

PERCEPTION AND BEHAVIOR OF INVESTOR TOWARDS INITIAL PUBLIC OFFERING (IPO) IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in
partial fulfillment of the requirements for the Master's Degree

By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “PERCEPTION AND BEHAVIOR OF INVESTOR TOWARDS INITIAL PUBLIC OFFERING (IPO) IN NEPAL”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of this dissertation.

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REPORT OF RESEARCH COMMITTEE

Ms Riya Tandukar has defended research proposal entitled "**Perception and Behavior of Investor Towards Initial Public Offering (IPO) in Nepal**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor **Asso. Prof. Rita Maskey** and submit the thesis for evaluation and viva-voce examination.

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We have undersigned, have examined the thesis entitled "**Perception and Behavior of Investors Towards Initial Public Offering (IPO) In Nepal**" presented by Riya Tandukar for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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Shanker Dev Campus

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ABBREVIATION

CP Company Performance

CS Company Sector

HB Herding Behavior

ID Investment Decision

IPO Initial Public Offering

MI Market Information

MR Market Return

ABSTRACT

The aim of this research was to assess the perception that investors have towards IPOs in Nepal. The study was conducted on a sample of 400 people from Kathmandu, who invest in IPOs directly in Nepal. The research employed survey research, descriptive research, and causal comparative research to meet the objectives of the study. Primary data was collected by using a structured questionnaire that was administered to different investors in Nepal. On gender opinion differences, the T-test was used whereas correlation matrix was used to establish the relationship between the investors response and the IPOs. On the effect of various factors on the investment decision a regression analysis was conducted. The study also established that several factors that influence the investment decisions of investors in IPOs in Nepal are herd behavior, market return, company performance, company sectors, and market information. Notably, the study identified noticeable disparities in investments between the male and female investors. Moreover, a positive correlation between variables such as Herd behavior, Market Return, Company performance, Company sectors and Market information and Investment decisions was realized in the research study. More specifically, it revealed the extent of the impact of herd behavior, company performance, market information on investors' decision to invest in IPOs. In conclusion, this study enriches the specific field of research that addresses investor behavior in IPOs in Nepal, and the existing research can be useful for further research conducted not only within the same industrial district but also for the comparison with other countries, which will extend the existing knowledge base concerning the investment decision-making process.

Keywords: *Initial Public Offering (IPO), Herd Behavior, Market Return, Company Performance, Company Sector, Market Information, Investment Decision*

CHAPTER-I

INTRODUCTION

1.1 Background of the study

The wide opportunities presented to business firms by the market today have been capitalized upon. Opportunities are sought by business firms amidst increasing customer demands, intense competition, and challenges. The requirement for business growth necessitates the expansion of operations, which, in turn, demands substantial capital. If there is insufficient funding, the expansion of any business becomes impossible. Finance is collected and managed by business firms to sustain current activities and face uncertainties and competition. (Pandey, 2010)

Regardless of the nature and type of business organization, capital is needed to meet the operational needs, to increase business size and enter new markets. Some firms need long term fund, while others need short term funds as working capital.

Financing a firm's financial needs involves two types of sources. Internal sources consist of business finance generated within the business or from existing assets and activities (e.g., Retained profits, Sale of assets). These sources are necessary for routine and daily operations. External sources involve arranging capital or funds from sources outside the business, raising funds from the general public through securities like Shares, Debentures, Bonds, etc. It is required for the expansion and extension of the company or firm.

The financial sector has for a long been shaped by corporate business organizations, and this has remained as evidence to date. On this front, they have employed different policies and strategies to ensure that the investors can meet the different asset needs. This has enabled the source external funds from the public through the offer of shares in an organization. Even if the company is an existing one or it is newly formed the fund available by the promoter may not be adequate to meet the financial needs of expansion and reformation. Another possibility is taking loans from banks and other financial institutions, but due to legal formalities and time consuming techniques, it is less effective to raise funds for business firms. Also, a certain percentage of the company's equity or its assets are given to firms in the form of a loan, which is not sufficient for the firms. (Pandey, 2010)

An Initial Public Offerings (IPO) is therefore a first offer of stocks a company undertakes in the market. It is a one-time transaction between a company and its shareholders. The sale of new shares in this market is referred to as the 'Primary Market' and to be listed on an exchange certain companies are required to meet stringent conditions on financial, public and managerial requirements put forward by the exchange. Once these standards are reached, the companies join the exchange, and the shares are floated in the market for the public to access. In other words, after a company goes public through an IPO, stocks can be purchased and traded in what is referred to as the 'Secondary Market.' (Kukreja, 2012). The capital market that deals with the new stocks and securities is called Primary market. Through the sale of debt and equity-related securities the primary market enables the government, companies and other institutions to raise additional funds (Jalan, 2023). An Initial Public Offering (IPO) involves selling securities to the public in the primary market, allowing issuers to raise fresh capital from investors through initial public offers, right issues, or offers for the sale of equity or debt.

An IPO is a process in which a security is issued to the public for the first time with an aim of establishing the market for the security. An IPO is the issuance of its shares to the public by a firm for the first time as a means of sourcing equity capital. Some of the steps in this process may include choosing underwriters, determining the offering price, and the preparation of a document known as a prospectus that contains information on the Company's business, financial position, and risks among other things (Tamplin, 2024). For example, it is a good way to find new sources of funding to be used for purposes like financing research activities, financing capital expenditures, to pay off its debts and so on. The issuance of IPOs is made taking into account these advantages. In a Public Offering, all investors have the opportunity to acquire a portion of the financial claims being sold (Keown and Petty, 2002). In general, an IPO could mean any type of financing, whether it is debt or equity. "When stocks are floated in the market, each stock signifies stake holding in the company, and investor becomes a part owner of the company. Though, shareholders own the company by participating in its Initial Public Offering (IPO) which grants them ownership over the company. Through the secondary market, shareholders can freely exit their investment." (nseindia, 2023). Where there is improvement in the performance of a firm, the value of stock improves and this gives shareholders the benefits. It arises in cases when a company is poor or not profitable and there is decline in its stocks. This means that all investment decisions in any field are made from

analyses which may include both fundamental and technical analysis (Gnawali and Niroula , 2021). The various risks encountered in investing in corporate securities and the measures taken in order to mitigate these risks were explained by Rajagopala and Joseph in their study done in (1999). They opined that with risk control, the intensity of the loss of investing could be alleviated. In their research, they pointed out that the market was full of shares of companies that were nonexistent. Regarding equity it was also argued that while certain kind of risks associated with equity may be borne by investors, they may not be willing to accept fraud risks. The genuine investors should not be allowed to be looted by their fraudulent acts perpetrated by promoters.

Firms usually opt to go public so as to get capital to finance expansion and growth, to increase the visibility of the company and its securities, and also to make the stock of the company marketable. (Blythe, 2022). According to Khatri (2017) the purpose of issuing an IPO include funding requirements and non-funding requirements which include financing capital for gradual enhancement, development through projects and expansion, financing other inclusive requirements, financing requirements of joint venture, financing public infrastructure, marketing campaigns and distribution networks. “IPO to this day remains an important tool for firms seeking an entry to public markets and for the investors seeking investment in promising growing firms” (Tamplin, 2024).

Generally the funding commences with the mobilization of equity capital from a number of individuals. If a firm performs well and has expansion needs, it may seek to float the company and offer stocks to the general public via an IPO. Through an IPO, the value and liquidity for the stock are simply wanted to be established by the founder (Van, 2002). Floating a company and going into the public market is regarded as one of the biggest steps that a firm can take to grow and boost the firm’s profits in the long run. IPO is intended by a firm to provide new equity base, generate funds for several organizational needs, and realize value for money of private investors. In primary market securities are issued for the first time for the use by investors in the market. It is a market where the securities are floated for the first time and these securities are referred to as floats which is also known as IPO or Initial Public Offering (Investopaper). Therefore, various costs related with IPO such as direct costs and indirect costs are involved once an IPO is issued out. The direct costs cover legal expenses, audit costs as

well as underwriting costs. The indirect cost includes management time and effort on undertaking the offering and the dilution costs entailed by the sale of shares offered at a price below the market rate in the near future after the IPO. The market in which firms go public and particularly young growth firms is volatile in terms of valuations.

The share market of Nepal has been in existence for a relatively short span. Nepal Stock Exchange (NEPSE) was established in 2050, marking the formal initiation of securities trading. The unofficial trading of shares began in Nepal in 1938 A.D. after Biratnagar Jute Mills and Nepal Bank Limited issued shares to the public. The development of the capital market commenced in 1976 A.D. with the establishment of Securities Exchange Center Ltd., aiming to facilitate and promote the capital market in Nepal. The formal institutionalization of the market began in 1976 with the establishment of the Securities Exchange Center. Securities Board of Nepal (SEBON), the apex regulatory body of Securities Markets, was established on June 7, 1993, by the government of Nepal under the Securities Act, 2006. Nepal Stock Exchange (NEPSE), established in 1994 under the Securities Exchange Act, 1983, serves as the sole secondary market for listed securities in Nepal, overseeing the issue and redemption of securities, financial instruments, and capital events such as payments of income and dividends. (Investpaper, 2020)

New IPO is a significant event for a company as it is the first time when its shares are available for acquiring by the public. Currently, the NEPSE is the only secondary market for trading these shares in Nepal. Thus, it is essential and basic for any investor who intends to invest in an IPO to be informed and aware of the IPO in Nepal and the future offers. The company which wants to float an IPO needs to obtain approval of SEBON and fulfill all the formalities. There are some certain procedures and requirements set by SEBON that need to be complied by the companies which include the company has to apply for it and submit required papers which will be approved by SEBON. (Trend in Nepal, 2023) An issue manager which is usually an investment bank is then selected to help the issuing company on its IPO and provide underwriting services. A tentative price is decided by the issue manager along with the issue quantity and the issue manager also drafts the initial prospectus as per the SEBON norms. For purpose of defining intended price and quantity, the Qualified Institutional Investors (QIIs) are summoned for a discussion. The base price is determined on the basis of the intended price as

received from QIIs and a price band is set at $+ / - 20\%$ of the base price. The final documents prepared for filing with SEBON are the number of shares that will be offered and the price range. The shares are then sold at the cut off price to the successful bidder and then later offered to the public at 10% discount. (Agrawal, 2021)

The development of an application called MeroShare has simplified and digitalized the IPO application process in Nepal which, allowing investors to manage their holdings of shares electronically. C-ASBA (Centralized Application Supported by Blocked Amount) is a centralized system where the applied amount is blocked in the investor's bank account until share allotment or results are published. The bank account must be linked to C-ASBA, and a minimum amount should be maintained for C-ASBA to be blocked. The public can apply for at least 10 primary shares or more, divisible by 10, offered by the company. If the IPO is allotted, the blocked amount for the applied shares will be debited from the investor's bank account. (nepali-unicode)

It is agreed that the level of investor sentiment determines stock returns and the level of fluctuation in the market. Investor's sentiments such as optimism can lead to stock prices to go higher than their fair value since pessimist sentiments can also cause prices to go lower than the fair value. This co-relationship proves that the market is not fully rational and can be driven by emotions of fellow investors. (P H and Rishad, 2020).

As a result, this research mainly seeks to determine the perception and investment made by investors in IPOs. It outlines what investors are in fact looking at before they invest in IPOs, investors' specialization in a given field, their knowledge about issue managers and overall performance. The fundamental and technical analysis of the specific variables of the company is irrelevant here because investor decisions are based on sentiments. The purpose of this study is to establish the correlation and impact of various factors (herding influence, market returns, company performance, company sector and financial literacy) on the investment behavior of investors.

To gain an in depth insight into the investor's decisions, understanding their perceptions and behaviors towards IPOs and investments is crucial. Therefore, this study helps to understand investor motivation to invest in IPOs and expectation regarding risk, return and specific factors they consider while evaluating an IPO. In general, these studies offer useful insights to the

state, firms that intend to launch an IPO, stock underwriters, as well as the IPO investors themselves. They are useful for shaping sounder investment strategies, enhancing the quality of regulatory measures, and enhancing the Nepalese capital market's transparency and efficiency.

1.2. Problem statement

The Nepalese stock market has slowly shown an upward trend and there is still a lack of awareness regarding IPOs and secondary market shares among the Nepalese investors. A majority of Nepalese people are not informed with the stock market and even the literate persons are not much familiar with the stock practices. Most of the investors in Nepal have little or no knowledge on IPO, its pricing methodologies, and risks that accompany the issue, hence they make wrong investment decisions, which expose more investors into the market to risks and inefficiencies. Despite overwhelming response, we see that while investing, the aware ones are still not confident enough in IPOs. Most investors make decisions on market scams and work with logical and reasonable investments without having all the necessary information on the company. This makes managing with financial statements somewhat difficult because they are often not given much attention. Some investors fail to perform through fundamental analysis of the company. "Most of the IPO subscribers in Nepal, engage in short term trading by selling the shares shortly after listing the company on the stock exchange market and hence, use IPO as a way to generate quick profits rather than holding the stocks for the long-term." (Timilsina, 2010). Therefore, the identification of the ways how investors distribute their funds in new investments and the identification of the investment proportions of each investor are considered to be a great difficulty.

