

PUBLIC RESPONSE TO INITIAL PUBLIC OFFERING (IPO) IN NEPAL

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RECOMMENDATION

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DECLARATION

I hereby declare that the work reported in this thesis entitled " Public Response to Initial Public Offering (IPO) In Nepal" submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Studies (M.B.S.) under the supervision of **Achyut Raj Bhattarai** for Shanker Dev Campus, Tribhuvan University.

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.....

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LIST OF ABBREVIATINS

ADB	Asian Development Bank
AGM	Annual General Meeting
BOD	Board of Directors
BOK	Bank of Kathmandu Limited
BPL	Butwal Power Limited
CIT	Citizen Investment Trust
CMB	Capital Merchant Banking and Finance Limited
CMBL	Capital Merchant Banking and Finance Limited
CRO	Company Registrar's Office
DCBL	Development Credit Bank Limited
EBL	Everest Bank Limited
EICL	Everest Insurance Company Limited
FFCL	Fewa Finance Company Limited
FY	Fiscal Year
GDP	Gross Domestic Product
HBTFLL	Harisiddhi Brick & Tile Factory Limited
HGICL	Hmalayan General Insurance Company Limited.

ILFC	International Leasing and Finance Company Limited
IPO	Initial Public Offering
KBL	Kumari Bank Limited
LICL	Life Insurance Corporation (Nepal) Ltd
MOF	Ministry of Finance
MOU	Memorandum of Understanding
NAL	Necon Air Limited
NBB	Nepal Bangladesh Bank Limited
NBB	Nepal Bangladesh Bank Limited
NCC	Nepal Credit and Commerce Bank Limited
NCML	NIDC Capital Markets Limited
NDBL	Nepal Development Bank Limited
NEPSE	Nepal Stock Exchange Ltd.
NFCL	National Finance Company Limited
NFDCL	Nepal Film Development Corporation. Limited
NHL	National Hydropower Limited
NIB	Nepal Investment Bank
NLL	Nepal Leaver Limited
NMB	Nepal Merchant Banking & Finance Ltd.
NRB	Nepal Rastra Bank
NUBL	Nirdhan Uthhan Bank Limited

NYSE	New York Stock Exchange
OHL	Oriental Hotels Limited
PDBL	Pachhimanchan Development Bank Limited
PICL	Premier Insurance Company Limited
Rs.	Rupees (Nepalese currency unit)
RTS	Registrar to Share
SEBON	Securities Board, Nepal
SEC	Stock Exchange Center
SHL	Soltee Hotel Limited
SICL	Sagarmatha Insurance Company Limited
TRHL	Taragaun Regency Hotel Limited
UICL	United Insurance Company Limited

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CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Initial public offering (IPO) occurs when a security is sold to the general public for the first time, with the expectation that a liquid market will develop. An IPO can be of any debt or equity security. Most companies start out by raising equity capital from a small number of investors, with no liquid market existing if these investors wish to sell their stock. If a company prospers and needs additional equity capital, at some point the firm generally finds it desirable to "go public" by selling stock to a large number of diversified investors. Once the stock is publicly traded, this enhanced liquidity allows the company to raise capital on more favourable terms than if it had to compensate investors for the lack of liquidity associated with a privately held company. Existing shareholders can sell their shares in open-market transactions. With these benefits, however, come costs. In particular, there are certain ongoing costs associated with the need to supply information on a regular basis to investors and regulators for publicly traded firms. Furthermore, there are substantial one-time costs associated with initial public offering that can be categorized as direct and indirect costs. The direct costs include the legal, auditing, and underwriting fees. The indirect costs are the management time and effort devoted to conducting the offering, and the dilution associated with selling shares at an offering price that is, on average, below the price prevailing in the market shortly after the IPO. These direct and indirect costs affect the cost of capital for firms going public.

Capital market plays a vital role in the developing nation's economy. The proceeds from sale of securities in the secondary markets do not go to the organizational issuer instead to the initial owners (sellers) of the securities. This is the first issue market that attracts investors to invest in the shares of the issue companies. The secondary market comprises the organized security exchanges and a specialist facilitates the transaction. The primary share market is the market for new issue of securities. The success of the capital market

depends on primary market and this ultimately provides a basis for multiple transactions in secondary market. It is the media through which new financial assets are issued or generated. After securities have been purchased from the primary market, they can be traded in the secondary market. The major of all capital market transaction occur in the secondary markets. Nepal Stock Exchange Limited (NEPSE) is only the secondary market in Nepal.

The Security Exchange Centre issued 62 companies' shares from the year of its inception to 1999 A D. Among these 23 companies were undersubscribed including Nepal Med. Ltd., Nirmod Pharmaceuticals Ltd, Harisiddi Brick and Tile Ltd., Himgiri Textile Ltd, Banswari Leather and Shoes Factory Ltd., Nepal Awas Bikash Bitta Company Ltd., and Yeti Finance Co. Ltd. etc. Although the secondary market was non-functional and public were not fully aware of on the working of the capital market. The public response to the new issue of shares of selected companies like bank and finance companies were overwhelming.

Security Exchange Centre was converted into Stock Exchange Limited in 1994, and under its support, the broker system of secondary market was establishes. Until December 2009, out of 32 brokerage firms, 23 firms are doing their job regularly. Nepal Stock Exchange Limited is a non profit organization. It operates under Security Exchange Act 1983. The basic objective of the Nepal Stock Exchange Limited is to impart free marketability and liquidity to the government bonds and corporate securities. With the establishment of full fledged Stock Exchange, the shares, which the public had held for decades, become liquid.

Capital market is gaining business attention since last few years. The NEPSE index, which shows the stock price trend of all the listed securities in the stock market, has been increasing in the recent fiscal years. Hence, the general investors are very keen to make investment in the securities of the companies, through both primary and secondary markets. In primary market, the investment is made through public issues of ordinary

shares, preference shares, debentures and right shares as well as mutual fund and unit's scheme.

Keeping these views into the consideration the study focuses on the response towards public offering by investors. It is also based on the dealing process of primary market. It also focuses on what investors want in IPO before they invest their sector performance, knowledge, ultimate goal for investment, sources of information etc.

1.2 Statement of the Problem

Nepalese capital market is very small in comparison with other developed stock markets. There are a few numbers of brokers, limited number of listed companies, very few transactions and most importantly investors are unknown about the pros and cons of the stock market. If there occur a single malpractice in the functioning of securities market, the whole capital market may damage the national economy badly and if once the investors confidence were lost it would very difficult to bring it in original condition.

Therefore, many problems are found in the field of public offering in Nepalese stock market rather than other developed countries.

In the current situation single investor can apply hundreds of application showing dummy names. As a result they can capture large number of shares. When a single investor captures large number of share, he can influence the company management and stock price too.

Besides these, there are other factors, which slow down the pace of stock market growth in Nepal. They are:

- Unfavourable macroeconomic conditions,
- Political instability,
- Unconfident investors,
- Weak tax system and slow privatization process,
- Lack of institutional investors,

- Lack of trained and qualified manpower,
- Insufficient knowledge of investors about the security market.

But among these which is/are the main factor to define the market are still questions to be answered. Keeping these views into the consideration this study focuses on the following research questions:

- What is the situation of primary market issues in Nepal?
- Is there the same status of the primary market growth in Nepal sector wide as well?
- How the Nepalese investors show their responses to the primary market issues?

1.3 Objective of the Study

The major objective of the study is to focus on the public response to the initial offerings or primary issues of shares in Nepal. The specific objectives are:

- To analyze the current situation of primary market issues
- To analyze the sectoral growth of primary market
- To analyze the investor response to initial public offering

1.4 Significance of Study

This study is being undertaken to evaluate the problem and prospect to Nepalese primary share market. Stock market recognizes the situation of countries. When stock market is booming, the economy is good and when market is declining, the economy is bad. IPO is one of the crucial factors in every organization and initial public offering decision is one of the most important decisions. This study might serve to be crucial information for these respective institutions taken as sample for the study in IPO procedure. This research will be significant for the following way:

- In Nepal, there is still lack of study about initial public offering. Therefore, this study is expected to be helpful for the general investor and the organizations that directly or indirectly related in Initial Public Offering.
- This study may assist to formulate the policy. It may be able to know the reasons for constant fluctuation in Initial Public Offering in Nepal. It also helps to find out the financial status of publicly going companies. From this research, policy makers will get the knowledge of practical existing rules and regulation.

1.5 Limitations of the Study

The study is carried out for the partial fulfilment of Master in Business Studies programme of Tribhuvan University. It focuses to analyze certain aspects of primary share market in Nepal. Studies and references are limited in the perspective of Nepalese capital market. The other limitations are:

- Basically, data are taken from secondary Sources. Therefore, the accuracy of research depends upon its reliability.
- The data are used only up to the fiscal year 2008/09.
- Variations of data in itself are also found when comparing with different sources.
- Many factors affect the Initial Public Offering process though it is not possible to study all factors, this study will be limited to the study of only following factors:
 - Issuing company,
 - Issue managers,
 - Government body and
 - Legal provisions are analyzed.

1.6 Organization of the Study

The study is organized into five chapters, each devoted to some aspect of the study of initial public offering followed by financial institutions in Nepal. The fields of each of these chapters are as follows:

Chapter -I

This chapter contains the introductory part of the study, this chapter describes the general background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

Chapter -II

This chapter is devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies.

Chapter -III

This chapter includes the research methodology employed in the study. This deals with the nature and sources of data, list of the selected companies, the model of analysis, meaning and definition of statistical tools.

Chapter -IV

This chapter deals with the presentation and analysis of both primary and secondary data by using mathematical and nonmathematical tools and it deals with major finding of the study.

Chapter -V

This chapter incorporates summary, conclusion, and major finding of the study. The bibliography and annexes are incorporated at the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Conceptual Framework

There are numerous reasons that cause the public response in an IPO. Of them are economic and non-economic and other factors. The price of securities are typically very sensitive, responsive to all events, both real and imagined, that cast light into the murky future (Cooter: 1967,1). Though all factors give rise to the observed movement of share price, it would be very hard to find a completely accepted price formation theory. Now-a-days the investment sector is getting flourished in recent years as other economic sectors. Today, most of the developing countries are boosting their economic developments through the contribution of their investment sectors.

2.1.1 Historical Background of Capital Market in Nepal

Flotation of share by Biratnagar Jute Mills Ltd. in 1937 was the first public issue in Nepal. Nepal Bank Ltd. and many other companies also issued share to public during that period. The history of securities market thus goes back to almost seventy years, but the actual development of the market took momentum only after the restoration of multiparty democracy in the country in 1990. However, the introduction of the Company Act in 1964 and the first issuance of Government Bond in 1964 were some steps taken towards developing securities market during 1960s. One of the significant developments relating to capital market was the establishment of Securities Exchange Centre Ltd. in 1976.

The main objectives of establishing Securities Exchange Centre was to promote and facilitate the growth of capital markets in Nepal. For about seventeen years, it was the only capital market institution undertaking the job of brokering, underwriting, managing public issues, market making for government bonds and other financial services.

2.1.2 Financial Market

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

2.1.3 Money Market

Money market activities include primary and secondary market activities in short-term negotiable instruments such as Treasury Bills, Government Bonds, Certificates of Deposit, Banker's Acceptances and Commercial Paper or Promissory Notes. Merchant bankers are usually users and market-makers (dealers), rather than brokers in these types of paper.

In theory, the money market is different from the capital market. In practice, however, in most countries with efficient financial markets (that is, the money market and the capital market combined), the merchant banks are active in both. This is a simple function of the fact that a negotiable money market instrument for all practical purposes is simply a shorter-term capital market instrument. Therefore, the techniques and facilities needed to operate in the money market are essentially the same as those needed to operate in the capital market.

(Gitman, 1988:30).

2.1.4 Money Market in Nepal

The money market is founded on the large amounts of funds, which companies, banks and other financial institutions wish to hold in highly liquid form to meet short-term fluctuations in their finance. Generally, the money market is divisible under two sectors-organized and unorganized. The organized market comprises Nepal Rastra Bank (the central bank of Nepal) and commercial banks. It is called organized because the activities of commercial banks are systematically coordinated by the central bank. The unorganized market is largely made of indigenous bankers and moneylenders. It is unorganized because Nepal Rastra Bank does not systematically coordinate the activities of these indigenous bankers and money lenders.

Nepalese money market is not well developed in terms of securities dealt with and institutions involved in the market. Institutions that deal completely on money market instruments are absent. Similarly, many of the instruments which are popular in developed money market like commercial paper, and bankers acceptances, have not yet entered the Nepalese money market. Therefore, the institutions that operate in the money market are basically Nepal Rastra Bank and commercial banks and instruments dealt are treasury bills, commercial bills and short-term bank loan.

Treasury bill market is a major component of money market in Nepal, started in the year 1961-62. Since then, it has been an important source of short-term fund for the government except for few years taking from 1968 to 1974. But, because of low yield and absence of active secondary market with brokers, it remained mostly at the hand of the central bank. The holding of Treasury bill by commercial banks, though it was counted for the purpose of statutory liquid ratio, was uneven in the past particularly because of low yield. The interest rate was five percent until mid-November 1988. Since

then the rate is determined through auction in the market. The weighted average (annualized) ratio on 91-day Treasury Bill increased from 5.2 percent in 1988/89 to 10.93 percent in 1995/96 and again declined to 2.33 percent in 1998/99. It then slightly increased to 4.96 percent in 2000/01. Treasury bills are being held mostly by commercial banks. The role of other institutions is still insignificant in Treasury bill market.

Commercial banks are major borrowers and lenders in the short-term money market. Although, commercial banks have been dealing with commercial bills since long, the bill market has its position as underdeveloped in Nepal. Only a small amount of commercial banks' lending is against export and domestic bills and larger amount is invested in import bills and letters of credits and purchase of export bills. For examples, commercial banks lending in bill finance including letter of credit were Rs. 544 million in mid-July 1980, which increased to Rs. 1,406 million in 1990 to Rs. 11,802 million in 2001. It accounted 19.62, 11.92 percent and 10.46 percent of the total loan and advances made by commercial banks in the respective years. The development of genuine bill market is beneficial both to borrowers and to lenders in a number of ways. For example, bills are normally self-liquidating and therefore offer greater liquidity to the holders. To the banks and financial institutions, it provides higher return than in treasury bills, and for borrowers, it costs less than under cash-credit system. A well-developed bill market also helps in generating liquidity throughout the financial system. But Nepal has long way to go to realize the full advantage of bill market because it still lacks institutions like 'discount houses' and 'acceptance house' and traders prefer cash credit form of short-term financing.

Besides treasury and commercial bills, short-term credit by commercial banks also forms another important part of money market in Nepal. Though short-term credit has not fully developed to encourage growth of money market in Nepal, even then it has been the convenient vehicle for lending and borrowings. This type of finance was largely the monopoly of commercial banks in the past but in recent years, NIDC and other development banks also provide such finance. (Pradhan, 1994:56)

In Nepal, money market is in initial phase. It is underdeveloped in terms of securities dealt with and institutions involved in the market. Many money market instruments and institutions are still absent in Nepal. Treasury bill market and short-term credit by commercial banks form important components of money market. The commercial bill market is evolving steadily and slowly.

2.1.5 Capital Market

The capital market is defined as a place where finance is raised by companies for meeting their requirement of funds for new projects, modernization and expansion programmes, long-term working capital needs and for various other purposes. The capital market mobilizes savings of individuals as investment in shares, debentures, Units of mutual funds and other like financial instruments, which are ultimately deployed for productive purposes in various sectors of the economy. (Weston and Bringham, 1998:256)

A place where long term lending and borrowing takes place is known as capital market. The capital market is the market for long-term loans and equity capital. Companies and the government can raise funds for long-term investments via the capital market. The capital market includes the stock market, the bond market, and the primary market. Securities trading on organized capital markets are monitored by the government; new issues are approved by authorities of financial supervision and monitored by participating banks. Capital market refers to the links between lenders and borrowers of funds, arranging of funds-transfer process to seek each other's benefit.

Capital market consists of the various suppliers and users of long term finance. It is differentiated from the money market which embraces short-term finance. The capital market serves as a link between suppliers and users of finance. It is a mechanism for the mobilization of public savings and channeling them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide

term embracing the buyers and the sellers of securities and all those agencies and institutions which assists the sale and release of corporate securities. (Weston and Bringham, 1998:257)

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

The capital market also comprises two segments – the new issue of market that is commonly known as the primary market and the secondary market where already issued securities are traded. For the purpose of this manual, only primary market would be dealt in detail. (Weston and Bringham, 1998:257)

2.1.6 Capital Market in Nepal

The history of capital market in Nepal dates back to the era of Rana Prime Minister Juddha Shamsher when Gunjaman Singh, the first secretary of Nepalese Embassy in England returned back to Kathmandu and set up the "Industrial Council." Nepal Bank Ltd. issued the shares in the securities market in 1937. The first issued of government bond in 1964 was important developments relating to capital market. The government first established Securities Exchange Centre (SEC) in 1976. After the establishment of SEC under Company Act, institutional development of securities market in Nepal was started. It started secondary market for the corporate securities in 1984. (Pradhan, 1998:59)

Securities Board of Nepal (SEBON) was established on 26 May 1993 after the first amendment in the Securities Exchange Act 1983. On 16 May 1993, after eighteen years of incorporation, the government converted Security Exchange Centre into Nepal Stock Exchange (NEPSE). After the conversion of SEC into NEPSE, 25 brokers and 5 market makers were appointed. It started 'open cry out system' of trading through broker and market maker on 13th January 1994. Presently, NEPSE has 23 brokers and 18 issue managers. There are 163 listed companies.

Although, the growth of stock market is highly relative to the growth of economy, the contribution of corporate sector in the economy is still low due to negligible size of corporate sector. There should be automation for the efficient trading of the securities in the security market. Nepal Stock Exchange should also go towards automation.

