CHAPTER – I

INTRODUCTION

1.1 General Background

Investment means the sacrifice of current rupees and resources for the sake of future rupees and resources. In other words, it is a commitment of money and other resources that are expected to generate additional money and resources in the future. Such a commitment takes place in the present and is certain to occur but the reward comes in the future and always remains uncertain. Therefore every investment entails some degree of risk. Investments are made in assets. Assets, generally, are of two types: real assets (land, buildings, factories etc) and financial assets (Stocks, Bonds, T-Bills etc.)

The first time a company issues stock for sale to the public is known as Initial Public Offering or IPO. The company is said to "going public" when this happens. The offering is highly regulated and often surrounded by a lot of media attention.

Most of company starts out raising equity capital from a small number of investors with no liquid market existing these investors wise to sell their stock. If a company prospers and needs additional equity capital, at some point the firm generally finds it desirable to "go public" by selling stock to a large number of diversified investors, Once the stock is publicly traded, this enhanced liquidity allows the company to raise capital on more favorable terms than if it had to compensate investor s for the lack of liquidity associated with a privately held company. Through IPO, the founder simply wants to establish a value and liquidity for the stock (Van Horne, 2002:578).

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

The people or institutions responsible for finding out investors for the IPO of the securities sold in the primary market are called the investment bankers or issue mangers. Investment bankers are also called underwriters; they purchase new issues from security issuers and arrange for their resale to the investing public. IPO generally involve one or more investment banks as "Underwriters". The company offering its shares called the "issuer" enters a contract with an underwriter to sell its shares to the public. The underwriter then approaches investors with offers to sell these shares.

In Nepal, the first public issue of ordinary shares took place more than 53years back with the public issue of Biratnagar Jute Mills and Nepal Bank Limited in 1973 A.D. But the development of the capital market started in 1976 A.D. after the establishment of Security Exchange Center with the objective of facilitating and promoting the capital market in Nepal. It was the only capital market institution which undertook the job of brokering, underwriting and managing public issue, market making for government bond and other financial services. Security Exchange center dealt in the securities as a broker as well as a regulatory body. The center used to take, buy and sale only on orders from interested investors and confirm them if a price and quantity matched. There was no time limit within which a deal took place. It normally took one day to three weeks. Due to this, general public faced problems while buying-selling shares. Although the secondary market was non-functional and public were not fully aware of on the working of the capital market. The public response to the new issues of the shares of selected companies like bank and finance companies were overwhelming.

An Initial Public Offering (IPO) occurs when a security is sold to the general public for the first time with the expectation that a liquid market will develop. Public Offering is security offering where all investors have the opportunity to acquire a portion of the financial claims being sold (Keown & Petty; 2002:471). An IPO can be any debt or equity security.

In particular, there are certain ongoing costs associated with the need to supply information on a regular basis to investors and regulars for publicly traded firms. Furthermore, there are substantial one- time costs associated with initial public offering that does can be categorized as direct and indirect costs. The direct costs include the legal, auditing and underwriting fees. The indirect costs are the management time and effort devoted to conducting the offering, and the dilution associated with selling shares at an offering price that is, on average, below the price prevailing in the market shortly after the IPO. These direct and indirect costs affect the cost of capital for firms going public. Firms going public, especially young growth firms, face market that is subject to sharp swings in valuations. The facts that the issuing firm is subject to the whims of the market makes the IPO process a high-stress period for entrepreneurs. So issuing of share to the general public is easy to raise the fund for the company. This public issuing is made compulsory under Securities Exchange Act in Nepal. Promoters will receive permission from the government authority to establish a public limited company if they show desire to include general public in its equity base. Hence firm needs to sell part of its total equity to the general public to raise the required fund through public issue of shares in primary market is called Initial Public Issue. It is also called Initial Public Offering (IPO).

Because Initial Public Offerings involves the sale of securities in closely held firms in which some of the existing shareholders may possess non-public information, some of the classic problems caused by asymmetric information may be present. In addition to the adverse selection problems that can arise when firms have a choice of when and if to go public, a further problem is that the underlying value of the firm is affected by the actions that the managers can undertake. This moral hazard problem must also be dealt with by the market. In addition, evidence is presented on three patterns associated with IPOs:

(i) New issues under pricing,

(ii) Cycles in the extent of the under pricing, and

(iii) Long-run underperformance.

In Nepal the first public issue of ordinary shares took place more than 50 years back with the public issue of Biratnagar Jute Mills and Nepal Bank Ltd. In 1937 A.D. But the development of capital market started in 1976 A.D. after the establishment of Security Exchange Centre with the objectives of facilitating and promoting the capital market in Nepal. It was the only capital market institution, which undertook the job of brokering, underwriting and managing public issue, market making for government bonds and other financial services. Security Exchange Centre dealt in the securities as a broker as well as regulatory body. The Centre used to take; buy and sale only on orders from interested investors and confirm them if a price and quantity matched. There was no time limit which a deal took place. It normally took one day to weeks. Due to this, general problems while buying selling shares. The Securities Exchange Centre issued 62 companies from the year of its inception to 1999 AD.

Security Exchange Centre was coveted into Stock Exchange Limited in 1993, and under its support, the broker system of secondary market was establishes. Until today out of 32 brokerage firms, 23 firms are doing their job regularly. Nepal Stock Exchange Limited is a non- profit organization it operates under

Security Exchange Act 1983. The basic objectives of the Nepal Stock Exchange Limited are to impart free marketability and liquidity to the government bonds and corporate securities. With the establishment of fully fledged stock Exchange, the shares, which the public had held for decades, becomes liquid.

This study based on the dealing process in the primary market. As well as the study concerned with the pace public offering and public response to IPO Nepal.

As per the provision of Company Act of Nepal, privately held companies cannot issue their shares in public by themselves. The issue must be done through issue managers. Though, the company can raise the capital to the extent of its company. The amount of share capital is the issued share capital of the company. The total amount paid by the promoters at the time of establishment or after time-to-time rising of funds by the company is the paid-up capital.

1.2 Statement of the Problem

The issues in primary market are subject to the directives and regulatory framework of the concerned governing bodies. Hence, the study primarily deals with the process of managing the public issues by the issue managers.

Investment in the primary market instruments has gaining the interest of the general and corporate investors. Most of the initial public offerings have been successfully made since the investors have considerable concern and willingness for investment. However, due to the upgrading performance of the banks and financial institution, the market price of shares of such firms is raising, whereas those of their industries, particularly, manufacturing and processing companies, are the performing poorly in the stock market (SEBON, Annual Report, 2006/07).

There was not any provision to present citizenship at the time of submitting their share application firm in past. So, single investor could apply hundreds of application showing dummy names. As a result they could capture large number of shares. When a single investor captures large number of share, he can influence the company management and stock price too. There are various types of obstacles existing initial public offering stages in Nepal. In developed country like Nepal Initial Public Offering is still new phenomenon. More than 50 Percent people are still uneducated. Due to the instable political situation of the country people generally hesitate to invest in the stocks. IPO funding via financial institutional loans is not a healthy practice as it does not reveal the true picture of the company. Single investors apply hundreds of application showing dummy names. As a result they can capture large number of shares and can influence the company management and stock price too. Besides these, there are other factors, which slow down the pace of stock market growth in Nepal. They are unfavorable macroeconomics condition, political instability, unconfident investors, weak tax system & slow privatization process.

The main focus of the study is to inquire the public response towards the primary issue of shares. This study has tried to answer the following questions:

- What is the performance of the investment bankers in the process of IPO?
- What is the growth rate of primary market in Nepal?
- What is the public response regarding IPO in Nepal?
- What are the factors determining sound decision regarding the investment in stock?

1.3 Objectives of the study

This study focuses on the public response to the primary issue of share in the perspective of Nepal. The main objectives of this study are as follows:

1. To access the trends of IPO i.e., pace of stock market in Nepal.
2. To analyze the public response to the IPO.

3. To analyze the current situation of primary market issues.
4. To provide suggestions and recommendations on the basis of finding.

1.4 Significance of the study

Securities market in Nepal, until the recent past, had all the characteristics of an underdeveloped economy. It was characterized by the absence of professional promoters, underwriting agencies, market intermediaries, organized market, regulatory bodies, and rules and regulation. However, after the restoration of democracy in 1990, a trend towards an organized stock market with numerous developments in the Nepalese securities market, removing its earlier deficiencies.

This study helps us to find out legal provisions, possibilities, problems and prospects of Initial Public Offering in Nepal. IPO is one of the crucial factors in every organization and initial public offering decision is one of the most important decisions. This study might serve to be crucial information for these respective institutions taken as sample for the study in IPO procedure. This research will be significant for the following way:

1. This study will assist to formulate of policy. They will able to know the reasons for inconstant fluctuation Initial Public Offering in Nepal. It will also help to find out the financial status of public going companies. From this research, policy makers will get the knowledge of practical existing rules and regulation.
2. In Nepal, there is still lack of study about initial public offering. Therefore, this study is expected to helpful for the general investor and the organizations that directly or indirectly related in Public Offering.
3. From this research, the investors might have the conception over their investment. So, many investors can make the decision regarding the investment in right time, right place and right amount with considering internal and external environment so as to increase the wealth maximization of the investors.

1.5 Limitations of the study

The research is made for the partial fulfillment of the requirements for the Degree of Master of Business Studies (MBS) and not a comprehensive study. The other limitations are:

1. Basically, data are taken from both primary and as well as secondary sources. Therefore, the accuracy of research depends upon its reliability.
2. The study is based on secondary data of 5 years from 2006 to 2010.
3. Variations of data in itself are also found when comparing with different sources.
4. Samples are taken from commercial banks, development banks, and finance companies, insurance companies, manufacturing and processing companies.
5. Many factors affect the Initial Public Offering Process though it is not possible to study all factors, this study will be limited to the study of some factors such as issuing company, issue managers, Governmental body and legal provisions concerned to study subject.

1.6 Organization of the study

Chapter I-Introduction

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

Chapter II- Review of Literature

This chapter contains brief review of past research works and studies. It describes the conceptual framework of the subject matter as well.

Chapter III- Research Methodology

This chapter explains about the methods to collect the data, the sample size used and about the methods used to analyze the data.

Chapter IV-Data Presentation and Analysis

This chapter presents the collected data in tabular form and in different pictures, so that it could be easy to analyze them.

Chapter V-Summary, Conclusions and Recommendations

This chapter finally summarizes the study in few paragraphs and tries to conclude the whole study; that is the result of the research. And finally depending upon the summary and conclusion, recommendations have been given.

Bibliography, appendix and other supporting documents have also been incorporated at the end of the study.

CHAPTER II

REVIEW OF LITERATURE

This part has been divided into conceptual framework and past research works review.

2.1 Conceptual Framework

2.1.1 Financial Market:

Market in which long term as well as short term loan is provided is called financial market. It provides forum in which supplier of funds and user of funds transact. Transactions in short term debt instruments, or marketable securities take place in the money market. Long term securities (like bonds and stocks) are traded in the capital market. Capital market further can be divided into primary market and secondary market.

All securities, whether in the money or capital market are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from the resale of securities. Once the securities began to trade among individuals, business, government, or financial institutions, savers and investors, they become part of the secondary market. The primary market is where" new securities are sold" and the secondary market can be viewed as a "used" or "pre owned" securities market.

In short, we can divide financial market into money market and capital market. And these markets can be further divided into primary and secondary market.

2.1.2 Money Market:

Money market is the market for the short term securities like treasury - Bills, Government bonds, certificates of deposits, bankers Acceptances and commercial paper or promissory notes. It includes both primary and secondary market activities. The money market exists because certain individuals, businesses, governments and financial institutions have temporarily idle funds that they wish to place in some kind of liquid assets or short term interest earning instrument. Like this other individuals, businesses, governments and financial institutions are in need of seasonal or temporary financing. Thus the money market provides the platform for the supplier (who have idle funds for some period) and demand makers of short-term liquid funds.

In theory, we found money market different from the capital market. In practice, however in most countries with efficient financial markets, where money and capital market is combined, the merchant banks are active in both. This is because negotiable money market instrument for all practical purposes is simply a short term capital market instrument. Therefore, the techniques and facilities needed to operate money market are almost same as those needed to operate the capital market.

2.1.3 Capital market:

Capital market is the market for the long term funds. Capital market can play vital role to mobilize the market follows capital to invest on the corporate sectors by the means of securities.

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

Gitman, "Principles of Managerial Finance", (1992). The capital market is the trading center for the financial instrument. In capital market different types of financial securities such as ordinary share, preference share, treasury bills, and debenture are traded. This market can be further divided into two parts:

i) Non-securities market
ii) Securities market

2.1.3.1 Non-securities market

Non-securities market is a market where financial needs of the borrower (demanders) are fulfilled for a longer period of time without issuance of any securities like shares, bonds and debenture. Financial transactions between the lending institutions such as banks, business houses, saving institutions or individuals come under this non-securities market.

2.1.3.2 Securities market

The securities market is known as the market where all types of securities are traded. Security market is a broad term embracing a number of markets in which securities are bought and sold. Securities markets includes how an individual investor goes about the business of placing any order to buy or sell, how the order is executed, the process of setting the payment and transfer costs, and one hopes the payment of federal personal income taxes on the profits from the transaction.

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

The securities market may also be divided into two parts:

- primary market
- secondary market

The securities market may also be divided into two parts:

A. Primary Market

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

B. Secondary Market

Secondary market involves the purchase and sale of securities which are already issued to the general public and traded in the stock exchange. Secondary market is created by brokers, dealers and market t makers. Brokers bring buyer and seller together with themselves actually buying or selling, dealers set price at which themselves are ready to buy and sell (bid and ask price respectively).Brokerage and dealer come together organized market or in the stock exchange (Gitman, 1992:457). Nepal Stock Exchange (NEPSE), New York Stock Exchange (NYSE) and Bombay Stock Exchange (BSE) are the example of organized stock exchange (secondary market and primary market) has been able to acquire securities on the secondary market.

Why go Public and why to rise?

The decision to go public is one of the most important and least studied questions in corporate finance. The conventional wisdom is that going public is simply a stage in the growth of a company. The probability of an IPO is positively affected by the stock market valuation of firms in the same industry company's size significantly correlated with the probability of listing what is more surprising is how a large company must be before it considers going public. In United States, many starts up companies go public to finance their expansion.

This leads to investment of the stock market to investment and growth companies appear to go public not to finance future investment and growth, but to rebalance their account after high investment and growth IPO's are also followed by lower cost of credit and increased turnover in control. Going public provides studies: It enables companies to borrow more cheaply. IPO's are followed by an abnormally high turnover in control. This occurs even though the controlling group always retains large controlling block after the IPO. Going public raise cash usually a lot of it being publicly traded also opens May financial door.

Because of the increased securities public company can usually get better rates when they issue debt so long as these market demanded, a public company can always issue more stock. Thus, mergers and acquisitions are easier to do because stock can be issued as part of the deal. Trading in the open markets means liquidity. This makes possible to implement thing like employee stock ownership plans, which helps to attract top talent (Pagano, Paretta & Zingles, 1998).

How does an IPO get Valued?

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

What are some good methods for analyzing IPO's?