Because most IPO stocks have limited trading histories for analysts to study, it is difficult for individual investors to predict how the stocks will behave on their first day of trading and in the coming days, sometimes weeks. One of the main challenges for investors is the fact that they look for the financial gains through the speculative price increase of the shares instead of the real economy growth. Also, Nepalese IPO market lacks the level of information symmetry between the investors and the issuing companies. Issuing companies fail to reveal adequate

information or where they disclose, the information, it is often perceived to be misleading hence increasing asymmetric information

which creates mispricing and mistrust among investors. “Some IPO applicants may use other people’s identification to apply for many IPO applications that are not genuine, thus contributes to an increase in the number of IPO applications that lead to high share prices which have nothing to do with the book value.” (Timilsina, 2010).

Similar to their counterparts in other developing countries, Nepalese investors are not very experimental and are inclined to stick to conventional investment instruments such as real estates and fixed deposits. Some of the perceived risks include market risk, regulation risk and other risk factors discouraging investors from IPO investment hence lacking the capital needed for investment by firms. “Most investors, being risk-averse, preferred to invest in well-known companies that generated consistent profits.” (Hossain and Siddiqua, 2022). “Due to risk fear and lack of analytical skill beginners invest 5% to 10% of their income.” (Gujrathi and Gouda, 2023). Hence, it is equally important to understand the changing attitude and psychology of investors to maintain the attractiveness of the IPO. Therefore, the purpose of this research is to study the perception of investors in the Kathmandu City based on the different demographic variable.

The various factors like rising interest rate, high inflation, political instability, unfavorable economic conditions, unconfident investors and weak tax system currently slow down the pace of stock market growth in Nepal.

Consequently, it can be argued that research concerning the perception and behavior of investors pertaining to IPOs in Nepal has not been explored adequately especially under emerging market This lack of knowledge presents problems for firms targeting to mobilize funds through IPOs, and for public authorities aspiring to develop the right environment for a market. It becomes necessary to carry out a research to examine and categorically determine factors influencing investors perception and their behavior by using literacy financial competence, market forces, social-economic status, and investor’s psychology such as herding instinct among others.

Under this perspective, the research objectives of the study is to identify the attitudes that general investors hold towards investing in securities in the primary market. Thus, it is focused on the status of general investors, their investments and their portfolio, and the criteria that are considered as determining when choosing the companies for investment. The purpose of the study is to assess the attitude and behavior of investors toward IPOs and develop the primary market through IPOs. The study is considered necessary to understand the actual reasons behind investors' decisions through IPOs and assist companies planning to issue shares in the future with the findings from this research.

Research Questions

- i. What is the perception of investors towards IPOs in Nepal?
- ii. What is the relationship between different factors (herding effect, market return, company performance, company sectors, financial awareness (market information)) and investment decision of investors?
- iii. What are the impact of different sectors (herding effect, market return, company performance, company sectors, financial awareness (market information)) on investment?

1.3. Objectives of the study

The main purpose of this research is to understand the investors' behavior towards the Initial Public Offering or primary issue of shares issued in both financial and non- financial sector in Nepal. The study aims to analyze IPO practices in the Nepalese market and assess investors' perceptions and behaviors towards IPOs. The specific objectives of the study are as follows:

- i. To assess the pattern of public response to the initial public offering of different sectors
- ii. To examine the relationship between herding effect, market return, company performance, company sectors, financial awareness (market information) and investment decision.
- iii. To analyze the impact of herding effect, market return, company performance, company sectors, financial awareness (market information) on investment decisions.

1.4. Hypothesis

The following hypotheses are formulated for this study

H1: There is positive relationship between herding and investment decision.

H2: There is positive relationship between market return and investment decision.

H3: There is positive relationship between company performance and investment decision.

H4: There is positive relationship between company sector and investment decision.

H5: There is positive relationship between financial awareness (market information) and investment decision.

1.5. Rationale of the study

The following research questions are formulated to assess the challenges and opportunities for the Nepalese primary market.

Thus, the results will be beneficial for potential offering firms to acquire considerable information regarding investor reactions to IPO across industries. New companies that are yet to go public can compare and learn from different factors affecting public investment in IPOs in an effort to optimise on such factors as on profit making and building goodwill.

The businesses as the investors can improve their understanding of their investments and make balanced decisions without the influence of emotions.

The study will assist in finding out legal frameworks, opportunities, challenges and future of IPOs in Nepalese market.

It will also help in determining the financial position of the publicly listed firms and the reasons behind the investments made by investors.

1.6. Limitations of the study

- i. Due to the difficulties in data availability to a large extent, the specific conclusions resulting from this research were affected.
- ii. The sample size was too small (i.e. 400) from Kathmandu valley which hindered the identification of the significant relationship in the data and the findings cannot be generalized to the larger population.
- iii. Variations in the data were observed during the process of evaluating data obtained from different sources.

CHAPTER-II

LITERATURE REVIEW

2.1. Introduction

This chapter covers the literature related to the area under the study. It reviews the information from other researchers who have carried out their research in a similar field of study. The research questions are reviewed in depth to study investment behavior among different gender investors. This chapter has various sections. Theoretical review evaluates the literature extensively with an aim of critiquing the theories and concepts of a given topic of interest. Conceptual review focuses on understanding and analyzing the core ideas and helps defining the theoretical constructs that form the basis of the study. Empirical review examines the methods, findings and conclusions of the studies as a way of providing an overview of the evidence available concerning the topic under investigation as well as to identify inconsistencies in knowledge claims.

2.2 Theoretical review

The literature review is regarded as an overview of the previously published works on a topic, essential for broadening the knowledge base in the research area, bringing clarity and focus to the research problem, improving methodology, and contextualizing findings.

As in Levin's theory, the impact on individual behavior is determined by a large number of diverse factors, ranging from genetic to environmental. However, individual behavior can not be said to be self generated but rather it is within a large system which includes the family, group, and society in which one operates. The way individuals behave is contingent upon three motivations: of values, perception and attitudes that they hold (Biswakarma, 2019).

Personal Investment Theory: The PI model of achievement motivation, which was designed by Maehr and Braskamp in 1986, incorporates and expands upon several dimensions from previous conceptions of motivation that are still deemed crucial to any explanation and understanding of motivation, especially in a cross-cultural context. The focus of PI theory is

how people decide to invest energy, talent, and time. The findings on how people from different cultures behave in different achievement situations are especially relevant in PI theory. This relevance comes from the fact that it is not presupposed that people from a specific culture will expend effort in the same achievement activities or if they do, for the same motive as people from different culture. The fact that individuals from non-Western cultural groups perform poorly on achievement tests relative to how achievable and motivated they are in other activities, scenarios are explained by the PI theory. This is evidenced by persistency, activity, high performance, and sustained motivation on selected behaviors.

The Neoclassical theory: When formulating a theory of investment behavior based on the neoclassical theory of optimal capital accumulation, a great number of alternative versions of the theory could be considered. Reduced to its barest essentials, it is only required that capital accumulation be based on the objective of maximizing the utility of a stream of consumption. This basic assumption may be combined with any number of technological possibilities for production and economic possibilities for transformation of the results of production into a stream of consumption. In selecting among alternative formulations, a subsidiary objective must be borne in mind. The resulting theory of capital accumulation must include the principal econometric models of investment behavior as specializations, but the theory need not encompass possibilities for the explanation of investment behavior not employed in econometric work.

2.2. Conceptual review

The trading of securities in a financial market is defined as a marketplace. Securities, including equity, bonds, debentures, etc., are traded in such a marketplace that brings all the buyers and sellers under the same floor for the purpose of trading. Any place or system that provides buyers and sellers the means to trade financial instruments, including bonds, equities, various international currencies, and derivatives, is included in financial markets. Funds are transferred in financial markets from people who have an excess of available funds to those who have a shortage. Greater economic efficiency is promoted by financial markets, such as bond and stock markets, by channeling funds from those who do not have a productive use for them to

those who do. The financial market consists of the money market and capital market. Transactions in short-term debt instruments or marketable securities take place in the money market, where long-term securities (bonds and stocks) are traded in the capital market (Gitman, 2003).

2.2.1 Money Market

Money markets are markets for short-term debt securities. Some of money market securities include Treasury bills, banker's acceptance, commercial paper, and negotiable certificates of deposit that is floated or issued by government, business, and financial institutions. These instruments are rated to be among the safest and they are also very highly liquid because they are very conservative. Money market securities yield a rate lower than that of most other securities on the market. (Thapa, 2070)

2.2.2 Capital Market

The long-term loans and equities are available in what is known as the capital market. The capital market consists of the stock market, the bond market and the primary market through which companies and the government can borrow funds for long-term investments. There are government authorities for financial supervision that approve and supervise securities trading in organized capital markets, while participating banks supervise new issues. (Thapa, 2070).

2.2.3 Primary Market

In a primary market, new issues of security, such as bonds or stocks, are sold to initial buyers by the corporation or government agency borrowing funds from investors. This is the only market in which the companies or government bodies are involved in the transaction and receive direct benefits from the issue, as the company actually receives the proceeds from the sale of securities. (Bhattarai, 2012) An important financial institution that assists in the initial sale of securities in the primary market is the investment bank.

2.2.4 Secondary Market

The secondary market involves the purchase and sale of securities that are already issued to the public and traded on the stock exchange. The secondary market is created by brokers, dealers, and market makers. Brokers bring buyers and sellers together, with themselves actually buying or selling. Dealers set prices at which they are ready to buy and sell (bid and ask prices, respectively). Brokerage and dealer activities take place in an organized market or stock exchange. (Gitman, 1998) A secondary market is a financial market in which securities that have been previously issued can be resold. Brokers, dealers, and market makers create the secondary market. Brokers are agents of investors who match buyers with sellers of securities; dealers link buyers and sellers by buying and selling at stated prices. Examples of organized stock exchanges in the secondary market include Nepal Stock Exchange (NEPSE), New York Stock Exchange (NYSE), and Bombay Stock Exchange (BSE).

2.2.5 Primary Market and Initial Public Offering

The issue of shares in the primary market is subdivided into two parts: seasoned issues and unseasoned issues. A seasoned issue involves additional securities from an established company whose securities already trade in the secondary market. On the other hand, an unseasoned new issue involves the initial offering of a security to the public. Initial Public Offering (IPO) is a way through which a company sells shares to the public for the first time to raise funds for its future projects and gets listed on the stock exchange. All traded stocks are listed on NEPSE in Nepal. The security that companies issue for the first time to the public, either after incorporation or on conversion from a private to a public company, is called an IPO. A company raising money through an IPO is called "Company Going Public." A public offering is a security offering where all investors have the opportunity to acquire a portion of the financial claims being sold. (Keown and Petty, 2009) An IPO can be a debt or equity security. A primary market is a financial market in which new issues of a security, such as bonds or stocks, are sold to initial buyers by the corporation or government agency borrowing the funds. An important financial institution that assists in the initial sale of securities in the primary market is the investment bank. In Nepal, investment banks are also called issue

managers. Underwriting is the process by which the primary market functions; that is, how issues are sold to the primary buyers.

2.2.6 Initial Public Offering (IPO)

The Manual for Initial Public Offering (IPO) is the detailed procedure for handling the initial public offering of companies seeking to "go public" for the first time. This manual outlines all the activities and steps that are to be taken into consideration by all the issuing 14 companies and the issue manager in respect to the initial public offering (IPO).

During the period of IPO, many organizations are involved. These organizations include:

2.2.6.1 Issuing Company

The company that raises funds from the general public in the form of equity shares, bonds, debentures, etc., through the process of public offering, as per the requirement of the business. The company Act mandates that only public companies are liable to go for public offerings. NRB has made it mandatory that financial institutions must go for common stock public offerings within a specified time of operation commencement (Regami, 2017).

2.2.6.2 Investment Bank

An investment bank refers to a sort of a financial institution, which is often an independent commercial entity, that offers any form of finance-related and other services to different entities such as individuals, businesses, and governments. It includes providing necessary finances, organizing underwriting or acting for the client in the selling of securities. Sell side and buy side are two broad categories of investment banks. (Upreti,2017).

2.2.6.3 Issue Manager

The institution solely responsible for managing the initial public offering. Issue managers are institutions holding a license from Nepal Stock Exchange to manage public offering issues (Securities Exchange Act, 2063). Issue managers work as managers to the issue and

underwriting for the public issue of securities (SEBON, 2012). Issue managers receive commissions from the issuing company for the services rendered.