2.1.7 Different between Money Market and Capital Market

<u>Basis or Difference</u>	<u>Money Market</u>	<u>Capital Market</u>
1. Time Period	This is the type of market which is meant for a short term securities. A money market typically involves financial assets that have a life span of one year or less.	This is the type of market which is meant for a long term securities. A capital market typically involves financial assets that have life span more than 1 year.
2. Liquidity	This type of market involves highly liquid.	This type of market involves less liquid than money market securities and debt.
3. Types of securities	Money market deals only with debt securities (short-term debt).	Capital market deals both with stock and debt securities (long-term debt) stock involves both common stock and preferred stock and long term debt involves debenture or bond.
4. Risk	Money market deals with low risk security.	Capital market deals with high risk security.

5. Instruments:	Money market instruments includes T-bills, commercial papers, bankers acceptance, etc.	Capital market instruments include debenture (bond), common stock, and preferred stock.
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(Pradhan, 1998:59)

2.1.8 Security Market

Security market sets a price for the securities it trades and makes it easy for people to trade them. Securities market facilitates the sale and resale of transferable securities. The security market can be defined as a mechanism for bringing together buyer and seller of financial assets to facilitate trading. Securities market is classified into two; the market in which new securities are sold is called the primary market and the market in which existing securities are resold is called the secondary market. Secondary markets are created by brokers, dealers and market makers. Brokers bring buyer and seller together with themselves actually buying or selling; dealers set price at which they themselves are ready to buy and sell (bid and ask price respectively). Broker and dealer come together organized market or in stock exchange (Gitman, 1992:457).

Securities are traded in a market called securities markets. Although, securities markets are concerned in few locations, they refer more to mechanism, rather than to place, designed to facilitate the exchange of securities by bringing buyers and sellers of securities together. In other words, people and organizations wanting to borrow money are brought together with those having surplus funds in the securities markets. Securities, such as equities, short and long term debt instruments, derivatives etc are the products that are traded in the markets, institutions such as investment bankers and security firms, securities issuing institutions such as government and corporate bodies and the participants of the securities markets. Securities markets major function is to provide line between saving and investment there by facilitating the creation of new wealth.

Securities markets covers both primary and secondary. The difference between the two markets is, the primary market consists of the companies making the issue of securities and the members of the public subscribing to them. Whereas, secondary market involves the purchase and sale of securities already issued to the general public and is traded in the stock exchange. The primary market also comprises the offer of securities to the existing shareholders of the company on right basis.

This study is only concerned with initial public offerings so, it deals with the process and activities incurred in rising of funds from the primary market. The operation of the secondary market, though is an important operation scope of the merchant banking, is not covered in this manual. Primary market and the secondary market are present in both the capital market and the money market. (Gitman, 1992:458).

2.1.9 The Primary Market

The primary markets are media through which new financial assets are issued or generated. They the media through which the demands and suppliers of today's fund the creators and acceptors of financial claims meet. In these primary markets financial assets are created and exchanged satisfying in the part of financial needs of both demands and suppliers of today's fund. It is the market for direct issuance of government securities. The primary market of country is dominated by the government securities due to the existence of insignificant new issue market for industrial securities.

In the definition of primary market made above an addition is to be made. That is, depending upon the company offering securities for the first time or in succession, primary market can have public offerings as initial public offerings or the successive public offerings or so on. (Gitman, 1992:459).

2.1.9.1 Characteristics of Primary Share Market:

Characteristics of primary share market are as follows:

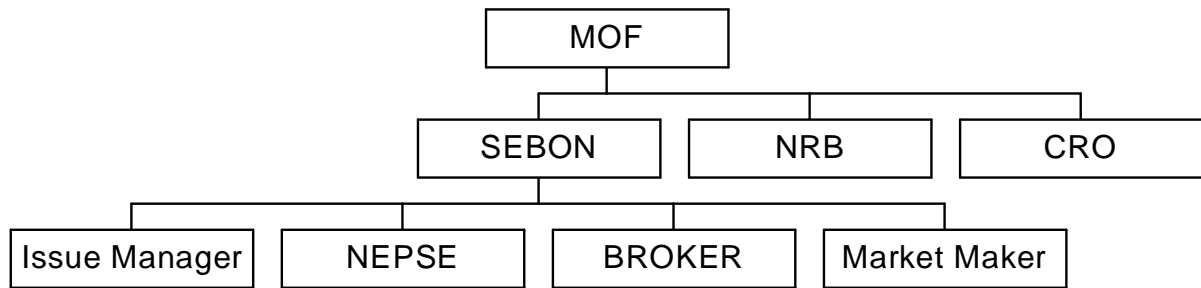
-) The new securities are traded in primary market.
-) Primary market makes the financial capital available to make new investments in building equipment and stock of necessary goods.

-) The transactions are less in primary market.
-) Buying security in primary market is less risky.

2.1.9.2 Regulators of Primary Market in Nepal

The regulators structure of primary market been shown in the figure below.

Regulator of Primary Market



(SEBON Annual Report, 2009:58)

Among them SEBON is the main regulator, which has an active role to regulate the primary market as well as CRO.

2.2 Public Offerings

It is the raising of long-term funds for governments or corporation from a fund sufficient public group in the primary market. The most important aspect of public offerings is its role as the single most effective means by which government and corporate entities can obtain long-term (debt or equity) on a permanent basis. It not only permits them to broaden their sources of finance beyond the banking system but also the banking system is usually a short-term or medium-term floating rate lender. The securities market is often the only means of obtaining large sums of fixed rate, long-term funds.

2.2.1 Advantages of an IPO

As discussed above, the primary reasons for conducting an IPO are to raise money and to create liquidity for investors. There are also important incidental benefits to going

public. Objective benefits include (i) obtaining a readily ascertainable market value for the company's stock, (ii) the ability to make acquisitions through the payment of securities rather than cash, (iii) greater access to financing through commercial lending, (iv) greater access to the financial markets for follow-up offerings, and (v) heightened name recognition and prestige among customers and suppliers. Less objective benefits are the sense of success and accomplishment that accompanies a successful IPO and becoming a publicly traded company.

2.2.2 Disadvantages of an IPO

The major disadvantage to becoming a publicly traded company may be compliance with the act reporting requirements. While registering under the act is quite simple, the periodic and event-based reporting obligations under the act require a significant amount of time and expense. In addition, the act obligations will compel disclosure of information that the issuer, its directors, management and controlling stockholders might otherwise want to keep to themselves. Financial and business information, executive compensation, transactions between the company and its directors, management and major stockholders, and certain employee benefits must all be disclosed in reports filed with the SEC, mailed to the stockholders, and made available to the public upon request. Directors and officers, as well as major stockholders, also must file reports with the SEC disclosing most transactions in the company's securities. Also, the failure to accurately make such reports may result in civil or criminal penalties.

The direct financial costs, including legal, accounting and printing fees, of conducting an IPO and of being a publicly traded company are substantial, as are the indirect costs of the time required to be spent on these matters by management.

Also, the management and governance of a publicly traded company is more difficult and less flexible. The solicitation of stockholder votes on any matter is strictly regulated under the act, and rules of the exchange on which the securities are listed require certain

matters to be approved by stockholder vote even if not otherwise required by state law. Additionally, because of pressure to raise the price of the company's stock, management may feel persuaded to adopt policies aimed at achieving short-term results rather than long-term goals.

2.2.3 Timing of an Initial Public Offering

Obviously, not all companies that would like to go public are in a position to do so. Factors relevant to a company's ability to successfully close an IPO include (i) its past financial performance, its financial projections for the future, and its ability to generate consistent increases in revenues and earnings, all of which are crucial for a public company to survive in the market place, (ii) the experience and depth of the company's management team, (iii) a solid product position in the market with growth potential, (iv) a focused mission set forth in a well written business plan to present to prospective underwriters, and (v) attorneys, accountants and public relations firms experienced in working with the SEC. Especially in the case of technology-based companies, the determining factor in the success of an IPO may ultimately be the receptivity of the stock market to new issuances in a Company's particular industry at the time that the IPO is undertaken.

The company will have to satisfy the underwriters that all of the above criteria are met, and even then the underwriter may insist on changes to the company's capital structure as a condition to its engagement. For example, the underwriters might require the company to affect a reverse stock split prior to the closing of the IPO in order to price the shares being offered in a typical IPO price range. If the underwriters do not feel that the company is offering a sufficient number of shares to ensure an acceptable "float" of publicly traded shares, they might require that certain stockholders participate in the offering by selling some of their own shares (a "secondary offering"). The underwriters might also insist on fundamental changes in the company's means of conducting its business as a condition to its engagement, such as the cessation of insider transactions

and perceived conflicts of interest and the appointment of outside directors. Companies which are not willing to make such changes may not be able to attract an underwriter willing to manage the IPO.

If the issuer belongs to a certain industry that is particularly attractive to investors at the time of the proposed IPO, it will have more leverage in choosing and negotiating with an underwriter. Conversely, if market conditions are unfavorable at the time of the offering, the issuer will have less flexibility in how the deal is structured and may have to postpone the IPO altogether.

2.2.4 Primary Market Instrument

After the establishment of Securities Board of Nepal in 1993, the following instruments have been used by the Nepalese corporate bodies to raise capital from primary market.

2.2.5 Common Equity / Stock

These are the offerings that entitle the holders or the buyers of the offerings the stake on the equity of the issuing company. In addition, they are entitled to:

- Voting right at the general meetings of the company and have the right to control the management of the company.
- Right to share the profits of the company in the form of distribution of dividend and bonus shares.
- In the event of the winding of the company, equity shares capitals are repayable only after repayment of the claims of all the creditors and preference shareholders.

2.2.6 Preference Shares / Preferred Stocks

Preference shares capital mean, in the case of a company limited by shares, that part of the capital of the company, which

- Carries a preferential right to payment of dividend during the lifetime of the company;
- Carries, on a winding up, a preferential right to be repaid the amount of capital paid-up.

The different types of preference shares are:

- Cumulative Preferred stocks
- Non-cumulative Preferred stocks
- Redeemable Preferred stocks
- Non-redeemable Preferred stocks
- Convertible Preferred stocks

2.2.7 Bonds / Debentures

Debenture includes debentures stock, bonds and any other securities of a company, whether constituting a charge on the assets of the company or not. Debenture is a document that either creates a debt or acknowledges it, and any document, which fulfils either of these conditions, is debenture. The characteristic features of a debenture are as follows:

- It is issued by the company and is in the form of a certificate of indebtedness.
- It usually specifies the date of redemption. It also provides for the repayment of principal and interest at specified date or dates.
- It generally creates a charge on the undertaking or undertakings of the company.

The different types of debentures are:

- Secured debentures
- Unsecured debentures
- Redeemable debentures

- Perpetual debentures
- Convertible debentures

2.2.8 Warrants

The warrant gives a right to the holder to obtain equity shares specified in the warrant after the expiry of a certain period at a price not exceeding the cap price specified in the warrant. The warrant is a tradable and negotiable instrument and is also listed on the stock exchanges. It comes in different forms, mostly:

- Bonds with warrants
- Preferred stocks with warrants

Beside these instruments there is other instrumental mix available to the investment bankers to provide to the primary market investors. But, these are beyond the scope of this manual to describe. (Gitman, 1992:429)

2.2.9 Initial Public Offering (IPO) Manual

Initial Public Offerings (IPO) manual is the detail procedure of handling Initial Public Offerings of the companies seeking “going public” for the first time. This manual outlines all the activities and steps that have to be observed by all issuing companies and issue managers in respect to Initial Public Offerings (IPO). This manual has been prepared with a view to present a detailed, descriptive and step-by-step action sequences in the Initial Public Offerings, relevant to all the companies offering shares to the general public. But, it is subject to periodic amendments and supplements.

The Public Offering is not an easy task. There are many organizations involves during this periods. They are:

2.2.10 Issuing Company

Issuing company is the company raising funds from the general public through the process of public offering. The purpose of public offerings is for the collection of funds from general public, a fund sufficient group, by the company as per its requirement of business expansion. The company seeking for public offerings could be a completely new company (initial public offerings), a new company set by the existing company (initial public offerings) or by existing listed company (successive public offerings).

As per the Company Act, only public companies are liable to go for public offerings. The Act specifically states that private companies are not allowed to sell their shares and debentures in the free market. For public company issuing debentures, the reasons for such issue, project to be financed and its estimated budget along with the information about secured or naked nature of the debenture, needs to be approved from the governing bodies.

NRB has made mandatory that financial institutions must go for common stock public offerings within specified time of operation commencement. NRB has also set forth different minimum percentage of equity holding to be offered to the public shareholders. For commercial banks, minimum shares to be held by public is 30%; for finance companies, it is 40%; for development bank it is minimum 30% and maximum of 50%. In the case of foreign participation, their equity holding would be arranged from the percentage allocated for the public. For finance companies, in the event of foreign participation, the minimum percentage to be allocated to the general public is 25% of paid-up capital.

For other public companies such compliance to go into public offerings of equity holding are absent. For such companies, going into public signifies the need of funds for the company rather than the obligation.

The provisions and conditions of Securities Registration and Issue Act, 2051 has set the guidelines that before going into public offerings, issuing company should take into consideration that (SEBON Annual Report, 2007:23)

a) If the issuing company is industrial institutions

-) The institution has bought the land or made other provisions in which necessary infrastructure like factory; office buildings, godowns etc. are already build in or made necessary arrangements for it.
-) Necessary technology has been selected for which spare parts of machineries needed have been bought. If not, LC has been opened to buy the necessary technologies.
-) Estimated budget has been proposed for the project to be implemented and for which if loans are required, such agreements are already made.
-) In the absence of long-term loan agreement, issue securities are underwritten.
-) Necessary approvals according to the existing Acts have been taken.

b) If the issuing company is financial institutions

-) According to the nature of the business, required infrastructures are installed.
-) Approval has been taken under the Company Act 2063.
-) For commencing other activities, authority and approval from governing bodies based on existing Acts has been taken.

2.2.11 Merchant Bankers

Merchant bankers are intermediaries in which they work as mediators in the fund mobilization from the general public to the business groups. The funds are raised from the hypothetical market that comprises widely spread fund surplus groups, mainly the general public and the concentrated fund deficient groups, mainly the business groups. Funds are raised under different tool names that have long-term and short-term maturing period. According to such maturity period of the tools traded, market is identified as capital market for long-term and money market for short-term tools to be traded.

The role of merchant bankers in this market is to help create and expand securities underwriting, the secondary market for securities and money market. They also provide additional services in advising corporations and managing investment portfolio for the needing groups.

The concept of merchant banking differs from other commercial and development banks in respect that they do not require large funds to be invested as a principle. Their sources of income are basically the service charge they charge to their clients for playing intermediary role in the fund mobilization and their advisory role. Typically, the activities of domestically oriented investment banks can be grouped under:

- Securities underwriting
- The secondary market for securities
- The money market
- Corporate advisory services
- Investment portfolio management services, and also
- Venture capital
- Leasing / hire purchase
- Other services (insurance, real estate etc.)

The role of merchant banking in managing the public offerings comes under the heading of securities underwriting. The working process of which would be described comprehensively later.

For the working of merchant banking function in Nepal, Nepal Rastra Bank (NRB) has set forth the working guidelines. Guidelines have identified working of merchant banking into two sets of functions. The first set is the non fund-based functions and the second set is fund-based functions.

Fund-based activities identified for the merchant banking are:

- Bridging finance
- Underwriting
- Project finance
- Venture capital
- Acquisition and merger

Non fund-based activities identified for the merchant Banking are:

- Share issue management
- Mutual fund
- Portfolio management
- Corporate counselling
- Project counselling
- Debenture trusteeship
- Arranging international finance
- Investment advisor
- Advising corporate mergers

NRB has set the directives as for non fund-based activities of merchant banking, for underwriting and for bridging finance it is not necessary to take separate approval from NRB. But, for other fund-based activities of merchant banking, it is necessary to take separate approval from NRB for different activities to be undertaken.

In Nepal, there are 7 merchant banks are already established. They are providing issue manager, lead underwriter, register, transfer of shares etc. services to other institutions.

2.2.12 Securities Board

Securities board has been formed under the Securities Exchange Act, 2040 Clause 3. This legislation has required for the creation of an independent Statutory Board to be an apex authority for securities market, thus resulting into the formation of Securities Board.

The need of legislative body is for maintaining healthy and orderly development of the securities markets and to ensure adequate investor protection. Establishment of Securities Exchange Board (SEB) is necessary to promote markets that ensure:

-) **Fairness:** The markets must promote integrity in dealings, high standards of conduct and good business practice.
-) **Efficiency:** The markets should with professionals and be well informed, offering high standards of service at reasonable cost.
-) **Confidence:** The market must inspire confidence in both investors and issuers to actively participate in and rely more on the securities markets.
-) **Flexibility:** The markets should be resilient, innovative and be continuously responsive to the needs of all market participants.

Role of Securities Board in Issue of Securities

In its approach to manage public issues of securities, the Board will bear in mind

- a. Protection of rights and interests of the investor, especially,
 - The right to adequate, true and fair information
 - Ñ The need for liquidity
 - Prompt, fair and equitable allotment
 - Ñ Easy and efficient service in allotments and transfers
- b. The need to encourage corporate entities to tap the securities markets for their diverse resources needs.

The Board would Endeavour to evolve market and institutional structure, a set of instruments and methods of public offerings to cater the above objectives.

The legislative provisions relating to public issues of securities may be classified under:

- a. Capital control, governing issue of securities and the terms of their issues:
 -) To regulate terms of issues of securities from the viewpoint of investor protection, issuers needs and overall development of the securities market; and
 -) To promote sound capital structure of companies.
- b. Prospectus provisions, governing the disclosure of information at the time of issue of any security;
- c. Obligations of regular disclosure of financial and other information on entities making public issues;
- d. Listing requirements governing traded securities;
- e. Provisions governing allotment and transfer of securities:
 -) Ensuring fair and equitable allotment; and
 -) Promoting speedier and more efficient service in matters of allotment and transfer.

