

Chapter - I

Introduction

The business world is very changeable. Every moment can be a cause of change. The frame of the change is being sketched in every moment and molding it in reality. In such dynamic business world, the business houses should face the competitions as well as challenges. To face the competitions and tackle the challenges the business houses should make them strong in every sector and keep their houses in capable position. Only then it becomes possible for the business houses to collect sufficient funds to perform their any work.

The business houses or firms need fund for various purposes. The type of fund needed by a firm depends upon the types of the enterprises which vary from one firm to another depending on its nature and necessity. Some firms need long term fund whereas others need short term funds as working capital.

There are two types of sources of financing to fulfill the financial need of a firm. One internal sources or retain earning and the provision for depreciation (The self financing was only method of financing an enterprises in rudimentary stage of the economy where every economic unit is self sufficient.) This self financing is used for tiny of works of the enterprises. Another, external sources of financing which generally involve the raising of fund from the public issuing of securities (i.e. Shares, debenture, bond etc.). These sources of financing are required to execute the expansion of the company or firm.

With the development of financial sector the corporate business organization come front adopting various policies and strategies to enable the investors to satisfy their diverse assets preference. This has made it possible to attract the external fund from the public by issuing shares. On the other hand, promoters' equity fund may not be sufficient for its financial requirement whether it is a new company or existing

company seeking to expand and modernize. They can get loan from the bank and financial institutions, whether long term or short term but the bank and financial institutions will lend only a certain percentage of the company's equity or assets which may not be sufficient for the company. Also getting loan from bank and financial institution is not easy because there may be lengthy process and legal requirement involved.

An initial public offering (IPO) occurs when a security is sold to the general public for the first time with the expectation that a liquid market will develop. Public Offering is a security offering where all investors have the opportunity to acquire a portion of the financial claims being sold (Keown and Petty, 2002: 471).

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

Existing shareholders can sell their share in open-market transactions. With these benefits, however, come costs. In particular, there are certain ongoing costs associated with the need to supply information on regular basis to investors and regulators for publicly traded firms. Furthermore, there are substantial one-time costs associated with initial public offering that can be categorized as direct indirect costs. The direct costs include the legal, auditing and underwriting fees. The indirect costs are 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 market shortly after the IPO. These direct and indirect costs affect the cost of capital for firms going public. Firms going public, especially young growth firms,

face market that is subject to sharp swings in valuations. The facts that the issuing firm is subject to the whims of the market makes the IPO process a high-stress period for entrepreneurs. Some of the classic problems caused by asymmetric information may be present because initial public offering involved the sale of securities in closely held firms in which some of the existing shareholder may possess non-public information. In addition to the adverse selection problems that can arise when firms have choice of when and if to go public, a further problem is that the underlying value of the firms is affected by the actions that managers can undertake. This moral hazard problem must also be dealt with by the market. In addition, evidence is presented on three patterns associated with IPO's: (i) new issues under pricing, (ii) cycles in the extent of under pricing, and (iii) long-run underperformance. So issuing of share to the general public is easy to raise the fund for the company. This public issuing is made compulsory under Securities Exchange Act in Nepal. Promoters will receive permission from the government authority to establish a public limited company if they show desire to include general public in its equity base. Hence firm needs to sell part of its total equity to the general public to raise the required fund through public issue of shares in primary market is called Initial Public Issue . It is also called Initial Public Offering (IPO).

In Nepal, the first public issue of ordinary shares takes place more than fifty years back with public issue of Biratnagar Jute Mills and Nepal Bank Limited. But the development of the capital market started in 1976 AD after establishment of securities Exchange Center Ltd. 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 bonds and other financial services. Securities Exchange Center Ltd. dealt in the securities as a broker as well as a regulatory body. The Centre used to take, buy and sale only on orders from interested investors and conform them if a price and quantity matched. There was no time limit within which deal took place. It normally takes place one to three weeks. Dues to this, general public faced problems while buying or selling securities. The Security Exchange Center Ltd. issued 62 Companies shares. Among these 23 companies were undersubscribed including Harisiddhi Break & Tile Ltd., Banswari Leather and

Shoes Factory Ltd., Nepal Awas Bikas Bitta Company Ltd. etc. Although the secondary market was non-functional and public were not fully aware of on the working of the capital market, the public response to the new issue of share of selected company like bank and finance company were overwhelming. Security Exchange Center was converted into Nepal Stock Exchange Limited (NEPSE) in 1993, and under its support, the brokerage system of secondary market was establishes. Until today out of 32 brokerage firm, 27 firms doing their jobs regularly. Nepal Stock Exchange Limited is a non profit organization. It operates under Security Exchange Act 1983. The basic objective of NEPSE is imparted free marketability and liquidity to the government bonds and corporate securities. With the establishment of full fledged Stock Exchange, the shares which the public had held for decades, becomes liquid.

Security Board of Nepal (SEBON), regulator of Nepalese Security market, was established on May 26, 1993, under the provision of the Security Exchange Act, 1983. It promotes and protects the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale and exchange of securities, to supervise, look after and monitor the activities of the stock exchange and the other related firms on securities business, and to provide contribution to the development of the capital market by making securities transactions fair, healthy, efficient and responsible. 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's years. Hence, the general investors are very keen to make investment in the securities of the companies, through both primary and secondary markets. In primary market, the investment is made through public issues of ordinary shares, preference shares, debentures, right shares and mutual fund on unit's scheme. This study is based on the dealing process in the primary market. As well as the study concerned with the pace public offering and public response to IPO in Nepal. As per the provision of Company Act, Privately held companies cannot issue their shares in public by themselves. The issue must be done through issue managers. Though the company can raise the capital to the extent of its authorized capital, it generally issues stocks as per the need of its company. The amount

of share capital of the issued share is called issued capital. The total amount paid by the promoters at the time of establishment or after time-to-time rising of funds by the company is the paid-up capital.

1.2 Statement of Problem

There are various types of obstacles existing both from demand and supply side in corporate securities in initial public offerings. In this respect, there is the tendency, limitation of ownership and control of the enterprises within the close circle. On the other hand, there were no financial or other incentives for the firms to be public. Further more the existing strong barriers of socio economic infrastructure and historical reasons made the successful floatation difficult. On the demand side vast majority of the population are illiterate and ignorant on the modern business principles. It has made difficult in the floatation of the new ventures and selling their shares. Apart from this, there is the absence of secondary market to ensure liquidity to the securities on demand.

The growth of raising fund in public offerings is encouraging in recent years. The commercial banks, finance companies, manufacturing companies, trading etc. have been able to raise capital through the flotation of different types of securities like debentures, preferred stocks, common stocks to the public with very good response. Most of the companies' issues have been oversubscribed and a very few are undersubscribed.

A number of studies have been done on IPOs in both the developed and developing economies. Most of the studies on IPOs have focused on the capital market i.e. initial under pricing, public response to initial public offerings and long-term underperformance. This Study has focused on finding the degree raising fund through IPO such subscription securities of the capital market as well as attempt to identify variables or factors that could explain this irregularity in the context of Nepal. The problem of the study can be mentioned as;

-) What is the pace of Nepalese IPO?
-) Are there any problem regarding primary issue of securities in Nepal?
-) Which instrument is highly subscribed in Nepalese IPO?

-) Who are the beneficiaries of IPO?
-) What is the main cause oversubscription and under subscription in IPO?
-) In which sector public response is high?
-) Is under pricing does exist in Nepalese IPO?

1.3 Objective of the Study

This study is being to evaluate the public response at the time of raising fund through Initial Public offering or primary issue of shares in the context of Nepal.

- To analyze the procedure and mechanism of IPO
- To assess the growth of IPO.
- To analyze the pattern of public response to IPO.
- To identify the problem of IPO in the market.
- To make suggestion and recommendation regarding the IPO or Primary Securities Market.
- To examine the sartorial growth of primary market in Nepalese capital market

1.4 Significance of Study

IPO is one of the crucial factors for general investors and public company. This study might serve to be crucial information for these respective institutions taken as sample for the study in IPO procedure. This research will be significant for the following way:

- This study is expected to helpful for the general investor and the organizations that directly and indirectly related in IPO.
- This study will get the knowledge of practical exist in rules and regulation for policy maker and help them to make policy about IPO.
- This study guided investor to get right decision for investment on right Place at right time.

1.5 Limitation of the Study

Although public response might be seen on other type of shares, however response in primary share issue is considered and other aspects have been neglected, as they are difficult to measure. Some companies have not disclosed the information despite the legal provisions of obtaining information regarding their financial position.

- This has analyzed and evaluated the data for limited data.
- This study is mostly based on secondary data.
- Only a few companies are considered for the study.
- The study heavily focus on the initial public offering and current legal aspects associated their in.
- The study is not covered all recent changes because the data are used from fiscal year 1993/94 to 2008/09.
- Variations of data in itself are also found when comparing with different sources.
- The 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

This study has been organized onto five Chapters:

Chapter I [Introduction]

Chapter I will introduce the major issues related to the Initial Public offering (IPO) of Nepal, general background, statement of the problems, objectives, significance limitations of the study and the plan of the work.

Chapter II [Literature Review]

This Chapter will give a brief review of literature related to this study. It will include a discussion on the conceptual framework and review of major studies. It will give as overview of the related literature done in the past related to this study.

Chapter III [Research Methodology]

This Chapter will describe the different methodologies employed in this study. Sources of data will be mentioned and described in this chapter.

Chapter IV [Presentation and Analysis of Date]

This Chapter will presentation and analysis of the data obtained during the study. Different tools and techniques of date analysis will be undertaken for the purpose to analysis of data.

Chapter V [Summary, Conclusion and Recommendations]

This Chapter will include the summary, conclusion and recommendations of the study. The findings will be included in this chapter along with the suggestions and their recommendations.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Conceptual Review

Research is a continuous process and hence the procedures and the findings may change due to continuous research. So, for getting the power or ability of analysis and interpretation of data a researcher must review the literature about his field of study. Then only some new contributions can be made and some ideas can be received for development of a research design. So, the books and previous studies related to this field of study may provide the foundation for the study. By linking the present study with the past research studies, the continuity in research may be provided.

2.1.1 Concept of Financial Market

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

All securities, whether in the money or capital markets, 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 issue-that is, the company actually receives the proceeds from the sale of securities. Once the securities begin to trade among individual, business, government or financial institution savers and investors, they become part of the secondary market. The primary market is where new securities are sold. The secondary market can be viewed as a “used” or “pre-owned” securities market.

2.1.2 Money Market

Money market is defined as the markets for debt securities of less than one year. In other words money markets are the financial markets where funds are borrowed or loaned for short periods. Money market is just a mechanism unlike security market which is concern with a particular place for transaction. Transactions take place among people through different communication tools. Such as, telephone, fax etc. A money market is to provide current capital to business organizations and short term debt to government. It also provide fund for transaction of securities and products in an economy.

Business organizations use money market for purchase and transaction of inventory as well as for distributing wages and salaries to workers, maintenance charge of plant and machinery, payment of tax etc. Similarly, government uses money market to cover general expenditure. Commercial banks make available short-term cash reserve through money market. The instruments of money market are:

-) Coins and Rupees
-) Checks of Current and Saving Accounts
-) Certificates of Deposits
-) Bankers Acceptance
-) Commercial paper
-) Federal Fund

2.1.3 Capital Market

Capital market is defined as the markets for long term debt and corporate stocks. Money market is the form of financial market in which long term debt (one year or longer) and stocks are traded. The world has defines capital market as the market in which long term financial instruments such as equities and bonds are raised and traded. It is a market for capital funds. The capital market consists of any transaction involving long term debt or equity obligations. The capital market provides funds to finance long term investments. Financial institutions traded in the capital market have original maturities of more than a year.

Capital Market Instrument in Nepal

The capital market consists of long term financial instrument such as Mortgage, Corporate Bond, Corporate Stock and Government Bond etc.

1. **Mortgage:** Mortgage securities represent ownership interest in a pool of mortgage loan. So, a mortgage debenture is a promise to pay secured by a mortgage of all or part of the company's assets. Companies secure loan by presenting their fixed assets as collateral. Mortgages have estimated maturity and payment cycle of interest and capital.
2. **Corporate Bond:** Corporate bond is fixed income security issued by private firm, business enterprises, owned by private investor or by government. Corporate bond typically pays semi-annual coupon over their lives and return the face value to the bond holder at maturity date. Corporate bond has high default risk. On basis of securities these bonds are secured bond and unsecured bond or debentures. Corporate bond may have many other features like call provision, convertibility, attachment of warrants etc, Very few companies have issued corporate bond in the Nepalese market. The first instance of bond issue was by Bottlers Nepal Ltd when it issued 18% coupon rate bond in 1986/87.
3. **Corporate Stock:** When we own stock, we are one of the owners of the issuing corporation. The value of stock can rise and fall depending on such factors such as the growth of the company, general economic condition and market conditions. If the corporation is earning profits, shareholders will get the portion of the profit in the form of the dividend. Corporate stock consists of Common Stock and Preferred Stock. Company will pay fixed predetermined dividend to the Preferred Stockholders before distributing to the stockholders.
4. **Government Bond:** People and organization lend money to government by purchasing bond. Government bonds are among the safest of all investments as the government is unlikely to default on interest or on principal repayment. Nepal stock exchange has started trading government since 2063 Mansir 29 BS. Government bond offers interest rate ranging from 5.5%-6.5% and with maturity period of 5-12 years. Trading of government bond makes market interest rate more realistic. It indicates minimum market interest rate in the economy. There are 6 authorized government bond brokers in Nepal.

2.1.4 Money Market in Nepal

Generally money market includes the national money market and short term credit market. In terms of investment it reforest to short term credit market. The money market is divide under two sectors- Organized and Unorganized. The organized market comprises of the central bank i.e. NRB and commercial banks. The unorganized market is made of indigenous bankers and money lender who operate without any supervision and coordination by NRB.

Nepalese money market is not complete one since not many institutions are involved. Many of the money market instruments which are popular is developed money market like commercial paper, banker's acceptance, have not yet entered Nepalese money market. Only NRB and commercial banks deal with treasury bills, commercial bills and short term loan.

Treasury bills are the major component of Nepalese money market. Its trading began in the year 1961/62 and it has been an important sources of short term fund for the government ever since. Although Treasury bill market and short term credit by commercial banks form important components of Nepalese money market, it is evolving steadily despite numerous shortcomings.

2.1.5 Primary Market

A primary market is the place where corporation or governments issue new securities. All securities where in 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 receive direct benefits from an issue. That means the company actually receives the proceeds from the sale of securities. The term primary market is used to denote the market for the original sell of securities by an issuer to the public. The issuer receives cash which may be invested in productive assets or retirement of debt.

In the primary market the principal sources of funds is the domestic savings of individual and business, other supplies include foreign investors and governments. The ultimate supplies of funds are those sectors with a surplus of current incomes over expenditures (savings) and these funds flow to ultimate users, economic use securities to finance a surplus of expenditure over their current incomes.

Historical Background of Nepalese Primary Market

The earliest records of securities dealing in Nepal are meager and obscure. In those days there was no remarkable movement or industrial development. Still it is on the rudimentary stage. No attempts were made to mobilize private savings and use them to productive sector. There were no media or market mechanism that facilitated the transfer of funds from surplus spending. Units (the units whose current income is less than current expenditure) became obvious. Except for a brief period starting from 1963 AD until the end of the second world war, no attempt was made to collect funds for the industries through the floatation of securities. It is specially the stocks in the market. In the absence of the development of corporate security market, the securities floated in the market are the government securities. Through them the government assembles the funds directly from the surplus spending units via the financial intermediaries. So far the government has the virtual monopoly over the security market. The resort to security market by the government has been in the form of borrowing. It is through the insurance of mainly the development bonds to meet the budgetary expenses. The first series of development bond was floated on Feb 12, 1964. It carried 6% rate of interest and had the maturity period of 5 years. Since then the government has been floating the development bonds each year.

Although, the Panchayat government came to further economic development by various slogans of people's participation, regionalism, basic needs industrial development, trade promotion, resource mobilization etc. There were so many proposals to develop capital market.

Securities Exchange Center (SEC) was established in Nepal in 1976 AD, to promote the public savings and to mobilize capital funds for industrial investments. In a real sense, the establishment of this center has made possible the development of capital market in Nepal because prior to this there was no special institution in Nepal dealing with securities. This center managed to issue public shares and debentures of 23 corporate bodies for rising about Rs.500 million from Public.

Securities Exchange Center has issued the Shares of the following companies (NEPSE, pp.16-17).

Table 2.1

Securities issued by Securities Exchange Center

S. No.	Name of Company	Issue Subscription
1.	Rastriya Beema Sansthan	Under Subscribed
2.	Nepal Battery Co. Ltd	Over Subscribed
3.	Nepal Arab Bank Ltd	Over Subscribed
4.	Nepal Byapar Co. (Narayani) Ltd.	Under Subscribed
5.	Nepal Lube Oil Ltd	Over Subscribed
6.	Nepal Industrial Development Corporation	Under Subscribed
7.	Himal Cement Company	Under Subscribed
8.	Nepal Indosuez Bank Ltd.	Over Subscribed
9.	Nepal Grindlays Bank Ltd	Over Subscribed
10.	Bottlers Nepal Ltd.	Over Subscribed
11.	Nepal United Company Ltd.	Under Subscribed
12.	Indreni Soyabean Udyog Ltd	Under Subscribed
13.	Nepal Life & General Insurance Company	Over Subscribed
14.	Bottlers Nepal (Tarai) Ltd.	Over Subscribed
15.	Butwal Spinning Mills Pvt. Ltd.	Under Subscribed
16.	Nepal Metal Company Ltd.	Under Subscribed
17.	Seti Cigarette Factory Ltd.	Over Subscribed
18.	Gorakhkali Rubber Udyog Ltd.	Over Subscribed
19.	Jyoti Spinning Mill Ltd.	Under Subscribed
20.	Arun Vanaspati Udyog	Over Subscribed
21.	Nepal Trading Ltd.	Over Subscribed
22.	Nepal Finance & Saving Company Ltd	Over Subscribed
23.	Himalayan Bank Ltd	Over Subscribed

In 1993 AD, remarkable development took place in the capital market. Under a program initiated to reform the capital market the Securities Exchange Center was converted into the Nepal Stock Exchange in order to increase marketability to government bonds and corporate securities. Nepal stock Exchange opened its trading floor in 13th January, 1994 providing membership to 5 market makers and 25 brokers. The members are permitted to act as intermediaries in buying and selling of shares of listed companies. The number of listed companies increased from 63 in 1992/93 to 99 in 1994/95 and the market value from 4,000 millions to 12,963 millions respectively. After opening the trading floor to brokers and market makers the total annual turnover rose from 70 million in 1992/93 to 1,052 million in 1994/95 (SEBON Annual Report 95/96).

Characteristics of Primary market

The Primary market has following characteristics:

-) Denotes the market for original sale of securities by an issuer to public.
-) Trading of new securities issued for the first time.
-) Makes financial capital available to invest in building equipment and stock necessary goods.
-) Investment bankers play an important role by providing advice on security-related matters.
-) Involves securities in money and capital markets.
-) Issuing company or government is directly involved in the transaction and receives direct benefit thereon.
-) Direct collection of proceeds by the issuing company.
-) After the securities start trading among individual and financial institutions, they become a part of the secondary market.
-) Buying securities in the primary market is riskier than in the secondary market.

Primary Market Process in Nepal

The corporate securities are issued in the primary market by the following process:-

- a) The information of issue of security is published by the company through different daily magazine as issue notice. The notice of issue is published from 7-15 days prior to the sell of security.
- b) The application forms are collected from public in different collection center and the fund is collected by selling the application form collected in issue
- c) Share are allotted or distributed to the applicant within 70 days after the closes of sell securities according to the quantity of application.
- d) Money received applicants who are not listed in share allotment is return there after through bill of payment or checks.
- e) Share certification: After the distribution of securities the investors are provided with distribution letter and ownership certificates from relevant collection centers.

Factors to be considered while investment in primary market

Primary market is the market of the securities which allows the entrance of new securities in the whole securities market. Any investor investing in the in primary market is the first person or organization that is investing in that security. Securities in the primary market don't have any pre-market experience. So, while investing in primary market, one should consider the following factors:

- a) Investors should ensure themselves about the objectives of the investment. The investment may have the objective of risk bearing or aversion.
- b) They should analyze the type of the business the relevant company is operating.
- c) After selecting the desired type of securities as per the risk bearing capacity, investor should make the list of the companies issuing those kinds of security for their internal and external analysis and the persons related to those companies. If the company is running since past, its previous business and current status should be studied and analyzed. And if it is newly established, its type of business and its future possibility of success should be projected. Similarly, the qualifications and background of the persons related to the companies such as managing director, members of BOD, chairman, debtors, etc. should be studied.

Factors to be Consider after investment in Primary Market

After investment in securities of a company, investor should frequently be in touch with the company's activities and fluctuation in share market. For this information; they should considered the following things:

1. The daily market price of share should denote.
2. The notices, information published by should be carefully study.
3. Before attaining the general meeting, the annual report of a company should be thoroughly study.
4. The date of dividend distribution should be carefully informed and remembered and the share certificate should be taken while going to receive dividend.

Sources of Primary Market Information in Nepal

There are so many sources of enforcement for the right and reliable information about primary market in Nepal. They are as follow:

-) Daily News Paper: - Companies issued information related to issue of their securities in the market through daily news paper. In Nepal some of daily newspapers are: Gorkhapatra, The Kantipur Daily, The Himalayan Times, The Kathmandu Post, Nagarik News, Arthik Abhiyan and Karobar National Daily etc. Normally the information given through these daily newspaper are company's introduction, Promoters introduction, forms distribution centers, capital structure of company, minimum and maximum to be applied for, complaints collection center and solution management etc.
-) Media: - They include radio, Television, Advertising Agencies etc. Information from Security Board, Security Exchange Market, NRB and Company Registered Office etc.
-) Websites:- The websites such as www.sebonp.com, www.ncml.com, www.nepalstock.com, www.nrb.org.np etc. are also the sources of primary market information.

2.1.6 Primary Market and Initial Public Offering

The primary market itself can be subdivided into seasoned and unseasoned issues. A seasoned issue refers to the offering of an additional amount of already existing securities, whereas an unseasoned new issue involves the initial offering of a security to the public. This unseasoned new issue is often referred to as Initial Public Offering (IPO).

When a company wants to raise funds from the public, it issues securities at first time and announces to the public to exercise the offering and this announcement for the public to raise funds is called Initial Public Offering. It is the raising of long term funds for governments or corporations from a sufficiently large public group in the primary market. The most important aspect of public offerings is its role as the single most effective means by which government and corporate entities can obtain long-term sources of funds on a permanent basis. Public issues mean raising of capital directly from the public. Issuing equity obviously creates value for a company and no doubt it is the major source of capital.

Thus IPO involves raising of funds for governments or corporations from the public through the issuance of various securities in the primary market and is often the only major source of obtaining large sums of fixed rate, long term funds.

