

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

With the passes of time, the world is being changed, not only in human life style but also in entire aspect of the society including socio-cultural and investment prospective. Financial markets are catalyst in the development of the country's economy. As such developed economics have highly sophisticated and financial institutions. Over the past decades too many developing economic have established financial markets as they have moved towards more liberal economic policies. These emerging markets have shown extraordinary growth with very high volatility which may have attracted many investors into these markets.

Financial institution plays a fundamental role in the economic development of a country. They are intermediates like in fascinating the flow of funds from savers to (investors). By providing an institutional mechanism for mobilizing domestic savings and efficiently changeling them into productive investments, they lower the cost cervical to investors and accelerate economic growth of the country financial institutions and financial markets compacts as ways of providing borrower with access and providing liquidity to investors.

A healthy financial market mirrors the state of economic development of the country, providing a catalytic role in increasing saving and investment in the country. Hence it is the objective of all policy makers to try to ensure a healthy, sustainable and stable

growth of financial market. A financial market is a mechanism by which saving in one sector of the economic flows to another of the economy.

Securities market plays as major role in reinvigorating and boosting the national economy, the success of its component i.e. primary and secondary market is of almost importance. The most promising factors for the success of these markets is to keep the confidence of investment community in fact, which accommodates both individual as well as institutional investors.

The Capital market provides an important base for the development of industry, commerce and economy. The main function of capital market is the collection of saving and their distribution for industrial investment, thus stimulating capital formation and to that extend, accelerating the process of crucial even in Nepal with the change in fundamental philosophy of the development process in the country, i.e. shifting to free market economy and consequent of liberalization globalization of the economy, that is why the role of capital market is significant when there is high demand of funds, in the situation merchant banker are bridge the huge gap between demand for funds by the institution and supply of untapped public savings they mobilize funds from savers to investors through various channels assuring, promising returns on investment.

Merchant Banking services is very important for the development of capital market, “With the development of liberalized and market oriented economy the banking and financial system is also expanding gradually, resulting with the introduction innovative financial services and instruments. As a result, the financial system has

been experiencing and there is though competition among the players of the financial system. Thus “Merchant Banking Activities” include all activities where Merchant Banker provides services for these institution or individuals who need information on trading industrial and other professional activities such as information of different financial resources required procedure to achieve these resources or any other required managerial for such activities.

Development of Merchant Banking

In Nepal, the establishment of 'Tejarath Adda' could be regarded as a pioneer foundation of banking activity during the period of Kana regime, which played a vital role in banking system. This established helped the general public to provide credit facilities a low rate. The Tejarath Adda distributed credit facilities' the public especially on the collateral of gold and to silver it was running for decades.

In the united kingdom, ‘Merchant banks’ came on the scene in the late eighteenth century ad early ninetieth century industrial revolution made England into a powerful trading nation. Rich merchant house that made their fourteen in colonial trade diversified in to banking in recent Merchant banks in th united kingdom have function of finance foreign trade, issue capital, manage individual funds, and undertake foreign security business and foreign loan business also.

Merchant bank introduced in Indian capital market when grind lays bank received the license from Reserve bank in 1967. Grind lays which started with management of capital issue ad other multiple services and Merchant banking emerged in the early

nineteenth century in the USA with the introduction of blue sky laws to protect investors from the promoter and security salesman.

The Modern financial system in Nepal started with the establishment of Nepal Bank Ltd. Which incorporated in 1994 B.S. under Nepal Bank Act 1994 in 2013 B.S. the central Bank 'Nepal Rastra Bank' was established, it was established with the purpose of developing Banking system in the country to promote industry, trade and agriculture as well to circulate Nepalese currency all over the country.

Merchant Banking has emerged in Nepal, when issue of finance company Act 2042, thus we are not having a long history of Merchant banking. The finance company Act 2042 permits finance companies to sell and purchase bonds issued by government and by other companies or institutions to under write them and to form syndicate for such purpose or to participate in such syndicates and to act as permits them to perform function of merchant banking with prior approval of NRB.

In the context of Nepal proper Merchant Banking activity starts when NIDC capital markets established in 2049 B.S. it is the one only merchant banker to render the merchant banking services at the times of establishment. It was focused on Merchant Banking activities from its establishment later on other financial institutions and Banks also entered in to the reap the benefit of Merchant banking services. Though the number of financial institutions and banks entered into the field of merchant banking, the development of merchant banking is still in its infancy.

It has been seen that Merchant banking activities is one of the major supporting instrument for any ongoing business organization. Availing of the required Merchant banking services help business sustain develop prosper and so on.

At present, some institutions are involved in merchant Banking activities. The names of these organizations are NIDC Capital Market Ltd., Citizen Investment Trust, Nepal Share Market Ltd, NMB Bank Ltd. National Finance co, Nepal Sri Lanka and Merchant bank. Ace Development Bank etc, they are involved in Merchant Banking activities. But Nepalese merchant Bankers provide very few services among various services of Merchant Banking, like only Issue Management, Registrar to share, Underwriting and portfolio Management etc.

1.2 Focus of the Study

Main focus of this study is to identify about merchant banks. Nepalese Merchant Banking system is evolving to self as a useful instrument of planning and economic growth up with development and underdeveloped financial sectors.

The study has focused on performance of merchant bankers in Nepal. The study aims to know the activity and present status of merchant bankers in Nepal. By doing this we can ascertain problems and prospects of merchant banking activities in Nepal.

1.3 Statement of the Problem

Merchant banks works as bridge, which provides every kind of financial assistance to industries and commerce. They play a highly significant role in mobilizing funds of

saver to investable channels assuring of promising return on investment and thus can help in meeting the widening demand for investable funds for economic activity. Merchant banks help the economic development of the country. It's wide range of services.

Merchant banks stands for providing various services relating to capital market and finance to corporate sectors, but a few services are performing by Nepalese merchant banks.

In Nepal, Issue management, Registrar to shares, Underwriting are popular among various services of Merchant Banking so it is time to find the why they are not able for performing all Merchant Banking activities. The problems are related on this topic are as follows.

- i. What is the present status of Merchant Bank in Nepal?
- ii. What is the performance of Merchant Bankers in Nepal?
- iii. What are the main reasons which affect the performance of Merchant Banking activities?
- iv. What are the problems and prospects of Merchant Banks?

1.4 Objective of the Study

This research is work is concerned with the “Merchant Banking activities in Nepal”. The main objectives of the study is to evaluate the performance of Merchant Banks in Nepalese capital market to make the research work more precise the specific objectives has been divided into following objective.

-) To examine the role of merchant bankers in Nepalese security market.
-) To evaluate the performance of Merchant banker in Nepal.
-) To identify the reason affecting the performance of Merchant Banks.
-) To analyze the significance of Merchant Banking towards the development of securities industry in Nepal.

1.5 Significance of the Study

This study is concerned with 'Merchant Banking Practice' in Nepal it is hoped that this study will actually highlight present Nepalese merchant banking situation. The research in this topic has been found rare. Thus this study is intended to make little contribution towards progress and prosperity of merchant banking activities in Nepalese capital market.

In brief the study will be significance to the following groups.

- i. It will be useful to the further researchers who are interested in on this topic; in this context present study will serve as source of literature in the merchant banking.
- ii. It will be useful to Regulatory authorities and management bodies because this study can focus strong and weakness aspect of merchant banking activities and May suggests for betterment.
- iii. It will be useful for general people and investor because merchant banking concept is new in Nepal, in this context present study may provide some knowledge about merchant banking activities to general people and investors.

- iv. Especially, it fulfills the requirement degree of master of business studies.

1.6 Limitation of the Study

The concept of Merchant bank is new in Nepal with compare to other developed and developing countries. As the Merchant banks has not matured enough, past research and studies are very limited on this topic, Hence the study has suffered some limitation they are mentioned below.

1. The study is based on primary as well as secondary data and degree truth highly depends on the information provided by the concerned respondents.
2. The study will be conducted only four companies out of ongoing companies in total. Hence it might not reflect the real status of all Merchant Banking activities.
3. Research is based on reports provides by listed financial institution and Response made through questionnaire.
4. Only available data is taken for the analysis and data provided by them. Thus the years are not consistence and data provided by they are not verified. (Data taken from F/Y 2050/51 to 2063/64).

1.7 Organization of Study

The structure of the study is categorized into five chapters:

Chapter 1: - Introduction

Chapter 2: - Review of Literature

Chapter 3: - Research Methodology

Chapter 4: -Presentation and analysis of data

Chapter 5: - Summary conclusion and Recommendation

-) First chapter aims to provide general idea about the study containing general background purpose of the study, statement of problem significance of study limitation of study and organization of study, it self.
-) Second chapter provides an understanding of the subject matter and gives on insight of past studies till date. It is divided into conceptual/theoretical review and review of related studies.
-) Third chapter explains the research methodology used in the study which includes research design source of data, population and sample, method of data analysis etc.
-) Fourth chapter is classified into data presentation and analysis and major finding of the study.
-) Fifth chapter provides overall view of the study it contains summary conclusion and recommendation of the study.

Bibliography and appendix will be attached at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

Introduction

The review of literature is a crucial aspect of planning of the study. The basic purpose of this study is to focus merchant banking practice in Nepal. This chapter highlight upon the existing literature and research studies about related merchant banks of different concept. Several books dissertation researcher papers, reports and articles published in journals and news papers are reviewed while preparing the review. It is divided into heading conceptual framework and review of related studies.

2.1 Conceptual Review

2.1.1 Meaning of the Merchant Bank

The dictionary meaning of “Merchant Banking” refer to an organization that underwriting corporate securities and advises such securities and potential clients on issue like corporate mergers project planning lease financing management consultancies etc involved in the ownership of commercial ventures. This organization may be corporate body firm or proprietary concern.

Merchant banking activities offer various specialist services such as loan syndication financial and management consultancy project counseling, portfolio management, formulation of scheme for rehabilitation, guidance on foreign trade financing and management advisory service to medium and small severs, merchant banks are involve in under writing of shares issuance and management of shares unit trust

management. It gives advice on restructuring of capital amalgamation merger and acquisition etc.

Merchant banking in India starts with management of public issues and loan syndication and has been slowly and gradually covering activities like project counseling portfolio management investment counseling and merger and amalgamation of corporate firms. Although Merchant Banking organizations present a large list of services. they contemplate to render their client but the main services so far being render by them are those as authorize by the securities and exchange board of India. In India, under categories I, II, III, IV. "a merchant banker has been defined under the SEBI (merchant banker) rules 2006(third amendment), as any person who is engaged in the business of issue management either by making arrangement regarding selling buying or subscribing to securities as manager consultant, advisor or rendering corporate advisory service in relation to such issue management.(SEBI, 2006)

Most of the banks have now opened up "Merchant Banking" or "Management " department which specialize in domestic corporate financing and associated business such as underwriting o capital, issues acting as managers to new issues and evolution of customers existing and proposed new business. These services are a fairly wide range, which extend to examination of proposal for mergers and amalgamation of companies and arrangements of loans or short term finance. The bank also because of their international connections, assist in arranging, foreign exchange elements required by industries for their projects and loans with banks and other institutions projects and loans with banks and other institutions outside India" (Tannan,1996)

Merchant Banking stands for providing various services relating to capital market and financing to corporate sector. This includes not only activities for the above purpose in the country but at times arranging funds from outside the country. The merchant banker also provide consultancy to the corporate sector on the issue like finance, capital structure and investment, mergers, take over and amalgamation, establishing coordination between the government and corporate sector. In fact the merchant banker should be able to provide guidance to an entrepreneur on all matters from the stage of conception of project in his mind till it goes into commercial production. A good merchant banker would be considered to be one who is expert, honest have integrity and capacity to develop public relations. Whenever a business concern needs funds from the capital market. It would usually approach the merchant banker rather than banks or financial institutions.

Investment bank also called merchant banker, purchase newly issued stocks and bond from corporations and government they then resell the securities to investor in small quantities an investment bank makes a profit by selling securities at a higher prices then it pays for them the first merchant banks were formed by British merchant in 1800s. From the 1930 to the 1980 the U.S. government prohibited any institutions that from engaging in investment banking. Since then however government has permitted large commercial banks to buy and sell securities with in limits. (World Book Millennium 2000)

Investment bank helps companies and government raise money by issuing and selling securities in the capital market as well as providing advice on transactions such as merger and acquisition until the late 1980s, the United States and Canada maintain a

separation between investment banking and commercial banks. Investment banks offer strategic advisory for merger, acquisition, divestiture or other financial services for clients such as trading of derivatives, fixed income, foreign exchange, and commodity and equity share securities. Trading securities for cash or securities (i.e. facilities transaction, market making), or the promotional securities (i.e. underwriting, research etc.) is refer to as sale side, “dealing with the pension funds, mutual funds and the investing public who consume the product and service of the sell side in order to maximize the their return on investment constitutes the buy side”. Many firms have buy and sell side components, investment banks provides several important extra services for their customers. They act as economic and financial advisor. If customers intend to undertake new investment ventures the bank may give technical advice. (The world book of encyclopedia)

2.1.2 Nature of Merchant Banking

The merchant banker maintains sound relation with the client by rendering various services oriented agency. He renders dedicated services to win the client confidence and to maintain continuous relationship with client so that the merchant banker convinces the client that the interests of the latter are safe in his hands.

Every activity of merchant banking involves the services of financial need of the client. Merchant banking is skill based activity and requires a focused skill based to provide for the requirement of client.”SEBI has made the quality of manpower as one of the criteria for renewal of merchant banking registration. This skill should not be concentrated in issue management and underwriting alone which may have an adverse

impact on business as witnessed in 1995. Merchant banker can turn to any of the activities mentioned above. Depending on resources, such as capital, foreign tie ups for overseas activities and skill. They can provide the entire gamut of services or develop niche business. The depth and sophistication in raising funds are widening and demand for fund is increasing.

The services of merchant banker could cover project counseling and pre-investment activities, feasibility studies. Project reports, design of capital structure, issue management and underwriting, loan syndication, mobilization of funds from non resident Indians, foreign currency finance, mergers, amalgamation and take over venture capital and public deposits. (Marchiraju, 1990)

Merchant banking activities is skill based activities and involves serving financial need of every client merchant banker can turn to any of the activities depending upon resources, such as capital, foreign tie-ups for overseas activities and skill. The depth and sophistications in merchant banking business are improving. Since the avenues for raising funds are widening and demand for funds in increasing.

The authorized activities include issue management which consists of preparations of prospectus and other information relating to the issue, determining financing structure and tie up finances and final allotment of refund of subscription corporate advisor to the issue and underwriting other authorized activities would be portfolio management services.

2.1.3 Services provided by Merchant Banker

Generally, MB offers their services to the corporate sectors and investors who want to place their savings in appropriate investments. The range of services offered by merchant bankers is:

- a. **Corporate counseling:** Corporate Counseling function is the counsel services given to corporate clients to ensure better corporate performance. The merchant banker has to find out the problems of an enterprise and suggest ways and means to solve the problems in achieving organizational effectiveness. It suggests suitable locations, technical consultancy, and collaboration etc. to the investors.
- b. **Project Planning:** The preparation of feasibility report covering market aspect of the product, technical, financial and economic aspects of the enterprise. Project report specifies the cost of project and advises the financial pattern to finance. This is another area of services rendered by the merchant bankers.
- c. **Issue management:** The management relating to subscribe the share capital through the public in general is another area of service rendered by Merchant Banker. Under this head it does all function relating to public issue from obtaining stock exchange approval, drafting prospectus, public issue announcement, collecting applications, allotment of shares, refund of excess money, distribution of share certificates, and listing of shares on stock exchanges.
- d. **Underwriting and Bridge loan financing:** Underwriting is the commitment or guarantee to take up all shares/debentures which will not be subscribed by the

- public in general and it eliminates the risk arising from uncertainty of public response to new issues. The bridge loan is the short- term loan against the issue itself. Such type of facilities is also provided by the merchant bankers.
- e. **Portfolio Management Scheme:-** Merchant Bankers render the services of Portfolio Management of their clients. Merchant Bankers accepts the funds on behalf of the clients to play in the financial game on capital market with an aim to earn target return. Effective investment planning and constant review of portfolio are the two basic principles for effective portfolio management.
 - f. **Mutual Fund / Unit Trust Scheme:** Another area of merchant banking is to arrange the unit trust scheme. Mutual Fund is a group saving is a group saving scheme whereby it collect the idle money of the various sectors of society and invest in different area specially on blue chip companies shares and bonds on the principle of diversification. Merchant banker acts as trustee for the investor on such trusts.
 - g. **Venture capital:** Venture capital means providing long term star- up funds for high risk venture, promote by unknown technologies/ entrepreneurs, which suffer from capital deficiencies, but which have a profit potential through ultimate capital gains rather than through a steady dividend or interest yield. The merchant bankers do finance on this field for investment too.
 - h. **Lease Finance:** Leasing could be defined as an activity where the owner of an asset gives the asset to another party for his use for a specified period of time for a financial consideration. Merchant Bank facilitates the customer in acquiring equipments through the leasing finance.
 - i. **Factoring:** Factoring is specialized financing scheme where the financing company, known as a factor, buys its clients receivable of trade credits or

invoices outright, In order to provide the client with an additional source of capital, merchant bankers also render the factoring services.

- j. Brokerage services: Merchant Bankers are the agent of Money and capital Markers. They can play the role as broker or market marker in the stock exchange. In addition they can also play active role on money market.
- k. Merger and Acquisition: Merchant Bankers deals on negotiating and valuation of merger, amalgamation and take over of the firms. Similarly the assets/ share valuation, assets securitization functions are also done by Merchant Banker. In this line they also arrange for the foreign collaboration of the project.
- l. Management Consultancies: Merchant Bankers may help to do management audit of the companies to ascertain exiting performance levels an to formulate plans for future growth. They conduct market research for both consumer an industrial products, develop an implement system designs and production management and at the same time operation Research functions are also done for effective and optimum uses of the resources.

Thus the coverage of the merchant banking is enormous and vast. The area of functions is unlimited to the merchant bankers; merchant banking services therefore are of great help to entrepreneur customers who can not afford a permanent staff of financial specialists. (Shrestha, 051)

2.1.4 Function of Merchant Banker

The merchant banking division of former & national and grind lays banks of India assume the function as follows:-

- To give advice and assistance to entrepreneur in planning their finance.

- To match the need of the customer for all types of finance with available resources for such finances.
- Act as intermediary and expert for advising and assisting in raising share capital or loan capital.
- Assist customer in long range planning for growth and effectiveness.
- Promote international investment.
- Provide specialize service in financing foreign trade.

The merchant banking division of state bank India defines the functions of division as follows:-

- To furnish advice, assistance and liaison in meeting with allied government formalities, required in establishing or expanding industrial projects.
- To prepare economic, technical and financial feasibility reports and survey reports for setting up new industrial projects.
- To render assistance in raising loan from term lending institutions development banks, commercial banks such other institutions.
- To give assistance in raising foreign exchange resources.
- To provide assistance and advice in determining the capital structure, in obtaining official consent and in handling and floating capital issues and such other activities as are engaged in by the registrar or issuer houses.
- To advice and assist in restructuring of capital amalgamation merger etc.
- To advice and assist in adopting the best form of industrial organization.
- To help in financing foreign trade.(Shrestha, 2007)

2.1.5 Role of Merchant Bankers

“The role of merchant banker is dynamic in the wake of diverse nature of merchant banking services. Merchant Banker’s dynamism lies in promptly attending to the help the industry and trade to grow and survive. Merchant banker is, therefore, dedicated to renew his skills, develop expertise in new areas so as to equip himself with the knowledge and techniques to deal with emerging new problems of corporate business world. He has to keep pace with the changing environment where government rules, regulation and policies affecting business production process of industries envisaging immediate renovations, diversifications modernizations or replacements of existing plant and machinery of other equipments putting new demands for finance and necessitating overhauling of the capital structure of the firms. Merchant banker has to think and devise new instruments of financing industrial projects. He has to think and devise new instruments of financing industrial projects. He has to assume wider responsibilities of saving industrial units from going sick and guiding industries development of the country. He has to guide the wider section of the community possessing surplus money to invest in corporate securities and other productive investment channels. He has to help the industry in different forms to ensure that is runs risk free and devoid of uncertainty by assisting the promoters with his knowledge and skills to resolve the problems being faced by them. He has to watch the interest and win over the confidence of the government its agencies alone with the entrepreneurs, the investors and the whole community. He must bridge the communication gap between different sections and resolve problem bring faced in different areas concerned with the business world. To discharge the above role, a merchant banker has to be dynamic. For this reason, a merchant banker is sometimes,

called M.B. i.e. Moving Bottom i.e. who never sits at one place, always moving attending meetings and meeting clients and constituents doing business and getting business by attending meeting and conferences imparting knowledge to others and acquiring supremacy in possession of latest information. His role depicts a personality cult, which is unique and envious to be followed by others. In the days ahead, Merchant bankers have very significant role to play turning their activities to the requirements of the growth pattern of corporate sector, the industry and the economy as a whole which is in it self, a challenging task and to meet these challenges. Merchant bankers will have to be more vigorous and strategic in playing their role. They will have also to adopt new ways and means in discharging their role. (Verma)

2.1.6 Banker and Merchant Banker

A banker has funds with him which he mobilizes through deposits and borrowing or other ways and than deploys or lend these funds, where as a merchant banker does not have any fund in his own kitty by the expertise and access to various sources of funds as per need of their client. The bankers find merchant banking to be highly remuneration because of:

- i. deposits on short term basis
- ii. the business helps to improve there profits and profitability
- iii. The business also helps to get corporate clients.

They are extending the merchant banking services through

- i. Merchant baking division establish by them
- ii. Merchant banking subsidiaries established by them

2.1.7 Business Development Approach and Strategy of Merchant Banker

“Merchant Banking service are highly competitive business activities and to get business, merchant bankers have to stand on their heels and run to grab the business opportunity. Each of the officers in Merchant banking department, division, cell or bureau or company should have the requisite skills of marketing and salesmanship to ensure that the opportunity once found is not lost without obtaining mandate from the client. Therefore, a merchant banker has got to be a social person with mixing nature and temperament of liking others. The source for locating business opportunities would vary but merchant banker has to tap each source. Some of the sources could be located in the areas which give rise to new ideas, open avenues to new business and provide scope for additions in the existing business system by way of modification, modernization, diversification, expansion, amalgamation or reconstructing etc. These sources of information could be the banker whose client is thinking in terms of such ideas; the financial and technical consultancy firms, which are working on such ideas for their clients; licensing authorities of the central Government or Registration Departments of the state approached by the prospective borrowers with loan application for grant of financial facilities. A close liaison with these institutions could provide a clue for business opportunity for a merchant banker, besides the published information in different news dailies, weeklies and fortnightly or monthly magazines provide the source of business opportunity. Such information could be the speeches of business executives, proceedings of annual general meeting of companies specially chairman’s report highlighting future prospects for the company, personal interviews granted to the press people opportunities for entrepreneurs to take up new activities, information published by chamber of Commerce and Industry, house

journals of prominent industrial houses, press releases by Government, import licenses or capital goods committee's clearance, foreign collaboration permissions, etc.

The basic approach for a merchant banker is to maintain close contact with other agencies involved in managing public issues like managing brokers to the issue and advocates/ solicitors who have expertise in the area of corporate law and consultancy. These agencies could give clue to the new business opportunity to be explored by the merchant banker.

The basic strategy should be to get information, follow- up the same and materialize the business opportunity. To this end, the merchant bankers should frequently join clubs where the business magnates meet the freely mix with them, about their future business plan and converse with them in issues of interest to them, Join association or club of merchant bankers and be inquisitive to trace new opportunities for the merchant banking business, explore the possibilities of working with existing merchant bankers to the forthcoming public issues or other merchant banking activities. He should develop contacts with agencies like Indian Investment Center which is helping the non- resident Indians in getting industrial licenses, Central Government clearances, foreign collaboration or approval from such like institutions and thus he can get business in areas of credit- syndication corporate/ project consultancy, issue management portfolio Management for NRIs etc. In addition to above merchant banker should take steps to promote new business in following manner.