2.2.13 Offices of the Registrar of Companies (ROC)

Registrar of Companies (ROC) is the governing body for any institution registered under Company Act. In its governing role, it observes and regulates any company going into

public examining whether the process of “going public” is in accordance with the rules and regulations set forth by the existing Company Act or not.

As per the Company Act 2063, public companies need to publish their prospectus before issuing securities to the public. Before publishing prospectus, one copy of the prospectus needs to be submitted to ROC. In this process, ROC approves the prospectus to be published. While approving the prospectus, ROC makes sure that important information is not missed out and unnecessary information is not mentioned. In the presence of such changes, ROC sends it back to the company for necessary changes. Upon satisfactory changes ROC grants approval to issuing company to issue the prospectus. Apart from approving the prospectus to be published by the issuing company before going into public, ROC does not play other major role. (Shrestha, 2006:42)

2.2.14 Stock Exchange Market

Stock exchange has been defined as any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling of or dealing in securities. The stock exchange therefore is the most important institution in the secondary market. In the primary market, it comes into play during primary share allotment, during issuing share in premium and when Securities Board asks Securities Exchange Market for its opinion.

Securities Exchange Act 2063 has stated that for the operation of the stock exchange market, approval needs to be taken from the Securities Exchange Board. Any registered institution except private companies willing to do or allow others to do security transaction should get approval for securities exchange market from the securities board.

After the issue of securities to the public, the Act requires that companies be listed in the Security Exchange Market before the floated shares can be traded in the market. Nepal Stock Exchange Limited (NEPSE) is the only stock exchange market in the country.

2.2.15 Financial Institutions

They are financial intermediaries like commercial banks, finance companies (merchant bankers), and development banks and cooperatives institutions. These institutions are established under the Company Act and Nepal Rastra Bank Directives. These financial institutions perform the role of intermediaries in the securities issue as per the authority received from the Securities Exchange Board. Financial Institutions are involved in securities issue process as:

-) Issue managers
-) Underwriters

2.2.16 Issue Manager

Issue manager in the primary market carry out all the function related to public issuance of securities on behalf of the issuing company. Presently there are 9 issue managers in the market. Which are:

Table 2.1

Name of Issue Manager of Nepal

S. No.	Name of Issue Manager
1.	Ace Development Bank Limited
2.	Citizen Investment Trust
3.	NIDC Capital Markets Limited
4.	Nepal Finance Limited
5.	National Finance Company Limited
6.	NMB Bank Limited
7.	Nepal Sri Lanka Merchant Bank Limited
8.	Nepal Share Markets and Finance Limited

9.	Civil Capital Market Limited.
10.	United Finance Limited
11.	Elite Capital Limited
12.	Nepal Housing and Merchant Finance Limited
13.	Vibor Bikash Bank Limited
14.	Development Credit Bank Limited
15.	Tinau Bikash Bank Limited
16.	Investment Management Merchant Banker Limited
17.	Beed Investment Limited
18.	Growmore Merchant Banker Ltd

Sources: www.sebonp.com

2.2.16 Underwriters

Generally all commercial banks, finance companies and other financial institution can provide underwriting services and providing such services accordingly. But the public issue getting underwritten has become Herculean task. Almost banks, finance companies and financial institutions reluctant to underwrite the public issue of shares because they feel underwriting are risky business. This type of reluctant has been strengthened more by some development cases. On the other hands, these exit some anomaly in underwriting concept between New Company Act and securities exchange regulation. Company Act defines issue manager as underwriters a well. Secondly no acts and regulations clearly spells about the qualification to be an underwriter that who can underwrite the public issue and who can not or whether banks finance companies and financial institution other that member of Nepal Stock Exchange can provide the underwriting services that there is always deficient fund / resources to meet the demand

of underwriting. Thirdly, because of the insufficient resources and despite of the reluctance of commercial banks (who have enormous resources), issue manager are somehow managing the consortium of underwriting. (Shrestha, 2006:59)

2.2.17 Nepal Rastra Bank (NRB)

Nepal Rastra Bank is the central banking authority in Nepal. It is the governing authority in setting guidelines to all the financial institution regarding its area of operation. But, in the case of public offerings, its involvement is very minimal. Its role in the issue process is only to grant financial institutions approval to be involved with different role in the issue process. Also for different fund based activities of merchant banking, approval needs to be taken from Nepal Rastra Bank.

2.3 Terms Involved in the Process of Initial Public Offerings of Common Stocks

2.3.1 Initial Public Offering (IPO)

It is a process by which an institution raises desired capital through issuing of securities (common stock, preferred stock, bond, commercial paper and debentures) in the capital or money market for the first time.

For the purpose of public offerings, Company Act has specified that the public issue process of any public company should be managed through the institution receiving authority from SEB. Internationally, financial institutions with the merchant banking operations, manage the overall issue process of any public limited company. Such institution managing the overall process of the public offerings is termed as an issue manager.

2.3.2 Issue Manager

Issue manager is the institution solely holding the responsibility of managing the public offerings of any issuing company. Securities Exchange Act, 2040 clause 18, has defined issue managers as institutions holding license from the Security Board to manage public

offering process. The format of application letter and required information to be provided while registering for issue manager are given in the appendix.

2.3.3 Lead Manager

In the event of more than one issue managers managing the issue of securities of any company, the term lead manager is used to identify the individual issue managers. The existing Act and the Directives have not clearly identified the maximum number of lead managers managing securities issue of any company at the same time.

2.3.4 Underwriting

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

2.3.5 Lead Underwriter

Lead Underwriter is the one that arranges the whole underwriting process for the issuing company with the help of other sub-underwriters. The issuing companies and intermediaries should note that underwriting is a serious contractual arrangement having financial implications on the issuer and the underwriter. The business of underwriting, therefore, presupposes inherent financial strength on the part of the underwriters. In the process of identifying underwriters, therefore, issue manager must satisfy himself about the net worth of the underwriters and their outstanding commitments and disclose.

In the event that the issued shares are not fully subscribed by general public, the distribution of unsold share to the underwriters would be held on the pro-rata basis based on the number of shares committed by them to underwrite.

2.3.6 Underwriters or Sub-underwriters

They are the smaller institution agreeing to underwrite fewer number shares. Underwriters and sub-underwriters work under the management of the lead underwriter.

Their financial responsibility remains within the total amount of shares agreed by them to undertake.

2.3.7 Banker to the Issue

Banker to the issue is normally a commercial bank, which provides the custodian service to the issuing company and keeps the subscription money. Banker to the issue may or may not receive applications from the investors, issue acknowledgements for the same, and enter the application details in application schedules. It also involves in the process by realizing the proceeds of the cheques/draft and issue final certificates to the issue manager for the number of applications and amount collected. Issuing company in consultation with the issue managers makes the appointment of banker to the issue.

The banker to the issue generally comprises the consortium of bankers providing working capital finance to the company, the banks providing underwriting assistance for the issue, the bank associated with the issue managers and other banks which are regularly and efficiently handling public issue work.

2.3.8 Collection Centres

Collection Centres are normally financial institutions such as banks, finance companies, brokerage houses etc. Collection centres receive applications from the investors, issue acknowledgements for the same, and enter the application details in application schedules. They also realize the proceeds of the cheques / drafts and issue final certificates to the issue manager for the number of applications and amount collected. The appointment of collection centres is made in consultation with the issue managers.

2.3.9 Prospectus

The prospectus is defined as, “any document described or issued as a prospectus and includes any notice, circular advertisement or other document inviting deposits from the public or inviting offers from the public for the subscription or purchase of shares in, or debentures of, a body corporate.”

The Company Act 2063 has made mandatory that any public institution going into public offerings must issue the prospectus before issuing the securities to the public. According to the Act, before publishing for the public, the prospectus signed by the board of directors should be sent to and get approval from the Office of Registrar of the Companies and Securities Board. The requirement is made to make sure that the information provided to the public is as per requirement and is not manipulated to mislead the public. The prospectus published for the public should state in the publication the approval from the Office of Registrar of the Companies.

The Company Act 2063 has stated that matters referred in the prospectus are the liability and responsibility of company publishing it. Board of Directors signing the documents is answerable to the matters stated in the prospectus. In the event that, company has knowingly published false statement in the prospectus and believing on which if securities has been purchased and loss incurred, such loss coverage would be the personal liability of the directors signing the prospectus.

In short, prospectus is a legal document containing important features of Article of Association, Memorandum of Association, and important decision taken by the board of the company affecting the future of the company and important conditions to be obeyed by the general applicants. The main purpose of the publishing prospectus is to inform public about the company and the issue. (Shrestha, 2006:62)

2.3.10 Budget for the Issue

Budget for the issue is a tentative figure of expenses that is estimated to incur in the process of public offerings. The budget is to be born fully by the issuing company, if not, according to the understanding reached between issuing company and the issue manager/s.

2.3.11 Application Form

It is a form provided to general public to apply for the issued securities by a company. The application forms needs to be filled both in English and Nepali. It contains

information about the company, issue of shares, and space for applicants to fill in for the buyers' detail information.

Application form is the legal document that the investor provides to the company stating the number of shares of a company he/she is willing to accept. The applicants submitting the application forms would imply that he/she has accepted the terms and conditions stated in the application form with the full knowledge about the matters referred in the prospectus. Attached with the application form a photocopy of citizenship is collected as a proof to applicants' acceptance to terms and condition and a remedy to possible discrepancies in identification. In case of minor applicants, citizen certificate of parents or guardian is to be attached.

2.3.12 Bridge Financing

It is a short term lending provided to the issuing company till the date of share allotment, backed by the collection from public issue. The company is to make the payment after receiving allocated shares money from public offerings. Normally financial institutions provide bridge loans to companies against their underwriting commitments. The said loans are adjusted against allotment of shares/debentures. The bridge finance is issued when Companies require meeting their immediate requirement of funds. If there is a substantial lead-time between making a public issue and commencement of commercial production. If issues is to be deferred to the most opportune time.

2.3.13 Memorandum of Understanding

In the process of issuing securities to the public, besides issuing company, different intermediaries are involved. Memorandum of Understanding is the legal agreement made between issuing company and different intermediaries. This agreement states the terms and condition in respect to the function and authority of the involved parties.

Different MOU to be signed in the process of issue offerings are,

-) MOU between issuing company and the issue manager/ lead managers: This is required as the Company Act requires securities issue process of any public

company is to be done through the registered issue manager. This legal agreement between issuing company and issue manager specifies terms and condition, responsibilities and the authorities of involved party.

-) MOU between issue managers and the underwriters
-) MOU between issue manager and the bankers to the issue.
-) MOU between issue manager and the collection centres.

2.3.14 Issue Commission

It is the commission charged by the issue manager to the issuing company for the service it has provided. Issue commission is paid for issue management process. The responsibility of issue manager in the issue process, for which issue commission is to be charged as demarcated in the agreement itself. The commissions are normally set as per the negotiation.

2.3.15 Underwriting Commission

Underwriting commission is the amount charged by the underwriters for underwriting the securities issued. The commissions are normally determined as per the negotiation.

2.3.16 Collection Charges

Collection charges are the amount charged by the collection centres for collecting the application forms and other documentation process. The collection charges are also charged on percentage of the amount collected. The percentage charged also depends upon the negotiation between issue manager on behalf of issuing company and the collection centres.

2.3.17 Refund Charges

Refund charges are the amount charged by the collection centres for refunding the oversubscribed money to the general investors. The refund charges are charged on percentage of the total amount refunded. The percentage charged depends upon the negotiation between issue manager on behalf of issuing company and the collection centres.

2.3.18 Fix Charges to the Collection Centres – Finance Companies

It is a fix charged given to the collection centres like finance companies for making required preparation for collecting application from the investors and conducting other required activities. The fix charge amount provided to the collection centres is also based on the negotiation.

2.3.19 Pre Issue and Post Issue

Pre-issue in the issue process is defined from the point of approach by the issue manager to the prospective issuing company to the point of allotment of securities and refund of oversubscribed money to the investors. This segregation has been made on the basis of Company Act, as it requires that the process of securities issue, allotment of securities, collection of subscription needs to be done through institutions approved to carry out issue management.

2.4 Report on Public Issue Approval

A total of 64 public limited companies raised funds amounting to Rs. 10,668.2 million by issuing securities in the fiscal year 2007/08. In the fiscal year 2006/07, a total of 34 public limited companies have raised funds amounting to Rs. 2,295.5 million.

In the last fiscal year, total listed companies in Nepal Stock Exchange Ltd. were 135 which reached to be 150 in the fiscal year 2007/08. In the fiscal year 2007/08, the turnover increased by 172.98 percent to be Rs. 22,820.8 millions compared to turnover of Rs. 8,360.1 million in the fiscal year 2006/07.

In the fiscal year 2007/08, the market capitalization of the listed companies increased by 96.59 percent to be Rs.3,66,247.5 million as compared to market capitalization of Rs. 18,630.13 million in the fiscal year 2006/07. In the Fiscal year 2007/08 the preliminary estimate of the contribution of market capitalization to the GDP is 44.62 percent.

2.5 Course of Action during IPO

2.5.1 Preparing the Registration Statement

Immediately following, and in some cases preceding, the kick-off meeting, the company and its counsel will begin work drafting the registration statement. In a public offering, both the content and form of an issuer's registration statement must strictly comply with SEC rules. In most IPOs, the issuer is required to file its registration statement on Form S-1. In fact, Form S-1 is not a "form" which a company fills out, but rather a list of items of information which the company must include in the registration statement. Each of these items references a rule in SEC Regulation S-K (or Regulation S-X in the case of financial information) which provides in detail the amount and format of the information to be provided.

A registration statement on Form S-1 consists of two parts, which will be bound together in a single book and filed with the SEC as a public document. Part I is the information that must be included in the prospectus, the actual offering document to be distributed to potential investors after the filing of the registration statement. Part II, which is filed with the SEC and made publicly available but is not required to be distributed to offerees, contains supplemental information, including, as exhibits, the underwriting agreement, the company's charter and by-laws, and all contracts to which the company is a party that could materially influence a potential investor's decision as to whether to purchase the securities being offered. The company can seek to redact from such contracts those limited provisions which it feels contain confidential business information by blacking them out of the filing and submitting separately to the SEC an application for confidential treatment which explains how the company could be harmed by disclosure of such information. Part II also contains the signature page to the registration statement, to be signed by the company's principal executive, financial and accounting officers as well as by at least a majority of its directors.

The prospectus serves two important roles. First, it is a selling document intended to present investment in the company as an exciting opportunity. As such, it should be well written and visually pleasing. The underwriters generally have strict guidelines as to form and style, which they will communicate to the financial printer. The underwriters will occasionally prohibit the distribution of a prospectus if they find it deviates from such guidelines, so it is important to ensure that the printer has received and reviewed the managing underwriter's instructions.

Second, the prospectus is a disclosure document which must make complete and accurate disclosure of all material information about the company and the offering to protect the company from claims by investors. As such, the company's and underwriter's counsel will spend considerable time ensuring that the prospectus sets forth in proper order and format all such information, both through continuous review of the SEC rules as well as through an ongoing business, legal and accounting due diligence investigation of the company.

The prospectus is generally organized as follows:

-) The Prospectus Summary, which contains a short description of the company, its business, the offering and summary financial data.
-) Risk Factors, which identify and describe risks associated with an investment in the company.
-) Use of Proceeds, which discusses what the funds will be used for.
-) Selected Financial Data, which presents selected income statement and balance sheet data.
-) Management's Discussion and Analysis of Financial Condition and Results of Operation, in which management discusses material line items in the Selected Financial Data section and why certain changes have occurred over the years reported. Management should also fully disclose known trends or uncertainties that could materially affect future financial conditions.

- J Business, which provides an overview of the company's business and is broken down into subheadings such as "Industry", "Products", "Marketing and Distribution", "Research and Development", "Manufacturing", "Competition", "Intellectual Property Matters", "Litigation", "Human Resources", "Facilities", etc. This section is the central part of the prospectus. It is generally the first section to be drafted and is continuously reworked and revised until filing and again, through amendments, until the registration statement is declared effective.
- J Management, which lists the company's directors and executive officers and then sets forth in detail compensation paid to its chief executive officer and its four other most highly compensated executives.
- J Certain transactions, which sets forth transactions, including the private placement of securities, involving the company and its officers, directors and controlling stockholders.
- J Principal Stockholders, which sets forth the equity holdings of the company's controlling stockholders, directors and executive officers.
- J Description of Capital Stock, which describes the relative preferences and privileges of the different classes of the company's capital stock upon completion of the IPO. If the company has adopted the anti-takeover measures referenced above, they will be disclosed in this section.
- J Shares eligible for future sale, which discloses the number of shares, held by existing shareholders, which will be eligible for resale after the IPO pursuant to SEC Rules, and the timing of such eligibility. This provision will also disclose any registration rights that the existing shareholders may be contractually entitled to. Underwriting, this describes the terms of the underwriting agreement.
- J Additional Information, which explains that the prospectus is only part of the registration statement and how to obtain from the SEC.
- J Financial Statements, which provide two years of audited balance sheet data and three years of audited income statement, cash flow, and stockholders' equity data, and unedited data for any subsequent interim period and the comparable period of the prior year.

The working group will continuously meet to revise the prospectus at drafting sessions which generally take place at the offices of company counsel. Once the group feels that the prospectus is close to being final, company counsel will send it to the financial printer on computer disk, where it will be professionally type-set. Prior to filing, the working group will meet, possibly several times, at the printer for final revisions.

2.5.2 Liabilities and Due Diligence

Each participant involved in the preparation of the registration statement can be held personally liable for any material misstatements or omissions in the prospectus. The liability can be severe, including complete restitution of the proceeds from the offering to the investors. While the company is held strictly liable for such misstatements or omissions, the underwriters and individual company directors and officers may raise a "due diligence defence". That is, if the participants can prove that they made a thorough review of every relevant aspect of the company and still could not have known of the inaccuracy, they will not be held liable. Consequently, a considerable amount of time is spent by each member of the working group, but particularly by company counsel and underwriters' counsel, interviewing company management, requesting production of all corporate documents and material contracts, and reviewing and determining which of these documents are material and need to be disclosed. This process continues up until the final amendment to the registration statement is filed.