2.1.7 Advantages of an IPO

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

2.1.8 Disadvantages of an IPO

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

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

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

2.1.9 Timing of a Public Offering

Obviously, not all companies that would like to go public are in a position to do so. Factors relevant to a company's ability to successfully close an IPO include (i) its past financial performance, its financial projections for the future, and its ability to generate consistent increases in revenues and earnings, all of which are crucial for a public company to survive in the market place, (ii) the experience and depth of the company's management team, (iii) a solid product position in the market with growth potential, (iv) a focused mission set forth in a well written business plan to present to

prospective underwriters, and (v) attorneys, accountants and public relations firms experienced in working with the SEC. Especially in the case of technology-based companies, the determining factor in the success of an IPO may ultimately be the receptivity of the stock market to new issuances in a Company's particular industry at the time that the IPO is undertaken.

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

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

2.1.10 Types of securities offered in the primary market

Different types of securities offered in the primary market. They are:

Common Equity/ Stock offerings

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

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

Preference Shares/ Preferred Stocks offerings

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

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

The different types of preference shares are:

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

Bonds/ Debentures Offerings

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

- It is issued by the company and is in the form of a certificate of indebtedness.

- It usually specifies the date of redemption. It also provides for the repayment of principle and interest at specified date or dates.
- It generally creates a charge on the undertaking or undertakings of the company.

The different types of debentures are:

- Secured debentures
- Unsecured debentures
- Redeemable debentures
- Perpetual debentures
- Convertible debentures

Warrants

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

- Bonds with warrants
- Preferred stocks with warrants

Convertible

Convertible are bonds or preferred stock that can be exchanged for stated number of common stock at the option of the holder within stipulated period of time. A bond can be converted into preferred stock or common stock while the preferred stock can be converted into common stock only. Conversion features increases the marketability of the security. Unlike the exercise price of warrants, the debt and preferred stock is simply replaced by common stock but does not provided additional capital.

At first time in Nepal, the convertible preferred stock is issued by Everest Bank Limited in 2007 but convertible bond are not practice till date.

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

2.1.11 Initial Public Offering (IPO) Manual

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

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

Issuing Company

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

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

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

arranged from the percentage allocated for the public. For finance companies, in the event of foreign participation, the minimum percentage to be allocated to the general public is 25% of paid-up capital.

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

Merchant Bankers

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

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

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

- Securities Underwriting
- The secondary market for securities
- The money market
- Corporate advisory services
- Investment portfolio management services, and also

- Venture capital
- Leasing/Hire purchase
- Other services (insurance, real estate etc.)

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

Issue Manager

Issue manager is an institution who is solely responsible to manage initial public offering. Financial institutions with the merchant banking operations, manage the overall issue process of any public company termed as issue manager. Issue managers are institutions holding license from Nepal Stock Exchange to manage Public Offering Issues (Securities Exchange Act 2063). Issue manager works as manager to the issue and underwriting for public issue of securities (SEBON, 2006, Sept 22). Issue managers receive issue commission from issuing company for their services through the negotiation. SEBON has authorized 9 Finance Companies to serve as issue manager given below:

Table 2.2
List of Issue Manager

NO.	Issue Manager
1	NMB Bank Ltd.(NMB)
2	National Finance Company Ltd. (NFL)
3	Ace Development Bank Ltd. (ACE)
4	Nepal Share Markets & Finance Ltd. (NSML)
5	United Finance Ltd. (UFL)
6	Nepal Sri Lanka Merchant Banking & Finance Ltd.
7	Citizen Investment Trust. (CIT)
8	NIDC Capital Market Ltd. (NCML)

9	Nepal Finance Company Ltd.
10	Elite Capital Ltd.
11.	Nepal Housing & Merchant Finance Ltd.
12	Vibor Bikas Bank Ltd.
13	DCBL Bank Ltd.(DCBL)
14	Tinau Bikas Bank Ltd.
15	Civil Capital Market Ltd.
16	Investment Management Merchant Bank Ltd.

Sources: Annual report 2008/09 of SEBON

Among the above mention 9 issue managers, NSML and UFL also works as securities dealers.

Securities Board of Nepal

Securities Board of Nepal (SEBON) was established on June 7, 1993 as the chief regulator of securities market of Nepal and now is empowered by Securities Exchange Act 2063 for the development of capital market, protection of investor's interest, approval of stock exchange, regulation of market intermediaries, secondary and primary markets, mutual funds and conducting investment awareness programs for various interest groups and it helps investors to get adequate, true and fair information. SEBO also regulates fair and equitable allotment. SEBO regulate terms of issue of securities from the viewpoint of investor protection, issuer needs and overall development of the securities market and it promotes sound capital structure of companies. Company should fulfill prospectus provision, governing the disclosure of information at the time of issue of any security

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

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

The Slogan of Security Board of Nepal (SEBON)

Effortful in building fair, credible, transparent, responsive, dynamic, and efficient securities markets.

Role of Securities Board in Issue of securities

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

- a. Protection of rights and interests of the investor, especially,
 - The right to adequate, true and fair information
 - The need for liquidity

- Prompt, fair and equitable allotment
- Easy and efficient service in allotments and transfers
- b. The need to encourage corporate entities to tap the securities markets for their diverse resources needs.

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

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

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

Offices of the Registrar of Companies (ROC)

There is the only agency where companies are registered. It is the governing body for any institution registered under company act. In its governing role, it observes and regulates any company going into public examining whether the process of going public is in accordance with the rules and regulation set forth by the company act 2063 or not.

As per the company act 2063, public companies need to publish their prospectus before issuing securities to the public. Before publishing prospectus, one copy of the prospectus needs to be submitted to ROC. In this process, ROC approves the prospectus to be published. While approving the prospectus, ROC makes sure that important information is not missed out and unnecessary information is not

mentioned. In the presence of such changes, ROC grants approval to issuing company to issue the prospectus. Apart from approving the prospectus to be published by the issuing company before going into public.

Stock Exchange Market

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

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

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

Nepal Rastra Bank (NRB)

Nepal Rastra Bank is known as the central bank of Nepal. It was established in 2013 BS under the Nepal Rastra Bank Act 2012 BS prior to this bank there was no such formal organization who controls and regulates the monetary system of in the country. NRB approves the prospectus when a public issue is proposed by bank and finance companies. It also gives permission to issue debentures in the public along with the approval of the interest on debenture and bond. Any bank and finance companies required to take permission to issue any kinds of securities in the primary market. NRB itself issues Treasury bill, Treasury notes and Treasury bond in the primary market. Interest rate in the Treasury would fix the market interest.

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

Initial Public Offering (IPO)

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

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

Issue Manager

Issue manager is the institution exclusively holding the responsibility of managing the public offerings of any issuing company. Issue managers are institutions holding license from Nepal Stock Exchange to manage Public Offering Issues (Securities Exchange Act 2063). Issue manager works as manager to the issue and underwriting for public issue of securities. Issue managers receive issue commission from issuing company for their services through the negotiation.

Lead Manager

In the event of more than one issue managers managing the issue of securities of any issuing company, the term lead manager is used to identify the individual issue managers.

Underwriting

Underwriting is an agreement entered in to before the shares are brought before the public that in the event of the public not taking up the whole of them or the numbers mentioned in the agreement. The underwriter will for an agreed commitment take an

allotment such part of the share or the public has not applied for. In other words, underwriting is a process in which an organized group or an organization commits itself to purchase entire or a part of shares issued by a company but not purchased by general public or organizations. The organized group or organizations that vows to buy unsold shares is called underwriter. The underwriter claims certain percentages as commission for such commitment. Underwriting may also be defined as the insurance function of bearing the risk of adverse price fluctuation during the period in which a new issue of securities is being distributed.

Underwriting refers to the guarantee by the investment banker that the issuer of the new securities will receive a fixed amount of cash. In Nepal, some of commercial bank and financial companies have acquired the authorities of underwriting. The underwriting act of Nepal has made the provision of allowing an authorized body as both issue manager and underwriter. That's why, underwriters are also known as issue managers in Nepal.

There is not clear act relating underwriting. According to Company Act; "underwriters have taken the responsibility of selling securities. If they can't be able to sell them those securities, they themselves have to buy all those securities". Hence the rules, regulations and act between two parties that is issuer of securities and underwriters are negotiated by mutual understanding with each other.

Function of Underwriter

Underwriting refers to the guarantee by the investment banker that issuer of new securities will receive a fixed amount of cash. An underwriter functions can be summarized as follows;

-) Underwriter purchases the securities from the issuing company and resells it to the general public.
-) The resale price must be neither too high nor too low from the purchase price. If unforeseen changes arise in market, they have to sell it at less than the price that they paid otherwise they might be sell it at somehow higher than purchase price.
-) Underwriting functions also include private placement where the investment banker acts an intermediary in bringing together the issuer and investors.

-) When the price is right, market conditions are good and the issuing company and underwriter are reputable, it is a less risky job for the underwriter and it could sell the entire amount of shares in one or a few days. But if the condition is vice-versa, it would be high risk for the underwriter. It would take a few weeks or a month or even more to sell. If it is a big deal, the underwriter would lose millions of rupees from this function.
-) In some IPOs, underwriters may agree to use certain facilities in distributing new shares on a best effort basis, that is, assuming that the underwriter/investment banker has no financial responsibility if all securities could not be sold. In this case, the underwriter's function would become limited, so they would get less commission and other charges than for a fully underwritten issue.

Banker to the Issue

Bankers to the Issue are normally commercial banks, which provide the custodian service to the issuing company and keep the subscription money. Bankers to the issue may or may not receive applications from the investors, issue acknowledgements for the same, and enter the application details in application schedules. It also involves in the process by realizing the proceeds of the cheques/draft and issue final certificates to the issue manager for the number of applications and amount collected. Issuing company in consultation with the issue managers makes the appointment of bankers to the issue.

Collection Centers

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

Prospectus

The prospectus is defined as, "any document described or issued as a prospectus and includes any notice, circular advertisement or other document inviting deposits from

the public or inviting offers from the public for the subscription or purchase of shares in, or debentures of, a body corporate”.

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

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

Budget for the Issue

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

Application form

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

- Information about the company and issue
- Space for applicants to fill in his/her information

Application form is the legal document that the investor provides to the company stating the number of shares of a company he/she is willing to accept. The applicants submitting the application forms would imply that he/she has accepted the terms and conditions stated in the application form with the full knowledge about the matters

referred in the prospectus. Attached with the application form a photocopy of citizenship is collected as a proof to applicants' acceptance to terms and condition and a remedy to possible discrepancies in identification. In case of minor applicants, citizen certificate of parents or guardian is to be attached.

Bridge Financing

It is a short term lending provided to the issuing company till the date of share allotment, backed by the collection from public issue. The company is to make the payment after receiving allocated shares money from public offerings. Normally financial institutions provide bridge loans to companies against their underwriting commitments. The said loans are adjusted against allotment of shares/debentures. The bridge finance is issued when

- Companies require to meet their immediate requirement of funds
- If there is a substantial lead-time between making a public issue and commencement of commercial production
- If issues is to be deferred to the most opportune time.

Memorandum of Understanding

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

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

- MOU between issuing company and the issue manager/ lead managers: This is required as the Company Act requires securities issue process of any public company is to be done through the registered issue manager. This legal agreement between issuing company and issue manager specifies terms & condition, responsibilities and the authorities of involved party.
- MOU between issue managers and the underwriters: Except for the finance companies and manufacturing industries (except identified in Securities Exchange Directive 2055), all other public institutions, as per their respective directives, underwriting is mandatory.
- MOU between issue manager and the bankers to the issue.

- MOU between issue manager and the collection centers.

Except for the MOU between issuing company and the issue manager, other MOU is to be signed by issue manager on behalf of issuing company with the notification and the consent of the issuing company.

In the case of MOU signed between issuing company and the issue manager, Company Act 2063 requires that copy of such agreements needs to be submitted to Office of Registrar of Companies within 7 days of such agreements made.

Issue Commission

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

Underwriting Commission

Underwriting commission is the amount charged by the underwriters for underwriting the securities issued. Underwriters may charge in maximum 2.5% of underwritten amount as the service charge to the issuing company. The commissions are normally determined as per the negotiation.

Collection Charges

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

Refund Charges

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

Fix Charges to the Collection Centers – Finance Companies

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

Listing in the Nepal Stock Exchange Limited

The Securities Registration and Issue Approval Provision and Directives 2051 has stated that securities issued publicly or procedurally should be listed in the registered securities exchange market or provision to be listed within 3 months of closure of the issue. For listing securities in the market, the issuing company should comply by the clauses as,

- Percentage of public issue stated by the securities exchange market
- Required number of public shareholders
- Easy transfer of ownership of issued securities
- Other stated directive for the listing of the securities in the market

Since, the securities listing is mandatory for the securities issued, SEB requires that the issue process be approved from the securities exchange market before approving for the public offerings. Securities exchange market gives approval based on its criteria for approval.

2.1.13 Review of Laws Related to IPOs

Issues Management Guidelines

-) Issue managers should abide by the directives mentioned in Security Issue and Issue Management Guidelines.

-) Issue manager must be registered and acquire licensed from SEBO as per the Security Exchange Act.
-) Issue managers must abide by Security Exchange Act 2063 to create healthy market practices and protect the interest of investors.
-) For public issuance, issue managers should register it in SEBO in line with the procedure for securities of industrial organizations, Financial Organizations. Model related with Right Share; Debenture issue etc. should be duly considered as mention in the provisions.
-) Issue manager and the issuing company should reach in an agreement with clear understandings on each dither prerogatives, duties and responsibilities.
-) Issue manager should ensure whether the issuing company decision to issue securities is mentioned in its prospectus and the potential issue related matters are in line with company act.
-) Issue manager can publish its prospectus only after obtaining acceptance from CRO.
-) On the basis of the accepted prospectus, issue manager must register the securities in SEBO for permission.
-) Issue manager should start selling the securities to general public and organizations within 2 months of acquiring permission from the SEBO to do so. Any changes can be exercised only with prior acceptance from SEBO.
-) At least one application centre must be established in each development region for selling securities worth 5 core or more.
-) Only the factual information should be mentioned in the call paper and advertisements meant for public information.
-) Investors and concerned officials upon request should be provided to see copies of registration letter and permission granted by SEBO, terms and conditions as well as other documents presented to SEBO.
-) The money collected from application must be deposited in an account of banker to the issue or commercial banks. Such amount remains as custody till allotment. Issue manager should provide SEBO with details about the bases for allotment.
-) Issue manager has the responsibility to hear and solve accordingly the complaints made by investors.

-) Issue manager should abide by code of conduct to engage in healthy market practices and to protect the interests of investors.
-) Issue manager must provide all the details about the entire procedure of selling the securities within 70 days of closure date of the sale.
-) SEBO can fix other conditions as per necessity and it will be the duty of issue manager to comply with them.

Allotment Guidelines

-) With in the 40 to 70 days of the closure of share issue, a public company shall allot the shares on the basis of application received. No shares shall be allotted unless at least 50% of the total shares issued publicly can sell. Upon such failure, the CRO may extend the time limit up to three months for the allotment of shares.
-) Investor's selected included in allotment shall be provided with allotment letter whereas rejected investors shall be refunded. If such amount is not returned within maximum time of 70 days, interest should be added from the day of closure of share issue to the day of refund. The interest should be added as specified by the company act.

Share allotment and refund time-period

Amount received from subscription	Refund Duration
Up to 100000	40 days
100001 to 200000	50 days
200001 to 300000	60 days
300001 and above	70 days

-) If funds are insufficient to refund the amount required to be refunded, the shortfall amount shall be borne by the promoters personally.
-) If allotment of share is made discriminatorily on with intent to cause loss to any investor, the investor may file a petition, citing the reasons, in the court if found

guilty, the concerned officer has to compensate the investor for such loss as well as for the expenses incurred in the legal action.

Company Act 2063

The company act 2063 has the following provisions related to the Initial Public Offerings:

-) The face value of securities must be Rs. 50 or more as multiple of ten.
-) A company can not collect more than 50 percent of the amount of face value of securities while inviting application but this is not applicable for the company that is running since last three years or more.
-) The share allotment must be started within the maximum period of three months after the closure date of share issue, however, at least 50% of the total share issued publicly should be sold otherwise, and no shares can be allotted.
-) If the allotment of the share can not be made even within the time limit as referred as above, the amount receive of the subscription of shares as well as an interest there on as prescribed, from the day of expiration of such time limit to the day of refund of such amount shall be refunded.
-) The promoters of the company must refund the amount required to be refunded personally incase of insufficiency of fund
-) If an investor feels that the allotment is made in discriminatorily or with intent to cause any loss he/she petition in the court on that matter and the court may issue an order for realization to the related party for compensation as well as reasonable expenses incurred in the legal action.
-) A company which has been distributing dividend for three consecutive years and whose net worth exceeds its total liabilities can issue share at premium as per the decision made by its AGM. The premium amount shall be deposited in the premium account.
-) While issuing securities, the company should deal only through a security dealer recognized to do security transaction. And the company should file a copy of agreement.
-) Within two months after the allotment of shares, the company should prescribe a share certificate to every shareholder.

-) A company should file with the office a return of allotments stating the no. of shares issue and allotted, total amount of the shares and name and address of the allottee and amount paid and due on each shares within 30 days after the allotment of shares.
-) If any shares have been allotted as fully or partly paid up other than the cash, after the allotment the no. of shares so allotted and the extent to which they are to be tread as paid up.
-) A public company should dealing with recognized security dealer to do security transaction and including all acts such as the sale, allotment and recovery amount of such securities.
-) In case of jointly held shares, the company may be issued one of them by mentioned their name in the certificate but the company is free to mention all shareholders name.
-) If a share certificate is lost or destroyed because of a divine act or otherwise, the shareholder should give information along with application to he company and if matter contained in the application seems to be reasonable, the company should issue another certificate to the applicant by charging duplicate fees and this matter also should be recorded in the shareholders register.
-) A public company could raise fund by issuing debentures with or without pledging or mortgaging its immovable assets. But company might be specifying the reasons there for.
-) Public company could issue debenture only after making provision of a debenture trustee. The debenture trustee has to be debenture trustee licensed by the SEBO. And the agreement between company and trustee should be mentioned.
-) Debenture and preference share are to be converted in to the share but this matter has to be clearly mentioned in the prospectus.
-) The share or debenture of a company might be sold or pledged like movable property but promoter of a company other than private company could not borrow loan from any other company.
-) If any shareholder fails to pay the call money with in the period, a notice should be sent to the concerned shareholder, giving an additional period of three months, after the period of three months after the date of expiration of the period along with the interest at the prescribed rate and if that shareholder fails to make

payment even with in that period, in this case share should be liable to forfeited. But in the case of a public company such notice should also be published in a national circulation daily newspaper at least three times. If the amount of called is not even with the limited time as mention in that notice, the company may forfeited all or the remaining share after retaining the number of shares as fully paid up to the extent of the amount paid up on the shares.

-) Company might increase it's authorize share capital buy issuing new shares or right shares or bonus shares as per the decision of AGM and other legal provision. Similarly a company could reduce its share capital by repurchasing its own shares or by devaluating the face value of the share as per the decision of the AGM.
-) A company might increase its capital by issuing preference share. But it should be clearly mention in the prospectus that the preference share is either cumulative or non-cumulative. And special types of voting rights, dividend rate, should be clearly mentioned.
-) Preference share might be redeemable or non-redeemable. In redeemable preference share, maturity period should be mention. If company has any plan to issue convertible preference shares, the convertible rate and time should be mention in the prospectus.
-) Company should refund the money of preference shareholders at the maturity period. If company could not do so, the amount should return with interest for the late period.

Securities Exchange Act 2063

Securities Exchange Act, 2063 incorporates most of the matters included in Security Exchange Act. In its 9 different articles, it shows concerns over primary market related matters. In its third chapter, the Act sheds light on Registration and Issue of Securities as mentioned below:

Registration, sale and transfer of Securities

Every corporate body should register with the SEBON the securities to be issued prior to issuance in prescribed manner. An application should be submitted to the Board along with the Memorandum and Articles of Association, documents related to the securities and the prescribed fee.

Having registered the securities, if a company allots or sells its securities, it must furnish the information to the Board within seven days.

Public Issue of Securities

A corporate body, aspiring to sell and allot its securities to more than 50 persons at a time, must make a public issue of the securities to sell and allot them. The value and arrangements relating to allotment of securities should be as prescribed by the Board. In case the securities issued to public are not sold, and it becomes necessary to reissue them within a year, the issuing company, by securing the Board's approval, may do so by publishing the previously published prospectus along with the changes made therein.

Contents, Approval and Publication of Prospectus

Every corporate body issuing its securities to the public must publish a prospectus for the information of all concerned after having it approved by the board. The prospectus must explicitly mention the place where the public can inspect it or obtain its copies. However, issuance of the following securities doesn't require prospectus to be published:

- a. Securities issued by the NRB.
- b. Securities issued under the full guarantee of Nepal Government.
- c. Securities proposed to be sold to not more than 50 persons at a time.
- d. Securities issued (by a corporate body) to its workers or employees.
- e. Securities permitted by the Board to be issued and sold without publishing a prospectus.

The Board shall approve only a prospectus containing sufficient information for investors to assess the assets and liabilities, financial condition, profit and loss, future expectations of the issuer, general administration and management of the issuer, information about legal proceedings, information about capital etc. The concerned corporate body, the Director affixing his/her signature on the prospectus, and the expert preparing the prospectus must bear individual or collective responsibility for the authenticity of the document.

Upon any harm or loss to an investor due to false or wrong information, made with malicious motives, in the prospectus, s/he may file a petition to the appropriate

District Court for compensation within 35 days from the date of knowledge of the matter.

Information to Furnish

A corporate body issuing securities must furnish to the Board and its shareholders the information:

- a. which are necessary to evaluate its financial condition
- b. which can have an impact on the value of securities or on the business of the stock exchange
- c. which are prescribed by the Board

2.1.14 Margin Lending Practices in Nepal

What is Margin Lending?