1. Contact frequently the small business owners convince them of business growth through expansion of their activities by forming limited companies, pooling resources together through merger and amalgamation, etc.
2. Helping private limited companies to convert into limited companies to convert into limited companies and take up new activities/ expansion / modernization/ diversification programmed etc. and assure them of requisite help,
3. Acquaint the existing business houses / clients of incentives given by Government, new opportunities for business, to enthruse them to take up new activities; and
4. Hold interviews with top business, houses frequently and appraise them of merchant banking services and new areas of business activity to elicit business from them and develop business house frequently and appraise them of merchant banking services and new areas of business activity to elicit business from them and develop business connections.
5. Merchant bankers, in addition to above, should assume the role of an experienced and skilled investigator and researcher to locate new business opportunities and expert marketing man to sell service products instantaneously.” (Verma, 1984).

2.1.8 Merchant Bank in Nepal

Merchant banking stands for providing various services relation to market and finance and corporate sector. In Nepal Merchant banking starts with management of Public issue and has been slowly and gradually covering activity like investing counseling,

portfolio management. Globally Merchant banking is taken to mean every thing in financial services but very limited services rendered by Nepalese merchant bankers.

2.1.8.1 Categories of Merchant Banker in Nepal

Security exchange board of Nepal (SEBON) has classified the Merchant banking activities into four categories with regard to their nature and range of activities and their responsibilities to SEBO, investors and issue of securities. The minimum paid of capital and initial authorization fee depend on the category. Categories are as follows.

- 1) First category consists of Merchant banker who carries on activity related on issue management. In this Function Consist of preparation of issue management and other information relating to the issue.
- 2) Second category consists of merchant bankers, who carry on activity related registrar of share and record of all investors, Transfers of certificate etc.
- 3) Third category consists of merchant bankers who carry of activities related on underwriting and syndication of under subscription of securities.
- 4) Fourth category consists of merchant bankers who carry of activities as admit or consultant and portfolio management services related to securities market.

2.1.8.2 Capital Requirement of Merchant Banking Activities in Nepal

Minimum paid up capital:- Paid up capital for issue manager is Rs 3 crore, for, share registrar is Rs 1 crore, for underwriter is Rs 4 crore and for Portfolio manager is also require 1 crore paid up capital.

Application fee:- application fee for all categories merchant banker is Rs. 10000.

Registration fee:- Registration fee for is first category is Rs 1.5 lakh, second category Rs 5000, third category Rs 1.5 lakh and fourth category Rs 500000.

Renewal fee: - Renewal fee for first categories second category is Rs 75000, Third and fourth category Rs 25000.

2.1.8.3 Responsibility of Merchant Banker

In Nepal security exchange Board of Nepal (SEBON) has defined the responsibilities of merchant bankers according to their nature and range of activates they are as follows

- I) Responsibilities of Issue Manager: - Issue manager is responsive for providing detailed information which is relating to issue of securities, issue open and amount bolection from investors, allotment of securities, amount Refund, listing of securities and distribution of security ownership certificate and all activities which are necessary to issue.
- II) Responsibility of Share Registrar: - Share Register is responsible fore securities Transfer; certify ownership of securities, security recitatives to share.
- III) Responsibility of security underwriter: Securities underwriter is responsible for underwriting of under subscription of securities, payment for underwritten securities and all other activities related to underwriting of securities.

IV) Responsibility of Portfolio Manager: - Portfolio Manager is responsible for contact and relationship with customer, opening customers' account, securities trading for customers, services which are necessary for portfolio management. (SEBO, Guidelines, 2064)

2.1.9 Investment Banker and Banking

Just as the commercial banking fails to disclose the wide range of functions performed by these banks the level investment banking fails to disclose their full range of activity. The function most evidently performed by investment bankers is the distributions of securities by syndicate underwriting. These sales are generally “guaranteed which is the functional meaning of underwriting so the services are both selling and guarantee of a sale. When a syndicate advertises a sale (very often after the actual selling has been virtually completed. the listing of the names of the underwriter. is one of the most public relations of the leading is a form of delicate financial protocol with feeling as sensitive as in any seating part at a state dinner.

The underwriting of newly issued securities often leads to related function the maintenance of a secondary market in these securities .since an investment banker who has managed an underwriting of new securities has managed an underwriting of new securities have been forced to become intimately familiar with the financial condition and operations of the issuing corporations or body, he or she is in a superior position to continue the relationship and make “follow up” markets in its securities. The function is not just service, it is expected to be profitable operation its rights bond trading and stock trading are very much central investment banking function

The wide range of investment banking services may be illustrated by a listing published by a leading investment banker in a “the wall street journal” the firm listed 21 services those raising money and 21 services for those investing money.

Service for those who are Raising Money

- i. Corporate underwriting
- ii. Private placement
- iii. Lease financing
- iv. Merger & acquisition
- v. Real estate mortgage financing
- vi. International public offering
- vii. International private placement
- viii. Project financing
- ix. Industrial revenue bond financing
- x. Pollution control financing
- xi. commercial paper issuance
- xii. corporate stock re-purchasing
- xiii. secondary offering
- xiv. underwriting redemption
- xv. sinking fund purchase
- xvi. investment of excess cash
- xvii. exchange and tender offer
- xviii. government agency financing
- xix. state and municipal financing

- xx. foreign government financing
- xxi. financial advisory services

Services for investors

- i. investment research
- ii. economic forecasting
- iii. money market analysis
- iv. block trading
- v. investment strategy
- vi. special order services
- vii. equity securities
- viii. foreign securities
- ix. convertible securities
- x. listed option trading
- xi. securities arbitrage
- xii. securities swaps
- xiii. restricted brokerage
- xiv. commercials paper
- xv. government securities
- xvi. bankers acceptance
- xvii. certificates of deposits
- xviii. corporate bond
- xix. tax exempts bonds
- xx. securities from manage offering

Investment banker varies widely in the nature of services performed and in financial strength. Some from specialize other offer a wide range of services. Direct placements usually involve the actual intermediation of an advising investment banker merger and acquisition represents an important activity of some investment banker.

2.1.10 Function Of Investment Banker

Although the specific activities of investment banker may differ depending upon the size and the financial resources of the company the primary functions of investment banking in general are:

- i. **Originating:** the investment banker assist the issuing corporation by offering recommendation as to the type and terms of securities that should be sold and by aiding the corporations in the registration process required by the securities and investment banking firm undertakes to originate a issue of securities it makes a detailed study of the corporations in order to determined the feasibility of securities distribution. Most of the larger investment banking firms engages in the originating functions.
- ii. **Purchasing and underwriting:** - investment banker not only offer the facilitates through which securities are channeled to the investing public, but they also assume the risk arising from the possibility that such securities may not be purchased by investor. To accomplish this they enter into a purchase agreement with issuing corporation. The securities are then purchased in their entirety by the investment banker after which they are offered for sale investment or at a price sufficiently higher than their cost to provide a profit from operations.

- iii. Whole selling and retailing:- a few of the large investment banking houses confine their activities to the originating underwriting or purchasing and whole selling functions depending upon the sale of securities of retail. Securities broker for their further disposition the vast majority of large investment banking houses however not only wholesale their securities independent securities brokerage house but they also remain own retail outlets in the major cities of the country. (Rao, 1988)

2.1.11 Merchant Banking International Scenario

Merchant banking in India: merchant banking activity was initiated into the Indian capital market when Grindlays bank received the license from Reserve Bank in 1976. Grindlays started with management of capital issues, recognized the need of emerging class of entrepreneurs for diverse financial services ranging from production planning and system design to market research. Citibank set up its merchant banking division in 1970. The various tasks performed by this division namely assisting new entrepreneurs, evaluating new projects, raising funds through borrowing and issuing equity. Indian banks started merchant banking services as a part of multiple services they offer to their clients from 1972. State Bank of India years the SBI's objectives was to render corporate advice and assistance to small and medium entrepreneurs. Merchant banking activities are of course organized and undertaken in several forms. Commercial banks have formed subsidiaries companies and share brokers and consultancies constituted themselves into public limited companies or registered or themselves as private limited companies. Some merchant banking outfits have entered into collaboration with merchant banker abroad with several branches.

Merchant banking in United Kingdom: In the United Kingdom, merchant banks came into operation in the late eighteenth century and early nineteenth century. Industrial revolution made England into a powerful nation. Rich merchant houses that made their fortunes in colonial trade diversified into banking. Their principal activity started with the acceptance of commercial bills pertaining to domestic as well as international traded. The acceptances of the trade bills and discounting gave rise to acceptances houses, discount houses and issue houses. Merchant banker was primarily a merchant rather than a banker but he was entrusted with funds by his customers. The term merchant bank is used to denote that are not merchants. Sometimes for merchants who are not banks and sometimes for business houses that are neither merchant not banks. These confusions emerge because of a wide range of activities carried out by modern merchant. The merchants provide various services like:

- a) Finance foreign trade,
- b) Issue capital
- c) Manage individual funds
- d) Undertake foreign security business

Some times, finance sovereign government through granting long loans also British government for purchasing share if Suez Canal.

Since the end of the Second World War, commercial banks in the Western Europe have been offering multiple services including merchant banking services to their individuals and corporate clients. British banks set up division or subsidiaries to their

individuals and corporate clients. British banks set up division or subsidiaries to their customers merchant banking services.

Investment banking in USA: There was a great influence of English and European banks to the United States until indigenous investment banker's emerged on the scene in 1880's in the early nineteenth century English and European merchant bankers met the requirements of finance for railroad construction and international trade. Later they opened their own office in USA Kidder, Peabody and company's set up in 1824 and Johan Eliot Thayer banking firm in 1857. During 1850 to 1860 several merchant banks were set up to arrange capital and enterprise to promote railways, industrial projects and trade and commerce. To finance railway construction, capital issues were arranged by merchant bankers. In the late 1890s and early 1900s, investment bankers replaced brokers and promoters who earlier played a prominent role in issue of securities. Investment bankers apart from lunching and organizing industrial units and merger, helped transform privately held companies into public owned companies.

Investment banking largely remained unregulated until the blue sky laws were introduced in Kansas to protect investors from fraudulent promoters and security sellers. However, their growth was facilitated by the enactment of federal act in 1941, emergence of US dollars as leading currency and expansion of activities of US banking systems. Prominent investment bankers in 1920 were Kidder, Peabody Drexel, Morgan and co., Brown Bros. and T.P Morgan who bought and sold corporate bonds and stocks on commission, dealt in federal, state and municipal securities, trading and investing in securities in their own account, originating and distributing new issues on

their own account, originating and distributing new issues and participating in the management of corporations whose securities they have helped distribute or in which invested. After the great crash 1929 and depression, the investment banking business considerably contracted and experienced heavy financial losses. The federal government enacted several laws, called New Deal Enactment, to reform Wall Street practices to protect the interest of the investors. Officially called the banking act of 1933 the Glass-Steagall banking Act separated Investment banking and commercial banking and prohibited depositories from underwriting securities exchange Act of 1934 sought to correct practices in securities trading.

Regulation of investment banking in USA

Investment Banking in USA as compared to merchant Banking in the United Kingdom is subject to following regulation:

- The securities exchange commission (SEC) exercises advisory and regulatory role on investment bankers.
- Investment bankers were restricted from undertaking reorganization of public corporation under the Chandler act. The task was assigned to distinguished trustees.
- Association of trustee with either the issuer or its investment banker was prohibited under the trustee indenture act, 1939. To protect the interest of security-holders the trust indenture had to be filed with SEC.
- The investment and portfolio activities became subject to SEC supervision.

Investment trust were covered by investment company act, 1940 which sought to regulate them, and investment advisors are required to be registered under the investment divisors act, 1940. SEC was designated the supervisory and enforcement authority. Its powers were further strengthened in 1960 by authorizing to inspect the records and accounts of firms engaged in the business. The increased regulation and control of domestic operations gave a fillip to large US banks to markets. The US investment banks have extended their operations to the international level. They are largely responsible and globalization of capital markets. They have a prominent presence in London and other European financial centers. Investment banks have today a strong parent, a strong balance sheet and a strong international network to play a global role. (Laxmana and Naik, 2002)

2.2 Review of Related Studies:

2.2.1 Review of Journals/ Articles

Madhuvan Lal Shrestha in his article, "Merchant banking an out look in Nepal Bank Patrika(2051B.S.) has thrown light of Merchant banking in Nepalese perspective, he indicates that merchant banking in it crude form exist in Nepal from the advent of modern banking system with the establishment of Nepal bank Ltd.. However, securities exchange center set up in 1976 was the pioneer institutions and capital market in Nepal. Modern and innovative services on banking sector were introduced by the establishment of joint venture banks in the country, the finance company act 2042 gave birth a new dimension to the merchant bank services. After the restoration of the democracy the country lunched financial liberalization and privatization programs. As a result maximum participation from the public took place and the

country entered on them new industrialization process through rapid to place market. Consequently there is calling for the difficult service of the capital market and merchant banking services are sought form various sector of the economy.

Citizen investment trust (CIT) is a pioneer banker of the country followed by other finance companies viz. NIDC capital market, national finance company, Nepal share market etc. There are a few numbers of incorporated borders who also render these services. Recently Rastriya Banijya Bank has opened a separated merchant division thus is the time to think seriously by the commercial banks that apart form their traditional business they have to add such new ventures which will pay high return to them with nominal investment.

Ramesh Kumar Prokharel in his article “Merchant banking services in Nepal” in banking Prabadhan 2057 vol. II, has mentioned on regulatory of merchant banking in Nepal. According to Poknarel, merchant banking is a new concept for Nepal. Its role as an important financial intermediary cannot be challenged from anywhere in the growing financial system Nepal although a few financial institutions basically (finance companies) are involved in different merchant banking activities there is no clear definition of merchant banking in finance company act. 1986 and no specific legal provision to be complied by merchant banker. How ever section (3) of finance company act 1986 permits finance companies to see and purchase the bonds issued by government or securities issued by other companies or for such purpose or to participate in such syndicates ad to act as banker under the securities exchange Act. 1983.And section 3 (g) of the same act permits them t perform functions of Merchant Banking with prior approval of NRB.

Since there is no separate entity to carry out the merchant banking activities in Nepal, these activities are associated with other transaction of finance companies these institutions are expected to meet NRB requirements on,

- Minimum paid up capital and the prescribed risk weighted capital ratio, the liquidity ratio.
- Merchant banking activities up to 60% of total credit and investment portfolio. Issue management and underwriting up to a maximum of 10% total loan and advances of finance company.
- Likewise, there is no guideline issued by NRB especially for merchant banking in following respects:-

Pokharel has also pointed out on examination requirements for merchant banking. He writes that is matter of fact no adequate directives have been issued for the regulatory and monitoring purpose pertaining merchant banking however inspectors while making supervision to these services should basically focus on the following parts of these transactions.

- Agreements between parties, specific terms and conditions.
- Legal and regulatory provision related to public issues (company Act. Securities board regulations).
- Volume of underwriting and issue management (to confirm whether these transaction fall under the NRB's directives or not).
- Other issues relevant to specific merchant banking function.

Pokharel also writes the problem and issue in merchant banking services in Nepal which is as follows:-

- There should not be any confusion about the customer in any business. However, in merchant banking services especially in issue management, some problems can be prevailed. Merchant bank (MBs) are commissioned and paid for the company issuing the share debentures. Apparently, the issuing company is the customer of the MB. However the fee received by the MB comes from the investors of his share/ debenture. Thus it is not wrong to say that the fees to MB are ultimately paid by the prospective investors of the shares/ debentures. Thus it is very hard for MB to serve for the best interest of both investors and issuing company.
- MBs should ensure to the investors that all possible information about the issue is given and that post issue management i.e. allotment of shares etc and refund are effected with almost expedition. In the per issue phases MB should ensure the investors that the issuer is having a good track records and thus MBs should give a clean cheat to the issuer in case the issuer is found guilty then MBs ultimately suffers and should face the public or investors.
- Post issue management has become a difficult task in Nepal especially because of heavy over subscription of vast majority of issues due to unrealistically low flotation pricing of issues by existing company, the problems are accompanied by rigid rules of allotment prescribed by stock exchange the favor small applicants and there fore increased the numbers of applicants. The banking system is extensively used or this purpose but it seems very had to cope with the load.

- Due to lack of to adequate legal and regulatory frame work, merchant banking service has become more challenging for the monitoring system of Nepal.
- To the issuing company, MBs should render high standards of professional services and also perform their role with due diligence.
- There should a prudent and sound financial market to adopt the different merchant banking services. Due to the limitation of financial market the services rendered by the merchant banking services. Due to the limitation of financial market the services rendered by the merchant banking are also limited in Nepal.
- In implementing self regulatory mechanism, MBs should have to monitor the performance of the other agencies that also provide services to the issuer. There are advertising agencies, registrar to the issue and other financial institutions by in Nepal MBs do not have any control over these agencies, although MBs are held responsible for the performance or lack of it by the associated agencies
- According to comprehensive guidelines formulated by stock exchange a company should either be already or should be listed in stock with in 3 months of the closure of the issue. But generally listing is being done lately due to large numbers of shareholders and provision regarding transferability.

M.L. Shrestha in article “**Portfolio Management. A Merchant Banking Service**” in Nepal Bank Patrika- Ashwin Masanta, 2052 he has written portfolio management as one of the merchant banking service. According to Mr. Shrestha, optimal portfolio

produce the maximum return with minimum portfolio, it has been purely a professional approach. Merchant bankers are one of those who render this service to the investors. He writes portfolio management, thus means the personal commitment of Merchant Banker to take care of investment of investor with the prudence and astuteness of a professional fund manager to give investor his money, worth.

Shrestha has mentioned two basic principles for effective portfolio management, which is as follows:

- a) **Effective Investment Planning:** Merchant bankers must consider the factors such as fiscal, financial, monetary, credit policies of central bank and guidelines and directives issued time to time by stock exchange.
- b) **Constant Review of Portfolio:** Merchant banker should constantly review their investment in securities and continue selling and buying the same to earn profits.

In connection portfolio management in Nepali context, Shrestha writes there is no any regulatory framework made in this sector so far in Nepal. Neither the government has initiated any law nor the stock exchange board of Nepal has issued any rules and regulation regarding the operation of Portfolio Management Service. However, NIDC Capital Markets Ltd, 1st Merchant bank of Nepal, has launched the step to render this service from initial period.

As per their research and analysis, they have pointed out following sectors are attractive for the Nepalese investors.

- Construction material
- Financial Services
- Health and pharmaceuticals
- Education and allied services and products
- Livestock (Diary, meat production, leather products etc.)
- Tourism
- Textile
- Office services (software development, media planning and advertisement)

Minimum size of each account should not be less than Rs.5 million to them to take up for portfolio management. The fund accepted for portfolio management by them, will be spread to into the above mentioned different investment opportunities, which yield better and provide better quality of investment. Their target is to maximize the earning via current income and capital gains. But the structure of return will depend on the objectives and preferences of the investor. As a Manager, their paramount concern is the safety of portfolio of the investor.

After the advent of liberalization policy in Nepal, it went on new direction on economic activities. As a result now in Nepal too such kind of service is available. So, for those investors who really want to enjoy maximizing their wealth with liquidity and safety of investment, they can approach to the merchant Banker and get fid of

handing the day to day task of administering portfolios. One can handover all the investment decision to them enjoying better return from the surplus fund.”

In the article” Merchant Banking and Mutual Fund in Nepal” by Kalyan Bandhu Aryal in Nepal Rastra Bank Samachar 2060 B.S., Mr. Aryal highlighting the scenario of merchant banking and mutual fund in Nepal. As far as Mutual Fund has been introduced in Nepal from last decade. He again writes, there is no separate entity or company to carry over this business in Nepal. NIDC Capital market Ltd. Operated as a manager and NIDC had been acting this business as a trustee.

Regarding NCM Mutual Fund, 2059 Aryal says NIDC Capital Market Ltd. Is recently launching NCM Mutual Fund, 2059. As a financial services scheme which aims to invest the fund/ money collected from various investors, out of 10 million unit, 1.5 million units for trustee and manager, approximately 1.37 million units for unit holders of the first NCM Mutual Fund, 2050 and approximately 7.17 million units for public. NCM Mutual Fund, 2059, manager can invest as follows: in shares investment 65% debt investment 15% and 20% credit to organization as short-term and medium term loan.

This scheme is suppose to close once the certificates of Mutual Fund units. But on the request and demand of the investors, scheme would restart and transaction of the mutual fund is being done from stock exchange. Now the scheme is restructured and mutual fund is being done stock exchange. Now the scheme is restructured and closed ended. As the decision regarding mutual funds is taken by a management committee.

Aryal also gives examination procedures for merchant banking and mutual fund as follows:

Merchant Banking: Inspectors should primarily focus on the following aspect while making supervision of the merchant banking activities;

- Agreement between the parties, specific terms and conditions.
- Legal and regulatory provisions related to public issue (Company Act, Securities Exchange Act and Nepal Securities Board's regulations).
- Other issue relevant to specific merchant banking functions.

Mutual Fund : NRB has not issued specific directives on mutual fund related activities; however the company carrying mutual fund activities may design specific norms and self- regulatory provisions with the objective of diversifying risk. These provisions may include:

- Limit of investment in a company.
- Maximum holding limit of shares/ debentures of a company.
- Listing of units with the stock exchange.
- Liquidity provision.
- Calculation of NAV and costs incurred by the managing company.”

Kiran Thapa writes about Merchant bankers in SEBON journal 2063 B.S. which is as follows.

Looking back into the history of Nepalese securities market we can find that the market started in the mid with the issuance of shares by some companies. However, the formal institutionalization began only after the establishment of securities exchange center was responsible for undertaking the job of brokering, understating managing public issue, market building making for government bonds and one there securities. Introduction of com-anise Act 1964, issuance of government bond in 1964 and interdiction of securities act in 1983 were the important past initiative for developing securities market in Nepal. The development process acierated with the liberalization policy of government during 1990s; During this period major initiatives were taken for the development of securities market , the most important are being establishment of securities board of Nepal (SEBON) in 1993 as an apex regular of securities markets. With the establishment of SEBON then securities exchange center was converted into Nepal; stock exchange (NEPSE) which started secondary trading of securities with in introduction of stock broker, as of the march 2007. There are 23 stock brokers, 3 securities dealer and 1 issue manager providing securities market intermediation derivates a 131 listed companies, the major regulatory framework for the securities markets is provided by securities act 2006, which has given authority to SEBON for the regulation of securities market. As per the AXT the major objective of sebum are to regulate issue and trading of securities and market intermediaries, promote the market and protect investor's right besides the datives and responsibilities of securities board are to register securities and approve perfects of public companies, provide license to operate securities business, permit operation of collective investment scheme and investment funds draft regulation issue directives and guidelines and approve by laws of stock exchange, supervision and monitor stock exchange and securities business activities take enforcement measures

to ensure market in the gritty frame policies and programs relating to securities market and advice government in this regard. Thus the responsibility of developing and regulating the securities market in the country rests solely on the SEBON,

In the article "An Overview of Merchant banking" Prasichhian, (2059 B.S.) K. B. Kayal writes challenges ahead to Merchant Bankers. According to Mr. Kayal, Merchant bankers have to tap the opportunities lying ahead with the developing pace of the economy. These opportunities arise in the form of challenges before the merchant bankers to test their skills, expertise and efforts to attune their activities with the program of economic development of the country, adopt new instruments and innovative means of finance to meet the growing financial requirements of the corporate clients. Some of the areas of challenges, which have been explored on the basis of research, are classified as under.

1. Merchant bankers will have to conduct management of capital issues in a different fashion than what is being done at present. If small industries are to be provided the full benefit of their services of corporate counseling, project counseling and loan syndication then besides distribution of their securities to the public and arranging long-term institutional or banking finance for them, it would be necessary for merchant banks to make outright purchase of capital issues in order to retain the purchased equity of the company till the implementation of the project, commencement of production and profitable working of the company when the issue may be treated as good for marketing to the general public, may be on premium, so as to make capital gains, on that. This course of action will benefit the small industries in many ways; firstly

they will have the quick liquidity and secondly, their project will be implemented under the skilled supervision and expert guidance of the merchant bankers. Besides, the investing public will be willing to purchase the issue at premium, having foreseen the dividend paying capacity of the only course, if adopted would reduce cost of the issue to negligible extent.