Initial public offering IPO is unique stocks because they are newly issued. The companies that issue: IPO have not been traded previously on an exchange and are less thoroughly analyzed than those companies that have been traded for long time. Some people performance provides a buying opportunity while others think that because IPO's have not yet been analyzed and scrutinized by the market, they are considerably riskier than stocks that have a history of being analyzed. A number of methods be used to analyze IPO's but demonstrated past performance analyzing them using conventional means becomes a bit trickier.

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

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

- Why the company elected to go public?
- What will be the company doing with money raised in the IPO?
- What is the competitive landscape in the market for the market for the business's product or services? What is the company's position in this landscape?
- What are the company's growth prospects?
- What is business or company's operating history of any?

IPO is first sale of stock by a company broadly speaking; companies are either private or public. Going public means a company is switching from privately ownership to public ownership. Going public raises cash and provides many benefits for the company. Many start-ups went public without any profits and little more than a business plan. For those getting in on a hot IPO is very difficult, if not impossible.

The process of underwriting involves raising money from investors by issuing new securities companies' hires investment banks to underwrite an IPO. It's hard to enough to analyze the stock of an establishment company. An IPO company is even trickier to analyze since their will not be a lot of historical information. Look for the usual information and at the same time pay special attention to the management team and how they plan to use the funds generated from the IPO. At the same time we should analyze the underwriters as well. Successful IPO's are typically supported by the brokerages that have the ability to promote a new issue well. Be more of smaller investment banks because they may be willing to underwrite any company.

2.1.3.3 Public Offerings

It is raising of long term funds for government or corporation from a fund sufficient public group in the primary market. The most important aspect of public offerings is its role as the single most effective means by which government and corporate entities can obtain long-term (debt or equity) on a permanent basis. It only permits them to broaden their sources of finance beyond the banking system but also the banking system is usually a short-term or medium-term floating rate lender. The securities market is often the only means of obtaining large sums of fixed rate, long- term funds.

2.1.3.4 Advantages of an IPO

As discussed above, the primary reasons for conducting an IPO are raise money and to create liquidity for investor, there are also important incident benefits to going public. Objectives benefits include (i) obtaining a readily ascertainable market value for the company's stock, (ii) the ability to make acquisition through the payment of securities rather than cash (iii) greater access to financing through commercial lending (iv) greater access to the financial markets for follow up offerings, and (v) heightened name recognition and prestige among customers and suppliers less objectives benefits are the sense of success and accomplishment that accompanies a successful IPO and becoming a publicly traded company.

2.1.3.5 Disadvantages of an IPO

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

Also, the management and government of a publicly traded company are more difficult and less flexible. The solicitation of stockholders cotes on any matter is strictly regulated under the act, and rules of the exchange on which the securities are listed require certain matter to be approved by stockholders vote even if not otherwise required by state law. Additionally, because of pressure to raise the price of the company's stock management may feel persuaded to adopt policies aimed at achieving short-term results rather than long-term goals.

2.1.3.6 Timing of an Initial Public Offering

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

If the issuer belongs to a certain industry that is particular attractive to investors at the time of the proposed IPO, it will have more leverage in choosing and negotiable with an underwriter. Conversely, if market conditions are unfavorable at the time of the offering, the issuer will have less flexibility in how the deal is structured and may have to postpone the IPO altogether (Journal of Financial Economics, 2004).

2.1.4 Primary Market Instrument

After the establishment of securities Board of Nepal in 1993, the following instrument has been used by the Nepalese corporate bodies to raise capital from primary market.

2.1.4.1 Common Equity Stock

There are the offering that entitle the holders or the buyers of the offering the stake on the equity of the issuing company. In addition that are entitled to:-

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

2.1.4.2 Performance Shares/ Preferred Stocks

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

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

The different types of preference share:-

- Cumulative preferred stocks
- Non-cumulative preferred stocks.
- Redeemable preferred stocks.
- Non-redeemable preferred stocks.
- Convertible preferred stocks.

2.1.4.3 Bonds/Debentures

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

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

The different types of debenture are:-

- Secured debenture.
- Unsecured debenture.
- Redeemable debenture.
- Perpetual debenture.
- Convertible debenture.

2.1.4.4 Warrants

The warrants gives a right to the holder to obtain equity shares specified in the warrant after the expiry of a certain period at a price not exceed the capital price specified in the warrants. The warrant is a tradable and negotiable instrument and is also listed on the stock exchange. It comes in different forms, most.

- Bonds with warrants
- Preferred stocks with warrants.

Beside their instruments there is other instrumental mix available to the investment bankers to provide to the primary market investors. But there are beyond the scope of this manual to describe.

2.1.5 Investment considerable to the potential investor in the primary market

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

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

The investors should take information regarding company's promoters, management effort and efficiently, risk bearing capacity, size, growth, environment, and board directors. Financial status (net worth profit/loss situation etc.) and as well as budgeted statements which can be obtained from memo random, prospects. Article so of the concerned company.

2.1.6 Investment consideration to the potential investors in the secondary market

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

- Keep information of the companies return to the shareholders in the form for cash dividends, stock dividends, bonus share etc. They should also be informed about earning per share (EPS), book value per share (BVS), price earnings ratio (P/E Ratio), future plan, growth expectancy of the annually, quarterly and half yearly performance reports, profit and loss accounts(P/L A/C). Balance sheet (B/S) and annual reports.

- Analyze the price related information provided by SEBON and NEPSE about the listed companies.
- Study the trading statement and financial analysis of the listed companies published by NEPSE.
- Study articles related to the trading of shares and economic matters published in different newspapers and magazines.
- Study the annual report of SEBON.
- Study the act and regulation concerning to the shareholder's right.

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

2.1.7 Pricing Difference

We may have found that these can be large difference between the price of an initial public offering (IPO) and the price when the IPO shares start trading on the secondary market.

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

2.1.8 IPO by Private Company to the Public

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

In an IPO, the issuer obtains the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred) best offering price and time to bring it to market.

2.1.9 Risky Investment

IPO's can be risky investment for the individual's investors, it is tough to predict what the stock will do on its initial day of trading and in the near future since there is often little historical date with which to analyze the company. Also, most IPO's are of companies going through a transitory growth period and they are therefore subject to additional uncertainty regarding their future value.

Pricing

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

The danger of over pricing is also an important consideration. If a stock is offered to the public at a higher price than what the market will pay, the underwriters, may have trouble meeting their commitments to sells shares, even if they sell all of the issued shares, if the stock falls in value on the issued on the first day of trading it may lose its marketability and banks even more of its value.

Investment banks therefore take many factors into consideration when pricing IPO, and attempt to reach offering price that is low enough to stimulate interest in the stock, but high enough to raise adequate amount of capital for the company. The process of determining an optional price involves the underwriters "syndicate" arranging share purchase commitments from lead institutional investors.

2.1.10 The Underwriting Process

Underwriting is an agreement between the issuing company and financial institution and financial institution like bank, merchant bank, broker or other person, providing for their taking of the shares or debentures to the extent specified in the agreement. Getting a piece of hot IPO is very difficult, if not impossible. To understand why we need to know how an IPO is done, a process known as underwriting when a company once to go public the first thing it does is hire an investment bank is requires. Underwriting is the process of raising money by either debt or equity. We can think of underwriters middlemen between companies an investing public. The biggest underwriter in our Nepal are Nepal merchant Banking & Finance Ltd. Co. (NMBL), Citizen Investment Trust, (CIT), NIDC capital market (NCML) etc (NEPSE, A Review, 1996).

The company and the investment bank will first meet to negotiate the deal items usually discussed include the amount of money a company will raise, the types of securities to be issued and all the dealt in the underwriting agreement. The dealt can be structure in a variety of ways. For example in firm commitment, the underwriting guarantees that a certain amount will rise by buying the entire offer and then reselling to the public. In a best efforts agreement, however, the underwriter sells securities for the company but does not guarantee the amount raise. Also, investment bank does not been all the risk of offering. Instead they form a syndicate of underwriters. One underwriter leads the syndicate and the others sell a part of the issue. Only a limited number of brokers, dealers are invited the syndicate member themselves do not receive equal allocation of securities for their clients.

During the cooling off period the underwriting puts together what is known as the red-herring. This is an initial prospectus containing all the information about the company expects for the offer-price and the effective date which are known at this time. The company act has made mandatory that any institution going into public offering must the prospectus before issuing the securities to the public. With the rate-herring unhand the underwriter and company attempt to hype and build of interest for the issue. They go on road-show, also known as the (dog and pony show) where the big institutional are courted.

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

2.1.11 Role of functional Managers

Issue managers are also known as investment bankers or underwriters. They are the major players of the primary market who for the commission called underwriting commission. One of these institutions is an investment banker or issue manager firm the firm acts as a middlemen in the distribution of new securities to the public and creates a primary market. Therefore the people or institutions responsible for finding out investors for the initial public offering (IPO’s) of securities sold in the primary market are called investment bankers (Bhattarai; 2006:13).

Before the amendment of securities exchange act and securities exchange regulation, there were few makers namely Citizen Investment Trust, NIDC Capital Markets Ltd, Rastriya Banijya Bank except Gaurishankar Finance

Company Ltd, all others markets makers were actively involved in issue management activities. After the amendment in act and regulation, additional five organizational were permitted to provide issue management service. Among the new entrants are Nepal Sri-Lanka Merchant Banking and Finance *Ltd*., United Finance Ltd., Himalayan Securities and Finance Ltd.

However, this scenario has been streamlined by second merchant in securities exchange act and regulation by providing separate class of membership in Nepal Stock namely securities dealers (primary market) as per the company act, 2053 all the companies are required to appoint issue manager for raising capital from the general public allotment and other related matters.

Total capital base required to be eligible for markets and securities dealers is rupees 1.5 million paid of capital license for market making and securities dealers is issue to corporate bodies only. Securities dealer are categorized into two securities dealers (primary market) and securities dealers (secondary market).

The role of securities dealers (primary market) is confined to provide and post issue management services, underwriting services and other related services established by dealers. Hence, in today, world of interest and information technology, it is quite popular in USA but in context of Nepal, there not the provision of third and fourth market. Hence organize stock exchange or NEPSE, there not the provision of third and fourth market. Hence organize stock exchange or NEPSE is only place where transaction are done.

This process of issuing securities to the public is called underwriting is caked underwriting and, in this sense, the investment bank is also called an underwriter. The group of underwriter is called an underwriting syndicate.

In other countries investment bankers also provide brokerage services but in Nepal the issue manager only mange initial public offering and provide financial services. Nepal Merchant Banking and Finance ltd. (NMB), National Finance Company ltd. (NFL), Citizen Investment Trust (CIT) etc. can be taken as example of issue managers in Nepal managers in Nepal (NEPSE, A Review).

2.1.11.1 Functions of Issue Manager or Investment Bankers

An investment banker performs many others functions rather than only underwriting the securities. This functions as follows:

Advisory

In the first new meetings with a potential securities issuer, issue manager typically serve as a advisor. The underwriting help the issuing firm analyze its analyze its financing needs and suggest various ways to raise the needed funds. The underwriters may also function as an advisor in mergers, acquisitions and the re-financing operations. So we can say that basic advisory functions are:-

- Advising the potential security issuer.
- Suggesting various ways to raise needed funds.
- Advising about mergers, acquisitions and refinancing operations.

Administrative functions

The investment bankers still are with the issuer the responsibilities of seeing that everything is doing accordance with the relevant securities law. The SEBON Nepal requires that must primary issues be accompanied by negotiation statement the law provides that all investors must have prospectus before they can invest. So, the basic administrative functions can be as follows:

- Filling of the registration statement for issue approval in accordance with laws.
- Producing prompts after the issue approval by securities board Nepal and then distributing to the potential investors.

Underwriting

Underwriting refers of the guarantee by the investment banker that the issues of the new securities will receive a fixed amount of cash the fine gap between the investment banking houses purchase an issue from the issuer an the time they sell it to the public is risky. Because of enforcing changes in market conditions, the underwriters may not be able to sell it at less than price they have paid for it. So, the basic underwriting functions include:

- To purchase securities from issuers and resell then to the public.
- The resale price most is neither too high nor too low.
- Underwriting functions also include private placement where the investment bankers acts as an intermediary in bringing together the issuer and investors.

Distributions

Investment banker can distribute securities to investors in different ways. The investment banker may be the issue and then sell then sell the securities or the investment banker may act as intermediaries to bringing together issuer and investors in a private placement so. The distribution functions can be concluded:-

- To distributed the shares to the general public offer underwriting.

Other General Functions may be

1. To suggest the company in issuing shares (about the subscription of bond/ shares etc.) e.g. Nepal Merchant Banking.
2. To manage issue i.e. time management of issue.
3. To underwrite securities.
4. To collect funds.
5. To distribute securities etc. (Bhattarai, 2006:14-15)

2.2 Review of Past Research Work

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

Shrestha (1996) has conducted a research study on, ***"Public Response to Primary issue of Share in Nepal".*** The main objective of the study was to evaluate the primary market of shares, analyze the pattern of public response to the shares and to identify the problems of primary market in Nepal. He has used both primary and secondary data from 12 selected companies for the period of 3 years, from January 1993 to January 1996. He has employed simple average, chi-square test and coefficient for deduction.

The study conclude that public response to the issue of shares of banks, finance and insurance companies were better than that of manufacturing and processing, trading, hotel and other groups of companies. The success of response to the public issues largely depends on the response from within Kathmandu valley and to some extent, the issues of shares seem to attract from outside the valley.

Pandey (2000) conducted on study entitled "Risk and Return Analysis of Common Stock Investments" with objective to analyses the risk and return and to get relevant variables that help in making decisions about stock and investment in insurance companies. Apart from that the following objective is also concentrated.

To understand and identify the problems faced by individual investor and insurance companies.

After the analysis the following result came out.

1. Publics are least understood about the stock market and have fake conceptual thoughts about its risk. Poor education and lack of adequate source of information are the major constraints for the development of stock market in Nepal.
2. Most of the investors are attracted to common stock security because of its higher expected return.
3. When risk and return compared to different industries finance and insurance is best as per highest expected return with higher degree of risk whereas trading industry has minimum return and risk.
4. General public invest their fund in different securities on the basis of expectation and assumption rather than analysis they thought insurance companies were eager to collect premium but not too willing to settle down claims.

Markviback (2001), in his study entitled *"Nepal Survey: Issues in Local Bond Market Development"*. Major finding of his studies were: The financial market in Nepal is relatively undeveloped. The government market is more developed, but prices are not market oriented….The state of development of equity markets indicates how well versed issuers, investors, and intermediaries are in dealing with securities at the primary and secondary market levels. Nepal's overall market is still in its infancy, however. The Nepal Stock Exchange (NEPSE) is a late development, founded only in 1993. It is owned by the government and is a not-for-profit institution.

The equity market of Nepal is relatively small from the international standards. With only 114 companies being listed in about 11 years of establishment of NEPSE, the equity market in Nepal requires more effort and contribution from the privately held companies as well as the investors. The status of Nepalese equity market is being elaborated in the following extraction of a report.

Bhattarai (2006), has performed a study on, "***Public Response to Initial Public Offering in Nepal,***" with the basic objective of assessing public response to the initial public offering. However, the study also focused on the dealing process and pace of the IPO. The study has used both primary and secondary data. Primary data collected through direct questionnaires provided to the general investor while secondary data were collected from various publications of SEBON, NEPSE and other institutions.