2.2.6.4 Underwriter and Underwriting

Investing-banking firms, acting as financial midwives to a new issue (Brearley, 1972), are underwritten by the underwriters. Securities issuance and distribution from a corporation or other issuing body are administered by an underwriter, which works closely with the issuing body to determine the offering price of the securities, buys them from the issuer, and sells them to investors via the underwriter's distribution network. Underwriting fees are generally received by underwriters from their issuing clients, but profits can also be earned when selling the underwritten shares.

2.2.6.5 Bankers to an Issue

Commercial banks, typically, are chosen as bankers to an issue, and their main responsibility is to provide custodian service to the issuing company. Application acknowledgments may or may not be received from investors, and application details are entered into application schedules (Regami, 2017).

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

The securities issue in Nepal, according to the legal framework comprising the Securities Transaction Act 1983, Issue Management Guidelines, and Securities Registration and Issue Approval Guidelines 2000, has to be conducted. In this legal framework, the procedure for securities issue in Nepal is as follows: The selection of the issue manager or underwriter to manage or underwrite the issue should be made by the issuing company. After the selection of the issue manager, the prospectus of the issuing company is prepared by the issue manager as per the format designed by the company registration office and ministry of commerce and industry. After the preparation of the prospectus, the prospectus is sent to the issuing company for approval from the Board of Directors (BOD). Following the approval from the BOD of the

issuing company, the prospectus has to be sent to the company registrar for approval. The Registrar of Companies (ROC) will send a copy of the prospectus to the SEBON, Nepal Rastra Bank (NRB), and Insurance Board in the case of an insurance company for the review of the prospectus. The SEBON, Nepal Rastra Bank (NRB), and Insurance Board will send the prospectus after the review. The ROC will again make corrections to the prospectus with reference to the feedback received from the SEBON, Nepal Rastra Bank (NRB), and Insurance Board. The corrected prospectus is then sent to the issue manager, and the issue manager, in turn, sends the corrected prospectus back to the issuing company for approval. After the approval of the issuing company, the prospectus has to be sent to the ROC for approval. After the approval of the prospectus from the ROC, the issue manager has to register the security in the SEBON for the issue after paying a certain fee.

Table 2.1

Registration Fee on Issue

Amount of Issue	Commission
Up to Rs 50,000	0.4%
Rs 50,000 to Rs 500,000	0.37%
Rs 500,000 to 20 lakhs	0.34%
Rs 20 lakhs to 1 Crore	0.3%
Above Rs 100,00,000	0.27%

(Source: SEBON, 2020)

The approval for the issue will be provided by SEBON after the discussion of the BOD of SEBON. The issuance of securities must be carried out by the issue manager within 2 months of receiving the approval. The share issue announcement should be prepared by the issue manager based on the approved prospectus by ROC. The announcement has to be published in the national daily newspaper. The opening of the securities issue should occur within a maximum of 15 days and a minimum of 7 days from the announcement of the public issue. The shares must be issued for a minimum of 5 days if the shares are issued from a minimum of 10 collection counters covering all 5 development regions. If the above provision is not

possible, the shares must be open for 7 days. If the targeted amount is not collected within 7 days, the company can extend the issue for the next 30 days. After that, if the company decides to further extend the issue, it can extend for another 15 days after obtaining approval from SEBON. The sale of shares must be closed by the issue manager by providing a per notice. The collection of funds from the collection counter is done by the issue manager day by day.

The company has to allot the share according to the allotment guidelines of SEBON.

Table 2.2

Allotment Period of Securities

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

Source: SEBON (2020)

The allotment of shares by the company must be done according to the allotment guidelines of SEBON, as shown in Table 2.2. The distribution of share certificates must commence within 45 days of the allotment after completing the allotment of 50% of shares. The company is also required to list the securities on the stock exchange within this period. Similarly, any refunds by the company must be made within this period.

2.2.8 Issue Approval Guidelines

According to the Securities Transaction Act, 2063, the securities registration and issue guidelines, 2000, to be registered by the company willing to issue securities, have been provided various clauses for making the issuance more systematic, easy, and procedural. The main provisions of these guidelines are that the public issue is only allowed for a company that has operated for at least a year. The shares can be sold by the company at a premium price. The prospectus of the issuing company must be prepared by professionals, and they will be

held liable for the prospectus. Companies related to tourism, trade, transport, and manufacturing must underwrite their securities from recognized institutions for the issue. The promoters are only allowed to sell their securities after 3 years from the publication of the prospectus and the operation of the company.

2.3. Empirical review

2.3.1. Review of international articles

Sood, et al. (2024) conducted a study on “How do the determinants of investment decisions get prioritized? Peeking into the minds of investors” in an attempt to recognize how individual equity investors prioritize key determinants of investment decisions in the Indian stock market. The nature of data collected in the study was primary data along with the structured questionnaire. Convenience sampling method was deployed to collect the data. The findings of the study revealed that information availability, representative heuristics belonging to psychological factors, and macroeconomic indicators falling under economic factors were considered the three most prioritized criteria whereas environmental issues within the realm of (environmental, social and corporate governance) ESG factors, recommendations of brokers or investment consultants of sociological factors, and social issues belonging to ESG factors were discovered to be the least prioritized criteria.

Che-Yahya, et al (2023) carried a study with the objective of assessing the pre-market investor sentiment and its impact on the IPO's first return and trading volume. The data were taken from longitudinal 271 initial public offerings (IPOs) listed on Bursa Malaysia's Main Market and Access Certainty Efficiency (ACE) Market between 2004- 2020. Google Trends was used to extract data for individual investors' pre-market sentiment. The result of the study showed a positive and significant relationship between pre-market investor's attitude and the first return and trading volume of initial public offerings. Higher individual investors' sentiment in the pre-market (PREINSENT) implied that when individual investors search for more information on the newly issued IPOs from Google, the intensity of their intention or positive

sentiment in buying the IPOs is reflected. Therefore, the intensity escalates demand and results in a better IPO initial return.

Gujrathi and Gouda (2023) carried out the study on perception of investor towards Indian stock market to study the investor behavior towards the various investment alternatives with specific reference to stock market. The study was based on primary source via online interview and questionnaire while the research design employed in the study was descriptive research. Convenience sampling was used in the study. The indicators, such as neutral information, accounting information, and social relevance represented investors' perceptions of buying shares in Asia. Impressions of the company's activities based on profits and fundamental thinking patterns are generated by these indicators. Due to risk fear and lack of analytical skill beginners invest 5% to 10% of their income. Employees having good analytical skill and good portfolio management skills invest a higher part of the income in the stock market.

Nouri, et al.(2023) tried to identify if the feelings and sentiments of investors intensify the fluctuations in the Tehran Stock Exchange. The main source of data was collected from secondary source. Descriptive statistical tools and causal comparative research design were applied to analyze the data. The study concluded that that investors' feelings and sentiments which were quantified as non-abstract variables using Equity Market Sentiment Index (EMSI) had contributed to an increase in volatility at the Tehran Stock Exchange. If fluctuation is considered an indicator of market risk, the excitement associated with an abnormal rise in volumes will increase the risk.

Veshne and Jamnani (2023) made an attempt to analyze the performance of the IPOs issued during the Covid-19 pandemic and analyze the factors affecting investor perception towards investment in an IPO. IPOs from various sectors like finance, technology, service, infrastructure, etc were studied. The study explored the performance of the IPOs issued during the Covid-19 pandemic when the markets across the world faced massive disruptions. The factors that had a positive impact on the investor's decision to invest in an IPO were company

brand, company sector, fundamental analysis, company ratings, expert opinion on stock market conditions. Factors that had no significant impact on investor's perception were risk factor in the primary market, returns on IPO on the listing day, and Gray Market Premium.

Hossain and Siddiqua (2022) conducted a study "Exploring the influence of behavioral aspects on stock investment decision making: a study on Bangladeshi individual investors" to examine if behavioral factors influence individual DSE investors' stock investment decisions. Descriptive analysis was used in the study along with statistical tools like Chi-Square and ANOVA. The result showed that the two most influential emotional dimensions that impact investors' decisions were risk aversion and risk perception. Individual investors of Bangladesh often made emotionally. The influencing factors on investors to make irrational decisions were psychological biases, such as loss aversion, overconfidence, herding, and risk perception. Most investors, being risk-averse, preferred to invest in well-known companies that generated consistent profits.

Ibrahim and Benil (2022) explored the correlation between investors' sentiment, underpricing and performance of newly issued American stocks of newly listed firms on NASDAQ and NYSE. The study used descriptive statistics and regression analysis to examine the objective. The study established a positive relationship between underpriced IPOs and investor sentiment. The study found that the correlation between the bullish ratio and the Market Adjusted Initial Returns (MAIRs) confirmed results found in previous literature, and no relationship between investor sentiment as measured by bullish ratio and long-run performance as measured by MAIRs had been observed.

Tiwari, et al (2022) tried to identify the effects of public sentiments on industry stock returns and volatility dynamics in Australia based on the states of the market. Nonparametric causality-in-quantile test, Nonlinear causality test, and Indices of Australia's aggregate Consumer Sentiments index were included, with data spanning from October 1974 to October 2020,

encompassing nine industry stocks: Health Care, Consumer Discretionary, Consumer Staples, Utilities, Financials, Real Estate, Industrials, Basic Materials, and Energy.

A directional and bidirectional causality between measures of consumer sentiments and returns of industry stocks was shown by the results. The returns of all nine sectors were caused by the sentiments of individuals aged 45 and above. The predictability between sentiments and industry stock returns was high in the normal market state but dropped when the consumers' perceptions entered into the extreme bearish and bullish states. Additionally, a risk (volatility) transfer from sentiments to the industry stock returns was shown in some cases under different market conditions by the findings.

Khan, et al (2021) carried a study with the objective to examine how the importance of external investment environment factors affects stock market perception and how stock market perception affects stock investments after market crash. Cross sectional survey, Partial least squares- structural equation modeling were employed in the study. The findings showed that the investors' stock market perception was affected by the Bangladesh's stock market performance, government policy, economic issues and neighboring country's stock market perception. This perception, in turn saw a decrease in the monthly stock trading and short-term investment horizon.

Mazumdar and Sakha (2021) studied whether the Covid 19 affected the performance of the IPO or not. The sample consisted IPOs from January- July 2020, included IPOs that had an offer price above 5. Data was collected from COMPUSTAT, SEC EDGAR. The findings of the study revealed that the performance of IPO firms was more vulnerable to pandemic anxiety, compared to the performance of comparable existing enterprises.

Vakil (2020) conducted a study on investor's perception about IPO and IPO's performance in stock market to examine the investor's perception towards risk-return of investment. The study also tried to find out the factors that affect investors while selecting any company's IPOs.

Descriptive and analytical research design were used in the study. Data was collected from the primary sources and regression analysis was used to examine the data. The study found that the fundamentals of the company are available for investors to know about the history of any company, and that can decide about their investment, as investors are keener to evaluate IPOs on the basis of the risk and return relationship. The major investment reasons revealed in the study were higher returns, the company's profile and its future expected growth in the form of dividend, earnings per share, prices whether increasing or not.

D.M. and S (2019) tried to identify the investor's attitude towards investment in equity market. Data was collected through primary source and analytical research design was implemented in the study. Also, the study used descriptive statistics and regression analysis to examine the objective. Investors were classified as conservative, moderate and aggressive as concluded in the study. Risk is avoided by conservative investors, medium risk tolerance is taken by moderate investors and high risk is taken by aggressive investors in investment.

Saravana and Satish (2018) examined the influence of risk and return attributes considered by an investor while making investment decisions in an IPO and how those variables explain the retail investor perception about the IPO. Stratified sampling was implemented to select the respondents and data was collected through online survey. The factors like Information asymmetry, Market attributes, Attitude, Subjective norms, and Behavioral Intentions, which form the basis of perception, were influenced by the respondents. The variables significant in influencing perception of an investor were recent IPO investment, source of money for IPO investment, reason for choosing IPO investment, holding period of an IPO, alternate investment if a considered IPO is not subscribed and reason for avoiding an IPO.

Srinivas and Rao (2017) in their study attempted to identify the factors influencing investment decisions in IPO among retail investors in Visakhapatnam city. Data from primary source via structured questionnaire was collected and simple random sampling technique was used. The driving forces of the investment were capital appreciation and safety in investment. Higher annual returns motivate investors toward investment in IPO. Most respondents were investing

their funds for a very short period (i.e., less than 3 months). The shares were being subscribed in the primary market through IPO and sold in the secondary market for higher return. Long-term investment decreases risk and increases return so investors should invest for a long time.

Zhang and Wong (2015) aimed to explore the relationship between the individual investor's attention and stock performance based on the ChiNext stock market. The research design used in the study were descriptive and cross-sectional research design. The main source of data was collected from primary source and descriptive and inferential statistic was used in the study. A significant correlation between investor attention and the indicators of the stock market was revealed by the study. Also, it was shown that attention, as a limited cognitive resource, may influence the performance of the stock market in both the IPO and secondary market.

