

# **INITIAL PUBLIC OFFERING ANALYSIS OF LISTED COMMERCIAL BANKS**

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## **RECOMMENDATION**

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### **INITIAL PUBLIC OFFERING (IPO) ANALYSIS OF LISTED COMMERCIAL BANKS**

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I hereby declare that the work reported in this thesis entitled “**INITIAL PUBLICOFFERING (IPO) ANALYSIS OF LISTED COMMERCIAL BANKS**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Studies (M.B.S.) under the supervision of Associate Professor Achyut Raj Bhattarai and Mr. Laxman Raj Kandel of Shanker Dev Campus.

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Suman K.C.  
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## **ABBREVIATIONS**

ADBL	Ace Development Bank Ltd
B/S	Balance Sheet
BOAL	Bank of Asia Ltd
BOKL	Bank of Kathmandu Ltd
BPS	Book Value Per Share
BVS	Book Value of Share
CBIL	Citizens Bank International Ltd
CD Ratio	Credit Deposit Ratio
CDs	Certificate of Deposits
CENMAC	Central Management Committee
CEO	Chief Executive Officer
CIT	Citizen Investment Trust
EPF	Employees Provident Fund
EPS	Earning Per Share
FY	Fiscal Year
GBL	Global Bank Ltd
GDP	Gross Domestic Production
IFC	International Finance Corporation
IPO	Initial Public Offering
ISO	International Standard Ogranization
LBL	Laxmi Bank Ltd
Ltd	Limited
LUBL	Lumbini Bank Ltd
MBL	Machhapuchhre Bank Ltd
MPS	Market Price Per Share

NCML	NIDC Capital Market Ltd
NEFINSCO	Nepal Finance and Savings Co. Ltd.
NEPSE	Nepal Stock Exchange
NFCL	National Finance Co. Ltd.
NGOS	Non -Government Organizations
NICBL	Nepal Industrial and Commercial Bank Ltd
NMBL	Nepal Merchant Bank Ltd.
No.	Number of Observations
NPR	Nepali Rupees
NRB	Nepal Rastra Bank
NSBL	Nepal SBI Bank Ltd
P/E Ratio	Price Earning Ratio
P/L a/c	Profit and Loss Account
S.N.	Serial Number
SBL	Siddhartha Bank Ltd
SEBON	Security Board of Nepal
SEC	Security Exchange Centre
T.U.	Tribhuvan University
USA	United States of America

# CHAPTER -I

## INTRODUCTION

### 1.1 Background of the study

Initial Public Offering (IPO), also referred to simply as a "public offering", is when a company issues common stock or shares to the public for the first time. They are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded. ([www.wikipedia.com](http://www.wikipedia.com).)

The primary market can be divided into seasoned and unseasoned new issuer. A seasoned new issue refers to the offering of an additional amount of an already existing security to the public, whereas, an unseasoned new issue involves the initial offering of a security to the public. Unseasoned new equity issue is often referred to as initial public offerings or IPOs.

A primary offering is usually done to help a young growing company to expand its business operations, but can also be done by a mature company that still happens to be a private company. Primary offerings can be followed by secondary offerings, which serve as a way for a company that is already publicly traded to raise further equity capital for its business. After the offering and the receipt of the funds raised, the securities are traded on the secondary market, where the company does not receive any money from the purchase and sale of the securities they previously issued.

Primary Offering is the means by which a private company can raise equity capital through the financial markets in order to expand its business operations. This can also include debt issuance. IPOs not only include benefits, there are some certain ongoing costs associated with the need to supply information on a regular basis to investors and regulators for the publicly traded firms. Furthermore, there are substantial one-time costs



associated with Initial Public Offering that can be categorized as direct and indirect costs. The direct costs include the legal, auditing, and underwriting fees. The indirect costs are the management time and effort devoted to conducting the offering and the dilution associated with selling shares at an offering price that is on average below the price prevailing in the market shortly after the IPO. These direct and indirect costs affect the cost of capital for the firms going public. Firms going public, especially young growth firms, face a market that is subject to sharp swings in valuations. The fact that the issuing firm is subject to the whims of the market makes the IPO processes a high-stress period for the entrepreneurs.

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 managers. Investment bankers are also called underwriters; they purchase new issues from security issuers and arrange for their resale to the investing public.

Investment Bankers provide a wide range of services to firms issuing new shares through IPO. These activities include pre-IPO activities, related to the pricing, marketing and distribution of the offering as well as post-IPO activities such as price stabilization, market making and analyst research coverage.

In an IPO, the issuer may obtain 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. ([www.wikipedia.com](http://www.wikipedia.com).)

IPOs can be a risky investment. For the individual investor, it is tough to predict what the stock or shares will do on its initial day of trading and in the near future since there is often little historical data with which to analyze the company. Also, most IPOs are of companies going through a transitory

growth period, and they are therefore subject to additional uncertainty regarding their future value. ([www.wikipedia.com](http://www.wikipedia.com).)

Investment bankers manage the issuance of new securities to the public. Once security exchange center has commented on the registration statement and a preliminary prospectus has been distributed to interested investors, the investment bankers organize “road shows” in which they travel around the country to publicize the imminent offering. These road shows have two purposes. First, they attract potential investors and provide them information about the offering. Second, they collect for the issuing firm and its underwriters about the price at which they will be able to market the securities. Large investors communicate their interest in purchasing shares of the IPO to the underwriters, this indication of interest is called a book and the process of polling potential investors is called book building. The book provides valuable information to the issuing firm because large institutional investors often have useful insights about the market demand for the security and the prospects of the firm as well as its competitors. It is common for investment bankers to revise both their initial estimates of the offering price of a security and the number of shares offered based on the feedback from the investing community. (Gautam & Thapa; 2061:4.9-4.10)

When a company lists its shares on a public exchange, it will almost invariably look to issue additional new shares in order to raise extra capital at the same time. The money paid by investors for the newly-issued shares goes directly to the company (in contrast to a later trade of shares on the exchange, where the money passes between investors). An IPO, therefore, allows a company to tap a wide pool of stock market investors to provide it with large volumes of capital for future growth. The company is never required to repay the capital, but instead the new shareholders have a right to future profits distributed by the company and the right to a capital distribution in case of dissolution. ([www.wikipedia.com](http://www.wikipedia.com).)

The existing shareholders will see their shareholdings diluted as a proportion of the company's shares. However, they hope that the capital investment will make their shareholdings more valuable in absolute terms.

In addition, once a company is listed, it will be able to issue further shares via a rights issue, thereby again providing itself with capital for expansion without incurring any debt. This regular ability to raise large amounts of capital from the general market, rather than having to seek and negotiate with individual investors, is a key incentive for many companies seeking to list. ([www.wikipedia.com](http://www.wikipedia.com).)

IPOs generally involve one or more investment banks as "underwriters." The company offering its shares, called the "issuer," enters a contract with a lead underwriter to sell its shares to the public. The underwriter then approaches investors with offers to sell these shares.

The sale (that is, the allocation and pricing) of shares in an IPO may take several forms. Common methods include:

Dutch auction

Firm commitment

Best efforts

Bought deal

Self Distribution of Stock

A large IPO is usually underwritten by a "syndicate" of investment banks led by one or more major investment banks (lead underwriter). Upon selling the shares, the underwriters keep a commission based on a percentage of the value of the shares sold. Usually, the lead underwriters, i.e. the underwriters selling the largest proportions of the IPO, take the highest commissions—up to 8% in some cases.

Multinational IPOs may have as many as three syndicates to deal with differing legal requirements in both the issuer's domestic market and other regions. For example, an issuer based in the E.U. may be represented by the main selling syndicate in its domestic market, Europe, in addition to separate syndicates or selling groups for US/Canada and for Asia. Usually, the lead underwriter in the main selling group is also the lead bank in the other selling groups. ([www.wikipedia.com](http://www.wikipedia.com).)

Because of the wide array of legal requirements, IPOs typically involve one or more law firms with major practices in securities law, such as the Magic Circle firms of London and the white shoe firms of New York City.

Usually, the offering will include the issuance of new shares, intended to raise new capital, as well the secondary sale of existing shares. However, certain regulatory restrictions and restrictions imposed by the lead underwriter are often placed on the sale of existing shares.

Public offerings are primarily sold to institutional investors, but some shares are also allocated to the underwriters' retail investors. A broker selling shares of a public offering to his clients is paid through a sales credit instead of a commission. The client pays no commission to purchase the shares of a public offering; the purchase price simply includes the built-in sales credit.

The issuer usually allows the underwriters an option to increase the size of the offering by up to 15% under certain circumstance known as the greenshoe or over-allotment option. ([www.wikipedia.com](http://www.wikipedia.com).)

In Nepal, the first public issue of ordinary shares took place 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.

Security Exchange Center was converted into Stock Exchange Limited in 1993 and with this broker system for secondary market came in existence. The basic objective of Nepal Stock Exchange Ltd is to impart free marketability and liquidity to the government bonds and corporate securities. With the establishment of full fledged stock exchange. The shares which the public held for the decades became liquid. Prior to the establishment of Securities Ordinance 2005, companies were required to get approval of their prospectus from Company Registrar's Office and then to receive approval from the SEBON in accordance with Securities Exchange Act, 1983 and the Companies Ordinance, 2005. This new ordinance which came into effect since September 23, 2005, has incorporated a provision that requires the public companies to register with the SEBON all securities before their issuance. The ordinance also made mandatory for issuing companies to prepare prospectus, and publish it for the public after getting SEBON's approval.

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

To sum up, an initial Public Offering is the first sale of corporation's common shares to public investors. The main purpose of an IPO is to raise capital for the corporation. While IPO are effective at raising capital, they also impose heavy regulatory compliance and reporting requirements.

## **1.2 Statement of the Problem**

This Study is directed towards analyzing the IPO process, practices and problems associated with Initial Public Offering (IPO) which includes mainly Banking sector of Nepalese securities market. The recent developments and growth in primary market, process of managing public issue, practices among issue mangers their roles and performances, public (investors) interest or response and their expectations towards such issues, the level of knowledge and education about securities and securities market etc. has to be identified.

Nepal being the developing country in itself, one and only city centered stock market infrastructure has made almost all people of the country ignorant about shares and investment on securities except leaving the people of few cities like Kathmandu, Birgunj, Biratnagar, Pokhara. So how can we expect them to invest in the securities? Even the educated ones lack the confidence level and they do not want to take risk. Nepalese primary market and process of Initial Public Offering (IPO) is still a new phenomenon to most of the people of Nepal. From this it can be said that Nepalese Securities market is still in growing stage. Investment environment is not that much investors friendly.

The practices of IPO and managing the public issue especially in case of commercial banks is not that much fair and transparent. Hence, the problem of the study is directed to find the solution of following questions:

- a. What are the tools and mechanisms adopted to analyze the IPO phenomenon?

- b. What are the prevailing IPO practices and problems associated with IPOs of commercial banks?
- c. Is the process of managing the public issue, roles and performance of Investment bankers and response of investors towards such issue effective or not?

### **1.3 Objectives of the Study**

The main objective of the study is to find out prevailing practices being used in Nepalese securities market, mainly Primary market as IPO. So the specific objectives of the study are as follows:

- ) To explore the practices of IPO in use.
- ) To analyze the public response to IPO of Commercial Banks.
- ) To examine the role and functions of Investment Bankers (Issue mangers) and their relationship with Issuing Banks in the process of IPO.
- ) To analyze the trend and pace of IPO offerings of Commercial Banks, its problems and prospects in Nepal.
- ) To recommend or suggest for better IPO of Commercial Banks.

### **1.4 Significance of the Study**

This study will provide some information regarding working mechanisms of the Nepalese securities market, its peculiar characteristics which considers strengths and weaknesses as well and recent developments in stock market after democracy restoration. It seems to be helpful to the prospective investors and the organizations in the field of public Offering as limited study has been made regarding IPO in Nepal. This study will provide few guidelines in the formulation of policy and the policy

makers will be well acquainted with present market condition and will get the practical knowledge of existing rules and regulations.

This study will reveal the clear picture of investors preference and choice over the offering companies mainly commercial banks. They will be able to make a right choice among the investment alternatives available. It will also add some information to future researchers interested in IPO. Moreover, it will identify promising/ leading sector dominating the securities market.

This study will be significant to analyze the legal provision, possibilities, problems and prospects of IPO in Nepal. It will be helpful to find out actual public response regarding the IPOs of different listed commercial banks as investment sectors. Even the prospective firms going public may also get significant knowledge from this study.

### **1.5 Limitations of the Study**

This study of IPO analysis of Listed Commercial Banks has some limitations as well. They are:-

- ) Basically, data are taken from primary and secondary sources. Therefore, the accuracy of the research depends upon its reliability.
- ) The study has tried to incorporate recent data to the possible available.
- ) This study has included only commercial banking sector for analysis of IPO.
- ) Many factors affect the IPO process though it is not possible to study all factors, this study will be limited to the study of only following factors:

- Issuing commercial banks



➤ Issue managers

➤ Government body and Legal Provisions

) This study is fully based on the student's limited financial resources within a limited period.

) The study is not a final study on the 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.

## **CHAPTER-II**

### **LITERATURE REVIEW**

#### **2.1 Conceptual Framework**

Initial Public Offering (IPO), also referred to simply as a "public offering", is when a company issues common stock or shares to the public for the first time. The IPO of a company serves as a significant liquidity opportunity for early investors, including founders and the Venture Capital investors.

The term only refers to the first public issuance of a company's shares. If a company later sells newly issued shares again to the market, it is called a "Seasoned Equity Offering". When a shareholder sells shares, it is called a "secondary offering" and the shareholder, not the company who originally issued the shares, retains the proceeds of the offering. These terms are often confused. In distinguishing them, it is important to remember that only a company, which issues shares, can make a "primary offering".

They are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded. (www.wikipedia.com.)The primary market can be divided into seasoned and unseasoned new issuer. A seasoned new issue refers to the offering of an additional amount of an already existing security to the public, whereas, an unseasoned new issue involves the initial offering of a security to the public. Unseasoned new equity issue is often referred to as initial public offerings, or IPOs.

A primary offering is usually done to help a young growing company to expand its business operations, but can also be done by a mature company that still happens to be a private company. Primary offerings can be followed by secondary offerings, which serve as a way for a company that is already publicly traded to raise further equity capital for its business. After the offering and the receipt of the funds raised, the securities are traded on the

secondary market, where the company does not receive any money from the purchase and sale of the securities they previously issued.

Primary Offering is the means by which a private company can raise equity capital through the financial markets in order to expand its business operations. This can also include debt issuance.

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 managers. Investment bankers are also called underwriters; they purchase new issues from security issuers and arrange for their resale to the investing public.

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IPOs can be a risky investment. For the individual investor, it is tough to predict what the stock or shares will do on its initial day of trading and in the near future since there is often little historical data with which to analyze the company. Also, most IPOs are of companies going through a transitory growth period, and they are therefore subject to additional uncertainty regarding their future value. ([www.wikipedia.com](http://www.wikipedia.com).)

Investment bankers manage the issuance of new securities to the public. Once security exchange center has commented on the registration statement and a preliminary prospectus has been distributed to interested investors, the

investment bankers organize “road shows” in which they travel around the country to publicize the imminent offering. These road shows have two purposes. First, they attract potential investors and provide them information about the offering. Second, they collect for the issuing firm and its underwriters about the price at which they will be able to market the securities. Large investors communicate their interest in purchasing shares of the IPO to the underwriters, this indication of interest is called a book and the process of polling potential investors is called book building. The book provides valuable information to the issuing firm because large institutional investors often have useful insights about the market demand for the security and the prospects of the firm as well as its competitors. It is common for investment bankers to revise both their initial estimates of the offering price of a security and the number of shares offered based on the feedback from the investing community. (Gautam & Thapa; 2061:4.9-4.10)

When a company lists its shares on a public exchange, it will almost invariably look to issue additional new shares in order to raise extra capital at the same time. The money paid by investors for the newly-issued shares goes directly to the company (in contrast to a later trade of shares on the exchange, where the money passes between investors). An IPO, therefore, allows a company to tap a wide pool of stock market investors to provide it with large volumes of capital for future growth. The company is never required to repay the capital, but instead the new shareholders have a right to future profits distributed by the company and the right to a capital distribution in case of dissolution.

The existing shareholders will see their shareholdings diluted as a proportion of the company's shares. However, they hope that the capital investment will make their shareholdings more valuable in absolute terms.

In addition, once a company is listed, it will be able to issue further shares via a rights issue, thereby again providing itself with capital for expansion

without incurring any debt. This regular ability to raise large amounts of capital from the general market, rather than having to seek and negotiate with individual investors, is a key incentive for many companies seeking to list.

IPOs generally involve one or more investment banks as "underwriters." The company offering its shares, called the "issuer," enters a contract with a lead underwriter to sell its shares to the public. The underwriter then approaches investors with offers to sell these shares.

The sale (that is, the allocation and pricing) of shares in an IPO may take several forms. Common methods include:

- Dutch auction
- Firm commitment
- Best efforts
- Bought deal
- Self Distribution of Stock

A large IPO is usually underwritten by a "syndicate" of investment banks led by one or more major investment banks (lead underwriter). Upon selling the shares, the underwriters keep a commission based on a percentage of the value of the shares sold. Usually, the lead underwriters, i.e. the underwriters selling the largest proportions of the IPO, take the highest commissions—up to 8% in some cases.

Multinational IPOs may have as many as three syndicates to deal with differing legal requirements in both the issuer's domestic market and other regions. For example, an issuer based in the E.U. may be represented by the main selling syndicate in its domestic market, Europe, in addition to separate syndicates or selling groups for US/Canada and for Asia. Usually, the lead underwriter in the main selling group is also the lead bank in the other selling groups.

Because of the wide array of legal requirements, IPOs typically involve one or more law firms with major practices in securities law, such as the Magic Circle firms of London and the white shoe firms of New York City.

Usually, the offering will include the issuance of new shares, intended to raise new capital, as well as the secondary sale of existing shares. However, certain regulatory restrictions and restrictions imposed by the lead underwriter are often placed on the sale of existing shares.

Public offerings are primarily sold to institutional investors, but some shares are also allocated to the underwriters' retail investors. A broker selling shares of a public offering to his clients is paid through a sales credit instead of a commission. The client pays no commission to purchase the shares of a public offering; the purchase price simply includes the built-in sales credit.

The issuer usually allows the underwriters an option to increase the size of the offering by up to 15% under certain circumstances known as the greenshoe or overallotment option. ([www.wikipedia.com](http://www.wikipedia.com))

In Nepal, the first public issue of ordinary shares took place 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 sell 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.

Security Exchange Center was converted into Stock Exchange Limited in 1993 and with this broker system for secondary market came in existence. The basic objective of Nepal Stock Exchange Ltd is to impart free marketability and liquidity to the government bonds and corporate securities. With the establishment of full fledged stock exchange. The shares which the public held for the decades became liquid. Prior to the establishment of Securities Ordinance 2005, companies were required to get approval of their prospectus from Company Registrar's Office and then to receive approval from the SEBON in accordance with Securities Exchange Act, 1983 and the Companies Ordinance, 2005. This new ordinance which came into effect since September 23, 2005, has incorporated a provision that requires the public companies to register with the SEBON all securities before their issuance. The ordinance also made mandatory for issuing companies to prepare prospectus, and publish it for the public after getting SEBON's approval.

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

To sum up, an initial Public Offering is the first sale of corporation's common shares to investors on a public stock exchange. The main purpose of an IPO is to raise capital for the corporation. While IPO are effective at raising capital, they also impose heavy regulatory compliance and reporting requirements.

### **2.1.1 Securities and Financial Market**

Securities are financial assets that form the part of an investor's wealth. Common stocks, Preferred stocks, Bonds, Convertibles, Warrants, Options, Rights, Futures, etc are examples of financial assets or securities.

Securities markets are mechanisms for channeling savings to the ultimate investors in real assets. The role of financial markets and financial institutions channel the flow of funds in the economy. The flotation of the shares by public limited companies with promising prospect of management intention to provide handsome return to investors has wide successful flow of funds without any difficulties; there are remarkable examples of oversubscription of public confidence. But how far their utilization has come to success is what future decides. (Shrestha, Poudel & Bhandari; 2003:3)

Financial markets are mechanisms created to facilitate the exchange of financial assets. Financial markets are the markets where financial assets are traded. Financial market is also called security market where securities like stocks and bonds are traded. Security markets facilitate the process of transferring funds from savers to investors. People requiring money are brought together with those having surplus money in the security markets.

The major participants of financial markets are savers/ investors and borrowers/ users of funds. They are involved in the purchase and sale of securities in the financial market and are supported by mediators and facilitators. Individuals, Corporate bodies, Non-profit organizations and the government are the participants in these transactions of buy and sale of financial assets. The mismatch between the saving and investment of these participants is the central reason for the existence of financial markets itself.

Individuals, Businesses, Government and Other institutions like non-profit organizations have surplus funds. As suppliers of funds, they purchase different financial assets like stocks, bonds, CDs etc. and become investors.



These parties on the other strata have deficit funds. As users of funds, they sell financial assets and become borrowers/users of funds.

Commercial banks, Insurance companies, Finance companies and other financial institutions like Employee Provident Fund Corporation and Citizen Investment Trust work as intermediaries in the market. They sell their own liabilities (i.e. raise funds by creating liabilities on their own account) to surplus units and purchase securities of the deficit units (i.e. supply funds to the users.) Thus, these institutions provide very important intermediary service by correcting the mismatch of demand for and supply of funds between savers and users.

There are other groups of firms and companies who participate in Nepalese financial market in a distinct manner. They work as mediators to facilitate flow of funds from savers to users and are known as agents. Being agents, they do not create financial assets and liabilities on their own accounts. They simply facilitate the creation of financial assets. The example of this type of institutions is merchant bankers, security dealers and brokers. Merchant bankers primarily operate in primary markets and dealers and brokers operate in secondary markets.

Thus, a financial system is a mechanism for transferring funds from the hands of savers to the users. Different financial institutions mediate and facilitate this process to transfer of funds by creating varieties of financial assets. (Shrestha, et al. 2003:23-24)

The financial market can be classified in various ways. But the most common classification is to classify it as (1) Money market and Capital market and (2) Primary market and Secondary market

### **2.1.1.1 Money Market and Capital Market**

The *money market* refers to the markets in which short-term financial assets are traded. In money market, financial assets with a term to maturity of typically one year or less than one year are traded. The main function of money market is to provide short-term loans to business, loans to the government and loans to households. The government and business organizations requiring short-term funds sell securities (Like the Bill of exchange, Commercial papers, Certificates of deposits, Treasury bills, Government bonds, banker's Acceptances and commercial paper or promissory notes etc) and investors who have surplus money buy securities in this market. If opportunity is provided, doing speculation sometimes is not bad if it is healthy and calculative. (Shrestha, et al. 2003:3)

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.

The *capital market* is the market for long-term securities and funds. Securities that mature in more than a year are known as long-term securities.

Such type of securities or financial assets with a term to maturity of typically more than one year are mostly traded in the capital market. The example of long-term financial instruments are Common stocks, Bonds, Debentures, Preference shares, Treasury bills and Long-term bonds and securities of the governments etc. Capital market can play vital role to mobilize the market that follows capital to invest on the corporate sectors by the means of securities. (Shrestha, et al. 2003:19)

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 to make transactions. 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, 1992:456). This market can be further divided into two parts:

- i) Non-securities market
- ii) Securities market

### **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.

### **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 is classified into two, the market in which 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).

### **Functions Performed by Securities Market**

- ) One of the most important functions performed by a securities market is to maintain active trading. It facilitates the immediate buying and selling of securities by the investors. It provides liquidity to the assets.
- ) It also facilitates the price discovery process. It is possible through the demand and supply of securities from the investors.
- ) It aids new financing indirectly by providing facility to resell the securities.

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 "preowned" securities market. (Bhattacharai; 2006:11)

The security market may be classified into primary and secondary market on the basis of the economic function.

### **2.1.1.2 Primary Market**

When firms need capital, they may choose to sell new securities. They sell securities in the primary market. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors is called underwriting. In the case of a new stock, the sale is an initial public offering (IPO), though it can be found in the prospectus. Investment bankers which is called the primary market typically market these new issues of stocks, bonds or other securities

The issue of the securities in the primary market leads to direct transfer of money from the savers to the issuer of the securities. Thus, the primary market transfers the funds from savers to investors to make the capital available for new investments in building, equipment, stock of necessary goods. The growth of capital market open avenue for trading in the secondary market followed by primary market and it is drawing dimension of investment banking services undertaken by NIDC capital market, Citizen Investment Trust, Nepal Share Market, etc. The linkage between companies and investors has created inveigling conditions in the flow of funds both in primary and secondary market.

#### **Characteristics of Primary market are:**

- ) Market for new long term capital.
- ) The securities are sold for the first time.
- ) The securities are issued by the company directly to investors.

- ) Used by the companies for the purpose of setting up new business or for expanding or modernizing the existing business.
- ) Facilitates capital formation in the economy.

### **2.1.1.3 Secondary Market**

The existing securities are bought and sold in the secondary market. In other words, already issued securities are traded in the organized securities exchanges (like Nepal stock Exchange). Its main function is to provide liquidity to the purchasers of securities.

The company must list the securities in the security market for the transaction purpose. Secondary market provides no capital to the original issuer.

