 4.20
Showing present condition of Nepal for investment.

S.N	Alternative	No of Response	%age
1	Yes	45	45.00
2	No	55	55.00
Total		100	100

Figure 4.19
Showing present condition of Nepal for investment.



Economic & Political factors have direct impact on capital market. As Economic & Political factors are not stable these days here in Nepal so asked 100 respondents that the present situation is suitable for investment 45% said yes and 55% said this is not the suitable situation for investment.

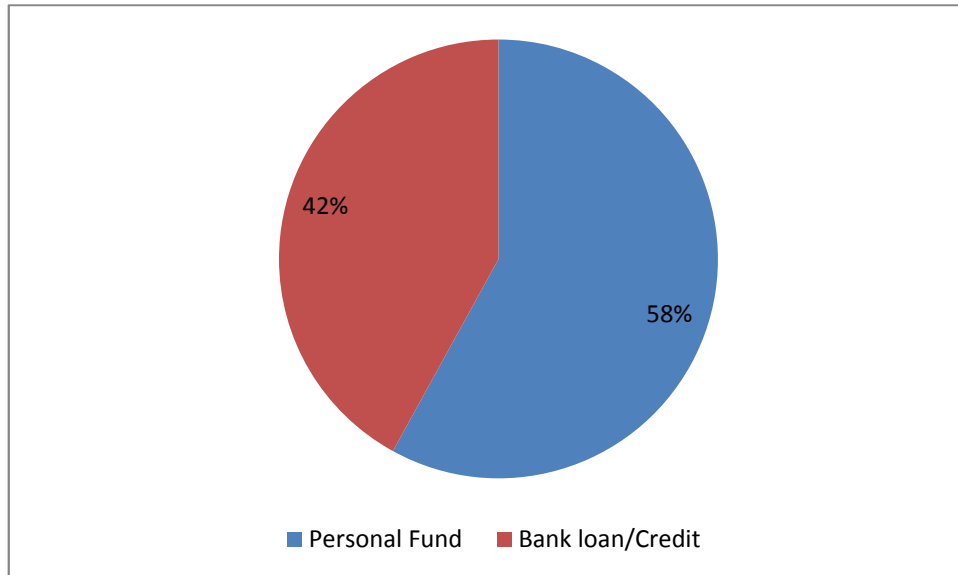
4.3.11 Utilization of fund while investing in IPO

The question was asked to know whether the investor use personal fund or take bank loan for investment. The result is shown in table below and in figure.

Table 4.21
Showing utilization of fund while invest in IPO.

S.N	Alternative	No of Response	%age
1	Personal Fund	58	58.00
2	Bank loan/Credit	42	42.00
Total		100	100

Figure 4.20
Showing utilization of fund while invest in IPO.



58%, the majority of respondents said that they use their own fund to invest in primary market. But 42% people used Bank loan for investment. It means 42% think they can earn more from investing in shares than the cost of loan or credit.

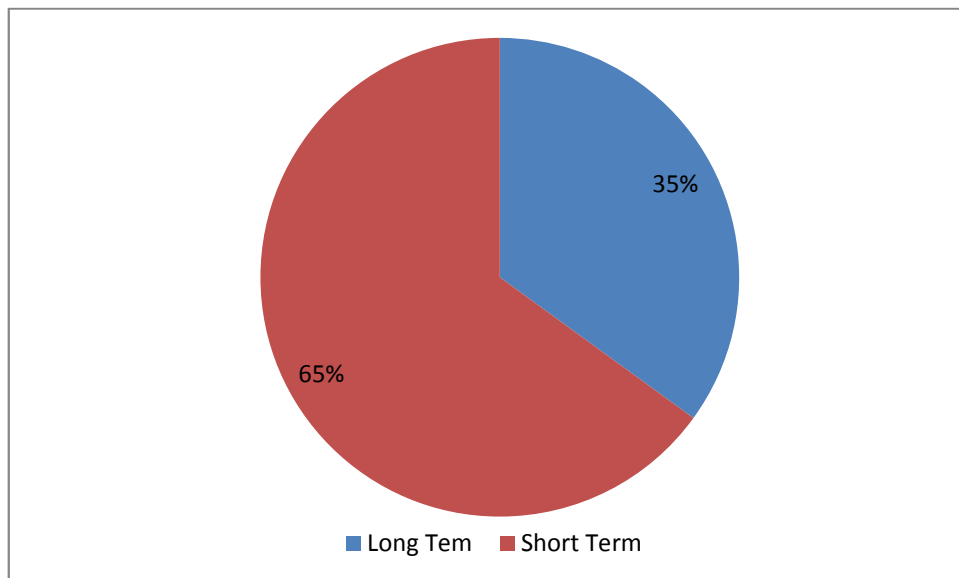
4.3.12 what type of IPO investor are you?