Table 2.3

Summary of Review of International articles

S.N.	Source	Article	Objective	Methodology	Findings
1	Sood, Pathak and Gupta (2024)	How do the determinants of investment decisions get prioritized? Peeking into the minds of investors	To identify how individual equity investors prioritize key determinants of investment decisions in the Indian stock market.	Primary data, Structured Questionnaire, Convenience sampling	The three most prioritized criteria were found to be information availability, representative heuristics belonging to psychological factors, and macroeconomic indicators falling under economic factors, whereas environmental issues

					within the realm of (environmental, social and corporate governance) ESG factors, recommendations of brokers or investment consultants of sociological factors, and social issues belonging to ESG factors were discovered to be the least prioritized criteria, respectively.
2	Bagjava ny, Nouri, and Hosseini (2023)	Impact of Investors' Sentiments on volatility of Stock Exchange Index in Tehran Stock Exchange	To identify if the feelings and sentiments of investors intensify the fluctuations in the Tehran Stock Exchange	Correlational research design, Secondary source, Descriptive statistical tool	The studies revealed that investor emotions and moods that were measured as non-neurological variables by Equity Market Sentiment Index had led to an increase in volatility in Tehran Stock Exchange. However, based on the nature of operation and if fluctuation is considered as market risk factor, the

					excitement levels for an abnormal increase in volumes will bring in more risk
3	Gujrathi and Gouda (2023)	The study on perception of investor towards Indian stock market	To study the behavior towards the various investment alternatives with specific reference to stock market	Descriptive research, Chi-Square, Convenience Sampling, Online interview, Questionnaire	The findings of the study showed that investors' perceptions of buying shares in Asia are represented by several indicators, such as neutral information, accounting information, and social relevance. Impressions of the company's activities based on profits and fundamental thinking patterns are generated by these indicators. Beginners invest 5% to 10% of their income because of risk fear and lack of analytical skill. Employees having good analytical skill and good portfolio management skills invest a higher part of

- the income in the stock market.
- 4 Veshne and Jamnani (2023) Performance of IPOs During Covid-19 Pandemic and Factors Affecting Investors' Perception To analyze the performance of the IPOs issued during Covid-19 pandemic and analyze the factors affecting investor perception towards investment in an IPO IPOs from various sectors like finance, technology, service, infrastructure, etc were studied. The study explored the performance of the IPOs issued during the Covid-19 pandemic when the markets across the world faced massive disruptions. The factors like company brand, company sector, fundamental analysis, company ratings, expert opinion on stock market conditions had a positive impact on the investor's decision to invest in an IPO. Factors like risk factor in the primary market, returns on IPO on the listing day, and Gray Market Premium have no significant impact on investor's perception.
- 5 Yahya, Saleh Pre-Market Individual To study pre-market investor Longitudinal 271 initial public A positive and significant

- and Investors' sentiment and its offerings (IPOs) relationship between Elias Sentiment and impact on the listed on Bursa pre-market investor's (2023) IPO Initial IPO's first return Malaysia's Main attitudes and the first performance of and trading Market and return and trading the Emerging volume Access Certainty volume of initial market market Efficiency public offerings was (ACE) Market shown by the results. between 2004- Higher individual 2020, Google investors' sentiment Trends used to in the pre-market extract data for (PREINSENT) individual implied that when investors' pre- individual investors market sentiment search for more information on the newly issued IPOs from Google, the intensity of their intention or positive sentiment in buying the IPOs is reflected. Therefore, the intensity escalates demand and results in a better IPO initial return.
- 6 Hossain Exploring the To study if Descriptive The findings of this and influence of behavioral analysis, Chi- study revealed that Siddiqua behavioral factors influence square, ANOVA emotional measures (2022) aspects on stock individual DSE particularly risk investment investment investors' stock aversion and the risk

decision investment
 making: a study decisions
 on Bangladeshi
 individual
 investors

perception
 significantly affect
 investors' decision in
 Bangladesh.

Psychological factors
 such as loss aversion,
 overconfidence,
 herding and risk
 perception make the
 investors take
 irrational decision.
 Cautious investors
 thus invests in firms
 which they are
 familiar with and are
 certain to yield well-
 performing returns
 continually.

- 7 Ibrahim and Benil (2022) Impact of Investors sentiment on IPO performance: Evidence from NASDAQ and NYSE of To explore the correlation between investors' sentiment, underpricing and performance of newly issued American stocks of newly listed firms on NASDAQ and NYSE Descriptive statistics, Regression analysis

The study established
 that there was a
 positive correlation
 between IPOs that
 were offered at a low
 price and investor's
 attitude. Hypothesis 1
 was supported by the
 evidence as well as
 the subsequent
 literature, wherein no
 significant
 relationship between

investor sentiment as measured by the bullish ratio and long run performance as measured by the Market Adjusted Initial Returns MAIRs was established.

- 8 Tiwari , The effects of To identify Nonparametric A directional and
 Abakah , public effects of public causality-in- bidirectional causality
 Bonsu , sentiments and sentiments on quantile test, between measures of
 Karikari feelings on industry stock Nonlinear consumer sentiments
 and stock market returns and causality test, and returns of
 Hammo behavior: volatility and Indices of industry stocks is
 udeh Evidence from dynamics in Australia's shown by the results.
 (2022) Australia Australia based aggregate The returns of all nine
 on the states of Consumer sectors are caused by
 the market Sentiments index the sentiments of
 are included, individuals aged 45
 with data and above. The
 spanning from predictability
 October 1974 to between sentiments
 October 2020, and industry stock
 encompassing returns is high in the
 nine industry normal market state
 stocks: Health but drops when the
 Care, Consumer consumers'
 Discretionary, perceptions enter into
 Consumer the extreme bearish
 Staples, Utilities, and bullish states.

- Financials, Real Estate, Industrials, Basic Materials, and Energy. Additionally, a risk (volatility) transfer from sentiments to the industry stock returns is shown in some cases under different market conditions by the findings.
- 9** Mazumd ar and Sakha (2021) Covid-19: Fear of pandemic and short term IPO performance To study whether the covid 19 affect the performance of the IPO or not Sample consisting IPOs from January-July 2020, include IPOs that have an offer price above 5, Data collected from COMPUSTAT, SEC EDGAR It is indicated by the findings that the performance of IPO firms is more vulnerable to pandemic anxiety, compared to the performance of comparable existing enterprises.
- 10** Khan, Tan, Chong and Goh (2021) Investment environment, stock market perception and stock investments after stock market crash To examine how the importance of external investment environment factors affects stock market perception and how stock market perception affects stock Cross sectional survey, Partial least squares-structural equation modeling The findings showed that the investors' stock market perception was affected by the Bangladesh's stock market performance, government policy, economic issues and neighboring country's stock market perception. This

- investments after market crash perception, in turn saw a decrease in the monthly stock trading and short-term investment horizon.
- 11** Vakil (2020) A study of investor's perception about IPO and IPO's performance in stock market To examine the investor's perception towards return of investment risk- of investment Descriptive and Analytical research design, Data collection: Primary sources, Tools: Descriptive Regression analysis The fundamentals of the company are available for investors to know about the history of any company, and that can decide about their investment, as investors are keener to evaluate IPOs on the basis of the risk and return relationship, was found by the study. The major investment reasons are higher returns, the company's profile, and its future expected growth in the form of dividend, earnings per share, prices whether increasing or not.
- 12** D.M. and S (2019) Investors' attitude towards investment To identify the Investor's attitude towards Analytical research design, The study was concluded by classifying investors

	decisions in investment equity market	investment equity investment	Data collection: as conservative, Primary sources moderate, and Tools: aggressive. Risk is avoided by Descriptive statistics, conservative investors, medium risk tolerance is taken by moderate investors, and high risk is taken by aggressive investors in investment.		
13	Saravan an, S., and Satish, R. (2018)	Impact of Risk Return Considerations in Perception of Retail Investors about an IPO.	To examine the influence of risk and return attributes considered by an investor while making investment decisions in an IPO and how those variables explain the retail investor perception about the IPO.	Stratified sampling, Online survey	The factors like Information asymmetry, Market Attitude, Subjective norms, and Behavioral Intentions, which form the basis of perception, were influenced by the respondents. The variables significant in influencing perception of an investor were recent IPO investment, source of money for IPO investment, reason for choosing IPO investment,

					holding period of an IPO, alternate investment if a considered IPO is not subscribed and reason for avoiding an IPO.
14	Rao (2017)	A Study on factors influencing IPO decisions among Retail Individual Investors in Visakhapatnam	To identify the factors influencing investment decisions in IPO among retail investors in Visakhapatnam city	Data collection: Primary sources, Simple Random sampling, Structured Questionnaire	The Capital appreciation and safety in investment are the driving forces of the investment shown by the study. Higher annual returns also motivate investors toward investment in IPO. Most respondents are investing their funds for a very short period (i.e., less than 3 months). The shares are being subscribed in the primary market through IPO and sold in the secondary market for higher return. Long-term investment decreases risk and increases return so investors

						should invest for a long time.
15	Zhang and Wong (2015)	Limited attention of individual investors and stock performance: Evidence from ChiNext Market	To explore the relationship between the individual investor's attention and stock performance based on the ChiNext stock market	Descriptive and cross-sectional research design, Data collection: primary sources, Tools: Descriptive statistic, inferential statistic	A significant correlation between investor attention and the indicators of the stock market was revealed by the study. Also, it was shown that attention, as a limited cognitive resource, may influence the performance of the stock market in both the IPO and secondary market	

2.3.2. Review of previous research work/ national articles

Chhetri (2022) stated the primary objective of the study is to explore the factors influencing the decision-making behavior of individual Nepalese stock investors, and examine the relative degree of influence of such factors with respect to various demographic and socio-economic characteristics. The quantitative approach and exploratory and descriptive research designs are followed by the study. The study used questionnaire survey consisting of close and open ended questions. A survey yielding 505 usable responses from the clients of four largest stock brokerage firms was conducted during March through May 2021 through convenient and purposive sampling. Factor analysis was performed to explore the influential factors.

The findings of the study showed the use of fundamental analysis and the importance of expected earnings and dividends are deemed vital by individual investors, even though assorted variables influence investors when making stock investment decisions. The factor "Accounting

and stock market information" was revealed to be of the highest influence in the decision-making behavior of individual stock investors. The effect of "Public and economic information" was found to be significantly different between male and female investors; surprisingly not among different age groups. "Accounting and stock market information" was found to be significantly different among investors with various educational qualifications. Classical rational criteria such as expected dividends, expected corporate earnings, dividends paid, and the condition of financial statements were found to be the most influential variables. While the consequences of contemporary issues like environmental record, increase of firm's involvement in solving community problems, and perceived ethics of firm seemed to be mostly unnoticed by most respondents, the need for relevant awareness and educational campaigns regarding the importance of social, ethical, and environmental value of investments seems alarming.

A study on the investors' perception towards IPO in Khairahani municipality, Chitwan was conducted by Kandel (2022) with an attempt to examine the factors that affect the investors' perception of IPO investment. Descriptive exploratory research design was employed in the study. Convenience sampling procedure was used to select 110 samples from Khairahani municipality, Chitwan. Self-administrative questionnaire and face-to-face interviews were used to collect information from the respondents who had been applying for at least 10 units of IPO. It was revealed by the findings that the major factors influencing investors' perception were the company's performance and the sector's performance. The microfinance industry was selected by the majority of investors because it provided a satisfactory return to them. Stocks allotted in the IPO were preferred to be held for a longer period of more than one year by a majority of investors. A positive perception towards allocating 10 units of the IPO was held by investors. However, neutrality was maintained by them in the case of their interest in the Book Building System.

Karmacharya et.al (2022) studied the perceived behavioral factors whether it effects the investors' investment decisions contributing to the Nepal Stock Exchange (NEPSE) performance. The nature of data was quantitative data collected through primary source via

structured questionnaires. The respondents consisted of 350 investors from different brokerage houses. The statistical techniques used were Descriptive, Confirmatory Factor Analysis and Structural Equation Modelling (SEM). The study found that among the four behavioral variables, market, heuristic, and herding factors have significant effects on investment performance. The prospect variable had a negative and insignificant impact on investment performance signifying that investors believed in their perception while making decision and overlooked loss and gain differently. Nepalese investors depended more on market-related factors (market information, past trends, price change). They followed others' advice and suggestions without proper market analysis establishing herding variable a positive effect on investment decision.