An active secondary market is therefore a necessary condition for an effective primary market, as no investor wants to feel 'locked in' to an investment. (Shrestha, et. al. 2003:4)

### **Why go Public and Why to raise?**

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 is significantly correlated with the probability of listing. What is more surprising is how large a company must be before it considers going public. In United States, many startup companies go public to finance their expansion.

This leads to contribution of the stock market to investment and growth. Companies appear to go public not to finance future investments and growth, but to rebalance their accounts after high investment and growth. IPOs are also followed by lower cost of credit and increased turnover in control. Going public provides a benefit not examined in previous studies: it enables

companies to borrow more cheaply. IPOs are followed by an abnormally high turnover in control. This occurs even though the controlling group always retains a large controlling block after the IPO. Going public raises cash and usually a lot of it being publicly traded also opens many financial doors.

Because of the increased scrutiny, public companies can usually get better rates when they issue debt. So long as there is market demand, 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 things like employee stock ownership plans, which helps to attract top talent. (Pagano, Panetta & Zingales; 1998)

### **How does an IPO get valued?**

The price of a financial asset traded on the market is set by the force of supply and demand. Newly issued stocks are no exception to this rule- they sell for whatever price a person is willing to pay for them. The best analysts are 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 close to or above, what they believe is a 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 IPOs?**

Initial public offerings (IPO) are unique stocks because they are newly issued. The companies that issues IPOs 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 believe that the lack of

historical share price performance provides a buying opportunity, while others think that because IPOs 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 can be used to analyze IPOs, but because these stocks do not have a 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 IPOs tends to increase until supply and demand come into equilibrium. ([www.investopedia.com](http://www.investopedia.com))

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

1. Why has the company elected to go public?
2. What will be the company doing with the money raised in the IPO?
3. What is the competitive landscape in the market for the business's products or services? What is the company's position in this landscape?
4. What are the company's growth prospects?
5. What level of profitability does the company expect to achieve?
6. What is the management like? Do the people involved have previous experience running a public-trading company? Do they have a history of success in business ventures? Do they have sufficient business experience and qualifications to run the company? Does the management itself own any shares in the business?
7. What is the business or company's operating history, if any?  
([www.investopedia.com](http://www.investopedia.com))



### **2.1.2 Investment consideration to the potential investors in the primary market**

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

Investors 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 shares 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 efficiency, risk bearing capacity, size, growth, environment, board of directors, Financial status ( Net worth, Profit/ Loss Situation etc.) and as well as budgeted statements, which can be obtained from memorandum, prospectus, articles of the concerned company.

### **2.1.3 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 of cash dividends, stock dividends, bonus shares etc. they should also be informed about Earning per share (EPS), book value of share (BVS), price earning ratio (P/E Ratio), future plan, growth expectancy of the company through the annual, quarterly and half-yearly performance reports, profit and loss account (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 statements 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 broker to choose a firm that is suitable for his needs of investments and to select a representative 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. ([www.sebonp.com/education1.htm](http://www.sebonp.com/education1.htm))

#### **2.1.4 Pricing Differences**

We may have found that there can be large differences between the price of an Initial Public offering (IPO) and the price when the IPO shares start trading in the secondary market.

The pricing disparities occur most often when an IPO is "hot" or appeals to many investors. When an IPO is "Hot", the demand for the securities far exceeds the supply of shares. The excess demand can only be satisfied once trading in the IPO shares begins. This imbalance between supply and demand generally causes the price of each share to rise dramatically in the first hours or days of trading. Many times the price falls after this initial flurry of trading subsidies. ([www.sec.gov/answers/ipo\\_pricing.htm](http://www.sec.gov/answers/ipo_pricing.htm))

### **2.1.5 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. ([www.wikipedia.com](http://www.wikipedia.com))

### **2.1.6 Risky Investment**

IPOs can be risky investment. For the individual investor, 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 data 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. ([www.investopedia.com](http://www.investopedia.com))

### **2.1.7 Pricing**

Initially, IPOs have been under-priced. The effect of under-pricing an 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 table ", lost capital that could have been raised for the company had the stock been offered at a 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 sell shares. Even if they sell all of the issued shares, if the stock falls in value on the first day of trading, it may lose its marketability and hence even more of its value.

Investment banks therefore take many factors into consideration when pricing

an IPO, and attempt to reach an 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 optimal price usually involves the underwriters ("syndicate") arranging share purchase commitments from lead institutional investors.([www.en.wikipedia.org/wiki/Initial\\_public\\_offering](http://www.en.wikipedia.org/wiki/Initial_public_offering))

### **2.1.8 The Underwriting Process**

Underwriting is an agreement between the issuing company and financial institution like bank, merchant banks, broker or other person, providing for their taking up 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 wants to go public, the first thing it does is hire an investment bank. A company could theoretically sell its shares on its own, but realistically, an investing bank is required. Underwriting is the process of raising money by either debt or equity. We can think of underwriters as middlemen between companies and the investing public. The biggest underwriters in our Nepal are Nepal Merchant Banking & Finance Ltd. Co.(NMBL), Citizen Investment Trust (CIT), NIDC Capital Market Ltd. (NCML), etc.

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 type of securities to be issued and all the details in the underwriting agreement. The deal can be structured in a variety of ways. For example, in a firm commitment, the underwriter guarantees that a certain amount will be raised 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 raised. Also, investment bank does not bear 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 broker-dealers are invited into the syndicates as underwriters and some of them do not have individual investors as clients. Moreover, syndicate members themselves do not receive equal allocation of securities for sale to their clients.

The underwriters in consultation with the company decide on the basic terms and structure of offering well before trading starts, including the percentage of shares going to institutions and to individual investors. Most underwriters target institutional investors as wealthy investors in IPO distributions. Underwriters believe that institutional and wealthy investors are better able to buy large blocks of IPO shares, assume the financial risk, and hold the investment for the long term.

Once all sides agree to a deal, the investment bank puts together a registration statement to be filed with the SEC. The document contains information about the offering as well as company info such as financial statements, management background, any legal problems, where the money is to be used and insider holdings. The SEC then requires a cooling off period, in which they investigate and make sure all material information has been disclosed. Once the SEC approves the offering, a date (the effective date) is set when the stock will be offered to the public.

During the cooling off period the underwriter puts together what is known as the Red herring. This is an initial prospectus containing all the information about the company except for the offer-price and the effective date, which are not known at the time. The company act has made mandatory that any institution going into public offering must issue the prospectus before issuing the securities to the public. With the Red-herring in hand, the underwriter and company attempt to hype and build up interest for the issue. They go on a road-show, also known as the "dog and pony show"- where the big institutional investors 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 conditions. 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 is collected from investors.

### **2.1.9 Role and functions of Issue Managers**

Issue Managers are also known as Investment banker or Underwriters. They are the major players of the primary market who work for the commission called *underwriting commission*. The efficient functioning of a financial market requires a number of financial institutions. One of these institutions is an *Investment banker or Issue Manager firm*. The firm acts as a middleman 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 (IPOs) 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 market makers namely Citizen Investment Trust, NIDC Capital Markets Ltd., Rastriya Banijya Bank and Gauri Shanker Finance Co. Ltd. except Gauri Shanker Finance Co. Ltd., all other market makers were actively involved in issue management activities. After the amendment in Act and Regulation, additional five organizations were permitted to provide issue management services. Among the new entrants are, Nepal Srilanka Merchant Bank Ltd., Nepal Merchant Banking and Finance Ltd., United Finance Ltd., Himalayan Securities and Finance Ltd. and Ace Finance Co. Ltd.

However, this scenario has been streamlined by second amendment in Securities Exchange Act and Regulation by providing separate class of membership in Nepal Stock Exchange, namely Securities Dealer (Primary market). As per the Company act, 2053 all the companies are required to

appoint issue managers for raising capital from the general public, allotment and other related matters.

Total capital base requirement to be eligible for markets and securities dealer is Rs.15 million as paid up capital. License for market making and securities dealer is issued to corporate bodies only. Securities dealers are categorized into two, viz., Securities dealer (primary market) and Securities dealer (secondary market).

The role of Securities Dealer (primary market) is confined to provide and post issue management services, underwriting services and other related services established by dealers. Hence, in today's world of internet and information technology, it is quite popular in USA.

But, in context of Nepal, there are not the provisions of Third and Fourth market. Hence organized Stock Exchange or NEPSE is only place where transactions are done.

The principal function of the bank is to buy the securities from the issuing company and then resale them to investors. For acting the role of a mediator, the investment bankers receive the difference, or spread, between the price they pay for the securities and the price at which the securities are resold to the public.

This process of issuing securities to the public is called underwriting and, in this sense, the investment bank is also called an underwriter. The group of underwriters is called an *underwriting syndicate*. (Bhattarai; 2006:13)

The underwriting takes place in two ways. The first is *typical underwriting*. In this arrangement, the investment banker purchases the securities from the company and resells them to the public. The other type of arrangement is *best effort underwriting*. In this arrangement, the investment banker sells securities in the best effort basis, instead of underwriting the securities issued by the company. Under this arrangement, the investment banker agrees only to sell as many securities as they can at an established price.

They have no responsibility for securities that are unsold and they bear no risk.

In other countries investment bankers also provide brokerage services but in Nepal the issue managers only manage initial public offering and provide financial services. Nepal Merchant Banking and Finance Ltd.(NMB), National Finance Co. Ltd.(NFL), Citizen Investment Trust (CIT) etc. can be taken as examples of Issue Managers in Nepal. (Bhattarai; 2006:14)

### **2.1.9.1 Function of Issue Manager or Investment Banker**

An investment banker performs many other functions rather than only underwriting the securities. These functions are as follows:

#### **Advisory Functions**

In the first few meetings with a potential security issuer, issue manager typically serve as a advisor. The underwriters help the issuing firm analyze its financing needs and suggest various ways to raise the needed funds. The underwriters may also function as an advisor in megers, acquisitions and the refinancing 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 operation.

#### **Administrative Functions**

The investment bankers share with the issuer the responsibilities of seeing that everything is done accordance with the relevant securities laws. The SEBO Nepal requires that most primary issues be accompanied by negotiation statement. The negotiation statement must include information which allows an investor to judge the investment quality of the new issue. After approval by SEBO prospectus is reproduced in quantity and delivered to potential investors. The laws provide that all investors must have



prospectus before they can invest. So the basic administrative functions can be as follows:

- Filling up the registration statement for issue approval in accordance with laws.
- Producing prospectus after the issue approval by Securities Board(SEBO) Nepal and then distributing to the potential investors.

### **Underwriting**

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

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

### **Distribution**

Investment banker can distribute securities to investors in different ways. The investment banker may buy the issue and 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 function can be concluded:

- ) To distribute the shares to the general public after 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 investment consideration begins from the selection of the broker to assist the trading in the securities market. Most investors have access to investment information in the form of oral and written from their brokers. Brokers subscribe to well-known investment information sources that can be used by the customers. Brokers are most active trading agents of capital market. Stockholders are backbone of stock market growth and its smooth functioning.

*Pandey, (2001)* who has done research on “*Public Response to Primary Issuer of Shares in Nepal*”, with the objective of: identifying the problems of primary share issue market, assess the growth of primary issue market, analyze the pattern of public response to shares and find the reasons for variation. He has the following findings from his research:

- i) Public response in primary market is high due to lack of opportunities for investment in other fields.
- ii) No public are attracted towards shares than other securities basically to increase their value of investments, be it dividend gain or bonus shares.
- iii) It can be seen that public response to primary issues on Banking and financial Sectors is normally higher than that of the manufacturing and services sector. There was poor response in the period 1995-1998

because interest rates were higher as compared to dividend yield, the public companies were not performing well, and people were unaware about the importance of investing in securities. Now the response is highly positive because people are aware, money flow in the market is higher, people have seen that most companies are distributing dividends, share prices are increasing for most companies and a lack of better alternatives for investment. Now that the average interest rates have gone down, more can be obtained from investment in stock.

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

*Uprety, (2006)* who has done research on "*A study under investors response to IPO in Nepal*", with the objective of analyzing the procedure and mechanism of IPO, assess the growth, analyze the pattern of public response to IPO, its problems in the market and making some suggestions and regarding the IPO or Primary Securities Market has come up with following findings and conclusions:

Both the amount and number of issues being offered have revealed that

Nepalese IPO sector have grown during the study period. Similarly, sector-wise analysis of public issue revealed that financial sectors IPO has been dominating Nepalese IPO market and instrument-wise analysis of offered issues have identified ordinary shares as the most preferred instrument. The analysis also revealed that most of the issues offered during the study period were oversubscribed. Last few year's experience shows that there are limited non financial sectors available in the country that satisfied the investors.

He has found that Public response in security market is high due to lack of opportunities for investment and attracted towards shares to increase their value of investment. People are getting aware of stock market, and realized the importance of the investment in shares.

The capital market of Nepal is still in developing stage. Most of the investor in primary market is involved from Kathmandu Valley due to the only one stock exchange located here and do not have sufficient information regarding the investment but they are still interested to invest money in the primary market so the most of the securities are issued in over subscription. This is good sign to the expansion of the primary market. Due to this, most of the companies are issued only common stock where bond, preference and convertibles share are rarely practice but option and warrants are still not in practice. This shows that the securities markets are dominated by common stock.

Almost every sector is getting good response from public. Specifically financial institutions and insurance sector is more preferable for public than non financial sector. Pace of IPO in Nepal seems to be irregular. The number of companies approved for public offering by SEBON in a single year varies.

Though, the public offering is operated through the way of laws, regulation and there is still lacking clear cut provision in many important sectors

such as underwriting, provision of underwriting commission, process of issue etc. The investors do not have sufficient knowledge about the primary market. The organization's process of public offering is quite long; the service provided to the investors seems to be satisfactory. Frequent Government change and Political instability has affected the development of securities market which has caused the NEPSE index to fluctuate over and under many times.

*Ojha, (2008)* who has done research on “*Public response to IPO in Nepal*”, with the objective of identifying the performance of Investment bankers( Issue Managers) in the process of IPO, analyzing the growth of Primary market Share issue and public response to IPO has forwarded following findings and conclusions:

Securities being no new matter to investors still there is lack of awareness about IPO. Commercial banks and Insurance companies of financial sector has been the most preferred one by the investors after analyzing the subscription times on primary issue. She has observed frequent ups and downs in IPO issues between the period 1996/97 to 2005/06. Influence of big investors in the allotment procedure and overall market which has ultimately discouraged small investors should be strictly regulated by the concerned authorities like NRB, SEBON etc.

As Contract between the issue manager and the issuing company highly affects the whole IPO process, so both the parties involved in IPO issues should consider peoples (Investors) feelings and requirements and a regulation was felt. People are eager to know the financial details, promoters, company's performance and managerial competence before investment. IPOs handled by bigger brokerages or Issue Managers are found to be more successful.

Even though the whole IPO process is very long, Nepalese investors are interested to invest in this sector.

**Panday, (2008)** who has done research on “*Initial Public Offering (IPO) practices in Nepal*”, with the objective of assessing the current situation of primary market issues, examine the sectoral growth of Primary market and analyze initial public offering practices of securities of different sectors has concluded following findings and conclusions:

The securities market development in Nepal is in early stage of growth. But, public response to the financial institutions and insurance sectors is higher than non financial sectors. These days, people are getting aware to primary market to choose the right sector for investment, flow of money in the market is higher, people have realized the importance of the investment in shares, most companies are distributing dividends, share prices of most companies are increasing and a lack of better alternative for investment.

Pace of initial public offering and Issue approval sector wise in Nepal seems to be irregular. So, issue managers should initiate to promote their business from non-banking sectors too and active involvement of them in the market has been recommended. Investors must analyze the profitable companies to get the reasonable return. The concerned authorities should conduct various research studies and disseminate right information relating to the share trading activities to increase the understanding of the investors in using financial tools to estimate the intrinsic value of shares of a company before making investment decision. Rules, regulations and policies regarding stock market should be strictly implemented.

**Dahal, (2009)** who has done research on “*Subscription of Corporate securities in Initial Public Offering in Nepal*”, with the objective of examining sectoral growth of primary market in Nepalese capital market, analyzing the subscription pattern of securities, examining the most oversubscribed and most undersubscribed issue of Ipo, the degree of under pricing and to examine the relationship between subscription pattern and initial return in Nepalese IPO has come up with following findings and conclusions:

Financial sector has grown faster than other sectors in Nepalese capital market. Both the amount and number of issues being offered have revealed that Nepalese IPO sector have grown during the study period. Similarly, sector-wise analysis of public issue revealed that financial sectors IPO has been dominating Nepalese IPO market and instrument-wise analysis of offered issues have identified ordinary shares as the most preferred instrument. The analysis also revealed that most of the issues offered during the study period were oversubscribed. Last few year's experience shows that there are limited non financial sectors available in the country that satisfied the investors.

He has found that Public response in security market is high due to lack of opportunities for investment and attracted towards shares to increase their value of investment. People are getting aware of stock market, and realized the importance of the investment in shares.

The Ipos of financial sector were oversubscribed in most of the cases and that of Manufacturing and Trading sectors were undersubscribed and the first day trading of such Ipos were more profitable than following days.

In order to make more investment and bring more investors in primary market he has recommended to establish Regional stock exchange so that people from each corner of the country could have access in primary market. Likewise, he has emphasized on first day trading of the securities to get more return. Investors and general public have become more aware about securities, Primary market and Initial Public Offering which indicates that Nepalese capital market is in growing and developing stage.

### **2.3 Research Gap**

Even though numerous studies have been carried out in different part of the world covering different aspects of securities market, stock trading mechanism and stock pricing behaviors etc. including public response in

primary issue of different securities. As Nepalese Commercial Banking sector occupies the largest share in Capital or securities market transaction wise, this study intends to be specific about Listed Commercial Banks IPO. In Nepalese context, very few studies regarding IPO has been made. However, none of the studies has been able to reflect the complete picture of IPOs of Listed Commercial Banks, their performance, public response and the prospects in Nepal. This study also tries to understand the pace of initial public offering, investor response, procedures, rules, regulations and provisions as well as public awareness about it.

This study will be helpful to public companies (new and existing), issue managers, underwriters, investors, government organizations, general public, researchers and other parties related to IPO (Primary issue of different securities).



## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

The main objective of the study is to analyze IPO trends of Listed Commercial Banks, Pace of IPO offering, its process and Underwriting practices in Nepalese capital market. This 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. The research methodologies applied in this study are:

#### **3.1. Research Design**

A research design is a plan, structure and strategy to obtain the objectives of the study. The research designs used in this study are both descriptive and analytical. The analytical research design is used to access and analyze practices of IPO in use, public response to IPO of Commercial banks, role and functions of Investment bankers (issue managers) and their relationship with Issuing Banks in the process of IPO and few problems and prospects regarding IPO and the exploratory design has been used to explore and find out necessary suggestions or recommendations for strengthening the capabilities and enhancing efficiency of Issuer, Underwriters and Investors.

This study attempts to analyze the relation between different variables relating to IPO, market information and response to Commercial Banks. It also tries to analyze what factors actually motivate the investors to invest in commercial banking sector, what is their ultimate goal behind investment and increasing market responses to shares of commercial banks.

#### **3.2 Population and Sample**

For the data analysis purpose, only the data of financial sector has been taken. Population for this research is the total number of listed commercial banks in the NEPSE.

**Table 3.1**  
**Commercial Banks under Study**

<b>S.No.</b>	<b>Name of Company</b>
1.	Siddhartha Bank Ltd (SBL)
2.	Global Bank Ltd (GBL)
3.	Nepal Industrial and Commercial Bank Ltd (NICBL)
4.	Machhapuchhre Bank Ltd (MBL)
5.	Laxmi Bank Ltd (LBL)
6.	Lumbini Bank Ltd (LUBL)
7.	Nepal SBI Bank Ltd (NSBL)
8.	Bank of Kathmandu Ltd ( BOKL)
9.	Citizens Bank International Ltd (CBIL)
10.	Bank of Asia Ltd (BOAL)

**Table 3.2**  
**Population and Sample of the Study**

Financial Sector	Population of the study	Sample of the Study	Percentage (%)
Commercial Bank	22	10	45.45%

From among the 22 listed commercial banks, 10 banks (i.e. 45.45%) have been taken as sample.

For the primary data collection 150 respondents from bank, business, university and brokerage firms have been taken as sample.

### **3.3 Sample Characteristics**

Among the 150 respondents for the primary data collection, 20% (30) are students, 40% (60) are businessman, 16.67% (25) are bankers, 3.33% (5) are brokers and rest 20% (30) are Individual Investors.

### **3.4 Data Collection Procedure**

As per the requirement of the research a questionnaire was designed for the primary data collection. And then that was distributed to 150 respondents (students, businessman, bankers, brokers, investors and others) for their

responses. For the secondary data collection data from Nepal Merchant Bank & Finance Company Ltd., NIDC Capital Market, Citizen Investment Trust, NMB Bank Ltd., Ace Development Bank Ltd. have been approached. At the same time data from Annual report of Securities Board of Nepal has also been taken.

### **3.5 Analysis of Data**

After the collection of data, an analysis of the data and the interpretation of the results are necessary because data collected from various sources might be in raw form. So, they cannot be used directly. Further, they need to be verified and simplified for the purpose of analysis. The obtained data should be classified and tabulated in the required format according to the nature of data and requirement of the study. As both data primary as well as secondary has been used, analysis techniques for the both have been used. Data analysis helps to make the reader more clear about the research and helps to draw conclusions. This part contains several statistical tools.

### **3.6 Pretesting**

The pretesting of the questionnaire was done on a sample of 10 respondents. Different difficulties were faced during that and depending on the difficulties encountered by them in giving responses; its initial format was suitably modified.

### **3.7 Statistical Tools**

Different statistical tools like Bar Diagrams, line charts, and pie-charts have been used to analyze the data. Similarly, trend analysis has been done using the formula  $y = a+bx$  to predict the estimated Number and Amount of Issue Approval in the next two upcoming years. These tools are used to show the relation between different variables and public response.

## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

This chapter deals with data presentation, analysis and interpretation following the research methodology presented in the third chapter. Data presentation and analysis are the central steps of the study. The main purpose of this chapter is to analyze and elucidate the collected data to achieve the objective of the study following the conversion of unprocessed data to an understandable presentation. The chapter deals with the main body of the study.

Data presentation is the interpretation of the study. Data analysis summarizes the collected data and its interpretation presents the major findings of the study. Analysis is not complete without interpretation and interpretation cannot proceed without analysis. In this course of analysis, data gathered from various sources have been inserted in the tabular form and shown in diagram form. The data have been analyzed by using financial and statistical tools. The results of the computation have also been summarized in appropriated tables. The samples of computation of each model have been included in annexes. This chapter includes presentation of data and analysis of that data to reach at a conclusion. The primary data are used to analyze the investor awareness, response, expectation, choice for investment etc. The secondary data are use to analyze the investor response to the initial investor offering per year and sector wise along with under subscription and oversubscription, growth of public offering and the behavior of general investors.

Collected data have been analyzed in numbers and simple average separately.

#### **4.1 Secondary Data Analysis**

For the characteristic of the study, the secondary data has been collected from Nepal's leading Issue managers NMB, Ace Development Bank, CIT

and NIDC Capital Markets. Similarly, the other sources of secondary data have been acquired from different libraries and journal as well as annual report and websites of SEBON/NEPSE. For the sake of effectiveness, the data collected from various sources have been presented in the form of table, chart and bar graph as per the need of the study. The result obtained from the analysis has been clearly interpreted so as to depict the exact finding of the study. Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic. The empirical results have been extracted in this study by using annual data of listed companies from 1993/94 to 2007/08.

#### **4.1.1 Growth of Initial Public Offering**

Capital Market is gaining business attention since last few years. The NEPSE index, which shows the stock price trend of all the listed securities in the stock market, has been increasing in the recent fiscal years. So, growth of IPO in Nepal can be considered to be good. Frequent ups and downs has been experienced in the history of Nepalese capital market. The subscription pattern of securities, involvement of more people as investors and information about primary market operation and lack of best opportunities for investment has contributed significantly for the growth of primary market and IPO market.

##### **4.1.1.1 Trend Analysis**

The trend analysis aids to predict the future value on the basis of the past years. To know the amount and number of issue approved in up coming two years the trend analysis has been used.