The question are asked to know whether the investor investing in IPO for the long term purpose or the short term purpose. The result is shown in the table & figure below.

Table 4.22
Showing type of IPO investor

S.N	Alternative	No of Response	%age
1	Long Term	35	35.00
2	Short Term	65	65.00
Total		100	100

Figure 4.21
Showing type of IPO investor



Out of 100 respondents only the respondents (35%) investing in IPO for long term purpose, that is they want to hold the shares for long time to get more benefit. Rests most of the 65% invest in IPO for short term purpose.

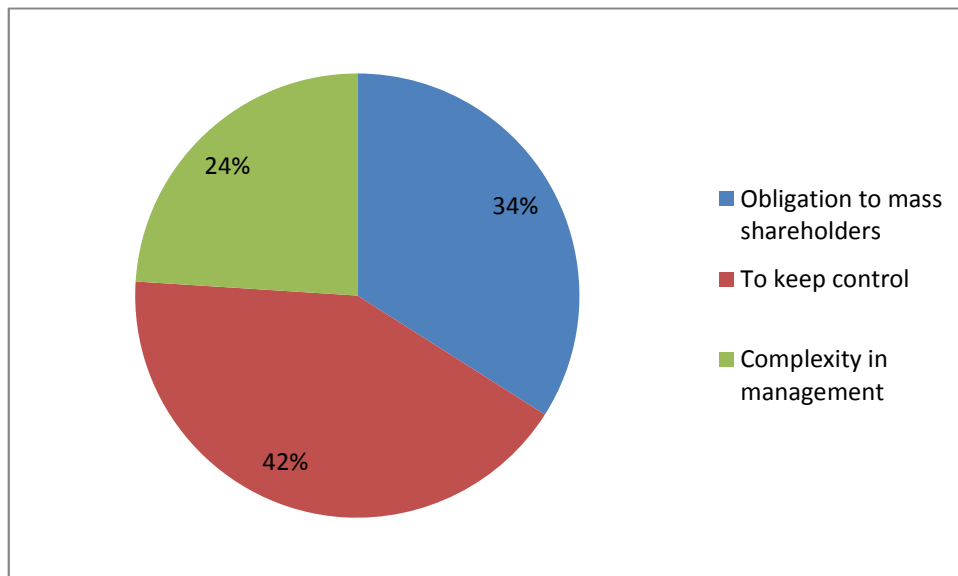
4.3.13 Reason that most of the firms do not like to go to public

This question was asked to know how the investors think about the reason for why the companies performing very well in the market do not like to go to the public. 100 respondents from different sector were asked. The result is shown in the table and figure below.

Table 4.23
Showing reason for not going to public

S.N	Alternative	No of Response	%age
1	Obligation to mass shareholders	40	34.00
2	To keep control	35	42.00
3	Complexity in management	25	24.00
Total		100	100

Figure 4.22
Showing reason for not going to public



Most of the companies do not want to go to public. Among 100 respondents 35% thinks control is the major reason for not going to public. Other 40% think they do not want to bear

the obligation to mass shareholders. And rest 25% thinks they don't want to go to public due to the Complexity in management.

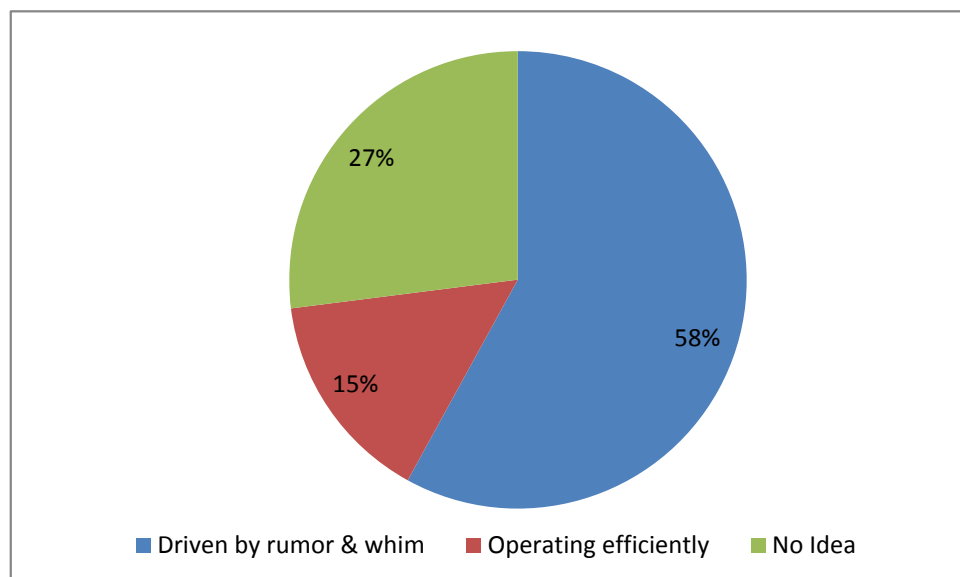
4.3.14 Public thinking about Nepalese Capital Market