A study to identify the investment decision behavior of Nepalese investors in Initial Public Offerings (IPOs) was conducted by Tamang (2022). The research design utilized in the study was an Exploratory research design under a Qualitative study. In order to explore the knowledge of investment decisions made by six young Nepalese investors, face-to-face, semi-structured interviews were conducted. It was revealed in the study that the psychological biases did not influence investors because they were not 'herding' on the information. Instead, investors were influenced by overconfidence bias as they tended to overestimate while making investments.

Gnawali and Niroula (2021) studied the perception of investors towards initial public offering (IPO) targeted to the respondents of Kathmandu with the objective to analyze the relationship between different factors (quality management, company goodwill, company performance, company sector and market information) and investment decision to examine the factors that impact in IPO to making investment decision. Primary data was the main source of data and descriptive and explanatory research design was adopted. The study used convenience sampling comprising 232 samples. Regression analysis was used to analyze the relationship between variables and the impact of different factors on investment decision. Quality management, company goodwill, company performance, company sector and market

information were the highly considerable factors before making an investment decision in IPO which was revealed in the study.

In order to achieve the above-stated objective, the consequences of four heuristic biases, such as representativeness, availability, anchoring and adjustment and overconfidence bias that took place in the decision-making process of the Nepalese investors were examined by Dangol and Manandhar (2020). It also sought to determine the moderating influence of internal locus of control in between was also examined. Convenience sampling was used and also a structured questionnaire was administered. This paper identified that four heuristic biases affect Nepalese investors, and Nepalese investors 'irrationality in their investment decisions has a strong connection with all four forms of heuristic biases. The research also revealed the moderating influence of the locus of control regarding the heuristic biases of availability, representativeness, and anchoring concerning investment decisions. On the same note, the study found out that there was no moderation effect on the overconfidence bias. The authors also opine that Nepalese investors think they obtain all the information that can help them in making better investment decisions. Confident investors usually rush into their decisions, making them without making necessary considerations first. However, another factor that has influence on the thoughts and action of Nepalese investor is the degree of locus of control that the investors have.

Gurung (2020) examined general investors' perspectives on their IPO. The objective of the study was to explore the reasons for IPO investments especially common stocks among the general investors in Pokhara. Quantitative data was collected via a structured questionnaire to the sample population selected through judgmental sampling and Descriptive research design was adopted. It was revealed by the study that banking and finance, followed by hydropower, are the most preferred sectors for buying common stocks in the primary market with the expectation of long-term returns. The opinions regarding the risk and return of IPO investment by male and female investors were quite different. The major determinants of IPO return and risk among investors are the government's policy announcements followed by the size of the firm that issues IPOs.

A study conducted by Gurung (2019) focused to measure the status of IPO knowledge among university teachers. The survey was conducted from a sample of 118 university teachers where questionnaires were distributed. The nature of data was quantitative collected from primary source and Descriptive and Analytical research design were followed in the study. It was opined by Gurung (2019) that university professors' personal self-awareness, followed by the media, publications, friends, and their professional experiences, are the main influences for IPO activities. The findings also indicate that, although university teachers have a fair amount of awareness about IPOs, good reading habits and knowledge about the capital market are possessed by them, and IPO activities are mostly found out through friends, the media, publications, and self-awareness. Word-of-mouth, stock brokers, bankers, and parents are identified as the least influencing elements in learning about IPO.

Rana (2019) conducted a study on Investor Awareness, Risk Perception and Investor Behavior in Stock Market of Nepal to find out the factors associated with investor awareness and perceived risk attitude of investors and examine their effects on investor behavior. They administered a structured questionnaire survey to a sample of 204 respondents as the main source of information. Exploratory and correlational research design was used to determine the direction and magnitude of observed relation towards the factors concerned with investment awareness, perceived risk attitude and investment behavioral intention.

In a study conducted in 2019, Rana established the existence of 'financial awareness and social learning' as two of the most significant configurable factors of investor awareness and that affection and cognition represent two of the most significant variables in the perceived risk attitude of investors in the stock market of Nepal. Hence, it is an implied conclusion of this study that investor awareness in the context of this work is positively correlated with perceived risk attitude; perceived risk attitude with investment behavior; and investor awareness with investment behavior. In addition, a high level of predictive accuracy of investor awareness and perceived risk attitude variables on the investment behavior among the investors in Nepal is narrated by the study.

Rana (2019) studied the factors associated with individual investors' stock investment decision in the context of stock market in Nepal. Structured questionnaire survey was used to collect data from the sample of 106 individual investors. Purposive sampling approach was used to select the sample brokerage firms from where the samples were selected. Exploratory factor analysis was employed to extract the common factors affecting stock investment decisions of the sample investors.

Earnings and Image Factors (Rate of Dividend, Quality Management, Return on equity), Corporate Governance and Positioning Factors (Corporate Social Responsibility, Broad structure and ownership position), Goodwill and Market Share Factors (Brand name popularity, Market share), Industry Competition and Size Factors (Major investors and institutions buying the shares, Threats of new entrants in the industry, Size of the company), Fundamental Market Factors (Various financial ratios, Share price to earnings ratio), and Decision Making Factors (Satisfaction with level of dividend paid, Expected bonus and right issue) were the common factors affecting stock investment decision of the sample investors in Nepal . The results showed that among the six factors extracted, Fundamental Market Factors had high relative importance as perceived by the sample investors followed by Earnings and Image Factors, and Corporate Governance and Positioning Factors. The increased level of investment education and awareness can be attributed to the fact that individual investors in Nepal are regarded to have marched to look into the fundamental market factors. Additionally, there is an increasing concern among Nepalese investors towards firm-specific fundamentals and board practices.

Dangol and Shrestha (2018) conducted a research to establish the effect of investor personality traits and demographic on behavioral bias. Out of these three behavioral biases overconfidence bias, herding behavior, and disposition effect on the financial decision-making of the individual investors in Kathmandu, Nepal were on priority for the study. A cross-sectional survey involving administration of self-constructed questionnaires was used to collect data from 134 respondents. Hypothesis testing of the behavior biases was performed with an application of the Structural Equation Modeling (SEM) technique.

Dangol and Shrestha have analyzed the influence of the Big Five Personality Traits, which are Extroversion, neuroticism, openness to experience, agreeableness, and conscientiousness along with the demographic factors such as age, gender, education levels, and experience in stock market investments on three proposed behavioral biases of individual investors while choosing investment namely, overconfidence bias, disposition effect, and herding behavior. The analysis confirmed that all the five personality traits were related to all the three proposed behavioral biases. Based on the results of the study, it is proposed that confidence bias can be mitigated by extroverted investors' seeking advice from financial advisers and other expert persons, and by checking market data. Likewise, whether investors with the neuroticism disposition should sell or hold an investment after considering its utility and risks to prevent the disposition effect. Investors showing neuroticism should avoid the disposition effect, which entails selling a security before holding it, by thoroughly evaluating likely benefits and losses. Similarly, to it, the confirmation of market information and the independent conclusion to invest to prevent developing herding and overconfidence biases should be performed with the increased conscientiousness of investors. Based on this, investors with higher conscientiousness levels are encouraged to check information in the market and make conclusions on their own thus avoiding the emergence of herding and overconfidence biases.

2.3.3. Review of previous theses

G.C. (2023) conducted a study to examine the public investor response to IPO in Nepal and tried to find the relationship between the independent variables (Quality management of a company, Goodwill of a company, Company performance, Different sector of companies and market information) and dependent variable (Investment Decision). The sample size consisted of 400 respondents from the Kathmandu valley. Descriptive and Correlational research design were implemented to analyze the data. The study established that the investors considered quality management, goodwill of a company, company performance, different sector of companies and market information about company while investing in IPO. There existed positive relationship between quality management, company goodwill, company performance, company sectors, market information and investment decision and there was significant impact

of quality management, company sector and market information on investment decision of investors in IPO.

Bhatt (2021) tried to analyze the condition of stock market during covid 19 and identify the influencing factors of IPO investment. The respondents were selected through convenience sampling. The main source of data was collected from primary source via a questionnaire and correlation, regression analysis were adopted to analyze the data. The findings indicated that condition of stock market was comparatively better than previous years even in covid pandemic period. The increase in NEPSE index indicated the stock market in bullish trend even in COVID pandemic that had reached up to 2735.4 on 15 April 2021. The beneficiary owner DMAT account had reached up to 3,491,746 until 30 April 2021 that indicated positive IPO investment of Nepalese investors. According to the analysis, the independent variables (News update, Online service, Bank interest rate, liquidity position in the market, policy of SEBON) are positively correlated with the dependent variable (investment decision), indicating that positive changes in the independent variables reflect positive changes in investing in IPOs. Likewise, according to regression analysis, the Updated policy of SEBON is found to be the most influential factor of IPO investment compared to other variables.

Karki (2021) explored the underlying reasons behind the strengthening response from investors towards hydropower developers. The research study used descriptive research design. Inferential testing was used to find the impact and relationship between pre-issue financial health, idiosyncratic risk, expected return, sectoral performance, bandwagon effect, and corporate governance on investor's decision-making behavior towards IPOs of hydropower. Convenience sampling was used to select the respondents who had invested in IPOs of hydropower. Idiosyncratic risk, expected return, sectoral performance and bandwagon effect had the significant impact on investors' decision making behavior on IPOs of hydropower developers. Sectoral performance followed by bandwagon effect was identified as the most influencing factors affecting investors' decision making behavior on IPOs of hydropower developers. Investors' decision making behavior on IPOs of hydropower had significant difference across gender, education, occupation and investment objectives.

Paudel (2021) conducted a study to assess the perception of investors towards IPO and assess the relationship between different factors (Quality management, Company goodwill, Company performance, Company sector and Market information) and Investment decision in IPO. The sample size was 100 from Surkhet district and samples were selected through convenient sampling. The data were collected via questionnaire survey method and Descriptive and Co-relational research design were used to analyze the data. The study found positive relationship between the variables (quality management, company goodwill, company performance, and company sector and market information) and investment decision. Investors consider company goodwill, company performance and market information at a higher level and accordingly company sector and quality management while investing in IPO.

Ranjitkar (2021) conducted a study to identify the main factors determining decision regarding investment decision of public towards IPO in Nepal. The study had selected 120 samples. Data was collected through questionnaire and various statistical tools like correlation test, regression, ANOVA were used for data analysis. The most preferred financial sector was commercial bank and non-financial sector was manufacturing and processing company. The major driving factor of investors to invest was future return and the highest impact on public response was rate of return of the company. The study didn't show any significant relationship between age, gender and income of the respondents. Income of the respondents had significant relationship with marketing and underwriting and no significant relationship with price of stock, rate of return and allotment model.

Shakya (2021) studied the influence of behavioral biases (Overconfidence, Anchoring, Disposition effect and Herding) on investment decision making of individuals. The data was collected through a structured questionnaire from the respondents of Kathmandu selected through convenience sampling. The statistical tools like mean, standard deviation, coefficient of variation, correlation co-efficient and Cronbach's' Alpha were employed to analyze the data. The findings of the study suggested that Overconfidence and Herding had a strong influence

on the investment decisions of individuals. The participants in the financial market were irrational in decision making process and their choices were limited. Overconfident investors believed that they were better investors than their peers and stock market index.

Budhathoki (2020) tried to assess the major determinants of decision making behavior of investors of Kathmandu valley in Nepalese stock market. Quantitative data was collected via a structured questionnaire from a sample of 120 respondents. Descriptive statistics, Regression analysis, T-test, F-test, etc. were used in the study. The findings of the study stated that the significant factors towards investors' investment decision in Nepalese stock market were personal attributes and social interactions. The investment decision was based on personal judgment formed from the advice of experts and close circle groups. They had underestimated the factors like company profile, regulatory policies and firm's image as they were less concerned about the fundamental analysis while making investment decision and instead went with their own judgments built from advice of financial analyst, stock brokers, family and friends.

A quantitative study on the investors' perception about IPOs in the Nepalese market was carried out by Bhatta (2019). The data was collected mostly of primary nature from 145 respondents affiliated to five distinct brokerage companies of Kathmandu district. The data was analyzed in Statistical Package for the Social Sciences (SPSS) using Descriptive and Inferential statistics; mean and standard deviation were used. In the same regard, correlation and regression analyses were also used to determine the direction of the variables as well as the effects of different factors on investment decisions, which would act as the dependent variable.

Hence, the factors with sub-factors and their analysis showed that an effect is brought about by factors like Quality management, Company Goodwill, Company performance, Company sector, and Market Information and they have a relationship where the general investor is perceived when it comes to the investment decision. This paper also found out that most investors in IPO are male, it could therefore be concluded that more males are interested in

investing in IPO. Domination in the share market of Nepal was also observed among the male individuals. The survey also defined the age of 25-40 years as the most appropriate for investment since it involves more activities and risk taking as compared to other ages. In terms of education, the vast majority of investors had a bachelor's degree or a higher one. Further, it was depicted that the most of the investors invested less than 10 thousand units of currency in IPOs.

