

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The primary goal of any country, like Nepal, is rapid economic development to promote the welfare of the people and the nation as well. Nepal is trying to embark upon the path of economic development by economic growth rate and developing the sector of economy. So, the process of economic development is depends upon capital formation and its proper utilization plays a paramount role. The increase in capital has always been a sort of prime mover in the process of material growth and the rate of capital formulation has been the principal variable in setting the overall pace of economic. In this regard, the network of well- organized financial system of the country has great bear. It collects scattered financial resources from the masses and invests them among those engaged in economic and commercial activities of the country. In this way, financial institutions provide savers highly liquid divisible assets at a lower risk while the investors receive a large pool of resources.

Financial sector is often regarded as the lifeblood of national economy. Almost every economic activities pivot around varying degree of financial investment. The financial system of the country plays vital role in transferring resources from net savers to the deficit units of the economy. The development of the financial system is important in economic growth and an efficient financial system fosters the efficient mobilization of domestic saving and allocates resources to their optimum uses. Financial system contributes to greater accumulation of productive capital by increased mobilization of financial resources and sustained high investment levels.

A developed financial system is a hallmark of any free enterprises or mixed economy. The markets, instruments and institutions that comprise this system facilitate the efficient production of goods and services and thereby contributing the society's well being. The financial systems or markets perform this function by channeling the nation's saving into best uses. It does this by bringing together those who have surplus funds to lend and those who wish to borrow to finance their expenditure.

Financial institutions and financial markets compete as ways of providing borrower with access to capital and providing liquidity to investors. This financial market is broadly classified into two i.e. Money Market and Capital Market. Money market refers to a market where debt securities of less than one- year maturity are traded whereas capital market is the market for long-term debt and corporate stocks. The main function of money market is to provide short-term funds to deficit spender while capital market avails funds for long –term investment in fixed capital. The Money Market is the center of dealing mainly of short term character in monetary assets; it meets the short term requirement of borrowers and provides liquidity or cash to the lenders. It is the place where short term surplus investible funds at the disposal of financial and other institutions and individuals are bid by borrowers again comprising institutions and individuals and also the Government itself.

A capital market is an organized market for effective and efficient mobilization of money capital or investible funds from the numerous investing classes (individuals and institutional enterprises) to finance their business either in the private sector or in the public sector of our economy.

Capital market is further divided into two categories- securities market and non-securities market. Securities market refers to that market where financial assets such as share, debentures, bonds, etc. are traded in accordance with prescribed rules and regulations. Securities market is also divisible into primary and secondary market. The primary market facilitates to raise funds from the market for first time and is often known as ‘new issue market’. Secondary market, which is popularly known as “stock exchange” is concerned with the trading of already issued securities. And non-securities market represents the market where financial transactions are carried out between lender and borrower for a longer period without issuing any securities in the form of shares, debentures in the market. (Shrestha, 2002:1)

Nepal is a developing country. For the balanced development of the country, she has been adopting planned economic development, which requires a steady supply of medium to long term capital funds. Supply of capital markets are the institutions, which are engaged in mobilization of idle saving in productive opportunity. Development and expansion of capital market is essential for the rapid economic development by mobilizing the long term capital. (Ojha, 2000:26)

The capital market provides an important base for the development of industry, commerce and the economy. The main function of capital market is the collection of savings and their distribution for industrial investment, thus stimulation capital formation and, to that extent, accelerating the process of economic growth. The role of capital market has become crucial even in Nepal with the changes in the fundamental philosophy of the development process in the country i.e. shifting to free economy and the consequent liberalization /globalization of the economy.

Capital is the lifeblood of any organization. Capital structure is the combination or composition of the long term debt, preferred stock and common stock. The existence of an organized capital market plays an important role in collecting and mobilizing the investible resources to fulfill long term fund requirement of corporate sector. The role of capital market is significant when there is a high demand of funds. In this situation, merchant bankers bridge the huge gap between demand for funds by the institutions and supply of untapped public savings. They mobilize funds from savers to investors through various channels assuring promising return on investments.

Thus the development of merchant banking service is crucial for the growth of capital market. The development of merchant banking services is closely linked with worldwide move towards open and market oriented economic system. With the development of liberalized and market oriented economy, the banking and financial system is also expanding gradually, resulting with the introduction innovative financial services and instruments. As a result, the financial system has been experiencing and there is tough competition among the players of the financial system. Thus, "Merchant Banking activities" include all activities where merchant banker provides services for those institutions or individuals who need information of different financial resources, required procedure to achieve these resources or any other required managerial work for such activities. (Aryal, 2060: 63)

1.2 History of Merchant Banking

The term 'Merchant Banking' was originated in the 18th and early 19th centuries in the United Kingdom when trade between countries was financed by bills of exchange drawn on the principle merchant houses. With the increase in international trade, the established merchants started the practice in lending their names to the new comers and accepting the bills of exchange on their behalf. They would charge a commission

for the purpose and thus acceptance business became the hallmark of Merchant bankers. Once these banks had gained the confidence of the government, they also entrusted with the job of issuing bonds in the London market. (Laxman & Naik, 2002: 88)

Merchant banking came into scene in USA in the early 19th century after the introduction of Blue Sky Laws to protect investors from fraudulent promoters and security salesmen. In India through merchant-banking activities originated before its independence they got systematized form only after restoration of independence. As a result of recommendations of Banking Commission in 1972, those Indian banks should start merchant banking services as part of their multiple services they could offer their clients; State Bank of India started the Merchant Banking Division in 1972.

In the context of Nepal though Merchant banking exists from the establishment of Nepal Bank Limited in 1990 B.S., its existence was in crude form. After the restoration of democracy in 2046 B.S., and an announcement of government's economic liberalization policy, private sector investors are attracted to invest in different organized commercial ventures. As a result numerous new private and public limited companies were established in a very short span of time to reap the benefit of economic liberalization policy of the nation. The development activity through the country had created excess demand for the sources of funds by the ever-expanding industry and trade, which could not be met all by the local banks and financial institutions. In these circumstances, the corporate sector enterprises had the only alternative to avail themselves of the capital market services for meeting long-term fund requirements through issue of shares and debentures. The growing demand for funds from capital market has enthused many organizations to enter into the field of merchant banking for managing the public issues.

The Finance Company Act 2042 gave birth to a new dimension to the merchant Banking Services as the act permits finance companies to sell and purchase the bonds issued by His Majesty's Government or securities issued by other companies or institutions, to underwrite them and to form syndicate for such purpose or to participate in such syndicates and to act as broker under the Securities Exchange Act, 1983. Similarly section 3 (g) of the same act permits them to perform functions of merchant banking with prior approval of NRB.

Citizen Investment Trust (CIT) is a pioneer merchant banker of the country followed by other finance companies viz. NIDC Capital Market, National Finance Co., Nepal Share Market, etc. At present few financial institutions (basically finance companies) are involved in different merchant banking activities. Out of wide range of various services provided by Merchant bankers, Nepali merchant bankers provide very few of them like issue management, underwriting, underwriting syndication, registrar to share etc. Other merchant banking activities still have to be developed with the development of merchant banking in Nepal.

1.3 Focus of the Study

With the view to develop financial system in Nepal HMG/N has conducted various reforming activities especially after the restoration of democracy. Nepal is experiencing diversification in financial sectors with liberalized financial policies. Lots of banks, insurance companies, finance companies and co-operatives were established rapidly. With the growth of these sectors, merchant banking has also emerged.

Merchant banks work as a bridge, which provides every kind of financial assistance to industries and commerce. They play a highly significant role in mobilizing funds of savers to investible channels assuring of promising return on investments and thus can help in meeting the widening demand for investible funds for economic activity. Merchant bankers help the economic development of the country through its wide range of services.

The basic services provided by merchant banks are corporate counseling, project counseling, issue management, underwriting of public issue, portfolio management, bankers to the issue, loan or credit syndication, merger and takeover, arranging offshore finance venture capital, factoring, etc.

Thus the research is focused on the activity the financial institutions which are involved in merchant banking activities. Those financial institutions, even merchant banks, are found to be performing other financial services as their major function leaving merchant banking function only as a part of their subsidiary function. However, present study will not be concerned with other activities. It will be focused only in merchant banking activities performed by those financial institutions. It

studies and analyses the performance of all above- mentioned merchant banking activities performed by merchant banks in Nepal.

1.4 Statement of the Problem

Development of each and every country depends highly upon development of agriculture, industry, trade, tourism and all other financial sector. The development of these sectors are impossible until and unless the financial system of the country is strong. Financial system is strengthened through developed financial market that includes capital market as well as money market. And the strength of capital market is highly dependent upon developed merchant banking system. Merchant banks play a vital role in economic and financial development of the country. The development of merchant banking services is closely linked with worldwide move towards open and market oriented economic system.

In the context of Nepal where lots of financial systems are being slowed down due to insufficient capital, technical and financial support, merchant banks encourages them by its versatile services like project counseling, corporate counseling, portfolio management, venture capital, issue management, etc.

Though merchant banking has emerged in developing countries long before, it has got new dimension only after issue of finance company act 2042. Thus we are not having a long history of merchant banking in Nepal. As a result most of the Nepalese are still unknown about the meaning of merchant banking, services provided by merchant banks and difference between commercial banking and merchant banking. Thus, people are unaware regarding the importance of merchant banking in the development of Nepalese Capital Market and overall Nepal.

The Finance Company Act 2042 permits finance companies to sell and purchase the bonds issued by His Majesty's Government or securities issued by other companies or institutions, to underwrite them and to form syndicate for such purpose or to participate in such syndicates and to act as broker under the Securities Exchange Act, 1983. Similarly section 3(g) of the same act permits them to perform functions of merchant banking with prior approval of NRB.

However, Nepal is still lacking specific rules, regulations and guidelines regarding merchant banking. Though some acts like commercial bank act, finance companies

act, act for NIDC, CIT and other are permitted to undertake merchant banking activities, but none of these Acts gives clear definition of merchant banking. The question arises as to whether those merchant banking activities are under the regulatory control of Securities Exchange Act, or under Finance Companies Act.

Similarly there is also no separate entity to carry out the merchant banking activities in Nepal. These merchant banking activities are associated with other transactions of the finance companies. NIDC Capital Markets was the only merchant banker to render the merchant banking services at the time of its establishment. In the initial period NIDC Capital Market was focused on merchant banking activities later on it has diversified its services on other financial activities for its growth and survival of the company. Later on other financial institutions and banks also entered into the field to reap the benefit of merchant banking, the development of merchant banking is still in its infancy.

In spite of the importance of merchant banking services many of the merchant banking services in the country are still poor and only few merchant banking services are in practice in our country. The mainly rendered services are: Underwriting, Issue Management, Bankers to the issue and Leasing. Thus, merchant banking in Nepal is understood to be synonymous with issue managements, though globally this word is taken to mean everything in financial services.

The problem of the study is directed to find the solution of the following questions.

- i) Whether the problems and prospects of merchant banking in Nepal properly analyzed or not?
- ii) Whether the significance of merchant banking towards the development of Securities industry in Nepal studied or not?
- iii) Whether the performance of merchant bankers in Nepal evaluated or not?
- iv) Whether the growth of merchant banking in Nepal studied and analyzed or not?
- v) Whether the merchant banking activities are under the regulatory control of Securities Exchange Act, or under Finance Companies Act?

- vi) Whether the merchant banks play a vital role in economic and financial development of the country or not?

1.5 Objectives of the Study

Financial activities grow with the improvement of economic situations. And, as the financial activities grow, the need of various merchant-banking activities will be felt. Merchant Banks have emerged in Nepal with the development of capital market. Merchant banking activities is one of the major supporting instruments for any ongoing business organization. Availing of the required merchant banking services help business sustain, develop, and prosper and so on. The purpose of this study therefore is to:

- i. To study the significance of merchant banking towards the development of securities in Nepal.
- ii. To evaluate the performance of merchant bankers in Nepal.
- iii. To study and analyze the growth of merchant banking in Nepal.
- iv. To analyze the problems and prospectus of merchant banking in Nepal.
- v. To provide suggestions and recommendations to the concerned organizations based on findings of the study.

1.6 Significance of the Study

Merchant Banking is an unexplored field in Nepal. There is hardly very rare availability of research work, journal and articles on “Merchant Banking in Nepal”. In this context, present study will serve as a source of literature in the field of merchant banking. The study attempts to fill a serious gap in this important area of capital structure practices with focus on merchant banking Services. The research would be helpful to the regulatory authorities like Securities Exchange Board of Nepal, Nepal Rastra Bank and others. It would also be of interest to development banks, commercial banks, financial companies, merchant banks, etc. It may help the professionals in the industry to have better understanding on the impact of merchant banking activities in the securities industry and also it may help the academicians and the researchers who study in these areas.

In brief, this study will be important for the following group & individuals:

- i) It will be useful for University students of new generations.
- ii) The research will be useful for further researcher.
- iii) It will help financial managers & analysts.
- iv) It will also be very useful for regulatory authorities like Securities Exchange Board of Nepal, Nepal Rastra Bank and all financial institutions in Nepal.

1.7 Limitations of the Study

This study is done for the partial fulfillment for Master's of Business studies. The study will be conducted within certain limitations and constraints. They are:

- i. Though there are a lot of financial institutions in Nepal, the study is focused on those financial institutions that are the leading merchant bankers. It is only focused merchant banking activities.
- ii. The study is based on primary as well as secondary data. Any intentional default and reporting errors that may occur while obtaining the data will not affect the proposed study.
- iii. Research is mainly based on reports provided by listed financial institutions and responses made through questionnaires.
- iv. Only the data provided by the concerned organizations is taken for the analysis. Thus the years are not consistent and the data provided by them are not verified.
- v. The study is conducted under the limited time.

1.8 Organization of the Study

The study has been divided into five different chapters, viz. Introduction, Review of literature, Research Methodology, Presentation and Analysis, Summary conclusion and Recommendation.

Chapter I: Introduction

The first introduction chapter deals with the introductory framework of the study. This includes background, statement of the problem, objectives of the study, significance of the study, limitation of the study and organization of the study itself.

Chapter II: Review of Literature

This chapter includes the review of literature available and review of related theoretical background of the relevant field of study, which aims at forming a conceptual framework to the objective mentioned previously.

Chapter III: Research Methodology

Third chapter explains the research methodology used for the purpose of the study, which includes research design, sources of data, data gathering procedure, population and sample size of the study, data processing procedure and financial as well as statistical tools used for the analysis of data.

Chapter IV: Presentation and Analysis of Data

The fourth, which is the important chapter of the study, will include data classification, analysis, and interpretation regarding the primary as well as secondary data.

Chapter V: Summary, Conclusion and Recommendations

The final and last chapter contains findings in aggregate, conclusions drawn through the findings, and the probable suggestions and solutions as ‘recommendations’ enlightened through the study.

A bibliography and appendices will be attached at the end of the study.

CHAPTER II

REVIEW OF LITERATURE

Review of Literature is one of the important parts of the thesis. This study has been effectively conducted through study of various old theses, dissertation, newspaper, magazine and suggestion of the experts of related field. The basic concern of the study is to focus on the merchant banking activities in Nepal. Theoretical aspects of merchant banking activities are explored in this chapter through review of related materials. This chapter reviews some basic academic course books, journals, articles and other related studies. Unfortunately, so far none of the researchers have performed research in this topic in Nepal. However, efforts have been made to gather information from all available arenas as possible.

2.1 Conceptual Review

2.1.1 Meaning of Merchant Banking

Dictionary meaning of ‘merchant banking’ refers to an organization that underwrites corporate securities and advises such corporate securities and advises such clients on issues like corporate mergers, etc involve in the ownership of commercial ventures. This organization may be a bank, corporate body, firm or proprietary concern.

In Indian context this definition suits well. Merchant banking in India starts with management of public issues and loan syndication and has been slowly and gradually covering activities like project counseling, portfolio management, investment counseling and mergers and amalgamation of corporate firms. Although, merchant banking organizations present a long list of services they contemplate to render their clients but the main services so far being rendered by them are those as authorized by the Securities & Exchange Board of India under categories I, II, III and IV. A “merchant banker” has been defined under the Securities Exchange Board of India (Merchant Bankers) Rules, 1992 as any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or

subscribing to securities as manager, consultant, advisor or rendering corporate advisory service in relation to such issue management. (Verma, 14th Edition: 59)

Merchant Banking stands for providing various services relating to capital market and finance to corporate sector. This includes not only the activities for the above purpose in the country but at times arranging funds from outside the country. The merchant Banker also provide consultancy to the corporate sector on the issues like finance, capital structure and investment, mergers, takeover and amalgamations, establishing coordination between the government and corporate sector. In fact the merchant banker should be able to provide guidance to an entrepreneur on all matters from the stage of conception of a project in his mind till it goes into commercial production. A good merchant banker would be considered to be one who is expert, honest, have integrity and capacity to develop public relations. Whenever a business concern needs funds from the capital market it would usually approach the Merchant banker rather than banks or financial institutions. (Toor, 7th Edition: 1.30)

Investment bankers, also called merchant banks, purchase newly issued stocks and bonds from corporations and government. They then resell the securities to investor in small quantities. An investment bank makes a profit by selling securities at a higher price than it pays for them. The first merchant banks were formed by British merchants in 1800's. From the 1930's to the 1980's, the U.S. government prohibited any institution that from engaging in investment Banking. Since then, however, government has permitted large commercial banks to buy and sell within limits. (World Book Millennium, 2000:21)

Investment banks provide long-term finance industry. They are sometimes described as industrial banks or private banks. In French speaking countries, people use the term *banques d'affaires*. Most investment banks do not accept deposits from the general deposits from the general public, but deal with limited number of clients, and on their own capital and reserves, to finance their lending to industry. Investment banks provide long term finance to borrowers in two main ways. In the first they grant long-term credit to companies usually for eight to ten years. In the second, they acquire part of the share capital of companies. Many companies sell their shares through investment banks and the banks sometimes retain some of the shares. Investment banks provide several important extra services for their customers. They act as

economic and financial advisers. If customers intend to undertake new industrial ventures, the banks may give technical advice.

Investment bankers market new stock and bond offering to individual and institutional investors around the world. (Edmister, 2005:188)

Most of the banks have now opened up “Merchant Banking” or “Management” department which specialize in domestic corporate financing and associated business such as underwriting of capital, issues, acting as managers to new issues and evaluation of customers existing and proposed new business. These services are of a fairly wide range, which extend to examination of proposals for mergers and amalgamations of companies and arrangements of loans or short- term finance. The banks also, because of their international connections, assist in arranging foreign exchange element required by industries for their projects and loans with banks and other institutions outside India. (Tannan, 1996:581)

2.1.2 Nature of Merchant Banking

The services of a merchant banker could cover project counseling and pre-investment activities, feasibility studies, project reports, design of capital structure, issue management and underwriting, loan syndication, mobilization of funds from Non-resident Indians, foreign currency finance, mergers, amalgamations and takeovers, venture capital, and public deposits.

Merchant banking is a skill-based activity and involves servicing every financial need of the client. It requires a focused skill base to provide for the requirements of a client. SEBI has made the quality of manpower as one of the criteria for renewal of merchant banking registration. These skills should not be concentrated in issue management and underwriting alone, which may have an adverse impact on business as witnessed in 1995. Merchant bankers can turn to any of the activities mentioned above, depending on resources, such as capital, foreign tie-ups for overseas activities and skills. They can provide the entire gamut of services or develop niche business. The depth and sophistication in merchant banking business are improving since the avenues for raising funds are widening and demand for funds is increasing.(Marchiraju, 2nd Edition:2)

2.1.3 Merchant Banking Organizations

In India, merchant banks operate in the form of Divisions of Indian and foreign banks and financial institutions, subsidiary companies established by banks like SBI Capital Markets Ltd. Can bank Financial Services Ltd; PNB Capital Services Ltd., BOI Finance Ltd., Indian Bank Merchant Banking Services Ltd, etc. public and private limited companies or the firms organized by the stock brokers, stock exchange dealers, the financial and technical consultants and chartered accountants, securities and exchange board of India (SEBI) had divided merchant bankers into four categories viz. I, II, III, IV. (Verma, 4th Edition:20)

2.1.4 Four Categories of Merchant Bankers

Merchant bankers are classified into four categories having regard to their nature and range of activities and their responsibilities to SEBI, investors and issuers of securities. The minimum net worth and initial authorization fee depend on the category. The first category consists of merchant bankers who carry on any activity of issue management, which will inter alia consists of preparation of prospectus and other information relating to the issue, determining financial structure, tie-up of financiers and final allotment and refund of the subscription and to act in the capacity of managers, advisor or consultant to an issue, portfolio manager and underwriter. The second category consists of those authorized to act as underwriter, advisor or consultant to an issue. Since September 5, 1997 only Category 1 exists.

Net worth

Minimum net worth for first category is Rs. 5 corers, second category Rs 50 lakhs, third category Rs. 20 lakhs and fourth category nil.

Registration Fee

Registration Fee for the first category is Rs. 2.5 lakhs annually in the first two years, Rs. 1 lakh in the third year, second category Rs. 1.5 lakhs annually for the first two years and Rs. 50,000 in the third year, third category Rs.1 lakh annually for the first two years and in the third year Rs. 25,000 and fourth category Rs. 5,000 annually for first two years and Rs. 1000 in the third year.

Renewal Fee

Category 1, Rs. 1 lakh to be paid annually in first two years and thereafter Rs. 20,000; Category 2 Rs. 75,000 for first two years and Rs, 10,000 from third year, and Category 3 Rs. 50,000 for first two years and Rs. 5,000 third year, and Category 4 Rs. 5,000 annually first two years and Rs. 2,500 from third year.

Number of Lead Managers

The number of lead managers depends on the size of the public issue. The guidelines stipulate that for an issue up to Rs. 50 corers, the number of lead managers should not exceed two, for issues between Rs. 50 corers, the number of lead managers should not exceed two, for issues between Rs. 50-100 corers maximum of three, for issues between Rs. 100-200 corers, four , for issues above Rs.200 corers but less than Rs.400 corers, five, and for issues above Rs. 400 corers, five or as may be agreed by SEBI.(Marchiraju, 2nd Edition:19)

2.1.5 Services Provided By Merchant Banker (MB)

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

Corporate Counseling

Corporate counseling function is the counsel services given to corporate clients to ensure better corporate performance. The merchant banker has to find out the problems of an enterprise and suggest ways and means to solve the problems in achieving organizational effectiveness. It suggests suitable locations, technical consultancy, and collaboration etc. to the investors.

Project Planning

The preparation of feasibility report covering market aspect of the product, technical, financial and economic aspects of the enterprise. Project report specifies the costs of project and advises the financial pattern to finance. This is another area of services rendered by the merchant bankers.

Issue management

The management relating to subscribe the share capital through the public in general is another area of service rendered by Merchant Banker. Under this head it does all function relating to public issue from obtaining stock exchange approval, drafting prospectus, public issue announcement, collecting applications, allotment of shares, refund of excess money, distribution of share certificates and listing of shares on stock exchanges.

Underwriting & Bridge loan Financing

Underwriting is the commitment or guarantee to take up all shares/ debentures which will not be subscribed by the public in general and it eliminates the risk arising from uncertainty of public response to new issues. The bridge loan is the short-term loan against the issue itself. Such type of facilities is also provided by the merchant bankers.

Portfolio Management Scheme

Merchant Bankers render the services of Portfolio Management of their clients. Merchants Bankers accepts the funds on behalf of the clients to play in the financial game on capital market with an aim to earn target return. Effective investment planning and constant review of portfolio are the two basic principles for effective portfolio management.