2.5.3 The Registration Process

Once the working group has completed the registration statement and compiled all of the exhibits, company counsel will instruct the financial printer to deliver the appropriate number of copies to the SEC. The filing occurs upon receipt of the registration statement by the SEC. At the same time that the registration statement is filed, company counsel will also file the request for confidential treatment.

The registration statement will be assigned to a branch of the SEC's Division of Corporation Finance upon receipt, where two examiners will be appointed to review it, one to focus on financial information and the other on non-financial information. Usually within 30 to 35 days, the SEC will send a letter to the company containing its comments to the registration statement, the so-called "comment letter". Generally, each of the comments must be addressed through amendment of the registration statement or the provision of a written explanation as to why an amendment is not necessary. Company counsel generally calls the examiner to discuss the comments before responding. Once each of the comments have either been addressed or waived, the amended registration statement is filed with a cover letter explaining the revisions with cross references to the comment letter. Quite often, the SEC will send a follow up comment letter stating which of the initial comments it feels have not yet been properly resolved and, less frequently, containing additional comments.

Usually, prior to receiving comments from the SEC, the preliminary prospectus is printed in quantity for distribution by the underwriters. Occasionally, the quantity printing is delayed either for new financial results to be included or to receive initial SEC comments.

2.5.4 The "Red Herring" and the "Road Show"

As discussed above, after filing the registration statement, the company and its underwriters may make oral offers, other than by use of mass media. Written offers may only be made through the use of the preliminary prospectus, which is often referred to as the "red herring", because it contains on its cover a legend printed in red stating that offers to buy may not be accepted nor sales made prior to the effectiveness of the registration statement.

The company will generally launch its marketing campaign with a press release which is limited in content pursuant to SEC permits the use of press releases which briefly describe the offering and the company, name the underwriters and indicate where prospectuses may be obtained.

After the press release, the company and lead underwriters travel to major cities to present the company and its business to potential investors and members of the underwriting syndicate. These presentations are referred to as the "road show" or the "dog and pony show". The company's management may also schedule face to face interviews with potential large investors at this time.

2.5.5 The Underwriting Agreement

Prior to filing the registration statement, the managing underwriter will present the company with its form of underwriting agreement. The underwriting agreement sets forth the relationship and the legal obligations between the company, the underwriters and the selling stockholders (if any), such as (i) the obligation of the underwriters to buy the shares at a specified discount, (ii) the obligation of the company to reimburse the underwriter for certain expenses, (iii) representations and warranties of the company, (iv) covenants of the company, (v) conditions to closing, (vi) indemnification provisions covering liability for material misstatements or omissions in the registration statement and (vii) occurrences which will allow the underwriter to back out of the deal prior to closing, such as wars, stock market crashes or, in some agreements, major adverse effects to the company's business. As discussed above, the underwriting agreement is not signed until after SEC clearance and the completion of the "road show."

The underwriting agreement will generally grant the underwriter an option to purchase an additional number of shares (usually 15% of what is being offered) in order to satisfy sales of shares by the underwriter in excess of the number of shares being offered, which

are referred to as "over-allotments" or the "green shoe." Over-allotments are good for the after-market of the company's stock as they create increased demand for the shares. The underwriter is generally allowed to exercise this option until thirty days after the closing.

When the final underwriting agreement is signed, it will provide the date of the closing of the sale of the shares to the underwriters, which is generally three days after the agreement, is executed.

2.5.6 Request for Acceleration

At least two days before trading commences, the company and the underwriters must provide the SEC with acceleration requests, asking the SEC to accelerate the effective date.

2.5.7 Pricing and Effectiveness

Promptly after the road show is concluded and the registration statement declared effective by the SEC (usually the same day), but prior to signing the underwriting agreement, the company and the underwriters will meet to negotiate the price of the shares. The company will be represented by a pricing committee, which will have been appointed by the board of directors, and certain members of the underwriting syndicate may participate as well. As discussed above, the underwriters and the company will have generally agreed to a range of prices as early as the kick-off meeting, so the final price should not come as a surprise to anyone. Generally, the underwriters will push for a lower price than the company's pricing committee, as they will want a good reception and a strong immediate after-market for the shares. Except for when the market is particularly favorable, the underwriters generally prevail in this negotiation.

The night after the pricing, members of the working group will then visit the printer once again to add the pricing information to the final prospectus. The final prospectus is then filed with the SEC and printed in quantity for distribution by the underwriters to the purchasers.

2.5.8 Closing

As soon as the final prospectus has been disseminated, orders for the shares are accepted by the underwriters. Trading begins on the morning following effectiveness of the registration statement in anticipation of the closing. The closing is the date on which payment is made for the shares. The SEC requires the settlement of the IPO within three business days of the pricing.

A variety of closing deliveries are required under the underwriting agreement, including counsel opinions and accountant comfort letters. The day before the closing, company counsel and underwriter's counsel will generally meet for a "pre-closing", where they will review the closing documents.

The closing generally occurs in the morning by conference call between company counsel, underwriters' counsel and the company's new transfer agent. The company counsel will confirm that it has received a check or wire transfer from the underwriters for the offering price less discount and that it considers all of the conditions to closing to have been met. Underwriters' counsel will confirm that it too considers all of the conditions to closing to have been met. The transfer agent will then declare the IPO closed and release the stock certificates per the instructions of the underwriters. If the underwriters have elected to exercise the green shoe options, the over-allotment shares will be included at this closing; otherwise, they will be purchased at a subsequent closing.

2.6 Justification of the Study

Initial Public Offering is not a new phenomenon in Nepal. About 150 companies have already gone to public and some companies are in line to go to the public. This is a good sign to development of the Nepalese capital market.

At present, there are lots of researches that have been done in the topic of capital market, stock trading mechanism, stock pricing behaviours etc. But there is still lack of research in the field of Initial Public Offering to the stock investment in Nepal. This study tries to understand the pace of initial public offering, general investor's response, legal provisions etc.

This will be helpful to the issuing companies, issue managers, stock brokers, general investors and the new investors who wish to investment through Initial Public Offerings.

2.7 Review of the Previous Studies

The role of the Primary market has been increasing now-a-days. Any corporation can raise its required fund through Primary market and its process. It may canalize such savings into investments in productive sectors. It definitely leads to the economic growth. So the primary market is playing a role for the development of national economy.

2.7.1 Review of Journals

These days internet has become the most easily accessible medium to gain information in any subject matter. In the study period, different articles and journals have been consulted.

Paul, (1960) in his article "*The Review of International Capital Markets*" published in the journal "The American Economic Review" has pleaded that the development of world capital market appears to be reaching the state where they can make significantly greater contribution to world economic growth and trade. More importantly, the groundwork has been laid for the healthy development and future growth of international

capital markets. Barring the intervention of war or other major disturbances, world capital market give promise of being able to play and increasingly important, through no predominant role in the movement of capital internationally.

Simha, (1960) In connection with the necessary of capital market in his book "*The Capital Market in India*" has observed that capital is an extremely fascinating subject and efficient capital market is an indispensable prerequisite to economic development. In fact, even as regards the resources for the public sector, the capital market has a rather important role to play.

Shrestha, (2002) has analyzed why the share market is inactive and what are the main causes for inactiveness and what measures should be done etc are carefully defined. Similarly, how the securities frauds and manipulation have occurred and to what extent they can be overcome would be highlighted here to draw adequate feedback to the regulating and controlling authorities to devise suitable laws to prevent such frauds and minimize manipulation in share price.

Dahal, (2007) in his article "*The Performance of Nepalese IPOs*" published in the Sebon journal, the paper assesses the performance of Nepalese IPOs and relates them to potential factors. The study finds that the Nepalese IPOs are heavily oversubscribed and provide the investors with the market adjusted excess rate of return leading to the conclusion that Nepalese IPOs are underpriced too.

The leading business journals like "The Boss" magazine, "*The New Business Age*" and "*Aaja Ko Abhiyan*" have been used during the study. The different writer's different views, the primary market scenario i.e., current scenario has been discussed among the group members during the research. The websites have been used instead of journal of

different organizations. Like for the knowledge of government securities, NRB website, for other information SEBON website and different world leading management websites have been used.

2.7.2 Review of Dissertations

Lots of thesis and dissertations has been written on the topic regarding the IPO management in Nepal. Some of those thesis has been reviewed here:

Shrestha, (1996) conducted a study on “*Public response to Primary issue of Shares in Nepal*”. The main objectives of his study were as follows:

-) to assess the public response on primary share issue
-) to assess the public confidence on capital market

The major findings of Shrestha’s study were as follows:

-) The scope of primary market in recent days is booming.
-) Even the general investors heavily invest their saving in the new issue of shares causing over subscription to a great deal.
-) The growth of the primary market is encouraging since many public limited companies including joint venture banks have been successful in tapping capital through the floatation of shares to the general public.
-) The positive response of the investors to the companies is a direct manifestation of the growing public confidence in the primary market.
-) The general public simply taps everything that comes on their way, regardless of the promoter’s background and company feasibility.
-) Each company come into the market has been successful in tapping the capital from the market and the issue closed within the minimum stipulated time of seven days with huge over subscriptions.

Habibullah (1999), conducted a study on "*Financial Markets in Least Development Countries*," with the following main objectives:

-) to analyze the stock market development in LDCs
-) to study the obstacles of productive sectors growth

The major findings of Habibullah's study were as follows:

-) Economic development reflected in economic growth leads the financial development measured in the ratio of broad money to gross national product (M2 / GNP).
-) Economic development has preceded the financial market development in the case of Nepal. The stock market development measured by market liquidity, market capitalization and total turnover is correlated with current and future economic growth, capital accumulation, and productivity growth, as evidenced by Levine and Zervos (1996).
-) The efficient money, foreign exchange and capital markets increase investment to the most productive sector of the economy and thereby increase output through saving mobilization. Such markets also price the risk associated with any investment accurately.

Pandey, (2001) conducted a study on, "*Public Response to Primary Issue of Shares in Nepal*." with the following main objectives:

-) to identify the problems of primary issue
-) to assess the growth of the primary issue
-) to analyze the pattern of public response to shares.

He has summarized his findings as:

-) Public response in primary market is high due to lack of opportunities for investment in other fields.
-) No proper investment analysis is been made.

-) People need to understand how market situation works, analyze the fluctuation of price and make decisions accordingly for maximum return.
-) Potential investors need to consider before investing in the share market.
-) The dynamism of the stock market has been greatly reduced by the domination of the long term shareholders, who prefer holding the shares with the hope of increasing their wealth. This can be justified by small number of shares that are traded on the stock market. Even though this reduces the dynamism of the stock market. The investors have very few rather no alternative to holding shares.

Paudel (2002), conducted a study on, "*Investing in shares of Commercial Banks in Nepal: An Assessment of Return and Risk Elements.*" with the following objectives:

-) to study the risk and return pattern in Nepalese capital market.
-) to assess the share price behavior in Nepalese capital market.

Major finding of his study are:

-) The shares of commercial banks in Nepal are heavily traded in the stock market and, therefore, these shares play a key role in the determination stock exchange indicators.
-) The average mean return on market portfolio, as measured by percent changes in the NEPSE index, is 5.51 percent over the sample period.
-) All the shares produced higher rates of return than the return on market portfolio. However, the risk-return characteristics do not seem to be the same for all the shares reviewed. T
-) The shares with larger standard deviations seem to be able to produce higher rates of return. The portion of unsystematic risk is very high with the shares having negative beta coefficient. The risk per units of return, as measured by the coefficient of variation, is less than that of the market as a whole for all the individual shares.
-) Most of the shares fall under the category of defensive stocks, (having beta coefficients less than 1), except the shares of Bank of Kathmandu Limited.

Sharma, (2002) Conducted research on the topic of “*Problems and Prospects of Primary and Secondary Market in Nepal.*” He tries to show the problems and prospects of Nepalese stock market as well as the present status of primary and secondary market. His major findings are as follows:

-) The existing problems could be resolved only when general people understand how market works.
-) Investors need to understand that keeping the shares may not be the best alternative.
-) Investors need more information that what factors to be considered before investing the money in shares.
-) Investors need to analyze the financial position of the firm before subscribing and not to go with rumours and wrong information prevailing in the market.
-) Investors need to look for the best alternative they can get within the given time frame.

Paudel, (2006) has done research on “*Public Response to Initial Public Offering in Nepal*”, with the objective as:

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

The major findings of his study were as follows:

-) The general investors in Nepal do not have sufficient information regarding the primary market and in spite of this they are interested in investing money in the primary market. They are more interested in financial sector than non-financial sector.
-) The pace of initial public offering in Nepal seems to be irregular.

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

Mahat (2007) Conducted research on the topic of "Future prospect of NEPSE in capital mobilization" is able to analyzed situation in Nepal where the industrial sector has very little access to private saving. Also he indicates the availability of industrial securities is nearly absent and the development of financial institutions that link the surplus spending units with the deficit spending ones is in the rudimentary stage.

He further concluded notwithstanding the underdevelopment state of financial institution in the country, growth of invest able funds becoming available recent years. This study also demonstrated the relatively very limited financial contribution of other financial institution to this sector but he does not indicate these factors, which help to uplift the financial contribution to the other sectors like provident fund and NIC etc.

It is acknowledged that a much greater use of resources available in the financial system of the industrial development of the country may not be very smooth and easy. He only specified the growth and potential (measures) of security market, capital market regarding primary and secondary market. It was absent to show the problems face by the NIDC and other industrial as well as financial sectors. He just shows the preliminary and basic problems of industrial sector but not in broad way. His topic was "future prospects of NEPSE in capital mobilization" but according to the topic the sufficient future prospects/measures are not available in this study but can find thin basic context. There is not indication in the relations of primary and secondary market with economic condition of country in his study. But it is able to give the theoretical version of relationship of capital market with economic growth.

The findings on the term nature of sources and uses of funds and the current ratios of various size and industry groups also do not give any ground for complacency. Some industries were found to have financed a large part of the increase in current assets with the long-term sources of funds, while for others the increase in long-term source was hardly sufficient even to finance the long-term assets formations. He was given high attention to the working capital management in Nepalese industries

Pandey (2008) Conducted research on the topic of "*Public response to Primary Issue of Shares in Nepal*," with the objective of: identify the problems of primary share issue market, assess the growth of primary issue market, analyze the pattern of public response to shares & find the reasons of variation. He has summarized the finding as: Public response in primary market is high due to lack of opportunities for investment in other fields. No proper investment analysis is been made. Despite this, public are attracted towards shares than other sectors, basically to increase their value of investment, be it dividend capital gain or bonus shares. It can be seen that public response to primary issues on Banking and Financial sectors is normally higher than that of the manufacturing and services sector. Major causes for poor response in the period 1995-1998 were; interest rates were higher as compared to dividend yield, the public companies were not performing well and people did not know about the importance of investing securities. Now the response is highly positive because people are aware, money flow in the market is higher, people have seen that most companies are distributing dividends, share prices are increasing for most companies and a lack of better alternatives for investment. Now that the average interest rates have gone down, more can be obtained from investment in stock.

Bhandari (2009) studied "*Structure and Efficiency of Securities Market Intermediation Service in Nepal*". In Nepalese context very few studies have been done by the individual researcher in this topic. He tried to find out the efficiency of securities market

intermediation service in Nepalese Securities Market. Major finding of his study are as follows:

-) With the elapse of time, there are a lot of changes in structure of intermediaries. The total number of intermediaries is in decreasing trend over his study period and the mixture of market intermediaries are often changing. He considered ten years data for the study.
-) Number of listed companies, traded companies, paid-up capital, market capital and NEPSE index are increasing during his study periods, besides some exception. These indicators show the increasing efficiency in comparison with the earlier year.
-) Number of permitted brokers during the study periods was decreasing. Some of the brokers hold license only but not submitted financial and transaction reports to NEPSE on time.
-) Other sector of Nepalese economy have not moving except capital market in the later days, there is abnormal development in capital market only.
-) The high proportion of the investor was not satisfied with issue manager/under writing service available.
-) The market makers are not existed from 2002/03 to onwards. The main reason for the failure of the markets was the inability of the market makers to acquire a sufficient buffer stock of shares initially required by them for market making and introduced very initial stage of the security market.
-) Overall his study's conclusion is that the structure of the securities market is not well defined as lack of adequate mixture of all typical market. Securities markets intermediation service is inefficient. But, interesting things is that amount and volume of share transaction, paid-up capital, market capitalization, and NEPSE index all are in increasing trends. Nepalese Security market is small in quantity and poor in quality as compared to other develop stock market.

CHAPTER-III

RESEARCH METHODOLOGY

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

3.1 Research Design

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

3.2 Population and Sample

The population for this study is the Initial Public Offering made by various organizations up to FY 2008/09. There are one hundred fifty Companies listed in Nepal Stock Exchange Limited. To find out the public response to the Initial Public Offering, this study has divided in two sectors as Financial Institutions and Insurance Sector and Non Financial Sector.

The samples are properly selected, the characteristics of the sample will reflect that the population. Due to unavailability of reliable data this study has completed upon the base

of selected sample from each sectors. The sample have selected at random so that each and every units of the population may have an equal and independent chance of being selected. In this method, the selection of the units will totally depend upon the chance but not on the discretion of anybody else. Among the 24 listed commercial bank, only 7 (i.e. 29.16%) are taken as sample. In the case of development bank and finance companies 7 (i.e. 16.66%) and 11 (i.e 17.74%) samples are taken from population of 42 and 62 respectively. From 19 insurance companies 6 (i.e. 31.57%) are taken as sample. From non-financial sector altogether 6 companies are taken as sample from 32 companies (i.e. 18.75 %).