Karmacharya (2018) conducted a study to find out the investors' response and preference towards IPO in Nepal. Descriptive and Analytical research design was implemented in the study. The data was collected from primary and secondary sources and Non-parametric statistical tool was used for the analysis of data. The findings of the study stated that the volume of trading amount and the number of shares traded of commercial banks had the highest stakes followed by insurance companies and development banks. Most of the investors invested in the stock in order to receive high return and made their investment decision based on the Profit/Loss trend of the company. Majority of respondents owned the share of the company as a source of income.

Pandey (2010) explored and examined the investors' response to Initial Public Offering. Descriptive and Analytical research design were used in the study. A sample of 150 respondents were distributed questionnaire and T-test, Chi-Square test were implemented in the study. Most of the respondents did not diversify their investment and invested in only single company. They were interested to invest in the financial sector in the commercial banks followed by development banks and finance companies. They were eager to know the promoters, company's performance before investment. IPOs handled by bigger brokerages were found to be more successful.

2.4. Research gap

Various researches associated with IPOs have been conducted across different countries in the world, but there is little research done in Nepal. This piece of research focuses solely on primary research evidence relating to the behavioral facet of the investors. Thus, the behavioral aspect of investor is investigated; thus contributing to the literature of behavioral finance this field of study that has been relatively neglected by Nepalese researchers. The current status of IPOs in Nepalese context has been discussed by some researchers, yet, none of the research studies can give the coherent and vivid picture of the IPOs and their practices in Nepal. In addition, various transmissions have occurred and new policies have emerged concerning IPOs. This study attempts to bridge this gap and examine the trends in the initial public offers such as investors' perception, the process, rules and regulation, changes, amendment and the relative impact or influence of these factors that may affect investment decisions. This research shall be relevant to public companies, issue managers, underwriters, investors, government, the general public, researchers, and other stakeholders in IPO. Comprehensive literature review looking at the stock market has been conducted, however, research on IPOs is scarce. Consequently, this paper aims to fill this gap and specifically examine the perception that general investors have towards IPOs of firms in Nepal. Thus, this study will be beneficial for the interested persons, researchers, students, teachers, the civil society and other interested parties, businessmen and government officials at the same time from the both academic and policy prospective.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the method and process to be followed during the research work (Kothari, 1990: 10). The chapter specifies the methodology, which was used to carry out the study to achieve the objectives stated in the study. It further explains the nature and sources of data, targeted population and sampling methods, instrument of data collection and methods of data analysis. The development of relationships between independent and dependent variables is facilitated by the research framework and aids in data analysis. The suitable methodology gives the proper guidelines to collect the accurate data and analyze the data to attain reliable findings and conclusion.

3.2. Research design

Research design is the framework of research methods and techniques chosen by a researcher to conduct a study. The research design serves as a framework for the study, guiding the collection and analysis of the data, the research instruments to be utilized, and the sampling plan to be followed. (Pant, 2005)

The study is majorly directed to study the perception and behavior of investors towards Initial Public Offering in Nepal. This study used quantitative data in a greater extent. Descriptive and Causal comparative research design has been employed to conceptualize the problems and to find out the result from statistical tools. Descriptive method was used to examine how public respond to IPO and their level of awareness in IPO and Causal comparative research design was used to identify and analyze cause and effect relationship between independent variables and dependent.

3.3 Target population and sample

The targeted population for the study was the people inhabitant of Kathmandu valley from various backgrounds such as college students, government employees, bankers who have invested in stock market through primary and secondary market.

The research is focused on the study of perception and behavior of investors towards IPO in Kathmandu valley. The total population for the study included all the investors who invested in IPO in Kathmandu valley from which 400 were selected as sample.

3.4 Sampling design

3.4.1 Sampling Frame

The sampling frame for this study was all investors from Kathmandu valley who invested in IPO.

3.4.2 Sampling Technique

The convenience and judgmental sampling was used to select samples of respondents of different age, gender and income criteria. Those techniques were applied to select the samples based on the accessibility, feasibility and convenience.

3.4.3 Sample Size

In order to obtain reliable findings, the sample size should be chosen appropriately to represent the total population. In this study a sample size of 400 was selected from the total population.

3.3.4 Nature and Sources of Data

The main source of data was collected through primary data to fulfill the research objective. This study used surveys to solicit investor's informed opinion. A questionnaire schedule was designed in line with data requirement and distributed to various respondents from the Kathmandu valley who had invested in IPO. Secondary data was collected from annual reports of Security Board of Nepal (SEBON).

3.5. Data collection instrument and procedures

A survey method was used to collect primary data via a structured questionnaire. A structured questionnaire was distributed to the respondents (students, businessmen, bankers, brokers and others) where 5-point Likert scale was used to measure the opinion of the respondents. The questionnaire was also distributed through google forms. The secondary data was collected through annual reports- NEPSE, SEBON and previous research studies- dissertation and articles on the subject.

3.6 Data processing procedure and data analysis method

Various descriptive statistical tools like Mean, Median, Standard Deviation were used to understand the data's central tendency, variability and distribution. The data collected from the respondents through questionnaires was coded into the SPSS and the final conclusion was drawn. Further, Inferential statistics analysis like Regression analysis and Pearson's Correlation Coefficient analysis were implemented to understand how changes in the independent variable affect the dependent variable and examine the cause and effect relationship between the variables respectively. The hypotheses were tested using the correlational matrix and regression model. The techniques used to analyze the data were Pearson Correlation coefficient, ANOVA, etc.

3.7 Research framework

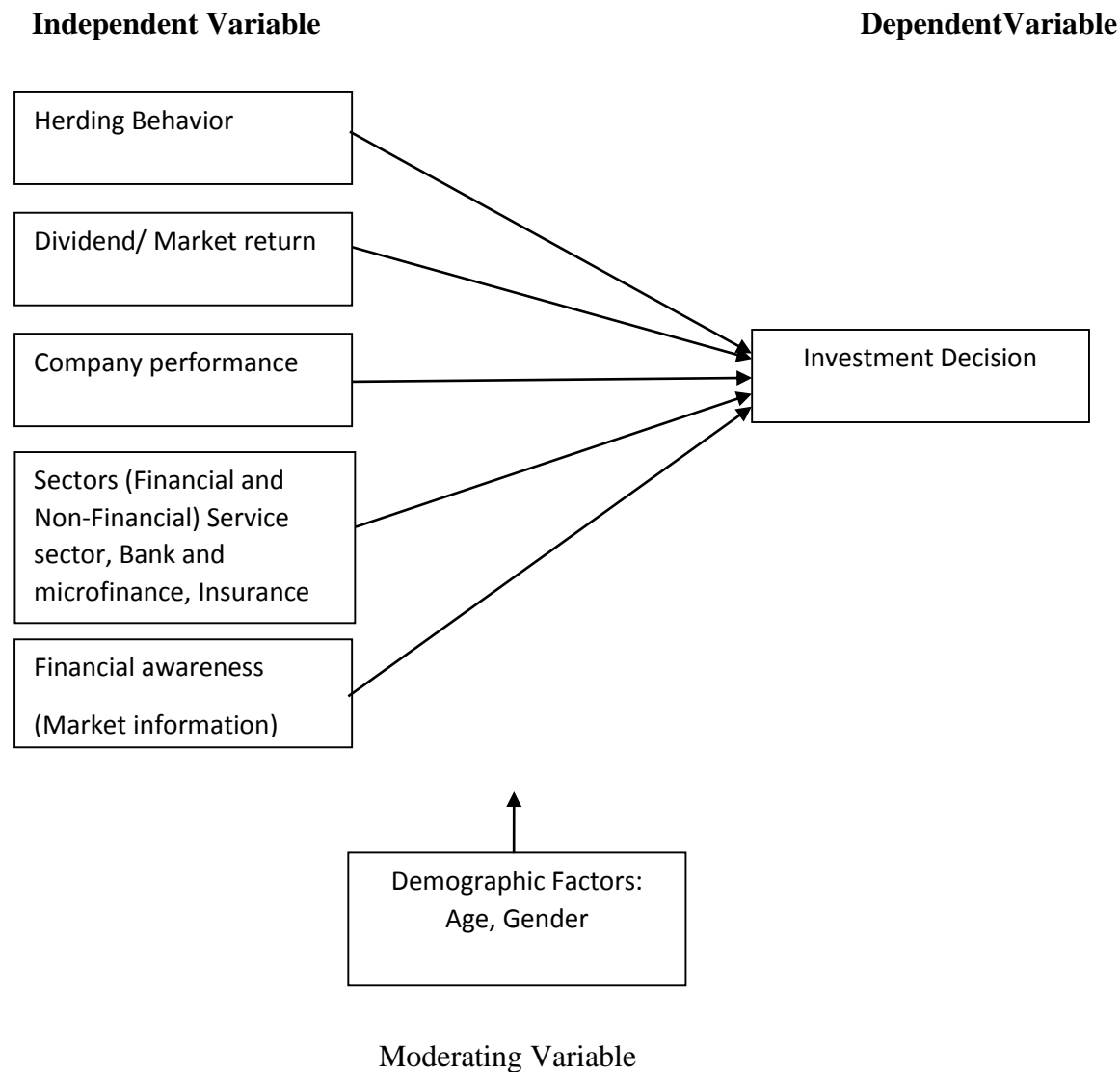


Figure 3.1: Theoretical Framework

Definition of Variables

Age, Gender

The various phases in the life cycle are called by age. Some considerations for protection programming include an understanding of where people in a particular country are in the life cycle, because their capabilities and requirements are different. This implies that a person's ability to exercise his or her rights can be affected, and can equally be boosted or cut down by

age. In terms of age, young investors recognize the relevance of behavioral finance without experience and education in this field, admitting that they are more susceptible to cognitive and emotional bias.

Gender refers to being male or female, and for the purpose of this research, it is a factor that influences investor risk tolerance because characteristics of a thrill seeker or sensation seeker are often seen more in men than women (Roszkowski and Grable, 2010). Furthermore, there is a strong cultural perception in our culture that more amounts of risk ought to be and are taken by man than by women (Daruvalla, 2007).

Dependent Variable

The variable that changes as a result of the independent variable manipulation is called a dependent variable. It is the outcome that is measured and it is dependent on the independent variables. The dependent variable for this study is ‘Investment Decision.’

Investment Decision

Investors are unique and their investment decision are personal depending on their knowledge, financial capability, time period whether short or long. Varying risk tolerances, capital, styles, preferences, and time frames are possessed by them. For instance, there are investors who would rather part with their cash to invest in securities, which have negligible risk, and therefore minimal yet guaranteed returns like certificates of deposit and certain bonds products. Additional risk might be taken on by other investors in an attempt to make a larger profit. These investors may invest in currencies or stocks, among others, as they negotiate many factors that easily fluctuate on any given day (Chen, 2021).

Investor perception is the way how an Investor defines something relating to something invested in. It has to do with opinions or concerns on the investment and the strategy on what he wants to invest in. Investor perception as much as it may differ from one person to another is more or less subjective in nature. Investors identified the factors which motivated and guided the investment decisions.

Due to their ability to participate in the making of decisions and observe the consequences, many people find investment thrilling. They are fully at liberty to make the investments and financial choices that makes them financially independent. However, because sometimes investors cannot make appropriate choices over the investment period, not all of them will be profitable. Some of the aspects that can be found in all investments include the aspect of risk and aspect of possible gain. As the degree of risk taken determines the degree of return that you stand to gain, it is essential to evaluate the tolerance level to risk because the future is uncertain (Pandian, 2011).

Independent variables

An independent variable is the variable you manipulate or vary in an experimental study to explore its effects. It's called "independent" because it's not influenced by any other variables in the study. So under this study following are the independent variables.

Herding behavior

Herding in essence refers to a situation in which many people choose to 'jump on the bandwagon,' or mimic a certain action instead of making their own decision based on personal information (Baddeley, 2010). Herding was mainly dealing with the reasons of the tendency to obey and replicate in the uncertain environment. Keynes conceived herding as a response to uncertainty and individuals' perceptions of their own ignorance: This may be so because an individual thinks that the rest of the crowd is more knowledgeable. (Keynes, 1930)

The evidence from binary choice experiments show that the decision to herd is associated with shorter decision times rather than longer ones, which suggests that it is either an instinctive, emotional response and/ or that the propensity to herd is a well-practised automated decision-making heuristic.(Baddeley, et.al, 2007)

Investors follows the decisions and information of the majority of people who have already done the investment rather than thinking rationally. The investors usually react quickly to the changes of other investors' decisions and follow their reactions to the stock market. Other investors' decisions of buying and selling stocks have an impact on the investors' decisions.

Their investment decision is majorly guided by other investors' decisions and overlook their own information on the subject matter.