This question was asked to different respondents to know their view about the Nepalese Capital Market. In the current situation most of the respondents thinks Nepalese Capital Market is driven by rumor & whim. The result is shown in the table & figure below.

Table 4.24
Showing thinking of Nepalese Capital Market

S.N	Alternative	No of Response	%age
1	Driven by rumor & whim	58	58.00
2	Operating efficiently	15	15.00
3	No Idea	27	27.00
Total		100	100

Figure 4.23
Showing thinking of Nepalese Capital Market



Out of the 100 respondents most of the respondents 58% said our capital market is driven by rumor & whim. 27% said they have no idea and 15% said it is operating efficiently in their response.

4.4 Major Findings of the study

The major findings on the basis of data analysis are as follows:

-) In the present circumstance, a single investor or a group of investor can adversely affect the market scenario. This is an underprivileged signal to the development of capital market.
-) From the fiscal year 1993/94 to 2010/11 SEBON has approved 451 issues of securities amounting to Rs. 195595.99 million. The highest amount of issue approved was Rs.148751.2 million in the fiscal year 2008/09, which is 78.80 percentage of total issue till date. This is mainly because of IPOs and Right issues made by financial sector.
-) In a year 2008/09, maximum, 72 companies have got approval from SEBON. Minimum 5 companies have got approved from SEBON in each of the year 1996/97, 1998/99.
-) Public response to the financial institutions and insurance sectors is higher than non financial sectors.
-) In the year 1995/96 it was poor response to primary issues. Major causes for poor response in that period were: interest rates were higher as compared to dividend yield, also the public companies were not performing well, and people did not know about the importance of investing in securities.
-) During the period of Fiscal Year 1993/94 to 2010/11 out of the total listed companies only 225 companies issued their common stock for public and among them 214 companies (95.11%) have been oversubscribed and 8 companies (3.55%) have been undersubscribed and remaining 3 companies (1.33%) issue have been fully subscribed.
-) In financial intuitions and insurance sector, the subscription of commercial banks was 14.26 times in average, and of development banks was 19.02 times in average. This shows the public response to development banks were greater or more than commercial banks. Past data shows that the average subscription of finance companies was 7.14 times while average subscription of insurance company was 21.76 times. Which shows the most responded sector was insurance sector.

- J In the non financial institutions the average subscription was 4.71 times. It shows non financial sector has got not such better response from the public. Last few years' experience shows that there are limited non financial sectors available in the country.
- J Investors are more interested to purchase the shares of commercial banks. Banking sectors of Nepal seems to be more successful to attract the investors.
- J In 2009 there was an IPO of Arun Valley Hydropower Co. the IPO of which was highly oversubscribed by 27.89 times. Chilime Hydropower Company Ltd. had issued 2,370,000 unit shares and had received application for 16,590,000 unit shares. The public response to this company was medium with 7 times subscription.
- J Investors are more interested to purchase the shares of insurance companies. In the year 2010 the IPO of Prime Life Insurance Co. was also oversubscribed. Likewise, in the year 2011 the IPO of Guras Life Insurance Ltd. was also oversubscribed by 2.15 times.
- J All the public issue of development banks we found over subscription all the time. That means public are also interested in development banks shares. In the year 2009, there was an IPO issue of Vibor Bank Ltd. which was oversubscribed by 7.19 times. In the year 2009 & 2010 the IPO of Kasthmandap Development Bank, Manakamana Bikas Bank and Sewa Bikas Bank were oversubscribed by 49.71, 5.42 & 27.68 times respectively. In the year 2011, there was an IPO issue of Tinau Bikash Bank Ltd.. which was oversubscribed by 2.12 Likewise, there was an IPO issue of Western Development Bank ltd, Country development bank Ltd, Corporate Development Bank Ltd , Purnima bikash Bank Ltd, Rara Bikash Bank Ltd and Kamana Bikash bank Ltd oversubscribed by 3.26, 4.57, 2.21, 1.15, 2.25 and 3.59 respectively.
- J Now-a-days the public response is highly positive , because people are aware, money flow in the market is higher, people now realize the importance of share investment, people have seen that most companies are distributing dividends, and lack of better alternatives for investment.