Mutual Fund/Unit Trust Scheme

Another area of merchant banking is to arrange the unit trust scheme. Mutual Fund is a group saving scheme whereby it collect the idle money of the various sectors of society and invest in different area especially on blue chip companies shares and bonds on the principle of diversification. Merchant Banker acts as trustee for the investor on such trusts.

Venture Capital

Venture Capital means providing long term start-up funds for high risk ventures, promoted by unknown technologies/ entrepreneurs, which suffer from capital deficiencies, but which have a profit potential through ultimate capital gains rather

than through a steady dividend or interest yield. The merchant bankers do finance on this field for investment too.

Lease Finance

Leasing could be defined as an activity where the owner of an asset gives the asset to another party for his use for a specified period of time for a financial consideration. Merchant Bank facilitates the customer in acquiring equipment through the leasing finance.

Factoring

Factoring is specialized financing scheme where the financing company, known as a factor, buys its clients receivable of trade credits or invoices outright. In order to provide the client with an additional source of capital, merchant bankers also render the factoring services.

Brokerage Services

Merchant Bankers are the agent of Money & Capital Markets. They can play the role as broker or market maker in the stock exchange. In addition they can also play active role on money market.

Merger & Acquisition

Merchant Bankers deals on negotiating and valuation of merger, amalgamation and takeover of the firms. Similarly the assets/share valuations assets securitization functions are also done by Merchant Banker. In this line they also arrange for the foreign collaboration of the project.

Management Consultancies

Merchant Banker may help to do the management audit of the companies to ascertain existing performance levels and to formulate plans for future growth. They conduct market research for both consumer and industrial products, develop and implement system designs and production management and at the same time Operation Research functions are also done for effective and optimum uses of the resources.

Thus the coverage of merchant banking is enormous and vast. The area of function is unlimited to the merchant banker. Merchant Banking services, therefore, are of great help to entrepreneur customers who cannot afford a permanent staff of financial specialists. (Shrestha, 2051 B.S: 16)

2.1.6 Responsibilities of Merchant Banker

To the investors

Investor protection is fundamental to a healthy growth of the Capital Market. Protection is not to be conceived as that of compensating for the losses suffered. The responsibility of the Merchant Banker ensuring the completeness of the disclosures is of paramount importance in view of the fact that entire reliance is based on offer Document either Prospectus or Letter of Offer because an independent agency like a Merchant Banker has done the scrutiny.

Capital Structuring

The Merchant Bankers while designing the capital structure take into account the various factors such as Leverage effect of the company, the cost of capital, the considerations of management control, size of the company, and general economic factors. These excises are done mainly in order to meet the fund requirement of the company taking due cognizance of the investors' preference.

Project Evaluation and due Diligence

Due diligence and project evaluation is another major responsibility of the Merchant Banker. Where a bank/financial institution the Merchant Banker has already appraised the project relies on the said appraisal before accepting an assignment. However, where a bank/ financial institution have not appraised the project, the Merchant Bank undertakes a detailed evaluation of the project before taking up an assignment for issue management.

Legal Aspects

The factors that are looked into in case of the legal aspects:

Compliance with the SEBI guidelines, the Companies Act, the Securities Contracts Regulation Act and Rules and the various guidelines issued by the Ministry of Finance and Department of Company Affairs.

Pending litigations, disputes, defaults, over dues to financial institutions and banks, proceedings initiated for economic offences against the promoters in respect of any of their business ventures in India or against the promoter's ventures or associate/group companies.

Pending litigation's toward tax liabilities or any criminal/civil prosecution any of the directors for any offenses.

Material litigation pertaining to either the matter likely to affect the operations and finances of the company.

Criminal prosecution launched against the company and its directors for alleged offences under the enactment's specific in Part 1 of Schedule XIII of the Companies Act.

Defaults in meeting statutory dues, institutional dues and dues towards instrument holders like fixed deposit holders.

Material development after the date of the last Balance Sheet.

Fair and adequate disclosures in the prospectus.

Pricing of the Issue

The merchant Banker looks into the various factors while pricing the issue. Some of the factors are past financial performance of the company, Book value per share, Stock market performance of the shares (for existing companies, stock market perception of the company/group promoters, price earnings ratio of the company/industry, brand equity, if any. The Merchant banker has a vital role to play in pricing of the instrument.

Marketing of the issue

Marketing of the issue is a vital responsibility of the Merchant Banker. The first stage is the Pre-issue marketing for placement of the issue with the financial institutions, banks, mutual funds, FII's and NRI's. The second stage is the marketing of the issue to the general public through various vehicles such as press, brokers, etc.

Bought out Deals

The concept of wholesale but out of public offerings by the Merchant Bankers started off with over the Counter Exchange of India where a Merchant Banker act also as a sponsor and either takes up the entire issue to be offered wholly or jointly with other co-investors and off-loads the same to the public at a later date by an offer for sale. The role of Merchant Banker on the OTC exchange is not only that of a Merchant Banker but that of an Investment banker too. Major amendments were made to the SEBI regulations regarding Merchant Bankers in September 1997. Both the old and new regulatory framework for Merchant Bankers is presently in force. The duration of this transition period has not officially been announced.”(Marchiraju 2nd Edition:21)

2.1.7 Banker and Merchant Banker

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

Deposits on short term basis

The business helps to improve their profits and profitability

The business also helps to get good corporate clients.

They are extending the merchant banking services through

Merchant Banking Divisions established by them

Merchant banking subsidiaries established by them. (Toor, 7th Edition: 1.30)

2.1.8 Merchant Banking: International Scenario

Merchant Banks in the United Kingdom

In the United Kingdom, merchant banks came on the scene in the late eighteenth century and early nineteenth century. Industrial revolution made England into a powerful trading nation. Rich merchant houses that made their fortunes in colonial trade diversified into banking. Their principal activity started with the acceptance of the trade bills and their discounting gave rise to acceptance houses, discount houses, and issue houses. Merchant banks initially included acceptance houses, discount houses and issue houses. A Merchant Banker was primarily a merchant rather than his customers entrusted banker but him with funds.

The term Merchant Bank is used in United Kingdom to denote neither banks that are not merchants, sometimes for merchants who are not bankers and sometimes for business houses that are neither merchants nor banks. The confusion has arisen because modern Merchant Banks have a wide range of activities. Merchant Banks in United Kingdom: (a) finance foreign trade, (b) issue capital, (c) manage individual funds, (d) Undertake foreign security business, and (e) foreign loan business. They also used to finance sovereign government through grant of long- term loans. They financed the British Government to the State of Louisiana from Napoleon by raising loans from money market in London; and Lazard Brothers granted loan to the Second World War commercial banks in Western Europe have been offering multiple services including Merchant Banking services to their individual and corporate clients. British banks set-up division or subsidiaries to offer their customers Merchant Banking Services.

Investment Banking in USA

English and European Merchant Banks played a prominent role in the United States until indigenous Investment Bankers emerged on the scene in 1880's. In the early nineteenth century English and European Bankers met the requirements of finance for railroad construction and international trade. Later they opened their own offices in USA. Kidder, Peabody & Co.'s set-up in 1824 and John Eliot Thayer banking firm in 1857. During 1850-60 several Merchant Banks were set-up to arrange capital and enterprise to promote railways, industrial projects and trade and commerce. The

finance railroad construction, capital issues were arranged by Merchant Bankers. In the late 1890's and early 1900's Investment Bankers replaced brokers and promoters who earlier played a prominent role in issue of securities. Investment bankers apart from launching and organizing industrial units and mergers, helped transform privately held companies into public owned companies.

Investment banking largely remained unregulated until the Blue Sky Laws were introduced in Kansas to protect investors from fraudulent promoters and security salesmen. However, their growth was facilitated by the enactment of Federal Act in 1941, emergence of US dollars as leading currency and expansion of activities of US Banking system, Prominent Investment Bankers in 1920's were Kidder, Peabody, Drexel, Morgan & Co; Brown Bros. and T.P. Morgan who bought and sold corporate bonds and stocks on commission, dealt in federal, state and municipal securities, trading and investing in securities on their own account, originating and distributing new issues on their own account, originating and distributing new issues and participating in the management of corporations whose securities they have helped distribute or in which invested.

After the great crash 1929 and depression, the Investment Banking business considerably contracted and experienced heavy financial losses. The Federal government enacted several laws, called New Deal Enactment, to reform Wall Street Practices to protect the interest of the investors. Officially called the Banking Act of 1933, the Glass- Stegall Banking Act separated Investment Banking and Commercial Banking and prohibited depositories from underwriting. Securities Exchange Act of 1934 sought to correct practices in securities trading.

The Glass Stegall Banking Act prohibits commercial banks from acting as Investment banks or owning a firm dealing in securities. The Act has been challenged by banks offering money market mutual funds and other investment services and is expected to be the subject of reform. The US Federal Reserve Board decided in January 1997 to issue a sweeping proposal (subject to 60-day comment period) that would loosen restrictions on banks' activities in the securities business. Under the proposal bank holding companies and their securities industry affiliates can offer 'One Stop Shopping' for their customers. The securities activities of banks are allowed under a special provision in Glass- Stegall Act to be conducted by separately capitalized

subsidiaries, in 1987 when Fed first began allowing the existence of such subsidiaries it subjected them to strict provision, including a series of barriers “firewalls” separating the activities of the bank and affiliate. As the part of the recent changes to those provisions the FED has voted to allow the securities affiliate of banks to generate as much as a quarter of their revenue from the underwriting and dealing of securities- an increase from the previous limit of 10 percent.

Regulation of Investment Banking in USA

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

The Securities Exchange Commission (SEC) exercise advisory and regulatory role on Investment Bankers.

Investment Bankers were restricted from undertaking reorganization of public corporations under the Chandler Act. The task was assigned to distinguished trustees. Association of trustee with either the issue or its Investment Banker was prohibited under the Trustee Indenture Act, 1939. To protect the interest of security- holders the trust indenture had to be filled with SEC.

The investment and portfolio activities became subject to SEC supervision.

Investment trust was covered by Investment Company Act, 1940 which sought to regulate them, and investment advisors are required to be registered under the Investment Advisors Act, 1940. SEC was designated the supervisory and enforcement authority. Its powers were further strengthened in 1960 by authorizing it to inspect the records and accounts of firms engaged in the business. The increased regulation and control of domestic operations gave a fillip to large US banks to markets. The US Investment banks have extended their operations to the international level. They are largely responsible and globalization of capital markets. They have a prominent presence in London and other European financial centers. Investment Banks have today a strong parent, a strong balance sheet and a strong international network to play an global role.(Lakshmana & Naik, 2002:92)

Merchant Banking in India

Merchant banking activity was formally initiated into the Indian Capital Markets when Grindlays Bank received the license from Reserve Bank in 1967. Grindlays

which started with management of capital issues, recognized the needs of emerging class of entrepreneurs for diverse financial services ranging from production planning and systems design to market research. Apart from meeting specially, the needs of small- scale units, it provided management consultancy services to large and medium sized companies. Following Grindlays Bank, Citibank set up its merchant banking division in the evaluation of new projects and raising funds through borrowing and issue of equity. Management consultancy services were also offered.

Consequent to the recommendations of Banking Commission in 1972, that Indian Banks should start merchant banking services as part of their multiple services they could offer clients, State bank of India started the Merchant Banking Division in 1972. In the initial years the SBI's objective was to render corporate advice and assistance to small and medium entrepreneurs.

2.1.9 Qualities of Good Merchant Bankers

Following are the qualities that good merchant bankers should possess:

Leadership

Merchant Banker should possess all relevant skill, updated knowledge to interact with clients and effectively communicate. Leadership is synonymous with followers who follow the one who leads.

Aggressiveness action

Aggressiveness is a personality trait of a good leader but in merchant banking it has a wider connotation. Aggressive merchant bankers are always looking for new business. A good merchant banker is the one who does not allow his client to think anything outside except what he has been advised. Therefore, promptness in grasping the clients' problems and providing better choice amongst alternative solutions evidence aggressive approach in the profession to hold the client's interest is entirely for the present as well as for the future.

Co-operation and friendliness

No. doubt, these two characteristics are the symbols of good leadership but it hardly needs to be stressed. Co-operation and friendliness coupled with persuasiveness are the main instruments with which a merchant banker mixes with the people, gathers

information, obtain business mandate and renders satisfactory services to the clients. Business of an honest merchant banker spreads with geometrical propagation when he shares the thoughts of his clients with sympathetic gestures and offers pragmatic suggestions without greed or favors. These are the vices unbecoming of a merchant banker and should be eschewed. Friendliness must flow as natural traits in the merchant banker to win over the trust of the clients like a doctor or lawyer who retain their clients permanently.

Contacts

Success of a merchant banker depends upon his sociable nature and the richness of wider contacts. A merchant banker is supposed to be acquainted deeply with all the constituents of merchant banking. Merchant bankers should widen contacts and references and continue to maintain the relationship with goodness, honor and humor by meeting people in person through writing and in special gatherings.

Attitude towards problem solving

The most important personality trait of a merchant banker is attitude towards problem solving. Every client coming to him has got to return fully satisfied having consulted a merchant banker. Positive approach to understand the view points of other, their adverse circumstances is possible only when a person is skilled in human relations particularly the inter-personal and intra-personal behavior. Effective communication and proper feedback are the pre-requisites for creating a positive attitude toward problem solving which could be gained partly through learning process and partly as in-born quality.

Inquisitiveness for acquiring new skills, information and know ledges

Merchant Bankers live on their wits they earn by giving information to needy clients. Therefore, they should keep abreast with latest information in the area of the service product they market. This is possible if merchant bankers possess the quality of inquisitiveness.

2.1.10 Importance and Need of Merchant Banking

Important reason for the growth of merchant banking has been the development activity throughout the country, exerting excess demand on the sources of funds

forever expanding industry and trade, thus, leaving widening gap unabridged between the supply and demand of investible funds. All India financial institutions had experienced resource constraint to meet the ever-increasing demand for funds from the corporate sector enterprises. In the circumstances corporate sector had the capital market services for meeting their long- term financial requirements through capital issues of equity and debentures with the growing demand for funds there was pressure on capital market that enthused the commercial banks, share brokers and financial consultancy firms to enter into the field of merchant banking and share the growing capital market. With the result, all the commercial banks in nationalized and public sector as well as in private sector including the foreign banks in India have opened their merchant banking windows and competing in this field. There has been a mushroom growth of financial consultancy firms and broker firms doing advisory functions as merchant bankers as well as managing public issues in syndication with other merchant bankers.

Notwithstanding the above facts, the need of merchant banking institutions is felt in the wake of huge public savings lying still untapped Merchant banks can play highly significant role in mobilizing funds of savers to investible channels assuring promising return on investments and thus can help in meeting the widening demand for investible funds for economic activity with the growth of merchant banking profession corporate enterprises in both public and private sectors would be able to raise required amount of funds annually from the capital market to meet the growing requirements for funds for establishing new enterprises, undertaking expansion/ modernization/ diversification of the existing need for a vigorous role to be played by merchant banks.

Merchant banks have been procuring impressive support from capital market for the corporate sector for financing their projects. This is evidence from the increasing amount raised from the capital market by corporate enterprises year after year.

In view of multitude of enactments, rules regulations, guidelines and off shoot press release instructions brought out by the Government from time to time imposing statutory obligations upon the corporate sector to comply with all those requirements prescribed therein, the need of skilled agency existed which could provide counseling in these matters in a package form, Merchant bankers, with their skills, updated

information and knowledge, provide the service to the corporate units and advise them on such requirements to be complied with for raising funds from the capital market under different enactments viz. companies act, Income-tax Act, foreign exchange Regulation Act, Securities Contracts (Regulation) Act, and various other corporate laws and regulations.

Merchant bankers advise the investors of the incentives available in the form of tax relief, other statutory relaxations, good return of investment and capital appreciation in such investment to motivate them to invest their savings in securities of the corporate sector. Thus, the merchant bankers help industry and trade to raise funds and the investors to invest their saved money in confidence, safety and expectation for higher yield.

2.1.11 Role of Merchant Bankers

The role of merchant banker is dynamic in the wake of diverse nature of merchant banking services. Merchant Banker's dynamism lies in promptly attending to the corporate problems and suggests ways and means to solve it. The nature of merchant banking service is development oriented and promotional to help the industry and trade to grow and survive. Merchant banker is, therefore, dedicated to achieve this objective through his dynamism. He is always wake to renew his skills, develop expertise in new areas so as to equip him with the knowledge and techniques to deal with emerging new problems of corporate business world. He has to keep pace with the changing environment where government rules, regulations and policies affecting business conditions frequently change where science and technology create new innovations in production process of industries envisaging immediate renovations, diversifications, modernizations or replacements of existing plant and machinery or other equipments putting new demands for finance and necessitating overhauling of the capital structure of the firms. Merchant banker has to think and devise new instruments of financing industrial projects. He has to assume wider responsibilities of saving industrial units from going sick and guiding industries to be set up in industrially backward areas to eliminate regional imbalances in industrial development of the country. He has to guide the wider section of the community possessing surplus money to invest in corporate securities and other productive investment channels. He has to help the industry in different forms to ensure that it

runs risk free and devoid of uncertainty by assisting the promoters with his knowledge and skills to resolve the problems being faced by them. He has to watch the interest and win over the confidence of the government its agencies along with the entrepreneurs, the investors and the whole community. He must bridge the communication gap between different sections and resolve problem being faced in different areas concerned with the business world. To discharge the above role, a merchant banker has to be dynamic. For this reason, a merchant is sometimes, called M.B i.e. who never sits at one place, always moving attending meetings and meeting clients and constituents doing business and getting business by attending meetings and conferences imparting knowledge to others and acquiring supremacy in possession of the latest information. His role depicts a personality cult, which is unique and envious to be followed by others. In the days ahead, Merchant bankers have very significant role to play turning their activities to the requirements of the growth pattern of corporate sector, industry and the economy as a whole which is in itself, a challenging task and to meet these challenges. Merchant bankers will have to be more vigorous and strategic in playing their role. They will have also to adopt new ways and means in discharging their role.

2.1.12 Business Development Approach and Strategy

Merchant Banking services are highly competitive business activities and to get business, merchant bankers have to stand on their heels and run to grab the business opportunity. Each of the officers in merchant banking department, division, cell or bureau or company should have the requisite skills of marketing and salesmanship to ensure that the opportunity once found is not lost without obtaining mandate from the client. Therefore, a merchant banker has got to be a social person with mixing nature and temperament of liking others. The source for locating business opportunities would vary but merchant banker has to tap each source. Some of the sources could be located in the areas which give rise to new ideas, open avenues to new business and provide scope for diversification, expansion, amalgamation or reconstruction, etc. These sources of information could be the banker whose client is thinking in terms of such ideas; the financial and technical consultancy firms, which are working on such ideas for their clients; licensing authorities of the central Government or Registration Departments of the State approached by the prospective borrowers with loan application for grant of financial facilities. A close liaison with these institutions

could provide a clue for different news dailies, weeklies and fortnightly or monthly magazines provide the source of business opportunity. Such information could be speechless of business executives, proceedings of annual general meeting of companies specially chairman's report highlighting future for the company, personal interviews granted to the press people by the top business executives trade exhibition disseminating useful information ,opening opportunities for entrepreneurs to take up new activities, information published by chamber of Commerce and Industry, house journals of prominent industrial houses, press releases by Government, import licenses or capital goods committee's clearance, foreign collaboration permissions, etc.

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

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

Contact frequently the small business owners convince them of business growth through expansion of their activities by forming limited companies pooling resources together through merger and amalgamation, etc.

Helping private limited companies to convert into limited companies and take up new activities/ expansion/ modernization/ diversification program, etc. and assure them of requisite help.

Acquaint the existing business houses/ clients of incentives given by Government new opportunities for business, to enthuse them to take up new activities; and

Hold interviews with top business houses frequently and appraise them of merchant banking services and new areas of business activity to elicit business from them and develop business connections.

Merchant bankers, in addition to above, should assume the role of an experienced and skilled investigator and researcher to locate new business opportunities and expert marketing man to sell the service products instantaneously.

2.1.13 Investment Banking and Securities Trading

The basic difference between investment banking and securities trading is that investment banking is concerned primarily with new issues, whereas securities trading relates to existing securities. For example, Merrill Lynch is acting as an investment banker when it sells a new issue of American Telephone and Telegraph (AT&T) common stock, but it is a security trader when it participates in the exchange of existing AT&T common stock. Some investment firms, such as Merrill Lynch, Salomon Brothers, and Dean Witter Reynolds, perform both investment banking and securities trading functions, while other, smaller firms specialize in one function. Investment bankers perform several important functions to bring new securities to the investing public. The major functions of investment bankers are 1) origination, 2) underwriting, and 3) distribution. New securities are created during origination, bought by investment bankers during underwriting, and sold to investors during the distribution phase.

Origination

Security flotation is complex matters, and security issuers look to the investment banker for specialized assistance during origination. Origination is the important function of providing issuers investment advice, information, and assistance. The investment banker commonly:

- i. Advises the issuer on the type of security and specific terms which are most acceptable during current financial market condition.
- ii. Prepares and assists in filing a prospectus with the Securities and Exchange Commission.
- iii. Arranges for the efficient distribution of the new issue.
- iv. Arranges for a number of operational requirements such as trustees, security indentures (contracts), and safekeeping.
- v. Issues depend heavily upon investment bankers who are financial market specialists to create securities which meet most of the issuer's needs and, simultaneously, are acceptable for sale to investors.

Underwriting

Investment banking firms often purchase a new issue or guarantee and it is sold at a specified price. The investment banking firm underwrites the new issue when it assumes the marketing risk. If the security is not sold to investors at the offering price, then the underwriting incurs the loss. Underwriting is important to the issuer because it guarantees the amount of money which will be raised by the security issue.

Distribution

The investment bankers distribute the issue to many investors. To sell the issue quickly, a syndicate of many firms is formed for each issue, and the securities are distributed through a large network reaching many potential investors.

2.2 Journals Review

The study conducted by Mr. Madhuban L. Shrestha In his article “Merchant Banking-an Outlook” in Nepal Bank Patrika has thrown light of merchant banking In Nepalese Perspective. Shrestha indicates that Merchant Banking in its crude form exists in

Nepal from the advent of modern banking system with the establishment of Nepal Bank Limited. However, Security Exchange centre set up in 1976 was the pioneer institution on the capital market in Nepal. Modern and innovative services on banking sectors were introduced by the establishment of Joint Venture Banks in the country. The Finance Company Act 2042 gave birth a new dimension to the Merchant Banking Services. After the restoration of democracy, the country launched financial liberalization and privatization programs. As a result maximum participation from the public took place and the country entered on the new industrialization process through rapid development on capital market. Consequently there is calling for different services of the capital market and merchant banking services are sought from various sectors of the economy.

Citizen Investment Trust (CIT) is a pioneer merchant banker of the country followed by other finance companies viz. NIDC Capital Market, National Finance Co., Nepal Share Market, etc. There are a few numbers of incorporated brooders who also render these services. Recently Rastriya Banijya Bank has opened a separate Merchant Banking Division. Thus this is the time to think seriously by the commercial banks that apart from their traditional business, they have to add such new ventures which will pay high return to them with nominal investment. (Shrestha, 2051:29)

Mr. Ramesh Kumar Pokharel in his article “Merchant Banking Services in Nepal” in Banking Prabardhan, 2057 vol. 11 has mentioned on Regulatory Aspects of Merchant Banking in Nepal. According to Mr. Pokharel, Merchant Banking is a new concept for Nepal. Its role as an important financial intermediary cannot be challenge from anywhere in the growing financial system of Nepal. Although a few financial institutions (basically Finance Companies) are involved in different merchant banking activities, there is no specific legal provisions to be complied by merchant banker. However section 3(e) of Finance Company Act, 1986 permits finance companies to sell and purchase the bonds issued by His Majesty’s Government or securities issued by other companies or institutions, to underwrite them and to form syndicate for such purpose or to participate in such syndicates and to act as broker under the Securities Exchange Act, 1983. And section 3(g) of the same act permits them to perform functions of merchant banking with prior approval of NRB.