The study concluded that most of the general investors in Nepal do not have significant information regarding the primary market but still they are very much interested to invest money in the primary market. It also found that almost each sector was getting good response from public. Specially, financial institutions and insurance companies were becoming more preferable for public than the other non-financial sectors.

Paudel, (2006) who has done research on "Public Response to IPO in Nepal", with the objective of: identify the dealing process of IPO, analyze the pace of IPO and analyze the public response to the IPO.

He has concluded that general investors in Nepal do not have sufficient information regarding the primary market and in spite of this they are interested in investing money in the primary market. They are more interested in financial sector than non-financial sector.

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

2.3 Review of Journals

Baru and Fawcett (2006), performed a study on, ***"Initial Public Offerings; An Analysis of Theory and Practice."*** The study intended to extend the IPO literature by analyzing unique data from surveys of Chief Financial Officers (CFO's) to compare CFO perspectives to prevailing academic theory. Specifically, they examined the following seven issues; motivations for going public, timing of the IPO's, underwriter selection under-pricing, signaling IPO process issues and the decision to stay private. In this regard, they surveyed three sub samples of firms, namely those that successfully completed an IPO, those that began the process but chose to withdraw the issue and those that are large enough to go public, but have not attempted an IPO. They surveyed 330 CFO's and their survey process followed Dill Man's (1978) total design method, which is a standard for conducting academic surveys. Their findings are summarized as:

The most important motivation for going public is to create public shares for use in future acquisitions. Insiders are opportunistic especially at VC-backed firms. They seek to go public at a time that portends a high stock price. The underwriter selection process is driven by a very small set of selection criteria namely underwriter reputation and IPO process expertise. CFO attributes most under-pricing to market uncertainty and the need to reward investors for taking the risk of IPO. The most important positive signal is past historical earnings, this may promote window dressing. CFO's strongly prefer firm – commitment underwriting. Companies remain private to preserve decision-making control ownership

Goergen and Others (2006), carried out a study on "*The Strategy of Going Public: How UK Firms Choose Their Listing Contracts.*" The study carried two objectives: The first objective was to derive potential factors that may influence the choice of IPO listing contracts from the few theoretical papers and empirical studies in the fields. The second object was to test how well those factors explain the choice of the listing contract for the case of UK IPO's. The study focused on 240 flotations, which were listing on the official list of London Stock Exchange (LSE) during the period of 1991 to 1995. They used a binomial profit model to measure the impact of the variables on the contract choice. As the study proposed that three types of factors essentially influence the choice of contract; ex-ante uncertainty, certification and the visibility/exposure of the issue, they found that the higher the firms choose a placing contract. They also found strong evidence that the sponsor and creditors screening signals the quality of the IPO firm. Hence, firms, which use highly reputable sponsors and those with high debt to assets ratios usually, choose public offer contracts. They also found that firm that make small issues find it cheaper to use placing contracts. Finally, they concluded that in general the decision to choose a placing rather than an offer or vice-versa is taken by the firm within the framework of rational behavior.

Well informed and speculating investors, when they know that the shares being floated are highly under-priced, approach various financial institutions for loans to place their share applications. Banks tend to be reluctant to offer small size loans for IPOs, especially when they have bigger players can avail of loans from such financial institutions and apply for a large number of shares. So it is also possible that the big players may avail of loans from financial institutions in the name of their relatives, friends and families and make more than one application thus increasing the possibility of allotment for more shares to enjoy the short run over performance of IPOs. Uniformed investors and small players, who also want to enjoy some benefits of the IPOs rarely, approach the financial institutions for funding and even if they do so, the possibility of these players being funded is low mainly due to their lack of relationship with such financial institutions and their not-to-big funding requirements. As a consequence, most shares are allotted to the handful of big investors though in different names and lesser shares are allotted to smaller investors. In this way, bigger players tend to enjoy more from IPOs than small players, which go against the principles of stock market where investors need to have a level playing field.

IPOs are also supposed to signal the health of companies making the IPOs. There are two ways in which IPOs, after being announced, provide important signals about the company; one when they are announced and the other at the start of trading. Oversubscription of IPOs after announcement signals a reasonably good health of the company and under-pricing of shares as more and more investors try and take benefit of IPO. However, due to availability of loans from financial institutions, the true picture of the company may no longer prevail. This could be due to asymmetric information as even those who know little about stock valuation (primarily speculators rather than rational investors) may approach financial institutions from loans so that they could enjoy more from a short run performance of IPOs. Besides, more shares being allotted to bigger players in the market, informal buy sell deals happen even before the start of trading (because they could not win allotment during IPO), the price generally paid by the investors is more and the start of the trading day, we could well observe that the share prices are more than the normally expected and unrealistic (New Business Age, 2006).

2.4 Research Gap

Different researchers have done different research work on the topic of public response to IPO or primary issue of securities in Nepal but they are unable to explain the depth of the topic. The past researches on the topic are based on the secondary data analysis which reduces the reliability of the data presented. Hence this research is distinct in the sense of presenting primary data which makes it more reliable for the future reference also. So this study will be fruitful to those interested persons, parties, scholars, civil society, stakeholders, businessmen, students and government as well from academic as well as policy perspectives.

CHAPTER-III
RESEARCH METHODOLOGY

Certain methods and processes are applied in the entire study of this research. The study follows sequential steps. A focus is given to research design, sample selection and size, data collection procedure, data processing, definition of variables, meaning and definition of statistical tools used. Research methodology refers to the various sequential steps (along with a rational, of each step) to be adopted by a researcher in studying a problem with certain object in view. A focus is given to research design, sample selection and size, data collection procedure, data processing, definition of variables, meaning and definition of statistical tools used. This chapter highlights the research methodology used for the study.

3.1 Research Design

This research study attempts to analyze the public response to IPO, role of investment bankers (issue managers) in IPO, information effect on the public response to IPO. Thus descriptive as well as analytical research design has been used. This study attempts to analyze the relation between different variables relating to IPO and public responses. It also tries to analyze what factors actually motivate the investors to invest, what is their goal behind investment, their response sector wise.

3.2 Population and Sample

Number of companies listed in Nepal Stock Exchange (NEPSE) by the end of F/Y 2009/10 has reached 176 and these companies are divided into 8 sectors which include commercial banks, development banks, finance companies, insurance companies, manufacturing and processing companies, trading houses, hotel and others. However, the study focuses on only those companies which have gone for IPO during the period of F/Y 2005/06 to F/Y 2009/10. Moreover, only those companies included in 5 sectors: commercial banks, development banks, finance companies, insurance companies and manufacturing and processing companies, have been selected and rest 3 sectors have been excluded as their numbers became small after considering above mentioned time frame of the study. Hence, the population of the study is 259 listed companies representing 5 different sectors in NEPSE. Similarly, even though IPO could be of debt or equity security the study has focused on IPO of common shares only. Also, during analyzing the existing state of IPO's in Nepal, the offers (amount and numbers of issues) from collective schemes hike fund and citizen investment trust have not been considered.

As far as sampling is considered, stratified random sampling techniques have been used to ensure that each and every company, representing different sectors had fair chance of being selected. In this study random sampling tables had been used within the sample frame of 25%.

3.3 Sources and Nature of Data

As per nature of the study, the study is based on primary and secondary data as well. The major sources of data used in thus study are:-

a. Annual reports of SEBON, to analyze existing state of IPO's Nepal.
b. Trading reports of NEPSE to reveal share price information needed during analysis of under-pricing.
c. Newspapers especially The Kathmandu Post Daily, The Raising Nepal Daily and Arthik Weekly covering different periods of time to reveal share price information needed during analysis of under-pricing.
d. Acts and regulations governing security market and IPO issues that mainly included security act, 2063, security regulation and issue approval guidelines, 2000.

3.4 Data Collection Techniques

Annual reports covering different fiscal years of SEBON were collected its head office at Thapathuli. Similarly, trading reports of NEPSE were retrieved from its head office at Durbar Marga. Daily newspaper such as The Kathmandu

Post and Rising Nepal were access from central library of and weekly newspaper ArthikAbhiyan and business plus was bought myself. Acts and regulatory information's were obtained from law as well as official website of SEBON.

3.5 Data Processing

At first data were extracted from above mentioned sources and recorded in the master sheet. The data were often then entered into the spreadsheet to present them into appropriate tables and figures with aid of computer programmers like Microsoft word. Final, Microsoft excel was run to analyze data revealing existing state of IPO's in Nepal pricing while sophisticated computer program like spas was run to obtain the growth rate of issued amount, average size of issue offered and amount of issue offered from financial and non-financial sector.

3.6 Data Analysis Tools

In the study, different statistical tools and various models have been used to analyze the data and reach the meaningful results, which are described below:

3.6.1 Multiple Bar-Diagrams and Graphs

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

3.6.2 Pie-Diagram

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

3.6.3 Percentage

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

3.6.4 Mean

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

3.6.5 Model for measuring Growth Rates

This growth has been used to calculate the growth rates of amount of issues offered, divides size of issues offered and the amount of issue offered from finance and non-finance sector during the study period. As per model, $(1+g)^{n} = (1+g^{1})(1+g^{2})(1+g^{3})\ldots\ldots\ldots\ldots\ldots(1+g^{n})$

Where,

n=Number of years

g=Compound growth rate

g^{1}=Annual growth rate of FY 2005/06

g^{2}=Annual growth rate of FY 2006/07

g^{3}=Annual growth rate of FY 2007/08

Compound growth is calculated is calculated by using the above formula and finally multiplying the obtained value by 100. Weighted average growth rate gives the growth at a point in time whereas compound growth rate gives the growth rate over the period.

CHAPTER-IV

DATA PRESENTATION & ANALYSIS

4. Introduction

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

4.1 Amount of public issues offered

Securities Act, 2063 provisional that any company which goes for IPO must get issue approval SEBON prior to make their to public. Since, first year of SEBON's operation: FY 1993/94, it has given issue approval to 176issues amounting Rs. 79,356 million till 2009/10 (SEBON, 2009, Nov 09). As securities regulation also provisioned that the company, which got issue approval, may commit their offer any time within two months from the date of approval (security and issue approval guidelines, 2002), the amount of issue approved and the actual amount issued in fiscal year, may vary. Hence, for better result the study is focused on actual amount issued in the fiscal year rather than the amount approved by the SEBON in fiscal year. Amount of public issues offered during the study period with its growth rates have been in table 4.1.

Table 4.1: Amount of public issues offered

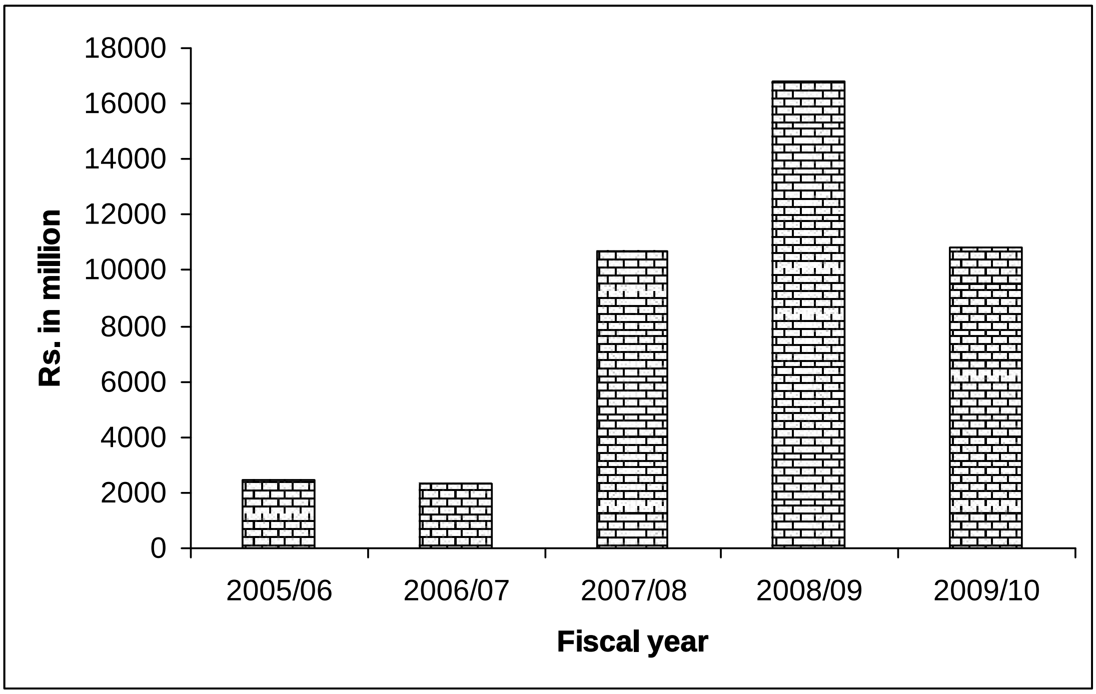
(Rs. in million)

FY	Amount of public issues (Rs.)	Annual Growth Rate (%)
2005/06	2443.3	50.19
2006/07	2295.6	-6.05
2007/08	10668.2	334.23
2008/09	16828.51	57.74
2009/10	10822.41	-35.69

Source: SEBON Report, 2011

As shown in table 4.1, since first year of SEBON's operation the amount of public issue has been never been in consistent trend. In the FY 2005/06issues worth was Rs.2443.30 million were offered to public, Rs.2295.60 million in FY 2006/07.Heavily rises to Rs. 10668.20 in FY 2007/08 and also rises to Rs. 16828.51 in FY 2008/09. But in FY 2009/10 it is drop to Rs. 10822.41. During the study period the highest amount of public issue was Rs. 16828.51 million in the FY 2008/09 while the lowest amount of public issue was Rs. 2295.60 million in the FY 2006/07.

Figure 4.1: Amount of Public Issues



4.2 Number of Public Issues Offered

The number of public offering enables to identify the number of offers made by various listed and to be listed companies to the general public in each fiscal year. Table 4.2 revealed the number of issues offered in each fiscal year during the period.

Likewise, the amount of public issue, the number of issues offered in fiscal year also had not shown any consistent trend over the study period. During the entire study period the lowest number of issue offered in a year were 5, on two fiscal year 2005/06 and 2006/07. The highest number of issues in the fiscal year was in the fiscal year of the study period, FY 2008/09.