Dividend/ Market Return

Dividend is a payment a company makes to share profits with its shareholders. Dividend is one of the major factors that reduces overall portfolio risk and volatility. Higher the market return like profit, stock or dividend, higher will be investment from investor. High dividend payment will make stock investment decision favorable. Investors are more drawn towards higher dividend and higher profit of the company which is one of the factors affecting the investment decision of the investor.

Company performance

Organizational performance is defined as the capacity of the position of the firm in the market as well as the performance of the firm to meet the need of the stakeholders (Griffin, 2003; Lo et al., 2015). Organizational performance can also be defined as the extent to which the operation of the system satisfies the performance targets (primary measures) and caters to the needs of the customers (secondary measures) (Slack, Chambers and Johnston, 2010). In the past, there was the use of various financial ratios including profit margins, return on assets (ROA), and return on equity (ROE) to describe the organizational performance. Company performance shows a direct correlation with the investment decision. They also equate better company performance such as higher percentage of price premium, per share earnings, return on investment, return on equity, declaration of dividends and capital appreciation to more investment. Higher ROE, ROA, dividend etc. focuses the investors towards the company and encourages more investment in the company is referred as sound company performance.

Sectors (Financial and Non-Financial)

Deposit institutions, including commercial banks, savings and loan associations (SandLs), mutual savings banks, and credit unions, are termed as financial institutions. Non-deposit

financial institutions, such as insurance companies, investment companies (mutual funds), brokerage firms, credit card companies, finance companies, and “alternative” financial services like payday lenders, pawnshops, rent-to-own businesses, and check-cashing outlets, are included. (Investment Management Book, 2021).

Financial sector refers to the portion of the economy that comprises of firms and institutions offering financial services and products to commercial and retail buyers. This sector includes a number of categories such as banking and personal investment firms, insurance and real estate firms. It was also identified that out of all the financial sectors of investment, Commercial bank sector is preferred by 50% investors, Finance companies by 21%, Insurance companies 20% and the remaining 9% investors have inclined toward development bank sector (Gnawali, 2021).

It means that the sectors of a company are positively related with the investment decision on its initial public offering. Public can apply IPO in many sectors like hydropower, manufacturing industries, insurance, banking, microfinance etc. This has revealed that sectors such as the banking and insurance industries have very high IPO response rates compared to other industries.

Financial awareness (Market Information)

Financial literacy means people’s ability to handle their personal and family finances, and how to make the right economic decisions. It informs about potential threats and benefits of financial operations. Increased finance awareness means more information about market, its prospect and forecast, risk and prospects of the new project which in turn means being able to invest better. Financially aware individual use various financial skills including personal financial management, budgeting and investing. They assess and analyze the company’s profile by using the correct knowledge of finances and make investment decision. Market information may be defined as the information in matters relating to the financial market. Market information in this case assists the investor in making the right decision regarding his investment and also assists to get the highest return on investment.

CHAPTER-IV

RESULT AND DISCUSSION

4.1 Results

This chapter therefore focuses on the results of the study and discusses the implications of the data findings. Some background information relating to the respondents and finally the results of the analysis in relation to the objectives of the study are highlighted. The findings were analyzed using descriptive analysis, causal comparative and regression analysis with reference to the data of the respondents presented in the table below. The findings were revealed on the basis of the survey and SPSS results to fulfil the research objectives. Data for this study has been gathered from the actual investors of Nepal.

Data Presentation and Analysis

Demographic Analysis

In this subsection, respondent demographic information is provided. They are the age and gender of the respondent.

Table 4.1

Cross Tabulation of Age and Gender wise profile

	Frequency	Percent
Female	211	52.8
Male	189	47.3
Total	400	100.0

(Source: Field survey, 2024)

As per Table 4.1 Gender of the Respondents, the study revealed that majority of the respondent as shown by 52.8 percent indicated that they were female whereas 47.3 percent of the respondent indicated that they were male. Total number of female are 211 and male are 189. This is an indication that both male and female were involved in this study, though not in equal

proportion. The finding of this study can be implemented to female investor because female investor occupied the maximum number in this study.

Table 4.2
Age of Respondent

Age	Gender				Total	
	Male		Female			
	Number	Percent	Number	Percent	Number	Percent
18-28	177	44.25 %	189	47.25%	366	91.5%
29-45	11	2.75%	21	5.25%	32	8%
Above 45	1	0.25%	1	0.25%	2	0.5%
Total	189	47.25%	211	52.75%	400	100%

(Source: Field survey, 2024)

From the Table 4.2, the study needed the respondent to be specific on his/her age and gender. And as far as the findings of this research are concerned, it was revealed that majority of the respondents, as 91.5 percent were aged between 18-28 years from which 44.25 percent were male respondent and 47.25 percent were female respondent. Likewise 8% of the respondent reported that they were in the age bracket between 29-45 years, out of which 2.75 percent were male and 5.25 percent were female. A further 0.5 percent of the respondent were aged above 45 from which 0.25 percent were male and 0.25 percent were female. This meant that respondents of the different age and gender categories were involved in this study. The age range of the major respondents for the study was between 18-28 years, therefore the findings represents that it can be generalized to a youngster or implement to the younger investor age of 18-28 year.

Position of Herd Behavior, Market Return, Company Performance, Company Sectors, and Market Information and Investment Decision

In this subsection, respondents' descriptive statistics are provided. Dependent variable and independent variables mean, standard deviation along with minimum and maximum values are provided. Total number of respondents were 400.

Table 4.3

Position of HB, MR, CP, CS, MI and ID

	N	Minimum	Maximum	Mean	Std. Deviation
Herd_Behavior	400	1.40	4.60	3.1370	.66794
Market_Return	400	1.00	5.00	3.8283	.82968
Company_Performance	400	1.00	5.00	3.6613	.67068
Company_Sectors	400	1.00	5.00	3.2870	.61235
Market_Information	400	1.00	5.00	3.6020	.81428
Investment_Decision	400	1.00	4.80	3.0345	.71202
Valid N (listwise)	400				

(Source: SPSS Output)(1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree, so higher mean is preferred or better)

As stated in the Table 4.3 The mean value of investment decision (dependent variable) is 3.0345 and its standard deviation is 0.71202. Similarly, the mean value of Herd Behavior is 3.1370 and its standard deviation is 0.66794. Mean value is near to 4 i. e. agree and scatteredness of data is less since S.D is less than 1. So, investor consider the Herd Behavior while doing in investment in IPO. Hence, Investor are aware about Herd Behavior while doing investment in IPO.

The mean value of Market Return is 3.8283 and its standard deviation is 0.82968.

Mean value is near to 4 i. e. agree and scatteredness of data is less since S.D is less than 1. So, investor consider the Market Return (Dividend, EPS) of a company while doing in investment in IPO. Hence, Investor were aware in investing decision while doing investment in IPO.

Likewise, the mean value of Company performance (CP) is 3.6613 and its standard deviation is 0.67068. Mean value is near to 4 i. e. agree and scatteredness of data is less since S.D is less than 1. So, investor consider the performance (ROI, ROE, and EPS) of a company while doing in investment in IPO. Hence, Investor were aware in investing decision while doing investment in IPO.

The mean value of Company sectors is 3.2870 and its standard deviation is 0.61235. Mean value is near to 4 i. e. agree and scatteredness of data is less since S.D is less than 1. So, investor consider the Company sectors (Micro finance, banking and insurance) while doing in investment in IPO. Hence, Investor were aware in investing decision while doing investment in IPO.

Similarly, the mean value of Market information (MI) is 3.6020 and its standard deviation is 0.81428. Mean value is near to 4 i. e. agree and scatteredness of data is less since S.D is less than 1. So, investor consider the Market information (Past trend, Knowledge, Future prediction) while doing in investment in IPO. Hence, Investor were aware in investing decision while doing investment in IPO.

Above results shows that investor considered herd behavior, market return, company performance, company sectors, and market information about companies while doing investment. So, the result indicates that maximum investor were well aware in investing decision while doing investment in IPO.

Table 4.4

Correlation between independent variables (HB, MR, CP, CS, MI) and dependent variable (ID)

	Herd Behavior	Market Return	Company Performance	Company Sectors	Market Information	Investment Decision
Herd Behavior	1	0.253	0.22	0.288	0.38	0.42
Market Return	0.253	1	0.69	0.457	0.339	0.142
Company Performance	0.22	0.69	1	0.395	0.418	0.216
Company Sectors	0.288	0.457	0.395	1	0.616	0.192
Market Information	0.38	0.339	0.418	0.616	1	0.31
Investment Decision	0.42	0.142	0.216	0.192	0.31	1

Correlation is significant at the 0.01 level (2-tailed). N=400,

Pearson correlation

The Table 4.4 Pearson correlation of Herd Behavior and Investment decision (dependent variable) was found to be positive and statistically significant at 1 percent ($r = 0.420$, $p < 0.01$). This shows that increase in herd behavior would lead to increase in investment decision of investors. Hence H1 is accepted.

(H1: There is positive relationship between herd behavior and investment decision.)

Similarly, Pearson correlations of Market Return and Investment Decision (ID) was found to be positive and statistically significant at 1 percent ($r = 0.142$, $p < 0.01$). Hence, H2 is accepted.

(H2: There is positive relationship between market return and investment decision.)

Likewise, correlations of Company Performance and Investment Decision was found to be positive and statistically significant at 1 percent ($r = 0.216$, $p < 0.01$). Hence H3 is accepted.

(H3: There is positive relationship between company performance and investment decision.)
Correlations of Company Sectors and Investment Decision was found to be positive and statistically significant at 1 percent ($r = 0.192$, $p < 0.001$). Hence H4 is accepted.

(H4: There is positive relationship between company sector and investment decision.)
Similarly, Pearson correlations of Market information and Investment Decision (ID) was found to be positive and statistically significant at 1 percent ($r = 0.310$, $p < 0.01$). Hence, H5 is accepted.

(H5: There is positive relationship between market information and investment decision.)
The results depicts that increase in independent variables (Herd Behavior, Market Return , Company Performance, Company Sectors and Market information) would lead to increase in investment decision of investors.

Impact of Herd Behavior, Market Return, Company Performance, Company Sectors, and Market Information on Investment Decision

This section presents the research findings to analyze the impact of all independent variables on determining financial behavior of investors. The major independent variables that affect the investment decision (ID) of investors are Herd Behavior (HB), Market Return (MR), Company Performance (CP), Company Sectors (CS), and Market Information (MI).

Table 4.5

Model Summary

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.462 ^a	.213	.203	.63556

a. Predictors: (Constant), Market_Information, Market_Return, Herd_Behavior, Company_Sectors, Company_Performance

The Table 4.5 shows that R square is coefficient of determination which tells us the variation in the dependent variable due to change in the independent variable. The value of R square was 0.213 which indicates that there was variation of 21.3 percent on investment decision due to

independent variables ((Herd Behavior, Market Return , Company Performance, Company Sectors and Market information), at 95 percent confidence interval. This shows that 21.3 percent of investment decision (dependent variable) is explained by all the independent variables. It means if the intervention is made in Herd Behavior, Market Return , Company Performance, Company Sectors and Market information changes to the investment decision by 21.3 percent.

Table 4.6
Analysis of variance

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	43.133	5	8.627	21.356	.000 ^b
	Residual	159.151	394	.404		
	Total	202.284	399			

a. Dependent Variable: Investment_Decision

b. Predictors: (Constant), Market_Information, Market_Return, Herd_Behavior, Company_Sectors, Company_Performance

The ANOVA findings shows the F-value is 21.356 and P-value is 0.000. Thus the model developed for test is fit for further processing. This indicates that Herd Behavior, Market Return , Company Performance, Company Sectors and Market information significantly influence investment decision (dependent variable). The P-value was less than 0.05 indicating that the model was significant or the model is fit.

Table 4.7**Impact of Herd Behavior, Market Return, Company Performance, Company Sectors, Market Information on Investment Decision**

Coefficients^a					
Model	Unstandardized		Standardized	T	Sig.
	Coefficients				
	B	Std. Error	Beta		
(Constant)	1.172	.228		5.144	.000
Herd_Behavior	.382	.052	.358	7.336	.000
Market_Return	-.075	.056	-.088	-1.353	.177
Company_Performance	.149	.068	.141	2.189	.029
Company_Sectors	-.030	.070	-.026	-.433	.666
Market_Information	.141	.053	.161	2.645	.008

a. Dependent Variable: Investment_Decision

Established regression equation was:

$$Y = 1.172 + 0.382X_1 - 0.075X_2 + 0.149X_3 - 0.30X_4 + 0.141X_5$$

Result revealed that Beta and P-value of Herd Behavior (HB) was ($\beta = 0.382$ and p-value = 0.001), Market Return (MR) was ($\beta = -0.075$ and p-value = 0.177), Company performance was ($\beta = 0.149$ and p-value = 0.029), Company Sectors (CS) was ($\beta = -0.030$ and p-value = 0.666) and Market information (MI) was ($\beta = 0.141$ and p-value = 0.008) so, this indicates that Herd Behavior, Company performance and Market information are significant with investment decision as their p-value was less than 0.05. It means that intervention in Herd Behavior, Company performance and Market information helps to make investment decision easier to investors. The results showed that a one-unit increase in Herd Behavior would lead to a 0.382 unit increase in investment decision keeping other variables constant. Similarly, one unit increase in Company Performance factor would lead to a 0.149 unit increase in investment decision, one unit increase in Market Information factor lead to a 0.141 unit increase in investment decision and so on. Whereas, the Beta and P-value of Market Return (MR) was ($\beta = -0.075$ and p-value = 0.177) and Company Sectors (CS) was ($\beta = -0.30$ and p=0.666), this indicates that Market Return and Company Sectors are not significant with

investment decision as their p-value was greater than 0.05. It means change in position of Market Return and Company Sectors changes the investment positively but insignificantly.