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

Minimum paid-up capital and the prescribed risk- weighted capital ratio;

The liquidity Ratio;

Merchant Banking activities up to 60% of total Credit and Investment Portfolio;

Issue Management and Underwriting up to a maximum of 10% of total loan and advances of finance company.

Likewise, there is no guideline issued by NRB especially for merchant banking in following respects;

The minimum acceptable percentage of income from fee- based activities;

Issuance of negotiable certificate of deposits; and

Terms governing the acceptance of time deposits.

Mr. Pokharel has also pointed out on examination requirements for Merchant Banking. He writes that is a matter of fact that no adequate directives have been issued for the regulation and monitoring purpose pertaining to Merchant Banking, however Inspectors while making supervision to these services should basically focus on the following parts of these transactions;

Agreement between the parties, specific terms and conditions.

Legal and regulatory provisions related to public issue (Company Act, Securities Board's Regulations).

Underwriting services and its accounting treatment.

Volume of Underwriting and Issue Management (to confirm whether these transaction fall under the NRB's directives or not).

Other issues relevant to specific merchant banking function.

Mr. Pokharel also writes the problems and issues in Merchant Banking services in Nepal in eight points which is mentioned below:

Normally in any business, there should not be confusion about the customer. However, in merchant banking services, especially in issue management, some problems can be prevailed. MBs are commissioned and paid for the customer of the MB. However, the fee received by the MB comes from the investors who subscribe to

the shares/debentures. Thus it is not wrong to say that the fees to MB are ultimately paid by the prospective investors of the shares/debentures. Thus it is very hard for MB to serve for the best interest of both investors and issuing company.

MBs should ensure to the investor that all possible that all possible information about the issue is given and that post- issue management i.e. allotment of shares, etc. and refund are effected with utmost expedition. In the pre-issue phase, MB's should ensure the investors that the issues are having good track records and thus MBs should give a clean cheat to the issuer. In case the issuer is found guilty then MBs ultimately suffers and should face the public or investors.

Post issue management has become a difficult task in Nepal, especially because of heavy over-subscriptions of vast majority of issues due to unrealistically low floatation pricing of issues by existing company. The problems are accompanied by rigid rules of allotment prescribed by Stock- exchange that flavor small applicants and therefore increase the number of applicants. The banking system is extensively used for the purpose but it seems very hard to cope with the load.

To the issuing company, MBs should render high standards of professional services and also perform their role with due diligence.

Merchant banking service has become more challenging for monitoring system of Nepal especially for the central bank due to the lack of adequate legal regulatory framework.

There should be a prudent and sound financial market to adopt the different merchant banking services. Due to the limitation of financial market the services rendered by merchant banking are also limited in Nepal.

In implementing self-regulatory mechanism, MBs would have to monitor the performance of other agencies that also provide services to the issuer. There are Advertising Agencies, Registrar to the issue and other financial institutions. But in Nepal MBs do not have any control over these agencies, although MBs are held responsible for the performance or lack of it by the associated agencies.

According to comprehensive guideline formulated by Stock-Exchange, a company should either be already listed in Stock-Exchange within three months of the closure of the issue. But generally listing is being done lately due to large number of shareholders, and provision regarding transferability. (Pokharel, 2057 B.S:11)

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

Merchant bankers will have to conduct management of capital issues in a different fashion than what is being done at present. If small industries are to be provided the full benefit of their services of corporate counseling project and loan syndication then besides distribution of their securities to the public and arranging long-term institutional or banking finance for them, it would be necessary for merchant banks to make out-right purchase of capital issues in to and to retain the purchased equity of the company till the implementation of the project commencement of production and profitable working of the company when the issue may be treated as good for marketing to the general public, may be on the premium, so as to make capital gains, on that. This course of action will benefit the small industries in many ways; firstly they will have the quick liquidity and secondly, their project will be implemented under the skilled supervision and expert guidance of the merchant bankers. Besides, the investing public will be willing to purchase the issue at premium, having foreseen the dividend paying capacity of the only course, if adopted, would reduce cost of the issue to negligible extent.

If the planned objective of the economic decentralization and rapid development of rural economy is to be achieved, merchant bankers will have to make experts efforts

in the interest of the national economy by mobilizing the savings from the rural sector and creating avenues for its investment in rural areas in industry, trade and commerce in different shapes and different magnitude encouraging the local people to espouse entrepreneurship in industrial undertakings in higher degree so as to reduce their dependence on land farming or other means of rural avocations. Alternatively, this poses a big challenge for the merchant bankers to manage the surplus money available with the villagers by holding portfolio on their behalf or by channelizing it directly to industry in the shape of fixed deposits, etc.

Increasing number of sick industries is the ever- growing threat for the industrial economy of the country. Merchant bankers have to find out ways and means for rehabilitating the sick industries and also devise the manner by which the running industry might be saved from going sick. They should so closely associate with the units so as to smell developing weakness in the management of the enterprise and suggest timely leading to-sickness of the industrial unit “Management buy-out” is one of the techniques which have been successfully tried in European countries as well as in USA, to check sickness in industry. This device encourages the executive staff of the company to purchase the shareholdings of the proprietors and promoters and run the factory on professional basis. Venture capital funds contribute substantially in this area of finance.

The millions of small savers are unable to manage their savings in Nepal in both rural and urban areas. These are mainly the people from the middle class and lower middle class. Merchant bankers must devise ways and means to provide services for portfolio management to these citizens. This may be taking resources to encouraging the “mutual funds”.

Public and private sector institutions engaged in trade, commerce and industry have many times surplus funds lying with them awaiting opportunity outside. These funds should be tapped by the merchant bankers from time to time by mobilizing them to deficit areas in profitable return basis playing the interest rate games as is done in SWAP deals in international finance.

In the international field, where public and private enterprises are entering to raise foreign currency resources, Nepalese counterparts have to depend upon the assistance of foreign merchant bankers. Nepalese merchant bankers, therefore, will have to sharpen their skills and attain the requisite expertise in the field of international merchant banking.

Attention is required to be gathered to the point that the banks and financial institutions which are running the merchant banking division can think in terms of taking up the activity of providing acceptance credit and re-discounting facility to certain number of their clients on experimental basis on the lines of the traditional activity of European merchant bankers. This will help for creation of secondary market for commercial papers as well.

To tap the latest technology available internationally and procure the transfer of tours of foreign countries, organize meetings and conferences with the chamber of Commerce and Industry and other commercial, industrial and financial organizations so as to enthruse the foreigners to take interest in investment activity in Nepal. Merchant Bankers, therefore, have to take latest information about the economic, social and political environment of our country to foreign countries and appraise the foreigners with the facilities and relaxations in various rules and regulations of the Government and the policy framework available for their benefit in case they choose to invest in Nepal or lend their technological expertise to Nepalese entrepreneur and/or to collaborator in any other useful manner. (Kayal,2061B.S:81).

Mr. M.L. Shrestha in his article "Portfolio Management: A Merchant Banking Service" in Nepal Bank Patrika- Ashwin Masanta, 2052 has written portfolio management as one of the merchant banking service. According to Mr. Shrestha, optimal portfolio produce the maximum return with minimum portfolio, it has been purely a professional approach. Merchant bankers are one of those who render this service to the investors. He writes portfolio management, thus, means the personal commitment of Merchant Banker to take care of investment of investor with the prudence and astuteness of a professional fund manager to give investor his money, worth.

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

Effective Investment Planning

Merchant bankers must consider the factors such as fiscal, financial, monetary, credit policies of central bank and guidelines and directives issued time to time by stock exchange.

Constant Review of Portfolio

Merchant banker should constantly review their investment in securities and continue selling and buying the same to earn profits.

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

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

Construction material

Financial Services

Health and Pharmaceuticals

Education and allied services and products

Livestock (Diary, meat production, leather products, etc.)

Tourism

Textile

Office services (software development, media planning and advertisement)

Minimum size of each account should not be less than Rs.5 million to them to take up for portfolio management. The fund accepted for portfolio management by them, will be spread to the above mentioned different investment opportunities, which yield better and provide better quality of investment. Their target is to maximize the earning

via current income and capital gains. But the structure of return will depend on the objectives and preferences of the investor. As a Manager, their paramount concern is the safety of portfolio of the investor.

After the advent of liberalization policy in Nepal, it went on a new direction on economic activities. As a result now in Nepal too such kind of service is available. So, for those investors who really want to enjoy maximizing their wealth with liquidity and safety of investment, they can approach to the Merchant Banker and get rid of handling the day-to-day task of administering portfolios. One can handover all the investment decision to them enjoying better return from the surplus fund. (Shrestha, Ashwin 30, 2052 B.S.:6)

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

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

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

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

Merchant Banking

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

Agreement between the parties, specific terms and conditions.

Legal and regulatory provisions related to public issue (Company Act, Securities Exchange Act and Nepal Securities Board's Regulations)

Underwriting services and its accounting treatment.

Other issues relevant to specific merchant banking function.

Mutual Fund

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

Limit of investment in a company.

Maximum holding limit of shares/ debentures of a company.

Listing of units with the stock exchange.

Liquidity provision.

Calculation of NAV and costs incurred by the managing company. (Aryal, Baishakh 14, 2060 B.S.)

Mr. Gautam 'Biji' in his article "Leasing Finance in Nepal" in Nepal Rastra Bank Samachar, 060 writes about the theoretical framework, present status of Leasing Finance in Nepal, types, problems and suggestions. The problems of leasing business in Nepal according to him are lack of legal provisions, insufficient regulation, lack of business activities and mega projects, discriminatory treatment for loan loss provision

and confusing procedure for depreciation. Mr. Gautam concludes at last that leasing is a long term financing business activity. It allows both lessee and lessor with various advantages like cent percent financing, depreciation facility even on land, financing, depreciation facility even on land, financing flexibility and so on. This does not mean that leasing is risk free and does not have a stated interest cost. It creates some problems for rentals. It raises some questions during the transfer of ownership, on the realization of the salvage value of the asset and obsolescence in the leased asset. The new income tax act, just mentions the nature of lease, process for repayment, treatment of depreciation, sale or transfer of asset and process for treatment of tax.

Leasing is just a way to supplement the conventional methods of financing. It should be a means not an end for the business activity. It requires the competent manager to analyze and assign the limitation for leasing business. Though, present scenario is not encouraging for the leasing, may be the right time to open up public voice and ask for the government in designation of legal framework and necessary arrangements and central bank for the proper banking regulation. (Gautam, Baishakh 14, 2060)

Recently NIDC Capital Market has introduced the concept paper of Nepal Industrial Venture Capital Fund (NIVCF) with the view to introduce venture capital in Nepal. Venture Capital investments were risky but in its success there were fantastic turnover on the investment. The professionally run VC have been encouraging and assisting the establishment, development and modernization of industries in private sector by providing financial, managerial and technical support.

As far as experience of Venture Capital in India is concerned, it was initiated by Central Government as long term fiscal policy in 1985 to provide equity capital for pilot plants attempting commercial application of indigenous technology to adopt previously imported technology to wider domestic application. Then in 1988, Industrial

The handicaps for venture capital companies in India like in other developing countries as mentioned on the concept paper are:

Insufficient understanding of Venture Capital as a commercial activity.

Limited flexibility in investment area.

Investor attitudes of retaining control over the business ensuring to pass over to their families.

Exit from investment is limited.

Some legal inadequacy such as inter corporate investment without prior approval is prohibited and trust funds cedes all rights relating to annual or extra ordinary general meeting in favor of public trustee.

VCF has been limiting its role of financing only; the post investment support services are not taken care of.

Following are the objective of NIVCF:

To support small yet expanding and successful companies, which are not yet mature for going public and new companies which are not big enough for public, but where the entrepreneurs have excellent educational background, financial standing and clear concept.

To gear up the local potential entrepreneurs in adapting to emerging common market concept worldwide by providing comprehensive management support to offset the entrepreneurs inexperience with the specific markets and technology.

And also to secure good returns to the investment through capital gains beside current income.

The areas of investment by NIVCF are:

Technology transfer

Foreign Exchange Earning

Agro-Processing

Services and

Turn- around companies

In the handout prepared by Nepal Merchant Banking & Finance limited, the details of services provided by the company to its customer as Registrar to Share Issue has been given. According to the handout the services provided by NMB under Registrar to Share Issue are as follows:

Under this activity NMB provides following services:

Maintain and update shareholder's files on regular basis

Maintain record of signatures of the shareholders.

Verify shareholders' signature as and when required.

Obtain documents in case of share transfer:

Covering letter of Nepal Stock Exchange Limited (NSE)

Dakhil-kharej form with verified signature.

Share certificates as per the covering letter of NSE.

Transfer charge NPR 5.00 (In words Nepalese Rupees Five Only) per certificate (to be borne by the concerned Shareholder).

A copy of citizenship certificate of the Shareholder in case of new shareholder.

Transfer of Share Certificates:

Register the name of the buyer/seller in the shareholder's book.

Allocate registration number to each transaction.

Give Identity number.

Issue new share certificates by splitting the share in case of partial transfer.

Registration (Dakhila) of share certificates and transfer of the same to the buyer's (shareholder's) name.

Affix authorized signature of the company secretary/ director as approval and official seal of the Bank after the endorsement.

Forward transferred share certificates to NSE for distribution along with transfer list.

Recover the transfer fee of NPR 5.00 (I words Nepalese Rupees Five only) per transfer.

Split Ordinary Share certificate:

Split of certificate at the request of the holder

Sign on the split documents (Annex 1 of format issue by Nepal Stock Exchange Limited)

Recover the split fee of NPR 5.00 (In words Nepalese Rupees Five Only per split to be borne by the holder)

Pledge of Ordinary Share:

Maintain record of pledge of shares.

Obtain Letter of the company pledging the shares with details of Certificates.

Obtain certificates as per the covering letter of the company pledging the shares.

Obtain authorization letter of the shareholder for the pledge of certificates.

Verify the signature of the concerned Shareholder.

Record 'Rokka' of the pledged share certificates.

Release of the certificate(s) upon subsequent advice to this effect from the financial institution pledging the Share(s).

Release the certificate(s) upon subsequent advice to this effect from the financial institution pledging the Share(s).

Release the certificate(s) to the holder if release letter is received from the company pledging the shares, after recording release of the database.

Documents required to be obtained in case of death of shareholder :

Original share certificates of the deceased shareholder.

A copy of citizenship of the deceased shareholder.

A copy of death certificate.

A copy of relationship certificate.

Application letter of transferee.

A copy of citizenship of transferee.

Authority letters from other inheritors.

Send letter from other inheritors.

Publish 35 days notice in the daily newspaper after getting all the required documents and confirming that the application is valid.

Transfer the shares to the transferee after 35 days from the of notice publication.

Issue new certificates in the name of transferee.

Distribute the share certificates and recover notice publication charge from the concerned individuals (shareholders).

Documents required to be obtained in case of loss of share certificates:

Application letter from the shareholder.

Signature verification of the applicants.

Record "Rokka" of the lost share certificate in computer record and inform NSE in writing.

Publish 35 days' notice in the daily newspaper.

Issue new share certificates after 35 days.

Handover the certificates and recover notice publication charge from the concerned individual (shareholders).

Provide list of shareholders to the concerned parties as and when required.

Provide Certificate of Share holding to the Shareholder(s) as and when required.

Maintain/ update backup file of whole computer data on regular basis.

Distribute undistributed Share Certificates, Dividend Warrants & Bonus Share Certificates, if any, to the concerned Shareholders.

Assist Bank in the conduction of Annual General Meeting (AGM).

Capital market is a crucial element in the national economy. Its role in reinvigorating and boosting the economic activities in the country holds significant. The strategic plan released by security board can, to a great extent, energize the investor's dealer by increasing investor interest in it. Security market experiences both boom and bust soon after beginning of securities trading through brokers' members in the stock exchange floor. Though the market started to function quickly boosting the prices of shares to an unexpected level, it could not sustain.

There is an urgent need for the proficient development of the market standard and information dissemination system focusing mainly on corporate financial disclosure practices and transparency, corporate accounting and auditing securities markets regulation and corporate governance. To implement the above, Security Board has a great responsibility as to reviewing and developing regulatory standards to make them relevant with the need of issuers, investors along with promoting efficient capital formation. (New Business Age, April 2003:44)

There are many loopholes in our Stock-Exchange Act. Investors feel insecure here. A few years back there was a company called Nimrod Pharmaceutical Company that floated in shares, but where are they now? Similarly, it has been more than a year that Bansbari Leather age has allotted its shares, but why didn't the company list its shares in the market? It has been three years that Gorkhali Rubber Udhog hasn't called for its AGM Government remained silent in all these cases. This is why the general public as well as the institutional buyers is not feeling secure in investing in stock market. (New Business Age, Jan 2000:25)

In its Annual Report for the fiscal year 2001/01, SEBO states that it has made some attempts to address the issues through issuance of guidelines, directives and disclosure formats to the market participants, codes of conduct for the stock brokers, etc. It has also prepared a draft for the new securities exchange act, which was presented to the

Ministry of Finance in 1998 to initiate the necessary legislative process. However, it is still to be enacted by the parliament. Even though SEBO has made attempts to solve the problems, they are still there. It cannot escape of its duty to explain the present state of the market and deficiencies existing in the system. Taking necessary support from the government it should take the required step to better coordinate the market participants to develop a healthy capital market in the country. Moreover it is important to discipline the market participants and educate them of their moral duty to comply and make others comply with the prevailing rules and regulation. Only this can create the atmosphere where scandals like this one are not repeated. (SEBON, 2006/07:9)

2.3 Websites Review

Merchant Banking History

In the late 17th and early 18th century Europe, the largest companies of the world were merchant adventures. Supported by wealthy groups of people and network of overseas trading posts, the collected large amounts of money were to finance trade across parts of the world. For example; the East India Trading Company secured a Royal Warrant from England, providing the firm with official rights to lucrative trading activities in India. This company was the forerunner in developing the crown jewel of the English Empire. The English colony was started by what we today would call merchant bankers, because of the firm's involvement in financing, negotiating and implementing trade transactions.

The colonies of other European countries were started in the same manner. For example, the Dutch merchant adventures were active in what are now Indonesia; the French and Portuguese acted similarly in their respective colonies. The American colonies also represent the product of merchant banking, as evidenced by the activities of the famous Hudson Bay Company. One does not typically look at these countries' economic development as having been fueled by merchant bank adventures. However, the colonies and their progress stem from the business of merchant banks, according to accepted sense of the word today.

The Historical Merchant Bank

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

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

The Modern Merchant Bank

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

Since the 18th century, the term merchant banker has, therefore, been considerably broadened to include a composite of modern day skills. These skills include those inherent in an entrepreneur, a management advisor, a commercial and/or investment banker plus that of a transaction broker. Today a merchant banker is who has the ability to merchandise- that is, create or expand a need- and fulfill capital requirements. The modern European merchant bank, in many ways, reflects the early activities and breadth of services of the colonial trading companies.

Most companies that come to a U.S. merchant bank are looking to increase their finance stability or satisfy a particular, immediate capital need.

Professional merchant bankers must have:

an understanding of the product, its industry and operational management; an ability to raise capital which might or might not be one's own (originally merchant bankers

supplied their own capital and thereby took an equity interest in the transaction); and most importantly, effective skills in concluding a transaction- the actual sale of the product and collection of profit. Some people might question whether or not there are many individuals or organizations that have the abilities to fulfill all the three areas of expertise. (Barren,<http://www.emcohanover.com/merchant.htm>)

Functional Nature of Merchant Banking of Old

In olden times, merchant banks were also known as “accepting and issuing houses” in the UK and “investment banks” (IB) in the USA. Except for this distinction in nomenclature, there is no essential functional difference between them. Usually, they handled coastal trade and master’s goods on a commission basis and financed risky venture projects, for which they charged heavy interest. They often incurred heavy losses. They accepted bills for payment. These were in addition to their MB functions of commercial banking. In fact, there was no distinction between the functions of merchant banking and commercial banks till 1932. Later, the Glass Steagall Act, 1933, distinguished the functions of merchant banking/ investment banks from commercial banking. But in 2000, the Clinton administration allowed investment banks to run the functions of commercial banks in addition to their usual functions of investment banking. This was affected through an amendment in the Glass Steagall Act. (Md. Ahsan Ullah, www.csebd.com/cse/publication/portfolio_Q2_2001/merchant.htm)

Difference between Merchant Banks and Commercial Banks

The basic difference between merchant banking and commercial banking is that the merchant bank offers mainly financial advice and services for a fee and collects deposits through the non-cash mode of finance i.e. security papers while commercial banks accept deposits and lend money in the mode of cash. Moreover, the merchant bank offers portfolio services to its customers (individuals and corporate) while the commercial bank provides retail trade banking services to its customers. The regulatory body for commercial banks in Bangladesh is Bangladesh Bank/ Ministry of Finance. Those banks have also been guided by the Bank Companies Act, 1991 and, as per the Bank Companies Act, “Banking means i.e. Commercial Banking means the accepting, for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise, and withdraw able by draft, order or

otherwise.” On the other hand, the regulatory body for merchant banks in Bangladesh is the Securities and Exchange Commission (SEC). They define merchant banking as “Merchant banking means any person who is engaged in the business of issue management either by making arrangements regarding selling, buying, underwriting or subscribing to the securities underwriter, manager, consultant, advisor or rendering corporate `advisory services in relation to such issue management.(www.infomanage.com/investment/banks)

Merchant Banking the North American Variant

Most companies that come to a US merchant bank are looking to increase their financial stability or satisfy a particular, immediate capital need. Professional merchant bankers must have: an understanding of the product, its industry and operational management; an ability to raise capital which might or might not be one’s own (originally merchant bankers supplied their own capital and thereby took an equity interest in the transaction); and most importantly, effective skills in concluding a transaction- the actual sale of the product and collection of profit. Some people might question whether or not there are many individuals or organizations that have the abilities to fulfill all three areas of expertise.

The North American Variant

Merchant banking services in the US, however, have been undertaken by highly specialized “boutiques”, where each offers its own specialized service. They typically charge fee income for each service, and transactions are oriented toward short- term deals rather than long-term relationships.

Very few offer the complete range of services that are available through traditional European merchant banks. In fact, most companies that come to US merchant banks are looking primarily to increase their financial stability or satisfy a particular, immediate capital need. They are not looking for the actual “on-line” operating advice and assistance required to complete the traditional merchant banking process.

Capital Assistance

In providing financial assistance, merchant banks offer a full understanding of all facets of the capital markets. This includes all types of debt and equity financing

available from both the domestic and international markets. A merchant banker, cognizant of capital costs, looks for the best sources of capital, including its restrictions and dollar limitations.

It should be understood that interest rates are not only definition of capital costs. Restrictions on availability, prepayment terms, and operating effectiveness can often outweigh what might appear to be inexpensive capital with low interest rates. Too often, capital includes costs which force an entrepreneur or a business to undertake undesirable actions. In the short-run, some actions might be necessary, but often in the long-run are detrimental. The traditional merchant banker understands these capital limitations and can structure a transaction which is beneficial to all sides of the table – not just the capital source.