Population and Sample

Particulars	Listed No.	Sample Size	Percentage
Commercial Banks	24	7	29.16
Development Banks	42	7	16.66
Insurance Companies	19	6	31.57
Finance Companies	62	11	17.74
Non Financial Sector	32	6	18.75

(Source: www.nepalstock.com)

3.3 Sources of Data

For the requirement of the research a questionnaire was designed having 15 questions for the primary data collection. One hundred and fifty respondents (students, bankers, brokers, and others) were asked to fill the questionnaire. For the secondary data collection data from NIDC Capital Market, Citizen Investment Trust (CIT), and NMB

Bank have been approached. At the same time, data from Annual Report of Security Board of Nepal for Fiscal Year 2008/2009 has also been taken.

3.4 Analysis of Data

Data analysis helps to present the study. Analysis of data is done carefully of available facts. Both primary as well as secondary data have been used for the research.

3.5 Statistical Tools

Suitable statistical tools are used to implicit the comparative results as required.

3.5.1 Multiple Bar- diagrams and Graphs

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

3.5.2 Pie - diagram

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

3.5.3 Percentage

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

3.5.4 Simple Arithmetic Mean (Average)

Simple arithmetic mean is the sum of the values of all the elements in the sample (Ex) and divides by the number of elements in the sample.

$$\text{Mean} = \frac{\text{Sum of total values}}{\text{Number of values}}$$

$$\bar{X} = \frac{\sum x}{N}$$

CHAPTER – IV

DATA PRESENTATION & ANALYSIS

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

4.1 Amount of Issue Approved

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

From the fiscal year 1993/94 to 2008/09 SEBON has approved 324 issues of securities amounting to Rs.39389.68 million. The detail situation of issue approved in different year is presented in the table 4.1

Table: 4.1

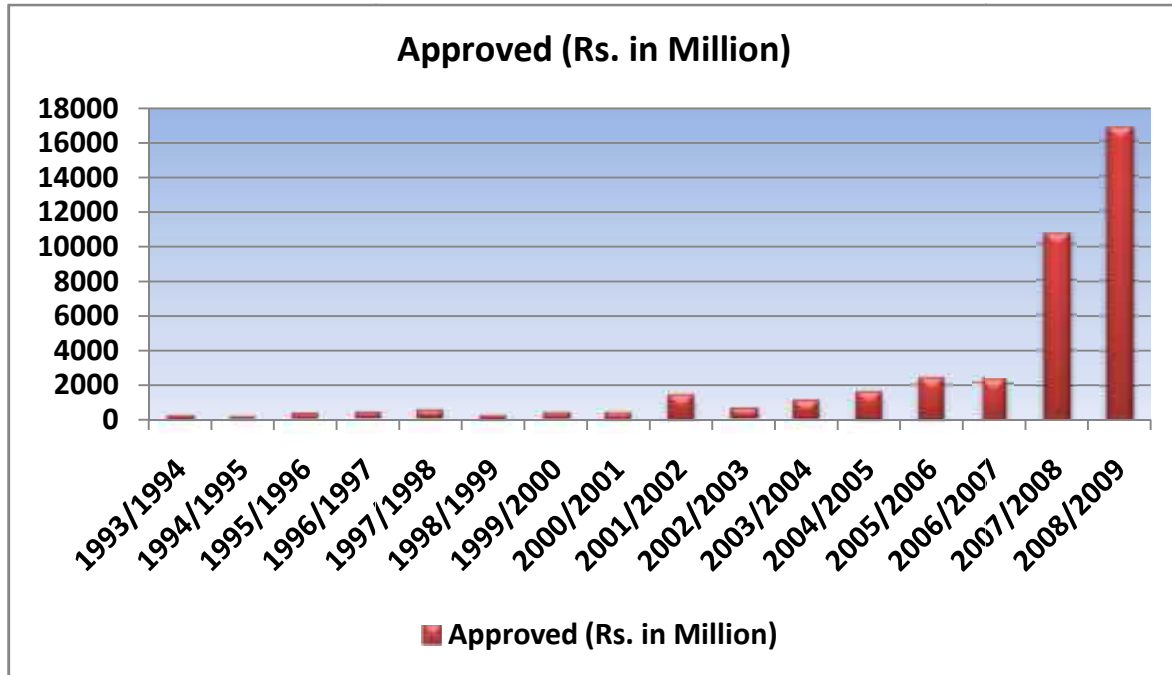
Amount of Issue Approved

Year	Approved (Rs. in Million)	% of Issue Approved
1993/94	244.4	0.620
1994/95	173.96	0.441
1995/96	293.74	0.745
1996/97	332.2	0.843
1997/98	462.36	1.173
1998/99	258	0.654
1999/00	326.86	0.829
2000/01	410.49	1.04
2001/02	1441.33	3.65
2002/03	556.54	1.41
2003/04	1027.5	2.60
2004/05	1626.82	4.13
2005/06	2443.28	6.20
2006/07	2295.5	5.82
2007/08	10668.2	27.08
2008/09	16828.5	42.72
Total	39389.68	100

Source: SEBON Annual Report

Figure: 4.1

Security Issue Amount (million)



The table 4.1 and figure 4.1 shows the securities issue amount approved by SEBO/N vary during the period. The highest amount of issue approved was Rs.16828.5million in the fiscal year 2008/09, which is 42.72 percentage of total issue till date. This is mainly because of IPOs and Right issues made by financial sector. They have been issuing shares to fulfill capital requirement obligations enforced by central bank.

During last five years approved amount are in growing trend despite is fiscal year 2006/07, which indicates that companies are now interested in public offering of securities and right issues. Before the year 2001/02 issue amount is quite consistent and hovering around 150 million to 400 million. During this period Nepalese capital market was not so popular among investors. Only few investors of Kathmandu valley were trading. But, after 2002/03 more and more people entered in market. Specially, people who have been hard hit by Maoist people’s war found capital market as a good shelter for their money.

4.1.1 Number of Issue Approved

The number of issue approved is the total number of issue approved by the Security Board of Nepal. Before issuing securities, the issuing company must make approval from Security Board of Nepal (SEBON). The number of issue approved during the period of 1993/94 to 2008/09 varies differently which is presented in the table 4.2

Table: 4.2

Number of Issue Approved since 1993/94 to 2008/09

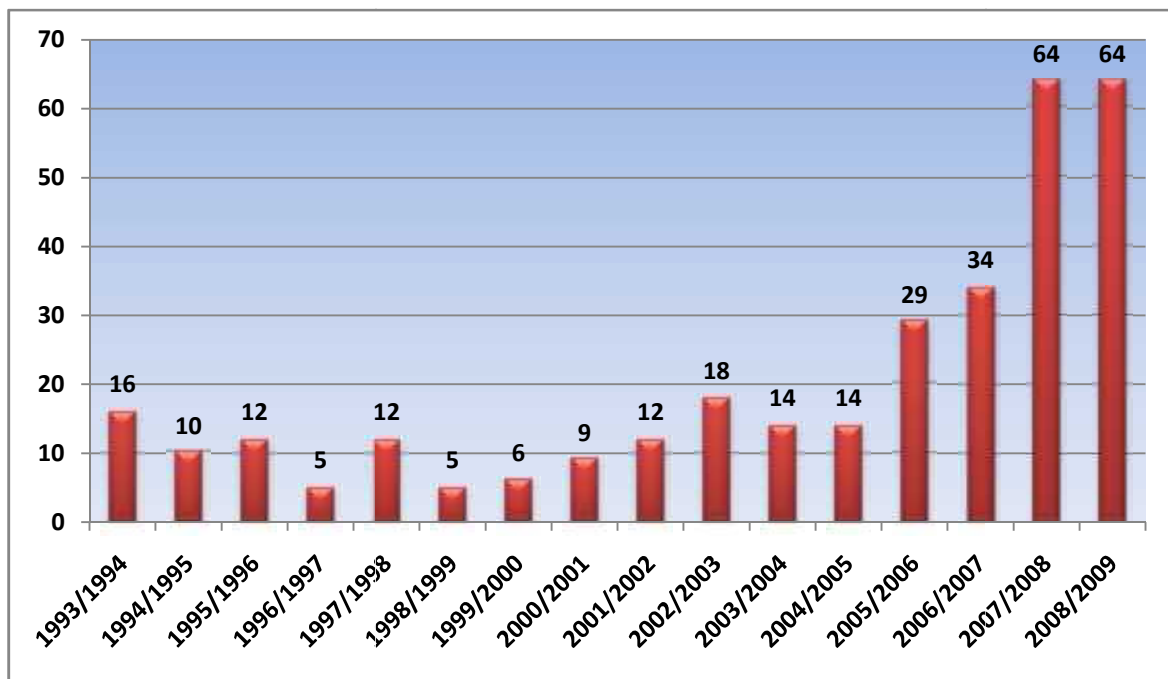
Year	No. of issue approved	% of issue approved
1993/94	16	4.30108
1994/95	10	2.68817
1995/96	12	3.22581
1996/97	5	1.34409
1997/98	12	3.22581
1998/99	5	1.34409
1999/00	6	1.6129
2000/01	9	2.41935
2001/02	12	3.22581
2002/03	18	4.83871
2003/04	14	3.76344
2004/05	14	3.76344

2005/06	29	7.7957
2006/07	34	9.13978
2007/08	64	19.75
2008/09	64	19.75
Total	324	100.00

source: SEBON Annual Report

Figure: 4.2

Number of Issue Approved



4.1.2 Right offering since 1993/94 to 2008/09

The number of right offering during the period of 1993/94 to 2008/09 varies differently which is presented in the table below.

Table-4.3**Right offering since 1993/94 to 2008/09**

Fiscal year	No of Issue Approved	Issue Approved (Rs. in Million)	Percentage of Total Approval
1993/94	-	-	-
1994/95	-	-	-
1995/96	2	69	0.29523125
1996/97	3	275.2	1.17750201
1997/98	3	249.96	1.06950728
1998/99	1	30	0.12836141
1999/00	3	124.6	0.53312773
2000/01	2	131.79	0.56389168
2001/02	5	621.87	5.35385903
2002/03	4	162.24	0.69417851
2003/04	3	70	0.29950996
2004/05	6	949.34	4.06195406
2005/06	11	1013.45	4.3362624
2006/07	17	1265.3	5.41385644
2007/08	43	6793.4	29.0670136
2008/09	50	11615.4	49.6987999

Total	153	23371.5	100
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Source: SEBON Annual Report

Figure: 4.3

Right offering

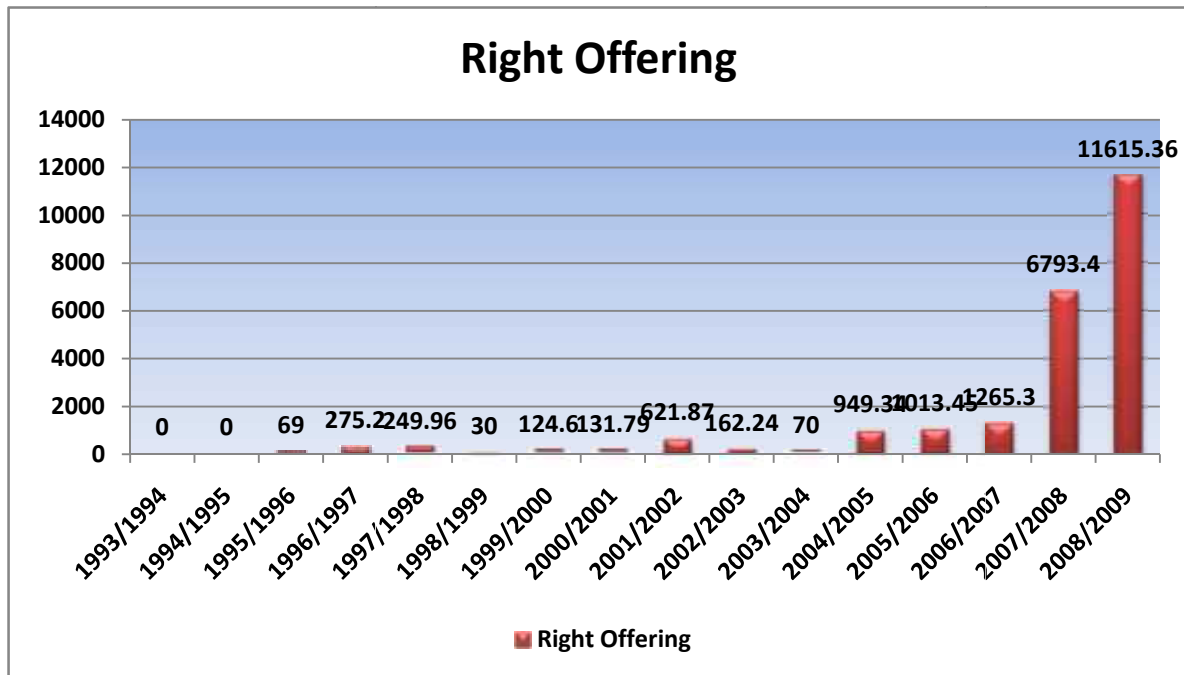


Table 4.3 and figure 4.3 shows the right offering of different companies during 1993/94 to 2008/09. In the year 1993/94 and 1994/95 there were no any right offering. The year 2008/09 has the highest offering at that time 42 companies comprising 8 commercial Bank, 11 developments Banks, 20 finance companies and 3 insurance companies issued right shares amounting to Rs.6793.4 million. The year 1998/99 has the lowest right offering (i.e. 30 million). In other periods the issued amount is moderate or fluctuating.

4.1.3 Over and Under Subscription of Securities

At the time of issue the demand for securities may be greater or lesser than the issuing amount. When the demand of securities is higher than issued securities, the situation is called the case of oversubscription but if the demand of securities is lower than issued

securities that situation is called under subscription of securities. Below table 4.4 shows the oversubscription & under subscription of different companies from year 1993/94 to 2007/08, while issuing their Ordinary share to general public.

Table: 4.4

Over and Under Subscription of Securities since 1993/94 to 2007/08

Year	No. of issued Co.	Over subscribed Co.		Under Subscribed Co.		Constant	
		No.	percentage	No.	%	No.	%
1993/94	14	14	100%	0	0	0	0
1994/95	10	8	80%	0	0	2	20%
1995/96	10	5	50%	5	50%	0	0
1996/97	2	2	100%	0	0	0	0
1997/98	8	6	75%	1	12.50%	1	12.50%
1998/99	3	3	100%	0	0	0	0
1999/00	3	3	100%	0	0	0	0
2000/01	7	7	100%	0	0	0	0
2001/02	5	4	80%	1	20%	0	0
2002/03	14	14	100%	0	0	0	0
2003/04	10	10	100%	0	0	0	0
2004/05	7	6	85.71%	1	14.29%	0	0
2005/06	14	14	100%	0	0	0	0
2006/07	15	15	100%	0	0	0	0

2007/08	16	16	100%	0	0	0	0
2008/09	12	12	100%	0	0	0	0
Total	150	139	92.00%	8	5.80%	3	2.17%

Source: SEBON Annual Report

The table 4.4 shows that during the period of Fiscal Year 1993/94 to 2007/08 out of the total listed companies only 138 companies issued their common stock for public and among them 127 companies (92.03%) have been oversubscribed and 8 companies (5.80%) have been undersubscribed and remaining 3 companies (2.17%) issue have been fully subscribed. Furthermore, those companies who issued shares to public in fiscal year 1994/95, 1995/96, 1997/98, 2001/02, 2004/05 were under subscribed. In these years issues of both financial and non-financial sectors were undersubscribed due to different reasons i.e. lack of information, limited number of investors etc. Similarly, all those companies who issued their common stock in Fiscal Year 1993/94, 1996/97, 1998/99, 1999/00, 2000/01, 2002/03, 2003/04, 2005/06, 2006/07, 2007/08, have been oversubscribed. In 2008/09 there were 12 public issues, all of them were oversubscribed.

4.1.4 Securities wise Analysis

The security wise analysis of ordinary shares, right shares, preference shares and debenture with the amount is shown in the table 4.5 below.

Table: 4.5

Securities wise analysis during fiscal year 1993/94 to 2008/09

Types of Securities	Number of issue Approved	Amount (Rs in million)
Ordinary Shares	138	5,065.80
Right Shares	103	11,756.10

Preference Shares	5	636.50
Debentures	14	5,103.00
Total	260	22,561.40

Source: SEBON Annual Report

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

The year wise analysis of different securities issued from the fiscal year 1993/94 to the fiscal year 2007/08 is shown in the table 4.6 below.