Major Findings of Primary Analysis

Along with secondary data, primary data was taken to justify the study on the topic. Both interviews and questionnaires methods were implemented for these purpose 100 respondents are appeared. The major findings on primary Analysis are as follows:

- J Most of the people (55 percent) of the respondents have knowledge about IPO and 35 percent of respondent have little bit knowledge. Similarly, 10 percent of the respondents are completely unaware of IPO. A chunk of University student and bank staffs were familiar with IPO. But, minority of them responded with negative answer
- J Out of 100 respondent most of the respondents 36%, gets information through media.32% through friends & relative and 20% and 12% through brokers & others sources respectively.
- J The respondents interest on Nepalese capital market through IPO, respondents 65% are investing regularly, 25% are not investing in IPO and around 10% are planning for IPO.
- J 55% investor read the prospects before they invest their money, 30% investor does not consider the prospects, while investing and 15% investors have no idea.
- J Most of them (56%) select the company for their profitability. Likewise, 20% choose their company for their corporate image, 18% choose for the management team of the company and 6% select the company for other reasons.
- J Most of them, around 63.00% invest in IPO for high profitability in a very short period of time with a very low risk. 12.00% invest in IPO as there is no brokerage commission and 25% invest for the performance of the company.
- J Most of the investors, 48%, said that they prefer to invest in Commercial Banks. 25% people said they prefer to invest in Development Banks. Investors preferring to invest in finance companies and insurance companies are 15% and 12% respectively
- J 20% investors said they prefer to invest in hotel. 25% said they prefer to invest in manufacturing and processing companies. 15% prefer to invest in trading and only 40% preferred for hydropower sector
- J As Economic and Political factors are not stable these days here in Nepal so asked 100 respondents that the present situation is suitable for investment 45% said yes and 55% said this is not the suitable situation for investment.
- J 58%, the majority of respondents said that they use their own fund to invest in primary market. But 42% people used Bank loan for investment. It means 42% think they can earn more from investing in shares than the cost of loan or credit.

-) only the respondents (35%) investing in IPO for long term purpose, that is they want to hold the shares for long time to get more benefit. Rests most of the 65% invest in IPO for short term purpose.
-) 35% thinks control is the major reason for not going to public. Other 40% think they do not want to bear the obligation to mass shareholders. And rest 25% thinks they don't want to go to public due to the Complexity in management.
-) Most of the respondents 58% said our capital market is driven by rumor and whim. 27% said they have no idea and 15% said it is operating efficiently in their response.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Primary market is the market for new securities. The key mechanism of primary market is initial public offering (IPO). The first time issuance of securities to the public is known as IPO. The securities market consists of new issue market and Stock Exchange. New securities are offered to the investors for the first time through Initial Public Offering. Primary market allows issuance of new securities in order to help the issuing companies to raise funds for starting new enterprise or for expansion and diversification of the existing ones. The securities market development in Nepal is in early stage of growth.

The basic objective of this study is to assess public response to the initial public offering; this study also focuses on the dealing process and the pace of the initial public offerings. The primary and secondary, both types of data are taken to analyze the objective of the study. Primary data are taken from direct questionnaire provided to the general investors. Secondary data are taken from the publication of SEBON, NEPSE and various merchant bankers.