Market Return (MR) and Company Sectors (CS) insignificantly shifts the status position which implies that such changes do not influence investment decision. This meant that whether the market returned high or low or whether certain company sectors gain more attention or not, the choices made were consistent. This may suggest a long term objective in mind whereby investors tend to look for them and company performance rather than short term market movements or sector trends. They may also think that long-term adjustments of stock prices towards the fundamental values are quite normal while short-term turbulence is unimportant to them. Holders of capital may have been in possession of many securities across the broad categories and fields of investment. Such diversification can downplay effect, be it market shifts or a particular sub-sector occurrence on overall portfolio performance. So basically, the investors may have the investment discipline or the investment plan not which they keep implying even some form of short run changes in either the stock market or even the various sectors. Such a scenario could be grounded on traits like risk taking capacity, desired financial returns or even ratio of the assets to be invested.

4.2. Discussion

The study established the issue that investor considered the herd behavior, market return, company performance, company sectors and market information while investing in IPO. The findings made available revealed that the aspects considered most important by the investors include the return on the market, the performance of the companies and market information. Nevertheless, being investor's perspective, the company sectors and the herd behavior has turned out to be the least significant factor regarding the IPO investment. This shows that majority of investors focus more on the higher return that is available in the market, while few care about the impact of the herding behavior on their investment choice. There is a positive relationship between investment decisions and independent variables i.e., of herd behavior, market return, company performance, company sectors and market information. 21.3 percent of investment decision (dependent variable) is explained by all the independent variables

jointly (HB, MR, CP, CS and MI). The result revealed that that Herd Behavior, Company Performance, Market Information have statistically significant impact on investment decision whereas Market Return and Company Sectors have insignificant impact on investment. There is a slight negative relationship between Market return and Investment decision and Company sectors and Investment decision although the magnitude is very small.

The finding of the study is that majority of investors take market return into consideration when making investment decisions. Similarly, Vakil (2020) found in his study that the major investment reasons were higher returns, the company's profile, and its future expected growth in the form of dividend, earnings per share and Srinivas and Rao (2017) found that higher annual returns motivate investors towards investment in IPO. Likewise, Karmacharya (2018) found in his study that most of the investors invested in the stock in order to receive high return. Hence, the findings were found to concur with the findings of Vakil, Rao and Karmacharya. It may be so because investors are highly motivated by higher dividend and higher EPS.

The analysis of the result of the study showed that Investors use market information which has significant impact in their investment decisions. In the same way, Karmarcharya (2022) revealed that first market variable (past trend of stocks, market information) were positively and significantly affecting investment performance. This affirmed the perceived fact that the availability of market information plays a vital role in the investment process. The finding of the study is parallel with the Karmacharya.

The study established that there is positive relationship between company performance, market information and investment decision. Gnawali, (2021) concluded that there exists relationship between company performance, market information (independent variable) with dependent variable (investment decision). The study findings are consistent. It may be so because the respondents or investors mentality, decision making capacity, problem solving skills and bias may also be similar.

The findings of the study concluded that there is a significant impact of company performance and market information on investment decision of investors in IPO. Gnawali, (2021) from the research finding found that company performance and market information has significantly

positive impact on investment decision. Hence, the findings were found to concur with the findings of Gnawali, (2021). It is so because respondents may have similar risk-taking capacity, decision making capacity, problem-solving skills and Nepalese investors may consider same factors while taking investment decision.

According to the finding of the study, the least influencing factor while taking investment decision was herd behavior (following other investors' decisions rather than their own analysis). Budhathoki (2020) stated that the investment decision was based on personal judgment formed from the advice of experts and close circle groups. They went with their own judgments built from advice of financial analyst, stock brokers, family and friends. Therefore, findings of the study is consistent with findings of Budhathoki (2020) because investors might critically analyze different investment choices based on the market information and advice of financial analyst and friends.

The finding of the study revealed that only minority of investors follow others' advice and suggestions without proper market analysis while making investment decision however, Karmacharya (2022) concluded that an increase in herding variable has positive effect on investment decision which contradicts with the finding of the study.

CHAPTER-V

SUMMARY AND CONCLUSION

The chapter presented the discussion of key data findings, the conclusions drawn therein and summary from the study. The conclusions and recommendations drawn from the findings were mainly focused on addressing the objective of the study. The researcher had intended to determine the perception of investors towards IPO in Nepal.

5.1 Summary

The general objective of this study was to explore and examine investor's behavior towards Initial Public Offering or primary issue of shares issued in both financial and non-financial sector in Nepal. The study was steered by the following research questions:

What is the perception of IPOs in Nepal by investors?

What is the relationship between different factors (herding effect, market return, company performance, company sectors, financial awareness (market information)) and investment decision of investors?

What are the impact of different sectors (herding effect, market return, company performance, company sectors, financial awareness (market information)) on investment?

The research problem was studied through by the application of a descriptive and causal comparative research design. To test the hypothesis correlation matrix was used and regression model was used to determine the impact on investment decision of investor. The target population for this study includes all the investors who invested in IPO in Kathmandu valley. Survey questionnaire was utilized for data collection. A structured questionnaire was carefully designed and tested with a few members of the population for further improvements. This study collected primary data and the data was analyzed using descriptive and inferential statistics. Total 400 of the samples were selected for the study.

The study sought to access the perception of Nepalese investors towards IPO in Nepal. The study established the relationship between Herd Behavior, Market Return, Company

Performance, Company Sectors and Market Information and the study also sought to examine the impact of independent variables (Herd Behavior, Market Return, Company Performance, Company Sectors and Market Information) on Investment Decision (dependent variable). The result of the study found that there is positive relationship between independent variables (Herd Behavior, Market Return, Company Performance, Company Sectors and Market Information) and Investment Decision (dependent variable). The result revealed that Investment decision is influenced by all the independent variables. From the research findings, the study established that there is significantly positive relationship between dependent variable (investment decision) and independent variables (Herd Behavior, Company Performance, Market Information) and insignificantly negative relationship between Investment Decision and Market Return and Company Sectors.

5.2 Conclusion

This study has answered out all research questions which were raised in this study. This means the research objectives are done. Based on the findings of this study, recommendations have been given on the perception of investors towards Initial Public Offering (IPO) in Nepal. The limitations of the study as well as suggestions for further research have also been discussed basically, data are taken only from primary sources through questionnaire. The purpose of the research study was to explore the perception of the investor towards initial public offering (IPO) in Nepal.

The findings of this study affirmed that Market return influences the investment decisions to greater extent than Company performance and Market information do. When considering their investment options, they failed to consider Herd behavior and Company sectors. Some of the factor such as company sectors and the concept of herd behavior gives less impact in making investment decisions. Investors prioritized market return over the factors while taking investment decision. The reason behind it could be the investor seek to invest in those IPO which yield higher market return (increased price of share, higher dividend, higher EPS). Also, investors now a days investigate market information (past trend, future prediction and company's prospectus) of an issuing company to attain rational investment decision.

The positive correlation between Herd Behavior, Market Return, Company Performance, Company Sectors, Market Information and Investment Decision was evident through the

Investors are likely to be more inclined to make investment decisions as the factors improve or become more favorable. Herd behavior influence the investment decision positively and significantly while the influence of market return may not be much different and may fully be subject to a random chance. Market return does not show any significant correlation with the investment decision all the time.

All these three factors (herd behavior, company performance and market information) influence investment decisions, herd behavior tends to have the strongest influence, followed by market information and then company performance. All three factors are thus significant to a level that they cannot be occurred by mere random chance. Thus, in this particular study, “market return” and “company sectors” are the only variables that are not significant in the investment decision-making process. However, the interaction between these factors and investment decisions is low and it is insignificant at 0.05, meaning that such correlations could be due to chance.

Market related factors and company performance are placed as a significant factor while investing in IPO by the Nepalese investors while factors like company sectors and herd behavior are weighted less influential factor. The influence of herd behavior in investment decision is moderate to strong therefore the influence is statistically significant. This shows that investors are significantly influenced by the action of others while taking investment decision. Market returns in aggregate do not affect the investment decision. Another factor that does not affect investment decisions is the specific industry with which the companies are associated.

5.3 Implications

The purpose of the study is to analyze the factors which are Herd behavior, Market return, Company performance, Company sector and Market information of an investment decision of investor in Nepalese context especially within the developing country context. Thus, through the new empirical data introduced by the study, it contributes to the development of the existing knowledge on this topic. Hence, the recommendations based on the findings of this research study are as follows:

Managerial Implications

- i. The study can prove useful for the managers trying to develop the policies for the investments, having the idea on what drives investors to invest into IPOs.
- ii. Managers should target factors such as market return, company performance and market information because they are established to be key factors that investors consider when making an investment decision.
- iii. Considering the fact that a considerable number of respondents were 18-28 years of age, managers may develop specific plans to attract and engage young investors, understanding the function of IPOs used in attracting the youthful population,
- iv. Managers thus require to establish that all material information is well accessible to investors across the country since there is adequate usage of electronic devices for acquiring information. Information should be made reachable by the managers and financial activities should be informed to all over Nepalese market as everyone now possesses gadgets to access the information.
- v. As a result, managers should monitor the factors that affect perception of investors in the market such as market forces, company performance and market intelligence information. They should also take the initiative to mitigate/ leverage IPOs related risks and regulatory compliance/ evolving market expectations.

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APPENDICES

I am Riya Tandukar, an MBS student from Shanker Dev Campus. I am conducting graduate research project on the topic "**PERCEPTON AND BEHAVIOR OF INVESTOR TOWARDS INITIAL PUBLIC OFFERING (IPO) IN NEPAL**" in partial fulfillment of the requirements for the degree of Master of Business Studies (MBS). Your sincere and unbiased response will be highly beneficial and as such will be appreciated. The information provided hereby will be kept confidential and solely used for this research purpose.

Name: (Optional).....

Please tick one from each criteria group

Gender Male Female

Age Group 18-28 29-45 Above 45

Education High School Bachelor Masters

Occupation Self-employed Employee Students Others

Please express your level of agreement/disagreement with the following statements.

[Strongly agree = 5, Agree = 4, Neutral = 3, Disagree = 2, Strongly disagree = 1]

Statement	1	2	3	4	5
Herd Behavior					
I choose over collective information over my private/own information while investing in IPO.					
I usually react quickly to the changes of other investors' decisions and follow their reactions to the stock market.					
Other investors' decisions of buying and selling stocks have an impact on my investment decisions.					
Other investors' decisions of the stock volume have an impact on my investment decisions.					

Other investors' decisions of choosing stock types have an impact on my investment decisions					
Market Return					
Investors are willing to invest in IPO due to increase in price of share in short term.					
Higher Dividend yield of a company encourages to invest in the IPO of a company.					
Higher Earning per share motivates to invest in the IPO of a company.					
Company Performance					
I agreed that ROI make investor to invest in IPO.					
I considered that ROE make investor to invest in IPO.					
I believe that percentage price premium make investor to invest in IPO/FPO.					
I think that earning per share make investor to invest in IPO.					
Company Sectors					
I considered investing in financial sectors is more beneficial than non-financial sectors.					
I considered that investment in the IPO of banking sector is better.					
I considered that investment in Microfinance is better.					
I considered that investment in Insurance Company is better.					
I considered that investment in Hydropower Company is better.					
Market Information (MI)					
I considered that comment on media affect in investment in IPO.					

I considered the past trend of IPO, while investing in the IPO.					
I read the company's prospectus and also search online information about past press releases before investing in IPOs.					
I do investment in IPO only if I have sufficient knowledge about it.					
I considered that future prediction and forecast affect my investment in IPO.					
Investment Decision (ID)					
I considered that individual investor have more risk in IPO investment.					
I believe that IPOs are risk free form of investment.					
I think that IPOs are guaranteed way of making money.					
I do not usually invest more in IPO because it needs lots of patience in its return and results.					
I do not usually invest more in IPO because it takes a lot of time for allotment.					

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