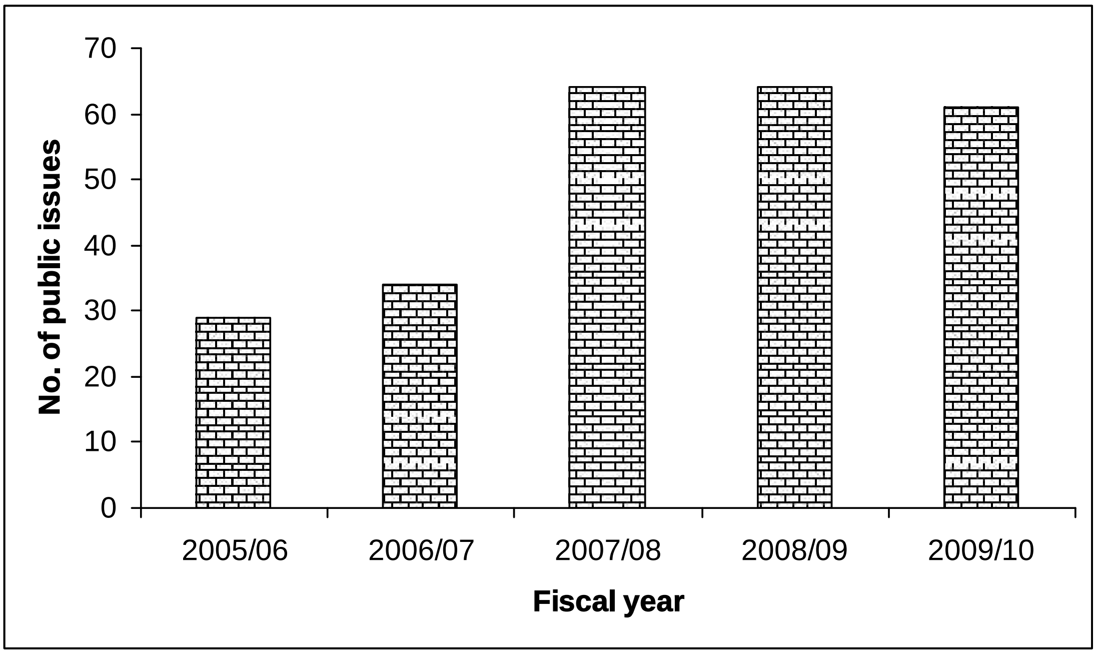
Table 4.2
Number of Public Issue

(Rs. In million)

FY	Amount (Rs.)	No. of Issue	Average Size (Rs.)	Annual Growth Rate (%)
2005/06	2443.3	29	84.25	27.5
2006/07	2295.6	34	67.52	-19.86
2007/08	10668.2	64	166.7	146.89
2008/09	16828.51	64	262.95	57.74
2009/10	10822.41	61	177.42	-35.69

Source: SEBON Report, 2011

Figure 4.2: Number of Public Issues



The bar-diagram in the above figure shows that the number of public issues offered during the study period has been in growing trend till FY 2008/09 but in FY 2009/10 it is decreased.

4.3 Publicly Issued Companies

As per requirement of NEPSE, issuing companies should list their issues in NEPSE for following such issues to be traded on its trading floor. Since opening of NEPSE in 1993/94, 176 companies have already been listed till the end of 2009/10.(Appendix 1). The total paid up capital of these companies amounted to Rs. 79,356 million. The most instigating aspect of this total paid up capital is the contribution from financial sector that includes commercial from table 4.3.

Table 4.3
Publicly Issued Company

(Rs. in million)

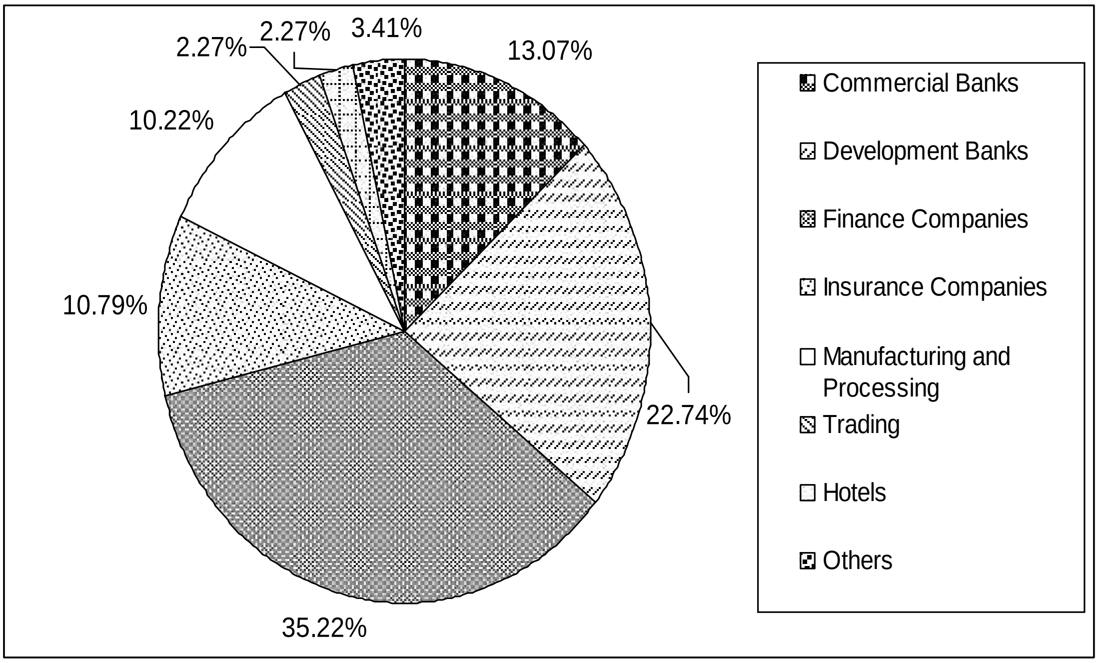
S. No.	Sector	No. of Co.	Percent	Paid up value (Rs.)	Percent
2	Commercial Banks	23	13.07	32900.6	41.46
3	Development Banks	40	22.74	10027.1	12.64
4	Finance Companies	62	35.22	11466.4	14.45
5	Insurance Companies	19	10.79	2432.94	3.07
6	Manufacturing and Processing	18	10.22	2539.74	3.2
7	Trading	4	2.27	82.18	0.1
8	Hotels	4	2.27	1580.71	1.99
9	Others	6	3.41	18327	23.09
	Total	176	100	79356.7	100

Source: SEBON Report

As shown in table 4.3 out of 176 listed companies belong to financial sector, which is about 81.82% of the total listed companies in NEPSE. Similarly, from paid-up value perspective commercial banks occupies 41.46%, development banks have 12.64%, finance companies accounts for 14.45% and insurance companies have 3.07% of the total paid-up value. Together as financial sector, they account for 81.82% of the total paid-up value.

On the other manufacturing and processing sector, despite being second (in terms of no. of listed companies) accounts for only 3.20%. Similarly, trading, hotel and others account for 1.99%, 0.10% and 23.09% of the total paid-up value respectively. Together as non-financial sector, they accounts for 18.18% of the total paid-up value.

Fig. 4.3: Publicly Issued Companies



4.4 Public Issues from Finance and Non-Finance Sector

Listed companies of NEPSE can be divided into finance sector companies and non-finance sector companies. Finance sector mainly includes companies from commercial banks, development banks, finance companies from manufacturing and processing companies, trading companies, hotels and others (SEBON). Table 4.4 reveals the public from finance and non-finance sector during the study period.

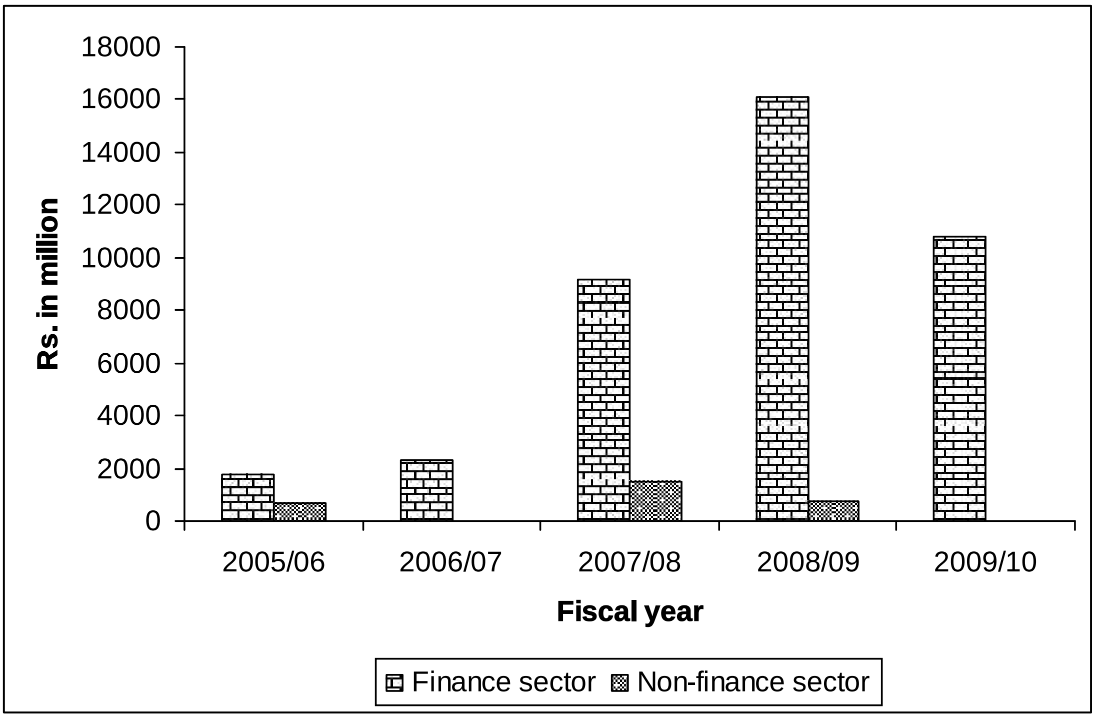
Table no. 4.4: Publicly Issues from Financial and Non-Financial Sector

(Rs. in million)

Year	Finance Sector			Non-Finance Sector			Total	
	No. of Issues	Amount (Rs.)	Annual Growth Rate (%)	No. of Issues	Amount (Rs.)	Annual Growth Rate (%)	No. of Issues	Amount(Rs.)
2005/06	27	1759.4	18.33	2	683.9	388.50	29	2443.3
2006/07	34	2295.6	30.48	-	-	-100	34	2295.6
2007/08	62	9168.20	268.89	1	1500	-	63	10668.2
2008/09	62	16082.07	320.24	2	746.44	-50.24	64	16828.51
2009/10	61	10822.41	-32.71	-	-	-	61	10822.41
Total	246	40127.67	-	5	2930.34	-	251	43058.02

Source: SEBON Report

Figure 4.4: Public Issues from Finance and Non-Finance Sector



From fig. 4.4, it is revealed that total of 251 public issues was made from financial and non-financial sector during the study period. Out of 251 offers, total of 246 (98.01%) offers came from financial sector whereas rest 5 (1.99%)

from non-financial sector. It means 98.01% public offers are from financial sector and 1.99% is from non-financial sector. During the study period total of Rs. 43,058.02 million issues were issued to public. Out of it Rs. 40,127.67 million i.e. 93.19% came from financial sector. Similarly, contribution from non-financial sector amounted Rs.2930.34 million which is 6.81% of the total. These figures clearly show that the financial sector is dominant force of Nepalese IPO market and often calls the shot in the field. This might be the reason why government has promulgated any of rules and regulations bringing more transparency and discipline into the sector.

4.5 Instrument-Wise Public Issues

Likewise many other emerging markets Nepalese market also provides limited variety of investment instruments which mainly includes common shares, preference shares, right shares, debenture and few issues from collective investment schemes like mutual fund but in this study the collective investment schemes are not included. Over a period of this time Nepalese stock market has been relying few financial instruments such as common shares, right shares, which cannot be considered good sign regarding overall development of stock market.

As shown in table 4.5 out of 252 offers during the sample period, 85 issues were ordinary shares, which is 33.73% of the total issues offered during the period. Similarly, 154 issues were right shares, which is 61.11% of total issue. Also 12 issues were debenture 4.76%. Hence from number of issue offered perspective, right share was the most preferred instrument for issuing company, followed by ordinary share, debenture and preference share respectively. Similarly, from issued amounted perspective right amount, most used instrument with 73.18% of total issued amount , second most used instrument was ordinary share occupying 14.75% of total amount followed by debentures 11.15% and preference share 0.93% respectively.

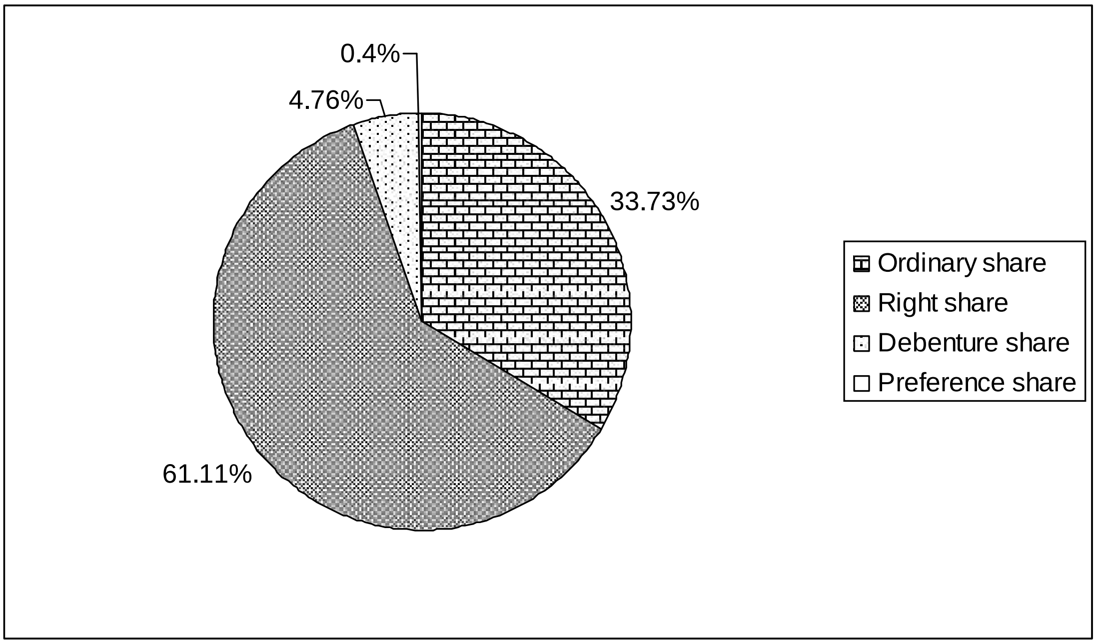
Table 4.5: Instrument-Wise Public Issues till FY 2009/10

(Rs. in million)

F/Y	Ord. Share		Right Share		Debenture		Preference Share		Total	
2005/06	14	456.43	11	1013.5	4	850	-	-	29	2319.93
2006/07	16	290.25	16	1817.25	1	250	1	400	34	2757.5
2007/08	16	924.8	42	6093.4	5	2950	-	-	63	9968.2
2008/09	12	1815.7	50	14263.19	2	750	-	-	64	16828.89
2009/10	28	2649.37	33	8173.04	-	-	-	-	61	10822.11
Total	85	6350	154	31508	12	4800	1	400	252	43058
Percentage	33.73	14.75	61.11	73.18	4.76	11.15	0.4	0.93	100	100

Source: SEBON Report

Figure 4.5: Instrument-Wise Public Issues till FY 2009/10



The most striking aspect of the analysis has been the fact that preference share were issued only one and debentures only 12 times. During the entire study period which covered 5 fiscal years. This clearly shows that Nepalese Stock Market is fully dependent on few instruments like ordinary share and right shares. Such fully dependency, on one hand limits the boundary of investment opportunities to the public and on the other hand, limits the overall development prospect of Nepalese Stock Market. At the same time this may also justify the selection of ordinary share as subject of this study.

4.6 Analysis of Annual Turnover

Annual turnover constitutes an important indicator for measuring the nation's economic activities. It also reflects stock market liquidity as the higher amount of trading of stock market size; the greater is the stock market liquidity. The total amount of securities traded in the FY in the 2009/10 is Rs. 376871.37million. It was Rs. 21681.14 million in FY 2008/09.