2. If the planned objective of economic decentralization and rapid development of rural economy is to be achieved, merchant bankers will have to make experts efforts in the interest of the national economy by mobilizing the saving from the rural sector and creating avenues for its investment on rural areas in industry, trade and commerce in different shapes and different magnitude encouraging the local people to espouse entrepreneurship in industrial undertaking in higher degree so as to reduce their dependence on land farming or to means or rural avocations. Alternatively, this poses a big challenge for the merchant bankers to manage the surplus money available with the villagers by holding portfolio on their behalf or by channelizing it directly to industry in the shape of fixed deposits, etc.
3. Increasing number of sick industries is the ever-growing threat for the industrial economy of the country. Merchant bankers have to find out ways and means for rehabilitating the sick industries and also devise the manner by which the running industry might be saved from going sick. They should so closely associate with the units so as to smell developing weakness in the management of the enterprise and suggest timely leading to-sickness of the industrial unit “Management buy-out” is one of the techniques which have been successfully tried in European countries as well as in USA, to check sickness in industry. This device encourages the executive staff of the

company to purchase the shareholdings of the proprietors and promoters and run the factory on professional basis. Venture capital funds contribute substantially in this area of finance.

4. The millions of small savers are unable to manage their savings in Nepal in both rural and urban area. These are mainly the people from the middle class and lower middle class. Merchant bankers must devise ways and means to provide services for portfolio management to these citizens. This be by taking recourse to encouraging the “mutual funds”.
5. Public and private sector institutions engaged in trade, commerce and industry have many times surplus funds lying with them awaiting opportunity outside. These funds should be tapped by the merchant bankers from time to time by mobilizing them to deficit areas in profitable return basis playing the interest rate games as is done in SWAP deals in international finance.
6. In the international field, where public private enterprise are entering to raise foreign currency resources, Nepalese counterparts have to depend upon the assistance of foreign merchant bankers. Nepalese merchant bankers, therefore, will have to sharpen their skills and attain the requisite expertise in the field of international merchant banking.
7. Attention is required to be gathered to the point that the banks and the financial institutions which are running the merchant banking division can think in terms of taking up the actively of providing acceptance credit and re-discounting facility to certain number of their clients on experimental basis on the lines of the traditional activity of European merchant bankers. This will help for creation of secondary market for commercial paper as well.

8. To tap the latest technology available internationally and procure the transfer of tours of foreign countries, organize meetings and conferences with the chamber of commerce and Industry and other commercial, industrial and other financial organizations so as to enthuse the foreigners to take interest in investment actively in Nepal. Merchant Bankers, therefore, have to take latest information about the economic, social and political environment of our country to foreign countries and apprise the foreigners with the facilities and relaxations for their benefit in case they choose to invest in Nepal or lend their technological expertise to Nepalese entrepreneur and/ or to collaborator in other useful manner.

2.2.2 Review of Master Thesis

There is only one masters Thesis prepared by Nirmal Kumar Subedi in Past year. Subedi had done research on Merchant Banking practice of financial institutions, In 2061. His objectives are, to evaluate the performance of Merchant banker in Nepal and analyzed the problem and prospective in Nepal.

He concluded that merchant banking is new concept in Nepal an mostly this functions is performed by finance companies and merchant banking importance is gradually increasing day by day as a result of development of industrial an financial sector but limited function perform by merchant banks among it's various services. In Nepal, Some acts that related with merchant banking activities regarding merchant banking but they are not sufficient for activities.

Subedi writes some issues about Merchant banks. He writes, many factors are hindering in the development of merchant banks in Nepal. Merchant banking is still unknown to most of the public because of insufficient publicity and information

resulting to low demand of merchant banking services. It is also not being able to prosper due to less developed industrialization and financial marketing activities. So Nepalese Merchant bank are lagging behind. He recommended that as th prevailing political instability and uncertainness is the major problem for this sector also. Therefore it should be resolved as soon as possible so that capital market will start improve its pace easily as expected. As the capital Market activities starts growing other merchant banking activities will also follow together.

2.3 Review of Websites

2.3.1 Merchant Banking History

“In late 17th and early 18th century Europe, the largest companies of the world were merchant adventure. Supported large amount of money to finance trade across parts of the world. For example, The East India Trading Company secured a Royal Warrant from gland, providing the firm with official rights to lucrative trading activities in India. This company was the forerunner in developing the crown jewel of the English Empire the English colony was started by what we would today call merchant bankers, because of the firm’s involvement in financing, negotiation and implementing trade transactions.

The colonies of other European countries were started in the same manner. For example the Dutch merchant adventures were active in what is now Indonesia’ the French and Portuguese acted similarly in their respective colonies. The American colonies also represent the product of merchant banking as evidenced by the activities of the famous Hudson Bay Company. One does not typically look at these countries economic development as having been fueled by merchant bank adventures.

However, the colonies and their progress stem from the business of merchant banks, according to today accepted sense of the world.

a. The Historical Merchant Bank

Merchant Banking, as the term has involved in Europe from the 18th century to today. Pertained to an individual or a banking house whose primary function was to facilitate the business spruces between a product and the financial requirements for its development Merchant banking services span from the earliest negotiations from a transaction to its actual consummation between buyer and seller.

In particular, the merchant, the merchant banker acted as a capital sources whose primary activity was directed towards a commodity trader cargo owner who was involved in the buying selling, and shipping of goods The roles of the merchant banker, who had the expertise to understand a particular transaction, was to arrange the necessary capital and ensure that the transaction would ultimately produce “collectable’ profit. Often, the merchant banker also became involved in the actual negotiations a buyer and seller in a transaction.

b. The Modern merchant bank

During the 20th century, however, European merchant banks expanded their services. They became increasingly involved in the actual running of the business for which the transaction was conducted. Today, merchant banks actually own and run businesses for their own account, and that of others.

Since the 18th century, the tem merchant banker has, therefore, been considerably broadened to include a composite of modern day skills. These skills include a

composite of modern day skills. These skills include those inherent in an entrepreneur, a management advisor, a commercial and or investment banker plus that of transaction broker. Today a merchant banker is who has the ability to merchandise- that is, create or expand a need- and fulfill capital requirements. The modern European merchant bank, in many ways, reflects the early activities and breadth of services of the colonial trading companies. Most companies that come to a U.S. Merchant bank are looking to increase their financial stability or satisfy a particular, immediate capital need.

Professional merchant bankers must have:1) an understanding of the product, its industry and operational management;2) and ability to raise capital which might or might or right not be one's own (originally merchant bankers supplied their own capital and thereby took an equity interest in the transaction) ; 3 and most importantly , effective skills in concluding a transaction0 the actual sale of the product and the collection of profit. Some people might question whether or not there are many individuals or organizations that have the abilities to fulfill all three areas of expertise.” (Bruce w. Basseny [www.Emcohanover. Com/merchant](http://www.Emcohanover.Com/merchant))

2.3.2 Difference between Merchant Banks and Commercial Banks

“The basic different between merchant banking and commercial banking is that the merchant bank offers mainly financial advice and services for a fee and collects deposits through the non-cash mode of finance i.e. security papers while commercial banks accept deposits and lend money in the mode of cash, moreover, the merchant bank offers portfolio services to its customers (individuals and corporate) while the commercial bank provides retail trade banking services to its customers. The regulatory body for commercial banks in Bangladesh is Bangladesh Bank/Ministry of

Finance. Those banks have also been guided by the Bank Companies Act, 1991 and, as per the Bank Companies Act, “Banking means i.e. Commercial Banking means the accepting, for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdraw able by draft, order or otherwise.” On the other hand, the regulatory body for merchant banks in Bangladesh is the securities and Exchange Commission (SEC). They define merchant banking as “Merchant banking means any person who is engaged in the business of issue management either by making arrangements regarding selling, buying, underwriting, or subscribing to the securities underwriter, manager, consultant, advisor or rendering corporate advisory services in relation to such issue management. (Md. Ahsan ulla, [www.csebd.com/ merchant. html](http://www.csebd.com/merchant.html))

2.3.3 Top Investment Banks In USA

Ranked By 1993 Employee Count

Firm	Address	Employees
Merrill Lynch	North tower World Financial Center, New York, NY 10281	39,000
Shearson	American Express Tower, New York, NY 10285	30,600
Dean Witter Reynolds	Two World Trade Center, New York, NY 10048	18,200
Prudential security Inc	One Seaport Plaza, New York, Ny 10292	17,000
J.P. Morgan and Co. Inc.	60 Wall Street, New York, NY 10260-0060	17,000
Paine Webber Group Inc	1285 Ave of the Americas, New York, NY 10019	12,746
A G Edwards and sons	1 N Jefferson St, St. Louis, Mo 63103	8,068
Smith Barney	1345 Ave of the Americas, New York, NY 10105	7,200
Goldman Sachs and Co	85 Broad St, New York, NY 10004	6,595
Bear Stearns and co Inc,	245 Park Ave, New York, NY 10167	5,558
Charles Schwab and Co Inc.	101 Montgomery St, San Francisco CA	2,905

Sources:- www.informanage.com/investment/banks.

2.3.4 Functional Nature of Old Merchant Bank

“In olden times, merchant banks were also known as “accepting an issuing houses” in the U.K and “investment banks” (IB) in the U.S.A. Except for this distinction in nomenclature there is not essential functional difference between them. Usually, they handle coastal trade and master’s goods of a commission basis and financed risky venture projects. For which they charged heavy interest. They often incurred heavy losses. They accepted bills for payment. These were in addition to their MB functions of commercial banking. In fact, there was no distinction between the functions of merchant banking and commercial banks till 1932. Later the Glass Steagall Act, 1933, distinguished the function of merchant banking/ investment banks from commercial banking. (www.csebd.com/merchant.html)

CHAPTER – III

RESEARCH METHODOLOGY

Introduction

This chapter describes the methodology used in this study. Research methodology is the systematic method of finding solution to a problem i.e. systematic collection, recording, analysis, interpretation and reporting of information about various facts of phenomenon under the study. This chapter includes research design, population and sampling procedure, source of data and analysis technique. The research methodology use in present study is briefly mentioned below.

3.1 Research Design

This research study attempt to analyze the Merchant Banking practice in Nepal. To achieve the objective of the study, primary as well as secondary data are taken. Some simple statistical method such as trend line analysis has been applied to examine the fact data. Not only data but also recommendation and suggestions are also derived from the study by taking the Merchant Banks as a sample. So that all concerned can achieve something from the study.

3.2 Population and Sample

The population of this study comprised all those financial institutions that are allowed to perform Merchant Banking activities as per act can be regarded.

Since the Merchant banking is new concept to Nepal, there are 10 Merchant banks in Nepal (according to SEBO journal, 2006/07A.D.). Out of these a few institutions are found to be actively participating in Merchant Banking activities.

Thus out of these institutions 4 companies are actively involved in merchant banking function they are:

- i. Citizen Investment Trust
- ii. NIDC Capital Markets.
- iii. Nepal Share Market and Finance Ltd.
- iv. NMB Bank Ltd.

CIT and NIDC are first phases of Merchant Banker so taken as sample and remaining 2 Merchant Banks are taken as lottery system considered as the sample for the study.

3.3 Nature and sources of Data

Data which are collected from various sources per their requirement. The detail of the sources of primary and secondary data is given below.

- a. Primary Data: The primary data are collected through questionnaire and observation survey. For this purpose a set of questionnaire developed and distribute to various respondents and observation of merchant bank as possible. Formal and informal interviews with the concern people.
- b. Secondary data: The secondary data has been collected from published materials of different organization concern with this study, likewise other

relevant data are collected journals, bulletins, magazines and other report and documents from various sector.

3.4 Methods of Data Collection

In the process of collecting primary data, the method like questionnaire, personal interview observation is adopted where ever necessary.

As far as questionnaire method is concerned a ser of questionnaire is developed to meet the objective of study. A number of questions were put by means of 40 copies of questionnaire and provide to different respondents i.e. member of finance companies banks, Nepal Rastra Banks, SEBO & CIT and individually given to chartered accountants. Students, teachers and investors. Categorically the question rose through 3 types namely.

- a. Yes/No questions
- b. Multiple choice questions
- c. Free opinion questions

On the other hand secondary data are collected using method like, visit in library of Shanker Dev Campus, Tribhuvan University, India Library, security board of Nepal, NIDC capital market. CIT, NMB Bank, NSML and Nepal Rastra Bank, and other relevant data collected from various types of reports, journals and magazines published by different organization & secondary data taken from FY 2050/51 to 2063/64 .

Similarly visit websites and different book shop also for collection of information.

3.5 Tools for Analysis

Primary data collected from individual, first of all raw information have been received after the collection of raw information the processing has been done. Then after all collected data has been grouped according to their nature, tabular and chart from selecting relevant data.

Data collected from secondary source were analyzed by using statistical tools like, ratio analysis arithmetic mean, standard deviation, coefficient of variation and different types of diagrams.

The analysis tools used for the analysis and presentation of data are as follows:

1. **Ratio Analysis:-** Ratio analysis is a powerful tool of financial analysis. A ratio is defined as “the indicated quotient of two mathematical expressions” and as the relationship between two or more thing. The relationship between two accounting figures, expressed mathematically, is known as a financial ratio (simply as a ratio). Ratio helps to summarize large quantities of financial data and two make qualitative judgment about the firm’s financial performance.
2. **Percentage Analysis:** The percentage is done to compare the two or more data for general information one can use this function to establish a threshold of acceptance. It is use as a method to divide the opinions of the related sectors into two or more sectors.
3. **Arithmetic Mean:** Arithmetic mean is single value in the range of the data is used to represent all the values in series. Since and average is some where with the rage of that data, it is also called a measure of central value, since

average due represents the entire data, it's value lies somewhere in between the two average among the, I use the arithmetic mean which is more popular to denote particular type of average. It's obtain dividing sum of obtain observation by the number of items which is presented below.

Arithmetic men (x) =

Where ϕx = sum of total value of observation

N = Number of observation

4. Bar diagram: As far as bar diagram is concerned, simple as well as multiple bar diagrams are being used for the study.
5. Standard deviation: Standard deviation is the most informant and widely used measured of studying dispersion. It is also known as root mean square deviation for the reason that the square root of the mean of the standard deviation from the arithmetic mean.

It is also denoted by the small Greek letter \exists (sigma). The standard deviation measures the absolute dispersion variability of distribution. A Small standard deviation means a high degree of uniformity of the observation as well as homogeneity of series. A large standard deviation means just the opposite. Hence standard deviation is extremely useful in judging the representative of the mean.

In symbol:

$$\dagger X \sqrt{\frac{1}{N}(\phi x Z \bar{X})^2}$$

\exists = Standard deviation $(x - \bar{x})^2$ = Sum of square deviation from mean

6. Co-efficient of variation: The co-efficient of variation is the corresponding relative measures of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in resulting percentage. It is used in such problems where we want to compare variability of two or more than 2 series. The series for which the C.V is greater is said to be more variable less consistent, less uniform less stable or on the other hand vice versa.

$$\text{In symbol } C.V = \frac{\sigma}{\bar{X}} \times 100$$

Where C.V = Co efficient of variation

σ = Standard deviation

\bar{X} = Mean

3.6 Limitation of Methodology

The research in this topic is found to be very rare in numbers and due to lack of proper knowledge and others difficulties it was comprehensive to achieve the objective and all the methodologies applicable for the study are not applied. Therefore in some cases assumption has been made to analyze that result comparatively with the view that it will not hamper the main stream of the study.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

Introduction

This chapter deals with the analysis of availability of data to achieve the objectives of this research. The basic objective of the study is to find out the performance of merchant banks in Nepalese financial market. The secondary and primary data have been analyzed in this chapter. The secondary data are analyzed as per the data received from various sources. The sources have already mentioned in previous chapters. Primary data are analyzed according to the information and response received from the questionnaire.

The first section describes and interprets the secondary data. This section analyses the activity related with merchant banks. Second section presents the behavioral study of the merchant banks. In this section the researcher used the primary data through the questionnaire form. In this section the researchers has found information about Merchant Banking through respondent. Third section of this chapter presents the result of analyzing the secondary and primary as major findings.

4.1 Presentation and Analysis of Secondary Data

Although few of Merchant Banks are performing Merchant Banking activities in Nepal out of these our study starts from analysis of these companies which, are actively participated in Merchant Banking activities.

This section provides interpretation and analysis of secondary data. Thus this section is exclusively devoted for the analysis activity performance of leading Merchant Banks in the context of Nepal.

In Nepal most of the Merchant Banking are performed by finance companies but Citizen Investment Trust is excluded from the list of finance companies and it is included in our study because of in Merchant Banking activities its contribution is high and other sample tabor from finance companies and their data sources are secondary as well as primary.

This section provides interpretation and analysis of secondary data. Thus this section is exclusively devoted for the analysis of active by performance of leading merchant bankers in Nepal.

4.1.1 Securities Issue Analysis

Merchant banking function includes the Issue Management Underwriting of securities. Registrar to share, Portfolio Management, Advisory services etc. but in the context of Nepal, function of Merchant Banker regarded as Issue Management. Thus this study starts from the analysis of public issue.

Amount of public issue offered during the study period have been given in table. Tabular as well as graphical presentations of public issue in different fiscal year are presented in Table 4.1.

Table 4.1
Public Issue of Security

Fiscal year	No of issue	Issue amount (Rs in million)
2050/51	16	244.40
2051/52	10	173.96
2052/53	12	293.74
2053/54	5	332.20
2054/55	12	462.36
2055/56	5	258.00
2056/57	7	326.86
2057/58	9	410.49
2058/59	12	1441.33
2059/60	18	556.54
2060/61	14	1027.50
2061/62	14	1626.82
2062/63	29	2443.28
2063/64	34	2295.50
Total	196	11893.20

Chart 4.1
Public Issue of Securities

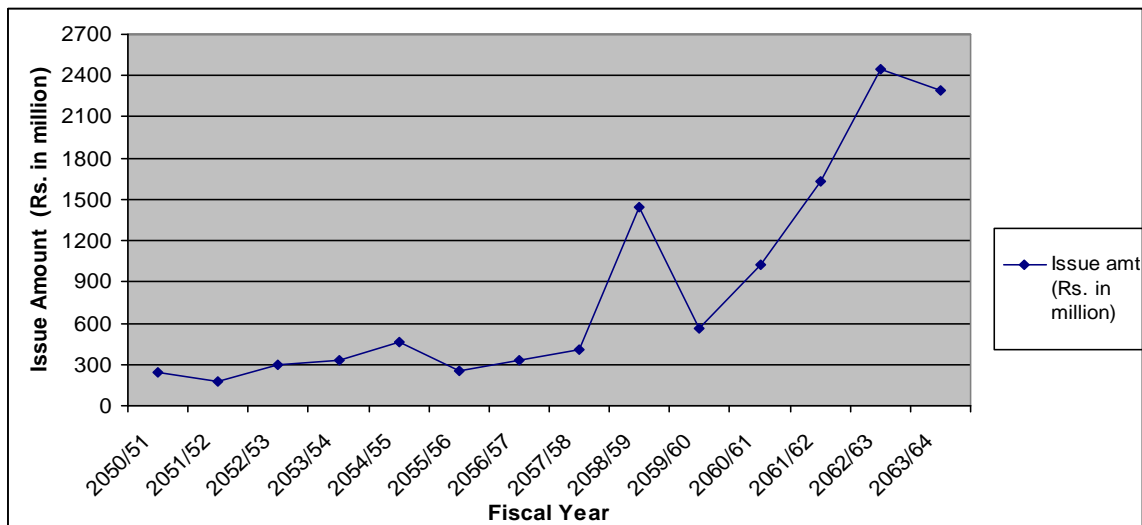


Table 4.1 & Chart 4.1 shows there have been 196 securities issues from the fiscal year 2050/51 to 2063/64 amounting Rs.11893.20 million. In the fiscal year 2050/51 issues worth Rs.244.40 million were offered to the public. The amount decreased to Rs.173.96 million in the fiscal year 2051/52. After that the amount of public issues showed a rising trend although only for a few years. It rose to Rs.293.74 million in fiscal year 2052/53, Rs.332.20 million in fiscal year 1996/97 and Rs.462.36 million in fiscal year 1997/98. It again dropped to Rs.258 million in fiscal year 1998/99 and rose again in fiscal year 1999/2000 to reach Rs.326.86 million, it continued to rise in the subsequent years amounting Rs.410.49 million and Rs.1441.33 million respectively in fiscal year 2000/01 and 2001/02. However it dropped substantially in the following year i.e. fiscal year 2002/03 and marked just Rs.556.56 million after that the amount of issues showed a continuous rising trend in subsequent fiscal years. The amount of issues were Rs.1027.50 million in fiscal year 2003/04, Rs.1626.82 million in fiscal year 2004/05 and Rs.2443.28 million in fiscal year 2005/06 and it decreased to Rs.2295.50 million in fiscal year 2006/07.

Out of these issues 34 were in fiscal year 06/07 which is the greatest number of issues during the 1993/94 to 2006/07 but in the fiscal year 05/06 there was the greatest amount of issues during these fiscal years (93/94 to 06/07) and the total number of public issues during the study period was 196 amounting Rs.11893.20 million.

4.1.2 Instrument Wise Analysis of Public Issue (F/Y 2050/51 to F/Y 2063/64)

The instrument wise analysis of public issues helps the find out the instrument which are benefited for issues of securities and Merchant Banking activities.

Table 4.2
Instrument wise Analysis of Public Issue

Instrument	No of issue	Amt. of issues	% of issues amt.
Ordinary Share	122	4140.75	34.51
Right share	60	4962.75	41.21
Pref. share	5	636.50	5.29
Debenture	9	2153	17.88
Mutual fund/nit	2	150	1.25
Total	198	12043.20	100

Source: Annual report, securities board graph 2063/64

Figure 4.1
Instrument Wise Analysis of Public Issue

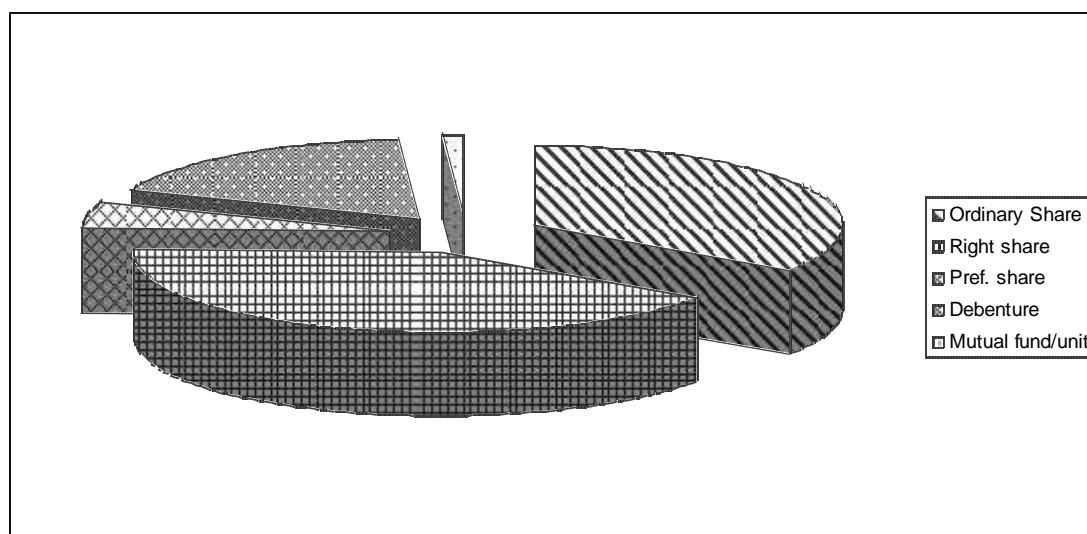


Table 4.2 and Figure 4.1 shows that out of 196 public issues during the study period 122 were ordinary shares which is 62.24% of total issue offered, during the period similarly 60 issue were right share which is 30.61% of total issue and 9 were debentures which occupied 4.59% of total issues and 5 issues were preferences shares which contributes 2.55% of total issues.

Similarly from issued amount perspective ordinary shares again emerges as most financial instrument with 34.51% of total issued amount. and most used instrument was right share occupying 41.21% of total amount and total amount followed by debentures 18.10% and preferences share 5.35% respectively. then another type of instrument were unit, issued by citizen investment trust and mutual fund issued by NIDC capital markets total amounting Rs.150 million during study period. The most striking aspect of analysis has been the fact that preferences shares were issued only five times and debentures only 9 times during this study period which covered 14 years. This clearly shoe that Nepalese stock market is overly dependent on ordinary shares and right shares.