Buying on margin is borrowing money from a broker to purchase stock. We can think of it as a loan from our brokerage firm. Margin trading allows us to buy more stock than we would be able to normally. But margin lending is different from the margin trading. Margin trading is done by Brokerage firm but margin lending is done by bank or financial institution at the time of initial public Offerings. To trade on margin, we need a margin account in bank or financial institution. This portion of the purchase price that we deposit is known as the initial margin. We can borrow up to 90%. Be aware that some bank or financial institution requires us to deposit more than 10% of the purchase price. We can keep our loan as long as we want, provided we fulfill our obligations. First, when we sell the stock in a margin account, the proceeds go to our lender institution against the repayment of the loan until it is fully paid. Second, there is also a restriction called the maintenance margin, which is the minimum account balance we must maintain before your lender institution will force you to deposit more funds or sell stock to pay down your loan. When this happens, it's known as a margin call. Regrettably, margin able securities in the account are collateral. We'll also have to pay the interest on our loan. The interest charges are applied to our account unless we decide to make payments. Over time, our debt level increases as interest charges accrue against us. As debt increases, the interest charges increase, and so on. Therefore, buying on margin is mainly used for short-term investments. The

longer we hold an investment, the greater the return that we needed. If we hold an investment on margin lending for a long period of time, the odds that we will make a profit are stacked against you. Not all stocks qualify to be bought on margin at the time of IPO

Margin Lending Practices Nepal

In Nepal, security market does not allow to do margin trading. So, an investor could not buy securities in credit in secondary market. Investors have to pay 100% cash to buy securities. Investors couldn't do short sale through the brokerage firm. SEBO could not bring any rules and regulations even it was established 13 years ago. However, the margin lending facilities were available in primary market. The rate of margin was different among the companies. From the past record, it is seen that bank and finance companies had financed up to 90% of the face value at the time of IPO. Not only the margin but also the interest rate and service charge are different in different companies. From three years ago, NRB stopped margin lending to bank and finance company because of too much over subscription. By the means of over subscription, issuing company has to bear high service cost. So, The NRB, regulator of bank and finance company stopped margin lending. But some co-operatives that register under co-operative act are still doing margin lending in Nepalese primary market indirectly. Interest rate of these co-operatives is higher than the bank and finance company. The interest rate is up to 20% whereas; the interest rate of bank and finance company was only up to 15%. Even a co-operative may charge different interest rate to different customers at the time of IPO. But in this days The co-operatives are also denying to give the loan against IPO because of compulsory bank account to the investors

2.2 Review of Related Studies

This section of the study draws excerpts from international journal articles and Nepalese journal articles along with Masters' dissertations. International journals have been accessed through the various websites and books. Similarly, Nepalese journals and Master dissertations have been accessed from Central Library of T. U., library of SEBON, Library of Shanker Dev Colleges and articles published in Nepalese business newspapers etc.

2.2.1 Review of International Journals/Articles

Ritter (1998) performed a research survey on "Initial Public Offering" the main thrust of the research is to survey the market for initial public offerings. However, it has also discussed the process of going public with particular emphasis on how contractual mechanisms deal with potential conflicts of interest. The valuation of IPO's, Book-building, price stabilization and the costs of going public are also discussed. It has also documented and analyzed three empirical patterns: short run underpricing, hot issue markets and long-run underperformance. The study focused on operating companies going public, however the IPO's of closed end funds and Real Estate Investment Trusts Were also briefly discussed.

At the end he summarized that the companies going public, especially, young companies, face a market that is subjected to sharp swings in valuation pricing deals can be difficult even in stable market conditions because insiders presumably have more information than potential outside investors. To deal with these potential problems, market participants and regulators insist on the disclosure of material information. He has also documented three patterns of IPO's in US and many countries of new issue under pricing, cycles in volume and extent of under pricing and long run underperformance. Yet in some respects, he found the poor performance of IPO's in the long-run as a puzzle in the new issues under pricing phenomenon. He also documented that the number of US IPO's is immense which subsequently contributed in the development of infrastructure to create and fund young companies, especially in the high technology sector

Habibullah (1999) studied as a topic "Financial Markets in Least Development Countries", and which evidences that in some Asian countries including Nepal economic development reflected in economic growth leads the financial development measured in the ratio of broad money to gross national product (M2/GNP). This implies that economic development has preceded the financial market development in the case of Nepal. But several other studies conducted in other LDCs reveal that the financial development has preceded the economic development. The stock market development measured by market liquidity, market capitalization and total turnover is correlated with current and future economic growth, capital accumulation, and productivity growth, as evidenced by Levine and Zervos (1996). The efficient money, foreign exchange and capital markets increase investment to the most productive

sector of the economy and thereby increase output through saving mobilization. Such markets also price the risk associated with any investment accurately.

Kandel, et al.,(1999), find small but significant average abnormal return of 4.5% from the auctioned data of IPO's in Israel where the stock price is not fixed prior to the IPO's and where allocations are not determined by the issuers or the underwrites unlike in the US IPOs under book building mechanism. This implies that a small but significant under pricing is documented even in countries where IPOs are conducted as auctions.

Darrien and Womack (2003) Find that the auction mechanism is associated with less under pricing and lower variance of under pricing than other mechanisms namely book building, and fixed price mechanism with reference to the data from the French IPOs market where all three of the aforementioned mechanisms were prevalent at the same period (1992-1998) in France. They also observe that even though the auction procedure dominates the book building procedure in mitigating under pricing in varied market conditions, book building procedure is dominant in the US and very significantly increasing in the rest of the world. They explain that even though the mitigation of under pricing is a worthy objective to issuers, it clearly is not their only objective. Besides, they argue that controlling under pricing is clearly not the most important issue to underwriters who suffer an agency conflict of interest, pitting their issuing clients against their investor's clients.

Derrien (2005) carried out a research study on, "IPO Pricing in Hot Market Condition; Who Leaves Money on Table?" In the paper, researcher has assumed that Millers model holds for IPO's and developed a model of IPO pricing in favorable market conditions. The model relies on the assumption that aftermarket price support is costly for the underwriter. The prediction of the model was tested using a sample of 62 IPO's completed on the French Stock Exchange on 1999 to 2001. A sample of latest French offerings with a fraction of the shares reserved for individual investors supported the predictions of the model. The paper mainly analyzed. The impact of favorable investor sentiment on the pricing initial return and long-term performance of IPO's stocks.

By the end he concluded that, if noise traders are bullish, they are ready to buy IPO's shares at high prices. In this framework, IPO's prices reflect the private information collected in the IPO process, and partially the public information (noise trader sentiment) known at the time of offering. Therefore IPO, are over-priced (i.e. priced over their long run intrinsic value) on average, but exhibit positive initial returns. Hence the companies going to public in hot markets are not upset about leaving money on the table, as they know that their shares are over priced at the time of offering.

Kviback (2005) observes "Issues in local bond market development (Nepal Survey)" has concluded that the financial market in Nepal is relatively undeveloped. A tiny corporate bond market is in operation. The government market is more developed, but prices are not market oriented. He further concluded that the ability to develop the local corporate bond market is seriously constrained by a weak supply and demand for the product. The number of Potential blue chip issues and size to the collective investor base are insufficient to
Create an institutionalized market and too few financial instruments are available in which to invest.

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

concluded that in general the decision to choose a placing rather than an offer or vice-versa is taken by the firm within the framework of rational behavior.

Gouldley (2006) finds that an IPO that is oversubscribed in the pre-market sale almost certainly will experience a short-term price increase in the secondary market. This shows positive relationship between IPOs performance and oversubscription.

Derrien and Kecskes (2007) observe there is a "two stage mechanism" prevalent in the UK in which under pricing has been found to be reduced by 10% to 30% in comparison to the traditional under pricing in which IPO's are made at first and then the share are listed in the secondary market. First time public financing through equity is proceeded in two stages i.e. a firm lists and lets a public market develop in the firm's existing shares in the first stage, and sells new shares to the public in the second stage.

2.2.2 Review of Nepalese Journals

Prior this, quite, a few research has been carried out by various scholars covering various scholars covering different aspects of capital market. Yet there is dearth of research study in the area of IPO. However, few research studies that are considered relevant and accessible during the study period have been excepted below:

Pandey (2005) wrote an article on "Why Do IPOs Perform Well on the Short-Run?" sand he shed light in to the fact that investors who buy stocks through IPOs benefits a lot of good amount of capital gains if they decide to sell the stock in the short-run. This normally from under pricing of stock in IPOs for various reasons ranging from asymmetric information to avoiding a winner's curse for uninformed investors. The extent of under pricing, however depends on many factors some explained by the underwriter's reputation and others by the pricing methodology used to IPOs. He concluded that the performance of IPOs in the short run is normally very good from the investor's point of view but from the issuer's point of view, if there is too much money left on the table. It is the cost for them. He further described, a certain level of under pricing is acceptable to attract uniformed investor on one hand and on other hand to maintain liquidity and subsequent future issuances attractive and easy.

Kafle (2005) carried out an article "Primary Market Development in Nepal: Issue and challenges." His study was based on bank and financial Act and Security Ordinance 2005. He intent to extend that Nepalese financial system is at a critical stage of transformation. Due to banking sector is being consolidated under the umbrella Bank and Financial Institutions Act, the responsibility of financing long term project including infrastructure and potential hydro-electric project fall on security market which was an urgency of consolidated development of securities market would not only accommodate the present need but also contributes to the growth process through the development of equity and debt market. He also shed light the fact that newly issued Securities Ordinance 2005; the SEBON would be better placed to regulate the integrity of disclosures in the securities issue. Modernization of stock exchange and efficient clearing and settlement system of stock exchange and efficient clearing and settlement system of stock exchange would make primary market bounded to increase manifold, providing a reliable and sustained alternatives for raising capital.

Vaidya and Parajuli (2004) on their article in SEBO Journal on topic "Public offering of Securities" had described that the companies that go public by offering a certain portion of their issued shares to the general public neither receive any special tax benefits or tax holidays nor special concession which motives them to offer their shares to the public. In addition companies often face continuous hassles from the public through their involvement in the company management. They suggested improving lengthy approval process from the concerned regulatory authorities before offering shares to the public. They recommended providing one window policy to approval process. The further suggested to established independent rating agency so that potential investors in primary as well as secondary market's investors would have confident of financial health and future prospects of organizations.

Dahal (2007) carried out a research study on "The performance of Nepalese IPOs." The study was based on 107 IPOs from the FY 1993-2006. The study mainly focused on subscription times of securities on IPO and IPOs return.

After the completion of study, he asserted that Nepalese IPOs had been heavily oversubscribed. The study showed that the investors have very high degree of

attraction to the IPOs. It was noticed that Nepalese IPOs in terms of issue and subscription had been bumpy during the study period. It also noticed that the investors make 53.25% market adjusted return leading to conclusion that Nepalese IPOs has highly under priced. On other hand, it showed that due to higher under pricing, higher wealth loosed by the promoter. On the study it is found that IPOs return had been affected mainly by the subscription times of issue and general returns of stock market. The study also revealed that the firm size expressed as the size of total assets affects the subscription times of issued positively and the debt equity ratio affects the same negatively.

2.2.3 Review of Preview Research Works:

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

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

Pandey (2003) 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.

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

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

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

He has concluded that general investors in Nepal do not have sufficient information regarding the primary market and in spite of this they are interested in

investing money in the primary market. They are more interested in financial sector than non-financial sector.

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

2.3 Research Gap

Even though numerous studies have been carried out in different part of the world covering different aspects of IPOs including empirically tested theories: IPO under pricing and long run underperformance of IPOs. Such studies only based on international basis. Very few studies have analyzed existing state of IPOs in Nepal. However, none of the study has been able to find out complete picture of Nepalese IPOs. This study tries to understand the pace of IPOs and its processes, legal rules and regulations behind it and subscription pattern at the time of IPOs.

This study will be beneficial to large mass of public who are interested to invest in Nepalese primary market as well as to the public companies, issue managers, underwriters, government organizations, and other parties who are related to IPO directly or indirectly.

Chapter - III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology employed in this study. Research methodology is the systematic method of finding solution to a problem i.e. systematic collection, recording, analysis, interpretation and reporting of information about various facts of a phenomenon under study. The chapter includes research design, population, sampling procedure, sources of data and analysis techniques.

"Research Methodology is the research method used through the entire study". (Kothari C.R, 1992:39). The main objective of the study is based on primary and secondary data. The basic objective of primary data analysis is to survey different investors attitude toward the IPOs. Secondary data were used on analyze raising fund through Initial public of Corporate securities. The methodology consists of research design, The selection of sample, sources of data, and coverage of data, data analysis tools and others statistical tools.

3.2 Research Design

Kothari, (2000) states that research design is a plan, structure and strategy of investigation concerned so as to obtain answer to researcher question and to control variance.

This research is based on the analytical and descriptive design as well. For the analytical purpose, the annual reports published by SEBON, NEPSE and other concerned Companies were collected for the year 1995/96 to 2008/09. Primary data are also collected from questionnaire method for analysis purpose.

3.3 Population and Sample

The population for this study is the Initial Public Offering made by various organizations up to FY 2008/09. There are 159 companies listed in Nepal Stock Exchange Limited. To find out fund raising in the public offering, this study has

divided in two sectors as Financial Institutions & Insurance Sector and Non Financial Sector. The population is shown clearly in the following table.

Table: 3.1
Population of the Study

S. No.	Listed Institution	No.
Financial Institution & Insurance Sector		
1	Commercial Banks	21
2	Development Banks	29
3	Finance Companies	61
4	Insurance Companies	17
Total (I)		128
Non Financial Sector		
1	Manufacturing & Processing Com.	18
2	Trading Companies	4
3	Hotels	4
4	Others	5
Total (II)		31
Grand Total (I+II)		159

Sebon Annual Report 2008/09

If the samples are properly selected, the characteristics of the sample will reflect the population. Due to unavailability of reliable data this study has completed upon the base of selected sample from each sectors. The samples have selected at random so that each and every units of the population may have an equal and independent chance of being selected. In this method, the selection of the units will totally depend upon the chance but not on the discretion of anybody else. Six companies have chosen randomly as sample from banking sector, seven companies from development bank sector and, fifteen companies from finance companies sector. The sample size of financial institution and insurance sector is 33. Similarly, four companies have chosen randomly as sample from non manufacturing and processing sector but no company is selected from hotel, trading and others. The selected samples are shown in the following table.

Table: 3.2
Sample Selected From the Population

S.N.	Institutions	Population	Sample size	Sample %
1	Commercial Banks	21	6	29
2	Development Banks	29	7	24
3	Finance Companies	61	15	26
4	Insurance Companies	17	5	30
5	Non Financial Sector	31	7	23
	Total	159	40	25

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Sources of Data

This study is mostly based on secondary data. Primary data has also taken to some extent. So, qualitative and quantitative data are taken for study. They are as follows:

a) Primary Source

Primary sources include the responsive of the questionnaires, personal interviews with managers of issuing companies, listed stockholders and resourceful persons in the regulatory offices.

b) Secondary Source

Secondary sources of data includes annual report of security Board of Nepal, statistical year book of Nepal, Various publication of Nepal Stock Exchange, Income statement, profit and loss account, balance sheet of concerned companies, dissertation, previous studies, articles and daily newspapers. Some other important information has been collected from internet of the related website.

3.4 Nature and Sources of Data

The require data for the study are collected from the primary and secondary sources. Securities Board Nepal is the main institution which provides most of the data required for the study. The web site of SEBON is <http://www.sebonp.com> and its annual reports are the major sources of secondary data. Besides, necessary data are also collected from the annual reports of the selected companies, concerned issue managers and annual report of Nepal Stock Exchange.

3.5 Data Presentation and Analysis

Primary data collected from individual, first of all raw information have been received after the collection of raw information the processing has been done. Then after all collected data has been grouped according to their nature, tabular and chart from selecting relevant data. Data collected from secondary source were analyzed by using statistical tools like, bar diagrams, pie charts, arithmetic mean, t- test etc. The analysis tools used for the analysis and presentation of data are as follows:

Multiple Bar- diagrams and graphs

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

Pie -diagram

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

Graphical Presentation of Data

In the Graphical presentation of data the points and points are joined with straight line which is very clearly shown by value. The fluctuation in the line shows the variation in the variables.

Percentage

Percentage is one of the most useful tools for the comparison of two quantities or variables. Simply, the word percentage means per hundred. In other words, the

fraction with 100 as its denominator is known as a percentage and the numerator of this fraction is known as rate of percent.

Simple Arithmetic Mean

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

$$\text{A.M.} = \frac{X}{n}$$

Test of Hypothesis

The objective of this test is to test the significance regarding the parameters of the population on the basis of sample drawn from the population.

Types of Hypothesis

Null Hypothesis

Alternative Hypothesis

Null Hypothesis (H_0): $\bar{x}_1 = \bar{x}_2$:- It always rejected the difference and accepts they (assumption value & actual value) are same i.e. There is no significance difference between average issue from financial sector and non-financial sector.

Alternative Hypothesis (H_1): $\bar{x}_1 \neq \bar{x}_2$:- Complementary of null is called alternative hypothesis i.e. there is significant difference between average issue from financial sector and non - financial sector.

Generally, following steps are followed for the test of hypothesis.

- formulating hypothesis
 - Null Hypothesis
 - Alternative Hypothesis
- Computing the test statistics
- Fixing the level of significance
- Finding critical region

- Deciding two - tailed or one tailed test
- Making Decision

In this topic Statistic is used to find out the test of significance regarding the partner of the population on the basis of sample drawn from the population on the basis of sample drawn from the population.

t-test

If we draw a large number of small samples i.e.($n < 30$) and compute the mean for each sample and then plot the frequency distribution of these mean, the resulting sampling distribution would be t-test. On these study sample are taken only for 15 years i.e. ($15 < 30$).

Assumption made for using t-test in this case is that:-

The parent populations for using t-test in this case is that:-

The parent populations from which samples are drawn are normally distributed.

The two samples are random and independent of each other.

The population variances are equal and unknown.

This test has been conducted to

- i) Test of hypothesis on average issue amount between financial sector and non financial sector .
- ii) Test of hypothesis on correlation between the issue amount and subscription times of Nepalese IPO.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter includes the presentation and analysis of data. Analysis is based on both primary and secondary data. The primary data are used to analyze the public awareness and public response towards the subscription of corporate securities in IPO. The secondary data are used to analyze public response towards of IPO offered and amount of issue approved . All the analysis is based on simple statistical calculation.

4.1.1 Amount of Public Issue Offered

Securities Exchange Act provisioned that any company which goes for IPO must get issue approved from security board of Nepal prior to make their offer to public. Since first year of SEBON operation, FY 1993/94, it has given issue approval to 324 issues amounting Rs. 39389.68 million till FY 2008/09 (SEBON, 2008/09). As Securities Regulation provisioned, the company which got issue approval may commit their offer any time within two months from the date of issue approval. The amount of issue approved and the actual amount issued in a fiscal year may vary. Hence, for better result the study is focused on actual amount of issued in the fiscal year rather than the amount approved by the SEBON in that fiscal year. Amount of public issues offered during the study period along with its growing rates have been given in Table 4.1

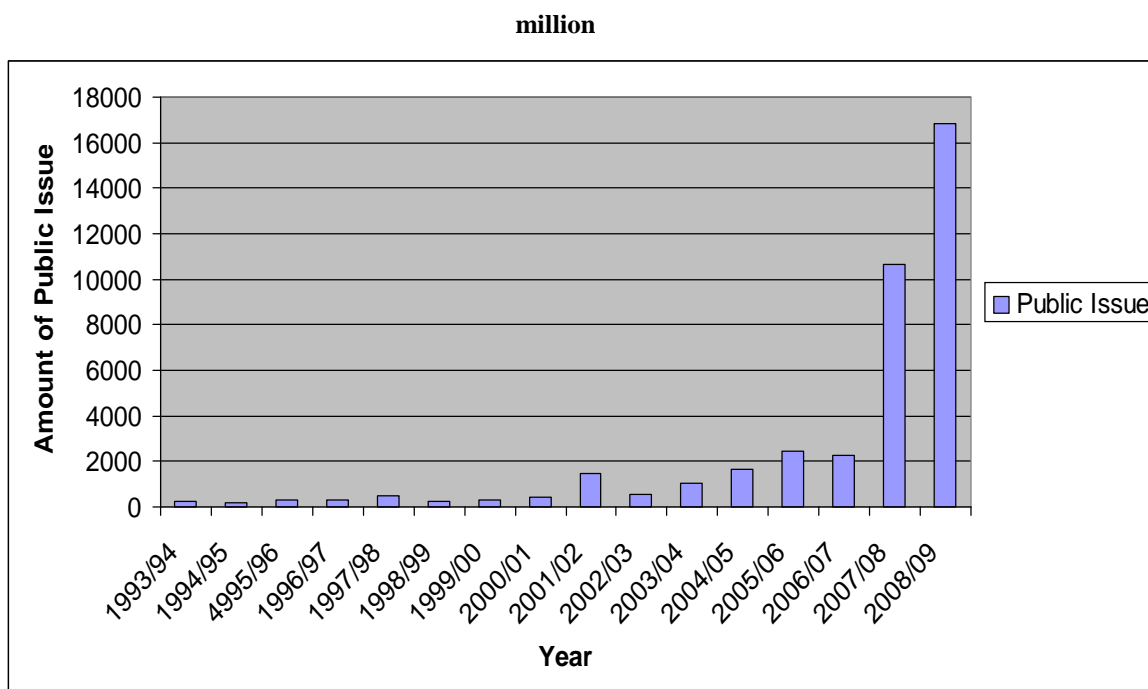
Table: 4.1
Amount of Public Issues

Rs. In million

Fiscal Year	Amount of Public issue(Rs.)	Annual Growth Rates (%)
1993/94	244.4	-
1994/95	173.96	(28.82)
1995/96	293.74	68.85
1996/97	332.20	13.09
1997/98	462.36	39.18
1998/99	258.00	(44.2)
1999/00	326.86	26.7
2000/01	410.49	25.58
2001/02	1441.33	251.24
2002/03	556.54	(61.39)
2003/04	1027.50	84.62
2004/05	1626.82	58.52
2005/06	2443.28	50.19
2006/07	2295.50	(6.01)
2007/08	10668.20	364.74
2008/09	16828.50	57.74
Total	39389.68	

Source: SEBON Annual Report 2008/09

Figure: 4.1
Amount of Public Issue



From table 4.1, since first year of SEBON operation the amount of public issue have been fluctuating trend. In FY 1993/94 issue worth Rs. 244.40 million has offered to the public. The amount decreased to Rs. 173.96 million in FY 1994/95. After that the amount of public issue showed rising trend although only for few years. It rises to Rs. 293.74 million in FY 1995/96, Rs. 332.20 million in 1996/97, and Rs. 462.36 in FY 1997/98. It again has dropped to Rs. 258 million in FY 1998/99 only to rise again in FY 1999/00 to reach 326.86 million. It continued to rise in two subsequent years i.e. FY 2000/01 and FY 2001/02 and reached Rs. 410.49 and Rs. 1441.33 million respectively. However, it dropped substantially in the following year i.e. FY 2002/03 and marked just Rs. 556.54 million. But the year proved to be the end of falling trend, as the amount of issue offered showed continuously rising trend in the subsequent fiscal years. The amount of public issues is recorded Rs. 1027.50 million in FY 2003/04, Rs. 1626.82 million in FY 2004/05, Rs. 2443.28 million in FY 2005/06, Rs. 2295.5 million in FY 2006/07, Rs. 10668.2 million in FY 2007/08 and in the FY 2008/09 the amount is 16828.50 million. While the lowest amount of public issue is Rs. 173.96 million in FY 1994/95 and the total public issue during the study period is Rs. 39389.68 million.

As shown in the figure 4.1, it is seen that the amount of public issue offered has been

in rising trend during study period.