Table 4.6: Sector-Wise Annual Turnover

(Rs. in millions)

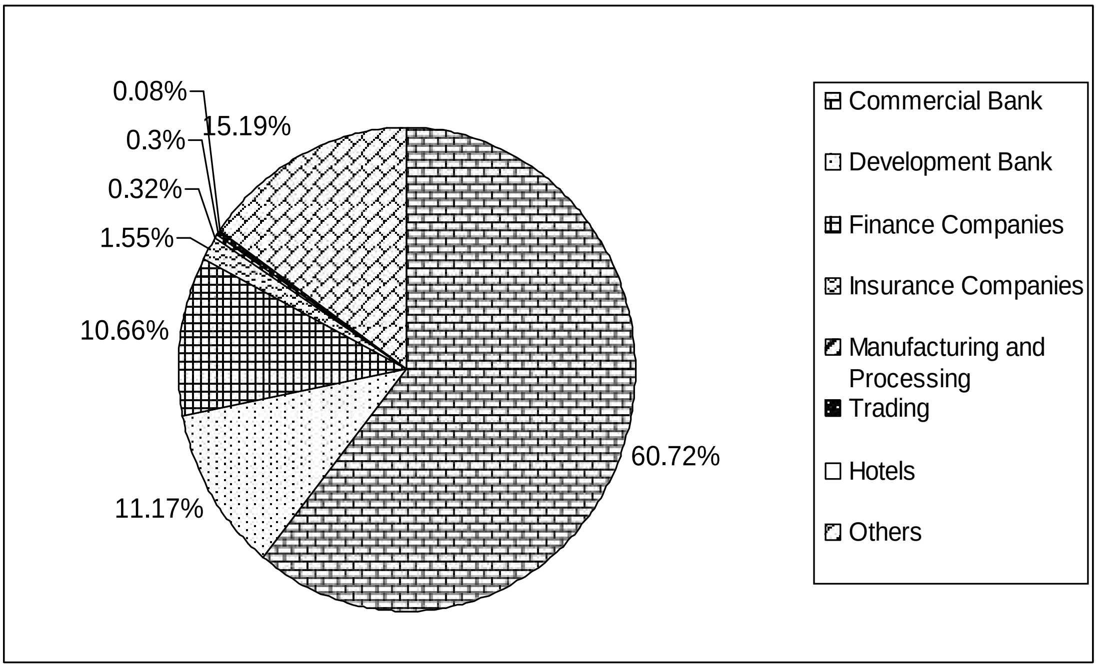
S.No.	Sector	Amount (Rs.)	Percent (%)
1	Commercial Bank	7196.24	60.72
2	Development Bank	1323.53	11.17
3	Finance Companies	1263.94	10.66
4	Insurance Companies	183.47	1.55
5	Manufacturing and Processing	37.74	0.32
6	Trading	35.43	0.30
7	Hotels	10.15	0.08
8	Others	1800.61	15.19
	Total	11851.11	100.00

Source: SEBON Annual Report

As shown in table 4.6, among 8 sectors, the contribution from financial sector is about 84.10% that includes commercial banks, development banks, finance companies and insurance companies. On the other hand, contribution from non-financial sector is about 15.89% that includes manufacturing and processing, trading and other companies.

These above figure demonstrate that trading amount of financial sector companies is much higher than that of non-financial sectors

Figure 4.6: Sector-Wise Annual Turnover



4.7 Analysis of Market Capitalization

By the end of the FY 2009/10, the percentage contribution of market capitalization on nominal GDP is estimated to be Rs. 31.86%. The market capitalization in the FY 2009/10 is presented below in table 4.8.

Table 4.7: Year-wise Market Capitalization

(Rs. in million)

FY	Amount (RS.)	Annual Growth (%)
2005/06	96763.74	57.68
2006/07	186301.3	92.53
2007/08	366247.5	96.59
2008/09	512939.07	40.05
2009/10	376871.37	-26.53

Source: SEBON Annual Report

As shown in table 4.8, the market capitalization of listed securities at the end of FY 2009/10 is Rs. 376871.37 million which is the second highest amount during the study period and the highest amount of the whole study is Rs.

512939.07 million in FY 2008/09. The lowest amount is Rs. 96763.74 million in FY 2005/06.

According to the growth rate aspect, the percentage f growth is highest in FY 2007/08 i.e.96.59% and lowest in FY 2008/09 i.e. 40.25%. Also negative growth in FY 2009/10 i.e. 26.53%. The above table shows that the amount market capitalization is in interesting trend.

Table 4.8: Sectors-wise Market Capitalization

(Rs. In millions)

S. No.	Sector	Amount (Rs.)	Percent
1	Commercial Bank	206282.52	54.74
2	Development Bank	27488.87	7.29
3	Finance Companies	29869.59	7.92
4	Insurance Companies	9756.61	2.59
5	Manufacturing and Processing	7592.03	2.01
6	Trading	1617.51	0.43
7	Hotels	5285.58	1.40
8	Others	88978.67	23.61
	Total	376871.37	100

Source: SEBON Annual Report

By analyzing the sector wise market capitalization, banking sector is highest among all sectors. Commercial banks capture 54.74%, development banks 7.29%, finance companies 7.92% and insurance company 2.59%. Similarly, manufacturing and processing 1.40%, trading 0.43%., Hotels 2.01% and others companies 23.61%. Above figure prove that most of the market capitalization is on the financial sector and rest remains with non-financial and other sector.

Figure 4.7: Sectorwise Market Capitalization

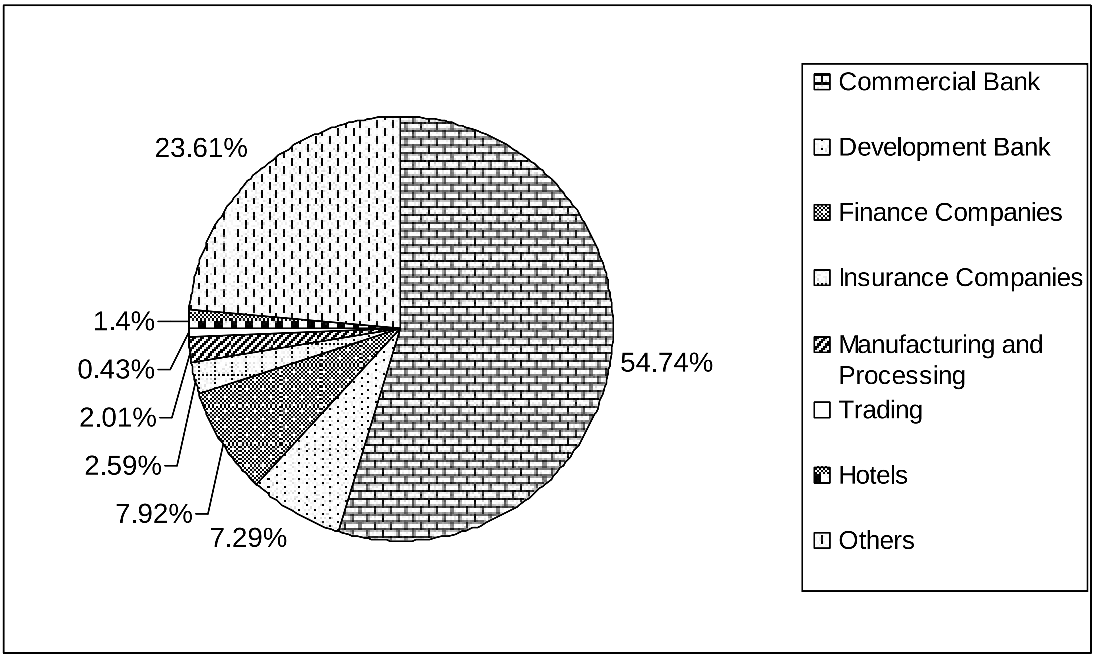


Table 4.9: Analysis of Annual Turnover and Market Capitalization

(Rs. in million)

FY	Annual Turnover (Rs.)	Market Capitalization (Rs.)	% Turnover on Market Capitalization
2005/06	3451.43	96763.74	3.57
2006/07	8360.1	186301.3	4.49
2007/08	22820.8	366247.5	6.23
2008/09	21681.14	512939.07	4.23
2009/10	11851.11	376871.37	3.14

Source: SEBON Annual Report

The above table 4.9 reflects that the analysis of annual turnover and market capitalization. The annual turnover and market capitalization have been fluctuating each and every year. The highest turnover is in year 2007/08 and the lowest turnover is in year 2005/06. Similarly 6.23% is the highest percentage turnover on market capitalization. It can be concluded that the % turnover on market capitalization is fluctuating trend.

4.8 Primary Data Analysis

One of the most important and logical method to analyze the primary data related to the topic is questionnaire method. 125 copies of questionnaires were distributed to express their views about IPO's in Nepal to senior officials of SEBON, NEPSE general investors, share brokers, professors, lectures and students. The entire questionnaire was collected during the study period. The questionnaire is elated to find out knowledge about IPO, willingness to invest. Source of information and fund used for investing etc.

4.8.1 Knowledge about IPO

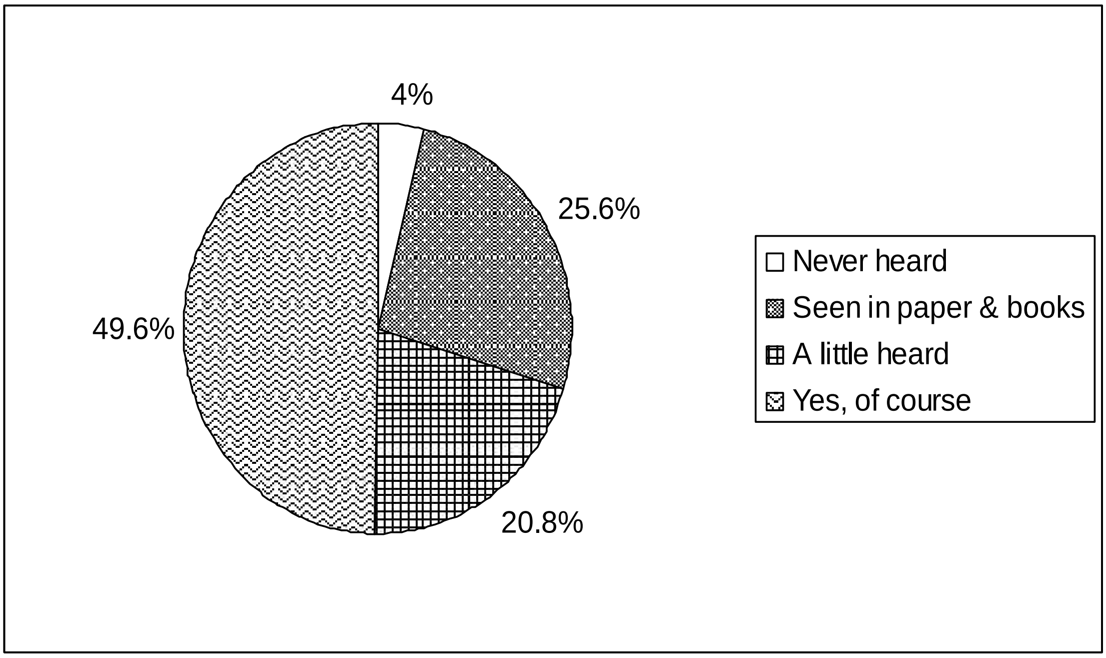
While getting information about if people had heard about IPO from 125 respondents 4% said they have never heard about IPO, 25.60% said seen in papers & books, 20.08% said that they have heard a little bit and rest49.60% said that they are well known about IPO.

Table 4.10: Knowledge about IPO

S.No.	Alternative	No. of Response	Percentage
A	Never heard	5	4
B	Seen in paper & books	32	25.60
C	A little heard	26	20.8
D	Yes, of course	62	49.60
	Total	125	100

Source: Field Survey,2011

Figure 4.8: Knoweldge about IPO



4.8.2 Interest (willingness) to invest in IPO

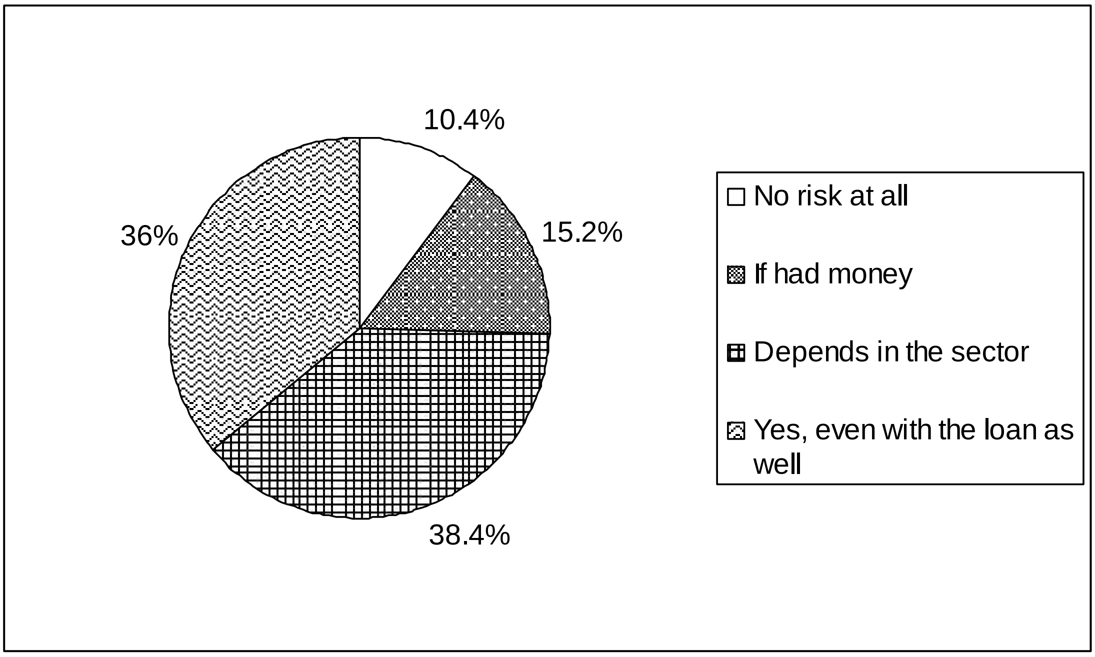
Only 13 respondents (i.e. 10.4%) are found to be risk averter, they don't want to take risk at all from investing in IPO. 15.2% stated the want to invest if had money (cash), 48% respondents (38.4%) stated that there interest to invest depends upon the sector. Rest 45 respondents (36%) stated that they are willing to invest in IPO even the loan if not the cash.

Table 4.11: Interest (willingness) to invest in IPO

S. No.	Alternatives	No. of Respondents	Percentage (%)
A	No risk at all	13	10.4
B	If had money	19	15.2
C	Depends in the sector	48	38.4
D	Yes, even with the loan as well	45	36
	Total	125	100

Source: Field Survey,2011

Figure 4.9: Interest (Willingness) to Invest in IPO



From the figure 4.10 it is clear more than 38% people are interest to invest depends upon the sector in IPO even with the loan and the least 10.4% don't want to take risk, interest of 36% lies on the related sector of IPO. Whole 15.2% want to make only cash investment.