##### **a. Trend Analysis of Amount of Issue Approved**

Let, year (x) 1,2,3,4,5,6,7,8,9,10,11,12,13,14 and 15 denotes fiscal year 1993/ 94, 1994/95, 1995/96, 1996/97, 1997/98, 1998/99, 1999/00, 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08

respectively. Then regression line of amount of issue approved (y) on year (x) is given by:

$$Y = a + bx$$

The trend value of amount of Issue Approved calculated from this regression equation is presented in the following table:

**Table 4.1**  
**Trend Analysis of Amount of Issue Approved**  
(Rs. in million)

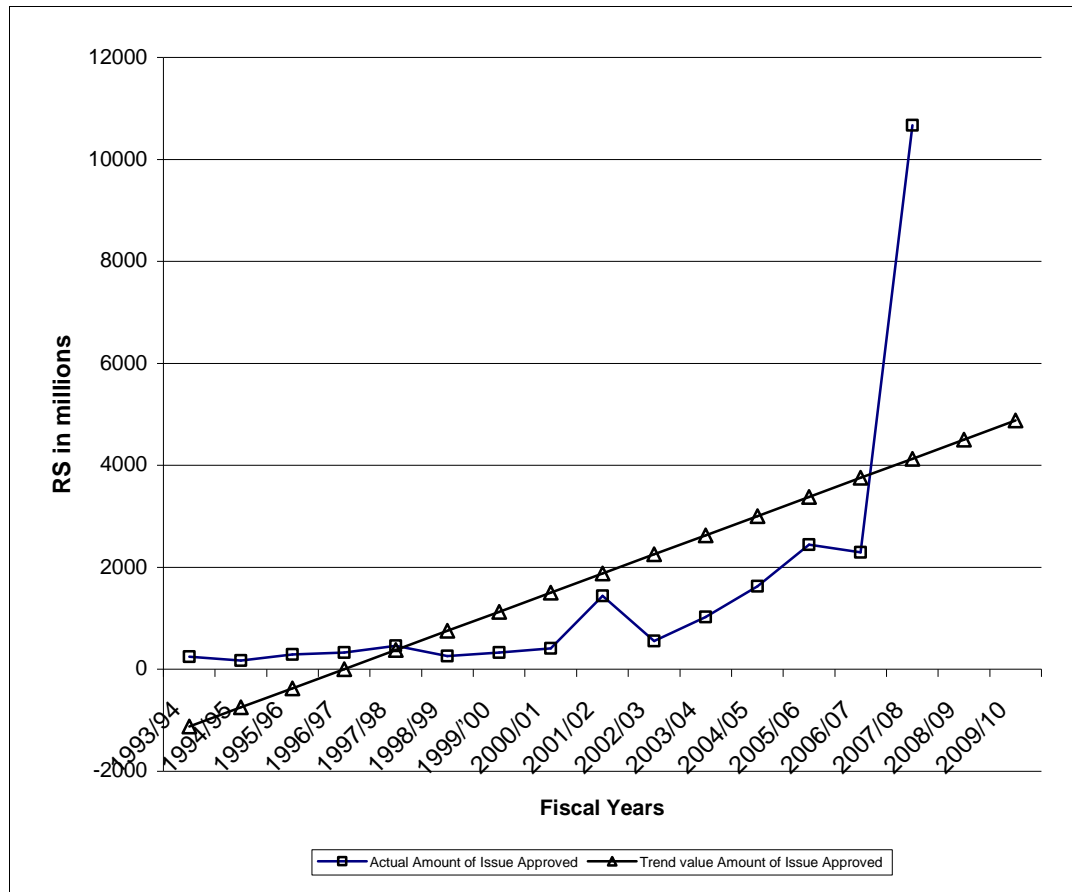
Year	Actual Amount of Issue Approved	Trend value Amount of Issue Approved
1993/94	244.40	-1121.63
1994/95	173.96	-746.53
1995/96	293.74	-371.43
1996/97	332.20	3.67
1997/98	462.36	378.77
1998/99	258.00	753.87
1999/00	326.86	1128.97
2000/01	410.49	1504.07
2001/02	1441.33	1879.17
2002/03	556.54	2254.27
2003/04	1027.50	2629.37
2004/05	1626.82	3004.47
2005/06	2443.28	3379.57
2006/07	2295.50	3754.67
2007/08	10668.20	4129.77
2008/09		4504.87
2009/10		4879.97
Total	22561.18	31945.89

*(Source: Appendix III)*

The table 4.1 showed that the trend amount of issue approved followed the increasing trend. The table depicted that the amount of issue to be approved in the fiscal year 2008/09 and 2009/10 will be Rs. 4504.87 millions and Rs. 4879.97 millions respectively. Likewise, the regression equation showed the

positive relation of amount of issue approved with the year and in each fiscal year the amount of issue approved will increase by Rs.375.10 millions.

**Figure 4.1**  
**Trend Analysis of Amount of Issue Approved**



The Figure 4.1 illustrated that the trend value of amount of issue approved will increase in the year 2008/09 and 2009/10.

**b. Trend Analysis of Number of Issue Approved**

Table 4.2 shows the number of issue approved during the period 1993 to 2007/08.

**Table 4.2**  
**Trend Analysis of Number of Issue Approved**

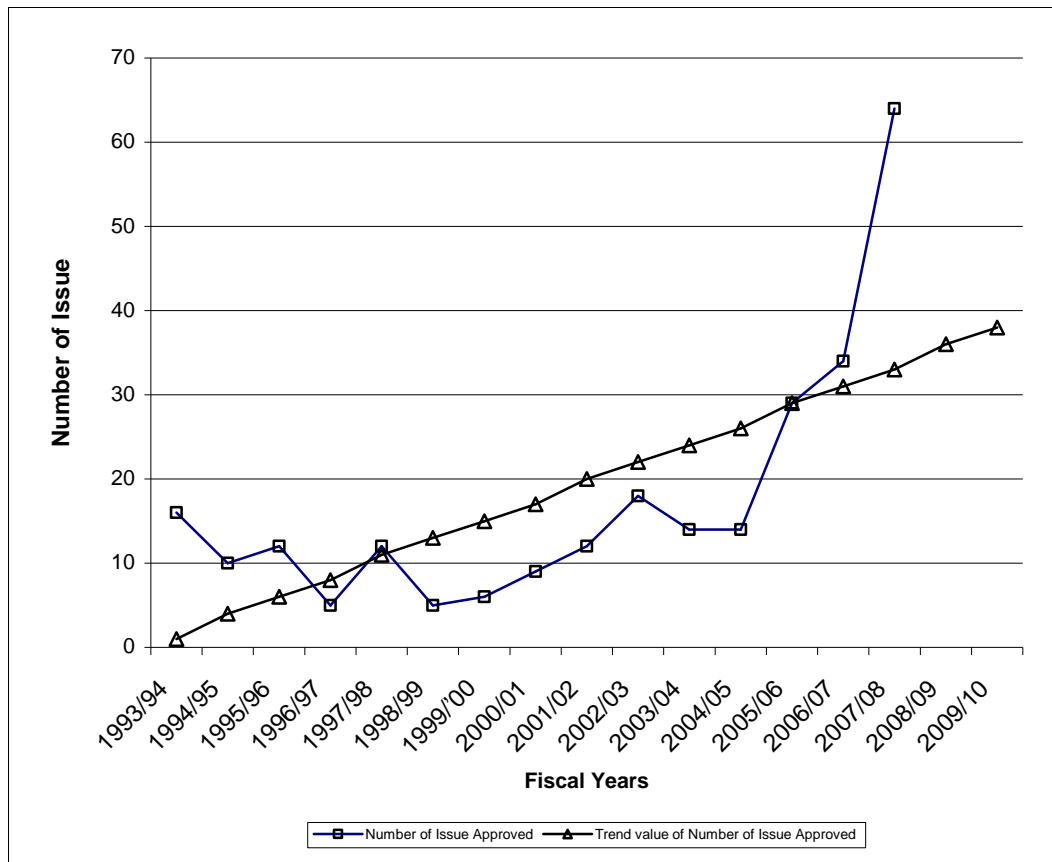
Year	Number of Issue Approved	Trend value of Number of Issue Approved
1993/94	16	1
1994/95	10	4
1995/96	12	6
1996/97	5	8
1997/98	12	11
1998/99	5	13
1999/'00	6	15
2000/01	9	17
2001/02	12	20
2002/03	18	22
2003/04	14	24
2004/05	14	26
2005/06	29	29
2006/07	34	31
2007/08	64	33
2008/09		36
2009/10		38
<b>Total</b>	<b>260</b>	334

*(Source: Appendix III)*

The table 4.2 showed that the trend number of issue approved followed the increasing trend. The table depicted that the number of issue to be approved in the fiscal year 2008/09 and 2009/10 will be 36 and 38 respectively. Likewise, the regression equation showed the positive relation of number of issue approved with the year and in each fiscal year the number of issue approved will increase by 2.28.



**Figure 4.2**  
**Trend analysis of Number of Issue Approved**



The Figure 4.2 illustrated that the trend value of number of issue approved will increase in the year 2008/09 and 2009/10.

**C. Over and Under Subscription of Securities**

The demand for securities may be greater or lesser than the issuing amount. When the demand is greater that is over subscription and when lesser that is under subscription.

**Table 4.3****Over And Under Subscription of Securities**

Year	No. of Issue	Over Subscribed		Under Subscribed		Constant	
		No.	%	No.	%	No.	%
1993/94	16	16	100	0	0	0	0
1994/95	10	7	70	1	10	2	20
1995/96	12	6	50	6	50	0	0
1996/97	5	2	40	0	0	3	60
1997/98	12	5	41.67	5	41.67	2	16.67
1998/99	5	3	60	1	20	1	20
1999/00	6	4	66.67	1	16.67	1	16.67
2000/01	9	8	88.89	1	11.11	0	0
2001/02	12	5	41.67	4	33.33	3	25
2002/03	18	14	77.78	3	16.67	1	5.55
2003/04	14	12	85.71	2	14.29	0	0
2004/05	14	6	42.86	7	50	1	7.14
2005/06	29	17	58.62	10	34.48	2	6.90
2006/07	17	17	100	0	0	0	0
2007/08	21	16	76.20	2	9.52	3	14.28
Total	200	138		43		19	

*Source: SEBON Annual Report (2007/2008)*

Table 4.3 shows that from the 200 issues between 1993/94 to 2007/08, most of the issues are over subscribed. And only 43 times it is under subscribed. In the year 1993/94 & 2006/07, all the securities has been over subscribed 16 and 17 times respectively which was the case of 100% over subscription. In the year 2003/04 and 2004/05 equal number of securities were issued i.e. 17 issues each. If we look at the oversubscription column of above table, year 1993/94 & 2007/08 contained 16 times oversubscription rate and 2005/06 & 2006/07 contained 17 times oversubscription each. Similarly, Under

subscription column shows that there are 4 issues which were undersubscribed in the year 1994/95, 1998/99, 1999/'00 and 2000/01 respectively. The highest under subscription rate was in the year 2005/06 that was 10 issues. There were altogether 19 issues which remained constant i.e. neither oversubscribed nor undersubscribed.

#### 4.1.2 Performance of the Issue Managers

**Table 4.4**  
**Number and amount of Issue Managed by Issue Managers**

S.N.	Issue Managers	Issue Management (2007/08)			
		No. of Issue Managed	%	Amount of Issue Management (Rs. In million)	%
1	NMBL	19	25.67	429.73*	36.81
2	NFCL	3	4.05	89.83	7.70
3	ADBL	23	31.10	292.29	25.04
4	NEFINSCO	3	4.05	25*	2.14
5	CIT	5	6.75	50.50	4.32
6	NCML	21	28.38	279.95*	23.99
Total		74	100	1167.30	100

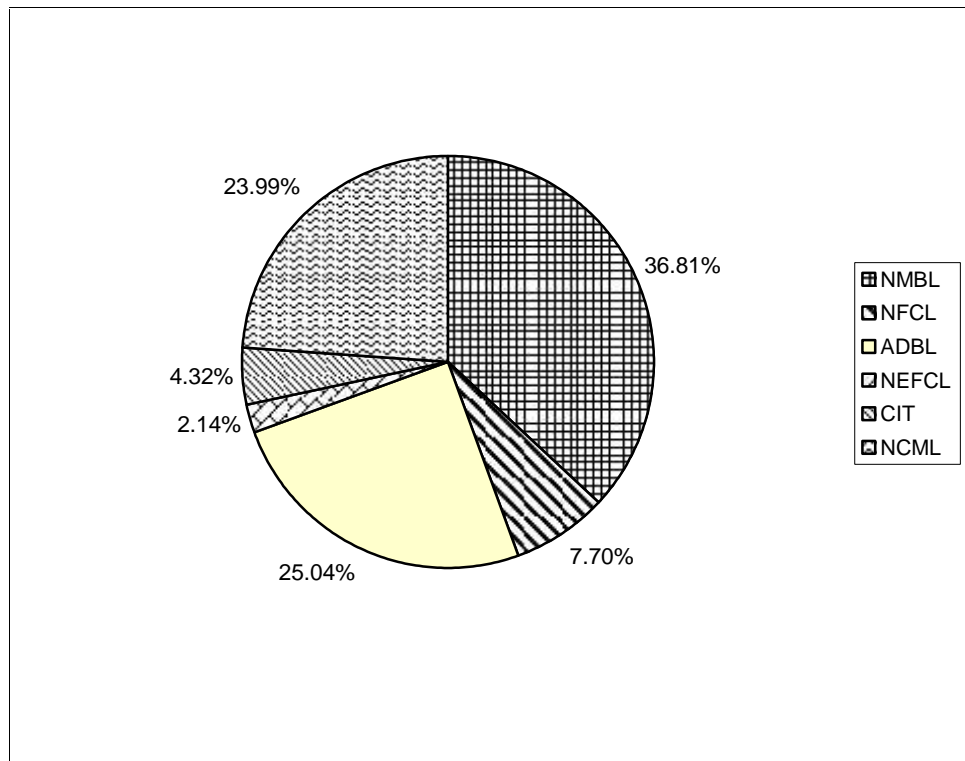
*Source: SEBON Annual Report (2007/2008)*

*\*Including two issue amounting to Rs 24.75 Million and Rs 80 Million jointly managed by NMBL & NCML and NEFINSCO & NCML respectively.*

In the year 2007/08, among the nine issue managers only six have managed the issue. And even among them, highest number of issue managed is by ADBL i.e. 23 issues (31.10%) and second highest is by NCML i.e. 21 issues (28.38%). In terms of amount of issue managed, highest is by NMBL (36.81%) and then ADBL (25.04%) respectively. Number wise lowest issue is managed by NFCL and NEFINSCO i.e.3 issues each (4.05%) whereas amount wise lowest issue has been managed by NEFINSCO (2.14%).

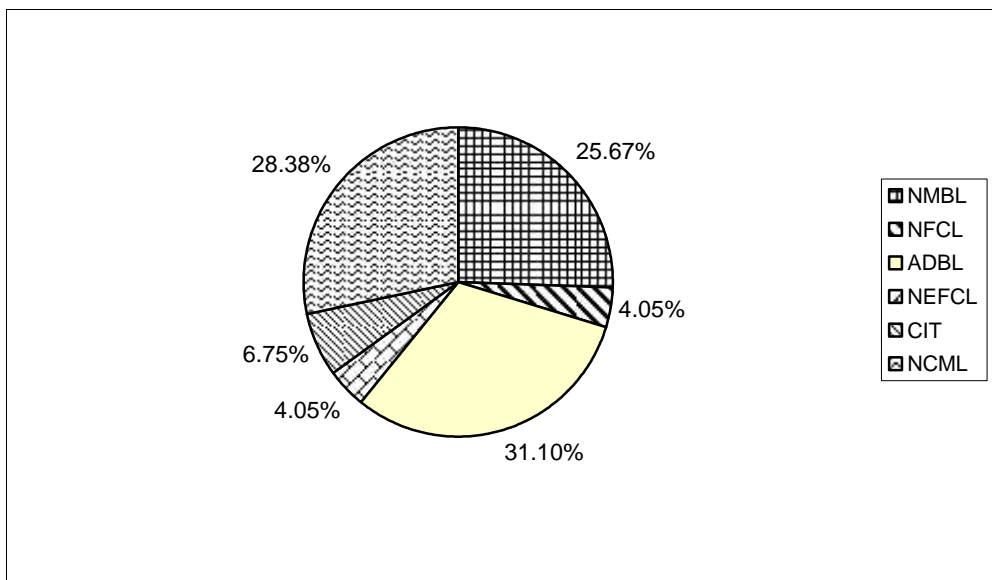
**Figure 4.3**

**Number of Issue Managed**



**Figure 4.4**

**Amount of Issue Managed**



In the Figures 4.3 and 4.4 highest numbers of issues & amount is managed by ADBL & NMBL. At the same time lowest number of issue

managed is shown by the smallest part covered in the pie by NFCL & NEFINSCO and the lowest amount of issue is managed by NEFINSCO.

### **4.1.3 Investor Response to IPO of Listed Commercial Banks**

#### **4.1.3.1 Financial Sector**

Financial Sector includes commercial bank, development banks, finance companies & insurance companies. As this research only concerns with Listed Commercial banks so particularly Investors and public view regarding IPO of such institutions have been presented here.

#### **4.1.3.2 Investor Response or IPO analysis of Listed Commercial Banks**

Generally, public issues of commercial banks are highly appreciated by public. Investors give high priority and response to the public issue.

There are 26 commercial banks among which only 22 are listed in the stock exchange. From the population of all total of 22 only 10 are taken as sample to analyze the public or investors response to listed commercial banks which has been in the following Table:

**Table 4.5**  
**Investor Response or IPO analysis of Listed Commercial Banks**

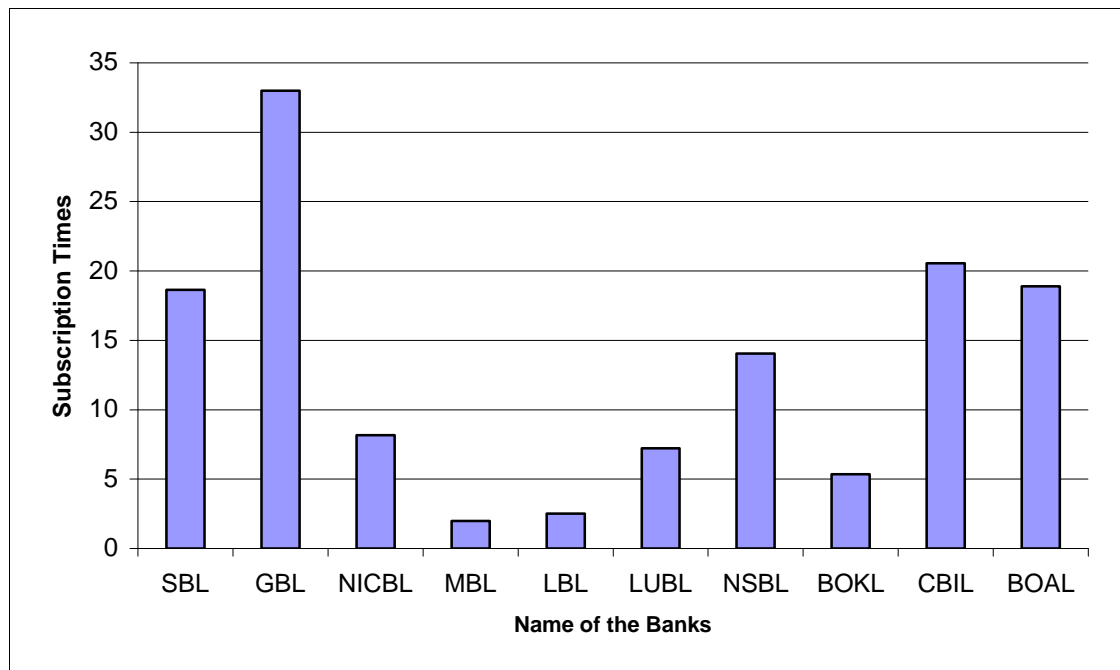
S. No.	Name of Company	Share Issued ('000)	Applied Shares	Year	Subscription times	Result
1.	SBL	1500	27979950	2005	18.65	Over Subs.
2.	GBL	3000	99000000	2007	33	Over Subs.
3.	NICBL	1750	14278600	1999	8.16	Over Subs.
4.	MBL	1650	3272775	2003	1.98	Over Subs.
5.	LBL	1925	4838488	2003	2.51	Over Subs.
6.	LUBL	1500	10818600	2004	7.21	Over Subs.
7	NSBL	360	5056334	1994	14.05	Over Subs.
8	BOKL	450	2413485	1996	5.36	Over Subs.
9	CBIL	3000	61644890	2009	20.55	Over Subs.
10	BOAL	3000	56700000	2009	18.90	Over Subs.

*Source: NCML, CIT, NMB, ACE*

Table 4.5 shows the issued shares of commercial bank along with applied shares. In all the ten cases we have found applied number of shares is higher than the issued one, i.e. all the issues are over subscribed. Over subscription ranges between 33 to 1.98 times. For the 3000000 shares issued by Global Bank Ltd. 99000000 shares have been applied that means it was over subscribed 33 times. Similarly, 20.55 times over subscription in case of Citizens Bank International Ltd., 18.90 times in Bank of Asia Ltd., 18.65 times subscription in case of Siddhartha Bank Ltd., 14.05 times in Nepal SBI Bank Ltd., 8.16 times in Nepal Industrial and Commercial Bank Ltd., 1.98 times in Machhapuchhre Bank Ltd., 2.51 in Laxmi Bank Ltd., 7.21 times in Lumbini Bank Ltd, and 5.36 times in case of Bank of Kathmandu Ltd.

From above table, it is clear that IPOs of commercial banks are getting good response from general public and investors. Investors found to be more interested in shares of Commercial Banks.

**Figure 4.5**  
**Investor response or IPO analysis of Listed Commercial Banks**



In the Figure 4.5 it is clear that highest subscription was in the case of GBL with highest bar while the lowest bar shows that MBL was least

subscribed. So Commercial banking sector of Nepal seems to be more successful to attract the investors.

## 4.2 Primary Data Analysis

Primary data are also taken to give more reliable outlook to the research. Questionnaire method is used to get the primary data, the result of which area as below. Only 150 respondents are taken for the data collection.

### 4.2.1 Knowledge about IPO

While getting information about if people had heard about IPO, 3 out of 60 businessmen, 1 out of 25 bankers and 1 out of 30 Individual Investors said that said they have never heard about IPO. Similarly, 10 students, 7 businessmen, 5 bankers, 2 brokers and 8 individual investors have seen about IPO in papers & books. Likewise, 7 students, 15 businessmen, 8 bankers and 4 individual investors chose the alternative a little heard and most i.e. 13 students, 35 businessmen, 11 bankers, 3 brokers and 17 individual investors are well acquainted about IPO.

**Table 4.6**  
**Knowledge about IPO**

Respondents group	Never heard	Seen in paper and books	A little heard	Yes, of course	Total
Students	0	10	7	13	30
Businessman	3	7	15	35	60
Bankers	1	5	8	11	25
Brokers	0	2	0	3	5
Individual Investors	1	8	4	17	30
Total	5	32	35	78	150

Source: Field Survey, 2009

**Figure 4.6**  
**Knowledge about IPO**

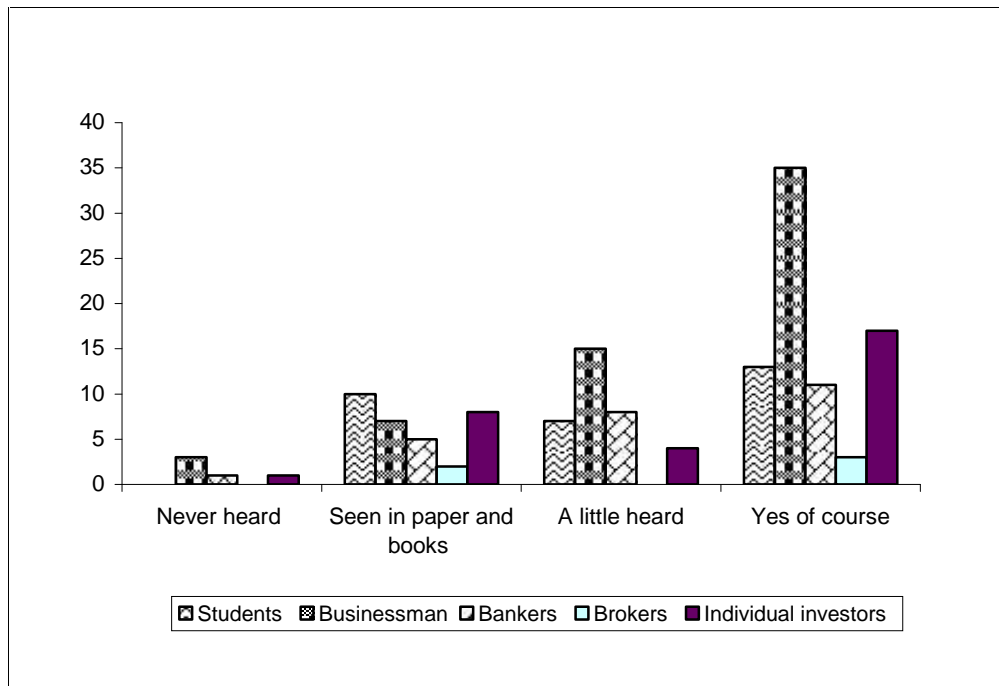


Figure 4.6 shows that most of the businessmen i.e. 35 has adequate knowledge about IPO while 3 businessmen, 1 banker and 1 individual investor are unknown about the IPO that means they never had heard about this. Similar number of respondents from each respondent group have heard little and seen about IPO in papers and books.

#### **4.2.2 Interest (Willingness) to Invest in IPO**

3 Students, 2 Businessmen, 1 Banker and 4 Individual Investors are found to be risk averter, i.e. they do not want to take risk at all from investing in IPO. 7 Students, 12 Businessmen, 4 Bankers, 1 Broker and 3 Individual Investors stated they want to invest if had money (hard cash). Similarly, 5 Students, 32 Businessmen, 4 Bankers, 1 Broker and 10 Individual Investors stated their interest to invest depends upon the sector. Likewise, 15 Students, 14 Businessmen, 16 Bankers, 3 Brokers and 13 Individual Investors said that they are willing to invest in IPO even with the loan if not the hard cash.