From above study it is find that ordinary share is the most preferred instrument for issuing company and also for merchant banking followed by right share, debenture and preference shares respectively.

4.1.3 Institution Wise Public Issues (F/Y 2050/51 to F/Y 2063/64)

The institution wise public issues analysis helps to find out the sector that has been preferred for merchant banking activities. Different institute can be divided in different sector i.e. Banking Sector, Financial Sector, Insurance Sector, Hotel Sector. Manufacturing and Processing Sector, Trading Sector and other Sector. The situation

of institution wise public issue approved during the period of fiscal year 2050/51 to 2063/64 presented below

Table 4.3
Institute Wise Public Issues

Sector	No of issues	Rs. in million	issues
Commercial Bank	31	6461.749	54.33
Development Bank	25	817.06	6.87
Finance company	93	2087.26	17.55
Insurance company	13	305.66	2.57
Total	4	795.66	6.69
Manufacturing's processing company	2	902.69	7.59
Trading company	4	3.57	0.03
Others	4	519.73	4.37
Total	196	11893.20	100

Figure 4.2
Institute Wise Public Issues

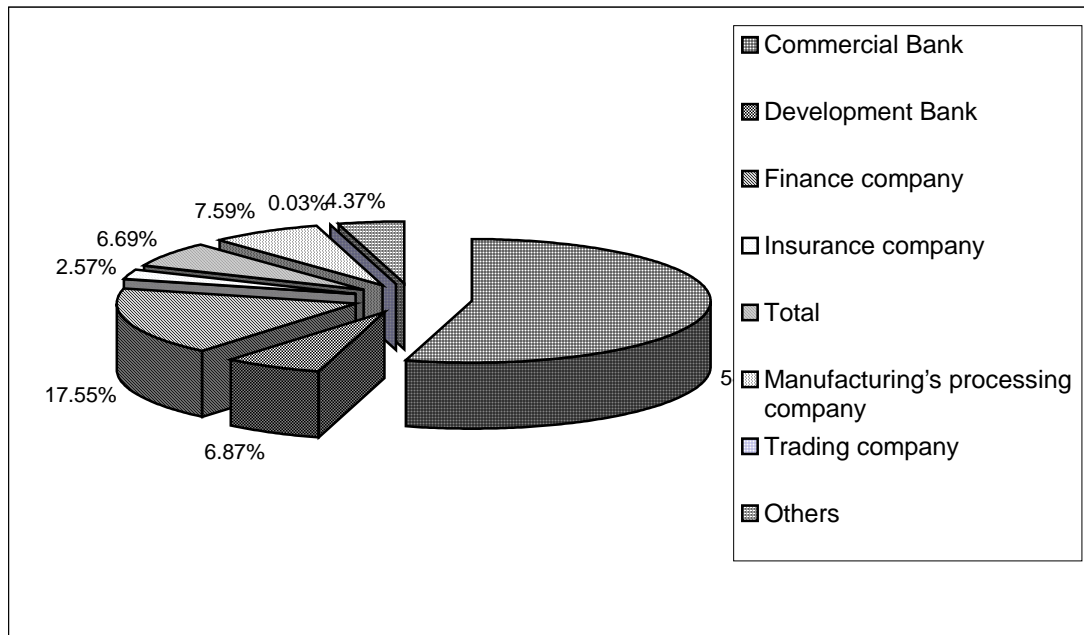


Table 4.3 and Figure 4.2 shows the Institution wise public issue from fiscal year 2050/51 to 2063/64, out of 196 issued there are 31 public issue by commercial bank amounting Rs.6461.71 million which occupied 54.33% of a total public issue , 25 issued by development bank amount Rs.817.07 million which contribute 6.87% of total issue amount similarly 93 issue amount Rs.2087.19 million by finance company which contributes to 17.55% of total issue ,13 issued by insurance sectors amounting Rs.795.57 million manufacturing and processing issue were 22 amounting Rs.902.69 million trading company issue 4 amounting Rs.3.57 million and 4 issued by other sectors amounting Rs.519.73 million The amount of issues are Rs.6461.74 million by bank. Which the greatest amount from other Rs.2087.26 million by finance companies which is less than commercial bank. The similarly amount of issues are 817.06 million, Rs.365.66 million, Rs.795.66 million, Rs.902.69 million Rs.3.57 million, Rs.519.73 million from Development banks, insurance companies, Hotel, manufacturing and processing trading companies respectively. Their contribution to total income .2.57%, 6.69%, 7.59%, 0.03%, 4.37% respectively.

4.1.4 Merchant Bankers: Activity Performance

A. Citizen Investment Trust (CIT)

. "Citizen Investment Trust (CIT) is incorporated under citizen investment Trust Act, 1990 with a view to expand investment opportunities by encouraging general public to save capital and to bring to dynamism in the development of capital markets. CIT is basically the saving and investment institution and it statutorily derives a special status and privilege, which adds up its strength to emerge as a national institution reaching wider spectrum of the population. CIT, at the same time, achieves a high

profession in the financial intermediation and ability to provide varied capital market services.

Capital market services included Trustee ship services and corporate finance services and it include merchant banking services under corporate finance services.

Merchant Banking services provided by CIT is as follows:

a. Public issue management

In Nepal issue management is major function of merchant banker as an issue manager. CIT has been actively participating in public of issues management during the 14 years of period from fiscal year 2050/51 to 2063/64. It has managed a lot of issues of ordinary share of debenture, preference shares and right share of different organization out of these instrument cit has been mostly handled ordinary shares management.

The brief detail of public issue management by CIT is shown in the table no 4.

Table 4.4
Public Issue Managed by CIT

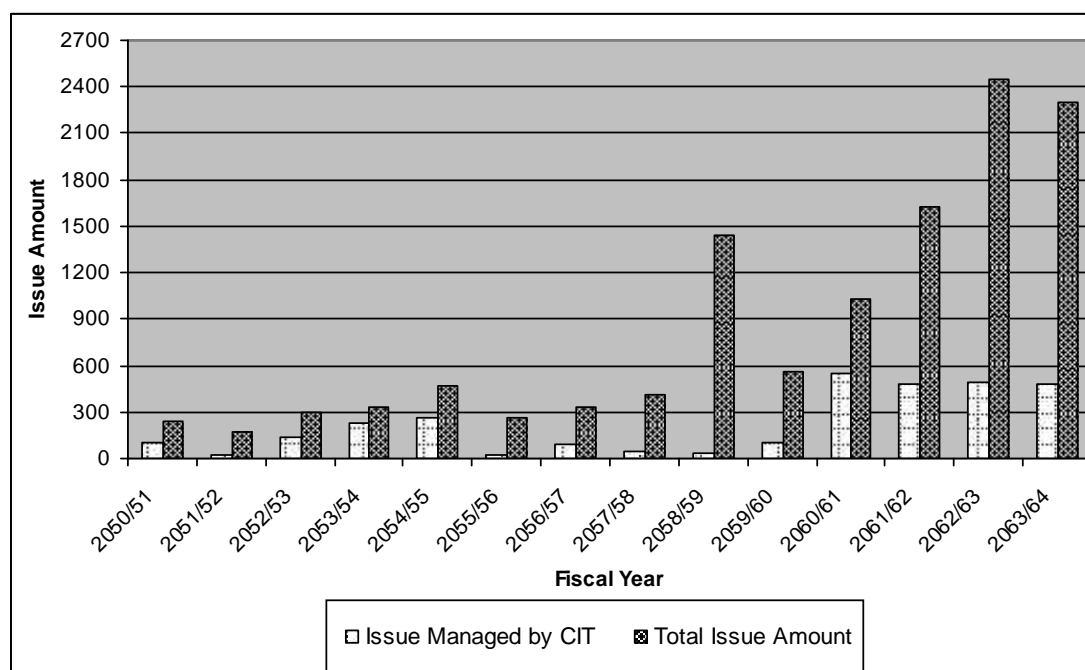
Fiscal year	Issue by CIT		Total issue		% of issue by CIT
	No. of issue	Issue amount (Rs. in million)	No. of issue	Issue amt (Rs. in million)	
2050/51	7	106	16	244.40	43.37
2051/52	1	19.20	10	173.96	11.04
2052/53	3	134.40	12	293.74	45.75
2053/54	1	225.20	5	332.20	67.79
2054/55	2	261.95	12	472.36	56.65

2055/56	2	28	5	258	10.85
2056/57	2	92.86	6	326.87	28.41
2057/58	2	48	9	410.49	11.69
2058/59	1	40	12	1441.33	2.78
2059/60	4	99.30	18	556.54	17.84
2060/61	3	552.50	14	1027.50	53.77
2061/62	3	478	14	1626.82	29.38
2062/63	4	494.91	29	2443.28	20.26
2063/64	2	484	34	2295.50	21.08
Total	37	3064.32	196	11892.98	25.77

Source: SEBO Nepal, annual report 2063/64

Table 4.4 shows that performance of CIT as an issue manager of different companies, the company has managed to raise Rs.3064.32 million capital of 37 different issuing companies that are 25.77 of aggregate public issue during the 14 years period(2050/51 to 2063/64)

Figure 4.3
Public Issue Managed by CIT



As an issue manager CIT contribute the more than 25% of total public issue.

b. Underwriting and syndication of underwriting public issue.

Citizen investment trust also provided the under services of underwriting as well as of syndication of underwriting of public issue of various companies, which are as follows:

**Table 4.5
Underwriting of Public Issued by CIT**

S.N.	Name of company	Data Agreement	issued shares	shares under writes	Amt underwriting shares	issue manages
1	Necon Air Ltd.	050-09-20	224000	14000	1400000	CIT
2	Neco Insurance Ltd	Baishak, 053	150000	10000	1000000	CIT
3	Samjhana Finance Ltd	2052-10-04	90000	10000	1000000	National finance ltd.
4	Universal Finance and Capital Market Ltd	053-01-05	150000	10000	1000000	RBB
5	Bank of Kathmandu	053-05-20	450000	50000	5000000	NCML
6	Alliance Insurance Ltd	054-10-20	200000	15000	1500000	CIT
7	Sagarmatha Insurance Ltd	055-09-10	200000	15000	1500000	NCML
8	NIC Bank Ltd.	057-05-32	1500000	20000	2000000	NCML
9	Nepal Development Bank Ltd.	057-12-08	480000	70000	7000000	CIT

10	Everest Bank Ltd	N/A	-	50000	5000000	NCML
11	Development Credit Bank Ltd	N/A	N/A	35000	3500000	NMB
12	NB insurance Co. Ltd.	060	200000	10000	100000	CIT

Source: Reports provided by Merchant Banking department, CIT.

Table 4.5 shows underwriting of public issue by CIT, CIT has underwriting public issue of 12 companies from fiscal year 050/51 to 059/60. After B.S. 2062 the company has not underwriting due to oversubscription it shows good responses to public.

c. Registrar to shares

Registrar to share is another function of Merchant Bank. CIT provide services to registrar to shares services to different companies, it provides of share registrar to Alliance Company Ltd, Chilime Hydropower and Lumbini Bank Ltd.

d. Consultancy services

CIT provide consultancy services like, designing capital structure like mergers and acquisition, privatization pricing of securities etc.

e. Citizen unit scheme

Citizen investment trust has started citizen unit scheme. The performance of citizen unit scheme is below.

In the fiscal year 2063/64 citizen investment trust sold units amounting Rs.1702.32 million under and repurchased until amounting Rs1004.10 million under citizen unit scheme by the end of 2063/64. The total investment was Rs707.77 million out of

which investment in share and debentures were Rs.34.30 million, the investment trend of the scheme shows that the scheme has made major portion of investment in loan and advances. The unit of holder scheme includes institutions and individuals out of 2735 unit holders in the fiscal year 2063/64, 109 are institutional and 2686 are individuals. The detail of this scheme is presented in Table 4.6

Table 4.6
Statement of Citizen Unit Scheme

Particulars	Fiscal Years				
	2059/60	2060/61	2062/62	2062/63	2063/64
Total amount of unit sold	837.50	1003.90	1215.60	1486.30	1702.30
Total amount of unit repurchased	432.20	536.30	702.50	829.00	1004.10
Investment:-	414.40	417.00	567.60	657.50	707.80
Government bond	188.00	182.00	184.60	173.90	92.90
Bank deposit (fixed)	96.50	92.00	100.00	317.50	414.00
Share / debentures	15.40	26.50	22.80	26.50	34.30
Loan and advances	114.50	116.50	260.20	139.60	139.60
Net in come	37.40	36.30	41.90	50.40	48.80
Dividend(%)	8.0	7.0	7.0	7.0	6.25
No of unit holders	9087	90.71	2651	2848	2795
Institutional	-	-	2579	2747	2686
Individual	-	-	72	93	109

B. NIDC Capital Markets Ltd.

NCML was established under the finance company ACT 2042 under the initiative of Nepal Industrial Development Corporation along with the participation of other institutional such as National Life and General Insurance, National Productivity, Rastriya Beema Sansthan, Rastriya Banijaya Bank and Nabil Bank commenced its operation from 28-10-2049.

NCML has played an instrumental role in introducing various companies to the general public through invited public offering. In order to strengthen the transactions

of the stock exchange by way of efficient transfer of title of shares, it provided the services of Registrar to shares.

As a merchant Banker NIDC capital markets provide various services Merchant banking, these services are as follows:

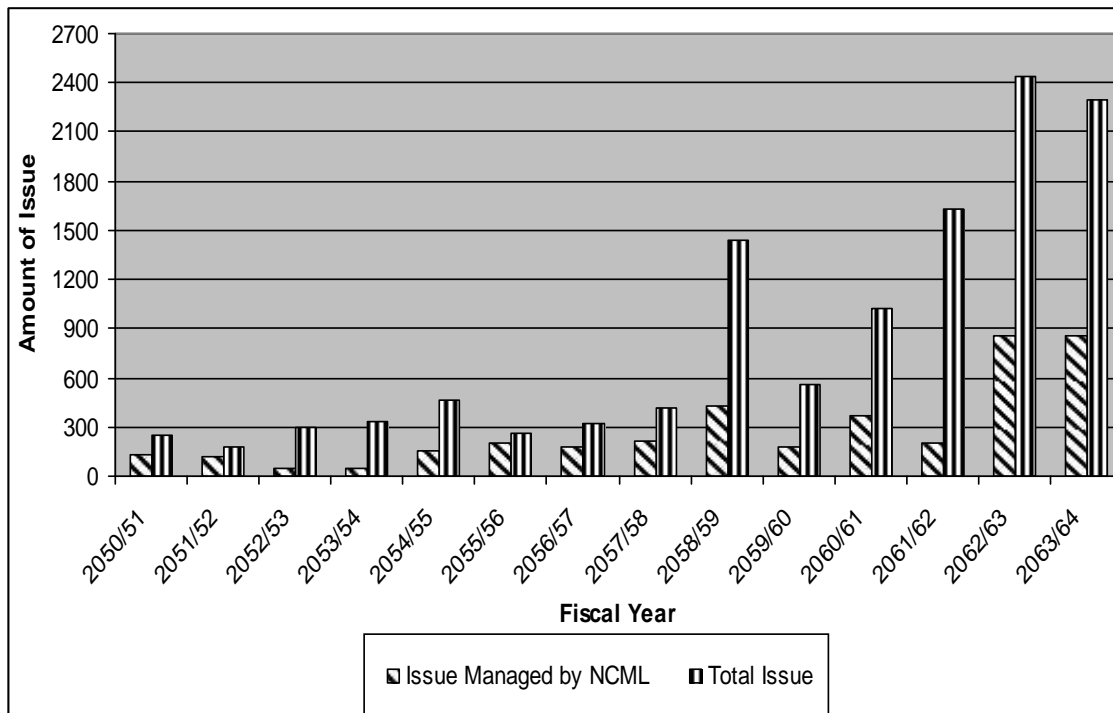
a. Issue Management: As an issue manager NCML has managed a lot of issue of securities like, ordinary shares, Right shares, debentures, and pref. shares, successfully. The detailed of issue handled by NCML are as follows:

Table 4.7
Public Issue Managed by NCML

Fiscal year	Issue by NCML		Total Issue		% of issue by NCML
	No of issue	Amt of issue Rs. In million	No of issues	Amt of issue Rs in million	
2050/51	8	136.40	16	244.40	55.81
2051/52	6	119	10	173.96	68.41
2052/53	3	44.28	12	293.74	15.07
2053/54	1	45	5	332.20	13.55
2054/55	4	159	12	462.36	34.39
2055/56	2	200	5	258	77.52
2056/57	1	175	6	326.86	53.54
2057/58	3	210.20	9	410.49	51.21
2058/59	3	431.46	12	1441.33	29.93
2059/60	6	183.24	18	556.54	32.93
2060/61	3	366	14	1027.50	35.62
2061/62	3	203.20	14	1626.82	12.49
2062/63	12	860.87	29	2443.28	35.23
2063/64	13	857.30	34	2295.50	37.33
Total	68	3990.95	196	11893.20	33.56

Source: SEBO annual report 2063/64

Figure 4.4
Issue Management of NCML



From Table 4.7 and Figure 4.4 we find Issue Management services of NCML. NCML has provided services of issue management of 68 companies during 14 years period from 2050/51 to 2063/64

Out of this total issue management the company has managed also Various Companies such as right share of Bank of Kathmandu, Nepal investment Bank, People Finance Ltd, Annapurna Finance Ltd, National Finance Co Ltd; Kumari Bank Ltd. Goodwill Finance Ltd. Central Finance Ltd, Lumbini Bank Ltd. Paschimachal Bikash Bank Ltd, Nepal Development Bank Ltd, Nepal Express Finance Ltd, Kist Merchant and Banking Finance Ltd etc. Not only Financial sector NCML has also managed right share of Taragoan Regency Hotel Ltd.

Like wise NCML has managed Debentures Issue of Shree Ram Sugar Mills Ltd. and Pref. shares of Birat Shoe Ltd and Pref. shares of Taragoan Regency Hotel on co-

management with NMB out of 196 issue, NCML has manage 68 issues securities to raise Rs 3990.95 million during 14 years period.

b. Underwriting of Public issue

NIDC also provides the services of underwriting of public issue of various companies which are as follows:

Table 4.8
Underwriting of Public Issue by NCML

S.N.	Fiscal year	Issuing Company
1	2050/2051	Premier Insurance Company ltd
2	2051/52	Everest Insurance Company ltd
3	2053/54	Bank Of Kathmandu ltd
4	2055/56	Taragoan Regency Hotel ltd
5	2056/57	NIC Bank Ltd
6	2056/57	Oriental Hotels ltd (Radission)
7	2058/59	Himalayan Distillery ltd

Table 4.8 Shows that underwriting of Public issue by NCML, NCML has underwriting of public issue of various companies during the year 2050/51 to 2058/59. After B.S 061/61 due to over subtraction the company has not underwritten securities of public issued.

c. Registrar to Share: The main objective of share Registrar to maintain the record of shareholders, to fulfill the name of transferring process and assist in holding the preliminary and general meeting on behalf of the companies.

As a share registrar, NCML provides services of registrar as to share issue, which are mentioned in Table 4.9

Table 4.9
Registrar to Shares by NCML

S.N.	Company
1	NIC Bank Ltd.
2	Paschimanchal Development Bank Ltd
3	Unilever Nepal Limited
4	Shree Bhrikuti Pulp and Paper Limited.
5	Oriental Hotel
6	Business Development Bank Ltd.
7	Shrijana Finance Ltd
8	Bhrikuti Bikash Bank Ltd.
9	NCM Mutual Fund 2059
10	NIDC Capital Market Ltd.
11	Butwal Power Co.Ltd.
12	Sahayogi Bikash Bank Ltd.
13	Himchuli Bikash Bank Ltd.
14	Birat Laxmi Bank Ltd.
15	Nepal Express Finance Ltd.

Sources: - www.ncml.np/ registrar to share.

d. Trustee ship services: The Company has also provided Trusteeship services to Himalayan Bank namely ‘H.B. debenture 2068’ and NIC Bank namely ‘NIC Bond 2070’.

e. Consultancy services: The Company has also provided the consultancy services to different organization; it has prepared macro economic sector analysis where by

sector of investment Possibilities are research. These sectors include Textile with analysis on the areas of cotton thread garments and kind was as well tourism.

d. Portfolio Management: - The Company also provides portfolio management services to different by buying and selling of securities in fiscal year 2051/52 but it had left after successive year due to some Problems.

F. NCM Mutual Fund

The first NCM mutual fund was brought into operation in fiscal years 2050/51(1993/94) and it had terminated by the end of the fiscal year 2058/59 (2000/02) it was an open- ended fund with a par value of Rs.10 per unit and total amount of the mutual fund was Rs.100.00 million.

The objective of NCM mutual fund was to provide returns to the fund holders by professional management of their fund. In the current situation of lack of any sufficient securities instruments, this fund scheme has provided opportunities to the risk aware type of investors to invest in the capital markets.

The second NCM mutual fund was brought into operation in fiscal year 2059/60(2002/03) with approval of securities exchange board of Nepal and it is close ended mutual fund with 10 years maturity period, which has also been listed in the stock exchange the total amount of mutual fund is Rs.100 million with par value Rs.10 per unit, NIDC capital market and Nepal industrial development corporation are the fund manager and the trustee of fund. The trend of performance of NCM mutual fund is presented in Table 4.10.

Table 4.10**Trend Performance of NCM Mutual Fund**

Particulars	Fiscal Years				
	2059/60	2060/61	2061/62	2062/63	2063/64
Outstanding unit (000)	105.69	118.20	144.93		314.00
Net Assets value	10.57	11.80	14.49	18.91	31.50
Net Assets value per unit (Rs)	2.14	9.50	11.47	13.89	23.20
Net in come	5%	5%	5%	5%	10%
Investment Dividend (%)	110.32	123.41	152.75	210.71	382.10
Corporate securities	84.43	95.88	126.21	183.53	279.40
Investment in other sectors	25.89	18.83	26.54	23.68	103.3
No of company invested	29	31	35	-	-
No of unit holders	2882	2882	2559	2481	2417
Institutional	19	19	20	20	20
Individual	2863	2863	2539	2461	2367

Source: Annual Reports SEBON 2063/64

Table 4.10 shows Trend performance of NCM Mutual Fund. Total investment of NCM mutual fund Rs382.10 million in fiscal year 2006/07 out of which investment in corporate securities was 73.09% its portfolio of investment includes securities of more than 35 listed companies. The investment is end of the fund shows that the fund was made major portion of investment in corporate recruits and has played a significant role in the securities market with increased investment in corporate securities. The unit holder of fund includes institutions and individual out of 2417 unit holders in the fiscal year 2063/64, 20 are institutions. The participation of institutions as unit holders

of NCM mutual fund shows that the mutual fund can attract institutions investors in securities market.

C. Nepal share Markets and Finance Ltd.

NSML commenced business in 2050; NSML has been providing Merchant Banking services since its establishment it provides issue management underwriting and consultancy services in area of capital Market.

a. Public Issue Management: out of various services of merchant Banker the company has managed public issue securities which are mentioned below Table.