4.8.3 Source of Information about IPO

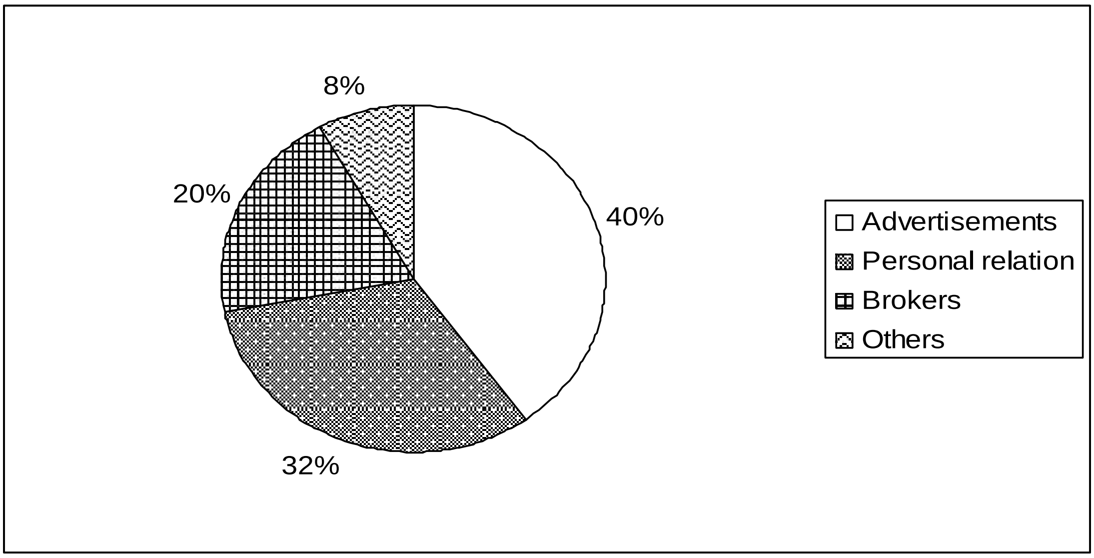
Out of 125 respondents, 40% said that they get information about IPO from Advertisement, 32% people said from personal relations or from market. Similarly20% respondents said that they get information from brokers. There are 8% people who find other way of getting information.

Table 4.12 Source of information about IPO

S.No.	Alternatives	No. of Respondents	Percentage (%)
A	Advertisements	50	40
B	Personal relation	40	32
C	Brokers	25	20
D	Others	10	8
	Total	125	100

Source: Field Survey, 2011

Figure 4.10: Sources of Information about IPO



In the above fig 4.11 highest pies is covered by advertisement regarding the response on source of information i.e. 40% and only 20% are informed by brokers and 32% get information from their relatives. It is concluded that most people are informed from advertisement. So advertisement is popular alternative of media.

4.8.4 Investors Performance while Investing

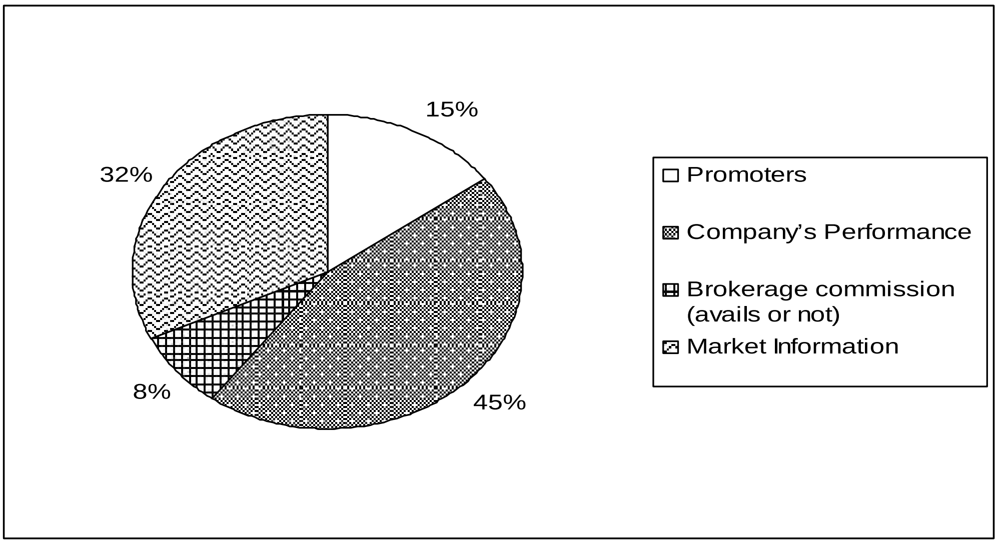
While asking about the things that come first in their mind, their preferences were totally different from each other. 15% people said they are interest to know promoters name first, 45% people give preference to the relative company's performance 8% are sensitive about the brokerage commission whether it avails or not. Rest 32% first wants to know what the market says.

Table 4.13 Interest Performance while investing

S.No.	Alternatives	No. of Respondents	Percentage (%)
A	Promoters	19	15
B	Company's Performance	56	45
C	Brokerage commission (avails or not)	10	8
D	Market Information	40	32
	Total	125	100

Source: Field Survey, 2011

Figure 4.11: Interest Performance while Investing



Above figure makes clear that most of the investors 45% prefer to know company's performance rather than any other thing before investing and least 8% concern about the brokerage commission.

4.8.5 Number of Companies Invested

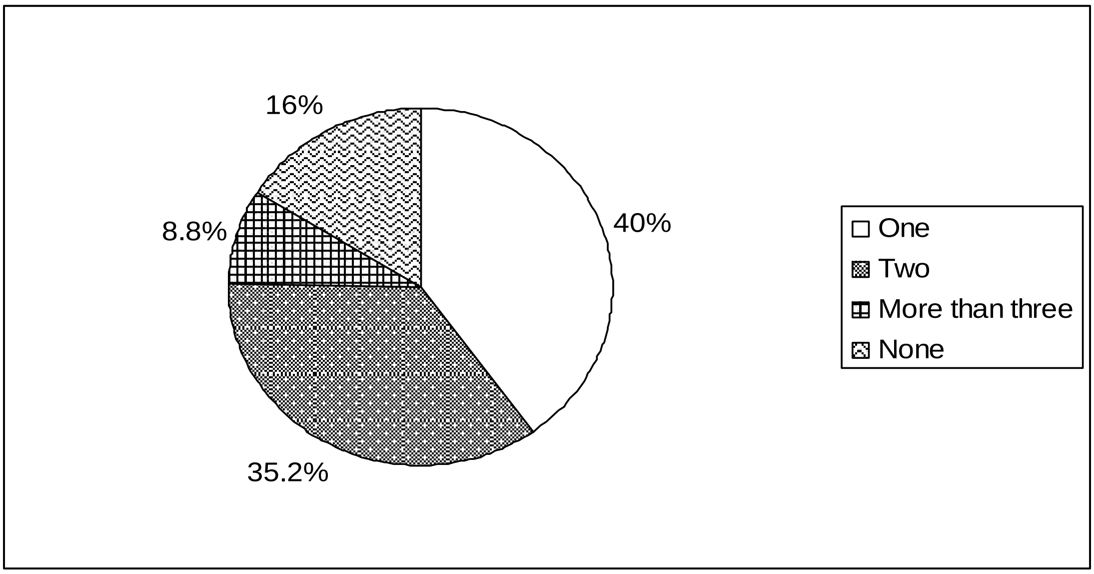
Out of 125 respondents 40% said that they have invested in only one company. 35.2% said two to three companies. 8.8% said that have invested in more than three company and 16% were found to invest in none of the organization.

Table 4.14: Number of Companies Invested

S. No.	Alternatives	No. of Respondents	Percentage (%)
A	One	50	40
B	Two	44	35.2
C	More than three	11	8.8
D	None	20	16
	Total	125	100

Source: Field survey, 2011

Figure 4.12: Number of Companies Invested



Being back in share investment in Nepal 8.8% has been found to have invested in more than three companies. Most 40% have invested in only one company and 16% have invested in none.

4.8.6 Fund used for the Investment

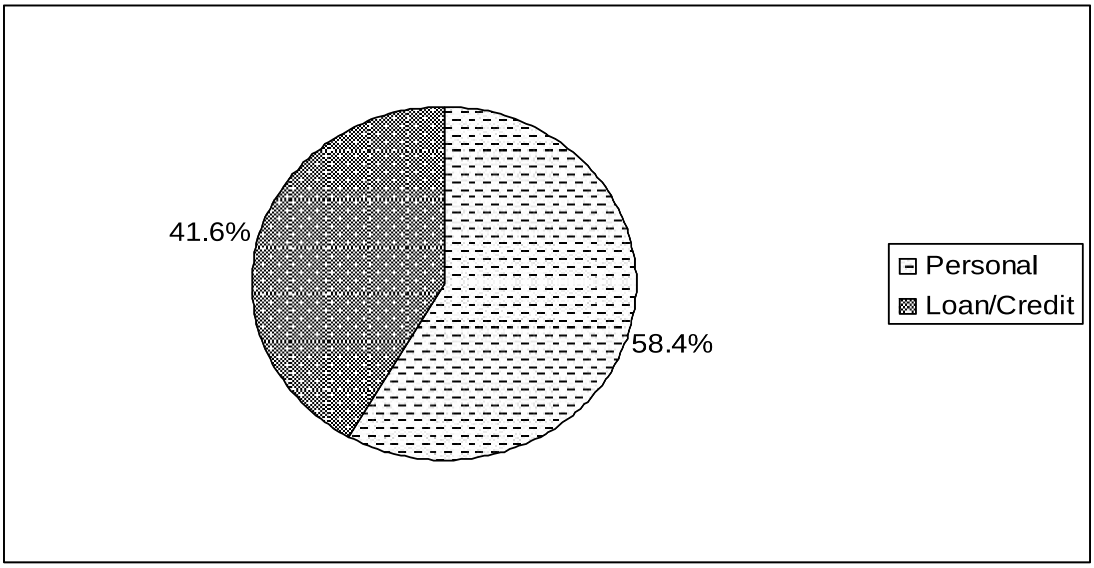
In the question of fund used in IPO investment, 73% respondents i.e. 58.4% answer personal fund while rest 41.6% answer loan/credit fund.

Table 4.15: Fund used for the Investment

S. No.	Alternatives	No. of Respondents	Percentage (%)
A	Personal	73	58.4
B	Loan/Credit	52	41.6
	Total	125	100

Source: Field survey,2011

Figure 4.13: Fund used for Investment



Above figure shows that more than half wants to use their own funds rather than credit. Most people like to use personal fund.

4.8.7 Expectation behind Investment in IPO

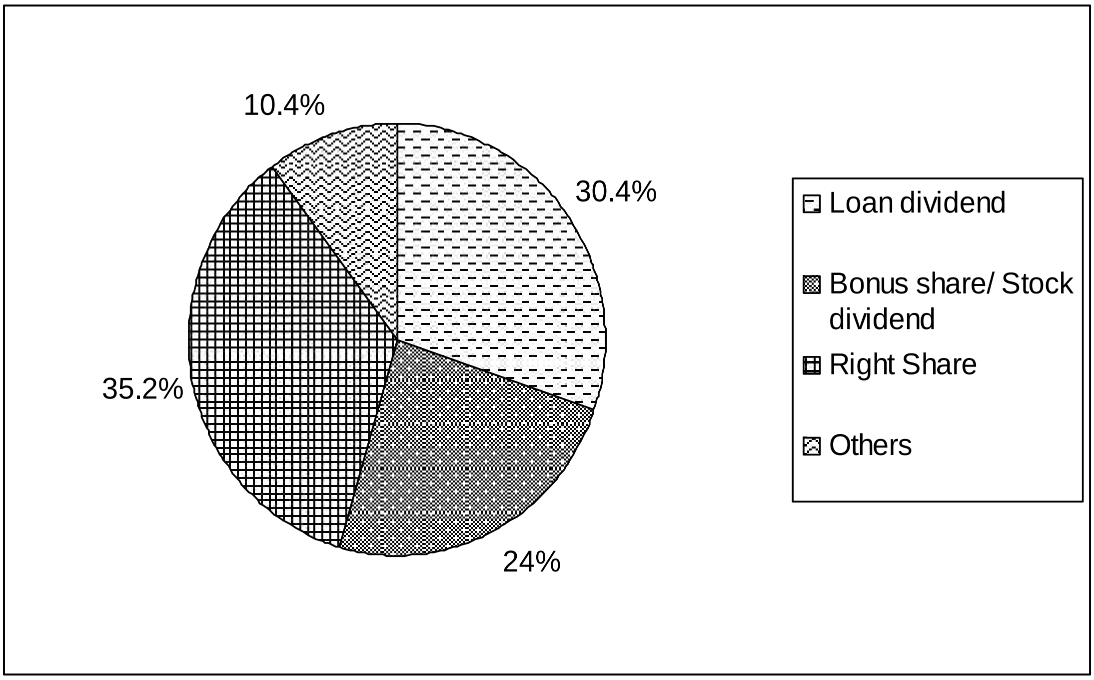
Different people have different expectation behind investing in IPO. For the question regarding these responses were as follows:

Table 4.16: Expectation behind Investment in IPO

S. No.	Alternatives	No. of Respondents	Percentage (%)
A	Cash dividend	38	30.4
B	Bonus share/ Stock dividend	30	24
C	Right Share	44	35.2
D	Others	13	10.4
	Total	125	100

Source: Field Survey, 2011

Fig 4.14 Expectation behind Investment in IPO



Here, 30.4% expects cash dividend, 24% expects bonus share, 35.2% states to be favor or right share while rest 10.4% seen to be interest in other than these matters. So it shows that the most people are wanted to invest on right share.

4.8.8 Sector Preference for Investment

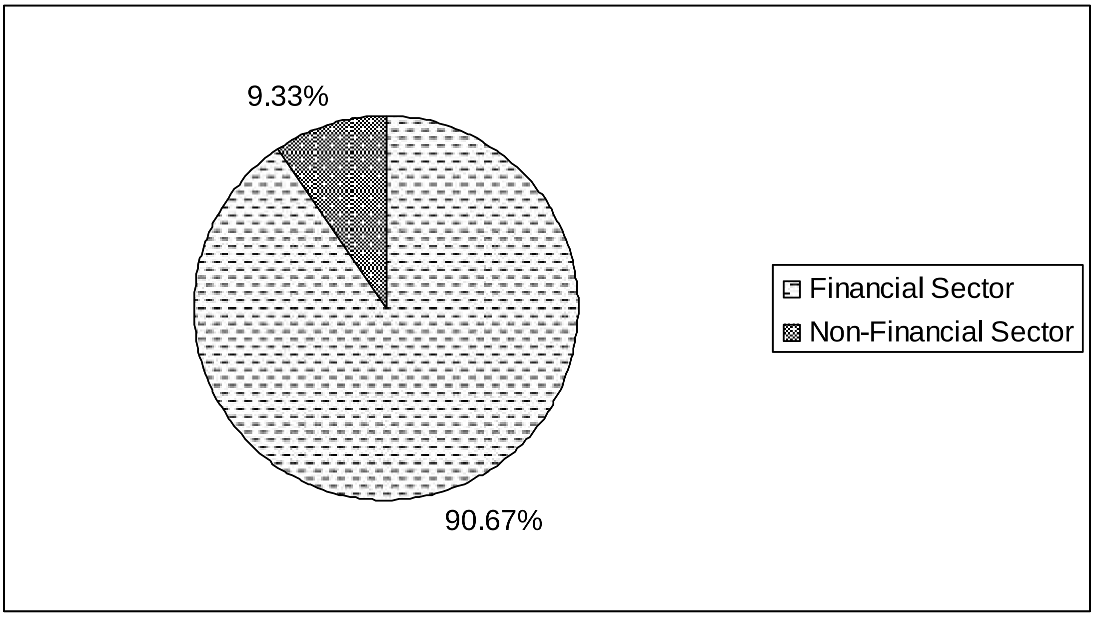
For the question whether to choose financial sector to invest or non-financial sectors 90.67% choose financial sector and rest 9.33% choose non-financial sector which have been clearly shown in the below:

Table no. 4.17: Sector Preference for Investment

S.No.	Alternatives	No. of Respondents	Percentage (%)
A	Financial Sector	113	90.67
B	Non-Financial Sector	12	9.33
	Total	125	100

Source: Filed Survey, 2011

Figure 4.15: Sector Preference for Investment



It is concluded that most people are interested in financial sector because most respondents are prefer financial sector i.e. 90.67%.