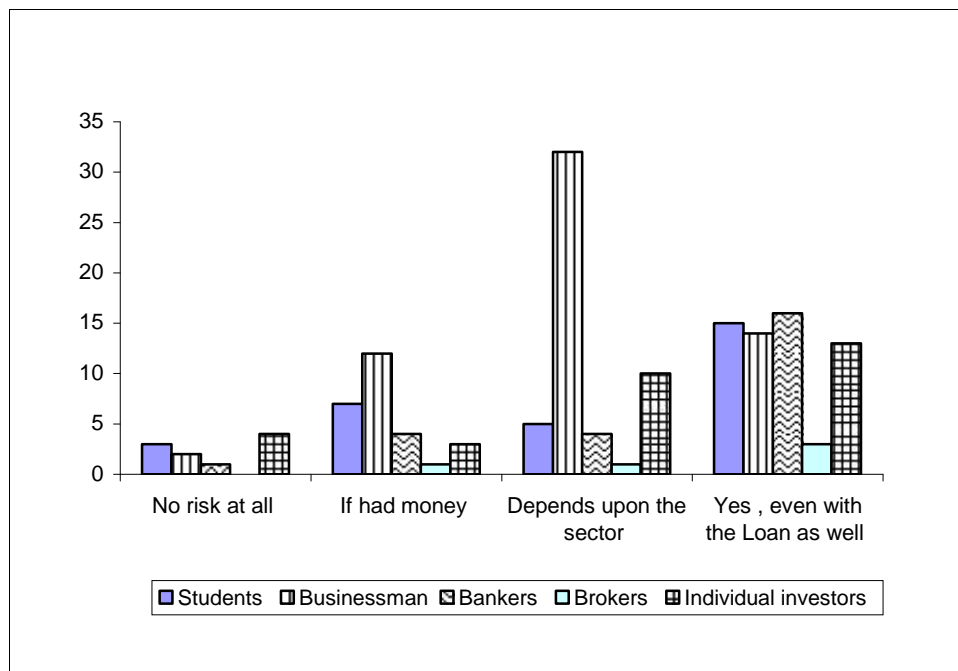


**Table 4.7**  
**Interest (Willingness) to Invest in IPO**

Respondents group	No risk at all	If had money	Depends upon the sector	Yes , even with the Loan as well	Total
Students	3	7	5	15	30
Businessman	2	12	32	14	60
Bankers	1	4	4	16	25
Brokers	0	1	1	3	5
Individual investors	4	3	10	13	30
<b>Total</b>	<b>10</b>	<b>27</b>	<b>52</b>	<b>61</b>	<b>150</b>

Source: Field Survey, 2009

**Figure 4.7**  
**Interest (Willingness) to invest in IPO**



From Figure 4.7 it is clear that majority of people are interested to invest in IPO even with the loan and only 10 respondents do not want to take risk.

Interest of 52 people lies on the related sector of IPO. While 27 people want to make only cash investment.

#### 4.2.3 Source of Information / Idea about IPO

Most of the respondents i.e. 14 Students, 42 Businessmen, 17 Bankers, 3 Brokers and 22 Individual Investors said that they get information about IPO from Advertisements/Media. Similarly, 6 Students, 8 Businessmen, 2 Bankers, 1 Broker and 5 Individual Investors said from personal relations or from market, 5 respondents said that they get information from brokers and 6 Students, 6 Businessmen, 5 Bankers and 1 Broker get it from Issue Managers / Issuing Company. There are 7 people who find other way of getting information.

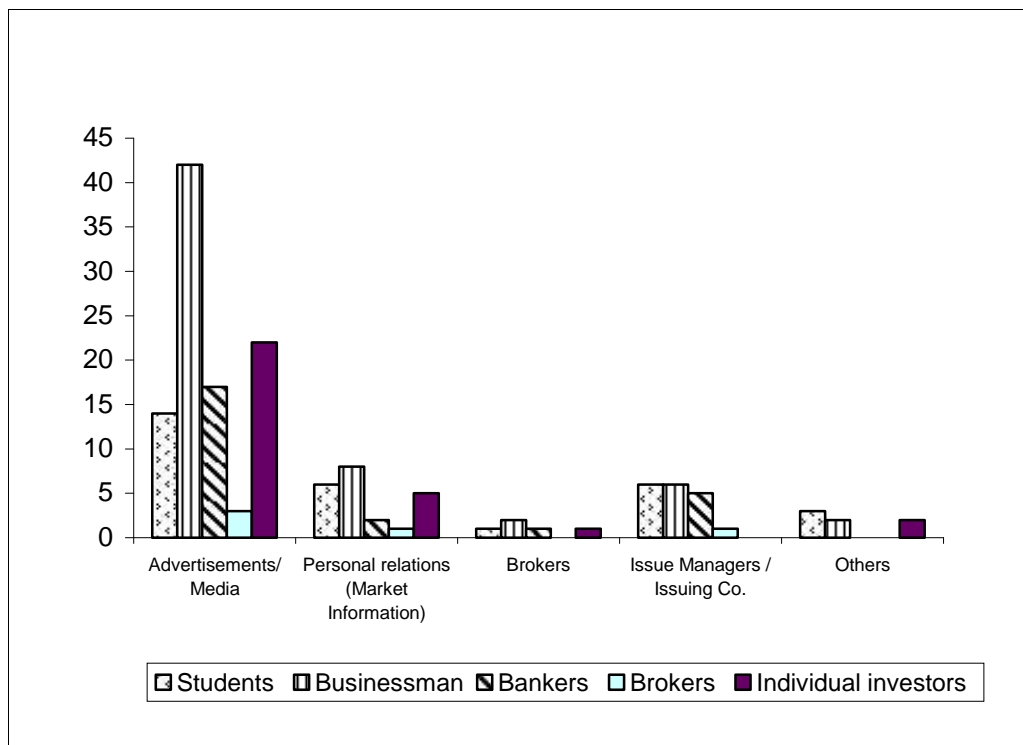
**Table 4.8**  
**Source of Information / Idea about IPO**

Respondents group	Advertisements/ Media	Personal relations (Market Information)	Brokers	Issue Managers / Issuing Co.	Others	Total
Students	14	6	1	6	3	30
Businessman	42	8	2	6	2	60
Bankers	17	2	1	5	0	25
Brokers	3	1	0	1	0	5
Individual investors	22	5	1	0	2	30
Total	98	22	5	18	7	150

Source: Field Survey, 2009

**Figure 4.8**

**Source of Information/Idea about IPO**



In the Figure 4.8 highest bar is covered by advertisements/media regarding the response on source of information i.e. 98 people including higher number of students, Businessmen, Bankers, Brokers and Individual Investors than rest alternatives available and only 5 are informed by the brokers and 22 get information from their relatives.

**4.2.4 Investors Preference While Investing**

While asking about the things that come first in their mind, their preferences were totally different from each other. 8 Students, 7 Businessmen, 4 Bankers, 2 Brokers and 1 Individual Investor said they are interested to know promoters name first, 4 Students, 32 Businessmen, 9 Bankers, 2 Brokers and 18 Individual Investors give preference to the relative company's performance. 10 Students, 1 Businessman, 6 Bankers and 1 Individual Investor are sensitive about the brokerage commission whether it avails or not. Rest 8 Students, 20 Businessmen, 6 Bankers, 1 Broker and 10 Individual Investors first want to know what the market says.

**Table 4.9**  
**Investors Preference While Investing**

Respondents group	Promoters	Company's Performance	Brokerage Commission (avails or not)	Market Information	Total
Students	8	4	10	8	30
Businessman	7	32	1	20	60
Bankers	4	9	6	6	25
Brokers	2	2	0	1	5
Individual investors	1	18	1	10	30
<b>Total</b>	<b>22</b>	<b>65</b>	<b>18</b>	<b>45</b>	<b>150</b>

Source: Field Survey, 2009

**Figure 4.9**  
**Investors Preference While Investing**

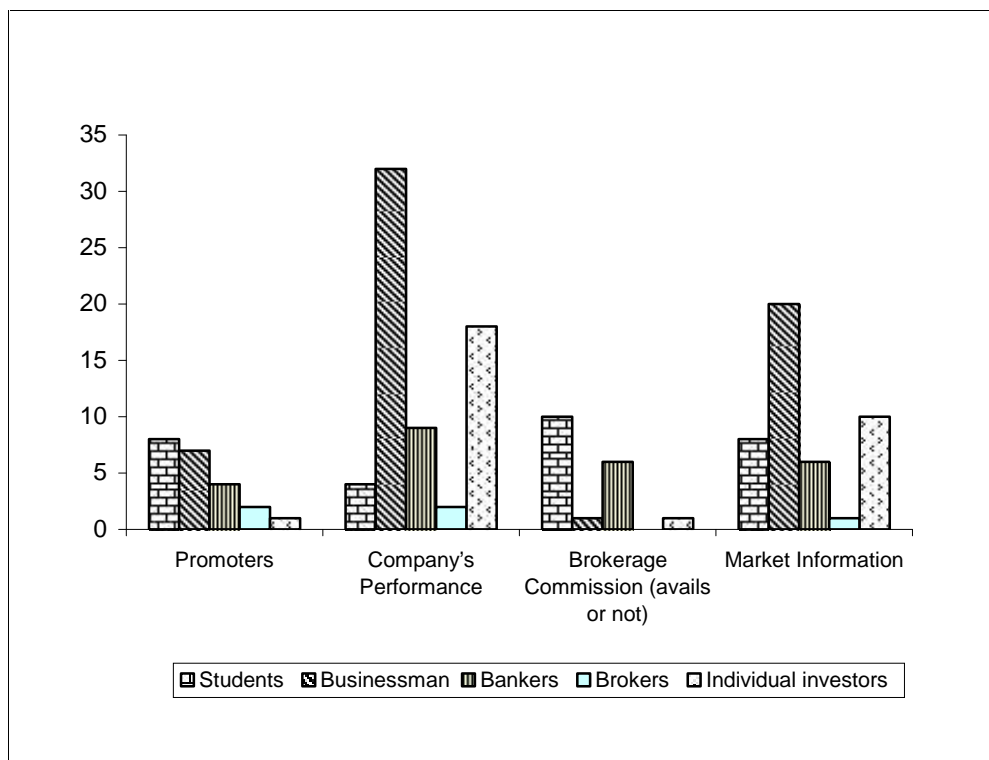


Figure 4.9 makes clear that most of the investors i.e 65 people prefer to know about the company's performance rather than any other thing before investing and least number of people i.e.18 concern about the brokerage commission.

#### 4.2.5 People's Investment in IPO of Commercial Banks

12 Students, 30 Businessmen, 1 Banker, 4 Brokers and 18 Individual Investors are of the view that people invest in IPO of commercial banks to expect more future gain, 7 Students, 23 Businessmen, 15 Bankers, 1 Broker and 8 Individual Investors invest for quick return and 10 Students, 5 Businessmen, 8 Bankers and 2 Individual Investors takes it as experiment / test. There are only 6 people who compares IPO investment as a type of gambling.

**Table 4.10**

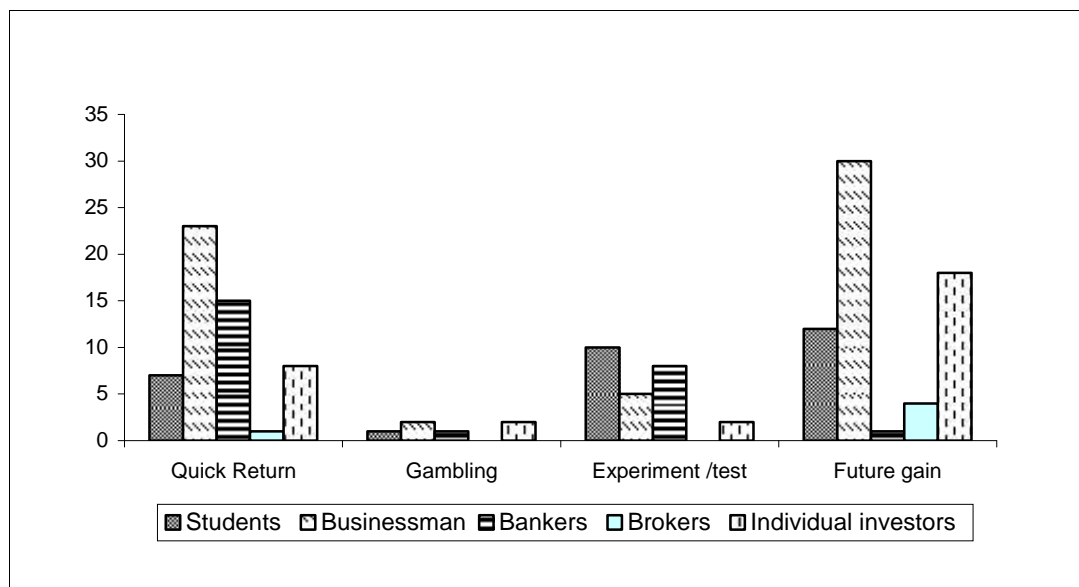
**People's Investment in IPO of Commercial Banks**

Respondents group	Quick Return	Gambling	Experiment /test	Future gain	Total
Students	7	1	10	12	30
Businessman	23	2	5	30	60
Bankers	15	1	8	1	25
Brokers	1	0	0	4	5
Individual investors	8	2	2	18	30
Total	54	6	25	65	150

Source: Field Survey, 2009

**Figure 4.10**

**People's Investment in IPO of Commercial Banks**



From the above figure, it is clear that most of the investors i.e. 65 people invest in IPO of commercial banks to have future gain, 54 expects it for quick return and the lowest bar has been covered by game of gambling.

#### 4.2.6 IPO Offering in Case of Operating Loss

While asking the queries about why Commercial banks offer IPO even in case of operating loss, 10 Students, 19 Businessmen, 18 Bankers, 1 Broker and 15 Individual Investors think that there is no link between operating loss and primary market transaction whereas 44 respondents are of the view that it is the weakness of NRB to fail monitoring and regulating such institutions. Similarly, 7 Students, 21 Businessmen, 3 Bankers, 1 Broker and 1 Individual Investor blame such institutions are deceiving general public and 10 respondents opines loss can be easily recovered in upcoming years so that there is no need to worry.

**Table 4.11**

#### **IPO Offering in Case of Operating Loss**

Respondents group	Weakness of NRB Monitoring & Regulation	No link between operating loss & Primary Market	Intention to deceive general public	Loss can be easily recovered in future period	Total
Students	10	10	7	3	30
Businessman	15	19	21	5	60
Bankers	3	18	3	1	25
Brokers	3	1	1	0	5
Individual investors	13	15	1	1	30
Total	44	63	33	10	150

Source: Field Survey, 2009

**Figure 4.11**  
**IPO Offering in Case of Operating Loss**

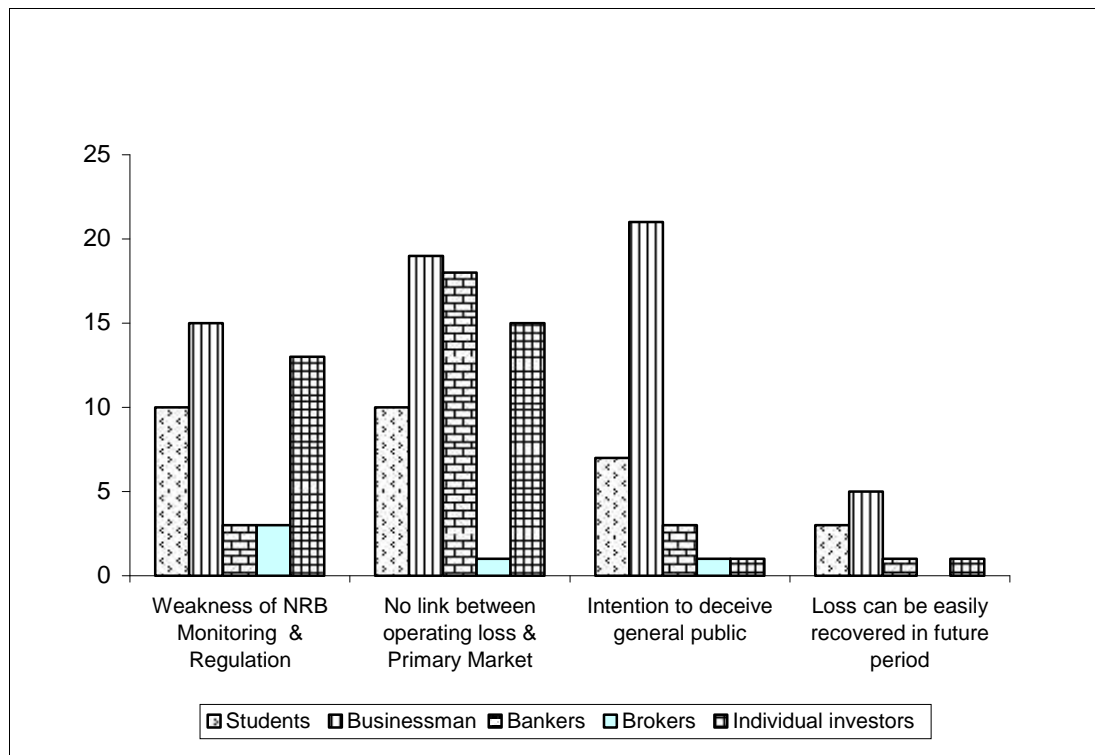


Figure 4.11 shows that most of the people (i.e. 63) think there is no link between operating loss and primary market issue and lowest percentage i.e. 10 people still hope that such loss can be easily covered in future period. There is nearly equal respondents (44 and 33) who find weakness of both NRB and such issuing institutions to safeguard the interest / investment of general public.

#### **4.2.7 Problems associated with IPO**

Different people are of totally different view regarding problems associated with IPO, out of 150 respondents, 12 Students, 27 Businessmen, 14 Bankers and 4 Individual Investors think most of the public issues are oversubscribed so that there is comparatively very low chances of being allotted. Similarly, 14 Students, 8 Businessmen, 2 Bankers, 2 Brokers and 15 Individual Investors and 3 Students, 18 Businessmen, 7 Bankers, 2 Brokers and 9 Individual Investors think the IPO itself as a lengthy and time

consuming process and Lack of sincerity/ confidence among Investment Bankers respectively whereas only 1 Student, 7 Businessmen, 2 Bankers, 1 Broker and 2 Individual Investors think problem lies within the Investors themselves.

**Table 4.12**

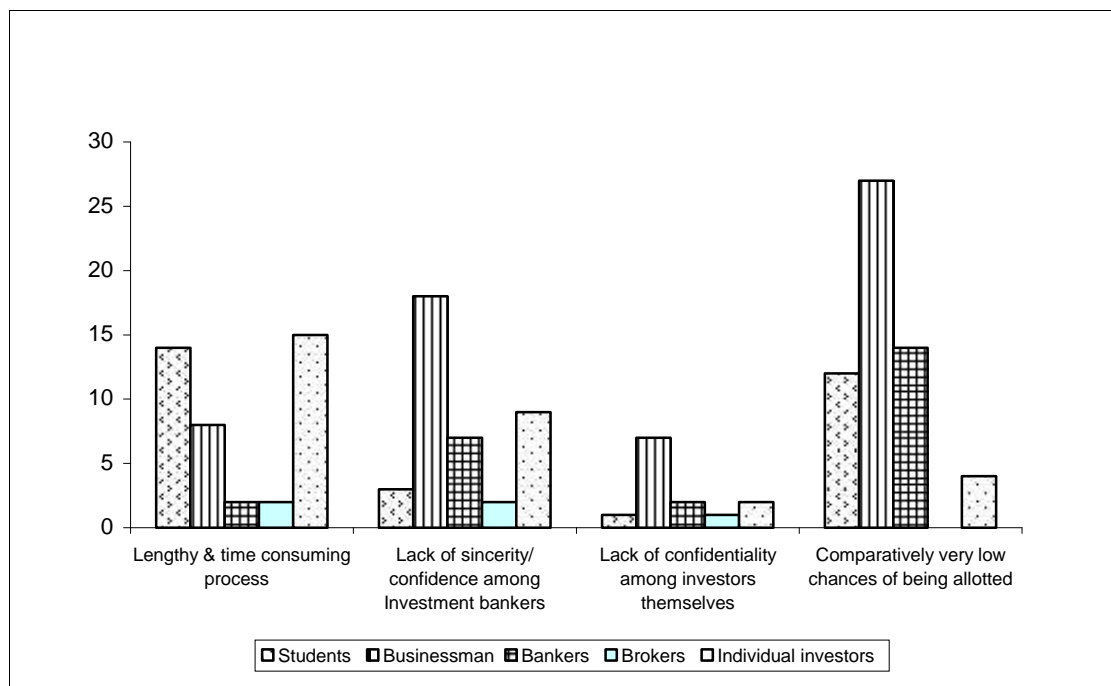
**Problems associated with IPO**

Respondents group	Lengthy & time consuming process	Lack of sincerity/ confidence among Investment bankers	Lack of confidentiality among investors themselves	Comparatively very low chances of being allotted	Total
Students	14	3	1	12	30
Businessman	8	18	7	27	60
Bankers	2	7	2	14	25
Brokers	2	2	1	0	5
Individual investors	15	9	2	4	30
Total	41	39	13	57	150

Source: Field Survey, 2009

**Figure 4.12**

**Problems associated with IPO**





From the above diagram, people are found to cast scattered votes regarding the problems associated with IPO. There may be many problems associated with IPO but only few has been categorized in this research.

#### **4.2.8 Timing and coordination between Issuing Banks and the Issue Managers**

While asking people about whether they think there is good timing and coordination between the Issuing Banks and Issue Managers, 15 Students, 30 Businessmen, 4 Bankers, 1 Broker and 18 Individual Investors said ‘Yes’, 11 Students, 13 Businessmen, 8 Bankers, 1 Broker and 6 Individual Investors said it ‘No’ and rest 4 Students, 17 Businessmen, 13 Bankers, 3 Brokers and 6 Individual Investors said they ‘Can’t say’ it easily that means they don’t have that much idea about it.

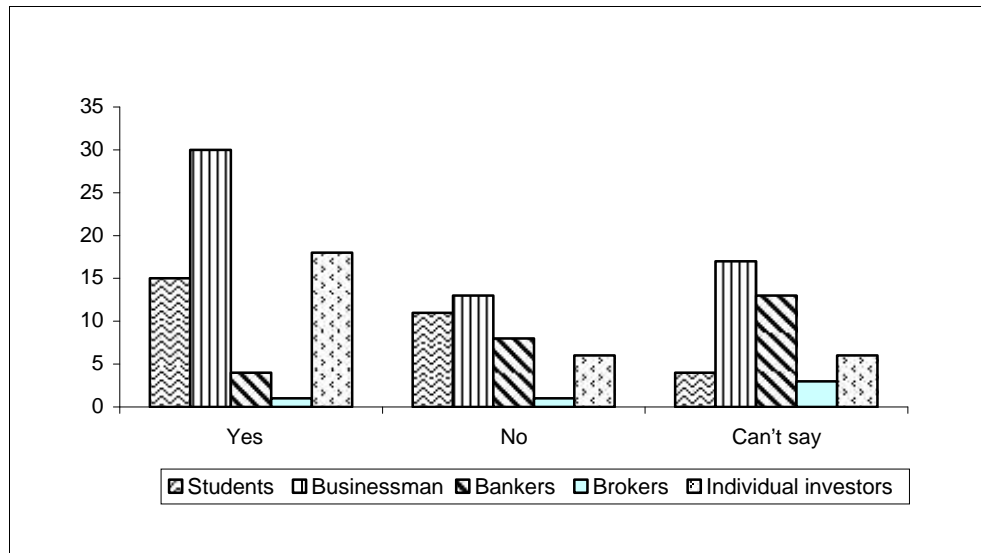
**Table 4.13**

#### **Good Timing and coordination between Issuing Banks and the Issue Managers**

Respondents group	Yes	No	Can’t say	Total
Students	15	11	4	30
Businessman	30	13	17	60
Bankers	4	8	13	25
Brokers	1	1	3	5
Individual investors	18	6	6	30
Total	68	39	43	150

Source: Field Survey, 2009

**Figure 4.13**  
**Good Timing and coordination between Issuing Banks and the Issue Managers**



The above figure shows that 68 people are aware of this question that is in favor of it and 43 are indifferent about it which means they can't decide it on their own. Likewise 39 are against this question which indicates that they don't think there is proper coordination and timing between the two parties.