4.1.2 Number of Public Issues Offered

The number of public Offerings another to identify the exact number of offers made by various listed companies to the general public in each fiscal years.

Table: 4.2
Number of Public Issues

Rs. in million

Fiscal Year	Amount of Issue	No. of Issue	Average size	Annual growth rate (%)
1993/94	244.4	16	15.28	0
1994/95	173.96	10	17.4	13.87
4995/96	293.74	12	24.48	40.69
1996/97	332.2	5	66.44	171.4
1997/98	462.36	12	38.53	(42.01)
1998/99	258	5	51.6	33.92
1999/00	326.86	6	54.48	5.58
2000/01	410.49	9	45.16	(17.11)
2001/02	1441.33	12	120.12	165.99
2002/03	556.54	18	30.92	74.26
2003/04	1027.5	14	73.39	137.35
2004/05	1626.82	14	116.2	58.33
2005/06	2443.28	29	84.25	(27.5)
2006/07	2295.5	34	67.51	(19.87)
2007/08	10668.2	64	166.69	146.91
2008/09	16828.50	64	262.94	57.74
Total	39389.68	324		

Source: SEBON Annual Report 2008/09

Figure: 4.2
No of Public Issues

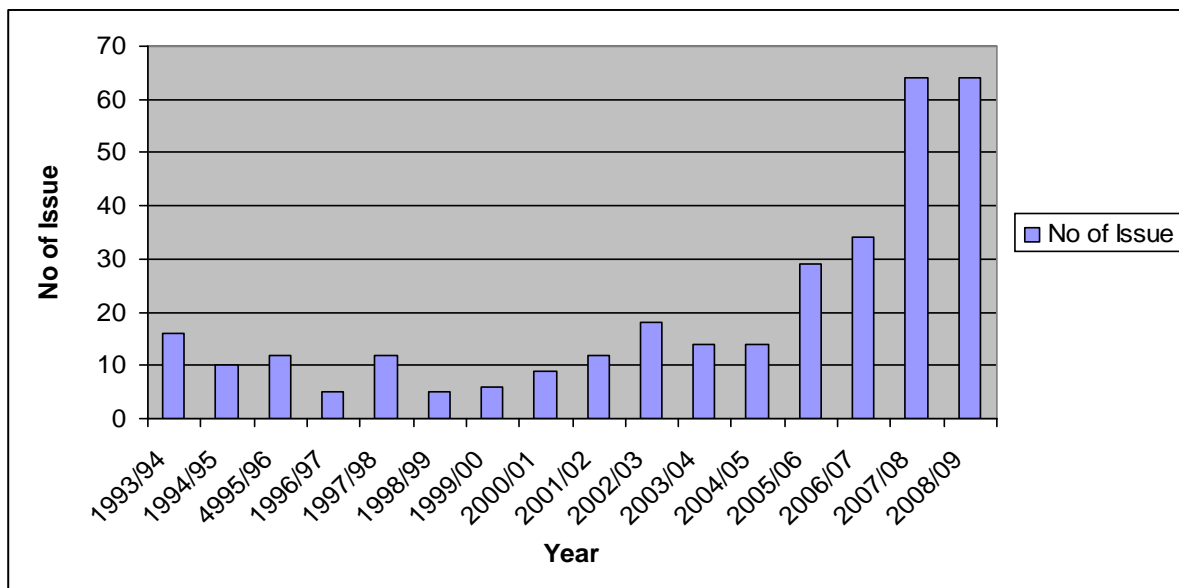


Table 4.2 reveal the no. of issues offered in each FY during the study period. Likewise the amount of public issue, the no. of issue offered in a FY also had not any consistent trend on the study period. During the entire study period the lowest no. of issue offered in a Year were 5 in two fiscal years, FY 1996/97 and FY 1998/99. The highest no. of issues offered in fiscal year are in the last two fiscal year of the study period, FY 2007/08 and FY 2008/09. The average size of issue offered in each FY has also been in fluctuating trend. Average size of issue offered is smallest in FY 1993/94 and largest in FY 2007/2008 and 2008/09.

The above figure shows that the number of public issue offered during the study period has been fluctuating during various fiscal years but has been in increasing trend.

4.1.3 Issue Approved of Right Shares

Initial public offering (IPO's) can either be underwritten or sold to general public or to be sold to the company's existing investors through a preemptive right offering. To reduce the offering costs of the shares, the old companies, (those which have already issued shares) issue them through right offering. And the procedure of issuing the securities through right offering is the same as that of registering the non-right issue. The right issue in Nepal is increasing every year. The following table shows the right issue since the fiscal year 1993/94 to 2008/09.

Table: 4.3

Right Issue During Fiscal Year 1993/94 to 2008/09

Fiscal Year	Right Share		
	Number of Companies	No of issue approved	Issued Amount (Rs. in million)
1993/1994	0	0	0
1994/1995	0	0	0
1995/1996	2	2	69
1996/1997	3	3	275.2
1997/1998	3	3	249.96
1998/1999	1	1	30
1999/2000	3	3	124.6
2000/2001	3	3	365.79
2001/2002	4	4	387.87
2002/2003	4	3	162.24
2003/2004	4	4	429.92
2004/2005	6	6	669.42
2005/2006	11	11	1013.45
2006/2007	16	16	1265.3
2007/2008	43	43	6793.4
2008/2009	50	50	14262.80
Total	153	152	25392.65
% of total		46.91	64.46

Source: SEBON Annual Reports 2008/09

Table – 4.3 indicate that during the period of fiscal year 1993/94 to 2008/09 SEBON approved the right issue amounting of Rs. 25392.65 million which is equal to 64.46% of total amount issued and in term of number it approved 152 issues which is equal to 46.91% of total number of issue approved during the period.

Similarly, during the study period the four highest issues approved for right offering are 14262.80 million in the fiscal year 2008/09, Rs 6793.4 million in fiscal year 2007/08, 1265.3 million in fiscal year 2006/07 and 1013.45 in fiscal year 2005/06 respectively and issue approved during the fiscal year 2008/09 (Rs. 14262.80 million) is highest issue approved among all of them. However, the lowest three issues approved during this period are Rs 30 million in fiscal year 1998/99, Rs 124.6 million in the fiscal year 1999/2000, Rs. 69 million in fiscal year 1995/96 and Rs. 162.24 million in fiscal year 2002/03. The issue approved during the fiscal year 1998/99 (Rs. 30 million) is lowest issue approved among them. But, in fiscal year 1993/94 and 1994/95 SEBON haven't approved any issues for raising fund..

Likewise, the highest number of issue of right shares approved by SEBON during this period is 50 issues in fiscal year 2008/09 whereas the lowest number of issue approved is 1 issue in fiscal year 1998/99.

4.1.4 Sector Wise Issue Approved

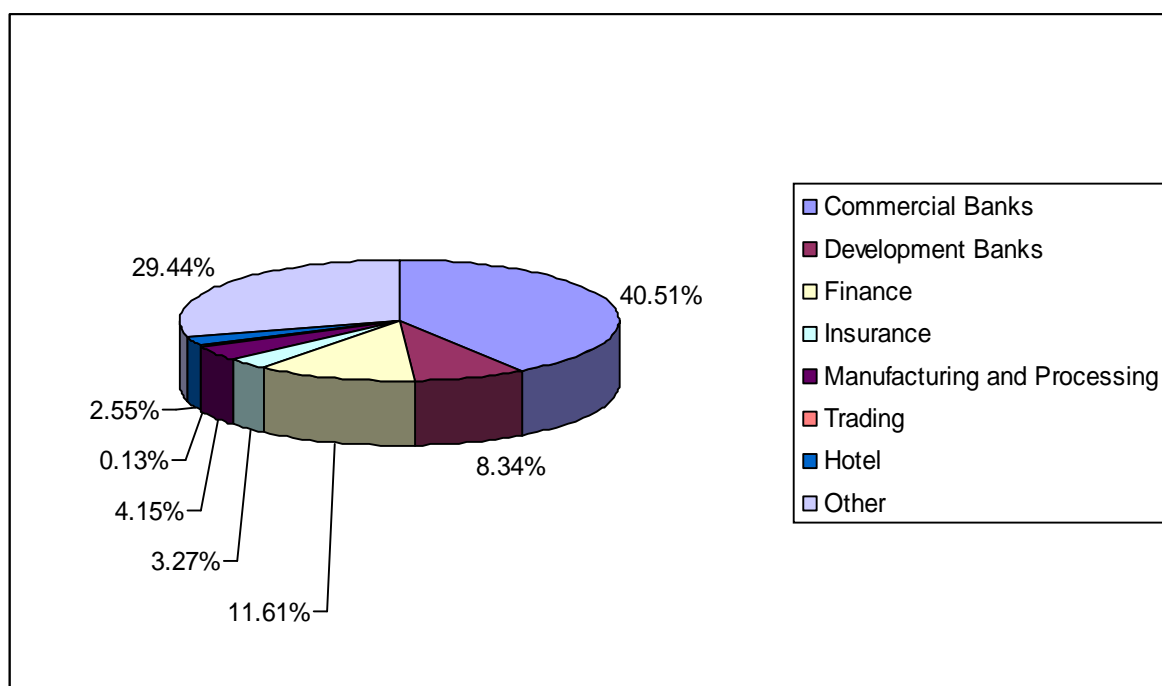
As per required NEPSE, issuing company should list their issues in NEPSE for allowing such issues to be traded on its trading floor. Since opening of NEPSE in FY 1993/94, 176 companies have already been listed where, out of these, 17 companies had de-listed from trading floor of NEPSE. So at the end of FY 2008/09, there are 159 companies listed in NEPSE. Total paid up value of these listed securities by the end of fiscal year 2008/09 reached Rs. 61140.39 million which is Rs. 29465.80 million in the fiscal year (2007/08). The most intriguing aspect of this total paid up capital the contribution from financial sector that includes commercial banks, development banks, finance companies and insurance companies is very high.

Table: 4.4 Sector Wise Public Issue

S.N.	Sector	No of Public Issue	Paid up Value (Rs. in million)	Percentage
1	Commercial Banks	21	24757.87	40.51
2	Development Banks	29	5101.17	8.34
3	Finance	61	7100.90	11.61
4	Insurance	17	1997.75	3.27
5	Manufacturing and Processing	18	2539.70	4.15
6	Trading	4	78.46	0.13
7	Hotel	4	1561.57	2.55
8	Other	5	18002.97	29.44
Total		159	61140.39	100

Source: SEBON Annual Report 2008/09

Figure: 4.3
Sector wise Public Issue



From the table 4.4, out of 159 listed companies, 128 companies belong to financial sector. From paid-up value perspective commercial banks occupies 40.51% (21) Development Bank have 8.34% (29), Finance Companies accounts for 11.61% (61)

and Insurance Companies have 3.27% (17), altogether financial sector they accounting for 63.73%.

On other hand Manufacturing and Processing sector despite being fifth largest sector (in term of listed companies) account for only 4.15%. Similarly, trading, hotel and other sector account for 0.13%, 2.55% and 29.44% of total paid up value respectively. Together as non-financial sector they account for 36.27% of total paid up value.

4.1.5 Public Issue from Financial and Non-financial Sector

Listed companies of NEPSE can be divided into Finance sector and Non-finance sector Finance sector mainly includes companies from commercial banks, development banks, finance companies and insurance while non-finance companies includes the companies from manufacturing and processing companies, trading companies, hotels and others (SEBON, 2006 Sept. 26).

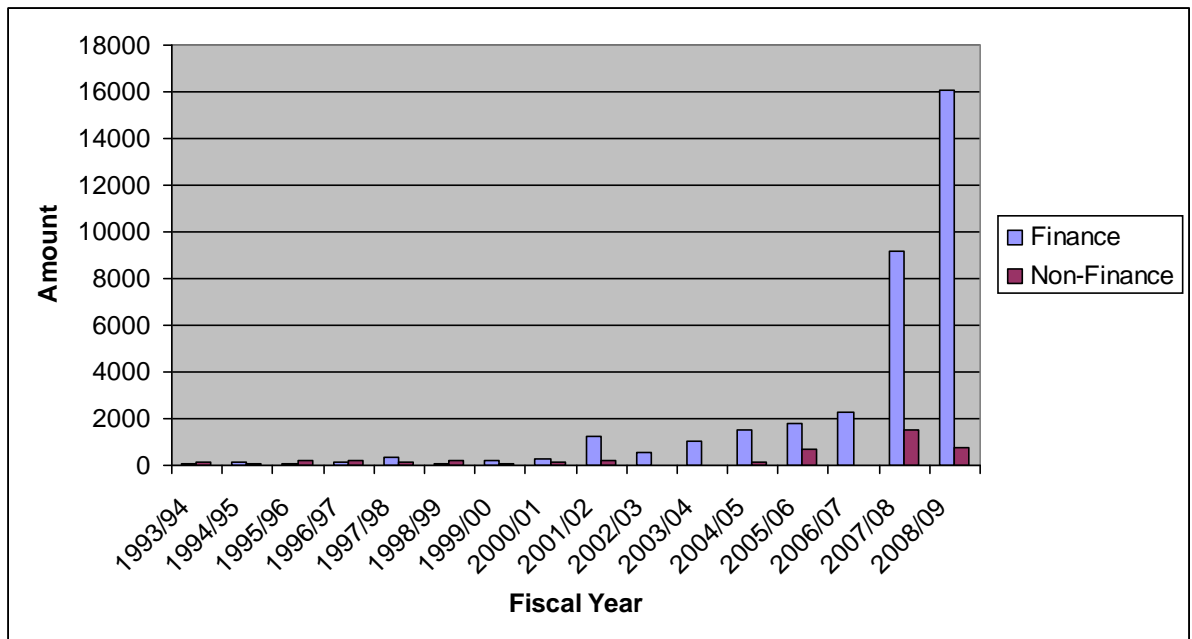
Table 4.5 reveals the public issues from finance and non-finance sector during the Study period.

Table: 4.5**Public Issue from Finance and Non-finance Sector**

Sector	Finance			Non-finance			Total	
	Year	No. of Issue	Amount (Rs. in million)	Annual Growth (%)	No. of Issue	Amount (Rs. in million)	Annual Growth (%)	No. of Issue
1993/94	6	87.8	-	10	156.6	-	16	244.4
1994/95	6	120	36.67	4	54	-65.52	10	173.96
1995/96	8	95.1	-20.75	4	198.6	267.78	12	293.74
1996/97	4	107	12.51	1	225.2	13.39	5	332.2
1997/98	9	315.5	194.85	3	146.9	-34.77	12	462.36
1998/99	3	58	-81.62	2	200	36.15	5	258
1999/00	5	237.3	309.14	1	89.6	-55.20	6	326.86
2000/01	8	260.5	9.73	1	150	67.41	9	410.49
2001/02	11	1267.9	386.72	1	173.5	15.67	12	1441.33
2002/03	18	556.5	-56.11	0	0	-100	18	556.54
2003/04	14	1027.5	84.64	0	0	0	14	1027.5
2004/05	13	1486.8	44.7	1	140	0	14	1626.82
2005/06	27	1759.4	18.33	2	683.9	388.50	29	2443.28
2006/07	34	2295.50	28.42	0	0	-100	34	2295.5
2007/08	63	9168.20	299.40	1	1500	0	64	10668.2
2008/09	62	16082.06	75.41	2	746.44	-50.24	64	16828.5
Total	291	34925.06		33	4464.74		324	39389.68

Source: SEBON Annual Report 08/09

Figure: 4.4**Public Issue from Finance and Non-Finance Sector**



From Table 4.5 revealed that total of 324 public issues are made from finance and non-financial sector during the period. Out of this, total of 291 (89.81%) offers came from financial sector whereas rest 33 (10.22%) from non-financial sector. It means 89.78% public offers are from financial sector and rest 10.19% from non-financial sector. During the study period total of Rs. 39389.68 million issued to public. Out of it Rs. 34925.06 million (88.67%) came from financial sector. Similarly, contribution from non-financial sector is Rs. 4464.74 million which is 11.33 % of total.

On an average, there are approx. 18 offers from financial sector on each Fiscal Year, while approx Just 2 from non-financial sector. Similarly, on an average public issue of Rs. 2182.82 million came from financial sector while Rs. 279.05 million from non-financial sector. These figures clearly show that the financial sector is dominant force of Nepalese IPO market. From the table it is clearly seen that financial sector are growing at 84.44% per year during the study period while non-financial sector are growing only at 10.19% per year.

Result of t-test

t-test deals with the small samples for testing hypothesis concerning population means, difference between two population means, as observed sample correlation

coefficient etc. To test where the index between Finance and Non-finance Sector are differing or not t-test is performed. Since there are Finance and Non-finance sector and yearly 16 years are taken as the number of observation. The overall results these calculations are as follows:

Total no. of Observations	Calculated t-value	Degree of Freedom	Tabulated t-value	Result	Decision
16	1.75	30	1.70	Tab-t<Cal-t	H0 is rejected

Source: Appendix-2

The t-test for difference between two normal populations having the same means and equal population variances or there is significant difference between population means from which the sample are drawn. For this, t-test is done at 5% level of significant (one tailed test). From the table it is seen that calculated t-value is greater than the tabulated t-value, so null hypothesis (H0) is rejected at 30 degree of freedom. This implies that issue amount from financial sector is greater than issue amount from non-financial sector and it is noted that primary market is concentrated to financial sector than Non-financial sector.

4.1.6 Instrument-Wise Public Issues

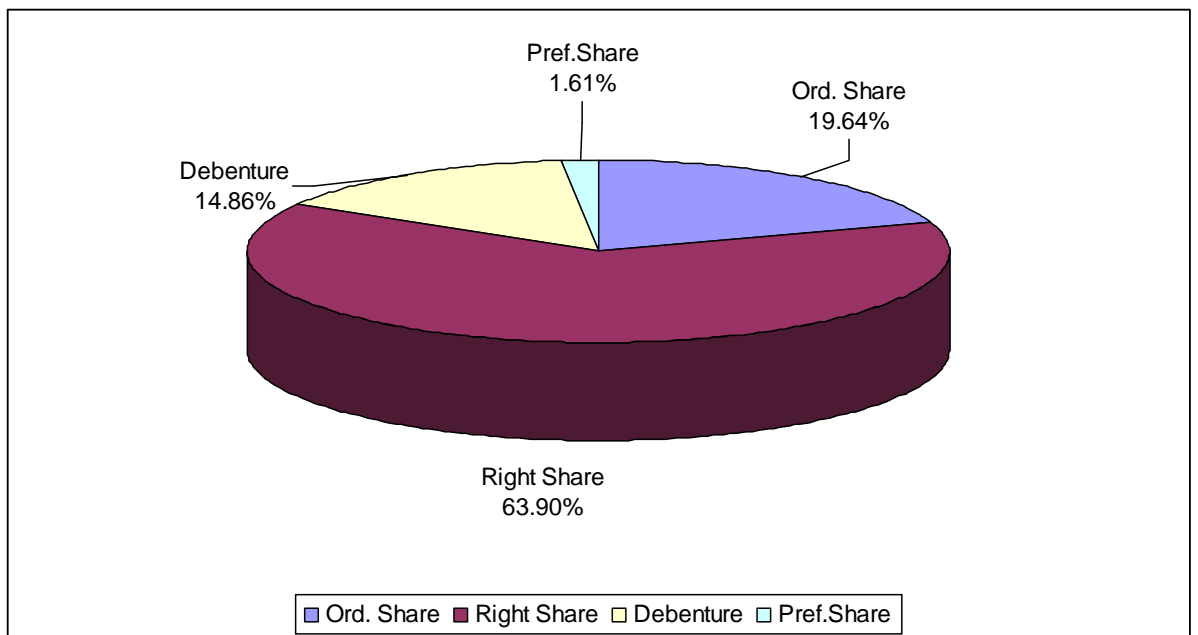
Likewise many other emerging markets Nepalese market also provides limited variety of investment instruments which mainly includes Common Stock, Preferences Shares, Right Shares, Debenture . Over a period of time Nepalese stock market has been relying on few financial instruments such as common stock and right shares, which can not be considered good sign regarding overall development of Nepalese stock market.

Table: 4.6
Instrument wise Issue

Fiscal Year	Ord. Share		Right Share		Debenture		Preference Share		Total	
	No of issue	Amt (in m)	No of issue	Amt (in m)	No of issue	Amt (in m)	No of issue	Amt (in m)	No of issue	Amt (in m)
1993/94	14	227.9	-	-	-	-	2	16.5	16	244.4
1994/95	10	173.96	-	-	-	-	-	-	10	173.96
1995/96	10	224.74	2	69	-	-	-	-	12	293.74
1996/97	2	57	3	275.2	-	-	-	-	5	332.20
1997/98	8	119.4	3	259.96	1	93	-	-	12	462.36
1998/99	3	148	1	30	-	-	1	80	5	258.00
1999/00	3	202.3	3	124.6	-	-	-	-	6	326.90
2000/01	7	278.7	2	131.8	-	-	-	-	9	410.50
2001/02	5	319.5	5	621.9	1	360	1	140	12	1441.40
2002/03	14	394.3	4	162.2	-	-	-	-	18	556.50
2003/04	10	657.5	3	70	1	300	-	-	14	1027.5
2004/05	7	1231.78	6	94.93	1	300	-	-	14	1626.71
2005/06	14	579.8	11	1013.5	4	850	-	-	29	2443.30
2006/07	15	380.3	17	1265.3	1	250	1	400	34	2295.6
2007/08	16	924.8	43	6793.4	5	2950	-	-	64	10668.2
2008/09	12	1815.70	50	14262.80	2	750	-	-	64	16828.50
Total	150	7735.68	153	25174.59	16	5853	5	636.5	324	39389.77
Percentage	46.30	19.64	47.22	63.91	4.94	14.86	1.54	1.61	100	100

Source: SEBON Annual Report 2008/09

Figure: 4.5
Instrument Wise Public Issue (On the basis of Total Amount)



As shown in Table 4.6, out of 324 offers during the sample period, 150 issues are ordinary shares, which is 46.30% of the total issue offered during the period. Similarly, 153 issues are right shares, which is 47.22% of total issue. Also 16 issues are debentures (4.94%) and 5 issues are preference share (1.54%). Hence from number of issues offered perspective, ordinary share and right share are the most preferred instrument for issuing company, debenture and preference share respectively.

From issued amount perspective right share emerges as most used financial instrument with 63.91% of total issued amount. Second most used instrument is ordinary share occupying 19.64% of total amount followed by debenture 14.86% and preferred stock 1.61% respectively.

The most striking aspect of the analysis has been the fact that preferences shares are issued only 5 times and debenture 16 times during the entire study period which covered 16 fiscal years. This study clearly showed that NEPSE Stock Market is highly dependent on few financial instrument likely ordinary share and right share. This over dependency, on one hand limits the boundary of investment opportunities to the public and on other hand, limits the overall development prospect of Nepalese stock market. At the same time this may also justify the selection of ordinary share as subject of this study.