4.8.9 Preferred Financial Sector

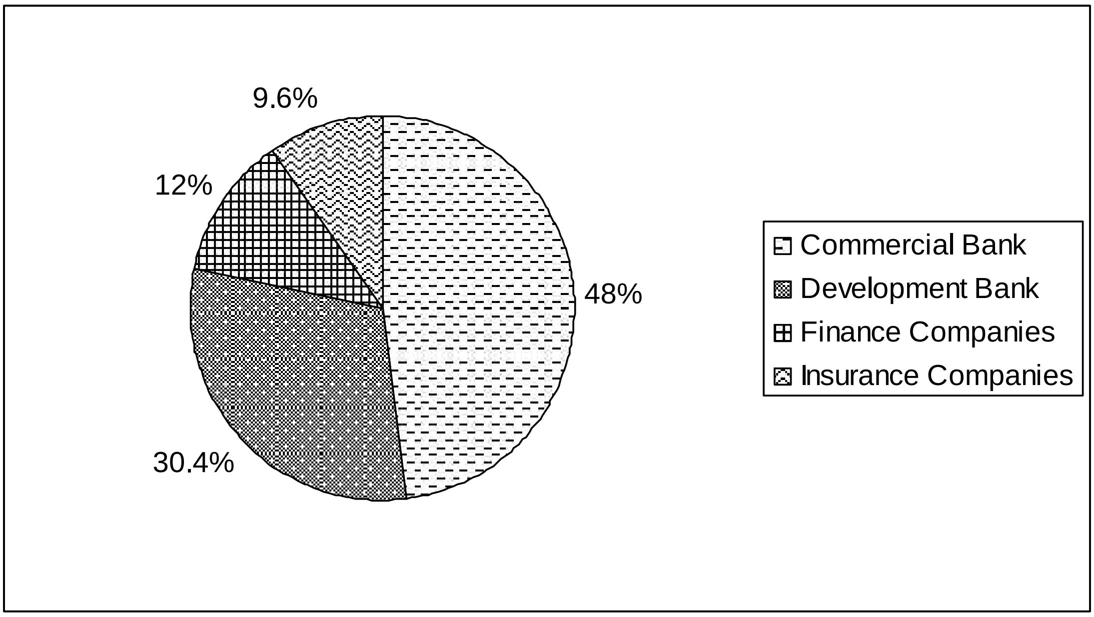
From among the 125 respondents 60 prefer commercial bank, 38 prefer development bank, 15 prefer finance company and only 12 prefer insurance company for investment in financial sector.

Table 4.18: Preferred Financial Sector

S. No.	Alternatives	No. of Respondents	Percentage (%)
A	Commercial Bank	60	48
B	Development Bank	38	30.4
C	Finance Companies	15	12
D	Insurance Companies	12	9.6
	Total	125	100

Source: Field Survey, 2011

Figure 4.16: Preferred Financial Sector



In the figure 4.17 48% or most of the investors give preference to commercial bank for IPO investment, 30.4% give to development bank, 12% are found to be favor of finance company and remaining 9.6% are in favor of insurance company. Among the investors least are in favor of insurance company.

4.8.10 Preferred Non-Financial Sector

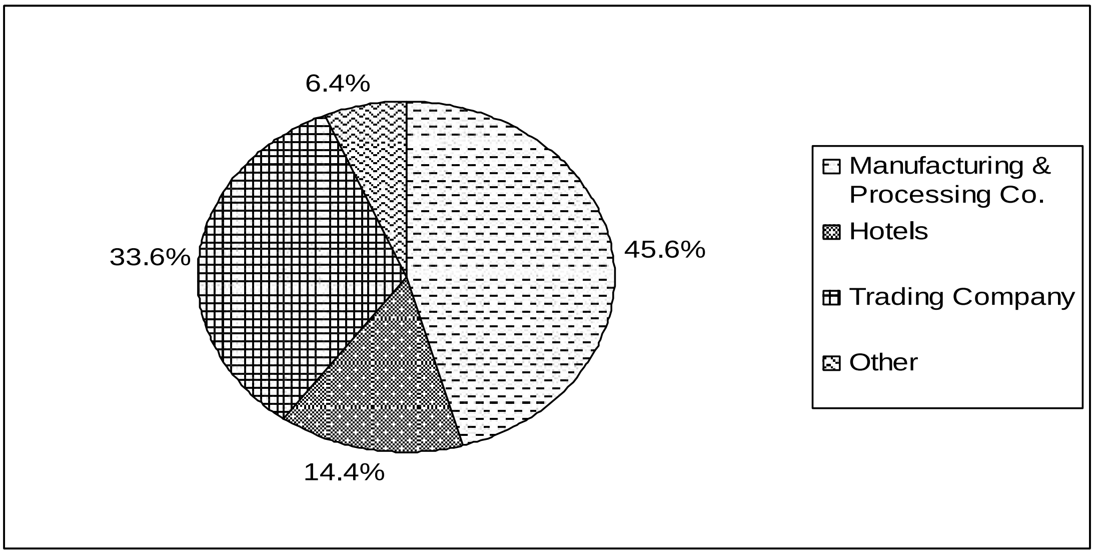
From the 125 respondents for the question which non-financial would you prefers to invest the respondents were as follows:

Table: 4.19: Preferred Non-Financial Sector

S. No.	Alternatives	No. of Respondents	Percentage (%)
A	Manufacturing & Processing Co.	57	45.6
B	Hotels	18	14.4
C	Trading Company	42	33.6
D	Other	8	6.4
	Total	125	100

Source: Field Survey, 2011

Figure 4.17: Preferred Non-Financial Sector



Above table and fig 4.17 show that for non-financial sector, 45.6% seems to be interest in manufacturing & processing company, 14.4% are interested in Hotels while 33.6% interest in trading companies. And the least i.e. 6.4% are interest in other sector.

4.8.11 Ultimate Goal for Investment in IPO

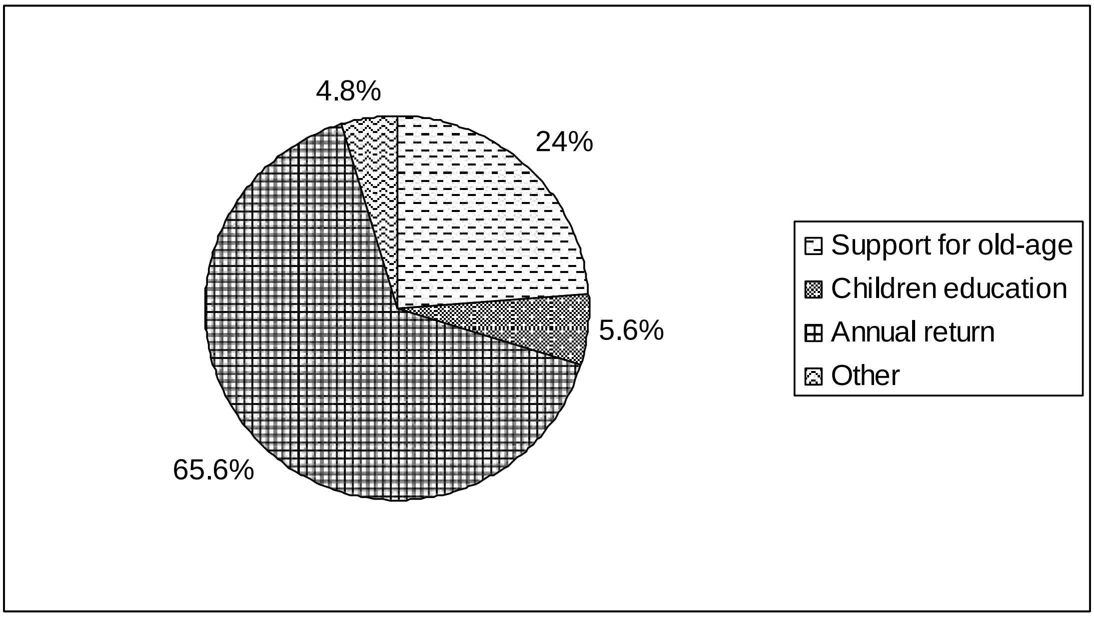
Different people have different goal for investment 24% have goal of support old age, 5.6% want to invest for children education, 65.6% want to invest for fulfilling the goal of getting annual return and rest 4.8% have other than goals.

Table 4.20: Ultimately Goal for Investment in IPO

S. No.	Alternatives	No. of Respondents	Percentage (%)
A	Support for old-age	30	24
B	Children education	7	5.6
C	Annual return	82	65.6
D	Other	6	4.8
	Total	125	100

Source: Field Survey, 2011

Figure 4.18: Ultimately Goal for Investment in IPO



Above figure shows that annual return is most ultimate goal for investment in IPO because most respondents are interested in annual return.

4.8.12 Reason for not going public

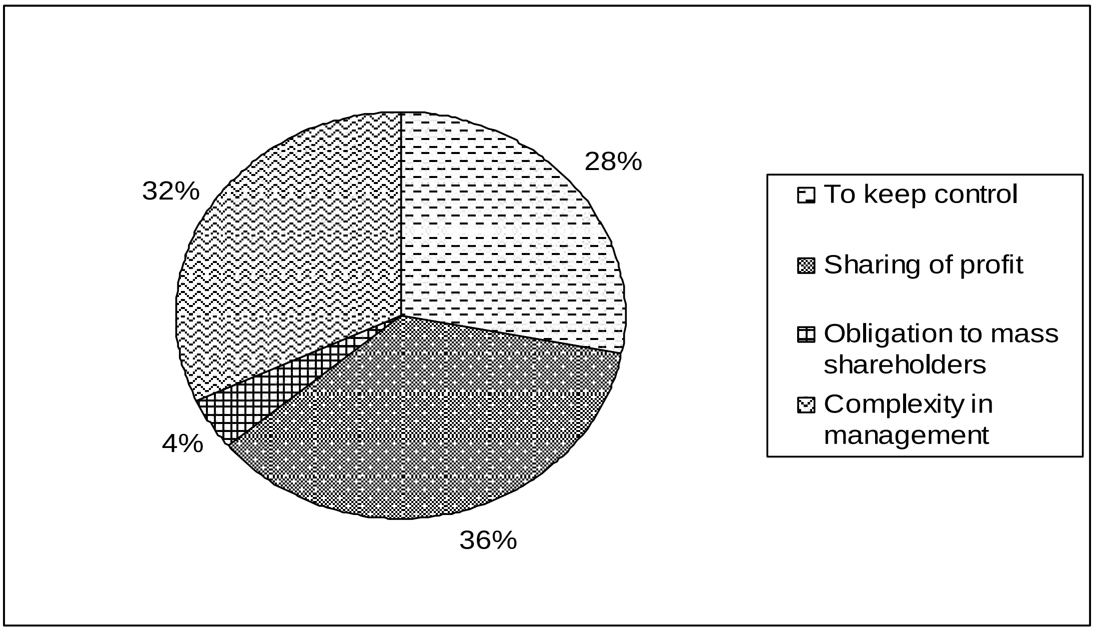
All companies do not want to go publicly 28% think control is the only reason for it. Companies do not want to lose the control by going public, 36% think they do not want to share profit, 4% think they do not want to bear the obligation to mass shareholders and remaining 32% think they do not want to make the management complex by going public.

Table 4.21: Reason for not going Public

S. No.	Alternatives	No. of Respondents	Percentage (%)
A	To keep control	35	28
B	Sharing of profit	45	36
C	Obligation to mass shareholders	5	4
D	Complexity in management	40	32
	Total	125	100

Source: Field Survey, 2011

Figure 4.19: Reaosns for Not Going Public



Above fig 4.20 and table 2.25 clearly show that the reason behind most of the companies not going public is they do not want to share profit 36%, 32% believe company fears complexity in management, 28% believes it simply because companies want to keep full control, only 4% believes that companies do not want to increase obligation to mass shareholders.

4.8.13 Reason for Limited People Investing in Primary Market

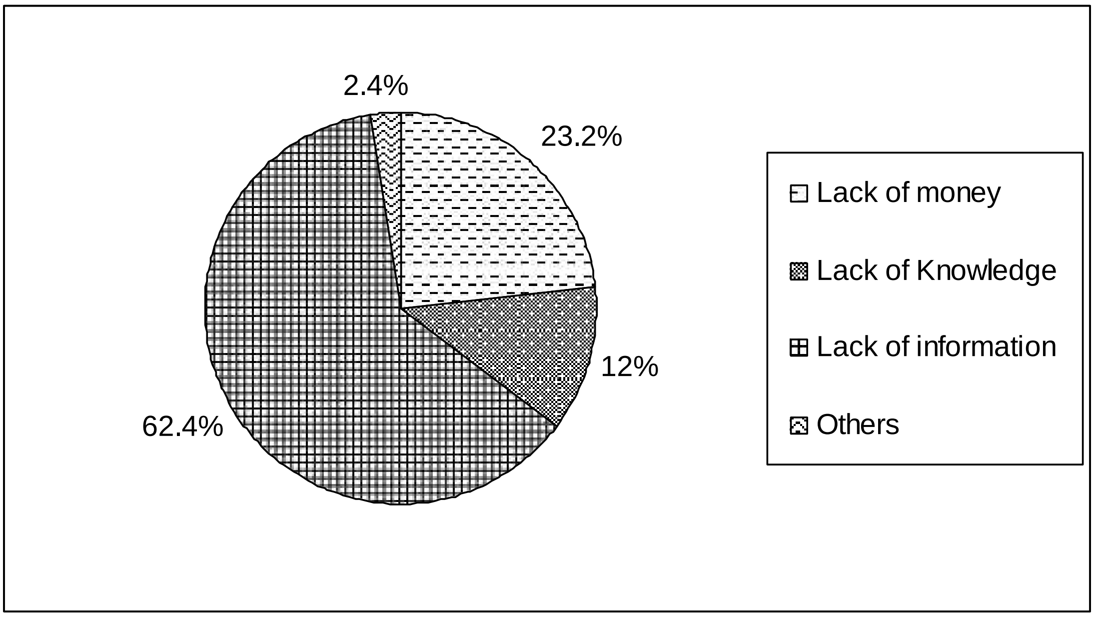
Only limited people invest in the primary market. For the reason asked 23.2% stated this is due to lack of money, 12% stated due to lack of knowledge 62.4% said people lacks information and only 2.4% stated other reason.