He also knows how to substitute one type of capital for another, sometimes utilizing internal sources from asset repositioning or cash creation from improvements in working capital. He understands fully the risk versus return elements necessary to complete the capital procurement process.

Finding a Merchant Bank

There are many merchant bankers operating in North America today, both large and small, though only a subset offer a full range of services. Before selecting a merchant banker, one should decide what services are required. Is it capital, general management consulting, supervision of an existing investment, a joint venture, or merger/ acquisition assistance to spot and consummate a distribution, product or manufacturing opportunity that one requires?

It is paramount to know who in such an organization is best qualified to fill these needs. Also, selection of the merchant banker depends on whether one needs to satisfy a short or long- term objective, or both.

In the final analysis, it is the personal relationship between the parties that will determine the chances of success. One may find that the smaller merchant banking companies are both comprehensive in their services and reliable. They may effectively handle all transaction elements, while remaining within one's cost parameters. Moreover, these smaller firms can offer more personalized services, better performance and quicker responses to a client's needs.

Locating a merchant bank that fits a particular need can be as difficult as the transaction itself. Even though there are such directories as that published by the American Bankers' Association, the National Association of Security Dealers and the Directory of Corporate bankers. For each transaction's needs, one must assess the skills of a merchant banker while examining the firm's performance record.(Barren,www.Emcohanover.com/merchant.htm)

Merchant Banking Rule Finalized

Most compliance officers immediately think of privacy when the Gramm- Leach- Bliley Act is mentioned, but in actually the most significant provisions of GLBA deal with banking powers.

Under GLBA, a bank holding company may elect to become a financial holding company. Under a new rule from the FRB and Treasury that carries out amendments made to the Bank Holding Company Act by Gramm- Leach- Bliley Act, a bank holding company that has made an effective election to become a financial holding company is allowed to make investments in non financial companies as part of a bona fide securities underwriting or merchant or investment banking activity.

Under the new rules, investments may be made in any type of ownership interest in any type of non-financial entity (Portfolio Company), and may represent any amount of the equity of a portfolio company. Investments made under this new authority are referred to as "merchant banking investments". These merchant banking powers are the important addition to traditional bank activities.

If your bank wants to explore its options under these new powers, you should be aware that there are conditions on three aspects of the activity: the length of time that these investments may be held, the ability of the financial holding company to routinely manage or operate the Portfolio Company, and other aspects of the relationship between the financial holding company and its affiliates on the one hand and the portfolio on the other hand.

The effective date of the new merchant banking rules was February 15, 2001. (<http://www.bankersonline.com/operations/merchant.html>)

2.4 Review of Previous Studies

Research review is an important part of review of literature. On this topic various research work on related subject were studied, analyzed and summarized. These uncovered topic and subject are critically analyzed and studied. Good researchers suggest for further study not for duplication of effort.

Taking spiritually the fact mentioned above, some researches works are studied. They are summarized as below:

Subedi (2005) the comparative study of income from Merchant Banking of various companies reveals that the merchant banking income of CIT and NCML is increasing very steadily. On the other hand, NMB, through it has started performing merchant banking activities since 2002/03, is earning high income.

The test of consistency has concluded that the Merchant Banking income of NMB is more consistent, while that of NCML has more variation in income.

The term merchant banking has come in Nepal from few years before, most of the people are found to be unknown about it.

Analysis of institution and instrument wise public issue reveals that most of the issuing companies are banks and they prefer to issue ordinary shares most of the time.

Analysis of the activities of the merchant banking found that merchant banking activities are concentrated on floating the public issues of securities.

The activity performance of Citizen Investment Trust (CIT) has been revealed as one of the leading merchant banker.

The study of activity performance of Nepal Merchant Banking & Finance Ltd. as a merchant banker reveals that NMB is also providing issue management as major merchant banking services.

The study of the activity performance of NIDC Capital Markets Ltd. (NCML) as a merchant banker, NCML is also found to be performing public issue management from the fiscal year 2050/51.

Analyzing the merchant banking income of the major merchant banks it has been revealed that most of the income of CIT is through public issue management.

The performance analysis of three leading merchant banks shows that even the leading merchant bankers like CIT, NCML and NMB are found to be operating in limited areas of merchant banking services.

The merchant banking income of NMB is in high degree of variance. The merchant banking income of NMB contributes about 2% to 7% of total income earned.

While analyzing the income from merchant banking of NIDC Capital Markets Ltd., it has been found that major part of merchant banking income of NCML is also through public issue management.

The test of consistency has concluded that the merchant banking income of NCML is more consistent while that of CIT has more variation in income.

From the analysis of response of questionnaire, we come to know that most of the merchants banking functions are performed by finance companies.

The view of the respondents regarding the body that has to play the key role in the merchant banking development.

Though Nepal Merchant Banking and Finance Limited is trying to be a leading merchant banker in Nepal, should be more active in merchant banking activities and should diversify its activities to other merchant banking activities besides issue management and sale of government securities.

Regarding merchant banking income, the income of NCML is more consistent among the three companies taken for the study while that of CIT is less consistent which also shows the better performance on CIT in merchant banking activities.

The trend of merchant banking income of CIT and NCML are quite similar. They are generating merchant banking income of Rs.3.56 million and Rs. 3.94 million in average respectively. NMB, though entered in merchant banking activities since

2054/055, is generating higher income in comparison to CIT and NCML. The average income during last five years is Rs.7.47 million which is also unbelievably high.

Shrestha (2006), has made a study on topic “Merchant Banking Practices of Financial Institutions”. The main objectives of the study were to analyze the growth of merchant banking in Nepal. In this study, Shrestha has pointed out the following major finding.

Though the term merchant banking has come to emergence in Nepal from few years before, most of the people are found to be unknown about merchant banking and their functions. The public issue analysis shows that the public issues of securities are in increasing trend. This increasing trend of public issue indicates the importance of merchant bankers and merchant banking activities for capital market development and growth of securities market.

Analysis of institution and instrument wise public issue reveals that most of the issuing companies are banks. Analysis of the activities of the merchant banking found that merchant banking activities are concentrated on floating the public issues of securities.

While studying the activity performance of Citizen Investment Trust (CIT), it has been revealed that CIT, as one of the leading merchant banker. The study of activity performance of ACE Development Bank ltd. as a merchant banker reveals that ACE Development Bank ltd is also providing issue management as major merchant banking services. The study of the activity performance of NIDC Capital Markets Ltd. (NCML) as a merchant banker, NCML is also found to be performing public issue management.

The merchant banking income of the major merchant banks it has been revealed that most of the income of CIT is through public issue management. The income contributes about 5% to 23% of total income earned by CIT.

Merchant Banking Income of ACE Development Bank ltd is from Rs.1 million to Rs. 9 million per year. Thus the merchant banking income of ACE Development Bank ltd is in high degree of variance. However, the income tends to be consistent in the fiscal

year 2057/58 and 2058/59. The merchant banking income of ACE Development Bank Ltd contributes about 1% to 5% of total income earned.

While analyzing the income from merchant banking of NIDC Capital Markets Ltd., it has been found that major part of merchant banking income of NCML is also through public issue management.

The comparative study of income from merchant banking of various companies reveals that the merchant banking income of CIT and NCML is increasing very steadily. On the other hand, ACE Development Bank Ltd, though it has started performing merchant banking activities from few years ago.

The test of consistency has concluded that the merchant banking income of NCML is more consistent while that of CIT has more variation in income.

Studying the view of the respondents regarding the body that has to play the key role in the merchant banking development, more than half respondents said that all the bodies like Nepal Rastra Bank, Securities Exchange Board of Nepal and Merchant Banks itself has to play key role for the development of merchant banking activities. Most of the respondents said that the position of capital market is still underdeveloped in our country.

According to most of the respondents the reason behind more public issue of shares of banks and finance companies is due to the regulatory provision has been made compulsory for banks and finance companies to go for public.

Thapa (2007) has made a study on topic “Merchant Banking Practices of Financial Institutions”. The main objective of the study was to analyze the growth and development of merchant banking in Nepal. In this study, Thapa has pointed out the following major finding.

The importance of merchant banking is increasing gradually as a result of development activities after the restoration of democracy and economic liberalization in Nepal. The term merchant banking has come in Nepal from few years before, most of the people are found to be unknown about it. Analyzing the merchant banking

income of the major merchant banks it has been revealed that most of the income is through public issue management.

The public issue analysis shows that the public issues of securities are in increasing trend. This increasing trend of public issue indicates the importance of merchant bankers and merchant banking activities for capital market development and growth of securities market.

Analysis of the activities of the merchant banking found that merchant banking activities are concentrated on floating the public issues of securities. The study of institution and instrument wise public issue reveals that most of the issuing companies are banks.

While studying the activity performance of NCML, it has been revealed that NCML, as one of the leading merchant banker, is providing services of public issue management. The study of activity performance of ACE Development Bank Ltd as a merchant banker reveals that ACE Development Bank Ltd is also providing issue management as major merchant banking services..

While studying the activity performance of CIT as a merchant banker, CIT is also found to be performing public issue management. Analyzing the merchant banking income of the major merchant banks it has been revealed that most of the income of CIT is through public issue management. The income contributes about 3% to 14% of total income earned by CIT.

Merchant Banking Income of ACE Development Bank Ltd is from Rs. 1 million to Rs.9 million per year. Thus the merchant banking income of ACE Development Bank Ltd is in high degree of variance. However, the merchant banking income of ACE Development Bank Ltd contributes about 3% to 12% of total income earned.

The comparative study of income from merchant banking of various companies reveals that the merchant banking income of CIT and NCML is increasing very steadily. On the other hand, ACE Development Bank Ltd, though it has started performing merchant banking activities from few years ago is earning high income.

The test of consistency has concluded that the merchant banking income of CIT is more consistent while that of NCML has more variation in income.

From the analysis of response of questionnaire, we come to know that most of the merchants banking functions are performed by finance companies .Studying the regulatory provision relating to the merchant banking function, about two third of respondents agree on the existence of merchant banking regulations while one third of respondents disagree the existence and few of them are unknown about it. According to the respondents the regulations are company act, finance companies act, securities exchange act, etc. According to most of the respondents the merchant banking regulations provided the above mentioned acts are insufficient.

Most of the respondents said that the position of capital market is still underdeveloped in our country. According to them, Securities Exchange Board of Nepal should regulate the merchant banking functions. Studying the view of the respondents regarding the body that has to play the key role in the merchant banking development, more than half respondents said that all the bodies like Nepal Rastra Bank, Securities Exchange Board of Nepal and Merchant Banks itself has to play key role for the development of merchant banking activities. According to most of the respondents the reason behind more public issue of shares of banks and finance companies is due to the regulatory provision has been made compulsory for banks and finance companies to go for public

Acharya (2008), has conducted the research on the topic of “Merchant Banking in Nepal” submitted to faculty of management centre department for the partial fulfillment of M.B.S. In this study, Mr Acharya has pointed out the following major finding.

The term merchant banking has come to emergence in Nepal from few years before, most of the people are found to be unknown about merchant banking and their functions. The public issue analysis shows that the public issues of securities are in increasing trend. This increasing trend of public issue indicates the importance of merchant bankers and merchant banking activities for capital market development and growth of securities market.

The activities of the merchant banking found that merchant banking activities are concentrated on floating the public issues of securities. Analysis of institution and instrument wise public issue reveals that most of the issuing companies are banks.

The study of activity performance of Nepal Merchant Banking & Finance Ltd. as a merchant banker reveals that NMB is also providing issue management as major merchant banking services. While studying the activity performance of Citizen Investment Trust (CIT), it has been revealed that CIT, as one of the leading merchant banker, is providing services of public issue management and the activity performance of NSMF as a merchant banker, NSMF is also found to be performing public issue management.

Merchant Banking Income of Nepal Merchant Banking & Finance Ltd. is from Rs. 2 million to Rs. 9 million per year. Thus the merchant banking income of NMB is in high degree of variance. However, the income tends to be consistent in the fiscal year 2057/58 and 2058/59. The merchant banking income of NMB contributes about 3% to 7% of total income earned.

While analyzing the income from merchant banking of NSMF, it has been found that major part of merchant banking income of NSMF is also through public issue management. The comparative study of income from merchant banking of various companies reveals that the merchant banking income of CIT and NSMF is increasing very steadily. On the other hand, NMB, though it has started performing merchant banking activities since 2054/55, is earning high income. The test of consistency has concluded that the merchant banking income of NSMF is more consistent while that of CIT has more variation in income.

Studying the regulatory provision relating to the merchant banking function, about one third of respondents agree on the existence of merchant banking regulations while two third of respondents disagree the existence and few of them are unknown about it. From the analysis of response of questionnaire, we come to know that most of the merchants banking functions are performed by finance companies.

According to most of the respondents, both Nepal Rastra Bank and Securities Exchange Board of Nepal should regulate the merchant banking functions. Most of

the respondents said that the position of capital market is still underdeveloped in our country. Studying the view of the respondents regarding the body that has to play the key role in the merchant banking development, more than half respondents said that all the bodies like Nepal Rastra Bank, Securities Exchange Board of Nepal and Merchant Banks itself has to play key role for the development of merchant banking activities.

According to most of the respondents the reason behind more public issue of shares of banks and finance companies is due to the regulatory provision has been made compulsory for banks and finance companies to go for public.

Khanal (2008) has conducted the research on the topic of “Merchant Banking in Nepal” submitted to faculty of management centre department for the partial fulfillment of M.B.S. In this study, Mr Khanal has pointed out the following major finding.

Merchant banking in Nepal is a infancy stage and it has been developing with continuous upwards Though the term merchant banking has come to emergence in Nepal from few years before, most of the people are found to be unknown about merchant banking and their functions. The public issue analysis shows that the public issues of securities are in increasing trend. This increasing trend of public issue indicates the importance of merchant bankers and merchant banking activities for capital market development and growth of securities market.

Analysis of the activities of the merchant banking found that on floating the public issues of securities. Analysis of institution and instrument wise public issue reveals that most of the issuing companies are banks. While studying the activity performance of Citizen Investment Trust (CIT), it has been revealed that CIT, as one of the leading merchant banker, The study of activity performance of Nepal Merchant Banking & Finance Ltd. as a merchant banker reveals that NMB is also providing issue management as major merchant banking services. While studying the activity performance of NIDC Capital Markets Ltd. (NCML) as a merchant banker, NCML is also found to be performing public issue management from the fiscal year 2050/51.

Analyzing the merchant banking income of the major merchant banks it has been revealed that most of the income of CIT is through public issue management. The

income contributes about 3% to 13% of total income earned by CIT. Merchant Banking Income of Nepal Merchant Banking & Finance Ltd. is from Rs.1 million to Rs. 9 million per year. Thus the merchant banking income of NMB is in high degree of variance. However, the income tends to be consistent in the fiscal year 2057/58 and 2058/59. The merchant banking income of NMB contributes about 3% to 7% of total income earned. While analyzing the income from merchant banking of NIDC Capital Markets Ltd., it has been found that major part of merchant banking income of NCML is also through public issue management.

The comparative study of income from merchant banking of various companies reveals that the merchant banking income of CIT and NCML is increasing very steadily. On the other hand, NMB, though it has started performing merchant banking activities since 2054/55, is earning high income. The test of consistency has concluded that the merchant banking income of NCML is more consistent while that of CIT has more variation in income.

From the analysis of response of questionnaire, we come to know that most of the merchants banking functions are performed by finance companies and then by some other companies like few banks.

Most of the respondents said that the position of capital market is still underdeveloped in our country. According to most of the respondents the reason behind more public issue of shares of banks and finance companies is due to the regulatory provision has been made compulsory for banks and finance companies to go for public.

Gautam (2009) has conducted the research on the topic “Merchant Banking Practices of Financial Institutions”. Submitted to faculty of management centre department for the partial fulfillment of M.B.S. In this study, Mr.Gautam has pointed out the following major finding.

Though the term merchant banking has come to emergence in Nepal from few years before, most of the people are found to be unknown about merchant banking and their functions.

The public issue analysis shows that the public issues of securities are in increasing trend. This increasing trend of public issue indicates the importance of merchant

bankers and merchant banking activities for capital market development and growth of securities market.

The activity performance of Citizen Investment Trust (CIT), it has been revealed that CIT, as one of the leading merchant banker, is providing services of public issue management. The study of activity performance of Nepal Merchant Banking & Finance Ltd. as a merchant banker reveals that NMB is also providing issue management as major merchant banking services. The activity performance of NIDC Capital Markets Ltd. (NCML) as a merchant banker, NCML is also found to be performing public issue management from the fiscal year 2050/51.

The merchant banking income of the major merchant banks it has been revealed that most of the income of CIT is through public issue management. Merchant Banking Income of Nepal Merchant Banking & Finance Ltd. is from Rs. 2 million to Rs. 11 million per year. Thus the merchant banking income of NMB is in high degree of variance. While analyzing the income from merchant banking of NIDC Capital Markets Ltd., it has been found that major part of merchant banking income of NCML is also through public issue management.

The comparative study of income from merchant banking of various companies reveals that the merchant banking income of CIT and NCML is increasing very steadily. On the other hand, NMB, though it has started performing merchant banking activities since 2054/55, is earning high income. The test of consistency has concluded that the merchant banking income of NCML is more consistent while that of CIT has more variation in income.

From the analysis of response of questionnaire, we come to know that most of the merchants banking functions are performed by finance companies and then by some other companies like few banks. Studying the regulatory provision relating to the merchant banking function, about one third of respondents agree on the existence of merchant banking regulations while two third of respondents disagree the existence and few of them are unknown about it. Most of the respondents said that the position of capital market is still underdeveloped in our country. According to most of the respondents the reason behind more public issue of shares of banks and finance

companies is due to the regulatory provision has been made compulsory for banks and finance companies to go for public.

Ramajhi (2009) has made a study on “Merchant Banking Practices of Financial Institutions”. In his research he has tried to point about some features and problems of merchant banking in Nepal. In this study, Ramajhi has pointed out the following major finding.

The importance of merchant banking is increasing gradually as a result of development activities after the restoration of democracy and economic liberalization in Nepal. The term merchant banking has come in Nepal from few years before, most of the people are found to be unknown about it.

Capital market provides an important base for the development of industry, commerce and economy. Merchant banking and capital market are interdependent with each other in many aspects. In this regard the analysis of public issue shows that merchant bankers are also playing a highly significant role towards the development of securities industries as well as capital market in Nepal.

The comparative study of income from Merchant Banking of various companies reveals that the merchant banking income of CIT and NFCL is increasing very steadily. The test of consistency has concluded that the Merchant Banking income of NFCL is more consistent, while that of NMB has more variation in income.

Analysis of institution and instrument wise public issue reveals that most of the issuing companies are banks.

Analysis of the activities of the merchant banking found that merchant banking activities are concentrated on floating the public issues of securities. While studying the activity performance of Citizen Investment Trust (CIT), it has been revealed that CIT, as one of the leading merchant banker. The study of activity performance of Nepal Merchant Banking & Finance Ltd. as a merchant banker reveals that NMB is also providing issue management as major merchant banking services.

While studying the activity performance of NFCL as a merchant banker, NFCL is also found to be performing public issue management.

Analyzing the merchant banking income of the major merchant banks it has been revealed that most of the income of CIT is through public issue management.

The merchant banking income of NFCL is in high degree of variance. The merchant banking income of NMB contributes about 2% to 7% of total income earned.

While analyzing the income from merchant banking of NFCL it has been found that major part of merchant banking income of NFCL is also through public issue management.

The test of consistency has concluded that the merchant banking income of NFCL is more consistent while that of CIT has more variation in income.

From the analysis of response of questionnaire, we come to know that most of the merchants banking functions are performed by finance companies. The view of the respondents regarding the body that has to play the key role in the merchant banking development.

2.5 Research Gap

Various studies have been done under the topic merchant banking in Nepal previously. But they are concerned with the study of institution and instrument wise public issue which reveals most of the issuing companies are banks. Some studies focuses on only the role of merchant banking in Nepal. There is a research gap on the studies that they have not analyzed the activity performance and test of consistency of merchant banks. In this study an attempt has been made to study role, activity performance and test of consistency of the merchant banks namely Citizen Investment Trust, NIDC Capital Markets Ltd., Nepal Merchant Banking and Finance Ltd.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

According to the Oxford Dictionary 'Research' has been defined as the systematic investigation and study of materials, sources, etc in order to establish facts and reach conclusions. As per the Webster International Dictionary, research is "a careful critical inquiry or examination in seeking facts and principles; diligent investigation in order to ascertain something. Research is common parlance that refers to a search for knowledge. "Research Methodology is a way to systematically solve the research problem." It may be understood as a science of studying how research is done scientifically. A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology.

Hence this chapter looks into the research design nature and sources of data, method of data collection, tools and techniques of data analysis and their limitations. The research methodology used to present study is briefly mentioned below.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research question and control variances. Thus it means an overall framework or plan for the collection and analysis of data.

Descriptive research design has been used in this study. It is helpful to describe the entire observed and perceived merchant banking sector facts. This research is based on recent historical data. It deals with the merchant banking activities of the companies taken as a case study on the basis of available information. This research is more quantitative or analytical based as well as descriptive and exploratory.

3.3 Population and Sample

The limitation of time and unavailability of the relevant data has forced me to make research on the few merchant banks. There are lots of financial institutions like banks, finance companies, Co- operatives, insurance companies etc in our country Nepal. Out of these entire companies, some acts like commercial Bank Act, Development Bank Act, Finance Companies Act, NIDC Act, CIT Act etc permits them to perform merchant banking activities. Thus all those financial institutions that are allowed to perform merchant banking activities as per act can be regarded as population of the study.

Since the concept of merchant banking is very new to our country only very few financial institutions are found to be performing specific merchant banking activities. There are fourteen Merchant Banks in Nepal .Out of these financial institutions three leading companies actively involved in merchant banking functions are taken as sample to conduct the research. They are:

- a. Citizen Investment Trust (CIT)
- b. NIDC Capital Markets Limited (NCML)
- c. Nepal Merchant Banking & Finance Limited (NMB)

3.4 Nature and Source of Data

This study is based on primary as well as secondary data which are collected from various sources as per their requirement. The detail of the sources of primary and secondary data is given below:

3.4.1 Primary Data

The primary data are those, which are collected fresh and for the first time and thus happen to be original in character. Logical aspect of the study is explored mainly through primary data, which is collected using questionnaire and observation survey. For this purpose a set of scheduled questionnaire is developed and distributed to various groups like executives and officers. Similarly observation of merchant banking activities of few institutions is conducted as far as possible. Formal and informal interviews with the concerned authorities were also helpful to ascertain reliable and accurate information regarding merchant banking.

3.4.2 Secondary Data

The secondary data are those which have already been collected by someone else and already, been passed through the statistical process. (Kothari, 1994:115) The secondary data has been collected from published materials of different organizations such as Nepal Rastra Bank, Securities Exchange Board of Nepal, Financial Institutions and Citizen Investment Trust. Likewise various data and information are collected from the economic journals, periodicals, bulletins, magazines, other published and unpublished reports and documents from various sources.

3.5 Data Collection Techniques

In the process of collecting primary data, the methods like telephone enquiry, formal and informal interviews and questionnaire analysis are adopted wherever necessary. The formal as well as informal interviews are conducted with high-level personnel of various fields.