4.1.7 Sector-Wise Right Shares' Issue Approved

The situation of right shares' issue approved of fiscal year 2008/09 is presented in Table- 4.7

Table: 4.7
Sector-wise Right issue approved of year 1993/94 to 2008/09

Sector	No. of Right Issue	Amount Approved (Rs. in million)	% of Approved Amount
Commercial Banks	29	9737.16	37.50
Development Banks	29	3475.72	13.38
Finance Companies	82	10886.07	41.92
Insurance Companies	7	346.2	1.33
Manufacturing & processing	2	292.2	1.13
Trading	0	0	0
Hotel	1	446.45	1.72
Other	2	784.54	3.02
Total	152	15521.15	100.00

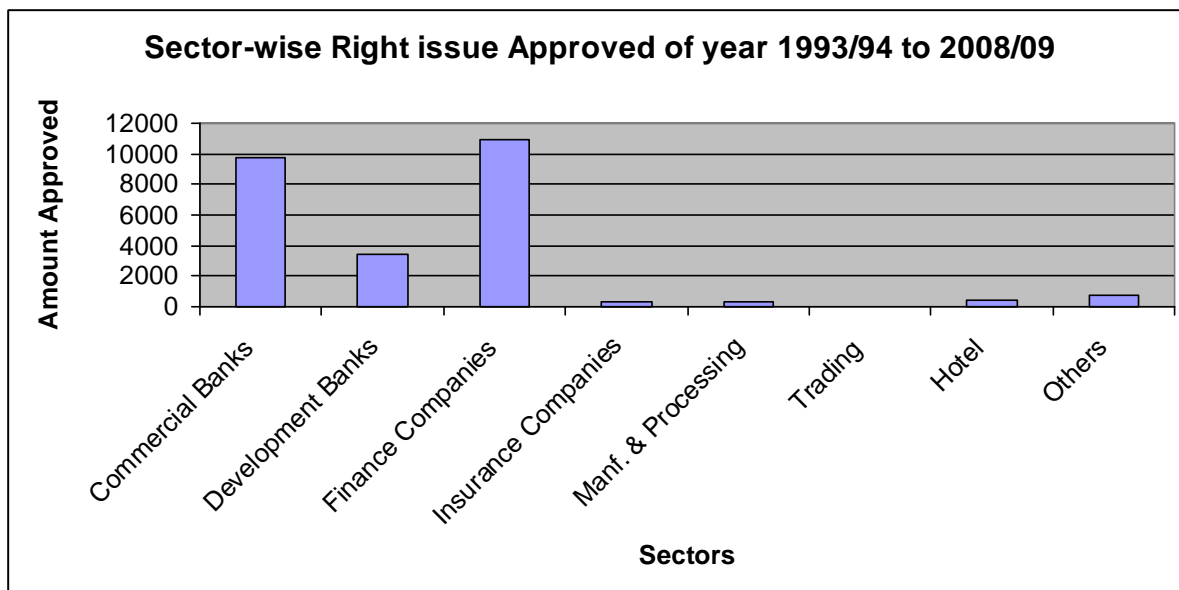
Source: SEBON Annual Report 2008/09

Table: 4.7 indicates that during the period of 1993/94 to 2008/09 only finance sector, banking sector, insurance sector, manufacturing and processing sector and other sectors' companies registered the securities in Security Board for right share issue approval i.e. none companies of trading sector and hotel sector went for right share offering. SEBON approved the highest amount of right

share issue amounting Rs. 10886.07 million (41.92 %) of Financial Sector which is followed by Rs. 9737.16 million (37.50%) of Commercial Bank sector, Rs. 3475.72 million (13.38%) of Development Bank and Rs. 446.45 million (1.72%) of Hotel Sector, where as the least issue approved is Rs. 292.02 million (1.13 %) of Manufacturing and Processing and it is followed by Rs. 346.2 million (1.33 %) of Insurance Companies right share issue approved .

Furthermore, during the period SEBON approved the right share of 82 companies of finance sector for public subscription in highest range and it is followed by 29 companies' issue of Commercial Banks and Development Banks sector while it approved only one issue of Hotel sector and other sector companies in least range.

Figure: 4.6
Sector-wise Right Issue



4.1.8 Subscription Pattern (Over and Under) of Securities

When a company offers its issues to public, the demand received from public is bound to vary. When demanded number of shares is higher than the offered number of shares, it is called over-subscription and when the demanded number of shares is lower than the number of shares offered, it is called under-subscription. Similarly when the offered number of shares and demanded number of shares are equal it is the case of full subscription. More information regarding it has been presented in table 4.8.

Table: 4.8
Subscription Pattern of Securities

Source: Annual Reports of SEBON 2008/09

Fiscal Year	Total no. of Issue	Over Subscription		Under Subscription		Fully Subscription		Unknown	
		Co.	%	Co.	%	Co.	%	Co.	%
1993/94	16	15	93.75	-	-	-	-	1	6.25
1994/95	10	7	70	1	10	2	20	-	-
1995/96	12	5	41.67	6	50	-	-	1	8.33
1996/97	5	2	40	1	20	-	-	2	40
1997/98	12	5	41.67	5	41.67	1	8.33	1	8.33
1998/99	5	3	60	1	20	-	-	1	20
1999/00	6	5	83.33	1	16.67	-	-	-	-
2000/01	9	8	88.89	1	11.11	-	-	-	-
2001/02	12	5	41.67	4	33.33	2	16.67	1	8.33
2002/03	18	14	77.78	3	16.67	-	-	1	5.33
2003/04	14	12	85.71	2	14.29	-	-	-	-
2004/05	14	6	42.86	7	50	1	7.14	-	-
2005/06	29	17	58.62	10	34.48	2	6.9	-	-
2006/07	34	16	47.06	14	41.18	3	8.82	1	2.94
2007/08	64	19	29.69	32	50	3	4.69	10	15.62
2008/09	64	13	20.31	-	-	-	-	51	79.69
Total	324	152	46.91	88	27.16	14	4.32	70	21.60

As reveal from Table 4.8 total of 324 different companies issued different securities (Ordinary Shares, Right Share, Preference Share and Debenture) to the public during the study period of FY 1993/94 to FY 2008/09.

In the FY 1993/94 total of 14 companies issued their ordinary shares through IPO and all of them are oversubscribed and 2 companies issued Preference share (one over-subscribed, other had no information). In subsequent year, FY 1994/95, 10 companies go for IPO (Ordinary Share only), out of which 7 companies issue have oversubscribed, 2 of the issues have fully subscribed while remaining 1 issue has undersubscribed. Similarly, in FY 1995/96 out of 12 issues, 5 issues have oversubscribed, 6 issues have undersubscribed and remaining 1 has unknown. FY 1996/97 saw 5 companies issuing their securities through IPO and out of these, 2 companies experienced oversubscription, one has under-subscription and 2 has unknown. In FY 1997/98, out of 12 issues; issues of 5 companies experienced

oversubscription, 5 issues experienced under subscription, one has fully subscription while remaining 1 issue is unknown. Similarly, in FY 1998/99 out of 5 issues, 3 have oversubscribed and 1 has undersubscribed where remaining 1 has unknown. In FY 1999/00, out of 6 issues; 5 issues are oversubscription while remaining 1 issue is under-subscription. This pattern was in FY 2000/01, out of 9 issues; 8 companies experienced and remaining one has under subscribed.

The table 4.8 further shows that during the period of Fiscal Year 2001/02 out of 12 issues, 5 issues have oversubscribed, 4 issues have under-subscribed, 2 have fully subscribed and remaining one is unknown. Similarly, in FY 2002/03 out of 18 issues, 14 issues have oversubscribed, 3 issues have undersubscribed and remaining 1 has unknown. However in FY 2003/04 total of 14 companies issued their securities through IPO and out of them 12 have oversubscribed and rest 2 have under-subscribed. In FY 2004/05 out of 14 issues; issues of 6 companies experience oversubscription, 7 issues experience under subscription and one has fully subscription. Similarly, in FY 2005/06 out of 29 issues, 17 have oversubscribed and 10 have undersubscribed where remaining 2 have fully subscription. Again in the FY 2006/07 total of 34 companies have issued their securities and out of them 16 have oversubscribed, 14 have under-subscribed, 3 have fully subscribed and rest one is unknown. In the study period FY 2007/08, out of 64 issues, 19 issues have oversubscribed, 32 issues have under-subscribed, 3 issues have fully subscribed and 10 issues are unknown. At the last FY of study period ie Fiscal Year 2008/09, out of 64 issued 20.31% i.e. 13 issued have over subscribed and rest of the other issued subscription pattern are un known or data not included in the Annual Report of Fiscal Year 2008/09.

Hence, from the total of 324 issues, 152 issues representing 46.91% of total issues are oversubscription, 88 issues accounting 27.16% have under subscribed and 14 issues (4.33%) have fully subscribed where there is unknown about subscription pattern of 70 issues representing 21.60% of total no. of issue. On instrument wise basis, the ordinary share have oversubscribed most of the time in comparison to other securities. Where as in case of fully subscribed; right share and debenture capture about 2/3 part of the total number but right share under subscribed most of time. The total no of preference share issues there oversubscribed but there was no information about

one issue and no of issue was small. These figures illustrate that most of the companies, which issued their ordinary shares through IPO during the study period experienced oversubscription of their issues. That fact may hint out why most companies prefer common shares to raise capital from general public rather than other securities.

4.1.9 Issue of Preference Share and Debenture

These 4 companies issuing preference Share are as follows

Table: 4.9

Issue of Preference Share from FY 1993/94 to 2008/09

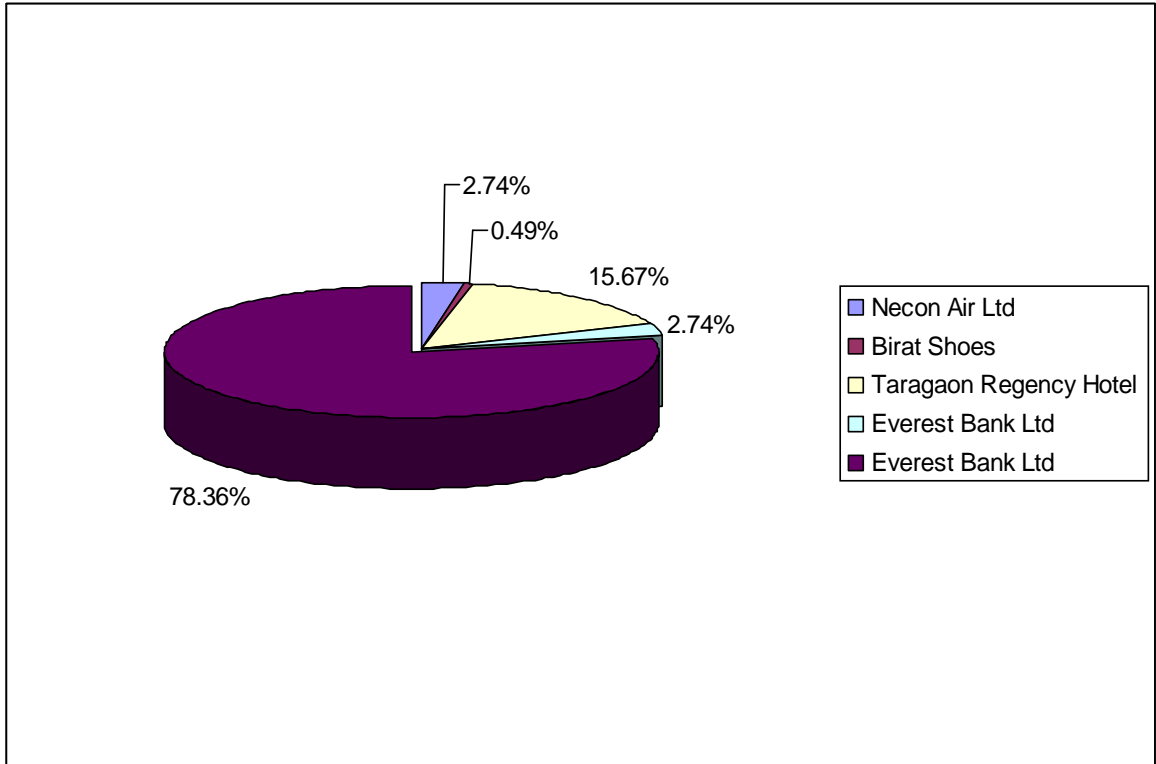
S. No.	Name of Company	Issue Manager	Amount Issue (Rs. in Million)	Percentage (%)	Date of Issue
1	Necon Air Ltd	CIT	14	2.74	1993/94
2	Birat Shoes	NSML	2.5	0.49	1993/94
3	Taragaon Regency Hotel	NCML NMB	80	15.67	1998/99
4	Everest Bank Ltd	NSML	140	2.74	2001/2
5	Everest Bank Ltd	CIT	400	78.36	2006/07
Total			510.5	100	

Source: Issue manager

These 4 companies have issued the preference share of total Rs. 510.5 million. Among them Everest Bank has issued the largest amount of share which is 14 million in the fiscal year 2001/02 which represent 2.74% and amount 400 million in the fiscal year 2006/07 which represent 78.36%. The Birat shoes issued the least amount of share amount of 2.5 million in the fiscal year 1993/94 which represent 0.49%. The Everest Bank Ltd has issued the preference share of highest total amount of Rs. 400 million which covers 78.36%. The preference share of all companies was sold on the over subscription. The company wise issue of preference share is as follows,

Figure: 4.7

Issue of Preference Share from FY 1993/94 to 2008/09



Similarly the fifteen companies have issued the debenture, the name of which are as follows:

Table: 4.10
Issue of Debenture from Fiscal Year 1993/94 to 2008/2009

S. No.	Name of Company	Issue Manager	Amount issue (Rs in Million)	Percentage (%)	Date of Issue
1	Shreeram Sugar	NSML	93	1.68	1997/98
2	Himalayan Bank Ltd	NMB	360	6.49	2001/02
3	Nepal Investment Bank	AFCL	300	5.40	2003/04
4	Bank of Kathmandu Ltd.	NMB	200	3.60	2005/06

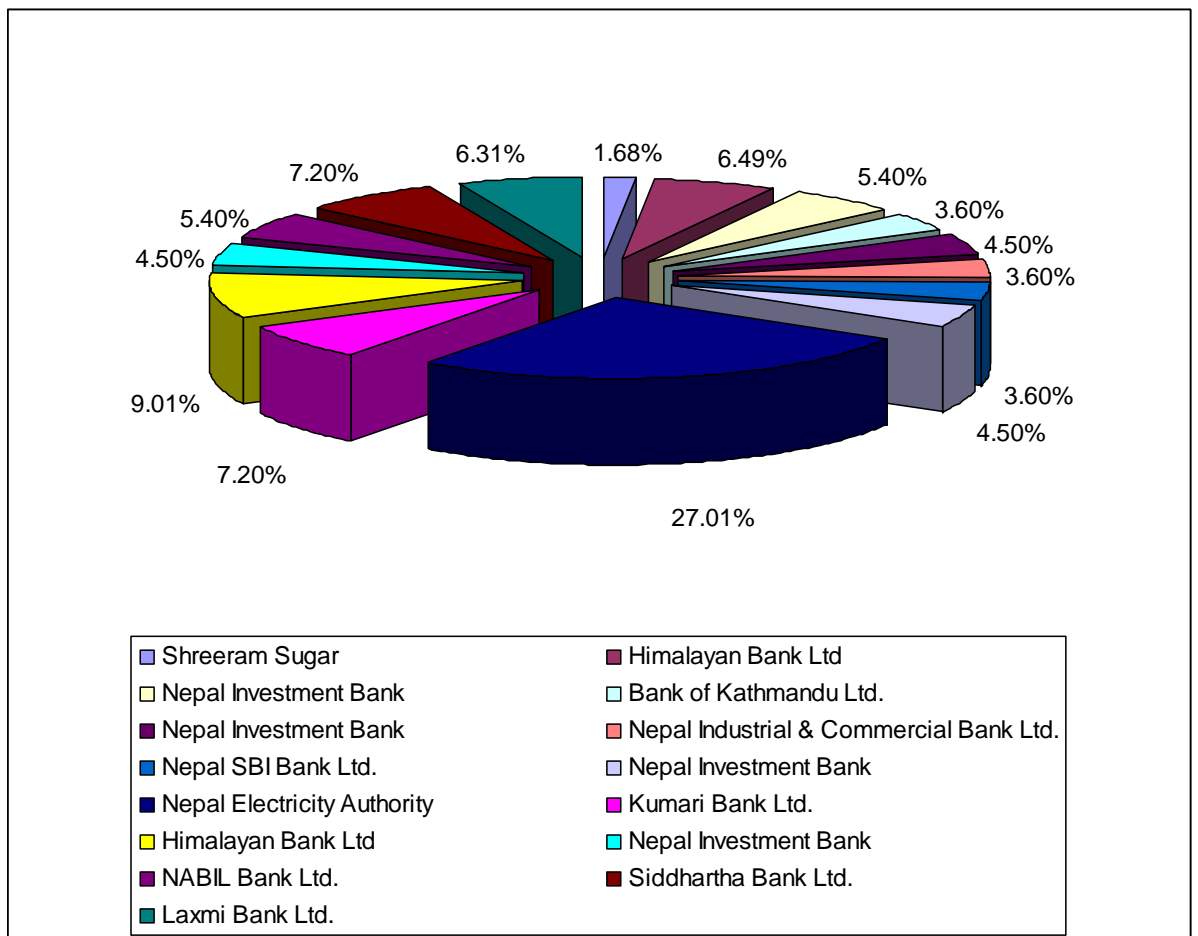
5	Nepal Investment Bank	AFC	250	4.50	2005/06
6	Nepal Industrial & Commercial Bank Ltd.	AFC	200	3.60	2005/06
7	Nepal SBI Bank Ltd.	CIT	200	3.60	2005/06
8	Nepal Investment Bank	AFC	250	4.50	2006/07
9	Nepal Electricity Authority	NMB	1500	27.01	2007/08
10	Kumari Bank Ltd.	NMB	400	7.20	2007/08
11	Himalayan Bank Ltd	ACE Dev. Bank Ltd.	500	9.01	2007/08
12	Nepal Investment Bank	ACE Dev. Bank Ltd.	250	4.50	2007/08
13	NABIL Bank Ltd.	NIDC Capital Market	300	5.40	2007/08
14.	Siddhartha Bank Ltd.	ACE Dev. Bank Ltd.	400	7.20	2008/09
15.	Laxmi Bank Ltd.	NMB	350	6.31	2008/09
Total			5553		

Source: Issue manager

The Fifteen companies have sold the total debenture amount of Rs. 5553 million. Amount then the Nepal Electricity Authority issued the highest amount 1500 million and the Shreeram Sugar has issued the least amount of Rs 93 million.

The above data can be presented in the chart as follows,

Figure: 4.8
Issue of Debenture from 1993/94 to 2008/09



Similarly, the NIDC capital market has issued the Mutual fund in 2002/03 of total amount Rs. 100 million. The NCML was the issue manger and NIDC was remained trusty during the issue. In this 16-Year period, the most of the companies has used the Common Stock to Raising the fund through initial public offering. Most of the company's share has oversubscribed at the time of public offering. Generally, the share of manufacturing and trading companies were under subscribed.

4.2 Public Response at the time of IPO

Nepal stock Exchange Limited has divided the total listed companies into eight sectors. They are Commercial Banks, Finance Companies, Development Banks, Insurance Companies, Manufacturing & Processing Companies, Trading Companies, Hotels and others. Investors have to decide in which sector they want to made investment. As per objective, this study only concerned with the investors priority and response for the IPO so whole study are divided into Financial sector (Commercial Bank, development

bank, Finance companies and Insurance companies) and Non-financial Sector (Manufacturing & Processing companies, Hotels, Trading companies and others).

4.2.1 Public Response to Commercial Banks at the Time of IPO

There are 23 commercial banks in operation in Nepal at the end of fiscal year 2008/09 A.D. Out of these companies, 21 commercial bank had issued their public and NABIL Bank Limited is the first commercial bank and last time Prime Commercial Bank Limited has issued share to public.

To analyze the public response to commercial banks, six commercial banks (Nepal SBI Bank Ltd., Bank of Kathmandu Ltd., NIC Bank Ltd., Laxmi Bank Ltd., Siddhartha Bank Ltd. and Sunrise Bank Ltd.) are chosen as samples which are shown in the following table.

The table shows the information of 6 different commercial banks with issue years, number of shares issued, and subscription times which shows the public response to these companies at the time of raising fund.

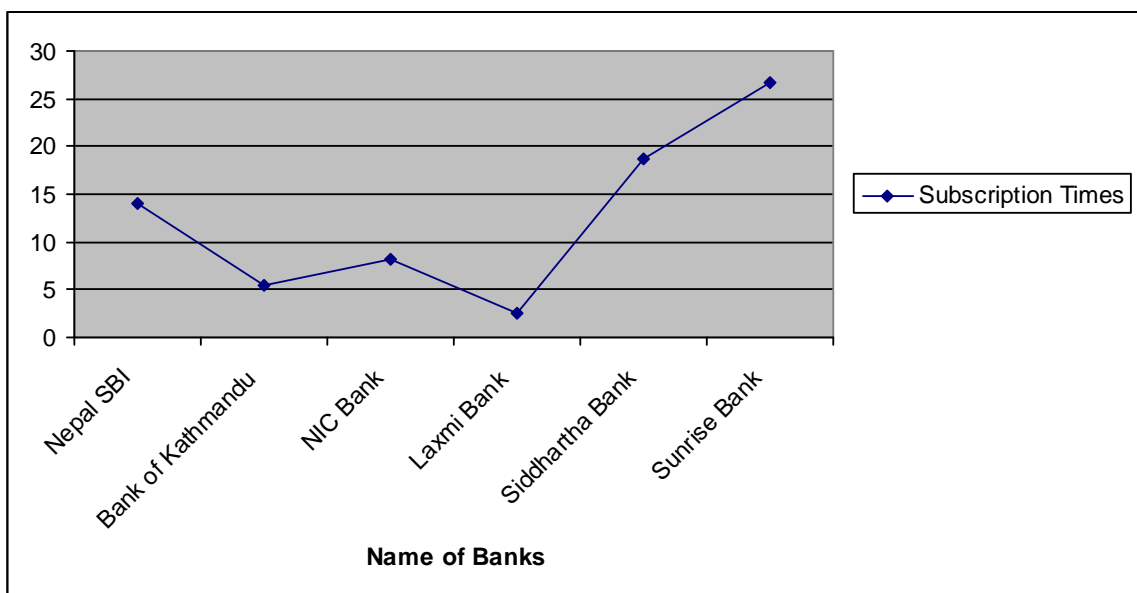
Table: 4.11
Public Response to Commercial Banks At the Time of IPO

S. No.	Name of Bank	Issue Year	No. of Shares	Subscription Times	Result
1	Nepal SBI	1993	360000	14.05	Over Subscribed
2.	Bank of Kathmandu	1996	450000	5.36	Over Subscribed
3.	NIC Bank	1999	175000	8.16	Over Subscribed
4.	Laxmi Bank	2003	192000	2.51	Over Subscribed
5.	Siddhartha Bank	2005	150000	18.65	Over Subscribed
6.	Sunrise Bank	2009	3750000	26.75	Over Subscribed

As revealed from table 4.11 out of 6 sampled commercial banks, the IPO of Sunrise Bank Sunrise Ltd. (ordinary share) gets the highest demand with subscription times of 26.75 times. It means investors have given high response to this company. Similarly, Siddhartha Bank Ltd. has issued 150000 units of ordinary share but investor has applied for 18.65 times more than issue size. That means investors gave more response to this bank also. It is followed by Nepal SBI Bank Ltd, NIC Bank, Bank of Kathmandu Ltd., and Laxmi Bank Ltd. that the subscription times are 14.05, 8.16, 5.36 and 2.51 shows the public response is in decreasing order in each bank respectively.