Table 4.11
Issue Management of NSML

(Rs. in million)

Fiscal year	Issue by NSML		Total Issue		% of issue by NCML
	No of issue	amt of issue Rs.	No of issue	Total amt of issue Rs.	
2050/51	1	2	16	244.40	0.82
2051/52	1	7.50	10	173.96	4.26
2052/53	1	12	11	293.74	4.09
2053/54	1	12	5	332.20	3.61
2054/55	3	23.40	12	462.36	19.76
2056/57	3	69	6	326.86	21.11
2057/58	2	20.08	9	410.49	4.89
2058/59	3	200	12	1441.33	13.9
2059/60	1	10	18	556.54	-
2060/61	-	-	14	1027.50	-
2061/62	1	140	14	1626.82	8.61
2062/63	-	-	29	2443.28	-
2063/64	-	-	34	2295.50	-
Total	17	495.98	196	11892.20	4.17

Source:- Annual reports SEBON, 2063/64

Figure 4.5
Issue Management of NSML

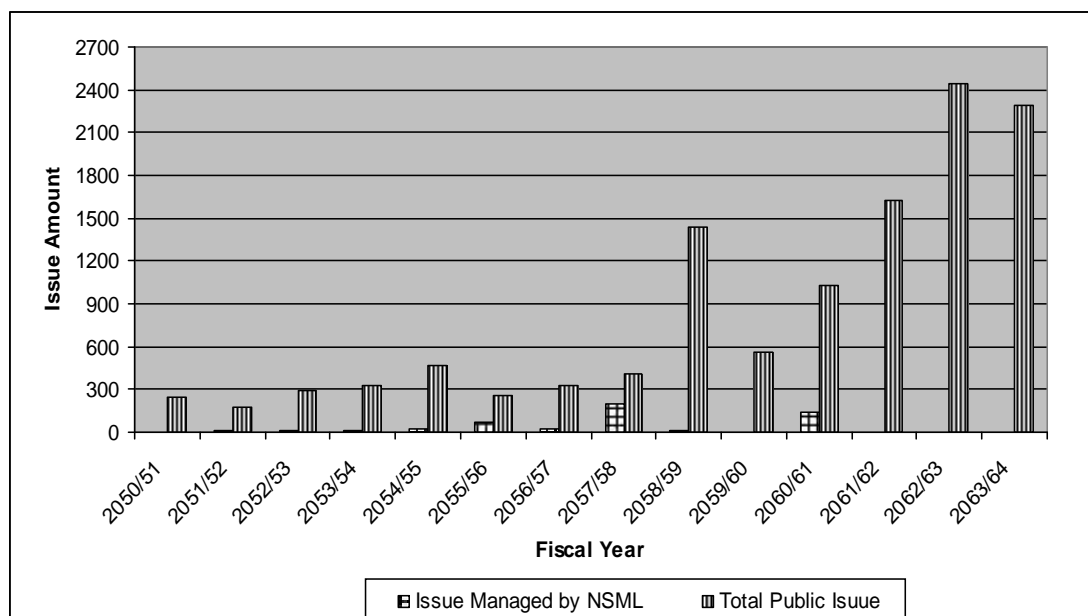


Table 4.11 and Figure 4.5 shows that NSML has provided services of issue management of 17 companies during the year from 2050/51 to 2063/64 with Right shares of Paschimanchal Finance Co Ltd, Ace Finance Co Ltd, Narayani Finance Ltd and Pref. Shares of Everest Bank Ltd it has managed 0.82%, 4.26%, 4.09%, 3.61%, 19.76%, 21.11, 4.89%, 13.9%, 8.61% of Total issue in fiscal year 2050/51, 2051/52, 2053/53, 2053/54, 2054/55, 2056/57, 2057/58, 2058/59 and 2060/61 respectively.

b. Underwriting of public issue of securities:- NSML has provided underwriting services to different issuing companies. Public issues underwriting by Nepal Share Market Ltd are presented in Table 4.12.

Table 4.12
Public issues underwritten by Nepal Share Markets Ltd

S.N.	Fiscal year	Issuing company	No of shares	Amt of underwriting	Issue manager
1	051/052	Balaju Kapada Udyog	31090	3109000	NSML

Source: - Interview with higher level employee of NSML

Table 4.12 shows NSML has underwritten 31090 no of share of Balaju Kapada Udyog which amount is 3109000 fiscal year 051/052 till now NSML has not underwriting of security due to various circumstances.

c. Consultancy Services: NSML provides consultancy services in the area of capital markets and other related activities.

D. NMB Bank Ltd.

NMB commenced business in 2054. NMB is involved in both primary and secondary markets and trying to become leader in area of capital market as a emerging merchant banker NMB provides various services, like, managing initial public offering of security, it managing right issue of shares, managing private placement of equity, registrar to shares services, underwriting of shares, and advisory services. The company has is believe to have been able to retain its leading.

a. Public issue management: Out of these various services as a issue manager, the company has managed issue management of various companies these are as follows:

Table 4.13

Public issue managed by NMB

Rs. In Million

Fiscal year	Issue by NMB		Total Issue		% of issue by NMB
	No of issue	Amt of issue Rs	No of issue	Amt of issue Rs	
2055/56	2	200	5	258	77.52
2056/57	1	175	6	326.86	53.54
2057/58	2	56	9	410.49	13.64
2058/59	4	769.87	12	1441.33	53.41
2059/60	3	215	18	556.54	38.63
2060/61	6	99	14	1027.50	9.64
2061/62	6	290.41	14	1626.82	17.85
2062/63	10	782.50	29	2443.28	32.03
2063/64	12	453.90	34	2295.50	19.77
Total	46	3041.68	141	10386.32	29.29

Figure 4.6

Public Issue Managed by NMB Bank

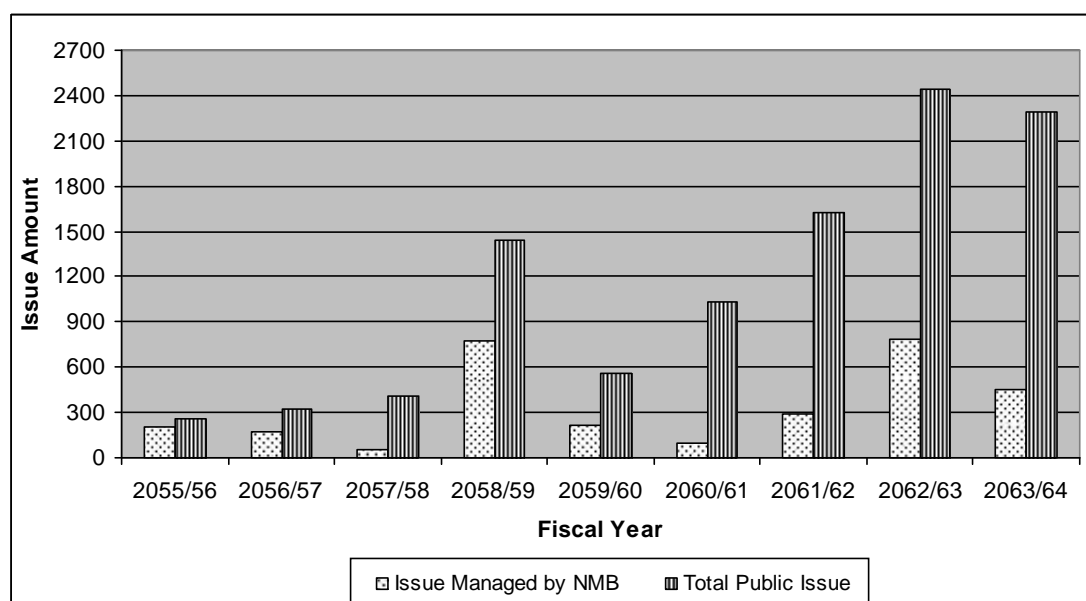


Table 4.13 and Figure 4.6 shows Public issue Manage by NMB Bank ltd; NMB has handled total 46 issues of various companies amounting Rs 3041:68 million which is 29.20% of total issue during these.9 years period not only ordinary share it has also managed Pref. Shares of Taragoan Regency Hotel Co-management with NCML, Debentures of Himalayan bank Ltd. And Bank of Kathmandu. during these 9 years Period It has managed 77.52% 53.54%, 13.64%, 38.63% 9.64%, 1785% of total issue. Also the company has 17 issues of securities of companies in pipeline for the current year.

b. Underwriting of securities: NMB provided underwriting services of securities which are as follows.

Table 4.14

Underwriting of Public issue by NMB

S.N.	Fiscal year	Issuing Company	No of shares underwriting	Amount of underwriting	Issue Manager
1	057/058	Nepal development Bank Ltd.	70000	700000	NMB, CIT
2	058/59	Development Credit Bank Ltd.	70000	7000000	NMB
3	2060/061	Prudential Insurance co. Ltd.	200000	20000000	NMB

Source: Interview with higher Travel employee of NMB Bank ltd.

Table 4.14 shows underwritten of shares by NMB, NMB has under writing 70000 no of shares of Nepal Development Bank ltd, with co issue management with CIT in fiscal year.2057/58. Again NMB has underwriting 70000 shares of Development

Credit Bank Ltd. and 200000 shares of Prudential Insurance Co Ltd which amount is Rs.7000000 and Rs.2000000 in fiscal year 058/59 and 060/61.

c. Registrar to share: NMB provides share register services to Nabil Bank Ltd. Standard Chartered Bank Ltd. Sidhartha Bank Ltd, Development Credit Bank Ltd, Malika Bikash Bank Ltd. Swabalamban Bikash Bank Ltd and Sidhartha Insurance Ltd.

d. Corporate counseling: NMB provides consultancy services in the area of capital markets, under its corporate finance department the company provided services of project analysis to corporate mergers and acquisition to debt finance and equity finance services, it's also provides services of pricing of security prepare of venture capital project and report etc.

4.1.5 Analysis of Merchant Banking Income

The main purpose of any organization is to generate income because income is called lifeblood of organization; the study of income indicates progress and prosperity of the organization. That is why it is mandatory to study those incomes which are generated by Merchant banking activities to the Merchant bankers.

A. Merchant Banking Income of CIT

The Merchant Banking income of CIT from fiscal year 2050/51 to 2063/64 presents below.

Table 4.15
Statement of Income of CIT

Rs. in million

Fiscal year	Merchant Banking income (Rs.)	Total income (Rs.)	% of income from Merchant Banking to total Income
2050/51	1.085	4.816	22.53
2051/52	1.439	22.873	6.29
2052/53	4.561	7.520	60.65
2053/54	3.121	7.517	41.52
2054/55	1.292	7.720	16.74
2055/56	1.434	10.552	13.59
2056/57	1.274	14.395	8.85
2057/58	2.165	14.673	14.75
2058/59	3.189	18.269	17.46
2059/60	3.483	21.20	16.43
2060/61	5.969	31.723	18.82
2061/62	4.608	52.349	8.80
2062/63	5.722	51.806	11.05
2063/64	2.097	54.874	3.821

Sources: - Annual Reports /CIT

Table 4.15 shows Merchant Banking income of CTI, it was Rs.1.085 million in fiscal year 2050/51 which contributes 22.53% of total income, which increased to Rs.1.439 million in fiscal year 051/52 accounting 6.29% of total income in fiscal year 2052/53 it has earned Rs.4.56 million from Merchant Banking activities representing 60.65 % of total income. Similarly Merchant banking income was Rs.3.121million in fiscal year 2053/54 representing 41.52% of total income.

In fiscal year 2054/55 the income from Merchant Banking activities was Rs.1.292 million which Representing 16.74% of total income which increased to Rs1.431

million in fiscal year 055/56 accounting 13.59% of total income. Which decreased to Rs.1.274 million accounting 8.85% of total income in fiscal year 2056/57? In fiscal year 2057/58, the Merchant banking income was Rs.2.165 million which generated 14.75% of total income. In fiscal year 2058/59 the income from Merchant banking activities was Rs.3.189 million which is increased to Rs.3.483 million in fiscal year 2059/60 accounting 16.43% of total income which income is increased to Rs.5.969 million in fiscal year 060/61 representing 18.82% of total income. Similarly In fiscal year 06/62 income from Merchant Banking activities was Rs.4.608 million representing 8.80% of total income in fiscal year 2062/63 income was Rs.5.722 million accounting 11.05% of total income. Which sharply decrease to Rs2.097 million representing 3.82% in fiscal year 2063/64.

It has been seen most of earning from issue management secondly income from sale of government bond then share Registrar underwriting and consultancy services.

Figure 4.7

Statement of Income of CIT

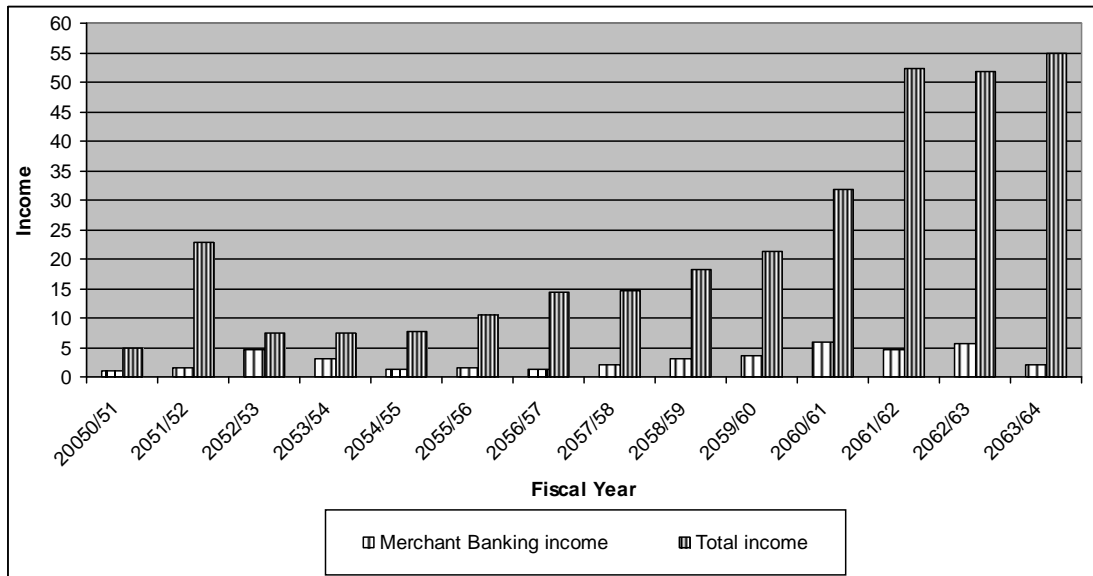


Chart 4.2

Statement of Income

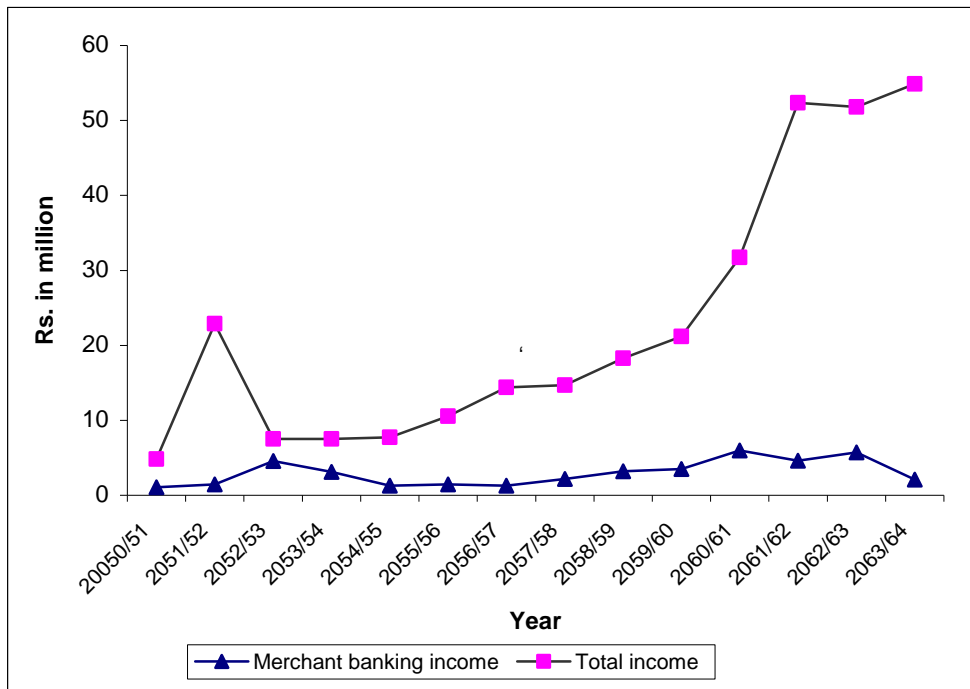


Figure 4.7 & Chart 4.2, shows Merchant Banking income of CIT from fiscal year 2050/51 to 2063/64.

The Merchant banking income was increasing from fiscal year 2050/51 to 2053/53 but total income was increasing from 2050/51 to 051/52 also was decreasing in 052/53. From fiscal year 2053/54 to 054/55 Merchant Banking income was decreasing. While total income was slightly increased from fiscal year 056/57 to 060/61. From fiscal year 2056/57 to 2060/61 Merchant banking income seems increasing trend but fiscal year 2061/62 the income from merchant banking was decreasing which has increased in fiscal year 2062/63, although again decreased in fiscal year 2063/64 but total income rose gradually from fiscal year 2057/58 to 2061/62 which is decreased in fiscal year 2062/63 and again, increased in fiscal year 2063/64.

B. Merchant banking Income of NIDC Capital Market Ltd.

The in come from merchant banking activities of NCML in various years is shown in Table 4.16

Table 4.16
Statement of Income of NCML

Rs. In million

Fiscal	Merchant banking income (Rs.)	Total income (Rs.)	% of income merchant banking activities to total income
2050/51	1.295	9.034	14.34
2051/52	1.695	10.532	16.09
2052/53	0.884	2.695	32.80
2053/54	2.163	12.644	17.11

2054/55	0.782	21.823	3.58
2055/56	2.021	34.275	5.89
2056/57	4.464	50.953	8.76
2057/58	3.435	58.250	5.89
2058/59	3.241	54.148	5.98
2059/60	2.494	69.614	3.58
2060/61	4.98	90.80	5.48
2061/62	1.332	42.87	3.107
2062/63	1.554	56.849	2.734
2063/64	1.501	109.416	1.372

Source: - Annual reports NIDC capital Market Ltd.

Figure 4.8
Statement of Income of NCML

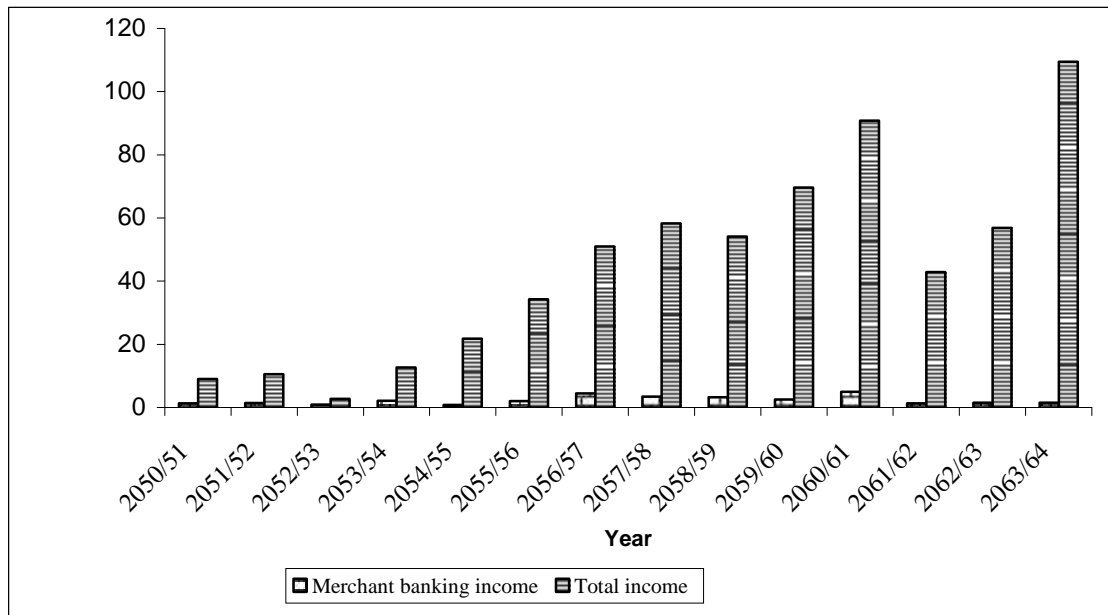


Chart 4.3

Statement of Income of NCML

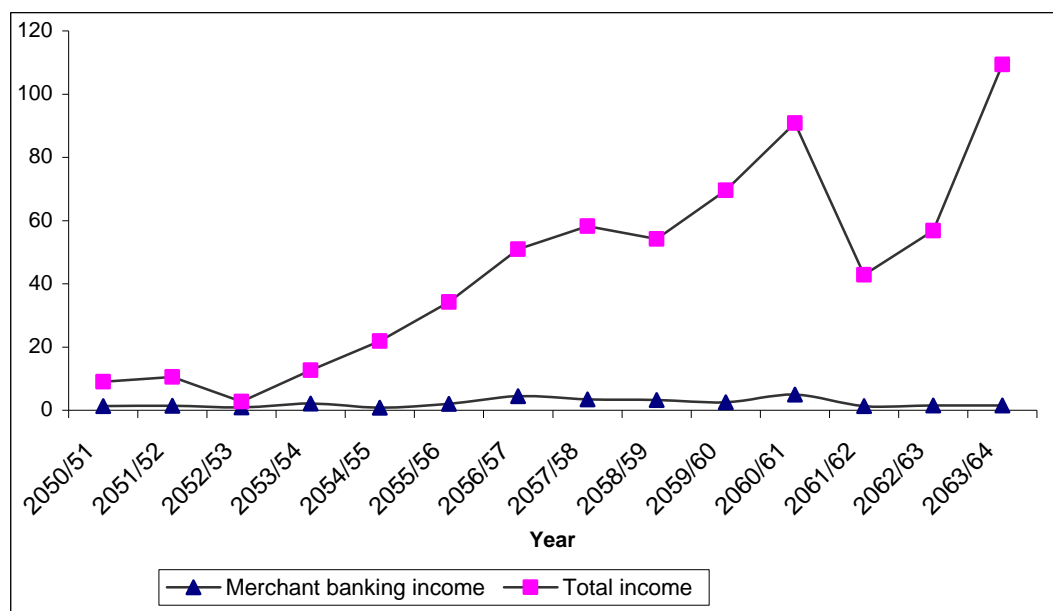


Table 4.16, Figure 4.8 & Chart 4.3 shows that merchant banking income of NCML, it has earned Rs.1.295 million in fiscal year 2050/51 which was 14.34% of total income which increased to Rs.1.695 million in fiscal year 2051/52 generating 16.09% to total income in fiscal year 2052/53 it has earned Rs.0.884million from Merchant Banking activities representing 32.80% of total income which has sharply increased to Rs.2.163 million accounting 17.11% of total income in fiscal year 2053/54. Which has decreased to Rs. 0.782 million in fiscal year 2054/55 generating 3.58% of total income.

In fiscal year 2055/56 the income from merchant banking activities was Rs.2.021 million which representing 5.89% of total income in fiscal year 2056/57 the income from merchant banking activities of NCML was Rs.4.464 million which contribute total income by 8.76% decreased Rs3.435 million which occupied 5.89% of total income in fiscal year 2057/58 it has decreased to Rs.3.241 million contribute to total

income 5.89% million in fiscal year 2058/59, which has again decreased in comparison with previous year amounting Rs.2.494 million generating 3.58% of total income in fiscal year 2059/60, which sharply increased to Rs.4.98 million that occupied 5.48% of total income and again sharply decreased to Rs.1.332 million in fiscal year 2061/62 which representing 3.10% of the total income. The income from merchant banking activities of NCML was Rs.1.554 million representing 2.73% of total income in fiscal year 2062/63 which has decreased to Rs.1.50 million in fiscal year 2063/64 which representing 1.37% of total income.

From above Table & Figures, it is clear that the merchant banking income of NCML is not constant and it is known that most of the company has been generating income from issue management then registrar to shares and underwriting services during these fiscal years.

The company has found to have generating income from portfolio management services in fiscal year 2051/52 and later the company did not involve in the services.

C. Merchant Banking Income of NSML (Nepal share Market and Finance Ltd.)

The study of income from Merchant banking activities of Nepal share markets Ltd are shown in below Table.

Table 4.17
Statement of Income of NSML Ltd

Rs In million

Fiscal year	Merchant Banking income (Rs.)	Total income (Rs.)	% of income from Merchant banking income to total income
2052/53	0.1313	15.795	0.08
2053/54	0.05	30.778	0.002
2054/55	0.0255	53.778	0.005
2055/56	0.121	83.834	0.0014
2056/57	0.24	66.75	0.0036
2057/58	0.682	72.227	0.0094
2058/59	0.213	90.161	0.0024
2059/60	0.359	107.867	0.0033
2060/61	0.125	119.867	1.0484
2061/62	0.328	157.847	1.0484
2062/63	0.349	70.253	0.0050
2063/64	0.213	70.59	0.0030

Source: Annual reports of NSML

From Table 4.17 it is found that the total income from Merchant banking activities is not found to be constant for Nepal share market Ltd. and not being able simultaneously increase with the increased in total income.