As far as questionnaire method is concerned, a set of questionnaire is developed to meet the objective of the study. A number of questions were put up by means of 40 copies of questionnaire. Categorically, the questions raised through this means were of three types namely yes/ no questions, multiple-choice questions and free opinion questions. The questionnaires included seven tick mark questions and three open-end questions and are distributed to the executives of various professions and fields.

Table: 3.1

Categories of Respondents of Various Fields

Institution	Number	Percentage
NRB	3	7.5%
Banks	9	22.5%
Finance Companies	14	35.0%
CIT	2	5.0%
Securities Exchange Board of Nepal	3	7.5%
Nepal Stock Exchange	1	2.5%
NIDC	1	2.5%
Chartered Accountants	6	15.0%
Teacher	1	2.5%
Total	40	100.0%

On the other hand secondary data are collected using methods like frequent visit of various libraries, organizations and websites. Library of Nepal Commerce Campus, Tribhuvan University, Indian Library, American Library, British Council and even Nepal Rastra Bank Securities Exchange Board of Nepal helped as source for various useful books, journals, magazines and other published and unpublished reports.

Data are collected through annual reports, minutes, memorandum of association of several organizations and direct visit to Nepal Rastra Bank, Securities Exchange Board Nepal, banks, finance companies and other organizations. Concept paper made by few organizations, newsletters, leaflet, bulletin, and brochure also helped in collection of data for the study.

Similarly methods like surfing in websites and personal visit to bookshops like National Book Shop, Ratna Pustak Bhandar, Bhrikuti Book Palace are also used for the collection of data and information.

3.6 Method of Data Analysis and Presentation

Data collected from secondary sources were analyzed by using various statistical tools like percentage analysis, ratio analysis, bar diagram, multiple bar diagram, arithmetic mean, standard deviation, coefficient of variation, etc. Similarly data collected from questionnaires were in raw form. They were classified and tabulated in the required form and analyzed through tool using percentile. Major findings were based on the analysis and interpretation of data. The major data analysis tools used for the analysis and presentations of data are as follows:

3.6.1 Percentage Analysis

The percentage analysis is done to compare the two or more data for general information. One can use this function to establish a threshold of acceptance. It is used as a method to divide the opinions of the related sectors into two or more sectors.

3.6.2 Ratio Analysis

Ratio is the mathematical relationship between two accounting figures. "Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions." Thus,

ratio analysis is used to compare a firm's or to its overtime. The qualitative judgments regarding financial performance of a form can be done with the help of ratio analysis.

3.6.3 Bar Diagram

As far as bar diagram is concerned, simple as well as multiple bar diagram are being used for the purpose of the study. Simple bar diagram is a diagram for only one variable. It is used for the comparative study of two or more values of a single variable. On the other hand multiple bar diagram is used when two or more variables are to be compared at the same tome.

3.6.4 Arithmetic Mean

Arithmetic Mean is the sum of all the observations divided by the number of observations. The arithmetic mean is denoted by (\bar{X}) . It is computed as:

In symbol, Arithmetic Mean $(\bar{X}) = \frac{\sum X}{N}$

Where, $\sum X =$ Sum of total value of observations

N= Number of observations

3.6.5 Standard Deviation

The standard deviation is the most important and widely used measure of dispersion or variability. The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D or σ . The standard deviation is also called "root mean squared deviation" (R.M.S.D).

Thus, for individual observations, $(\sigma) = \sqrt{\frac{1}{N} \sum (X - \bar{X})^2}$

3.6.6 Coefficient of Variation

The coefficient of variation (C.V) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed I percent.

In symbols, $C.V = \frac{\sigma * 100}{X}$

The ratio is called the coefficient of standard deviation. It is obvious that C.V. is independent of units. Hence, the coefficient of variation is suitable measure for comparing variability of two series (or set of data or distributions) with the same or different units. A series with smaller C.V is said to be less variable (or more consistent or more homogenous or more uniform or more stable) than other and the series with greater C.V is said to be more variable (or less consistent or less homogenous or less stable than the other.

3.7 Limitations of Research Methodology

As the research in this topic is new, various difficulties and lack of proper knowledge in this particular subject make it comprehensive to achieve the objective. Due to the short period of time and other factors, all the methodologies applicable for the study are not applied. Therefore, in some cases assumption has been made to analyze those results comparatively with the view that it will not hampered the main stream of the study.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Data presentation and analysis is the one of the important part of the research work. The basic objective of this chapter is to analyze and elucidate the collected data following the conversion of unprocessed data to an understandable presentation. Thus this chapter presents the analysis and interpretation of the data related to merchant banking.

As it has been started earlier in the methodology section, this study consists of both primary as well as secondary data. Secondary data has been collected particularly from annual report of merchant bankers, Securities Exchange Board of Nepal, websites and handouts prepared by the concerned companies. Similarly, data collected from primary sources, interview and questionnaire method have been analyzed to gather information on problems and remedies for merchant banking.

4.2 Presentation and Analysis of Secondary Data

Since most of the merchant banking activities in Nepal are performed by Finance Companies, our study starts from analysis of selected Finance Companies, which are actively participated in Merchant Banking Activities. Study of Citizen Investment Trust is also included here though it is excluded from the list of finance companies because its performance as merchant banking activities is high. Main sources of Secondary data are library, magazine and newspaper, etc.

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

4.2.1 Public Issue Analysis

Though the function of merchant banking includes a lot of activities in case of our country, the function of Merchant Banking is regarded as issue management. Thus, the analysis starts from the analysis of public issue of Securities.

Public issue helps to develop capital market, which provides an important base for the development of industry, commerce and the economy. As the public issue goes on increasing the role and importance of Merchant Bank also increases for the reason that merchant bankers manage public issue in professional and systematic way. Tabular as well as graphical presentation of public issue in different fiscal years is presented in table 4.1 and figure 4.1 as follows:

Table: 4. 1

Public Issue of Securities

Rs. in Million

Fiscal Year	Number of Issues	Issue Amount
2056/057	15	326.86
2057/058	12	410.49
2058/059	18	1441.33
2059/060	14	556.54
2060/061	14	1027.5
2061/062	16	1626.82
2062/063	29	2443.28
2063/064	34	2295.5
2064/065	64	10668.2
2065/066	53	16828.51
Total	264	37625.03

Source: Annual Report 2065/066, SEBON

Figure: 4.1
Public Issue of Securities

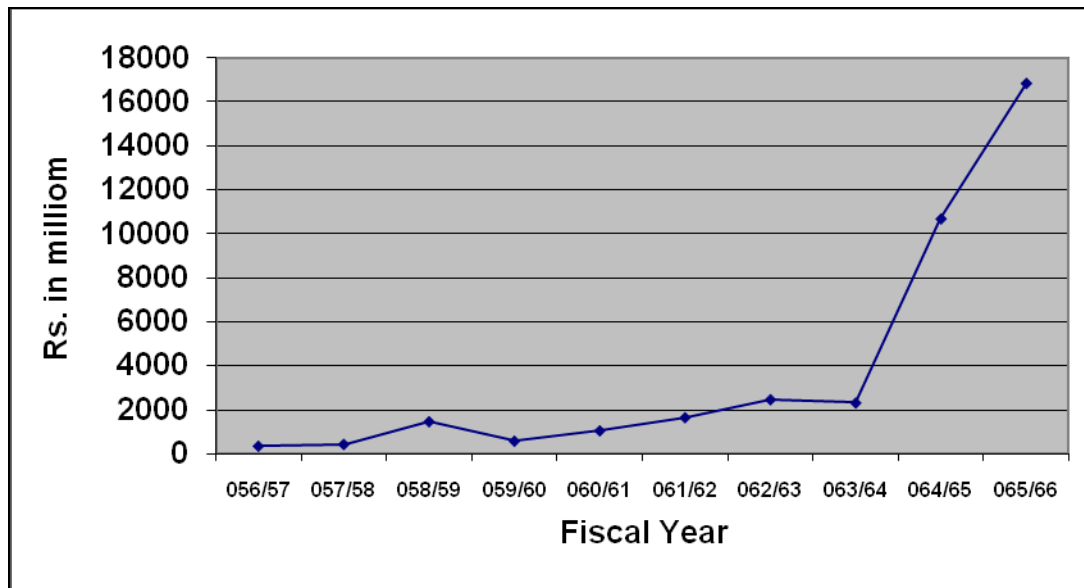


Table 4.1 and figure 4.1 shows that there have been 264 public issues of different companies amounting Rs 37625.03million from the fiscal year 2056/057 to 2065/066. Out of 264 issues, there were 64 issues in fiscal year 2064/065, which was the greatest number of issues during the fiscal year 2056/057 to 2065/066. The numbers of issues have been shown in the fiscal year 2056/057 which was 15. In the fiscal year 2057/058, the issue decreased to 12 and in fiscal year 2057/058 the issue increased to 18 which again decreased to 14 in fiscal year 2058/059. But from the fiscal year 2059/060, the issues have been increasing as 14, 16, 29, 34, and 64 upto the fiscal year 2064/065 that again decreased to 53 in the fiscal year 2065/066.

Similarly, issues amounting Rs. 326.86 million in 2056/057 shown increases to Rs 1441.33 million in fiscal year 2058/059, which decreased to Rs 556.54 in fiscal year 2059/060 and again started rising slowly. However the issue of share was Rs 16828.51 million in fiscal year 2065/066 which was the highest issue amount during the years of period.

4.2.2 Institution Wise and Instrument Wise Analysis of Public Issue

The institution wise analysis of public issue has been conducted to find out the sectors, which have been fitted through merchant banking activities in the process of

public issue of securities. Similarly instrument wise public issue analysis helps to find out the instruments that have been preferred during the issue of securities.

Table: 4.2

Institution Wise Public Issue in Percentage (2056/057 to 2065/066)

Group	No. of issues	Rs. in million	Issue in %
Bank	75	17969.71	47.76
Finance Companies	115	8059.28	21.42
Insurance	27	3318.52	8.82
Manufacturing and Processing Company	24	4582.72	12.18
Hotel	6	1986.60	5.28
Trading	9	353.67	0.94
Other Companies	8	1354.50	3.60
Total	264	37625.03	100

Source: Annual Report 2065/066, SEBON

Table 4.2 shows the institute wise public issue from 2056/057 to 2065/066. From the table it has been clear that most of the public issue during the period is bank which is 47.76%, as compared to 21.42% finance companies, 8.82% public issue of insurance companies, 12.18% public issue of manufacturing and processing company, 5.28% of hotel, 0.94% of trading and 3.60% of other companies. However the no. of issue by banks was only 75 less than that of finance companies.

Table: 4.3

Instrument wise Public Issue

Rs. in Million

Instrument	No. of Issues	Amount of Issues	Issues in %
Ordinary Share	140	20035.32	53.25
Right Share	86	11915.85	31.67
Preference Share	11	1704.41	4.53
Debenture	18	2684.80	7.04
Mutual/ Unit Fund	9	1320.64	3.51
Total	264	37625.03	100

Source: Annual Report 2065/066, SEBON

Table 4.3 shows that the major sources of finance for most of the corporate bodies in Nepal are ordinary share. Out of 264 public issues during the fiscal year from 2056/057 to 2065/066 is 53.25% of issues were through ordinary shares, which contributes to raise Rs. 20035.32 million capitals. The numbers of issues through ordinary shares were 140. Right shares were issued of 86 companies amounting to Rs. 11915.85 that covered 31.67% of total issue. After the mostly issued instrument to raise capital was Debenture Preference Share and mutual/ unit fund which were 7.04%, 4.53%, 3.51% respectively. The detail of instrument wise public issue is presented in Appendix-II

4.2.3 Citizen Investment Trust (CIT): Activity Performance

Citizen Investment Trust (CIT) is incorporated under Citizen Investment Trust Act, 1990 with a view to expand investment opportunities by encouraging general public to save Capital and to bring the dynamism in the development of capital markets. CIT is basically the saving and investment institution and it statutorily derives a special status and privileges, which adds up its strength to emerge as a national institution reaching wider spectrum of population. CIT at the same time achieves a high professionalism in the financial intermediation and ability to provide varied capital market services. The head office of CIT is in Kathmandu and may open branches of appoint representatives within and outside the country.

The major function of CIT includes saving mobilization, investment/ financing, capital market services. Under Capital market services, it provides trustee services and corporate finance services. And merchant banking service consists under corporate finance services. Out of various merchant banking services, the services provided by CIT are as follows:

4.2.3.1 Public Issue Management

As one of the major function of merchant banking, CIT has been actively participating in management of public issue of securities from its establishment. It has managed public issue of ordinary shares of various companies like banks, finance companies, manufacturing industries and others. CIT has introduced unit scheme of its own institution. It has issued preference share and right share of Necon Air Ltd. It also issued right share of Bottlers Nepal Ltd, Nepal Bank Limited, NIDC Capital Markets

Limited. CIT also worked as co- issue manager in the share issue of NICO Insurance Limited and Nepal Development Bank with Rastriya Banijya Bank and Nepal Merchant Banking and Finance Limited respectively. The detail of the issue is given in the appendix III and the no. and issue amount of the issues managed by CIT is shown in table 4.4 and figure 4.2 below.

Table: 4.4
Public Issue Managed by CIT

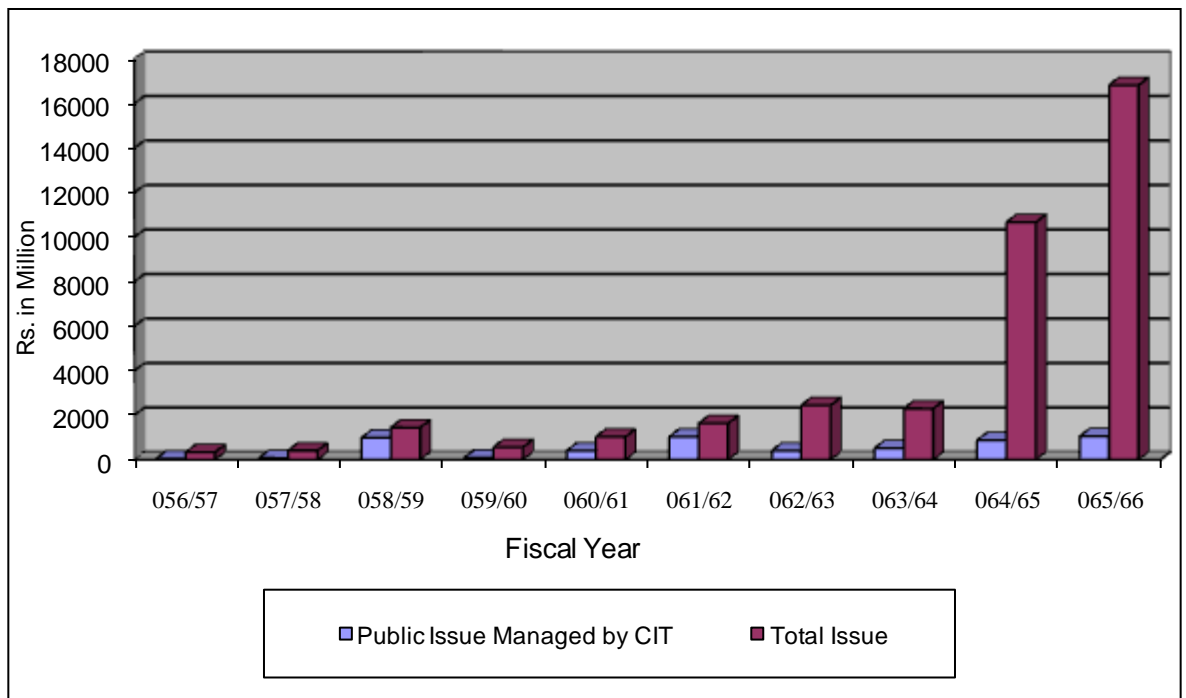
Rs in Million

Fiscal Year	Issue by CIT		Total Issue		% of Issue by CIT
	No. of Issues	Issue Amount (Rs)	No. of Issues	Issue Amount (Rs)	
2056/057	2	38.74	15	326.86	11.85
2057/058	2	70.98	12	410.49	17.29
2058/059	2	977.05	18	1441.33	67.79
2059/060	4	78.97	14	556.54	14.19
2060/061	3	395.48	14	1027.5	38.49
2061/062	3	1029.27	16	1626.82	63.27
2062/063	4	403.88	29	2443.28	16.53
2063//064	2	511.67	34	2295.5	22.29
2064/065	4	870.21	64	10668.2	8.16
2065/066	6	1045.26	53	16828.51	6.21
Total	32	5421.51	264	37625.03	14.41

Source: Annual Report 2065/066, SEBON

Table 4.4 shows the performance of CIT as an issue manager of different companies during different fiscal years from 2056/057 to 2065/066. During the ten years period, the company has managed to raise Rs 5421.51 million capitals of 32 different issuing companies that are 14.41% of aggregate public issue. The management of public issue was greatest in fiscal year 2058/059 that covers 67.79% of total issue approved in the fiscal year. It has contributed to raise 67.79% of total issue to raise Rs. 1441.3 million of capital for Bottlers Nepal Ltd. Except in fiscal year 2057/058 and 2059/060; CIT has contributed as issue manager in more than 20% of total public issue. It is also shown in figure 4.2.

**Figure: 4.2
Public Issue Managed by CIT**



4.2.3.2 Underwriting and Syndication of Underwriting Public Issue

Citizen Investment Trust also provided the service of underwriting as well as syndication of underwriting public issue of various companies, which is mentioned in table 4.5.

Table: 4. 5**Underwriting of Public Issue by CIT***Rs in Million*

S. N.	Fiscal Year	Issuing Company	No. of Shares	Amount of Underwriting(Rs)	Issue Manager
1	2056/057	Alliance Insurance	10,000	10,00,000	CIT
2	2057/058	Sagarmatha Insurance	10,000	10,00,000	National Finance
3	2057/058	NIC Bank	30,000	30,00,000	NCMC
4	2058/059	Everest Bank Ltd	50,000	50,00,000	CIT
5	2058/059	Nepal Development Bank	70,000	70,00,000	CIT, NMB
6	2059/060	Development Credit Bank Ltd.	35,000	35,00,000	NMB
7	2060/061	NB Insurance	2,00,000	2,00,00,000	CIT
8	2061/062	Nirdhan Utthan Bank Ltd.	30,000	30,00,000	CIT
9	2062/063	Nabadurga Finance Co. Ltd.	50,000	50,00,000	NMB
10	2063//064	Sagarmatha Merchant Banking & Finance	20,000	20,00,000	ACE
11	2064/065	Bhrikuti Development Bank Ltd.	1,00,000	1,00,00,000	ACE
12	2065/066	Chilime Hydropower Co.Ltd.	1,00,000	1,00,00,000	CIT

Source: Personal Interview with the high level employee of CIT

From the table 4.5 it is clear that CIT has underwritten public issue of twelve companies from fiscal year 2056/057 to 2065/066 out of which it has syndicated underwriting of five companies. The amount of underwriting was ranging from Rs Ten Lakhs to Rs Seventy Lakhs out of twelve underwriting three companies naming Sagarmatha insurance, Alliance Insurance, Development Credit Bank Ltd. Devolved and company has to accept certain portion of shares as per agreement. CIT is also pipelined to underwrite ordinary shares of NB Insurance and Lumbini Bank Limited and secured debenture of Hotel Blue Star. CIT has also underwritten ordinary share of Nepal Credit and Commerce Bank Ltd which has failed due to some problems.

4.2.3.3 Registrar to Share

CIT, as one of the leading merchant banker is also providing services to registrar to share to Alliance Insurance Company Limited, Butuwal Power Co.Ltd, Lumbini Bank Ltd, Chilime Hydropower Co.Ltd.

4.2.3.4 Consultancy Services

CIT also provides consultancy services in the area of capital market. Such services are available for designing capital structure, pricing of securities, corporate acts like merger acquisition, privatization and other related activities.

4.2.3.5 Citizen Unit Scheme

In the fiscal year 2065/066 Citizen Investment Trust (CIT) sold units amounting to Rs 1980.03 million and repurchased units amounting to Rs 1175.25 million under Citizen Unit Scheme. By the end of the fiscal year 2065/066 the total investment was Rs. 804.78 million and the profit was Rs. 65.0 million under the scheme. The total number of participants of the scheme reached 2426. In the fiscal year 2065/066 the scheme distributed 6.25% interest to its unit holders. The performance of Citizen Unit Scheme over the years is presented in table 4.6.

Table: 4.6

Performance of Citizen Unit Scheme

Rs in Million

S. N.	Particulars	Fiscal Year					
		060/61	061/62	062/63	063/64	064/65	065/66
1	Total Amount of Units Sold	1003.9	1215.6	1486.3	1702.3	1984.1	1980.03
2	Total amount of Unit Repurchased	536.3	702.5	829.0	1004.1	1204.3	1175.25
3	Investment	417.0	567.6	657.5	752.2	779.8	804.78
	a. Government Bond	182.0	184.6	173.9	93.2	93.2	93.2
	b. Bank Deposit(Fixed)	92.0	100.0	317.5	490.6	522.6	529.5
	c. Share/ Debenture	26.5	22.8	26.5	28.9	43.1	42.59
	d. Loan and Advances	116.5	260.2	139.6	139.5	139.5	139.56
4	Net Income	36.3	41.9	50.4	49.0	49.1	65
5	Interest (%)	7.0	7.0	7.0	6.25	6.25	6.25
6	No. of Unit Holders	9871	2651	2840	2840	2426	2426
	a. Individual	-	2579	2747	2747	2326	2323
	b. Institutional	-	72	93	93	100	103

Source: Annual Report 2065/066, SEBON

4.2.4 NIDC Capital Markets Limited (NCML): Activity Performance

NIDC Capital Market was established in 2049 B.S as the first Merchant Banker of Nepal. When established, it was only merchant banker with an objective to render the merchant banking services. As a merchant banker, it also provides various services to its clients. The activities of NIDC Capital Market is to act as an issue and sales manager to provide advice for it and arrange underwriting for public issues, to encourage public participation in the ownership of industrial and commercial institution, collecting medium or long term capital from the public for the establishment and the expansion of industry. Besides these activities, it also has an active role to provide liquidity to securities, as a market maker involving itself actively in buying and setting of securities in the secondary market.

4.2.4.1 Issue Management

NIDC Capital Market has handled public issue of various companies. During ten years period from fiscal year 2056/057 to 2065/066 it has managed a lot issues of ordinary shares of various issuing companies, debenture issue of Shri Ram Sagar Mills Ltd, right shares of Bank of Kathmandu Limited and preferential share issue of Birat Shoe Company and Taragaun Regency Hotel ltd. The brief detail of public issue handled by NIDC Capital Markets Limited is shown in table 4.7.