In the above table, it is shown that 6 banks have oversubscribed which indicates that IPO of this sector were highly demanded by general public. Investors give high priority and response to the commercial banks.

Figure: 4.9
Public Response to Commercial Banks At the Time of IPO



4.2.2 Public Response to Development Bank

There are 29 Development banks had issued their public and some other are in the process of issue of securities to public and get the approval for issue of the ordinary Share at the end of FY 2008/09. Nepal Development Bank Limited is the first Development bank and last time Public Development Bank Limited issue share to the public.

To analyze the public response to development banks, seven development banks, Development Credit Bank Ltd , Chhimek Development Bank Ltd, Deprosc Development Bank Ltd., Siddhartha Dev. Bank, Sanima Development Bank Ltd, Triveni Development Bank , Public Dev. Bank are chosen as samples which are shown in the following table:

Table 4.12 shows the information of 7 different development banks with issue year, number of shares issued, and Subscription Times which shows the public response to these companies.

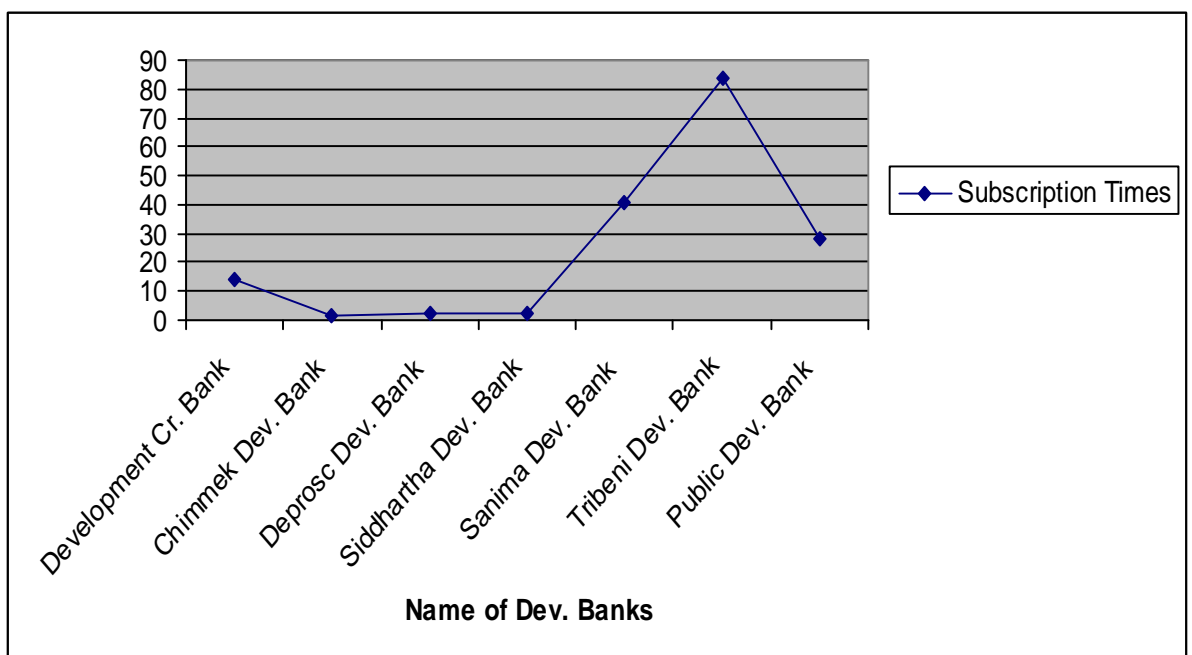
Table: 4.12
Public Response to Development Banks At the Time of IPO

S. No.	Name of Bank	Issue Year	No of Shares	Subscription Times	Result
1.	Development Cr. Bank	2002	480000	14.10	Over Subscribed
2.	Chhimek Dev. Bank	2004	30000	1.39	Over Subscribed
3.	Deprosc Dev. Bank	2005	34800	2.59	Over Subscribed
4.	Siddhartha Dev. Bank	2006	200000	2.22	Over Subscribed
5.	Sanima Dev. Bank	2006	960000	40.31	Over Subscribed
6.	Tribeni Dev. Bank	2008	150000	83.42	Over Subscribed
7.	Public Dev. Bank	2009	600000	28.38	Over Subscribed

As revealed from table 4.12 out of 7 samples development banks, the IPO of Tribeni Development Bank Ltd (ordinary share) gets the highest demand and subscription was 83.42 times more than issued size. Similarly, Sanima Development Bank have issued 960000 units of ordinary share but investor subscription is 40.31 times more than issue size. This shows the response of the investors to this bank was also very high. The Public Dev bank has subscribed 28.38 times. It is followed by Development Cr. Bank Ltd, Deprosc Dev. Bank and Siddhartha Dev. Bank, Chimmek Dev. Bank subscription are 14.10, 2.59, 2.22 and 1.39 subscription times shows the public response is very low (but over subscribed) each bank respectively. That means investors have given less response to these bank than the other.

From the table, it is shown that among seven Development banks four banks has very high public response and rest three had low public response but not under subscribed all of the above company. The information also presented in the figure- 4.10.

Figure 4.10
Public Response to Development Banks At the Time of IPO



4.2.3 Public Response to Finance Companies at the Time of IPO

Finance Companies are the major attraction of the investor to purchase the shares. There are 61 Finance Companies have issued their public and some other are in the process of issue of securities to public and get the approval for issue of the study period.

To simply the study of public response to finance companies, 15 Finance companies: Annapurna Finance Co, Samjhana Finance Co., Lumbini Finance & Leasing Com., Union Finance Com., Premier Finance Com., Butwal Finance Com., Fewa Finance Com., Everest Finance Com., IME Finance Com., Patan Finance Com., ICFC Financial Institution, Prabhu Finance, Kaski Finance, Reliable Inv. Financial Institution and Api Finance Ltd. are chosen as samples which are shown in the following table:

Table 4.13
Public Response to the Finance Companies at the Time of IPO

S. No	Name of Finance Companies	Issue Year	No of Share	Subscription Times	Result
1.	Annapurna Finance	1994	20000	28.03	Over Subscription
2.	Samjhana Finance	1996	112000	0.89	Under Subscribed
3.	Lumbini Finance & Leasing Com.	2000	240000	11.56	Over Subscribed
4.	Union Finance Com.	2002	240000	8.78	Over Subscribed
5.	Premier Finance Com.	2003	80000	10.26	Over Subscribed
6.	Butwal Finance Com.	2003	200000	8.03	Over Subscribed
7.	Fewa Finance Com.	2004	80000	23.55	Over Subscribed
8.	Everest Finance Com.	2005	80000	5.40	Over Subscribed
9.	IME Finance Com.	2006	175000	4.58	Over Subscribed
10	Patan Finance Com.	2006	200000	1.16	Over Subscribed
11.	ICFC Financial	2007	244000	35.06	Over

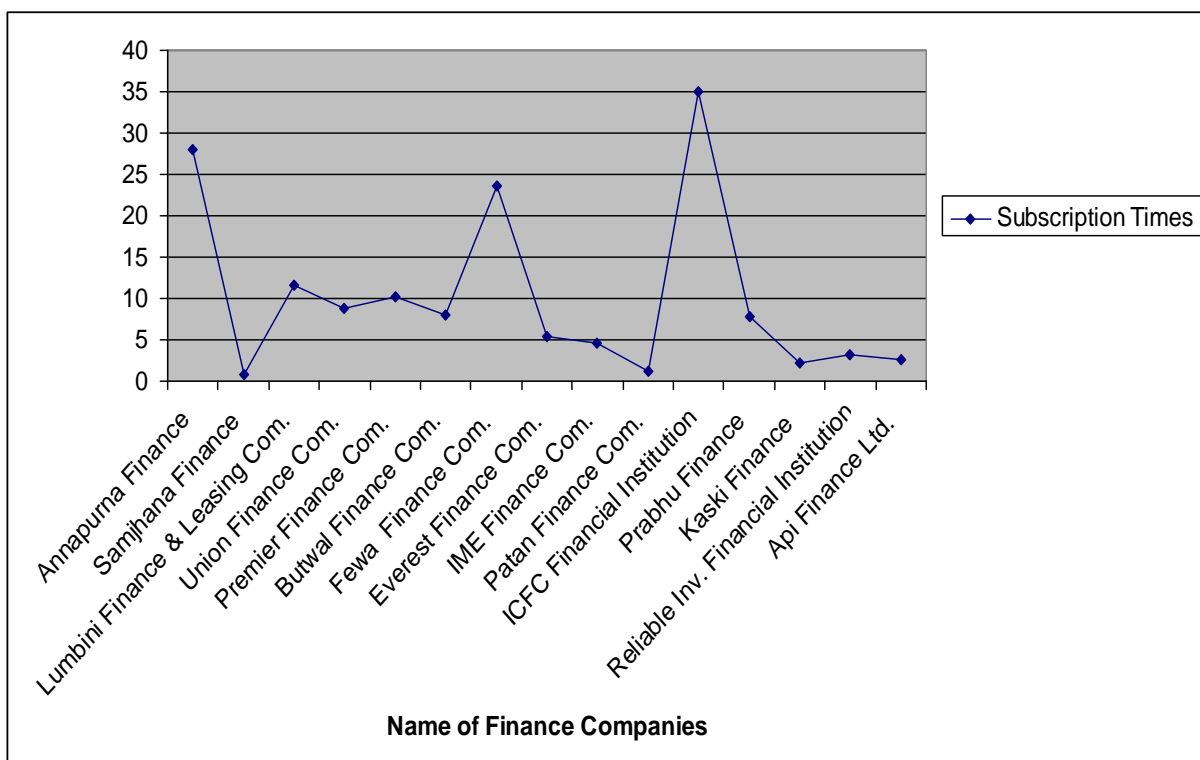
	Institution				Subscribed
12.	Prabhu Finance	2007	480000	7.73	Over Subscribed
13.	Kaski Finance	2008	200000	2.19	Over Subscribed
14.	Reliable Inv. Financial Institution	2008	248000	3.15	Over Subscribed
15.	Api Finance Ltd.	2009	180000	2.62	Over Subscribed

The Table 4.13 shows the information of 15 different Finance Companies with Issue year, number of shares issued and subscription times which shows the public response to these companies at the time of raising fund through IPO.

As revealed from table 4.13 out of 15 sampled Finance Companies, the IPO of ICFC Financial Institution Ltd gets the highest demand and subscription is 35.06 times more than issued sized that means investors are given high response to this company than the other. Similarly, Annapurna Finance Company and Fewa Finance Companies have issued 20000 units and 80000 units of ordinary share but investor applied 28.03 and 23.55 times more than issue size. This marked that the response of these companies are also very high. But Lumbini Finance, Premier Finance, Union Finance, Butwal Finance, Prabhu Finance, Everest Finance Companies received medium response from the public with subscription of 11.56, 10.26, 8.78, 8.03, 7.73 and 5.40 times in each companies respectively. These Finance companies IME Finance, Reliable Inv. Financial Institution, Api Finance, Kaski Finance and Patan Fianance are received lower response from the public but over subscribed with 4.58, 3.15, 2.62, 2.19, 1.16 times in each companies respectively. In case of Samjhana Fianance Company the public response is just opposite. This bank has issued 112000 units of share but it undersubscribed. Its only subscribed 0.89 times. That means investors give less response to this company then the other.

Figure: 4.11

Public Response to the Finance Companies at the Time of IPO



4.2.4 Public Response to Insurance Companies at the time of IPO

Insurance Companies are also parts of financial institution and play major role in the development of economy and security market. There are 17 insurance Companies have issued their public and some other are in the process of issue of securities to public at the end of FY 2008/09. Himalayan General Insurance Limited is the first Insurance Company and last time Siddhartha Insurance Company Limited has issued share to the public.

To analyze the public response to Insurance Companies, 5 Insurance Companies, Himalayan General Insurance Company Ltd (HGIL), Sagarmatha Insurance Company Ltd (SGIL), Nepal Life Insurance Company Ltd (NLIC), Life Insurance Corporation and Shikhar Insurance Company Ltd (SICL) are chosen as samples which are shown in the table.

Table: 4.14
Public Response to the Insurance Company at the time of IPO

S. No.	Name of Insurance Companies	Issue Year	No. of Share	Subscription Times	Result

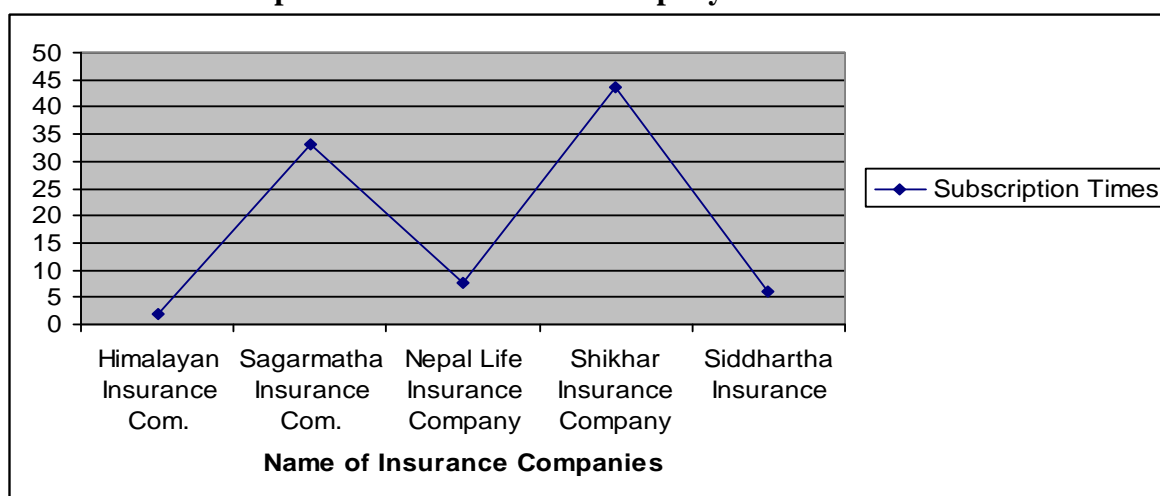
1.	Himalayan Insurance Com.	1993	120000	1.88	Over Subscribed
2.	Sagarmatha Insurance Com.	2000	102000	33.22	Over Subscribed
3.	Nepal Life Insurance Company	2002	500000	7.56	Over Subscribed
4.	Shikhar Insurance Company	2006	250000	43.76	Over Subscribed
5.	Siddhartha Insurance	2007	250000	6.06	Over Subscribed

The above table shows the public response to the insurance companies with issue year, no of share issued and as well as subscription times.

As revealed from table 4.14 out of 5 sampled insurance Companies, the IPO of Shikhar Insurance Com. gets the highest demand and subscription was 43.76 times more than issued sized that means investors has given high response to this company then the other. Similarly, Sagarmatha Insurance Co. has issued 102000 units of ordinary share but subscription is 33.22 times more than issue size. This marks that the response of the company is also very high. But Nepal Life Insurance Company, Siddhartha Insurance Company, Himalayan Insurance Company received medium response from the public with subscription of 7.56, 6.06, 1.88 times respectively. The details information also presented in the figure- 4.12.

Figure: 4.12

Public Response to the Insurance Company at the time of IPO



4.2.5 Public Response to Non-Financial Sector at the time of IPO

The Non-financial Sector also play major role in the development of economy and security market. This sector includes the that type of companies which are not directly involved to collect the money from public and invest it into different sector as a loan but provided necessary goods and services for the public. In this study, non-financial sector is divided into Manufacturing & Processing companies, Trading companies, Hotels and Others companies. This sector does not perform well in the capital market in comparison to financial sector. Some of these companies are not able to make profit from long time where some of them were already gone to dissolve and liquidation like Nepal Battery Company Ltd., Nepal med Ltd. etc. There are 31 Companies have issued their public and some other are in the process of issue of securities to public from this sector at the end of FY 2008/09.

Table: 4.15
Public Response to Non Financial Sector at the time of IPO

S. No	Name of Company	Issue Year	No of Share	Subscription Times	Result
1.	Nepal Lever Ltd.	1994	138000	6.54	Over Subscribed
2.	Necon Air Ltd.	1994	165000	3.57	Over Subscribed
3.	Ace Laboratories Nepal Ltd.	1994	122600	1.00	Fully Subscribed
4.	Shreeram Sugar Mills Ltd.	1995	465000	1.84	Over Subscribed
5.	Taragaon Regency Hotels Ltd.	1999	1200000	2.47	Over Subscribed
6.	National Hydropower Com.	2004	1400000	0.22	Under Subscribed
7.	Arun Valley Hydropower Dev. Com.	2009	515000	27.74	Over Subscribed

Due to lack of reliable sector-wise data, this study is an aggregate study. To analyze the public response to Non- financial companies, 7 Companies (3 from Manufacturing & Processing companies, 1 from trading Company, 1 from hotels and 2 from other companies) are chosen as samples which are shown in the above table. The

table shows the public response to the 7 non- financial sector companies with issued year, no of issued shares and subscription times.

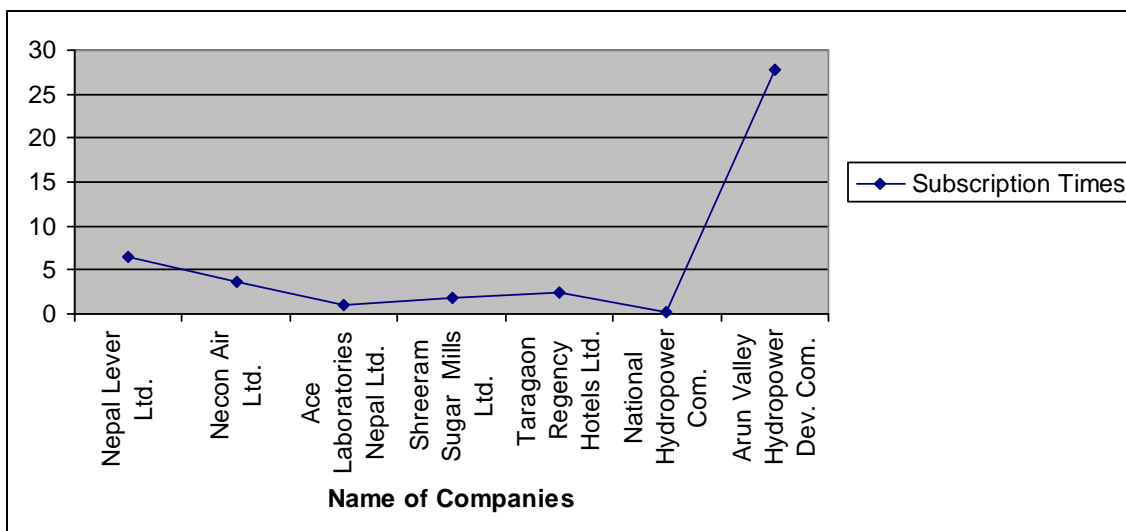
As reveal from the table 4.15 out of 7 sample companies, the IPO of Arun Valley Hydropower Development Company gets the highest demand and subscription is 27.74 times more than issued size that means investors give high demand to this company than the other. Similarly Nepal Liver Ltd. has issued 138000 units of shares but the investors response is 6.54 times more than issue size. This also marked that the response of the company is also very high.

The National Hydropower Company has received very low response from the public with subscription of 0.22 times only and result has under subscribed. Necon Air Ltd. has issued 165000 units of share but subscription result is 3.57 times more than issue size i.e. it has been over subscribed, that means investors have given good response to this company also. It is followed by Taragaon Regency Hotel Ltd, Shreeram Sugar Mills Ltd. and Ace Laboratories Ltd. that the subscription times have 2.47, 1.84 and 1.0 showed the public response respectively. In case of Ace laboratories Nepal Ltd has fully subscribed by the public, that means public response to this company is medium.

In the above table, it is shows that 7 different non - financial companies 1 is very high, 4 companies are medium and 1 company was equal to issue size and 1 company has low response to the public response. This shows that the investors are not much interested to purchase the shares of non-financial sectors. The information also presented in the figure- 4.13.

Figure: 4.13

Public Response to Non Financial Sector at the time of IPO



4.3 Primary Data Analysis

Along with secondary data, primary data are taken to justify the study on the topic. Questionnaire method was implemented for this purpose. In questionnaire method, eleven questions were put up by means of copies of questionnaire. The questionnaire was distributed to the bankers, investors of stock markets, officers of NEPSE, officers of SEBON, NRB employee and issue managers to get information. Categorically, the questions raised multiple choice questions and open ended question. The responses of public have analyzed as follows:

4.3.1 Sources of Idea/Information about Primary Issue of Securities

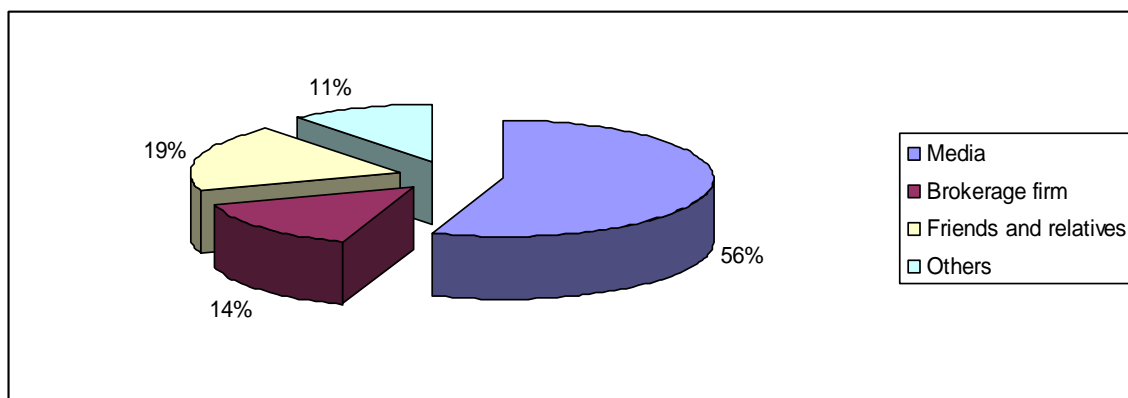
With respect the idea/information about primary issue securities, the questionnaires have asked to the general public among them majorities of respondents (56%) replied that they get information through media, 19% of them know through friends and relatives, 14% of them know through issue brokerage firm and rest 11% know through other sources others likes firm, senior employee of the office and market.