#### **4.2.9 Performance of Investment Bankers**

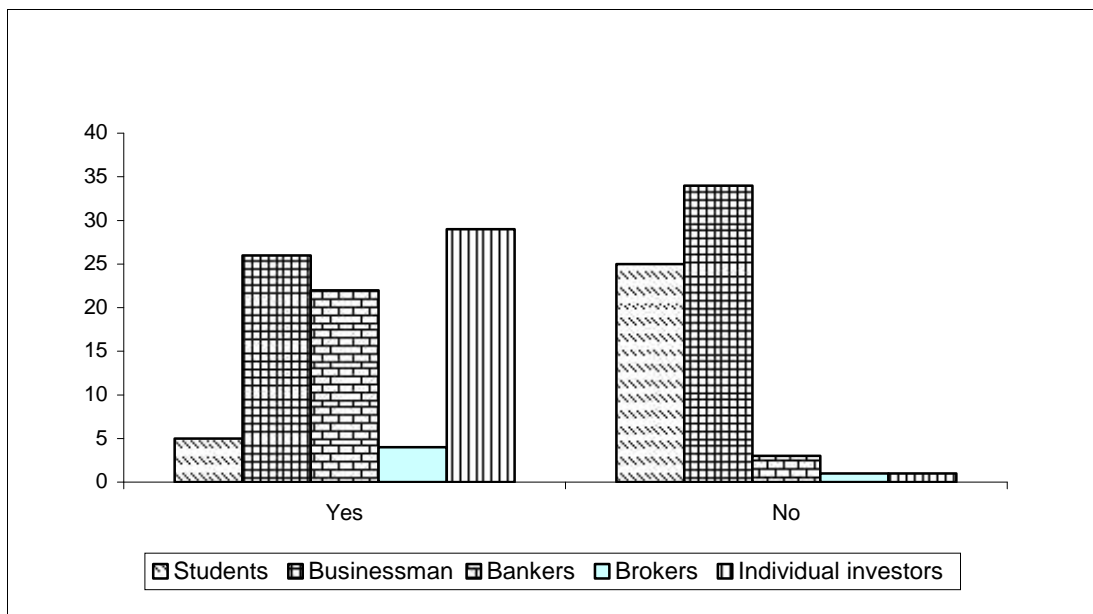
Out of 150 respondents, 5 Students, 26 Businessmen, 22 Bankers, 4 Brokers and 29 Individual Investors think that the Nepalese Issue Managers / Investment Bankers are performing efficiently and 25 Students, 34 Businessmen, 3 Bankers, 1 Broker and 1 Individual Investor don't think the same.

**Table 4.14**  
**Performance of Investment Bankers**

Respondents group	Yes	No	Total
Students	5	25	30
Businessman	26	34	60
Bankers	22	3	25
Brokers	4	1	5
Individual investors	29	1	30
<b>Total</b>	<b>86</b>	<b>64</b>	<b>150</b>

Source: Field Survey, 2009

**Figure 4.14**  
**Performance of Investment Bankers**



The largest part of the above bar diagram i.e. 86 people are in favor of Nepalese Issue Managers and their performance but 64 don't believe Issue managers to perform efficiently to the level they could do it.

#### 4.2.10 Satisfaction with the practices of IPO in Nepal

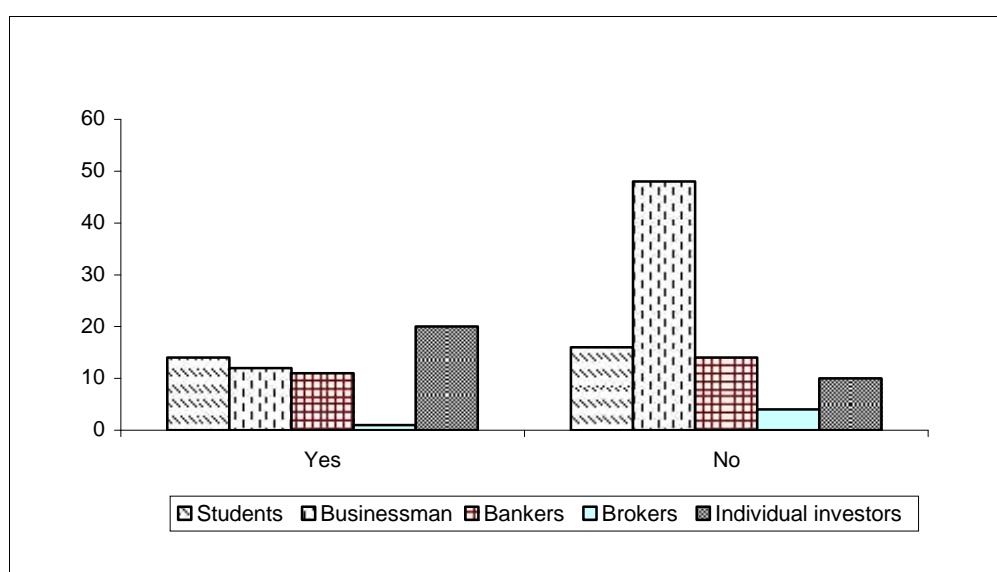
While asking whether investors are satisfied with the prevailing practices of IPO in Nepal, 14 Students, 12 Businessmen, 11 Bankers, 1 Broker and 20 Individual Investors think that there is unhealthy IPO practice in Nepal whereas 16 Students, 48 Businessmen, 14 Bankers, 4 Brokers and 10 Individual Investors are still satisfied with the practices of IPO in Nepal which means they know about IPO from the initial starting phase to allotment procedure and overall process as well.

**Table 4.15**  
**Satisfaction with the practices of IPO in Nepal**

Respondents group	Yes	No	Total
Students	14	16	30
Businessman	12	48	60
Bankers	11	14	25
Brokers	1	4	5
Individual investors	20	10	30
Total	58	92	150

Source: Field Survey, 2009

**Figure 4.15**  
**Satisfaction with the practices of IPO in Nepal**



The above figure shows that most of the investors i.e. 92 people still think there is need of reform in Primary Market or IPO which is the indication of change to be made but 58 people are still satisfied with the existing system of IPO in Nepalese securities market.

#### 4.2.11 Causes of Satisfaction

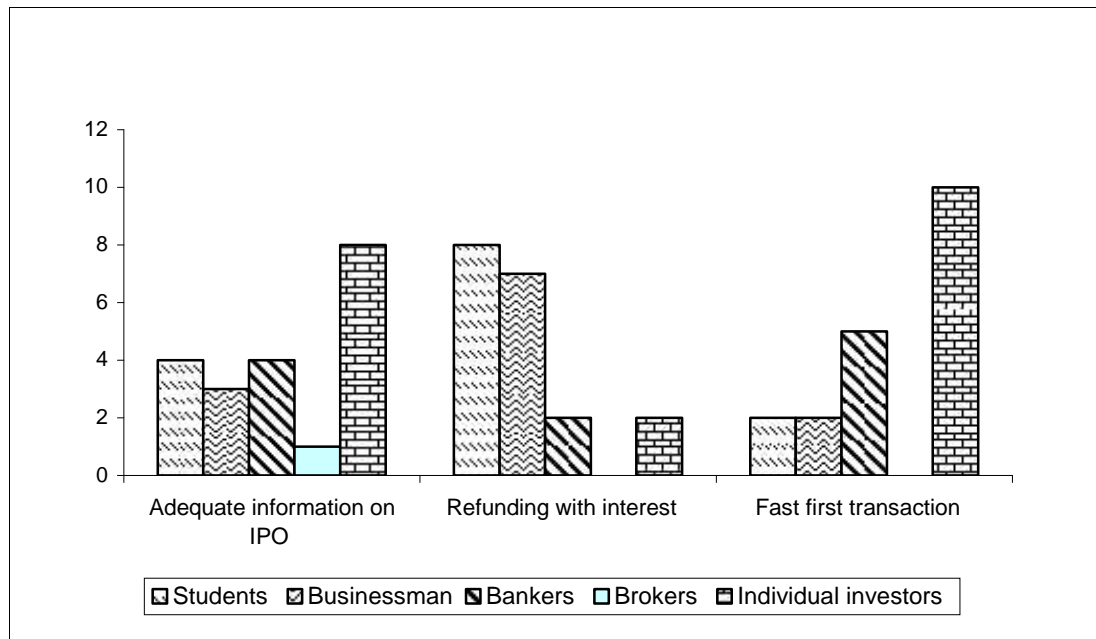
While asking what are the reasons behind being satisfied with the practices of IPO in Nepal, 4 Students, 3 Businessmen, 4 Bankers, 1 Broker and 8 Individual Investors stated that there is availability of adequate information on IPO. Similarly, 8 Students, 7 Businessmen, 2 Bankers and 2 Individual Investors think that amount of unalloted shares are refunded with Interest and 2 Students, 2 Businessmen, 5 Bankers and 10 Individual Investors think that first transaction of the IPO is done quickly.

**Table 4.16**  
**Causes of Satisfaction**

Respondents group	Adequate information on IPO	Refunding with interest	Fast first transaction	Total
Students	4	8	2	14
Businessman	3	7	2	12
Bankers	4	2	5	11
Brokers	1	0	0	1
Individual Investors	8	2	10	20
Total	20	19	19	58

Source: Field Survey, 2009

**Figure 4.16**  
**Causes of Satisfaction**



The above figure shows that 20 people think there is adequate information available on IPO, 19 people are satisfied because of the refunding of IPO amount with Interest and 19 people are satisfied because of the fast first transaction of the IPO securities.

#### **4.2.12 Causes of Dissatisfaction**

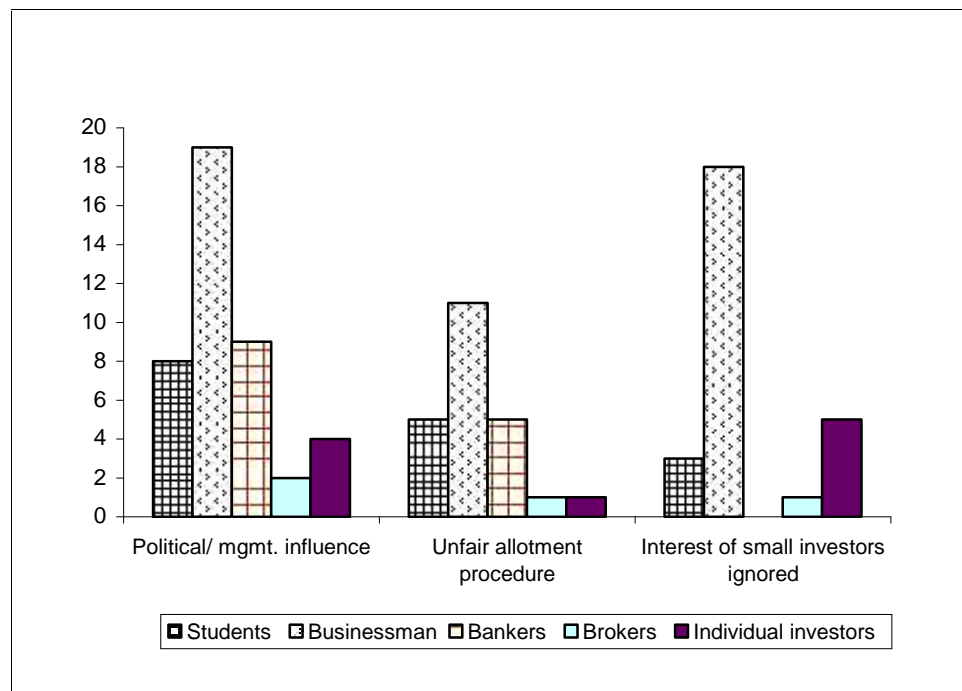
8 Students, 19 Businessmen, 9 Bankers, 2 Brokers and 4 Individual Investors are not satisfied because they think that there is political / management influence in overall IPO procedure. Similarly, 5 Students, 11 Businessmen, 5 Bankers, 1 Broker and 1 Individual Investors stated the unfair allotment of IPO to be the causes of dissatisfaction. Likewise, 3 Students, 18 Businessmen, 1 Broker and 5 Individual Investors are not satisfied with the prevailing practices of IPO as they think Interest of Small investors are totally ignored in IPO procedure.

**Table 4.17**  
**Causes of Dissatisfaction**

Respondents group	Political/ mgmt. influence	Unfair allotment procedure	Interest of small investors ignored	Total
Students	8	5	3	14
Businessman	19	11	18	12
Bankers	9	5	0	11
Brokers	2	1	1	1
Individual investors	4	1	5	20
<b>Total</b>	<b>42</b>	<b>23</b>	<b>27</b>	<b>58</b>

Source: Field Survey, 2009

**Figure 4.17**  
**Causes of Dissatisfaction**



The above figure shows that 42 people that there is political / management influence in overall IPO procedure. 23 people think that is unfair allotment procedure and 27 are of the view that Interest of small investors totally ignored so that IPO procedure is not participative.

#### 4.2.13 Commercial Bank hold major part in NEPSE index

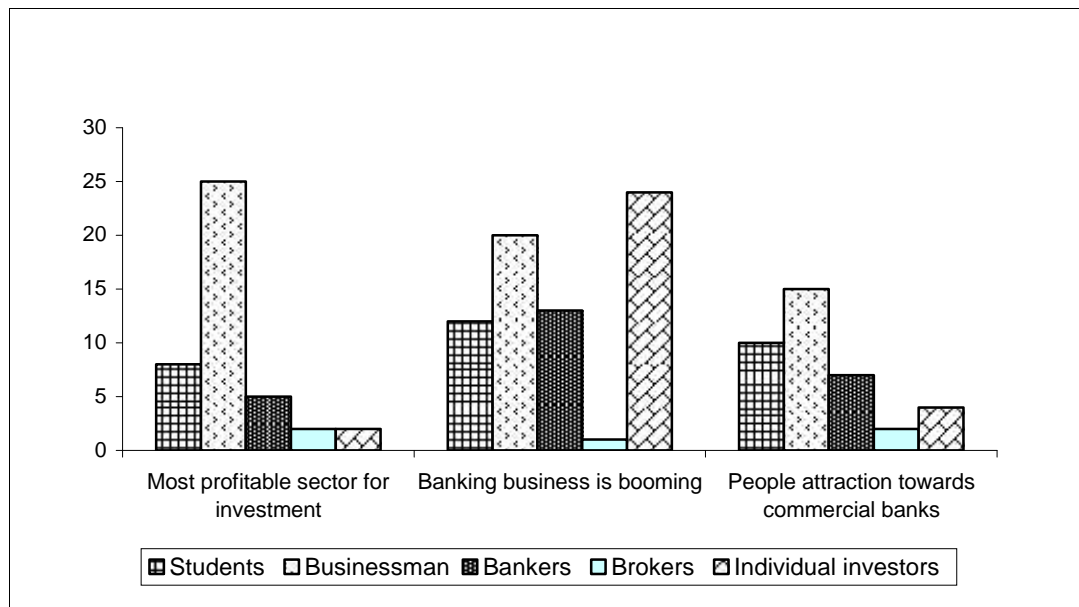
For the question why commercial banks play major dominant role in NEPSE Index or secondary market, people have presented their views as follows:

**Table 4.18**  
**Commercial Bank hold major part in NEPSE index**

Respondents group	Most profitable sector for investment	Banking business is booming	People attraction towards commercial banks	Total
Students	8	12	10	30
Businessman	25	20	15	60
Bankers	5	13	7	25
Brokers	2	1	2	5
Individual Investors	2	24	4	30
Total	42	70	38	150

Source: Field Survey, 2009

**Figure 4.18**  
**Commercial Bank hold major part in NEPSE index**



The above diagram shows that 12 Students, 20 Businessmen, 13 Bankers, 1 Broker and 24 Individual Investors think that banking business is booming



or getting popularity in Nepalese market, 8 Students, 25 Businessmen, 5 Bankers, 2 Brokers and 2 Individual Investors think that it is the most profitable sector for investment and rest of the respondents i.e. 10 Students, 15 Businessmen, 7 Bankers, 2 Brokers and 4 Individual Investors state that it is the attraction of people towards commercial banks.

#### 4.2.14 Level of return of the commercial banks

In the question of whether people are satisfied with the level of return that the commercial banks providing presently, 12 Students, 9 Businessmen, 18 Bankers, 2 Brokers and 24 Individual Investors are satisfied with what they are getting now but 18 Students, 51 Businessmen, 7 Bankers, 3 Brokers and 6 Individual Investors want more than the present level of return.

**Table 4.19**

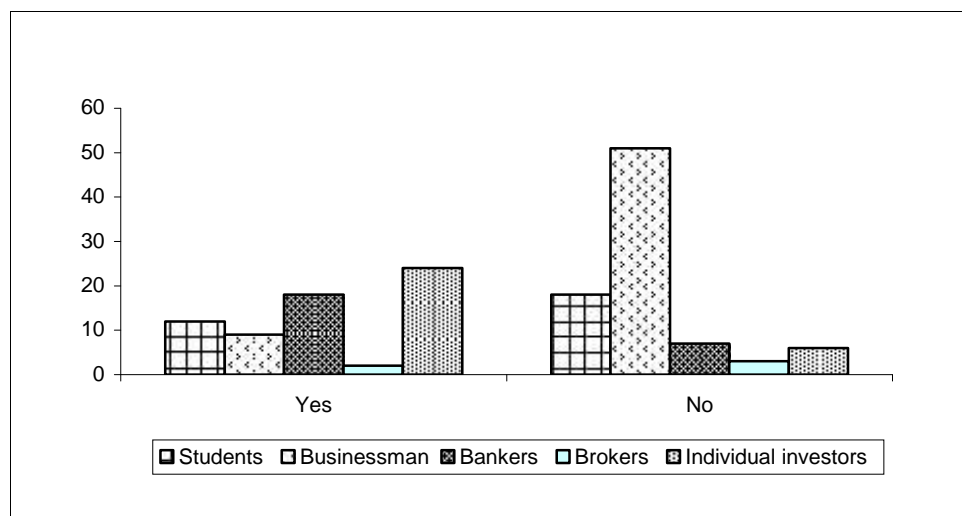
**Level of return of the commercial banks**

Respondents group	Yes	No	Total
Students	12	18	30
Businessman	9	51	60
Bankers	18	7	25
Brokers	2	3	5
Individual Investors	24	6	30
Total	65	85	150

Source: Field Survey, 2009

**Figure 4.19**

**Level of return of the commercial banks**



The above bar diagram shows that most of the investors i.e.85 people expects more than the present level of return but there are still 65 people who are satisfied with the level of return that the commercial banks providing presently.

#### 4.2.15 Commercial banks making profits yearly

While asking the people why they think commercial banks making profits yearly, respondents have presented their views as follows:

**Table 4.20**

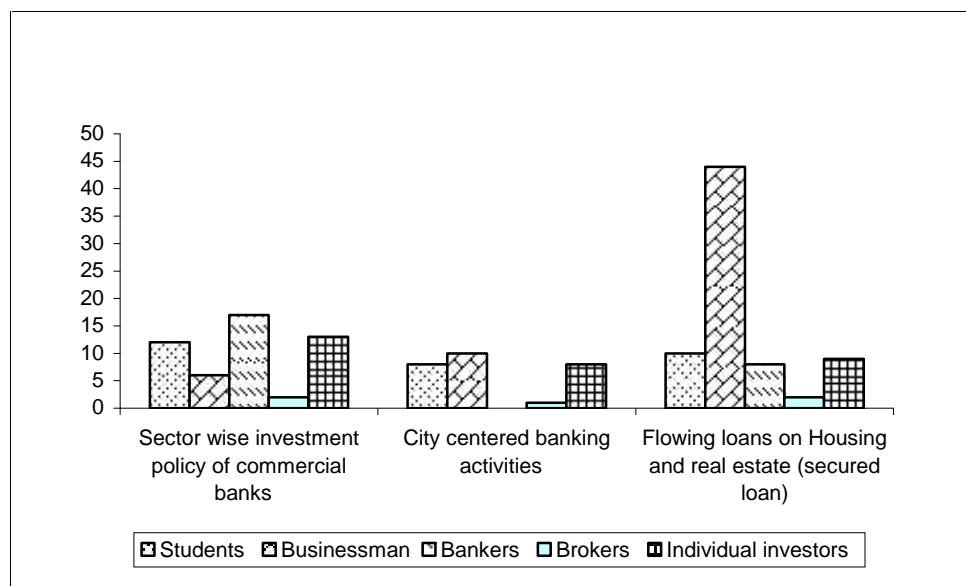
**Commercial banks making profits yearly**

Respondents group	Sector wise investment policy of commercial banks	City centered banking activities	Flowing loans on Housing and real estate (secured loan)	Total
Students	12	8	10	30
Businessman	6	10	44	60
Bankers	17	0	8	25
Brokers	2	1	2	5
Individual Investors	13	8	9	30
Total	50	27	73	150

Source: Field Survey, 2009

**Figure 4.20**

**Commercial banks making profits yearly**



Nearly 50% i.e. 10 Students, 44 Businessmen, 8 Bankers, 2 Brokers and 9 Individual Investors are of the view in favor of flowing loans on Housing and real estate. Similarly, 12 Students, 6 Businessmen, 17 Bankers, 2 Brokers and 13 Individual Investors cast their votes on sector wise investment policy of commercial banks and 8 Students, 10 Businessmen, 1 Broker and 8 Individual Investors think that it is the city centered banking activities of commercial banks concentrated in mostly developed city areas or market.

#### **4.2.16 No. of banks going public rapidly**

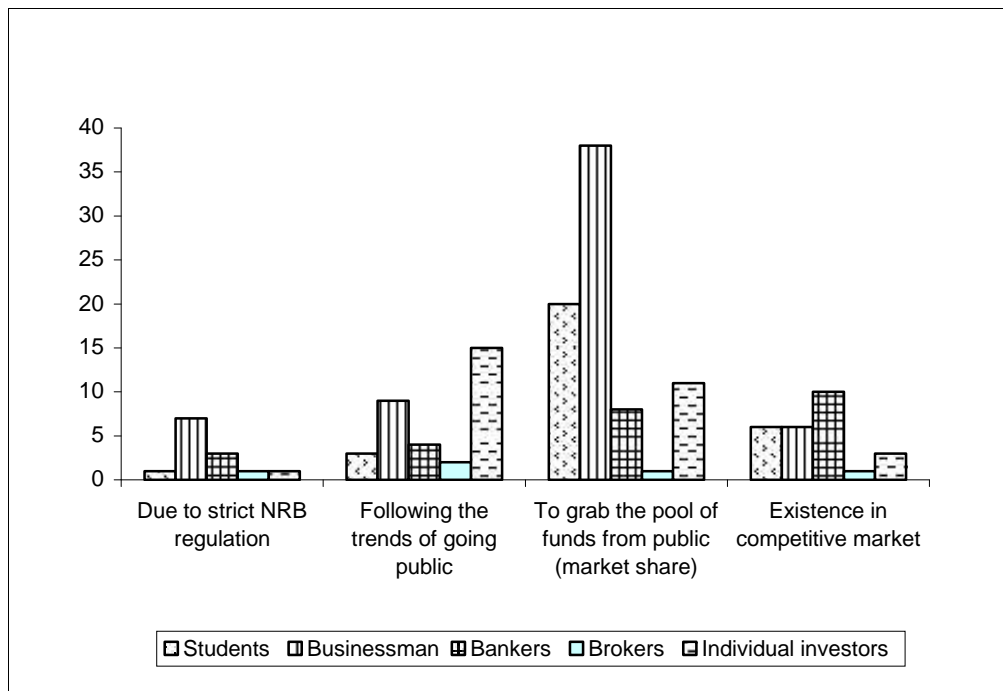
Nowadays, number of commercial banks are going public rapidly so in this context people have presented their different views as follows:

**Table 4.21**  
**No. of banks going public rapidly**

Respondents group	Due to strict NRB regulation	Following the trends of going public	To grab the pool of funds from public (market share)	Existence in competitive market	Total
Students	1	3	20	6	30
Businessman	7	9	38	6	60
Bankers	3	4	8	10	25
Brokers	1	2	1	1	5
Individual Investors	1	15	11	3	30
Total	13	33	78	26	150

Source: Field Survey, 2009

**Figure 4.21**  
**No. of banks going public rapidly**



Highest number of respondents i.e. 20 Students, 38 Businessmen, 8 Bankers, 1 Broker and 11 Individual Investors think that it is the strategy of commercial banks to grab the pool of funds from general public which means they want to increase their present market share, 3 Students, 9 Businessmen, 4 Bankers, 2 Brokers and 15 Individual Investors said it for following the trends of going public, 6 Students, 6 Businessmen, 10 Bankers, 1 Broker and 3 Individual Investors think that the commercial banks want people to make feel their existence in this competitive market and 1 Student, 7 Businessmen, 3 Bankers, 1 Broker and 1 Individual Investor are of the view that it is all because of strict NRB regulation to raise their paid up capital to Rs. 2 Billion.

#### **4.2.17 Number of Companies Invested**

Out of 150 respondents, 12 Students, 18 Businessmen, 7 Bankers and 3 Individual Investors said that they have invested in only single company, 15 Students, 21 Businessmen, 10 Bankers, 3 Broker and 15 Individual

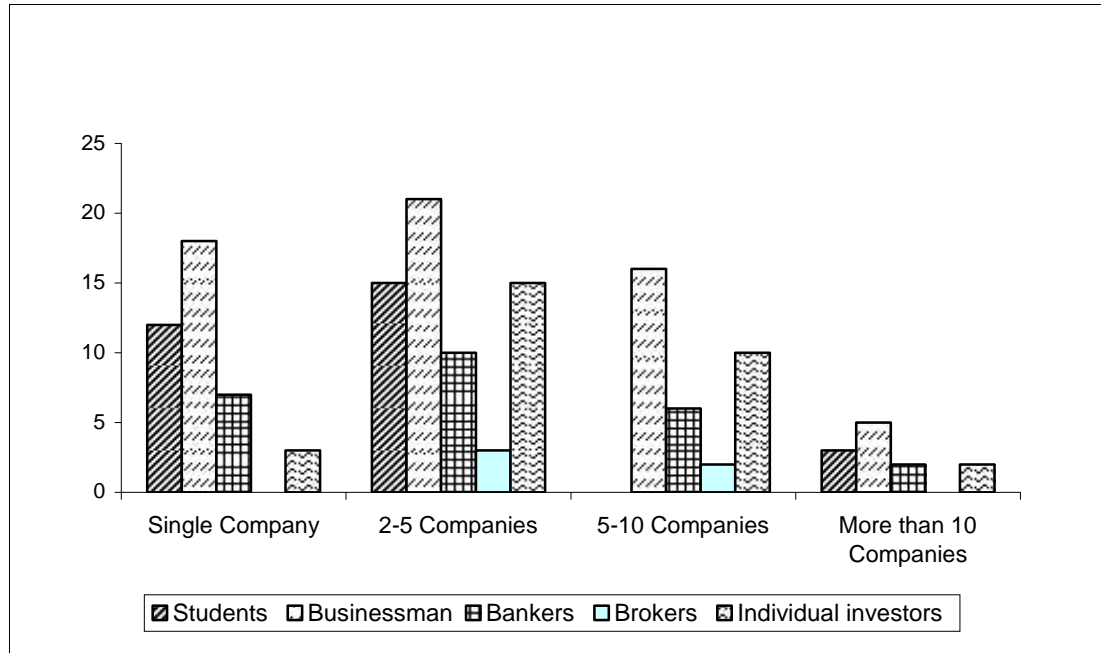
Investors said 2-5 companies, and 16 Businessmen, 6 Bankers, 2 Brokers and 10 Individual Investors said that they have invested in 5-10 companies and 3 Students, 5 Businessmen, 2 Bankers and 2 Individual Investors were found to invest in more than 10 companies.