Table 4.6

Year wise analysis of different securities with their number and amount

Year	Ordinary Share		Right Share		Preference Share		Debenture	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1993/94	14	227.9	-	-	2	16.5	-	-
1994/95	10	173.93	-	-	-	-	-	-
1995/96	10	224.74	2	69	-	-	-	-
1996/97	2	57	3	275.2	-	-	-	-
1997/98	8	119.4	3	249.96	-	-	1	93
1998/99	3	148	1	30	1	80	-	-
1999/00	3	202.26	3	124.6	-	-	-	-
2000/01	7	278.7	2	131.79	-	-	-	-
2001/02	5	319.46	5	621.87	1	140	1	360
2002/03	14	394.3	4	162.24	-	-	-	-

2003/04	10	657.5	3	70	-	-	1	300
2004/05	7	377.48	6	949.34	-	-	1	300
2005/06	14	579.83	11	1013.45	-	-	4	850
2006/07	15	380.3	17	1265.3	1	400	1	250
2007/08	16	924.8	43	6793.4	-	-	5	2950
2008/09	12	1815.70	50	14262.8	-	-	2	750.00
Total	150	6881.3	153	26019.0	5	636.5	16	5853.0

Source: Annual Report of SEBON

Figure: 4.5

Year Wise Analysis of Securities

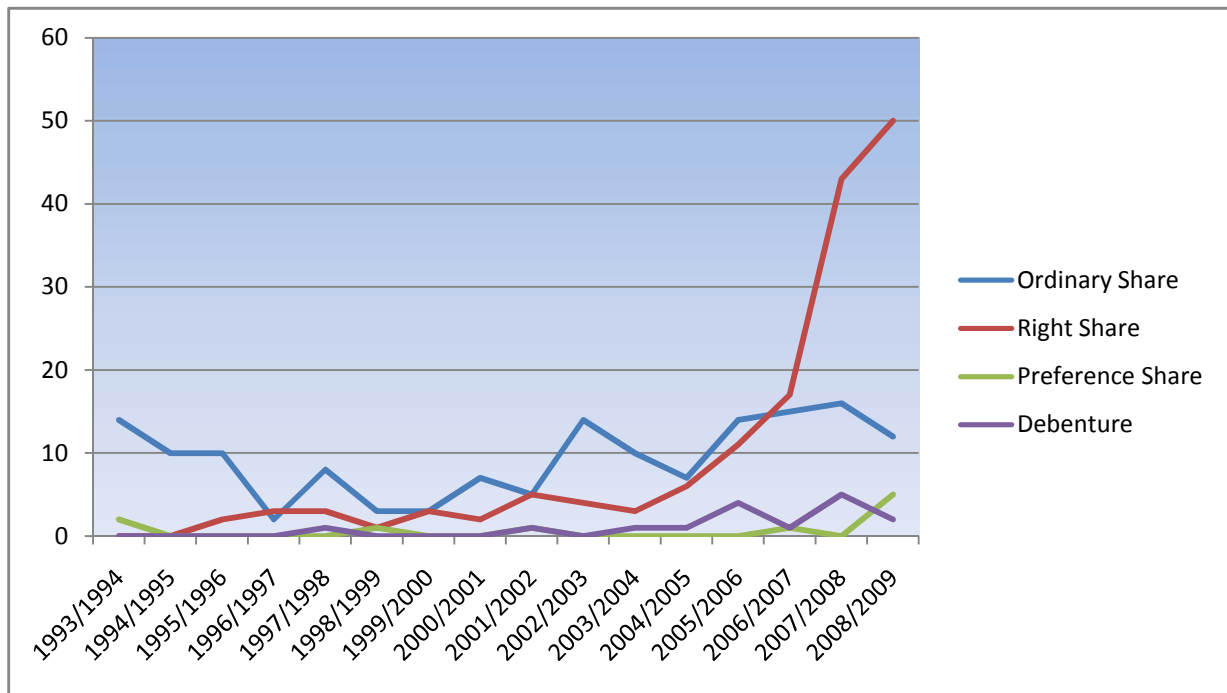


Table 4.6 and figure 4.5 show year wise analysis of different securities with their number and amount since 1993/94 to 2007/08. In fiscal year 1993/94 out of 16 different issues, 14 issues were ordinary shares of total amount of Rs.227.9 and 2 issues were preference

shares of total amount of Rs.16.50 million. In the fiscal year 1994/95 out of 10 different issues, all 10 issues were ordinary shares total amount of Rs.173.96 million. In the fiscal year 1995/96 out of different 12 issues, 10 issues were ordinary shares of the total amount of Rs.224.74 and 2 issues were right shares of the total amount of Rs.69 million. In the fiscal year 1996/97 out of different 5 issues, 2 issues were ordinary shares of the total amount of Rs.57 million and 3 issues were right shares of the total amount of Rs.275.20 million. In the fiscal 1997/98 out of different 12 issues 8 issues were ordinary shares of the total amount of Rs.119.4 million, 3 issues were right shares of the total amount of Rs.249.96 million and 1 issue was debenture of the total amount of Rs.93 million. In the fiscal year 1998/99 out of different 5 issues 3 issues were ordinary shares of the total amount of Rs.148 million, 1 issue was preference shares of the total amount of Rs.80 million and 1 issue was right shares of the total amount of Rs.30 million, in the fiscal year 1999/2000 out of different 6 issues 3 issues were ordinary shares of the total amount of Rs.202.26 million and 3 issues were right shares of Rs.124.6million. Similarly in fiscal year 2000/01 out of 9 issues 7 issues were ordinary shares of Rs278.7 million and 2 issues were right shares of Rs131.79million.In the fiscal year 2001/02 out of 12 issues 5 issues were ordinary shares,1 issue was preference shares,5 issues were right shares, and 1 issues has issued debenture of Rs.319.46million, Rs.621.87million,Rs140 million,Rs360million respectively. Likewise, in the fiscal year 2002/03 out of 18 issues 14 issues were ordinary shares of Rs.394.3million and 4 issues has issued right shares of Rs.162.24 million. In fiscal year 2003/04 out of 14 issues 10 issues were ordinary shares, 3 issues were right shares and 1 issue was debenture of Rs.657.5million, Rs.70million, and Rs.300million respectively. In the fiscal year 2004/05 out of 14 issues 7 issues were ordinary shares of Rs377.48 million, 6 issues were right shares of Rs.949.34million and 1 issue was debenture of Rs.300million .In fiscal year 2005/06 out of 29 issues 14 issues were ordinary shares, 11 issues were right shares and 4 issues were debenture of Rs.579.89million, Rs1013.45million and Rs.850 million respectively. In the fiscal year 2006/07 out of 34 issues, 15 issues were ordinary shares, 17 were right shares, 1 was preference share, and another 1 was debenture of Rs.380.3million, Rs.1265.3million, Rs.400million, and Rs.250million respectively. And in the year 2007/08, out of 64 issues 16 were ordinary shares of Rs.924.8million, 43 issues were right shares of

Rs.6793.4million and 5 issues debenture of Rs.2950million. There is huge increase in the share issue in 2008/2009 because of the big amount of right issue.

4.2 Public Response to Initial Public Offering

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

4.2.1 Public Response to Financial Sector

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

4.2.2 Public Response to Commercial Banks

According to the SEBON Annual Report 2007/08, there are 15 commercial Banks which are listed in Stock Exchange. All of these had issued their Share to public. Nepal Arab Bank Limited (NABIL Bank) is the first commercial bank to issue Share to public. Public issues of commercial bank are highly appreciated by public. Investors give high priority and response to the public issue. From the population of all total of 15 only 6 are taken as sample.

Table 4.7

Public Response to Commercial Banks

S.N.	Name of Companies	Issued Year	No. of Shares	Shares Applied	Sub. Times	Result
1	Nepal SBI Bank	1994	360000	5056416	14.0456	Over Subscribed
2	Bank of Katmandu.	1996	450000	2413485	5.3633	Over Subscribed

3	Everest Bank.	1995	360000	1851660	5.1435	Over Subscribed
4	Kumari Bank	2003	1500000	12170250	8.1135	Over Subscribed
5	Siddhartha Bank	2005	1500000	27979950	18.6533	Over Subscribed
6	Global Bank	2008	3000000	102750000	34.25	Over Subscribed
7	Sunrise Bank	2009	3750000	4753125	26.75	Over Subscribed

Source: NMB, CIT, NCML

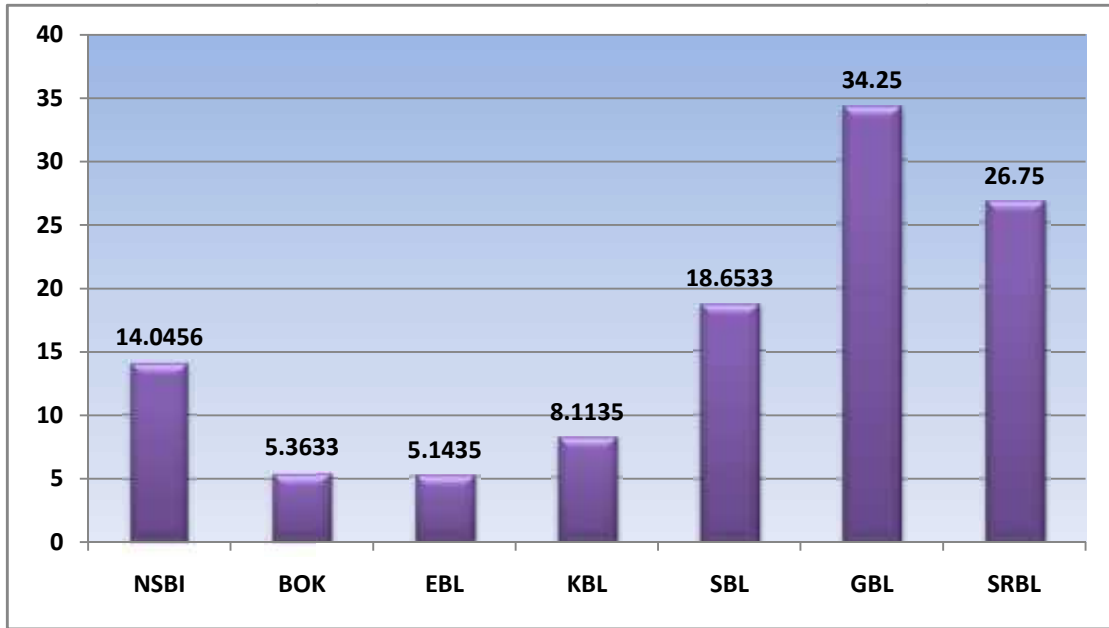
The above table 4.7 shows the information of seven different commercial banks with their number of shares issued and number of applications applied by the general public to the company. The public response to these companies is also shown.

Nepal SBI Bank Limited had issued 360,000 units share to the public. But the demand of the share of this company was 5,056,416 Units. Subscription was approximately 14.04 times more than issue size. It means investors gave high response to this company. Bank of Kathmandu Limited had issued 450,000 units Share to the public. The investors applied for 2,413,485 Units Share. Subscription was approximately 5.36 times. This shows the medium response of the investors to the company. Similarly, Everest Bank issued 360,000 Units Share to the public. Public applied for 1,851,660 Units Share. Subscription was approximately 5.14 times. Public response to this bank was also medium. Like the way Siddhartha Bank and kumari Bank both issued 15,00,000 units of shares. The investor applied for 27,979,950 units and 12,170,250 units for Siddhartha Bank and Kumari Bank respectively. Subscription was approximately 18.65 times and 8.11 times for Siddhartha Bank and kumari Bank respectively. Similarly, Global Bank Limited issued 3,000,000 Units Shares for public. The applied Units were 102,750,000 which very above the issue size. Subscription was about 34.25 times. Public response to this company can be considered to be Very High. In the year 2009, there was a public issue of Sunrise bank ltd. which was oversubscribed by 26.75%.

Table 4.7 also shows that investors are more interested to purchase the shares of commercial banks. Banking sectors of Nepal seems to be more successful to attract the investors. The above information is also shown in the figure 4.6.

Figure: 4.6

Public Response to Commercial Banks



4.2.3 Public Response to Development Banks

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

Table 4.8

Public Response to Development Banks

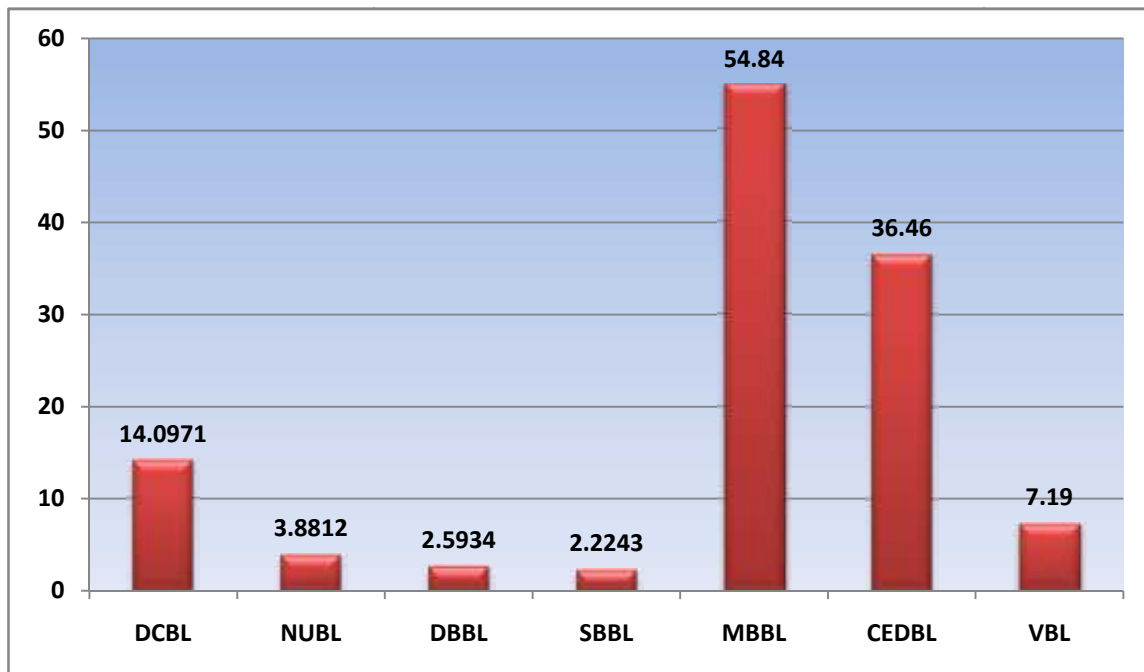
S.N.	Name of the Company	Issued Year	No of Shares	Shares Applied	Sub. Times	Result
1	DCBL	2002	480,000	6,766,608	14.0971	Over Subscribed

2	Nirdhan Utthan Bank	2003	33000	128080	3.8812	Over Subscribed
3	Deprox Development Bank	2005	34,800	90,250	2.5934	Over Subscribed
4	Sidhartha Bikash Bank Ltd.	2006	200000	444860	2.2243	Over Subscribed
5	Malika Bikash Bank	2007	150000	8,226,000	54.84	Over Subscribed
6	Clean Enegygy Development Bank	2008	960000	3,500,160	36.46	Over Subscribed
7	Vibor Bikas Bank Ltd.	2009	2652000	2,842,678.8	7.19	Over Subscribed

Source: NMB, CIT, NCML

Figure: 4.7

Public Response to Development Bank IPO



All the public issue of development banks we found over subscription all the time. That means public are also interested in development banks shares. Among them Malika Bikash Bank was highly subscribed in 2007, the subscription time was 54.84.

Development Credit Bank issued 480000 Units shares to the public. But the demand of the share of this company was 6,766,608 Units. Subscription was approximately 14.0971 times more than issue size. It means investors gave high response to this company. Nirdhan Utthan Bank had issued 33,000 units shares to the public. The investors applied for 128,080 unit shares. Subscription was 3.8812 times. This shows the response of the investors to the company was medium. Same way Sidhartha bikash Bank issued 200,000 units of shares but the demand was 444,860 units. Subscription was approximately 2.2243 times. Similarly in year 2008 Clean Energy Development Bank issued 960,000 units of shares but the demand was approximately 36.46 times more. That is public applied for 3,500,160 units of shares. This also shows a very high level of subscription like Malika Bikash Bank in 2007. In the year 2009, there was an IPO issue of Vibor Bank Ltd. which was oversubscribed by 7.19 times

4.2.4 Public Response to Finance Companies

There are 58 Finance companies which had issued share to the public and listed in the Nepal Stock Exchange Limited. Almost of these companies received good response from general public. Among 58 Finance Companies 10 are taken for public response.

Table 4.9

Public Response to Finance Companies

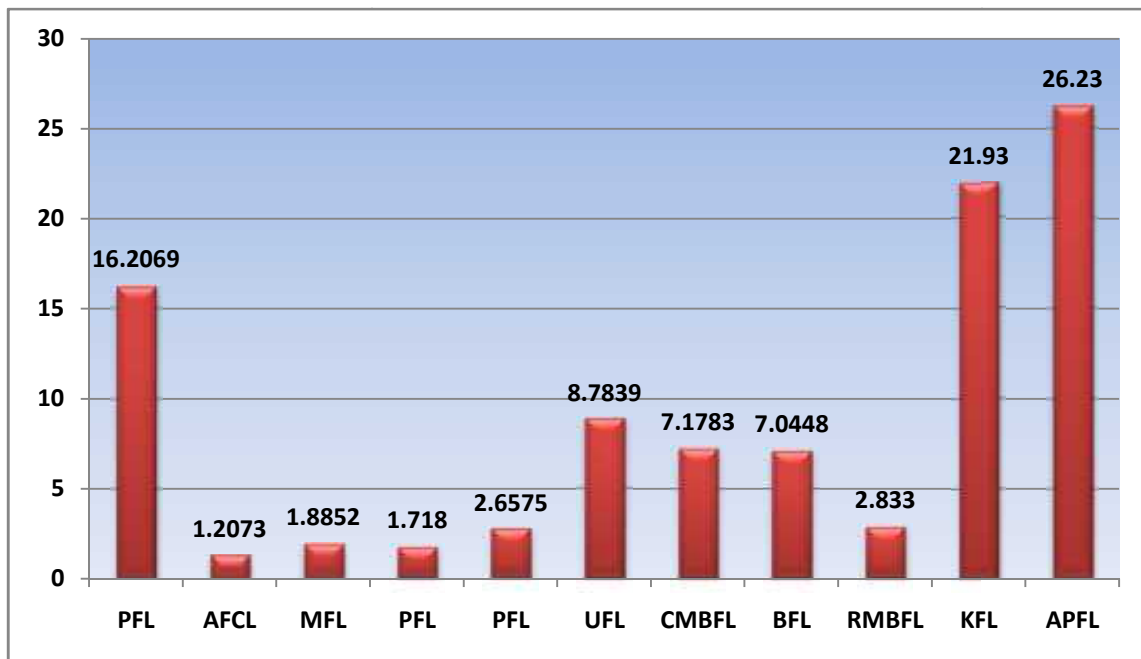
S.N.	Name of Companies	Issued Year	No of Shares	Shares Applied	Subs. Times	Result
1	Peoples Finance	1994	98000	1588276	16.2069	Over Subscribed
2	Ace Finance Company	1996	120000	144876	1.2073	Over Subscribed
3	Mahalaxmi Finance	1998	100000	188520	1.8852	Over Subscribed

4	Paschimanchal Finance	1998	80000	137440	1.7180	Over Subscribed
5	Pokhara Finance	1999	80000	212600	2.6575	Over Subscribed
6	Union Finance	2002	240000	2108136	8.7839	Over Subscribed
7	Cosmic Merchant Banking & Finance	2003	240000	1722792	7.1783	Over Subscribed
8	Birganj Finance	2004	240000	1690752	7.0448	Over Subscribed
9	Royal Merchant Banking & Finance	2006	175000	495775	2.8330	Over Subscribed
10	Kaski Finance	2008	200000	4386000	21.93	Over Subscribed
11	Api Finance	2009	180000	227214	26.23	Over Subscribed

Source: NMB, CIT, NCML, SEBON

Figure: 4.8

Public Response to Finance Company IPO



The above table 4.9 and bar figure 4.8 show the status of IPO of different finance company over the same period. All the IPO's presented in the table are oversubscribed that shows the popularity of IPO made by finance companies. Among these companies

three companies viz. Union Finance Company (UFL)'s IPO are highest (240,000). These IPO's were highly oversubscribed by 8.78, 7.17 & 7.05 times respectively. According to the table Kaski Finance's IPO was highly oversubscribed (22 times). Similarly, People's Finance Company's IPO was oversubscribed by 16 times. People's IPO was lower than Kaski's IPO. PFL issued 90,000 shares while KFL issues 200,000 shares. Out of the 10 IPO's ACE's IPO received lowest attention from public, although it was oversubscribed by 1.21 times. Ace issued 180,000 shares but received applications for 144,876 shares. In 2009, there were two IPO's of finance companies – Crystal finance and Api finance. Among these two the IPO of Api finance was oversubscribed by 26.23 times

Among these 10 finance company IPO, two IPOs were highly oversubscribed (22 & 16 times), whereas three had medium public response (7 to 9 times) and five IPO's have lower oversubscription rate (more than one to 3 times). This shows that investors are more interested to purchase the shares of finance companies. Finance companies are also getting successful to attract investors.