Table: 4.16
Sources of Information about Primary Issue of Securities

Query	Description	Number	Percentage
Sources of Information	a. Media	50	56

about Primary Issue of Securities (Related to general investors)	b.	Brokerage firm	13	14
	c.	Friends and relatives	17	19
	d.	Others	10	11
Total			90	100

Figure: 4.14
Sources of Idea/Information about Primary Issue of Securities



4.3.2 Preferred Sector for Investment in Initial Public Offerings

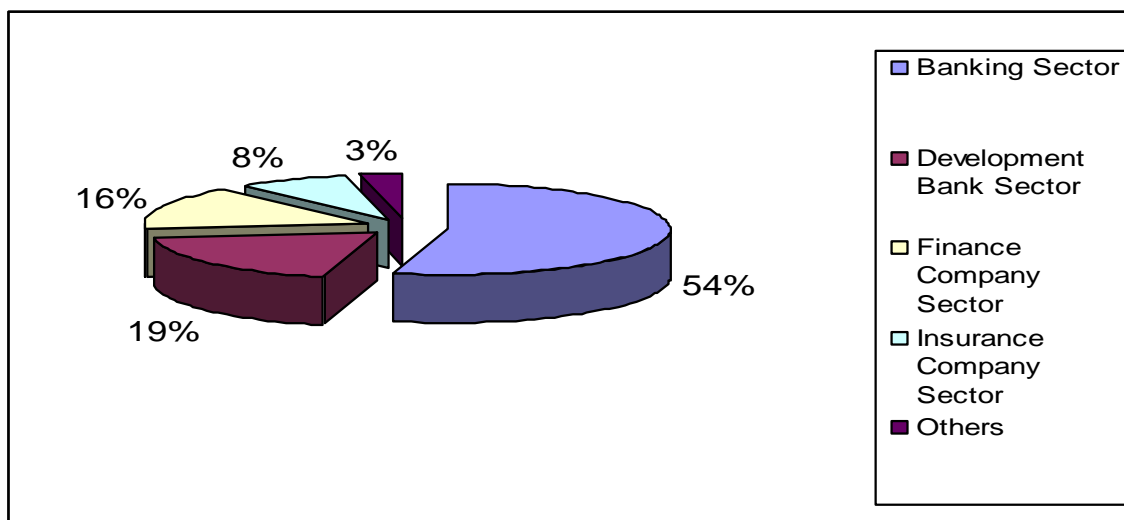
In relation to the preferred sector for investment, data was collected from general investors, most of respondents (54%) are interested in banking sector, 19% are interested in development bank sector, 16% are interested in finance company sector, 8% are interested in insurance companies sector and rest 3% are interested in others like manufacturing and processing, trading company sector.

Table: 4.17
Preferred Sector for Investment in IPO

Query	Description		Number	Percentage
Preferred sector by public (Related to general investors)	a.	Banking Sector	49	54
	b.	Development Bank Sector	17	19
	c.	Finance Company Sector	14	16
	d.	Insurance Company Sector	7	8
	e.	Others	3	3
Total			90	100

Figure: 4.15

Preferred Sector for Investment in IPO



4.3.3 Preferred Securities for Investment in IPO

In relation to the preferred Securities for investment, almost all general investors (90%) replied that they preferred common stock at the time of IPO, 5% said they prefer preference share and only 4% like to invest in corporate bond/debentures.

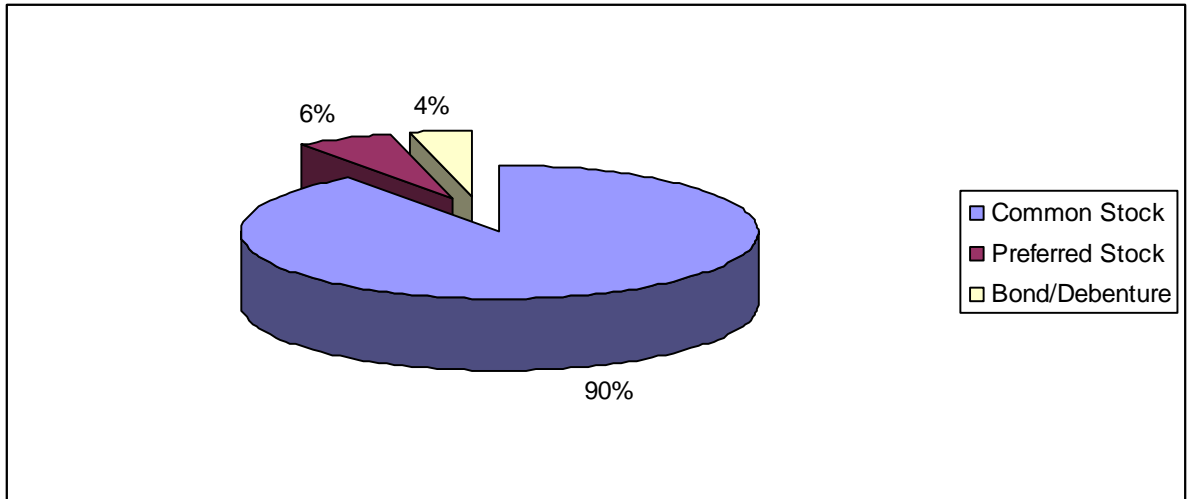
Table: 4.18

Preferred Securities for Investment

Query	Description	Number	Percentage
Preferred Securities for investment (Related to general investors)	a. Common Stock	81	90
	b. Preferred Stock	5	6
	c. Bond/Debenture	4	4
Total		90	100

Figure: 4.16

Preferred Securities for Investment



4.3.4 Awareness about Performance of Issuing Company

In context to the awareness about performance of issuing company, 42% of the general investors replied that they have moderate knowledge about the issuing company, 31% of the general investors replied that they have no knowledge about the performance of the issuing company. 16% of the general investors replied that they have little knowledge about the performance of the issuing company and rest 11% of general investors replied that they have good knowledge about issuing company.

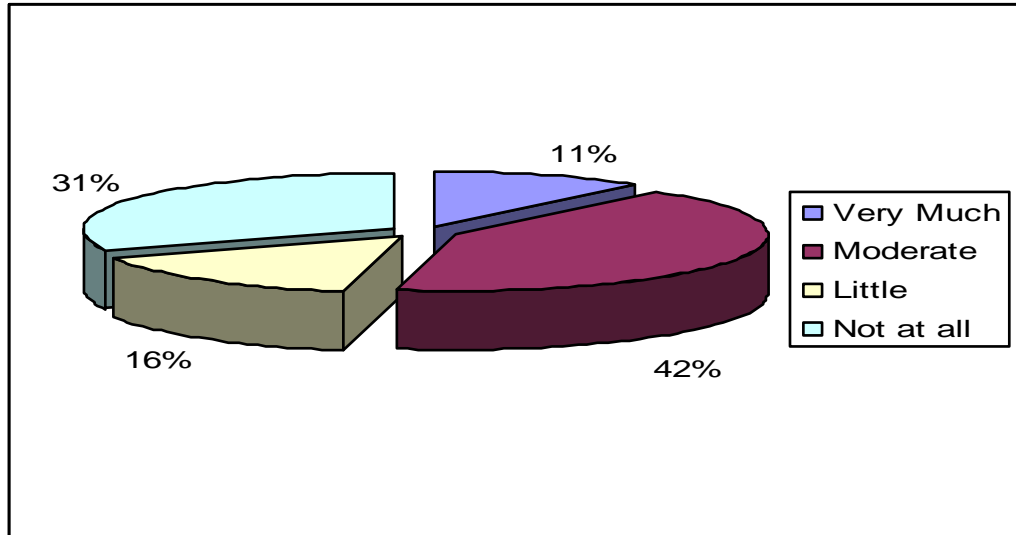
Table: 4.19

Awareness about Performance of Issuing Company

Query	Description	Number	Percentage	
4. Awareness about Performance of Issuing Company (related to general investors)	a.	Very Much	10	11
	b.	Moderate	38	42
	c.	Little	14	16
	d.	Not at all	28	31
Total		90	100	

Figure: 4.17

Awareness about Performance of Issuing Company



4.3.5 Beneficiaries of Initial Public Offerings

With respect to the beneficiaries of IPO, majorities of the respondents (54%) replied that beneficiaries of IPO are investors. 29% of respondents replied in favor of issuing companies, 11% of respondents replied that beneficiaries is non other than issue companies, and in the remaining 6% respondent's view the beneficiaries of IPO is stock broker.

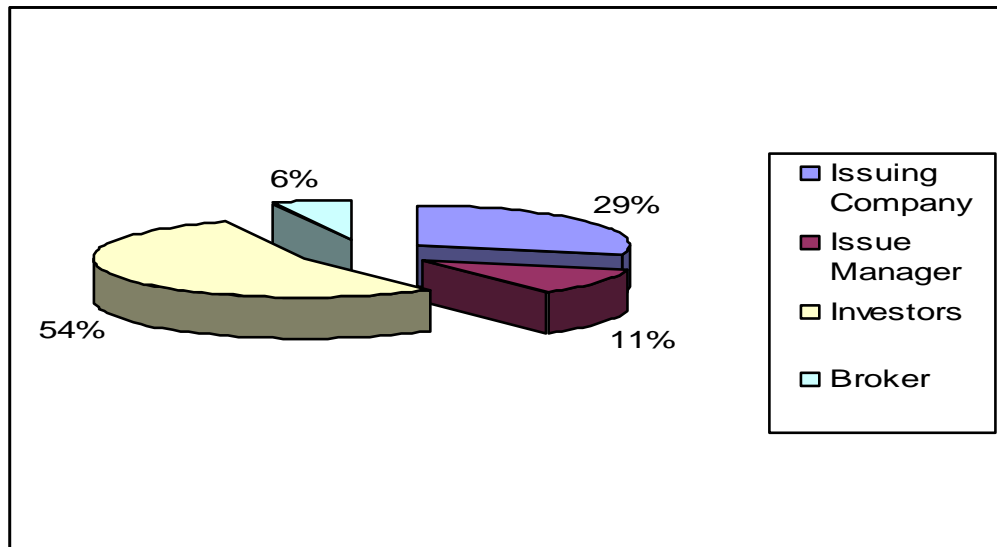
Table: 4.20

Beneficiaries of initial public offerings

Query	Description	Number	Percentage
Beneficiaries of initial public offerings (related for all)	a. Issuing Company	26	29
	b. Issue Manager	10	11
	c. Investors	49	54
	d. Broker	5	6
Total		90	100

Figure: 4.18

Beneficiaries of Initial Public Offerings



4.3.6 Characteristics that help to invest at the time of IPO

Regarding to the public view that what characteristics help to invest in IPO, most of respondents (40%) thought that main reason is price appreciation, 27% of the respondents' view was due to dividend (cash and stock), 24% respondents replied that the motivating factor is right share, and few respondents (9%) view is due to no brokerage commissions.

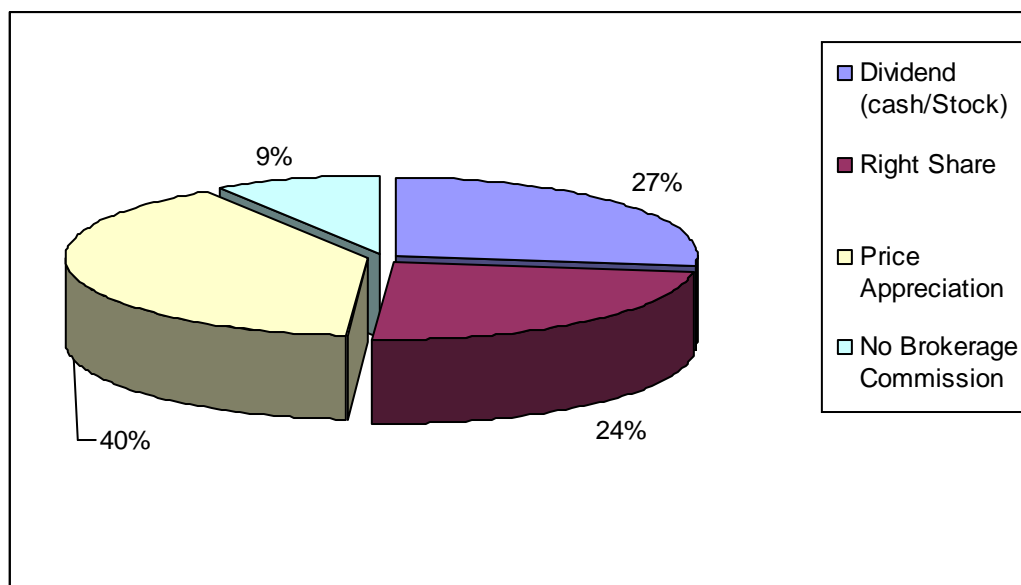
Table: 4.21

Characteristics that help to invest at the time of IPO

Query	Description	Number	Percentage
Characteristics that help to increase subscription at the time of IPO (related to all)	a. Dividend (cash/Stock)	24	27
	b. Right Share	22	24
	c. Price Appreciation	36	40
	d. No Brokerage Commission	8	9
Total		90	100

Figure: 4.19

Characteristics that help to invest in IPO



4.3.7 Bases of Decision for Investment

General investors were asked about the bases of decision for investment in IPO. majorities (50%) of respondents replied that decision for investment is based on friends and relative advices, 21% of the respondents preferred to take decision for investment on the basis of profitability of company, 16% of respondents used to run behind the market whim to take decision for investment and only 13% of the respondents' investment decision was based on market index.

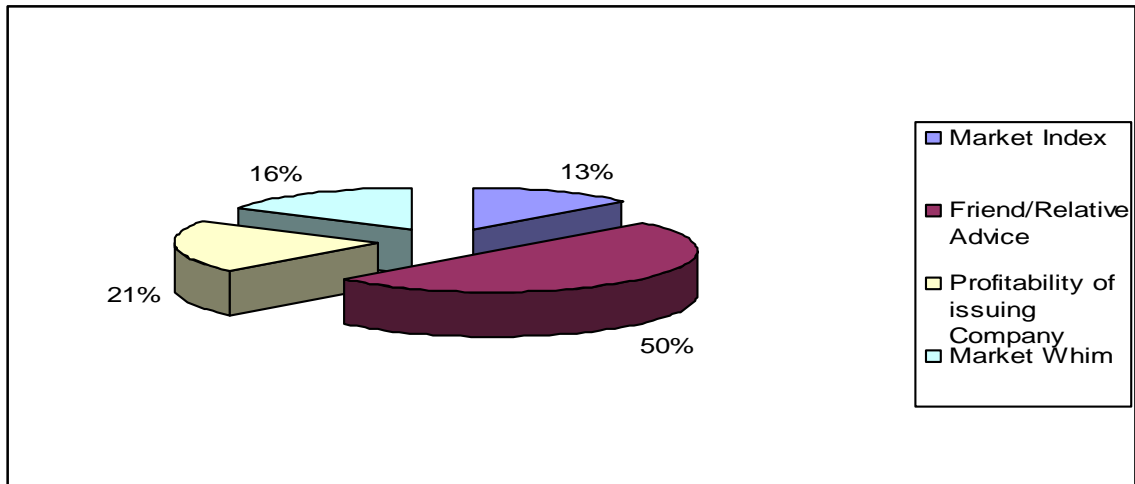
Table: 4.22

Bases for decision for investment in IPO

Query	Description	Number	Percentage
Bases for decision for investment in IPO (Related to general investors)	a. Market Index	12	13
	b. Friend/Relative Advice	45	50
	c. Profitability of issuing Company	19	21
	d. Market Whim	14	16
Total		90	100

Figure: 4.20

Bases of Decision for Investment



4.3.8 Reason for Most of the Companies not likes to go for IPO

The objective of this question is to know how the public think about the why the companies performing very well in the market do not like to go to public for this questionnaires was distributed to the officers of regulatory bodies related to IPO and officers of issue managers, 38% of the respondents think that most of the company do not like to go to issue their share to public because of sharing profit to public, 20% of the respondents think after issuing the share to the public management become complex, in 22% view the major cause is the enough fund and 18% of the respondents replied that companies do not like obligation from mass shareholders.

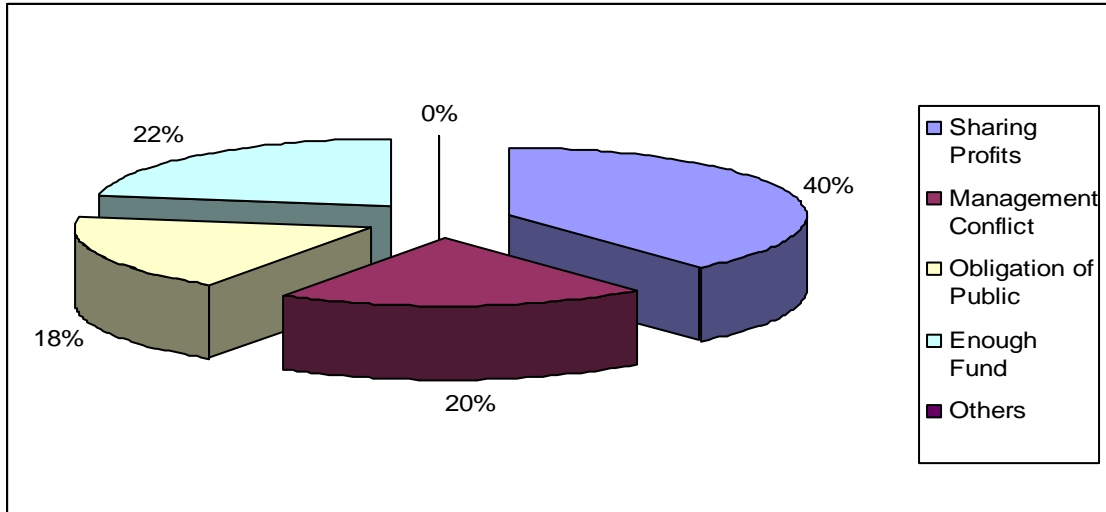
Table: 4.23

Reason for most of the companies not likes to go for IPO

Query	Description	Number	Percentage
Reason for most of the companies not like to go for IPO (Related to company's officials)	a. Sharing Profits	35	38
	b. Management Conflict	18	20
	c. Obligation of Public	17	18
	d. Enough Fund	20	22
	e. Others	0	0
Total		90	100

Figure: 4.21

Reason for Most of the Companies not likes to go to IPO



4.3.8 Condition of Nepalese Primary Market

Company's officials were asked about condition of Nepalese primary market. Very large portion of respondents i.e. 69% replied that Nepalese primary market is slowly growing, 18% of the respondents replied that Nepalese primary market in steady stage i.e. it is constant and only 13% respondents replied that it is rapidly growing.

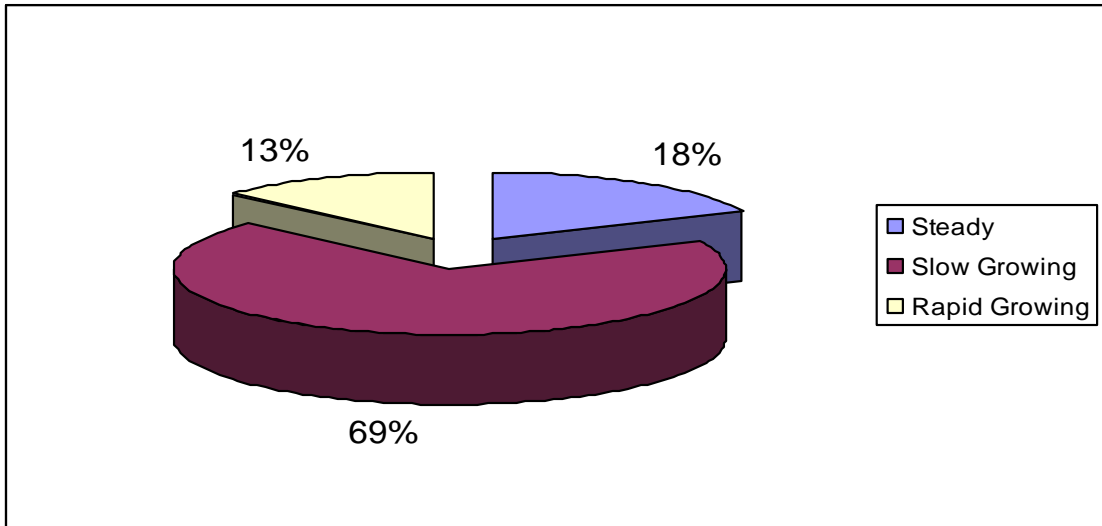
Table: 4.24

Condition of Nepalese primary market.

Query	Description	Number	Percentage
Condition of Nepalese primary market (Related to all)	a. Steady	16	18
	b. Slow Growing	62	69
	c. Rapid Growing	12	13
Total		90	100

Figure: 4.22

Condition of Nepalese Primary Market



4.3.9 Cause of Oversubscription in IPO

In relation to the cause over application of primary issue of securities, 32% of respondents said that main reason of oversubscriptions his due to high future return form IPO, 29% of respondents stated that they have lack of investment opportunities in other sectors, 25% of respondents answer was low interest rate on bank deposit, and only 14% of public view towards oversubscription was due to corporate image.

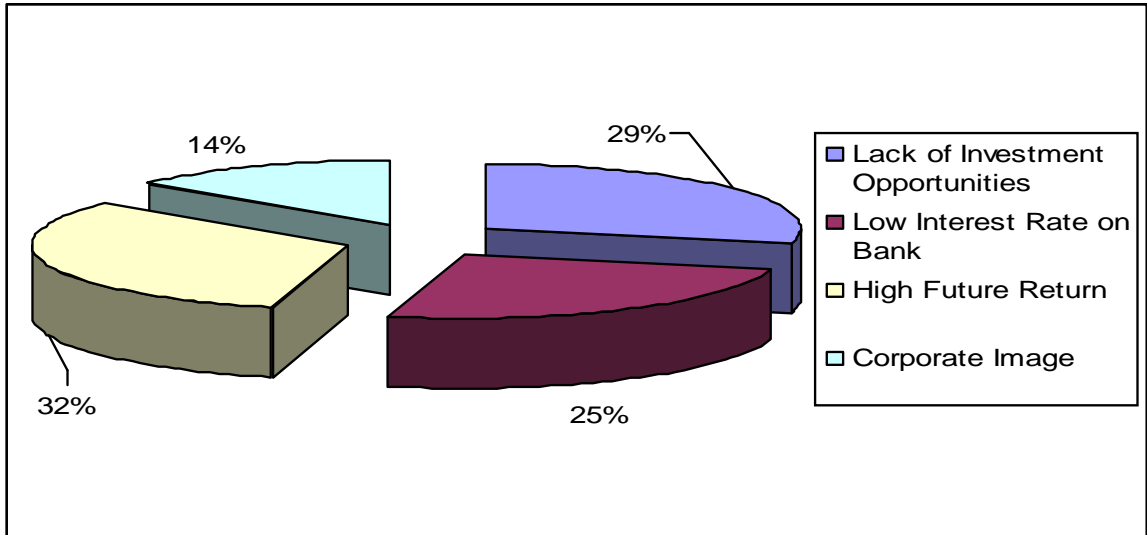
Table: 4.25

Cause of oversubscription in IPO

Query	Description	Number	Percentage
Cause of oversubscription in IPO (related to company's officials)	a. Lack of Investment Opportunities	26	29
	b. Low Interest Rate on Bank	22	25
	c. High Future Return	29	32
	d. Corporate Image	13	14
Total		90	100

Figure: 4.23

Cause of Oversubscription in IPO



4.3.10 Problem of Nepalese Primary Market

With respect to the major problem of Nepalese primary market, majorities of the respondents (51%) replied that it is due to political instability, 17% of them replied that it was due to unconfident investors, 13% respondent think that it was due to lack of supervision from regularity bodies, 10% of respondent pointed the slow privatization process and 9% of the respondents replied that it is due to unfavorable microeconomics condition of the country.