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

Issuing company is free to choose one or more than one issue manager/s for the process of issuing the shares. Bankers to the issue also involve during this period. Issue manager has to publish a public notice in the national daily newspapers to offer public for investment. The notice must be published seven days before the application form distribute date. The issue

manager has to publish and distribute the prospectus. Prospectus make easy to the public to decide whether to invest their money in the share or not. The application period must not be more than one month. If issue managers think the required applications have been collected, they can close, anytime after one week, to receive application. If over application is received, the distribution of share should be decided through allotment procedure. For this purpose additional 40 to 90 days can be taken. After allotment within next 7 days the issue manager has to refund the money of those public whose application has not been accepted. Within 30 days of refund period the certificates has to be distributed and then listed in the secondary market

According to Securities Board, 451 issue approval of different companies for public issue during fiscal year 1993/94 to 2010/11. There are 210 companies listed in Nepal Stock Exchange Limited during this study. In fiscal year 2008/09 and 2010/11 maximum, 72 companies have got approval from SEBON. Minimum 5 companies have got approved form SEBON in each of the year 1996/97, 1998/99. Likewise in fiscal year 2010/11 is 48 companies which is decline in compare to previous fiscal year. Public response to the financial institutions and insurance sectors is higher than non financial sectors.

The public response priorities to commercial banks, development banks, financial sectors and non-financial sectors respectively. Past data shows that the average subscription of finance companies was 7.14 times while average subscription of insurance company seems 21.76 times. Which shows the most responded sector was insurance sector. Last few year's experience shows that there are limited non financial sectors available in the country that satisfied the investors.

Most of the people (55 percent) of the respondents have knowledge about IPO and 35 percent of respondent have little bit knowledge. Similarly, 10 percent of the respondents are completely unaware of IPO. A chunk of University student and bank staffs were familiar with IPO. But, minority of them responded with negative answer. Out of 100 respondent most of the respondents 36%, gets information through media.32% through friends & relative and 20% and 12% through brokers & others sources respectively. The respondents interest on Nepalese capital market through IPO, respondents 65% are investing regularly, 25% are not investing in

IPO and around 10% are planning for IPO. 55% investor read the prospects before they invest their money, 30% investor does not consider the prospects, while investing and 15% investors have no idea. Most of them (56%) select the company for their profitability. Likewise, 20% choose their company for their corporate image, 18% choose for the management team of the company and 6% select the company for other reasons. Most of them, around 63.00% invest in IPO for high profitability in a very short period of time with a very low risk. 12.00% invest in IPO as there is no brokerage commission and 25% invest for the performance of the company. Most of the investors, 48%, said that they prefer to invest in Commercial Banks. 25% people said they prefer to invest in Development Banks. Investors preferring to invest in finance companies and insurance companies are 15% and 12% respectively. 20% investors said they prefer to invest in hotel. 25% said they prefer to invest in manufacturing and processing companies. 15% prefer to invest in trading and only 40% preferred for hydropower sector. As Economic and Political factors are not stable these days here in Nepal so asked 100 respondents that the present situation is suitable for investment 45% said yes and 55% said this is not the suitable situation for investment. only the respondents (35%) investing in IPO for long term purpose, that is they want to hold the shares for long time to get more benefit. Rests most of the 65% invest in IPO for short term purpose. Most of the respondents 58% said our capital market is driven by rumor and whim. 27% said they have no idea and 15% said it is operating efficiently in their response.

This study has found that public response to the primary market is highly positive because people are getting aware of stock market, flow of money in the market is higher, people have realized the importance of the investment in shares, people have seen that most companies are distributing dividends, share prices of most companies are increasing and a lack of better alternative for investment. Public Response in stock market is high due to lack of opportunities for investment in other sector. Despite this, public are attracted towards shares to increase their value of investment.

5.2 Conclusion

Most of the general investors in Nepal do not have sufficient information regarding the primary market but still they are interested to invest money in the primary market. This is good sign to the expansion of the primary market. As per this study, almost every sector is getting

good response from general public. Specifically financial institutions and insurance sector is more preferable for general public than non financial sector. Pace of initial public offering in Nepal seems to be irregular. The highest amount of issue approved by the board was Rs.148751.2 million while the lowest amount of issue was Rs.254.21 million. If we see on the basis of sector, SEBON had granted 74% approval for financial institutions and insurance sectors and 26% approval for non financial sectors. Out of 16,772 million, the financial and insurance sectors paid up capital hold 72% and that of non financial sectors hold 28% (*SEBON Annual Report 2010/11*).

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

5.3 Recommendations

To make the IPO more efficient, effective and convenient, following suggestions are recommended on the basis of major findings:

-) Investing in shares is a gamble which involves huge amount of risk. To be successful in the stock market, investors should always be clear to his strengths, weakness, requirements, wishes, risk taking capabilities and how to react on different and ever changing market conditions. They should not buy the shares of a company until they know details about it.