Table: 4.7**Public Issue Managed by NIDC Capital Markets Limited.***Rs in Million*

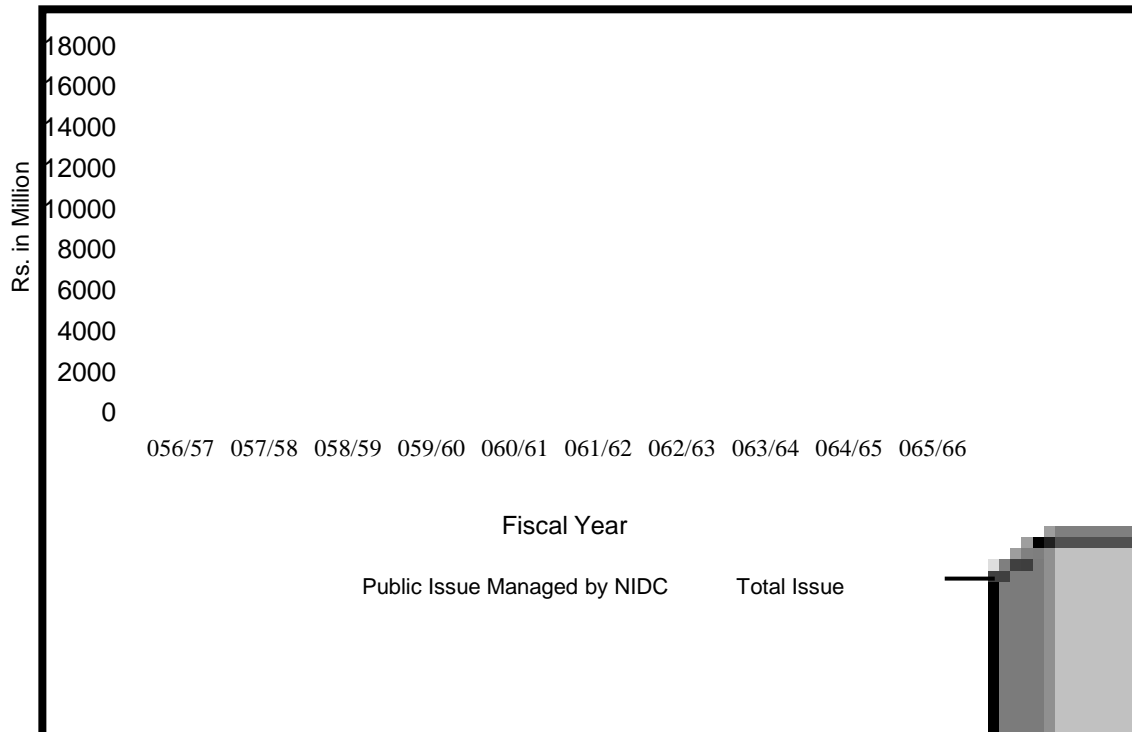
Fiscal Year	Issue by NIDC		Total Issue		% of Issue by NCML
	No. of Issues	Issue Amount(Rs)	No. of Issues	Issue Amount(Rs)	
2056/057	4	200.17	15	326.86	61.24
2057/058	7	385.20	12	410.49	93.84
2058/059	4	297.00	18	1441.33	20.61
2059/060	4	197.47	14	556.54	35.48
2060/061	5	357.21	14	1027.5	34.76
2061/062	5	393.17	16	1626.82	24.17
2062/063	11	416.23	29	2443.28	17.03
2063//064	14	410.25	34	2295.5	17.87
2064/065	13	420.29	64	10668.2	3.94
2065/066	9	431.21	53	16828.51	2.57
Total	76	3508.2	264	37625.03	9.32

Source: Annual Report 2065/066, SEBON

From table 4.7 it is clear that it has handled public issue of 76 companies amounting Rs 3508.2 million, which is 9.32% of total issues. It has managed issues of Rs 416.23 million of 16 companies in fiscal year 2056/057 which is 61.24% of total issue of that fiscal year. Similarly it has managed 93.84%, 20.61%, 35.48%, 34.76%, 24.17%, 17.03%, 17.87%, 3.94% and 2.57% in fiscal year 2057/058, 2058/059, 2059/060, 2060/061, 2061/062, 2062/063, 2063/064, 2064/065 and 2065/066 respectively. It would be easier to understand to study the amount in figure 4.3.

Figure: 4.3

Public Issue Managed by NIDC Capital Markets Limited



4.2.4.2 Underwriting

Out of 35 issues handled by NIDC Capital Market Limited, it has underwritten public issue of 10 companies which is shown in table 4.8.

Table: 4.8

Underwriting of Public Issue by NIDC Capital Markets Ltd.

S. No.	Fiscal Year	Issuing Company
1	2056/057	Taragaon Regency Hotels Ltd.
2	2057/058	Nepal Industrial and Commercial Bank Ltd.
3	2058/059	Sagarmatha Insurance Company Ltd.
4	2059/060	Himalaya Distillery Ltd.
5	2060/061	Nepal Sri Lanka Merchant Bank Ltd.
6	2061/062	Nepal Credit and Commerce Bank Ltd.
7	2062/063	National Hydro Power Company Ltd.
8	2063/064	Prudential Bittiya Santha Ltd.
9	2064/065	Gorkha Development Bank (Nepal) Ltd.
10	2065/066	Nepal Express Finance Ltd

Source: Personal interview with high level employee of NIDC Capital Market Ltd.

4.2.4.3 Registrar to the Share

NIDC Capital Market also provides services of registrar to the service with an objective to provide help in the further activities of public limited companies. Its main objective is to maintain the record of shareholders to fulfill the name transferring process and to assist in holding the preliminary and Annual General Meeting on behalf of these companies. Following are the list of companies to which, NIDC Capital Markets Limited provides services of registrar to share issue.

Nepal Lever Limited

Nepal Industrial and Commercial Bank Limited

Oriental Hotel Limited (Radisson)

Bhrikuti Paper Industry Limited

Life Insurance Company Limited

Nepal Film Development Board

NIDC Capital Markets Ltd.

Kumari Bank Ltd.

Paschimanchal Development Bank Ltd.

NCM Mutual Fund 2059

Srijana Finance Ltd.(Bittiya Sanstha)

Brikuti Bikas Bank Ltd.(Bittiya Sanstha)

Business Development Financial Institution Ltd.

Sahayogi Bikash Bank Ltd.

Butuwal Power Company Ltd.

Himchuli Bikash Bank Ltd.

Biratlaxmi Development Bank Ltd.

Nepal Express Finance Ltd.

4.2.4.4 NCM Mutual Fund

NIDC Capital Market has also started NCM mutual fund from 2050 B.S with approval of Securities Exchange Board of Nepal. The total amount of Mutual Fund was Rs 100.00 million. It was an open ended fund with a par value of Rs 10 per unit.

In fiscal year 2065/066, under the NCM Mutual Fund, the total investment reached to Rs 151.53 million and the Net Assets Value (NAV) increased to Rs 536.85 million..

Total number of unit holders of the fund by the end of the fiscal year 2065/066 was 2931 comprising 2930 individuals and 20 institutions.

The per unit market price of fund by the end of fiscal year 2065/066 was Rs 53.69.

The performance trend of the fund is presented in the table 4.9.

Table: 4.9

Performance of NCM Mutual Fund

Rs in Million

S.N.	Particulars		Fiscal Year				
			061/62	062/63	063/64	064/65	065/66
1	Investment		157.74	210.71	198.30	194.82	151.53
	a.	Share/ Debenture	126.21	183.53	86.0	90.71	90.80
	b.	Government Bond	10.00	10.00	10.00	10.00	10
	c.	Bank Deposit	16.54	13.68	93.3	81.90	16.34
2	Net Income		11.47	13.89	23.2	47.74	34.25
	a.	Dividend in Share	1.90	2.82	3.5	3.34	3.85
	b.	Interest in Gov Bond/ Dev	0.81	0.81	0.8	0.8	3.49
	c.	Bank Interest	0.35	0.54	3.9	10.71	0.72
	d.	Income from sale of Shares	8.42	9.71	14.9	32.9	26.17
3	Net Assets Value		144.93	189.14	314.0	488.9	536.85
4	Outstanding Unit (in thousands)		10,000	10,000	10,000	10,000	10,000
5	Net Assets Value per unit (Rs)		14.49	18.91	31.40	48.89	53.69
6	Per Unit Market Price (Rs)		10	11	-	24	-
7	Number of unit holders		2559	2481	2417	2950	2951
	a.	Institutional	20	20	20	20	20
	b.	Individual	2539	2461	2397	2930	2931
8	Interest (%)		5	5	8	15	15

Source Annual Report 2065/066, SEBON

4.2.4.5 Portfolio Management

The company had managed portfolio of its customer with an objective to provide attractive returns from the deposited amount by buying and selling of securities in fiscal years.

4.2.4.6 Research and Development

The company has improved these services by analyzing in depth the economic situation of the listed companies and has also started to prepare macroeconomic sector analysis; whereby sectors of investment possibilities are researched. These sectors include textile with analysis on the areas of cotton thread, garments and knit wear as well as tourism.

4.2.5 Nepal Merchant Banking and Finance Limited (NMB): Activity Performance

NMB commenced business in December 1996. The company is trying to become a leader in the market for financial services and merchant banking activities. NMB is involved in both primary and secondary markets. Under merchant banking activities it performs various activities.

4.2.5.1 Public Issue Management

NMB has successfully managed Initial Public Offering (IPO) of both common and preferred shares as lead managers of different companies. Table 4.10 shows the details of public issued handled by NMB.

Table: 4.10
Public Issue Managed by NMB

Rs in Million

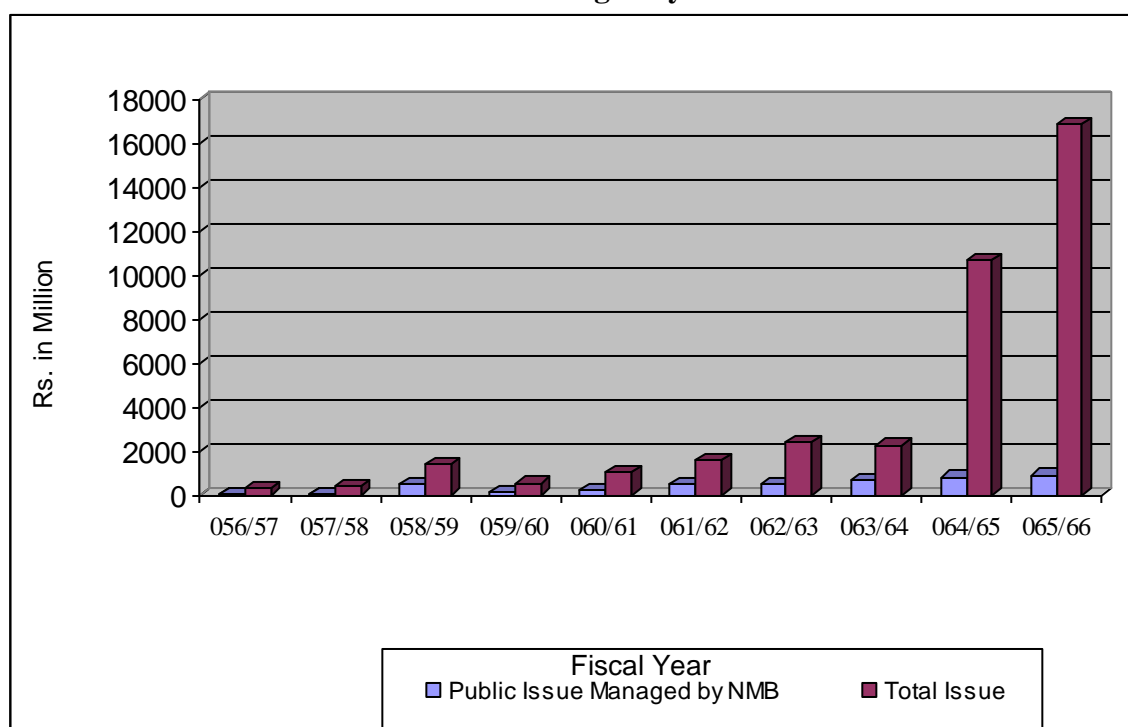
Fiscal Year	Issue by NMB		Total Issue		% of Issue by NCML
	No. of Issues	Issue Amount(Rs)	No. of Issues	Issue Amount(Rs)	
2056/057	1	30.17	15	326.86	9.23
2057/058	2	85.20	12	410.49	20.75
2058/059	3	497.13	18	1441.33	34.49
2059/060	3	129.47	14	556.54	23.26
2060/061	4	257.21	14	1027.5	25.03
2061/062	6	493.17	16	1626.82	30.31
2062/063	9	516.23	29	2443.28	21.12
2063//064	11	690.25	34	2295.5	30.06
2064/065	23	820.29	64	10668.2	7.69
2065/066	19	931.21	53	16828.51	5.53
Total	81	4450.33	264	37625.03	11.82

Source: Annual Report 2065/066, SEBON

From table 4.10 it is clear that it has handled public issue of 81 companies amounting Rs 4450.33 million, which is 11.82% of total issues. It has managed issues of Rs 931.21 million of 19 companies in fiscal year 2065/066 which is 5.53% of total issue of that fiscal year. Similarly it has managed 9.23%, 20.75%, 34.49%, 23.26%, 25.03%, 30.31%, 21.12%, 30.06%, 7.69 and 5.53% in fiscal year 2056/057, 2057/058, 2058/059, 2059/060, 2060/061, 2061/062, 2062/063, 2063/064 and 2064/065 respectively. It would be easier to understand to study the amount in figure 4.4.

Figure: 4.4

Public Issue Managed by NMB



4.2.5.2 Underwriting of Public Issue

Public Issues under by Nepal Merchant Banking and Finance are shown in table 4.11

Table: 4.11

Underwriting of Public Issue by NMB

Rs in Million

S. N.	Fiscal Year	Issuing Company	No. of Shares	Amount of Underwriting
1	2058/059	Nepal Development Bank	70,000	70,00,000.00
2	2059/060	Development Credit Bank Ltd.	70,000	70,00,000.00
3	2060/061	Nepal SBI Bank	60,000	60,00,000.00
4	2061/062	Machhapuchre Bank Ltd.	50,000	50,00,000.00
5	2062/063	KIST Merchant Banking and Finance	86,00,000	80,00,000.00
6	2063/064	Nirdhan Utthan Bank Ltd.	20,000	20,00,000.00
7	2064/065	Pokhara Development Bank	30,000	30,00,000.00
8	2065/066	Laxmi Bank	20,000	20,00,000.00

Source: Personal Interview with High Level Staff of NMB.

As shown in table 4.11, NMB has underwritten public issue of shares of eight issuing companies naming Nepal Development Bank and Development Credit Bank Ltd. amounting Rs. Seventy Lakhs and Nepal SBI Bank, Machhapuchre Bank Ltd., KIST Merchant Banking and Finance, Nirdhan Utthan Bank Ltd. Pokhara Development Bank and Laxmi Bank amounting Rs. Sixty Lakhs, Fifty Lakhs, Eighty Lakhs, Twenty Lakhs, Thirty Lakhs and Twenty Lakhs respectively.

4.2.5.3 Registrar to Share Issue

It also provides shares registrar functions to business and corporations. NMB was actively involved in the management of share registrar of two important commercial banks NABIL Bank Ltd. And Standard Chartered Bank Ltd. At present it provides this service to NABIL Bank Ltd. Only.

4.2.5.4 Corporate Counseling

NMB under Corporate Finance Division is primarily also involved in providing necessary project evolution for NMB itself and its clients. The services of this division range from project analysis to Corporate Mergers and Acquisitions to debt Finance and Equity Finance. It is also involved in consortium financing and project appraisal. This department has prepared detailed feasibility study report of a commercial bank and industrial ventures including for a Joint Venture Project. Further, it has played key roles in arranging Consortium Financing. Further, this department also played an important role in the preparation of documentation for the privatization bid of Nepal Tea Development Corporation.

4.2.6 Analysis of Income from Merchant Banking

Generation of income is the major objective of each and every company without which survival and growth of a company is out of imagination. Income from each and every activity affects the performance of the company. Thus, in this section, it has been tried to analyze and find out the income from merchant banking activities to the merchant bankers.

4.2.6.1 Merchant Banking Income of Citizen Investment Trust

Citizen Investment Trust is earning income from various merchant banking activities like Commission of Share Issue Management, underwriting, registrar to share issue,

Consultancy, sale of government bond, etc. The merchant banking income of Citizen Investment Trust from the fiscal year 2056/057 in comparison to total income is shown in table 4.12

Table: 4.12

Statement of Income of Citizen Investment Trust

Rs in Million

Fiscal Year	Share Issue Management	Underwriting Commission	Registration Share Issue Service	Consultancy Fee	Commission from Sale of Government Bonds	Total Income from Merchant Banking	Total Income	% of Income from Merchant Banking to Total Income
2056/057	0.846	-	-	-	0.588	1.434	10.552	13.589
2057/058	0.847	0.037	0.043	-	0.347	1.274	14.395	8.850
2058/059	1.460	0.233	0.206	0.138	0.128	2.165	14.673	14.75
2059/060	3.855	0.354	0.636	0.923	0.869	6.637	18.269	36.32
2060/061	2.961	0.156	0.231	-	0.151	3.499	21.205	16.501
2061/062	3.215	0.058	0.261	-	0.216	3.75	31.723	11.821
2062/063	3.526	0.120	0.263	0.121	0.231	4.261	52.350	8.139
2063//064	3.621	0.196	0.271	0.160	0.256	4.504	51.806	8.694
2064/065	3.726	0.182	0.286	-	0.287	4.516	54.874	8.229
2065/066	4.936	0.921	0.516	0.191	0.393	6.957	91.724	7.585

Source: Annual Report, CIT

From the table 4.12 it has been come to know that the merchant banking income of CIT in fiscal year 2056/057 was only Rs. 1.434 million while it has decreased to Rs. 1.274 million in fiscal year 2057/058 and continuously increased from Rs. 2.165 million in fiscal year 2058/059 to Rs 6.957 million in fiscal year 2065/066. CIT seems to be able to earn maximum amount of merchant banking income in the fiscal year 2059/060 which was Rs 36.32% of total income and amounting Rs. 6.637 million of merchant banking income. However the income decreased in the next two fiscal years which started increasing gradually in the fiscal year 2062/063, 2063/064, 2064/065 and 2065/066 to Rs. 4.261 million, Rs. 4.504 million , Rs. 4.516 million and Rs 6.957 million respectively. From the table it is also clear that CIT is earning more than 14%

of income in average from Merchant Banking activities. And the company is able to earn Rs. 0.869 million commission from Share Issue Management which was maximum in the fiscal year 2059/060. However company is able to earn maximum amount Rs 0.354 millions in fiscal year 2059/060. CIT had earned consultancy fee in fiscal year 2058/059, 2059/060, 2062/063, 2063/064 and 2065/066 which was amount to Rs. 0.138 million, Rs. 0.923 million, Rs. 0.121 million Rs. 0.160 million and Rs 0.191 million respectively. The comparative graph of merchant banking income and ratio of total income and merchant banking income of CIT is shown in the figure 4.4 and 4.5.

Figure: 4.5

Merchant Banking Income of Citizen Investment Trust

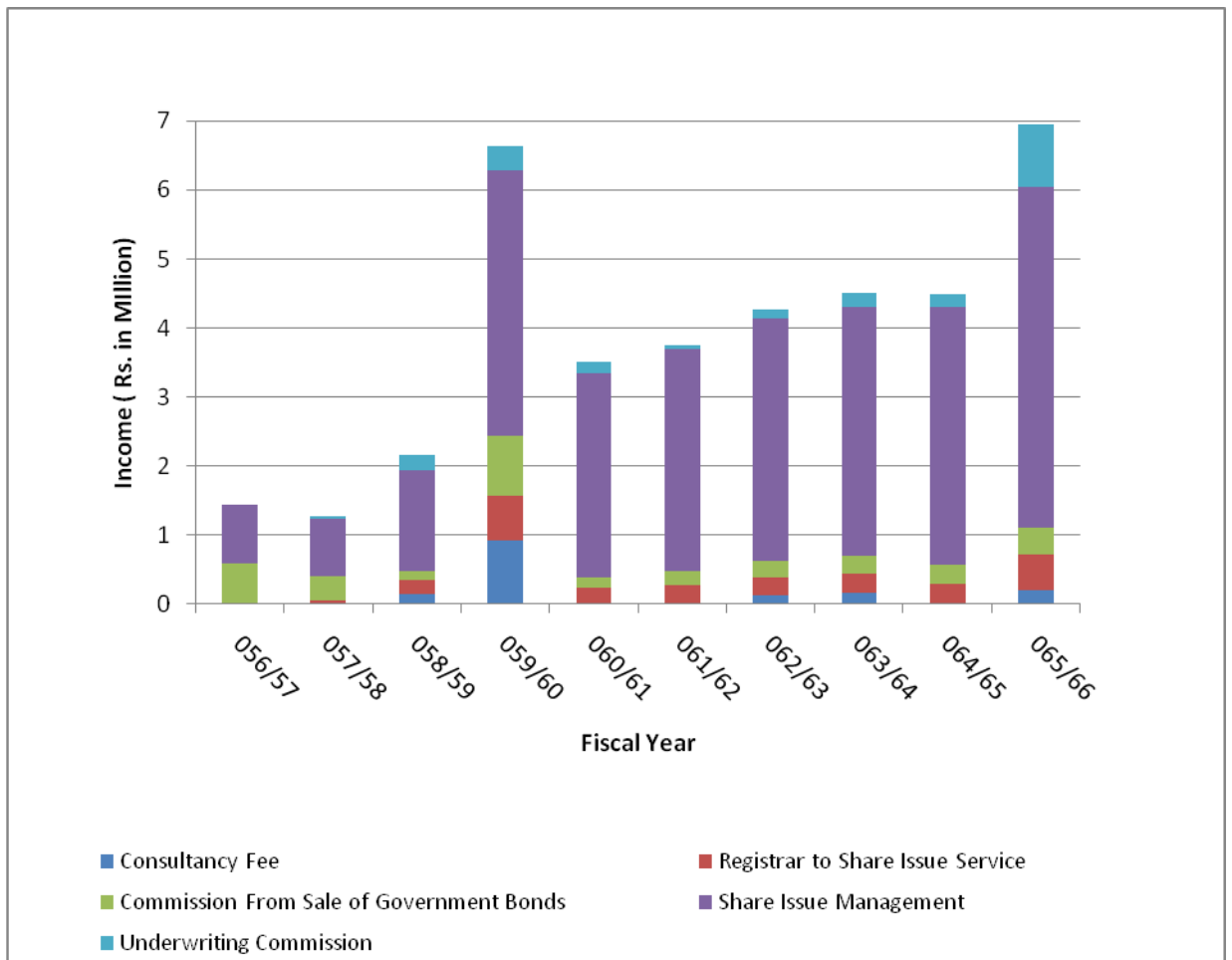
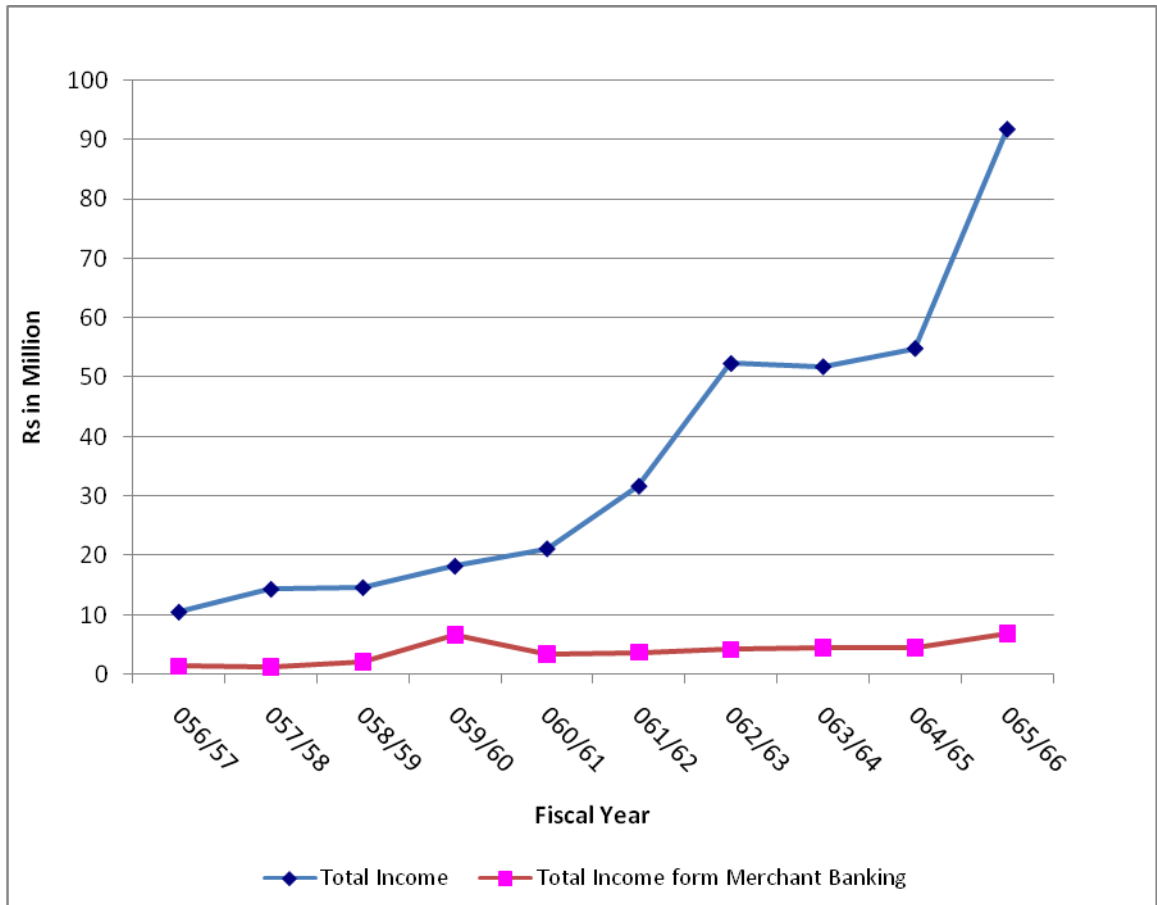


Figure: 4.6

Merchant Banking Income and Total Income of Citizen Investment Trust



4.2.6.2 Merchant Banking Income of NIDC Capital Market Ltd.

The analysis of merchant banking income of NIDC capital market from various activities in various fiscal years is shown in table 4.13.