The contribution of Merchant banking activities to total income by 0.08%, 0.002%, 0.005%, 0.0014%, 0.0036%, 0.0094%, 0.0024%, 0.0033%, 1.0484%, 1.0484%, 0.0050%, 0.0030% respectively from fiscal year 2052/53 to 2063/64 NSML Mostly generate income from issue management.

Figure 4.9

Statement of income of NSML

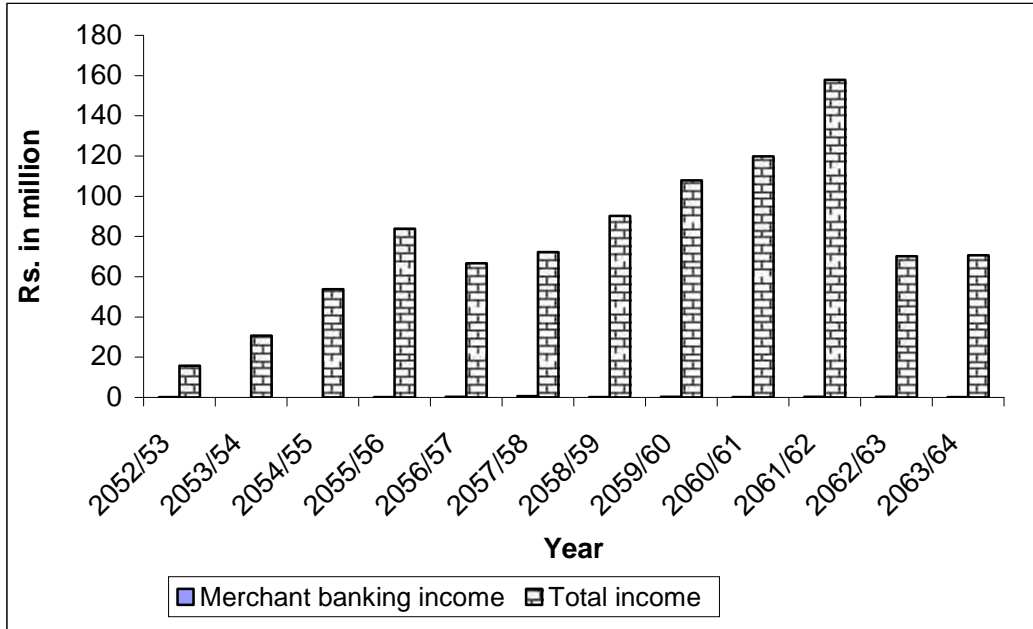


Chart 4.4

Statement of Income

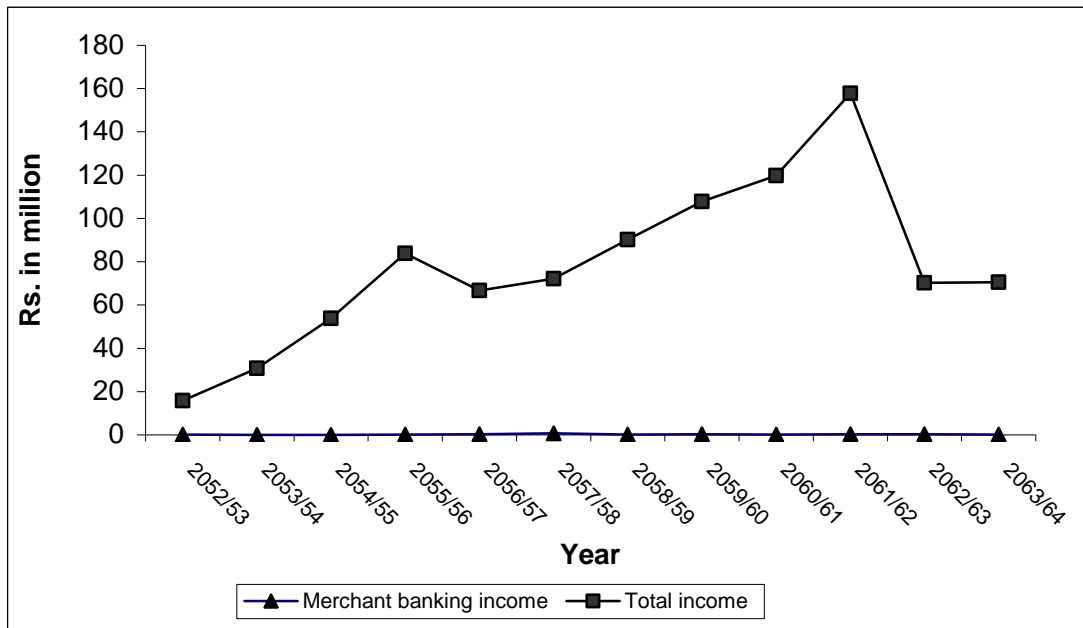


Figure 4.9 and Chart 4.4 shows that Merchant banking income not able for increasing with the increase in total income. From fiscal year 2052/53 to 2055/56 the total income was increasing trend but merchant banking income was fluctuating as well as decreasing trend. Total income was seems fluctuating from fiscal year 2055/56 to 2057/58.

Although total income seems increasing trend till 2061/62 decreased in 2062/63 and 2064 and merchant banking income seems very fluctuating in these years and not able for sharply increase and it is found that its contribution of merchant banking activities to total income is seems to be very little among activities:

C. Merchant Banking Income of NMB Bank Ltd

As being one of the newly established Merchant bankers of Nepal, NMB is earning income from Merchant Banking activities, which are presented below.

Table 4.18
Statement of income of NMB Bank

Rs. in million			
Fiscal year	Merchant Banking income (Rs.)	Total income (Rs.)	% of income from Merchant banking income to total income
2054/55	3.158	103.798	3.06
2055/56	18.199	145.744	12.49
2056/57	8.397	108.780	7.72
2057/58	12.887	141.182	9.13
2058/59	12.485	141.343	8.83
2059/60	10.158	150.584	6.75
2060/61	7.1693	171.7309	4.174
2061/62	5.47	170.032	3.217

2062/63	4.531	241.00	1.88
2063/64	17.19	168.710	10.189

Sources: - Annual reports of NMB

Table 4.18 shows the Merchant Banking of NMB Bank Ltd. Income of NMB is not found constantly in fiscal year 2054/55 the total Merchant banking income of NMB was Rs.3.158 million which accounts for 3.06% of the total income, the total income from Merchant banking activities in sharply increased to Rs.18.199 million in fiscal year 2055/56 which representing of total income 12.49%. In fiscal year 2056/57 the merchant banking income sharply decreased into Rs.8.397 million and it's contribute to total income showed representing 7.72%. In fiscal year 2057/58 the income from Merchant banking activities was Rs.12.887 million which accounting 9.13% of totals income which is decreased to Rs.12.485 million in fiscal year 2058/59 representing 8.83% of total income.

In fiscal year 2059/60 the income from Merchant Banking activities was Rs.10.158 million contribution of total income by 6.75% which decreased to Rs.7.1693 million having 4.17% shares of total income in fiscal year 20602/61 which is decreased to Rs. 5.47 million in fiscal year 2061/62 Representing 3.217% of total income which was again decreased to Rs.4.531 million, contribute to total income 1.88% in fiscal year 2062/63 at last in fiscal year 2063/64 the income from Merchant banking activities was Rs.17.19 million which was greatest income among them contribution 10.18% to total income.

Figure 4.10

Statement of Income

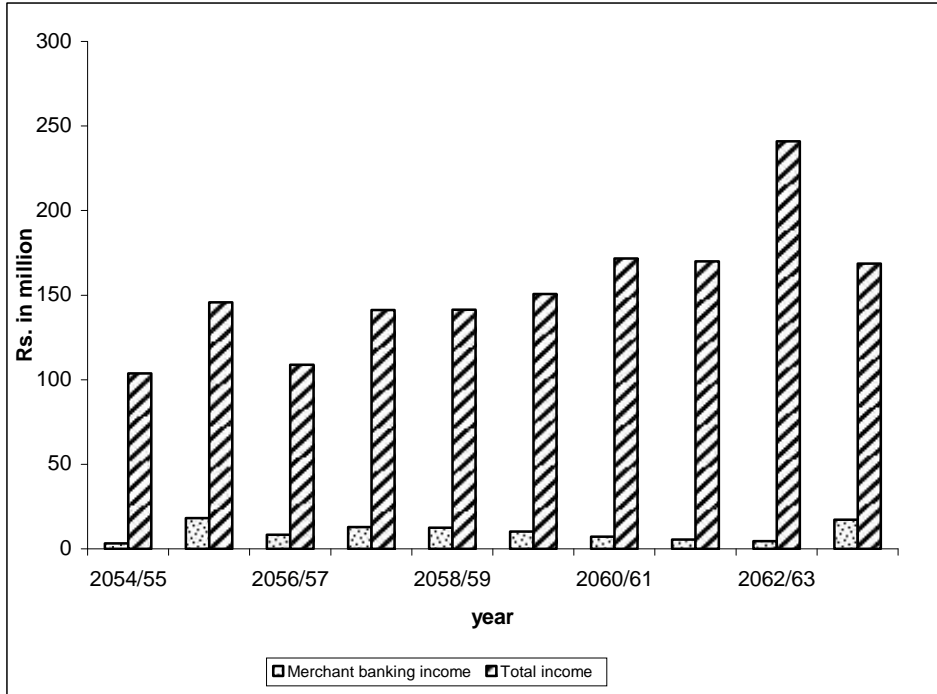
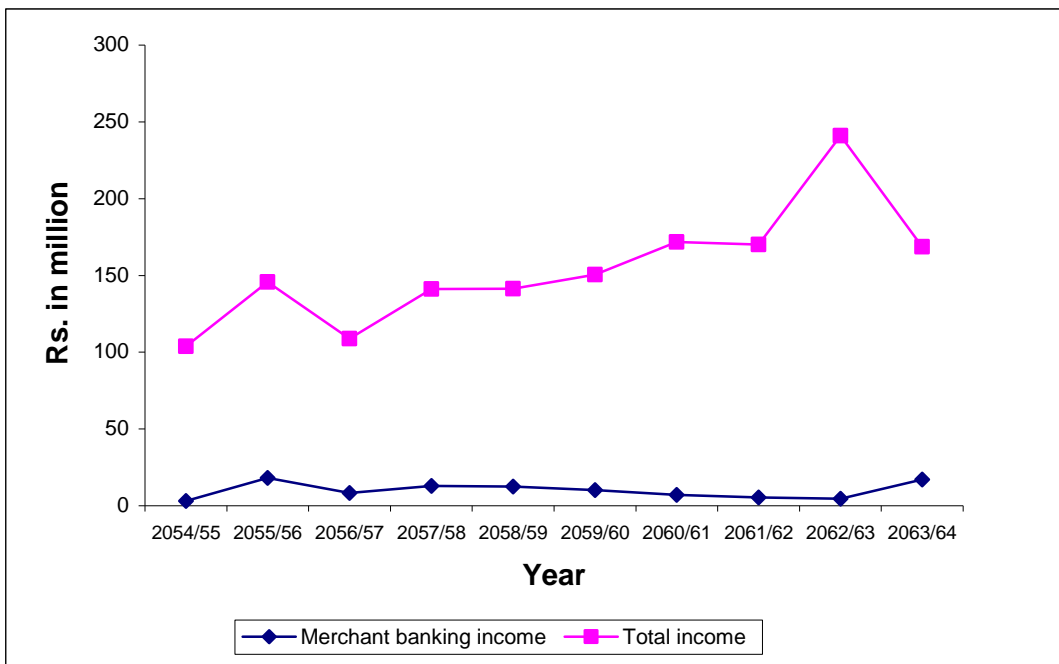


Chart 4.5

Statement of Income



Above Figure 4.10 & Chart 4.5 shows the income from Merchant banking activities from fiscal year 2054/55 to 2063/64.

The Merchant banking income and total income were increasing trend from fiscal year 054/55 to 055/56, which was decreased in fiscal year 2056/57 and also increased in fiscal year 2057/58. In fiscal year 2058/59 the Merchant banking income of NMB is slightly decreasing comparison to previous year but total income was slightly increasing trend.

Although the income from Merchant banking activities is decreasing trend in from fiscal year 2059/60 to 2062/63 the total income seems to be increasing trend till fiscal year 2060/61 then slightly decreasing in fiscal year 2061/62 but sharply increased in fiscal year 2062/63. Which is decreased in fiscal year 2063/64 but income from merchant banking was increased in this year in comparison to previous year.

4.1.6 Comparative Study of Merchant Banking Income of Various Companies:

The study has tried to conduct with the available of data provide by companies, here, NIDC capital Markets Ltd. and citizen investment Trust are performing Merchant banking activities since fiscal year 050/51 like wise Nepal share markets Ltd. has been performing Merchant banking activities since fiscal year 052/53 and NMB Bank has been performing it's Merchant banking activities since fiscal year 2054/55.

The comparative income from Merchant banking activities is presented below.

Table 4.19
Statement of Income Various Companies

Year	Rs. In million			
	CIT	NCML	NSML	NMB
20050/51	1.085	1.295	-	-
2051/52	1.439	1.695	-	-
2052/53	4.561	0.884	0.1313	-
2053/54	3.121	2.163	0.05	-
2054/55	1.292	0.782	0.0253	3.158
2055/56	1.434	2.021	0.121	18.199
2056/57	1.274	4.464	0.24	8.397
2057/58	2.165	3435	0.682	12.887
2058/59	3.189	3.241	0.213	12.485
2059/60	3.483	2.494	0.359	101.58
2060/61	5.969	7.98	0.125	7.1693
2061/62	4.608	1.332	0.328	5.47
2062/63	5.722	1.554	0.349	4.531
2063/64	2.097	1.501	0.213	17.19

Sources: - Annual reports of sampled companies.

Figure 4.11

Statement of Income of Sampled Companies

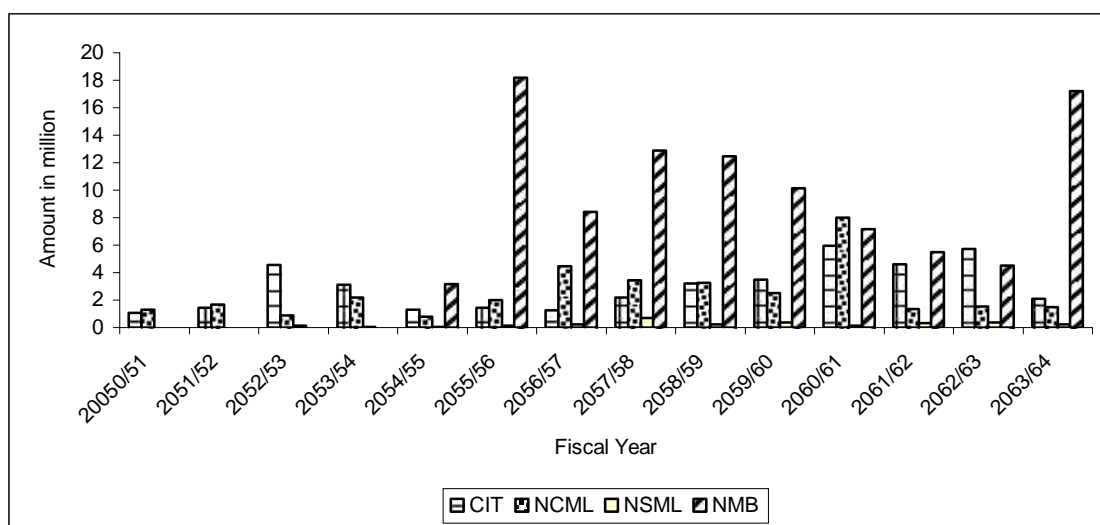


Table 4.19 and Figure 4.11 show the income of listed companies. In fiscal year 2050/51 the income from Merchant banking of CIT was Rs.1.085 million which increased to Rs.1.439 million in fiscal year 2051/52 and Rs4.561 million fiscal year 2052/53. This has decreased to Rs.3.121 million in comparison with previous year although income from merchant banking has decreased in fiscal year 2054/55 to 2056/57 it has gradually increased till fiscal years 2060/61. It was again decreased in fiscal year 2061/62. This increased in fiscal year 2062/63. But again decreased in fiscal year 2063/64. The merchant banking income was Rs.5969 million in fiscal year 060/61, which is highest income among different fiscal years.

Similarly Merchant Banking income NCML is not uniform it seems fluctuating in different fiscal years. The Merchant banking income was Rs.1.295 million in fiscal year 2050/51 which increased to Rs.1.695 million in fiscal year 2051/52 again decreased to Rs.0.884 million in fiscal year 2052/53 that increased to Rs2.163 million in fiscal year 2053/54 that shows Merchant Banking income of NCML is not able for smoothly increased the highest income from Merchant banking activities was Rs.4.98 million in fiscal year 060/61 which is greatest amount of Merchant banking income till now of NCML.

The Merchant banking income of NMB Bank was increasing trend from fiscal year 054/55 to 055/56 that decreased to Rs.8.397 million in fiscal year 056/57. it has increased to Rs.12.887 million in fiscal year 057/58 which has been decreasing trend till fiscal year 2062/63, in fiscal year 2063/64 the merchant banking income has increased to Rs.17.19 million which is highest Merchant banking income of NMB Bank Ltd.

Similarly Merchant Banking income of Nepal share market Ltd seems not uniform and also seems fluctuating, this shows NSML earned Merchant banking income Rs. 0.131 million in fiscal year 052/53 which had decreased to Rs. 0.05 million 0.0285 million and 0.121 million in the fiscal year 053/54, 054/55 and 055/56. Respectively. Respondent the income from merchant banking activities had increased in fiscal year 056/57 and 057/58 which is decreased to Rs.0.213 million in fiscal year 2058/59 which has increased to Rs.0.359 million in fiscal year 2059/60 and again decreased to Rs.0.125 million in fiscal year 2061/62, which has increased to Rs.0.328 million and 0.349 million in fiscal year 2061/62 and 2062/63 respectively which has decreased to Rs.0.213 million in fiscal year 2063/64. This shows NMB is performing better comparison with other companies.

Table 4.20
Merchant Banking Income from Last Seven Years Period

Rs. In million

Fiscal year	CIT	NCML	NMB	NSML
2057/58	2.165	3.345	12.887	0.682
2058/59	3.189	3.241	12.485	0.213
2059/60	3.483	2.494	10.158	0.359
2060/61	5.969	4.98	7.1693	0.125
2061/62	4.608	1.332	5.47	0.328
2062/63	5.722	1.554	4.53	0.349
2063/64	2.007	1.501	17.19	0.213

Sources: Annual Reports,

Figure 4.12

Seven years income of companies

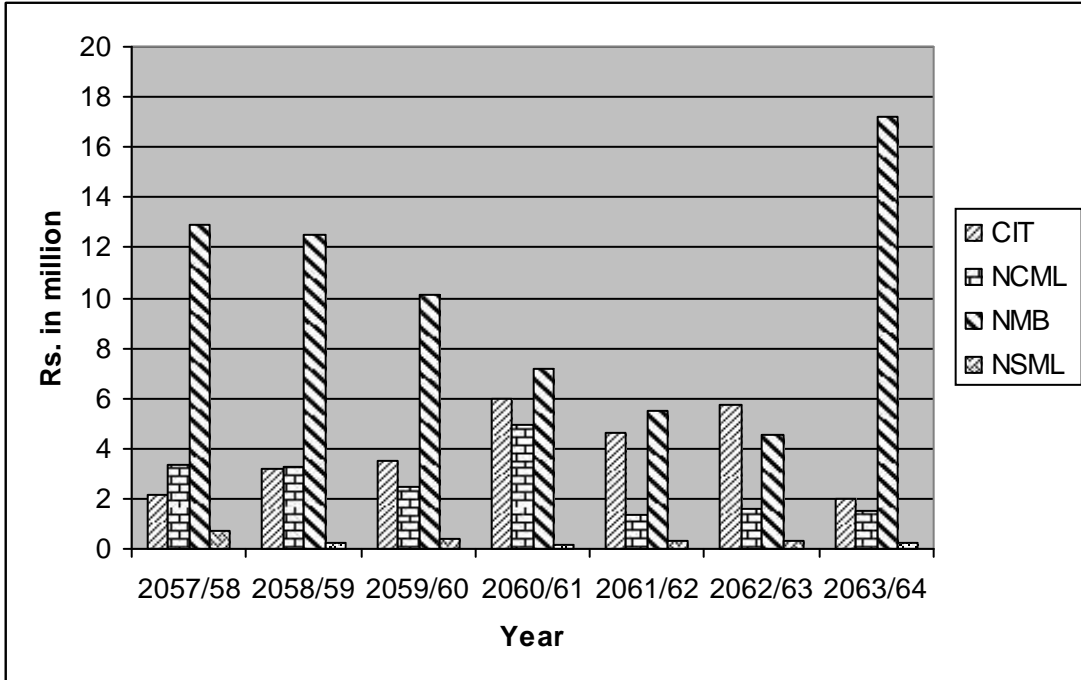


Chart 4.6

Seven years income of sampled companies

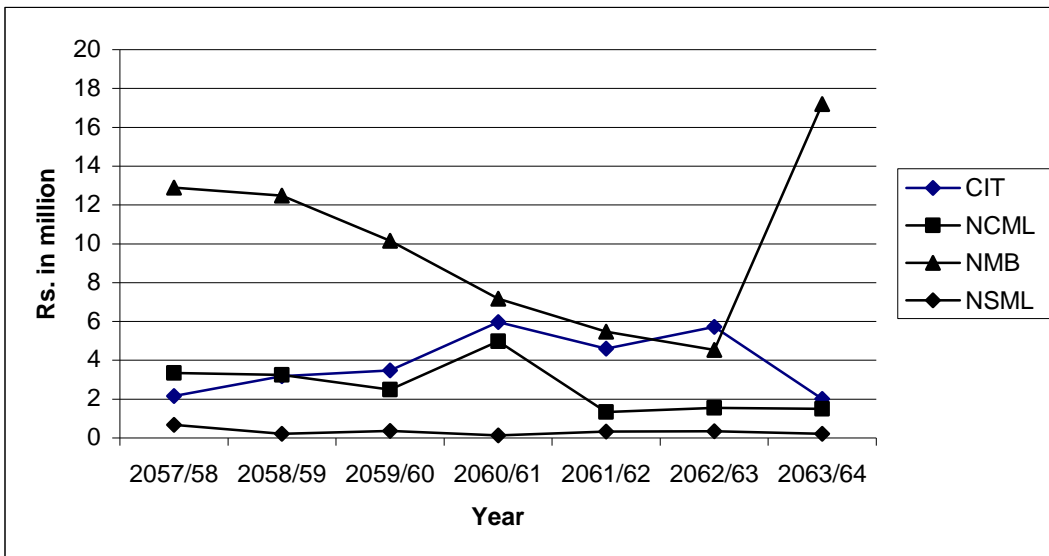


Table 4.20 and others Figures showing of seven years income of companies Taking as above 7 years data of income from Merchant banking activities of these companies CIT Merchant banking income has shown in increasing trend from fiscal year 057/058 to fiscal year 060/61 which decreased in fiscal year 061/62 and again increased in fiscal year 062/63 it has decreased again in comparison with previous year in fiscal year 2063/64.

CIT had earned Rs.5.969 million in 060/61 which was the highest Merchant banking income during fiscal year 057/58 to 063/64.

Similarly, NCML earned income seems decreasing trend from fiscal year 057/058 to fiscal year 059/60 which increased in fiscal year 060/61 and again sharply decreased in fiscal year 061/62 it is slightly increased in fiscal year 062/63 and decreased in fiscal year 063/64. Out of these incomes from Merchant banking activities NCML has earned highest income amounting Rs.4.98 million in fiscal year 060/61.

Likewise, the income from merchant banking activities of NMB has been decreasing since 057/58 to 062/63 which was sharply increased in fiscal year 063/64 amounting Rs.17.19 million, which was highest income from merchant banking activities of NMB Bank.