Table 4.22: Reason for Limited People Investment

S. No.	Alternatives	No. of Respondents	Percentage (%)
A	Lack of money	29	23.2
B	Lack of Knowledge	15	12
C	Lack of information	78	62.4
D	Others	3	2.4
	Total	125	100

Source: Field Survey, 2011

Figure 4.20: Reaosns for Limited People Investment



In the above fig 4.21 highest part is lack of information i.e. 62.4% which means most people do not invest. In primary market due to lack of information, 23.2% shows the reason of lack money, 12% shows lack of knowledge and 2.4% do not invest due to other reason than these.

4.9 Major Findings of the study

The major findings of the study have been found as follows:

- Public response to the financial sectors is higher than non-financial sectors.
- Now-a-days the public response in highly positive, because people are aware, money flow in the market is higher, people now realize the importance of share investment, people have seen that most companies are distributing dividends, and lack of better alternatives for investment.
- The primary sources of data Shows that the major source of information of public offering is media. Public getting information of IPO mostly from print media.
- Most of the investor (45%) preference to the relative company's performance before investing their money in stocks.
- People are getting aware to primary market to choose the right sector for investment. Investors are making portfolio of their investment; 40% investor invests their money in one company and 8.8% in more than three companies.
- Profitability is the encouragement factor for investment. The investors think that those companies who are performing well in the market will do better in the future.
- People think that the present environment is suitable for investment 90.67% people prefer to invest their money in the financial sector.
- This study has found that response to the primary market is highly positive due to lack of opportunities for investment in other sector. Despite this, public are attracted towards shares to increase their value of investment.
- In the present circumstances a single investor or a group of investor can adversely affect the market scenario. This is underprivileged signal to the development of capital market.
- In fiscal year 2009/10, maximum 61 companies have got approval from SEBON. Minimum 29 companies got approved from SEBON in the fiscal year 2005/06.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter includes three parts of the study; summary, conclusion and recommendation. The first part goes over with summarization of the whole study, the second part depicts the conclusion and the final part presents recommendation in the light of its findings.

5.1 Summary

IPO is the selling of securities to the general public for the first time. Primary market which avails fund to the issuer provides opportunity to invest to the small investors as well. This kind of public offering includes different king of cost like legal fee, auditing fee, underwriting fee & time cost.

Companies going public involve one or more investment banks or issue managers as "underwriters". They enter into a contract for primary issue. As the underwriters and the company that issues control the IPO process solely, we find problems in this underwriting.

This study focuses on public response to IPO, problems and growth of primary market in Nepal, role of investment bankers, the pace of IPO, impact of loans from financial institutions for IPO funding.

The securities market consists of new issue market and Stock Exchange, New Securities are offered to the investors for the first time through Initial Public Offering (IPO). IPO behavior is one of the most important components of capital market. IT facilitates the exchange assets by bringing together buyers and sellers of securities. Capital markets provide an effective way of raising money for commercial enterprises and at the same times provide as investment opportunity for individuals and institutions. Thus, IPO has both theoretical and practical perspectives.

The basic objective of this study is to asses' public response to the Initial Public Offering (IPO). The primary and secondary both types of data are taken to analyze the objective of the study. Primary data are taken from direct questionnaire provided to the general investors. Secondary data are taken from the publication of SEBON, NEPSE and various merchant bankers.

Although some studies regarding the different issues of capital markets are already conducted in Nepal, the study based on the IPO behavior is perhaps the first in Nepal. This study is based on secondary data with large sample of listed company from different sectors whose issues were offered by SEBON. This study covers almost sectors, companies i.e. commercial banks, development banks, finance companies, insurance companies, manufacturing and processing company, hotels, trading company and others whose issues were offered for issue and are taken as sample. For the purpose of this study, the necessary secondary data were collected for the period of 2005/06 from the annual reports of SEBON, other bulletins of NEPSE and different websites. This study is based on the time series data analysis 176 observations of the sample companies. The time series data are used to trace out the current situation of IPO behavior. The average mean, multiple bar-diagram, pie-chart were to analyze the picture of IPO behavior.

From 2005/06 to 2009.10 SEBON approved 252 issues amounting Rs. 43,057.90 millions. The higher number of issues is in the year 2008/09 which is 64 and the lowest is in 2005/06 which is only 29.

A total of 61 public limited companies raised funds amounting to Rs. 10,822.41 million by issuing securities in the fiscal year 2009/10. Ina the FY 2008/09 a total of 64 companies had raised funds amounting to Rs. 16828.51 million.
In the last fiscal year, total listed companies in Nepal Stock Exchange Ltd. Were 159 which reached to be 176 in the FY 2009/10. In the FY 2009/10,

annual turnover decreased by 45.3% to be Rs. 11,851.11 million as compared to turnover of Rs. 21681.14 million in the FY 2008/09.

In the FY 2009/10 ,the market capitalization of the listed companies decreased by 26.5% to be Rs. 3,76,871.37 million as compared to market capitalization of Rs. 5,12,939.07 million in the FY 2008/09. In the FY 2009/10 the preliminary estimate of the contribution of market capitalization to the GDP is 31.86%.

The total paid-up value of the listed securities by the end of the FY 2009/10 reached to Rs. 79,356 million which was Rs. 61140.0 million in the FY 2008/09. The total paid-up value of the listed securities by the end of FY 2009/10 presented in chapter IV.

From the primary data analyzes it is clear that most of the public aware about the IPO only 4% don’t have heard about IPO. 10.4% people do not want to take risk while 365 want to invest in IPO even the loan. Most of the respondents 40% seen to be informed about IPO from advertisements. Among the investors 45% people given preference to company performance before investment while only 8% give preference to brokerage commission if that avails or not 15% are interest in the promoter’s recognition.

Most of the respondents 40% have invested in only one company, only 80.8% have invested in more than three company. 13.33% have not invested in any organization. More than 57.33% respondents prefer personal fund than credit/loan.

About 90.67% are interest to invest in financial sector and only 9.33% are in non-financial sector. From among the financial sectors 48% are interested in commercial banks, 30.4% in development banks, 12% in financial companies and 9.6% in insurance companies. In the case non-financial sector highest 45.6% are interested in manufacturing and processing companies, 14.4% in hotels and 33.6% in trading company. 65.6% people annual return is the ultimate goal for investing, 24% thinks supports for old-age. 36% people think that most companies do not go public as they do not want to share profit with public, whereas 28% think it's because they want to keep control with themselves, 32% thinks as it may bring complexity in management. Most of the people 23.25 show the reason of lack of money for limited people investing in primary market and only 62.4% think it's due to lack of information.

From the study, it is clear that if get opportunity maximum are eager to invest in IPO as in Nepal there lacks alternative for investment.

5.2 Conclusion

In spite of the long period of securities prevailing in the Nepalese market, most of the public do not know about IPO. Even in the knowledge one most are interested in financial sector than non- financial sector. Even among the financial sector most are interested in Commercial Bank. But among the financial sector Development Banks are the highest subscribed one.

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

As per this study, almost every sector is getting good response from general public. Specifically financial sector is more preferable than non-financial sector. Even among the financial sector most are interested in commercial banks. Vast deviation is found the primary market of Nepal during 2005/06 to 2009/10 period, number of issue approved ranges from 64 at highest in 2007/08 and 2008/09 to 29 at lowest in 2005/06.

Most people are in favor of regulation by NRB for IPO funding via financial institutions as it lessens the equal chance of getting allotment. Most of the shares go impart of big investors. This kind of mismanagement in allotment discourages the investors. Contract between the issue manager and the issue company highly affects the whole IPO process, so make this as the people need, it should be regulated. People are eager to know the promoter, company's performance before investment. IPO's handled by bigger brokerages are found to be more successful.

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

5.3 Recommendations

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

1. As investment bankers play a vital role in the IPO process, they should try to give more transparent, fast, hassles free service so that more public involve in the IPO.
2. Before investing in any company, alls the investors must go through that company's financial details, prospectus, or they will be in difficulty if only go with the market rumors.
3. Small investors are also the part of primary market, so IPO funding through financial institution should be strictly regulated to discourage the big investors who apply in names of relatives, friends etc.
4. Investing in shares is a gamble which involves huge amount of risk. To be successful in the stock market, investors should always be clear to his strengths, weakness, requirements, wishes, risk taking capabilities and how to react on different and even changing market conditions. They should not buy the shares of a company until they know details about it.
5. Nepalese capital market is largely dependent on financial sector, which is not good signal for overall development of IPO market and market as

a whole in this regard the regulatory body and the government should take a step forward and encourage public issue from other sectors like manufacturing and processing by providing additional facilities such as tax-concessions.

6. The huge amount of securities traded in each fiscal year comes from financial sectors and rest few from non-financial sectors which is not good signal for IPO market. The SEBON and other concern authorities should conduct public awareness and investors education programs to increase the level of investor’s awareness.
7. The stock market lacks the existence of sophisticated investors. So it is recommended to the regulatory bodies to carry out programs using various media and spot programs to inform and attract the potential investors, both individual and institutional investing into shares.
8. The information and financial statements of the companies should be disseminated properly and timely.
9. The market intermediaries should be educated, trained and professionalized by conducting the various program like On Job training, Technical training etc. etc.
10. The government should allow foreign investors to invest in Nepalese capital market.
11. For getting IPO "hot", more and more advertisements need to be promoted, and true picture should be showed to the public. So that price does not fall after issue at the time of trading.
12. Most underwriters target institutional or wealthy investors in IPO distribution, which is ethically as well as logically very wrong. The allotment process must be pro-rata basis rather than lucky-draw, so that all investors may get shares.
13. Investors are becoming speculators rather than rational investors due to asymmetric information. They should know the whole stock valuation process and only then initiate to invest.

BIBLIOGRAPHY

Books:

Bhattarai, R. (2006), *Investment Theory and Practice*, Kathmandu: Buddha Academic Publishers and Distributions Pvt. Ltd.

Brealey, Richard A and Myers, Steward C. (1998), *Principle of Corporate Finance*, New Delhi; Tata Mc Graw –Hill Publishing Co. Ltd.

Gautam, R.R. (1983), *Management of Investments*, New York: Mc Graw-Hill.

Gitman, L.J. (2001), *Principles of Managerial Finance*, New Delhi: Pearson Education Inc.

Horne, Van (2002), *Fundamental of Financial Management*, New Delhi: Prentice Hall Publishing,

Panday, I.M. (1997), *Financial Management*, New Delhi: Vikash Publishing House Pvt. Ltd.

Pradhan, S. (1992), *Basic of Financial Management*, Kathmandu: Educational Enterprises Pvt. Ltd.

Weston, J.F., Basely S. & Brigham, E.F. (1993), *Essentials of Managerial Finance*:USA The Dryden Press.

Journals, Reports and Articles:

Beninga, S.,Helmanton, M., & Sarig 0. (2005), “The Timing of Initial Public Offerings” *Journal of Financial Economics.*

Pagano, M. Paretto, F. and Zingles, L. (Feb. 1983), “Why do companies Go Public? An Empirical Analysis”, *Journal of finance*, Vol. LIII No. 1.

Pandey. S. (2006), “IPO Finding via Financial Institution: Not a very Healthy Practice”, *New Business Age.*

SEBON Journal (2009/10), “Annual Report”, Kathmandu Security Board of Nepal.

Thesis:

Bhattarai, R. (2006), *Public Response TO IPO in Nepal*, An Unpublished Master's Degree Thesis, Central Department of Management, TU.

Panday, B.P. (2008), *Initial Public Offering (IPO) in Nepal*, An Unpublished Master's Thesis Central Department of Management, TU.

Poudel, N. (2006), *Public Response to IPO in Nepal*, An Unpublished Master's Thesis, Central Department of Management, TU.

Shrestha, S. (1996), *Public Response to Primary issue of Share in Nepal*, An Unpublished Thesis, Central Department of Management, TU.

Websites:

www.nepalstock.com

www.business.com

www.nmb.com.np

www.ncml.com.np

www.nrb.org.np

www.sebon.com

www.investopedia.com

APPENDICES

QUESTIONNAIRE

Respected Sir/Madam/Friends,

I am going to prepare research on the topic of "PUBLIC RESPONSE TO INITIAL PUBLIC OFFERING (IPO) IN NEPAL" in partial fulfillment of the requirements of the degree of Master of Business Studies (MBS). Your sincere and unbiased response will be highly beneficial and as such will be appreciated. The information you provide hereby will be kept confidential and be solely used for this research purpose.

Your Sincerely

…………………………

Narayan Panthi

<u>Researcher</u>

<u>Respondent's Profile:</u>

Name (Optional): ……………………………..

Occupation: …………………………………..

Position: ………………………………………

Gender: ……………………………………….

Age: …………………………………………...

1. Have you ever heard about IPO?

    a) Never heard   c) A little

    b) Yes, of course   d) Yes, of course

2. Would you like to invest in IPO?

    a) No risk at all   c) Depends on the sector

    b) If had money   d) Yes, even with the loan

3. How do you get information for opportunity to invest in primary market?

    a) Advertisements   c) Brokers

    b) Personal relations   d) others

4. What comes first in your mind while investing?

a) Brokerage commission (avails or not)

b) Company's performance c) Market information

5. How much companies have you invested in?

a) One c) More than three

b) Two or three d) none

6. Which fund would you like to invest in IPO?

a) Personal Fund b) Loan/ Credit

7. Do you think it is good that NRB has prohibited IPO funding via financial institution loans?

a) Yes b) No

8. What expectation led you to invest?

a) Cash dividend c) Right share

b) Bonus share / Stock dividend d) others

9. Would you prefer financial sector or non-financial sector for investment?

a) Financial sector b) Non- financial sector

10. If you like to invest in financial sector than in which type?

a) Commercial bank c) Finance company

b) Development bank d) Insurance company

11. If you are interest in non-financial sector than in which type?

a) Manufacturing and processing c) Trading Company

b) Hotel d) Others

12. What ultimate goal led you to invest in IPO?

a) Support for old-age c) Annual return

b) Children education d) others

13. Why most of the companies do not like going in public?

a) Obligation to mass shareholders b) Sharing of profit

b) Complexity in management

14. What do you think the reason that the limited number of people invest in the primary market?

a) Lack of money
c) Lack of information
b) Lack of knowledge
d) others

Securities Markets Indicators

Rs. In million

Market Indicator	Fiscal Year		
	2007/08	2008/09	2009/10
Number of Public Issue	64	64	61
Amount of Public Issue	10668.20	16828.50	10822.41
Number of Listed Companies	142	159	176
Paid-up Value Listed Securities	29465	61140.0	79356
Number of Listed Securities	321131	637868	821746
Turnover	22820.8	21681.14	11851.11
Market Day	235	234	225
Number of Traded Companies	136	170	198
Number of Traded Shares ('000')	28599.77	30547.16	26231.35
Number of Transactions	150800	209091	213733
Market Capitalization	366247.5	512939.07	376871.37
% of Turnover on Market Capitalization	6.23	4.22	3.14
% of Market Capitalization on Nominal GDP at market price	44.62	53.43*	31.86#
NEPSE Index (points)	963.36	749.10	477.73

*Based on revised estimate of GDP

Based on Preliminary estimate of GDP

Source: Economic Surveys, 2009/10 and Trading Reports of NEPSE, 2009/10.