Table: 4.13**Statement of Income of NIDC Capital Market Ltd***Rs in Million*

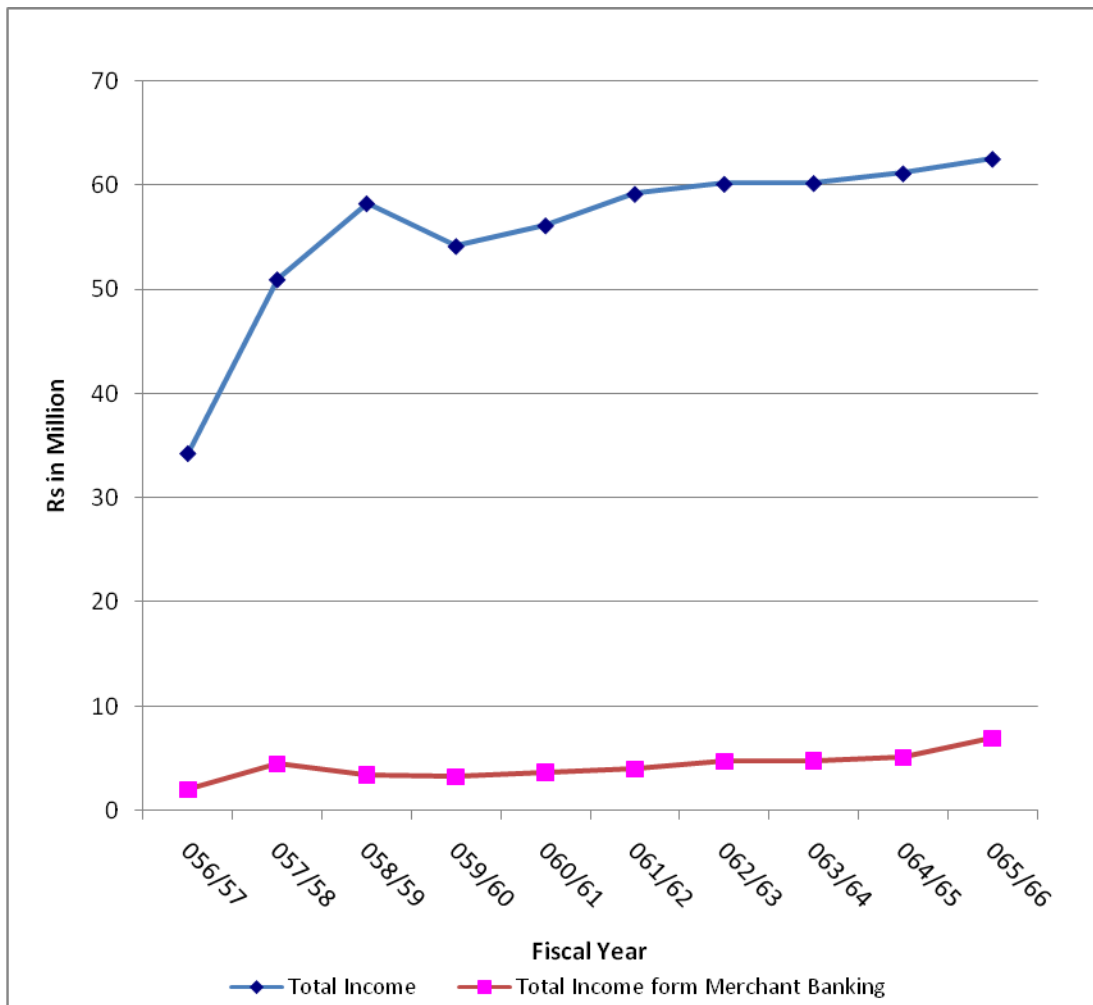
Fiscal Year	Share Issue Management	Underwriting Commission	Registrar to Share Issue Services	Commission from Sale of Government Bonds	Total Income from Merchant Banking	Total Income	% of Income from Merchant Banking to Total Income
2056/057	1.160	-	0.682	0.179	2.021	34.275	5.90
2057/058	1.870	0.895	1.614	0.085	4.464	50.953	8.70
2058/059	2.170	0.197	1.055	0.012	3.435	58.250	5.90
2059/060	2.021	0.110	1.059	0.051	3.241	54.148	5.98
2060/061	2.732	0.234	0.424	0.287	3.677	56.129	6.55
2061/062	2.931	0.135	1.279	0.231	3.955	59.156	6.68
2062/063	3.150	0.259	1.061	0.258	4.728	60.123	7.86
2063//064	3.251	0.138	1.111	0.285	4.793	60.196	7.96
2064/065	3.361	0.256	2.225	0.296	5.138	61.125	8.41
2065/066	3.932	0.312	2.323	0.392	6.959	62.516	11.13

Source: Annual Report, NIDC Capital Markets Ltd.

From the table 4.13 it is clear that most of the merchant banking income are from issue management and then from underwriting and share registrar. NIDC Capital Market is earning from sale of government bond from the fiscal year 2053/054. Thus, the total income from merchant banking is not found to be constant for NIDC Capital Market Ltd. Similarly the activity has contributed to total income by 5.90%, 8.70%, 5.90%, 5.98%, 6.55%, 6.68%, 7.86%, 7.96%, 8.41% and 11.13% in the fiscal year 2056/057, 2057/058, 2058/059, 2059/060, 2060/061, 2061/062, 2062/063, 2063/064, 2064/065 and 2065/066 respectively. The table also shows that the merchant banking income of NIDC Capital Markets Ltd is zigzag not being able to increase simultaneously with increase in total income. It is also shown in figure 4.6.

Figure: 4.7

Merchant Banking Income & Total income of NIDC Capital Markets Ltd



4.2.6.3 Merchant Banking Income of Nepal Merchant Banking and Finance Ltd.

The analysis of income of the company as compared to its total income has been presented in table 4.14.

Table: 4.14**Statement of Income of NMB***Rs in Million*

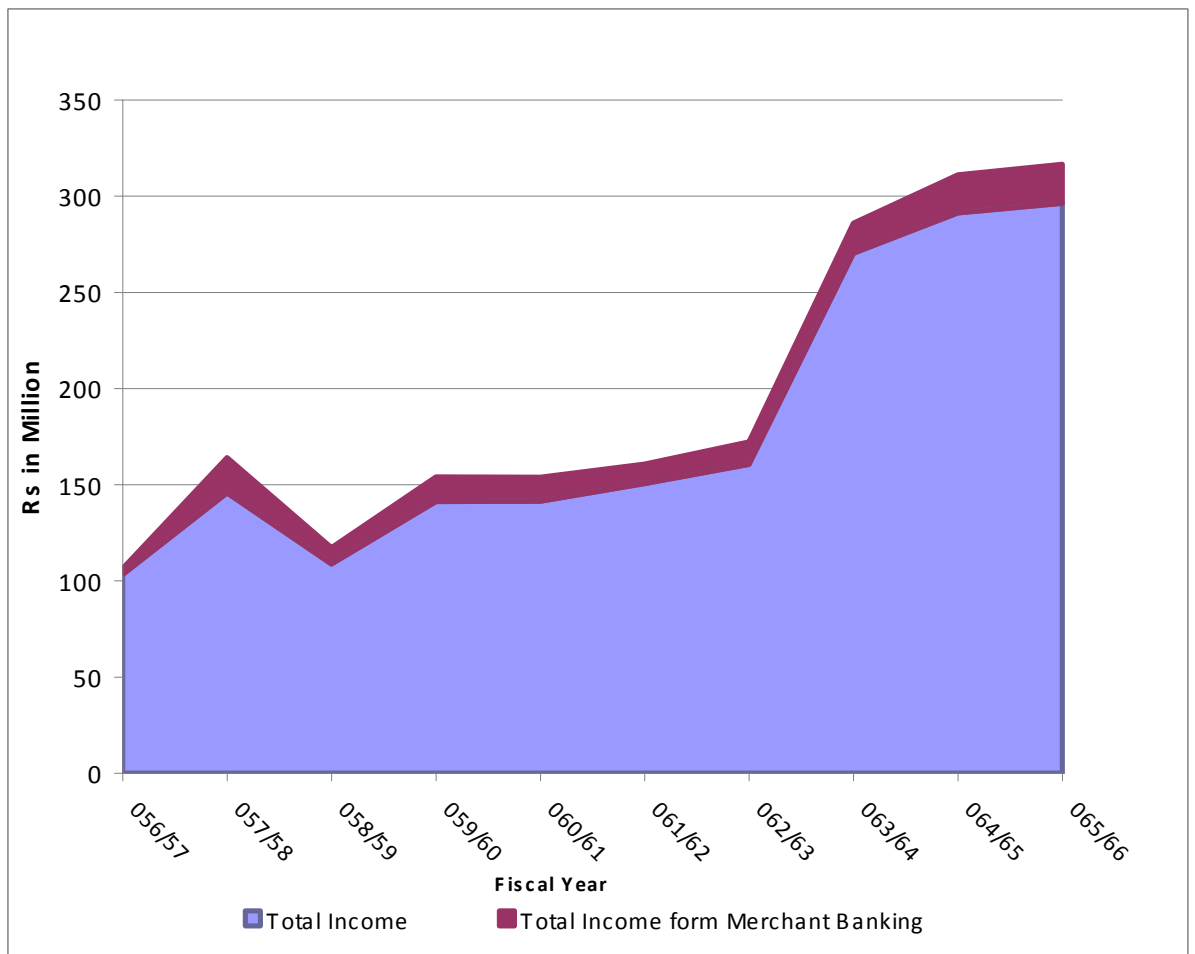
Fiscal Year	Merchant Banking Income(Rs.)	Total Income (Rs.)	% of Income from Merchant Banking to Total Income
2056/057	3.158	103.198	3.06
2057/058	18.199	145.744	12.49
2058/059	8.397	108.780	7.72
2059/060	12.887	141.182	9.13
2060/061	12.485	141.343	8.83
2061/060	10.158	150.584	6.75
2062/063	11.569	160.589	7.29
2063/064	15.621	270.298	5.78
2064/065	19.825	291.162	6.81
2065/066	20.215	296.265	6.82

Source: Annual report, NMB,

Table 4.14 shows that the merchant banking income of NMB was Rs 3.158 million in fiscal year 2056/057 which was 3.06% of total income which increased to Rs 18.199 million in fiscal year 2057/058 generating 12.49% to total income. The income however decreased to Rs 8.397 million in fiscal year 2058/059 making contribution of 7.72% of total income which increased to Rs 12.887 million and Rs 12.485 million making contribution of 9.13% and 8.83% of total income respectively in the fiscal year 2059/060 and 2060/061. The merchant banking income of Nepal Merchant Banking and Finance again decreased to 10.158 million in fiscal year 2061/062 contributing 6.75% to the total income. And again merchant banking income increased to Rs 11.569 million, 15.621 million, 19.825 million and 20.215 million in fiscal year 2062/063, 2063/064, 2064/065 and 2065/066 contributing 7.21%, 5.78%, 6.81% and 6.82% to total income respectively. It is also shown in figure 4.8.

Figure: 4.8

Merchant Banking Income & Total income of Nepal Merchant Banking & Finance



4.2.7 Comparative Study of Income from Merchant Banking

This study has been conducted to study the income generated by various companies performing merchant banking activities comparatively. The comparative table as well as the chart of the merchant banking is as follows:

Table: 4.15**Merchant Banking Income of Various Companies***Rs in Million*

Fiscal Year	CIT	NCML	NMB
2056/057	1.434	2.021	3.158
2057/058	1.274	4.464	18.99
2058/059	2.165	3.435	8.397
2059/060	6.637	3.241	12.887
2060/061	3.499	3.677	12.485
2061/062	3.75	3.955	10.158
2062/063	4.261	4.728	11.569
2063/064	4.504	4.793	15.621
2064/065	4.516	5.138	19.821
2065/066	6.257	6.959	20.215

From the table 4.15 and figure 4.9 we can clearly mention that the incoming activities of CIT were Rs. 1.434 million in fiscal year 2056/057. Therefore it was decreased more than the previous fiscal year and the income was Rs. 1.274 million in the fiscal year 2057/058, similarly, in the fiscal year 2058/059 the income of CIT was Rs. 2.165 million and in the fiscal year 2059/060 it was increased to Rs. 6.637 million. It was the highest Merchant Banking Income of CIT. Moreover the incoming activities were running to Rs. 3.499 million in fiscal year 2060/061. Again from this data, we can mention that the incoming process of CIT was decreasing. Furthermore, from the fiscal year 2061/062, 2062/063, 2063/064, 2064/065 and 2065/066 was Rs. 3.75, Rs. 4.261, Rs. 4.504, Rs. 4.516 million and Rs. 6.257 million respectively. Therefore, we can clearly mention that in the fiscal year 2065/067 the incoming activities of CIT were progressing.

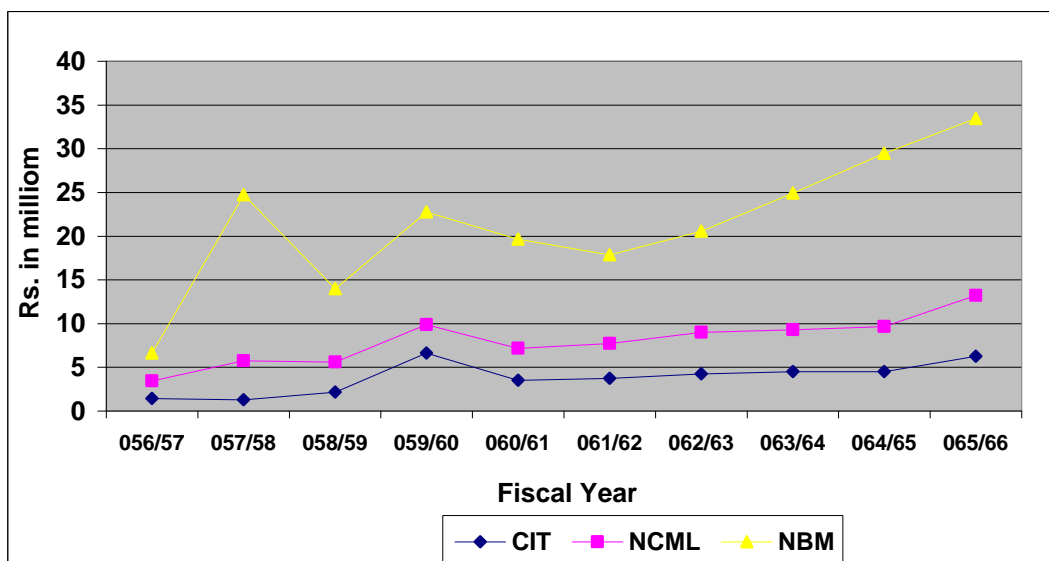
Similarly, from the table 4.15 and figure 4.9, it is clear that the merchant banking income of NIDC Capital Market Ltd. is not constant. In the fiscal year 2056/057 the merchant banking income of NIDC Capital Market Ltd. was Rs. 2.021 million that increased to Rs.4.464 million in the fiscal year 2057/058. Again, in the fiscal year 2058/059 the Merchant Banking Income was decreased to Rs. 3.435 million and

decreasing process is continuing till the fiscal year 2059/060 to Rs. 3.241 million. However, it was increased to Rs. 3.677 million in the fiscal year 2060/061. From that year the incoming process of NIDC was in the progressive stage. Furthermore, the fiscal year 2061/062, 2062/063, 2063/064, 2064/065 and 2065/066 to Rs. 3.955 million, Rs. 4.728 million, 4.793 million, Rs. 5.138 million and Rs. 6.959 million respectively.

Likewise, from the table and figure we can clearly mention that the incoming activities of NMB was Rs. 3.158 million in the fiscal year 2056/057, but it was increased vastly to Rs. 18.199 million in fiscal year 2057/058. Later it was decreased to Rs. 8.397 million in fiscal year 2058/059. From this we can find out the variable changes in the incoming process of NMB. Moreover, in the fiscal year, 2059/060 the income was slowly running to the higher position to Rs. 12.887 million. However, it was the progressive stage in this year but later in the fiscal year 2060/061 and 2061/062, it was decreased to Rs. 12.485 million and Rs. 10.158 million respectively. After that in the fiscal year 2062/063, 2063/064 and 2064/065 the Merchant Banking Income of NMB was increased to Rs. 11.569 million, Rs. 15.621 million and Rs. 19.821 million. Finally, in the fiscal year 2065/066 the incoming activities was highly increased to Rs. 20.215 million and it was the highest Merchant Banking Income throughout the years.

Figure: 4.9

Comparative Chart for income from Merchant Banking



4.2.8 Test of Consistency of Merchant Banking Income

Here, the attempt has been made to test the consistency of merchant banking income. The result of analysis using statistical tools mean (\bar{X}), Standard Deviation (σ) and Coefficient of variation (C.V) is given in table 4.15. The detail of the calculation is given in Appendix VI.

Table: 4.16

Test of Consistency

Tools	Citizen Investment Trust	NIDC Capital Markets Ltd.	Nepal Merchant Banking & Finance Ltd.
Mean(\bar{X})	3.82	4.24	13.25
Standard Deviation(σ)	1.73	1.26	5.18
Co- efficient of Variation (C.V.)	45.25%	29.70%	39.09%

From the table 4.16 it is clear that the mean merchant banking income of Nepal Merchant Banking and Finance Ltd. is highest among the three companies, which is Rs. 13.25 million. The Merchant Banking Income of NIDC Capital Markets Ltd. is Rs. 4.24 million and that of Citizen Investment Trust is 3.82 million. As far as Standard Deviation (σ) of income is concerned the Merchant Banking Income of NIDC has been found less dispersed as compared to other companies. The Standard Deviation (σ) of Merchant Banking Income is Rs. 1.26 million, Rs. 1.73 million and Rs. 5.18 million respectively of NIDC capital market(NCML), Citizen Investment Trust (CIT), and Nepal Merchant Banking and Finance Ltd.(NMB). Similarly, when comparing the variation or the consistency of Merchant Banking Income of three companies, the table shows that CIT has high co-efficient of variation to 45.25%. The co-efficient of variation of NMB is 39.09% and that of NIDC is 29.70% which means that the Merchant Banking Income of NIDC has high consistency while that of CIT has less consistency.

4.3 Presentation and Analysis of Primary Data

Primary data plays the vital role to make the research task meaning full as well as concrete. In the course of availing first hand data, questionnaire analysis, formal and informal interview method have been adopted. Under questionnaire analysis, important questions are set and provided to the related parties to take their opinion about merchant banking in Nepal. A number of questions were put up by means of 40 copies of questionnaire. Questionnaire format has been shown in appendix 1. The questionnaires so collected are related to find out the opinion on merchant banking. The responses from the respondents have been analyzed as follows:

4.3.1 Identification of Institutions Involved in Merchant Banking

This first question tries to identify the institutions, which are involved in merchant banking activities. Regarding this question, it has been identified that the institutions involved in merchant banking activities are finance companies as 72.5% of respondents answered finance companies, 2.5% answered banks, 2.5% answered Citizen Investment trust and remaining 22.5% respondents said not only finance companies but few banks and other institutions are actively participated in merchant banking function in Nepal. The table 4.17 gives clear picture to the question.

Table: 4.17

Institution Participating Actively in Merchant Banking Function

S.N	Research variable	No. of viewers	% of Viewers
a	Banks	1	2.5
b	Finance Companies	29	72.5
c	Other institution(CIT)	1	2.5
d	All above	9	22.5
Total		40	100

4.3.2 Regulatory Provisions Related To Merchant Banking Activities

This question has been asked to trace the specific rules, regulations and guidelines that would govern merchant banking activities. Concerning to this question, 62.5% of respondents gave positive answer. According to them, the acts like company act,

finance companies act, securities exchange act etc are the regulatory provision that regulates merchant banking activities in Nepal. But 30% respondents rejected the view regarding availability of specific rules, regulations and guidelines related to the topic while 7.5% of respondents are unknown about it.

Table: 4.18

Availability of Merchant Banking Regulations

S.N.	Research Variables	No of Viewers	% of Viewers
a	Yes	25	62.5
b	No	12	30
c	Don't Know	3	7.5
Total		40	100

4.3.3 Sufficiency of Merchant Banking Guidelines

As it has been come to know that merchant banks are under some acts like securities exchange act, company act, finance companies act etc., the question has been raised to find out whether these acts are sufficient for merchant banking function or not. Regarding this question, 57.5% of respondents replied insufficient, 30% of respondents replied sufficient while 5% of the respondents replied very sufficient and 7.5% of respondents replied that could not be said. Table no. 4.19 shows the clear picture of the responses.

Table: 4. 19

Sufficiency of Merchant Banking Regulations

S.N.	Research Variable	No. of Viewers	% of Viewers
a	Very Sufficient	2	5
b	Sufficient	12	30
c	Insufficient	23	57.5
d	Can't Say	3	7.5
Total		40	100

4.3.4 Regularity Body for Merchant Banking Activities

The question no. 4 has been asked to find out the regularity body for merchant banking. Regarding this question, there are different answers from different respondents. According to 45% of respondents both Nepal Rastra Bank and Securities Exchange Board of Nepal regulate merchant bankers. 30% of respondents replied Securities Exchange Board while 17.5% replied Nepal Rastra Bank and remaining 7.5% of respondents have said that it is not specified yet. The detail of response is given in Table 4.20 below.