**Table 4.22**  
**Number of Companies Invested**

Respondents group	Single Company	2-5 Companies	5-10 Companies	More than 10 Companies	Total
Students	12	15	0	3	30
Businessman	18	21	16	5	60
Bankers	7	10	6	2	25
Brokers	0	3	2	0	5
Individual Investors	3	15	10	2	30
Total	40	64	34	12	150

Source: Field Survey, 2009

**Figure 4.22**  
**Number of Companies Invested**



Being back in share investment in Nepal 40 people has been found to have invested in single company. Most (i.e. 64 people) have invested in only 2-5 companies and only 12 people have invested in more than 10 companies.

#### 4.2.18 Fund Used for the Investment

In the question of fund used in IPO investment, 47 respondents answer personal fund while rest 103 answer loan/credit fund.

**Table 4.23**  
**Fund Used for the Investment**

Respondents group	Personal Fund	Loan/Credit	Total
Students	4	26	30
Businessman	8	52	60
Bankers	14	11	25
Brokers	0	5	5
Individual Investors	21	9	30
Total	47	103	150

Source: Field Survey, 2009

**Figure 4.23**  
**Fund Used for the Investment**

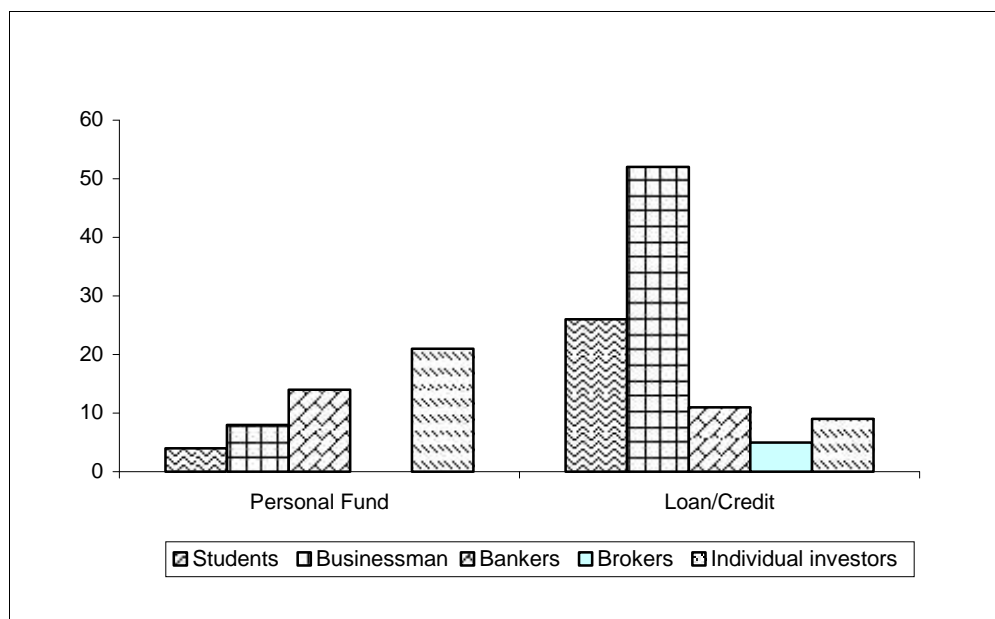


Figure 4.23 Shows that 26 Students, 52 Businessmen, 11 Bankers, 5 Brokers and 30 Individual Investors wants to use loan/credit rather than personal fund.

#### 4.2.19 Funding Via Financial Institution Regulation

In the question whether IPO funding via financial institution should be regulated or not, 102 respondents i.e. 22 Students, 50 Businessmen, 15 Bankers, 5 Brokers and 10 Individual Investors found to be in favor and rest 8 Students, 10 Businessmen, 10 Banksers and 20 Individual Investors in against of it, they said it should not be regulated by NRB as middle class also can invest in it.

**Table 4.24**

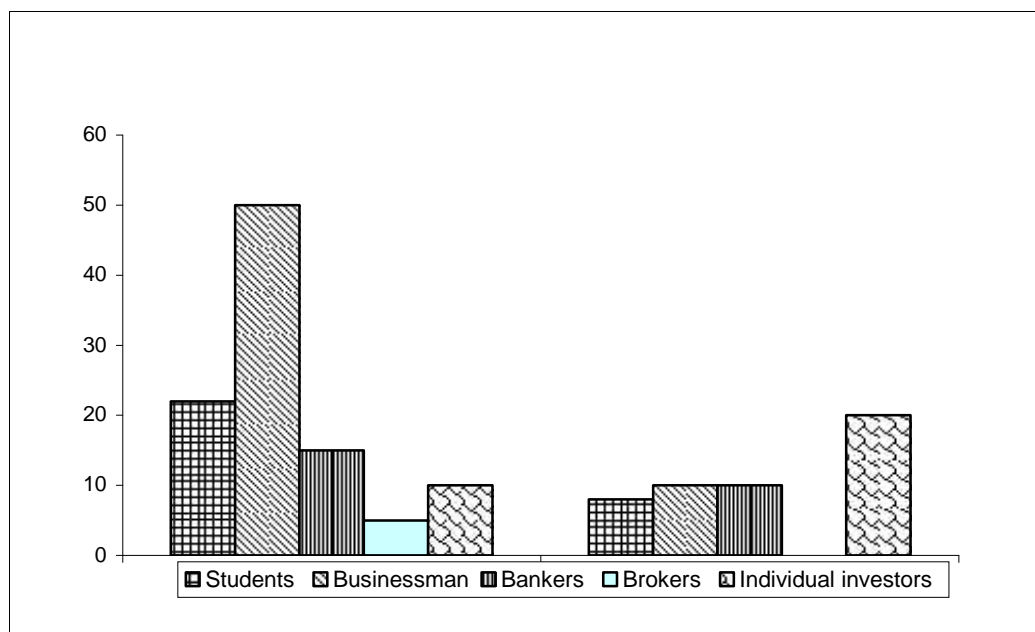
#### Funding Via Financial Institution Regulation

Respondents group	Yes	No	Total
Students	22	8	30
Businessman	50	10	60
Bankers	15	10	25
Brokers 22	5	0	5
Individual investors	10	20	30
Total	102	48	150

Source: Field Survey, 2009

**Figure 4.24**

#### Funding Via Financial Institution Regulation



#### 4.2.20 Expectation behind Investment in IPO

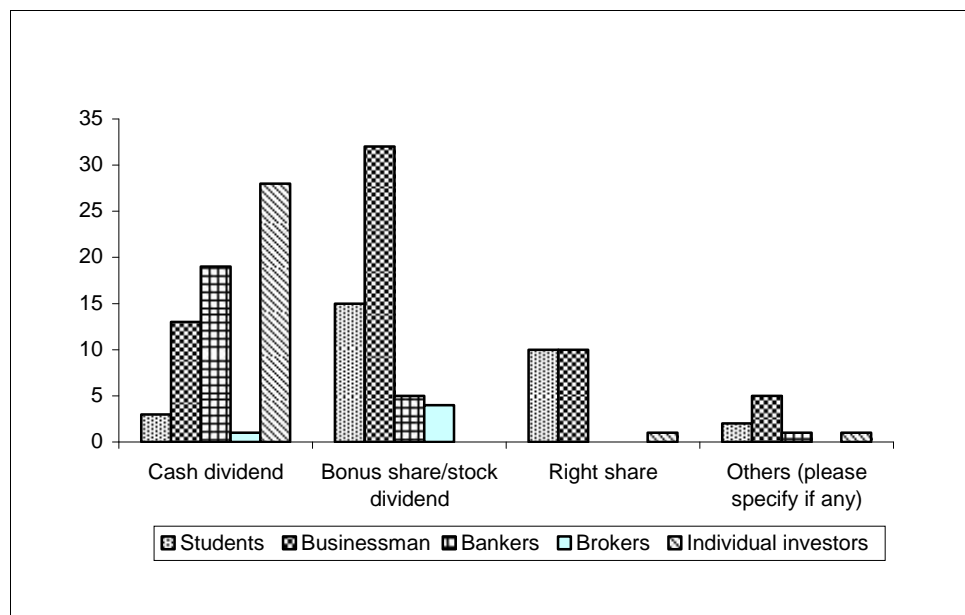
Different people have different expectation behind investing in IPO. For this question their responses are as follows:

**Table 4.25**  
**Expectation behind Investment in IPO**

Respondents group	Cash dividend	Bonus share/stock dividend	Right share	Others (please specify if any)	Total
Students	3	15	10	2	30
Business man	13	32	10	5	60
Bankers	19	5	0	1	25
Brokers	1	4	0	0	5
Individual investors	28	0	1	1	30
Total	64	56	21	9	150

Source: Field Survey, 2009

**Figure 4.25**  
**Expectation behind Investment in IPO**



Here, 3 Students, 13 Businessmen, 19 Bankers, 1 Broker and 28 Individual Investors expects cash dividend, 15 Students, 32 Businessmen, 5 Bankers and 4 Brokers expects bonus share, 10 Students, 10 Businessmen



and 1 Individual Investor states to be in favor of right share while rest 2 Students, 5 Businessmen, 1 Banker and 1 Individual Investor seen to be interested in other than these matters.

#### 4.2.21 Sector Preference for Investment

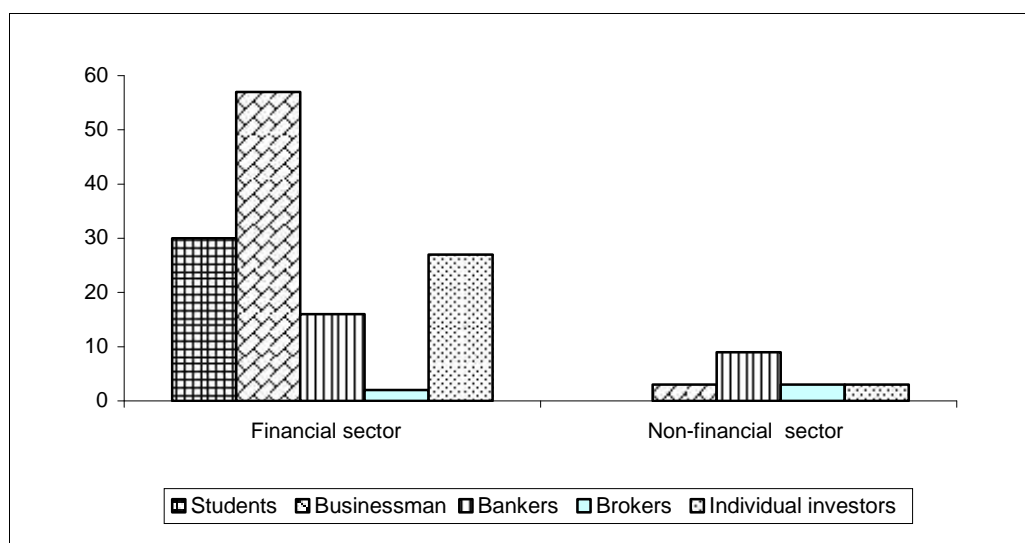
For the question whether to choose financial sector to invest or non-financial sector, 30 Students, 57 Businessmen, 16 Bankers, 2 Brokers and 27 Individual Investors choose financial sector and rest 3 Businessmen, 9 Bankers, 3 Brokers and 3 Individual Investors choose non-financial sector which have been clearly shown in the chart below.

**Table 4.26**  
**Sector Preference for Investment**

Respondents group	Financial sector	Non-financial sector	Total
Students	30	0	30
Businessman	57	3	60
Bankers	16	9	25
Brokers	2	3	5
Individual investors	27	3	30
Total	132	18	150

Source: Field Survey, 2009

**Figure 4.26**  
**Sector Preference for Investment**



#### 4.2.22 Preferred Financial Sector

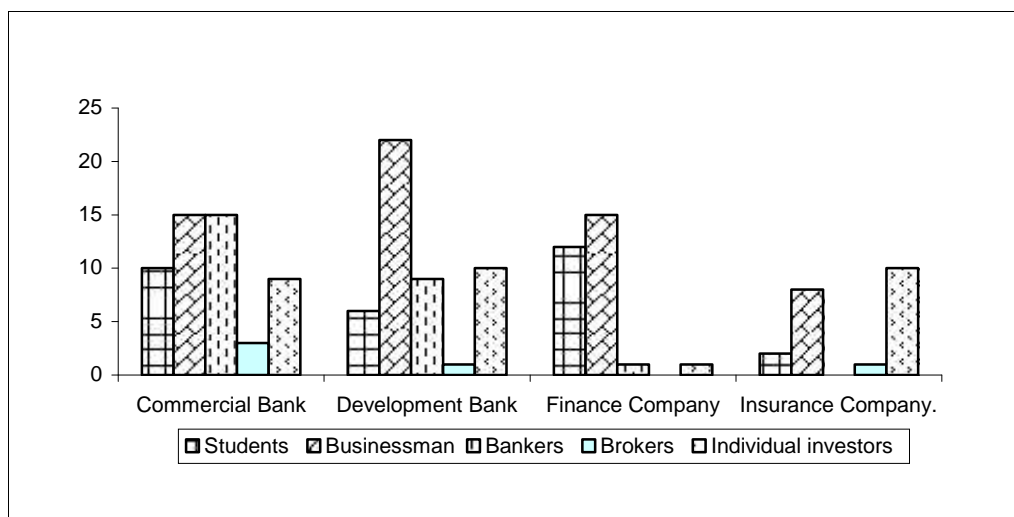
From among the 150 respondents, 10 Students, 15 Businessmen, 15 Bankers, 3 Brokers and 9 Individual Investors prefer commercial bank, 6 Students, 22 Businessmen, 9 Bankers, 1 Broker and 10 Individual Investors prefer development bank, 12 Students, 15 Businessmen, 1 Banker and 1 Individual Investor prefer finance company and 2 Students, 8 Businessmen, 16 Bankers, 1 Broker and 10 Individual Investors prefer Insurance company.

**Table 4.27**  
**Preferred Financial Sector**

Respondents group	Commercial Bank	Development Bank	Finance Company	Insurance Company.	Total
Students	10	6	12	2	30
Businessman	15	22	15	8	60
Bankers	15	9	1	0	25
Brokers	3	1	0	1	5
Individual Investors	9	10	1	10	30
Total	52	48	29	21	150

Source: Field Survey, 2009

**Figure 4.27**  
**Preferred Financial Sector**



In the Figure 4.27, 52 or most of the investors give preference to Commercial Bank for IPO investment. 48 give to Development Bank, 29 are found to be in favor of Finance Company and remaining 21 are in favor of

Insurance Company. Among the investors least are in favor of insurance company.

#### 4.2.23 Ultimate Goal for Investment in IPO

Different people have different goal for investment. 8 Students, 15 Businessmen, 10 Bankers, and 1 Broker have goal of support for old-age, 1 Student, 3 Businessmen and 1 Banker want to invest for children education, 18 Students, 38 Businessmen, 12 Bankers, 4 Brokers and 30 Individual Investors want to invest for fulfilling the goal of getting annual return and rest 3 Students, 4 Businessmen and 2 Bankers have other than these goals.

**Table 4.28**

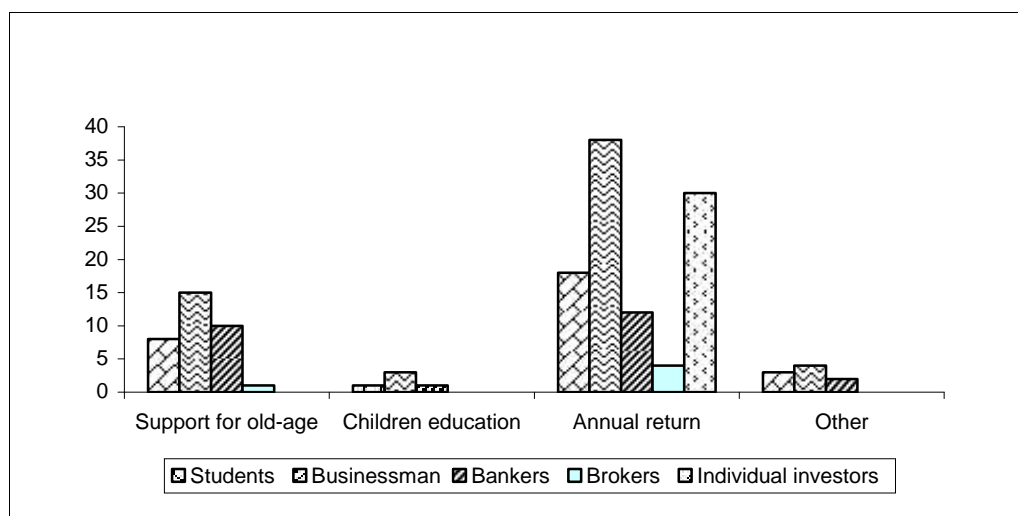
**Ultimate Goal for Investment**

Respondents group	Support for old-age	Children education	Annual return	Other	Total
Students	8	1	18	3	30
Businessman	15	3	38	4	60
Bankers	10	1	12	2	25
Brokers	1	0	4	0	5
Individual investors	0	0	30	0	30
Total	34	5	102	9	150

Source: Field Survey, 2009

**Figure 4.28**

**Ultimate Goal for Investment**



In the Figure 4.28, 102 respondents think the ultimate goal behind invest in IPO is the annual return from that , 34 want to invest for the support for old-age, only 5 want to invest for children education and than left 9 people think other reasons to invest in IPO.

#### 4.2.24 Basis for distribution of Shares

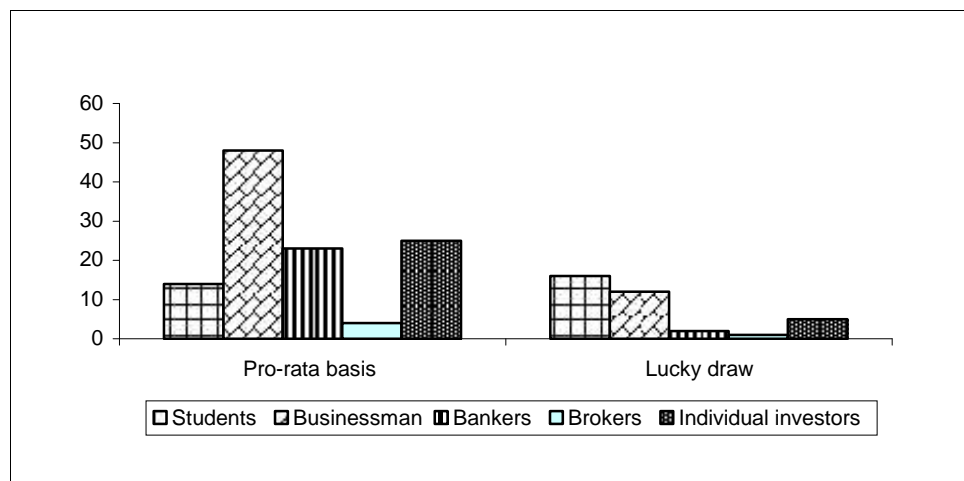
While questioning about the basis for distribution of shares to investor 14 Students, 48 Businessmen, 23 Bankers, 4 Brokers and 25 Individual Investors were found to be in favor of pro-rata basis and the rest 16 Students, 12 Businessmen, 2 Bankers, 1 Broker and 5 Individual Investors were in favor of lucky draw.

**Table 4.29**  
**Basis for Distribution of Shares**

Respondents group	Pro-rata basis	Lucky draw	Total
Students	14	16	30
Businessman	48	12	60
Bankers	23	2	25
Brokers	4	1	5
Individual investors	25	5	30
Total	114	36	150

Source: Field Survey, 2009

**Figure 4.29**  
**Basis for Distribution of Shares**



In the Figure 4.29, it is clear that 114 respondents prefer pro-rata basis while only 36 respondents prefer lucky draw basis for share distribution.

#### 4.2.25 Reason for not going Public

Normally companies do not want to go Public, 8 Students, 17 Businessmen, 5 Bankers, 1 Broker and 12 Individual Investors think control is the only reason for it. Companies do not want to loose the control by going Public. 18 Students, 18 Businessmen, 6 Bankers, 2 Brokers and 9 Individual Investors think they do not want to share profit, 1 Student, 4 Businessmen, 1 Banker, 1 Broker and 1 Individual Investors think they do not want to bear the obligation to mass shareholders and remaining 3 Students, 21 Businessmen, 13 Bankers, 1 Broker and 8 Individual Investors think they do not want to make the management complex by going Public.

**Table 4.30**  
**Reason for not going Public**

Respondents group	To keep control	Sharing of profit	Obligation to mass shareholders	Complexity in management	Total
Students	8	18	1	3	30
Businessman	17	18	4	21	60
Bankers	5	6	1	13	25
Brokers	1	2	1	1	5
Individual investors	12	9	1	8	30
Total	43	53	8	46	150

Source: Field Survey, 2009

**Figure 4.30**  
**Reason for not going Public**

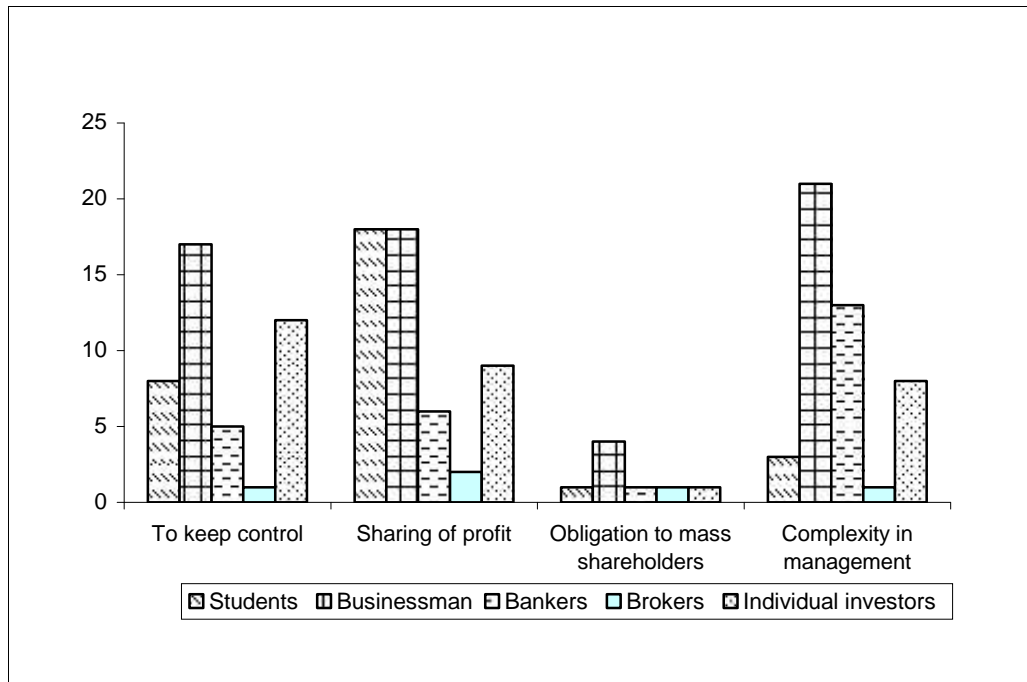


Figure 4.30 and Table 4.23 clearly show that the reason behind most of the companies not going public is they do not want to share profit (53 respondents), 46 respondents believe company fears complexity in management, 43 respondents believe it simply because companies want to keep full control, only 8 people believe that companies do not want to increase obligation to mass shareholders.