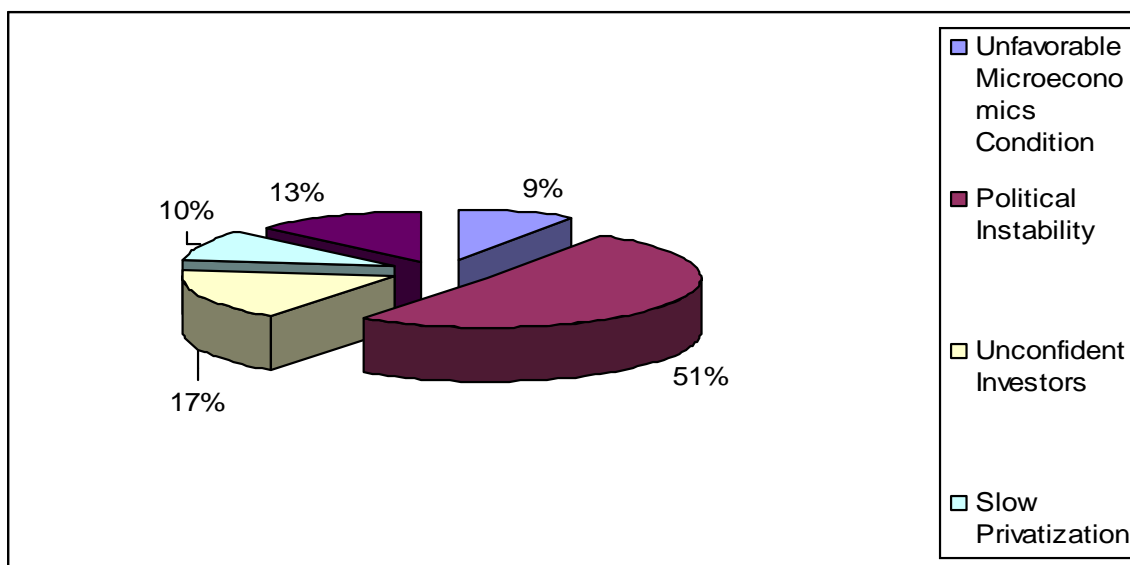
Table: 4.26

Problem of Nepalese primary market

Query	Description	Number	Percentage
Problem of Nepalese primary market (for all)	a. Unfavorable Microeconomics Condition	8	9
	b. Political Instability	46	51
	c. Unconfident Investors	15	17
	d. Slow Privatization	9	10
	e. Weak Supervision from Regulatory Bodies	12	13
Total		90	100

Figure: 4.24

Problem of Nepalese Primary Market



4.4 Major Findings

The study was set out to analyze raising fund through IPO in Nepal. The data which are obtained through primary and secondary sources are analyzed using different statistical tools and models. The major findings are;

-) The amount of issues offered has increased from Rs. 244.40 m in FY 1993/94 to Rs. 16828.50 m in FY 2008/09. The compound growth rate of amount of issues offered is found to be 56.15%. During the period, the number of issues offered increased from 16 in FY 1993/94 to 64 in FY 2008/09. Similarly the average size of issues offered increased from Rs. 15.28 m in FY 1993/94 to Rs. 262.94 m in 2008/09. It has compound growth rate of 49.97%.
-) The highest amount of issues have approved by SEBON for the public subscription during the FY 2008/09 of Rs. 16828.50 m where lowest amount of issue approved for the public subscription is in FY 1994/95 of Rs. 173.96 m. Similarly, the highest no. of issue approved by SEBON is 64 in FY 2007/08 and FY 2008/09 lowest no. of issue is 5 in FY 1996/97 FY 1998/99.
-) The highest amount of right issue has approved in the FY 2008/09. In the FY 2008/09 right issued amount is Rs. 14262.80 m., where the lowest right issue approved in the FY 1997/98 of Rs. 30 m.
-) Among 8 sectors, commercial banking sector has accounted for 40.51% of total paid up capital while second highest contributor finance company sector has accounted for 11.61% of total paid up capital. Again, financial sectors that comprises commercial banks, development banks, finance companies and

insurance companies has accounted for 291 offers (out of 324) while non-financial sector that comprises manufacturing and processing, trading companies, hotels and others has accounted for only 33 offers. Similarly, approximately 18 issues have been offered by financial sector as against only 2 offers from non-financial sector in each fiscal year during the study period.

) As far as instrument-wise offer is concerned, out of 324 offers, 150 (46.30%) offers have been ordinary shares, while 153 offers (47.22%) from right share, 16 offers (4.94%) from debentures and 5 offers (1.54%) from preference share. Moreover, from issue amount perspective, ordinary share has accounted for 19.64% of total amount, right share has accounted for 63.91%, debenture has accounted for 14.86% and preference share has accounted for 1.61% of total amount.

) During the study period 324 issues has offered their securities through IPO to public. Out of which 152 (46.91%) issues offered has received oversubscription. Similarly, 88 (27.16) Issue offered has received under subscription while only 14 (4.32%) issue offered has received fully subscription and 70 (21.60%) issue offered has unknown. Furthermore, sector wise analysis of subscription pattern revealed that an issue from commercial banks, development banks and insurance companies has been oversubscribed. Also, most of the issues from finance companies have been oversubscribed. But issues from manufacturing and processing sector have mostly been undersubscribed. Among the listed companies, Himchuli Bikas Bank's IPO is the most demanded by public in the history of capital market. Its subscription time is 133.64. Similarly, Himalayan Distillery's IPO is least demanded by public. Its subscription times is only 0.106, but among the sample companies the highest demanded company is Triveni Dev Bank (TDB). Its subscription time is 83.42 and least demanded company is National Hydropower Com. It has only 0.22 subscription times.

) Among 40 sampled Companies issues, 37 companies issues have been oversubscribed. However, 2 companies issues have been undersubscribed . But highest undersubscribed issue from National Hydropower Com. (0.22 times) . Similarly, rest of the 1 company is fully subscribed.

-) The primary sources of data shows that the major source of information about IPO is media. Similarly people are more attracted towards common stock rather than other securities because of highest expected return.
-) Preferred sector for investment in at the time of IPO is Commercial Bank sector because more than (54%) respondents want to invest in the commercial banks.
-) From primary data analysis the most preferred securities for investment in IPO at the time of raising fund is common stock, it is preferred by more than 90% general investors.
-) Most of the people (42%) have moderate awareness about performance of company which going to offer securities and in 40% of people view, expected price appreciation increase the subscription times in IPO.
-) Most of the respondents (54%) people replied the beneficiaries of Initial Public Offerings in favor of Investors. Most of the people (40%) invest at the time of Initial Public Offerings is price appreciation.
-) 50% of the people invest in primary market by taking advice with their friends and relatives. Furthermore, in 54% people view, beneficiaries of IPO are investors.
-) In 69% respondents view, Nepalese primary is slowly growing. 32% of people think that high future return is the main cause of high public response at the time of raising fund through IPO.
-) 38% respondents think that companies do not like to go to public because of reality of sharing profit with others. 51% people think that political instability is the major problem of Nepalese primary market.
-) According to the view of people high future return is main cause of oversubscription in IPO. 32% respondents give this is main cause and 29% respondents gave cause of oversubscription is lack of investment opportunities

CHEPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter embodies three parts of the study: Summary, Conclusion and Recommendations. The first part goes over with summarization of the whole study, the second part depicts the conclusion and the final part presents recommendation in the light of its findings.

5.1 Summary

Money or Capital in financial vocabulary is one of the most important prerequisite for any business entity. Business entities need Capital at various stages of their performance. Some may need it to establish their businesses while other way needs it to diversify their activities and achieve their ambitious growth plan. Generally there exist two markets from where business entities secure capital viz: money market and capital market. Money market avails funds for shorter period of time, maximum of one year whereas capital market avails long term funds with terms suiting the needs of business entities. Primary market is the market for new and unseasoned securities whereas secondary market is the market for existing and seasoned securities.

Raising fund through Initial public Offering (IPO) is the key mechanism of primary market. IPO is the first time issuance of securities to the public. Securities being offered can be debt or equity offering. Various components of capital market play

important roles in practice and procedure of Raising fund through IPO. Investment Bankers or Underwriters are one among them. Investment bankers are individuals or institutions who provide an array of functions to ensure that business entities are able to meet their objectives of issuing securities through IPO. Moreover, they ensure that during IPO, all the steps and processes are followed in accordance to existing rules and guidelines. As far as practices in Nepal are concerned basically there exist two institutions which guide and influence IPO process.

They are Security Board of Nepal (SEBON) and Nepal Stock Exchange (NEPSE). SEBON is the regulatory body which looks after all the securities market transaction including IPO. According to SEBON, 324 companies have got issue approval for public issue. Likewise, NEPSE is the sole stock exchange of Nepal which provides liquidity and marketability to the securities being offered. By the end of FY 2008/09, 159 companies have been listed in NEPSE. Before going to the public, the company must be approved from SEBON. After getting approval, issuing company must give its information to the NEPSE and Company Registers Office. Issuing company is free to choose one or more than one issue manager/s for the process of issuing the securities. Bankers to the issue also involved during this period. Issue manager must be publishing a public notice in the national daily newspapers to offer public for investment seven days before the application forms distribute date. Issue manager has to publish and distributed the prospectus also which make easy to the public to decide whether to invest their money or not. The application period must not more than one month. If issue managers think the required applications have collected, they can close anytime after five days to receive application. If over application is received, the distribution of share should be decided through allotment procedure. For this purpose additional 40 to 70 days can be taken. After allotment within next 5 days the issue manager has to refund the money of those public whose application has not been accepted. Within two months the company must distribute share certificate after allotment of shares.

Even though the foundation of systematic capital market development was laid in 1976 A.D. with the establishment of Security Exchange Centre (SEC), Nepalese capital market after more than two decades is still in its infant stage. The securities being offered and its practices are still traditional and limited. Moreover, there is dearth of research work covering different aspects of capital market in Nepal. In this context, this study has been carried out with the objective of unraveling various aspects of IPO's, their practices in Nepal and public response on it.

Conceptual review of the study has covered concept of financial market, IPO, IPO as a mechanism of primary market, process of IPO, different aspect of IPO which shed light on how IPO is being practiced in Nepal. Similarly, review of related studies has covered the research works carried out along with few dissertations relating to subject matter. Research works carried were in the form of journal- articles which was mainly retrieved from online sources and newspaper. The dissertations shed light on capital market issues and existing state of securities issue in Nepal to certain extent which are accessed from Library of Shanker Dev Campus Putalisadak, Nepal Commerce Campus Minbhawan, SEBON office Gausala and TU Central Library Kritipur.

For the purpose of meeting the objectives of the study, it has used descriptive and analytical research design and stratified random sampling. As per sampling frame of 25% (approximately), 40 companies representing 8 different sectors: commercial banks, development bank, finance companies, insurance companies, manufacturing & processing companies, trading companies, hotels and others listed in NEPSE, have been selected. As the study is based on Primary as well as secondary data have been retrieved from questionnaires to investor, annual report of SEBON, NEPSE, NRB directives, various Acts and regulations and newspaper.

The analysis of amount of issues being offered 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 have oversubscribed. Last few year's experience shows that there are limited non financial sectors available in the country that satisfied the investors.

The primary source of data shows that the major source of information of raising fund through Initial public offering is media. Majority investors are seemed to be new in the market. These days' people are getting aware to primary market to choose the right sector for investment and invest their money in more then one companies. The investors think that those companies who are performing well in the market will do better in the future and read prospects of the company before investing money. Majority of investors invest money in the primary market by lending from others and they think that the companies do not like to go to public because of reality of sharing profit with others. People think that due to the lack of knowledge, limited number of people invests in primary market and the present environment is not suitable for investment.

This study has found that Raising Fund Through Initial Public Offerings in security market is high due to lack of opportunities for investment and attracted towards shares to increase their value of investment. They are getting aware of stock market, and realized the importance of the investment in shares.

5.2 Conclusion

On the basis of findings of the study we find that Nepalese capital market is in developing stage. Most of the public in Nepal do not have sufficient information regarding the primary market but sill they have interest to invest their money in primary market so the most of the securities are issued in oversubscription. It is the

good sign to the expansion primary market. Due to this, most of the companies are issued only common stock where bond, preference share and convertible are rarely in practice but option and warrants are still not in practice. This shows that the securities market is dominated by common stock.

As per the study financial sector which comprises commercial banks, development banks, finance companies and insurance companies has dominated Nepalese IPO market. As revealed by issue amount and number of issues, pace of IPO in Nepal seems to be irregular. As about issued securities, IPO from Tribeni Dev. Bank is the most oversubscribed issue with 83.42 times and IPO from National Hydropower Company is the most undersubscribed issue with 0.22 times among the sample companies.

Under pricing does exist in Nepal and average level of under pricing (equally weighted mean) is much higher than other emerging market of Asia. It means Nepalese investors do make money from IPOs. On the other hand, higher the under pricing, the higher will be the wealth loss of promoters. This might have prevented the potential issuers from going public.

Though, the public offering is operated through different rules and regulations, there is still lacking clear provision in many important sectors such as underwriting provision, underwriters commission, process of issue etc. Nepalese investors have not more knowledge about primary market. The political instability is also effect the development of securities market by which the NEPSE index is fluctuating many times.

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

We can see on the basis of sector, SEBON has granted 88.67% approval for financial institutions and insurance sectors and 11.33% approval for non financial sectors, out of 39389.68 million. The financial and insurance sectors paid up capital are 63.72% and that of non financial sectors are 36.28% out of Rs. 61140.39 million paid up capital.

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

5.3 Recommendations

Raising fund through Initial Public Offerings (IPO) is very important for the development of a security market like Nepal. It converts saving into capital and investment as well as fuels entrepreneurship. Consequently, research on IPOs is also very important. Proper and timely research helps us to understand the risks and returns available and at the same time also helps regulators to impose proper rules and regulations for the efficient and effective operation of the market. However, without adequate and proper data research will not be meaningful and contributory.

To developed and expand the Nepalese capital market more effective and efficient, the following recommendations has been recommended:

-) The concerned authorities should conduct various research studies and disseminate the information relating to the share trading activities to increase the understanding of the investors in using financial tools to estimate the intrinsic value of shares of a company before making investment decision.
-) Most of the public issues are from banking and finance sector so issue-manager should take initiative step to promote their business from other sectors too. They should be equally effortful in developing the public offering market as an avenue for cost effecting financing.

-) The government should allow foreign investors to invest in Nepalese Capital Market.
-) Nepalese primary market is largely dependent on financial sector which is not good sign for overall development of IPO market. In this regard, regulatory body and the government should take a step forward and encourage public issues from other sectors like manufacturing and processing by providing additional facilities such as tax concession.
-) Most of the public issues are from banking sector, development bank sector and finance company sector so the investment banker should take initiative step to promote their business form other sector too. They should be equally effortful in developing the public offering market as an avenue for cost effective financing.
-) Ordinary share is found to be most used financial instrument while other financial instruments like preference shares and debentures are rarely issued. The fact is that such ordinary shares carry maximum risk to investors. In this regard it is recommended that the root cause beneath should be traced and tackled for good.
-) The concerned authorities should conduct various research studies and disseminate the information relating to the share trading activities to increase the understanding of investors in using financial tools to estimate the intrinsic value of shares of a company before making investment decision.
-) Regional stock exchange centre should establish so that more people will be involved in investment activities on primary market as well as secondary market.
-) To make the investment more attractive and affordable to the small investors, the Nepalese company should introduce other types of securities such as option, warrants etc.
-) There should be an effective co-ordination among the primary market's regulators: CRO, SEBON, Insurance Board, NRB and Ministry of Finance. Each of them should be clear on their respective jurisdiction. Formulation of contradicting policies should be avoided.

-) To be successful in the stock market, investor should always be clear to his strength, weakness, requirements, wishes, risk taking capability and how to react on different and ever changing market conditions and they should not buy the shares of a company until they know details about it.
-) Independent rating agencies should be encouraged to establish so that the potential investors will have a confident picture of the financial health and future prospects of organizations.
-) Central Depository System (CDS) should be established because it reduces paper work process and it reduces time and cost.

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APPENDICES

Appendix - 1

Questionnaire:

Public Attitude Towards Raising Fund Through Initial Public Offerings in Nepal.

Dear Respondent,

I am doing a research on the topic on " Raising Fund Through Initial Public Offerings in Nepal" for the fulfillment of requirement of the Masters Degree of Business Studies (M.B.S.). The information you provide hereby will be confidently used for this research purpose.

1. How do you get idea or information about primary issue of securities?
 - a. From friends and relatives
 - b. From issue manager/company
 - c. From media
 - d. Others (Please specify).....

2. In Which sector do you preferred to invest at the time of initial public offerings?
 - a. Commercial Bank
 - b. Development Bank
 - c. Finance Company
 - d. Insurance Company
 - e. Others (Please Specify).....

3. In which instruments (securities) do you like to invest in initial public offerings?
 - a. Common Stock
 - b. Preferred Stock
 - c. Bond/Debentures

4. Does awareness about the financial performance of the company affect the subscription pattern of securities at the time of initial public offerings?
 - a. Very Much
 - b. Moderate
 - c. Little
 - d. Not at all

5. In your view, who are the beneficiaries of initial public offerings?
 - a. Issuing Company
 - b. Issue Manager
 - c. Investors
 - d. Broker

6. In your view, by which one of the following characteristics has major role to increase subscription times in initial public offerings?

- a. Dividend (Cash and Stock)
- b. Right Share
- c. Price Appreciations
- d. No Brokerage Commission

7. What are your bases of decision for investment in initial public offerings?

- a. Market Index
- b. Profitability
- c. Friend/Relative Opinion
- d. Market Whim

8. What is your opinion that the firm not like to go for initial public offerings?

- a. Sharing Profit
- b. Management complicity
- c. Obligation of Public
- d. Enough fund
- e. Others(Please Specify).....

9. What is the condition of Nepalese primary market?

- a. Steady
- b. Slow growing
- c. Rapid growing

10. What is the main clause of over subscription in initial public offerings?

- a. Lack of investment opportunities
- b. Low interest rate on banks
- c. High future return
- d. Corporate image

11. What is the major problems of Nepalese primary market?

- a. Unfavorable microeconomics condition
- b. Political instability
- c. Lack of supervision from regulatory bodies

Respondent's Profile

Name:-

Occupation:-.....

Address:-.....

Appendix - 2

Fiscal Year	Financial	X₁	Non Financial	X₂	X₁²	X₂²
1993/94	87.8	8.78	156.6	15.66	77.09	245.24
1994/95	120	12	54	5.4	144.00	29.16
1995/96	95.1	9.51	198.6	19.86	90.44	394.42
1996/97	107	10.7	225.2	22.52	114.49	507.15
1997/98	315.5	31.55	146.9	14.69	995.40	215.80
1998/99	58	5.8	200	20	33.64	400.00
1999/00	237.3	23.73	89.6	8.96	563.11	80.28
2000/01	260.5	26.05	150	15	678.60	225.00
2001/02	1267.9	126.79	173.5	17.35	16075.70	301.02
2002/03	556.5	55.65	0	0	3096.92	0.00

2003/04	1027.5	102.75	0	0	10557.56	0.00
2004/05	1486.8	148.68	140	14	22105.74	196.00
2005/06	1759.4	175.94	683.9	68.39	30954.88	4677.19
2006/07	2295.5	229.55	0	0	52693.20	0.00
2007/08	9168.2	916.82	1500	150	840558.91	22500.00
2008/09	16082.06	1608.21	746.44	74.64	2586339.40	5571.73
Total		3492.51		420.37	3565079.11	35342.98

Here,

$$\begin{aligned} \bar{X}_1 &= \frac{X_1}{n} & \bar{X}_2 &= \frac{X_2}{n} \\ &= \frac{3492.51}{16} & &= \frac{446.47}{16} \\ &= 218.28 & &= 27.90 \end{aligned}$$

Null Hypothesis(H_0): $\bar{X}_1 = \bar{X}_2$

I.e. There is no significance difference between average issue in between finance and non finance sector.

Alternative Hypothesis (H_1): $\bar{X}_1 > \bar{X}_2$ i.e. The average issue amount from financial sector is greater than average issue from non financial sector.

\bar{X}_1 = Average issue from financial sector

\bar{X}_2 = Average issue from non financial sector

Now,

Test Statistics Under H_0 is,

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

$$\text{Where, } S^2 = \frac{1}{n_1 + n_2} \left[\sum_{i=1}^{n_1} (X_{1i} - \bar{X}_1)^2 + \sum_{i=1}^{n_2} (X_{2i} - \bar{X}_2)^2 \right]$$

$$= \frac{1}{16 \Gamma 16 Z 2} 3565079.11 Z \frac{f_{3492.57 \text{ \AA}}}{16} \Gamma 35342.98 Z \frac{f_{446.47 \text{ \AA}}}{16}$$

$$= \frac{1}{30} \sum 3565079.11 Z 762351.63 \Gamma 35342.98 Z 12458.47^*$$

$$= 94187.07$$

$$t = \frac{\overline{\overline{X_1}} Z \overline{\overline{X_2}}}{\sqrt{S^2 \frac{1}{n_1} \Gamma \frac{1}{n_2}}}$$

$$= \frac{218.28 Z 27.90}{\sqrt{94187.07 \frac{1}{16} \Gamma \frac{1}{16}}}$$

$$= \frac{190.38}{\sqrt{94187.07 * 0.125}}$$

$$= \frac{190.38}{\sqrt{11773.38}}$$

$$= \frac{190.38}{108.51}$$

$$= 1.7545$$

$$t_{\text{cal}} = 1.7545$$