4.2.5 Public Response to Insurance Companies

Out of 18 insurance companies, 6 were taken for research. Which are shown in the following table 4.10

Table 4.10

Public Response to Insurance Company

S.N.	Name of Companies	Issued Year	No of Issued Shares	Shares Applied	Subs. Times	Public Response
1	United Insurance Co. Ltd	1994	240000	1056360	4.4015	Over Subscribed
2	Everest Insurance Co. Ltd.	1994	120000	1301568	10.8464	Over Subscribed
3	N.B. Insurance Co. Ltd	2003	200000	265380	1.3269	Over Subscribed
4	Prudential Insurance Co. Ltd.	2004	200000	1913620	9.5681	Over Subscribed

5	Shikhar Insurance Co. Ltd.	2006	250000	10939650	43.7586	Over Subscribed
6.	Siddhartha Insurance Co. Ltd.	2007	250000	15157500	60.63	Over Subscribed

Source: CIT, NSML, NCML, NMB

The above table 4.10 and figure 4.9 shows the public response to six different insurance companies with issued and applied number of shares. According to the table all six IPOs were oversubscribed. Table shows that among six insurance companies three had medium public response (4.4, 9.57, and 10.85 times), one had low level (1.33 times) oversubscription rate and two have high oversubscription rate (43.76 and 60.63 times). This shows that investors are more interested to purchase the shares of insurance companies. SHICL and SICL both received flood of application when they floated 250,000 shares in the year 2006 and year 2007 respectively. SHICL received applications for 10,939,650 shares which were 43.76 times of its issues. Similarly, SICL received application for 15,157,500 shares in response of 250,000; 60.63 times more than that issued shares. The main factor behind this oversubscription was management and BOD of the companies and market sentiment. Well-known personalities of financial sector were involved in these companies and the stock market was in boom at that time. Contrary to these issues, NBICL received 265,380 shares for its 200,000 issue, just 1.33 times more than its size. Because of the promoters bad reputation in market it received few applications. EICL received 10.85 times more applications and PICL received 9.57 times more applications and UICL received 4.40 times more application. UICL and EICL floated shares in 1994, at that time Nepalese security market was in its initial stage. Many people were not aware of IPO's and shares but these issues were acclaimed by investor that is because of the promoters and management team. These two issues made quite easy for PICL to raise capital through IPO.

4.2.6 Public Response to Non Financial Sector

In Nepalese context, non financial sector does not seem to be performing well in the market in comparison to financial sector. Many such companies are not able to make profit. Some companies, like Necon Air Limited, were already dissolved. Non-Financial Sector includes manufacturing and processing companies, trading companies, hotels and

others (which also include hydropower sector). Up to the fiscal year 2007/08 end, there are 36 non financial Sector companies listed. Among them 9 are taken for research.

Table 4.11

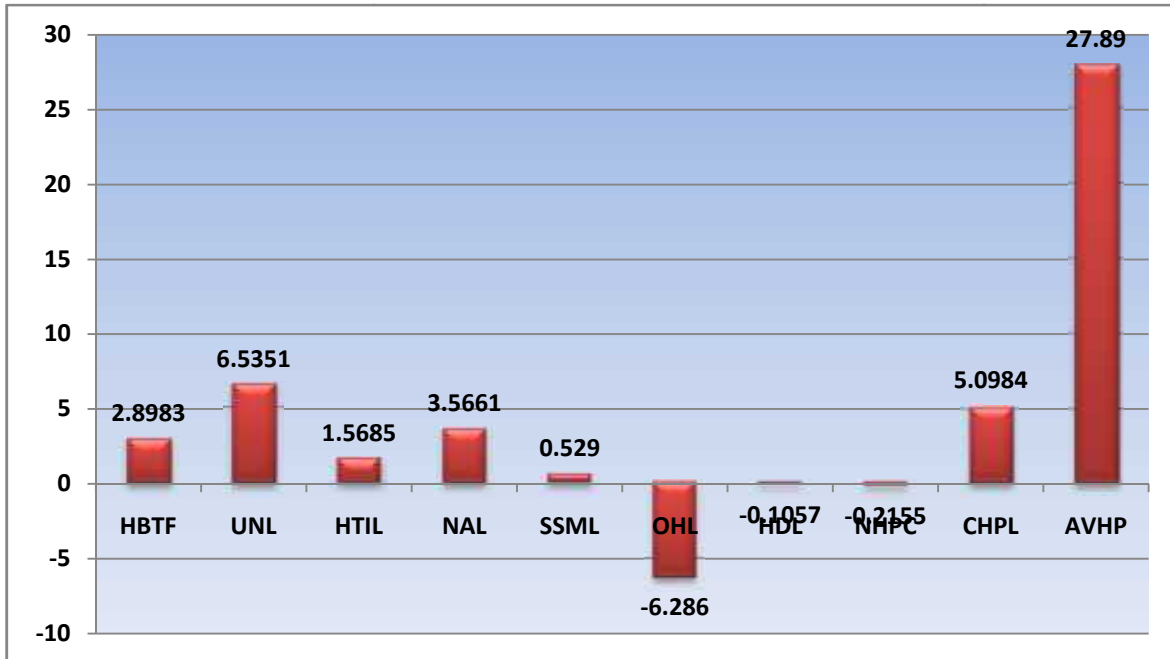
Public Response to Non Financial Sectors

S.N.	Name of Companies	Issued Year	Issued No of Shares	Shares Applied	Subs. Times	Public Response
1	Harisiddhi Brick & Tile factory Ltd.	1993	532,000	1,541,896	2.8983	Over Subscribed
2	Uniliver Nepal Ltd.	1994	138,000	901,844	6.5351	Over Subscribed
3	Himgiri Textile Industries Ltd.	1994	192,000	301,152	1.5685	Over Subscribed
4	Necon Air Ltd.	1994	165,000	588,407	3.5661	Over Subscribed
5	Shreeram Sugar Mills Ltd.	1997	465,000	245,985	-0.5290	Under Subscribed
6	Oriental Hotels Ltd.	2000	1,500,000	9,429,000	6.2860	Over Subscribed
7	Himalayan Distillery Ltd.	2001	1,734,600	183,347	-0.1057	Under Subscribed
8	National Hydro Power Co. Ltd.	2004	1,400,000	301,700	-0.2155	Under Subscribed
9	Chilime Hydro Power Co. Ltd.	2005	2,374,100	12,104,111	5.0984	Over Subscribed
10	Arun Valley Hydropower Co. Ltd.	2009	5,150,000	6,586,335	27.89	Over Subscribed

Source: CIT, NSML, NCML, NMB, SEBON

Figure: 4.10

Public Response to Non Financial sector



The above table 4.11 and figure 4.10 shows that the subscription of three companies are under subscribed and rest 6 companies are over-subscribed. Harisiddhi Brick & Tile Factory Ltd. had issued 532,000 unit shares and had received application for 1,541,896 unit shares. The public response to this company was medium with 2.8983 times subscription. Uniliver Nepal Ltd. and Hingiri Textile Industries Ltd. issued 138,000 units and 192000 units shares, had received application for 901,844 units & 301,152 shares. The response to these companies was also medium with 6.5351 & 1.5685 times respectively. Necon Air Limited issued 165,000 unit shares for which application was received for 588,407 unit shares. This shows the subscription times to be 3.5661 and hence the public response was medium. Likewise, the public response was medium to the Oriental Hotels with subscription of 6.2860 times. This company had issued 1,500,000 unit shares and had received application for 9,429000 unit shares. Shreeram Sugar Mills Ltd. had issued 465,000 unit shares and had received application for 245,985 unit shares. The public response to this company was too low with 0.5290 times subscription. Similarly Himalayan Distilary Ltd. and National Hydropower Company Ltd. issued

1,734,600 units & 1,400,000 units shares and had received application for 183,347 units & 301,700 shares. The responses to these companies were too low with 0.1057 & 0.2155 times respectively. In 2009 there was an IPO of Arun Valley Hydropower Co. the IPO of which was highly oversubscribed by 27.89 times.

Chilime Hydropower Company Ltd. had issued 2,374,100 unit shares and had received application for 12,104,111 unit shares. The public response to this company was medium with 5.0984 times subscription.

4.4 Analysis of Primary Data

To make the study more realistic primary data has been taken for analysis. For this purpose a questionnaire (see appendix) was designed. Questionnaire was distributed to 150 respondents (students, businessmen, bankers, brokers, and others) for their responses. Among the 150 respondents for the primary data collection, 20%(30) are students, 40%(60) are businessman, 16.67%(25) are bankers, 3.33%(5) are brokers and rest 20%(30) are others.

Investors have mixed feelings on the primary market in Nepal. For the primary data collection 150 respondents from bank, business, university student and brokerage firm and investors have been taken as sample.

4.4.1 Knowledge about IPO

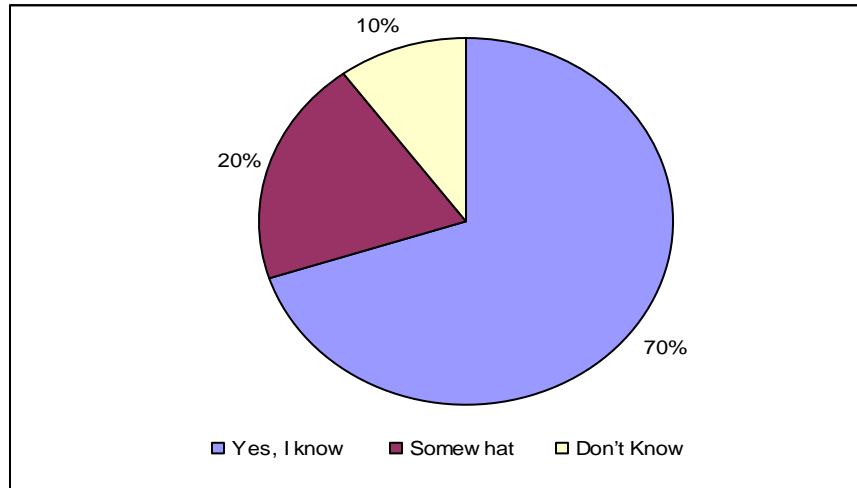
The survey reveals that majority of respondents knows about IPO. They are asked either they have knowledge of IPO or not? The finding is presented below in the table and pie chart.

Table 4.12

Showing response from the participants

S.N	Response	Numbers	Percentage

1.	Yes, I know	105	70
2.	Somewhat	30	20
3.	Don't Know	15	10
Total		150	100



These figures show that most of the people (70 percent) of the respondents have knowledge about IPO and 20 percent of respondent have little bit knowledge. Similarly, 10 percent of the respondents are completely unaware of IPO. A chunk of University student and bank staffs were familiar with IPO. But, minority of them responded with negative answer. Similarly Investors labeled their knowledge as ‘somewhat’ and ‘yes’.

4.4.2 Sources of information about IPOs

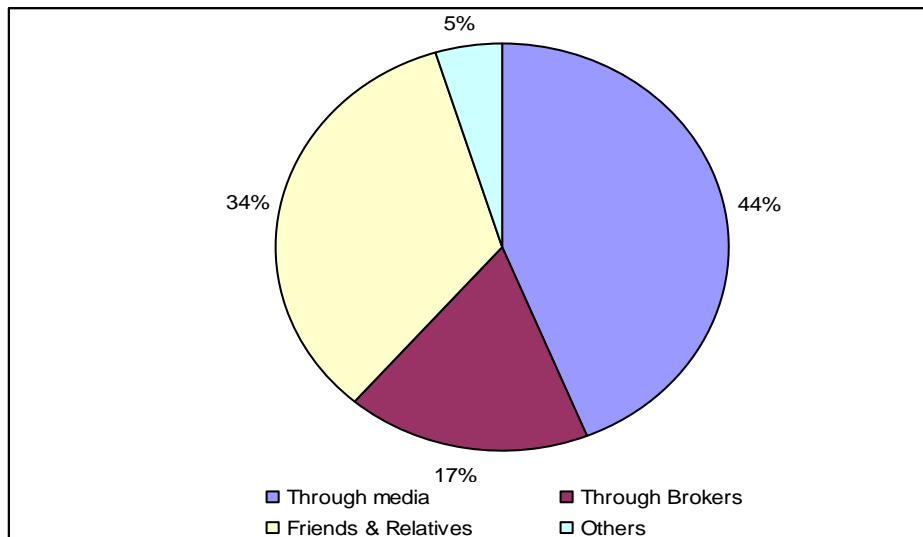
Out of 150 respondent most of the respondents 44%, gets information through media.34% through friends & relative and 17.33% & 4.7% through brokers & others sources respectively. Which is shown in the below table and figure.

Table 4.13

Showing sources of information about IPO

S.N	Alternative	No of Response	%age
-----	-------------	----------------	------

1	Through media	66	44.00
2	Through Brokers	26	17.33
3	Friends & Relatives	51	34.00
4	Others	7	4.67
Total		150	100



These figures show that most of the investors (44%) get information about IPO through media. Similarly 34% gets through their friends & relatives. The percentage of investors get information through different Brokers are 17.33% and rest 5% get information through other sources.

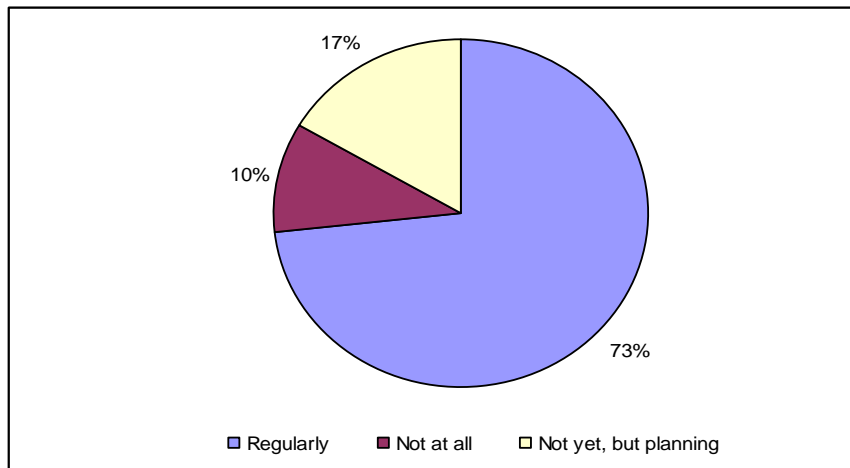
4.4.3 Investing through IPO

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

Table 4.14

Showing investing interest on IPO

S.N	Alternative	No of Response	%age
1	Regularly	110	84.33
2	Not at all	15	10.00
3	Not yet, but planning	25	5.67
Total		150	100



The above figure shows the respondents interest on Nepalese capital market through IPO. Out of 150 respondents 84.33% are investing regularly. 10% are not investing in IPO and around 5% are planning for IPO.

4.4.4 Habit of reading Prospectus before investment.

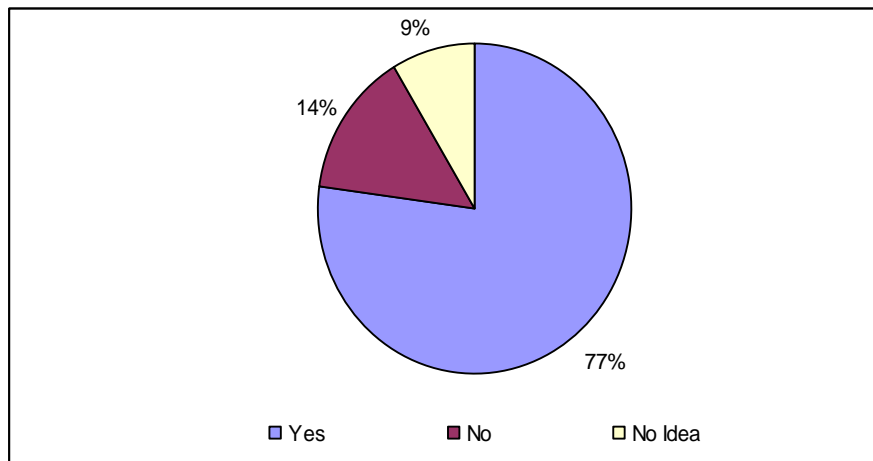
While investing in shares issued by different companies everyone should have the habit of reading prospectus of that particular company. The prospectus gives lots of

information about the company. To know the prospectus reading habit 150 responds were asked the question. The result is shown in the table & figure below.