#### **4.2.26 Reason for Limited People Investing in Primary Market**

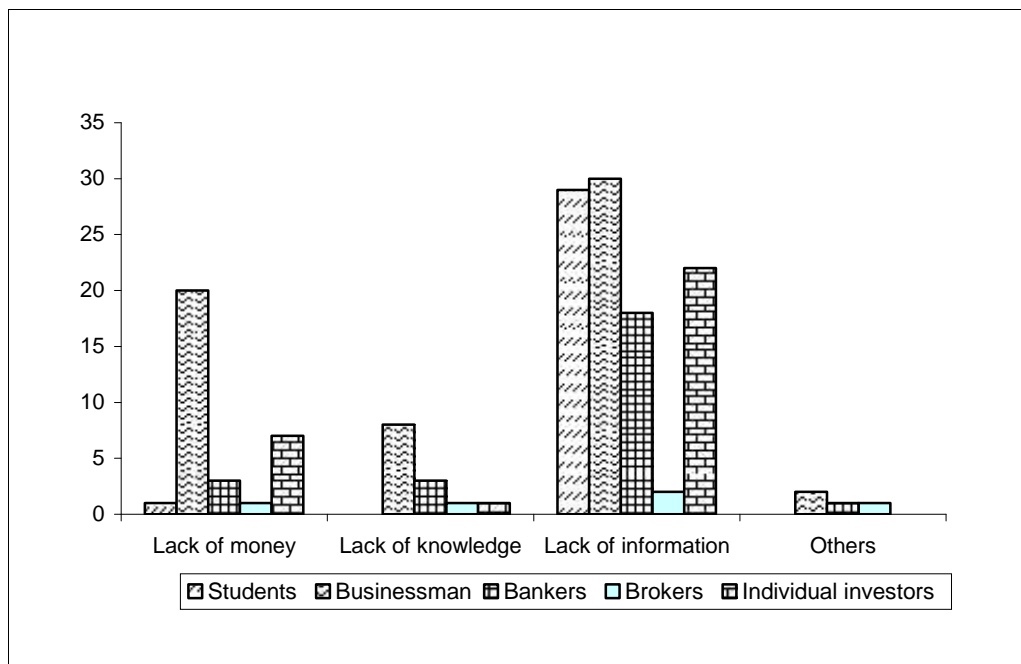
Only limited people invest in the primary market. For the reason asked 32 respondents stated this is due to lack of money, 13 stated due to lack of knowledge, 101 said people lack information and only 4 respondents stated other reasons.

**Table 4.31**  
**Reason for limited people investment**

Respondents group	Lack of money	Lack of knowledge	Lack of information	Others	Total
Students	1	0	29	0	30
Businessman	20	8	30	2	60
Bankers	3	3	18	1	25
Brokers	1	1	2	1	5
Individual investors	7	1	22	0	30
Total	32	13	101	4	150

Source: Field Survey, 2009

**Figure 4.31**  
**Reason for Limited People Investment**



In the Figure 4.31, highest parts is covered by lack of information i.e. 29 Students, 30 Businessmen, 18 Bankers, 2 Brokers and 22 Individual Investors which means most people do not invest in primary market due to lack of information. 1 Student, 20 Businessmen, 3 Bankers, 1 Broker and 7 Individual Investors shows the reason of lack of money, 8 Businessmen, 3

Bankers, 1 Broker and 1 Individual Investors shows lack of knowledge and least 2 Businessmen, 1 Banker and 1 Broker do not invest due to other reasons than these.

### **4.3 Major Findings of the Study**

The major findings of this study are as follows:

- ) Pace of public offering is growing/increasing rapidly as amount of issue approved continuously increase from 1993/94 (244.40 million) to 2001/2002 (1441.33 million) then decreased one time and again started increasing and reached at 2443.28 million in 2005/2006 and there was slight decline in amount of issue approved by 147.78 million in the year 2006/07 and finally a huge increment was experienced in the year 2007/08 thereby reaching at Rs.10668.20 million. Similarly, from the trend analysis of amount and number of issue approved it is predicted that the number of issue in the year 2008/09 and 2009/10 will be 36 and 38 respectively and that the amount will be Rs. 4504.87 and Rs. 4879.97 in the year 2008/09 and 2009/10 respectively.
- ) Investor response to the financial institutions and insurance sectors is higher than non-financial sector. Among the financial sector, Commercial banks are getting overwhelming response from general public i.e. almost every listed commercial banks which were taken as the sample for the study has been oversubscribed 100%. Most i.e. 52 of total respondents are found to invest in shares of commercial bank to have future gain.
- ) Among the financial sector, majority of the students, Businessmen, Bankers, Brokers and Individual Investors preferred to invest in the IPOs of Commercial banks whereas 48 chose Development Banks and Finance companies and 21 went for Insurance companies as well.



- ) Among the 9 issues managers in the year 2007/08 only 6 have managed the issue. And even among them ADBL and NCML seems to be the dominant one as they both rank first and second respectively in terms of highest number of issue managed (31.10% and 28.38%) and highest amount of issue is managed by NMBL and ADBL (36.81% and 25.04%).
- ) Though commercial bank hold major part in NEPSE transaction or Index, still most of the investors i.e. 92 respondents are not satisfied with the practices of IPO in Nepal which means that reform has to be made as per the demand of time. Likewise, the causes of satisfaction were availability of adequate information on IPO, Unallotted shares refunded with Interest and Quick first transaction of such Public issues and causes of dissatisfaction were found to be Political/management influence, Unfair allotment procedure and Interest of small investors ignored in the process of IPO.
- ) 4 Students, 32 Businessmen, 9 Bankers, 2 Brokers and 18 Individual Investors are interested in company's performance while 8 Students, 7 Businessmen, 4 Bankers, 2 Brokers and 1 Individual Investor are eager about reputed promoters. Most are seen to invest in company if it is performing well. And less give preference to the company's promoters.
- ) The scenario of Nepalese investors have been changed slightly as they seek risk so most i.e. 103 respondents are found to invest in IPO from loan/credit and only 47 respondents like to invest from their personal fund.
- ) Few years back the knowledge about IPO has significantly increased through advertisement / media so most of the people are found to Invest in IPOs of commercial banks even with the loan as well to have the future gain and quick return.

- J Investors are found to be aware of Operating loss and IPO so they take this situation as a chance to earn as 63 respondents think there is no relation between operating loss and IPO.
- J Different people are of totally different view regarding problems associated with IPO, out of 150 respondents, 57 think most of the public issues are oversubscribed so that there is comparatively very low chances of being allotted. Similarly, 41 and 39 think the IPO itself as a lengthy and time consuming process and Lack of sincerity/ confidence among Investment Bankers respectively whereas only 13 think problem lies within the Investors themselves.
- J 68 people still think there is good timing and coordination between the Issuing banks and Issue Managers while undertaking IPO but 92 respondents are still found to be unsatisfied with the practices of IPO in Nepal.
- J As banking business is booming day by day commercial banks are enjoying profits yearly but still most of the investors are not satisfied with the level of return that the commercial banks providing presently.
- J Nowadays, number of commercial banks are going public rapidly so in this context people have presented their different views as Highest number of respondents i.e. 78 respondents think that it is the strategy of commercial banks to grab the pool of funds from general public which means they want to increase their present market share, 33 said it for following the trends of going public, 26 think that the commercial banks want people to make feel their existence in this competitive market and only 13 are of the view that it is all because of strict NRB regulation to raise their paid up capital to Rs. 2 Billion.
- J Many of the investors are found to invest in portfolio investment that is 2-5 companies mostly to minimize/ manage the risk.

- ) Most of the investors i.e 102 expect annual return from the investment in IPO, 34 wants to invest as they think it will be support for old-age, 5 invest for children education.
- ) Most of the people i.e. 114 respondents prefer pro-rata basis for allotment not the lucky-draw (36 respondents) as pro-rata basis assure the investor about getting the share.
- ) As most of the companies do not want to share the profit with investors they do not go publicly. 53 people believes that most of the companies do not want to go public as they do not want to share profit. 46 people believes companies do not want complexion in the management. 43 respondents think companies do not want to loose control and only 8 think they do not want to bear obligation towards shareholders.
- ) Still most of the people (i.e.101 respondents) lack information regarding stock so limited number of people are investing in primary market. 32 respondents do not invest as they lack money.

## CHAPTER-V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 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 kind 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 IPO analysis of Listed Commercial Banks, response towards IPO of such institutions, practices of IPO in use, role and function of investment bankers and their relationship with Issuing Bank in the process of IPO, Growth, trend and pace of IPO offerings, its problems and prospects in Nepal.

Even first public issue was in 1973 A.D., secondary market come into existence only in 1993, after the conversion of Security Exchange Center in Nepal Stock Exchange Ltd. With the enactment of Securities Ordinance 2005, all companies going public must be registered at the SEBON before issuance of securities and must publish prospectus after getting SEBON's approval.

Now the investment environment has slightly changed and significant number of investors are fully aware about IPO and they are eager to invest even with the loan or credit, in this sense they are becoming risk seeker. Even in such unfriendly investment environment public are showing overwhelming response towards IPOs of Commercial Banks that has

resulted in oversubscription of securities few years back till now. Although Margin Lending has been restricted by NRB, Nepalese securities market i.e. Primary market has experienced positive response each time except few offerings. But still few groups of investors are exercising unhealthy practice to influence market as single man applies from different names and captures large number of shares which ultimately influence company management and stock price too.

SEBON has issued new directives regarding the public issue that now the investors has to submit Original citizenship certificate and a photocopy as well, photographs, a valid bank account to refund the unallotted amount of shares to make the application procedure more transparent and healthy which has now significantly reduced fake share transactions in Primary market. This can be seen as prospects of IPO in Nepalese securities market. SEBON has inspected Primary Issue of Shikhar Financial Institution and few shares were cancelled which delayed the allotment procedure too. It can be seen as a positive step of SEBON to create regulating and controlling mechanism for share market.

Now, only the banks and financial institutions that carries the Merchant Banking Activities will be given authority to handle/manage Initial Public issue. Likewise, share allotment time reduced to 60 days and new initiation of giving interest to those who are not allotted with shares can be viewed as investment friendly step of SEBON.

IPO can be a risky investment as historical data of the issuing company affects it. As IPO's are generally under priced which attracts more investors. And if IPO's are overpriced, this may create problems to underwriters as they may not meet their commitment to issuing company.

From 1993/94 to 2007/2008 SEBON has approved 260 issues amounting Rs. 22561.18 million. The highest number of issues is in the year 2007/2008 which is 64 and the lowest is in 1996/1997 and 1998/1999 which is 5 only.

Among the 200 issues 138 were oversubscribed, 43 were undersubscribed and 19 were constant.

While analyzing the Investors response towards Commercial Banks in financial sector, in an average 13.04 times Subscription was found. From this it is clear that most desirable financial sector is commercial banking bank sector. From the primary data analysis also most (88%) of the investors preferred Financial sector and even among financial sector, commercial bank hold 34.67% respondents to favor in.

As IPOs of commercial banks are getting overwhelming response, it gives the clue that public are more attracted toward financial sector than non-financial sector.

ADBL and NCML seems to be the dominant one as they both rank first and second respectively in terms of highest number of issue managed (31.10% and 28.38%) and highest amount of issue is managed by NMBL and ADBL (36.81% and 25.04%).

From the primary data analysis it is clear that most of the public are aware about the IPO, only 3.33% do not have heard about IPO. 6.67% people do not want to take risk while 40.66% want to invest in IPO even with the loan. Most of the respondents (65%) seen to be informed about IPO from advertisements. Among the investors 46.67% people give preference to company's performance before investment while only 5.33% give preference to brokerage commission if that avails or not, 14.67% are interested in the promoter's recognition.

People have invested in IPOs of commercial banks basically to have future gain (43%) and quick return (36%) respectively.

Investors are aware of Operating loss and IPO so they take this situation as a chance to earn as 42% think there is no relation between operating loss and IPO.

People have identified different problems regarding IPO and such problems can be managed in a systematic way through investors suggestions.

Most of the respondents (42.50%) have invested in 2-5 companies as they know about portfolio investment, 26.67% have invested in single company, 22.50% have invested in 5-10 organizations and only 8.33% have invested in more than 10 companies. Similarly, 69% respondents prefer credit/loan than personal fund. 68% of the respondents are in favor that IPO funding through financial intuitions should be regulated by NRB. About 42.50% expects cash dividend at the year end, 37.50% expect bonus/stock dividend and only 14.17% expect right share from the investment.

About 88% are interested to invest in financial sector and only 12% prefer non- financial sector. From among the financial sector 34.67% are interested in commercial bank, 32% in development bank, 19.33% in finance companies and only 14% in insurance companies. For 68% people annual return is the ultimate goal for investment, 22.67% think it supports for old-age. 76% prefer pro-rata basis for share allotment rather than lucky draw. 35.33% people think that most companies do not go public as they do not want to share profit with public, whereas 28.67% think it's because they want to keep control with themselves, 30.67% thinks as it may bring complexity in management. Most of the people (67.33%) show the reason of lack of proper information for limited people investment in primary market and only 21.33% think its due to lack of money.

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

## **5.2 Conclusion**

In spite of the long period of securities prevailing in the Nepalese market, most of the public outside the valley do not know about IPO. So only people from Kathmandu valley and few outside cities like Pokhara, Biratnagar,

Birgunj seems to be involved in IPO. Even among the informed one most are interested in financial sector than non- financial sector. Among the financial sector most are interested in Commercial Bank that's why the banking business and branches are booming day by day.

Vast deviation is found in the primary market of Nepal during 1993/1994 to 2007/2008 period, number of issue approved ranges from 64 at highest in 2007/2008 to 5 at lowest in 1996/97 and 1998/1999.

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 in part of big investors. This kind of mismanagement in allotment discourages the investors. Contract between the issue manager and the issuing company highly affects the whole IPO process, so make this as the people need, it should also be regulated. There are few numbers of Issue Managers in Nepal but still they are performing better in short period of time. 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 whole IPO process is very long, Nepalese investors are still interested to invest in this sector.

### **5.3 Recommendations**

After the research following recommendations are made for better IPO of Commercial banks:

- ) 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.
- ) Before investing in any company, all the investors must go through that company's financial details, prospectus, or they will be in difficulty if only go with the market rumors and to be successful in



the stock market, investors should always be clear to his strengths, weakness, requirements, wishes, risk taking capabilities and how to react on different and ever changing market conditions.

- ) 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.
- ) 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.
- ) 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.
- ) 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. They should be able to calculate the Net worth of each Banks so that real picture of investment in shares comes in front.
- ) While choosing the Issue Manager Company, the issuing commercial banks should choose that company in which general investors could believe freely and has to look its history of managing the public issues successfully.
- ) Issuing company's post issue compliance practice is found to be poor. The issuing companies should be made aware in complying with the post issue legal provisions at the time of public issue. Issue manager should also take the responsibility to make the Issuing companies aware of compliance issue.
- ) Application from each corner of the country should be asked so that all interested candidates could apply. As it is found that most of the IPO's are concentrated in the valley only.

- ) Stock market is heading towards the right directions so it is developing and growing. It is utilizing the unused surplus resources in productive sectors. With the provision of stockbrokers and market makers in 1993, the securities market has been broadened and this has also developed specialization in providing services to securities market.
- ) As there is intense competition among the commercial banks and they are trying to grab the market share to the extent possible so in this course general investors should not be in dilemma and should try to understand such market conditions to safeguard their own investment.
- ) IPOs of commercial banks should be offered keeping the gap of time so that investors can manage fund timely.
- ) There should be healthy primary market competition among commercial banks and they should raise IPO with the commitment of providing reasonable return to the general investors.
- ) There is practice of retaining large portion of operating profit in commercial banks by which investors are not getting reasonable return in terms of cash or stock dividend so it should be done according to demand of time.
- ) In the name of providing facilities or launching new schemes banks should safeguard investors or general public's interest.
- ) The overall IPO process should end fast and efficient with the joint coordination between the issue manager and issuing banks.
- ) The situation of influencing bank management by the group of few investors holding large no of shares should end.

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## APPENDIX-I

### Questionnaire

Dear respondents I will be very grateful if you kindly fill-up this questionnaire which is the requirement of our Master level thesis.

Name:

Occupation:

Address:

- 1) Have you ever heard about IPO?
  - a) Never heard
  - b) Seen in papers and books
  - c) A little heard
  - d) Yes, of course
  
- 2) Would you like to invest in IPO?
  - a) No risk at all
  - b) If had money
  - c) Depends on the sector
  - d) yes, even with the loan as well
  
- 3) How do you come to know about IPO of any company?
  - a) Advertisements/ Media
  - b) Personal relations (market information)
  - c) Brokers
  - d) Issue Managers/Issuing Co.
  - e) Others
  
- 4) What comes first in your mind while investing?
  - a) Promoters
  - b) Company's performance
  - c) Brokerage Commission (avails or not)
  - d) market information
  
- 5) Why do you think people invest in IPO of commercial banks?
  - a) Quick return
  - b) Experiment/test
  - c) Gambling
  - d) Future gain
  
- 6) How do you think IPO offered incase of operating loss?
  - a) Weakness of NRB monitoring & Regulation
  - b) No link between operating loss and primary market
  - c) Intention to deceive general public
  - d) Loss can be easily recovered in future period
  
- 7) Which of the following you think is the problems associated with IPO?
  - a) Lengthy & time consuming process.
  - b) lack of sincerity/confidence among investment bankers.
  - c) Lack of confidentiality among investors themselves.
  - d) Comparatively very low chances of being allotted.
  
- 8) Do you think there is good timing and coordination between the issuing banks and the issuer managers?
  - a) Yes
  - b) No
  - c) Can't say



- 20) What expectation led you to invest?
- a) Cash dividend
  - b) Bonus share/ stock dividend
  - c) Right share
  - d) others
- 21) Would you prefer financial sector or non-financial sector for investment?
- a) Financial sector
  - b) Non-financial sector
- 22) If you like to invest in financial sector than in which type?
- a) Commercial Bank
  - b) Development bank
  - c) Finance company
  - d) Insurance company
- 23) What ultimate goal led you to invest in IPO?
- a) Support for Old-age
  - b) Children Education
  - c) Annual Return
  - d) others (please specify if any).....
- 24) Would you prefer pro-rata basis or lucky draw for the distribution of shares?
- a) Pro-rata basis
  - b) Lucky draw
- 25) What do you think the reason behind the companies not going public?
- a) To keep control
  - b) Sharing of Profit
  - c) Obligation to mass shareholders
  - d) Complexity in management
- 26) What do you think the reason that the limited number of people invest in the primary market?
- a) Lack of money
  - b) Lack of Knowledge
  - c) Lack of Information
  - d) Others



## APPENDIX-II

Security Issue  
(Fiscal Year 1993/94-2007/08)

(Rs. In Millions)

S.N	Fiscal Year 1993/94 Issuer	Type of security	Issue Amount	Issue Date	Subscription (%)	Issue Manager
1	Nepal Med Ltd	Ordinary share	2.7	30/08/1993	111.47	CIT
2	Nepal share market & Finance	Ordinary share	4	6/10/1993	495.3	NCML
3	Himalayan General Insurance co ltd	Ordinary share	12	9/12/1993	188.13	NCML
4	Nimrod pharmaceuticals	Ordinary share	18	19/12/1993	188.31	CIT
5	Harisiddhi Brick & Tile Factory Ltd	Ordinary share	53.2	19/12/1993	289.83	NCML
6	Nepal Liver Ltd	Ordinary share	13.8	5/1/1994	653.51	NCML
7	Necon Air Ltd	Ordinary share	16.5	20/01/1994	356.61	CIT
8	Necon Air Ltd	Pref. share	14	20/01/1994		CIT
9	United Insurance co(Nepal)	Ordinary share	24	9/2/1994	440.15	NCML
10	Nepal Sbi Bank Ltd	Ordinary share	36	3/3/1994	1404.56	CIT
11	People Finace Ltd	Ordinary share	9.8	30/05/1994	1620.69	CIT
12	Annapurna Finance Ltd	Ordinary share	2	22/05/1994	2803.95	NSML
13	Nepal Film Development CO Ltd	Ordinary share	21.9	19/06/1994	506.22	NCML
14	Agro Nepal Ltd	Ordinary share	9	26/06/1994	859.06	CIT
15	Birat Shoe Ltd	Ordinary share	5	3/7/1994	394.3	NCML
16	Birat Shoe Ltd	Pref. share	2.5	3/7/1994	194.3	NCML
	<b>Total</b>		<b>244.4</b>			
	<b>Fiscal Year 1994/95</b>					
17	premier insurance co Ltd	Ordinary share	12	30/08/1994	1936.45	NCML
18	Ace Laboratories (Nepal) Ltd	Ordinary share	12.26	14/09/1994	100	NFCL
19	Everest Insurance co ltd	Ordinary share	12	18/10/1994	1084.64	NCML
20	Nepal Bangladesh Bank	Ordinary share	36	26/10/1994	2219.62	NCML
21	Himgiri Textile Industries	Ordinary share	19.20.	24/11/1994	156.85	CIT
22	Balaju Textile Industries	Ordinary share	7.5	4/12/1994	100	NSML
23	Kathmadu Finance Ltd	Ordinary share	8	10/2/1995	772.26	NCML
24	Leatherage Bansabari Tannery & shoe Factory	Ordinary share	15	27/03/1995	71.15	NCML
25	Citizen Investment Trust	Ordinary share	16	27/04/1995	331.13	NFCL
26	Everest Bank Ltd	Ordinary share	36	7/6/1995	514.35	NCML
	<b>Total</b>		<b>173.96</b>			
	<b>Fiscal Year 1995/96</b>					
27	Nepal Awasi Bikas Bit co ltd	Ordinary share	20	29/08/1995	94.925	RBB
28	Narayani Finance co ltd	Ordinary share	4	29/10/1995	220.25	NFCL
29	Nepal Finance & saving co ltd	Right share	2	1/12/1995		
30	Brikuti Pulp & paper Nepal ltd	Ordinary share	105	21/02/1996	104.87	CIT
31	Colour scan Nepal ltd	Ordinary share	14.34	11/4/1996	7.19	CIT
32	HISEF finance ltd	Ordinary share	24	14/04/1996	104.16	NCML
33	Yeti finance co ltd	Ordinary share	8	28/04/1996	106.09	NCML
34	Ace finance co ltd	Ordinary share	12	7/5/1996	120.73	NSML
35	Universal finance & Capital market ltd	Ordinary share	15	14/05/1996	44.96	CIT
36	Fleur himalayan co ltd	Ordinary share	12.28	14/05/1996	63.38	NCML
37	Samjhana finance co ltd	Ordinary share	10.12	25/06/1996	88.93	RBB

38	Seti cigarette factory ltd	Right share	67	11/7/1996	77.9	
	<b>Total</b>		<b>293.74</b>			
	<b>Fiscal Year 1996/97</b>					
39	Nepal Housing & merchant finance ltd	Ordinary share	12	22/09/1996	117.2	NSML
40	Bank of kathmandu ltd	Ordinary share	45	17/11/1996	536.33	NCML
41	Himalayan General Insurance co ltd	Right share	30	0	0	AFC
42	Bottlers Nepal ltd	Right share	225.2	14/04/1997	0	CIT
43	Nepal share market & Finance	Right share	20	6/7/1997	100	AFC
	<b>Total</b>		<b>332.2</b>			
	<b>Fiscal Year 1997/98</b>					
44	Nepal Bitumin & Barrel udyog ltd	Ordinary share	7.4	8/9/1997	99.4	NSML
45	General finance ltd	Ordinary share	8	16/09/1997	100	NSML
46	Shreeram sugar mill ltd	Ordinary share	46.5	20/11/1997	52.9	NCML
47	Shreeram sugar mill ltd	Debenture	93	20/11/1997	18.42	NCML
48	Neco insurance ltd	Ordinary share	20	23/11/1997	121.05	CIT & RBB
49	Nepal united co ltd	Right share	3.01	18/02/1998	44.41	NFCL
50	Nepal bank ltd	Right share	241.95	25/12/1997	0	CIT
51	Mahalaxmi finance limited	Ordinary share	10	18/01/1998	188.52	NFCL
52	paschimanchal finance ltd	Ordinary share	8	25/01/1998	171.8	NSML
53	Annapurna Finance Ltd	Right share	5	3/3/1998	81.72	NFCL
54	Lalitpur finance co ltd	Ordinary share	9.5	4/5/1998	146.75	NCML
55	Goodwill finance & investment co ltd	Ordinary share	10	26/06/1998	116.06	NCML
	<b>Total</b>		<b>462.36</b>			
	<b>Fiscal Year 1998/99</b>					
56	Alliance insurance co ltd	Ordinary share	20	11/11/1998	62.63	CIT
57	Taragaon Regency hotels ltd	Ordinary share	120	31/01/1999	247.12	NCML & NMB
58	Taragaon Regency hotels ltd	Pref. share	80	31/01/1999	135.17	NCML & NMB
59	Pokhara finance ltd	Ordinary share	8	4/4/1999	265.75	CIT
60	Nepal share market & Finance	Right share	30	9/6/1999	0	AFC
	<b>Total</b>		<b>258</b>			
	<b>Fiscal Year 1999/2000</b>					
61	Universal finance & Capital market ltd	Ordinary share	3.26	28/09/1999	451.84	CIT
62	Nepal Industrial & commercial Bank	Ordinary share	175	2/12/1999	815.92	NCML & NMB
63	Necon Air Ltd	Right share	89.6	3/3/2000	95.31	CIT
64	Lumbini fin & Leasing co ltd	Ordinary share	24	30/04/2000	1156.29	NSML
65	paschimanchal finance ltd	Right share	20	14/03/2000	129.65	NSML
66	Ace finance co ltd	Right share	15	11/4/2000	100	NSML
	<b>Total</b>		<b>326.86</b>			
	<b>Fiscal Year 2000/2001</b>					
67	Oriental hotels ltd	Ordinary share	150	25/07/2000	628.6	NCML
68	Sagarmatha insurance co ltd	Ordinary share	10.2	17/08/2000	3322.17	NCML
69	Siddhartha finance ltd	Ordinary share	8	5/12/2000	1771.88	NMB
70	Nepal merchant banking & Finance ltd	Ordinary share	50	15/01/2001	4705.09	NCML
71	Alpic everest finance ltd	Ordinary share	5	5/2/2001	4217.62	NEFINSCO
72	Nepal bangladesh finance & leasing	Ordinary share	7.5	14/03/2001	3257.12	NSML & NSMB
73	Narayani Finance co ltd	Right share	12.58	28/03/2001	122.02	NSML