Table: 4.20

Regulatory Body of Merchant Bankers

S.N.	Research Variable	No. of Viewers	% of Viewers
a	Nepal Rastra Bank	7	17.5
b	Securities Exchange Board of Nepal	12	30.0
c	Not Specified yet	3	7.5
d	Both Nepal Rastra Bank and SEBON	18	45.0
Total		40	100.0

4.3.5 Development of Capital Market

Merchant Bankers play an important role in the development of capital market. Similarly development of capital market also affects the development of merchant banking. Thus they are interrelated with each other. Here, this question is raised to find out the development position of capital market. Regarding this question 62.5% of respondents replied underdeveloped, 32.5% of respondents replied moderate while only 5% of respondents replied that it is developed while none of the respondents replied the capital market to be fully developed. The details of the responses are presented in the table 4. 21.

Table: 4.21**Position of Capital Market**

S.N.	Research Variables	No. of Viewers	% of Viewers
a	Fully Developed	0	0
b	Developed	2	5.0
c	Moderate	13	32.5
d	Underdeveloped	25	62.5
Total		40	100.0

4.3.6 Role Player for Merchant Banking Activities

As the word merchant banking is not familiar to everyone and is known by very few persons, this question has been asked to find out the main body that has to play a major role for the development of merchant banking activities. Regarding this question 12.5% of respondents said Nepal Rastra Bank, 15% respondents said Securities Exchange Board of Nepal, 15% of respondents said Merchant Banks itself have to play role for the development of merchant banks while 5% respondents said that both Securities Exchange Board of Nepal and Merchant Banks should jointly play role and 52.5% of respondents said not a single entity but all the parties should play their own role for merchant banking development. The brief summary of the responses are given in the table 4.22.

Table: 4.22**Role Player for Merchant Banking Activities**

S.N.	Research Variable	No. of Viewers	% of Viewers
a	Nepal Rastra Bank	5	12.5
b	Securities Exchange Board of Nepal	6	15.0
c	Merchant Bankers itself	6	15.0
d	SEBON and Merchant Banks	2	5.0
e	All above	21	52.5
Total		40	100.0

4.3.7 Reason for More Public Issue of Securities of Banks and Finance Companies As Compared To Other Sectors

The institution wise public issue analysis reveals that most of the public issues prevailing in our country are of banks and finance companies. The issues of other sectors are very rare. Thus, this question has been asked to find out the reason behind more public issue of bank and finance companies as compare to other sectors. The various responses from various respondents are shown in the table 4.23.

Table: 4.23

Reasons for More Public Issue of Banks and Finance Companies

S.N.	Research Variable	No. of Viewers	%of Viewers
a	SEBO gives most of the approvals to banks and finance companies	3	7.5
b	Other sectors do not want to go for public issue	4	10.0
c	Public do not want to go for shares of other sectors in terms of return.	9	22.5
d	Banks and finance companies need more capital than other sectors.	2	5.0
e	Banks and finance companies have to go for public as per regulatory provision.	22	55.0
Total		40	100.0

From the table 4.23, it has been come to know that the closest reason behind more public issue of banks and finance companies is that banks and finance companies have to go for public issue as per regulatory provision. This answer was supported by 55% of respondents. 22.5% of respondents replied those publics do not want to subscribe shares of other sectors in terms of return. According to the 10% of respondents, other sector does not want to go for public issue. While 5% of respondents replied that banks and finance companies need more capital than other sectors.

4.3.8 Problems in the Performance of Merchant Banking Activities

This question has been raised to find out the concrete reason for the problems in the performance of merchant banking activities as it has been realized the lack of specific merchant bankers and sufficient merchant banking activities in our country. The question is also raised to high-level- executives of different fields through questionnaire as well as formal and informal interview. Regarding this question various responses have been obtained through various respondents. The brief descriptions of the responses are as follows;

According to the most of the respondents the most important problem in the performance of merchant banking activities is lack of professionalism. There is less knowledge about merchant banking system. Similarly, the manpower in the field of merchant banking is not trained that is why they are not competent. The respondents also complained towards the conservative management style.

The majority of respondents also stated that the problem is also because of underdeveloped capital market, which generates low level of business opportunities and capital tools to investors and merchant bankers.

The respondents also seem to be unsatisfied toward the unclear policies and lack of proper and sufficient regulatory framework that has absence of merchant banking guidelines. They are also not satisfied with unclear status between stock exchange and security board of Nepal and lack of co-ordination between stock exchange and security board of Nepal and lack of co-ordination between different regulatory bodies and merchant banking itself.

The respondents also pointed out towards various problems like volatile political situation, unconscious investors, underdeveloped industries sectors, lack of strategic planning and implementation, etc.

4.3.9 Reasons for Availability of Very Few Merchant Banking Services

According to the respondents the reasons for availability of very few merchant banking services are due to its problems in performance of merchant banking services. According to them merchant banking is in introductory stage in Nepal. That

is why there is lack of knowledge among the corporate individuals about the merchant banking services.

According to them though it is in its infancy government is also not playing incentive role. There is also lack of proper regulation and specific body to develop capital market and merchant banking. Similarly, the respondents pointed out toward the slackness of economic and business activities in the country resulting low volume of business and opportunities and lack of modern technology, research and development related activities.

4.3.10 Improvements Required For Boosting Up Merchant Banking Activities in Nepal

The respondents gave a lot of suggestion for the improvements required for boosting up merchant banking activities in Nepal. According to the most of the respondents there should be clear-cut policies, guidelines specifying activities and role of merchant banking by regulatory authority. They create an environment for industrialization in Nepal and also should attract foreign investment in the local market.

Management should have clear business vision, financial discipline and good corporate culture. Level of specialization should be developed in the area of merchant banking and capital market. There should be provision of incentive to investors to invest in capital market and institutions to float their shares and other financial tools in the market. There should maintain transparent accounts by business to win public confidence so as to attract more public scripts for issue.

The respondents also stressed for political stability, public awareness programs to train more people and create awareness among businessmen about merchant banking activities.

Similarly, respondents also gave various suggestions like government should play promotional role for improvement in overall economic condition and open capital market to foreign investors. There should also be proper planning and commitment for development.

4.4 Major Findings of the Study

Though the term merchant banking has come to emergence in Nepal from few years before, most of the people are found to be unknown about merchant banking and their functions.

The public issue analysis shows that the public issues of securities are in increasing trend. This increasing trend of public issue indicates the importance of merchant bankers and merchant banking activities for capital market development and growth of securities market.

Analysis of institution and instrument wise public issue reveals that most of the issuing companies are banks and they prefer to issue ordinary shares most of the time. Analysis of the activities of the merchant banking found that merchant banking activities are concentrated on floating the public issues of securities. The underwriting, sale of government securities, registrar to the share are secondary for most of the firms and other merchant banking activities like consultancy services, portfolio management, etc. are being performed rarely.

While studying the activity performance of Citizen Investment Trust (CIT), it has been revealed that CIT, as one of the leading merchant banker, is providing services of public issue management, underwriting, syndication of underwriting of public issues, registrar to share, market maker of corporate and government securities and consultancy services for designing capital structure, pricing of securities, corporate acts like merger, acquisition, privatization and other related activities.

The study of activity performance of Nepal Merchant Banking & Finance Ltd. as a merchant banker reveals that NMB is also providing issue management as major merchant banking services. Apart from this service, it has also provided underwriting of public issues of Nepal Development Bank Ltd. and Development Credit bank Ltd. in the fiscal year 2057/58 and 2058/59 respectively. NMB is providing registrar to share issue service to Nabil Bank Ltd. Similarly, it also provides services of primary and secondary market maker of government securities and corporate counseling services to its clients.

While studying the activity performance of NIDC Capital Markets Ltd. (NCML) as a merchant banker, NCML is also found to be performing public issue management from the fiscal year 2050/51. It also functions as underwriting and syndicates underwriting of public issues. NCML is also providing service of registrar to share of various companies. It has started up NCM Mutual Fund from 2050 B.S. NCML was also participating in portfolio management of its customer in the fiscal year 2051/52 which it had left in successive years. It also provides services of research and development of listed companies and prepares analysis for macroeconomic sector.

Analyzing the merchant banking income of the major merchant banks it has been revealed that most of the income of CIT is through public issue management. CIT is also earning commission from sale of government bonds. But the earning from other merchant banking activities like registrar to the issue service, underwriting and consultancy services are not uniform. However, CIT is earning about Rs. 1 million per year from merchant banking activities. The income contributes about 8% to 36% of total income earned by CIT.

Merchant Banking Income of Nepal Merchant Banking & Finance Ltd. is from Rs. 3 million to Rs. 20 million per year. Thus the merchant banking income of NMB is in high degree of variance. However, the income tends to be consistent in the fiscal year 2057/58 and 2058/59. The merchant banking income of NMB contributes about 3% to 12% of total income earned.

While analyzing the income from merchant banking of NIDC Capital Markets Ltd., it has been found that major part of merchant banking income of NCML is also through public issue management. NCML is also earning through commission from underwriting, share registrar and sale of government securities and so on.

The comparative study of income from merchant banking of various companies reveals that the merchant banking income of CIT and NCML is increasing very steadily. On the other hand, NMB, though it has started performing merchant banking activities since 2054/55, is earning high income.

The test of consistency has concluded that the merchant banking income of NCML is more consistent while that of CIT has more variation in income.

From the analysis of response of questionnaire, we come to know that most of the merchants banking functions are performed by finance companies and then by some other companies like few banks and Citizen Investment Trust. The major companies performing merchant banking activities are Citizen Investment Trust, Nepal Merchant Banking & Finance Limited, NIDC Capital Markets Ltd., Nepal Finance and Saving Company Limited, Nepal Sri-Lanka Merchant Bank Limited, National Finance etc.

Studying the regulatory provision relating to the merchant banking function, about two third of respondents agree on the existence of merchant banking regulations while one third of respondents disagree the existence and few of them are unknown about it. According to the respondents the regulations are company act, finance companies act, securities exchange act, etc.

According to most of the respondents the merchant banking regulations provided the above mentioned acts are insufficient.

According to most of the respondents, both Nepal Rastra Bank and Securities Exchange Board of Nepal should regulate the merchant banking functions.

Most of the respondents said that the position of capital market is still underdeveloped in our country.

Studying the view of the respondents regarding the body that has to play the key role in the merchant banking development, more than half respondents said that all the bodies like Nepal Rastra Bank, Securities Exchange Board of Nepal and Merchant Banks itself has to play key role for the development of merchant banking activities.

According to most of the respondents the reason behind more public issue of shares of banks and finance companies is due to the regulatory provision has been made compulsory for banks and finance companies to go for public.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The preceding chapters have discussed and explored the facts and matters required for the various parts of the study. Having completed the basic analysis required for the study, the final and the most important task of the researcher is to enlist findings issues and gaps of the study and give suggestions for further improvement.

This part is a complete suggestive package, which contains summary, conclusion and actionable plans. Summary gives the brief introduction of all chapters of the study and shows the actual facts that have been taken from the analytical part. Findings are based on the consequence of the analysis of relevant data. Actionable plans are presented in terms of suggestion, which are prepared on the basis of the findings. The Summary, Conclusion and Recommendation are the last chapter of the research work. This chapter presents the summary and conclusion drawn from the analysis of the study. Along with the summary and conclusion, recommendations are also given to correct some aspects regarding improvement of merchant banking in Nepal.

5.1 Summary

The objective of the study is to evaluate the performance of merchant banks, its relationship towards the development of securities industry and to analyze its problems and prospects in Nepal. Merchant bankers bridge the huge gap between demand of funds by the institutions and supply of untapped public savings. They are the intermediaries for the growth of capital market. Merchant bankers could be one of the major supporting instruments for any ongoing business organization.

While doing research work, primary as well as secondary data has been used as per the requirement of the study. Various methods like Structured Questionnaires, formal and informal interview, field survey, annual report published by the concerned institutions, Security Exchange Board of Nepal and Nepal Rastra Bank, etc. were used to meet the objectives of the study and to make the research meaningful. Secondary

data were collected from NIDC Capital Markets Limited, Nepal Merchant Bank and Finance Limited, Securities Exchange Board of Nepal, Non-bank financial statistics of Nepal Rastra Bank, Library search, daily newspapers, magazines, bulletin and other journals, etc.

The obtained information were tabulated and presented as per the requirement of the study. The data obtained are analyzed through different elements and with different headings like public issue analysis of responses of questionnaires, etc. to meet the objective of the research. The various statistical tools and financial tools were also adopted as test methodology.

The analysis starts from analyzing the institution and instrument wise public issue. It has been conducted from the perspective of finding out the significance of merchant banking towards the development of securities industry in Nepal. They have been 128 public issues of different companies amounting Rs. 20095.3 million from the fiscal year 2056/057 to 2064/065. Out of the total public issues of securities during the period, banks stood first position which is 46.76%. 27.32% of public issues are made by finance companies. Insurance companies, manufacturing and processing company, hotels, trading and other companies have 16.82, 6.18, 2.28, 0.04 and 0.6 percentage respectively. Similarly, the most preferred instrument is issue of ordinary share. Out of the total public issue, 53.25% is occupied by ordinary shares. Other instruments like right share, preference share, debenture, mutual/ unit fund are issued as 31.67, 4.53, 7.04, and 3.51 percentage respectively. The analysis of merchant banking activities has been done with the help of secondary as well as primary data. To assess the performance of financial institutions in relation to merchant banking activities, the analysis of the selected companies has been conducted. NIDC Capital Markets Limited is the first merchant banker in Nepal. It provides services like public issue management, underwriting, registrar to share, portfolio management, research and development. Under share issue management, it has handed 31 issues and raised amounting Rs. 3076.99 million from the fiscal year 2056/057 to fiscal year 2064/065. It has provided underwriting services of 8 companies. It is providing registrar to the share services to 6 various companies. The research and development activities include listed companies in the area of cotton thread, garments, knitwear, tourism, etc.

Citizen Investment Trust is one of the pioneers in merchant banking services. It provides service of share issue management, underwriting and registrar to share issue and consultancy services. Under share issue management, it has handled 26 issues and raised amounting Rs. 4376.25 million from the fiscal year 2056/057 to fiscal year 2064/065. Citizen Investment Trust has provided underwriting services to 12 companies during the fiscal year 2056/057 to 2064/065 for various numbers of shares with various amounts. CIT has syndicated underwriting of 6 companies along with Rastriya Banijya Bank, NIDC Capital Markets Limited, National Finance and Nepal Merchant Banking and Finance Limited . CIT is also providing consultancy service in the areas of capital market by designing capital structure, pricing of securities, corporate acts like merger and acquisition, privatization and other related activities. CIT is providing registrar to share service to Alliance Insurance Company Ltd and that is the only one company CIT is providing such service.

As a merchant banker, Nepal Merchant Banking and Finance Limited (NMB) provides services of public issue management, underwriting, registrar to share issue and corporate counseling. NMB has been providing this service since the fiscal year 2057/058 and it has issued shares of 16 companies during the period from fiscal year 2057/58 to 2064/65 amounting Rs. 881.87 million. It has underwritten and syndicated the underwriting of 3 companies named Nepal Development Bank Limited, Development Credit Bank Limited and Prudential Insurance Company Limited amounting Rs. 7, 00,000.00, Rs. 70, 00,000.00 and Rs. 200,00,000.00 respectively. Besides these services, NMB is also involved in services like providing necessary project evaluation to its potential clients.

From the analysis of response of questionnaire, we come to know that finance companies are most actively involved in merchant banking functions while other institutions like banks and other institutions are also performing this activity. Regarding the regulatory provision of merchant banking, more than half of the respondents do not agree on the availability of regulatory provision. According to them some acts like finance companies acts regulate the merchant bank. There should be a separate provision of act regarding the merchant bank. There should be a separate provision of act regulating the merchant banking services.

According to the majority of the respondents, Securities Exchange Board of Nepal should regulate the merchant banking function as NRB is governing body of financial institutions. On the other hand, one of the missions of SEBO is to facilitate the orderly development of a dynamic and competitive capital market.

The respondents also pointed out lots of problems for performance of merchant banking functions with their reasons. They also suggested remedies so that merchant banking activities can be improved and boosted up in Nepal. Regarding the major role player for merchant banking activities respondents view that merchant bank itself should be self-motivated. On the other hand Nepal Rastra Bank (NRB) and Securities Exchange Board of Nepal (SEBO) should motivate and provide favorable environment.

5.2 Conclusion

The coverage of the merchant banking is enormous and vast. The areas of function are unlimited to the merchant bankers. Merchant Banking services, therefore, are of great help to entrepreneur customers who cannot afford a permanent staff of financial specialists. Their activities are one of the major supporting instruments for any ongoing business organization. They can play a highly significant role in mobilizing funds from savers to invest through various channels assuring promising return on investment. Thus they serve as an important intermediary to provide needed capital to corporations. Hence, the attempt has been made to find out the position of merchant banking in Nepal and the conclusion drawn under the support of presented data; facts and figures are given below.

The importance of merchant banking is increasing gradually as a result of development activities after the restoration of democracy and economic liberalization in Nepal.

Capital market provides an important base for the development of industry, commerce and economy. Merchant banking and capital market are interdependent with each other in many aspects. In this regard the analysis of public issue shows that merchant bankers are also playing a highly significant role towards the development of securities industries as well as capital market in Nepal.

Merchant banking is a new concept in Nepal. The financial institutions participating actively in merchant banking services are finance companies, Citizen Investment Trust and some banks. Nepal Credit & Commerce Bank has also extended a separate department for investment banking. NIDC Capital Markets Ltd. is the first finance institution to introduce merchant banking in Nepal.

Merchant banks are providing merchant banking service as their sub- function while their prominent functions have been found something else like deposit, loan and advances and others. Thus, merchant banking activities in Nepal are associated with other transactions of the finance companies.

The performance analysis of three leading merchant banks shows that even the leading merchant bankers like CIT, NCML and NMB are found to be operating in limited areas of merchant banking services like share issue management, underwriting, syndication of underwriting, registrar to share issue management, sale of government bonds while their involvement in other merchant banking services like portfolio management, corporate counseling, project planning is very rare and services like venture capital, factoring, merger and acquisition etc. are not yet introduced.

Hence, merchant banking in Nepal is understood to be synonymous with issue management, though globally this word is taken to mean everything in financial services. However, NCML is in pipeline to introduce Nepal Industrial Venture Capital Fund (NIVCF) in Nepal.

Generation of income is the main goal of any organization without which the company cannot sustain. In this connection, the analysis of income from merchant banking has been performed to study its growth. The analysis shows that CIT is generating most of the income from share issue management and sale of government bonds. It has earned income from consultancy in the fiscal year 2058/059, 2059/060, 2062/063 and 2063/064. However it is generating income from underwriting and registrar to the share issue since the fiscal year 2057/058. NIDC Capital Market is also earning most of its merchant banking income from share issue management, underwriting registrar to share issue and sale of government bonds. It had earned

commission from portfolio management only in the fiscal year 2051/052 but it has to give up this function due to various problems. NMB is showing best performance in merchant banking which proves that merchant- banking activities can also be the best source of income for any fast growing financial institutions.

The trend of merchant banking income of CIT and NCML are quite similar. They are generating merchant banking income of Rs.3.56 million and Rs. 3.94 million in average respectively. NMB, though entered in merchant banking activities since 2054/055, is generating higher income in comparison to CIT and NCML. The average income during last nine years is Rs. 12.47 million which is also unbelievably high.

Co-efficient of variation shows the consistency of variables in the given period of time. Higher coefficient of variation indicates lower consistency and vice versa. Regarding merchant banking income, the income of NCML is more consistent among the three companies taken for the study while that of CIT is less consistent which also shows the better performance on CIT in merchant banking activities.

Regarding the regulations related to merchant banking, though Finance Company Act, NIDC Act, CIT Act, Commercial Bank Act, etc. permits to perform merchant banking activities none of them has given clear act, rules and regulations regarding merchant banking. Section 3(e) of Finance Company Act permits finance companies to sell and purchase the bonds issued by Nepal Government or securities issued by other companies or institutions, to underwrite them and to form syndicate and to act as broker under the Securities Exchange Act. And section 3(g) of the same act permits them to perform functions of merchant banking with prior approval of NRB. However, it has not specified the area or functions regarding merchant banking. Other acts are also facing similar problem.

Because of insufficient information and propaganda merchant banking is still unknown to most of the public resulting to low demand of merchant banking services. It is also not being able to prosper due to the less developed industrialization and financial marketing activities.

Thus, in spite of the importance of merchant banking services many of the merchant banking services in our country is still poor. Nepalese merchant banks are still lagging behind and current political instability is also creating a question mark for the sustainability of merchant banking sector including industry, trading as well as the other business activities.

5.3 Recommendations

In view of the above facts, objectives and the present- day trend of merchant banking, the following recommendations are made to all concern for consideration and implementation:

Merchant bank should try to focus their services on merchant banking functions rather than making it only a part of their function. They should also try to provide other merchant banking function instead of sticking on selected merchant banking functions. Similarly, they should also make arrangements to introduce business and encourage savers outside Kathmandu valley to make them investors in the market.

One of the major reasons for merchant banks for moving toward diversifying their functions on other financial activities is because of the difficulty of survival by performing sole merchant banking function. The question of survival has risen due to unhealthy and underdeveloped capital market as well as money market. Thus financial policy should give attention towards development of financial market launching various programs and increasing investors' awareness. There should be clear rules and regulations regarding merchant banking in Nepal. The rule should be such that which would motivate financial institution to perform merchant banking activities.

Since Nepal Rastra Bank is the governing body of financial intermediaries, it should take continuous initiative to provide conducive environment to conduct the various merchant banking activities.

There should be continuous coordination with regulators like the Securities Exchange Board of Nepal, Nepal Rastra Bank, the Institute of Chartered Accountants of Nepal, and the Office of Company Registrar.

Merchant bankers themselves have to be more active to take latest information about the economic, social and political environment of our countries and appraise the foreigners with the facilities and relaxations in various rules and regulations of the government and the policy framework available for their technological expertise to Nepalese entrepreneur and or to collaborate in any other useful manner.

Merchant bankers should frequently make exploring tours to foreign countries, organize meetings and conferences with the Chamber of Commerce and Industry and other commercial, industrial and financial organizations so as to enthuse the foreigners to take interest in investment activity in Nepal.

Specific training related to various merchant banking activities should also be conducted by Nepal Rastra Bank in association with Nepal Finance Companies Association. If required, of the different merchant banking activities should also be invited from the other countries to train and develop the local manpower.

At this very early stage of development of companies and the capital market, it is particularly important to develop in Nepal venture capital companies; equipped with the skills, techniques and capital needed to invest in unquoted companies and help them grow to the point where they are ready for flotation on the stock market. Such venture capital companies would invest in companies at different stages of development from start- up to those requiring “development capital”.

Merchant banker should develop the OTC market for selling and buying the stocks that are not listed with the country's stock exchanges.

NIDC Capital Markets Limited should draw its attention to increase merchant banking activities to be parallel with other activities.

NCML, instead of giving up its activities from portfolio management, should be more innovative and dynamic to be a leading merchant banker because managing portfolio is also one of the most challenging functions of merchant banking.

CIT should not ignore other merchant banking activities like underwriting, share registrar, consultancy service etc.

Though Nepal Merchant Banking and Finance Limited is trying to be a leading merchant banker in Nepal, should be more active in merchant banking activities and should diversify its activities to other merchant banking activities besides issue management and sale of government securities.

Similarly, prevailing political uncertainty in the country should also be resolved so that capital market will start improve its pace easily as expected. As the capital market activities starts growing other merchant banking activities will also follow together.

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