At last Merchant banking income of NSML seems not uniform and most fluctuating trend, merchant banking income of NSML has decreased form fiscal year 057/58 to fiscal year 058/59 which slightly increased and again decreased in fiscal year 060/61 and its again increased in fiscal year 061/62and 062/63, that is decreased in fiscal year 063/64. In initial stage of activities it has earned more income than other year.

In sum it can be said that the income is not stable the for the last seven years and it seems fluctuating of all companies, NSML has got more unstable income and it also passes a lower than others and NMB has got more income than others from merchant banking activity and CIT has got stable and not fluctuation income and NCML other comes later.

4.1.7 Test of Consistency of Merchant Banking Income

Here, the study has been conduct to find out the test of consistency of Merchant banking income of merchant bankers.

The researcher find out the test of consistency using some statistical tools, mean (X), standard deviation (S.D) co-efficient of variation (C.V), and the detail calculation is given in the appendix.

Table 4.21
Mean, Standard Deviation and C.V of Income from Merchant Banking Activities

(Taking ten year data)

Tools	Citizen investment trend	NIDC capital Market Ltd	NMB bank Ltd	Nepal share market Ltd
Mean (X)	2.96	2.27	9.96	0.236
Standard deviation (S.D)	1.636	1.253	4.91	0.1712
Co-efficient of variation	55.27%	55.2%	49.30%	72.54%

From the Table 4.21, it is clear that the Mean Merchant banking income of NMB Bank Ltd is the highest among the four compares. This is Rs.9.96 million. The mean Merchant banking income of CIT is Rs.2.96 million, similarly the Mean Merchant

Banking income of NCML is Rs.2.27 million and Mean Merchant banking income of Nepal share markets is Rs.0.236 million.

As for as standard deviation of income is concerned the income from Merchant banking activities of NSML is less variable as compare to other companies which is Rs.0.1712 million, secondary standard deviation of NCML is Rs.1.253 million which is less variable as compared to CIT and NMB. Which are Rs.1636 million and Rs.4.91 million respectively

While Test of consistency or variation of income from merchant banking activities, the above table shows co-efficient variation of NMB has got consistency from it's merchant banking income which is 49.30% and NSML has got less consistency from it's Merchant banking income which is 72.54% and NCML and CIT has got moderate consistency from their merchant banking income which are 55.20% and 55.27 respectively.

Above calculation have been conducted taking fourteen years data for both of citizen investment trust and NIDC capital market Ltd. from fiscal year 2050/51 to 2063/64, twelve year data for Nepal share markets Ltd. from fiscal 2052/53 to 2003/64, and 10 years data for NMB Bank Ltd. From fiscal year 054/55 to 063/64. Thus data of four companies has again calculated for the uniformity taking seven years data from the fiscal year 2057/58 to fiscal year 2063/64. The detail calculation is shown in annex and the data obtained as such is shown in Table 4.22:

Table 4.22
Mean Standard Deviation and Co-efficient of Variation of Merchant Banking
Income

(Taking Seven years data)

Tools	Citizen investment	NIDC capital markets Ltd	NMB Bank Ltd.	Nepal share markets Ltd
Mean (X)	3.89	2.65	9.98	0.32
Standard deviation (S.D)	1.47	1.24	4.22	0.1610
Co-efficient of variation	37.79%	46.60%	42.28%	49.68

Table 4.22 shows that NMB Bank Ltd is earning highest mean merchant banking income among four companies which is Rs.9.98 million then citizen investment trust is earning secondly which is Rs.3.89 million the mean income of NCML is Rs.2.65 million and NSML is earned Rs.0.32 million which earned a few income among companies.

As far as standard deviation is concerned the income from merchant banking activities of Nepal Share Market is less variable than others and NCML income is less variable than CIT and NMB. The standard deviation of NSML, NCML, CIT and NMB are Rs.0.16 million, Rs.1.24 million, Rs.1.47 million and Rs.4.22 million respectively while test of variation of these income, it is found that CIT has got more consistent of income from merchant banking activity secondly NMB has got consistent, thirdly NCML and at last NSML has got consistent from its merchant banking income.

It is found that NMB Bank is earning highest return while NSML is bearing least risk from Merchant banking activities among the four companies.

4.2 Presentation and Analysis of Primary Data

This section is devoted to the analysis of primary data which are collected through questionnaire analysis and formal and informal interview.

The questionnaires distributed to related respondent with the purpose of obtain knowledge on various aspects of Merchant banking activities.

A total of 40 questionnaire have distributed to the different concerned persons i.e. financial executives, investors, brokers, teachers and students etc. and the responses from the respondents have analyzed as follows.

4.2.1 Present Status of Merchant Bank

The first question was about the present status of merchant banking activities in Nepal.

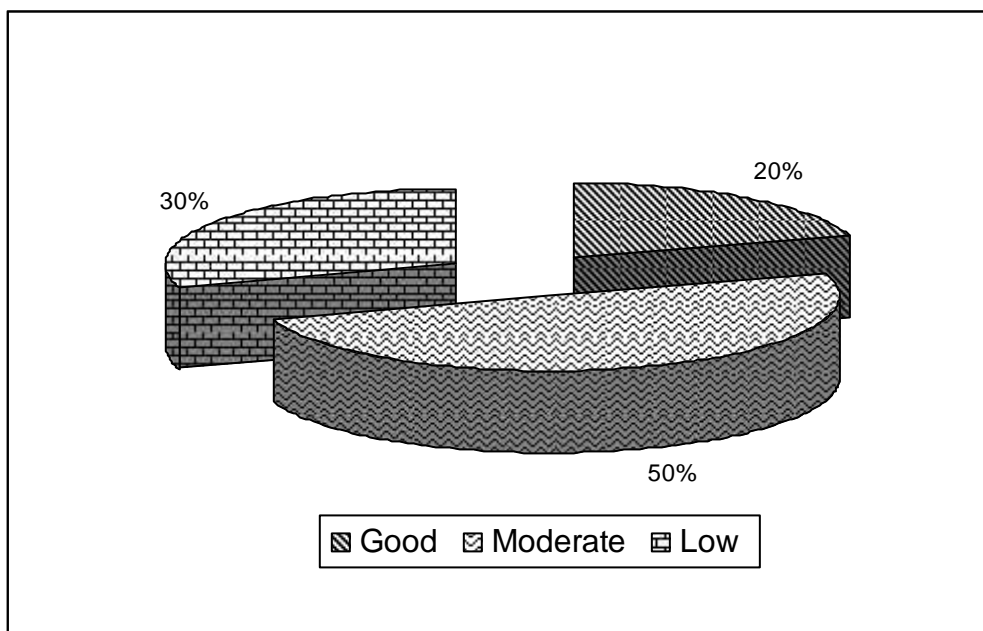
Table 4.23

What do you Think about the Present Status of Merchant Bank

Response Options	No. of Respondents	Rank	% of respondents
Good	8	3	20%
Moderate	20	1	50%
Low	12	2	30%
Total	40		100%

Figure 4.13

Present Status of Merchant Bank



In Table 4.23 & Figure 4.13, it is revealed that, the 50% respondents who are closely watching the performance of merchant bank believe that present status of merchant banks is moderate but 30% respondent in law status of merchant bank and remaining 20% answered as that present status of merchant bank is seems good.

4.2.2 Capacity to Support Capital Market

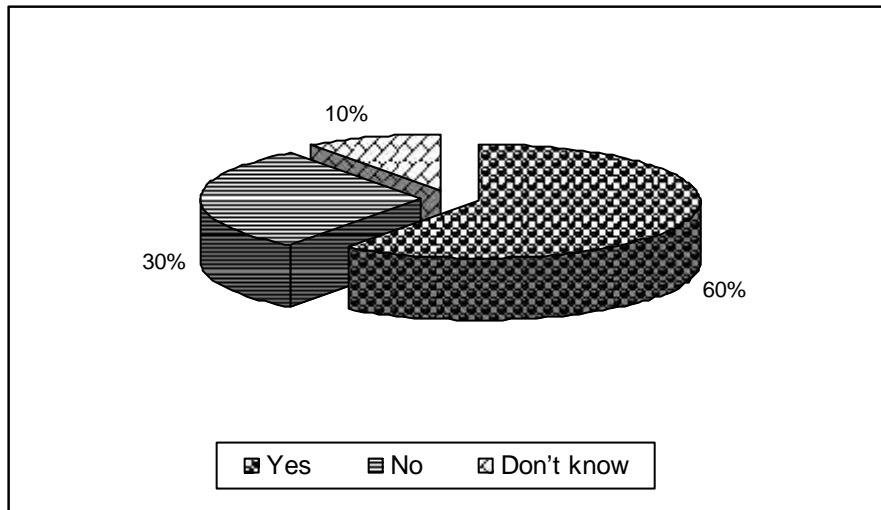
Table 4.24

Do you Believe that Nepalese Merchant Bankers have Capacity to Support Capital Market?

Response Options	No. of respondents	Rank	Percentage of respondents
Yes	24	1	60%
No	12	2	30%
Don't know	4	3	10%
Total	40		100

It is found that the development of Nepalese capital is in show pace, there a few merchant banks which are perform merchant banking activities, That's why it seems to very challenging to the merchant banks to support capital market.

Figure 4.14
Capacity to Support Capital Market



In Figure 4.14, it is found that out of 40 different respondents 60% are in favors of those merchant bankers has capacity to support capital market, 30% shows their opinion that merchant bankers are not able for support to capital market and remaining 10% said don't know.

In sum according to most of respondent that Nepalese merchant bankers have capacity to support capital market.

4.2.3 Regulatory bodies for Merchant banking functions

The questions have been asked to find the regulatory body for merchant banking activities refunding this question the following response have found.

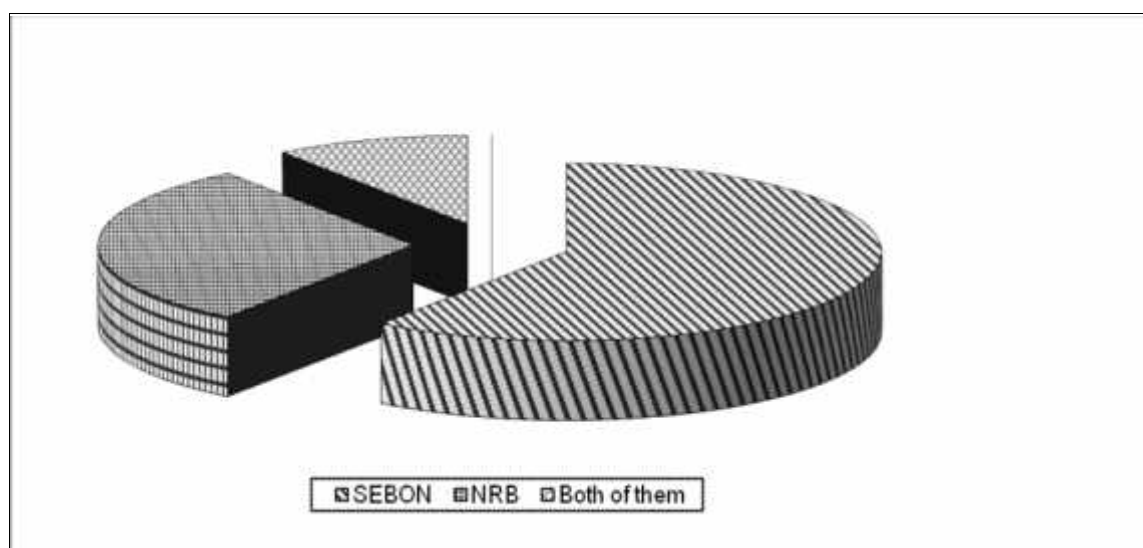
Table 4.25

Which Body Regulates Merchant Banking Activities in Nepal?

Response	No. of Respondents	Rank	% of Respondents
Security Exchange Board of Nepal	24	1	60%
Nepal Rastra Bank	12	2	30%
Both if them	4	3	10%
Total	40		100%

Figure 4.15

Regulatory bodies for Merchant banking functions



From Figure 4.15 it is revealed that out of 40, 60% respondent answered that security exchange board is the main regulatory body for merchant banking activities, similarly 30% respondent answered that Nepal Rastra bank is regulatory body for merchant banking function and remaining 10% shows that the regulatory bodies are both of securities exchange board and Nepal Rastra Bank.

4.2.4 Institution Participated in Merchant Banking Activities

The questions have been asked to find out that Institution which actively participated in merchant banking function.

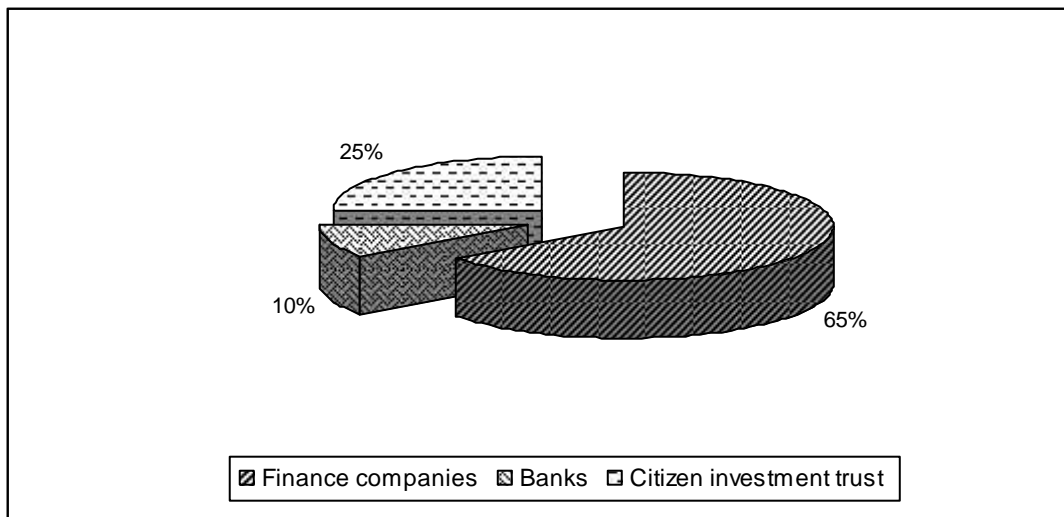
Table 4.26

Which Institution do you think is actively participated in Merchant Banking Functions?

Response	of Respondents	Rank	% of Respondent
Finance companies	26	1	65%
Banks	4	3	10%
Citizen investment trust	10	2	25%
Total	40	100%	

Figure 4.16

Institution Participated in Merchant Banking Activities



During the research period, the researcher had also asked to the respondents about institution who actively involved in Merchant banking function. In Figure no 4.16 it is revealed that out of 40 respondents 65% respondent expressed finance companies

are actively involving in merchant banking activities 25% answered Citizen investment trust involved in merchant banking activities and 10% respondent responding that commercial banks are also participating in Merchant banking function in Nepal.

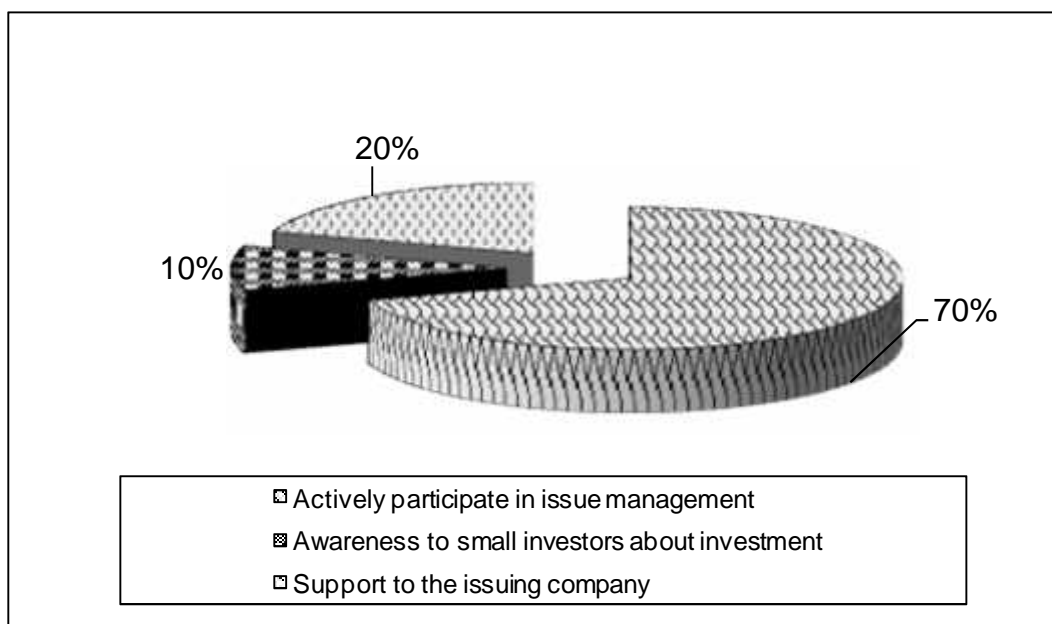
4.2.5 Contribution of Merchant Banks :

Table 4.27

What is the Contribution of Merchant bankers do you think towards the Development of Security Market?

Response	No. of Respondent	Rank	% of Respondent
Actively participate in issue management	28	1	70
Awareness to small investors about investment	4	3	10
Support to the issuing company	8	2	20
Total	40		100%

Figure 4.17
Contribution of Merchant Banks



From the Figure 4.17, it is found that there is the great significance of Merchant bankers towards the development of security market.

According to respondents out of 40, 70% respondents respond that merchant banker are actively participate in public issue management, 20% respondent said that to support to the issuing company and remaining 5% viewed that merchant banker support to security market by providing such type of services, that they always helps for investor by different awareness program.

4.2.6 Role of Securities Board and Government

The question has developed to analyze the view of Respondent regarding appropriacy Role of SEBO and Government For this questions following answered have been found.

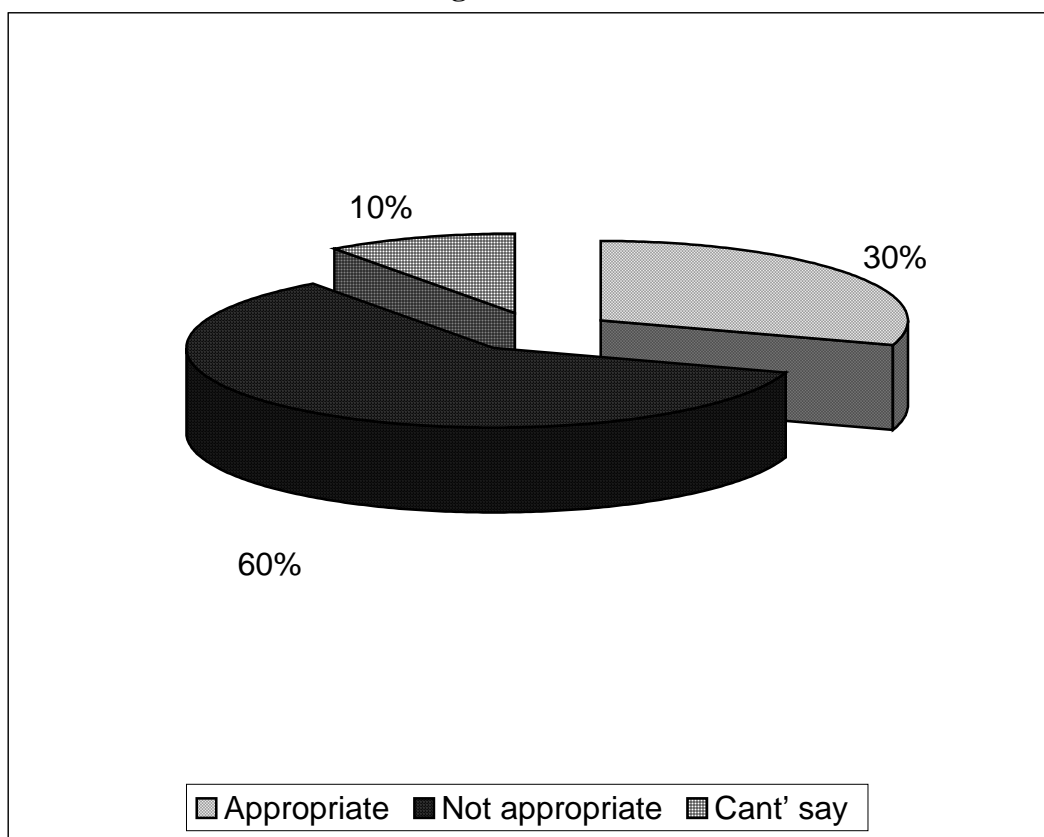
Table 4.28

Is the role of securities Board and government to the extend to merchant banking activity in Nepalese capital market is

Response	No of Respondent	Rank	% of Respondent
Appropriate	12	2	30%
Not appropriate	24	1	60%
Cant' say	4	3	10%
Total	40		100%

Figure 4.18

Appropriacy Role of SEBON and government



From Table 4.28 and Figure 4.18, it is found that most of respondent are against for appropriation of role played by securities board and government, out of 40, 60% respondent respond that there is not appropriate role played by securities board and government 30%, said that there is appropriate role played by these bodies and remaining 10% viewed cant' say.

4.2.7 Adequacy of Legal Provision

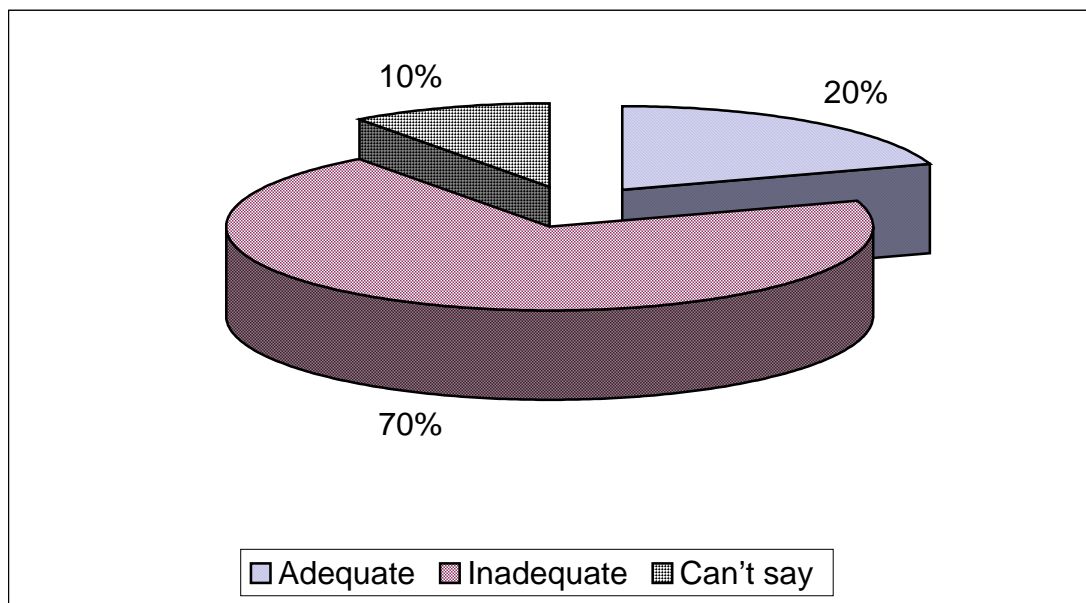
The respondent were also asked about the existing legal provision regarding Merchant banking function to collect their view. Replying this query the following response have been found.

Table 4.29

What do you think about the current legal provision regarding Merchant banking activities is

Response	No of Respondent	Rank	% of Respondent
Adequate	8	2	20%
Inadequate	28	1	70%
Cant' say	4	3	10%
Total	40		100%

Figure 4.19



From the Figure 4.19 it is found that out of 40, 70% respondents responded that that current legal provision regarding merchant banking activities is Inadequate, 20% respondent answered that legal provision is adequate and remaining 10% respondent responded that they can't say about adequacy of legal provision regarding Merchant banking activities.