-) Most of the public issues are from banking and finance sector so issue-manager should take initiative step to promote their business from other sectors too. They should be equally effortful in developing the public offering market as an avenue for cost effecting financing.
-) In Nepal, opportunity to invest in primary market is low. They have to wait a long period to invest. If they hurry to invest in any of the company, they may have to suffer from loss. So, to get opportunity to invest in profitable stock they should have patience on them.
-) Issuing company's post issue compliance practice is found to be poor. The issuer companies should be made aware in complying with the post issue legal provisions at the time of public issue. Issue manager should also take the responsibility to make the issuer companies aware of compliance issue.
-) The concerned authorities should conduct various research studies and disseminate the information relating to the share trading activities to increase the understanding of the investors in using financial tools to estimate the intrinsic value of shares of a company before making investment decision.
-) The government, concerned bodies and individuals have to work hard to make the investment in securities preferable to investors by implementing the rules, regulations, policies and activities more strictly. The regulatory authorities of the stock market should try to rise the trading of shares by regulating the activities and performance concerned bodies such as brokers and the listed companies frequently to create the efficient pricing of shares.
-) The stock market lacks the existence of sophisticated investors. So, to the regulatory bodies should carry out programs using various media and spot program to inform and attract the potential investors, both individual and institutional, in investing into shares.
-) Stock market is heading towards the right directions so it is developing and growing. It is utilizing the unused surplus resources in productive sectors. With the provision of stockbrokers and market makers in 1993. So the securities market should broaden and develop specialization in providing services to securities market.
-) Restriction on foreign direct and portfolio investment should be reviewed with a view toward the elimination of unnecessary impediments.

-) The Central Depository System (CDS) must be introduced to the current trade as soon as possible. This means that very high volume or trading can be cleared and settled in timely and cost-effective way, there by supporting the overall development of NEPSE.
-) Institutional players, regulators, merchant bankers should play vital role in the stock exchange. Limited market, allotment procedure and emphasis of small investors have not helped to enhance the role of the institutional players. Increased role of such players should make the market more competitive.
-) While investing or trading in the primary or secondary market, the major consideration should be made that of the promoters, directors and managers in Nepal.
-) Further study can be conducted by using large sample size, more observations, other statistical and financial tools etc.

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Appendix

Questionnaire

This questionnaire is a part of my research work entitled “A Study of Public Response to Initial Public Offering in Nepal”. I request you all to fill this questionnaire with sincerity. Your response will have direct impact on research outcome, so I request you to be honest.

Personal Information:

Name: Occupation:

Age/Sex: Education:

Address/Phone No.....

Objective Questions

1) What is IPO? Do you have any idea?

a) Don't know () b) Somewhat ()

C) Yes, I know properly ()

2. What are the sources of information about IPOs

a) Through Media () b) Through brokers ()

c) Friends and relatives () d) others ()

3. Are you investing in stocks through IPO?

a) Regularly () b) Not at all () c) Not yet, but planning ()

4. Before the Investment decision do you read prospectus of offering company?

a) Yes () b) No () c) No idea ()

5. How do you select the company for investment? (Tick one or more, if applicable)

- a) Corporate image () b) Management team ()
- c) Profitability () d) other (please specify).....

6. What is the motivating factor that you come to Investment in Public Offering?

- a) Performance of Company ()
- b) No brokerage commission ()
- c) High profitability opportunity in short period ()

7. Which sector would you prefer to invest?

- a) Financial () b) Non Financial ()

8. Which sector would you prefer to invest in financial institution and Insurance?

- a) Commercial Banks () b) Development Banks ()
- c) Finance Companies () d) Insurance Companies ()

9. Which sector would you prefer to invest in non financial institution?

- a) Hotel ()
- b) Manufacturing & Processing ()
- c) Trading ()
- d) Other companies please specify..... ()

10. Do you think Nepal's present condition is suitable for investment in IPO?

- a) Yes. ()
- b) No. ()

11. Which fund would you like to use while investing in IPO.

- a) Personal Fund ()
- b) Bank loan/ Credit ()

12. What type of IPO investor are you?

a) Long term ()

b) Short term ()

13. What do you think most of the firms do not like to go to public? What may be the reason?

a) Obligation to mass shareholders ()

b) To keep control ()

c) Complexity in management ()

14. How many companies have you invested in?

a) None ()

b) Single ()

c) 2-4 Companies ()

d) More than four Companies ()

15. What do you think about the Nepalese Capital market as an IPO investor?

a) Driven by rumor & whim. ()

b) Operating efficiently. ()

c) No Idea. ()

Thank You!

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Binisa K.C.