Table 4.15

Showing habit of reading prospectus before investment.

S.N	Alternative	No of Response	%age
1	Yes	116	77.33
2	No	21	14.00
3	No Idea	13	8.67
Total		150	100



While going to public Companies issue their prospects, to show their image in the market. This question was related with this. The investor has asked do they read prospects before the investment. The reply is quite satisfactory. 77.33% investor read the prospects before they invest their money.14% investor does not consider the prospects, while investing and 8.67% investors have no idea.

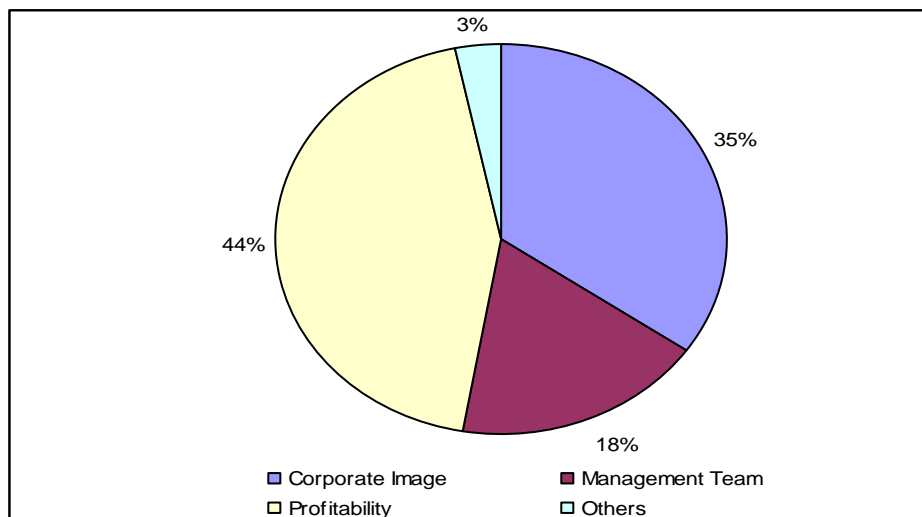
4.4.5 Selection of company for investment.

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

Table 4.16

Showing selection of company for investment.

S.N	Alternative	No of Response	%age
1	Corporate Image	52	34.67
2	Management Team	27	18.00
3	Profitability	66	44.00
4	Others	5	3.33
Total		150	100



Out of 150 respondents most of them (44%) select the company for their profitability. 34.67% choose their company for their corporate image. Similarly 18% choose for the management team of the company and 3.33% select the company for other reasons. Which are shown in the above figure?

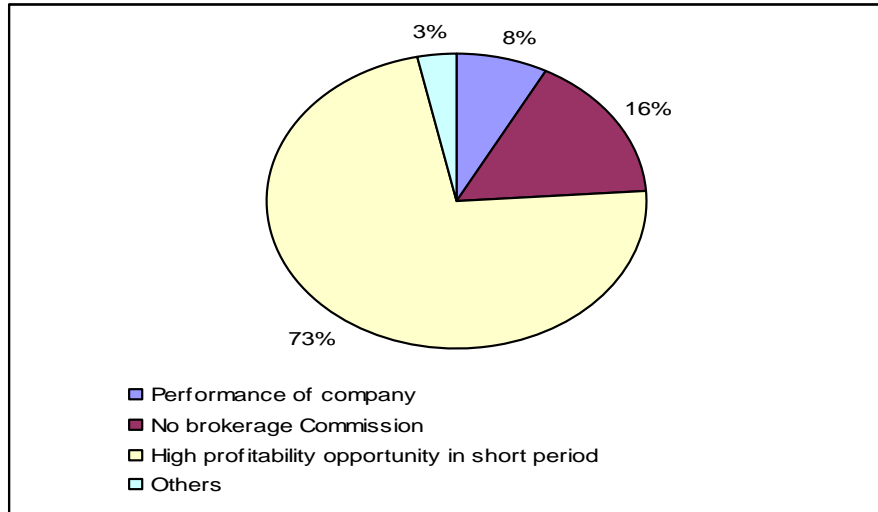
4.4.6 Motivating factor for invest in IPO

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

Table 4.17

Showing the motivating factor for invest in IPO.

S.N	Alternative	No of Response	%age
1	Performance of company	12	8.00
2	No brokerage Commission	25	16.67
3	High profitability opportunity in short period	113	75.33
Total		150	100



While investing, the motivating factor plays a vital role. What factors really motivate the investor to invest in shares? Out of 150 respondents most of them, around 75.33% invest in IPO for high profitability in a very short period of time with a very low risk. 16.67% invest in IPO as there is no brokerage commission and 8% invest for the performance of the company.

4.4.7 Preferred Sector for Investment

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

Table 4.18

Showing preferred sector for investment.

S.N	Alternative	No of Response	%age
1	Financial	121	80.67
2	Non- Financial	29	19.33

Total	150	100
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Most of the investors prefer to invest in the financial sectors rather than in non financial sectors. Among 150, 80.67% said that they prefer financial sectors while 19.33% said they prefer non financial sectors.

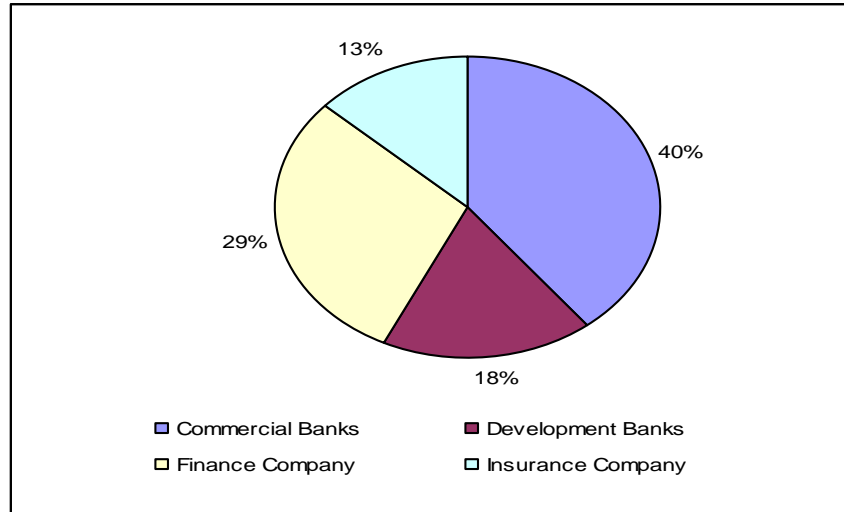
4.4.8 Preferred Financial Sector for Investment

Among the 150 respondents 59 prefer commercial bank, 27 prefer development bank, 44 prefer finance company and only 20 prefer Insurance company for investment in financial sector.

Table 4.19

Showing the preferred financial sector for investment.

S.N	Alternative	No of Response	%age
1	Commercial Banks	59	39.33
2	Development Banks	27	18.00
3	Finance Company	44	29.33
4	Insurance Company	20	13.34
Total		150	100



Most of the investors, 39.33%, said that they prefer to invest in Commercial Banks. 18% people said they prefer to invest in Development Banks. Investors preferring to invest in finance companies and insurance companies are 29.33% and 13.34% respectively.

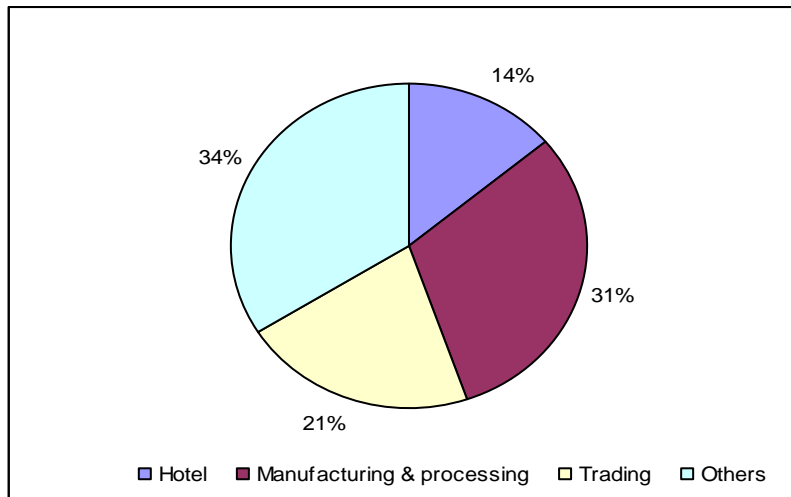
4.4.9 Preferred Non-Financial Sector for Investment.

Among the 150 respondents for the question which non- financial would you prefer to invest in, the responses are as follows:

Table 4.20

Showing the preferred non- financial sector for investment

S.N	Alternative	No of Response	%age
1	Hotel	21	14.00
2	Manufacturing & processing	46	30.67
3	Trading	32	21.33
4	Others	51	34.00
Total		150	100



Among non financial sectors, Others sector which include hydropower sector too were in investor's preference. Survey done among 150 investors 34% said they prefer to invest in others. 30.67% said they prefer to invest in manufacturing and processing companies. 21.33% prefer to invest in trading and only 14% preferred for hotel sector.

4.5 Major Findings on Primary data

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

-) Interviews are taken from the officials of Security Board of Nepal, Citizen Investment Trust, NCML and questionnaires are distributed to the respondents from different sectors to collect the primary data. Most of them expressed happiness over the growth of primary market but were not satisfied with the current situation of secondary market.
-) Most of the people are investing in primary market for long term purpose that means they want to hold the shares. More than 56% people investing in primary market for such purpose. Rest of the people investing in primary market just to get the short term benefit.

-) The primary source of data shows that the major source of information of public offering is media. Public getting information of IPO mostly from print media.
-) People are getting aware to primary market to choose the right sector for investment. Investors are making portfolio of their investment, 35% investor invests their money in two to four companies.
-) Most of the investor (more than 75%) read prospects of the company before investing their money in stocks.
-) Profitability is the encouragement factor for investment. The investors think that those companies who are performing well in the market will do better in the future.
-) People think that the present environment is suitable for investment. 80.67% people prefer to invest their money in the financial sector.
-) This study has found that public response to the primary market is highly positive due to lack of opportunities for investment in other sector. Despite this, public are attracted towards shares to increase their value of investment.
-) Pace of public offering is also increasing as amount of in approved continuously increase from 1993/94 (244.4 million) to 2008/09 (10668.20 million).

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

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

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

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

getting approval, issuing company must give its information to the Nepal stock Exchange Limited and Company Register's Office.

Issuing company is free to choose one or more than one issue manager/s for the process of issuing the shares. Bankers to the issue also involve during this period. Issue manager has to publish a public notice in the national daily newspapers to offer public for investment. The notice must be published seven days before the application form distribute date. The issue manager has to publish and distribute the prospects. Prospects make easy to the public to decide whether to invest their money in the share or not. The application period must not be more than one month. If issue managers think the required applications have been collected, they can close, anytime after one week, to receive application. If over application is received, the distribution of share should be decided through allotment procedure. For this purpose additional 40 to 90 days can be taken. After allotment within next 15 days the issue manager has to refund the money of those public whose application has not been accepted. Within 30 days of refund period the certificates has to be distributed.

According to Securities Board, 260 issue approval of different companies for public issue. There are 159 companies listed in Nepal Stock Exchange Limited. In a year 2008/09, maximum, 64 companies have got approval from SEBON. Minimum 5 companies have got approved form SEBON in each of the year 1996/97, 1998/99. Public response to the financial institutions and insurance sectors is higher than non financial sectors.

In financial institutions and insurance sector, the subscription of commercial bank seems 14.26 times in average, and of development banks has took 19.01 times in average. This shows the public response to development banks was greater or more than commercial banks. Past data shows that the average subscription of finance companies was 7.14 times

while average subscription of insurance company seems 21.76 times. Which shows the most responded sector was insurance sector.

Similarly, of non financial institutions the average subscription is 2.98 times. It shows non financial sector has also got cheering response from the public. Last few year's experience shows that there are limited non financial sectors available in the country that satisfied the investors.

This study has found that public response to the primary market is highly positive because people are getting aware of stock market, flow of money in the market is higher, people have realized the importance of the investment in shares, people have seen that most companies are distributing dividends, share prices of most companies are increasing and a lack of better alternative for investment.

Public Response in stock market is high due to lack of opportunities for investment in other sector. Despite this, public are attracted towards shares to increase their value of investment.

5.2 Conclusion

Most of the general investors in Nepal do not have sufficient information regarding the primary market but still they are interested to invest money in the primary market. This is good sign to the expansion of the primary market.

As per this study, almost every sector is getting good response from general public. Specifically financial institutions and insurance sector is more preferable for general public than non financial sector.

Pace of initial public offering in Nepal seems to be irregular. The number of companies approved for public offering by SEBON in a single year varies from 18 to 5. The highest amount of issue approved by the board was Rs.1555.11 million while the lowest amount of issue was Rs.254.21 million. If we see on the basis of sector, SEBON had granted 74% approval for financial institutions and insurance sectors and 26% approval for non financial sectors. Out of 16,772 million, the financial and insurance sectors paid up capital hold 65% and that of non financial sectors hold 35%.

Even though the organization's process of public offering is quite long; the service provided to the investors seems to be satisfactory. If raising interest of the public in to primary market is one of the objectives, then the primary market of Nepal is fulfilling this role gradually.

The structure of both segments of the market primary/New and secondary/Stock exchange has witnessed significant change. Some of the important development in the primary market which deserve specific mention are the establishment of merchant banks, provision of speedy up allotment/refund, proportionate allotment of shares, allotment of financial institution, increase in minimum application amount of investment in primary issue such change have brought significant public response in new issue.

The secondary market which presented an institutional mechanism that may be transparent, hardly regulate and rarely feared to investor's protection but not yet in practice. Among them are prescription of norms for intermediaries like broker in trading/settlement and the bound of stock exchange with participant from stock exchange members and investors. The exchange has made tremendous effect in the volume of transaction, share turnover, number of shareholders, public response and market capitalization.

5.3 Recommendations

To make the IPO more efficient, effective and convenient, following suggestions are recommended:

-) Investing in shares is a gamble which involves huge amount of risk. To be successful in the stock market, investors should always be clear to his strengths, weakness, requirements, wishes, risk taking capabilities and how to react on different and ever changing market conditions. They should not buy the shares of a company until they know details about it.
-) Most of the public issues are from banking and finance sector so issue-manager should take initiative step to promote their business from other sectors too. They should be equally effortful in developing the public offering market as an avenue for cost effecting financing.
-) In Nepal, opportunity to invest in primary market is low. They have to wait a long period to invest. If they hurry to invest in any of the company, they may have to suffer from loss. So, to get opportunity to invest in profitable stock they should have patience on them.
-) Issuing company's post issue compliance practice is found to be poor. The issuer companies should be made aware in complying with the post issue legal provisions at the time of public issue. Issue manager should also take the responsibility to make the issuer companies aware of compliance issue.
-) The concerned authorities should conduct various research studies and disseminate the information relating to the share trading activities to increase the understanding of the investors in using financial tools to estimate the intrinsic value of shares of a company before making investment decision.
-) The government, concerned bodies and individuals have to work hard to make the investment in securities preferable to investors by implementing the rules, regulations, policies and activities more strictly. The regulatory authorities of the stock market should try to rise the trading of shares by regulating the activities and performance concerned bodies such as brokers and the listed companies frequently to create the efficient pricing of shares.

-) The stock market lacks the existence of sophisticated investors. So, it is recommended to the regulatory bodies to carry out programs using various media and spot program to inform and attract the potential investors, both individual and institutional, in investing into shares.
-) Stock market is heading towards the right directions so it is developing and growing. It is utilizing the unused surplus resources in productive sectors. With the provision of stockbrokers and market makers in 1993, the securities market has been broadened and this has also developed specialization in providing services to securities market.
-) Restriction on foreign direct and portfolio investment should be reviewed with a view toward the elimination of unnecessary impediments.
-) The Central Depository System (CDS) must be introduced to the current trade as soon as possible. This means that very high volume or trading can be cleared and settled in timely and cost-effective way, there by supporting the overall development of NEPSE.
-) Presently, intuitional players have not been able to play any noticeable role in the stock exchange. Limited market, allotment procedure and emphasis of small investors have not helped to enhance the role of the institutional players. Increased role of such players will make the market more competitive.
-) While investing or trading in the primary or secondary market, the major consideration should be made that of the promoters, directors and managers in Nepal. Other considerations may be market prospect, professionalization of management and overall environment.

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Appendix-1

Questionnaire

This questionnaire is a part of my research work entitled "Public Response to IPO". I request you all to fill this questionnaire with sincerity. Your response will have direct impact on research outcome, so I request you to be honest.

Personal Information:

Name: Occupation:

Age/Sex: Education:

Address/Phone No.....

Objective Questions

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

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

C) Yes, I know properly ()

2. What are the sources of information about IPOs

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

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

3. Are you investing in stocks through IPO?

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

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

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

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

a) Corporate image () b) Management team ()

c) Profitability () d) other (please specify).....

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

a) Performance of Company ()

b) No brokerage commission ()

c) High profitability opportunity in short period ()

7. Which sector would you prefer to invest?

a) Financial ()

b) Non Financial ()

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

a) Commercial Banks ()

b) Development Banks ()

Thank You!

.....

Shanker Dev Campus

Appendix-2

Processing of Primary Data

Query	Description		Number	Percentage
1. Knowledge of Initial public offering:	a.	Yes	105	70
	b.	Somewhat	30	20
	c.	Don't Know	15	10
Total			120	100

Query	Description		Number	Percentage
2. Source of information about IPO.	a.	Through Media	66	44
	b.	Through Brokers	26	17.33
	c.	Friends & Relatives	51	34
	d.	Others	7	4.67
Total			150	100

Query	Description		No	Percentage
3. Investment through IPO:	a.	Regularly	110	84.33
	b.	Not at all	15	10
	c.	Not yet but planning	25	5.67
Total			150	100