74	Nepal development bank	Ordinary share	48	3/7/2001	2906.35	NMB & CIT
75	Everest Bank Ltd	Right share	119.21	11/7/2001	27.17	CIT
	<b>Total</b>		<b>410.49</b>			
	<b>Fiscal Year 2001/2002</b>					
76	Bank of kathmandu ltd	Right share	234	31/08/2001	98.3	NCML
77	Himalayan Distillery Ltd	Ordinary share	173.46	13/09/2001	10.57	NCML
78	Nepal Housing & merchant finance ltd	Right share	15	7/1/2002	100	NSML
79	Union finance co ltd	Ordinary share	24	15/01/2002	878.39	NCML
80	Development credit bank ltd	Ordinary share	48	23/02/2002	1409.71	NMB
81	Ace finance co ltd	Right share	45	25/02/2002	100	NSML
82	Nepal Sbi Bank Ltd	Right share	287.87	25/03/2002	97.26	NMB
83	Nidc capital market ltd	Right share	40	8/4/2002	95	CIT
84	United finance ltd	Ordinary share	24	30/05/2002	1055.73	NMB
85	Himalayan Bank Ltd	Debenture	360	18/06/2002	0	NMB
86	Nepal Life insurance co ltd	Ordinary share	50	24/10/2002	756.08	NMB
87	Everest Bank Ltd	Pref. share	140	28/10/2002	141.68	NSML
	<b>Total</b>		<b>1441.33</b>			
	<b>Fiscal Year 2002/2003</b>					
88	International leasing & finance	Ordinary share	30	29/07/2002	2170.67	NMB
89	Nirdhan utthan bank	Ordinary share	3.3	5/8/2002	388.12	CIT
90	Life insurance corporation(Nepal)	Ordinary share	50	5/8/2002	1743.44	NCML
91	Nepal sri lanka merchant bank	Ordinary share	40	28/08/2002	615.41	NCML
92	Shree investment & finance co ltd	Ordinary share	16	2/9/2002	1868.89	CIT
93	Gorkha finance ltd	Ordinary share	10	15/09/2002	864.45	NSML
94	Janaki finance co ltd	Ordinary share	8	21/09/2002	1583.89	NEFINSCO
95	Nepa investment bank ltd	Right share	57.24	27/09/2002	97.42	NCML
96	Central finance co ltd	Ordinary share	8	15/11/2002	852.41	NCML
97	Nabadurga finance co ltd	Ordinary share	8	19/12/2002	1451.55	NEFINSCO
98	premier finance co ltd	Ordinary share	8	6/1/2003	1026.36	NCML
99	Machhapuchere bank ltd	Ordinary share	165	13/01/2003	198.35	NMB
100	Nepal share market & Finance	Right share	60	29/01/2003	85.35	CIT
101	Mahalaxmi finance limited	Right share	25	28/02/2003	0	NFCL
102	N.B insurance co ltd	Ordinary share	20	29/04/2003	132.69	CIT
103	People Finace Ltd	Right share	20		56.69	NCML
104	Butwal finance ltd	Ordinary share	20		803.74	NMB
105	Om finance co ltd	Ordinary share	8		1637.83	NEFINSCO
	<b>Total</b>		<b>556.54</b>			
	<b>Fiscal Year 2003/2004</b>					
106	Laxmi bank ltd	Ordinary share	192.5	4/8/2003	251.35	CIT
107	Standard finance ltd	Ordinary share	24	7/8/2003	362.54	NMB
108	Alpic everest finance ltd	Right share	20	4/9/2003	100.51	NEFINSCO
109	Nepal investment bank ltd	Debenture	300	3/11/2003	102.28	AFC
110	Cosmic merchant bankung & fin ltd	Ordinary share	24	11/11/2003	717.83	NMB
111	kumari bank ltd	Ordinary share	150	18/12/2003	811.35	CIT & NCML
112	Siddhartha finance ltd	Right share	20	9/12/2003	88.84	NEFINSCO
113	Fewa finance co ltd	Ordinary share	8	23/02/2004	2355	NMB

114	Nepal credit & commercial bank ltd	Ordinary share	210	31/03/2004	122.1	CIT & NCML
115	Prudential insurance co ltd	Ordinary share	20	14/04/2004	956.84	NMB
116	NB finance & leasing co ltd	Right share	30	15/06/2004	66.84	NSMB
117	Chhimek bikas bank ltd	Ordinary share	3	3/6/2004	139.27	NMB
118	Pachhimanchal dev bank ltd	Ordinary share	6	10/6/2004	2023.28	NCML
119	Kist merchant banking & finance ltd	Ordinary share	20	21/06/2004	179.6	NMB
	<b>Total</b>		<b>1027.5</b>			
	<b>Fiscal Year 2004/2005</b>					
120	Nepal bangladesh bank ltd	Right share	359.92	16/07/2004	95.26	NSMB
121	Lumbini bank ltd	Ordinary share	150	26/07/2004	721.24	CIT
122	World merchant banking & fin ltd	Ordinary share	24	3/9/2004	965.17	NMB
123	National hydro power co ltd	Ordinary share	140	3/9/2004	21.55	NCML & NSML
124	Annapurna Finance Ltd	Right share	20	5/11/2004	97.33	NCML
125	Birgunj finance ltd	Ordinary share	24	22/11/2004	704.48	NMB
126	Deprose development bank ltd	Ordinary share	3.48	27/01/2005	259.34	NMB
127	Everest Bank Ltd	Debenture	300	20/04/2005	100	CIT
128	Nirdhan utthan bank	Right share	15	25/04/2005	65.92	NMB
129	Nepal Sbi Bank Ltd	Right share	215.93	3/5/2005	96.5	NMB
130	Nepal investment bank ltd	Right share	295.29	13/05/2005	99.04	AFC
131	Everest finance ltd	Ordinary share	8	17/05/2005	540.46	NMB
132	Capital Merchant banking & finance ltd	Ordinary share	28	6/6/2005	202.49	CIT
133	National finance co ltd	Right share	43.2	15/06/2005	97.06	NCML
	<b>Total</b>		<b>1626.82</b>			
	<b>Fiscal Year 2005/2006</b>					
134	Chilime hydro power co ltd	Ordinary share	237.41	28/08/2005	509.84	CIT
135	Development credit bank ltd	Right share	80	24/08/2005	95.87	NMB
136	Prudential Bittiya santha ltd	Ordinary share	24.5	11/9/2005	113.34	NCML
137	Siddhartha bank ltd	Ordinary share	150	15/09/2005	1865.33	NMB & NCML
138	Bank of kathmandu ltd	Debenture	200	22/09/2005	133.31	NMB
139	Srijana Finance Ltd	ordinary share	4	22/09/2005	121.08	NCML
140	Kumari Bank Ltd	Right Share	125	21/12/2005	153.46	NCML
141	Gandaki Development Financial institution	ordinary share	15	13/01/2006	397.51	NMB
142	Fewa Finance Co .Ltd	Right Share	30	18/01/2006	397.51	NMB
143	Business Development Financial Institution	ordinary share	12	22/01/2006	2188.34	NCML
144	Om Finance co Ltd	Right Share	30	18/01/2006	99.66	NMB
145	Royal Merchant Banking and Finance	Ordinary share	17.5	27/02/2006	283.3	CIT
146	Goodwill Finance ltd	Right Share	25	3/3/2006	94.96	NCML
147	Janaki Finance co Ltd	Right Share	10	15/03/2006	98.33	NEFINSCO
148	Central Finance Ltd	Right Share	12	26/03/2006	98.32	NCML
149	Taragaun Regency Hotel	Right Share	446.45	26/03/2006	57.456	NCML
150	Bhajuratna Finance & Saving Co .Ltd	ordinary share	10.5	26/03/2006	274.36	NCMI
151	Guheshwari Merchant Banking & finance	ordinary share	20	2/4/2006	213.54	NCML
152	Siddhartha Bikas Bank	ordinary share	20	7/5/2006	222.43	NMB
153	IME Financial Institution	ordinary share	17.5	16/05/2006	458.46	NMB
154	Shikahar Insurance co.L	ordinary share	25	22/05/2006	4375.86	NMB&NCML

155	Bhrikuti Development Bank	ordinary share	6.42	21/05/2006	214.42	NCML
156	Machhapuchere Bank	Right Share	165	25/05/2006	87.13	NMB
157	Kist Merchant Bank	Right Share	50	30/05/2006	78.01	NMB
158	Nepal Share Market & Finance Ltd	Right Share	40	4/6/2006	90.94	CIT
159	Nepal Investment Bank	Debenture	250	9/6/2006	100	AFC
160	Nepal Industrial & Commercial Bank	Debenture	200	12/6/2006	100	AFC
161	Patan Finance Ltd	ordinary share	20	3/7/2006	116.06	NEFINSCO
162	Nepal SBI Bank	Debenture	200	4/7/2006	101.2	CIT
	<b>Total</b>		<b>2443.28</b>			
	<b>Fiscal Year 2006/2007</b>					
163	Pokhara Finance Ltd	Right Share	20	20/07/2006	99	NMB
164	Narayani Industrial Bikas Bank	ordinary share	6	27/07/2006	614	NEFINSCO
165	Sanima Bikas Bank	ordinary share	96	9/8/2006	4031	NMB
166	Lumbini Bank	Right Share	100	13/08/2006	100	NCML
167	Paschimanchal Bikas Bank	Right Share	28	20/08/2006	76	NCML
168	Bageswori Bikas Bank	Ordinary share	9	27/08/2006	448	NMB
169	Alpic Everesr Finance	Right Share	20	7/9/2006	96	NMB
170	Peoples Finance ltd	Right Share	40	28/09/2006	56	NCML
171	Sahayogi Bikas Bank	ordinary share	6	10/10/2006	1917	NCML
172	Chhimek Bikash Bank	Right Share	20	27/10/2003	81	NMB
173	Nepal Development Bank	Right Share	160	25/12/2006	54	NCML
174	Gorkha Development Bank	ordinary share	96	12/1/2006	10832	NCML & NMB
175	Ace Finance Co	Right Share	194	31/01/2007	99	NCML
176	Navadurga Finance Co Ltd	Right Share	11	2/2/2007	99	NEFINSCO
177	Annapurna Finance Co . Ltd	Right Share	80	9/2/2007	99	NCML
178	Emporial Financial Institution	ordinary share	19.5	20/02/2007	2568	NMB
179	Swabalamban bikas bank	Ordinary share	6	4/3/2007	9623	NMB
180	Himchuli bikas bank	Ordinary share	12	5/3/2007	13362	NCML
181	ICFC financial institution ltd	Ordinary share	24.4	6/5/2007	3506	NMB
182	Annapurna bikas bank ltd	Ordinary share	29.4	11/3/2007	2194	NEFINSCO
183	Laxmi bank ltd	Right share	122	25/04/2007	98	NMB
184	Civil merchant finance institution	Ordinary share	20	26/04/2007	1500	NEFINSCO
185	Capital Merchant banking & finance ltd	Right share	84	27/04/2007	80	CIT
186	Yeti finance co ltd	Right share	6.3	29/04/2007	83	NCML
187	Business development bank ltd	Right share	30	11/5/2007	100	AFC
188	Nepal express finance ltd	Ordinary share	15	11/5/2007	782	NCML
189	Kist merchant banking & finance ltd	Right share	100	23/05/2007	99	NCML
190	Siddhartha bank ltd	Right share	100	4/6/2007	99	AFC
191	Biratlxami bikas bank	Ordinary share	20	10/6/2007	1340	NCML
192	Nepal investment bank	Debenture	250	12/6/2007	100	AFC
193	malika bikash bank	Ordinary share	15	15/06/2007	5484	NMB
194	Lunbini bank ltd	Right share	150	19/06/2007	0	AFC
195	Excel development bank ltd	Ordinary share	6	24/06/2007	1897	NMB
196	Everest Bank Ltd	Pref. share	400	4/7/2007	147.37	CIT
	<b>Total</b>		<b>2295.5</b>			
	<b>Fiscal Year 2007/2008</b>					

197	Merchant Finance Co Ltd	Ordinary share	12	28/04/2064	0	NMBL
198	Lumbini General Insurance Co Ltd	Ordinary share	25	07/05/2064	7173	NMBL
199	Siddhartha Insurance Ltd	Ordinary share	25	16/05/2064	6063	NMBL
200	Infrastructure Development Bank Ltd	Ordinary share	24	13/07/2064	9355	NMBL
201	Kuber Merchant Bittiya Sanstha Ltd	Ordinary share	22.5	28/07/2064	4447	NMBL
202	Prabhu Finance Co Ltd	Ordinary share	48	06/08/2064	7730	NMBL
203	Agricultural Development Bank Ltd	Ordinary share	125	14/08/2064	0	ACE
204	Nepal Development and Employment Bank Ltd	Ordinary share	128	28/11/2064	3505	ACE
205	Shikhar Financial Institution Ltd	Ordinary share	20	08/03/2065	2671	NFCL
206	Clean Energy Development Bank Ltd	Ordinary share	96	05/03/2065	3646	NMBL
207	Subechha Development Bank Ltd	Ordinary share	12	11/03/2065	6183	ACE
208	Kaski Finance Ltd	Ordinary share	20	13/03/2065	2193	NMBL
209	Lord Buddha Financial Institution Ltd	Ordinary share	22.5	15/03/2065	1673	ACE
210	Sagarmatha Merchant Banking & Fin Ltd	Ordinary share	20	22/03/2065	2578	CIT
211	Reliable Investment Financial Institution Ltd	Ordinary share	24.8	23/03/2065	3152	NMBL & NCML
212	Global Bank Ltd	Ordinary share	300	25/03/2065	3425	NCML
213	Nepal Electricity Authority	Debenture	1500	02/11/2064	111	NMBL
214	Kumari Bank Ltd	Debenture	400	01/02/2065	101	NMBL
215	Himalayan Bank Ltd	Debenture	500	08/03/2065	100	ACE
216	Nepal Investment Bank Ltd	Debenture	250	12/03/2065	100	ACE
217	Nabil Bank Ltd	Debenture	300	29/03/2065	100	NCML
218	Nepal Investment Bank Ltd	Right Share	201.30	15/10/2064	99	ACE
219	Siddhartha Bank Ltd	Right Share	138	13/11/2064	99	NMBL
220	NIC Bank Ltd	Right Share	158.40	01/12/2064	96	NCML
221	Lumbini Bank Ltd	Right Share	250	18/12/2064	85	ACE
222	Kumari Bank Ltd	Right Share	180	12/01/2065	99	NCML
223	Laxmi Bank Ltd	Right Share	183	20/01/2065	99	NMBL
224	Development Credit Bank Ltd	Right Share	806.40	19/09/2064	99	NMBL
225	NMB Bank Ltd	Right Share	800	24/09/2064	95	NEFINSCO
226	Nirdhan utthan Bank Ltd.	Right Share	39.50	30/07/2064	0	NCML
227	Paschimanchal Dev. BANK LTD.	Right Share	47.5	16/08/2064	89	ACE
228	Bhrikuti dev. Bank Ltd	Right Share	30.0	24/08/2064	97	NCML
229	Siddhartha dev. Bank Ltd	Right Share	50.0	27/10/2064	0	ACE
230	Sanima Dev. Bank Ltd	Right Share	64	25/01/2065	99	NCML
231	Ace Dev. Bank Ltd	Right Share	96	12/02/2065	0	NCML
232	Gurkha Dev. Bank Ltd	Right Share	160	13/02/2065	123	CIT
233	Business Dev. Bank Ltd	Right Share	150	16/02/2065	67	ACE
234	Himchuli Dev. Bank Ltd	Right Share	60	17/02/2065	99	NCML
235	Ananpurna Dev. Bank Ltd.	Right Share	150	28/02/2065	0	NFCL
236	Shahayogi Dev. Bank Ltd	Right Share	10	03/03/2065	99	NCML
237	Capital Merchant Banking and Financial Ltd.	Right Share	161	23/08/2064	77	ACE
238	Premier finance Co. Ltd.	Right Share	14.40	13/09/2064	98	NCML
239	Central Finance Ltd.	Right Share	24	25/05/2064	0	NCML
240	Nepal Share Markets And Finance Ltd.	Right Share	240	03/08/2064	99	CIT
241	IME Financial Institution Ltd.	Right Share	50	16/08/2064	99	NMBL

242	Prudential Financial Institution Ltd.	Right Share	50	01/12/2064	86	ACE
243	Paschimanchal Finance Co. Ltd.	Right Share	27.80	06/02/2065	97	ACE
244	Kist Merchant Banking and Financial Ltd.	Right Share	600	03/02/2065	85	ACE
245	Goodwill Finance Ltd.	Right Share	50	12/02/2065	99	ACE
246	United Finance Ltd.	Right Share	75	17/02/2065	98	NCML
247	Nepal Express Finance Ltd.	Right Share	30	20/02/2065	99	NCML
248	Royal Merchant Banking and Finance Ltd.	Right Share	60.10	19/02/2065	99	ACE
249	ICFC Financial Institution	Right Share	224.80	28/02/2065	85	NMBL
250	International Leasing And Finance Ltd.	Right Share	504.08	27/02/2065	92	NCML
251	Nepal housing and Merchant Finance Ltd.	Right Share	80.40	11/03/2065	83	ACE
252	Shree Investment and finance Ltd.	Right Share	16.80	09/03/2065	99	NMBL
253	Standard finance Ltd.	Right Share	72.60	16/03/2065	101	NCML
254	Gorkha finance ltd.	Right Share	30	29/03/2065	106	CIT
255	Guheshwori Merchant Banking and Finance Ltd.	Right Share	37.0	31/03/2065	0	NCML
256	Nepal Aawas Bikash Finance Co. Ltd.	Right Share	70.50	31/03/2065	96	NEFINSCO
257	Sagarmatha insurance Co. Ltd.	Right Share	23.60	08/11/2064	96	ACE
258	Premier insurance Co. Ltd.	Right Share	39.0	12/03/2065	86	ACE
259	Himalayan General insurance Co. Ltd	Right Share	37.80	23/03/2065	0	ACE
			10668.20			
	<b>Grand Total</b>		<b>22561.18</b>			

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NMBL: Nepal Merchant Banking & Finance Ltd.  
NFCL: National Finance Co. Ltd.  
AFCL: Ace Finance Co. Ltd.  
NFSL: Nepal Finance & Saving Co. Ltd.  
NSMCL: Nepal Share Markets Co. Ltd.  
UFL: United Finance Ltd.  
NSMBL: Nepal Sri Lanka Merchant Bank Ltd.  
CIT: Citizen Investment Trust  
NCML: NIDC Capital Market Ltd  
RBB: Rastriya Banijya Bank  
NEFINSCO: Nepal Finance and Savings Company Limited

**APPENDIX-III A**

**Trend Analysis of Amount of Issue Approved**

Year (t)	Amount of Issue Approved (y)
1993/94	244.40
1994/95	173.96
1995/96	293.74
1996/97	332.20
1997/98	462.36
1998/99	258.00
1999/'00	326.86
2000/01	410.49
2001/02	1441.33
2002/03	556.54
2003/04	1027.50
2004/05	1626.82
2005/06	2443.28
2006/07	2295.50
2007/08	10668.20
Total	22561.18

Let the trend line be given by the equation

$$y = a + bx \dots\dots\dots(I)$$

Where,

$x = t - 2000/01$  i.e. origin is at 2000/01 and  $x$  units = 1 year and  $y$  is amount of issue approved (in million)



Computation of for straight line trend

Year (t)	Amount of Issue Approved (y)	x = t-2000/01	xy	x <sup>2</sup>	Trend values (y <sub>e</sub> ) = 1504.07+375.10x
1993/94	244.40	-7	-1710.8	49	-1121.63
1994/95	173.96	-6	-1043.76	36	-746.53
1995/96	293.74	-5	-1468.7	25	-371.43
1996/97	332.20	-4	-1328.8	16	3.67
1997/98	462.36	-3	-1387.08	9	378.77
1998/99	258.00	-2	-516	4	753.87
1999/'00	326.86	-1	-326.86	1	1128.97
2000/01	410.49	0	0	0	1504.07
2001/02	1441.33	1	1441.33	1	1879.17
2002/03	556.54	2	1113.08	4	2254.27
2003/04	1027.50	3	3082.5	9	2629.37
2004/05	1626.82	4	6507.28	16	3004.47
2005/06	2443.28	5	12216.4	25	3379.57
2006/07	2295.50	6	13773	36	3754.67
2007/08	10668.20	7	74677.4	49	4129.77
Total	y = 22561.18	x = 0	xy= 105028.99	x <sup>2</sup> =280	

The normal equations for estimating a and b in equ<sup>n</sup>(I) are given by:

$$y = na + b x$$

$$22561.18 = 15a + 0$$

$$a = \frac{22561.18}{15} \times 1504.07$$

$$xy = a x + b x^2$$

$$105028.99 = 0 + 280 b$$

$$b = \frac{105028.99}{280} \times 375.19$$

Substituting in equation----- (I), the trend line is given by the equation:

$$y_e = 1504.07 + 375.1x \dots \dots \dots \text{equation (II)}$$

Substituting  $x = -7, -6, -5, -4, -4, -2, 0, 1, 2, 3, 4, 5, 6, 7$

In equation...(II), we obtain the trend values for the year 1993/94

To 2007/08 respectively. The trend values are given in the last column of the above table.

The estimated amount of issue approved in the year 2008/09 is obtained on putting

$$x = t - 2000/01 = 2008/09 - 2000/01 = 8$$

in equation (II) Thus,

$$(\text{ye}) 2008/09 = 1504.07 + 375.10 \times 8 = 4504.87 \text{ (in million)}$$

Like wise,

The estimated amount of issue approved in the year 2009/10 is obtained in putting.

$$x = t - 2000/01 = 2009/10 - 2000/01 = 9,$$

in equation ...(II) thus,

$$(\text{ye}) 2009/10 = 1504.07 + 375.10 \times 9 = 4879.97 \text{ million}$$

## APPENDIX-III B

### Trend Analysis of Number of Issue Approved

Year (t)	Number of Issue Approved (y)
1993/94	16
1994/95	10
1995/96	12
1996/97	5
1997/98	12
1998/99	5
1999/'00	6
2000/01	9
2001/02	12
2002/03	18
2003/04	14
2004/05	14
2005/06	29
2006/07	34
2007/08	64
Total	260

Let the trend line be given by the equation

$$y = a + bx \dots\dots\dots(I)$$

Where,

$x = t - 2000/01$  i.e. origin is at 2000/01 and  $x$  units = 1 year and  $y$  is number of issue approved.

Computation of for straight line trend

Year (t)	Number of Issue Approved (y)	x = t-2000/01	xy	x <sup>2</sup>	Trend values (y <sub>e</sub> ) = 17.34+2.28x
1993/94	16	-7	-112	49	1.38
1994/95	10	-6	-60	36	3.66
1995/96	12	-5	-60	25	5.94
1996/97	5	-4	-20	16	8.22
1997/98	12	-3	-36	9	10.50
1998/99	5	-2	-10	4	12.78
1999/'00	6	-1	-6	1	15.06
2000/01	9	0	0	0	17.34
2001/02	12	1	12	1	19.62
2002/03	18	2	36	4	21.90
2003/04	14	3	42	9	24.18
2004/05	14	4	56	16	26.46
2005/06	29	5	145	25	28.74
2006/07	34	6	204	36	31.02
2007/08	64	7	448	49	33.30
Total	y = 260	x = 0	xy= 639	x <sup>2</sup> =280	

The normal equations for estimating a and b in equ<sup>n</sup>(I) are given by:

$$y = na + b x$$

$$260 = 15a + 0$$

$$a = \frac{260}{15} \times 17.34$$

$$y = a + b x^2$$

$$639 = 0 + 280 b$$

$$b = \frac{639}{280} \times 2.28$$

Substituting in equation----- (I), the trend line is given by the equation:

$$y_e = 17.34 + 2.28x \dots \dots \dots \text{equation (II)}$$

Substituting  $x = -7, -6, -5, -4, -4, -2, 0, 1, 2, 3, 4, 5, 6, 7$

In equation...(II), we obtain the trend values for the year 1993/94

To 2007/08 respectively. The trend values are given in the last column of the above table.

The estimated number of issue approved in the year 2008/09 is obtained on putting

$$x = t - 2000/01 = 2008/09 - 2000/01 = 8$$

in equation (II) Thus,

$$(y_e)_{2008/09} = 17.34 + 2.28 \times 8 = 35.58 \beta 36$$

Like wise,

The estimated number of issue approved in the year 2009/10 is obtained in putting.

$$x = t - 2000/01 = 2009/10 - 2000/01 = 9,$$

in equation ...(II) thus,

$$(y_e)_{2009/10} = 17.34 + 2.28 \times 9 = 37.86 \beta 38$$