4.2.8 Existing problems of Merchant Banking Sector

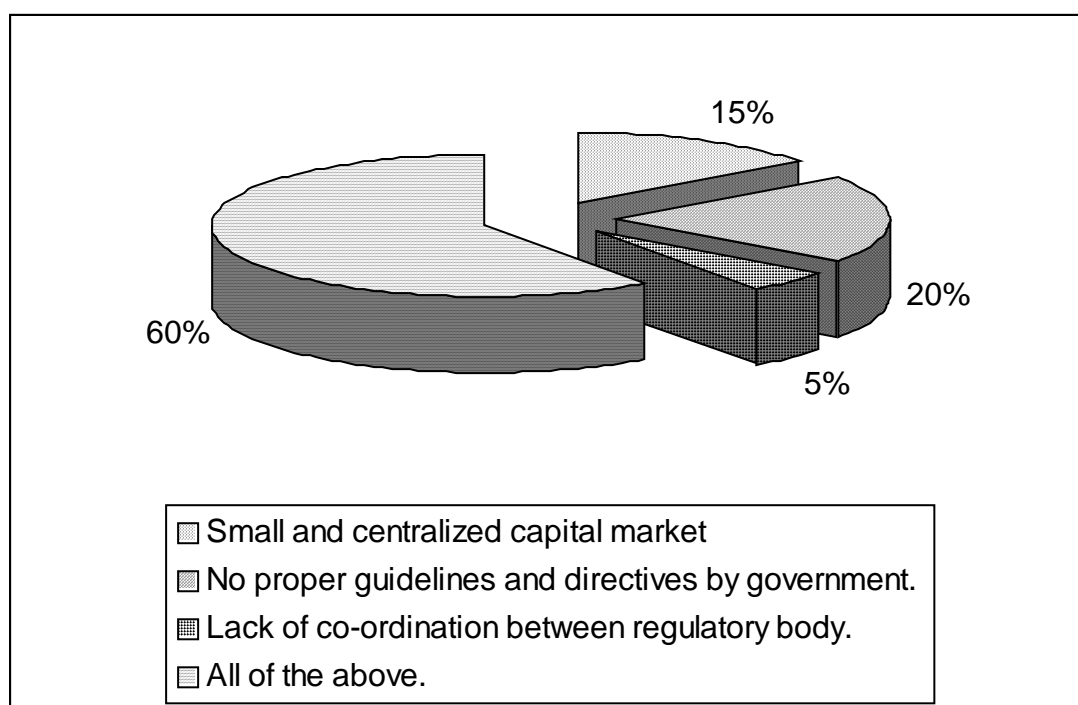
This question has development to find out existing problem of this sector. We have found out that in adequacy of legal provision that affect to merchant banks. Besides that we need to find of what are the major barrier of merchant banking development. For this question following answered have found.

Table 4.30

What are the existing problems of Merchant banks in Nepal.

Response	No. of respondent	Rank	% of respondent
Small and centralized capital market	6	3	15%
No proper guidelines and directives by government.	8	2	20%
Lack of co-ordination between regulatory bodies.	2	4	5%
All of the above.	24	1	62%
Total	40		100

Figure 4.20



From the Table 4.30 and Figure 4.20, it has been tried to find out the existing problems of merchant banking activities in Nepal.

According to the respondents out of 40, 60% respondent respond that all of the above (small and centralized capital market, no proper guidelines and directives by government and lack of co-ordination between regulatory body) are the existing problems in our country that affects the development of merchant banks.

Similarly, 20% respondent respond that there is no proper guidelines and directives providing by government, 15% answered small and centralized capital market and reaming 5% viewed as their answer that there is lack of co-ordination between regulatory body are the existing problem facing by merchant banks in Nepal.

4.2.9 Political Environment Affects to the Performance

Political environment is one of the major external factors of most of organization; hence, it is try to analyze whatever it affects to the merchant banks performance.

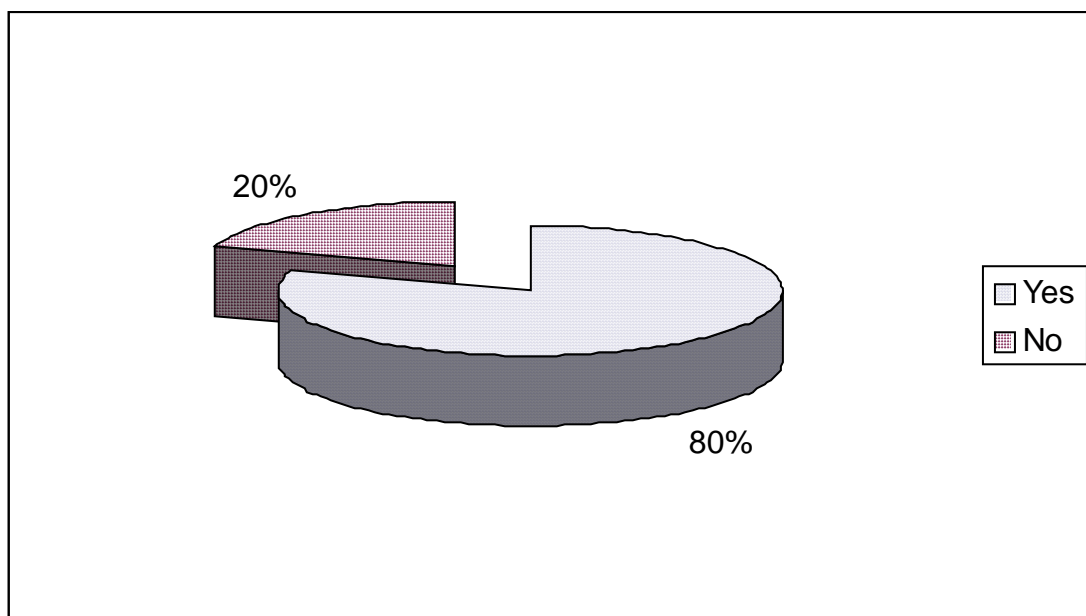
Regarding this question the following answered has been found.

Table 4.31

Does political environment affects to the performance of merchant bank?

Response	No. of Respondent	Rank	% of Respondent
Yes	32	1	80%
No	8	2	20%
	0	3	-
	40		100%

Figure 4.21



From Table 4.31 and Figure 4.21 it is found that out of 40, 80% Respondent respond that the affect of political environment is high in the present context and a few them (20%) are also agreed with political environment does not affect to the performance merchant bank.

Since the major percentage feel that political environment is not stable and it affects to capital market as well as nation, it is one of the burning problems in Nepal.

4.2.10 Reasons behind the Low Performance of Merchant Bank

The eleventh questions have developed to find out performance of merchant banker that is,

What are main reasons behind low performance of Merchant bankers?

Replying this query, following answer have been found

Most of the respondents viewed as all merchant banks are not able to performs their activities properly, because there is lack of strategic planning and implementation in our merchant banks and there is also lack of sufficient knowledge about merchant banking system and they also focused that there is lack of professionalism also and conservative management style is another reason in the performance of merchant banker.

They also focused about lack of proper guidelines, unclear and insufficient regulatory frame work is another cause of poor merchant banking performance.

They also point out towards various problems like current political situation; unconscious investors, underdeveloped industrial sectors etc are main reasons to low performance of Merchant banking activities.

4.2.11 Improvement Required:

This question has developed to take suggestion for improvement required to merchant bank. The question is as follows.

In your opinion, what kind of improvement should be required to protect and progress in merchant banking sectors?

In response this question, most of the respondent have given their suggestion for improvement of merchant banking sector.

They have emphasized in following issue, first of all the government must be make the clear policy, guidelines and Regulation through the security board of Nepal for competitive performance of merchant bank. The set up rules and regulation should be strictly implement for it's activities, also built proper monitoring bodies for to watch the performance of merchant bank, developed the Mechanism to make the capital market wide and stable.

They also viewed that government should play promotional role for improvements of merchant banks and overall economic conditions.

In case of institution, they focused that there should be competitive performance between merchant bank it self. There should be good co-ordination between institution and it's customer and respondent focus that there should be strategic

planning also implementation of merchant bank itself and good corporate culture between merchant bank and sufficient knowledge about merchant banking activities required to merchant banking development.

At last they focused that there should be political stability and government should conduct public awareness program about merchant banking and capital market in allover of the Nepal for its improvement.

4.3 Finding of study

The concept of merchant banking activities is new to our country and it has come to emergence in Nepal a few years before so all Nepalese people are not still familiar with merchant banking function a few financial institution are found to be performing specific merchant banking activities.

In Nepal it is found that Merchant banking activities are mainly related with issue management, underwriting registrar to shares. Likewise the other services like portfolio management, consultancy services are being performs rarely by merchant bankers.

From the data presentation and analysis the following points can be listed out as the major finding of study.

From secondary data analysis

-) During the period of fiscal year 2050/51 to 2063/64, SEBON approved the 196 public issue amounting Rs.11893.20 million.
-) According to sector wise public issue, banking sector issue the highest amount Rs.7257.409 million of public issue, similarly finance companies issue the

second highest amount i.e. Rs.2087.26 million, likewise manufacturing processing sector, development bank sector, Trading company and others sectors, insurance company Rs.817.06 million, Rs.795.66 million, Rs.305.66 million, Rs3.57 million and Rs.519.73 million respectively.

) According to instrument wise analysis of public issue. SEBO approved the 122 ordinary share amounting Rs.3840 million, 60 right-shares amounting Rs.4962.75 million, 5 preference shares amounting Rs.636.50 million and 9 debentures amounting Rs.2153 million.

) Citizen investment trust (CIT) is incorporated under citizen trust Act 2047 (1990), to bring dynamism in the development of capital market, CIT provides various services from its establishment in area of merchant banking. It provides public issue management services mainly, it handles 37 public issue out of 196 issue amounting Rs.3064.32 million capital out of aggregate amount of public issue which is 25.77% of total issue, similarly it provides underwriting and syndication of securities, registrar to share services, and consultancy services in the area of capital market and it is also market maker of corporate and government securities, it provides such different services like designing capital structure providing of securities Merger and privatization and privatization to its customer related with capital market.

) NIDC capital market Ltd (NCML) is found to be a leading merchant banker during its establishment, it performs various merchant banking activities like issue management, registrar to share, underwriting of securities of various companies in case of issue management it handled 68 issues to raise Rs. 3990.95 million during fourteen years period it has started up NCM Mutual Fund in 2050 B.S. and NCM mutual fund 2059' in B.S. 2059. It has also

provided research and development services of listed companies and prepare Macro economic sector analysis. In case of portfolio management the company was participating in this function in fiscal year 2051/52. This had left in some successive year due to some problems.

-) While studying the activity of NSML, it is established on 2050 B.S it is also one of the market maker of government and corporate securities among all of merchant banking activities it, provides only issue management services and underwriting services
-) While studying the activity of NMB bank, NMB commercial business in 2053, NMB is involving in both primary and secondary markets, NMB provides various service issue management having 46 issue, which 29.29% of total issue also provide services of underwriting of securities, registrar to share service and other advisory services, it also deals in T-bills and government bonds.
-) While analyzing the income from merchant banking activities of CIT, it has been found that major part of income through public issue management then after income from registrar to share services, commission from underwriting and it also generated income from trading of government securities.

Analyzing the merchant banking income of NCML, most of income is through public issue management, NCML is also earning income from underwriting commission, Registrar to share and trading of government securities.

Similarly studying merchant banking income of NNB bank most of income is through issue management after that commission from registrar to share services and underwriting commission. At last analyzing the income of

NSML, it is found that most of income is through issue management and little bit income from trading of securities.

-) The comparative study of income from merchant banking activities of various companies, it reveals that the merchant banking income of NMB is increasing trend than others company income of NCML and CIT are seems fluctuating and income of NSML is lower than other, it is not able to earn more merchant banking income with comparison to other companies.

While analyzing the test of consistency of Merchant banking income. CIT income has more consistent from merchant banking activities and bearing least risk with comparison with other companies.

From primary data analysis

-) Studying the present status of merchant banking activities in Nepal about 50% respondent that status of merchant banker's is moderate, 35% respondent respond that low and remaining 15% viewed good status of merchant banking in Nepal.
-) Most of respondent agree that Nepalese merchant banker have enough capacity to support capital market and mostly merchant banking functions are performed by finance companies then CIT and banking sector. In case of NSML it has poorly participated in merchant banking function.
-) The companies who actively performing merchant banking activities are, NMB Bank, citizen investment Trust, NIDC capital market Ltd. Nepal share market Ltd, Nepal finance and saving company Ltd and Ace development

bank recently SEBO has approved the other 3 companies for performing merchant banking activities.

-) From above questionnaire we found that security exchange board of Nepal is the main regulatory body merchant banking activities and current legal provision is not adequate regarding merchant banking activities also the role of securities board is not sufficient for development for merchant banking sector.
-) While studying the answer form respondents, small and centralized capital market, no proper guidelines and direction by regulatory bodies are existing problem in development of capital market and there is lack of co-ordination between regulatory bodies and merchant bank it self are also major barriers of development of merchant banking activities in Nepal.
-) Most of respondent said that not only issue management also provides awareness program to public merchant banks should be provides all function properly and priority in area of capital market.
-) The main reason behind low performance of merchant banks, most of people focused that there is lack of strategic planning and lack of proper guidelines are main reason to the low performance of merchant bank.
-) Most of people focused that there should be clear cut guidelines and direction by government and regulatory body and these body should have to play promotional role regarding protect and improve the merchant banking activities at last they focused that there is high political instability influence in our country. So political stability is required for as progress and prosperity to merchant as well as nation.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The main objective of this research is to know about the performing status of the merchant banks in Nepal, and other important objective concern to it to find out what kind of role it is playing for the development of security market and to give suggestions for its improvement and extension in future. Merchant banks play the role of mediator between small investment groups who have the capital property scattered and those organization who need capital.

The study consist of give sections the first section provides the background, introduction, objective, problem of the study, importance and limitation of study, and the second chapter draws the previous study in the form of literature review from the various books,. Research paper articles and journals and published and unpublished sources from recognized institution the third section explain the research methodology followed during the study period and it also clearly explains the different statistical and financial tools adopted during the study. The fourth chapter is data presentation and analysis which explain method of the organizing data by tabulating and then this placing that in presentable form by using figure and table. This section provides valuable finding of the study which is followed by summary, conclusion and recommendation in chapter five.

The second chapter review of literature concerned with different kinds of articles, journals, research papers, which give depth knowledge and different kind of concept and definition about merchant bank. Except it the research paper submitted by

different researcher were also taken for their valuable knowledge and kept under this chapter.

According to need of study indifferent libraries' i.e. Shanker dev Campus, Tribhuvan University, British counsel, Nepal India embassy library etc are visit and also surfer different website too as per need of study.

The data related with this research are taken from primary and secondary sources, the primary data are total depend on different sources like, questionnaire, formal and informal interview, field, study etc. and the secondary data directly concerned with different publication of Nepal Rasta bank, Security Exchange Board, NIDC Capital Market Ltd, Citizen Investment Trust, NMB Bank and Nepal Share Market Ltd etc.

The in depth study of merchant banking activities has been done, it is specially based on it is different function like issue management, underwriting and syndication of securities, register to share, portfolio management and consultancy services etc. which are led it to generate income.

The study has been started from the public issues from fiscal year (2050/51 to 2063/64) as per data available. It has been seen total 196 issues amounting Rs. 11893.20 million, of public issue securities out of total issue it we look a according to institution wise public issue, mostly issue from banking sectors then issue from financial sector, manufacturing& processing sector, hotel sector, insurance sector and remaining from trading and other sector.

Similarly, if we study the data according to instrument wise issues, ordinary shares, right shares debentures and preference shares have taken 33%, 42% 5% and 20%

respectively, among them it has observed that right issue has taken more significant place in comparison of others.

On the basis of public issue management it is asserted that citizen investment trust, NIDC capital market Ltd, and NMB Bank have participated mainly in this functions and Nepal share market and finance Ltd. Seems a very little in their comparison. Only three mentioned companies above have taken participated in underwriting to share services and registrar to share services according to their capacity but share market is not taken participate in these services. Like wise none of them companies have touched portfolio management services. It has been seem that it was first dealt by NCML but after successive year it was deserted, due to some circumstances.

If we take a observation to the income generated by merchant banking activities. It can be asserted that NMB Bank earned a high income in short period where as NCML and CIT are continuously generating income from merchant banking activities. But Nepal share market limited is getting very low income in the comparison of the other 3 companies mentioned above.

If we give a good glance over the data, which are collected on the basis of primary sources it can be announced that there is prospects of merchant banks in Nepal but it can be also observed that the way of discharging the function by the merchant banks may be also affected due to political instability in Nepal so it has not got a better progress and prosperity yet. Truly speaking the merchant banks are not able to do merchant banking functions properly them selves also due to lack of professionalism, and lack of strategic planning and implementation dedicated and also due to it's traditional ways of performing activities.

According to the suggestions given by many respondents it's leads to me say that if security exchange board, Nepal Rastra bank and government because able to play significant regulatory role and promotional role and give good incentives as wells to the merchant banks they can play role in the development of security market as well as capital market.

5.2 Conclusion

Capital market plays an important role for the development of nation like wise the merchant banks support to the capital market indifferent ways. A merchant bank performs different functions like Issue Management, Underwriting and syndication of securities. Registrar to share, Portfolio Management and Constancy service etc.

The importance of Merchant Banking activities in Nepal is increasing day by day because of impact of globalization and economic linearization which help the progress and development of financial as well as industrial sector that is why the Merchant Banks plays the role of mediator between capital need sector and investors.

The Merchant Banks provides most important financial, technical and feasibility advice to the existing also to the newly established company like wise the merchant bank also provide very important assistance to the investors by searching the field where they can invest and provide awareness services to investing activity in the area of capital market.

Capital market is the most important base of economy of county, merchant banks and capital market are interdependent to each others, the public issue of securities also plays an important role to security market, in case of public issue, the above study reveals that banking and financial sectors have occupied more than 75% of total issue

approval (including all the instrument), there is dominance of equity share in the market it has occupied more than 67% of total instrument available.

Due to difficulty to sustain by adopting merchant banking activities only. So all merchant banking organization have diversified it functions as one of the part of total activities.

NIDC capital markets Ltd. Citizen Investment Trust and NMB Banks are the most active Merchant Banks in terms of total Merchant Banking performance. These three Merchant Banks have occupied more than 80% of the total Merchant Banking activities in Nepal and Nepal Share Market Ltd have Participated a little bit in merchant banking activities in area of capital market.

The main purpose of any organization is to generate income because income is called lifeblood of organization; here the study of income indicates progress and prosperity of the company. That is why it is mandatory to study those income which are generated by merchant banking activities.

It seems that NMB has got highest income from merchant banking activities in comparison to other; similarly it is apparent that it has got highest income from issue management then it has got income from registrar to share services and underwriting services respectively.

In the some way NCML has got highest income from issue management, underwriting, registrar to share and consultancy services respectively in higher amount. The company has also generated income from portfolio management services but it was deserted after some successive years.

Like wise citizen investment trust has got highest income from issue management then trading of government and corporate and it has also generated a little income from registrar to share services. At last Nepal share market limited has earned income from only from issue management it has not got income from other's any Merchant Banking activities.

White comparing the trend of the income of these companies, the income of CIT and NCML both of them have earned a little bit similar type of income from Merchant Banking activities but NMB Bank seems highest where as NSML seems lowest in generating income from merchant banking activities on the basis of average income generated by those companies which is mentioned above.

Regarding merchant banking income, the income from merchant banking activities of NCML seems more inconsistent among four companies taken for study where as CIT has got more consistent income from merchant banking activities.

The development of Merchant bank in Nepal has not gone smoothly and rapidly due to the many obstacles; even people don't have enough knowledge about Merchant banking activities because of insufficient of publicity and information resulting to low demand of Merchant Banking services knowledge about merchant banking. Due to centralized capital market it has not expand its activity in allover the country. It is also not being able to prosper due to less developed industrialization and financial sectors and it is has not got proper achievement due to lack of professionalism of Merchant Banking also lack of strategic planning and implementation itself and lack of co-ordination between regulatory bodies also affects to the Merchant Banking activities it is another reason of legging behind of Merchant Banking in Nepal. Existing rules and

regulation are not sufficient for merchant banking activities, so it has not got progress and development due to clear cut regulation and policy.

This sector also has not performed smoothly due to political instability with which the progress and prosperity of industrial and financial sector are linked.

At last it regulatory bodies able to play significant regulatory role and promotional role to the merchant banks, this sector can play significant role in development of capital market as well as nation.

5.3 Recommendations

As mentioned in the objectives of the study primary and secondary analysis mainly focused on revealing in present position, problems and growth prospects of merchant banks in Nepal and has made some recommendation based on the major finding of the study which are mentioned below:

On the basis of primary issue of securities most of the primary issues are seen in the field of banking and financial sectors that is why it is important to encourage to other sector like manufacturing, trading sector, insurance sector and other sector for issue of securities.

The concept of merchant banking is itself new in our country, so it is necessary to scatter the knowledge of merchant banking activities to people and investors. Also it is necessary for the merchant bank to decentralize its activities in all over the country and it is also important to specialized its merchant banking activities for its development.

Capital market and merchant banks are interrelated with each others, In Nepal due to less development of capital market the merchant bank has diversified its activities toward other banking activities like deposit, saving, loan and advance etc. As a result it has not got progress and prosperity so rapidly in the area of merchant banking. It is compulsory to introduce such type of rules regulation and incentives which can foster merchant banking activities as well as encouraged to capital market.

It is very important to be clear and crystal about the related rules, acts and policies which helps for betterment of this sector and it is obligatory to advisable to discharge a proper guidelines monitoring and promotional role from regulatory bodies that for it's better performance as well as development and it is also necessary to be good co-ordination between regulatory authorities to achieve a better progress in merchant banking activities.

As it is already stated, we are in early stage of development of companies and the capital market. It is particularly important to develop venture capital companies equipped with the skills techniques and capital needed to invest in unquoted comprise and help them grow to the point where they are ready for flotation on the security market.

Merchant banking is skilled based activity, the merchant bankers should know about adequate knowledge about latest information from economic, social, technical and also political environment of country.

Merchant banking activities is also one of the advisory services. So it should be improve its advisory services relating to financial area, technical area also feasible area to newly and existing investors/ entrepreneurs. Not only domestic investors it

should help to foreign investors providing information relating to acts, policy and environment about country that services helps to them for starting investing activity in country.

Development of economy depends upon sectors so that there should be good-ordination between government and private sector for to boost up industrial sector and economy. At this time Merchant Banks have to play the role of mediator between government and private sector.

For development and enlistment of merchant banking sector it is necessary to held different kinds of knowledge able activities like training, seminar, interaction and abroad tour as well. It is also significant to take counseling from merchant banking expert from in house and foreign, for improving this sector.

For development of capital market, merchant banks would discuss and interaction with different organization like chamber of commerce, financial organization, industrial organization and regulatory bodies like security exchange board of Nepal and Nepal Rastra Bank that type of activity also helps to merchant bankers for improving its activity.

The role of the Merchant Banker is crucial in promoting and developing the capital market. However there are only three Merchant Bankers activity involved in the market which may not be sufficient. So it is high time to find out why not all the merchant bankers are being involved in merchant banking activities more actively.

Most of the people of the country think that only issue managers is merchant bankers, so all merchant banks should performs their other merchant banking activities with priority.

As a pioneer of Merchant Banking activities, Citizen Investment Trust has played the crucial role for the development of these sectors. And CIT has increased its Merchant Banking activities day by day but it has been seen that mostly it has participated only issue management, underwriting and trading of government bond. So here it should not ignore other merchant banking activities like share register and consultancy services etc.

As being the leading merchant banker of country, NCML has performed the highest merchant activities in the comparisons of the other companies but it has been seen that the company has not performed all kinds of merchant banking activities mostly it has participated in issue management, registrar and underwriting to share among all Merchant Banking activities. So it has been recommended that it should lead the other services like, consultancy services and portfolio management, venture capital etc. ahead with priorities.

NMB is trying to be leading merchant banker in Nepal and it has been seen that the company has performed its activity smoothly, and it function is increasing day by day but it also has performed mostly issue management and register to share it should draw its attention increase merchant banking activities to be parallel with other activities. Besides issue management, register to share and trading of government bond.

On other hand, Nepal share markets ltd. should focus its all functions which relating to merchant banking activities for its betterment and development.

It is natural to affect the way of performing action of the organization due to the political instability and it is burning problem of our country that is why it is recommended to make the political stability in the country for the development of merchant banks as well as capital market.